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Editorial Policy

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

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FOREWORD

This is the third IOBE bulletin on the Greek economy for 2016. The positive impact from the completion of the first review of the third economic adjustment programme are now being felt, yet the concern over the adopted economic policy mix is growing. The public debt negotiations, based on the Eurogroup decision of 25th May 2016, are a particularly critical upcoming factor. As all IOBE quarterly bulletins, this report contains **four chapters** and an **appendix** with key structural indicators. Before that, the bulletin starts with a position paper, which examines whether the completion of the first review has created conditions for a growth turn in the economy in the medium term.

The rest of the report is structured as follows:

The **first chapter** presents a **brief overview** of the report. **Chapter two** examines the general economic conditions, including a) an analysis of the **global economic environment** in the second quarter of 2016 and its outlook for the rest of the year, based on the latest report of the International Monetary Fund and data from other international organisations; b) an outline of the **economic climate** in Greece in the third quarter of 2016, based on data from the latest IOBE business surveys; c) an analysis of the execution of the **State Budget** in the first eight months of 2016 and an overview of the key figures in the Draft State Budget for 2017.

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

Chapter four presents a special study of IOBE on the economic impact of the development of the Hellinikon area.

The report is based on data that were available up to 07/10/2016. IOBE's next quarterly bulletin on the Greek economy will be published in mid-January, 2017.

FROM THE SHORT-TERM TO THE MEDIUM-TERM HORIZON

As anticipated, the Greek economy is gradually recovering from the recession that it entered in 2015, after a short-lived moderate recovery in 2014. The economy is moving towards positive rates of growth in the second half of the year, having absorbed part of the intense shocks that struck it around July 2015. The economic sentiment indicator, compiled by IOBE, concurs with this trend. The recession overall in the current year is anticipated to be of marginal strength. This improvement against the preceding time period is certainly welcome. However, the fact that the Greek economy is lagging behind the growth rates recorded in Europe for the second consecutive year, precisely when a turn to high growth rate is necessary and urgent, cannot elude our attention.

Regarding the momentum that is being formed, the constituent trends during the current months are naturally, perhaps, mixed. A combination of various positive and negative factors, such as the favourable effect from external developments on tourist arrivals during the second half of the summer, the low global energy prices, the growing trend of recording transactions from the use of digital payments, the stock replenishment by the enterprises, the impact from the hike in tax coefficients, the deterioration of the European investment climate from the UK referendum and, needless to say, the credit crunch, the high taxation and the prolonged uncertainty, jointly draw a complex picture, without a strong trend in the macroeconomic and fiscal areas. The final outcome on growth for this year is difficult to pinpoint precisely, based on the data available so far. Yet, the annual real growth rate for the current year seems to vary in a region marginally lower than the level anticipated in the budget and the economic adjustment programme, without triggering an upset in the budget execution.

Even though the estimate of the precise figure of the growth rate in the current year has recently become the focus of significant attention, its actual significance is limited. What matters more is the creation of the conditions for sustainable development over the medium and the long term. The relative consolidation in the current period provides a significant foundation. Yet, the question of whether the growth rate is going to be marginally higher or lower is not necessarily related to the question of whether the base for a sustainable growth of the economy is put in place. In addition, both the investors and the households take their significant decisions based on expectations, thus, even in the short term, the recovery will remain weak if the framework to support rational expectations for positive future developments is not there to start with. The persistent absence of investment, including the developments in the bond market and the Greek stock exchange in the past few months, signifies that such positive expectations are not sufficiently present for the time being.

Thus, the key issue is whether the conditions for a turn to growth in the medium term are being created. There are positive developments, as the fiscal stability is maintained, which is a necessary condition, the new fund for the development of state-owned property is being put in place, which could lead to higher value and efficiency under certain conditions, while there are indications for progress in segments of the labour market. However, a more comprehensive outlook is now needed. Even though the Greek crisis was triggered by the negative global developments in 2008, it is deeply rooted in distortions and pathologies that cumulatively placed the economy in a vulnerable position. Before the crisis, the Greek economy was not sufficiently open and internationally competitive, while at the same time an excessively large part of the economic activity depended, directly or indirectly, on the operation of the state and on an inefficient public sector.

The international competitiveness and the reduced dependence on the public sector can be used as a compass to check whether the economy is moving, overall, in the right direction. There are individual positive developments, as certain branches and individual enterprises respond to the changes in the relative prices that make the international entrepreneurship relatively more attractive than the domestic activity, while certain undertakings of the public sector have necessarily declined due to the fiscal tightening. However, we observe overall that the required positive turn has not come during the crisis. The relative participation of the public sector in the overall activity has not declined as, despite its absolute fall, the remaining economy has contracted faster. One particular point is that the delay with which the state repays its suppliers might be improving the fiscal position on a cash basis, yet it supplants the competitiveness of the economy and the prospects of its enterprises and, thus, its growth. Meanwhile, the Greek economy remains one of the least open in Europe, with a trend of further relative deterioration, as measured, for example, by the sum of exports and imports as a percentage of the Gross Domestic Product. Correspondingly, the country remains at very low levels in complex indicators that measure international competitiveness. Significant flows for direct and other investment are not coming in and this to an extent is related to the remaining capital controls, which certainly cannot be lifted if the economy does not show convincing indications of sustainable growth to start with. Overall, it is of vital importance that the economic policy, in terms of both the structural reforms and the fiscal measures, supports the turn of the economy to export-oriented and innovative, as opposed to introvert and state-dependent, entrepreneurship.

The external debt is an issue that happens to draw a great deal of attention, not without a reason, as it represents a high percentage of the national income. The primary surplus level envisaged in the economic adjustment programme is a closely related issue and so is the timing and the manner with which the country will return to the global financial markets. The key factors related to this are as follows. The Greek debt has specific characteristics as to its nature, duration and interest rates - the correct depiction of its impact on the economy cannot be superficial. The direct pressure that it exerts on the budget over the next few years is relatively weak, particularly compared to other economies. However, the uncertainty that its overall burden generates, given that a hike of the interest rates in the future cannot be ruled out, impedes economic activity. It would be particularly constructive if the conviction that the debt management would not burden the Greek economy over the foreseeable future, as the economy moves in the right direction of growth, strengthens in a clear and concrete way.

The excessive insistence on fiscal surpluses and the relatively weak attention that is given, in practice, to the efficient operation of the markets and the public administration do not support the economy over the medium term. On the other hand, the persistence for relatively high surpluses in the immediate future might be considered as a reflection of a lack of trust, accumulated over time, in the economic policy of the country. An "exchange" of structural pro-growth reforms with more "fiscal space" would benefit all stakeholders in the Greek crisis.

The operation of the institutions in the country is another issue that has drawn attention recently. While its significance is wider, it has a direct effect on economic activity, not only with respect to its overall level but its composition as well. The international experience and modern economic analysis lead us to the conclusion that the growth rates, particularly in economies that have the ambition to continue having a high-income level, depend over the medium term directly on the proper functioning of the institutions. When the operation of institutions, such as the justice system, the media, the education system and the independent regulatory authorities, is not transparent, independent and efficient, it is hard to convince anyone potentially interested in investing in the Greek economy (in any possible way, even in "human capital"), over the medium term, to proceed with their investment. It is precisely the proper functioning of the institutions that protects the individuals and the legal entities from a potential future arbitrariness of the central authorities, encouraging thus those that could genuinely contribute to the economy, rather than those intending to benefit from draining it.

To sum up, the Greek economy is yet again gradually consolidating; still, as it is imperative to achieve high growth rates as soon as possible, the economic policy is once more facing critical dilemmas. The current conditions are conducive to at least two specific misapprehensions, which happen to have been expressed by parties taking part in the Greek programme, particularly from abroad. The first misapprehension can by summarised in the view that a simple implementation of the current programme, particularly with respect to its fiscal arm, without a genuine deepening of the structural reforms in practice, eliminating the counter-incentives to work and produce, and boosting the economic policy's credibility, would automatically suffice to achieve high growth rates in the immediate future. The second misapprehension is contained in the opinion that while the current policy is not sufficient for growth, it is the best that the country can do. In contrast, the Greek economy has significant prospective advantages and high growth potential, based also on the adjustment that it has achieved during the crisis, thus, it can move in a positive direction in the near future. The gradual strengthening of the credibility of the economic policy in the direction of stronger entrepreneurship is a prerequisite to this. The achievement of this goal might have fallen behind, yet it is both feasible and essential.

1. BRIEF OVERVIEW - CONCLUSIONS

Slightly weaker world growth in 2016; uncertain strength of growth in the following year

Based on the preliminary data for the second quarter of 2016, the growth of the world economy seems to have weakened further. The GDP of the OECD member states increased by 1.6% during that period, compared with a growth of 1.7% in the first quarter of the year and 2.3% in the same period of 2015. **As a result, the world economy has been slowing down for a whole year now.** The new slowdown most probably came from a corresponding trend in the seven major world economies (G7), where the GDP increased by 1.2%, from 1.4% in early 2016 and 2.1% a year earlier. The concern over the outcome of the upcoming then UK referendum and the turmoil in the major capital markets, events that had an impact on world trade as well, contributed to this development. Among the developed economies, the strongest slowdown was observed in the US, where the GDP growth rate declined from 1.6% in the first quarter of this year to 1.2% in the next, compared with 3.0% a year ago. In contrast, the GDP growth accelerated most in Japan, from 0.1% in the first quarter of this year, to 0.8% in the next. The slightly stronger growth in the UK, from 2.0% to 2.2%, same as in the previous year, came as a surprise. Among the major developing economies, the strongest slowdown of growth in the second quarter of this year was recorded in India (from 7.9% to 7.1%). However, the growth rate remained unchanged, temporarily at least, in China (at 6.7% throughout the first half of the year).

The key parameters of the global economic environment in the current period and the following quarters include: 1) the direct effects of Brexit, whenever it will start, together with the indirect effects, related to the revival of an undercurrent of national protectionism and political populism; 2) recovery of the demand for basic commodities; 3) the ongoing shift of the growth model of the Chinese economy from export-oriented and investment-based economy to an economy dependent on consumption demand; 4) the apparent exhaustion of the capabilities of the expansionary monetary policy and the search for a new economic policy mix.

The slight boost in the demand for basic commodities by the developed economies, under the impact of the monetary policy instruments, limits the pressures on the economies that produce these commodities, which are primarily developing economies. As a result, the turmoil in their financial sector will ease and their public finances will improve. That said, the growing shift of China to domestic demand is causing a concern to its suppliers. In addition, the sustainability of its new growth model, which is based on demand stimulus measures is considered uncertain. The potential impact from its collapse is strengthened by the fact that the Chinese currency was incorporated in the IMF basket of international reserve currencies. In any case, the developing economies will have to adjust to lower growth rates than those observed in the previous decade.

The largely unexpected outcome from the UK referendum is the most important development in the developed economies in the past few months. Besides the economic effects that the implementation of the Brexit plan is expected to have, when it starts, on world trade and finance, the political scepticism has already intensified in the EU member states. The migration issue fuels this process. This particular political current is still in the process of being shaped – its characteristics and strength are not clear for the time being. However, it is expected to affect the decision-making process at the European level and the outcome of the upcoming elections in Europe. New fiscal policies at the EU and the national level, which will either supersede or accompany the monetary measures, are expected to be planned and implemented in order to address the possible turmoil from the Brexit and the refugee flows and to boost the cohesion of the EU. Regarding the US economy, the apparent moderate increase of the petroleum prices will help to cover part of the investment gap of over a year and a half in the energy sector, which is one of the key factors for the economic slowdown.

Given the conditions and the prospects of the world economy, revealed up until the middle of the third quarter, the forecasts of the international organisations on the growth of the world economy were recently revised down from above 3.0%, as anticipated in the previous quarterly bulletin of IOBE. **Thus, the previous forecast of IOBE for the growth of the world economy at a rate marginally lower than 3.0% remains unchanged. Regarding 2017, the growth rate of the world economy is not expected to change significantly.**

The recession estimates for the first quarter of 2016 were revised in the positive direction; unchanged contraction rate in the following quarter

In the preliminary GDP data for the second quarter of 2016, the GDP contraction in the first quarter was revised to 1.0%, from 1.4% decline in the initial announcement. **With the GDP contraction by 0.9% in the second quarter of this year, the Greek economy completed a full year of recession. Overall in the first half of the year, the GDP of Greece declined by 1.0%, compared with a growth of 0.6% in the same period of last year.**

Regarding the trends in the GDP components in the first half of 2016, **domestic consumption declined by 1.6% compared to its level from last year when it had increased by 0.8%.** The contraction intensified somewhat in the second quarter of the year, compared with the first (1.9%, against 1.3%), due to the sharper decline in household consumption expenditure (1.7%, from 1.0%). The decline of public consumption reached 2.6% in both quarters.

The weak growth of **investment** in the first quarter of this year intensified sharply in the second quarter, to reach 22.8%. Investment **in the first half of this year was higher by 12.1% than in the same period of 2015 when it was falling by 3.5%.** However, this increase did not primarily come from fixed capital formation, which increased by only 2.0% year on year. The primary driver of the investment growth was the different trend in inventories, which increased by about €440 million during the first half of 2016, compared with a contraction by €572 million in the same period of 2015.

In the external sector of the economy, **exports** continued to decline with the same intensity throughout the first half of 2016, despite the relaxation of the capital controls in March. **As a result, exports declined by 11.4% compared with the first half of 2015, when they were growing by 2.6%.** The strong contraction of the exports of services, which carried over from the first to the second quarter (-26.5%,) drove the downward trend in total exports, as the exports of goods increased slightly in both quarters (+2.3% on average). The trend in the exports of services came from a weak demand for international transport and other services, rather than from much lower tourist receipts.

The partial lifting of the capital controls in March seems to have had a positive impact on **imports** in the second quarter. For the first time since the imposition of the capital controls, imports declined less than exports, both in absolute and in percentage terms. Imports declined by 9.6% in the first half of 2016, compared with a weak growth in the same period of last year (+2.8%). **As the contraction of imports was less intensive than the decline of exports, the deficit of the external sector increased in national accounting terms, for the first time in three years, by €262 million to €2.8 billion (3.0% of GDP).**

End of the GDP contraction in the second half of 2016; prospects for recovery in 2017

The uncertainty regarding the prospects of the Greek economy has slightly eased as a result of the completion of the main phase of the first review of the third economic adjustment programme in May. The increase of the deposits of businesses and households by €2.2 billion between June and August and the moderate increase of the Economic Sentiment Indicator provide the signs that this is taking place. In addition, the banking system, benefiting from having regained the access to the standard liquidity facility of the ECB (reinstatement of the waiver), has already eased the contraction of the credit to the private sector from 6.6% between January and May to 2.9% in the three months that followed.

The fact that until now the Brexit outcome of the UK referendum has not had notable effects on the European and the world economy is also benefiting the gradual easing of the uncertainty in the Greek economy. Then again, the situation with the refugee flows from Syria and from other countries in the Middle East and

South Asia has deteriorated, mainly due to the turmoil in Turkey after the 15th July events. These events have fractured the country's relations with the EU, putting in doubt the continued implementation of the agreement with Turkey on the repatriation of illegal immigrants.

The signs that the uncertainty has weakened do not imply that the confidence in the Greek economy has been restored. Besides, most of the deposits that were withdrawn from the banks have not come back, while the capital controls have continued to be in place for more than a year without any clear indication on when they might be lifted. Moreover, the process of managing the non-performing loans, using the possibilities provided by the new legal framework, has not yet started. This process has an unpredictable impact on the available capital and the real wealth of businesses and households. In addition, note that the Consumer Confidence indicator has remained below its already low levels from the previous year, despite growing since the end of the review. This development came from pessimistic expectations of the households about their economic situation in the next 12 months and about the economic situation of the country, which have remained much lower than in the previous year.

Regarding the enterprises, the decisions adopted as part of the first review in issues such as the tax rate on the profits of the companies that keep category C accounting books (single entry), the dividend tax and the social security contributions, have increased their tax burden. Particularly for freelancers, the hike in the VAT rate, the change in the estimation of the social security contributions from 1st January 2017, and the lingering lack of clarity on how this is going to be implemented are expected to cause turbulence in the enterprises and the labour market from late 2016. The change of the legal status by a section of the enterprises (to Private Capital Company or Société Anonyme) or transfer of their base abroad are the most probable outcomes of these changes. In any case, the transition to a new equilibrium is going to limit the activity of the enterprises that would enter this process, in the current year at least, which is very likely to lead to lower revenues from taxes and social security contributions in the final quarter of 2016.

Notwithstanding the impact of the pending issues and the lack of clarity in the tax system and the labour relations, the uncertainty regarding the management of non-performing loans, the completion of the first review has gradually started to ease the concern of the businesses on the continuation of the structural changes and the fiscal consolidation. The heightened privatisation activity in the past few months (ratification by the parliament of the new contract for Hellinikon, the sale of TRAINOSE, transfer of state-owned companies and about 70,000 properties to the Public Holding Company) has contributed in this direction. The privatisation activity of the past few months is expected to reflect on investment in 2017, as time is needed to complete the tender procedures, prepare fully the investment plans and obtain the necessary licences.

The start of the negotiations for the Greek public debt is the most significant upcoming development. The Eurogroup decisions of 25 May 2016 for short-term measures that would facilitate debt servicing will form the basis of the negotiations, which in turn will determine the participation of the International Monetary Fund in the third programme. The facilitation of the servicing of public debt with the above measures, and perhaps additional changes, will limit the uncertainty regarding its sustainability and will improve the medium-term outlook for the Greek economy, boosting its attractiveness.

Notwithstanding the prospects and momentum of the Greek economy that could come from politico-economic developments in the following months, regarding the current conditions, the liquidity continues to be significantly lower, compared to the period before the mass deposit flight and imposition of the capital controls. A much stronger return the deposits, which depends on the constancy of the programme implementation, and an inflow of foreign capital, which is influenced by the characteristics of the investment environment (role and operation of the state, tax system, labour relations, justice system), in order to sufficiently boost the capital base of the banking system and to allow for a policy of steady credit expansion.

A boost of the liquidity of the enterprises could come from the faster clearing of the arrears of the state to its suppliers. Out of the €1.8 billion of the first sub-tranche of the third programme that was earmarked for arrears clearing, €1.35 billion were paid out to beneficiaries in July and August. According to the Draft State Budget for 2017, about €6.6 billion are set aside by the bailout agreement for the clearing of arrears in the first half of the year. The availability of investment capital is slightly stronger year on year from the more front-loaded execution of the Public Investment Programme (+€610 million or +39.0%). Nevertheless, public investment expenditure is notably short of its target (-€880 million or -28.9%).

Regarding the external sector of the economy, the fact that a whole year has passed since the imposition of the capital controls in July 2015 has artificially neutralised their impact on the year-on-year changes of exports and imports. This allows the revelation of the real ongoing trends in the domestic demand for imports and the foreign demand for Greek products. According to the Current Account data for July, the exports of goods and services have remained relatively resilient (+3.7%), following their significant growth in the previous years. However, the sharp increase of imports (+29.9%) outweighed the positive impact on the trade balance from the growth of exports. These trends carried over to August, according to the ELSTAT data on the exports of goods, confirming that the Greek economy has remained highly dependent on imports. Note that this particular export performance took place in a period with favourable conditions for global competitiveness – the oil price is at its lowest level in at least eight years, while the EUR/USD exchange rate is not at high levels.

Taking into account the latest and the anticipated politico-economic developments and the available data on the trends in economic indicators in Greece for the forecasting of the GDP components and other macroeconomic indicators, the new fiscal measures that were imposed in order to conclude the first review of the new programme will limit the disposable income and the **consumption of the households** in the second half of 2016. Their impact is going to be fully felt with the implementation of the measures planned for the start of 2017 (such as changes in the direct taxation of freelancers and in the estimation of their social security contributions). That said, the artificial effect from the low level of comparison of household consumption in the second half of 2015 facilitates its expansion a year later. The continuation of the decline of unemployment will also support the expansion of household consumption. However, the unemployment decline is expected to weaken from the fourth quarter of 2016, from the burden of high income taxation and increased social security contribution. **As a result of the counteracting forces that will act on private consumption in the second half of the year, it is expected to grow slightly. Yet, its growth will not be sufficient to prevent a decline overall in 2016, by about 0.3% to 0.5%. In 2017, private consumption is expected to increase by about 1.0% to 1.5%.**

The cuts in **public consumption** will carry over from the first half of 2016 to the rest of the year. However, the restart of the fiscal consolidation in the second half of 2015 and the efforts to achieve the set target for the primary deficit resulted in a decline of the consumption expenditure of the public sector. This formed a relatively low level of comparison for the current half of 2016, making it likely that public consumption will expand slightly. **Despite the anticipated modest growth in the second half of the current year, the consumption expenditure of the public sector will contract by 0.8% to 1.2% overall in the current year.** According to the draft state budget and the revenue and expenditure forecasts that it contains, the emphasis in 2017 in the fiscal consolidation effort is going to be placed on boosting tax revenues. **Under the fiscal interventions planned for 2017 and their anticipated performance, public consumption is likely to slightly expand.**

Regarding **investment**, the developments after the conclusion of the first review in measures that form the liquidity in the economy (return of deposits, reinstatement of the waiver, easing of the credit contraction) were presented above. Together with the positive trends in production sectors (strong output growth in manufacturing since April, a marginal decline in Construction in the first half of the year from public works), they are conducive to the gradual recovery of investment activity. There is certainly a lot of room for improvement of the parameters that determine the volume of investment and the expectations on the prospects of the Greek economy, that can be covered mainly by continuing the reforms.

The relative stability of foreign demand, close to its high level from last year, the energy cost, due the steadily low oil price, a trend that is not expected to change significantly in the immediate future, and the lifting of the excise duty on natural gas for industrial use, are factors conducive to the undertaking of investment risk in certain branches of the primary sector and Manufacturing.

Then again, the changes in the income taxation of the companies keeping category B (single-entry) accounting books and in the direct taxes and social security contributions of freelancers, are strong restrictive factors on investment by sole proprietorships and small enterprises. The forthcoming changes in the regulatory framework of the labour market will postpone some of the investment plans until they are finalised. The management of non-performing loans is a process which will impede the implementation of investment by the enterprises and the financing of investment by the banks. Their impact is going to be felt throughout 2017.

The contribution of the public sector to investment activity will slightly strengthen year on year from the more frontloaded execution of PIP and the slight increase in its overall budget. According to the Draft State Budget for 2017, the PIP expenditure in the following year will not differ compared with this year (€6.75 billion). Therefore, investment is not expected to receive a further boost. In contrast, the boost from investment related to privatisation and concession deals completed in the current year, such as the Hellinikon project, the regional airports and the Asteras hotel, is expected to be much stronger than in 2016.

Inventories will significantly boost investment in the second half of 2016, as they did in the first half. Under the influence of the above counteracting current and anticipated developments, **investment will most likely increase in 2016, by about 10-11%. The positive trend is expected to carry over to the next year, at a similar rate.**

In the external sector, the decline in total exports will weaken during the second half of the current year, due to the technical neutralisation of the impact from the imposition of the capital controls. As a result, the moderate growth of the exports of goods from the first half is expected to strengthen in the second half of the year. In the exports of services, the easing of the strong fall from the first half of the year will come mainly from the sharp inversion of the trend, from vertical drop to growth, of transport and other services. The receipts from foreign tourism are not expected to change significantly in the current half of the year. **Despite the moderate growth in the second half, total exports will decline overall in 2016, by about 5.5%, due to their contraction in the first half.** In 2017, the gradual recovery of the confidence in the Greek economy, the further relaxation of the capital controls and the strengthening of world trade will result in a stronger growth of the exports of goods in the following year, by about 4.5% to 5.5%. The expansion of the exports of services is expected to be slightly greater. **Taking into account the trends in their components, exports are expected to grow by about 5.0% in 2017.**

The sharp decline in imports in the second half of 2015, which exceeded the fall in exports, forms a low basis of comparison for the current year levels. The relaxation of the capital controls since March supported the growth of imports, as it moderated notably their contraction in the second quarter. The full implementation of the fiscal measures that affect the disposable income of wage earners and pensioners and curb consumer demand will moderate the growth of the imports of goods in the second half of the year. **The strong growth of imports in the current half of the year will notably moderate their contraction overall in 2016, to about 1.5% to 2.0%.** The anticipated expansion of domestic demand in 2017 will largely be channelled into demand for imports. In 2014, when domestic demand increased by 1.2%, the growth rate of imports was several times higher (+7.8%). Then again, the fact that the capital controls will most likely remain in place for most of next year or beyond will curb the growth of imports. Taking into account the correlation between domestic demand and imports and the impact of the capital controls, **imports are expected to grow by 6.0-7.0% in 2017.**

Taking into account the above trends in the GDP components during the current half of the year, together with the downward revision of the estimates on its contraction in the first quarter of 2016 and more generally in its first half, the projection of IOBE for the GDP rate of change is revised in the positive direction, to a contraction by about 0.3-0.5%. According to the up to now available data, the Greek economy is expected to recover in 2017, with its output growing by 1.5%-2.0%.

Overshooting of the targets of the State Budget from a restraint of primary expenditure and overshooting of indirect tax collection

According to the final **State Budget execution** data for the first eight months of the year creates, **its deficit totalled €1.05 billion**, against a target of €3.9 billion. **The primary account was in a surplus of €3.75 billion**, higher than the target by €2.77 billion. The overshooting of the target for the primary surplus came **exclusively from a restraint of the primary expenditure** by -€3.36 billion. In contrast, the State Budget revenues were short of the target by €589 million, yet this was due to **lower receipts** from EU funds of the **Public Investment Programme** (-€1.05 billion), as the **Ordinary Budget revenues exceeded the target** by €458 million.

The **overshooting of the primary expenditure target** came mainly from **a restraint in the payments for wages and pensions**, **cuts in the grants to social security funds** and **less than complete execution of the Public Investment Programme.** Regarding the ordinary revenues, the **receipts from the income tax of legal entities** were **14.1% higher than anticipated**, mainly due to the increase in the advance payment of the tax, yet the **revenues from the income tax of households were short of the target. Almost all the targets for the collection of indirect taxes were met,** except the VAT on fuels, the excise duty on energy products and the other excise duties. However, given the number and intensity of the tax measures adopted since July 2015, the revenue performance is rather mediocre.

The 2017 Draft State Budget: Emphasis on tax revenues and reduced called guarantees to achieve the targets

The **2017 State Budget** envisages a **reduction of the deficit** by €1.25 billion, to **€3.45 billion or 1.9% of GDP**. **The primary surplus** is anticipated to **increase by €1.15 billion, to reach €2.1 billion or 1.2% of GDP.** The improvement will come from **a reduction in the Ordinary Budget expenditure** by €1.33 billion, mainly due to reduced guarantees called to General Government entities by €731 million and an increase in net revenues by €129 million. **The tax revenues (direct and indirect taxes) will increase by €1.84 billion** due to ongoing and new fiscal measures that will come into effect from 1st January 2017. **The revenues from the concession of permits and rights are projected to have the largest decline,** by €1,039 million. Therefore, **the targets for the balance of the State Budget in the coming year are anticipated to be met primarily by boosting tax revenues.**

Slowdown of the decline in unemployment in the second half of the year; further decline at a steady rate in 2017

The strong revival of production in Manufacturing in the second quarter, the consolidation of activity in the Tourist sector at slightly lower than the high levels recorded in the previous year and the break in the fall of Construction had a positive impact on employment. The year-on-year job creation in the labour market in the second quarter of the year was also facilitated by the significant contribution of the public sector, through the programmes of temporary work for public benefit. That said, with the households discounting the upcoming measures that affect negatively their disposable income, their consumption expenditure declined, which was reflected in a reduction of employment in Wholesale – Retail Trade – Repair of Motor Vehicles-Motorcycles, for the first time since the final quarter of 2014. **With the stimulating impact of the above factors, employment increased year on year by 2.1% in the second quarter, while the unemployment rate declined to 23.1%, its lowest level in four years. On average in the first half**

of 2016, employment increased by 2.5%, while unemployment totalled 24.0%, 1.6 percentage points lower year on year.

The private sector branches which contributed decisively, with their employment, to the easing of unemployment in the first half of the current year, will continue to have a positive impact in the second half of the year. Besides, the strong expansion of output in Manufacturing has carried over to the third quarter of 2016 (+9.2% growth of the production index in July), while the significant growth of turnover in Tourism between 2013 and 2015 seems to be consolidating, as evident from the small reduction in foreign receipts. That said, the positive impact of the public sector on employment growth will weaken, as the beneficiaries of the programmes of the Manpower Employment Organisation OAED are likely to be fewer than last year. In addition, the changes in the direct taxation and the social security contributions of the freelancers from 01/01/2017 will cause a turmoil, with an impact on employment, from the final quarter of 2016. **Taking into account these effects on employment, the fall of unemployment is expected to slow down in the second half of 2016. As a result, unemployment is expected to decline to a level marginally below 24% overall in 2016. In 2017, unemployment will decline at the same rate as in the current year, to reach slightly more than 22.5% (see the medium-term outlook in section 3.5).**

Deflation until the end of 2016; higher prices in 2017 mainly due to higher indirect taxation and higher petroleum price

Despite the apparent from the preliminary data growth of consumption in the third quarter and the hike in VAT, the deflation did not weaken. It stood at 1.0% on average in July and August of 2016, at about the same rate as in the second quarter (1.1%). **Overall in the first eight months of the current year, the Consumer Price Index declined by 0.9%, compared with 2.2% deflation in the same period of last year.** The strongest price deflation was recorded in Housing and Transport, by 4.5% and 4% respectively, due to the low oil prices. The prices in Hotels – Cafes – Restaurants and Alcoholic Beverages – Tobacco Products increased by 2.6% and 1.4% respectively, reflecting the impact of the higher VAT rate on prices. A significant growth of prices was observed in Health Services (+2.5%). The perseverance of the deflation in the third quarter, at the same rate as in the preceding quarters, despite the increase in the standard VAT rate from 1st June, reflects the persistently low demand. Given that the price fall weakened in the final quarter of 2015, the level of the Consumer Price Index was relatively higher than in the preceding months, which is conducive to a **slightly stronger deflation a year later**. As a result, the deflation rate will total 1.1% overall in 2016, lower by 0.6 percentage points than in the previous year.

The decline in petroleum prices, which was a basic factor that preserved the deflation in the Greek economy in 2016, will most likely not carry over to the next year. The recent decision at the International Energy Forum for a reduction of the daily oil production will lead to price growth in the coming year. The new indirect taxes and the hikes in existing taxes, which are planned to be implemented from 1 January 2017 will impede a further decline of prices. **As a result, the Consumer Price Index is expected to increase by about 1.3% in 2017.**

Special Study: "The economic impact of the development of the Hellinikon area"

IOBE recently concluded a study on the economic impact from the renovation of the old Hellinikon airport and the seaside front of Agios Kosmas, based on the contract terms for the sale of the shares of Hellinikon S.A. to Hellinikon Global I S.A. The analysis was performed at two levels – impact in the wider renovation area (microeconomic impact) and impact on the Greek economy overall (macroeconomic impact).

According to the study, the GDP of the Greek economy by the end of the investment period (2041) is expected to be higher by €7.42 billion (2.4%), compared with the GDP level under the no-investment scenario. In employment terms, the number of employees in the area is expected to exceed 25,000 people by the mid-2030s. Taking into account the wider macroeconomic interactions, the impact of the renovation project on total employment in the Greek economy is expected to exceed 90,000 jobs in 2041.

2. ECONOMIC ENVIRONMENT

2.1 Trends and prospects of the world economy

The global environment

Based on the preliminary data for the second quarter of 2016, the growth of the world economy seems to have weakened further. The GDP of the OECD member states increased by 1.6% during that period, compared with a growth of 1.7% in the first quarter of the year and 2.3% in the same period of 2015. As a result, the world economy has been slowing down for a whole year now. The new slowdown most probably came from a corresponding trend in the seven major world economies (G7), where the GDP increased by 1.2%, from 1.4% in early 2016 and 2.1% a year earlier. The concern over the outcome of the upcoming then UK referendum and the turmoil in the major capital markets, events that had an impact on world trade as well, contributed to this development.

Among the developed economies, the strongest slowdown was observed in the US, where the GDP growth rate declined from 1.6% in the first quarter of this year to 1.2% in the next, compared with 3.0% a year ago. Italy came next, with a slowdown from 1.0% to 0.7%. In contrast, the GDP growth accelerated most in Japan, from 0.1% in the first quarter of this year, to 0.8% in the next. The slightly stronger growth in the UK, from 2.0% to 2.2%, same as in the previous year, came as a surprise. Among the major developing economies, the strongest slowdown of growth in the second quarter of this year was recorded in India (from 7.9% to 7.1%). However, in other developing economies, the growth rate either remained unchanged (e.g. China at 6.7%), or increased (e.g. further easing of the recession in Brazil from 5.4% to 3.8%, its lowest rate in a year).

According to the latest forecasts of the International Monetary Fund (October 2016) for 2016 as a whole, the world economy is expected to grow by 3.1%, slightly weaker both compared to last year and the earlier IMF forecasts (both at 3.2%). The growth of the world economy is expected to strengthen slightly in the coming year to 3.4%, also marginally less than in the previous IMF forecasts (3.5%). In greater detail regarding the current year, the growth rate is weakening in most countries and regions. The UK referendum raised a strong wave of uncertainty in the developed countries. In the developing countries, the growth momentum of the Chinese economy, slightly weaker than last year, remains a decisive factor.

Given the above, the growth in Asia would likely weaken compared to 2015, mainly due to the slowdown in the Chinese economy, while the growth in India would partly compensate this, remaining unchanged year on year. The growth in the emerging and developing Europe will also weaken from last year, albeit remaining notably higher from the rate in the developed European economies. In contrast, the anticipated GDP growth rate for 2016 was revised significantly up in the Commonwealth of Independent States, from -1.1% in the IMF spring forecasts to -0.3% in the latest edition. The easing of the recession came from a corresponding change in Russia. Stronger GDP growth than initially anticipated is also now forecasted for the countries of the Middle East and North Africa, by 3.4%, 1.1 percentage points higher than in the previous year.

The volume of world trade is expected to increase by 2.3% in 2016, against 2.6% in 2015. The growth forecast is 0.8 percentage points down compared with the spring forecast, due to the impact on the global markets and the EU economic activity from the outcome of the UK referendum, together with the turmoil in the developing economies, factors that undermine international trade. The demand for imports in the advanced economies is expected to weaken significantly in 2016, growing by 2.4%, compared to 4.2% in 2015, yet a recovery is anticipated in 2017. Similar trends are observed in the European Union, where demand shifted to domestic production. The exports of the advanced economies follow a similar trend, growing by 1.8% in 2016, against 3.6% in 2015. The import demand in the emerging and developing economies will increase by 2.3% in 2016, following their contraction in 2015 (-0.6%), while their exports are expected to gradually strengthen until 2017.

Apart from the turbulence in the markets in the intermediate aftermath of the UK referendum, its outcome generated uncertainty that resulted in a "wait-and-see" stance with respect to how it is going to be implemented. According to analysts, the real impact of the referendum is going to be felt in the current quarter, which has led them to revise their forecasts on production activity and world trade in the downward direction. Hence, **the sluggish, low compared with the past, growth in the developed economies, the weak expansion of world trade**, as a result of the weakening growth in the emerging economies and the import substitution in the developed economies, the stagnant investment activity, the potential impact of the **UK referendum, the high debt burden** and the insolvency risk in the developing economies, and the significant **volatility in the capital markets** remain the key uncertainty factors that affect the world economic activity. The volatility, in turn, is related to the incorporation of the Chinese currency in the basket of currencies that the IMF acknowledges as international reserve currencies, from 1st October 2016.

However, the narrow space for exerting monetary and fiscal policy is another factor, at the economic policy's core, that potentially restrains growth. The view that after the quantitative easing programmes in the US, Japan, the Euro area and recently in the UK, the central banks have exhausted their instruments of exerting monetary policies is spreading internationally. In light of the above, a fiscal expansion to boost employment and income, mainly in the developed economies, has become an urgent necessity. The fiscal policy should strengthen, after a period of fiscal consolidation and expenditure reduction in many countries, if these countries intend to maintain their growth rate, taking into account the weakening growth of exports. Continuing the quantitative easing, without a notable effect on employment, might put at risk the credibility of the central banks, whose actions should constitute an essential supplement to the fiscal policy intervention, when and if it is carried out in these countries.

In greater detail regarding the outlook of the world's major economies:

In the **US**, the economic activity weakened significantly in the first half of 2016, compared with the second half of 2015. However, the growth of consumption has not weakened, fuelled by the relatively strong labour market and wage growth. In contrast, the positive contribution of public spending and investment to growth is expected to weaken. Non-housing investment has remained sluggish, due to the decline of investment in the energy sector from the low oil price, while the strong dollar has dampened export demand. The economic activity is expected to recover slightly in the fourth quarter of the year, while overall in 2016 the growth rate is expected to shrink to 1.6%, from 2.6% in 2015, accelerating to 2.2% in 2017.

In **Japan**, the GDP growth rate increased in the second quarter of the year to 0.8%. Private and public consumption are strengthening in 2016, and so is capital formation, yet the weak export demand is offsetting their positive impact. Sluggish growth is expected for 2016 overall, at about 0.5%, just as in the previous year.

Among the developing economies, **China** recorded a growth of 6.7%-7.0% in the first half of the year, against 7.0% in 2015. Overall in 2016, the GDP is projected to grow at 6.6%, as the foreign demand has declined, while the Chinese economy is vulnerable to the volatility in the financial markets. In addition, the transition of the economic activity from industry to services, resulting in an effort to shift the economy to a new equilibrium point, is still ongoing.

The very negative estimates for the **Russian** economy in 2016 were revised to a recession of 0.8%, from 1.8% in the spring forecasts. In any case, the low oil price, together with the international sanctions will continue to impede economic activity. On the other hand, the recent developments with respect to petroleum production that took place in the International Energy Forum in Algeria (a reduction of the global daily production by 740,000 barrels) portend positive effects on the revenues of the Russian economy from exports.

The economic climate indicator for the global economy, estimated by IFO, indicates that the expectations over the coming months have weakened. The indicator has declined, which was expected, given the Brexit outcome from the UK referendum. After its significant boost in the second quarter, which came from stronger expectations, as the assessment of the current economic situation deteriorated, the indicator decreased in the third quarter.

In particular, the world economic climate index totalled 86.0 points, from 90.5 points in the second quarter, a level that is much lower year on year. Its decline came exclusively from the factor that drove its growth earlier – expectations – as the corresponding sub-index declined in the third quarter from 94.7 to 86.0 points, significantly lower year on year as well. The assessment of the current economic situation remained unchanged in the third quarter.

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

		2015	**2016**	**2017**
GDP				
U.S.A.		2.6	1.6	2.2
Japan		0.5	0.5	0.6
Emerging Asia		6.6	6.5	6.3
of which China		*6.9*	*6.6*	*6.2*
India		*7.6*	*7.6*	*7.6*
AESEAN-5		4.8	4.8	5.1
Eurozone		2.0	1.7	1.5
Emerging and developing Europe		3.6	3.3	3.1
Commonwealth of Independent States (CIS)		-2.8	-0.3	1.4
of which Russia		*-3.7*	*-0.8*	*1.1*
The Middle East and North Africa (MENA)		2.3	3.4	3.4
Latin America		0.0	-0.6	1.6
of which Brazil		*-3.8*	*-3.3*	*0.5*
Sub-Saharan Africa		3.4	1.4	2.9
World economy		**3.2**	**3.1**	**3.4**
World Trade				
Volume of World Trade (goods and services)		**2.6**	**2.3**	**3.8**
Advanced Economies	Imports	4.2	2.4	3.9
	Exports	3.6	1.8	3.5
Emerging and Developing Economies	Imports	-0.6	2.3	4.1
	Exports	1.3	2.9	3.6

Emerging Asia: East Timor, Vanuatu, Vietnam, India, Indonesia, Cambodia, China, Malaysia, Thailand, Philippines, Kiribati, Laos, Malaysia, Maldives, Myanmar, Mongolia, Bangladesh, Bhutan, Brunei, Nepal, the Marshall Islands, Solomon Islands, Federated States of Micronesia, Palau, Papua New Guinea, Samoa, Sri Lanka, Thailand, Tonga, Tuvalu, Philippines, Fiji
AESEAN-5: Vietnam, Indonesia, Malaysia, Thailand, Philippines
The Middle East and North Africa: Egypt, Algeria, Morocco, United Arab Emirates, Jordan, Iraq, Iran, Qatar, Kuwait, Lebanon, Libya, Mauritius, Bahrain, Oman, Saudi Arabia, Soudan, Syria, Yemen, Djibouti, Tunisia
Sub-Saharan Africa: Angola, Ethiopia, Ivory Coast, Gabon, Equatorial Guinea, Cameroon, Kenya, Congo, Maurice, Botswana, Namibia, Nigeria, North Africa, Uganda, Cape Verde, Seychelles, Swaziland, Tanzania, Chad, etc.
Source: World Economic Outlook, IMF, October 2016

At the regional level, the IFO economic climate index declined in all major world economic regions, without an exception. It seems that the climate deterioration in Europe and Asia dragged the overall world index in decline. In greater detail, the economic climate index reached 101.0 points in **Europe** in the third quarter of 2016, declining steadily from the 120 points recorded in mid-2015. Particularly in the Euro area, the indicator weakened to 111.6 points, notably down year on year. In **North America**, the economic climate index declined less, to 91.2 points, from 93.7 in the previous quarter. Lastly, the economic climate index in **Asia** stood at 71.1 points, its lowest level in 2.5 years.

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The economies of the EU and the Euro area

The economies of the EU and the Euro area, in particular, recovered significantly in 2015, as a result of favourable developments in global economic factors, such as low energy prices, depreciation of the euro-dollar exchange rate and loosening of the monetary policy by the ECB. That said, growth has gradually weakened since the start of the year, with a stronger slowdown in the Euro area. In particular, GDP increased by 1.8% in the second quarter of 2016 in the European Union, against 2.2% growth in the same period of 2015. In the Euro area, the growth rate fell to 1.6%, from 2.3% in the second quarter of 2015.

Table 2.2

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

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

Source: IFO, World Economic Survey, WES, No. 03/ August 2016

Table 2.3

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

Quarter/Year	**III/14**	**IV/14**	**I/15**	**II/15**	**III/15**	**IV/15**	**I/16**	**II/16**	**III/16**
North America	110.5	101.3	107.1	97.9	96.2	91.2	85.4	93.7	91.2
Europe	117.5	101	108.7	120.4	116.4	113.6	110.7	107.8	101.0
Euro area	118.9	102.3	112.7	129.2	124.0	122.0	118.9	112.7	111.6
Asia	99.1	93.9	90.4	93.0	87.7	75.4	78.9	78.1	71.1

Source: IFO, World Economic Survey, WES, No. 03/ August 2016

The slowdown in the second quarter did not come from private and public consumption, as initially anticipated, which maintained the same growth rate as in the second quarter of 2015, but from a weakening of the growth of investment activity and from a notably lower growth of exports, compared with the decline in imports. The GDP of all EU countries had positive rates of growth in the second quarter of the year, except for Greece with a 0.9% GDP contraction. In particular, Romania (5.9%), Ireland (4.3%), Sweden (3.4%) and Spain (3.2%) were the countries with the highest growth rates during that period. Overall in 2016, the European Commission has projected a growth of 1.8% and 1.6% in the EU and the Euro area respectively, anticipating marginally stronger growth rates in 2017, particularly in the Euro area.

Internal factors, such as insufficient domestic demand (despite some recent growth), inability to implement effective fiscal and monetary policies and the outcome of the UK referendum, continue to impede the course of the European economy. The external dampening factors include weakening world trade and uncertainty from the burgeoning wave of protectionism across economies and countries, fuelled further by the refugee crisis and the terrorist acts in France and Belgium.

The key leading indicators of economic activity in the Euro area and the EU, such as the index €-COIN[1], remained relatively stable in July and August and then increased somewhat in September. The value of the €-COIN index reached 0.34 points in September, from 0.32 points in August. Overall for the first nine months, the index remained unchanged year on year at 0.33 points. The small increase in the index in September reflects a corresponding recovery in the financial markets, in the aftermath of a turmoil in the preceding months, together with a pickup in industrial production and inflation. The increase in the index values indicates quarter-on-quarter growth in economic activity in the Euro area in the next quarter, which would most probably come from domestic demand, as analysed above.

The economic climate index of the European Commission declined in the third quarter of 2016 in the European Union (-0.8 points) and remained unchanged in the Euro area. Year on year, the decline in the EU was even stronger (-2 points), while the index decreased slightly in the Euro area (-0.2 points).

However, the economic climate index improved month on month in September, both in the European Union and the Euro area, albeit remaining below its level from last year. In particular, the index in-

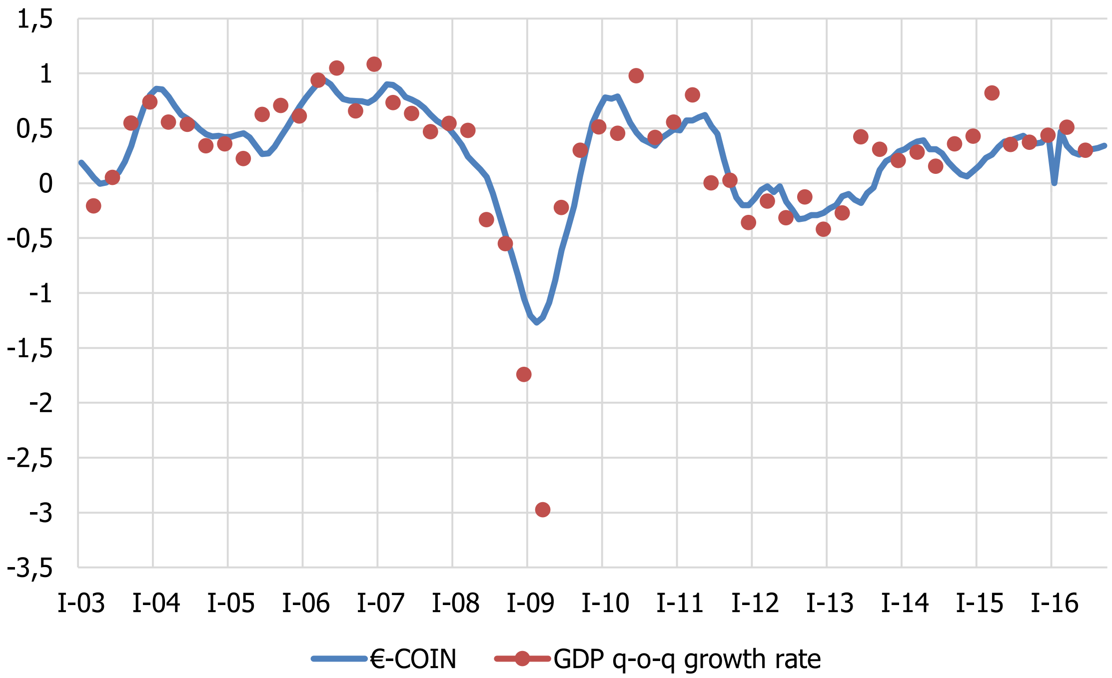
[1] The Center of Economic Policy Research in collaboration with the Bank of Italy estimates every month the leading indicator of economic activity €-COIN for the Eurozone. The indicator provides a quarterly forecast of GDP growth and is constructed from a range of different data, such as the course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

creased in the EU to 105.6 points in September, from 103.8 points in the previous month, while in the Euro area, the index reached 104.9 points, from 103.5 points in August. The growth of the index in the EU originated from improvement in all sub-indices, but mostly from a boost in consumer confidence. In the Euro area, the expectations strengthened in Industry, Retail Trade and Constructions, remaining almost unchanged in Services. Consumer confidence in the Euro area increased only marginally. At the country level, the climate index improved marginally in all five major economies of the Euro area, with the strongest boost recorded in the Netherlands (+1.7), followed by Germany (+1.6), France (+0.9), Spain (+0.5) and Italy (+0.4).

More comprehensive information about the key economic indicators that drive the formation of the GDP of the Eurozone and of the EU, as well as their potential trends in the upcoming time period, is presented below in this chapter, emphasising their percentage year-on-year change in the second quarter of 2016, and the anticipated trends for 2016 and 2017 in the latest forecasting report of the European Commission (Spring 2016).

Figure 2.1

Monthly Index €-COIN of CEPR



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

In greater detail, according to Eurostat data, **private consumption** strengthened in the EU in the second quarter of 2016 by 2.1% year on year, against a similar increase of 2.0% in 2015. In the Euro area, it increased by 1.7%, at the same rate as in the previous year. The steadily improving conditions in the labour market have a significant positive impact, both in the EU and the Euro area. Overall in 2016, private consumption is expected to increase by 2.1% in the EU and by 1.8% in the Euro area, due to the favourable economic conditions that drive consumption (low petroleum prices, low interest rates, etc.). This trend is not expected to carry over to 2017, when private consumption is anticipated to weaken, while exports are expected to regain their momentum, depending on the developments in foreign trade.

Table 2.4

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

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

Month	Jan-16	Feb-16	Mar-16	Apr-16	May-16	June-16	July-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
EU	106.7	105.3	104.6	105.1	105.6	105.7	104.7	103.8	105.6			
Euro area	105.1	103.9	103.0	104.0	104.6	104.4	104.5	103.5	104.9			

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

Source: European Commission (DG ECFIN)

Table 2.5

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

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

Source: European Economic Forecast, Spring 2016, European Commission

The acceleration of **public consumption** from the last quarter of 2015 and the first quarter of 2016 did not carry over to the following quarter. The growth rate of public consumption declined to 1.7% in the EU and 1.8% in the Euro area, from about 2% in the previous quarters. Nevertheless, the growth rate remained higher compared to the same period of 2015 when it stood at 1.3%. Public consumption increased significantly in the second quarter in Ireland, Poland and Germany, by at least 3.9%, despite the slowdown of public consumption in Germany. In contrast, cuts in public consumption expenditure were recorded once more in Greece (-2.7%) and Bulgaria (-0.7%). In some countries, such as Denmark, Finland and Belgium, the public consumption increased in the second quarter of 2016, having declined in the previous quarter. Overall in 2016, the growth of public consumption is expected to strengthen slightly, by 1.5% and 1.4% in the EU and the Euro area respectively, expanding at lower rates in 2017.

Investment in the EU increased by 1.9% in the second quarter of 2016, against 2.2% in the preceding quarter and 3.5% in the same period of 2015. In the Euro area, the growth of investment reached 2.4%, from 2.8% a year ago. At the country level, investment increased significantly in Ireland (+19.6%), as US and other foreign companies switched their headquarters to this country. Note that according to foreign analysts, this change reflects only how transactions are recorded in the accounting books, as many tech companies that had their innovation departments in "tax havens" decided to transfer their assets to Ireland. Investment increased strongly in Romania as well (by more than 10%) and in Belgium. Overall in 2016, investment is expected to increase by 3.0% in the European Union, from 3.4% in 2015, while in the Euro area the investment growth is expected to remain at 2.9%. For 2017, investment is expected to accelerate notably in both regions.

The **exports** of goods and services gradually weakened in the European Union and the Euro area respectively, growing by 2.7% and 2.2% respectively in the second quarter of 2016, notably down on their 2015 growth rate (6.5% and 7.0% respectively). This sharp slowdown came from a corresponding trend in world trade. The export growth rate strengthened only in five countries, with the strongest growth recorded in the second quarter in Poland and Spain. Overall in 2016, the growth rate of exports is expected to decline sharply to 3.5% in both economic regions, from 5.3% in 2015. In 2017, the export performance is expected to improve, inverting the 2016 trend.

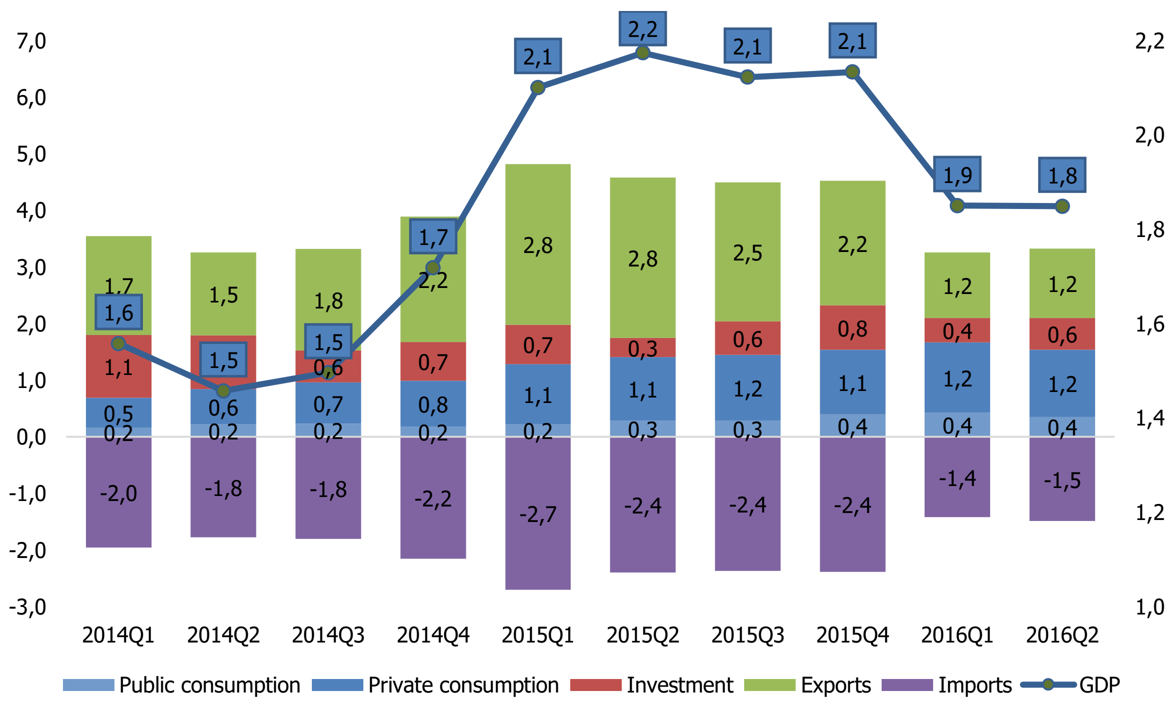
Imports followed a similar trend with exports, growing by 3.5% and 2.8% in the EU and the Euro area respectively, against 5.9% and 6.1% in the same quarter of 2015. Overall for 2016, imports are expected to expand by 4.7% in the EU and 4.6% in the Euro area, with even stronger growth anticipated for 2017, particularly in the Euro area.

Regarding the contribution of each component to the overall GDP growth rate in the EU, we can see that the slowdown came mainly from weaker exports, which was partly compensated by falling imports. Private consumption consolidated its significant contribution to growth from the previous quarters, exceeding one percentage point of GDP. Similarly, public consumption had a positive contribution to growth at 0.4 percentage points. As a result, the shift of the growth drivers from external to internal demand carried over to the second quarter of 2016.

The rate of price change in the Euro area and the EU stood at -0.1% in the second quarter of the year, yet positive inflation of 0.2% was recorded in July and August, with preliminary estimates for 0.4% inflation in September. Removing the impact of the fuel prices, due to the low global prices of petroleum, the inflation is estimated to have reached 0.8% in September. The gradual progress in achieving the target of price growth (at the rate of 1.8%-2.0%) might result in a gradual scaling back of the quantitative easing programme by the ECB in the coming months.

Figure 2.2

Contribution to growth of the GDP components (EU)



Source: Eurostat

There were significant deviations across the EU countries in the second quarter of the year, with the strongest deflation observed in Bulgaria, Romania and Cyprus (<-2%), while in contrast the largest inflation rate was recorded in Belgium (+1.6%) and Sweden (+1.0%). Moderate inflation is projected overall in 2016, of about 0.3% in the EU and 0.2% in the Euro area, based on expectations that the oil price will not fall further, while the impact of the quantitative easing programme will strengthen. However, prices are expected to grow strongly, by about 1.5% in both regions, in 2017.

The conditions in the **labour market** improved year on year in the second quarter of 2016 as well, as employment increased by 1.5% and 1.4% in the EU and the Euro area respectively. Strong employment growth of more than 3.0% was recorded in Hungary and Slovakia, while employment declined or remained stagnant in Croatia and Romania. Overall in 2016, employment is projected to increase by 1.0% in both economic regions. As a result, unemployment is expected to decline in the European Union to 8.9% overall in 2016, from 9.4% in 2015, and to 10.3% from 10.9% in the Euro area, with further decline anticipated in 2017. According to data from the Labour Force Survey of Eurostat, unemployment declined in the second quarter of 2016 to 8.6% in the EU and 10% in the Euro area, from 9.5% and 10.9% respectively in the same quarter of 2015.

Regarding the **fiscal performance**, the general government deficit declined in the first quarter of 2016 to 2.3% in the EU and 3.1% in the Euro area, from 3.1% and 3.8% respectively a year ago. High deficits were recorded in Belgium, France and Italy, while Bulgaria and Cyprus reported strong surpluses. Public debt slightly declined in the EU to 84.8% of GDP, yet it increased in the Euro area to 91.6% of GDP.

2.2 The economic environment in Greece

A) Economic sentiment

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

The economic sentiment indicator increased quarter on quarter in the third quarter of 2016. The index signified a steady recovery of the expectations from their lowest point in the summer of 2015, reflecting a gradual return to normality of certain aspects of the economy, mainly due to the implementation of the economic adjustment programme and the effects of this (unimpeded financing of the state, reinstatement of the ECB waiver). That said, the economic sentiment indicator has not returned to its 2014 levels. This fact is in part attributed to the additional fiscal pressures, from taxes and other sources (e.g. social security contributions), felt by both the households and the enterprises. The capital controls are a key parameter in the operation of the economy that was not present two years ago. The conditions on the business side seem to be less fluid in the current period with respect to the implementation of the programme, at least compared with early 2016. On the household side, the very difficult conditions that the individuals are facing, due to the changes in direct and indirect taxation, are offset by expectations for a better economic situation in the country over the next year. The households anticipate that they will benefit from this trend, mainly in employment terms. In particular:

The Economic Sentiment Indicator in Greece improved slightly quarter on quarter in the second quarter of this year, totalling 91.6 points on average (from 89.2), a level that is significantly higher year on year (from 80.7 points).

In Europe, the corresponding indicator remained unchanged quarter on quarter in the Euro area, falling slightly in the EU. In particular, the economic sentiment indicator stood once more at 104.3 in the Euro area, reaching 104.7 points (from 105.5) in the EU. Year on year, the sentiment indicator remained essentially unchanged in the Euro area and declined in the EU (from 106.7 points).

At the sector level, the business expectations in Greece improved quarter on quarter in the third quarter in Services (by 5 points), with the increase in consumer confidence (by 3 points) contributing to the growth of the overall indicator as well. In the remaining sectors, the expectations deteriorated in the quarter under examination. In particular, the index decreased slightly in Industry (by 1 point) and Retail Trade (by 2 points), with Construction reporting the strongest contraction, by 19 points.

Compared with the corresponding period of last year, the indicators increased on average in all sectors, except for Construction, which remained unchanged and Consumer Confidence, which declined. In particular, the indicator increased by 19 and 33 points in Industry and in Retail Trade correspondingly, while in Services its growth reached 17 points. Consumer Confidence lost 8 points year on year in the examined quarter. In greater detail:

The **Consumer Confidence** indicator reached -68.4 points on average in the third quarter (from -71.2 points in the preceding quarter), yet lower year on year (from -60.6 points). At the country level, the Greeks are by far the most pessimistic consumers in the EU. The corresponding average European indices remained largely unchanged in the

Euro area in the examined quarter (at -8.2 from -7.8 points), declining in the EU to -7.3 (from -6.1 points). Year on year, the indicator declined in both regions (from -7 and -5.2 points on average, respectively).

The quarter-on-quarter trends in the components of the overall index are mixed in the current quarter. The expectations of the Greek consumers for the economic situation of their household in the next 12 months remained unchanged, while the expectations for the economic situation of the country improved. The intent to save slightly deteriorated.

In particular, during the third quarter of the year, the percentage of those who were pessimistic about the economic situation of their household in the following 12 months remained at 73-74% on average, with 24% (from 21%) believing that their economic situation will remain unchanged. The percentage of Greek consumers holding negative expectations about the economic situation of the country also remained unchanged at 80-81%, with 12% (from 10%) believing that it would stay the same. Regarding the intention to save, the percentage of households not likely to consider making any savings in the next 12 months marginally increased to 91% on average. Concerning the unemployment expectations, the percentage of those foreseeing that the situation will slightly deteriorate remained at 77%, while 7% on average expressed the opposite opinion. The percentage of consumers who reported to be "running into debt" remained at 14% in the third quarter of 2016, unchanged year on year, while the percentage of respondents who declared to be saving little or a lot stood at 10%. Lastly, the percentage of those reporting that they were "just about managing to make ends meet on their income" stayed at 64% and the percentage of households reporting that they were "drawing on their savings" remained at 12%.

The Business Climate Indicator in Industry totalled 91.1 points in the third quarter of 2016 (from 91.9 points in the preceding quarter), higher year on year as well (from 71.9 points). Concerning the key figures on economic activity, the short-term production forecasts deteriorated quarter on quarter (+9 from +13 points on average), while the assessment for the number of orders and the level of demand improved (from -21 to -18 points). The expectations concerning the stock of finished goods implied a slight replenishment of inventories, with the index growing to +13 from +11 points. In the remaining economic activity components, the trends for export-related variables were mixed, as the expectations for exports in the next quarter deteriorated, the assessments on the current level of exports of the sector remained unchanged, while the assessment for the number of orders and demand from abroad improved. The average quarterly balance of employment expectations declined by 5 points to -7, remaining however significantly higher compared with the third quarter of 2015 (-24 points). The industrial capacity utilisation rate decreased during the quarter in question to 67.5% (from 68.8%), yet it remained higher year on year (from 62%). Finally, the months of production accounted for by the order book of the companies reached 4.1 on average (from 4.5), slightly higher year on year (3.5 months).

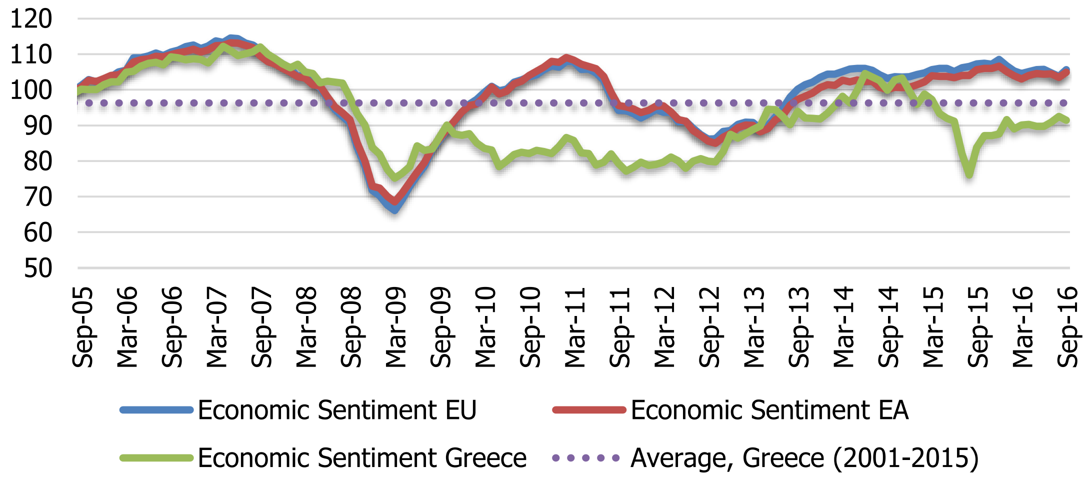
The Business Climate Indicator in **Retail Trade** declined slightly quarter on quarter to 98.6 points (from 100.2), a better performance compared with the same quarter of last year as well (65.8 points). Concerning the key components of the index, the average assessment of current sales increased to +14 (from +8) points. The percentage of the companies in the sector reporting growth of sales stayed at 42% while the index for expected sales fell significantly to +10 (from +27) points. The index for inventories also declined (at -2 from +4). Regarding the remaining activity indicators, the balance of expected orders from suppliers deteriorated (to 0 from +7 points on average per quarter), while the short-term employment expectations declined to +5 (from +24) points. Finally, the balance of price expectations halved from +16 in the preceding quarter, with 6% of the companies expecting once more price deflation and 76% (from 73%) expecting price stability. In the constituent branches, the business sentiment improved quarter on quarter in the third quarter of the year in Household Appliances, Department Stores and Vehicles – Spare Parts.

The business expectations in **Construction** declined notably quarter on quarter in the third quarter of 2016, with the index totalling 43.9 (from 62.8) points on average. This performance is about the same year on year. Regarding the components of the index, the employment expectations dropped sharply to -42 (from -16) points. About 48% (from 33%) of the businesses were expecting job losses, while 7% (from 17%) were foreseeing employment growth in the sector. The expectations of the businesses on their order book also became more pessimistic, with the index falling to -75 from -64. The assessment of the businesses of their current level of activity remained unchanged in the third quarter, with the index standing at -24 points. The months of activity accounted for by work in hand declined to 8.9 (from 9.6). The negative balance of price expectations slightly eased quarter on quarter in the quarter under examination, by 4 points, reaching -27, with 33% (from 36%) of the businesses expecting a reduction in the short term and 6% expecting prices to rise. Finally, the percentage of companies reporting that they were not facing any obstacles to the proper functioning of their business remained unchanged at 4-5%, while among the remaining businesses, 33% selected as the major obstacle low demand, 46% insufficient funding and 15% factors such as the general economic situation of the country, the capital controls, high taxes, lack of projects and late payments by the state. At the branch level, the decline of the business sentiment in the sector in the third quarter came both from Private Construction (with the index falling to 52.1 from 82.6 points on average) and Public Works (to 40.5 points from 53 points on average).

In **Services,** the Business Climate Indicator increased quarter on quarter in the third quarter of 2016, to 79.3 (from 74.3) points on average, slightly higher year on year as well (from 62.4 points). Among the basic components of the index, the assessment for current demand gained some ground, with the indicator growing to -3 (from -12) points on average. The assessment of the current level of business activity also increased (to -1 from -10 points on average), while in contrast the short-term demand expectations of the businesses of the sector slightly deteriorated (to -1 from +1 point). Regarding the remaining activity indicators, the average balance of the employment expectations index remained unchanged (at -7 on average). The deflationary price expectations remained unchanged as well, with the index standing on average at -3 points, as 11% of the businesses were expecting prices to fall. Finally, the percentage of respondents, declaring that there were no significant obstacles to their business operation, increased to 25% (from 18%), with 29% stating as the main obstacle to the proper functioning of their business insufficient demand, and 20% citing insufficient working capital. The remaining enterprises reported other factors, such as the general economic situation and the crisis, the capital controls, inability to borrow, high taxes, and delay in payments. The business climate indicators increased quarter on quarter in the third quarter of the year in all branches of Services, with the strongest growth recorded in Hotels, Restaurants, Travel Agencies, Financial Intermediaries and Information Services.

Figure 2.3

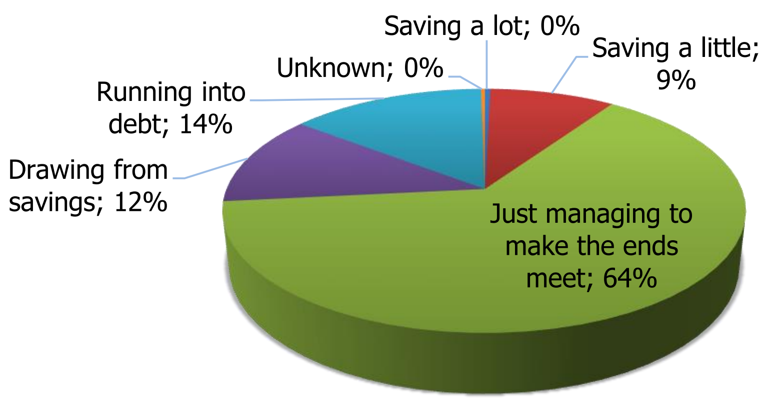
Economic Sentiment Indicators: EU, Eurozone and Greece, (1990-2014=100, seasonally adjusted data)



Source: DG ECFIN, European Commission

Figure 2.4

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



Source: IOBE

Table 2.6

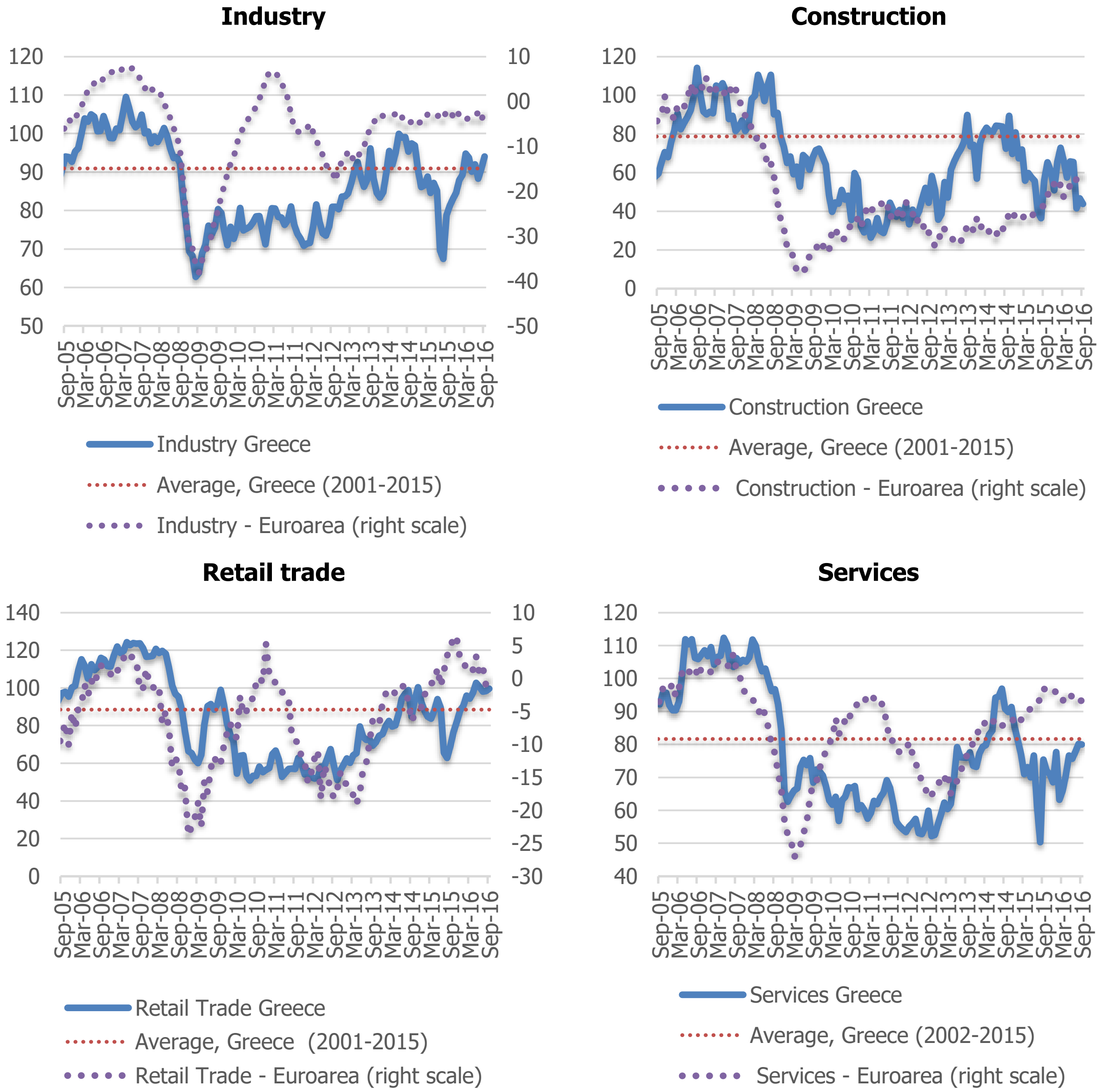
Economic sentiment indicators

Time period	Economic Sentiment Indicator[1]			Business Climate Index[2] (Greece)				Consumer Confidence Index[1] (Greece)
	EU	Euro area	Greece	Industry	Construction	Retail Trade	Services	
2002	97.3	96.8	102.0	101.2	114.0	93.3	82.8	-27.5
2003	95.4	95.4	100.1	97.9	115.0	102.0	85.5	-39.4
2004	103.3	101.6	104.8	99.1	81.5	104.8	94.6	-25.8
2005	100.8	100.5	98.1	92.6	63.0	96.8	93.6	-33.8
2006	108.3	108.3	104.9	101.5	91.1	110.8	103.7	-33.3
2007	111.0	110.6	108.4	102.8	92.5	120.8	106.6	-28.5
2008	93.3	94.3	97.4	91.9	95.2	102.5	97.8	-46.0
2009	79.3	80.2	79.7	72.1	65.5	80.4	70.1	-45.7
2010	101.2	101.6	79.3	76.2	45.2	59.5	62.9	-63.4
2011	100.3	102.4	77.6	76.9	34.2	58.9	61.7	-74.1
2012	90.9	90.6	80.0	77.2	43.2	57.1	54.8	-74.8
2013	95.7	93.8	90.4	87.8	65.0	70.2	70.4	-69.3
2014	105.1	101.6	99.3	94.6	81.5	89.1	87.2	-55.0
2015	106.7	104.3	88.7	81.9	56.4	81.0	70.6	-50.7
Q1 2015	105.4	102.6	96.8	87.2	65.0	85.5	76.4	-37.0
Q2 2015	106.1	103.7	91.6	85.7	57.6	90.4	73.2	-43.6
Q3 2015	107.1	104.6	79.9	71.9	44.0	65.8	62.4	-60.6
Q4 2015	108.0	106.3	86.7	82.9	58.8	82.4	70.5	-61.6
Q1 2016	105.5	104.0	90.2	90.7	68.0	93.6	69.0	-67.5
Q2 2016	105.5	104.3	89.9	91.9	62.9	100.2	74.3	-71.2
Q3 2016	105.6	104.9	91.4	94.0	43.8	99.6	79.3	-65.9

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

Figure 2.5

Business Climate Index



Source: IOBE

B) Fiscal developments and outlook

The State Budget (SB) execution data for the first eight months of the year[2] creates, prima facie, a very positive impression, as in the corresponding period of 2015. The SB deficit is much lower than the corresponding target for this period (deficit: €1,040 million, target: €3,880 million) and the primary surplus is almost four times higher than the target (primary surplus: €3,752 million, target: €980 million).

The similarities with the same period of 2015 are another main feature of the budget execution in the current year. Both the SB deficit and primary surplus in the first eight months of 2016 are essentially the same as in the corresponding period of 2015 (Table 2.7). In addition, the SB expenditure in both periods is significantly below its target (2016: €3,429 million, 2015: €4,744 million). Lastly, the revenue of the Public Investment Programme (PIP) is exactly the same in the two periods (also Table 2.7).

In contrast, the developments on the revenue side of the Ordinary Budget (OB) are much more positive in the current year than in 2015, due to the multitude of tax measures adopted between July 2015 and June 2016. However, some of the measures are not conducive to growth (e.g. the hike in the corporate tax rate from 26% to 29%), while some measures are probably impeding the return of deposits to the banks (e.g. higher deposit tax).

Meanwhile, the large expenditure restraint, which does not come from permanent structural changes, has created many problems. For example, some of the largest social security funds are facing very serious cash difficulties, while the grants that they receive from the OB declined in the first eight months (-1.2%). The arrears of the state to its suppliers increased in the first eight months[3] by €216 million, while the pending tax refunds increased (in the first eight months) by €58 million, deepening somewhat the huge liquidity problem faced by the enterprises.

Overall, the performance in the first eight months of 2016 is better year on year, yet this comes primarily from the temporary restraint of expenditure and from a great number of tax measures. The fiscal outcome will largely be determined in the last four months of the year, when a significant amount of revenues is planned, while at the same time there is going to be a significant pressure for an increase of expenditure (e.g. grants to social security funds, arrears, payment of 2/3 of the PIP expenditure, etc.).

SB deficit and primary surplus

The SB deficit in the first eight months of the year was limited to €1,040 million, almost unchanged year on year, against a target for a deficit of €3,880 million. At the

[2] The analysis in this section is based on data from the State Budget Execution Monthly Bulletin of the General Accounting Office.

[3] These liabilities were larger, yet some of them (€1,354 million) were repaid in July and August, when Greece received part of the first tranche (€7.5 billion) after the completion of the first review of the programme. However, the arrears declined by a lower amount (€1,010 million), which signifies that new arrears were generated during that period.

same time, the SB primary surplus reached €3,752 million, almost four times its target (Table 2.7).

The reduction of the deficit came exclusively from a restraint on the SB primary expenditure against the target (-€3,360 million), out of which €883 million concerned PIP expenditure. In contrast, the SB revenues were short of the target by €589 million, which mainly came from lower PIP revenue (€1,048 million below the target), while the OB revenues exceeded the target by €458 million.

Ordinary Budget Revenues

The revenues of the Ordinary Budget (before tax refunds) increased year on year by 4.3% in the first eight months of 2015, to reach €31,783 million, overshooting the target by 1.8%. The detailed data show that the increase came exclusively from tax revenues, and particularly from indirect taxation (10.9% growth, see Table 2.8).

The revenues from VAT were particularly high (12.0%), due to the transfer of many goods from the 13% to the 23% coefficient, the elimination of the 30% discount in many Aegean islands since July 2015 and the increase in the standard rate from 23% to 24% in June 2016.

Table 2.7
State Budget Execution, January - August 2016 (€ million)

	January – August			% change	
	2014	**2015**	**2016**	**2015/14**	**2016/15**
SB Net Revenues	32,919	30,765	31,945	-6.5	3.8
1. OB net revenues	29,571	28,698	29,877	-3.0	4.1
a. Revenues before tax refunds	31,749	30,470	31,783	-4.0	4.3
b. Tax refunds	2,178	1,772	1,906	-18.6	7.6
2. PIP Revenues	3,348	2,067	2,067	-38.3	0.0
SB Expenditure	35,769	31,869	32,985	-10.9	3.5
3. OB expenses	32,461	30,306	30,813	-6.6	1.7
a. Primary expenses*	27,666	25,404	26,021	-8.2	2.4
b. Interest	4,795	4,902	4,792	2.2	-2.2
4. PIP Expenses	3,308	1,563	2,172	-52.8	39.0
SB Deficit	-2,850	-1,104	-1,040		
% of GDP	*-1.6*	*-0.6*	*-0.6*		
SB Primary Surplus	1,945	3,797	3,752		
% of GDP	*1.1*	*2.2*	*2.1*		
GDP (current prices)	177,559	176,023	176,197		

Source: State Budget Execution Bulletin January – August 2016, GAO, September 2016
* Includes military procurement, called guarantees and disbursement fee to EFSF.

In addition, the revenues from tobacco product taxation also increased significantly (13.2%), as the tobacco companies stocked products in the first half of the year, anticipating the increase in the excise duty and the VAT rate. In contrast, the revenue from liquid fuels declined by 0.9% year on year. Furthermore, the revenues from the car registration tax increased by 55.6%, as it seems that the consumers rushed to buy cars in the first five months of the year before the tax hike. Lastly, the revenues from indirect taxes of previous years increased by 54.9% to reach €584 million.

The revenues from direct taxes also increased by 2.1%, remaining, however, short of the target by €244 million. The revenues from corporate taxation increased significantly, by 25.8%, mainly due to the increase in the advance tax payment. In contrast, the revenues from individuals declined year on year by 0.8%, despite the payment of the first instalment of the income tax for 2015 in July 2016. The revenues from property taxes and other direct taxes also increased, by 9.0% and 4.1% respectively.

Lastly, the non-tax revenues declined in the first eight months by 12.4%, as in 2015 the banks had paid some of their liabilities to the state, coming from the 2008 liquidity boost measures, while no such revenues occurred in 2016.

From the above analysis, it is evident that the good performance of the revenues came exclusively from tax revenues and particularly from the multitude of tax measures, adopted since July 2015, even from those that would come in force at a later date. It is indicative that, for example, the revenues increased by €1,06 billion (12.0%) from VAT, by 33.1% from premiums and by 13.2% from tobacco taxes. However, in relation to the number (and intensity) of tax measures, the revenue performance is rather mediocre. More sound conclusions can be drawn towards the end of the year, as the collection of the unified property tax (ENFIA), two-thirds of the income tax and the road tax is still pending. Besides, higher revenues were also collected in the last four months of 2015, hence the 'base effect' from the low rate of collection in the previous year which had a positive impact in the first eight months of 2016, will act in the opposite direction in the remaining four months.

Ordinary Budget Expenditure

In the first eight months of the year, the Ordinary Budget expenditure increased slightly, by 1.6% year on year, to reach €30,813 million. Still, the expenditure remained short of the target by €2,546 million. The increase came exclusively from primary expenditure (2.4%), as the interest payments declined by 2.3% (Table 2.9).

Among the primary expenditure categories, wages and pensions declined by 3.4%. Growth was recorded in all other expenditure categories. In particular, social spending increased by 2.1%, due to higher expenditure for social protection and for grants to the Manpower Employment Organization OAED. In contrast, the grants to social security funds declined by 1.2%, which was one of the main reasons behind the significant deficits in the Wage Earners' Fund IKA, the Insurance Fund of the Self Employed OAEE and other funds (Table 2.9). In addition, the operational expenditure increased by 13.4%, due to higher transfers to various public sector agencies and higher consumption expenditure.

There is likely to be a significant pressure to increase the OB expenditure in the last four months of the year. Hence, it is still hard to predict the overall size of expenditure in the current year.

Public Investment Programme (PIP)

The PIP revenues reached €2,067 million in the first eight months of 2016, exactly the same as in 2015. However, the PIP expenditure increased by 39.0% year on year, to reach €2,172 million. As a result, the PIP had a small deficit in the first eight months (€105 million – Table 2.7).

Note that the PIP revenues (mainly receipts from EU Funds) were short of the target by €1,048 million, which creates the risk of losing community funds if their absorption in the last four months of the year does not improve.

Table 2.8

State Budget Revenues (million €)

Revenue categories	January – August			% change	
	2014	2015	2016	2015/14	2016/15
1. Net SB revenue (2+4)	**32,919**	**30,765**	**31,945**	**-6.5**	**3.8**
2. OB net revenue	**29,571**	**28,698**	**29,877**	**-3.0**	**4.1**
Tax refunds	2,178	1,772	1,906	-18.6	7.6
3. OB revenue	**31,749**	**30,470**	**31,783**	**-4.0**	**4.3**
Direct taxes	12,707	11,527	11,773	-9.3	2.1
--Income tax	7,712	7,348	7,511	-4.7	2.2
--Property tax	1,547	1,083	1,180	-30.0	9.0
--Direct taxes of previous years	1,588	1,361	1,278	-14.3	-6.1
--Other direct taxes	1,860	1,734	1,805	-6.8	4.1
Indirect taxes	15,083	14,642	16,245	-2.9	10.9
--Transaction taxes	9,513	9,098	10,132	-4.4	11.4
(of which VAT)	(9,105)	(8,769)	(9,824)	(-3.7)	(12.0)
--Consumption taxes	4,948	4,960	5,303	0.2	6.9
--Indirect taxes of previous years	373	377	584	1.1	54.9
--Other indirect taxes	250	207	226	-17.2	9.2
Non-tax revenues	3,958	4,301	3,766	8.7	-12.4
--Receipts from the EU	87	76	266	-12.6	250.0
--Non-ordinary revenue	1,399	1,490	675	6.5	-54.7
(of which: ANFA, SMP)	(580)	(291)	(375)	(-49.8)	(28.9)
--Permits and rights	-	212	58	-	-72.6
--Other	2,472	2,524	2,766	2.1	9.6
4. PIP revenues	**3,348**	**2,067**	**2,067**	**-38.3**	**0.0**

Source: State Budget Execution Bulletin January – August 2016, GAO, September 2016

Still, the receipts from the EU were even lower in the same period of last year, yet they reached €3,900 million by the end of the year, a level that is not significantly off their target for the whole of 2016.[4] The rate of clearing expenditure payments is likely to accelerate towards the end of the year, as in 2015 when almost half of the payments were executed in December.

The 2017 Budget

According to the Draft Budget,[5] the 2016 SB is expected to close with a deficit of €4,689 million (or 2.7% of GDP) and a primary surplus of €691 million (0.5% of GDP), against initial predictions for a deficit of €3,527 million (or 2.0% of GDP) and €2,403 million primary surplus (or 1.4% of GDP) respectively.

Table 2.9

State Budget Expenditure (million €)

Expenditure category	January – August			% change	
	2014	**2015**	**2016**	**2015/14**	**2016/15**
1. State Budget Expenditure	**35,769**	**31,869**	**32,985**	**-10.9**	**3.5**
2. Ordinary Budget Expenditure	**32,461**	**30,306**	**30,813**	**-6.6**	**1.7**
Interest	4,795	4,902	4,791	2.2	-2.3
Primary expenditure	27,665	25,404	26,024	-8.2	2.4
--Salaries & pensions	12,214	12,450	12,021	1.9	-3.4
Wages	7,962	7,998	7,634	0.5	-4.6
Other allowances	207	210	169	1.4	-19.5
Pensions	4,045	4,242	4,218	4.9	-0.6
--Social expenditure	8,231	7,778	7,939	-5.5	2.1
Grants to Social Security Funds	6,948	7,109	7,026	2.3	-1.2
Social protection	926	406	569	-56.2	40.1
Grants to OAED	327	240	315	-26.6	31.3
Other	30	23	29	-23.3	26.1
--Operational and other	4,858	3,704	4,200	-23.8	13.4
Transfers	1,057	558	788	-47.2	41.2
Consumption	748	533	669	-28.7	25.5
Conditional	1,495	1,568	1,465	4.9	-6.6
Other*	1,557	1,045	1,278	-32.9	22.3
--Earmarked revenue	2,362	1,472	1,864	-37.7	26.6
3. PIP expenditures	**3,308**	**1,563**	**2,172**	**-52.8**	**39.0**

Source: State Budget Execution Bulletin January – August 2016, GAO, September 2016
* Includes transfers to cover deficits and arrears of hospitals, military procurement, EFSF disbursement fee and called guarantees.

[4] €4,196 million in the 2017 Draft State Budget

[5] Table 2.1, p. 25 of the Draft Budget. This table introduces a new way of presenting the SB figures, in comparison with the initial 2016 budget.

This deterioration, despite the good execution of the budget until August, exclusively came from the loss of non-tax OB revenues from the profits of the European Central Bank and the national central banks from their holding of Greek bonds (€1,316 million).[6]

In addition, the revenues from the concession of permits and rights (regional airports, the Hellinikon project, etc.) will have a shortfall of €326 million. Part of this shortfall is covered from better performance in other revenue categories, while expenditure has increased due to the way called guarantees are recorded in the books.

Compared to 2016, the 2017 State Budget envisages a reduction of the SB deficit by €1,240 million, to reach €3,449 million or 1.9% of GDP. Correspondingly, the SB primary surplus will increase by €1,41 million, to reach €2,102 million or 1.2% of GDP.

The improvement comes from a reduction in the OB expenditure by €1,332 million and an increase in net revenues by €129 million. In particular, the tax revenues (direct and indirect taxes) will increase by €1,835 million due to ongoing and new fiscal measures that will come into effect from 1st January 2017 (higher excise duty on motor oil and LPG, levy on fixed telephone line subscribers, hike in the excise duty for tobacco products, levy on coffee imports). Then again, the revenues from the concession of permits and rights are projected to decline notably, by €1,039 million, while non-tax revenues will fall by €334 million. Note, lastly, that the PIP expenditure are projected to remain unchanged at €6,750 million.

At the General Government level (national accounting data), the 2017 deficit will decline to 1.3% of GDP, from 2.8% in 2016, while the primary surplus will increase to 2.2% of GDP, from 0.9% in 2016. In such a way, the target of the third programme for a primary surplus of 1.75% of GDP in 2017 is projected to be exceeded.

The forecasts for 2017 are based on an optimistic macroeconomic scenario, with a growth rate of 2.7%. The acceleration of the growth rate is expected to come from a significant boost in private consumption, investment and exports. Despite the significant growth of domestic demand, the budget projects a particularly weak growth of imports.

[6] According to all relevant data and indications (answer of Pierre Moscovici to question P-000596-16 of the European Parliament to the European Commission), €5 billion of the €6 billion that Greece would have received as a refund of the profits of the European Central Bank and the national central banks from their Greek bond holdings are irretrievably lost. These amounts, which refer to 2014 and 2015, were lost because Greece did not complete the last review of the second economic adjustment programme. In addition, the corresponding refunds for 2016 have also been lost. The Eurogroup decision of 25th May 2016 includes, inter alia, measures to achieve the Gross Financing Needs (GFN) target of the Greek state, if the debt sustainability analysis at the end of the current programme shows that these measures are required. These measures include a return of the ANFA and SMP profits (from the 2017 financial year) to Greece, so that they can serve as an internal safety reserve of the ESM in order to reduce the future gross financing needs.

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic developments

Recent macroeconomic developments in Greece

The Greek economy completed a full year of recession in the second quarter of 2016.[7] In essence, the contraction in the second quarter remained unchanged compared with the revised estimates for the first quarter. **Overall in the first half of the year, the GDP of Greece declined by 1.0%, marginally lower compared with the preceding period. However, during the same period of last year, the economy was growing at 0.6%.** The heightened uncertainty from the first review of the new economic adjustment programme that carried on for most of the second quarter, together with the impact from the upcoming fiscal measures and certain structural changes, impeded or even prevented certain economic decisions, mainly by the households, but also by the enterprises. The households anticipated that the higher personal income taxes, the pension cuts, the hikes of indirect taxes and the management of non-performing loans by the banks would exert pressure on their real disposable income.

The non-performing loans have been a critical factor for the prospects of the enterprises as well, together with the anticipated then hike in social security contributions, impeding the decision-making process of the enterprises. That said, the completion of the first review allowed for a renewed access to the standard funding facilities of the European Central Bank by the banking system, raising expectations for an easier access to capital from the banks, at a lower cost. In addition, the upcoming changes mainly in taxation made the consumers bring forward some of their purchases, temporarily boosting domestic demand, without having at the same time an impact on the external balance of the economy. The lifting of some of the capital controls in March did have an impact on the balance, mainly on the side of imports, weakening their contraction. In the public sector, the fiscal consolidation reduced public consumption, while the fact that a year before the operation of the public sector was affected by the election cycle and the political developments at the time also had an effect on shaping this trend.

In greater detail regarding the trends in the GDP components in the first half of 2016, **domestic consumption declined by 1.6% compared to its level from last year when it had increased by 0.8%.** The contraction intensified somewhat in the second quarter of the year, compared with the first (1.9%, against 1.3%), due to the sharper decline in

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

household consumption expenditure (1.7%, from 1.0%). Nevertheless, the steady decline of public consumption in both quarters was stronger relative to the contraction of household consumption, reaching 2.6% on average in the first half of the year, notably stronger than one year before (-0.6%). As noted in the previous quarterly bulletin, apart from the cuts in certain public sector expenditure categories, the reduction of consumption spending came also from the continuous expansion of arrears, which reached €5.93 billion in June, higher by €1.2 billion compared with December 2015.

The weak growth of **investment** in the first quarter of this year intensified sharply in the second quarter, to reach 22.8%, and as a result investment **in the first half of this year was higher by 12.1% than in the same period of 2015, when it was falling by 3.5%.** Note, however, that this increase did not primarily come from fixed capital formation, which increased by only 2.0% year on year. The primary driver of the investment growth was the different trend in inventories, which increased by about €440 million during the first half of 2016, compared with a contraction by €572 million in the same period of 2015. In addition, as evident from the trends in the fixed capital categories, the growth in fixed capital investment did not reflect a similar, positive trend in all or most of its sub-categories, but came from higher public investment and very large growth in the acquisition of transport equipment during the second quarter, caused by the hike in car registration taxes from 1st June 2016.

Regarding the trends in the fixed capital components in more detail, **transport equipment had the strongest growth in the first half of the current year (+11.5%)**, just as in the same period of 2015, when the growth in this type of investment was even stronger (+55.7%). However, **the growth came exclusively from a sharp jump in the second quarter (+31.9%), from the transient impact of the increase in car registration taxes on the demand for vehicles. Other construction, which also includes public works, had the second largest growth, by about 5.6%,** in contrast with a contraction by 11.3% in the previous year. Investment in agricultural machinery came next with 4.3% growth, in contrast with their strong contraction a year before (-28%). Taking into account their very small share in investment activity (0.3%), their fluctuation cannot influence the overall trend.

Among the remaining fixed capital categories, the largest contraction, for one more quarter, was recorded in residential construction (-20.3%), at a similar rate as in the previous year (-20.9%). The contraction of investment in ITC equipment was considerably weaker (-6.0%), but a year before this subcategory was growing strong (+18.1%). Investment in Machinery-Equipment, with a similarly strong growth in the first half of 2015 (+16.2%), declined in the first half of this year, albeit at a low rate (-1.7%).

In the external sector of the economy, **exports continued to decline with the same intensity throughout the first half of 2016, despite the relaxation of the capital controls in March. As a result, exports declined by 11.4% compared with the first half of 2015, when they were growing by 2.6%.** The strong contraction of the exports of services, which carried over from the first to the second quarter (-26.5%,) drove the downward trend in total exports, as the exports of goods increased slightly in both quarters, albeit at a lower rate than in the same period of 2015 (+2.3%, from +3.9%). The trend in the exports of services came from a weak demand for international transport and other services, as evident from the balance of payments data of the Bank of Greece (-38.8% and -32.5% respectively in the first half of this year, in current prices), rather than from much lower tourist receipts. Note once more the significant difference in the year-on-year change of the exports of goods when measured in constant and current prices, as in constant prices they slightly increased, while in current prices they declined notably (-8.4%). The decline in the oil price seems to cause this discrepancy in the trend of the exports of goods. That said, given that the oil price in the second quarter is not as different year on year, its impact on the deflator of the exports of goods cannot be easily explained.

The partial lifting of the capital controls in March seems to have had a positive impact on imports in the second quarter. For the first time since the imposition of the capital controls, imports declined less than exports, both in absolute and in percentage terms. The easing of the contraction was stronger in the imports of goods, which did not exceed 5.8%, while the decline of the imports of services remained stronger than 20% (24.1%). As a result, imports declined by 9.6% in the first half of 2016, compared with a weak growth in the same period of last year (+2.8%). In addition, and more importantly, **the contraction of imports was less intensive than the decline of exports, which led to an expansion of the deficit of the external sector in national accounting terms, for the first time in three years, by €262 million to €2.8 billion (3.0% of GDP).**

On the supply side, gross value added declined by 0.7% in the first half of the current year, compared with a growth of 0.9% in the same period of 2015. Note that the contraction eased quarter on quarter from 0.9% in the first to 0.5% in the second. **The decline came mainly from a fall of production in the sector with the main contribution to output growth in the previous year, namely Wholesale-Retail Trade, Repair of Motor Vehicles-Motorcycles and Accommodation and Food Service Activities**. The value added of this sector declined by 2.2%, in contrast to its growth by 3.8% a year before. Particularly in tourism, turnover declined by about 6.0%, offsetting its growth from the previous year. The strongest output contraction in percentage terms was recorded in Financial – Insurance Activities (-3.2%, against a small growth by 0.7% in the previous year), yet given its considerably lower share in GDP its contribution to the overall contraction of the domestic gross value added was not as strong as that of Wholesale-Retail Trade. Agriculture-Forestry-Fishing and Professional – Scientific – Technical – Administrative – Support Service Activities came next with a 1.9% contraction, compared with growth in the same period of last year, weak in the former (+0.8%) and strong in the latter (+9.8%) case. The weakest contraction was recorded in Construction (-0.1%), followed by Public Administration – Defence – Compulsory Social Security – Education (-0.6%), which had the third strongest growth in the same period of 2015 (+1.5%). Construction, as a result of the marginal decline in the first half of this year, experienced the smallest contraction for this period since 2007.

The production activity expanded only in four sectors in the first half of 2016: Industry (+1.2%), Arts-Entertainment-Recreation (+1.2%), Information-Communication (+0.6%) and Real Estate Services (+0.2%). Except for the last sector, which had a similar growth a year before, the other sectors contracted in the same period of 2015, at a rate ranging from 1.8% (Industry, Arts-Entertainment-Recreation) to 3.9% (Information-Communication). Note the significant growth momentum of Industry during the second quarter (+3.9%), which drove the recovery of the sector overall in the first half of the year – if it carries over to the next half it could become a key driver of the GDP trend.

Apart from the positive effect on employment from the recovery of production in the above sectors, the year-on-year job creation in the labour market in the second quarter of the year came largely from programmes of temporary work in the public sector, run by the Manpower Employment Organization, and the persistently strong activity in Tourism at levels close to its performance from last year. That said, with the households discounting the upcoming measures that affect negatively their disposable income (higher direct taxation, pension cuts) their consumption expenditure declined, which was reflected in a reduction of employment in Wholesale – Retail Trade – Repair of Motor Vehicles-Motorcycles, for the first time since the final quarter of 2014. **With the stimulating impact of the above factors, employment increased by 2.1% in the second quarter, while the unemployment rate declined to 23.1%, its lowest level in four years. On average in the first half of 2016, employment increased by 2.5%, while unemployment totalled 24.0%, 1.6 percentage points lower year on year**.

At the branch level, the easing of unemployment in the first half of the year came from employment growth in Public Administration – Defence – Compulsory Social Security – Education (+28,500 or +9.5%), Tourism (+22,400 or +7.3%) and Manufacturing (+14,800 or +4.5%). Transportation-Storage came next (+12,100 or +7.2%), followed by Financial – Insurance Activities (+7,300 or +8.4%). Employment declined in four sectors. The strongest contraction was recorded in Agriculture – Forestry – Fisheries (-16,000 or -3.4%), due to its decline in the first quarter, followed by Activities of Households as Employers (-6,100 or -12.7%) and Other Service Activities – Administrative and Support Service Activities (-6,800 or -9.0%). Employment in Professional – Scientific – Technical Activities declined least (-3,400), due exclusively to its sharp contraction in the second quarter.

The impact from the decline in the price of petroleum on the prices of products derived from it (heating oil, motor oil, gasoline, etc.) and the intensifying contraction of household consumption demand, offset the inflationary impact from higher VAT in the second quarter of this year too. As a result, **the deflation rate remained unchanged in the second quarter at its level from the first quarter (0.9%)**. However, the deflation rate was notably lower compared with the same period of last year (2.3%), when it had reached its peak. The deflationary impact from the fall in the petroleum prices in the second quarter was reflected in falling prices in Housing and Transport, which recorded the strongest deflation (-4.6% and -4.7% respectively) among the categories of goods and services that comprise the Consumer Price Index. In contrast, the inflationary effects from higher VAT on prices, which had an impact mostly with the abolition of the discount in the islands, is reflected in the price increase by 2.9% in Hotels – Cafes – Restaurants, the category with the largest inflation among all categories of goods and services.

To sum up, the decline of domestic consumption demand, particularly by the households and despite the employment growth, determined the GDP trend in the second quarter of this year as well. The significant growth in the other basic component of domestic demand – investment – that largely came from transient factors (purchase of transport equipment due to anticipated car registration tax hike) did not prevent the overall contraction.

The deterioration of the external sector balance is a negative development. The fact that the relaxation of the capital controls in March did not lead to an easing of the contraction of exports, unlike what happened in imports, is problematic, particularly with respect to the international competitiveness of the domestically produced services. Meanwhile, it highlights the import needs that have accumulated due to the capital controls. Nevertheless, certain developments boosted production activity. Output in Industry increased significantly in the second quarter, which came from a boost of output in Manufacturing, as evident from the constituent industrial production indices. This trend has carried over to July, at least. In Construction, output declined only marginally in the first half of the year, for the first time since 2008, due to the recovery of activity in public works.

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

* provisional data

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

Turnover in Tourism slightly declined in the second quarter (-1.1%), after three years of strong, steady growth that resulted in its cumulative increase by 22.0%. Therefore, Tourism seems to consolidate its extensive recovery from the previous years. The output trends in significant for the Greek economy sectors had a positive effect on employment, contributing to the easing of unemployment. If these trends are sustained, these particular sectors will form a core of activities in the Greek economy, which will exert significant counterbalancing force, with its output and employment, on the recessionary trends in the other sectors.

Medium-term outlook

The easing of the uncertainty from the completion of the main phase of the first review of the third economic adjustment programme in May, as anticipated in the previous IOBE bulletin, has started to become felt in the economy. The increase of the deposits of businesses and households by €2.2 billion between June and August, out of which €1.35 billion came from the businesses and €850 million from the households, is the major indication for this development. As a result, the deposits of the private sector reached their highest level since June 2015, in the short period since the completion of the first review. The clearing of the state arrears to its suppliers, for the first time within 2016, by €1.35 billion,[8] probably contributed to the growth of deposits. The funds for clearing the arrears came from the €1.8 billion earmarked for this purpose in the first subtranche after the review. In addition, the receivables from foreign investments declined by €2.2 billion in June, mainly due to the reduction of the holdings of domestic credit institutions and institutional investors in deposits and repos abroad by €1.8 billion, which also signifies a reduction of the uncertainty regarding the Greek economy.

In addition, the banking system, benefiting from having regained the access to the standard liquidity facility of the ECB (reinstatement of the waiver), has already eased the contraction of the credit to the private sector. The decline of the outstanding balance of credit reached about 3.0% on average between June and August, from 4.5% in the first five months of the current year. Note that this development came exclusively from the easing of the credit policy towards enterprises. The loans to non-financial corporations declined by 2.9% in the last three months, compared with a contraction of 6.6% between January and May. The contraction rate of the credit to households remained at 3.6% in June-August, unchanged compared with the first five months of 2016.

The fact that until now the Brexit outcome of the UK referendum has not had notable effects on the European and the world economy is also benefiting the gradual easing of the uncertainty in the Greek economy. Such a development could have become a source of economic shocks not

[8] Provisional data for July – August 2016. Source: Draft State Budget 2017, Ministry of Finance, October 2016

only for the UK but for those developed economies that have strong links with this country and in Euro area economies that have not solved all their structural and fiscal problems. Nevertheless, possible negative effects of the Brexit on the Greek economy cannot be assessed yet. Firstly, there are few available data and, secondly and more importantly, the trend in the current year in certain economic figures of Greece that are connected with the UK, such as tourist arrivals and tourism receipts, were largely determined prior to the referendum, due to the booking of mainly pre-paid all-inclusive tourist packages. Taking this into account, any impact from the UK referendum outcome is going to be reflected in indicators for the fourth quarter of 2016 and in 2017. Then again, the situation with the refugee flows from Syria and from other countries in the Middle East and South Asia has deteriorated, mainly due to the turmoil in Turkey after the 15th July events. These events have fractured the country's relations with the EU, putting in doubt the continued implementation of the 18th March 2016 agreement with Turkey on the repatriation of illegal immigrants.

The signs that the uncertainty has weakened do not imply that the confidence in the Greek economy has been restored. Besides, most of the deposits that were withdrawn from the banks between December 2014 and June 2015 have not come back, the capital controls have continued to be in place for more than a year without any clear indication on when they might be lifted, the credit to the private sector has continued to contract, while the process of managing the non-performing loans, using the possibilities provided by the new legal framework, has not yet started. In addition, the Economic Sentiment Indicator of the European Commission, complied by IOBE in Greece, has remained below its long-term average, despite its small quarter-on-quarter increase in the third quarter from 89.2 to 91.6 points. The Consumer Confidence indicator, in particular, has remained below its already low levels from the previous year, despite growing since the end of the review. This development came from pessimistic expectations of the households about their economic situation in the next 12 months and about the economic situation of the country, which remained lower year on year. This result reflected their concern about the impact on their real disposable income (reduction of the tax allowance, change in the tax rates, higher social security contributions, pension cuts) from the additional fiscal measures, taken in order to conclude the first review. The new measures are expected to have a negative impact on the consumption expenditure of the households from the fourth quarter of this year and for at least the first two quarters of 2017. Still, consumer demand increased strongly in July, as the seasonally adjusted volume index of retail trade increased by 8.8%. Nevertheless, the increase of the index came mainly from its very low level a year ago, due to the turmoil caused by the referendum, the bank holiday and the imposition of the capital controls. The base effect is anticipated to lead to a positive trend in private consumption throughout the third quarter.

Regarding the enterprises, the decisions adopted as part of the first review in issues such as the tax rate on the profits of the companies that keep category C accounting books (single entry), the dividend tax and the social security contributions, have increased their tax burden. Particularly for freelancers, the hike in the VAT rate, the change in the estimation of the social security contributions from 1st January 2017, based on the taxable income of past years, and the lingering lack of clarity on how this is going to be implemented are expected to cause turbulence in the enterprises and the labour market from late 2016. The change of the legal status by a section of the enterprises (to Private Capital Company or Société Anonyme) or transfer of their base abroad are the most probable outcomes of these changes. In any case, the transition to a new equilibrium is going to limit the activity of the enterprises that would enter this process, in the current year at least, which is very likely to lead to lower revenues from taxes and social security contributions in the final quarter of 2016.

The changes in the labour relations, which will take a centre stage in the upcoming negotiations for the second review of the third programme, is a significant issue not so much for the existing jobs, as the labour market has been extensively restructured in the past few years, but mainly for the creation of new jobs, which in most cases is related to investment. The anticipation of the new regulatory framework of the labour market is going to postpone the execution of investment plans, related to the expansion of production capacity or the creation of new businesses. Yet, it is not expected to affect notably the decisions of the enterprises on investment and employment that concern their current level of activity.

The management of the non-performing loans by the banks remains a major issue for many enterprises and households, as it impedes their access to bank lending. The start of the relevant procedures in the upcoming period, after the changes in the regulatory framework with Law No. 4389/2016, is going to restrain the decision-making process mainly of the enterprises, which will anticipate its outcome. The process of restructuring or transfer of business loans is expected to continue for most of 2017.

Notwithstanding the impact of the pending issues and the lack of clarity in the tax system and the labour relations, the uncertainty regarding the management of non-performing loans, the completion of the initial phase of the first review and the implementation of the prior actions for the second part of the review with the recent Law No. 4425/2016, without a slippage from the set time plan, have gradually started to ease the concern of the businesses on the continuation of the structural changes and the fiscal consolidation. The heightened privatisation activity in the past few months has contributed in this direction. Recent privatisation actions include the sale of TRAINOSE, the ratification by the parliament of the new contract for Hellinikon and the transfer of the state-owned companies (Public Power Corporation, Hellenic Vehicle Industry, Hellenic Post, Athens Water Supply and Sewerage Company, Thessaloniki Water Supply and Sewerage Company, Building Infrastructures) and about 70,000 real estate properties, owned until recently by the Public Properties Company, to the Public Holding Company, a subsidiary of the new privatisation fund (Hellenic Company of Assets and Participations). Further progress with the implementation of the programme, including the required reforms for the second review, will boost the credibility of the adopted economic and reform policy and revive the low investment interest in the Greek economy.

The start of the negotiations for the Greek public debt, after the implementation of the prior actions for the second sub-tranche, is the most significant upcoming development. The Eurogroup decisions of 25 May 2016 for short-term measures that would facilitate debt servicing, which include smoothing of the repayment period of the EFSF loan for the second programme and a reduction of the interest rate risk for this particular loan that would subsequently lower the cost of borrowing for the Greek state, will form the basis of the negotiations, which in turn will determine the participation of the International Monetary Fund in the third programme. The facilitation of the servicing of public debt with the above measures, and perhaps additional changes, will limit the uncertainty regarding its sustainability and will improve the medium-term outlook for the Greek economy, boosting its attractiveness.

Notwithstanding the prospects and momentum of the Greek economy that could come from politico-economic developments in the following months, regarding the current conditions, the liquidity continues to be significantly lower, compared to the period before the mass deposit flight and the imposition of the capital controls. For the time being, the recovery of the access to the standard funding facility of the ECB by the banks is used for a gradual reduction of their exposure to the Emergency Liquidity Assistance, as anticipated in the previous bulletin of IOBE on the Greek economy. Since 22 June, when the ECB reinstated the waiver, until 4 October, the capital drawn from ELA fell by €16.1 billion. The return of the deposits until now is weak, compared to their outflow in the past few years and in relation to the level that is needed in order to sufficiently boost the capital base of the banking system and to allow for a policy of steady credit expansion. The return of much larger part of the deposits is needed, which depends on the continuation of the implementation of the agreed measures and reforms. The inflow of foreign capital is also required, which depends on the characteristics of the investment environment (role – operation of the state, tax system, labour relations, justice system), in order for the economic environment to stabilise and the depositors to regain their trust in the banking system.

The conditions for expanding the bank credit to the Greek economy will emerge, once the management of the non-performing loans process concludes in a way that does not cause problems to the balance sheet of the banks. Understandably, the trend in the deposits will also determine the further steps in the relaxation of the capital controls.

Given the current conditions and the possible developments in the banking system that were presented above, the contraction of the credit to the enterprises will continue to gradually ease until the end of 2016, while a small credit expansion to the enterprises is likely to take place in the first half of 2017. The loans to the households will continue to contract over the same period, at a lower rate than in the first eight months of 2016 (-3.6%).

Regardless of the developments in the banking system, a boost of the liquidity of the enterprises could come from the faster clearing of the arrears of the state to its suppliers. As mentioned above, out of the €1.8 billion of the first sub-tranche of the third programme that was earmarked for arrears clearing, €1.35 billion were paid out to beneficiaries in July and August. However, according to the available data, the reduction of the arrears in July was lower than the paid-out sum for this purpose, which reveals that the state continued to delay paying its current obligations.[9] Therefore, the €1.8 billion from the first sub-tranche for clearing arrears, together with the €1.7 billion that are earmarked for this in the second sub-tranche of €2.8 billion, will cover most of the arrears of the state to its suppliers that had accumulated until June this year (€5.9 billion). However, the arrears of the state will not decline as much after the payment of these sums, given that it continues to generate new arrears, which limits the positive impact on the liquidity of the enterprises.

The availability of investment capital is slightly stronger year on year from the more frontloaded execution of the Public Investment Programme. The PIP expenditure in the first eight months of this year is higher by €610 million (+39.0%), compared to the same period of last year, when it stood at an exceptionally low level, due to the lack of funding for the Greek state from the second economic adjustment programme for more than a year. Nevertheless, public investment expenditure is notably short of its target, by €880 million (-28.9%).[10] The shortage comes exclusively from the co-financed arm of PIP, which is at 66.9% of its target (-€920 million), at €2.17 billion, coming from weaker than anticipated inflows from the EU by €1.04 billion. The inflows from the EU during the same period of 2015 were lower than in the current year as well, yet they reached €3.9 billion overall in 2015, a level that is not significantly far off from the overall target for 2016 (€4.17 billion). Hence, it is feasible that the inflows from the EU will increase in the coming months

[9] General Government Monthly Bulletin: July 2016, Ministry of Finance, September 2016.

[10] State Budget Execution Monthly Bulletin: August 2016 (final data), General Accounting Office, September 2016

and the PIP payments will reach their target for the current year (€6.75 billion), a level slightly higher than in 2015 (€6.4 billion). With this in mind, the implementation of the PIP is still expected to provide a small boost to investment activity in 2016.

Regarding the investment coming from privatisation and concession, the recent completion of relevant procedures, included in the activities of the HRADF (such as the sale of TRAINOSE and the ratification of the new contract for Hellinikon), the competition for the nationwide TV licences and the transfer of state-owned enterprises to the HCAP signify the intention of the government to accelerate its activity in this particular policy area. Understandably, the relevant actions should not violate the country's constitution and the relevant court decisions, in order to respect the principles of equality before the law and the proper functioning of production sectors and markets. The total revenues for the current year, after the receipts from the recent privatisation and licencing deals, are expected to reach €1.5 billion, if the privatisation of the Hellenic Company for Rolling Stock Maintenance is not completed in the current year, short of the target in the 2016 budget (€1.993 billion).

The privatisation activity of the past few months is expected to reflect on investment in 2017, as time is needed to complete the tender procedures, prepare fully the investment plans and obtain the necessary licences. Besides, the drafting of the statute of the newly formed Hellenic Company of Assets and Participations has not been completed yet. Hence, the setup and the start of operation of HACP is not going to take place immediately, postponing the development of the assets that have been transferred or will be transferred to its portfolio.

Regarding the public finances, as anticipated in the previous bulletin of IOBE on the Greek economy, expenditure categories included in public consumption continue to decline. In particular, the expenditure of the Ordinary Budget increased by €500 million (+3.5%) year on year in the first eight months of the year, despite remaining lower than the target by €2.5 billion. However, the expenditure on wages, the main component of public consumption, remained lower year on year, by €175 million or 2.3%.[11] The reduction of the labour cost in the public sector, with a corresponding impact on public consumption seems to be achieved with the implementation of the unified wage scheme and the reinstatement of the rule "five out – one in". Still, the fiscal consolidation process in 2017 places an emphasis on increasing tax revenues and not on cutting expenditure, according to the Draft Budget for next year.

The current situation and the most likely developments in the global political scene, which will likely have an effect on the Greek economy (Brexit, migration flows and Turkey – EU relations), were presented earlier. Regarding the trends in key

[11] ibid.

figures of the world economy, the price of Brent Crude, after its growth between March and June, has varied in the range of 45-50 dollars per barrel, a level lower than in 2015. The decision to reduce the global oil production by 240,000 to 740,000 barrels per day, to about 33 million barrels, taken at the recent International Energy Forum in Algeria, is expected to cause a small increase in the oil price in the coming weeks. Given that strong upward pressures on the oil price are not expected for the remainder of 2016, the yearly average of the oil price is expected to remain lower year on year. In addition, the energy cost of the enterprises in countries that are net buyers of oil, such as Greece, is not going to increase much. That said, the hike of the excise duty of heating oil from the start of the heating season in the coming days is expected to impede the price fall in the last quarter of this year.

Despite the Brexit outcome of the UK referendum, the euro-dollar exchange rate has not changed as a result, remaining slightly above 1.10. Possible transient volatility, from the US elections or from a decision on the Greek debt, are not going to lead to changes in the exchange rate for a long period of time.

The capital controls continue to have an impact on the international transactions of the Greek economy. As repeatedly stated in previous IOBE quarterly bulletins and confirmed by the data on imports and exports, the easing of the capital controls has had an effect primarily on the import side, without significant benefits for exports, even of goods except for petroleum products and ships. This fact is becoming particularly evident in the latest Current Account data for July, as in contrast to the previous months the corresponding values from last year incorporate the impact from the capital controls.

In particular, based on relevant data from the Bank of Greece, the exports of goods and services increased by 3.7% in July, compared to the same month of 2015, when the capital controls were imposed. However, the sharp increase of imports, by 29.9%, outweighed the positive impact on the trade balance from the growth of exports. In greater detail, the growth of exports came from an expansion of the exports of services by 7.7%, due to the strong boost in transport services (+45.1%) and other services (+81.1%), in contrast to the trends in the first six months of the current year. Note that tourism receipts continued to decline, as in the first six months of the year, at a slightly lower rate (-3.5%, against -5.8%). The exports of goods also continued to decline in July at a lower rate than in the first six months of 2016, by 2.9% from 7.9%. The strongest contraction once more was recorded in the exports of fuel, however, the exports of goods except for fuel and ships also continued to decline, albeit at a marginal rate (-0.5%).

The strong boost of imports in July came equally from higher imports of goods (+€577.4 million or +20.1%) and an expansion of the imports of services (+€420.2 million or +90.2%). The demand was higher in the current year in all basic categories of services, but mainly in other services (+€208.2 million or +277.7%). The strongest growth in absolute terms among the import categories was recorded in goods except for fuel and ships, which increased by €607.7 million (+29.2%). The much larger expansion of imports, compared with exports, led to the reduction of the surplus of the balance of goods and services in July by €782 million (-30.8%). Overall for the first seven months, the deficit of this account increased by 97.4%, to reach €1.94 billion. The trends in exports and imports presented above revealed that if the capital controls ease further with respect to the international transactions, this will most likely contribute to the consolidation of the significant growth of imports and less to the improvement of the export performance.

In contrast to the external sector, the latest data on the domestic sectors of economic activity and the short-term economic indicators signify a continuation of or a return to positive trends. Construction activity is an exception to the general trend, as it continues to contract.

In greater detail, industrial production increased by 4.1% in July, continuing the strong growth from the second quarter (+4.8%). During the same month of 2015, industrial production was falling by 2.5%, at the same rate as in the first quarter.[12] The growth trend came almost exclusively from the strong growth of Manufacturing (+9.2% in July, +7.3% in Q2) and to a lesser extent from a stronger activity in Water Supply (+4.0% and +0.9% respectively). In contrast, activity in Mining-Quarrying continued to contract strongly, at the rate of 16.1% in July. In Electricity, the production fluctuated widely, as after the moderate decline in April and May, by about 1.6%, the index jumped sharply by 18.1%, returning to contraction in July (-5.7%).

With respect to construction activity, the latest available data of ELSTAT refer to June and therefore they do not contain information that extends to the third quarter of the year. Still, at the end of the second quarter, the construction works continued to contract in both surface and volume terms, slightly weaker than in the previous months (-15.3% and -22.7% respectively in June, from -24.8% and -31% on average in April and May). Regardless of these particularly strong negative movements of the indicators since early 2016, the Production Index of Building Construction, a component of the quarterly Production Index in Construction, also compiled by ELSTAT, increased by 7.7% in the second quarter. This trend cannot be explained by the monthly data on construction activity.

Regarding the indicators that reflect the sentiment on the demand side of the economy, as mentioned before, the seasonally adjusted Volume Index in Retail Trade increased by 8.8% in July, in contrast to a contraction by 3.7% on average in the second quarter. The trend change and the strong growth came from the very low level of the indicator a year earlier due to

[12] The data for the second quarter or the first months of the third quarter of 2016 come either from ELSTAT or the Bank of Greece. The indicated variations refer to year-on-year changes.

the impact of the uncertainty, stemming from the referendum announcement, the bank holiday and the imposition of the capital controls at the time, on consumer demand. Despite the apparent (from the preliminary data) consumption growth in the third quarter and the VAT hike, deflation does not seem to subside, as it reached 1.0% in July and August, at about the same rate as in the previous quarter (1.1%). Yet it remained weaker than in the same period of 2015 (1.8%). The price fall was maintained by the low oil price and the abolition of the excise duty on natural gas for industrial use since June. As a result, the prices in the categories Housing and Transportation declined by 4.2% and 4.1% respectively. However, the strongest contraction was recorded in Clothing – Footwear (-7.7%). In contrast, prices increased most in Hotels-Restaurants-Cafes (+2.2%), followed by Tobacco-Alcoholic Beverages and Health, by 1.8% in each category. The higher prices in the first two categories of goods and services reflect the inflationary impact of the new VAT hike.

The analysis so far reveals that the conclusion of the initial and more significant phase of the first review of the new programme eased the concerns regarding the implementation and the completion prospects of the new programme. As a result, positive effects on the Greek economy, such as modest improvement of expectations, the return of deposits to the banking system, reinstatement of the eligibility of the Greek sovereign bonds to serve as collateral by the ECB and the start of clearing of arrears of the state to its suppliers, started to emerge. The fact that almost simultaneously there were positive trends on the production side, trends which have not been observed in years, such as a steady and high expansion of production in Manufacturing, marginal decline in Construction overall in the first half of 2016, consolidation of the strong growth in Tourism from the past few years and good performance of the exports of goods, is equally important with the above politico-economic developments. Therefore, there are opportunities to utilise the conditions formed after the completion of the review, particularly with respect to liquidity, in order to facilitate and boost production activity.

However, the adopted economic policy should be stable in order to establish a better economic climate. This is primarily linked with the continuation of the implementation of the third Economic Adjustment Programme and the wider coherence of the adopted policies. As part of this objective, the prior actions of the second review will have to be implemented. In any case, the improvement in the medium-term outlook for the Greek economy does not eliminate the pressures from the new fiscal measures, mainly on the households and the freelancers. In the external environment of the Greek economy, the developments in Turkey and their impact on the country's relations with the EU, together with the refugee flows from the Middle East, South and West Asia, might become a source of turbulence.

Taking into account the latest and the anticipated politico-economic developments and the available data on the trends in economic indicators in Greece for the forecasting of the GDP components and other macroeconomic indicators, the new fiscal measures that were imposed in order to conclude the first review of the new programme will limit the disposable income and the **consumption of the households** in the second half of 2016, as already anticipated in the previous bulletin on the Greek economy. Of course, their impact is going to be fully felt with the implementation of the measures planned for the start of 2017 (such as changes in the direct taxation of freelancers and in the estimation of their social security contributions). Certain fiscal interventions that are going to be finalised during the second review (e.g. on special wage categories in the public sector) will bring further burdens. That said, the strong contractionary impact of the capital controls on household consumption during the second half of 2015 and particularly in the third quarter has formed a low level of comparison for the corresponding period of this year. Private consumption will grow in the third quarter of the current year, mainly from the base effect, at a strong rate that might exceed 1.5%. The boosting effect from the low level in the previous year will ease substantially in the last quarter.

The continuation of the year-on-year decline of unemployment will also support the expansion of household consumption. However, the unemployment decline is expected to weaken in the fourth quarter of 2016 and in 2017, from the burden of high income taxation and increased social security contribution. The management of non-performing loans of the households is expected to have a limited scope in 2017, and thus a limited impact on their decisions. **As a result of the counteracting forces that will act on private consumption in the second half of the year, it is expected to grow slightly. Yet, its growth will not be sufficient to prevent a decline overall in 2016, by about 0.3% to 0.5%. In 2017, private consumption is expected to increase by about 1% to 1.5%.**

The cuts in consumption spending of the public sector will carry over from the first half of 2016 to the rest of the year. However, the restart of the fiscal consolidation in the second half of 2015, after the signing of the agreement on the new programme and the efforts to achieve the set target for the primary deficit, resulted in a decline of **public consumption** to levels notably lower than in the preceding half of last year. This formed a relatively low level of comparison for the current half of 2016, making it likely that public consumption will expand by about 1.0% during that period. **Despite the anticipated modest growth in the second half of the current year, the consumption expenditure of the public sector will contract by 0.8% to 1.2% overall in the current year.** According to the draft state budget for next year, which was recently submitted to parliament, the emphasis in 2017 in the fiscal consolidation effort is going to be placed on boosting tax revenues.

In addition, the measures on the expenditure side concern almost exclusively pensions, benefits and social security contributions of the public sector. **Under the fiscal interventions planned for 2017 and their anticipated performance, public consumption is likely to slightly expand.**

Regarding **investment,** the other component of domestic demand, the developments after the conclusion of the first review in measures that form the liquidity in the economy (return of deposits, reinstatement of the waiver, easing of the credit contraction) were presented above, together with the positive trends in business expectations and sections of production, which taken together are conducive to the gradual recovery of investment activity. There is certainly a lot of room for improvement of the parameters that determine the volume of investment and the expectations on the prospects of the Greek economy, that can be covered mainly by continuing the reforms. Gaining progress in the second and subsequent reviews is one of the key prerequisites for the strengthening of the confidence, domestically and abroad, in the stability and the prospects of the Greek economy, which will lead to return of the deposits and an inflow of foreign investment capital, sufficient to provide the necessary boost for economic recovery.

The relative stability of foreign demand, after its extensive growth in the past few months, the energy cost, from the fact that the oil price has remained at low levels for a long period of time, a trend that is not expected to change in the immediate future, and the lifting of the excise duty on natural gas for industrial use, are factors conducive to the undertaking of investment risk in certain branches of the primary sector and Manufacturing.

The heightened public works activity will continue to stimulate the Construction sector. After the finalisation of the interventions in the property taxes for households and enterprises, with the relevant legislative amendments that were adopted in the current year, which lifted the corresponding uncertainty, the prolonged, intense contraction of building activity in the past few years is likely to cease in the coming year, as building activity is anticipated to increase or at least remain unchanged at the level recorded in 2016.

Then again, the changes in the income taxation of the companies keeping category B (single-entry) accounting books and in the direct taxes and social security contributions of freelancers, are strong restrictive factors on investment by sole proprietorships and small enterprises. In addition, as already mentioned, the forthcoming changes in the regulatory framework of the labour market will postpone some of the investment, particularly for the expansion of production capacity or the creation of new enterprises, until they are finalised. That said, investment and employment of the existing enterprises, concerning the current level of activity (e.g. replacement of machinery and equipment) is not going to be particularly affected by the changes in labour regulations. The management of non-performing loans, under the new regulatory framework (Law No. 4389/2016) is a process which will impede the implementation of investment by the enterprises and the financing of investment by the banks. Their impact is going to be felt mainly in 2017, probably throughout the year.

The contribution of the public sector to investment activity will slightly strengthen year on year from the more frontloaded execution of PIP and the slight increase in its overall budget. According to the Draft State Budget for 2017, the PIP expenditure in the following year will not differ compared with this year (€6.75 billion). Therefore, investment is not expected to receive a further boost. In contrast, the boost from investment related to privatisation and concession deals completed in the current year, such as the Hellinikon project, the regional airports and the Asteras hotel, is expected to be much stronger than in 2016.

Inventories will significantly stimulate investment in the second half of 2016, as they did in the first half. Note that their different year-on-year trend in the current year (expansion rather than contraction) explains a large part of the investment growth in the first half of the year, by about 10 from its 12 percentage points. Under the influence of the above counteracting current and anticipated developments, **investment will most likely increase in 2016, by about 10-11%. The positive trend is expected to carry over to the next year, at a similar rate.**

The completion of a year since the imposition of the capital controls in June 2016 implies that their impact is taken into account now in both the current and the past year measures. Therefore, the decline in total **exports** will weaken during the second half of the current year. In the constituent categories, the moderate growth of the exports of goods from the first half of the year is expected to strengthen in the second half and particularly in the third quarter, due to their very low level a year ago. The steadily low exchange rate of the euro against the dollar, which was not affected by the UK referendum, supporting the competitiveness of the Greek products, will also contribute to maintaining the exports of goods on a growth path throughout 2016.

In the exports of services, the easing of the strong fall from the first half of the year will come mainly from the sharp inversion of the trend, from vertical drop to growth, of transport and other services. That said, the receipts from foreign tourism are not expected to change significantly in the current half of the year. Besides, the capital controls did not have a particular impact on tourism receipts, as the payment cards issued by foreign banks were exempt from the daily withdrawal limit, while the tourist bookings took place before the imposition of the capital controls and did not change notably afterwards. Therefore, the foreign tourist receipts will continue to contract in the second half of the current year, to a lesser degree than in the previous half, yet preserving the mild contraction of total exports of services during that period.

The faster growth of the exports of goods and the extensive easing of the contraction of the exports of services will result in a small increase of total exports in the second half of the year. **Despite the moderate growth in the second half, total exports will decline overall in 2016, by about 5.5%, due to their contraction in the first half.** In 2017, the gradual recovery of the confidence in the Greek economy, the further relaxation of the capital controls, the strengthening of world trade and the anticipated fluctuation of the euro-dollar exchange rate within a range close to its 2016 level will result in stronger growth of the exports of goods in the following year, by about 4.5% to 5.5%. The expansion of the exports of services is expected to be slightly greater, mainly due to stronger performance of transport services. **Taking into account the trends in their components, exports are expected to grow by about 5.0% in 2017.**

Similarly to the case of exports, having capital controls for more than a year technically neutralises their impact on the year-on-year changes in **imports** in the second half of 2016. In addition, the sharp decline of imports in the corresponding period of 2015, which exceeded the fall in exports, forms a low basis of comparison for the current year levels. The preliminary data on imports for the third quarter, presented previously, show that the imports of goods increased significantly, with the imports of services growing even stronger. The relaxation of the capital controls since March with respect to foreign transactions supported the growth of imports, as it moderated notably their contraction in the second quarter. The full implementation of the fiscal measures that affect the disposable income of wage earners and pensioners and curb consumer demand will moderate the growth of the imports of goods in the second half of the year. Nevertheless, imports will expand during that period, and particularly in the third quarter, making a double-digit percentage growth possible for the year as a whole. **The strong growth of imports in the current half of the year will notably moderate their contraction overall in 2016, to about 1.5% to 2.0%.**

The anticipated expansion of domestic demand in 2017, from stronger private consumption and investment, will largely be channelled into demand for imports. Note that in 2014, the last year with growth of domestic demand (consumption and investment), imports increased at a rate several times higher than domestic demand (+7.8%, against +1.2%). The elasticity of imports to domestic demand then was 6.7. In absolute terms, domestic demand increased by €2.2 billion, while imports expanded by €4.3 billion. This fact reflects the lingering high dependence of the Greek economy on imports. Then again, the fact that the capital controls will most likely remain in place for most of next year or beyond will curb the growth of imports. Taking into account the correlation between domestic demand and imports and the impact of the capital controls, **imports**

are expected to grow by 6.0-7.0% in 2017.

Summarising the forecasts of the trends in the key GDP components in 2016, the fiscal measures adopted as part of the first review will exert pressure on the disposable income and the consumption of the households. However, the strong impact of the capital controls on private consumption in the second half of 2015 has formed a low level of comparison, which will artificially limit the restrictive impact of the new measures on consumption expenditure. The reduction of the consumption expenditure of the public sector will carry over to the rest of 2016. That said, the restart of the fiscal consolidation in the second half of 2015 restricted public consumption then, hence its slight expansion in the current half of the year cannot be ruled out.

Regarding investment, the conclusion of the first review of the third programme improves significantly the credit capacity, directly with the reinstatement of the waiver and indirectly with the gradual restoration of the trust in the state and in the banking system, prerequisites for the return of deposits and for an inflow of capital. However, the low level of funding from the banking system is not going to expand, at least in the coming months, as the deposits of the private sector have increased only marginally since July 2015, while the resolution of the non-performing loans issue, based on the new regulatory framework, is still ongoing. The banks, in Greece and abroad, will take into account in their capital management decisions in the coming months the current and potential effects from the upcoming Brexit on the stock exchanges and the capital markets. Besides, both the domestic and the foreign demand for Greek products in the first half of the year were at best unchanged on their level from last year. Hence, most enterprises would not benefit from an upgrade or extension of their production capacity. The PIP payments, which have accelerated since last year, will strengthen investment, boosting public works and by extension the construction sector, which however will not receive support from private construction activity for one more year.

The positive impact from the completion of the first review has already reflected in improvement of the business expectations and in measures that will determine the liquidity in the Greek economy (return of deposits, reinstatement of the waiver), easing the contraction of credit from the banks to the enterprises and fostering a gradual revival of investment. The already growing public works activity will continue to stimulate the Construction sector, while the support of the public sector to investment is also stronger in the current year due to the more frontloaded execution and the slight increase of the PIP budget. Still, the privatisation and concession deals, carried out or completed in the current year, will generate investment from the following year. The change in direct taxation and social insurance contributions for the freelancers is a strong impeding factor to investment by sole proprietorships and small enterprises in the current period. In addition, the forthcoming changes in the regulatory framework of the labour market will postpone the implementation of some investment plans until they are finalised, particularly of those aimed at expansion of the production capacity or the creation of new enterprises.

In the external sector of the economy, the validity of the capital controls for more than a year will artificially neutralise their impact on the year-on-year changes in exports and imports in the current half of 2016. The mild growth of the exports of goods in the first half of the current year will strengthen in the next, and particularly in the third quarter, due to their very low level a year ago. The easing of the strong contraction of the exports of services from the first half will come mainly from the sudden trend change, from a vertical drop to growth, in transport and other services. Regarding imports, the preliminary data indicate that the imports of goods will grow significantly in the third quarter, with the imports of services expected to expand even stronger. However, the full implementation of the fiscal measures since May, which concern wages and pensions and affect consumer demand, will moderate the trend in the imports of goods. **Taking into account the above trends in factors that affect the GDP components during the current half of the year, together with the downward revision of the estimates on its contraction in the first quarter of 2016 and more generally in its first half, the projection of IOBE for the GDP rate of change is revised in the positive direction, to a contraction by about 0.3-0.5%. According to the up to now available data, the Greek economy is expected to recover in 2017, with its output growing by 1.5%-2.0%.**

The core production activities of the Greek economy (Manufacturing – Tourism – Construction), which were counteracting strongly the recessionary trends in the first half of the year, with their output and employment, contributing decisively to the easing of **unemployment,** will continue to have a positive influence in the second half of the year. The strong expansion of output in Manufacturing has carried over to the third quarter of 2016 (+9.2% growth of the production index in July), while the significant growth of turnover in Tourism between 2013 and 2015 is consolidating, as evident from the small reduction in foreign receipts.

These trends and the growth momentum in Construction will support employment growth in the private sector in the current half of the year as well. That said, the positive impact of the public sector on employment growth will weaken or even vanish, as the beneficiaries of the programmes of the Manpower Employment Organisation OAED are likely to be fewer than last year. In addition, the changes in the direct taxation and the social security contributions of the freelancers from 01/01/2017, with Law No. 4387/2016, will cause a turmoil, with an impact on employment, from the final quarter of 2016.

Table 3.2

Domestic Expenditure and Gross Domestic Product – European Commission estimates

(in constant 2010 market prices)

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

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

Table 3.3

Comparison of forecasts for select economic indicators for the years 2015 - 2017

(in constant 2010 market prices, annual % change)

	MinFin			EC			OECD			IMF		
	2015	*2016*	*2017*	*2015*	*2016*	*2017*	*2015*	*2016*	*2017*	*2015*	*2016*	*2017*
GDP	-0.2	-0.3	2.7	-0.2	-0.3	2.7	-0.3	-0.2	1.9	-0.2	0.1	2.8
Final Demand	:	:	:	-2.0	-0.3	2.9	0.3	-0.1	1.2	:	:	:
Private Consumption	0.3	-0.6	1.8	0.3	-0.4	1.8	0.3	-0.1	1.3	:	:	:
Harmonised Index of Consumer Prices (%)	-1.1	0.0	0.6	-1.1	-0.3	0.6	-1.1	-0.5	0.0	-1.1	-0.1	0.6
Gross Fixed Capital Formation	0.7	3.3	9.1	0.7	-0.9	11.6	0.9	3.6	4.0	:	:	:
Unemployment (%)	24.9	23.5	22.4	24.9	24.7	23.6	24.9	24.0	23.2	25.0	23.3	21.5
General Government Balance (% GDP)	0.73**	0.63**	1.8**	-7.2	-3.1	-1.8	-7.3	-1.9	-0.5	:	:	:
Current Account Balance (% GDP)	:	:	:	-0.2	0.6	1.3	-0.1	-1.6	-0.9	0.0	0.0	0.0
Gross Public Debt (% GDP)***	176.9	178.9	174.8	176.9	182.8	178.8	177.4	176.9	172.7	:	:	:

* On a national accounts basis

** According to the methodology of the third Economic Adjustment Programme

*** The forecasts on Gross Public Debt include estimates of the expenditure to recapitalise the banks

Sources: Draft State Budget 2017, Ministry of Finance, October 2016 - European Economic Forecast, spring 2016, European Commission, May 2016 - OECD Economic Outlook No. 99, June 2016 – World Economic Outlook, IMF, October 2016

Taking into account these effects on employment, the fall of unemployment is expected to slow down in the second half of 2016. As a result, unemployment is expected to decline to a level marginally below 24% overall in 2016, about one percentage point lower than in 2015.

Regarding 2017, the expansion of employment in private sector branches with the largest contribution to the reduction of unemployment in the current year, will most likely lead to further fall in unemployment. Particularly strong employment growth is expected in Construction in the second half of next year, when the execution of investment plans, related to privatisation and concession deals concluded in 2016 (e.g. regional airports, the Hellinikon project) will have started. The upcoming changes in the regulatory framework of the labour market, prior actions for the completion of the second review of the third Economic Adjustment Programme, are going to be conducive to the creation of jobs and the execution of investment plans. However, the changes in direct taxation and social security contribution of freelancers from the start of 2017, at least in the short term, are going to impede investment, with a negative impact on employment in these sectors. The significant job creation by the OAED programmes will carry over – according to the Draft State Budget for 2017, short-term employment opportunities will be created for 52,000 long-term unemployed, while 43,000 unemployed will find a job in public works. **Hence, there are opportunities to keep unemployment on a declining path for the fourth consecutive year in 2017, at a steady contraction speed. As a result, unemployment will total slightly more than 22.5% of the labour force.**

Regarding **prices,** the perseverance of the deflation in the third quarter, at the same rate as in the preceding quarters, despite the increase in the standard VAT rate from 1st June and the lifting of the VAT discount in nine islands, reflects the persistently low demand. The significant growth of household consumption, which is going to reflect in the GDP data for the third quarter, came primarily from the artificial effect of its very low level a year ago and a significant part of it does not represent a genuine boost in demand. As another hike in taxation is not planned until the end of 2016, apart from the increase in the excise duty on heating oil, the deflationary trends are not anticipated to cease. Besides, the low international oil prices, which mainly drove the deflation to start with, are not expected to increase shortly after the recent decision at the International Energy Forum to reduce the daily production of petroleum. Given that the price fall weakened in the final quarter of 2015, the level of the Consumer Price Index was relatively higher than in the preceding months, which is conducive to a slightly stronger deflation a year later. **Following a slight further acceleration in the final quarter of this year, the deflation rate will total 1.1% overall in 2016, lower by 0.6 percentage points than in the previous year.**

The decline in petroleum prices, which was a basic factor that preserved the deflation in the Greek economy in 2016, will not carry over to the next year. The aforementioned decision at the International Energy Forum for the daily oil production will lead to price growth in the coming year. The new indirect taxes and the hikes in existing taxes, which are planned to be implemented from 1 January 2017, such as the increase in the excise duty of motor oil and LPG, the levy on fixed telephony subscribers, the increase in the excise duty of tobacco products and the levy of a tax on coffee, will impede a further decline of prices. The stronger consumer demand, mainly due to the expansion of employment and not from higher per capita income, which will decline from the increase in direct taxation and social security contribution, will also prevent a further price decline in the Greek economy. **As a result, the Consumer Price Index is expected to increase by about 1.3% in 2017.**

3.2 Developments and outlook in key sectors of the economy

Industry

The Industrial Production Index in Greece increased by 3.2% in the first seven months of 2016, compared with a contraction of 0.3% in the same period of last year. In contrast, the Turnover Index in Industry declined significantly during the same period, by 11.5%, against a contraction of 8.3% in the first seven months of 2015. The divergence in the trends of production and turnover in Industry is largely explained by the decline in the Producer Price Index in Industry, which declined by 8.4% during that period, more than in the same period of last year (-6.3%).

In the Euro area, industrial production increased during the same period by 1.5%, at a similar rate as in the first seven months of 2015.

At the sector level in Greece, the largest contraction was recorded in Mining-Quarrying, where production fell by 19.5% in the first seven months of 2016, compared with 9.5% decline in the preceding year. Electricity generation came next with a marginal decline of about 1.2% against 3.7% in the previous year. In contrast, production increased significantly in Manufacturing, by 5.0%, against a notably weaker growth by 1.2% a year earlier. Lastly, production in Water Supply remained essentially unchanged year on year (+0.2%).

Three of the four **Mining** subsectors experienced significant growth. Indicatively, the output of Extraction of Crude Petroleum and Natural Gas more than doubled (+124.0%, compared with a 9.6% decline in 2015), while production in Mining of Metal Ores increased by 7.7% (against 9.4% contraction in the previous year). However, the above growth was more than offset by the strong decline in the Mining of Coal and Lignite (-38.4% against -10.9%).

In **Manufacturing**, production declined in 6 of its 24 subsectors in the first seven months of 2016. Among the branches of particular importance for the Greek economy, production expanded in Basic Pharmaceutical Products (+4.5% against +5.6% in the preceding year), Food Products (+4.5% against +1.6%) and Basic Metals, where production increased by 3.8%, albeit less than in the same period of 2015 (+5.6%).

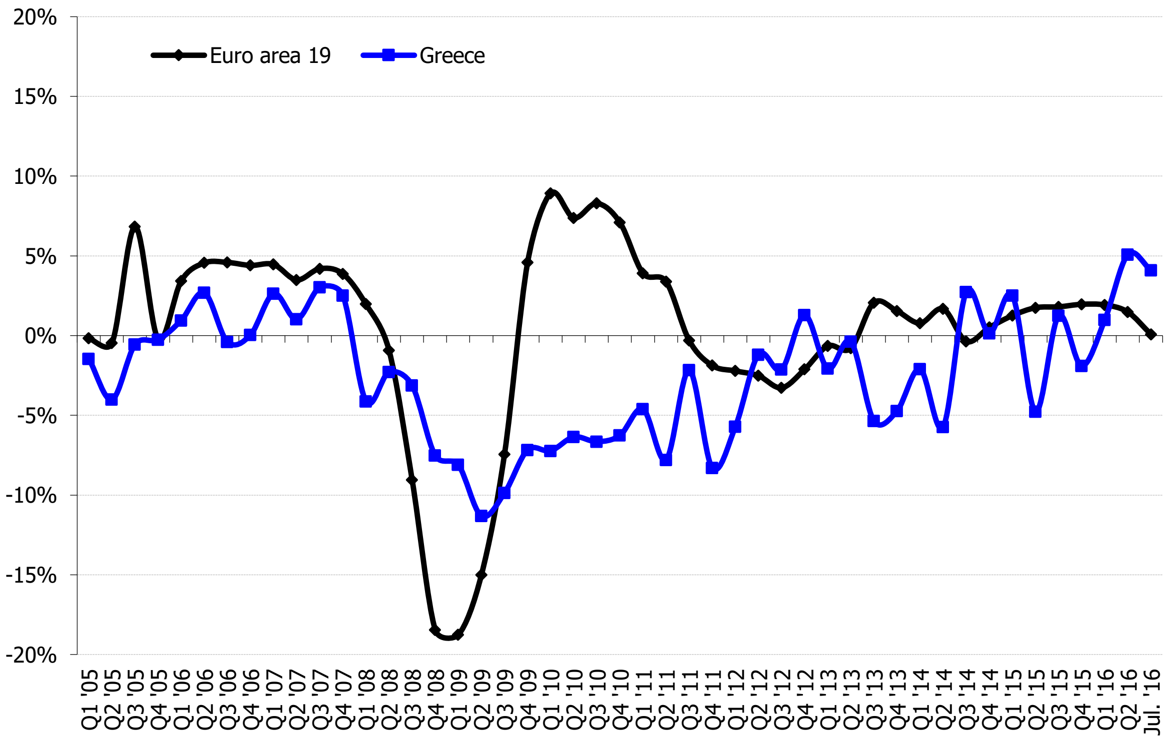
In the remaining Manufacturing subsectors, the biggest decline was observed in Computers, Electronic and Optical Products (-25.3%, against +40.2% in 2015), Wearing Apparel (-12.7% against -14.2%) and Motor Vehicles and Trailers (-7.7%, against -15.9%).

In contrast, production increased extensively in Non-Metallic Minerals (+13.9% against -1.3% a year before) and in Leather and Related Products (+13.5%, against -20.0%). The production of Machinery – Equipment increased at almost double the growth rate from last year (+12.1% from +6.5%), while output also increased significantly in Furniture (+11.2% against +2.0%).

Regarding the main groups of industrial products, production declined in the first seven months of 2016 in Capital Goods (-2.3% against +4.8%) and Energy (-0.01% against -2.6%). In contrast, production increased in Non-Durable Consumption Goods (+4.4% against +0.3%), in Intermediate Goods (+4.4% against +2.0%) and in Durable Consumer Goods (+0.6% against -0.4%).

Figure 3.1

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



Source: ELSTAT, Eurostat

Construction

During the first half of 2016, the production index in the Construction sector increased by 2.3%, compared with a significant growth by 22.0% in the corresponding period of 2015. The growth during this period came exclusively from the increase in the index in the second quarter when the output of the Construction sector expanded by 9.7%. In terms of the constituent categories of the index, the growth came exclusively from stronger activity in Buildings, by 2.5%, which were growing by 24.2% in the previous year. In contrast, the production index in Civil Engineering Works declined by 2.1%, against its strong growth by 28.9% in the previous year. However, note that the construction activity indicators on surface area and volume of building permits, published by ELSTAT each month, decreased year on year by 20.8% and 19.8% respectively. The extensive decline in building activity throughout the first half of 2016, based on the monthly data, makes the extensive growth of the production index in the second quarter (+9.7%) hard to explain. In congruence with the trends in Greece, output in Construction in the Euro area in the first half of 2015 increased by 2.0%, less than in the same period of 2015 as well (+26.1%).

Retail Trade

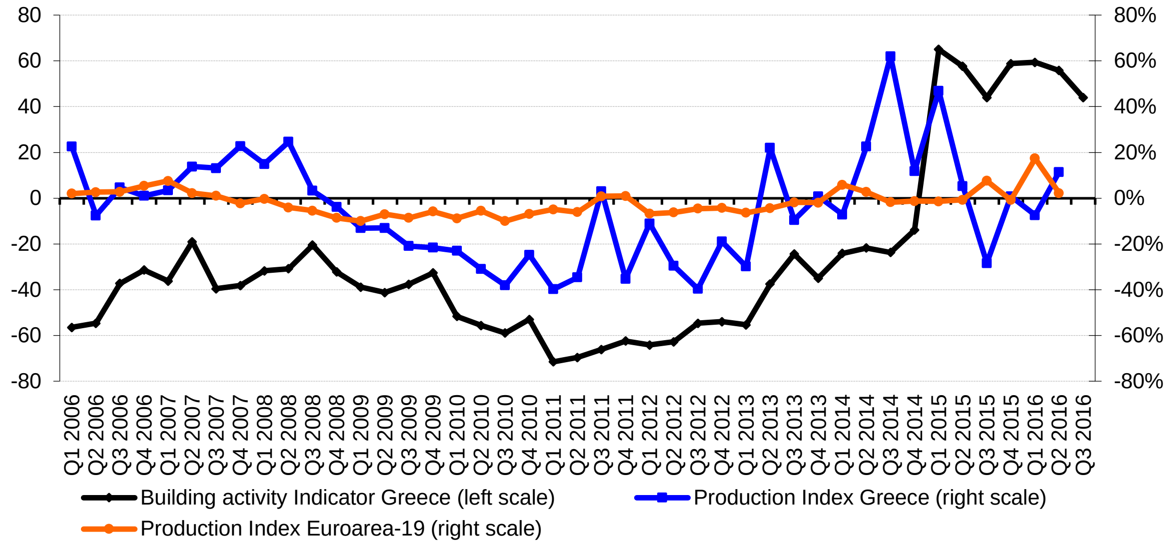
The volume index of Retail Trade declined by 1.8% in the first seven months of 2016, at double the contraction rate compared with the same period of 2015 (-0.9%).

Turnover expanded in four of the eight subsectors of Retail Trade. The strongest growth in the first quarter of 2016 was recorded in Department Stores (+11.2% against a contraction of 5.2% in the previous year). Clothing-Footwear came next (+8.7% against +5.3%), followed by Food - Beverages - Tobacco (+0.6% against -5.8%). In contrast, the strongest contraction in the first seven months of 2016 was observed in Automotive Fuel, where the index declined by 4.8%, in the aftermath of a more modest decline of 0.4% in the corresponding period of 2015. Pharmaceutical Products - Cosmetics came next (-4.2% against -0.9%), followed by Books-Stationery (-3.6% against +4.9%). Lastly, turnover also declined in Supermarkets (-1.5%, against +0.1%).

The expectations of the retail trade enterprises improved during the first nine months of 2016, according to **the leading indicators of the Business Surveys conducted by IOBE**. The indicator for the overall Retail Trade sector increased by 17 points, compared with a 6.4-point decline in the previous year. It is indicative that the expectations improved in all the constituent branches of retail trade, without an exception. In particular, the expectations improved strongly in Food-Beverages (+32.9 points, against a 3.6-point decline in the previous year) and in Department Stores (+19.9 against +14.8). Household Appliances came next (+19.9, against -13.2), followed by Clothing-Footwear (+10.0, against -25.4).

Figure 3.2

Production Index in Construction και Building Activity Index

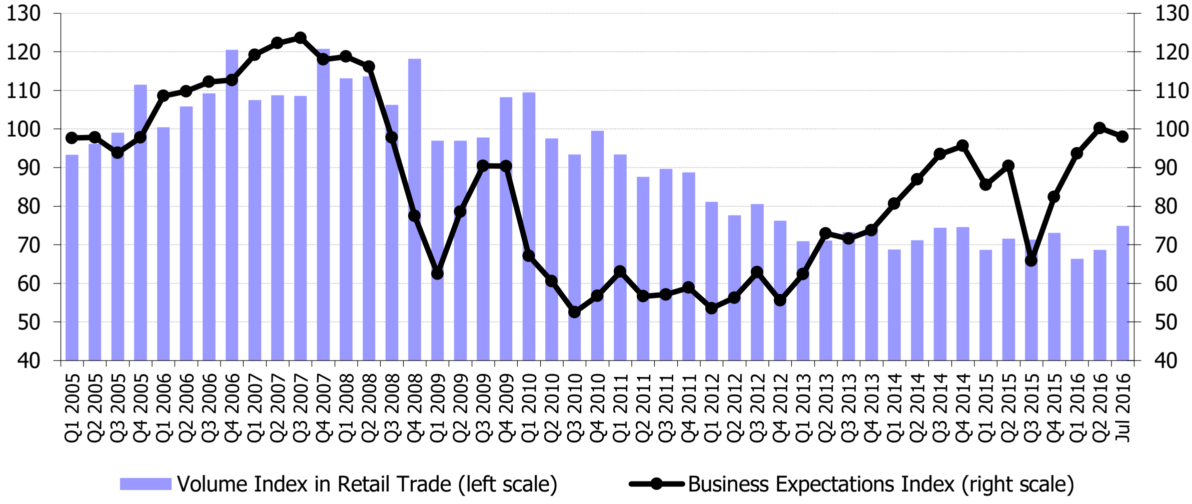


Source: ELSTAT, Eurostat

Lastly, the indicator in Motor Vehicles recovered significantly in the third quarter, to 95 points, compared with the same period of 2015 (from 76.7), but also compared with the second quarter of 2016 (92.9). Note, however, that significant events that sharpened the uncertainty, such as the referendum, the negotiations for the third bailout agreement and the September parliamentary elections, took place in the third quarter of 2015. In the constituent elements of the indicator for this subsector, the assessment of **current sales** improved significantly, which drove up the overall index, as the balance of positive versus negative responses on sales growth stood at +30 points, from +16 points in the same period of 2015. The **sales prospects** for the following quarter also improved, as the index increased to 14 points, from 8 points in 2015. The balance of **inventories** remained unchanged year on year at about -13 points, as 80% of the enterprises considered their stock levels to be at normal levels. Regarding other activity data of this sector, the expectations on **orders** in the following quarter recovered to -24 points in the third quarter, from -74 points in 2015. Finally, the **employment** expectations indicator improved as the percentage of enterprises expecting job losses in the subsector declined significantly. Regarding the official data of the sector, the sales of new passenger cars increased year on year by 9% in the first nine months of 2016.

Figure 3.3

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



Source: IOBE, ELSTAT

Table 3.4

Annual Changes in the Volume Index in Retail Trade

Category of Retail Trade Stores		**Volume Index** (2010=100)			
	Jan-July 2014	**Jan-July 2015**	**Jan-July 2016**	**% change 2015/2014**	**% change 2016/2015**
Overall Index	70.5	69.9	68.6	-0.9%	-1.8%
Overall Index (excluding automotive fuels and lubricants)	71.3	71.3	70.9	0.0%	-0.6%
Store Categories					
Supermarkets	78.8	78.9	77.8	0.1%	-1.5%
Department Stores	79.9	75.7	84.2	-5.2%	11.2%
Automotive Fuels	66.7	66.4	63.2	-0.4%	-4.8%
Food – Drink – Tobacco	66.7	62.8	63.2	-5.8%	0.6%
Pharmaceuticals – Cosmetics	68.3	67.7	64.8	-0.9%	-4.2%
Clothing – Footwear	66.1	69.6	75.6	5.3%	8.7%
Furniture – Electric Equipment – H. Appli-ances	61.2	58.9	59.6	-3.7%	1.1%
Books – Stationary	84.7	88.9	85.7	4.9%	-3.6%

Source: ELSTAT

Table 3.5

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

	Jan - Sep 2014	Jan - Sep 2015	Jan - Sep 2016	% change 2015/2014	% change 2016/2015
Food-Drinks-Tobacco	87.2	83.6	116.5	-4.1%	39.3%
Textiles - Clothing – Footwear	102.5	77.1	87.1	-24.8%	13.0%
Household Appliances	78.4	65.2	85.0	-16.8%	30.4%
Vehicles-Spare Parts	113.0	95.2	98.1	-15.8%	3.0%
Department Stores	63.1	77.9	97.8	23.5%	25.5%
Total Retail Trade	**87.0**	**80.6**	**97.5**	**-7.4%**	**21.0%**

Source: IOBE

Wholesale Trade

The trends in Retail Trade activity, outlined in the previous section, were also reflected in the Wholesale Trade performance, where the turnover index fell by 4.1% in the first half of 2016, after falling by 2.2% in the same period of 2015. As a result, the index reached 63 points, its lowest level since 2010.

Services

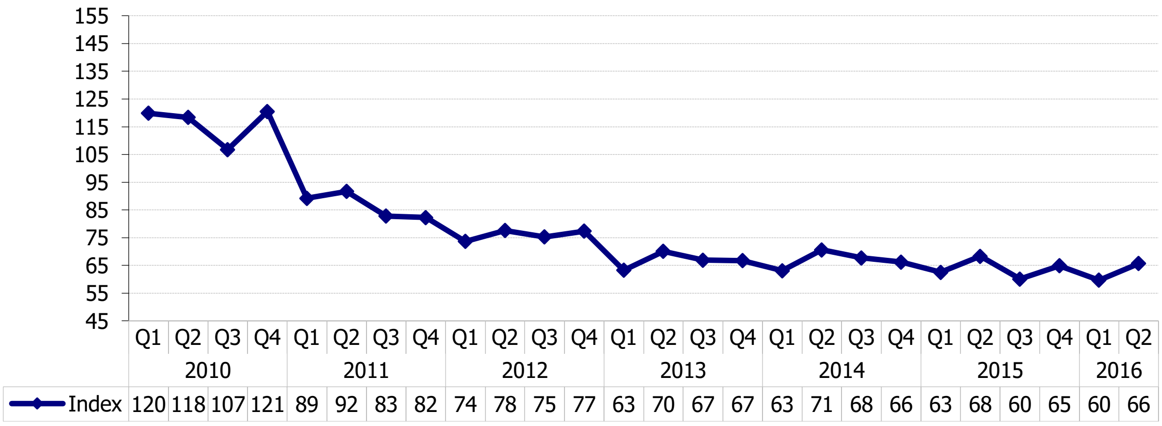
Turnover contracted year on year in the first half of 2016 in six of the 13 subsectors of Services.

The largest contraction was recorded in Publishing Activities (branch 81.2), where turnover continued to decline at a high rate (-35.3%, after -18.0% in H1 of 2015). Legal – Accounting – Management Consultancy Activities (branches 69 and 70.2 combined) came next, with a turnover contraction by 26.4%, compared with a marginal decline of 0.8% in 2015.

The activity in Security and Investigation Activities (branch 80) also declined at a higher rate than in the previous year (-24.2% against -13.7%).

Figure 3.4

Turnover Index in Wholesale Trade



Source: EL.STAT

A strong contraction was also recorded in the turnover of Information Service Activities (branch 63), where the indicator declined by 12.7%, after a similar decline by 13.6% in 2015. Turnover in Postal and Courier Services (branch 53) declined by 10.7%, also at a similar rate with last year (-11.0%).

In contrast, turnover increased in the first half of 2016 in Office Administrative Activities (branch 82), expanding by 60.8%, after a notably weaker improvement a year before (+6.8%). Advertising and Market Research (branch 73) strengthened by 21.4%, after a similar growth in 2015 (19.3%). Computer Programming (branch 62) came next, with a turnover growth by 16.8%, albeit less than in 2015 (+28.8%). Architectural and Engineering Activities (branch 71) also strengthened, as turnover increased by 13.8%, compared with stronger growth in 2015 (+28.2%).

Table 3.6

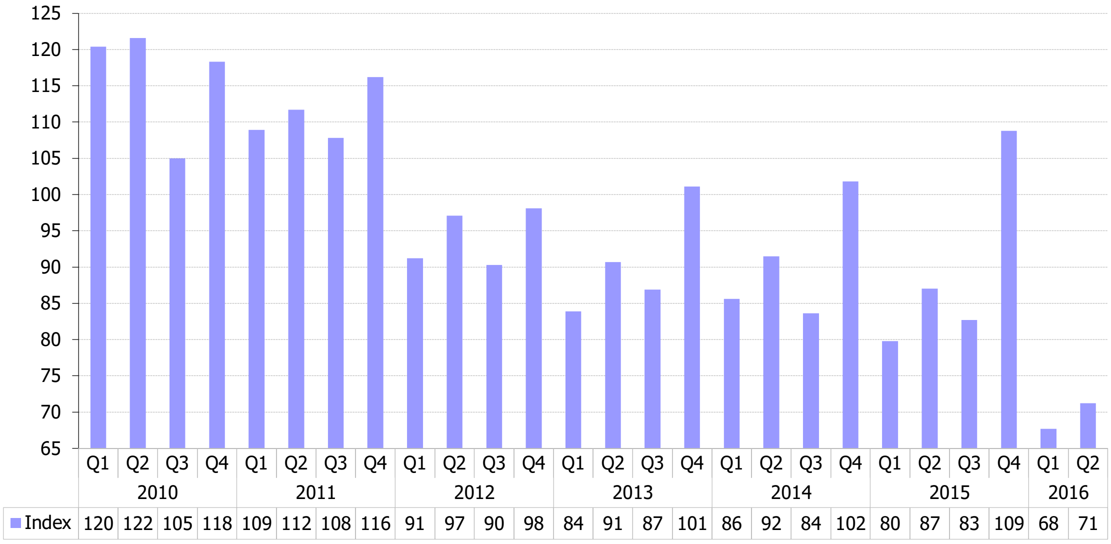
Turnover Indices (annual change, 2005=100)

	H1 2014	**H1 2015**	**H1 2016**	**% change 2015/2014**	**% change 2016/2015**
Trade of motor vehicles	48.1	58.5	71.9	21.5%	22.9%
Land transport and transport via pipelines	85.1	81.3	78.1	-4.5%	-4.0%
Water transport	55.9	55.7	53.7	-0.3%	-3.6%
Air transport	93.8	97.4	101.6	3.8%	4.4%
Warehousing and support activities for transportation	80.3	85.8	91.9	6.8%	7.1%
Postal and courier activities	88.6	83.4	69.5	-11.0%	-10.7%
Publishing activities	45.3	37.8	45.2	-16.6%	19.6%
Telecommunications	61.8	61.9	71.1	0.2%	14.9%
Computer programming. consultancy and related activities	52.2	67.2	78.1	16.8%	28.8%
Information service activities	129.4	153.5	97.6	18.6%	-36.4%
Legal. accounting and management consultancy activities	109.5	113.6	79.9	-0.8%	-24.2%
Architectural and engineering activities	32.9	42.3	47.9	28.2%	13.8%
Advertising and market research	30.7	36.6	44.5	19.2%	21.4%
Office administrative activities	69.9	74.5	119.7	6.7%	60.8%
Tourism	68.3	75.6	69.7	10.8%	-7.8%

Source: ELSTAT

Figure 3.5

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

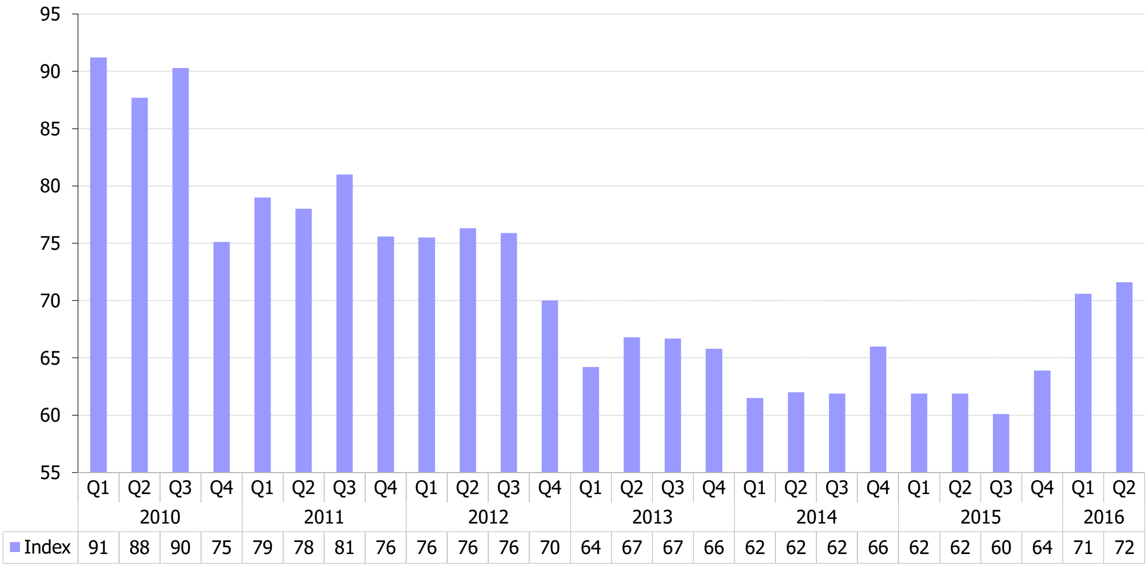


	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2
Index	120	122	105	118	109	112	108	116	91	97	90	98	84	91	87	101	86	92	84	102	80	87	83	109	68	71

Source: ELSTAT

Figure 3.6

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

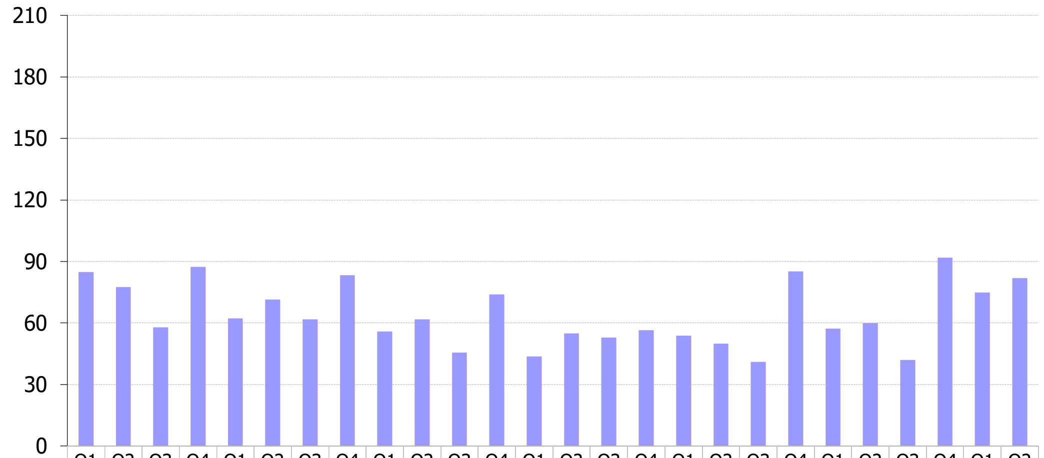


	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2
Index	91	88	90	75	79	78	81	76	76	76	76	70	64	67	67	66	62	62	62	66	62	62	60	64	71	72

Source: ELSTAT

Figure 3.7

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

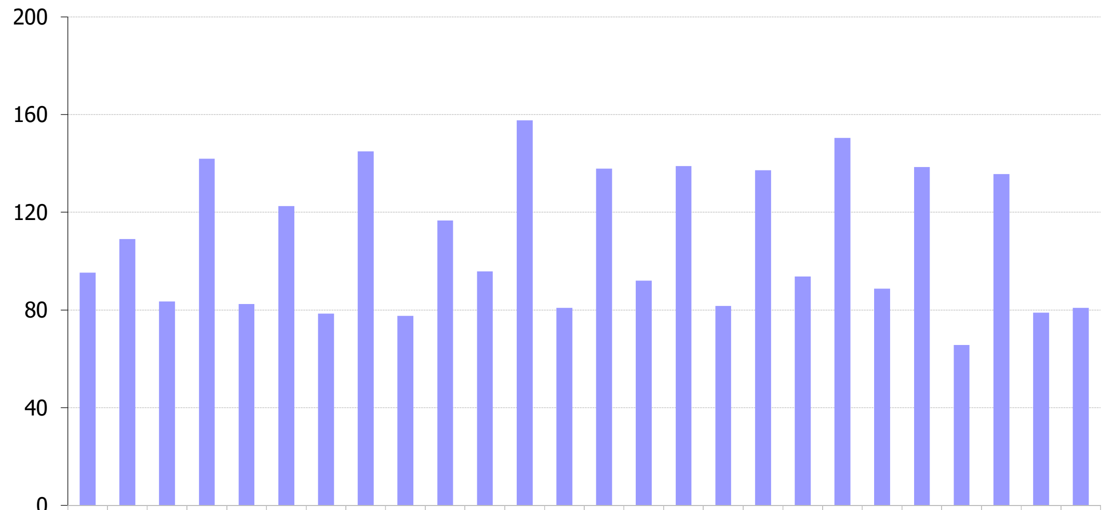


	2010				2011				2012				2013				2014				2015				2016	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Index	85	78	58	87	62	71	62	83	56	62	46	74	44	55	53	56	54	50	41	85	57	60	42	92	75	82

Source: ELSTAT

Figure 3.8

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

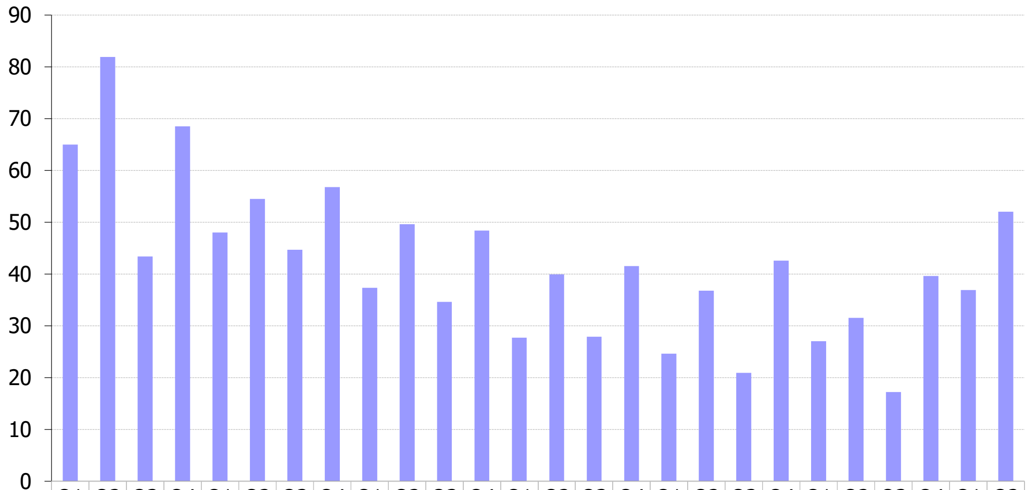


	2010				2011				2012				2013				2014				2015				2016	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Index	95	109	84	142	83	123	79	145	78	117	96	158	81	138	92	139	82	137	94	150	89	139	66	136	79	81

Source: ELSTAT

Figure 3.9

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

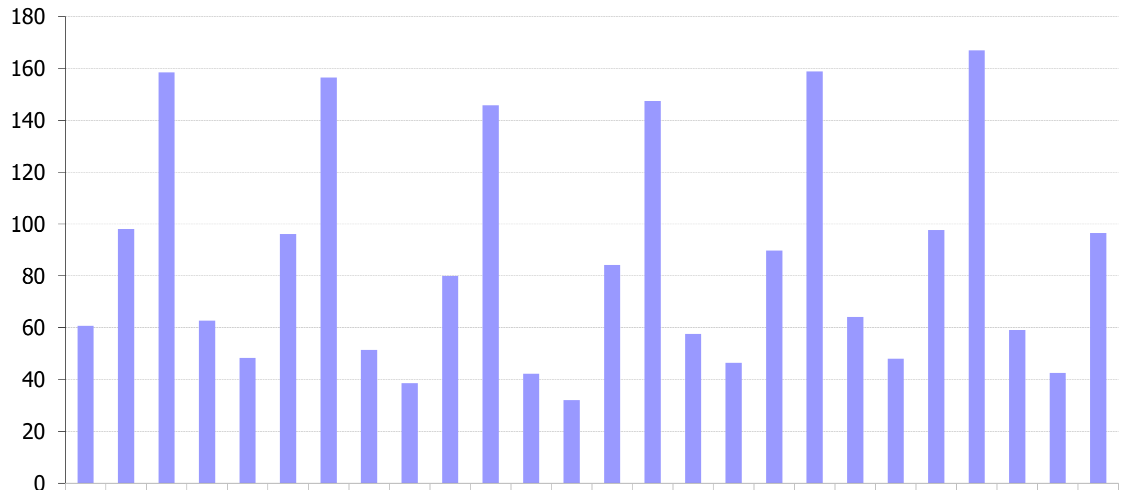


	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	2010				2011				2012				2013				2014				2015				2016	
Index	65	82	43	69	48	55	45	57	37	50	35	48	28	40	28	42	25	37	21	43	27	32	17	40	37	52

Source: ELSTAT

Figure 3.10

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



	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	2010				2011				2012				2013				2014				2015				2016	
Index	61	98	158	63	48	96	157	51	39	80	146	42	32	84	148	58	47	90	159	64	48	98	167	59	43	97

Source: ELSTAT

Table 3.7

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

	Jan-Sep 2014	**Jan-Sep 2015**	**Jan-Sep 2016**	**% change 2015/2014**	**% change 2016/2015**
Hotels – Restaurants – Travel Agencies	99,8	94,3	87,3	-5,5%	-7,4%
Other Business Services	68,2	48,2	53	-29,3%	10,0%
Financial Intermediation	80,0	57,5	59,9	-28,1%	4,2%
Information Services	85,7	53,7	74,8	-37,3%	39,3%
Total Services	**86,7**	**70,7**	**74,2**	**-18,5%**	**5,0%**

Source: IOBE

According to the **leading indicators of the Business Surveys conducted by IOBE** for the first nine months of 2016, the respondents in the sector of Services were found to be more optimistic year on year. The overall indicator for Services increased by 3.5 points, compared with 2015 when it lost 16 points. Among the constituent subsectors, deterioration of expectations was recorded only in Hotels-Restaurants (-7.0 points against +5.5 points in the previous year). In contrast, the representatives of the Computer Programming subsector became more optimistic, as the index increased by about 21.1 points, compared with a strong deterioration in the corresponding period of 2015. Similarly, the index improved in Other Business Activities (+5 points, from -20 points in the previous year). The enterprises in the Financial Intermediaries subsector were marginally less pessimistic, as the index in this subsector increased by only 2.4 points, after a strong decline in the previous year (-32 points).

3.3 Export performance of the Greek economy

The **exports of goods** reached €14 billion in the first seven months (January to July) of 2016 against €15.1 billion in 2015, **recording a contraction of 7.2%.** However, if **the exports of petroleum products and ships are not taken into account, the exports of the remaining goods declined by 1.3%,** totalling €10.66 billion in the current year, against €10.79 billion in 2015 (Figure 3.11). Note that the much lower exports of petroleum products came from the lower year on year oil prices, particularly in the first quarter. Hence, the reduction in value is not reflected in a reduction in volume terms. Meanwhile, imports decreased by only 1% in the first seven months of 2016, to reach €24.5 billion from €24.8 billion a year earlier. As a result of the above trends in the components of the external balance, the **trade deficit** increased year on year by €838.1 million (+8.7%), to reach €10.5 billion, from €9.7 billion in the previous year. Consequently, **the value of the exports of goods** of the Greek economy **corresponded to 57.2% of its imports**, while in 2015 this ratio stood at 61.1%.

Note the **above trends varied in the last month of the examined period.** In particular, the value of imports in July totalled €3.6 billion, from €3.04 billion in the same month of 2015, growing by 18.2%.

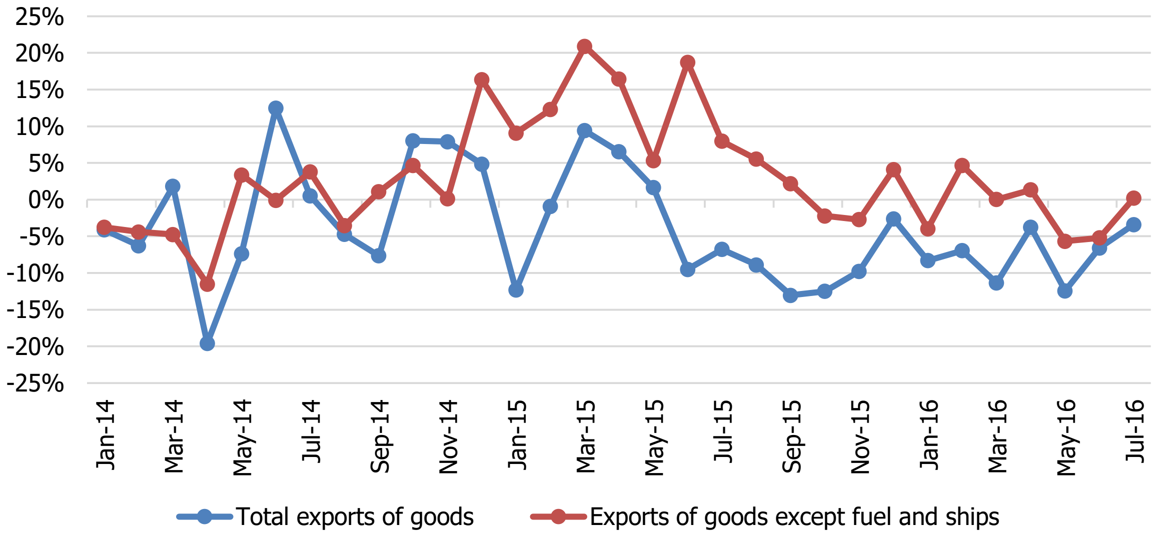
During the same month, the total value of exports declined by €2.25 billion, from €2.33 billion in the same month of last year, declining by 3.4%. As a result, the trade deficit increased by 88.9% to €1.35 billion, from €711.6 million. The extensive change in the July balance came from the fact that from that month onwards the corresponding months of last year incorporate the impact from the imposition of the capital controls. Therefore, from now on the annual changes in exports and imports are not going to be affected by the (still ongoing) capital controls, which facilitates the revelation of their real trends in the current year.

In greater detail, the exports of Agriculture Products increased by 6.3% in the first seven months of 2016, to reach €3.2 billion, against €3 billion in the same period of last year, while the exports of Mineral Fuels decreased by 22.5%, to no more than €3.5 billion, from €4.5 billion in 2015 (Table 3.8). Note that these two product categories represented 47.9% of the Greek exports (from 49.8% in the previous year). The increase in Agriculture Products mainly came from growth in the demand for Beverages and Tobacco by 11.6%, the value of which reached €429.4 million (from €384.6 million a year ago).

As a result, their share in total exports increased from 2.5% in 2015 to 3.1% in the current year. In Food-Live Animals, which represented about 74.4% of the exports of Agriculture Products, exports increased by 9.1%, from €2.2 billion in 2015 to €2.4 billion in 2016. The demand for Oils and Fats of Animal or Plant Origin, which represented 12.3% of the exports of Agriculture Products, stood at €398.7 million in the first seven months of 2016, lower by 11.8% in relation to 2015 (€452.2 million).

Figure 3.11

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



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

The exports of Manufactured Good decreased by 1.5% in the first seven months of 2016, with their value approaching €6.5 billion, from €6.6 billion a year ago. This decline was largely explained by the contraction of foreign demand for Manufactured Goods Classified Chiefly by Raw Material by 8.8%, with their value totalling €2.3 billion (from €2.5 billion in 2015) and Chemicals and Related Products, by 1.1% (at €1.59 billion in 2016, from €1.61 million a year ago). In contrast, the export performance of Miscellaneous Manufactured Articles improved by 7% (from €1.0 billion in 2015 to €1.08 billion in the current year), while a growth of exports was also observed in Machinery and Transport Equipment, by 4.8% (at €1.55 billion in 2016, from €1.48 billion a year earlier).

Finally, the exports of Raw Materials decreased by 12.9% (from €491.9 million in the first seven months of 2015 to €564.8 million in 2016), while the exports of Commodities and Transactions Not Classified by Category declined by 25.5% (from €397.7 million in 2015, to €296.5 million in 2016).

Regarding the export trends per geographical area, the exports to the countries of the Euro area essentially remained unchanged (-0.1%), at €5.79 billion. As a result, more than 41% of the Greek exports were transported to this region in 2016. The exports to the EU marginally declined, by 0.3% or €23.2 million. Among the Eurozone countries that absorb most Greek exports, the largest growth was recorded in the Netherlands by 22.8% (from €294.2 million in 2015 to €361.3 million in 2016), followed at a distance by Germany with 3.7% (from €1 billion in the previous year to €1.1 billion in the current year). Exports also increased towards Spain, by 3.6% (from €421.6 million in 2015 to €437 million in the current year). In contrast, contraction of exports was observed in Italy, by 7.7%, to €1.7 billion (from €1.8 billion in 2015) and France, by 1.2%, to €405.6 million (from €410.6 million in 2015). The largest percentage contraction of exports to Euro area countries in the first seven months of 2016 was recorded in Latvia, where exports declined by 37.6% or €6.3 million (from €16.7 million a year earlier to €10.4 million in the current year). In contrast, the highest percentage increase was observed in Luxemburg (+69.6%).

Among the remaining EU countries, where total exports declined by 0.8% or €20.3 million (from €2.4 billion in 2015 to €2.38 billion in 2016), Bulgaria remained the main destination for Greek products, despite the year-on-year decline by 6.8% or €50.1 million. In contrast, the export performance strengthened in two other countries that absorb a large share of exports in this category of countries, Romania and Poland, where exports expanded by 5.4% or €22.5 million (to €439.1 million) and by 11.4% or €22.7 million (to €220.9 million) respectively. The biggest contraction of 15.5% was recorded in the exports to Croatia, where the Greek exports decreased by €9.5 million (from €61 million in 2015 to €51.5 million in the current year).

The exports to Turkey, one of the major export destinations of Greek products, fell abruptly by 34.4% (or €365.2 million), which is the largest contraction among all countries that receive Greek exports. As a result, the exports to this country declined from €1 billion in the first seven months of last year to €696.6 million in 2016.

In the countries of North America, exports decreased by 14.3% (from €891.2 million in 2015 to €763.4 million in 2016), mainly due to a decline in the exports towards the US market by 18.3%, from €712.5 million in the first seven months of 2015, to €582.3 million in the current year, and secondarily, from the decline of exports to Canada by 3.5%. In contrast, the exports to Mexico increased by 5.1%.

The exports to the countries of the Middle East and North Africa declined by 9.4% (from €2.1 billion in 2015 to €1.9 billion in the current year), mainly due to the contraction of exports to specific North Africa countries.

In particular, a contraction of exports was recorded in Egypt, by 32.8% (to €414.7 million from €616.8 million) and Algeria (by 9.6%, from €101.6 million to €112.4 million).

Table 3.8

Exports per category in current prices (million €)

PRODUCT	VALUE		% CHANGE	% COMPOSITION	
	2016*	2015*	2016*/2015*	2016*	2015*
AGRICULTURAL PRODUCTS	3,231.0	3,038.9	6.3%	23.0%	20.1%
Food and Live Animals	2,402.9	2,202.1	9.1%	17.1%	14.5%
Drinks and Tobacco	429.4	384.6	11.6%	3.1%	2.5%
Oils and Fats of animal or plant origin	398.7	452.2	-11.8%	2.8%	3.0%
RAW MATERIALS	491.9	564.8	-12.9%	3.5%	3.7%
Non-edible Raw Materials excluding Fuels	491.9	564.8	-12.9%	3.5%	3.7%
FUELS	3,494.8	4,507.7	-22.5%	24.9%	29.8%
Minerals, Fuels, Lubricants etc.	3,494.8	4,507.7	-22.5%	24.9%	29.8%
INDUSTRIAL PRODUCTS	6,536.6	6,637.4	-1.5%	46.5%	43.8%
Chemicals and Related Products	1,596.0	1,614.3	-1.1%	11.4%	10.7%
Industrial Products Sorted by Raw Material	2,311.4	2,535.2	-8.8%	16.5%	16.7%
Transport Equipment	1,553.5	1,482.9	4.8%	11.1%	9.8%
Various Manufactured Goods	1,075.6	1,005.0	7.0%	7.7%	6.6%
OTHER	296.5	397.7	-25.5%	2.1%	2.6%
Goods and Transactions not sorted by Category	296.5	397.7	-25.5%	2.1%	2.6%
TOTAL EXPORTS	14,050.7	15,146.5	-7.2%	100.0%	100.0%

* Provisional data
Sources: ELSTAT, PSE-KEEM

The exports to two other significant destinations in the Middle East - Saudi Arabia and the United Arab Emirates - decreased by 36.2% (to €265.6 million) and 24.9% (to €111.4 million) respectively.

The flow of Greek exports to Oceania weakened, with their value reaching €77.1 million in the first seven months of 2016, from €87.8 million a year earlier. The exports to Australia decreased by 12.8% (from €80.7 million, to €70.4 million in 2016), while in New Zealand they declined by 5.9% (€7.1 million in 2015, €6.7 million in 2016).

A significant growth of exports, by 59.8%, was recorded in the markets of the Central and Latin American countries, with their value growing to €189.6 million, from €118.7 million in the same period of 2015. The growth of exports to these countries came mainly from much stronger demand for Greek products in Brazil, by 225.5%, where their value reached €82.5 million in 2016, from €25.3 million in 2015.

In contrast, the demand for Greek products in Asia weakened, as exports fell by 22.5%, to €588.4 million, from €759.1 million in 2015. This development mostly came from export contraction in South Korea (-75.7%, to €52.7 million in the current year, from €217.2 million in 2015) and Hong Kong (-46.1%, to €34.6 million from €64.2 million in the previous year). In contrast, the exports of Greek products in China increased significantly, by 39.1%, (from €128.6 million in 2015 to €178.9 million in the current year).

Table 3.9

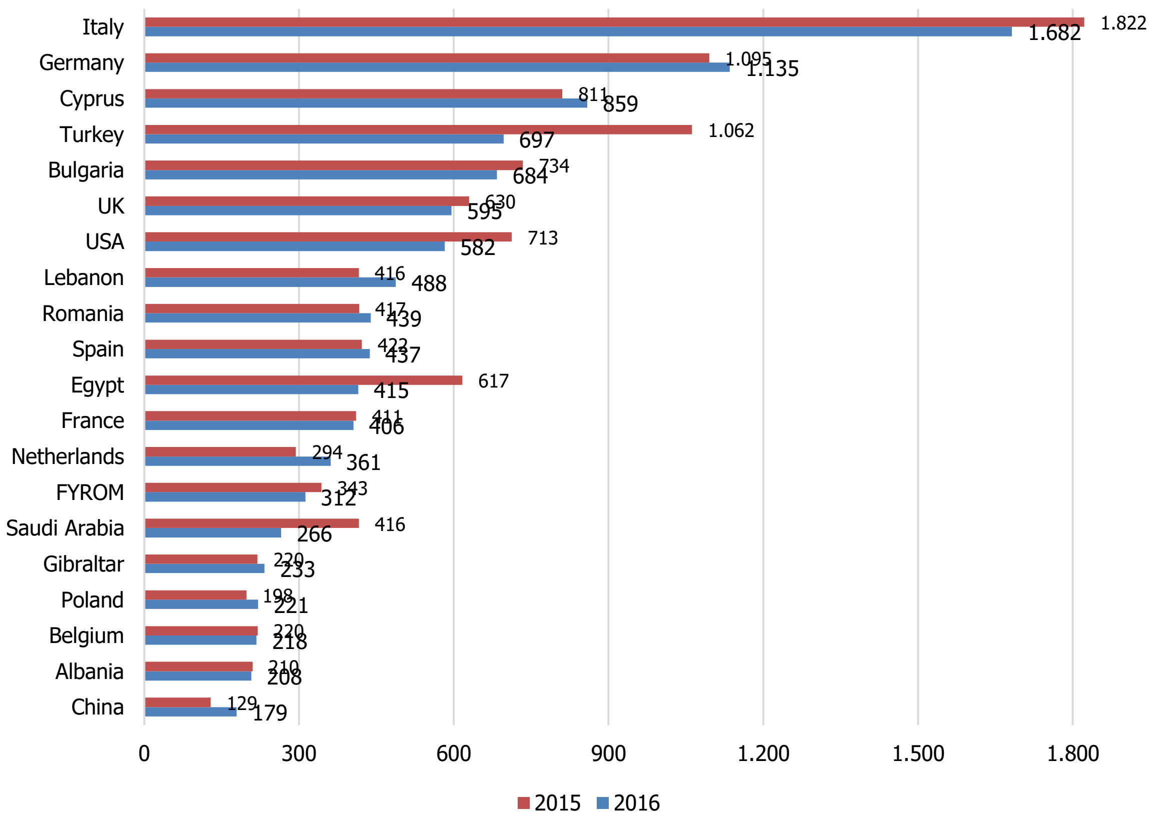
Exports by destination from January to July 2016 and 2015*

ECONOMIC UNION – GEOGRAPHIC REGION	EXPORTS		% CHANGE	% COMPOSITION	
	2016	2015	2016/2015	2016	2015
World	14,050.7	15,139.4	-7.2%	100.0%	100.0%
OECD	8,001.5	8,502.9	-5.9%	56.9%	56.2%
EU	8,173.2	8,196.5	-0.3%	58.2%	54.1%
Euro Area	5,794.5	5,797.5	-0.1%	41.2%	38.3%
G7	4,505.1	4,781.2	-5.8%	32.1%	31.6%
North America	763.4	891.2	-14.3%	5.4%	5.9%
BRICS	434.3	342.7	26.7%	3.1%	2.3%
Middle East & North Africa	1,940.2	2,141.7	-9.4%	13.8%	14.1%
Rest of Africa	797.4	939.8	-15.1%	5.7%	6.2%
Oceania	77.1	87.8	-12.2%	0.5%	0.6%
Latin America	189.6	118.7	59.8%	1.3%	0.8%
Rest of Asia	588.4	759.1	-22.5%	4.2%	5.0%
OPEC	729.6	869.9	-16.1%	5.2%	5.7%

* Provisional data for both years
Source: ELSTAT, KEEM

Figure 3.12

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



Source: KEEM. Data processing: IOBE

To sum up, the exports of Greece declined strongly in the first seven months of 2016, both in terms of total value and in terms of the value of exports without fuel and ships. Note that the export performance in the first seven months of 2016 is the worst in terms of total value of exports since 2012. The significant decline, together with the weak decline in imports, highlights the competitiveness issues that the Greek economy continues to suffer from, despite years of economic adjustment, which is an obstacle to its recovery.

The year-on-year comparison of the latest data on the trade balance for July reveals that the decline of exports did not come exclusively from the imposition of capital controls in July 2015, as it does not incorporate the effect of this particular factor. In part, the exports declined due to weakening foreign demand for Greek products. In contrast, the negative trend in imports in the first half of the year seems to come mainly from the capital controls, as the domestic demand for imports in July was significantly stronger. Therefore, further relaxation of the capital controls with respect to the foreign trade transactions (as opposed to the limit on cash withdrawals) is quite likely to give a stronger boost to imports, rather than exports, deteriorating the trade balance.

In any case, **as the impact from the capital controls on the year-on-year change of the exports of goods came to an end in the first half of the year, due to the high comparison base before their imposition in the previous year, the decline of exports will weaken in the current half of the year. In addition, exports might increase in some of the Q3 months (e.g. in August). As a result, the contraction of total exports in the first half of 2016 will subsequently weaken to 2.5%-3.5% on average overall for 2016.** Correspondingly, the exports without fuel and ships will either remain unchanged or will increase slightly, by 0.5-1.0%.

3.4 Employment-Unemployment

According to the **non-seasonally adjusted data** from the Labour Force Survey of ELSTAT, **unemployment in Greece declined to 23.1% in the second quarter of 2016, from 24.6% in the same quarter of 2015 (a reduction by 1.5 percentage points) and from 24.9% in the preceding quarter of 2016 (a reduction by 1.8 percentage points).** Note that unemployment has declined now year on year for the ninth consecutive quarter. The number of unemployed declined by 5.8% year on year (from 1,180,100 to 1,112,100) and by 6.9% quarter on quarter (from 1,151,100 unemployed). Meanwhile, the number of employed increased by 2.1% (from 3,625,500 to 3,702,600 people). **As a result, unemployment overall for the first half of 2016 stood at 24.0%**, 1.6 percentage points lower year on year. Employment expanded by 2.5%, from 3,565,000 to 3,654,500 people. The decline of unemployment did not carry over to July (in non-seasonally adjusted terms), remaining unchanged at 22.6%.

Unemployment in Greece has remained the highest in the Euro area since the third quarter of 2012, despite its decline since the second quarter of 2014. Spain had the second highest rate of unemployment in the Euro area after Greece, at 20% in the first quarter of the current year, from 22.4% a year before, reporting a year-on-year fall of unemployment for the eleventh consecutive quarter. Italy came next at a large distance, with 11.5% unemployment rate and a reduction for the sixth consecutive quarter, followed closely by Cyprus (11.4%), where unemployment has been falling year on year for the fifth consecutive quarter. In another country that requested support – Portugal – unemployment decreased for the twelfth consecutive quarter, to reach 11% (from 12.1% in the second quarter of 2015). Finally, unemployment in Ireland decreased for the 16th consecutive quarter, to 8.6% from 9.8% in the same quarter of 2015.

The lowest rates of unemployment were observed in the second quarter of 2016 in Malta and Germany. In Malta, unemployment fell to 4% from 5.4% in the same quarter of 2015. Unemployment in Germany declined to 4.2%, from 4.7% in the previous year.

Regarding the remaining major European economies, the unemployment in France declined from 10.1% in the second quarter of last year to 9.6% in the current year, while in the UK it declined anew to 4.8% from 5.5%.

As mentioned repeatedly, **unemployment in Greece affects women more than men**. In the second quarter of 2016, the unemployment rate among women (27.6%, from 28.3% in the same quarter of 2015) was higher than that of men by eight percentage points (19.6%, from 21.6%), albeit declining year on year for the ninth consecutive quarter. Compared with the average for the Euro area, the unemployment rate among men in Greece was higher by 9.8 percentage points. The unemployment rate among women was higher than the EA average (10.4%) by 17.2 percentage points.

Regarding the **age composition**, unemployment eased in the most productive age groups, i.e. those aged 20-24, 25-29 and 30-44, in the second quarter of 2016. In particular, unemployment among those aged 20-24 declined to 48%, from 48.7% in the same period of last year. The decline of unemployment was more pronounced in the category of 25-29 years old, where it fell to 32.6%, about three percentage points lower than in the second quarter of 2015 (35.7%). In the age group of 30-44 years old, unemployment declined to 21.5% from 23.8% a year earlier. In the age category of 45-64 years old and among those aged 65 or more, the unemployment was lower than the national average rate (19.1% and 11.9%). Lastly, the highest unemployment rate among all age groups was recorded in the category of 15-19 years old (57.2%, from 56.3% in the second quarter of 2015).

Long-term unemployment has been largely falling in the past few quarters. The rate of long-term unemployed totalled 72.2% in the second quarter of 2016, 0.9 percentage points lower year on year (73.1% in the same quarter of 2015).

Concerning the **education level**, the unemployment rate decreased year on year in all education attainment levels, with the reduction ranging from 0.1 (holders of postgraduate or doctoral degree) to 20.9 percentage points (individuals that never received any education). The largest unemployment was recorded among those that never received any education (31.6% in the second quarter of 2016, from 52.5% in the second quarter of 2015) and among graduates of lower secondary education (27.4% from 27.9%). Unemployment declined significantly among those that received but did not finish primary education to 25.1%, from 32.6% a year earlier. The lowest unemployment rate was recorded among holders of postgraduate or doctoral degree (11.8% from 11.9% in the second quarter of last year) and among tertiary education graduates (17.3% of 18.5%).

Regarding the **regional composition,** unemployment eased in nine out of the country's thirteen regions. The highest unemployment rate was recorded in Western Greece, increasing notably year on year to 31.3%, from 27.8%. Western Macedonia came next, as the unemployment rate in the region increased to 30.6%, from 30.1% in the second quarter of 2015. In contrast, the lowest unemployment rates were observed in the Ionian Islands and the North

Aegean. The unemployment rate in the Ionian Islands stood at 11.7%, from 19.8% in the previous year, recording the largest percentage decline among the regions, while in the North Aegean unemployment declined by 2.1 percentage point year on year, from 19.4% to 17.3%. The unemployment rate in Attica and Central Greece declined by 2.4 percentage points (from 25% to 22.6%) and 0.9 p.p. (from 25.3% to 24.4%) respectively.

In terms of the **key economic sectors,** employment in the primary sector has been steadily falling since the second quarter of 2014. In the second quarter of this year, employment declined marginally, by 0.3% and as a result, the number of employed in this sector totalled 471,200, from 472,400 in the same quarter of 2015. In the secondary and tertiary sectors, the number of employed strengthened for the ninth and the tenth consecutive quarter respectively. As a result, the number of employed reached 571,300 people (from 538,800, up by 6%) in the secondary sector and 2,660,000 people (from 2,614,400, up by 1.7%) in the tertiary sector.

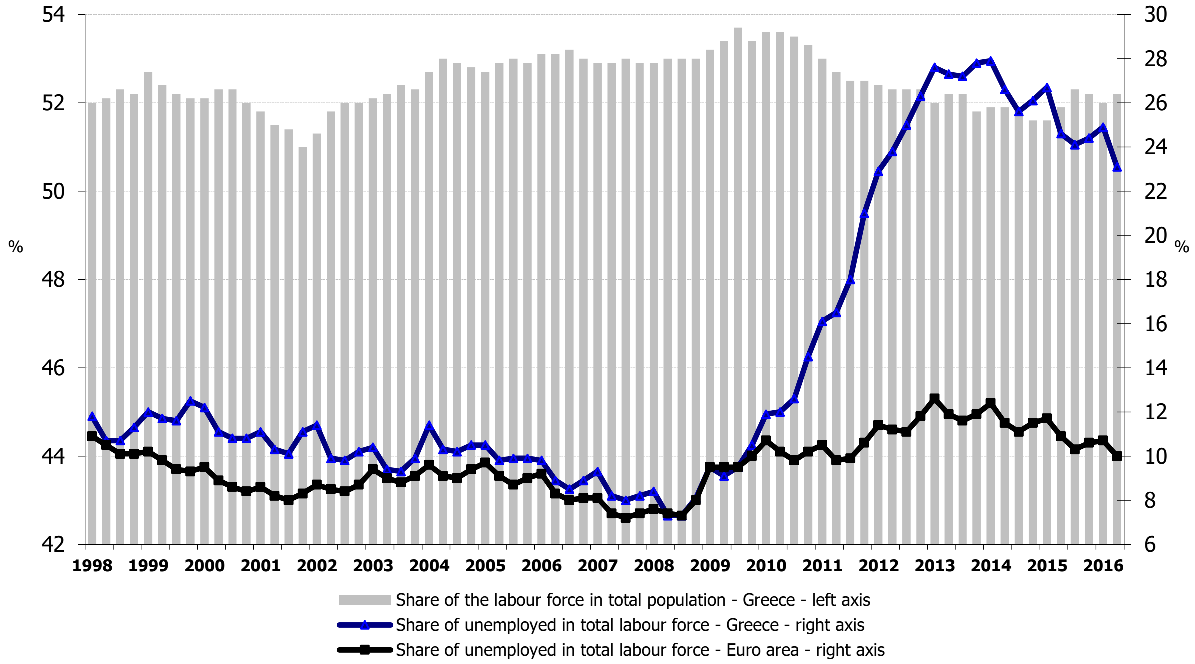
Employment declined in five **branches of economic activity** (Agriculture – Forestry – Fishing, Wholesale - Retail Trade, Professional – Scientific – Technical Activities, Other Service Activities and Activities of Households as Employers), yet in most branches (16) employment expanded. The largest percentage growth in employment was recorded in Mining-Quarrying (+44.2%, from 9,500 to 13,700), followed by the Activities of Extraterritorial Organisations and Bodies (+28.6%, from 2,100 to 2,700). Employment in Construction increased by 3.5% (from 149,400 people in the second quarter of 2015 to 154,700 people in the second quarter of 2016), continuing its growth by 2.9% from the previous quarter. In the major for the Greek Economy Accommodation and Food Service Activities sector, employment increased by 5.5% in the second quarter, from 333,700 to 351,900 people, while employment in Public Administration and Defence expanded by 8.3% and, as a result, the number of employed totalled 332,600, from 304,900, people. Employment increased by 5.5% in Manufacturing as well and, as a result, the number of employed expanded from 332,000 in the second quarter of last year to 350,100 a year later. In contrast, employment in Wholesale – Retail Trade, which played a key role in inverting the upward unemployment trend, declined by 1.1%, after six quarters of steady growth (from 657,300 to 650,300 people).

In summary, from the available data of employment at branch level, we can conclude that employment increased in the second quarter of the current year, despite the extensive employment contraction in Professional – Scientific – Technical Activities (-19,600 people or -9.1%), mainly due to:

- Increase in Public Administration – Defence (+27,700 people or +9.1%), mainly due to the implementation of public-benefit employment programmes.
- Growth in Tourism (+18,200 people or +5.5%), despite the decline of the turnover index of the sector in

Figure 3.13

Labour force participation and unemployment rates



Source: ELSTAT –Labour Force Survey, Eurostat

- the first half of 2016, which was significantly weaker in the second quarter, compared with the first (-1.1%, against -11.2%).

Growth in Manufacturing (+18,100 people or +5.5%), in congruence with the year-on-year growth of the industrial production index by 4.8% in the second quarter of 2016.

Medium-term outlook

As already noted in the previous bulletin of IOBE, the unemployment decline in Greece since the second quarter of 2014 came from employment growth mainly in Tourism and secondarily in Wholesale – Retail Trade and Manufacturing. However, the sources of unemployment decline have shifted in 2016. In particular, the employment trend in Retail Trade has turned negative. In addition, the contribution of Public Administration – Defence – Compulsory Social Security has strengthened already since the third quarter of 2015, due to the rehiring of about 7,500 people, laid off in the preceding years, but mainly from the public benefit employment programmes for the unemployed, administered by the Manpower Employment Organisation (OAED).

Table 3.10

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

Quarter/Year	Total	% of Population	Employed	Percentage (%) of the labour force	Unem-ployed	Percentage (%) of the labour force
2005	9,332.4	52.9	4,443.6	90.0	493.6	10.0
2006	9,374.1	53.1	4,527.5	91.0	448.2	9.0
2007	9,412.3	52.9	4,564.1	91.6	418.4	8.4
2008	9,435.1	53.0	4,610.5	92.3	387.9	7.8
2009	9,431.1	53.4	4,556.0	90.4	484.7	9.6
2010	9,399.4	53.5	4,389.8	87.3	639.4	12.7
Q1 2011	9,374.4	53.0	4,165.5	83.9	799.6	16.1
Q2 2011	9,373.1	52.7	4,124.2	83.5	815.6	16.5
Q3 2011	9,372.2	52.5	4,040.8	82.1	883.5	17.9
Q4 2011	9,371.7	52.5	3,886.9	79.1	1,028.6	20.9
2011	**9,372.9**	**52.7**	**4,054.4**	**82.2**	**881.8**	**17.9**
Q1 2012	9,364.7	52.4	3,785.0	77.2	1,119.1	22.8
Q2 2012	9,351.2	52.3	3,729.9	76.2	1,163.0	23.8
Q3 2012	9,338.0	52.3	3,668.0	75.1	1,218.4	24.9
Q4 2012	9,325.3	52.3	3,597.0	73.8	1,279.9	26.2
2012	**9,344.8**	**52.3**	**3,695.0**	**75.6**	**1,195.1**	**24.4**
Q1 2013	9,316.5	52.0	3,504.2	72.4	1,336.0	27.6
Q2 2013	9,311.7	52.2	3,535.0	72.7	1,327.9	27.3
Q3 2013	9,307.1	52.2	3,533.7	72.8	1,320.3	27.2
Q4 2013	9,302.7	51.8	3,479.9	72.2	1,337.2	27.8
2013	**9,309.5**	**52.1**	**3,513.2**	**72.5**	**1,330.4**	**27.5**
Q1 2014	9,295.8	51.9	3,483.7	72.2	1,342.3	27.8
Q2 2014	9,286.6	51.9	3,539.1	73.4	1,280.1	26.6
Q3 2014	9,277.5	51.9	3,586.9	74.5	1,229.4	25.5
Q4 2014	9,268.5	51.6	3,535.3	73.9	1,245.9	26.1
2014	**9,282.1**	**51.8**	**3,536.3**	**73.5**	**1,274.4**	**26.5**
Q1 2015	9,259.1	51.6	3,504.4	73.4	1,272.5	26.6
Q2 2015	9,250.7	51.9	3,625.5	75.4	1,180.1	24.6
Q3 2015	9,242.3	52.3	3,671.1	76.0	1,160.5	24.0
Q4 2015	9,234.1	52.2	3,641.7	75.6	1,174.7	24.4
2015	**9,246.6**	**52.0**	**3,610.7**	**75.1**	**1,197.0**	**24.9**
Q1 2016	9,226.3	52.0	3,606.3	75.1	1,195.1	24.9
Q2 2016	9,217.2	52.2	3,702.6	76.9	1,112.1	23.1

Source: ELSTAT, Labour Force Survey

As a result, the public sector created more jobs than any other sector in the first half of 2016. In addition, employment increased over two quarters in Construction, the sector with the most extensive employment contraction since 2008, for the first time since the start of the crisis in the first half of 2016. This trend reflects the revival of activity in public works, and mainly on the major road network.

The continuing strong activity growth in Manufacturing in the beginning of the third quarter of 2016 (+9.2% growth of the production index in July), the consolidation of the significant 2013-2015 turnover growth in Tourism and the positive trend in Construction will support the growth of employment in the private sector in the second half of the year as well. That said, the positive impact of the public sector on employment will weaken or even vanish, as the beneficiaries of the ongoing public benefit employment programmes are going to be fewer than in 2015. In addition, the changes in the direct taxation and the activities of the freelancers from 01/01/2017 with Law No. 4387/2016 will cause a turmoil, with a temporary, at least, impact on employment in the last quarter of 2016 and in the first quarter of 2017. **Taking into account the above trends and their impact on employment, the decline of unemployment is expected to slow down in the second half of 2016. In 2016 overall, unemployment will fall marginally below 24%, about one percentage point lower year on year.**

Regarding 2017, the expansion of employment in the private sector branches with the strongest contribution to the fall of unemployment in the current year, will most likely lead to further decline in the following year. A particularly strong employment boost is anticipated in the Construction sector in the second half of the coming year, when the execution of investment plans, related to privatisation and concession deals concluded in 2016 (e.g. regional airports, the Hellinikon project), is anticipated to have started, while the finalisation – hopefully – of the tax burden on housing since May 2016 may also lead to a small revival of the building activity. The forthcoming changes in the regulatory framework of the labour market, which constitute prior actions for the completion of the second review of the third Economic Adjustment Programme, are also anticipated to be conducive to investment and job creation. However, the changes in the direct taxation and the social security contribution of the freelancers from the beginning of 2017, at least initially, are going to impede investment, with a negative impact on employment in the affected branches. The significant job creation from the OAED programmes will carry over to 2017 – according to the Draft State Budget for 2017, short-term employment opportunities are going to be created for 52,000 long-term unemployed for the creation of socially vulnerable groups, while 43,000 unemployed are going to be hired in public works. **Therefore, the conditions for maintaining unemployment on a falling path for the fourth consecutive year in 2017, at a steady speed, are present. As a result, unemployment will total slightly more than 22.5%.**

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

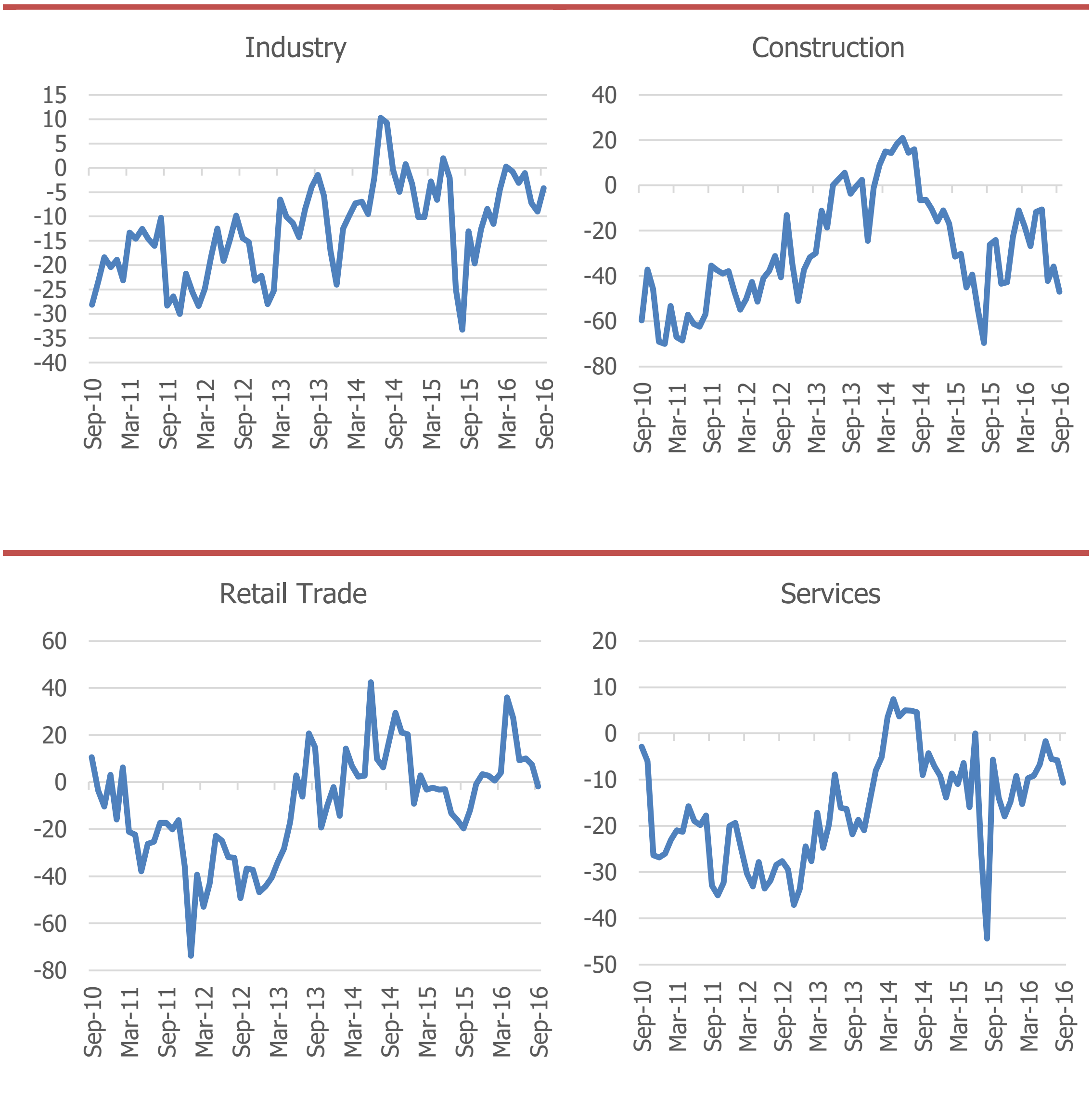
The employment expectations weakened quarter on quarter in the third quarter of the year in all sectors, with the negative change more pronounced in Construction and Retail Trade. In contrast, the employment expectations improved in all sectors year on year, with the strongest improvement recorded in Retail Trade and Construction. The balance of employment expectations remained negative in all sectors, except for

Retail Trade, where they have remained positive. In greater detail:

In Industry, the negative balance of employment expectations deteriorated quarter on quarter by 5 points in the third quarter of 2016 to -2 points. Year on year, the average quarterly index increased by 17 points. In the examined quarter, the share of industrial enterprises foreseeing growth in employment in the coming period fell to 6% (from 9%), while the percentage of those expecting a fall in the number of jobs increased to 13% (from 10%). The vast majority of the sector undertakings (81%) once again were expecting employment to remain unchanged.

Figure 3.14

Employment expectations (difference of positive – negative responses)



Source: IOBE

In Construction, the sentiment indicator fell extensively, to reach -42 points (from -16). Year on year, however, the indicator improved by 9 points. In the third quarter of 2016, 48% (from 33%) of the undertakings in the sector were anticipating job losses, while the percentage of respondents expecting a rise in employment fell to 7% (from 17%). In terms of individual sectors, the large decline in the index in Private Construction (to -35 from +10 points) was accompanied by a reduction in Public Works as well (to -45 from -28 points on average).

In Services, the employment expectations marginally declined quarter on quarter, yet they improved year on year. Thus, the balance of -6 points in the previous quarter changed to -7 points in the third quarter. Among the companies in the sector, 19% (from 20%) were expecting a decrease of employment in the coming period, with the proportion of those predicting an increase falling to 11% (from 14%). The expectations deteriorated in all subsectors, except for Land Transport-Pipelines, where they remained relatively stable. **The employment expectations in Retail Trade declined notably** quarter on quarter in the third quarter of the year to +5 points (from +24). Yet, this level is higher year on year (from -16 points). About 3% of the undertakings in the sector were once more expecting job cuts, while 8% (from 27%) were predicting employment growth, with 89% (from 70%) expecting job stability. The balance of employment expectations deteriorated in all constituent branches, except for Household Appliances, where the indicator marginally improved.

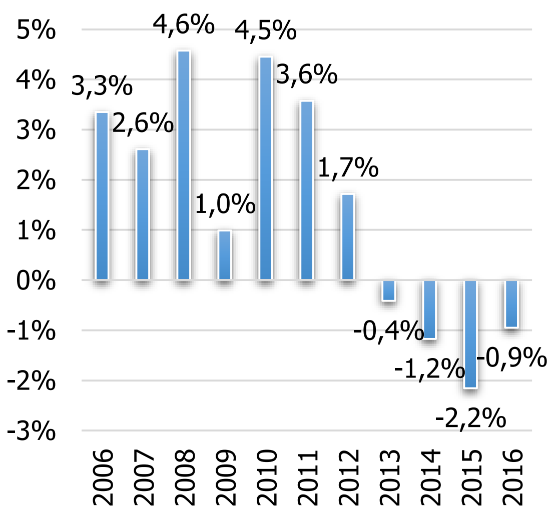
3.5 Consumer Prices

Recent Developments

The deflation in the Greek economy continued in the third quarter of the year for the fourth consecutive year, albeit at a lower rate than in the previous year. In particular, the Consumer Price Index (CPI) fell on average by 1.0% in July and August of 2016, compared with 1.8% deflation in the same period of 2015. The low oil price and the abolition of the excise duty on natural gas for industrial use since June, which was passed on to the final prices of goods and services, maintained the decline of the CPI. Overall in the first eight months of the current year, the deflation rate stood at 1%, compared with 2.2% deflation in the same period of last year.

Figure 3.15

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



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

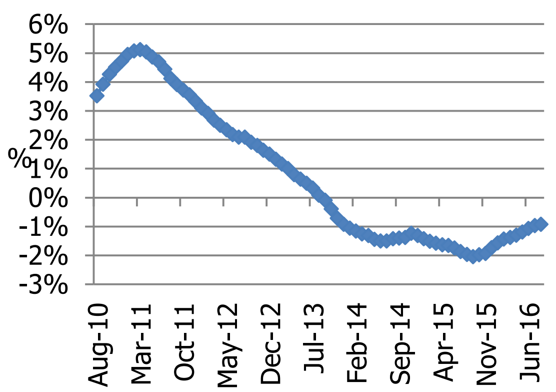
Regarding the changes at the branch level in the first eight months of 2016, the prices increased in four of the 12 categories of goods and services, included in the CPI.

A growth of prices, after deflation in the past year, was observed in Health Services (+2.5%, against -1.4% in 2015), Hotels - Cafes - Restaurants (+2.6%, against -0.3%) and Communications (+0.3%, against -0.05%). Positive, but lower rates of change were recorded in the prices of Food - Non-Alcoholic Beverages (+0.4%, against +1.1% in 2015) and Alcoholic Beverages - Tobacco Products (+1.4%, compared to +2.1% in 2015).

The price growth in Hotels – Cafes – Restaurants and Alcoholic Beverages – Tobacco Products came from the new hike in the standard VAT rate and from the levy of an excise duty on beer.

Figure 3.16

CPI in Greece (annual percentage change)



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

The prices declined strongly, albeit less than in 2015, in all other sectors, except for Footwear, where the deflation marginally strengthened (to -3.6% from -3.5%). In particular, the prices declined once more in the first eight months of this year in Housing, by 4.5% (against -7.1% in 2015), in Transport by 4% (against -4.3% in the previous year) and Recreation (-1.5% in both periods). Education came next in deflation terms with 1.3% price decline (against -3.2% in 2015), followed by Durable Goods, with -0.2% rate, from -2.2% a year before. The strongest price decline in Housing and Transport reflected the impact from the low oil price and the abolition of the excise duty on natural gas for industrial use.

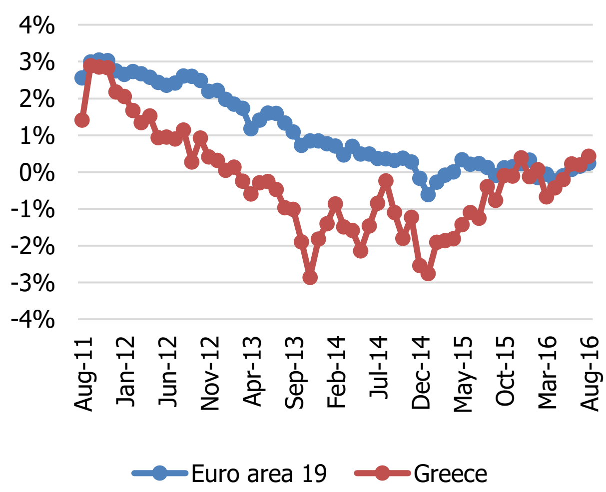
The Harmonized Index of Consumer Prices (HICP) decreased marginally in the first eight months of 2016 (-0.06%), against a deflation of 1.6% in the same period of 2015. Compared with the other member states of the Euro area, Greece belongs to the group of countries with a small change of the HICP. The set of other countries in the same group includes the Netherlands (-0.01%), Germany (0.11%), France (0.15%), Finland (0.22%), Italy (-0.15%) and Ireland (-0.17%).

Slightly stronger price reduction was recorded in Spain (-0.8%), Slovakia (-0.6%), Slovenia (-0.6%), Latvia (-0.5%) and Luxembourg (-0.4%). Once more, prices declined most in Cyprus (-1.6%).

Figure 3.17

HICP in Greece and the Euro area

(annual percentage change)



Source: Eurostat, data processing IOBE

The set of countries with slightly positive price changes includes Estonia (0.4%), Lithuania (0.5%), Portugal (0.5%), Austria (0.8%) and Malta (1.0%). The highest HICP inflation was recorded in Belgium (1.7%).

According to the latest available data, the Producer Price Index of the domestic and foreign markets as a whole fell by 8.4% in the first eight months of the current year. This reduction was the strongest of the last decade for this particular period of the year. The second largest contraction was recorded in 2009 (-7.9%).

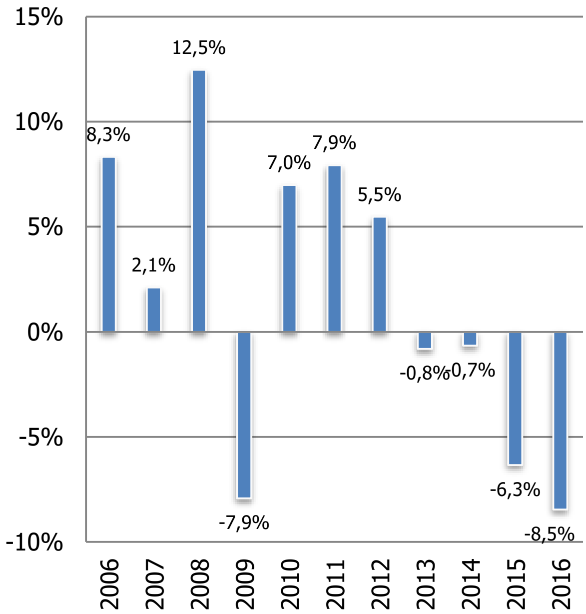
In greater detail, the highest price decline among the constituent subsectors in the first eight months of 2016 was recorded in Coke – Refined Petroleum Products (-27%), Electricity – Natural Gas (-9.8%, due also to the abolition of the excise duty on natural gas for industrial use), Electrical Equipment (-7.1%) and Basic Metals (-6.8%). Smaller negative changes were recorded in a number of subsectors, including Extraction of Crude Petroleum and Natural Gas, Paper Products, Leather Products, Chemicals, Rubber Products, Clothing and Basic Pharmaceuticals.

In contrast, the largest price growth occurred in Coal - Lignite (+7.8%) and Tobacco Products (+0.2%). Small positive changes were also recorded in Other Manufactured Goods, Metallic Ores, Textiles, Beverages, Motor Vehicles – Trailers and more generally in Services.

Based on the latest available data (July 2016), the Import Price Index declined by 6.67% since the start of the year. The index declined in all Euro area countries, due to the impact from the low oil prices. The largest decline was recorded in Latvia (-8.84%), followed by Lithuania (-8.74%), the Netherlands (-6.9%) and Slovakia (-6.1%). France (-5.87%) came next, followed by Spain (-5.7%), Italy (-5.4%), Germany (-5.08%), Estonia (-4.18%) and Slovenia (-2.2%). Given the above changes in the prices of imported goods, Greece has the fourth largest price contraction in the Euro area.

Figure 3.18

Annualised change of CPI in Greece in the last decade in July and August on average (annual percentage change)



Source: ELSTAT, data processing IOBE

Medium-term outlook

Despite the apparent growth of consumption in the third quarter and the hike in VAT, the deflation has not weakened. The perseverance of deflation at a steady rate in the third quarter, despite the hike in the standard VAT rate and the lifting of the VAT discount in nine islands, reflects the lingering low demand. As the increase of the excise duty on heating oil is the only hike of taxation planned until the end of 2016, the deflation trend is not expected to end during this period. Besides, the low global oil prices, which were the main deflation driver, are not expected to increase shortly after the recent decision at the International Energy Forum to decrease the daily petroleum production. Given that in the last quarter of 2015, the price decline had weakened, the level of the Consumer Price Index is relatively higher than in the previous months, which is conducive to a small acceleration of the deflation a year after that. **As a result, the price decline in 2016 overall is expected to reach 1.1%, 0.6 percentage points lower than in 2015.**

The decline in the oil price, which was a key factor that maintained the deflation in the Greek economy in 2016 will most likely cease to be present in the coming year. The recent decision to reduce the global oil production will lead to higher prices during the next year. The new indirect taxes and the hikes in existing taxes, which are planned to be implemented from 1 January 2017, (increase in the excise duty of motor oil and LPG, levy on fixed telephony subscribers, increase in the excise duty on tobacco products and levy of a tax on coffee) will impede the continuation of deflation. The stronger consumer demand, mainly due to the expansion of employment and not from higher per capita income, which will decline from the increase in direct taxation and social security contributions, will also prevent a further price decline in the Greek economy. **As a result, the Consumer Price Index is expected to increase by about 1.3% in 2017.**

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

Mixed trends prevailed in the expectations on quarter-on-quarter price changes in the third quarter of 2016. The balance of price expectations was negative in most cases, indicating that the deflation trend of the last six years has persevered.

The deflationary expectations eased quarter on quarter in the second quarter of 2016, with most indicators still bearing negative signs, maintaining thus the deflationary trend of the past six years. In particular, the balance of price expectations increased marginally in the third quarter in Private Construction and Services, falling marginally in Industry and more substantially in Retail Trade. Note that Retail Trade is the only sector with a positive balance of price expectations in the third quarter. Year on year, the price expectations deteriorated in Industry and Retail Trade. In greater detail:

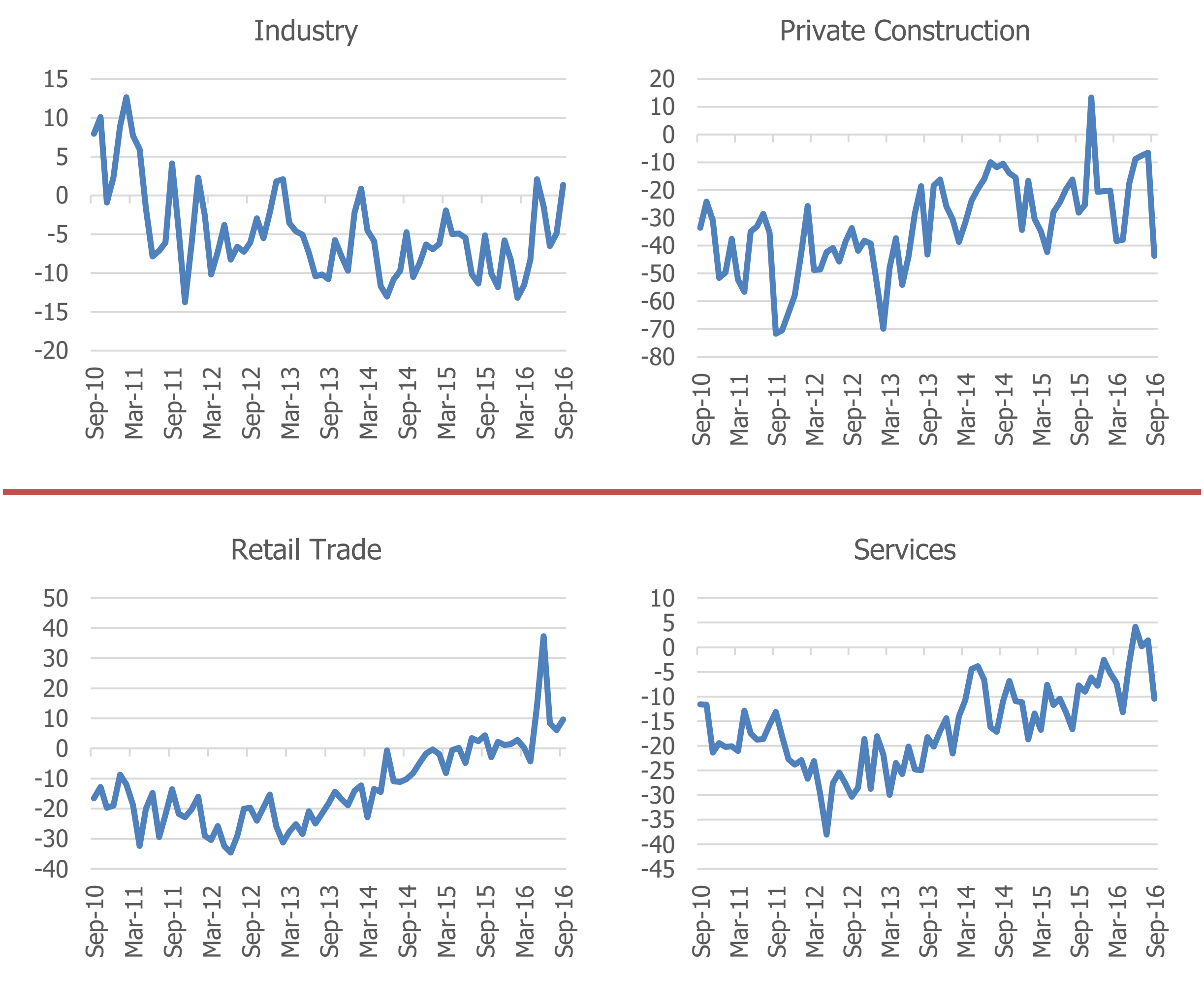
In Industry, the price expectations in the third quarter of the current year declined marginally quarter on quarter, with the index moving to -3 points, 6 points higher year on year. Among the companies in the sector, 9% (from 10%) on average were expecting a price reduction in the near future, with 85% (from 83%) expecting prices to remain stable and 6%-7% once more expecting them to increase.

In Retail Trade, the price expectations index of +16 points in the previous

quarter declined by half in the third quarter (from +3 points in the corresponding period of last year). In the current quarter, 8% of the sector companies (from 6%) were expecting prices to fall in the short term, while the share of companies expecting prices to rise declined to 16% (from 21%), with the remaining 76% (from 73%) expecting price stability. The price expectations weakened quarter on quarter in the third quarter of this year in all constituent subsectors of Retail Trade, except for Department Stores, where they remained stable. **The average index of expected price changes in Services increased marginally quarter on quarter in the examined quarter,** reaching -3 points, higher year and year as well (from -13 points). In the current quarter, 11% of the firms (from 12%) were expecting a price decrease in the next quarter and 8% were predicting prices to increase.

Figure 3.19

Price expectations (% difference between positive and negative answers)



Source: IOBE

Among the constituent subsectors, the index increased in Financial Intermediaries, Various Business Activities and Computer Programming.

Lastly, **the negative balance of price expectations of the previous quarter in the Private Construction sector eased** by 2 points, to -19 points, a level that is higher by 2 points year on year as well. About 23% of the businesses in the sector were expecting a decline in prices, while few respondents were expecting prices to rise (at 3%, from 2% in the previous quarter).

3.6 Balance of Payments

Current Account

The **Current Account (CA)[13] deficit** declined by 22.3% year on year in the first seven months of 2016. As a result, the deficit stood at €1.1 billion, from €1.4 billion in the previous year. The significant decline in the surplus of the Services Account was overcompensated by a reduction of the Goods Account deficit and an increase in the primary income surplus.

The deficit of the **Goods Account** declined to €9.6 billion, from €10.2 billion in 2015. Exports totalled €13.8 billion, lower by 7.2% (-€1.1 billion),[14] with the decrease coming primarily from the contraction of the exports of fuel by €829 million. Imports declined to €23.3 billion (-€1.7 billion), with the drop once more coming from fuel, by about €1.9 billion. The deficit of the **Goods Account excluding fuel and ships** expanded by 8.8% in the first seven months of 2016, to reach €8.1 billion, as the exports of goods fell to €10.5 billion (from €10.7 billion in 2015), while imports increased to €18.7 billion (€18.2 billion in 2015).

The surplus of the **Services Account** fell in the first seven months of 2016 by 17.5%, to €7.6 billion, from €9.2 billion in 2015, as the decline of receipts was twice as high than that of payments in absolute terms. Total receipts amounted to €13.1 billion, lower by 20.1% (-€3.3 billion), while payments amounted to €5.5 billion, declining by 23.6% (-€1.7 billion). The receipts from Tourism reached €6.8 billion, lower by 4.8%, while a more significant decline was recorded in the revenues from Transport, by 38% (-€2.6 billion) and from other services, by 14.3% (-€340 million). Travel payments declined slightly, remaining close to €1.2 billion, while the payments for transport services declined by 32.5% to €2.5 billion. The payments for other services fell by 22.6% to €1.8 billion.

The **Primary Income Account** had a surplus of €930 million in the first seven months of 2016, compared to €44 million in 2015, mainly due to a decline in payments by 20.5% (-€774 million). Receipts increased by 2.9% (+€112 million). In greater detail, the receipts from employment fell by 27.6% to €76 million, the receipts from investments declined by 7.2% to €1.5 billion, while other primary income (subsidies and taxes on production) decreased by 7.2% to €2.4 billion.

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

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

The payments for compensation of employees decreased by 57.0% to €131 million, the payments for income from investment declined by -20.4% to €2.6 billion, while the payments for other primary income increased by 31.9% to €269 million.

The deficit of the **Secondary Income Account** declined to €60 million, from €437 million in 2015. The receipts once more totalled €1.2 billion, yet the payments fell to €1.3 billion, from €1.7 billion in 2015.

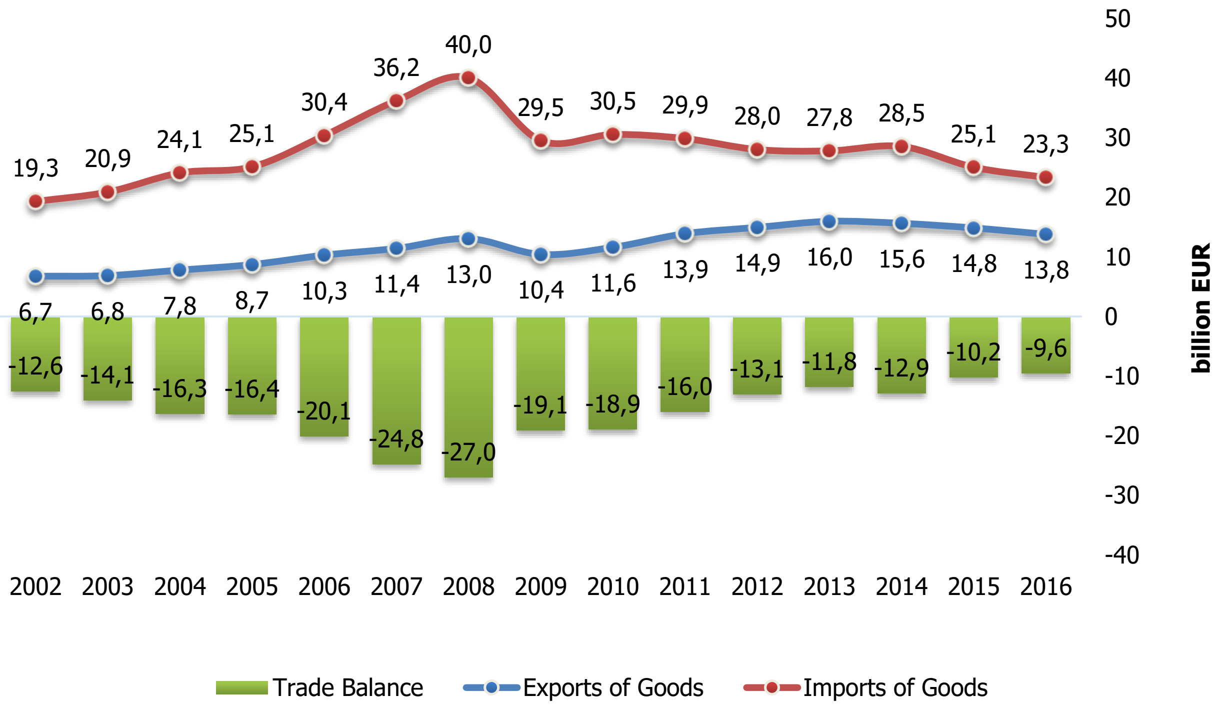
Capital Account

The **Capital Account**[15] balance stood at €642 million, against €609 million in 2015, with a significant decline in receipts to €783 million, while payments decreased to €141 million.

Finally, the **Current and Capital Account**, indicative of an economy's position as a lender or a borrower with respect to the rest of the world, stood at a deficit of €428 million, against a deficit of €768 billion in 2015.

Figure 3.20

Imports-Exports (January-July, 2002-2016)

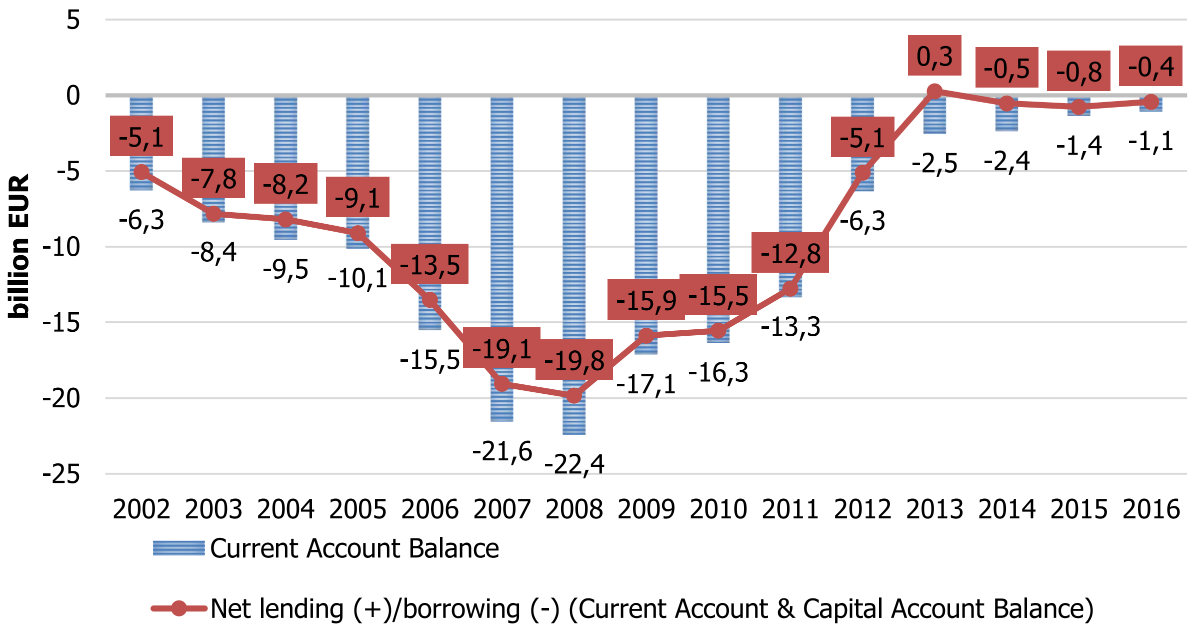


Source: Bank of Greece – Data processing IOBE

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

Figure 3.21

Current and Capital Accounts (January-July, 2002-2016)



Source: Bank of Greece - Data Processing: IOBE

Financial Account

The deficit of the **Financial Account (FA)** reached €356 million in the first seven months of 2016, against €539 million in 2015.

Regarding the FA components, the net receivables from **direct investments** abroad made by residents decreased by €1.5 billion, while the liabilities to non-residents increased by €134 million.

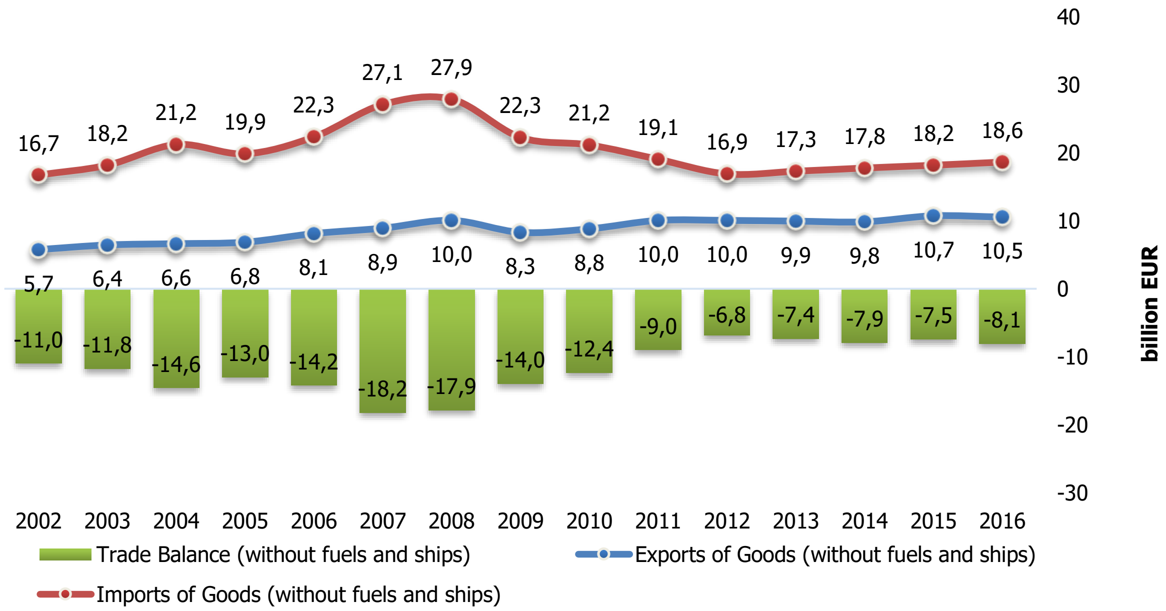
In **Portfolio Investment**, the claims of the residents to non-residents increased by €5.2 billion, as according to the Bank of Greece the holdings of residents in foreign bonds and treasury bills increased by €6.5 billion, while their holdings in shares declined by €1.5 billion. The liabilities to non-residents decreased by €2.3 billion, due to the decline of holdings of non-residents in Greek bonds and treasury bills.

In the category of **other investments**, the receivables of residents from non-residents declined by €8.8 billion, as the deposits and repos of Greek residents abroad declined. The liabilities also decreased, by €2.0 billion, due to a reduction of the deposits and repos of non-residents in Greece.

Lastly, the **Reserve Assets** of the country totalled €6.9 billion by the end of July 2016, from €5.1 billion in 2015, due to the significant growth of foreign exchange by €803 million and monetary gold by €788 million.

Figure 3.22

Imports – Exports without fuels and ships (January-July, 2002-2016)



Source: Bank of Greece - Data Processing: IOBE

Assessment

The 19 member states of the Euro area represent 25.6% of the world exports of goods and services, yet their share has declined from 28.8% in 2009 and 31.4% in 2004. This reduction of the share can be attributed to many factors, some of which are related to the growth momentum of developing countries, such as China, India and Brazil, which acquired a significant share in world trade. Other factors include the appreciation of the euro against the currencies of major trading partners, which dampened the area's competitiveness and the rise of inflation and labour cost, particularly in the period until and including 2008-2009. The last three factors are jointly reflected in the Real Effective Exchange Rates (REER) of each country. The REER is a measure of the competitiveness of a country, which together with the nominal exchange rates takes into account its labour cost or prices in relation to its major competitors in the world markets. An increase in the REER indicator reflects a loss of competitiveness. The REER can be expressed in relation to the unit labour cost or the consumer price index.

The analysis of the data on the change in the real effective exchange rate (2005=100) and the balance of goods and services (as percentage of GDP) for the Euro area countries between 2002 and 2015 shows that despite the appreciation between 2002 and 2008 in all countries, the trends in the balance of goods and services were mixed. In particular, the balance of goods and services improved between 2002 and 2008 in countries such as Germany and the Netherlands, despite the appreciation of the REER (in inflation terms – see Figure 3.20). This development came from the significant increase in the exports of mainly capital equipment to the developing economies, due to their industrialisation needs. Nevertheless, the same trend is observed after 2009 in all countries except Estonia and Finland: the price fall, together with the decline in the nominal exchange rate resulted in a significant reduction of the REER. The REER fall, with an impact on competitiveness and exports, together with the income stagnation in the European countries and the subsequent decline of imports, allowed for a significant improvement in the balance of goods and services in almost all countries, which explains the negative relation between the exchange rate and the balance. In Greece, the REER improved by 7.7% between 2009 and 2015, while the balance strengthened by 8.9 percentage points of GDP. Note that a significant part of the improvement of the balance did not come from the change in the REER, but from the fall of income, which brought a decline in imports, as mentioned above.

In any case, while ten countries had a negative balance of goods in 2009, in 2015 the number of such countries fell to five, out of which the balance in Greece and Lithuania was only marginally negative. Hence, the gradual depreciation of the REER after 2009 allowed for an improvement in the balance of goods and services.

Figure 3.23

Changes in REER (in inflation terms) and the Goods and Services Account (% GDP)

Source: Bank of Greece - Data Processing: IOBE

The decline of the labour cost had a significant contribution to this development. The labour cost declined in 16 of the 19 Euro area member states. The strongest depreciation of the REER expressed in labour cost terms between 2009 and 20015 was observed in Ireland (-27%), followed by Greece (-21.8%), Spain (-15%), Cyprus (-12.9%) and Portugal (-12.5%). Note that these are the five countries that implemented economic adjustment programmes. The reduction of the labour cost among the above countries passed on sufficiently to prices (at 60%) only in Ireland and Cyprus, where the REER declined in inflation terms as well, while in the remaining countries the difference between the two exchange rate indicators reached 35%-40%. Note, of course, that there are other factors that affect prices, besides the labour cost, such as the cost of energy and the prices of raw materials.

Table 3.11 Balance of Payments in € million

		January – July			July		
		2014	2015	2016	2014	2015	2016
I	**CURRENT ACCOUNT (I.A + I.B + I.C + I.D)**	**-2,394.0**	**-1,376.6**	**-1,070.3**	**1,308.9**	**2,506.8**	**1,433.1**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**-3,602.8**	**-983.0**	**-1,940.8**	**1,235.6**	**2,541.0**	**1,758.7**
I.A	**GOODS ACCOUNT (I.A.1 - I.A.2)**	**-12,919.3**	**-10,211.9**	**-9,558.6**	**-1,994.0**	**-633.7**	**-1,277.0**
	Oil balance	-3,351.1	-2,405.6	-1,348.6	-726.1	-226.9	-234.2
	Trade balance excluding oil	-9,568.2	-7,806.3	-8,210.1	-1,268.0	-406.8	-1,042.8
	Ships balance	-1,637.8	-354.2	-104.1	-83.1	0.0	-21.4
	Trade balance excluding ships	-11,281.5	-9,857.7	-9,454.6	-1,910.9	-633.7	-1,255.6
	Trade balance excluding oil and ships	-7,930.5	-7,452.1	-8,106.0	-1,184.9	-406.8	-1,021.4
I.A.1	**Exports**	**15,614.4**	**14,838.4**	**13,776.4**	**2,459.7**	**2,237.8**	**2,171.8**
	Oil	5,392.5	3,958.5	3,129.6	806.5	565.8	500.8
	Ships (sales)	387.3	157.6	114.2	30.4	0.0	6.6
	Goods excluding oil and ships	9,834.7	10,722.3	10,532.6	1,622.8	1,672.0	1,664.4
I.A.2	**Imports**	**28,533.7**	**25,050.3**	**23,335.0**	**4,453.7**	**2,871.4**	**3,448.8**
	Oil	8,743.5	6,364.1	4,478.1	1,532.6	792.7	735.0
	Ships (buying)	2,025.1	511.8	218.2	113.5	0.0	28.0
	Goods excluding oil and ships	17,765.2	18,174.4	18,638.6	2,807.6	2,078.7	2,685.8
I.B	**SERVICES ACCOUNT (I.B.1-I.B.2)**	**9,316.5**	**9,228.9**	**7,617.9**	**3,229.6**	**3,174.7**	**3,035.7**
I.B.1	**Receipts**	**16,719.7**	**16,401.9**	**13,098.1**	**4,366.0**	**3,640.2**	**3,921.4**
	Travel	6,585.2	7,128.1	6,782.5	2,774.2	2,956.8	2,853.2
	Transportation	7,424.8	6,895.4	4,277.4	1,172.1	470.7	683.0
	Other services	2,709.7	2,378.4	2,038.2	419.6	212.7	385.2
I.B.2	**Payments**	**7,403.2**	**7,173.0**	**5,480.2**	**1,136.4**	**465.5**	**885.7**
	Travel	1,165.9	1,148.2	1,181.2	197.2	182.2	243.3
	Transportation	3,600.7	3,680.2	2,483.3	538.9	208.4	359.2
	Other services	2,636.6	2,344.6	1,815.7	400.3	75.0	283.2
I.C	**PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)**	**1,002.3**	**43.7**	**930.4**	**60.6**	**-19.5**	**-215.7**
I.C.1	**Receipts**	**4,855.5**	**3,810.9**	**3,923.4**	**625.1**	**258.7**	**282.9**
	From work (wages, compensation)	123.6	104.8	75.6	20.8	8.4	12.4
	From investments (interest, dividends, profit)	1,957.2	1,599.7	1,485.3	284.7	191.9	200.8
	Other primary income	2,774.7	2,106.4	2,362.5	319.6	58.4	69.7
I.C.2	**Payments**	**3,853.1**	**3,767.2**	**2,993.0**	**564.5**	**278.2**	**498.5**
	From work (wages, compensation)	259.8	305.2	130.7	47.2	3.3	22.0
	From investments (interest, dividends, profit)	3,367.2	3,258.1	2,593.6	497.7	262.2	449.2
	Other primary income	226.1	204.0	268.8	19.5	12.6	27.3
I.D	**SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)**	**206.5**	**-437.3**	**-60.0**	**12.7**	**-14.7**	**-110.0**
I.D.1	**Receipts**	**1,914.1**	**1,238.3**	**1,210.5**	**205.5**	**75.1**	**91.0**
	General government	1,227.9	702.1	787.5	106.5	19.5	23.2
	Other sectors	686.2	536.2	423.0	98.9	55.6	67.8
I.D.2	**Payments**	**1,707.6**	**1,675.6**	**1,270.4**	**192.8**	**89.8**	**201.0**
	General government	1,281.4	1,155.8	968.4	110.7	71.6	154.7
	Other sectors	426.2	519.8	302.1	82.1	18.2	46.3
II	**CAPITAL ACCOUNT (II.1-II.2)**	**1,852.0**	**608.8**	**642.3**	**10.1**	**2.4**	**-3.1**
II.1	**Receipts**	**2,029.3**	**820.2**	**783.1**	**25.6**	**2.7**	**5.9**
	General government	1,986.9	786.9	753.3	17.5	0.4	0.5
	Other sectors	42.4	33.2	29.8	8.1	2.3	5.3
II.2	**Payments**	**177.4**	**211.4**	**140.8**	**15.5**	**0.3**	**9.0**
	General government	6.7	3.6	1.0	0.5	0.0	0.2
	Other sectors	170.6	207.8	139.8	15.0	0.3	8.8
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	**-542.1**	**-767.8**	**-428.0**	**1,319.0**	**2,509.2**	**1,430.0**
III	**FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)**	**1,358.3**	**-539.3**	**-356.3**	**1,280.5**	**2,076.1**	**979.6**
III.A	**DIRECT INVESTMENT***	**-653.1**	**423.5**	**-1,681.8**	**-69.3**	**158.2**	**62.4**
	Assets	258.0	236.7	-1,548.0	-1.6	75.7	92.7
	Liabilities	911.1	-186.8	133.8	67.7	-82.5	30.3
III.B	**PORTFOLIO INVESTMENT****	**-3,779.3**	**3,962.1**	**7,519.8**	**766.2**	**4,531.8**	**6,918.8**
	Assets	4,604.5	-2,969.4	5,190.7	1,304.3	1,150.8	4,873.7
	Liabilities	8,383.9	-6,931.5	-2,329.0	538.1	-3,381.0	-2,045.1
III.C	**OTHER INVESTMENT***	**5,305.7**	**-4,825.0**	**-6,811.8**	**613.5**	**-2,829.8**	**-6,041.6**
	Assets	-6,156.4	21,507.9	-8,835.4	-609.6	-1,717.3	-3,578.6
	Liabilities	-11,462.1	26,332.8	-2,023.6	-1,223.2	1,112.6	2,463.0
	(Loans of general government)	6,866.2	413.4	4,274.1	881.0	5,009.1	-566.9
III.D	**CHANGE IN RESERVE ASSETS*****	**485.0**	**-100.0**	**617.5**	**-30.0**	**216.0**	**40.0**
IV	**BALANCE ITEMS (I +II +IV +V = 0)**	**1,900.3**	**228.5**	**71.7**	**-38.5**	**-433.1**	**-450.4**
	RESERVE ASSETS (STOCK)***				**5,032**	**5,119**	**6,904**

Source: Bank of Greece

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

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

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

4. The economic impact of the development of the Hellinikon area[16]

4.1 Introduction

The execution of a significant volume of investment as soon as possible is a basic prerequisite for setting the Greek economy on a path of steady growth. The implementation of the programme to develop the area of the old Hellinikon airport will contribute significantly in this direction. The programme has clear economic development objectives, while it is also expected to have a significant positive contribution to the fiscal consolidation of the Greek economy.

The Hellinikon development programme is a multifaceted project, designed to host a variety of uses (residences, tourism, recreation, commerce, offices, healthcare, social welfare, education, sports, culture, state-of-the-art urban infrastructure and utilities). According to the terms of the agreement for the sale of the shares of Hellinikon S.A. to Hellinikon Global I S.A., the preferred investor will deposit €915 million in instalments according to an explicit time plan that spans a period from 2016 to 2026. In addition, the execution of the development plan involves an investment of €7.2 billion over a 25-year reference period.

This study examines the economic impact from the renovation of the old Hellinikon airport and the seaside front of Agios Kosmas for the whole duration of the investment programme, based on the contract terms for the sale of the shares of Hellinikon S.A. to Hellinikon Global I S.A. The analysis is performed at two levels – impact in the wider renovation area (microeconomic impact) and impact on the Greek economy overall (macroeconomic impact).

4.2 Microeconomic impact

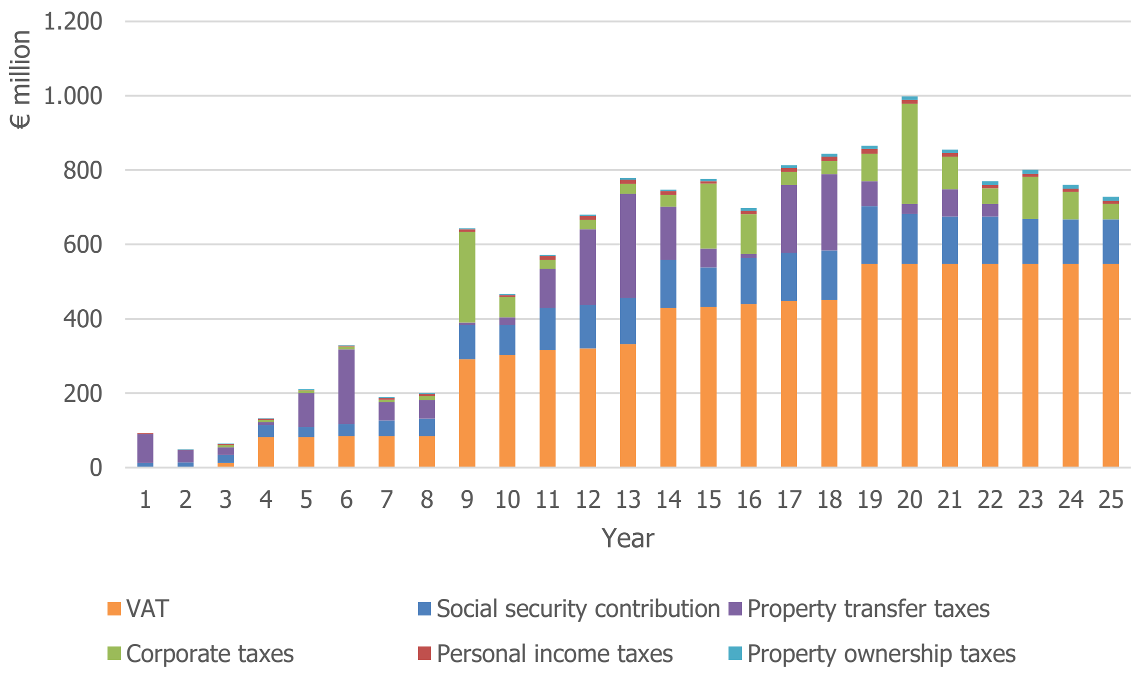
The investment in renovating the Hellinikon area will generate significant economic activity. According to the estimates in the study, the operating revenue (turnover) that the use of the Hellinikon facilities is expected to generate, reaches €2.4 billion towards the end of the 25-year period (i.e. in 2041) or €1.4 billion per year on average for that period. Most of the revenue over the 25-year period under examination in the study is expected to come from the operation of shopping centres and offices (76%), while the recreation activities and the operation of hotels are also expected to represent a significant revenue share (12% and 7% respectively).

The fiscal revenues of the project are not limited to the proceeds from the acquisition of the shares of Hellinikon S.A. but extend to inflows from the direct and indirect taxation of the economic activity and the wealth that is expected to be generated by the project. The tax revenues from the construction activity and the operation of the various facilities grow over

[16] The full text of the study is available in Greek at the IOBE website (http://iobe.gr/research_dtl.asp?RID=131).

time to €1.0 billion in the 20th year of the project (€563 million per year on average the 25-year period).

Figure 4.1:
Tax revenues over the 25-year reference period per source



Source: IOBE estimates

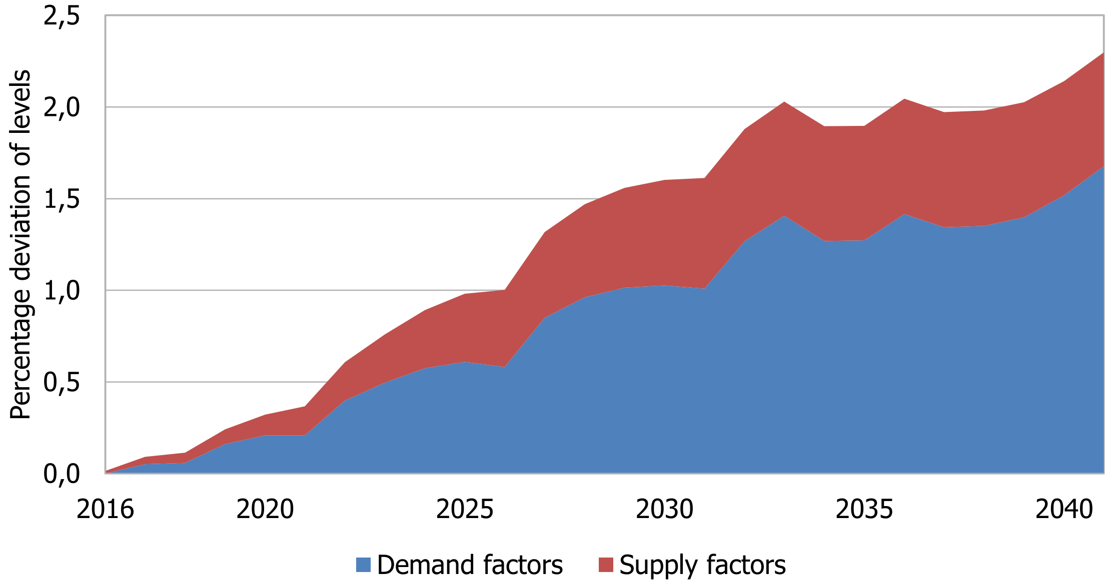
The extent to which the microeconomic benefits from the operation of the facilities will contribute fully to the overall economy or substitute in part existing activity elsewhere will ultimately depend on whether the facilities will attract visitors who would have otherwise preferred to go to other destinations abroad. It is not feasible to determine in advance the ability of the planned facilities to generate new demand, but installations such as a modern conference centre, healthcare and education services, casino and marina, have the capacity to activate part of the unutilised potential of the country and of Athens in particular in the development of alternative forms of tourism, such as MICE (Meetings, Incentives, Conferences and Events), health and city break tourism. This can generate the new demand that is required in order to consider the above microeconomic impact as a net benefit for the national economy in its entirety.

4.3 Macroeconomic effects from the construction and operation of the project

At the macroeconomic level, the investment activity and the synergies from the utilisation of the area of the old Hellinikon airport strengthen the infrastructure, construction activity and production capacity of the economy, boost output with both an autonomous and an endogenous permanent increase of private consumption and, lastly, improve the balance of payments with the corresponding inflow of private capital.

Figure 4.2:

Total impact of the demand and supply factors on GDP



Source: IOBE estimates
Note: The outcome comes from the comparison of the GDP levels of the Greek economy in two scenarios – with and without the investment in the Hellinikon area.

The demand factors, related to the construction and operation of the project (execution of the investment programme, generation of income from the project operation, additional foreign tourism revenues) are expected to stimulate the Gross Domestic Product (GDP) of Greece throughout the project's construction period. At the end of the period under investigation (2016-2041), the demand factors are estimated to drive GDP to a level higher by €5.4 billion or 1.7%, compared with the GDP level under the counterfactual scenario of no concession deal. In addition, the supply factors, which are reflected in higher productivity growth and enhanced productive potential of the economy, are expected to boost GDP by €2.0 billion (+0.6%) in 2041. Overall, the Hellinikon investment project, apart from the significant positive intangible effects (credibility, culture, etc.), is expected to drive GDP to significantly higher levels throughout the examined period. In 2041, the GDP of the Greek economy is expected to be higher by €7.42 billion (2.4%), compared with the GDP level under the no-investment scenario.

In employment terms, the number of employees expected to be hired for the construction and operation of the facilities of the Hellinikon – Agios Kosmas Urban Hub is growing over time, as the planned facilities open for business, while the construction activity carries on. The employment in the area is expected to exceed 25,000 people by the mid-2030s. In the following years, with the gradual conclusion of the construction activity, but also with more business activities in full operation, the number of jobs maintained in the area on an annual basis is estimated at about 21,000. These are permanent jobs that would largely be covered by residents of the neighbouring municipalities and, to a lesser extent, of other areas of the broader Athens metropolitan area. Taking into account the wider macroeconomic interactions, the impact of the renovation project on total employment in the Greek economy is expected to exceed 90,000 jobs in 2041, of which 75,000 jobs are generated from the impact of the demand factors and 15,000 come from supply factor effects.

4.4 Assessment of the impact of outright public debt reduction

The sale of the share of Hellinikon S.A. to Hellinikon Global I S.A. provides the Hellenic Republic with funds that can be used for an outright reduction (repurchase) of public debt. This transaction prevents the adoption of an equivalent contractionary fiscal policy of debt reduction which necessarily would have had a recessionary impact on the economy (i.e. loss of income and jobs).

According to our estimations, the sale of the shares of Hellinikon S.A. to Hellinikon Global I S.A. prevents the loss of 10,000 jobs and a reduction of GDP by about 0.2% (€0.3 billion) during the first year of implementation of the agreement (when the shares are transferred to their new holder), from the equivalent contractionary fiscal policy that should be adopted in order to cover the gap in public debt. Subsequently, smaller yet notable negative effects are observed over a period of 15 years.

Table 4.1:

Impact from not selling the shares of Hellinikon S.A. on employment
(percentage deviation of levels from the baseline)

Year	2016	2019	2021	2023	2026	2029	2031
Public Consumption	-0.24	-0.04	0.008	-0.03	-0.085	0.002	0.001
Public Investment	-0.27	-0.11	-0.07	0.01	0.04	0.01	0.0
Direct taxes (households)	-0.21	-0.11	-0.04	-0.01	-0.01	-0.001	0.0
Consumption taxes	-0.22	-0.09	-0.03	-0.02	-0.01	-0.02	0.01
Corporate taxes	-0.18	-0.08	-0.04	-0.03	-0.03	-0.01	0.0
Average	-0.22	-0.09	-0.04	-0.03	-0.01	-0.01	0.0

Source: IOBE estimates

Note: The outcome comes from the comparison of key figures of the Greek economy in two scenarios – with and without the sale of the shares of Hellinikon S.A. to Hellinikon Global I S.A.

Therefore, the Hellinikon project is expected to contribute to the development of the Greek economy, the fiscal consolidation effort and the sustainability of public debt. Meanwhile, the investment project boosts not only the primary surplus but also the nominal GDP – both of these factors drive down the debt-to-GDP ratio. In particular, the debt –to-GDP ratio declines by 15 percentage points of GDP at the end of the period under examination in the investment implementation scenario.

4.5 Conclusions

The inflow of funds from abroad is a necessary condition to set the country's economy on a sustainable growth path and to achieve its definitive exit from the crisis. Therefore, the key next step under the current economic conditions is to strengthen the credibility of the country as a safe destination for investment. The sale of the shares of Hellinikon S.A. to Hellinikon Global I S.A. and subsequently the development of the area could have a catalytic contribution in this direction, sending a strong signal that Greece is a safe and attractive investment destination.

The area of the old Hellinikon airport, due to its size, the length of its coastal front and its proximity to the Athens city centre, is a particularly advantageous and rare asset, both at the national level and globally. Its development is expected to have multiple positive effects on the domestic economy and society.

5. APPENDIX: KEY ECONOMIC INDICATORS

Table 1: GDP growth

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

Table 2: General Government Debt as %GDP

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

Table 3: General Government Balance as % of GDP

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

Table 4: Share of population at risk of poverty

	Annual data (%)									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	17.8	16.7	20.6	19.1	18.9	19.2	18.5	18.8	19.2	18.3
Belgium	21.5	21.6	20.8	20.2	20.8	21	21.6	20.8	21.2	21.1
Bulgaria	61.3	60.7	44.8	46.2	49.2	49.1	49.3	48.0	40.1	41.3
France	18.8	19	18.5	18.5	19.2	19.3	19.1	18.1	18.5	17.7
Germany	20.2	20.6	20.1	20	19.7	19.9	19.6	20.3	20.6	:
Denmark	16.7	16.8	16.3	17.6	18.3	18.9	17.5	18.3	17.9	17.7
Czech Republic	18	15.8	15.3	14	14.4	15.3	15.4	14.6	14.8	14.0
EU	:	:	:	:	23.8	24.3	24.7	24.6	24.4	:
Greece	29.3	28.3	28.1	27.6	27.7	31	34.6	35.7	36.0	35.7
Estonia	22	22	21.8	23.4	21.7	23.1	23.4	23.5	26.0	24.2
Euro area	22.1	21.9	21.7	21.6	22	22.9	23.3	23.1	23.5	:
United Kingdom	23.7	22.6	23.2	22	23.2	22.7	24.1	24.8	24.1	23.5
Ireland	23.3	23.1	23.7	25.7	27.3	29.4	30.0	29.5	27.6	:
Spain	24	23.3	23.8	24.7	26.1	26.7	27.2	27.3	29.2	28.6
Italy	25.9	26	25.5	24.9	25	28.1	29.9	28.5	28.3	:
Croatia	:	:	:	:	31.1	32.6	32.6	29.9	29.3	:
Cyprus	25.4	25.2	23.3	23.5	24.6	24.6	27.1	27.8	27.4	:
Latvia	42.2	35.1	34.2	37.9	38.2	40.1	36.2	35.1	32.7	30.9
Lithuania	35.9	28.7	28.3	29.6	34	33.1	32.5	30.8	27.3	29.3
Luxemburg	16.5	15.9	15.5	17.8	17.1	16.8	18.4	19.0	19.0	:
Malta	19.5	19.7	20.1	20.3	21.2	22.1	23.1	24.0	23.8	22.4
Netherlands	16	15.7	14.9	15.1	15.1	15.7	15.0	15.9	16.5	16.8
Hungary	31.4	29.4	28.2	29.6	29.9	31.5	33.5	34.8	31.8	28.2
Poland	39.5	34.4	30.5	27.8	27.8	27.2	26.7	25.8	24.7	:
Portugal	25	25	26	24.9	25.3	24.4	25.3	27.5	27.5	26.6
Romania	:	45.9	44.2	43.1	41.4	40.3	43.2	41.9	39.5	37.3
Slovakia	26.7	21.4	20.6	19.6	20.6	20.6	20.5	19.8	18.4	18.4
Slovenia	17.1	17.1	18.5	17.1	18.3	19.3	19.6	20.4	20.4	19.2
Sweden	16.3	13.9	14.9	15.9	15	16.1	15.6	16.4	16.9	16.0
Finland	17.1	17.4	17.4	16.9	16.9	17.9	17.2	16.0	17.3	16.8

Table 5: Inflation

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

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

	Annual data (%)								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	123	124	126	126	128	131	131	129	127
Belgium	115	114	116	119	119	120	120	118	117
Bulgaria	41	44	45	45	45	46	46	47	46
France	107	106	108	108	108	107	108	107	106
Germany	116	116	115	119	122	124	124	126	125
Denmark	121	123	122	126	126	126	126	125	124
Czech Republic	84	81	83	81	83	82	83	84	85
EU	100	100	100	100	100	100	100	100	100
Greece	92	94	95	87	77	74	74	73	71
Estonia	68	68	62	63	69	74	75	76	74
Euro area	108	108	108	108	108	107	107	107	106
United Kingdom	118	114	112	108	106	107	108	109	110
Ireland	147	132	129	130	132	131	131	134	145
Spain	103	102	101	97	94	92	91	91	92
Italy	105	105	105	104	103	101	98	96	95
Croatia	61	63	62	59	60	60	59	59	58
Cyprus	100	105	106	103	96	91	84	82	81
Latvia	60	60	53	52	56	60	62	64	64
Lithuania	61	63	56	60	65	70	73	75	74
Luxemburg	260	256	248	254	263	258	264	266	271
Malta	78	81	84	86	84	84	86	86	89
Netherlands	137	139	137	135	134	132	132	131	129
Hungary	61	63	64	65	65	65	66	68	68
Poland	53	54	59	62	64	66	67	68	69
Portugal	79	79	81	81	78	77	77	78	77
Romania	42	48	49	50	51	54	54	55	57
Slovakia	67	72	71	73	73	74	76	77	77
Slovenia	87	89	85	83	83	81	80	82	83
Sweden	127	126	123	126	127	127	124	123	123
Finland	118	120	116	115	117	115	113	110	108

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

	Annual data								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	112.8	112.8	114.8	113.6	113.1	116.4	116.3	115.9	115.5
Belgium	136.1	135	136.2	138.5	136.8	129.8	129.7	129.2	128.6
Bulgaria	39.3	40.3	41.4	41.8	42.3	43.3	43	43.7	43.4
France	129.6	128.7	129.9	128.9	128.5	114.5	115.7	115	114.4
Germany	127.2	126.9	124.9	126.2	127.2	105.7	104.9	106.5	106.6
Denmark	121.8	123.9	123.6	130.1	128.6	114.3	114.2	113.2	112.6
Czech Republic	73	70.4	71.6	69.1	70.5	75.8	76.3	78.4	79.4
EU	100	100	100	100	100	100	100	100	100
Greece	77.2	78.6	78.2	75.3	70.8	88.6	90.6	89	85.4
Estonia	55	55.5	58.9	60.7	60.6	72.9	72.3	72.9	69.7
Euro area	111.7	111.8	112.2	111.9	112	107.2	107.3	107.4	107.1
United Kingdom	113.2	111.4	109.2	104.9	102.5	102.6	102.3	102.2	102.6
Ireland	124.2	116.9	123.2	129.1	134.1	144.4	140.7	144.8	180.8
Spain	98.8	98.9	102.1	99.6	99.1	:	:	:	:
Italy	103.4	105.2	105.2	103.8	103.3	109.3	108	107.2	106.5
Croatia	:	61.5	58.2	56.4	59.3	72	72.7	70.2	68.8
Cyprus	81.6	85.5	85.8	84.2	81	89.2	87.2	86.3	85.3
Latvia	50.6	47.7	47.7	49.7	51.2	62.6	62.4	64.6	64.3
Lithuania	54.7	56.2	54.4	58.8	62.6	72.6	74.1	74.3	71.8
Luxemburg	183.4	176.4	171.9	174.1	179.5	161.2	165.1	167.4	170.9
Malta	72.2	73.1	74.5	76	74.9	90.9	90	86.7	87.8
Netherlands	137.7	138.6	134.7	132.3	131.4	111.5	113.1	112.7	110.7
Hungary	56.5	59.7	61.2	67.4	68	71.7	72.4	71.2	69.8
Poland	49.4	49.2	51.9	56	58	73.5	73.6	73.6	74
Portugal	66.7	66.9	68.5	68.7	68.1	78.8	80.2	79.8	78.7
Romania	38	43.5	43.3	43.7	44.1	55.5	55.8	56.6	59
Slovakia	71.3	74.1	73.4	74.9	73.3	81.2	83.1	83.7	82.8
Slovenia	83.5	83.2	78.4	77.7	79.5	79.2	79	81.3	81.2
Sweden	122.9	121.8	118.7	118.2	117.7	115.7	113.1	112.3	113.2
Finland	112.9	113.9	111.3	110.1	110.8	109.2	108	107	107

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

	Annual data (%)				Q2			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	74.4	74.6	74.2	74.3	74.6	74.2	74.9	-0.4	0.7
Belgium	67.2	67.2	67.3	67.2	67.4	66.7	67.3	-0.7	0.6
Bulgaria	63.0	63.5	65.1	67.1	65.0	66.6	68.0	1.6	1.4
France	69.4	69.5	69.4	69.5	69.6	69.7	70.2	0.1	0.5
Germany	76.9	77.3	77.7	78.0	77.7	77.7	78.5	0.0	0.8
Denmark	75.4	75.6	75.9	76.5	75.9	76.4	77.7	0.5	1.3
Czech Republic	71.5	72.5	73.5	74.8	73.3	74.8	76.5	1.5	1.7
EU	68.4	68.4	69.2	70.1	69.2	69.9	71.1	0.7	1.2
Greece	55.0	52.9	53.3	54.9	53.3	55.1	56.6	1.8	1.5
Estonia	72.2	73.3	74.3	76.5	74.8	76.2	77.7	1.4	1.5
Euro area	68.0	67.7	68.1	68.8	68.2	68.9	70.0	0.7	1.1
United Kingdom	74.1	74.8	76.2	76.9	76.1	76.5	77.6	0.4	1.1
Ireland	63.7	65.5	67.0	68.8	66.7	68.6	70.0	1.9	1.4
Spain	59.6	58.6	59.9	62.0	59.9	62.0	63.7	2.1	1.7
Italy	60.9	59.7	59.9	60.6	59.9	60.6	62.1	0.7	1.5
Croatia	58.1	57.2	59.2	60.5	59.4	60.9	62.1	1.5	1.2
Cyprus	70.2	67.2	67.6	68.0	67.8	68.7	69.8	0.9	1.1
Latvia	68.1	69.7	70.7	72.5	71.1	72.6	73.5	1.5	0.9
Lithuania	68.5	69.9	71.8	73.4	71.3	73.2	75.4	1.9	2.2
Luxemburg	71.4	71.1	72.1	70.9	72.2	71.9	70.4	-0.3	-1.5
Malta	63.1	64.8	66.4	67.8	66.5	67.9	69.5	1.4	1.6
Netherlands	76.6	75.9	75.4	76.4	75.3	76.3	77.0	1.0	0.7
Hungary	61.6	63.0	66.7	68.9	66.3	68.7	71.4	2.4	2.7
Poland	64.7	64.9	66.5	67.8	66.1	67.4	69.1	1.3	1.7
Portugal	66.3	65.4	67.6	69.1	67.7	69.5	70.5	1.8	1.0
Romania	64.8	64.7	65.7	66.0	66.0	66.6	66.6	0.6	0.0
Slovakia	65.1	65.0	65.9	67.7	65.7	67.5	69.9	1.8	2.4
Slovenia	68.3	67.2	67.7	69.1	68.4	69.4	70.6	1.0	1.2
Sweden	79.4	79.8	80.0	80.5	80.2	80.6	81.5	0.4	0.9
Finland	74.0	73.3	73.1	72.9	74.0	73.2	73.9	-0.8	0.7

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

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

	Annual data (%)				Q2			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	41.6	43.8	45.1	46.3	45.7	46.1	49.5	0.4	3.4
Belgium	39.5	41.7	42.7	44.0	43.7	43.8	45.6	0.1	1.8
Bulgaria	45.7	47.4	50.0	53.0	49.2	51.6	54.8	2.4	3.2
France	44.5	45.6	46.9	48.7	46.9	49.1	49.8	2.2	0.7
Germany	61.6	63.6	65.6	66.2	65.3	65.7	68.4	0.4	2.7
Denmark	60.8	61.7	63.2	64.7	62.9	65.3	68.2	2.4	2.9
Czech Republic	49.3	51.6	54.0	55.5	53.6	55.6	58.2	2.0	2.6
EU	48.7	50.1	51.8	53.3	51.6	53.1	55.3	1.5	2.2
Greece	36.5	35.6	34.0	34.3	34.0	34.0	35.7	0.0	1.7
Estonia	60.5	62.6	64.0	64.5	63.7	62.5	68.1	-1.2	5.6
Euro area	48.6	50.0	51.7	53.3	51.5	53.2	55.3	1.7	2.1
United Kingdom	58.1	59.8	61.0	62.2	60.8	61.8	63.6	1.0	1.8
Ireland	49.3	51.3	53.0	55.6	52.6	55.4	57.2	2.8	1.8
Spain	43.9	43.2	44.3	46.9	44.0	46.7	48.8	2.7	2.1
Italy	40.3	42.7	46.2	48.3	45.9	48.6	50.7	2.7	2.1
Croatia	37.5	37.8	36.2	39.0	36.5	40.8	39.1	4.3	-1.7
Cyprus	50.7	49.6	46.9	48.2	46.6	48.4	52.9	1.8	4.5
Latvia	52.8	54.8	56.4	59.4	57.3	59.0	62.1	1.7	3.1
Lithuania	51.7	53.4	56.2	60.4	55.5	60.3	64.8	4.8	4.5
Luxemburg	41.0	40.5	42.5	38.5	43.8	40.1	39.4	-3.7	-0.7
Malta	34.7	36.3	37.8	40.4	38.6	41.8	43.5	3.2	1.7
Netherlands	57.6	59.2	59.9	61.7	59.6	61.7	63.2	2.1	1.5
Hungary	36.1	37.9	41.7	45.3	41.3	45.1	49.8	3.8	4.7
Poland	38.7	40.6	42.5	44.3	41.7	43.0	45.3	1.3	2.3
Portugal	46.5	46.9	47.8	49.9	47.8	50.4	52.2	2.6	1.8
Romania	41.6	41.8	43.1	41.1	43.3	42.2	43.5	-1.1	1.3
Slovakia	43.1	44.0	44.8	47.0	44.3	46.7	48.8	2.4	2.1
Slovenia	32.9	33.5	35.4	36.6	36.7	38.2	39.5	1.5	1.3
Sweden	73.0	73.6	74.0	74.5	74.4	74.4	75.5	0.0	1.1
Finland	58.2	58.5	59.1	60.0	59.4	59.5	61.2	0.1	1.7

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

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

	Annual data (%)			Q2 (%)		
	2013	2014	2015	2014	2015	2016
Austria	0.4	0.1	0.8	-0.1	0.2	2.2
Belgium	0.1	0.3	0.0	-0.1	-0.7	1.1
Bulgaria	-0.2	1.3	1.6	1.0	1.0	0.6
France	-0.1	2.3	0.0	2.4	-0.2	0.6
Germany	0.8	0.7	0.7	0.4	0.3	2.5
Denmark	0.0	0.7	1.4	0.0	1.4	3.3
Czech Republic	0.7	0.8	1.0	0.2	1.4	1.3
EU	-0.3	1.3	1.1	1.1	1.0	1.6
Greece	-4.9	0.6	2.0	0.0	2.3	2.1
Estonia	0.9	0.5	2.3	-0.2	1.4	1.7
Euro area	-0.6	0.9	0.9	0.8	0.8	1.8
United Kingdom	0.9	2.2	1.6	2.4	1.3	1.8
Ireland	2.1	1.5	2.3	1.4	2.7	2.8
Spain	-2.7	1.2	2.9	1.2	2.9	2.3
Italy	-1.8	0.2	0.7	0.3	0.7	2.0
Croatia	-2.3	3.2	1.4	2.3	1.8	1.4
Cyprus	-4.9	-0.4	-1.4	0.0	-1.0	2.8
Latvia	1.7	-0.9	1.1	0.1	0.8	-0.4
Lithuania	1.6	1.9	1.0	1.0	1.6	1.8
Luxemburg	1.0	2.8	5.1	3.6	6.0	-0.3
Malta	3.1	2.8	2.4	3.3	2.3	3.3
Netherlands	-0.9	-0.9	1.1	-1.4	1.4	1.1
Hungary	1.8	5.4	2.6	4.9	3.0	3.3
Poland	-0.2	1.8	1.4	1.6	1.4	1.2
Slovakia	-2.3	2.3	1.3	2.7	1.8	0.8
Slovenia	-0.5	0.9	-0.2	0.4	0.5	-1.3
Sweden	0.0	1.4	2.4	1.1	2.5	3.1
Czech Republic	-2.0	0.5	1.0	1.7	0.5	0.1
Finland	1.0	0.9	1.4	0.8	1.2	2.1

Table 11: Unemployment rate – Total population

	Annual data (%)				Q2			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	4.9	5.4	5.6	5.7	5.6	5.9	6.1	0.3	0.2
Belgium	7.6	8.4	8.5	8.5	8.6	8.7	8.3	0.1	-0.4
Bulgaria	12.3	13.0	11.4	9.2	11.3	9.8	8.0	-1.5	-1.8
France	9.8	10.3	10.3	10.4	10.2	10.5	9.9	0.3	-0.6
Germany	5.4	5.2	5.0	4.6	5.0	4.7	4.3	-0.3	-0.4
Denmark	7.5	7.0	6.6	6.2	6.4	6.2	6.1	-0.2	-0.1
Czech Republic	7.0	7.0	6.1	5.1	6.2	5.1	4.0	-1.1	-1.1
EU	10.5	10.9	10.2	9.4	10.3	9.6	8.6	-0.7	-1.0
Greece	24.5	27.5	26.5	24.9	27.0	25.1	23.5	-1.9	-1.6
Estonia	10.0	8.6	7.4	6.2	7.2	6.5	6.6	-0.7	0.1
Euro area	11.4	12.0	11.6	10.9	11.6	11.0	10.1	-0.6	-0.9
United Kingdom	7.9	7.6	6.1	5.3	6.2	5.5	4.9	-0.7	-0.6
Ireland	14.7	13.1	11.3	9.4	11.6	9.6	8.4	-2.0	-1.2
Spain	24.8	26.1	24.5	22.1	24.7	22.5	20.1	-2.2	-2.4
Italy	10.7	12.1	12.7	11.9	12.4	12.2	11.5	-0.2	-0.7
Croatia	16.0	17.3	17.3	16.3	17.1	16.1	13.3	-1.0	-2.8
Cyprus	11.9	15.9	16.1	15.1	16.2	15.1	12.4	-1.1	-2.7
Latvia	15.0	11.9	10.8	9.9	10.7	9.8	9.5	-0.9	-0.3
Lithuania	13.4	11.8	10.7	9.1	11.1	9.4	8.2	-1.7	-1.2
Luxemburg	5.1	5.9	6.0	6.4	6.0	6.5	6.3	0.5	-0.2
Malta	6.3	6.4	5.8	5.4	5.8	5.4	4.9	-0.4	-0.5
Netherlands	5.8	7.3	7.4	6.9	7.6	6.9	6.3	-0.7	-0.6
Hungary	11.0	10.2	7.7	6.8	8.1	7.0	5.2	-1.1	-1.8
Poland	10.1	10.3	9.0	7.5	9.2	7.5	6.2	-1.7	-1.3
Portugal	15.8	16.4	14.1	12.6	14.4	12.4	11.2	-2.0	-1.2
Romania	6.8	7.1	6.8	6.8	6.8	6.8	6.1	0.0	-0.7
Slovakia	14.0	14.2	13.2	11.5	13.4	11.5	9.9	-1.9	-1.6
Slovenia	8.9	10.1	9.7	9.1	9.6	9.5	8.0	-0.1	-1.5
Sweden	8.0	8.0	7.9	7.4	8.0	7.6	6.8	-0.4	-0.8
Finland	7.7	8.2	8.7	9.4	8.6	9.3	9.0	0.7	-0.3

Table 12: Unemployment rate among men

	Annual data (%)				Q2			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	5.0	5.4	5.9	6.1	5.7	6.2	6.5	0.5	0.3
Belgium	7.7	8.7	9.0	9.1	9.2	9.6	8.1	0.4	-1.5
Bulgaria	13.5	13.9	12.3	9.8	12.2	10.7	8.6	-1.5	-2.1
France	9.8	10.4	10.5	10.8	10.4	11.0	10.3	0.6	-0.7
Germany	5.6	5.5	5.3	5.0	5.3	5.1	4.5	-0.2	-0.6
Denmark	7.5	6.7	6.4	5.9	6.1	6.0	5.9	-0.1	-0.1
Czech Republic	6.0	5.9	5.1	4.2	5.1	4.3	3.5	-0.8	-0.8
EU	10.4	10.8	10.1	9.3	10.2	9.5	8.4	-0.7	-1.1
Greece	21.6	24.5	23.7	21.8	24.0	22.1	19.8	-1.9	-2.3
Estonia	10.9	9.1	7.9	6.2	8.0	6.4	7.6	-1.6	1.2
Euro area	11.2	11.9	11.5	10.7	11.5	10.9	9.8	-0.6	-1.1
United Kingdom	8.4	8.0	6.4	5.5	6.5	5.7	5.0	-0.8	-0.7
Ireland	17.7	15.0	12.9	10.9	13.4	10.9	9.6	-2.5	-1.3
Spain	24.6	25.6	23.6	20.8	23.9	21.1	18.4	-2.8	-2.7
Italy	9.8	11.5	11.9	11.3	11.7	11.6	10.6	-0.1	-1.0
Croatia	16.0	17.7	16.5	15.7	15.9	16.1	13.0	0.2	-3.1
Cyprus	12.6	16.6	17.1	15.2	17.2	15.2	12.2	-2.0	-3.0
Latvia	16.2	12.6	11.8	11.1	12.1	11.2	10.4	-0.9	-0.8
Lithuania	15.2	13.1	12.2	10.1	12.6	10.5	9.3	-2.1	-1.2
Luxemburg	4.5	5.6	5.8	5.8	6.0	5.9	5.8	-0.1	-0.1
Malta	5.7	6.5	6.1	5.5	6.0	5.5	4.4	-0.5	-1.1
Netherlands	5.5	7.2	7.2	6.5	7.3	6.6	5.9	-0.7	-0.7
Hungary	11.3	10.2	7.6	6.6	8.0	6.8	5.3	-1.2	-1.5
Poland	9.4	9.7	8.5	7.3	8.7	7.3	6.2	-1.4	-1.1
Portugal	15.9	16.3	13.8	12.4	14.0	12.4	11.1	-1.6	-1.3
Romania	7.4	7.7	7.3	7.5	7.3	7.5	6.9	0.2	-0.6
Slovakia	13.5	14.0	12.8	10.3	13.2	10.3	8.7	-2.9	-1.6
Slovenia	8.4	9.5	9.0	8.1	8.6	8.5	7.3	-0.1	-1.2
Sweden	8.2	8.2	8.2	7.5	8.2	7.7	7.2	-0.5	-0.5
Finland	8.3	8.8	9.3	9.9	9.2	9.8	9.1	0.6	-0.7

Table 13: Unemployment rate among women

	Annual data (%)				Q2			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	4.8	5.3	5.4	5.3	5.4	5.5	5.6	0.1	0.1
Belgium	7.4	8.2	7.9	7.8	7.8	7.6	8.4	-0.2	0.8
Bulgaria	10.8	11.8	10.4	8.4	10.2	8.9	7.2	-1.3	-1.7
France	9.8	10.2	10.0	9.9	10.0	9.9	9.6	-0.1	-0.3
Germany	5.2	4.9	4.6	4.2	4.6	4.3	3.9	-0.3	-0.4
Denmark	7.5	7.3	6.8	6.4	6.7	6.5	6.4	-0.2	-0.1
Czech Republic	8.2	8.3	7.4	6.1	7.6	6.2	4.8	-1.4	-1.4
EU	10.5	10.9	10.3	9.5	10.4	9.6	8.9	-0.8	-0.7
Greece	28.2	31.4	30.2	28.9	30.8	28.8	28.1	-2.0	-0.7
Estonia	9.1	8.2	6.8	6.1	6.4	6.6	5.5	0.2	-1.1
Euro area	11.5	12.1	11.8	11.0	11.8	11.2	10.5	-0.6	-0.7
United Kingdom	7.4	7.1	5.8	5.1	6.0	5.3	4.7	-0.7	-0.6
Ireland	11.0	10.7	9.4	7.7	9.4	8.0	6.9	-1.4	-1.1
Spain	25.1	26.7	25.4	23.6	25.6	24.2	22.0	-1.4	-2.2
Italy	11.8	13.1	13.8	12.7	13.5	13.0	12.7	-0.5	-0.3
Croatia	16.1	16.8	18.3	17.0	18.5	16.1	13.7	-2.4	-2.4
Cyprus	11.1	15.2	15.1	14.9	15.0	15.1	12.6	0.1	-2.5
Latvia	14.0	11.1	9.8	8.6	9.3	8.3	8.7	-1.0	0.4
Lithuania	11.6	10.5	9.2	8.2	9.5	8.2	7.1	-1.3	-1.1
Luxemburg	5.8	6.2	6.4	7.2	6.0	7.3	6.8	1.3	-0.5
Malta	7.3	6.3	5.3	5.2	5.4	5.2	5.6	-0.2	0.4
Netherlands	6.2	7.3	7.8	7.3	7.9	7.3	6.7	-0.6	-0.6
Hungary	10.6	10.1	7.9	7.0	8.3	7.2	5.2	-1.1	-2.0
Poland	10.9	11.1	9.6	7.7	9.9	7.7	6.3	-2.2	-1.4
Portugal	15.6	16.6	14.5	12.9	14.9	12.3	11.4	-2.6	-0.9
Romania	6.1	6.3	6.1	5.8	6.1	5.8	5.1	-0.3	-0.7
Slovakia	14.5	14.5	13.6	12.9	13.7	13.0	11.3	-0.7	-1.7
Slovenia	9.4	10.9	10.6	10.1	10.7	10.6	8.8	-0.1	-1.8
Sweden	7.7	7.9	7.7	7.3	7.7	7.6	6.4	-0.1	-1.2
Finland	7.1	7.5	8.0	8.8	7.9	8.8	8.8	0.9	0.0

Table 14: Long-term unemployment rate(*)

	Annual data (%)				Q2 (%)			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	24.9	24.6	27.2	29.2	28.3	29.2	34.3	0.9	5.1
Belgium	44.7	46.1	49.9	51.7	50.3	52.1	53.1	1.8	1.0
Bulgaria	55.2	57.3	60.4	61.2	58.1	63.2	60.4	5.1	-2.8
France	40.0	40.5	42.8	42.6	45.4	45.2	47.7	-0.2	2.5
Germany	45.4	44.7	44.3	43.6	45.8	45.5	42.2	-0.3	-3.3
Denmark	28.0	25.5	25.2	26.9	23.1	27.3	21.7	4.2	-5.6
Czech Republic	43.4	43.4	43.5	47.3	43.3	46.9	43.6	3.6	-3.3
EU	46.4	49.8	52.6	48.2	50.1	49.4	47.8	-0.7	-1.6
Greece	59.1	67.1	73.5	73.1	74.3	73.1	72.1	-1.2	-1.0
Estonia	54.7	44.5	45.3	38.3	51.6	44.1	30.2	-7.5	-13.9
Euro area	44.5	47.3	49.5	51.2	53.3	52.5	51.2	-0.8	-1.3
United Kingdom	34.7	36.2	35.8	30.7	36.8	32.0	28.0	-4.8	-4.0
Ireland	61.7	60.6	59.2	56.2	58.6	57.4	52.9	-1.2	-4.5
Spain	44.4	49.7	52.8	51.6	52.8	52.5	48.9	-0.3	-3.6
Italy	53.2	56.9	61.4	58.1	62.5	60.3	60.0	-2.2	-0.3
Croatia	63.7	63.6	58.4	63.0	58.0	62.8	53.0	4.8	-9.8
Cyprus	30.1	38.3	47.7	45.3	50.0	46.8	46.6	-3.2	-0.2
Latvia	52.1	48.6	43.0	45.3	40.1	43.1	40.6	3.0	-2.5
Lithuania	49.2	42.9	44.7	42.9	44.2	45.5	39.1	1.3	-6.4
Luxemburg	30.3	30.4	27.4	28.4	33.7	31.9	35.7	-1.8	3.8
Malta	48.5	45.7	46.9	43.6	46.4	45.2	37.0	-1.2	-8.2
Netherlands	33.7	35.8	40.0	42.9	39.6	44.9	44.3	5.3	-0.6
Hungary	45.3	48.6	47.5	45.6	47.6	45.9	48.2	-1.7	2.3
Poland	40.3	42.5	42.7	39.3	42.9	40.8	35.6	-2.1	-5.2
Portugal	48.8	56.4	59.6	57.4	62.3	58.0	56.4	-4.3	-1.6
Romania	44.2	45.2	41.1	43.9	42.6	43.7	51.4	1.1	7.7
Slovakia	67.3	70.2	70.2	65.8	71.6	68.4	60.6	-3.2	-7.8
Slovenia	47.9	51.0	54.5	52.3	57.1	51.5	55.2	-5.6	3.7
Sweden	18.9	18.5	18.9	19.6	17.7	19.8	18.2	2.1	-1.6
Finland	21.4	20.7	22.4	24.4	19.3	20.5	23.1	1.2	2.6

(*) % 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 (%)				Q2			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	9.4	9.7	10.3	10.6	9.1	10.2	10.8	1.1	0.6
Belgium	19.8	23.7	23.2	22.1	23.4	20.4	19.2	-3.0	-1.2
Bulgaria	28.1	28.4	23.8	21.6	23.3	21.9	14.4	-1.4	-7.5
France	24.4	24.9	24.2	24.7	22.7	23.1	22.9	0.4	-0.2
Germany	8.0	7.8	7.7	7.2	7.7	7.0	7.3	-0.7	0.3
Denmark	14.1	13.0	12.6	10.8	12.3	9.7	10.6	-2.6	0.9
Czech Republic	19.5	18.9	15.9	12.6	15.5	12.0	10.0	-3.5	-2.0
EU	23.3	23.7	22.2	20.4	22.0	20.4	18.7	-1.6	-1.7
Greece	55.3	58.3	52.4	49.	52.0	49.5	49.1	-2.5	-0.4
Estonia	20.9	18.7	15.0	13.1	16.9	11.2	13.4	-5.7	2.2
Euro area	23.6	24.4	23.7	22.4	23.5	22.3	20.9	-1.2	-1.4
United Kingdom	21.2	20.7	16.9	14.6	16.1	15.0	12.9	-1.1	-2.1
Ireland	30.4	26.8	23.9	20.9	26.9	22.4	19.0	-4.5	-3.4
Spain	52.9	55.5	53.2	48.3	53.1	49.2	46.5	-3.9	-2.7
Italy	35.3	40.0	42.7	40.3	41.6	41.1	35.5	-0.5	-5.6
Croatia	42.1	50.0	45.5	43.0	41.3	39.9	29.7	-1.4	-10.2
Cyprus	27.7	38.9	36.0	32.8	37.2	31.7	26.8	-5.5	-4.9
Latvia	28.5	23.2	19.6	16.3	21.1	15.2	18.9	-5.9	3.7
Lithuania	26.7	21.9	19.3	16.3	21.3	16.7	15.7	-4.6	-1.0
Luxemburg	18.0	16.9	22.3	17.3	16.9	12.3	17.8	-4.6	5.5
Malta	14.1	13.0	11.7	11.8	12.6	13.4	10.9	0.8	-2.5
Netherlands	11.7	13.2	12.7	11.3	12.9	11.0	10.9	-1.9	-0.1
Hungary	28.2	26.6	20.4	17.3	20.7	17.8	13.3	-2.9	-4.5
Poland	26.5	27.3	23.9	20.8	23.1	19.8	16.9	-3.3	-2.9
Portugal	38.0	38.1	34.7	32.0	35.6	29.8	26.9	-5.8	-2.9
Romania	22.6	23.7	24.0	21.7	23.9	20.4	19.4	-3.5	-1.0
Slovakia	34.0	33.7	29.7	26.5	29.2	25.3	20.6	-3.9	-4.7
Slovenia	20.6	21.6	20.2	16.3	19.0	15.5	13.7	-3.5	-1.8
Sweden	23.7	23.6	22.9	20.4	27.6	25.2	22.9	-2.4	-2.3
Finland	19.0	19.9	20.5	22.4	25.6	29.0	26.3	3.4	-2.7