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Editorial Policy

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IOBE

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

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FOREWORD

This is the third report that IOBE is publishing in 2011 as part of its periodic series on the Greek economy. This publication takes place at perhaps the most critical juncture in the effort for fiscal consolidation in Greece, soon after the turbulent adoption of the Medium Term Fiscal Strategy by the Hellenic Parliament and the commencement of its implementation effort, while negotiations for the new financial support package for Greece are under way. As all IOBE quarterly bulletins, the report contains **four sections** and an **appendix** on structural indicators that track the progress toward the attainment of the Lisbon Strategy's objectives. However, the report starts with a **position paper on recent developments and economic policy options**. The remaining sections of the report are structured as follows:

The **first section** presents a **brief overview** of the report's main points. The **second section** examines the general economic conditions, containing: a) analysis of the **global economic environment** based on the latest reports of the European Commission and IMF; b) presentation of the **economic climate** in Greece, as outlined in IOBE's business surveys; c) outline of the Medium Term Fiscal Strategy for 2012-2015, with emphasis on the latest set of policy measures for 2011.

The **third section** focuses on the current performance of the Greek economy. It contains an analysis of the **current macroeconomic environment** and its medium-term outlook, **developments** in **key sectors of the economy** during the first half of 2011, the **export performance** of the Greek economy during the same period, developments in the labour market (**employment** and **unemployment**) since the beginning of the year, the course of **inflation** in the first eight months of 2011 and, finally, developments regarding the **balance of payments**.

Lastly, the **fourth** section of the report presents a summary of a study, prepared by IOBE's Health Economics Observatory in cooperation with independent experts and funded by the Hellenic Association of Pharmaceutical Companies, entitled "Healthcare Spending and Policies under the Fiscal Consolidation Regime".

The report refers to and is supported by data, which were available up to 26/09/2011.

IOBE's next quarterly report on the Greek economy will be published in late December 2011.

ECONOMIC DEVELOPMENTS AND ECONOMIC POLICY OPTIONS

More than a year after Greece's induction into the bailout mechanism in May 2010, the economic situation in the country remains extremely critical. While in 2010 the implementation of the agreement was successful overall, with a reduction of general government deficit by 5% of GDP and adoption of measures to ensure the viability of the social insurance system, developments in 2011 have given rise to grave concerns. Regarding the public finances, the negative developments of the first half of the year continued through to August. Specifically, tax revenues are markedly below their annual target (about 11% deviation), as a result of the limited effectiveness of the revenue collection mechanisms, errors in the April 2010 tax legislation (with regard to receipts, for example), as well as because of greater than initially anticipated contraction. However, there was also a deviation from the target for primary expenditure of the ordinary budget, which increased by 4.5% in the first eight months of the year, though the goal was a zero increase for the entire year. The slippage in fiscal deficit compared to the annual target (about 26%) would have been even greater if drastic cuts of about 30% year-on-year had not been made for second consecutive year in the Public Investment Programme (PIP) during these eight months of 2011. Given the size of the fiscal multiplier for public investment, the continuation of this practice adversely affects economic activity. Within this framework, recent statements and efforts by European Commission officials regarding the possibility of frontloading the implementation of the National Strategic Reference Framework (NSRF) with increased EU participation have created positive expectations that public investment will not be cut back significantly, without increasing the PIP deficit. However, this also depends on the projects that Greece recommends for funding.

As far as reforms are concerned, in almost two years since the 2009 elections, not even one privatisation has taken place, save for exercising the right to sell part of the remaining shares held by the State in the Hellenic Telecommunications Organization (OTE) to Deutsche Telecom.

The Medium-Term Fiscal Strategy for 2011-2015, which was approved by the Greek Parliament in July and which provides for extraordinary measures of 6.7 billion euro for the second half of 2011, was intended to meet the initial goal of the deficit for the current year and the final goal for the general government deficit of 1.7% of GDP in 2015. It was expected to mark the resumption of the consolidation process for the Greek economy, which had been suspended in the early months of the year. Of course, the adoption of the Medium-Term Plan does not guarantee its success, as its implementation depends on a series of domestic political and organisational parameters. These include the implementation of an ambitious (but feasible) programme of privatisation and utilisation of public assets of a total value of 50 billion euro until 2015 (and about 5 billion euro for 2011), which will serve as a catalyst for a significant reduction in the public debt to GDP ratio to under 130% in 2015. It also depends on the position of our partners in the Euro area, the European Central Bank and the International Monetary Fund, and ultimately, on the investors in the international markets.

The decisions of the Eurozone Summit of July 21st of this year, initially created expectations that Greece's debt problems and in general those of the Euro area, would be included in a streamlined resolution framework. Particularly for Greece, a new financial aid was decided upon with a theoretical value equal to the previous one (109 billion euro) that would be paid out until 2014, with long grace period (10 years) and repayment duration (15-30 years) at a low cost (interest under 4%), provided, of course, that the targets of the Medium-Term Fiscal Strategy are being implemented. In addition, the flexible use of the European Financial Stability Facility (EFSF), which could intervene in the secondary bond market, was decided upon to bolster commercial banks and repurchase public bonds on the secondary market at lower prices.

The positive expectations that were created with regard to resolution of the Greek debt problem in the long term were justifiable. Some of the scenarios used by IOBE indicate that the Greek public debt as a percentage of GDP was expected to drop from 156.5% in 2011 to 86.4% in 2020 under the following conditions:

A) 4% average interest on loans, according to the decisions of July 21st;

B) 4% average nominal GDP growth rate (about 2% real growth rate and about 2% inflation) for the period 2011-2020**;**

C) 4% average primary surplus as a percentage of GDP for 2011-2020 (in other words, about as much as it was in 1999, the figures of which were the basis for Greece's entry into the Euro area);

D) Autonomous reduction of the public debt by €50 billion for the period 2011-2015 due to privatisation, by about €13.5 billion due to PSI (involvement of the private sector through voluntary exchange of bonds) and by about €10 billion from the EFSF's intervention in the secondary bond market with an average price for the repurchase of bonds at about 60% of their face value.

These positive expectations arising from the decisions of July 21st have been seriously eroded by now. The reasons include the following:

First of all, the Greek fiscal consolidation effort slowed down after the Medium-Term Fiscal Strategy was approved and after the positive decisions of July 21st, as until the end of August, the budgetary derailment continued (with regard to both the 2011 targets and the 2010 results), while not a single privatisation took place, other than the sale of the OTE shares. This was in contrast to the other two Euro area member-states inducted into support programmes, namely Ireland and Portugal, where the budgetary and economic developments in general have been deemed to be within the set targets by the "Troika". There was similar sluggishness in the implementation of measures included in the Medium-Term Fiscal Strategy.

Secondly, the Greek contraction proved to be deeper than assumed in the Medium-Term Fiscal Strategy, partly because of the drastic cuts in the Public Investment Programme.

Thirdly, international economic developments have not been as favourable as initially predicted.

Fourthly, immediately after the decisions of July 21st, implementation problems emerged within the Euro area. A major problem arose with Finland's demands for guarantees; this has not been settled yet. In addition, problems have emerged in relation to the ratification of the agreement among the member-states of Northern Europe (Germany, Austria, Finland, the Netherlands) who have been called upon to contribute to the funding of the member-states under pressure. Most of them are governed by party coalitions and the terms of the agreement has caused disagreements among the coalition parties. As a result, the markets have doubts about both the Agreement of July 21st, but also the Euro area's determination to preserve its cohesion. And this despite the fact that most analyses conclude that the cost of rescuing the member-states under pressure is much lower than the cost of a possible dissolution of the monetary union, both for the peripheral countries (for example, the Swiss bank UBS estimates that the cost of returning to the drachma for Greece would be 50% of GDP in the short term), and for the core member-states (for example, UBS estimates that the cost of returning to the Deutschmark for Germany would be 25% of GDP). The recent ratification - with a large majority, in fact - by the German Parliament of the decision to bolster resources for the EFSF raises hopes that these problems will be overcome.

Fifthly, and as a result of the above, the funding of Southern Europe is rendered more difficult even for member-states with a relatively small public debt, such as Spain, while the commercial banks of the Southern European member-states are having difficulty drawing liquidity from the markets. Under the current circumstances, the Northern European member-states raise funding through bonds with an interest rate of less than 2% (for 10-year bonds), while the Southern European member-states, even those with a low public debt, are having difficulty accessing resources with interest rates that would ensure the viability of their debt. At the same time, there has been a redistribution in the flow of deposits from banks of the Southern European member-states to banks of the Northern European member-states. In addition, the surplus liquidity of banks in Northern Europe is channelled to the European Central Bank (ECB), despite the low interest for deposits there, and not to the interbank market. Under these circumstances, the ECB's intervention is vital for the smooth flow of liquidity in the Euro area. However, the differing opinions of the board members (already two German representatives have resigned) impede the ECB's stabilising role, despite the fact that its interventions are much more moderate than those of the US Federal Reserve, and despite the fact that inflation in the Euro area has remained under control for a long time (under 2%), as has the change in money supply broadly defined (M3), which is around 2%.

The above problems and divergent opinions on what should be done in the Euro area favour the emergence of destabilising speculation in the markets, which would make the situation even more difficult. According to most analyses, while the eurozone's long-term interests are better served by financial integration and particularly the issue of eurobonds, where all member-states would each guarantee their own obligations, today's ruling coalitions in the Northern European member-states are excluding this possibility for the time being.

Within this framework, Greece's inability to approach the targets of its fiscal and structural policy make it a scapegoat, with the result that it is blamed for all of the eurozone's troubles. The country's political system has been seduced by the idea of politically renegotiating the Support Agreement, even though that is politically unfeasible under the circumstances taking shape, particularly when the country is on the brink of collapse. In addition, aside from the familiar organisational and management problems that prevent decisions from being implemented, there are also problems related to the absence of political consensus on the adopted solution (in contrast to Portugal, Spain, Ireland and Italy), as well as to the apparent lack of understanding of the catastrophic consequences of abandoning the consolidation effort. Even worse, a "won't pay" attitude is being cultivated in public and private life which, if prevails, will lead to disastrous results. At this point, it would be helpful to compare the experience of Latin American countries on the one hand and those of Southeast Asia on the other. In Southeast Asia, after the crisis of the 1990s, the social groups displayed a spirit of cooperation and very quickly absorbed the shock. In contrast, in the Latin American countries, the crises of the 1980s lasted much longer. This was primarily because the social groups in most of these countries attempted to hold on to what they had gained in the face of shrinking economies, trying in an often violent manner to shift the losses onto one another.

In these difficult situations, the country's political system is called upon to rise to the occasion. Achieving the targets of the Medium-Term Fiscal Strategy is today the surest way to lead Greece away from the area of uncontrolled bankruptcy, which, if occurs, will dramatically reduce the level of prosperity in the country and particularly among the low-income classes. These goals are achievable because, as IOBE has been arguing for some time:

Firstly, the public sector has unutilised assets, particularly real property, that are of much greater value (as a percentage of GDP) in comparison to any other country in the Euro area. These assets could serve as a catalyst to reduce the "debt to GDP" ratio, as well as for economic development by attracting domestic and foreign investors.

Secondly, a primary surplus of 3%-4% is not unheard of for Greece. Such fiscal performance was achieved during the period of convergence in the late 1990s. If these primary surpluses are generated, they will be sufficient for a drastic reduction in the debt-to-GDP ratio, provided they are combined with privatisation, utilisation of real property, opening of markets to competition and elimination of obstacles to entrepreneurship and investment.

Thirdly, Greece offers tremendous investment opportunities: roads, ports, marinas, airports, tourist accommodation, energy networks and renewable energy sources, mineral resources and the primary sector.

Fourthly, it has unabsorbed funds under the NSRF for infrastructure of about 15 billion euro, which could be leveraged with funds from the European Investment Bank to boost economic growth.

Fifthly, the opening up of the most closed economy among the OECD member-states to competitive forces and the elimination of obstacles and disincentives in entrepreneurship and investment would create, in the medium term, an impetus for growth and employment. This has been the experience both in the West and in the East, from America to China.

Sixthly, Greece has access to assistance of unprecedented amounts from the bailout mechanism of the Euro area and the International Monetary Fund, as long as it achieves the targets set out in the Medium-Term Plan.

The above observations, in order to translate to tangible economic results, could be supported by the following policy axes:

1. 10-year development programme: The vision and the potential of the Greek economy over a 10-year horizon should be explained in simple terms, along with the reasons for which all these measures are being taken and what the risks and the costs of an uncontrolled debt moratorium would be, in relation to the cost of the measures being adopted. This development programme should emphasise the sectors with a dynamic comparative advantage as mentioned. It should include forecasts for the main economic figures and the progress of the public debt over a 10-year period, taking into account the macroeconomic impact of the structural changes and the utilisation of State assets.

2. A gradual reduction of fiscal deficit to less than 2% of GDP in 2015, particularly through (a) a limit on expenditure and the size of the State, with further reduction in wage expenditure of general government, which is higher than the Euro area average by 2.5% of GDP, and certain social benefit expenditure which do not have any social value, such as benefits from some insurance funds, and particularly the "noble" funds, which are not matched by contributions but by third-party sources; (b) restrictions of tax deductions, tax evasion and tax avoidance. In the current quarterly report, the chapter on budgetary pro-

gress includes detailed proposals in this direction. It should be stressed that the measures the government is now adopting, unfortunately under pressure due to the serious delays that have already occurred, are unpleasant but, in general terms, necessary. The critical issues that remain include the implementation of the measures, on the one hand, and, on the other, the fairest possible distribution of the burden. In turn, the fair distribution of the burden itself depends on judicious implementation of the measures which have already been approved to eliminate tax evasion and tax avoidance and on a corresponding response by the judicial system. The situation would have been quite different if, two years ago when the present government came to office, the appropriate measures to drastically cut public expenditure and the size of the State had been taken, along with measures to open markets for products, services, professions and labour and to document and utilise the State's assets and real estate.

3. Reforms and privatisation across a broad spectrum and utilisation of State property. The number one problem today is public debt. Anything that contributes to its reduction helps to maximise social prosperity. Within this framework, the greatest challenge for the government is, as already stated, the utilisation of the extensive real estate owned by the State, the size of which could help reduce public debt and boost economic development. In this framework, no solution should be excluded, except for that of uncontrolled bankruptcy. The State's real property could be rented, sold or mortgaged for long-term loans at a low interest rate. In fact, in combination with the ability to incorporate call options, the reacquisition of any piece of property that is mortgaged or lost due to late payment of loans is permissible. In simple terms: the State's real property, which today lies inactive, could go a long way to pay for a large part of the public debt, to refinance the remaining debt under favourable terms, as well as to attract foreign capital for productive activities.

4. Measures to boost liquidity in the economy: a) Public Investment Program with funding through unabsorbed community NSRF funds and selection of a small number of major projects that could be funded quickly through direct concessions with the consent of the European Commission; b) Leveraging of NSRF resources with loans from the European Investment Bank; c) Adoption of "fast track" procedures for all private investment projects; d) Increase in banks' equity capital through the markets and where that is not unfeasible, through the Financial Stability Fund; e) Repayment of the State's debt to the private sector.

5. Lifting of disincentives for entrepreneurship and investment. Greece's position in the "Doing Business Report" is very low due to these disincentives. The estimated benefit in terms of added value (GDP), employment and competitiveness from market liberalisation and the lifting of disincentives according to IOBE estimates is significant and comes to a 10% increase in GDP in the next five years and 17% in the longer term. Flexible concession agreements for roads, airports, ports, marinas, etc. could be used to attract private investment. With regard to the five main roadways, construction of which has ceased, the agree-

ments must pass through Parliament again so the projects can resume immediately. The most significant obstacles to investment are the lack of a national development plan, a land use plan, the large number of permits needed for various activities from different State authorities and the long waiting period for approval. By adopting models from other European countries, Greek law should be simplified and codified so that only one permit is needed and the principle of silent approval should be enforced.

1. BRIEF OVERVIEW - CONCLUSIONS

Fiscal problems in EU and USA impede the growth of the world economy

The turmoil in the EU and the US economies from the escalation of their fiscal problems and their side-effects continues. On the European side, the ambivalence of the Euro Area member-states before the 21 July Eurozone Summit regarding the establishment of a mechanism that can cover all the member states that experience difficulties in refinancing their debt, as well as after the Summit during the ratification process the Summit's decisions, which almost exclusively concerned the Greek issue, revealed once more the opposing considerations in the EU on the union's content and outlook. The uncertainty in EU public finances was heightened by developments in Greece, with the departure of the "troika's" representatives from the country in early September, the rumours that surrounded it and the intense political activity within and outside Greek borders on the payment of the sixth tranche of the Support Agreement loan. Apart from this, the large majority of EU countries implement fiscal consolidation programmes, in order to eliminate the fiscal discrepancies that were caused by the 2008-2009 policies to tackle the impact of the financial crisis, which limit the growth of their national economies.

The symptoms from the completion of the policies aimed at tackling the financial crisis have remained acute in the US economy, where unemployment is experiencing heightened inflexibility at high levels and the house market remains exceptionally subdued. In addition, the fiscal deficits caused by these policies, a subsequent hike in public debt and the political handling of these problems, brought about downgrade of the credit rating of the US federal government by Standard & Poor's to AA+ level. Larger slowdown of the US economy has been prevented by the very good performance of its external sector. Small growth rate reduction is also observed in the developing countries due to factors related to their fast growth, such as high inflation and interest rate increase, as well as due to impact from the loss of growth momentum in the developed economies. As a result of these trends, the growth rate of the world economy in 2011 is expected to be lower at 4.2% from 4.9% in 2010.

The high rate of contraction in Greece consolidated during the first half of 2011

The contraction rate of Greek GDP did not expand, remaining deep for a third consecutive quarter in the second quarter of this year. The extent of the fall was maintained by falling household consumption, significant cut in the public sector consumption expenditure and subdued investment activity, as reflected in the continuous since the beginning of the year year-on-year contraction in gross capital formation at a rate that approached 20%, despite the fact that it had been falling for third consecutive year. Toward the end of the second quarter the socioeconomic environment deteriorated by a delay in the drafting of the Medium-Term Fiscal Strategy (MTFS), prolonged political haggling over reaching widest possible political consensus regarding the Framework's adoption, and a social reaction against it. In contrast, the continuously improving performance of the Greek economy's external sector curbed the recession's depth for one more quarter and for the first half overall. The new reduction in the deficit came from fall in imports, despite exports falling again, at a lower rate compared with the preceding quarter.

A significant slippage of the budget against 2011 targets has persisted – Immediate fiscal policy reform is required

According to the latest data on the execution of the General Government Budget for the current year, the deficit in the period from January to July reached € 17.7 billion, surpassing the annual target of €16.4 billion that was set in the MTFS. The €1.3 billion slippage came from central government (€0.8 billion) and social insurance funds (€1.7 billion). In contrast, the local governments had a surplus that surpassed the annual target (+€1.2 billion). Regarding the Central Government (State Budget) in particular, the deficit for the first eight months of 2011 was, as earlier this year, 20% higher year-on-year, despite the fact that MTFS envisaged reduction by 3.9%. The very large discrepancy between execution and State Budget targets is mostly due to slippage in net revenues. However, expenditure too increased faster than envisaged. Despite this, it should be noted that the above results did not incorporate the impact from MTFS's measures that were put in place immediately after its adoption, such as emergency income tax and trade tax for the freelance professionals, whose collection started in September.

The very poor fiscal performance, particularly on the revenue side, led to the adoption of new extensive measures in September in order to maintain the budget on a path of meeting the fiscal targets set in the MTFS and to keep the obligations against the Greek state creditors intact. However, these particular measures, even if they generate the expected yield or large part of it, cannot replace the benefits that will come from significant fiscal policy restructuring. The restructuring is urgently required in order to tackle fiscal policy's longstanding weaknesses, which are partially responsible for the country's fiscal impasse. The direction of the significant changes that should be implemented immediately are presented in detail in Section 2.2 B of this report. Briefly, regarding public expenditure, these changes include: a) immediate adoption of a new appraisal, classification and remuneration system in the public sector, b) closure or mergers of agencies, c) meticulous control of operational and investment expenses and subsidies, d) radical revision of the third-party pay system, e) completion of the social security reform and revision of the social benefits system, f) restart of public investment and g) channelling to the market of the public sector's outstanding payments to the private sector. On the revenue side, the required measures include: a) complete overhaul of taxes, b) structural reform of the tax administration system, c) effective management of concession rights and property.

The recession of the Greek economy will remain deep throughout 2011 – the external sector will keep curbing it

The economic activity in the second half of the year is largely determined, as reasonably expected, by fiscal developments. The adoption of additional measures from the autumn and the effort to limit the fiscal deficit to the levels envisaged in the MTFS will further compress the domestic consumption of both the private and the public sector. In particular, new pay cuts for pensioners and public sector employees, new tax measures (emergency taxes, reduction of tax-free threshold, etc.) and further unemployment increase, at least after the summer months, are expected to compress the household consumption expenditure to a large degree.

Besides reduction in transfer payments, the effort to limit public expenditure will include reduction of public consumption needs and further cuts in the Public Investment Programme. Eventual acceleration of PIP's execution from the very low rates in the first eight months of 2011, would have brought about sudden expansion of State Budget expenditure by about €4 billion until the end of the year, with corresponding worsening of its deficit. Besides the fiscal benefits, the very low public investment since the beginning of 2011 has had strong impact on the growth momentum of the country. Regarding investment activity in general, the extensive uncertainty regarding the ability to continue the fiscal consolidation effort and to settle Greek debt as part of the Eurozone Summit decision of 21 July, together with subdued domestic demand, have worsened significantly the investment environment. For this reason, the fall in investment expenditure may accelerate, despite the already large drop up to mid 2011.

In contrast, the external sector of the Greek economy, maintaining the trend it has exhibited in the past two years, will continue to limit GDP contraction. Its deficit is expected to fall anew in the second half of the year, not only from reduction in imports, but also from increase in exports due to increase in the flow of tourists coming from abroad. However, despite the external sector's impact on economic activity, **the GDP contraction for 2011 as a whole is expected to reach about 5.5%**.

Unemployment will continue to expand during the autumn

After its sharp increase in late 2010 and the first quarter of 2011, unemployment continued to increase at a weaker rate in the second quarter of the year. Nevertheless, the high level of inflation (around 16%) from the beginning of the year, combined with the fact that it mostly came from sharp employment contraction, shows that the labour market has been assimilating the new, significantly deteriorated in comparison with the previous year, levels of economic activity, which has consequences on available jobs and the prospects for dramatic reversal of the unemployment trends. Then again, as already anticipated in the previous IOBE report, employment developments in tourism are expected to limit the increase in unemployment or even reverse the trend, as this year the activity in this sector was considerably more extensive than last year. However, after the expiration of this seasonal effect, unemployment will be on the rise again in the autumn, mainly due to the deep recession. As a result, the average level of **unemployment for 2011 overall will reach about 16.8%**, higher than in the first half of the year.

Further weakening of inflation until the end of the year

The protraction of high unemployment levels and its further deterioration in the autumn, together with further drop in disposable income from new income/tax measures, will continue, as earlier during the year, to slow inflation down. The inflation rate in the first eight months of 2011 fell from 5.2% to 1.7%. The transfer of restaurant services to the high VAT rate that has already taken place and the upcoming increase in heating oil excise tax will push prices up during the last quarter of 2011. Nevertheless, the upward pressure of higher taxes on the price levels are not expected to dominate the downward pressure from the factors mentioned previously. As a result, **the average 2011 inflation rate is not expected to surpass 3.1%.**

Special study: "Healthcare Spending and Policies under the Fiscal Consolidation Regime"

The Health Economics Observatory of IOBE, in cooperation with independent experts, prepared a study aimed at examining the targets in the Memorandum of Economic and Financial Policies (MEFP) regarding the provision of health care services by the state. The study presents the outcome from the policies that have already been adopted for reduction of public expenditure in the health sector. In addition, these policies are critically assessed, taking into account the targets that should be achieved until the expiration of the MEFP. Based on practices adopted by other countries and the international literature, the study contains proposals on improvement of the adopted policies in the health sector and on adoption of additional measures, which will facilitate the achievement of the MEFP targets.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

The Global Economic Environment

The end of the summer period was marked by noticeable deterioration of the global economic climate, as a result of significant slowdown of the growth rate in all major economies during the second quarter of the year. The coordinated effort of the developed countries with fiscal problems and mainly USA, UK and the Euro area, to limit their deficit through drastic cuts in public expenditure and tax hikes, led to significant slowdown of growth in these countries. This brings back to the fore scenarios of significant slowdown of the world economy, and even of a new global economic recession. The significant deterioration of key macroeconomic indicators and the extensive concern over the settlement of the debt crisis, which now is affecting both sides of the Atlantic, resulted in contradiction of the initial expectations on the speed of global economic recovery and caused serious concern over the sustainability of financial institutions. In parallel, it seems that the effect of the catastrophic earthquake in Japan on global trade was underestimated initially. In this regard and according to the latest OECD estimates,[1] the world economy is expected to grow at 4.2% rate in 2011 (from 4.9% in 2010) and by 4.6% in 2012, with unemployment remaining high (7.9% in 2011 from 8.3% in 2010 in the OECD countries).

The inflationary pressures are expected to persist, mainly in the emerging and developing economies, mainly due to rise in the prices of energy, commodities and food (product categories with significant weight in the economic activity of developing countries). In the developed economies, the course of inflation is different, as the sluggish economic recovery keeps its outlook low at 2.8% for the current year.

The impact of the contractionary fiscal policy for deficit consolidation is already evident in all major economies, as the growth rate fell in the second quarter in all geographical regions. The special Eurozone Summit that took place on 21 July and the deal between the Congress and the President of the USA regarding the public debt ceiling evidently did not manage to stem the growing uncertainty and market nervousness regarding the outcome of the crisis, essentially revealing the lack of political will to take drastic decisions. The downgrade of the US credit rating by S&P to AA+ with negative outlook amplified further the concern over the world economy's outlook and the fears for a double recession.

As it is now certain that the development of the world economy in 2010 and early 2011 was based largely on a boost of do-

[1] OECD Economic Outlook 89, Volume 1/2011, September 2011

mestic demand and deficit increase in many of the major economies, including the US economy, the commitment to take immediate measures for public expenditure reduction causes concern over the extent of its impact on the growth rates globally. The pressure towards surplus countries, such as China, Japan, Germany and certain emerging economies, to boost their domestic demand and in parallel reduce their external surplus goods and services has been intense as a result. In the foreign exchange markets, the devaluation risk from the US loose monetary policy led many central bank to announce that they would keep the intervention interest rates low.

The economic slowdown, the reduction in consumption and the wider impact of the followed contractionary fiscal policies has affected world trade flows too: the volume of world trade in the first seven months of the year increased by 5.1% year-on-year (from 15.8% in the corresponding period of the previous year).[2] Among the developed regions, the US exports recorded the largest annual increase by 6.6%, while in the Euro area the dynamic of exports was considerably more sluggish (only 1.3%). In Japan the export volume fell by 1.1%. On the other hand, the emerging markets experienced export expansion by 9.5% in the first seven months of the year, with Asia and the countries of Central–Eastern Europe leading the way (with 12.3% and 6.4% respectively). Still, their growth rates were significantly lower compared with last year. For the whole year, OECD anticipates that the growth in the world trade volume will slow down from 12.5% in 2010 to 8.1% in 2011, with China (10.4%), Russia (11.8%) and Brazil (15.6%) registering double-digit growth, noticeably higher than the OECD average (6.9%).

Meanwhile, out of 90 bank groups from 20 EU countries with total assets representing 65% of the EU banking sector that were subjected to stress tests, the capital adequacy of 8 banks were deemed lower than the Core Tier-I 5% threshold. It should be noted, however, that 20 banks would have failed the stress tests if they had not raised their capital in April 2011 by € 50 billion. In addition, the exposure of the European banks to periphery sovereign bonds and the pressure put on countries such as Italy and Spain, led the IMF officers to conclude that the EU banks need further € 20 billion capital injection.

Regarding the public debt crisis in the Euro area, the successful intervention of the ECB in the secondary market for Spanish and Italian bonds seems to have provided a window of opportunity for the government of the two countries to announce and implement the required fiscal consolidation programme that will contribute to stabilisation of their bond markets. In addition, the ECB actions has given the governments of the Euro area member countries the opportunity to agree on EFSF's financing means and capability of intervention and to establish a more constructive framework for the economic governance of the Euro area. In

[2] CPB World Trade Monitor, July 2011, CPB Netherlands Bureau for Economic Policy Analysis, 22/09/11

any case, the debt crisis in the Euro area periphery constitutes a systemic risk, which if not dealt with effectively will threaten the recovery of both the Euro area's core and the world economy.

The creditworthiness of the countries of the European periphery (Greece, Italy) was downgraded once more, contributing to the overall volatility of the investment climate, amid discussions between the governments and the Euro area authorities on finding an effective solution to the debt crisis and on private participation in eventual new economic support packages ('haircut' of the bond's nominal value, expansion of the bond's maturity, tax on bank transactions). The investors are still concerned over the risk of default and the state of the banks, the political instability due to the austerity measures and the financing cost, which are expected to remain high for the remainder of the current year.

Regarding the major world economies, the US economy showed strong indications of slowing down, strengthening the concerns over the extent of recovery of the world economy. In particular, the growth rate for the first quarter was revised down to 0.4% (on a quarterly basis) from 1.9% initial estimates, which made it the worst quarter since Q2 of 2009, which was the last quarter with contraction of real GDP. The data revision also revealed that the US economy had plunged into a deeper recession in 2009, when the real GDP had ultimately contracted by 3.5% instead of 2.5% as initially estimated. During the second quarter of 2011, the growth rate of real GDP fell by 1.5% year-on-year (from 2.2% in the first quarter of 2011), due to slowdown in private consumption (2.2% from 2.8%), investment (4.9% from 7.1%) and deeper public spending contraction (-2.2% against -1.1%). Net exports had positive impact in the second quarter, increasing by 6% on an annual basis from 1.3% in the previous year, when in the first quarter this impact was negative.

In addition, the US labour market data were very discouraging, with unemployment remaining at 9%. Inflation ran at 3.6%, slightly higher compared with earlier this year (3.2%). The persistence of inflation at these levels does not seem to create concern for the Federal Reserve, which is very likely to loosen further its monetary policy, through a third programme of quantitative easing, which seems to have become the only option of boosting economic activity, given the contractionary fiscal policy adopted to contain the deficits.

Despite all this, there are some indications that the probability the US economy to slip into a new recession is very low. Industrial production recorded annual increase by 3.7% in July, mainly due to increase in the manufacturing of cars and industrial equipment. Furthermore, in August the retail sales volume increased at its highest rate in the last 4 months (by 0.5%). Meanwhile, the gradual devaluation of the dollar against the euro led the Federal Reserve to announce that it will maintain the intervention rate at 0%-0.25% until mid 2013 (rather unusual announcement), while the possibility for a new liquidity boost was not excluded, in case it was needed.

The downgrade of the US credit rating by Standard & Poor's to AA+ with negative outlook (from AAA) for the first time in history, due to the high deficit of the federal budget, naturally escalated the concern over the course of the economy. Nevertheless, the discount rates of the long-term US bonds have remained stable at low levels, which indicates that the international investors continue to perceive the US sovereign bonds as safe haven, while the deal that the Congress and the US President reached on significant increase of the public debt ceiling (from $14.29 trillion to $16.69 trillion) precludes any possibility of US debt moratorium.

According to the latest OECD estimates, the US economy is expected to grow by 2.6% in 2011 (from 2.9% in 2010). The implementation of a strict fiscal consolidation programme for the rest of 2011 and 2012 is likely to put further pressure on the recovery, with some estimates reducing the 2011 estimate on US growth to 1.8%. The dismal forecasts stem from the fact that the growth in the previous years in the US economy came mainly from fiscal stimulus packages, whose withdrawal is expected to have catalytic impact. Private consumption is expected to increase at a higher rate than in 2010 (2.9% against 1.7%). In contrast, public spending, both consumption and investment, is expected to fall, as part of the effort to reduce the high fiscal deficit and debt of the country. In particular, public consumption is expected to drop by 0.6% in 2011 (against 0.9% increase in 2010), while public investment is expected to contract by 3% (from 1.3% increase in the previous year). Lastly, the expected generation of trade surpluses until the end of the year, with the export of goods and services increasing at higher rate (7.5%) than imports (5.4%), despite both slowing down significantly from the previous year (11.7% and 12.6% respectively), will have positive impact on the growth rate.

The high unemployment rate will remain one of the most significant problems of the US economy. According to IMF projections, the US unemployment rate is expected to remain high in 2011 (8.5% from 9.6% in 2010). Inflation is also expected to remain relatively high in 2011 at 2.3%, while the intervention interest rate is expected to remain at low levels (0.25%) until the end of the year. The budget deficit is expected to reach 10.7% of GDP in 2011 (from 9% in the previous year) – the highest level among the developed economies – while the debt is expected to surpass 116% of GDP until 2016, according to IMF.

The economy of Japan contracted for a second consecutive quarter, by 0.5% on a quarterly basis (from 0.9% in the first quarter of the year), while on annual basis the contraction reached 2.2%. The reduction in the contraction rate came from upgrade of public investment and public consumption in order to boost the economy's reconstruction (e.g. for the construction of temporary dwellings). Pervasive uncertainty on the course of the global economy and sluggish global demand led the companies to squeeze their capital expenditure by 0.9%, which exacerbated the growth indicators, as the Japanese economy is very dependent on its external sector. Exports fell by 5.3% in the second quarter of 2011 on an annual basis (from 6.5% increase in the previous quarter), while imports increased by 3.7% (from 8.5% in the previous quarter). As a result, the external sector had a significant negative contribution to GDP growth (by -1.4 percentage points), as the earthquake affected procurement along the value chain and impeded certain Japanese manufacturing to send their products abroad, while some countries ceased importing goods from Japan in reaction to the leak of radioactive material from the nuclear plant in Fukushima. According to OECD estimates, GDP will contract by 0.9% in 2011 (from 4% increase in 2010) as a result of the catastrophic earthquake in March.

On the other hand, the reconstruction expenditure is expected to reverse the negative trend from the first half until the end of the year. The government is adopting large-scale reconstruction programme, with the latest economic stimulus package reaching ¥2.0 trillion ($25 billion). The package is expected to contribute to increase in investment in reconstruction projects, but it should be financed with fresh state loans, increasing public debt, which is expected to surpass 200% of GDP. An alternative in order to avoid a hike in public debt, is to increase the tax rates (VAT increase is under consideration), which however would have negative impact on economic recovery. Public investment is expected to decrease by 6.5% in 2011 (against 3.5% contraction in 2010), while public consumption is expected to increase by 2.6%. Net exports are expected to have negative contribution to GDP, with imports increasing by 5.2% in 2011 (from 9.7% in 2010) and exports increasing at a significantly lower rate by 3.2%, slowing down significantly in comparison with the previous year (23.9% increase). These estimates clearly show that the natural disasters hit especially hard the external sector of the economy, which was further impaired by the continued appreciation of the yen against the other currencies. The deflationary pressures are expected to persist in 2012, with unemployment remaining at higher levels compared to pre-crisis levels (5% in 2008). Given the extraordinary needs and the deflationary pressures the Bank of Japan is expected to maintain the expansionary monetary policy that it already is following, in order to avoid further caving of economic activity.

The economy of **China** marginally slowed down in the second quarter to 9.5% (from 9.7% in the first quarter of 2011). Despite the pervasive uncertainty on the impact of the global economy's slowdown on the Chinese economy, the industrial production of the country increased by 14.3% on an annual basis in the first half of the year, while retail sales increased by 16.8% annually in the same period. Investment in fixed assets increased by 25.6% on an annual basis, which contributed to the extensive increase in industrial production. Regarding inflation, the latest estimates show that prices continue have continued to increase, with the inflation rate in July standing at 6.5% (highest level since June 2008). Increase in food prices was the main reason behind the acceleration of inflation. The central bank, in an attempt to control the inflationary pressures, on several occasions increased the interest rate and the reserve requirements that the commercial banks should hold with the central bank, impeding to an extend the access of businesses to funding. In addition, there are increasing concerns about the height of the local governments' debt. For 2011 as a whole, OECD estimates that the growth rate of the Chinese economy will stand at 9%, from 10.3% in 2010. The central bank's policy of rising interest rates in order to curb inflationary pressures is expected to be the main reason for the observed slowdown in 2011. Inflation is expected to run at around 4.6% for the whole of 2011 (from 3.2% in 2010). Despite this, as excess demand in the economy and consumption expenditure gradually slow down due to the weakening of the impact of the fiscal stimulus measures on the economy, the prices of imports will cease their rising trend, resulting in disinflation in 2012. Regarding the external sector, exports in 2011 are expected to slow down to 12.4% (from 18% growth rate in 2010). Milder increase in exports and higher prices of commodities will result in reduction in the current account surplus to 4.5% of GDP in 2011 (from 5.2% in 2010 and above 10% of GDP in 2007). The upcoming slowdown of the growth rates is likely to make the authorities reverse their policy of increasing the interest rate on the one hand, and on the other to increase the state control of the economy and of prices (to the detriment of competition), which could undermine the long-term prospects of boosting the Chinese competitiveness through structural reforms.

In **Russia** the growth rate in the second quarter slowed down to 3.4% on annual basis (from 4.1% in the preceding quarter). The main factor with negative impact on economic activity during the second quarter was the limited expansion of the construction sector by only 0.1% (against 1% increase in the first quarter of 2011). In addition, industrial production increased at a relatively low rate compared with Q1 (4.8% against 5.9%). High inflation (9.4% in June 2011) contributed to a contraction of disposable income by 2.5% and led to reduction in consumption expenditure. On the other hand, the increase in production by 6.9% in manufacturing partially offset the losses. It should be noted, however, that the second quarter of the previous year was especially strong for the Russian economy, which grew at 5% then, raising the bar very high for year-on-year comparison. According to the latest OECD estimates, the economic recovery in Russia will accelerate in 2011 to 4.9%, from 4.0% in the previous year, boosting the hopes for growth stabilisation. Increase in commodity prices, boost of domestic demand and agriculture sector expansion will constitute the key source of growth in the near term. The rise in oil prices is expected to lead to larger than initially estimated state revenues and 0.2% fiscal surplus of the state budget in 2011 (from 4.3% of GDP deficit in 2010). In addition, the rise in oil prices is expected to increase the current account surplus to 6.8% of GDP in 2011 (from 4.8% in 2010). In parallel, however, the above developments will increase the inflationary pressures, raising the inflation rate to 9.4% (from 6.9% in 2010). In order to dampen this trend, the central bank will increase the base interest rate from 8.25%, which has not changed since last May. The government's privatisation programme, as a measure that would limit the state intervention in economic activity, together with structural reforms aimed at eliminating obstacles to entrepreneurship and improvement of the business environment are also expected to play significant role.

Table 2.1

International Environment - OECD (real annual % change)

	2010	2011	2012
GDP			
USA	2,9	2,6	3,1
Japan	4,0	-0,9	2,2
Euro area	1,7	2,0	2,0
China	10,3	9,0	9,2
India	9,6	8,5	8,6
Russia	4,0	4,9	4,5
Brazil	7,5	4,1	4,5
World Economy	4,9	4,2	4,6
World Trade			
Global imports (OECD countries)	11,1	6,3	7,3
Global exports (OECD countries)	11,3	7,5	7,7

Source: OECD Economic Outlook 89, September 2011

Table 2.2

IFO - Economic Climate Index for global economy (Index, 2005=100)

Quarter/Year	III/09	IV/09	I/10	II/10	III/10	IV/10	I/11	II/11	III/11
Economic Climate	79,6	91,4	99,5	104,1	103,2	98,6	106,8	107,7	97,7
Current Situation	43,0	54,2	67,3	80,4	93,5	95,3	102,8	108,4	99,1
Expectations	114,0	126,3	129,8	126,3	112,3	101,8	110,5	107,0	96,5

Source: IFO, World Economic Survey, WES 03/2011

Table 2.3

IFO - Economic Climate Index in economic zones (Index, 2005=100)

Quarter/Year	III/09	IV/09	I/10	II/10	III/10	IV/10	I/11	II/11	III/11
North America	78,7	85,4	90,4	95,4	88,7	82,8	104,6	98,7	81,2
Western Europe	76,4	89,3	98,3	99,3	102,2	105,2	113,2	115,1	105,2
Asia	89,5	101,8	108,8	113,2	107,9	95,6	105,3	101,8	94,7

Source: IFO, World Economic Survey, WES 03/2011

The cautiousness about the extent of recovery of the world economy that prevails is reflected in the course of the business confidence indicators. After two consecutive quarters of improvement, the indicators worsened, with negative near-term outlook. The indicators contained in the "World Economic Survey", conducted by the German institute IFO, deteriorated in the third quarter of 2011, with the expectations indicator continuing the drop it registered in the second quarter of 2010. The initial expectations for recovery that existed in the beginning of the year were contradicted, while for the first time in at least two years the evaluation of the current state of the economy deteriorated. The results of the survey show that the recovery of the world economy will be much milder than initially anticipated.

More specifically, the world economic climate indicator fell quarter-on-quarter in the third quarter of 2011 (Table 2.2). Despite this, the indicator remained above its long-run average (96.9), which signifies that the world economy is still expected to recover. The evaluation of the current state of the economy deteriorated after a long period of positive readings, boosting the concern over slowdown of growth. The expectations on near-term outlook of the world economy deteriorated anew in the third quarter of the year, mainly due to continuous concern over inflation, fiscal deficit problems and unemployment increase, which are now being considered the major economic problems on global level. It should be noted that fewer analysts (compared to April 2011) expected the monetary authorities to increase interest rates in the next 6 months.

The economic climate deteriorated in all economic regions (Table 2.3). In **North America** the economic climate fell below its long-term average (92.2), due to notably weaker evaluations of the current state of the economy, while the outlook for the upcoming 6 months deteriorated marginally due to the uncertainty created with the settlement of US debt in late July. In **Asia** the economic climate indicator remained marginally higher than its long-run average, despite the deterioration of both the current state evaluation and the outlook for the near-term future. The outlook in Japan improved, providing some assurance for the near future, as capital investment, private consumption and the external sector are expected to recover in the second half of the year, as a result of the continuous efforts of the country to surpass the consequences of the natural disasters from earlier this year. In Western Europe, the economic climate indicator fell for the first time since early 2009, mainly as a result of less positive outlook on the near term, as the Euro area debt crisis is in full swing, with the pressures expanding to more and more countries and the uncertainty over the adoption of effective measures for its resolution heightening.

The Economies of the EU and the Euro area

The recovery of the EU and Euro area economies weakened, at least temporarily, in the second quarter of 2011. In the Euro area GDP increased by 1.6% year-on-year, while the growth rate in the EU-

27 group was marginally higher (1.7%).[3] The growth rates fell compared with both the preceding quarter (2.4% in both economic regions) and the corresponding quarter of 2010 (2.0% in the Euro area and the EU). Nevertheless, this performance was not far away from the European Commission's spring forecast of 1.6% growth in the Euro area and 1.8% growth in the European Union in 2011,[4] estimates that essentially remained unchanged in the latest Interim Report.[5]

The reversal of the rising trend reflect the less positive economic developments during that period of 2011 globally and within EU-27. The growth of the world economies showed signs of exhaustion, in both developed and developing countries, which has had negative impact on external activity and growth in the most outward-looking European economies, which are also its largest and strongest (Germany, France). Germany experienced the second largest growth rate slowdown (by 1.8 percentage points) in the second quarter among the (14) countries of the Euro area that are growing this year.

Within the EU, the key factor that impedes its growth is the fiscal consolidation process that is under way in most of its member-countries, but is more intensive in the three countries that receive financial support from the "troika" (Greece, Ireland and Portugal). The impact of the fiscal consolidation is not limited only to the direct economic effects from the measures that are taken as part of it. The impact extends to the expectations of the economic agents (households and enterprises), the improvement of which also worsened during the second quarter of the current year. In addition, the weakness of Greece to follow a path that would enable it to achieve the targets set in the Economic Support Programme for 2011 and the wavering on the adoption of additional measures with wide political consensus within the Medium-Term Fiscal Strategy shook the political cohesion in the Euro area, as its members expressed diverging stances on the resolution of the Greek problem that on some points were even contradictory (e.g. on provision of collateral for adopting the new loan agreement). The delays in the finalisation of MTFS and the divergence between the proposed measures among the European countries, heightened the uncertainty about the stability of the Euro area and the outlook of the EU, pushing down the stock exchange indices in the largest European economies and in the US, due to the fiscal problem that it itself experiences and the economic interdependency of the two economic regions. The political volatility spread to the sovereign bond markets, with negative impact on the bond prices, mainly of the countries in the European periphery and especially Greece, while the worries over the capital adequacy of the European banks resurfaced.

The impact of the above developments and factors was reflected in the course of the key GDP components in the EU and the Euro area. Weakening of the positive

[3] News Release Euro Indicators, EUROSTAT, 127/2011, 06/09/11

[4] European Economic Forecast, European Commission, May 2011

[5] Interim Forecast, European Commission, September 2011

forecasts and uncertainty over the course of economy activity and demand, both globally and in the EU over the remainder of the year, became apparent from the steep downturn in the growth of investment spending. In addition, the export expansion in both economic regions slowed down further during the second quarter. Consumption expenditure in both public and private sectors slightly increased, at a lower rate than in early 2011.

More specifically, consumption in the public sector was higher by only 0.3% in the Euro area and 0.4% in the EU-27 year-on-year in the second quarter of 2011. While its growth was stronger during the preceding quarter, it was still limited to less than 0.8% in both regions. Evidently, after the completion of the support programmes in the real and banking sectors during the financial crisis, the EU member states have proceeded to a systematic effort to tame their deficit and reverse public debt expansion. After all, the vast majority of EU member countries is following at least since early 2010 Stability and Convergence Programmes, under the supervision of the European Commission. Nevertheless, the increase of public consumption in early 2011 was higher than the European Commission's initial estimates for this year (0.2% for the European Union and 0.3% for the Euro area). As meeting these targets is necessary for achievement of the fiscal goals, stabilisation of public consumption at last year's levels during the second half of 2011 is quite likely, without precluding the possibility of marginal contraction.

Similar trends were observed in the consumption behaviour of the households. The consumption expenditure of the private sector slightly increased both in the Euro area and EU-27, by 0.5% and 0.3% respectively, slowing down compared with the first quarter (0.9% in the Euro area, 0.7% in the EU). The conservative strategy of the households regarding their expenses was to be expected from the falling trend of the European Commission's consumer confidence index over the past few months (with the exception of May). Its fall accelerated in July and August, which can be considered a leading indication for fall in private consumption during the second half of this year. The adverse course of consumer confidence and by extension consumption expenditure has been mainly due to consolidation of unemployment at high levels, around 10% in the EU and 9.5% in the Euro area, for about two years, but also from concern over new increase in unemployment from the autumn onwards. If this happens, it is possible that household consumption will decline towards the end of the year. Even if this development does not materialise, the probability private consumption to increase by 0.8%-0.9% in the EU, as forecasted by the European Commission in May, is rather slim.

The loss of part of the momentum of the global and European economies and the looser mobility in foreign trade during the second quarter of this year are reflected in weaker expansion of investment. Gross capital formation increased in the second quarter by 1.7% in the Euro area, from 3.7% in the preceding quarter, and by 3.4% in EU-27, from 1.9%. Taking into account that the Euro area forms the largest part of the European Union, the difference in the extent of the slowdown is significantly larger in the former region. Part of the slowdown was caused by contractionary effects from fiscal consolidation on public investment. However, the composite index PMI of the Euro area has also being constantly falling throughout this particular period, reflecting the less optimistic expectations of the private sector on economic activity. The fall continued in the third quarter and as a result for the first time in the last two years in August the index fell below 50, which is a level that separates growth from contraction.[6] The investment initiatives have been discouraged since the summer from the course of the stock exchange indices, increase in the interest rate by ECB and persistence of oil prices at high level at times when business are about to refresh their energy stock to prepare for the winter.

Regarding the external sector, the reduction of the world trade flows in the second quarter led to weaker growth of exports in the Euro area and EU by 6.3% in each region. Despite the fact that the growth rate remained satisfactory in both regions, it was significantly below the rate in the previous quarter (9.6% and 9.9% respectively), while in 2010 exports grew at around 10%. Nevertheless, net exports improved, due to the faster deceleration of imports, whose growth rate stood at 4.7% in the Euro area and 4.9% in EU-27, by about 3.5 percentage points lower quarter-on-quarter. As a result, the net contribution of the external sector was marginally positive at 0.7 percentage points of the GDP growth rate, more than any other GDP component. The positive impact of the external sector on GDP is expected to persist in the remaining months of 2011, but probably will weaken due to weaker demand globally and stronger seasonal demand for oil and gas in the fourth quarter.

Without a doubt, fiscal developments within Europe will also have significant impact on economic activity in the Euro area and EU-27 in the second half of 2011. These developments include: a) implementation of Greece's obligations in the MTFS and b) implementation of the decision of the Eurozone Summit of 21 July. The reluctance of some countries, both in relation to taking a decision during the Summit that would cover all member countries of the Euro area that would face problems with debt refinancing, and during the ratification of the mechanism agreed for Greece through the national parliaments, has revealed significant divergence on the political views regarding the future and the content of the European Union and the Euro area. The fiscal-political uncertainty has activated the feedback between the volatility in the sovereign bond markets and the instability of the banking system.

Given the divergence on fiscal policy issues and the tensions it creates, the EU member-states ought to take important decisions in the coming six months that will set the economic governance rules for the future. At the 16 September ECOFIN meeting, the Finance Ministers approved

[6] Eurozone Composite PMI, Markit-August 2011, 06/09/11

the drafts of six legislative acts (five Regulations and one Directive) on this key issue, which had been prepared by the EU Council and the European Parliament in cooperation with the European Commission. Essentially, these acts constitute amendments of the rules set by the Maastricht Treaty.[7] The debate of the acts in the European Parliament has already started. After the parliament's approval, these acts will be ratified officially by ECOFIN.[8]

Developments in the US economy, where the growth rate slowed down further in the second quarter, unemployment has remained rigid around 9% since the beginning of the year and the housing market has remained subdued, will also have an impact on the course of the EU economies. Under the current and expected global economic circumstances, the growth in the EU and the Euro area will be lower in the second quarter of the current year, which is also the view of the European Commission, as expressed in its recent Interim Report. For 2011 as a whole, GDP is expected to increase by about 1.7% in the Euro area and by 1.6% in EU-27.

[7] For more details, see «Public Finances in the EMU-2011», European Commission, September 2011

[8] Communication on the Agreement on Economic Governance Package for the EU, Presidency of the Council of the EU Statement, 16/09/11

Table 2.4
Main Macroeconomic Figures, EU27, Euro area (annual % changes)

	EU27			Euro area		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
GDP	1,8	1,7*	1,9	1,8	1,6	1,8
Private Consumption	0,8	0,9	1,3	0,8	0,8	1,2
Public Consumption	0,7	0,3	0,2	0,7	0,2	0,3
Investment	-0,7	2,5	3,9	-0,8	2,2	3,7
Employment	-0,5	0,4	0,7	-0,5	0,4	0,7
Unemployment	9,6	9,5	9,1	10,1	10,0	9,7
Inflation	2,1	2,9*	2,0	1,6	2,5*	1,8
Goods and Services Exports	10,6	7,3	6,5	11,2	6,9	6,2
Goods and Services Imports	9,5	5,6	5,7	9,3	5,4	5,9
General Govern. Balance (% of GDP)	-6,4	-4,7	-3,8	-6,0	-4,3	-3,5
General Govern. Debt (% of GDP)	80,2	82,3	83,3	85,4	87,7	88,5
Current Account Balance (% of GDP)	-0,9	-0,6	-0,3	-0,1	0,1	0,2

*Interim Forecast, European Commission, September 2011
Source: European Economic Forecast, Spring 2011, European Commission, May 2011

The EU economy's gradual loss of momentum does not bode favourable developments regarding employment. The labour market has been on a stand-by, as a result of the uncertainty surrounding the course of economic activity, which is verified by both the persistence of unemployment during the first half of 2011 at 9.5% in the Euro area and 10% in EU, levels it has maintained in the past two years, and by the sluggish expansion of employment this year, which did not surpass 0.4% in both economic regions.[9] Irrespectively of the EU and global economic trends, the fiscal consolidation policies which many European states implement include curtailment of the public sector through dissolution of public agencies and staff reduction. The slowdown of economic activity and to a lesser extent the public sector cuts will lead to a fall in employment and rise in unemployment in the remainder of 2011. An indication that strengthens the probability of such development can be found in the fact that the intense deterioration of the consumer confidence indices in the Euro area and EU in July and August came from concern over the events in the economy and increased fear of rise in unemployment. With this in mind, the **unemployment** rate for 2011 is most likely to rise above 9.5% and 10% in the Euro area and EU-27 respectively, as was anticipated in the spring forecast of the European Commission.

The increase in unemployment will weaken consumption demand, which most likely will limit the increase of prices, resulting in deceleration of **inflation**. The trend of rising inflation was reversed in the second quarter, despite high energy prices and indirect tax hikes in some member-states, as part of the effort to tame their deficits. The marginal, weaker than in the first quarter of 2011, expan-

[9] News Release Euro Indicators, EUROSTAT, & 131/2011, 15/09/11

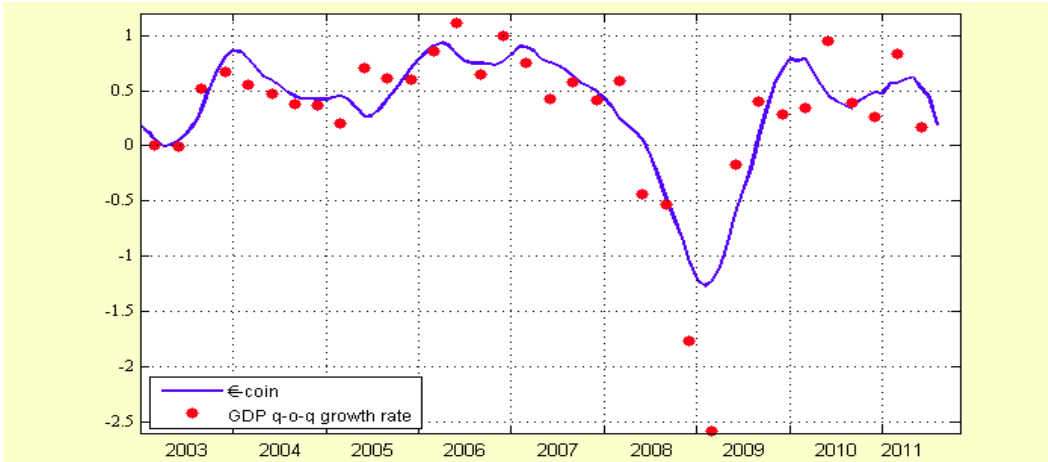
sion of household consumption reveals that the consumers limited the quantity of their demand in response to rising prices. Since May inflation has been decelerating in both EU and the Euro area. An interest rate increase by the ECB by 25 basis points to 1.5% in July, for a second time since the beginning of the year, adds to the deflationary forces that will act in the current half of the year, while further increase in the interest rate until the end of the year cannot be precluded. The latest forecasts of the European Commission, which were revised downwards in comparison with earlier forecasts, seem to take this into account. As a result inflation is expected to run at 2.9% this year in the Euro area and at 2.5% in EU-27, when in the second quarter the inflation rate stood at 3.1% and 2.7% respectively.

Decline in optimism about the state of the European economy and resurgence of concern over its prospects dominate in the shaping of the course of leading indicators, such as **the indicator of economic activity calculated by CEPR[10]** and the economic sentiment indicators of the European Commission (DG ECFIN). Both sets of indicators have been falling since mid Q2. More specifically, the economic activity indicator for the Euro area decreased in August for a third consecutive month. Despite the fact that its value remained positive, signifying that GDP in the euro area is expected to increase in the third quarter of 2011 (quarter-on-quarter), it stood marginally above zero at 0.22. Taking into account the July levels of the indicator, the q-o-q growth in the Euro area is not expected to surpass 1%. Falling share prices and weakening of business and consumer expectations were among the factors that put pressure on the indicator.

[10] The Center of Economic Policy Research (CEPR) in cooperation with the Bank of Italy each month calculates the €-COIN leading indicator of economic activity for the Euro Area. The indicator provides a forecast of GDP growth and is constructed from a range of different data, such as the course of industrial production and of prices, as well as labour market and financial data.

Figure 2.1

€-COIN Index (CEPR)



Source: CEPR (www.cepr.org)

Table 2.5

European Commission– Economic Sentiment indicator EU-27 & Euro area (1990-2010=100)

Month	Jan-10	Feb-10	Mar-10	Apr-10	May-10*	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
EU27	96,3	97,9	99,8	101,1	100,0	100,2	102,1	103,2	103,6	104,1	105,3	106,4
Euro-Area	95,4	95,8	98,0	100,1	98,3	99,1	101,2	102,2	103,5	104,4	105,7	107,0

Month	Jan-11	Feb-11	Mar-11	Apr-11	May-11*	Jun-11	Jul-11	Aug-10	Sep-11	Oct-11	Nov-11	Dec-11
EU27	105,9	107,3	107,4	105,1	105,4	104,6	102,3	97,3	-	-	-	-
Euro-Area	106,8	108,0	107,3	106,1	105,5	105,4	103,0	98,3	-	-	-	-

* Since May 2010, the economic activity classification of the enterprise data used for the estimation of the Economic Sentiment indicator and its components, has switched from NACE Rev. 1.1 to NACE Rev. 2. that corresponds to the national STAKOD (ΣΤΑΚΟΔ) 08.

Source: European Commission (DG ECFIN), August 2011

Similar developments are revealed by the European Commission's **economic sentiment indicators** for the Euro area and EU-27, which in Greece are compiled by IOBE. The mild decline of the indicators in the second quarter accelerated in July and August. As a result, in August the indicators fell below 100, the average level for 1990-2010, for the first time since June 2010. The deterioration of the sentiment came from weakening of expectations in all branches, except Construction, and by falling consumer confidence. At branch level, the reduction in the Euro area in the last two month was largest in Industry and Services, while in EU overall the largest drop was observed in Services and Retail Trade. Stabilisation was observed in Construction, at levels below the long-term average. Drop in new orders and in expectations on the level of activity in the coming months constituted a common denominator behind the reduction in Industry and Services. As already mentioned, the **consumer confidence** has been falling under the influence of unfavourable assessment of the economic situation in the coming months and of the course of unemployment.

2.2 The Economic Environment in Greece

A) Economic Sentiment

The **Economic Sentiment Indicator for Greece declined once more in the summer months of 2011 (June-August), at a milder rate than in the preceding quarter. The indicator stood at 72 points (from 76),** deteriorating slightly year-on-year. The indicator remained at levels significantly below the long-term average of 2001-2010 (96.8 points). **The economic sentiment marginally deteriorated both in the Euro area and in the EU**, reaching 101 and 102 points respectively (from 106 in both regions), while year-on-year, the indicator marginally increased in the Euro area and marginally declined in the EU.

Business expectations in Industry and Construction remained relatively unchanged at low levels during the period from June to August, compared with the preceding quarter, while in Retail Trade the expectations slightly worsened and in Services increased. Year-on-year, the average indicators improved slightly in Industry and Retail Trade and marginally in Services, while in the Construction sector the indicators worsened significantly. On the demand side, consumer confidence is at historic lows during this period, falling significantly quarter-on-quarter and even deeper year-on-year. In greater detail:

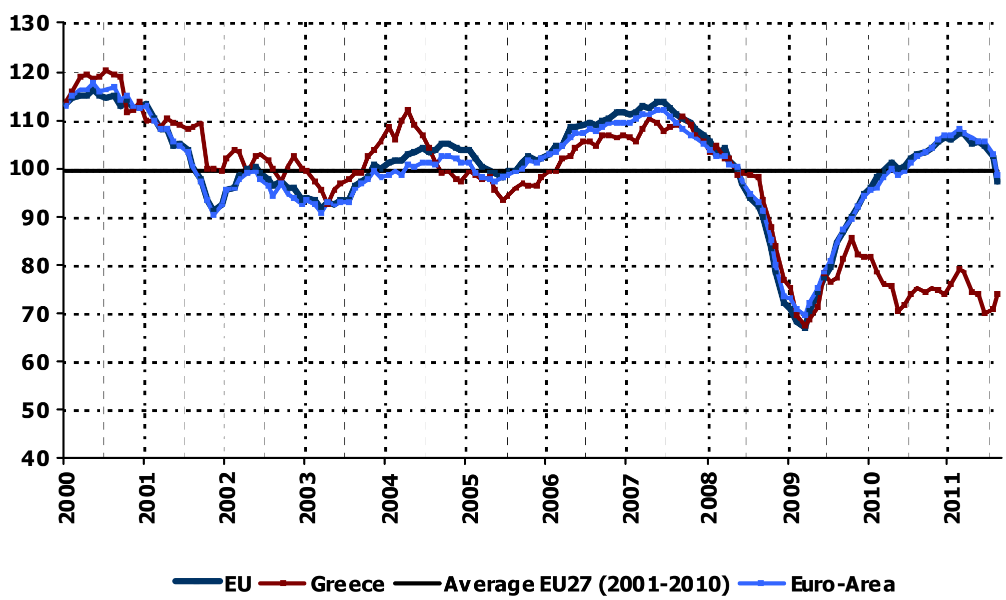
The **Consumer Confidence Indicator** in Greece fell significantly in June and July, recovering slightly in August, without offsetting the overall negative result. **Political and social turmoil during the summer months exacerbated the distrust of the Greeks on the capability of the country to emerge quickly from its difficult economic situation and aggravated the already dismal climate, which was further impaired by the rising private sector unemployment. Pervasive pessimism and insecurity characterise the assessment of the current economic conditions at both household and country level, while the continuous reduction of real income has been weakening the purchasing power of the consumers.** The consumer confidence index stood at -74 on average during the three months under investigation (from -68 in the preceding quarter), by nine points lower year-on-year. The Greek consumers have remained the most pessimistic Europeans for almost a year and a half. The average values for the index in the EU and the Euro area during the three months under investigation were significantly higher compared with Greece, at -13 and -12 respectively, recording marginal quarter-on-quarter deterioration in both areas and slight year-on-year improvement in the Euro area.

The average indicators of the consumer expectations about the financial situation of their households in the coming 12 months, the country's economic situation, the propensity to save and the expectations on the course of unemployment were at historically low levels, with the vast majority of expectations taking negative values. In particular, almost four in five households were expecting their financial situation to worsen slightly or significantly in the coming 12 months, while more than seven in ten households were predicting slight or significant deterioration of the overall economic situation in the country. The expectations on the course of unemployment over the coming 12 months were exceptionally unfavourable, as almost unanimously (more than 90% of the respondents) the Greek consumers were expecting job losses to occur. The propensity to save was also very low, as more than 85% declared that they would not save in the coming 12 months. The proportion of consumers reporting that they were "in debt" remained at 14% in the summer months, while the percentage of those that were saving small or large amounts fell to 14% (from 17% in the preceding quarter). Lastly, the percentage of consumers who reported that they were "just making ends meet" remained at 57-58%, while the percentage of those declaring that they were "dipping into their savings" increased to 13% (from 9%).

In **Industry**, the Business Confidence Indicator stood at 78 on average during the three summer months, unchanged quarter-on-quarter and slightly higher than the level recorded in the corresponding period of the previous year (76). **Industry has remained the sector with the smallest variation in business expectations in the last two years, characterised by weakened domestic demand and rising exports, which ultimately have supported the sector's sales.** The message from the constituent indices is mixed as the indicators on current activity improved overall, while the short-term forecast indicators slightly deteriorated.

Figure 2.2

Economic Sentiment Indicators: EU27, Euro area and Greece
(Seasonally adjusted data, 1990-2010=100)



Source: European Commission, DG ECFIN

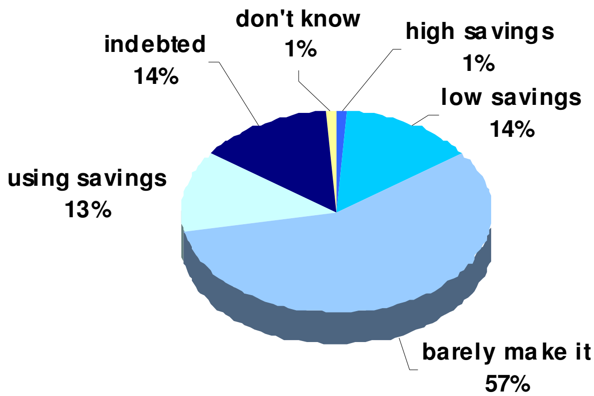
Regarding the key activity indicators, the expectations regarding the course of production in the coming 3-4 months deteriorated, reaching -3 on average, having fallen by 6 points from the preceding quarter. This was offset by the recovery of the estimates of order levels and demand to -40 (from -46) – improved performance year-on-year (from -49), but still remaining strongly negative. The estimates on finished product inventories increased only marginally to +17. The negative balance of employment expectations marginally improved to -14, slightly higher in comparison to the corresponding period of the previous year (-17). Meanwhile, the utilisation rate of the production factors stood at 67.8%, at about the same level compared with the preceding quarter and falling marginally year-on-year. Lastly, the number of months of assured production slightly fell to 3.7 months (from 4.2) at about the same level, compared with the corresponding period of 2010.

The Confidence Indicator in **Retail Trade** stood at 56 on average in the period from June to August, recording quarter-on-quarter drop by 5 points and a marginal year-on-year increase (from 52). **Despite the fact that the indicator has recovered slightly since June due to summer discounts, it is clear that Retail Trade has been the sector hit hardest by the fall in the consumers' purchasing power.** The evaluation of the enterprises of their sales remained strongly negative, with the indicator reaching -51, while 65% of the enterprises reported that their sales have fallen quarter-on-quarter.

Figure 2.3

Consumer survey data on their household's financial situation

(June – August 2011 average)



Source: IOBE

Table 2.6
Economic Sentiment Short-Term Indices

Month/ Year	Economic Sentiment Indicator[1]		Business Confidence Indicators[2] (Greece)				Consumer Confidence Indicator[1] (Greece)
	EU27	***Greece***	***Industry***	***Construction***	***Retail Trade***	***Services***	
2001	**101,0**	**107,6**	**101,9**	**114,0**	**92,2**	**105,8**	**-26**
2002	**94,9**	**98,9**	**101,2**	**114,0**	**93,3**	**82,8**	**-28**
2003	**93,2**	**93,2**	**97,9**	**115,0**	**102,0**	**85,5**	**-39**
2004	**102,5**	**102,9**	**99,1**	**81,5**	**104,8**	**94,6**	**-26**
2005	**99,4**	**89,3**	**92,6**	**63,0**	**96,8**	**93,6**	**-34**
2006	**108,4**	**103,1**	**101,5**	**91,1**	**110,8**	**103,7**	**-33**
2007	**110,8**	**108,0**	**102,8**	**92,5**	**120,8**	**106,6**	**-29**
2008	**90,7**	**89,0**	**91,9**	**95,2**	**102,5**	**97,8**	**-46**
2009	**79,9**	**70,6**	**72,1**	**65,5**	**80,4**	**70,1**	**-46**
2010	**101,6**	**75,1**	**76,2**	**45,2**	**59,5**	**62,9**	**-63**
Jan–10	96,3	81,7	75,8	64,1	75,3	67,2	-47
Feb-10	97,9	78,5	72,6	48,5	71,6	63,1	-51
Mar-10	99,8	76,3	75,3	39,6	54,5	61,7	-58
Apr-10	101,1	75,8	80,6	44,6	64,0	64,1	-61
May-10	100,0	70,2	74,9	44,0	64,3	56,8	-67
Jun-10	100,2	71,8	75,3	51,1	53,3	63,1	-67
Jul-10	102,1	73,9	75,8	46,1	50,8	64,1	-67
Aug-10	103,2	75,1	76,9	48,0	53,2	67,0	-61
Sep-10	103,6	74,3	78,4	35,5	53,4	66,7	-67
Oct-10	104,1	74,9	78,5	59,7	58,2	67,4	-72
Nov-10	105,3	74,8	74,6	56,1	55,3	60,3	-69
Dec-10	106,4	73,7	71,3	32,2	56,6	61,5	-75
Jan–11	105,9	76,1	76,6	29,1	57,5	60,1	-72
Feb-11	107,3	79,4	80,6	34,6	64,8	57,5	-67
Mar-11	107,4	78,4	80,5	26,3	66,7	59,2	-66
Apr-11	105,1	74,2	78,3	29,4	62,0	62,9	-70
May-11	105,4	74,0	78,1	36,4	52,9	61,9	-69
Jun-11	104,6	70,0	76,2	29,9	55,0	64,0	-75
Jul-11	102,3	70,9	77,5	28,8	56,9	65,4	-77
Aug-11	97,3	73,7	81,0	33,7	57,2	69,1	-71

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

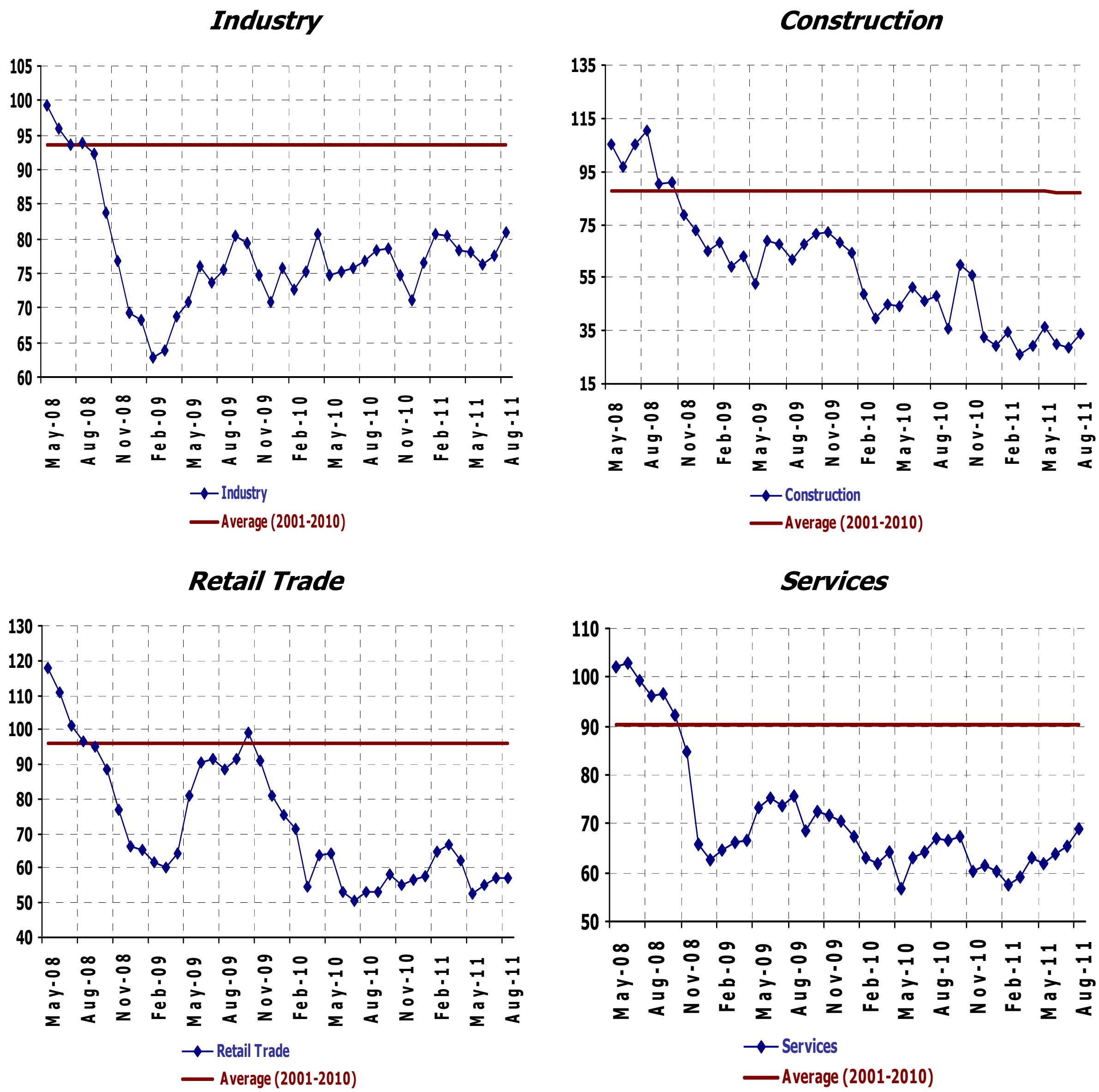
The projections of the sales over the coming three months deteriorated sharply in comparison with the preceding quarter, with the indicator reaching -46 on average (from -33), slightly higher year-on-year (-48). The expectations of the enterprises about the orders placed with suppliers were just as negative (-48 on average), while almost twice as many enterprises (32%) reported bloated inventories, compared with the share of enterprises reporting low inventories for the given season. The employment expectations were slightly less negative, compared with the preceding quarter, still indicating, however, that the sector has very limited ability to create new jobs. Lastly, deflationary price expectations have dominated throughout the current year.

Business confidence in the **Construction** sector has remained exceptionally weak since the beginning of the year, with the indicator standing at 31, significantly below its level from the corresponding period of the previous year (48). **The prospects for near-term recovery are limited, while employment in the sector has also received a strong hit. The expectations in Private Construction deteriorated significantly, while in Public Works the expectations remained very subdued due also to the curtailment of the Public Investment Programme.**

The expectations of the enterprises about their near-term work schedule became even gloomier during the three summer months, with the relevant indicator reaching -81 (from -77). The strongly negative assessment of the enterprises of their current work schedule slightly improved during the first two summer months, reaching -59 on average (from -67), substantially below the level from the corresponding period of the previous year (-34). The number of months of assured activity fell to 11 on average (from 14 in the preceding quarter), while the price level indicator remained strongly negative due to the very low demand for the sector's services. Lastly, again only 3% of the enterprises on average since the beginning of the year reported that they were not facing any obstacles to their construction activities, with 47% of the businesses citing insufficient funding as the main obstacle, 37% low demand and 13% factors related to the state of the Greek economy in general, such as recession, high taxation, delays in payment by the State, lack of project tenders, bureaucracy, suspension of large projects, etc.

In **Services**, the Confidence Indicator reached 66 on average for the summer months, recording slight 5-point increase quarter-on-quarter. **This improvement was due mostly to boost in tourist activity that strengthened the Hotels – Restaurants indicator quarter-on-quarter, even though the indicator stood at about the same levels with the corresponding period of the previous year. The near-term expectations in the sector have remained stable over a one-year period, standing at 60-65 on average, lower than the long-term average for the sector.** Regarding the constituent indicators in the sector, the assessment of the enterprises on their current demand recovered significantly, standing at -19 on average, gaining 14 points quarter-on-quarter and 10 points year-on-year.

Figure 2.4
Business Confidence Indicators[1]



1. In the calculation of Business Confidence Indicators a period - base is used, instead of a year- base. Thus the Confidence Indicators of Industry, Construction and Retail Trade sectors are calculated under a common period - base(1996-2006=100) and the Indicator of the Services sector under the period – base 1998-2006=100, as there are no available data before 1998. This change allows a more precise imprinting of fluctuations of expectations in a long-term period, while at the same time it allows the construction of comparable sub – sector confidence Indexes. **Source:** IOBE

The expectations on near-term demand remained at the same levels quarter-on-quarter, with the indicator reaching -13, slightly below its level from the corresponding period of the precious year. Meanwhile, the assessment of the enterprises on their current activity slightly improved quarter-on-quarter. The employment expectations remained unchanged, with 23% of the enterprises expecting job losses and only 4% expecting creation of new jobs, while price expectations continued to signify deflationary pressures during this quarter as well. Lastly, two in five enterprises reported that their business activity was being conducted without obstacles, while 34% of the companies indicated as main obstacle insufficient demand, 18% reported lack of working capital and further 18% indicated factors connected with the overall economic situation, such as the recession, inadequacy of the public administration at central and local level, red-tape, public sector payment delays, high taxation, delays in the implementation of the Investment Law, Athens' rundown centre and crime, labour actions, lack of growth and investment, etc.

B) Fiscal Developments and Outlook

i. Performance against the targets

According to the latest fiscal data on the execution of the 2011 Budget, the General Government deficit for the first seven months of the year reached €17.7 billion, already surpassing the €16.4 billion annual target that was set in the Medium-Term Fiscal Strategy (MTFS). The €1.3 billion slippage came from Central Administration (€0.8 billion) and Social Security Funds (€1.7 billion), while the local authorities had a significant surplus, surpassing the annual target (€1.2 billion).

The possibility of significant slippage from the targets caused uncertainty over the funding from the "troika", accelerated the implementation of the MTFS and led to new policy measures.

The risk of not achieving the targets became evident already from the end of the first quarter, resulting in the drafting of MTFS. The strategy facilitated the making of the decisions of the 21st July Eurozone Summit on funding the financing needs of the country, with key feature private sector involvement (PSI) in voluntary bond swap scheme. In the mean time, some of Greece's partners started having second thoughts, which were boosted by unsatisfactory speed of MTFS implementation and shrinking time margins towards the end of the year. The hesitation of the "troika" regarding the disbursement of the 6th tranche of the loan to Greece and the risk of uncontrollable and irreversible course of events led to mobilisation for the implementation of the MTFS measures and the adoption of complementary measures, such as new property taxation.

ii. Draft of the 2012 State Budget

According to the Draft Budget that was submitted to the parliament on 3 October 2011, the Greek economy is expected to contract by 5.5% in 2011 (from initial forecast of 3.8% contraction), while in 2012 the GDP growth rate will remain negative at -2.5% (from initial forecast of marginally positive growth by 0.6%). This revision reveals the oversight in the initial fiscal adjustment programme, which was based on optimistic expectations regarding the external environment and the impact of the fiscal measures on the real economy, as it envisaged milder recession in 2011 and return to growth in 2012. According to Ministry of Finance estimates, the economy will return to positive growth rates in 2013. It should be stressed, however, that such kind of consolidation programmes are dynamic and have to be adjusted with significant changes in the economic and social circumstances that surround their implementation in order to achieve their long-term targets. The close monitoring of the programme and the adoption of additional structural measures for the achievement of the targets, together with the establishment of medium-term fiscal strategy and the timely submission of the state budget to the Parliament for debate and voting constitute positive signs of having responsible fiscal management. On the other hand, difficulties in the implementation of decisions and adopted measures add to the uncertainty and create the need for further painful measures for the achievement of the fiscal targets.

As a result of the deeper than expected contraction, the General Government deficit forecast was raised. More specifically, the deficit is expected to reach 8.5% of GDP in 2011 (from 7.8% of GDP initial estimates) and 6.8% of GDP in 2012 (from 6.5% of GDP initial estimates). It should be noted that the new fiscal targets seem more realistic and their revision does not diminish the fiscal consolidation effort that the country has expended, as the deficit is envisaged to decline by 8.6% of GDP (or €21.6 billion) over 3 years, during a period of unprecedented recession. It should also be noted that the fiscal adjustment in nominal terms over 2009-2012 remains unchanged (according to the initial programme, the deficit reduction was envisaged to reach €21.4 billion), underlining the will of the Government to meet its commitments.

Important element of the 2012 State Budget is the estimate that next year there will be primary surplus of €3.2 billion (or 1.5% of GDP), compared with initial estimates of €3 billion (or 1.3% of GDP) primary surplus. The generation of primary surpluses is expected to contribute to recovery of the international credibility of the country, as this will make it possible to repay part of the public debt with own resources. In this way, public debt will embark on a falling trajectory. Despite the overthrow of the initial assumptions of the programme on the extent of contraction, we consider the generation of primary surpluses equally important success factor of the programme that can reverse the bad sentiment. It should be achieved by all means, so that the increasing trajectory of public debt is reversed from 2013 onwards.

According to the latest estimates, public debt is expected to reach 161.8% of GDP in 2011 (from initial estimates of 156.7% of GDP) and to peak in 2012 at 172.7% of GDP (from initial estimates of 161.3% of GDP). The upping of the debt indicators is due to the deeper contraction, as the nominal size of the debt has not changed from the initial estimates of the programme. It should be noted, however, that the forecast on the course of debt does not take into account the impact from implementing the decisions of the 21st July Eurozone Summit (PSI – EFSF), while most probably it also does not include revenues from the privatisation programme. The below table shows the latest forecast on the economy's fundamentals. In addition, the State Budget draft includes a series of new fiscal interventions, bringing €7.1 billion in 2011 and 2012 (see Table 2.8).

Table 2.7
Main Figures of the Greek Economy

	2009	2010	2011		2012	
(annual % changes, constant prices)			**New Forecasts**	Program Targets	**New Forecasts**	Program Targets
GDP	-2,0	-4,5	**-5,5**	-3,8	**-2,5**	0,6
Private Consumption	-2,2	-4,5	**-6,2**	-4,8	**-3,8**	-1,2
Public Consumption	10,3	-6,5	**-8,0**	-8,4	**-7,5**	-5,0
Investment	-11,2	-16,5	**-12,9**	-8,9	**-4,0**	-1,5
Exports of goods & services	-20,1	3,8	**3,9**	6,4	**6,4**	6,7
Imports of goods & services	-18,6	-4,8	**-6,3**	-4,2	**-2,8**	-3,2
HICP (%)	1,3	4,7	**2,8**	2,9	**0,6**	1,0
Unemployment (%)	9,1	11,5	**15,2**	14,5	**16,4**	15,0
General Government Primary Balance (% of GDP)	-10,3	-4,9	**-1,1**	-0,8	**1,5**	1,3
General Government Primary Balance (bn. €)	-24,1	-11,4	**-2,4**	-1,8	**3,2**	3,0
General Government Balance (% of GDP)	-15,4	-10,5	**-8,5**	-7,8	**-6,8**	-6,5
General Government Balance (bn. €)	36,3	24,2	**-18,7**	17,1	**14,7**	14,9
General Government Debt (% of GDP)	127,1	142,7	**161,8**	156,7	**172,7**	161,3
General Government Debt (bn. €)	298,7	328,6	**356,5**	352,6	**371,9**	367,5

Source: 2012 Budget Draft

Table 2.8

New Fiscal Measures

mil. €	**2011**	**2012**
Abolition of tax exemptions	0	1.950
Suspension of retroactive payments to judges	0	280
Special levy on real estate property	1.700	100
New remuneration system in the public sector	150	950
Labour reserve in the public sector	0	200
Main & supplementary pensions, Social Security Funds	260	480
Increase of EU participation to co-financed programms	0	800
Abolition of the subsidy in heating oil	0	250
Total	**2.110**	**5.010**

Source: 2012 Budget Draft

The data on the execution of the State Budget for the first eight months of the year reveal that the net revenue of the Ordinary Budget fell by 5.3% year-on-year (see Table 2.9).

Revenue before Tax Refunds was lower by €1.3 billion compared with 2010 (lower even than its 2009 level). Prima facie, there seems to be a problem on the expenditure side of the Ordinary Budget, which increased by 8.1% in total. After subtracting interest payments the increase in expenditure falls to 4.5%, while if we also exclude transfers to hospitals for the settlement of their past debt, the increase is limited to 3.9%.

A more careful analysis of the expenditure reveals, however, that the increase comes mostly from growth by 33.2% of grants to social security funds, which have lower revenues due to the recession (see Table 2.10). Meanwhile, the social protection expenditure increased by 15.5%, almost exclusively due to doubling of the grant to the Manpower Employment Agency as a result of the increase in unemployment benefit outlay. Significant amount was also expended for the social insurance of employees of the Public Power Corporation.

Table 2.9

2011 State Budget Execution (January-August)

Mil. €		2009	2010	2011	2010/09	2011/10
ORDINARY BUDGET	1. Net Revenues (a-b)	31.333	32.397	30.680	3,4%	-5,3%
	a. Revenues before tax returns	*34.432*	*35.416*	*34.087*	*2,9%*	*-3,8%*
	b. Tax returns	*3.099*	*3.019*	*3.407*	*-2,6%*	*12,9%*
	2. Expenditures (a+b+c)	47.104	43.845	47.399	-6,9%	8,1%
	a. Primary Expenditures	*37.084*	*32.933*	*34.216*	*-11,2%*	*3,9%*
	b. Subsidies to hospitals	*0*	*230*	*434*	-	-
	c. Interest Payments	*10.020*	*10.682*	*12.749*	*6,6%*	*19,4%*
PIP	3. Revenues	1.347	1.309	1.877	-2,8%	43,4%
	4. Expenditures	6.958	4.675	3.259	-32,8%	-30,3%
STATE BUDGET	**A. REVENUES (1+3)**	**32.680**	**33.706**	**32.557**	**3,1%**	**-3,4%**
	B. EXPENDITURES (2+4)	**54.062**	**48.520**	**50.658**	**-10,3%**	**4,4%**
	B.1 Primary Spending (2+4-2c)	***44.042***	***37.838***	***37.909***	***-14,1%***	***0,2%***
	C. NET DEFICIT (A-B)	**-21.382**	**-14.814**	**-18.101**	**-30,7%**	**22,2%**
	D. PRIMARY DEFICIT (A-B.1)	**-11.362**	**-4.132**	**-5.352**	**-63,6%**	**29,5%**

Sources: Budget Execution Bulletin, Ministry of Finance-GAO

Table 2.10

Expenditures (January-August)

Mil. €	2010	2011	2011/2010
Salaries & Pensions	15.040	14.504	-3,6%
Grants to Social Security Funds	7.087	9.438	33,2%
Grants to other entities	1.405	1.071	-23,7%
Healthcare and Social Protection Expenditures	2.173	2.509	15,5%
Operational and other expenditures	3.634	3.301	-9,2%
Earmarked Revenues	3.358	3.323	-1,0%
Payments in exchange of claims of the Insurance Fund of the Public Electricity Company	467	504	8,0%
Total	**33.163**	**34.649**	**4,5%**

Sources: Ministry of Finance-GAO

Recession and unemployment limit the reduction of expenditure

Spending on salaries fell by 7.6%, while pensions increased by 3.9% (evidently due to retirement of public sector employees), resulting in an overall decrease of this expenditure item by 3.6% (Table 2.8). Likewise, grants to other entities fell significantly by 23.7% (even though grants to transport agencies increased by 24.3%). Operational expenses declined by 9.2%, while conditional expenditure decreased by only 1%. Two conclusions can be drawn from this: a) the increase in primary expenditure was mainly due to needs of the social security funds and the employment agency generated by the recession; b) even though the reduction in remaining expenditure was significant, it was not sufficient for the desired extent of fiscal consolidation. Lastly, the continuous reduction in public investment, which stood at less than half its 2009 level for the first eight months of the year, should also be noted.

Salary cost and expenditure policy

Given that the observed reduction in salary cost was mainly caused by premature retirement of public sector employees, the new remuneration system should be implemented immediately in order to achieve a more effective control and a fairer management of the salary cost. Meanwhile, reduction of the number of people on State payroll is perhaps even more important, given that it is a more effective way to reduce salary cost and maybe will enable to partially restore the income of the civil servants that will remain in service in the future. The reduction of the number of employees in the public sector can be achieved by not renewing project or term contracts and by closing or merging agencies (an initiative that for the time being is implemented slowly with obstacles), perhaps following LIFO principle. The recent years recruitment in all of the public sector, including state-owned enterprises, local authorities and central government should also be re-examined on this principle. Lastly, the efficiency improvement of the public administration should be planned in medium-term horizon and to include rational reconstruction of the organisation charts of all agencies and units of the public sector, with substantial personnel reallocation.

iii. Fiscal guidelines

Decisive stance on fiscal policy

The utterly critical condition of the economy requires a resolution of the fiscal problems with decisive actions and determination for rapid and effective policy implementation. Fiscal policy should span the following axes: a) expenditure reduction; b) reallocation of expenditure; c) broadening of the tax base and limitation of evasion of taxes and social security contribution; d) fairer distribution of income and the tax burden; e) more effective tax administration and management through structural policies. The policy of spending cuts should take precedence in 2011 and 2012 until the effort to reduce tax evasion and the economic recovery begin to deliver.

The particular policies and measures for 2011-2014 are described in MTFS. In this regard the following remarks can be made:

Expenditure policies:

New remuneration system without benefits, focused on effort

Following the across-the-board cuts in 2010, salary expenditure should be rationalised on a more permanent basis. For this reason, the new system of remuneration, classification and evaluation in the public sector should be introduced as soon as possible. The new system should be based on a professional and hierarchical categorisation of the employees. We can define the following general principles:

- The personnel should be classified to a relatively small number of branches, such as management, scientific/technical, clinical, educational, judiciary, armed and security forces, inspectors and support staff.
- Personnel recruitment (and the enrolment of current personnel) should be performed at branch and not agency level.

- Redeployment across branches should be very difficult, while redeployment across agencies should be very easy.

- All the benefits (with a few minor exceptions, such as child benefits) should be abolished, while their rationale should be taken into account in the new remuneration system, provided that they are in accordance with its general principles.

- The salary grades should reflect managerial position, typical skills and experience.

- The allocation of personnel to salary grades should follow particular rationing, or alternatively, the salary increase due to years of service should take place at a relatively sparse time intervals (e.g. 5 times during the duration of a professional life) and following an evaluation.

- Reduction of the number of managerial positions (with rationalisation of the organisation charts, as mentioned earlier). Both promotion and demotion should be possible (e.g. if a person ceases to hold a managerial position). Necessary prerequisite is an effective evaluation of the personnel's efforts.

It should be noted that part of the fiscal benefit from the reduction in salary cost, through reduction in remuneration and/or staff numbers, is lost due to reduction in income tax and social security contribution revenues and by the fact that part of the remuneration is replaced by unemployment benefits, reserve wages or pensions. If this is not taken into account inevitably there will be shortage from targets in a very important expenditure item, which would trigger the process of taking complementary measures.

Control of operational and investment spending and grants

Further spending cuts could come from strict procurement control in central administration (e.g. Defence), public sector agencies (MTFS envisages reduction of operational expenditure by 7%, which can be doubled, at least) and loss-making state-owned enterprises (to the extent that they are not included in the reduction of grants to agencies outside General Government). When making these cuts, it should be taken into account that there could be shortages in other significant spending reduction targets, such as in social security funds (€ 1,008 million target) or closed agencies (€ 200 million), for 2011 at least. In this regard, all grants should be revised and the stale cash reserves should be utilised. In particular, the expediency of the grants should be reexamined (at the point of final beneficiary) by the General Accounting Office and independent auditors.

We should proceed immediately to the full implementation of measures such as:

- Procurement control system for spending on goods and services of consumer or investment type. Audit of purpose, legality, expediency (e.g. for overpricing) and efficiency (quality and performance of the received goods and services).

- Immediate introduction of the double-entry accounting system in all General Government agencies.
- Immediate introduction of modern logistic systems in all General Government agencies and state-owned enterprises.

Closure or merger of agencies

The process of abolishing or merging entities should proceed in a quick and bold manner. Currently, for example, the existence of four public television channels (three belonging to Greek Radio Television SA and one to the Greek Parliament, in addition to satellite and digital channels) should perhaps be seen as luxury. A prerequisite for this is the establishment of complete registry of all agencies, supervised and supervisory, at all administration levels (central government, public law corporate entities, private law corporate entities, local government, social security funds and state-owned enterprises).

Complete review of the third-party revenue attribution system

In Greece there is a convolute and obscure system of imposing charges on inputs (e.g. wage deduction) or outputs (e.g. retail prices or contracts) and passing the revenue to third parties. There is such a system for certain tax revenues as well. In 1996 and 2002 attempts were made to record these practices, whose number was estimated to be somewhere between 600 and 1000. This system has repeatedly been subjected to criticism and reform proposals (see for example "Report on Tax System Reform", 2002). The last such initiative was announced in 2008, without tangible results.

At this point, special mention should be made on the funding system for local and regional government and on the need to disconnect the spending of decentralized administration from tax revenue. The system of special revenue accrual that is envisaged (also) in the Kallikratis plan should be abolished and replaced by comprehensive revenue plan. Automatic revenue determination creates potential conflict between national fiscal policy and policies at local level. At times of fiscal discipline, increase of revenue is accompanied by corresponding automatic increase in decentralised expenditure, while in a period of economic hardship the funds to the decentralised administration are not enough. This policy has become a point of friction between local and central government, with the municipalities demanding "owed" funds that have not been disbursed from the past. Even the type of taxes that are "attributed" in such a way (income tax, VAT) do not support this approach. Perhaps, it would have been wiser if the attributed taxes were limited to taxation with clear geographical character (e.g. property or vehicle circulation taxes). In addition, there are about 17 charges apart from CAP, of which only 4 generate ¾ of total revenue. These taxes have high variability, while apart from them there is a multitude of other revenue attribution practices from taxes, local duties, fines and other public revenue, often inactive, while there is doubt to what extent their existence is justified by their tax collection contribution or economic effectiveness. The medley of taxes, charges and various other revenue raising instruments make the funding of local government ineffective, insufficient, fiscally obscure and costly. In conclusion, the funding system should be redefined based on the needs and responsibilities of the decentralised administration, as well as on the effectiveness of its spending. The various charges should be consolidated to a small manageable number, while the co-financed investment should be taken up by the public investment programme, while there should be a ceiling (as % of GDP) on national investment.

Completion of the social security reform and revision of the social benefits system

After the first phase of the social security reform, which concerned general principles, we should proceed to its completion and to redesign the social security system based on the three "pillars". The benefits of the auxiliary funds should be rationalised in the direction of a system of predetermined contribution and not predetermined benefits, i.e. a kind of obligatory professional insurance. In this regard the abolition of "social" resources (see third-party revenue above) should be taken into account, while the participation of the employers in the system should be re-examined, both in Central Administration and in state-owned enterprises.

Greece has one of the least efficient system of social benefits, as revealed by the relevant Eurostat data, where the reduction in poverty rate after the provision of benefits is minimal. All social benefits should be re-examined in a unified manner (of all agencies simultaneously). In this regard, the possibility to transfer as many social benefits as possible that are provided in the form of tax deduction to a system of direct transfers, which provides improved transparency and control possibilities, should be examined.

Restart of public investment

Public investment should be reinvigorated as quickly as possible, on a new basis that is more effective and with lower cost (more investment activity with the same resources), in order to support the economic development effort. In this regard, we should take advantage from the reduction in co-financing requirements in NSRF and in cooperation with the European Commission to establish procedures for fast project maturation, minimal administrative delay and leverage of capital facilitation.

Dissemination of public benefit to the real economy

The public sector and the state-owned enterprises of General Government owe about €6.5 billion to the private sector (which have mostly been accounted for in the deficit). Borrowing such an amount and making it available to the real economy would significantly boost liquidity with beneficial results, despite the accompanied debt increase (≈3% of GDP). Meanwhile, before their settlement, the possibility for their renegotiation by a central entity with a competency and a legal cover to avoid prosecution in case of reached agreement (a possibility probably feared by heads of state agencies) should be examined, together with the establishment of a factoring system by the tax authorities, in order to enable their reconciliation with tax debts (there already is such a practice with the detention of invoice settlement amounts for the issuance of tax clearance).

Revenue policies

Complete reform of the tax system

Tax system reforms have been announced on many occasions, from the distant to the very recent past. All efforts, however, can be characterised as fragmented and timid. As a result, the tax system has had the same characteristics for decades. The most recent holistic attempt on this issue was undertaken by the Tax System Reform Committee in 2002 (Georgakopoulou Commission), but its report was quickly forgotten.

The new tax system should have features, such as:

- Comprehensive revision and drastic overhaul of all tax expenditure, including the tax-exempt income level and the VAT tax breaks (especially according to geographical criteria), and in particular those that are not effective as incentives, are provided indiscriminately or simply do not have a rationale of existence. They should be replaced, wherever deemed necessary (e.g. for children, health, etc.) with direct transfers, revising the social spending safety net accordingly. This should infuse transparency and effectiveness in the system. The revision of tax spending should be general and should include all kinds of taxation (income tax, corporate tax, ownership and transfer of movable and immovable property, VAT, excise taxes, etc.).

- Extension of the book-keeping requirements to all sectors of the Greek economy (including construction and agriculture).

- Simplification of the classification of legal forms of enterprises, at least for tax purposes (there is wide differentiation in tax treatment, depending on the legal form of the entities, which facilitates tax evasion, lack of transparency, complexity and ultimately inefficiency of the system). The sole proprietorships should be taxed as legal entities and not physical persons. In this regard, the height of the tax coefficient can also be reviewed.

- The tax codes and accompanying secondary acts should be significantly simplified or even abolished in their current form.

- New tax laws should be submitted prior or together with the Budget and, if possible, with the same procedure (plenary session debates with publicity, open voting). Tax law amendments should only be allowed with the next budget and not separately.

Text box: Tax deductions

As already known, the government has the intention to change again the system of taxation for the individuals. The changes in Law No. 3482/2010 of last year were in the right direction (e.g. abolishment of the flat tax rate on capital gains, maintenance cost presumptions, etc.), but the reform has not been completed yet.

The tax system is characterised by a large number of tax breaks. Overall, and before the last year reform, there were about 1.000 tax deductions, out of which about ¼ referred to income tax. The tax breaks practically cover all types of taxation (income, property, consumption) and are directed at physical persons and legal entities, with family, personal, geographical, professional and other criteria. The provision of tax deductions is often done indiscriminately, without taking into account significant factors, or with criteria that are often obscure or with doubtful effectiveness with respect to their goals. Moreover, tax deductions have accumulated over the years, as there is no system of their regular review, given that they are usually established through a separate law each time, outside the budget approval process. This renders the tax system inefficient, while most likely it does not improve the income distribution as much as it should (and in some cases makes it more unequal).

Given the above and taking into account the interdependency that often exists between the different taxation types (e.g. income and VAT), the new revision of the tax system and of the tax deductions in particular should be designed simultaneously for all the various taxation types, even if the implementation is carried out at different times.

The revision of the tax deductions should also happen in view not only of abolishing those that are deemed unfair or inefficient, but also in view of replacing as many as possible with direct transfers, which are targeted and transparent.

Regarding the cash performance of the physical persons' income taxation, it is worth noting that 55% of the tax payers declare annual income below € 10,000. This corresponds to 17% of the total declared income and brings about less than 1% of the total tax. Prima facie this seems reasonable, given that a monthly wage of up to € 800 characterises many tax payers (low-income pensioners and young employees). Examining, however, income by source, it becomes evident that while the share of employees and pensioners that declare low or very low income is small (13% and 38% respectively), in other sources it is significantly higher (e.g. in construction and land 71% and 87%, free-lance professions 56% and 70%, agriculture enterprises 91% and 97%, etc.).

On the other hand, it should be noted that the tax-exempt income limits have been set for quite a few years and have been revised rather arbitrarily. In any case, it is worth mention that according to ELSTAT data the 2009 poverty threshold was € 6,900 for one-person household and increases with the number of household members (e.g. €14,500 for a couple with two children). These sums are significantly higher than the recent tax-exemption limits (e.g. €12.000+€12.000 for a couple without children), from which the tax payer enjoyed higher benefit the higher income / marginal tax rate she had! The above observation implies that the tax-exempt income limit should be rationalised (e.g. linked to the poverty threshold and taking seriously into account the differences in family status). The limit should be reduced, but this should be combined with direct transfers to those that objectively need support and are hit disproportionately by the new system.

Lastly, it would be desirable if the new tax law is submitted to the Parliament before or with the State Budget. It would also be desirable to find a way to legally limit the changes in the system over the coming years in order to make it more stable, reliable and effective.

Example 1: Farmers

The abolishment of exemptions for farmers of excise taxes and VAT, together with scrapping of the flat tax rate, making book-keeping obligatory (their education level has ceased long ago to constitute a serious argument to avoid book-keeping) implies that: 1) Those with high income will pay taxes as all tax payers, while unjustified tax refunds will be limited; 2) It would be easier to track income and VAT not only of the farmers but also of agricultural product traders; 3) The subsidy system will be easier to monitor; 4) The illicit trade (e.g. of tax-exempt fuel) will be reduced.

Example 2: Children

Currently, the tax-exempt income level depends on the number of children. In addition, there are a number of benefits for three or more children from several agencies, together with a pension for mothers with many children. These benefits are provided to all indiscriminately, independently of objective criteria (e.g. including the 12,000 families with income above € 60,000). Nobody considers these benefits as serious incentive to increase the birth rate, while they also support high-income households. The consolidation of all these direct benefits and tax deductions could add up to a serious amount, part of which can be redistributed in a targeted way, e.g. to new low-income couples for their first and then second child (without these how can they make more?).

Comprehensive reform of the tax administration system

Even though a five-year strategic tax administration programme was announced recently, special attention should be paid to the basic directions it should follow, which can be summarised as follows:

- Radical simplification and drastic improvement of processes: Maximum possible automation and central coordination of the system, with minimisation of the number of required processes, employees and revenue collection time.
- Focus of tax administration on collection, not simply on verification.
- Reform of the method and schedule of tax dispute settlement and especially in relation to the judicial process (process internalisation, tax courts, changes in deadlines and processes).
- Establishment of system evaluation criteria based on outputs and not inputs (e.g. how much additional revenue was collected from audits and not how many employees were involved in audits or how many audits were performed).
- Strict internal control with rectification and complete separation of the roles of inspector and inspected.
- Reallocation and flexibility in the allocation of the tax administration system forces.
- As full as possible implementation of e-government with the utilisation of NSRF funds.

Processes similar to those in tax administration should also be established in the social security funds

More specifically, in relation to the above, emphasis should be put on the following:

- Make the system objective: Amend legislation in order to eliminate the possibility single-person decision makers to determine tax base, tax burden, mode of debt payment, etc. All these should be determined either by law, or by multi-member decision making bodies.
- Modernisation and extension of IT systems: The NSRF funds are very valuable tool for the development and extension of IT applications to all stages and aspects of tax administration. No activity (e.g. judicial department) should remain without IT applications. As many activities as possible should be performed automatically and exclusively through IT.
- Certification – Audit – Collection: Organisation and coordination of the stages from the beginning until the end of the tax process:

  Stage 1: Mandatory audits by chartered and certified accountants during a financial year (e.g. for compliance with reporting obligations, invoices etc.) and before the finalisation of the financial accounts (e.g. in public limited companies and limited partnerships or in companies with turnover above a certain limit and/or for companies that supply public administration and state-owned enterprises). Audit report. Certification of tax obligation.

Electronic submission of the audit report and certification to the central system.

Stage 2: Centralised determination of companies for random audits (based on risk analysis) by the tax authorities. The audit could have implications both to the companies and the stage 1 auditors.

Stage 3: Centralised processing of the results from stages 1 and 2 and settlement of any disputes.

Stage 4: Collection within a short time frame, using crosschecks of bank accounts and mobilising public tax collectors.

It would be useful if the audits start from the most recent year and proceed further back in case there is a reason for that. This requires corresponding amendment of the statutes of limitation.

- Better service to the public with the establishment of tax service centres as part of the existing public service centres or separately, establishment of Tax Ombudsman and appointment of an employee to service each case.

More effective indirect taxation

Modification of the tax structure for tobacco products could bring significant additional revenue. It is estimated that the planned increase of the minimum tax rate is far from enough in order to compensate for the significant losses from substituting expensive with cheaper cigarettes. According to estimates, Greece has the largest deviation between the typical low price and the most popular price of cigarettes in Europe, together with one of the lowest excise tax specific components (bottom five). In this case, apart from increase of the minimum tax rate, the structure of the tax rate should change with significant increase (at least tripling) of the specific component with corresponding reduction in the proportional component (ad valorem + VAT). It is estimated that in such a way, the performance of this MTFS measure will be significantly boosted. Meanwhile, the 2012 revenue is protected, given that simple increase in the minimum tax rate facilitates price wars. If indeed price reduction accompanies higher proportional component taxation in comparison with the specific component, this will lead to significant reduction in tax revenue (in Spain something similar happened).

Regarding excise taxes on fuels, the equalisation of taxation of heating oil and motor diesel, as envisaged already from last year's Budget, should be implemented immediately, not only for the obvious tax collection results, but mainly to eliminate the incentives for fraud and illicit trading.

Effective administration of concessions and property

Given that the "traditional" privatisation process seems to be delayed, it should possibly be supplemented with initiatives, such as:

- System of certification of free-lance professionals. For the time being such certification is either not in place or is provided by trade chambers under some form (voluntary or otherwise).

- Large number of radio and television stations operate in Greece without any licensing system in place. Only in Athens and Thessaloniki there are about 100 radio stations, while at least 70 TV stations operate at national and local level. The state should organise a system of granting licences, which could generate significant revenue (conferring, perhaps, the licensing of local stations and the corresponding revenue to the prefectures).

- The utilisation of state-owned land and real estate could become significant factor of revenue generation and economic growth. Unutilised agricultural land could generate at least €5.5 billion, while fields and plots can be conferred by the central administration to the municipalities for utilisation. In any case, clear definition of land uses and simplification of procedures is essential. Such kind of activities will ease the need to finance the decentralised administration, while they will also significantly reduce both debt and deficit.

- Given the lack of compliance to the prohibition of smoking in roofed public places, which renders any anti-smoking policy non-credible, it would be preferable to charge a tax for tobacco consumption in bars, cafes and restaurants, in combination with very large fines for those that do not have licence but allow smoking in their establishment. The charge of such an annual tax could collect at least €100 million more than envisaged by MTFS. Such a return could also be collected by corresponding charge for the consumption of spirits.

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic developments

Developments in the first half of 2011

The drafting and finalisation of the Medium-Term Fiscal Strategy (MTFS) and the processes within the European Union on the establishment of a new mechanism to support countries that are unable to refinance their debt, with immediate implementation in the case of Greece, were the key events that shaped the Greek economy during the second quarter of 2011. Towards the end of this period, procrastination in the MTFS finalisation, strong reaction by sections of the society against it and repeated consultations between the parties without any effect, generated strong turmoil in the domestic political life, with negative impact on social and economic activity. As a result, the uncertainty on the ability of Greece to meet its commitments from the Support Agreement and MTFS expanded significantly, both domestically and abroad. In contrast to the strained domestic economic environment, for one more quarter the external sector delivered positive results.

Under these circumstances, **the contraction of the Greek economy did not deepen further in the second quarter, but remained strong at 7.4% of GDP. This level, combined with the corresponding first quarter performance, translated into a first half contraction by 7.7%,** compared with 1.8% contraction during the first half of 2010, according to the latest newly revised National Accounts data from ELSTAT.[11]

In line with the trends in key macroeconomic indicators during the preceding quarters, **the contraction of investment and the slump in household consumption remained the factors that largely shaped the recession.** Large fall was also observed in the consumption expenditure of the public sector. In contrast, the performance of the external sector has continuously improved, with significant deficit reduction even after taking into account seasonal factors that keep imports low during the second quarter of each year.

In greater detail, **total consumption expenditure fell by 7.1% year-on-year in the first half of 2011,** compared with a reduction of 2.8% a year before. The rate of decline of consumption expenditure was slightly higher in the public than the private sector – 8.4% against 7.1%. There were also trend differences between the two sectors, as

[11] The press release of the Quarterly National Accounts for the 2nd quarter of 2011 states that "due to the break in the time series of quarterly General Government data, and the resulting availability of data for only a very short period (2009Q1-2011Q2) on which to apply the seasonal adjustment calculation, …, the implementation of seasonal adjustment does not provide satisfactory results. For this reason, the figures published are solely the non-seasonally adjusted ones." However in the corresponding press release for the first quarter results, after presenting the same problem, the press release states that "ELSTAT in consultation with Eurostat, has applied a new method of seasonal adjustment, which allows for seasonal breaks and is deemed to provide more reliable results. Nevertheless, data users should continue to use caution in using these results until a longer time series is established." In the second quarter press release there is no mentioning whether this adjustment method was abandoned or was still in use.

contraction in the second quarter deepened in the former and weakened in the latter. As such, while during the first quarter household consumption was falling faster than public consumption, the reverse happened in the second quarter.

Investment activity has been experiencing heavy, prolonged slump. **Gross investment expenditure contracted by almost 20% in the first half of 2011**, while a year before the contraction did not exceed 5.1%. The fall in investment has expanded since the beginning of the year, reaching 21.8% in the second quarter from 17.5% in the first. As a result of a continuous fall for forth year in a row, investment in the first half was limited to 60% of its 2007 level, which was the peak year of investment since at least 2000. **The largest contraction in fixed capital formation was observed in transport (-40.9%) and residential construction (-21%).** Other construction fell by 16.3%, while smaller reduction was observed in metal products – machinery (-8.7%) and agriculture equipment (-1.7%).

The performance of the external sector of the Greek economy continued to improve. **However, its deficit reduction in 2011 came from weaker contraction in exports, compared with imports, while during the same period of last year exports were expanding and imports contracting.** In more detail, **the contraction of imports deepened to 10.5% during the first half of the year, from 3.7% in 2011.** In line with the course of private consumption, the contraction of imports weakened in the second quarter, compared with the first. There was little difference in the contraction of the demand for imports between goods (-11.1%) and services (-8.1%).

The contraction of exports was weaker, at 1.9%, following last year's expansion by 2.7%. The contraction came mostly from lower exports of services by 6.5%, while the exports of goods expanded by 3.8%. As a result of the changes in imports and exports, the deficit of the economy's external sector reached 11.2% of GDP in the fist half of 2011, falling by 2.2 percentage points year-on-year.

On production side, **domestic added value fell by 7.6% year-on-year in the first half of 2011**, while a year before the contraction was limited to 2.3%. **At branch level, construction and trade-hotels-restaurants-transport were the sectors hit hardest by the slump in economic activity, falling by 18.7% and 11.8% correspondingly.** These branches were followed by industry (-5.3%), other services and agriculture-forestry-fishing (-3.9%). The ranking has changed significantly since 2010, when the fall was largest in industry (-11.3%), followed at a distance by construction (-2.4%) and trade-hotels-restaurants-transport (-1.4%), while agriculture-forestry-fishing was growing strongly (+16.1%). Mild contraction was observed in the first half of 2011 in financial activities-activities related to real estate (-2.9%), following an increase from last year (+1.4%). As already noted in the previous quarterly report of IOBE, the above trends depict the path and the diffusion of the recession in the Greek economy, which started in 2009 from construction, moved last year to the secondary sector and now is raging with greater strength again in construction, but also in services, which last year experienced relative resilience.

The stabilisation of contraction at strong levels during the first half of 2011, after the sudden plunge in late 2010, had strongly negative impact on the labour market. **Unemployment reached 16.1% in the first half of this year, higher by 4.3 percentage points year-on-year** and by 2.8 percentage points compared with the preceding half. Its large expansion constitutes one of the basic causes behind the contraction of consumption expenditure and disinflation, as the inflation rate from 5.2% in January fell to 3.3% in June, falling further to 1.7% in August.

In summary, the domestic economic activity came under pressure for one more quarter, not only due to the economic impact of fiscal consolidation, but also from continuous, intense uncertainty and aloofness, caused by: a) procrastination in the finalisation and implementation of structural reforms that would have allowed faster crystallisation of the new realities of the Greek economy and society, but also for significant improvement of the international credibility of the country; b) reluctance in the Euro area to agree on drastic policies regarding support of countries experiencing debt refinancing difficulties, which should not be occasional and ad-hoc, but should be relevant to all Euro area member-countries. The protractedly volatile domestic and international environment has generated similar climate in the international stock exchanges and the bond markets, which in turn expand and strengthen the climate of instability with their wild swing in prices.

Table 3.1

Main Economic Volumes-Quarterly National Accounts (constant 2000 prices)

Year/ Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	mil. €	Annual rate of change	mil. €	Annual rate of change	mil. €	Annual rate of change	mil. €	Annual rate of change	mil. €	Annual rate of change
2001	**142.001**	**4,2%**	**127.980**	**4,1%**	**33.025**	**3,9%**	**33.878**	**0,0%**	**52.882**	**1,2%**
2002	**146.884**	**3,4%**	**134.663**	**5,2%**	**33.441**	**1,3%**	**31.034**	**-8,4%**	**52.219**	**-1,3%**
2003	**155.614**	**5,9%**	**137.952**	**2,4%**	**39.627**	**18,5%**	**31.940**	**2,9%**	**53.768**	**3,0%**
2004	**162.411**	**4,4%**	**143.158**	**3,8%**	**38.686**	**-2,4%**	**37.470**	**17,3%**	**56.814**	**5,7%**
2005	**166.114**	**2,3%**	**148.625**	**3,8%**	**35.073**	**-9,3%**	**38.408**	**2,5%**	**55.974**	**-1,5%**
a' 2006	39.787	4,7%	40.053	6,4%	6.586	-1,2%	7.809	5,8%	14.906	7,6%
b' 2006	43.673	5,9%	40.002	6,2%	8.862	9,6%	10.243	12,4%	15.498	13,4%
c' 2006	46.256	5,7%	39.530	5,6%	8.484	18,5%	13.464	2,0%	15.195	8,5%
d' 2006	44.980	4,4%	37.802	5,4%	14.245	8,2%	8.941	2,6%	15.785	9,2%
2006*	**174.696**	**5,2%**	**157.387**	**5,9%**	**38.176**	**8,8%**	**40.457**	**5,3%**	**61.384**	**9,7%**
a' 2007	41.922	5,4%	41.603	3,9%	8.807	33,7%	8.217	5,2%	16.919	13,5%
b' 2007	45.507	4,2%	41.545	3,9%	9.829	10,9%	10.651	4,0%	16.574	6,9%
c' 2007	48.151	4,1%	41.043	3,8%	10.094	19,0%	13.961	3,7%	16.910	11,3%
d' 2007	46.592	3,6%	39.258	3,9%	14.652	2,9%	9.956	11,4%	17.053	8,0%
2007*	**182.172**	**4,3%**	**163.449**	**3,9%**	**43.382**	**13,6%**	**42.786**	**5,8%**	**67.455**	**9,9%**
a' 2008	42.641	1,7%	42.999	3,4%	8.169	-7,2%	9.321	13,4%	18.214	7,7%
b' 2008	46.252	1,6%	42.856	3,2%	8.825	-10,2%	11.828	11,0%	17.430	5,2%
c' 2008	48.679	1,1%	42.225	2,9%	9.806	-2,9%	13.636	-2,3%	16.985	0,4%
d' 2008	46.463	-0,3%	40.044	2,0%	14.435	-1,5%	9.718	-2,4%	17.517	2,7%
2008*	**184.035**	**1,0%**	**168.124**	**2,9%**	**41.234**	**-5,0%**	**44.503**	**4,0%**	**70.146**	**4,0%**
a' 2009	40.736	-4,5%	41.791	-2,8%	7.310	-10,5%	7.391	-20,7%	16.133	-11,4%
b' 2009	45.807	-1,0%	42.998	0,3%	7.307	-17,2%	9.532	-19,4%	14.266	-18,2%
c' 2009	47.233	-3,0%	41.821	-1,0%	8.283	-15,5%	10.835	-20,5%	13.783	-18,8%
d' 2009	45.954	-1,1%	42.662	6,5%	8.252	-42,8%	7.813	-19,6%	12.913	-26,3%
2009*	**179.730**	**-2,3%**	**169.272**	**0,7%**	**31.152**	**-24,5%**	**35.571**	**-20,1%**	**57.095**	**-18,6%**
a' 2010	41.036	0,7%	41.721	-0,2%	7.567	3,5%	7.551	2,2%	16.213	0,5%
b'2010	43.962	-4,0%	40.703	-5,3%	6.304	-13,7%	9.833	3,2%	13.062	-8,4%
c'2010	44.977	-4,8%	39.300	-6,0%	7.478	-9,7%	10.740	-0,9%	12.558	-8,9%
d' 2010	41.930	-8,8%	38.350	-10,1%	7142	-13,5%	8813	12,8%	12494	-3,2%
2010*	**171.905**	**-4,4%**	**160.074**	**-5,4%**	**28.492**	**-8,5%**	**36.937**	**3,8%**	**54.326**	**-4,8%**
a' 2011	37.697	-8,1%	38.649	-7,4%	6.247	-17,5%	7.359	-2,6%	14.132	-12,8%
b'2011	40.736	-7,3%	37.918	-6,8%	4.931	-21,8%	9.699	-1,4%	12.073	-7,6%

*provisional data

Source: ELSTAT, Quarterly National Accounts, September 2011

Medium-term outlook

The implementation of the Medium-Term Fiscal Strategy (MTFS) through specification of its measures, the process of ratification of the decisions from the Eurozone Summit of 21st July through national parliaments possibly with amendments at certain points, and subsequently its implementation are among the key factors that will shape the domestic, but also to a large extent the global socioeconomic developments in the second half of 2011 and in the years to come. In Greece, the delayed and for this reason sudden start of the implementation of the MTFS fiscal measures, in combination with a levy of special tax on property, are expected to have direct impact on domestic economic activity, mainly due to: a) further reduction in consumption expenditure of both households and the state; b) significant reduction of the Public Investment Programme, close to the low levels of its execution during the first eight months of the year, in order not to inflate further the already bloated Ordinary Budget expenditure. On the other hand, the increased tourist flow in Greece, mainly due to instability in North Africa, provides support to the Greek economy. Its economic impact will not be restricted to the summer period, but will also expand to the winter months, especially in regions where tourism is the main source of income.

Regarding the impact of the global economic environment on Greece, the adoption of new fiscal measures partially restores its credibility, which was hurt anew in the summer due to: a) negligence in the implementation of MTFS, especially in measures concerning the restructuring of the public sector; b) withdrawal in early September of the "troika's" representatives from Greece; c) prolonged gestation of the economic policy measures for 2011 and 2012 and their announcement in batches. The announcement of new measures and the anticipated disbursement of the sixth tranche of the initial loan to Greece will improve the international image of the country, acting as a catalyst for the ratification of the decisions from 21st July by the Euro area member-countries. However, for significant weakening of the distrust towards Greece, the fiscal targets and the policy measures should be faithfully adhered to, at least in terms of their absolute value. The restoration of credibility will gradually improve the attractiveness of the country as investment destination, which constitutes an essential pre-requisite for economic recovery. However, even when this is achieved, the tangible results usually do not come immediately.

Regarding recent and anticipated economic developments, most of the key economic indicators of the Greek economy continue to decline, at slightly weaker rate compared with earlier this year, according to the latest data. There are, however, some exceptions to this general trend.

The fall in industrial production weakened in July to 2.8%, from about 11% during the second quarter. This development was most probably driven by the need to replenish inventory, as the increase in new orders was subdued in the preceding period. More substantial was the weakening of contraction in tourism in the second quarter, as the reduction in turnover did not surpass 2.2%, when in the preceding quarter it surpassed 20%. The trend will most probably revert in the third quarter, as tourist arrivals in the country's 13 largest airports in July and August were higher by 11% year-on-year. In contrast, output in construction dived, falling by about 40%, as building construction and civil engineering production indices both fell to their lowest level at least since 2005.

Regarding the course of demand side indicators, the volume index in retail trade fell by 10.2% year-on-year in the second quarter of 2011, which albeit large was weaker than the fall in the first quarter (-14.7%).

This is consistent with the weakening of the drop in household consumption expenditure in the second quarter. The contraction of demand for consumption goods, but also the small weakening of this trend in the second quarter, was reflected in the course of inflation, which remained on a falling path in April and May and remained stable in June at 3.3% from 4.5% at the end of the first quarter. The turnover index for wholesale trade also fell at a weaker rate by 10.8% from 13.3%. Foreign demand for Greek products and services increased at a steady rate in the second quarter and in July, at around 7%. However, the small reduction of imports in the first quarter evaporated in the remaining months, resulting in a marginal increase for the first seven months of the year by 0.5%. As a result, the contraction of the goods and services trade deficit weakened to 15.1% in the first half of 2011, from 18.5% in the first quarter.

The mild weakening of the falling trends in the second quarter and the summer months will most probably revert in September. The weak performance in the new evaluation of the country's progress against the targets of MTFS by the "troika", mainly regarding the fields of structural reforms, public sector downsizing and privatisation, and subsequently the acceleration of the MTFS implementation with the recently announced measures, have radically transformed the domestic socioeconomic environment since mid September. The uncertainty regarding the adoption of other measures until the end of the year and in the coming years, in order meet MTFS's fiscal targets, has dampened expectations, mainly of the consumers, and has heightened the aloofness and the social discontent. The positive results from successful fiscal consolidation cannot be felt immediately – their promotion cannot radically calm the reaction against the announced measures, while the up to now significant slippage from the 2011 fiscal targets has created strong doubt on their accomplishment.

The implementation of the new measures will bring significant reduction in public expenditure until the end of 2011. Large part of this concerns transfer payments, wages and pensions. However, given that public expenditure expanded stronger than envisaged in MTFS, despite low implementation rate of the Public Investment Programme, and due mainly to significant shortage in revenues and large uncertainty regarding the expected receipts, further reduction of consumption-operational expenses in the public sector, together with further cuts in PIP, should be anticipated.

The need for immediate, strong reduction of **public consumption** so that public expenditure does not surpass MTFS's limit will lead to continuation and probably acceleration of its fall from the first half of this year. Technical effect from its relatively high level in the last quarter of 2010 will further magnify the reduction of public consumption. The large accumulation of short-term arrears in the first seven months of the year that should be paid in order to avoid additional fiscal burden to some extent prevents further contraction of the public consumption expenses. Taking all this into account, the contraction rate of public consumption expenditure is expected to be higher than 8% until the end of 2011.

The income-tax policies of MTFS that are already in force (emergency income tax, levy on free-lance professionals, social security solidarity account) or will be implemented shortly (reduction of pensions, consolidated remuneration system, emergency property tax), and the hike in unemployment after the end of the summer period are expected to be the key factors that will put pressure on **household consumption expenses** in the second half of 2011, and in its last quarter in particular. The consumption purchases are also reduced by the deepening contraction of bank lending for consumption purposes, reaching 5.9% in July. On the other hand, the reduction of consumption in the current half will be limited by the fact that in the same period of 2010, when the implementation of the Support Agreement measures commenced, the households significantly reduced their consumption expenses, thus last year's base of comparison is low. In addition, declining demand should continue to slow inflation down, inhibiting stronger weakening of the households' purchasing power. This possibility is strengthened by the fact that the new measures do not include higher or new taxes on consumption of goods.

Regarding **investment**, lower levels of financing through PIP this year than those envisaged in MTFS, high volatility in political and social level inside the country and the anticipation, mainly by potential foreign investors, of the final decisions of EU, regarding the implementation of the decision from 21 July and the scenarios of its implementation, will weaken further the already subdued investment activity. Regarding **public investment** in particular, the funds allocated to PIP in the first eight months of 2011 were lower by 30% year-on-year and as a result its execution rate based on the total level for 2011, as revised in the MTFS (7.55 billion), did not exceed 43.2%. The utilisation of all possibilities for bringing the fiscal deficit to its 2011 target, together with the delay in the implementation of the plan of almost full funding of NSRF from community resources, as it forms part of the 21st July decisions, does not leave room to utilise the remaining about 60% of the PIP's budget in the last quarter of the year.

The factors that inhibit or limit **private investment** remain heightened for yet another quarter. The investment climate in Greece, despite the implementation of several important legal interventions for the improvement of the investment conditions (fast-track procedures, new Investment Law, etc.) has been strongly affected and continues to be burdened by the low, continuously falling domestic demand, the continuous uncertainty regarding the capability and willingness to continue the fiscal consolidation effort, at political and social level, and the oscillations of the EU member-countries, regarding the granting of new loan to the Greek state and its terms and conditions. Once more, after a small break after the last turmoil in late June, the events surrounding Greece's fiscal problems are at the epicentre of global news, appearing mainly in overcast tones, affecting stock markets and political life around the globe and significantly discouraging the international investment community.

Understandably, the planning and implementation of investment projects depends on the normalisation of the conditions (political, economic, social) inside and outside

Greece. Such a development includes, apart from the easing of the above investment inhibiting influences, strengthening of the domestic banking system, whose normal operation constitutes a basic prerequisite for a reboot of the economic recovery process. In the current situation, the aloofness of the banks remains extraordinarily heightened, resulting in stagnation of corporate lending, whose growth rate did not exceed 0.4% in June and July. Taking all of the above into account, together with the fact that the industrial companies can still respond to abrupt significant hikes in demand with their existing capital stock, since the current production capacity is underutilised (67.4% in July), a deepening of the fall in fixed capital formation from July until the end of the year is very likely, which will have an impact on the contraction of the Greek economy.

In contrast, the key and probably the sole offsetting force to the economic contraction during the second half of the year is expected to come from reduction of the **external sector** deficit. Continuing the trends from the first half, its further reduction is expected to come from larger weakening of **imports**. The new reduction of household and personal disposable income, from the additional to the MTFS tax-income policies will put further pressure mostly on the demand for imports. The imports of goods, which fell faster than the imports of services in the first half of the current year, are also affected by the slump in business activity and subsequently, the low purchase level of foreign capital-intensive equipment. The sharp drop of imports in the current half will be partially contained only by their relatively low level in the corresponding half of 2010, which forms low basis of comparison for this year.

Apart from the contraction of imports, the performance improvement of the external sector is expected to receive support from a much better course of **exports**. The continuous increase of exports of goods in the first half of 2011 will most likely slow down in the remaining months of the year, just as it did between the first and the second quarter, due to stronger slowdown in global trade flows.[12] However, the loss of momentum in the exports of goods is expected to be offset or even surpassed by the course of exports of services. Stronger foreign arrivals by 11% in the largest international airports of the country during the key months of the tourist period (July and August) will transform the trend in the export of services from mildly falling in the first half of 2011 to increasing, most probably leading to higher exports overall, in the third quarter at least, for the first time this year. On the other hand, the rising production and operation cost from the equalisation of the excise tax of heating oil and motor diesel for enterprises will affect their competitiveness and consequently the foreign demand for domestic goods and services.

In summary, taking into account the anticipated trends in GDP key components for the remainder of 2011 that was presented above, the extensive contraction of private and public consumption from the first half will deepen further. The already subdued investment activity will weaken further. The contractionary impact of the declining total domestic demand on GDP will be partially

[12] World Trade Monitor, July 2011, CPB Netherlands, September 2011

relieved by the improved performance of the external sector, where the deficit has been falling for third year in concession. Considering these trends, **the extent of contraction of the Greek economy in 2011 is expected to be significantly higher than anticipated earlier in the year, reaching 5.5% of GDP**, while the possibility of a slightly stronger contraction cannot be precluded. The renewed deterioration in the underlying assessment does not differ significantly from the recent IMF estimate (GDP contraction by 5.0%), but is at some distance from the EU and Ministry of Finance forecasts that were taken into account for the drafting of the Medium Term Fiscal Strategy (3.8% and 3.5% correspondingly – Table 3.2).

Regarding 2012, the estimates by international and domestic institutions differ significantly, with EC and OECD projecting limited recovery of the Greek economy (+0.6%), while IMF, whose forecast is most recent, once more anticipates contraction (-2.0%). **According to IOBE, the following year the Greek economy will experience stabilisation.** The key factors that led to negative rates of change of GDP in 2011, as already mentioned, include sharp fall in public expenditure and contraction in consumer confidence and business sentiment, whose fall was reflected in the increase in the saving rate of the economy's private sector. In particular, the contraction of consumer confidence led to reduction in private consumption to an extent that is not justified by the slowdown in real disposable income.

Taking the above into account, in our view if public expenditure in 2012 increases slightly, while in addition we experience gradual restoration of consumer confidence with a stabilisation of the savings rate, then combined with the small but positive contribution of the external sector, the GDP growth rate in 2012 could be marginally positive. This forecast is clouded by uncertainty, however, if the structural reforms that boost the potential growth rate of the economy in the medium term, but also business sentiment in the near term, materialise then this forecast could prove to be conservative.

Table 3.2

Domestic Expense & Gross Domestic Product – European Commission Forecasts

(Constant prices, year=2000)

	2009	2010	2011	2012
Annual percentage changes				
Gross Domestic Product	-2,0	-4,5	-3,5	1,1
Private Consumption	-2,2	-4,5	-6,4	-2,2
Public Consumption	10,3	-6,5	-2,6	0,1
Gross Fixed Capital Formation	-11,2	-16,5	-16,6	-1,9
Exports of Goods and Services	-20,1	3,8	10,7	6,9
Imports of goods and services	-18,6	-4,8	-8,4	-3,1
Employment	-0,7	-2,1	-2,6	0,1
Compensation of employees / head	3,6	-3,5	-1,0	0,1
Real Unit Cost of Labor	3,7	-3,5	-0,4	-1,3
Harmonized Index of Consumer Prices	1,3	4,7	2,4	0,5
Contribution to real GDP change				
Domestic Demand	-1,8	-7,7	-8,0	-1,8
Net Exports	2,0	2,3	5,0	2,6
House Inventories	-2,3	0,9	-0,5	0,3
GDP percentage				
Trade Balance	-15,4	-10,5	-9,5	-9,3
Current Account Balance	-14,0	-11,8	-8,3	-6,1
General Government Debt	127,1	142,8	157,7	166,1
Percentage				
Unemployment (% of civilian labor force)	9,5	12,6	15,2	15,3

Source: European Economic Forecast, Spring 2011, European Commission, May 2011

Table 3.3

Comparison of forecasts on selected Economic Indices for years 2010- 2012

(Constant 2000 market prices, annual % changes and levels)

	MFIN			EU			OECD			IMF		
	2010	*2011*	*2012*	*2010*	*2011*	*2012*	*2010*	*2011*	*2012*	*2010*	*2011*	*2012*
GDP	-4,5	-3,5	0,8	-4,5	-3,8	0,6	-3,9	-2,9	0,6	-4,4*	-5,0	-2,0
Final Demand	:	:	:	-6,8	-6,0	-1,9	-6,9	-6,5	-0,9	:	:	:
Private Consumption	-4,5	-4,8	-1,2	-4,5	-4,8	-1,2	-4,5	-5,4	-0,2	-4,6	-4,9	-1,2
Harmonized Index of Consumer Prices (%)	4,7	2,9	1,0	4,7	2,9	1,0	4,7	2,9	0,7	4,7*	2,9	1,0
Gross Fixed Capital Formation	-16,5	-7,1	-2,2	-16,5	-8,9	-1,5	-16,5	-10,4	0,3	-16,5	-8,8	-1,5
Unemployment (%)	11,5	14,5	15,0	11,5	14,5	15,0	12,5	16,0	16,4	12,5*	16,5	18,5
General Government Balance (% GDP)	-10,5[1]	-7,4[1]	-5,9[1]	-10,5	-7,6	-6,5	-10,4	-7,5	-6,5	-10,4	-7,6	-6,5
Current Account Balance (% of GDP)	-10,6	-8,0	-6,6	-11,8	-9,9	-7,7	-10,4	-8,6	-7,2	-10,5*	-8,4	-6,7
Gross Public Debt (% of GDP)	142,8[1]	155,5[1]	159,8[1]	142,7	156,7	161,3	:	:	:	143	166	172

*Values from the World Economic Outlook, IMF, September 2011

[1] Scenario with interventions and privatizations

Sources: Draft Law on «Medium-Term Fiscal Strategy Framework 2012-2015», Ministry of Finance, June 2011 – The Economic Adjustment for Greece, Fourth Review-Spring 2011, European Commission, July 2011 - OECD Economic Outlook No. 89, May 2010 - Greece, Fourth Review Under the Stand-By Arrangement and Request for Modification and Waiver of Applicability of Performance Criteria, IMF, July 2011

The persistence of strong recession in the second half of 2011 will inevitably have a negative impact on the **labour market**, which has accumulated significant pressure over the last two and a half years. The adoption of more flexible labour relations in the private sector did not contribute to improvement of the conditions in the labour market since the beginning of the year, as their implementation is subjected to limitations and conditions. As a result, unemployment increased to 16.3% in the second quarter of 2011, 4.5 percentage points higher year-on-year, due to contraction of employment by 6.1%. The unemployment rate more than doubled compared with only three years ago (Q2 of 2008), when it stood at 7.2%. The expansion of unemployment will slow down and even cease due to seasonal increase in employment during the summer months, as the tourist flow this year was considerably stronger than last year. However, after this effect has subsided, the new increase of unemployment will most probably be rather sharp. **As a result, the forecast for the average rate of unemployment in 2011 remains unchanged at around 16.4%. In 2012, as economic recovery is not expected to materialise, unemployment will continue to increase, at weaker rate than this year, reaching 17.7%.**

As already analysed in the previous IOBE report, persistent increase of unemployment and reduction in disposable income have been the main sources of disinflation since the beginning of the year. Given the deterioration of the trends in these particular indicators for the remainder of 2011, their impact on disinflation is expected to become stronger. However, the fast disinflation from 5.2% in January to 1.7% in August is also partially due to the artificial impact from the high base level of comparison from March 2010 onwards. The increase in VAT on catering and restaurants to 23% in September and the coming increase of the excise tax on heating oil are expected to boost inflation in the last quarter of 2011. However, the impact of these measures is not expected to surpass the downward pressure of the factors mentioned earlier. As a result **inflation for 2011 is not expected to exceed 3.1% on average.**

In summary, the analysis of the trends in key GDP components and the state of the Greek economy in general reveals, as expected and as happening at least for the last year and a half, the primary role of the fiscal developments in the shaping of the trends. The developments on the fiscal front have an impact on two broad levels: a) through the outcome of the adopted fiscal measures on the achievement of the fiscal targets and on economic activity; b) together with the other announced measures (structural, etc.) on the sentiment, the attitude and the assessment of the Greek economy domestically and abroad.

The current turmoil around the Greek problem reveals once more the impact on the international prestige of the country from the delay and the negligence in the implementation of MTFS's structural policies (downsizing / restructuring of the public sector – privatisation – utilisation of state-owned property), as most of the directly implementable income-tax measure are already implemented (emergency income tax, free-lance professionals levy, social security funds solidarity account). However, the impact of the delays is magnified by the continued wavering of the Euro area countries and the reluctance of some of its members to implement the decisions from 21st July to provide a new loan to the Greek state, at least without the latter taking up additional commitments. This effect is confirmed by the fact that despite the announcement of additional measures by the Greek government, with strong and largely guaranteed fiscal result, as they focus on the expenditure side, the credibility of the country internationally remains under strong doubt and shows no signs of improvement, for the time being at least. This development reveals that the lack of a unified, crystallised policy and position in the Euro area on the provision of conditional, yet unreserved, support for countries with debt refinancing problems, prevents the revelation and recognition of the fiscal consolidation effort that is being expanded in Greece.

3.2 Developments and outlook in key sectors of the economy

This section presents the quarterly indices of activity complied by the Hellenic Statistical Authority (ELSTAT), which track the course of production in Industry and the turnover of businesses in the sectors of Construction, Commerce and Services. In addition, it presents the corresponding branch indices compiled by IOBE on the basis of the business surveys it has been conducting in Greece since 1981.

Industry

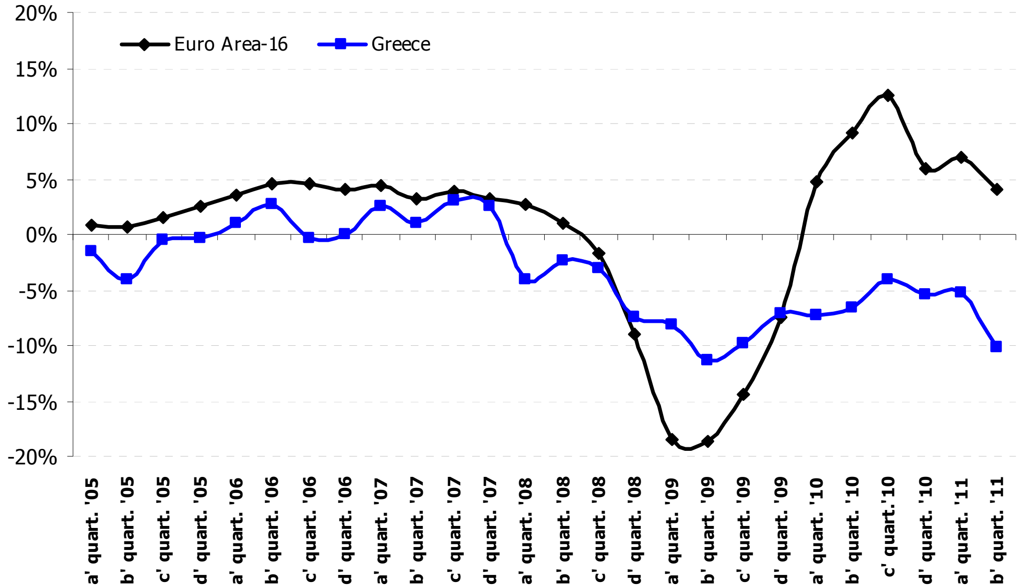
During the second quarter of the year, **industrial production contracted anew** by an impressive 10.1% year-on-year, remaining essentially unchanged quarter-on-quarter. **Overall for the first half of the year, industrial production fell by 7.9% compared with the corresponding period of 2010, when the index fell at a weaker rate (-6.3%).**

In contrast, industrial production in the second quarter continued to increase in the Euro area, at a weaker rate compared with the corresponding period of 2010 (4.1% against 6.9%). Overall for the first seven months of the year, industrial production in Europe grew by 5.1%.

At branch level in Greece, the largest reduction in production in the first seven months of the year was recorded in **Electricity and Natural Gas Supply**, which contracted by 8.6% year-on-year (against 9.9% drop in the previous year). The contraction of the index accelerated in **Manufacturing** to exceed 8.5%, from a 5.0% drop in the corresponding period of 2010. The index in **Water Supply** decreased by 3.3% (marginal increase by 0.7% in the previous year) and lastly in **Mining-Quarrying** the contraction of the production index was significantly weaker compared to last year's first seven months (-1.8% against -5%).

In more detail, during the first seven months of the year, production in **Mining-Quarrying** contracted significantly. The largest year-on-year contraction was recorded in Extraction of Crude Petroleum & Natural Gas (-30.3% against +116.2% in the previous year) and in Other Mining and Quarrying (-14.7% from +4.0% in 2010). In contrast, growth was experienced in Mining of Metal Ores (13.8%) and Mining of Coal & Lignite (+3.7% against -13.4% in 2010).

Figure 3.1
Production Index in Manufacturing, Greece and Euro Area-16,
% change w.r.t. the same quarter of the previous year (2005=100)



Source: ELSTAT

In **Manufacturing**, the index fell in most of its branches (18 out of 24) during the first seven months of 2011. The branches with export orientation formed an exception to this trend, as they benefited from the boost of industrial production in Europe. Production increased in Base Metals by 10.2% on the back of last year's increase by 12.3%, followed by Tobacco Products with 10.1% increase, after a reduction by 16.4% in the corresponding period of the previous year. The manufacturing of Machinery and Equipment showed signs of recover, growing by 4.7% year-on-year, against a last year drop by 25.8%. Increase, but at slower rate than in 2010, was observed in Wood and Cork Products (2.1% against 23.4%). Computer, electronic and optical products essentially remained at their last year level, while Pharmaceutical Products marginally increased year-on-year by 0.2%.

The significant slowdown of the overall index for manufacturing was caused by deep contraction in key sectors of domestic industry. The manufacturing of Non-metallic Minerals fell by 33.8% (from -9.9 in the previous year), while the second largest reduction in the manufacturing sectors was observed in Motor vehicles, trailers and semi-trailers, where manufacturing contracted by 27.6%, at a milder rate than in 2010 (-48.8%). The contraction continued in Clothing (-25.3% from -24.5% in the first seven months of 2010), Furniture (-19.2% against -14.3%) and Textiles (-17.7% against -18.4%). Meanwhile, the contraction deepened in Beverages (-8.7% from -7.6% in 2010), while in Food Products the index fell by almost 3%.

Overall, the sectors related to the manufacturing of Consumer Durables continued to contract, at a higher rate than a year before (-16.6% from -9.0%). Further contraction was also observed in Energy (-9.5% from -6.3% a year before), Capital and Intermediate Goods (-8.0% from +1.0%) and Consumer Non-Durables (-5.4% against -6.0%).

Construction

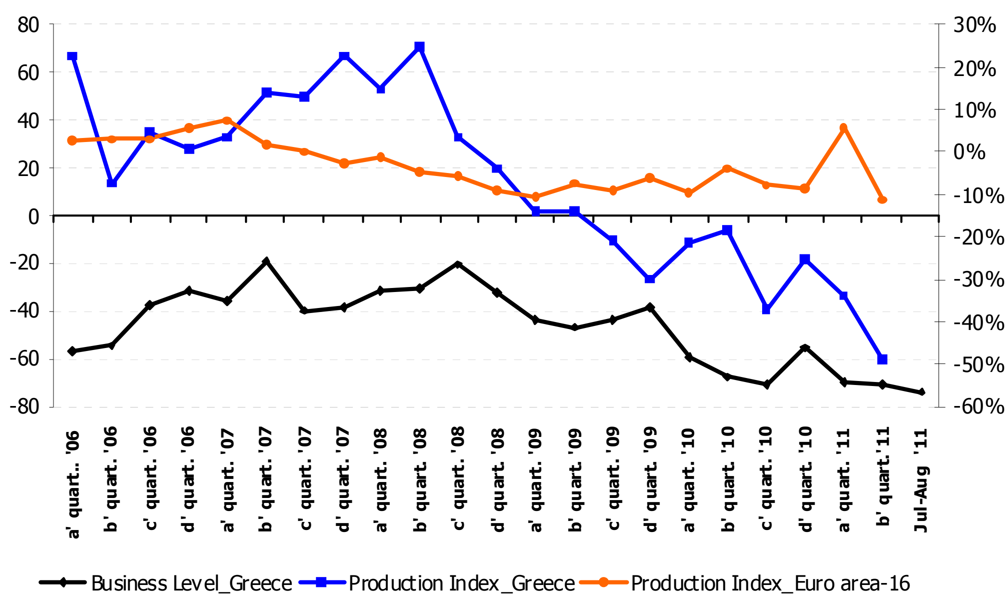
The construction production index fell significantly year-on-year in the second quarter of 2011 by 48.9%, compared with a fall by 21.4% a year ago. The index was also falling in the Euro area by 11.3% (from 3.8% in 2010). In most member-states in the second quarter the index recorded a year-on-year drop with the exception of Germany (+12.8%), Belgium (+3.7%), the Netherlands (+2.2%), Malta (+0.9%), France (+0.5%) and Austria (+0.3%).

Regarding the production indices of the branches that comprise the sector in Greece, production fell again in Building Construction by (-44.4% from -36.1% in the second quarter of 2010), while the Civil Engineering production index also declined substantially (-37.6% against -28.7% one year before).

The number of permits in Total building activity (public and private) in the first half of 2011 was limited to 20,556, falling at double the rate recorded a year before (-37.5% from -17.3%). The surface of new buildings fell almost to half its level in the corresponding period of 2010 (-49.7%).

The building activity indicators declined in all regions without exception. The contraction in terms of number of permits was stronger in Epirus (-48.0% year-on-year), Peloponnese (-47.6%) and Central Macedonia (-43.7%).

Figure 3.2
Construction Production Index (annual % changes) in Greece and in the Euro area-16, Business Level Index in Greece (1996-2006=100)



Source: ELSTAT

In the second quarter of 2011, the transactions in residences with the mediation of credit institutions were fewer by 9.1% year-on-year, while in the corresponding period of 2010 they had fallen by 36.0%. Transaction value fell by 36.3% year-on-year. The average interest rate for mortgage loans (with fixed rate for more than 1 and less than 5 years) increased (from 4.33% in July to 4.05% in May), which combined with the prolonged and deep recession and high unemployment put pressures on the demand for loans to purchase homes. Regarding the supply of loans, the banks remained very cautious in their lending, as their provisions have been rising continuously, transpiring in a year-on-year reduction in mortgage lending by 2.1% in July.

Retail Trade

Accelerating income scarcity and insecurity about the near-term economic development of the household and consumers in general reflected in the performance of the retail trade indicators. The Volume Index in Retail Trade (turnover in constant prices, including automotive fuels and lubricants)[13] fell significantly in the second quarter of 2011 by 6.4%, reaching its lowest level in at least 5 years. For the first half of the year overall, the index fell by 12.6% year-on-year.

Among the key retail trade categories, the largest drop in the first half of 2011 was recorded in Furniture-Electrical Appliances-Household Goods by 19.9% (from -2.9% in the first half of 2010), followed by Clothing-Footwear (-19.7% against -5.4% a year before), Automotive Fuels & Lubricants (-17.3% from -8.5% in 2010) and Pharmaceuticals-Cosmetics (-15.5% from +9.0%). Sales in Food-Beverages-Tobacco fell by 14.4% (against increase by 1.4% in the previous year), while reduction was also observed in Supermarkets (-6.7%) and Books-Stationary-Other Gift Items (-4.9% against +1.3% in 2010). In contrast, sales in Departmental Stores marginally recovered in the first half of 2011 by 1.1%, following a drop by 11.1% in the first half of 2010.

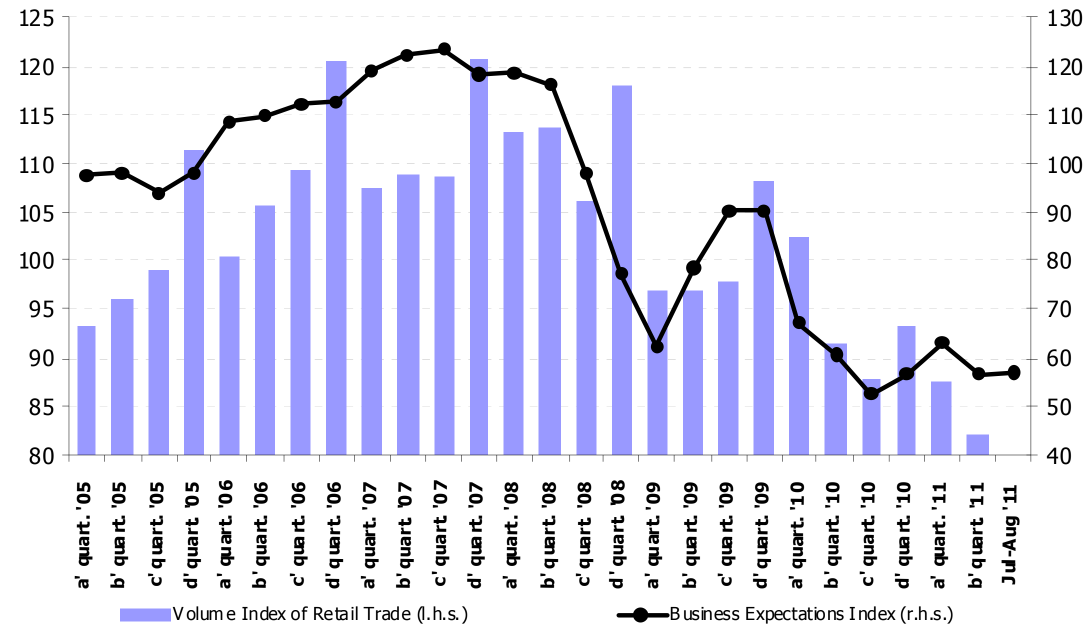
The turnover index in Wholesale and retail trade and repair of motor vehicles and motorcycles (branch 45 in NACE Rev.2) increased by 2.2% quarter-on-quarter. The Sale of motor vehicles index fell by 1.6% quarter-on-quarter in the second quarter of 2011, while compared to the corresponding period of 2010 the index dropped abruptly by 35.5%.

The Confidence Indicator of IOBE's Business Survey for Motor Vehicles increased in comparison with 2010, mainly due to the «cash for clunkers» programme. The rapid developments in the economy have created a hostile environment, especially for major purchases, resulting in decline in the vehicles market. The sales of passenger vehicles fell by 38.2% in the first eight months of the year, while for 2011 overall the number of sold vehicles is expected to approach 100,000. The registration tax discount and the companies' special offers did not seem to boost the market amidst drastic reduction of disposable income.

[13] According to the new statistical classification of economic activities NACE Rev.2, the branch 'retail sale of automotive fuels and lubricants' comes under **retail trade** and no longer belongs to the category 'trade, maintenance and repair of motor vehicles and motorcycles'.

Figure 3.3

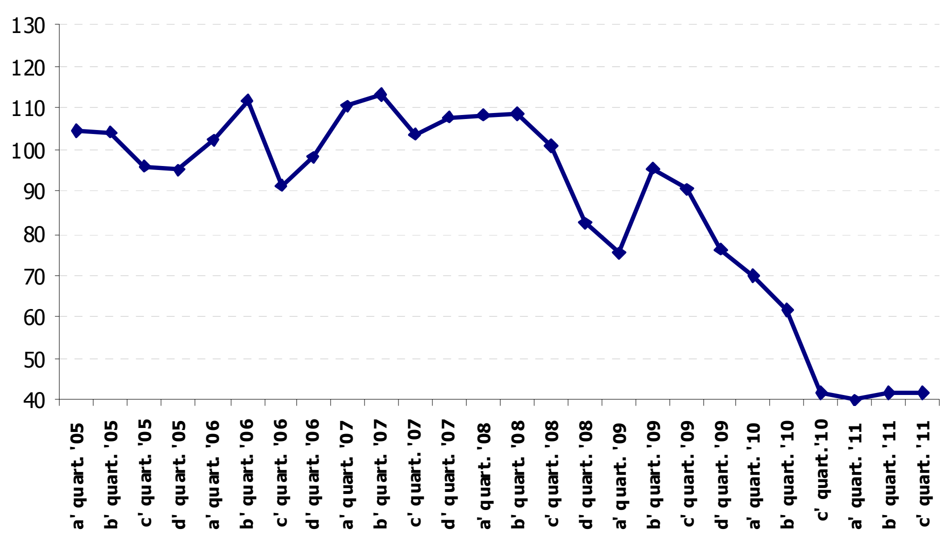
Volume Index of Retail Trade (turnover in constant prices, 2005=100) and Business Expectations Index in Retail Trade (1996-2006=100)



Source: IOBE

Figure 3.4

Turnover Index in Trade, Maintenance and Repair of Motor Vehicles and Motorcycles, Trade of Car Parts and Components -Sector 45- (2005=100)



Source: ELSTAT

Table 3.4
Annual Changes in the Index of Retail Trade Volume, January-June

Store Categories of Retail Trade	Volume Index (2005=100)				
	Jan-Jun 2009	**Jan-Jun 2010**	**Jan-Jun 2011**	**P.C. (%) '10/'09**	**P.C. (%) '11/'10**
Overall Index	97,0	97,0	84,8	0,1%	-12,6%
Overall Index (excluding car fuels and lubricants)	95,5	95,5	84,3	0,0%	-11,7%
Store Subcategories					
Large Food Stores	103,7	104,4	97,5	0,8%	-6,7%
Multi stores	114,7	93,5	94,6	-18,4%	1,1%
Car Fuels and Lubricants	69,7	84,5	69,9	21,2%	-17,3%
Food-Drink-Tobacco	90,1	91,3	78,1	1,3%	-14,4%
Medicare-Cosmetics	111,2	117,9	99,7	6,0%	-15,5%
Clothing-Footwear	99,5	92,0	73,9	-7,6%	-19,7%
Furniture – Electric household appliances - Household Goods	97,9	91,7	73,4	-6,4%	-19,9%
Books - Stationery- Other gift items	73,0	77,7	73,9	6,5%	-4,9%

Source: ELSTAT

Table 3.5
Business Expectation Indexes in Retail Trade (1996-2006=100)

	Jan-Aug 2009	**Jan-Aug 2010**	**Jan-Aug 2011**	**P.C. % '10/'09**	**P.C. % '11/'10**
Food – Drinks - Tobacco	83,2	76,4	79,3	-8,2%	3,8%
Textile-Clothing - Footwear	85,8	70,3	58,8	-18,1%	-16,4%
Household Equipment	63,0	58,1	47,6	-7,8%	-18,1%
Vehicles – Spare Parts	69,3	44,8	59,5	-35,3%	32,8%
Multi stores	103,7	93,3	58,2	-10,0%	-37,6%
Retail Trade Total	75,3	60,9	59,1	-19,1%	-3,0%

Source: IOBE

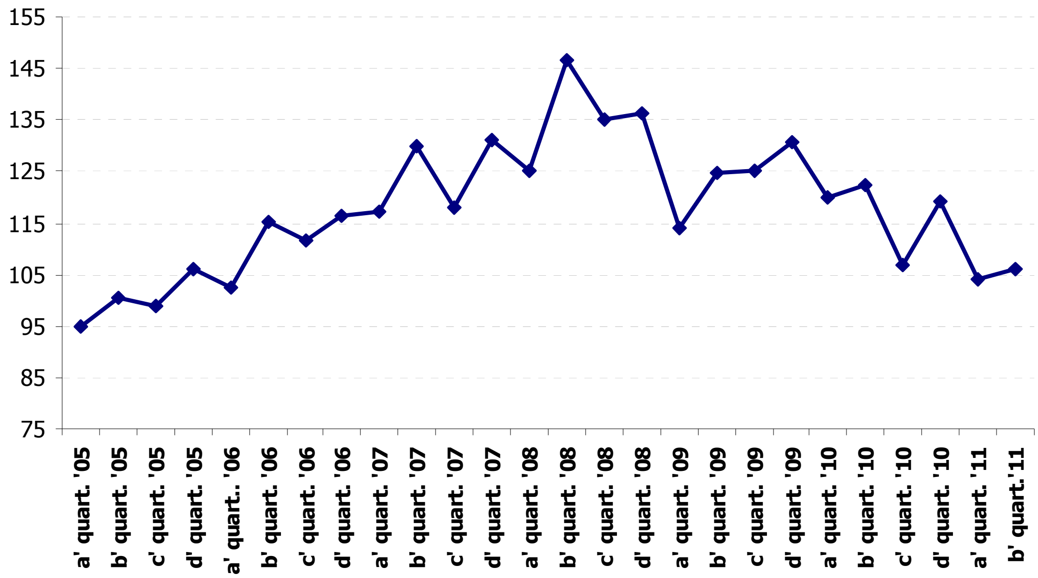
The drop in the overall **IOBE Confidence Index** for retail trade in the first eight months of 2011 was limited to 3.0% (against 19.1% in 2010). In the constituent categories, strong pessimism dominated in Department Stores (-37.6%) and Household Appliances (-18.1%), with accelerating weakening of expectations in both subcategories. The sentiment in Fabrics-Clothing-Footwear weakened further by 16.4%, while the indicator in Motor Vehicles – Spare Parts increased significantly (+32.8%) due to expectations created by the "cash for clunkers" measure.

Wholesale Trade

As every year, the Turnover Index for Wholesale Trade[14] increased in the second quarter. The quarter-on-quarter increase this time around reached 1.6%. On an annual basis, however, the index fell by 13.6% to reach its lowest level in five years. Essentially, turnover in Wholesale Trade has retracted to its 2005 level.

[14] The Wholesale Trade index is calculated without VAT and includes the total amounts invoiced by a company during the reference period (quarter).

Figure 3.5
Turnover Index in Wholesale Trade (2005=100)



Source: ELSTAT

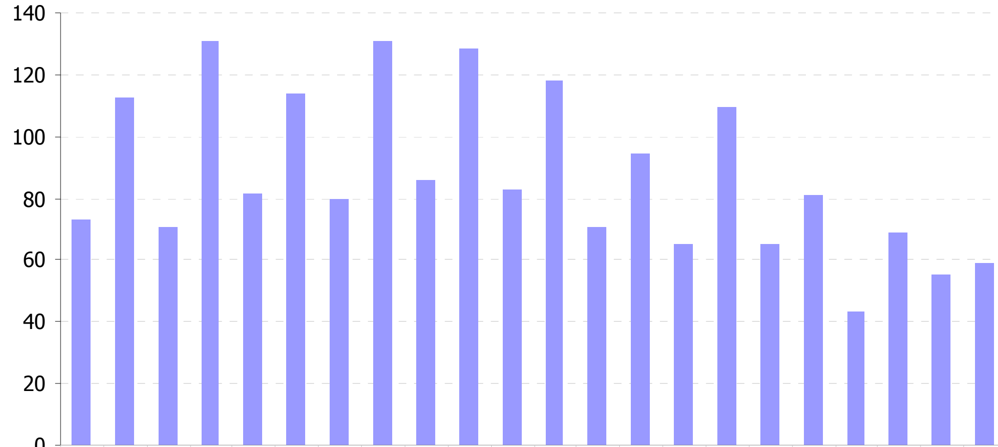
Services

The fast contraction of economic activity in almost all service branches was aptly captured in the indicators published by ELSTAT. In particular, the contraction deepened in most of the 14 branches in the Services sector in the second quarter, with turnover reaching its lowest level in five years, at least. Overall for the first half of 2011, most branches experienced larger drop than a year before.

In greater detail, the largest drop was recorded in **Advertising and market research (branch 73)**, where turnover fell by 26.6% against 11.4% in the first half of 2010, followed by **Publishing activities (branch 58)**, which contracted by 22.1% (from 11.7% in the previous year).

Turnover in **Office administrative, office support and other business support activities (branch 82)** fell by 18.8% (from -8.1% in the same period of 2010), while **Computer Programming, Consultancy and Related Activities** (branch 62) also contracted, by 17.7% (from -19.4% in 2010). **Architectural and engineering activities (branch 71)** contracted by 16.1% (against -22.6% in the previous year), affected by the falling trend in construction. Turnover in **Telecommunications (branch 61)** fell by a similar rate with the previous year (-12.3%). Lastly, the contraction of the composite index in **Legal, accounting and management consultancy activities (branches 69 & 70.2)** weakened in the first half of 2011, with turnover marginally falling by 1.2% (against -7.1% a year before).

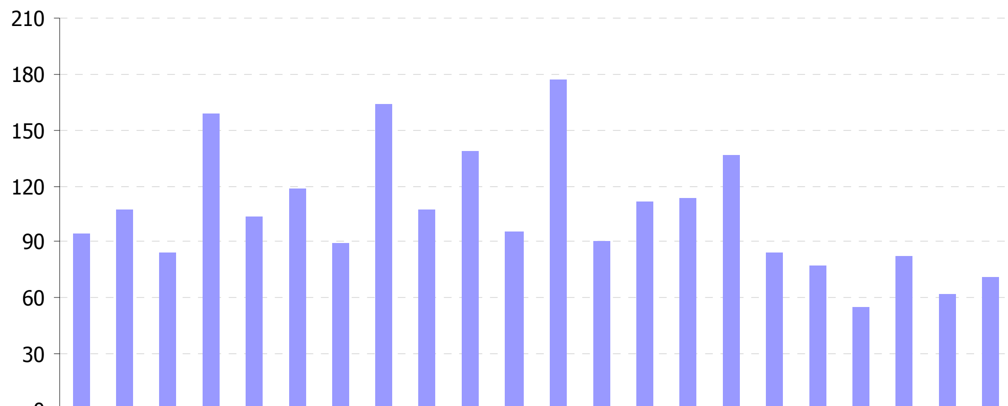
Figure 3.6
Turnover Index in Advertising and Market Research –Sector 73- (2005=100)



	2006				2007				2008				2009				2010				2011	
	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B
Index	73	113	71	131	82	114	80	131	86	129	83	118	70	94	65	110	65	81	43	69	55	59

Source: ELSTAT

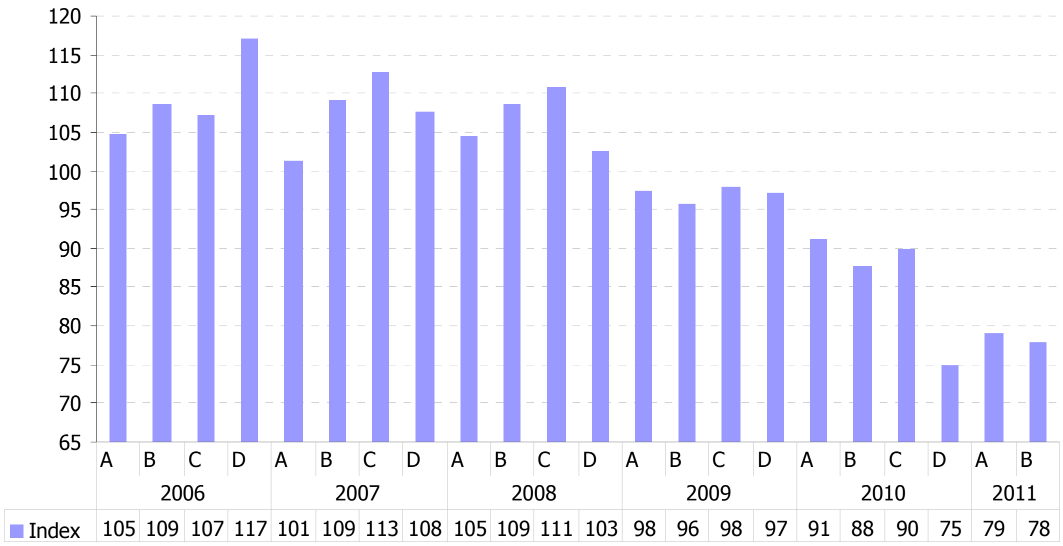
Figure 3.7
Turnover Index in Informatics Services -Sector 62- (2005=100)



	2006				2007				2008				2009				2010				2011	
	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B
Index	94	108	85	159	103	119	89	164	107	139	96	177	90	111	114	137	85	78	55	82	62	71

Source: ELSTAT

Figure 3.8
Turnover Index in Telecommunications -Sector 61- (2005=100)



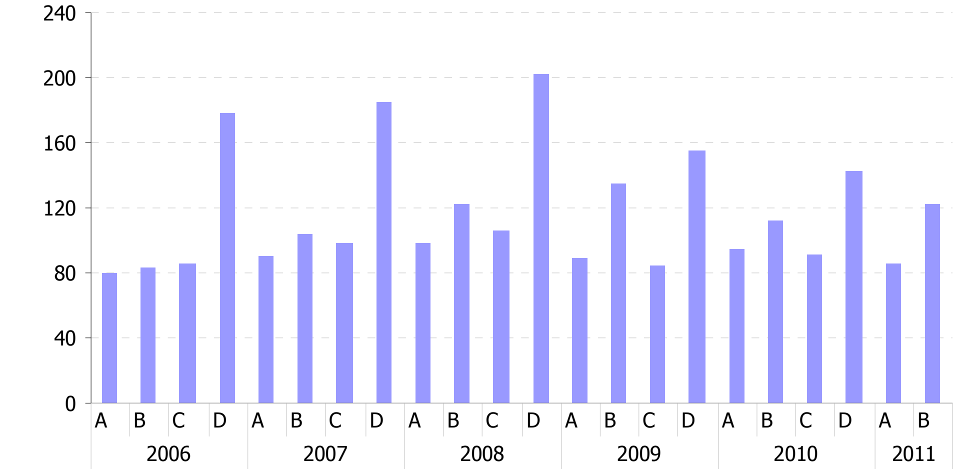
Source: ELSTAT

Regarding the branches **Accommodation and Food and Beverage Service Activities** (branches 55 and 56), the turnover index traditionally increases in the second quarter in comparison with the preceding quarter. Indeed the index almost doubled this year quarter-on-quarter, which is partially due to the political and social turmoil in the tourist destinations of North Africa. However, in the first half overall, the turnover index fell by 9.2% year-on-year.

The above developments in the branches of the Services sector were captured early enough in the **Business Surveys carried out by IOBE**. **The results from the surveys bode even worse developments in all branches of Services apart from Tourism**. The overall confidence indicator for Services fell by 1.4% year-on-year. Nevertheless, the contraction in most confidence indicators weakened. In particular, the confidence indicator in IT services worsened anew (-8.9%), but by lesser margin than in 2010 (-30.8%). In contrast, in Tourism (Hotels-Restaurants) the optimistic sentiment was significantly boosted.

Figure 3.9

Turnover Index in Legal, Accounting and Consulting Services -Sectors 69 & 70.2 (2005=100)

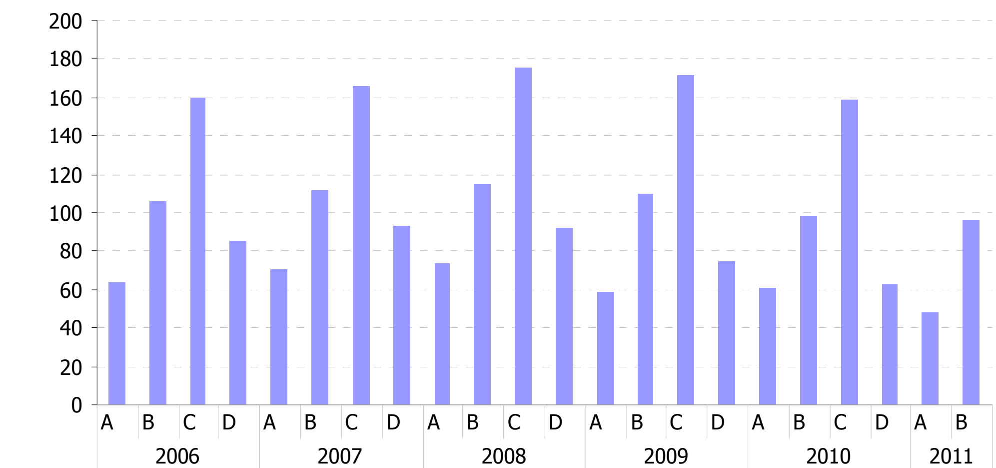


	2006				2007				2008				2009				2010				2011	
	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B
Index	80	84	86	178	90	104	98	186	99	122	106	202	89	135	84	156	95	112	91	142	85	123

Source: ELSTAT

Figure 3.10

Turnover Index in Tourism (Accommodation and Food Service Activities) -Sectors 55 & 56- (2005 = 100)



	2006				2007				2008				2009				2010				2011	
	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B
Index	64	106	160	85	71	112	166	94	74	115	175	92	59	109	171	75	61	98	158	63	48	96

Source: ELSTAT

Table 3.6

Sectoral Indices of Business Expectations in Services (1998-2006=100)

	Jan-Aug 2009	Jan-Aug 2010	Jan-Aug 2011	P.C.% '10/'09	P.C.% '11/'10
Hotels - Restaurants	75,1	74,5	77,2	-0,8%	3,6%
Activities of travel agencies and tour operator, tourist assistance activities	71	66	75,9	-7,0%	15,0%
Other Services to Businesses	57,4	61,9	52,2	7,8%	-15,7%
Intermediate Financial Organizations	68,7	74,3	70,5	8,2%	-5,1%
Informatics	65	45	49	-30,8%	8,9%
Total Services	**69,7**	**63,4**	**62,5**	**-9,0%**	**-1,4%**

Source: IOBE

In summary, in the first seven months of 2011 **industrial production continued to contract**, at an accelerating rate compared with the corresponding period of the previous year. Milder contraction was experienced in the branches with export orientation, but this was not sufficient to overturn the strongly negative trend for industry overall. The situation was even worse in **Construction**, where all indices fell significantly, both quarter-on-quarter and year-on-year. Total building activity in the first half of the year fell to half of its level from last year, as uncertainty of the households and the largely unpredictable economic environment limited substantially property construction and transactions.

The significant reduction in disposable income directly impacted the turnover index in **Retail Trade**, which fell anew in the first half of the year. In the majority of the branches in the sector, the index decreased significantly, while marginal increase was observed only in Department Stores. It is evident that the desire for consumer purchase was overshadowed by the uncertainty sentiment that has pervaded the Greek households. Lastly, the impact of the recession was also strongly felt in **Services**, where turnover fell in most of the sector's branches.

3.3 Export Performance of the Greek Economy

The value of Greek exports in the first half of 2011 reached a 10-year peak at about €10.5 billion. It jumped by 40.4% year-on-year, compared to 4.6% a year before. Meanwhile, imports fell by 14.2% from 1.2% increase in the previous year. As a result, the contraction of trade deficit strengthened (37.7% drop), while the imports-exports coverage ratio reached 49.2%, higher by 19 percentage points year-on-year.

The increase in export value by €3 billion came mostly from higher export value of fuels (about two thirds of the increase), which more than tripled year-on-year to reach €2.9 billion. As a result, the share of oil products in total export value reached 27.6%, more than three times compared to the same period of last year when it stood at 8.8%. Correspondingly, the value of imports fell by €3.5 billion or by €2.8 billion without oil products.

The exports of industrial products increased by 12.3% (or €538.5 million), recovering significantly after the limited increase experienced in the previous year (2.3%). Despite this, the large increase in oil products led to a fall in the share of industrial products in total export value by 11.6 percentage points to 46.5%. The increase of the value of industrial products came largely from increase in exports of 'industrial goods classified by raw material' (+32.6% or €512.3 million). Significant increase was also observed in 'vehicles and transport equipment'. In contrast, 'chemical and related products', which until recently followed a rising trend declined by 7.6%. Decrease was also observed in 'various industrial goods' (-3.9%). The combined drop in export value of the two last branches reached €118.4 million.

The exports of agricultural products increased by 5.3%, while their share in the total value of Greek exports fell by almost 6 percentage points year-on-year (18.7%). The value of exports of 'Food and live animals', which represent the largest share of exports in this product category, increased by 6.4% (or €95 million), which offset the year-on-year reduction of exports in 'beverages and tobacco' by €18.2 million (-7.4%). The exports of 'animal and vegetable oils and fats' also increased significantly (+15.3%), recovering from their 2010 drop, with their value reaching €166.4 million. Among the remaining categories large increase was recorded in 'products and transactions not classified elsewhere', whose value grew by €149.2 million year-on-year.

Table 3.7

Exports per 1-digit product classification (in million €)

	January-June						
	Value (mil. €)		P.C. (%)		Structure (%)		
	2011*	2010*	'11/'10	'10/'09	2011	2010	2009
Agricultural Products	**1.969,6**	**1.870,7**	**5,3%**	**1,0%**	**18,7%**	**24,9%**	**24,9%**
Food and live animals	1.574,7	1.479,6	6,4%	5,6%	15,0%	19,7%	19,0%
Beverages & Tobacco	228,5	246,7	-7,4%	-12,6%	2,2%	3,3%	3,9%
Animal, Vegetable oils and fats	166,4	144,3	15,3%	-15,0%	1,6%	1,9%	2,1%
Raw Materials	**405,7**	**415,0**	**-2,2%**	**16,3%**	**3,9%**	**5,5%**	**4,9%**
Crude materials inedible, except fuels	405,7	415,0	-2,2%	16,3%	3,9%	5,5%	4,9%
Fuels	**2.909,5**	**656,3**	**343,4%**	**0,0%**	**27,6%**	**8,8%**	**9,1%**
Minerals, fuels, lubricants, etc.	2.909,5	656,3	343,4%	0,0%	27,6%	8,8%	9,1%
Industrial products	**4.900,8**	**4.362,3**	**12,3%**	**2,3%**	**46,5%**	**58,2%**	**58,9%**
Chemicals and related products	1.082,9	1.171,7	-7,6%	14,2%	10,3%	15,6%	14,2%
Manufactured goods classified chiefly by raw material	2.082,3	1.569,9	32,6%	7,3%	19,8%	20,9%	20,3%
Machinery and transport equipment	1.013,8	869,2	16,6%	-13,9%	9,6%	11,6%	14,0%
Miscellaneous manufactured articles	721,9	751,4	-3,9%	-1,9%	6,9%	10,0%	10,5%
Other	**345,1**	**195,8**	**76,2%**	**30,4%**	**3,3%**	**2,6%**	**2,1%**
Commodities and transactions not classified by category	345,1	195,8	76,2%	30,4%	3,3%	2,6%	2,1%
Total Exports	**10.530,7**	**7.500,0**	**40,4%**	**3,0%**	**100,0%**	**100,0%**	**100,0%**

* Provisional Data

Sources: PEA-ERC-ELSTAT

Regarding destination, the exports of Greek products to the remaining European Union countries increased by 12.6% year-on-year (€518.5 million). This result came mostly from increase of exports to the Euro area member-states and especially Italy (by 27.4% or €224.2 million), which became the largest trading partner of Greece. Large increase (14.3% or €78.8 million) was also observed in exports to Cyprus, which absorbed 6.5% of Greek exports.

The exports increased significantly also in Luxembourg (more than doubled year-on-year to reach €11.5 million), Finland (+82% or €83.3 million), Spain (+23.5% or €20.3 million), the Netherlands (16.5%) and France (11.2%). In contrast, in Germany, one of the largest trading partners of the country, the value of Greek exports fell year-on-year by 3.8% to reach €849.3 million.

In all the countries that joined the EU recently (including Cyprus), which represented 9.5% of total value, exports increased, with the exception of Latvia, where they marginally fell. Overall, exports to these destinations increased by 15.7% (or €136.1 million). In addition, exports to the UK increased marginally (0.6%) with the total value reaching €436 million.

Once more the role of Turkey as a trading partner of Greece was strengthened, with exports more than doubling year-on-year. As a result, Turkey absorbed 8.2% of Greek exports (€866.6 million). This development rendered Turkey the second largest trade partner of Greece in the first half of 2011, after Italy, with Germany coming third.

In the Balkan region, the value of exports increased by 17.1% in the first half of 2011, compared with a much smaller increase in the corresponding period of the previous year (1.5%). In Bulgaria – the main trading partner of Greece in the region and sixth in the overall ranking, as it absorbed 5.4% of export value – the exports increased by 21%. In contrast, in Romania the value of exports fell to €288.9 million (from €312.5 million in the previous year). The largest increase was observed in Serbia-Montenegro-Kosovo (+46.6%) and Croatia (+44.7%), but their share in the region's absorption of Greek exports remained rather small. Exports increased significantly to Bosnia-Herzegovina (+34.4%) and FYROM (33.3%), where the €200 million increase in export value helped the country overtake Albania (+7.7%) in the ranking.

Significant increase of Greek exports was also achieved in North America, where export value more than doubled to reach €662.2 million, as a result of the sharp increase of exports to the US market by 130% (at €581.1 million).

Table 3.8

Exports per destination, January-June 2011 and 2010

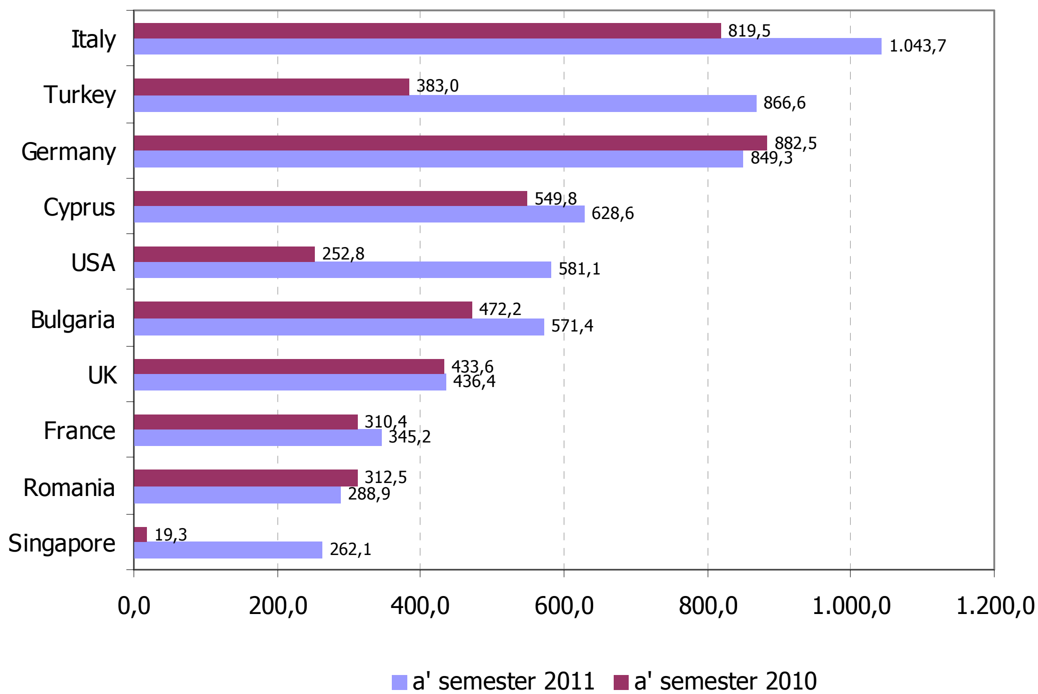
	Value (mil. €)			Structure	
	2011*	**2010***	**P.C.(%) '11/'10**	**2011**	**2010**
OECD (29 countries)	5.638,8	4.361,0	29,3%	53,5%	58,1%
EU (27)	4.617,3	4.098,8	12,7%	43,8%	54,7%
Euro Area-17	3.613,8	3.231,4	11,8%	34,3%	43,1%
North America	662,2	321,7	105,8%	6,3%	4,3%
Other developed countries	60,2	57,7	4,3%	0,6%	0,8%
Rest OECD (excl. S. Korea)	950,0	477,2	99,1%	9,0%	6,4%
Balkans	1.533,6	1.309,2	17,1%	14,6%	17,5%
Commonwealth of Independent States (CIS)	255,5	196,7	29,9%	2,4%	2,6%
Middle East and N. Africa	1.093,7	527,8	107,2%	10,4%	7,0%
African Countries (excl. S. Africa)	54,6	50,1	9,0%	0,5%	0,7%
S. E. Asia	379,5	95,7	296,6%	3,6%	1,3%
Latin America	44,4	24,4	82,0%	0,4%	0,3%
Rest Countries	879,8	340,7	158,2%	8,4%	4,5%
Total	**10.530,7**	**7.500,0**	**40,4%**	**100,0%**	**100,0%**

* Provisional data

Source: ERC-ELSTAT

Figure 3.11

Countries with the biggest share on Greek exports (mil. €), a' quart. 2010-2011



Source: PEA **Data processing:** IOBE

As a result, USA became the fifth largest trade partner of Greece, taking up 5.5% of the total value of Greek exports. The export value increased also in Mexico, by 49.4% or €10.2 million, while in Canada exports strengthened by 4.1% (or €2 million).

The value of exports to the countries of North Africa and the Middle East more than doubled year-on-year (+107.2% or €566 million), despite the political instability in many of the countries in the region during this period.

Exports to the countries of the Commonwealth of Independent States increased by €58.7 million (+29.8%), as a result mainly of an increase of exports to Russia (+29.4%), with their total value reaching €164.5 million. Significant increase was also observed in exports to Georgia and Moldova, whose share in total value of Greek exports remained very low nevertheless.

Lastly, the value of exports to China increased by 56.6% (€112.2 million total value), while in contrast exports to India weakened by 3.5%. Interestingly, the value of exports in Singapore exploded from only €19.3 million to €262.1 million. As a result, its share increased to 2.5% (from 0.3%), with the country taking up the tenth position in the country ranking.

The branches that have strong export orientation perform an offsetting role to the overall contraction of domestic production, which in turn has positive impact on the turnover of significant number of enterprises. Even though exports are expected to slow down in the second half of 2011, **the annual rate of increase of exports could reach 27%.**

3.4 Employment - Unemployment

The already acute unemployment problem became even more intense during 2011, which had serious negative side-effects on the rest of the economy. In the second quarter of 2011 unemployment reached 16.3%, increasing by 4.5 percentage points year-on-year. **The total number of unemployed reached approximately 810,800** (+216.800 year-on-year), having more than doubled in the past three years. However, the growth of unemployment slowed down quarter-on-quarter, as it increased by 2.3% (from 11.3% in the first quarter of 2011 and 14.5% in the last quarter of 2010). In the EA-17 the unemployment rate reached 10%, with Greece having the second highest unemployment rate after Spain (21%).

The number of employed reached 4.2 million – similar its year 2000 level – falling by 6.2% (~273,700 people) year-on-year and by 1% (~41,100 people) quarter-on-quarter. In EA-17 employment increased marginally (+0.4%) as a result of a rising trend in 11 member countries, while in Ireland and Portugal employment fell by 2% and 0.8% respectively. The labour force – i.e. the sum of employed and unemployed – contracted to approximately 4,967,200 people in Greece, falling slightly by 1.1% year-on-year as a result of increase in retirement from employment.

Regarding the characteristics of the labour force, **unemployment among women** reached 20% in the second quarter of 2011 - its highest level at least since 1998 – having increased year-on-year by 4.7 percentage points. Similar trend was observed in the unemployment rate among men, which reached 13.7%, while the distribution of the unemployed between the two sexes was almost equal (49% were men and 51% women).

Regarding the duration of unemployment, one in four unemployed entered the labour market without being able to find a job, with their number increasing by approximately 58,000 (or 41%) year-on-year. Indicative of the powerlessness of the Greek economy to create jobs is the fact that half of the unemployed have remained out of job for more than a year. The number of long-term unemployed increased by about 128,800 year-on-year (or 45.4%), with the long-term unemployment rate reaching 8.3% from 5.6% in the second quarter of 2010. Unemployment among **foreign nationals** reached 18%, compared with 16.2% among the Greek nationals.

Regarding the level of education, unemployment among intermediate school graduates, which represent 1/3 of the employed in the country, increased by 4.9 percentage points year-on-year (17.7%), while similar increase was recorded among tertiary technical education graduates (19%). Among university graduates the unemployment rate reached 11.6% (from 8.1%), while the number of employed in this education category reached about 770,600 people (or 18.5% of the total number of employed). Unemployment has been particularly acute among individuals with low educational level and especially among individuals who have not attended school at all, where the unemployment rate has been twice as high as the country average. In contrast, postgraduate and doctorate degrees have proved to be a significant asset in finding a job, as unemployment among their holders was lowest at 9.7%, albeit higher by 2.3 percentage point year-on-year.

Regarding unemployment at regional level, the largest problems in the labour market once more were observed in Macedonia, where the number of unemployed increased by about 76,100 year-on-year to reach approximately 237,800 people. In Central Macedonia the unemployment rate reached 18.8% (~156,500 unemployed), while slightly higher was the rate in East Macedonia – Thrace (~52,600 unemployed). The pressure in the labour market was more intense in West Macedonia, where the unemployment rate increased by 8.5 percentage points year-on-year to reach 23.1%. In Attica, about 81,300 jobs were lost since last year and as a result the unemployment rate reached 15.6%. The unemployment rate was similar to the national average in Epirus, Western and Central Greece, having increased by more than 4 percentage points within a year. Smaller unemployment rate – around 14% - was recorded in the island areas of the countries, with Crete and the Ionian Islands registering the least number of job losses.

Employment contracted in all three major **economic sectors**. The number of employed in the primary sector stood at the level from the third quarter of 2007 (~509,800), having decreased by 7.6% year-on-year, while the jobs in the primary sector of EA-17 fell by 1.7% on average. In the secondary sector, the large reduction in economic activity affected employment with the number of employed falling by about 146,000 (-16.5%) year-on-year and by about 30,500 (-4.0%) quarter-on-quarter. This reduction came as a result of a drop of similar proportions in construction and industry. In construction employment contracted at double its 2010 rate (-20.5%) and seven times faster compared with the Euro area countries, resulting in about 67,800 job losses within a year. Correspondingly in Manufacturing employment contracted by about 66,100 jobs, compared with marginal increase by 0.3% in EA-17.

Lastly, in the tertiary sector, employment fell by 2.8% (or ~82,700 jobs) year-on-year, recording a marginal quarter-on-quarter increase. Regarding its major branches, employment contracted by 3.5% in Wholesale-Retail Trade, by 5.5% in Education and by 2.3% in Public Administration-Defence-Compulsory Social Security. In contrast, marginal increase was recorded in Accommodation-Food Service Activities and Transporting-Storage. As a result of the above trends, the share of the primary sector stood at 12.3% (from 12.5% in the previous year), the secondary sector at 17.8% (against 20%) and the tertiary sector at 69.9% (from 67.5%).

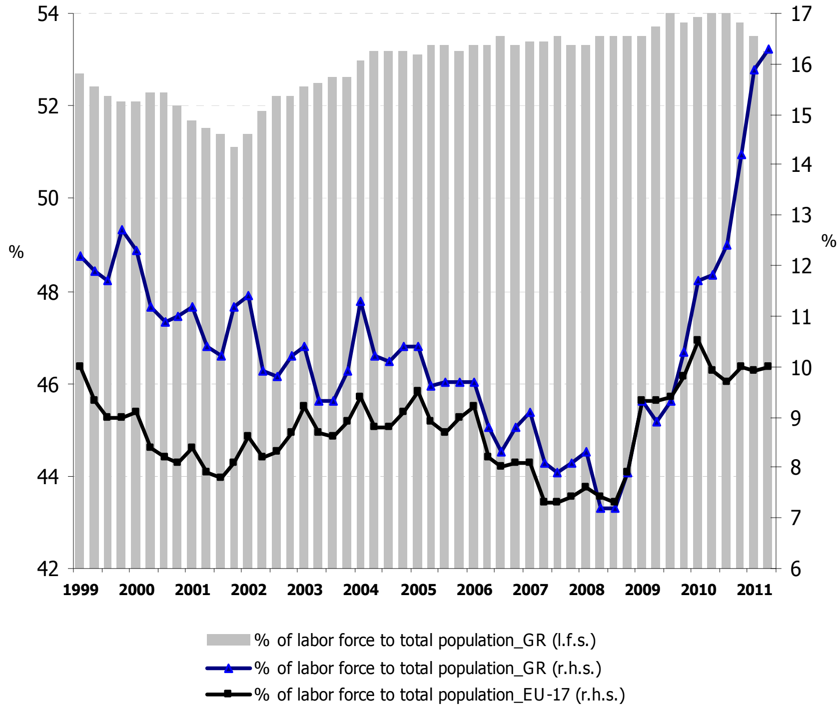
The negative developments in the labour market will persist, as the recession in the Greek economy will continue strong for the remainder of 2011 and most probably in early 2012. In addition, further pressure on the labour market will come from planned developments in the public sector, initially with the labour reserve scheme and after that with potential redundancies. A new landscape in the labour market is being formed, compared with the past when Public sector recruitment cushioned shocks to unemployment.

In general, during a period of transition and adjustment of the economy to a new model of development, fast job creation that would cover job losses in sectors that previously had been engines of growth, is not feasible. Examples of such sectors in Greece can be found in constructions and retail trade, where the already strong employment contraction will continue. Therefore, the implementation of employment stimulus policies (job subsidies, employment instead of unemployment benefits, employment programmes for long-term unemployed, young and women) should become primary goal, especially in the immediate future, in order to maintain existing and create new jobs with the utilisation of available financing tools, such as NSRF.

For 2011 overall, the unemployment rate is expected to stand at around 16.4%, **under the condition that positive developments in tourism from the increase in arrivals will result partly, at least, in a boost of employment in the third quarter**. The unemployment rate in 2012 is expected to increase by at least 2 percentage points, **which could be moderated by a restart of the Greek economy, to some extent at least, through firstly real implementation of structural changes that will facilitate the entry to sectors and professions with significant barriers and secondly through materialisation of mature investment projects.**

Figure 3.12

Labor force (% proportion as to population of 15 years old and over) and unemployed (% proportion as to labor force)



Source: ELSTAT, Labor Force Survey

Additional data on the short-term employment outlook are provided by the Business Surveys conducted by IOBE. In the three summer months from June to August, **employment expectations mildly strengthened quarter-on-quarter in Retail Trade and Construction, remaining however at very low level, while in Industry and Service they remained relatively stable**. Year-on-year, the expectations slightly recovered in Industry and Services, remaining however on average very negative. The Construction sector has received the strongest hit in terms of employment in the past year, while in Retail Trade, which traditionally represents very large share of Greek employment, the index fell slightly year-on-year.

In greater detail:

In Industry the employment expectations in the period from June to August remained at about the same level with the preceding quarter, slightly higher year-on-year. The balance of positive – negative answers remained negative, standing at -14, from -17 a year before. The share of enterprises expecting increase in employment in the coming months remained very low, at 6% on average, while in contrast 19% of the enterprises were expecting further job losses in their sector in the coming months. Four in five enterprises were anticipating stable labour demand in the following three months.

Table 3.10
Population of 15 years old and over by employment status (in thousands)

Quarter/Year	Grand Total	Labor Force					
		Total	% of population	Employed	% of labor force	Unemployed	% of labor force
1998	8.680,4	4.525,8	52,1	4.017,9	88,8	507,9	11,2
1999	8.764,5	4.586,1	52,3	4.031,4	87,9	554,7	12,1
2000	8.839,8	4.611,9	52,2	4.088,5	88,6	523,5	11,4
2001	8.906,4	4.580,3	51,4	4.086,3	89,2	493,9	10,8
2002	8.964,3	4.656,0	51,9	4.175,8	89,7	480,2	10,3
2003	9.014,9	4.734,4	52,5	4.274,5	90,3	460,0	9,7
2004	9.063,5	4.818,8	53,2	4.313,2	89,5	505,7	10,5
2005	9.108,1	4.846,5	53,2	4.369,0	90,1	477,5	9,9
2006	9.157,4	4.886,4	53,4	4.452,3	91,1	434,5	8,9
2007	9.207,4	4.916,8	53,4	4.509,9	91,7	406,9	8,3
2008	9.234,1	4.937,3	53,5	4.559,4	92,4	377,9	7,6
a' quart. 2009	9.252,7	4.948,1	53,5	4.485,8	90,7	462,3	9,3
b' quart. 2009	9.262,4	4.974,5	53,7	4.531,9	91,1	442,6	8,9
c' quart. 2009	9.272,3	5.005,3	54,0	4540,1	90,7	465,1	9,3
d' quart. 2009	9.282,4	4.991,2	53,8	4.476,8	89,7	514,4	10,3
2009	9.267,5	4.979,8	53,8	4.508,7	90,6	471,1	9,5
a' quart. 2010	9.292,2	5.012,4	53,9	4.425,6	88,3	586,8	11,7
b' quart. 2010	9.301,5	5.021,0	54,0	4.427,0	88,2	594,0	11,8
c' quart. 2010	9.311,5	5.024,9	54,0	4.402,9	87,6	621,9	12,4
d' quart. 2010	9.320,6	5.011,1	53,8	4.299,0	85,8	712,1	14,2
2010	9.306,3	5.017,4	53,9	4.388,6	87,5	628,7	12,5
a' quart. 2011	9.329,4	4.987,0	53,5	4.194,4	84,1	792,6	15,9
b' quart. 2011	**9.337,6**	**4.967,2**	**53,2**	**4.156,3**	**83,7**	**810,8**	**16,3**

Source: ELSTAT, Labor Force Survey

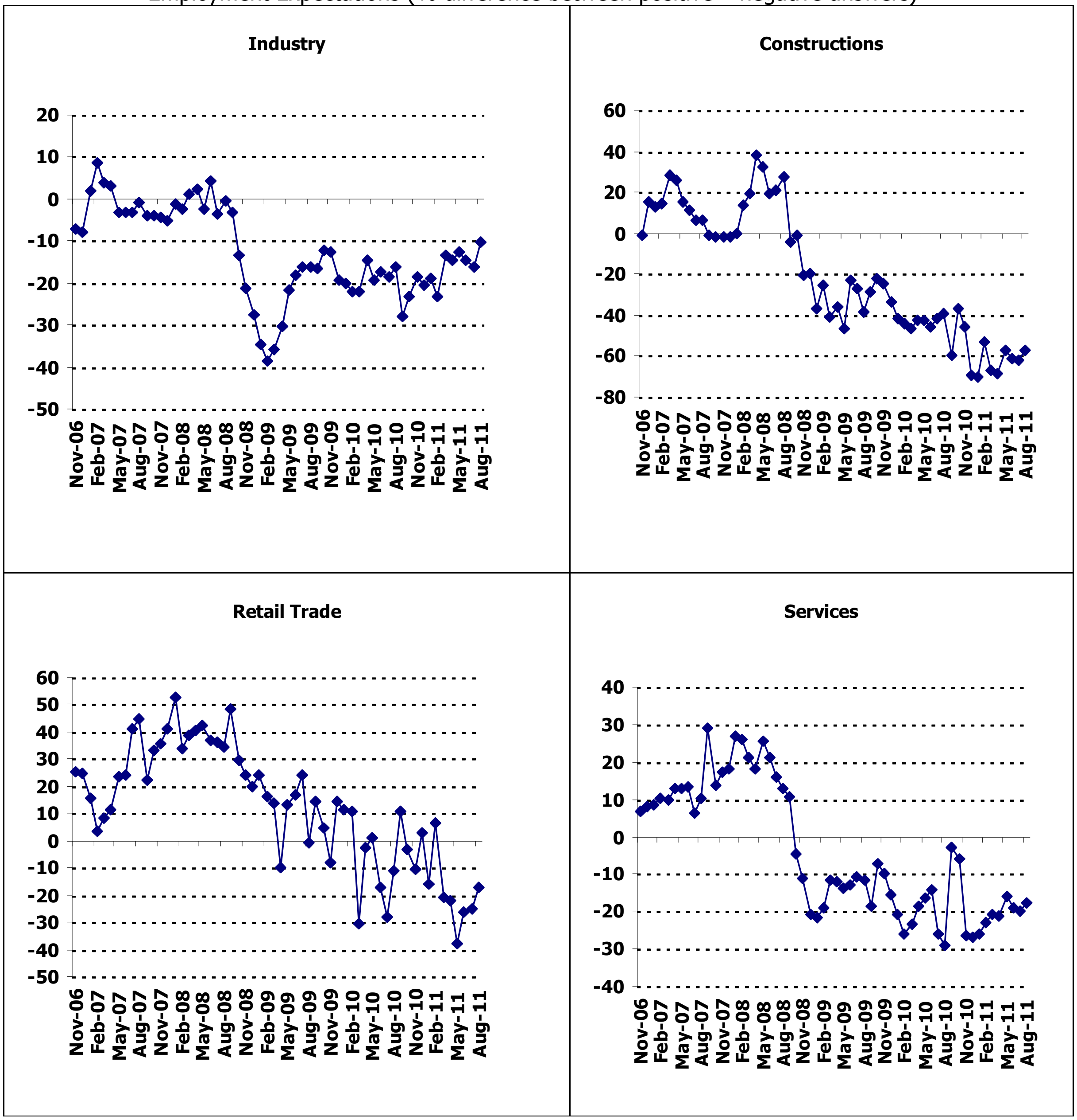
In Construction the employment expectations in the summer months remained exceptionally adverse, increasing only marginally quarter-on-quarter. Compared with the corresponding period of the previous year, the fall in the index was sharp, having reached -60 (from -42 in the previous year and -64 in the previous quarter). Only 6-7% of the enterprises in the past half of the year were anticipating increase of jobs in the sector, while in contrast 67% (from 70% in the preceding quarter) were anticipating fall in employment in the near term. The sentiment in Public Works did not change, with the index standing at -74, remaining, however, significantly worse in comparison with Private Construction, where the relative balance slightly increased quarter-on-quarter.

In Services overall employment expectations remained stable at negative level, with the index standing at -19. This performance was slightly better year-on-year (-23 in 2010). Only 4% of the enterprises (from 7% in the previous quarter) were anticipating increase in employment, while the share of enterprises expecting employment contraction slightly decreased to 23% from 26%. Most enterprises (73%) were expecting stability regarding employment in the sector. In most branches in the sector, employment expectations improved quarter-on-quarter. In particular, positive change was recorded in employment expectations in Hotels – Restaurants (to reach -5), Travel Agencies (-23), IT Services (-24) and Financial Intermediation (-4), with expectations in Other business activities falling to -36.

Employment expectations in Retail Trade in the period from June to August slightly improved quarter-on-quarter, with the index increasing overtime from its historic low in May. As a result the index reached -23 (from -27 on average from March to May), slightly below its last year level (-19). About 24% of the enterprises (from 28% in the previous quarter) were anticipating employment contraction in the near term and only 1% of the enterprises expected increase in employment. Large majority (74%) were expecting stability. Among the branches in the sector, the most favourable employment expectations were recorded in Food-Beverages-Tobacco, where the index came close to zero in the last six months, while expectations in Household Appliances improved notably to reach -23. Employment expectations weakened in Vehicles – Spare Parts (at -63) and Textiles-Clothing-Footwear (at -46).

Figure 3.13

Employment Expectations (% difference between positive – negative answers)



Source: IOBE

3.5 Consumer Prices

Recent Developments

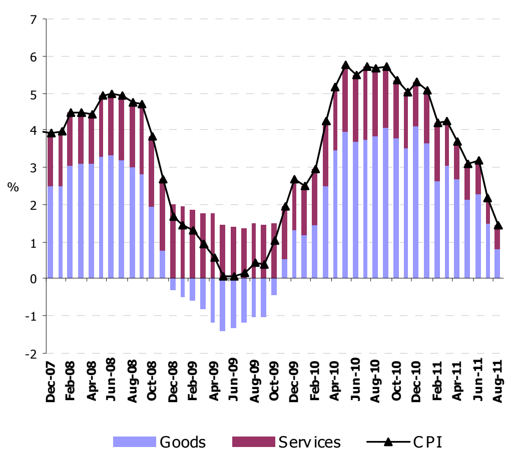
Positive developments regarding inflation were observed during the third quarter this year. In August the inflation rate stood at 1.7%, its lowest level in two years. Overall in the first eight months of the year, the inflation rate stood at 3.5%, falling by 1.2 percentage points year-on-year.

Further disinflation was prevented mainly from the course in the price index of goods, whose rate of change, even though falling, was twice as high, compared to the price index of services. In particular, the price index for goods increased by 4.2% in the first eight months of 2011 from 5.4% in the previous year. In services, inflation slowed down to 2.4%, compared with 3.8% in the previous year. In contrast, the index increased significantly in Fruits – Vegetables (6.4%), following its significant fall in the previous year by 7.1%.

The increase in fuel prices slowed down as well, as in the first eight months of 2011 the average annual increase of the fuel price index reached 21.8% (against 38.8%), while similar trend was observed in the energy price index (19% against 30.3% in the previous year).

Core inflation in the first eight months of the year reached 1.8% from 2.3% in the corresponding period of 2010. In August 2011 it remained unchanged year-on-year.

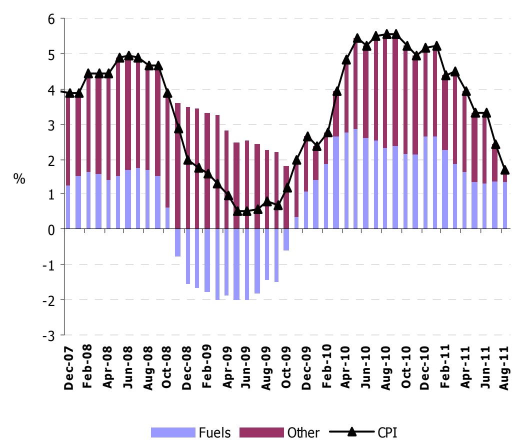
Figure 3.14
Headline Inflation and main components (annual % change)



Source: ELSTAT **Data processing:** IOBE

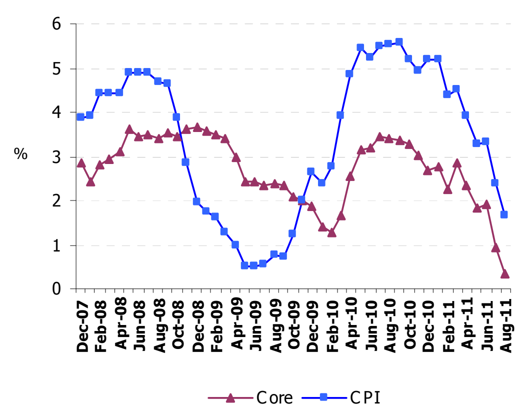
Among the remaining categories of goods and services, the price index increased, albeit at a weaker rate than in the previous year, with the exception of Clothing-Footwear (-2.2%) and Health (-0.6%). In fact, the reduction in Clothing-Footwear in August 2011 (by 11%) largely explained the disinflation observed in that month, as its contribution reached 0.8 percentage points. The largest increase in the first eight months of the year was observed in Alcoholic Beverages – Tobacco (9.7%), while similar increase (9%) was also recorded in Housing. In Transport services the index increased at half its rate from the previous year (8%). In Food and non-alcoholic beverages and Telecommunications, prices increased at about the same rate with those recorded in the previous year (3% and 2.3% respectively), while in Education prices remained unchanged.

Figure 3.15
Contribution of the change of Fuel prices to Inflation (annual % change)



Source: ELSTAT **Data processing:** IOBE

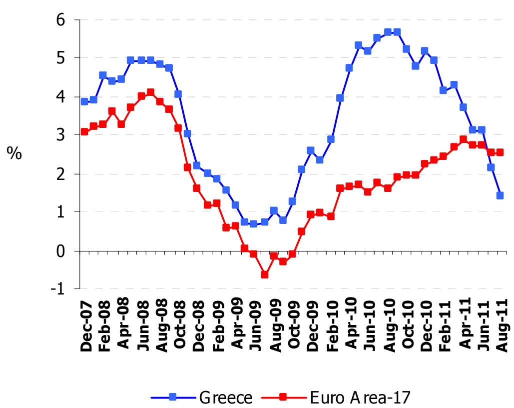
Figure 3.16
Core and Headline Inflation (annual % change)



Source: ELSTAT **Data processing:** IOBE

The inflation rate of the harmonised index (HICP) reached 3.4% in the first eight months of 2011 from 4.4% in the corresponding period of the previous year, by 0.8 percentage points higher than the Euro area average. In contrast with the past, however, HICP inflation in Greece fell during the year to reach a level similar to other Euro area member-states, such as Belgium, Portugal, Austria, Spain and Finland. It is indicative that in August 2011 HICP inflation stood at 1 percentage point below the Euro area average, at a level similar to that of Ireland.

Figure 3.17
Harmonized Index of Consumer Prices – Greece & Euro Area-17 (annual % change)



Source: ELSTAT **Data processing:** IOBE

The rising cost of production also contributed adversely to inflation. In the first seven months of 2011, the industry producer price index for the domestic market increased by 7.6% (from 6.7%). This was the forth largest increase among the EA-17 member countries, where prices also increased significantly, by 6.3%, year-on-year. The branches with the largest price increase were Coke and Refinery Products (+28.6%), Energy Goods except Electricity (+27.6%), Coal-Lignite (19.6%) and Electrical Equipment (14.7%). Significant decrease was recorded in Basic Pharmaceutical Products. Without a doubt, the domestic production cost continued to be affected by the rising prices of imported raw material, as the corresponding index grew at a similar rate compared with last year (7.5%).

Medium-term Outlook

Increase in VAT on catering/restaurants (food, drinks, etc.) from 13% to 23%, combined with equalisation of the excise tax of heating oil and motor diesel for enterprises are expected to generate inflationary pressures.

On the other hand, reduction in wages and pensions, high unemployment and uncertainty over job losses, together with emergency taxation in order to reduce public debt, are reducing drastically the disposable income of the households and consequently are dampening consumption demand. As a result of these developments, disinflation is expected to continue for the remainder of 2011. **CPI inflation for 2011 overall is expected to stand at around 3.1%,** 1.6 percentage points below its 2010 level.

In general, the above socioeconomic developments reveal the need for initiatives aimed at immediate price reduction in a wide range of goods and services, which can be achieved in spite of the high tax rates. Besides, based on Purchasing Power Parities[15] comparison, Greece has the higher

[15] Purchasing power parities (PPPs) are indicators of price level differences across countries. PPPs tell us how many currency units a given quantity of goods and services costs in different countries. PPPs can thus be used to convert expenditures expressed in national currencies into an artificial common currency (the Purchasing Power Standard, PPS), eliminating the effect of price level differences across countries.

price level than many more developed EA-17 member states in various categories (Figure 3.18). These differences indicate, inter alia, the need for immediate adoption and implementation of appropriate legal framework that would boost competition in major markets for goods and services. The legislative intervention to liberalise restricted-entry professions is clearly an example in this direction. Nevertheless, this intervention preserves some of past entanglements, while the implementation of some of its clauses is being delayed.

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

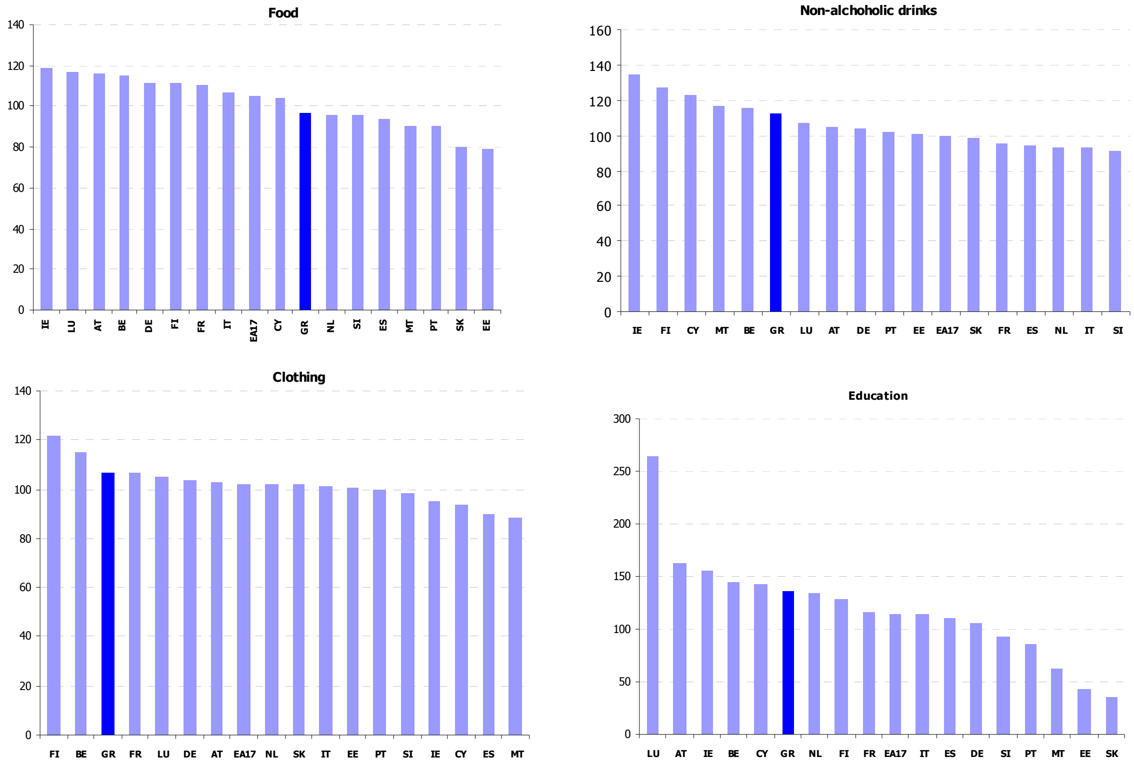
The price sentiment in Industry was dominated by deflationary expectations in the three summer months from June to August, compared with expectations of price increase in the preceding quarter. In Private Construction, the indicator recovered, after a sharp drop in the preceding quarter, remaining however at very low levels due to low expected demand. The indicator in Retail Trade slightly increased, even though deflationary expectations continued to dominate here too. In Services price expectations remained stable, with the average level of the indicator taking negative levels too. Year-on-year, the deflationary pressures have intensified in Industry, Private Construction and Retail Trade, while in Services the indicator increased, remaining negative at all times. In greater detail:

- **In Industry, deflationary expectations gained dominance in the period from June to August**. The indicator took negative values, standing at -7 on average from +4 in the previous quarter. Year-on-year, deflationary expectations strengthened (-2 points in the corresponding period of 2010). The share of enterprises expecting price increase fell almost by half to reach 8%, while in contrast almost twice as many enterprises were anticipating decrease in prices. Yet again, the vast majority of enterprises (78% from 74%) were expecting prices to remain stable over the near term.

- **In Retail Trade, the deflationary expectations remained stable quarter-on-quarter**. The expectations balance stood at -22 (from -24 in the preceding quarter), significantly decreasing year-on-year (from -12 in the corresponding period of 2010). The share of enterprises expecting prices to fall stood at 28% (from 32% on average in the preceding quarter), while only 6% of the enterprises held inflationary expectations (from 8% in the previous quarter). Regarding the branches in this sector, Department Stores held the strongest deflationary expectations, followed by Fabrics–Clothing-Footwear and Vehicles – Spare Parts. In Food-Drinks-Tobacco price expectations fell to their historic low at -13 on average.

Figure 3.18

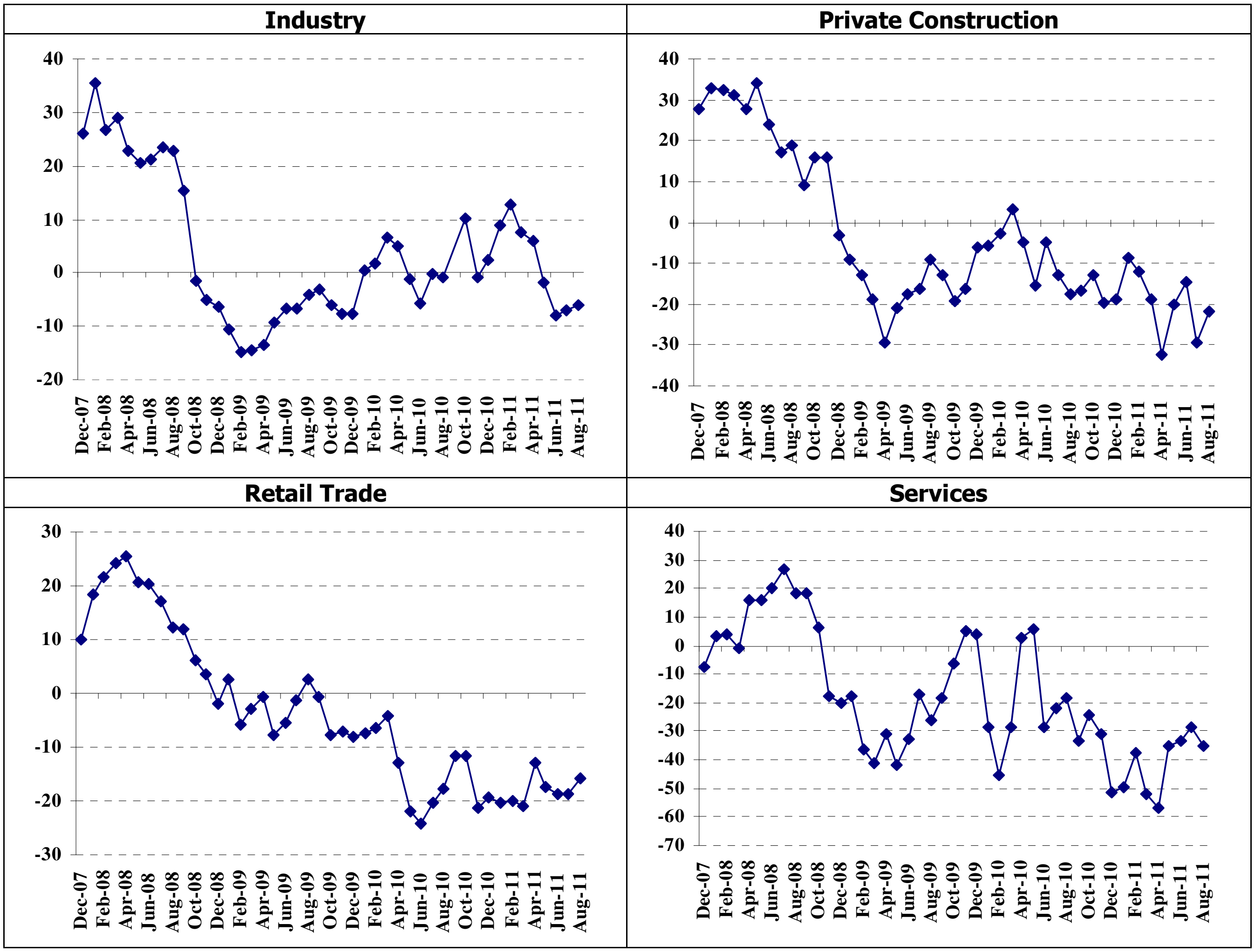
Comparative price levels based on Purchasing Power Parity (PPP), Euro Area-17 (2010)



Source: Eurostat

Figure 3.19

Price Expectations (% difference between positive – negative answers)



Source:IOBE

- **In Services, the negative balance of price expectations indicator remained at the same level with the preceding quarter (-18)**, slightly above its level from the corresponding period of 2010 (-21). One in five enterprises in the sector held expectations that prices will fall in the near term (from 22% in the preceding quarter), while large majority (78% from 74%) were anticipating price stability. Deflationary expectations dominated in all constituent branches of Services, expect Financial Intermediation, where the balance of expectations has remained positive since early 2011. In Hotels - Restaurants, the quarterly index increased to -2, due to higher demand during the summer season.

- **Lastly, the deflationary expectations that have dominated in Private Construction since the beginning of the year, due to the strong contraction in the sector, eased slightly in the period under investigation.** The balance of price expectations increased by 16 points to reach -32, which was also due to correction of the very negative expectations on the current level of activity. The deflationary trend was significantly stronger year-on-year (from -23 in the corresponding period of the previous year). The share of enterprises expecting further reduction of prices in the near term fell to 35% (from 49%), with only 2% expecting price increase.

3.6 Balance of Payments

Current Account

The current account deficit contracted by 9% in the first seven months of 2011. It reached €14.2 billion, by €7.2 billion lower than its 2008 level (€21.4 billion).[16] This large reduction was caused by a significant contraction of the trade deficit and a boost in the services surplus. Meanwhile, the income account deficit increased, after its marginal reduction in 2010, while the current transfer account remained in surplus in contrast with capital transfers, which fell for a second year in succession.

The trade deficit contracted by 6.6% (€1.2 billion) in the first seven months of 2011, resulting in lower deficit by €10 billion in relation to 2008. The trade balance of goods (excluding oil and ships) fell by 21.5%, reflecting mainly the large increase in exports (of the remaining goods) by 15.6% (€987 million), together with a reduction in imports by 7.3% (€1.2 billion). In the corresponding period of 2010, exports had contracted by 4.1%, while imports had declined by 9.9%. The value of fuel exports reached its highest level in 10 years at €3.5 billion, increasing by 35.7%, while imports also increased, by 26.4%, with the fuel trade deficit expanding by €1.2 billion.

The services surplus increased by 7% (€483 million), mainly due to an increase in receipts from tourist services by 14.2% (€680 million), against a modest increase of payments by only €19 million. The services balance would have improved further were it not for the large drop in receipts from transport services (mainly merchant shipping) by €1.1 billion. Meanwhile, payments for transport services fell by €446 million.

The income account deficit increased by 4.9% (€273 million) in the first seven months of 2011, after a small reduction by 0.7% in 2010. The increase in deficit was mainly caused by reduction in receipts from abroad (remuneration, wages, interest, dividend and profits) by 11.1% (€236 million). Outgoing payments, mainly for wages and remuneration, increased by 15.6% (€35 million).

The surplus of **current transfers** remained close to its level from a year before, increasing by only €12 million, against a fall by €505 million in the first seven months of 2010. Total receipts[17] fell by 5.5% (€201 million), mainly due to reduction in receipts from workers' remittances by €193 million. On the other side of the balance sheet, payments[18] fell by

[16] The amounts in brackets express year-on-year change, unless otherwise indicated.

[17] Including receipts from the European Agricultural Guidance and Guarantee Fund (EAGGF) and the European Social Fund (ESF).

[18] Mainly contributions to the Community Budget.

8.2% (€212 million), offsetting the reduction in receipts.

Capital Account

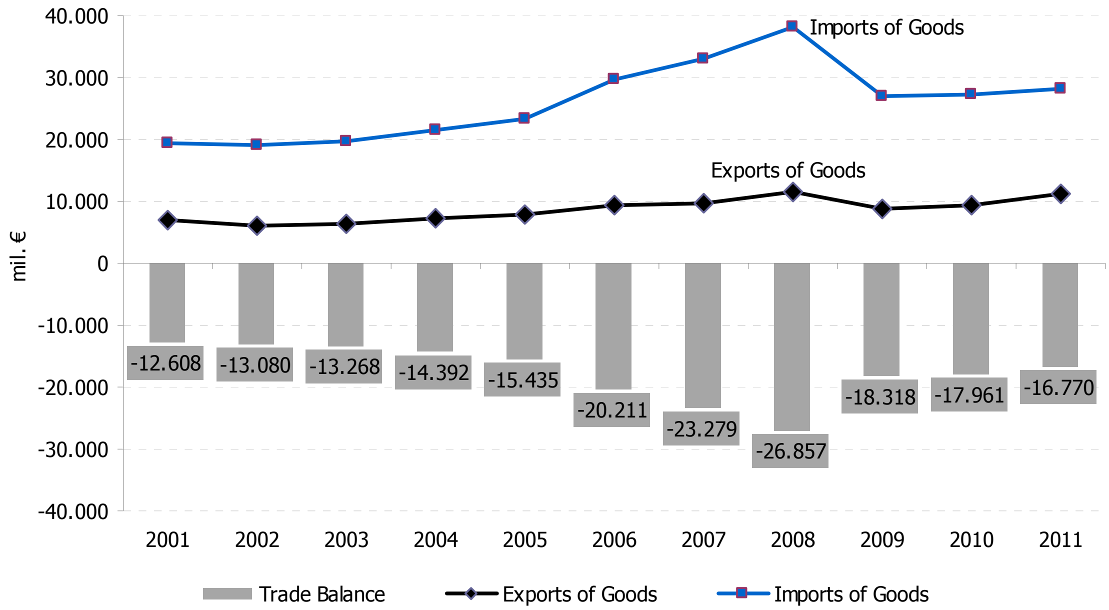
The surplus of **capital transfers** continued to fall, contracting by 29.5% (€236 million), following its drop by €456 million in 2010. As a result, the surplus reached €564 million. The main reason behind the surplus's contraction was the reduction in receipts[19] by 27% (€259 million), while payments declined by 14.5% (€23 million).

Lastly, the **Current and Capital Account** deficit, which to some extent reflects the economy's external borrowing requirements, stood at €13.6 billion from €14.8 billion in 2010, reduced by 7.9% or €1.2 billion. The borrowing requirements were lower by €5.2 billion compared with 2008.

[19] The capital transfer receipts refer to incoming payments from structural and cohesion funds.

Figure 3.20

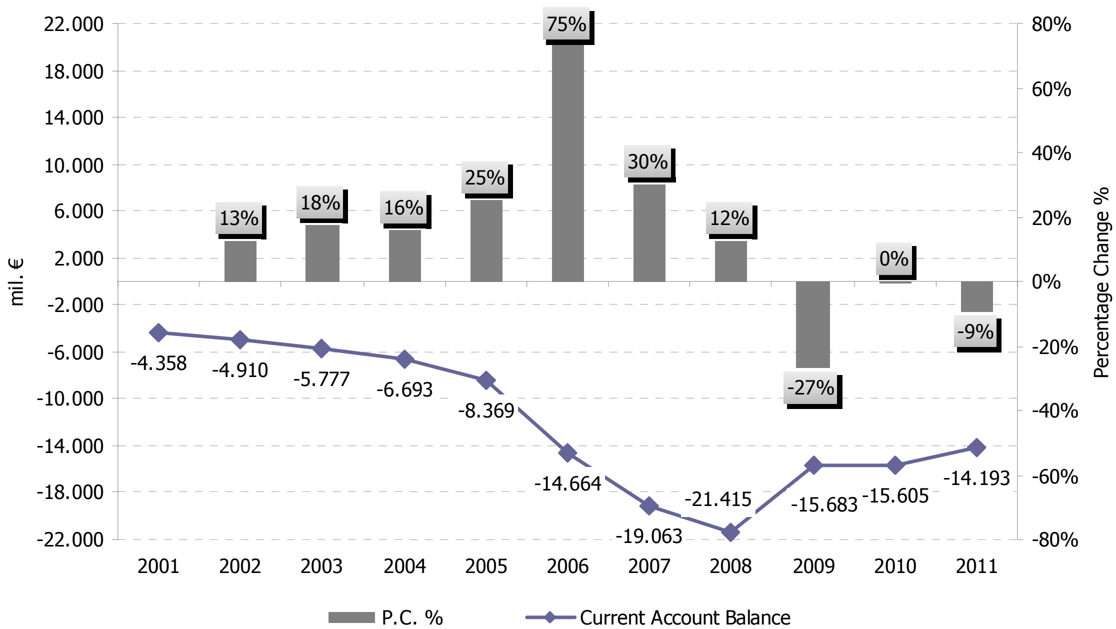
Imports-Exports 2001-2011 (January-July)



Source: Bank of Greece, **Data processing:** IOBE

Figure 3.21

Current Account Balance 2001-2011 (January-July)



Source: Bank of Greece, **Data processing:** IOBE

Financial Account

The financial account surplus fell significantly, by 9.9%, in the first seven months of the year, reaching €14.5 billion from €15.6 billion in 2010.

At the level of specific accounts, **direct investment** received net inflow of €656 million, against €678 million in 2010. The inflow of foreign direct investment fell by half to reach €634 million, while the residents' direct investment abroad recorded net outflow of €1.3 billion, higher by €780 million in 2011. In more detail, in July, according to the Bank of Greece, the following major transactions were carried out:

i. **Inflow** of €392 million for the acquisition of 10% of OTE's equity by Deutsche Telekom.

ii. **Outflow** of €350 million for endowment of the subsidiary of EFG Eurobank Ergasias SA in Poland (EFG Eurobank Ergasias S.A. Spolka Akcyjna Oddzial w Polsce).

The net outflow in **Portfolio investment**, which had already commenced from 2010, expanded by €3.2 billion in the first seven months of 2011 to reach €9.4 billion. Net inflow from receivables fell by 41.7% (€3.8 billion), while net outflow for payables decreased by 4.2% (€650 million). According to Bank of Greece, holdings by non-residents of bonds and treasury bills issued by the Greek state fell by €14.7 billion, while holdings of foreign financial derivatives by domestic financial institutions and institutional investors increased by €623 million. Meanwhile, holdings by non-residents of shares of Greek companies fell by €131 million. Lastly, the investment by domestic financial institutions in foreign bonds fell by €5.9 billion, while reduction was also observed in holdings of shares in foreign companies by Greek residents by €76 million.

The balance in **'other' investment** category recorded net inflow of €24.5 billion from €21.4 billion in 2010. This development mainly reflected increase in borrowing by the general government and the private sector. In particular, the outstanding balance of General Government loans reached €32.1 billion in the first seven months of 2010, from €18.8 billion in 2010. This was partially offset by increased outflow from deposit and repo holdings of resident credit institutions and institutional investors abroad by €3.4 billion, while non-residents' deposit and repo holdings in Greece decreased by the same amount. Lastly, the country's **reserve assets** stood at €4.7 billion in July 2011 from €4.6 billion in July 2010.

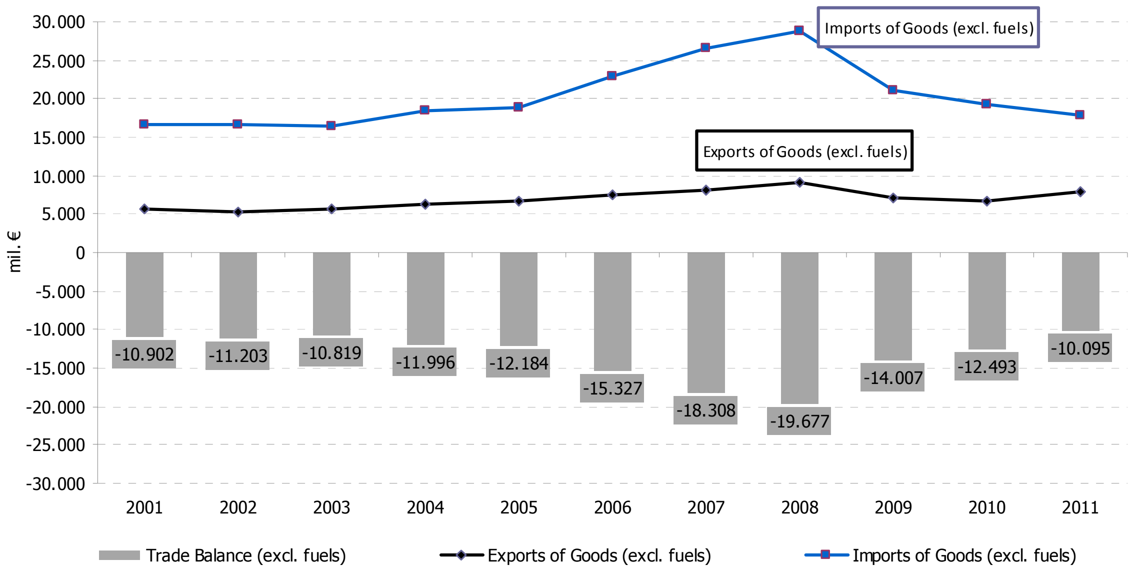
Assessment

The outbreak of the crisis has highlighted the negative aspects of the twin deficits of the Greek economy (fiscal and trade), which largely reflect its structural weaknesses (low competitiveness, "Leviathan" public sector, emphasis on domestic consumption, etc.). Since 2008, the Greek economy is not capable to return on a growth path, exactly due to the deficits that it has accumulated in the last few decades. The tax revenue as percentage of GDP is much lower that the European average, while public expenditure is very high, resulting in explosion of the fiscal deficit, which remained high for a country that is part of the Euro area. The large incidence of tax evasion and the lack of control have imposed a multiplicative burden on the revenues. The reluctance of large part of the tax payers to contribute their dues has led to a shift of the tax burden to other sectors, resulting in their excessive taxation and malfunction of the economic activity even in healthy cells of the Greek economy. Meanwhile, the other major economic problem, large trade deficit, intensified during the last decade, due to low competitiveness of the Greek economy, formation of an enterprise culture which focused mainly on satisfying the domestic market and sharp increase in imports due mainly to low competitiveness.

The latest developments indicate that apart from the fiscal consolidation that is taking place, the trade balance and the receipts from tourism are also improving. Apart from the drastic fall in imports due to income contraction, the balance of payments data indicate that the trade balance is improving also due to genuine increase in exports (without oil products and ships). In particular, in July the exports increased by 12.2%, while since the beginning of the year they have increased by 15.7%. Meanwhile, tourism receipts increased by 12.2% on average in the period from March to July 2011. It seems that at least the export orientation of the economy is slowly strengthening, as shown in Figure 3.23, with positive effects for the economy overall, as this performance contributes to the limitation of the already strong contraction from even further drop. This shift, especially in the exports of other goods, is seen to be part of an attempt by the enterprises to offset losses of domestic demand due to the domestic contraction. Apart from the direct economic effects, a new business culture is being formed. The enterprises are now called to operate in an even more competitive environment than in the past, where the supply of high quality goods and services is vitally important for their smooth functioning and survival. The increase in exports is still not sufficient to fully offset the reduction in domestic demand in this early phase, mainly due to the adjustment process of the enterprises' export activities and the intense global competition that keeps prices low. The systematic continuation of this effort is expected to consolidate the positive results from the increase in exports, with positive side effects on the Greek economy.

Figure 3.22

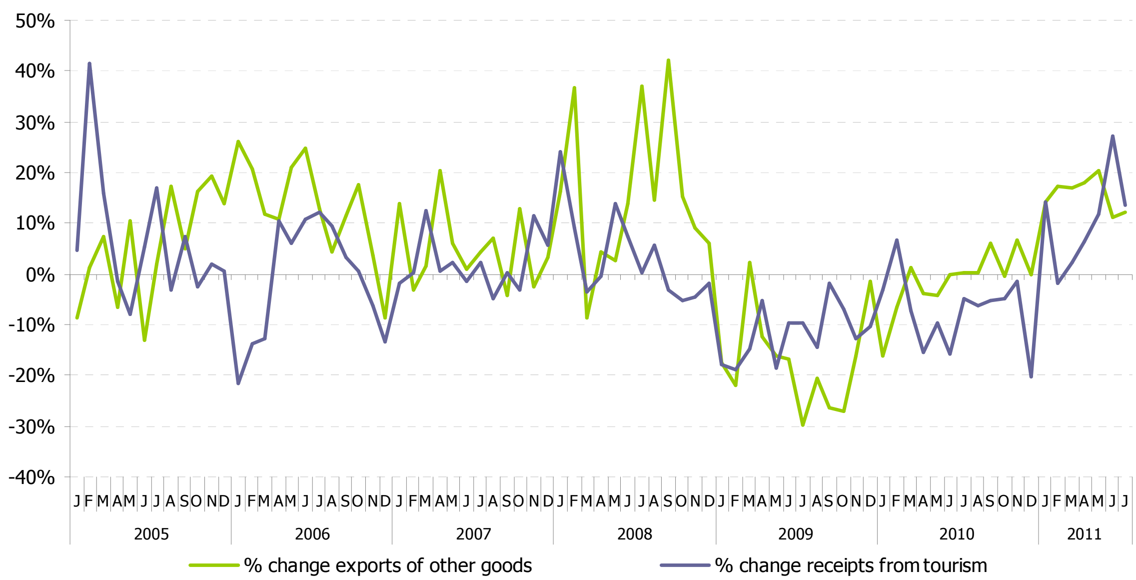
Imports-Exports (**excl. fuels**) 2001-2011 (January- July)



Source: **Bank of Greece,** Data processing: **IOBE**

Figure 3.23

% change of exports and receipts from Tourism (Jan/2004 – Jul/2011)



Source: **Bank of Greece,** Data processing: **IOBE**

Table 3.11

Provisional Balance of External Payments (January-July) in mil.€

		January-July			July		
		2009	2010	2011	2009	2010	2011
I	**CURRENT ACCOUNT (I.A+I.B+I.C+I.D)**	**-15.682,5**	**-15.605,1**	**-14.193,4**	**-1.598,9**	**-1.470,0**	**-902,4**
I.A	**GOODS (I.A.1-I.A.2)**	**-18.318,2**	**-17.960,7**	**-16.770,0**	**-2.955,2**	**-2.694,6**	**-2.561,1**
	Oil Balance	-4.311,0	-5.467,4	-6.675,2	-709,5	-1.024,8	-1.084,2
	Trade Balance excluding oil	-14.007,2	-12.493,3	-10.094,9	-2.245,7	-1.669,8	-1.476,9
	Ship's Balance	-2.241,8	-2.276,7	-2.075,4	-403,7	-296,3	-396,0
	Trade Balance excluding oil and ships	-11.765,4	-10.216,6	-8.019,4	-1.842,0	-1.373,5	-1.080,9
I.A.1	**Exports**	**8.777,4**	**9.335,9**	**11.345,5**	**1.337,0**	**1.542,8**	**1.878,6**
	Oil	1.674,2	2.584,1	3.505,4	304,4	457,4	690,5
	Ships	524,5	446,2	550,7	51,4	101,7	84,5
	Other goods	6.578,7	6.305,7	7.289,3	981,2	983,7	1.103,6
I.A.2	**Imports**	**27.095,6**	**27.296,6**	**28.115,5**	**4.292,2**	**4.237,4**	**4.439,7**
	Oil	5.985,3	8.051,5	10.180,6	1.013,9	1.482,2	1.774,8
	Ships	2.766,3	2.722,9	2.626,2	455,1	398,0	480,4
	Other goods	18.344,1	16.522,2	15.308,7	2.823,2	2.357,2	2.184,5
I.B	**SERVICES (I.B.1 - I.B.2)**	**6.666,4**	**6.849,8**	**7.332,4**	**2.300,4**	**2.321,8**	**2.599,6**
I.B.1	**Receipts**	**14.906,6**	**15.810,0**	**15.671,3**	**3.616,8**	**3.673,5**	**3.816,8**
	Travel	5.240,3	4.780,9	5.461,3	2.081,5	1.929,5	2.252,0
	Transportation	7.986,0	9.162,9	8.083,2	1.254,2	1.438,2	1.205,6
	Other services	1.680,3	1.866,1	2.126,8	281,0	305,8	359,1
I.B.2	**Payments**	**8.240,2**	**8.960,1**	**8.338,9**	**1.316,4**	**1.351,7**	**1.217,2**
	Travel	1.360,0	1.277,8	1.296,9	201,8	201,6	219,0
	Transportation	4.059,8	4.826,6	4.380,9	637,5	714,8	617,1
	Other services	2.820,4	2.855,8	2.661,1	477,1	435,3	381,0
I.C	**INCOME (I.C.1 - I.C.2)**	**-5.579,5**	**-5.538,4**	**-5.811,7**	**-1.039,7**	**-1.101,3**	**-983,6**
I.C.1	**Receipts**	**2.709,7**	**2.253,0**	**2.009,7**	**361,9**	**352,9**	**310,0**
	Compensation of employees	182,5	118,3	111,1	46,1	18,1	16,9
	Investment Income	2.527,2	2.134,7	1.898,6	315,8	334,8	293,1
I.C.2	**Payments**	**8.289,2**	**7.791,4**	**7.821,5**	**1.401,6**	**1.454,2**	**1.293,6**
	Compensation of employees	236,9	220,9	255,4	39,2	31,6	38,3
	Investment Income	8.052,3	7.570,5	7.566,1	1.362,3	1.422,7	1.255,4
I.D	**CURRENT TRANSFERS (I.D.1 - I.D.2)**	**1.548,7**	**1.044,1**	**1.056,0**	**95,5**	**4,1**	**42,7**
I.D.1	**Receipts**	**3.962,1**	**3.627,1**	**3.426,6**	**318,1**	**342,7**	**339,4**
	General Government (mainly transfers from EU)	2.774,5	2.732,1	2.724,2	156,3	223,9	236,4
	Other sectors	1.187,6	895,0	702,5	161,8	118,8	102,9
I.D.2	**Payments**	**2.413,4**	**2.583,0**	**2.370,7**	**222,5**	**338,6**	**296,6**
	General Government (mainly transfers to EU)	1.624,8	1.690,2	1.550,4	104,4	208,0	209,9
	Other sectors	788,6	892,8	820,3	118,1	130,6	86,8
II	**CAPITAL TRANSFERS (II.1-II.2)**	**1.256,2**	**800,6**	**564,3**	**354,6**	**664,2**	**254,1**
II.1	**Receipts**	**1.436,3**	**958,6**	**699,4**	**385,7**	**683,9**	**271,7**
	General Government (mainly transfers from EU)	1.311,2	883,0	645,2	365,5	675,0	258,5
	Other sectors	125,1	75,7	54,2	20,2	8,9	13,2
II.2	**Payments**	**180,1**	**158,1**	**135,1**	**31,1**	**19,7**	**17,6**
	General Government (mainly transfers to EU)	7,9	12,1	8,1	1,6	1,0	1,2
	Other sectors	172,2	145,9	127,0	29,5	18,7	16,4
III	**CURRENT ACCOUNT AND CAPITAL TRANSFERS (I + II)**	**-14.426,3**	**-14.804,6**	**-13.629,1**	**-1.244,3**	**-805,8**	**-648,3**
IV	**FINANCIAL ACCOUNT (IVA+IVB+IVΓ+IVΔ)**	**15.563,1**	**15.639,6**	**14.460,4**	**1.634,9**	**1.367,9**	**1.303,3**
IV.A	**DIRECT INVESTMENT***	**1.193,6**	**678,5**	**-656,1**	**525,4**	**195,4**	**49,9**
	Abroad	-599,7	-510,4	-1.289,9	-94,4	-72,8	-407,5
	Home	1.793,3	1.188,9	633,8	619,7	268,2	457,3
IV.B	**PORTFOLIO INVESTMENT***	**23.739,5**	**-6.197,7**	**-9.403,0**	**4.769,1**	**-1.213,3**	**305,0**
	Assets	-2.547,1	9.250,3	5.395,4	-832,7	635,3	241,7
	Liabilities	26.286,6	-15.448,0	-14.798,4	5.601,7	-1.848,6	63,3
IV.C	**OTHER INVESTMENT***	**-9.356,0**	**21.061,8**	**24.542,5**	**-3.675,5**	**2.366,8**	**967,4**
	Assets	-15.744,0	-16.058,3	-3.346,8	-246,2	572,0	-3.232,4
	Liabilities	6.388,0	37.120,1	27.889,3	-3.429,3	1.794,8	4.199,8
	(Loans of General Government)	-1.829,2	18.850,9	32.124,4	-94,2	-442,4	11.852,6
IV.D	**CHANGE IN RESERVE ASSETS****	**-14,0**	**97,0**	**-23,0**	**16,0**	**19,0**	**-19,0**
V	**BALANCE ITEM**	**-1.136,8**	**-835,0**	**-831,3**	**-390,6**	**-562,1**	**-655,0**
	RESERVE ASSETS (STOCK) (end period)***				**2.688,0**	**4.647,0**	**4.732,0**

Source: Bank f Greece

* (+) net inflow (-) net outflow

* * (+) increase (-) decrease

* * * Reserve assets , as defined by the ECB, only include monetary gold, the reserve position at the IMF, Special Drawing Rights and the Bank of Greece's claims in foreign currency on residents of countries outside the euro area. Conversely, reserve assets do not include claims in euro on residents of countries outside the euro area, claims in foreign currency and in euro on residents of euro area countries, and the Bank of Greece's participation in the capital and the reserve assets of the ECB.

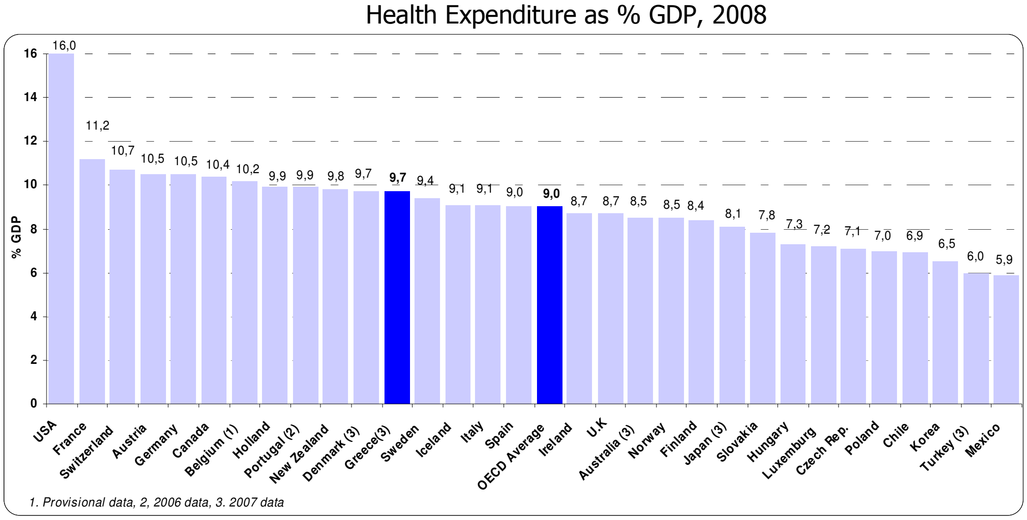
4. HEALTHCARE SPENDING AND POLICIES UNDER THE FISCAL CONSOLIDATION REGIME[20]

Healthcare and the organisation of a system for the provision of healthcare services are among the key issues that the modern society faces. In addition, the healthcare institutions and enterprises, private and state-owned, form one of the most important branches of the economy, which contributes to the country's employment and GDP.

4.1 The demand for Healthcare services in Greece

In Greece, the demand for healthcare services and subsequently total health spending have increased over the years, reaching 10% of GDP, surpassing the average for the OECD countries (Figure 4.1). This trend is linked to objective socioeconomic and demographic factors that are present internationally. Despite this, the soaring healthcare spending in Greece is attributed mainly to the proven ineffectiveness of the health system and the wastage that comes from the utter lack of control and recording of transactions in healthcare. Recent study by OECD showed that in the next decade, the Greek healthcare system, which was assessed as the second least efficient in OECD after that of Ireland, could develop without additional resources, exclusively by eliminating wastage and improving its efficiency.

Figure 4.1
Health Expenditure as % GDP, 2008



Source: OECD Health Data, 2009

[20] This paper constitutes a brief summary of a study prepared by IOBE's Health Economics Observatory, in cooperation with independent experts. The study is funded by the Hellenic Association of Pharmaceutical Companies. The full text of the study will be published soon by IOBE.

4.2 Healthcare targets and policies in the Memorandum of Economic and Financial Policies

As part of the more general effort of fiscal consolidation that began in May 2010, the healthcare sector has been subjected to initiatives and policies of modernisation and rationalisation, constituting one of the key sectors where interventions are performed in order to reduce the fiscal deficit. Understandably, the Memorandum of Economic and Financial Policies (MEFP) set targets regarding the height of public healthcare spending and public spending on pharmaceuticals. According to MEFP, until 2012 public healthcare spending in Greece should not exceed 6% of GDP, while public spending on pharmaceuticals should equal at most 1% of GDP, close to the European average level. Meanwhile, MEFP sets a target to achieve saving of €2 billion in 2011-2012 from public pharmaceutical spending, out of which €1 billion should be saved until the end of 2011.

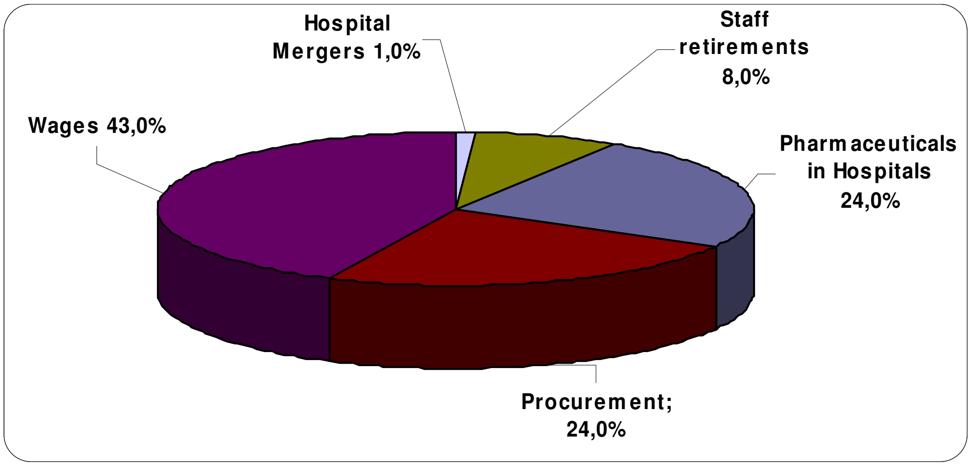
In this regard, for the achievement of MEFP's targets a set of measures was adopted in the last 16 months on rationalisation of spending on health and drugs, modernisation of healthcare services and improvement of their productivity. A study, prepared by IOBE in cooperation with prominent independent researchers, was prepared in order to estimate and assess the impact of these measures on public health spending. The analysis of the measures and the assessment of the savings that could be achieved by each measure were performed along two axes – from the perspective of the National Healthcare System (NHS) and from the perspective of the Social Security Funds (SSF).

4.3 Policies and savings in NHS

Regarding NHS, the analysis carried out showed that the adoption of measures to increase the efficiency of public hospitals and to reduce their wage cost, measures to control spending on sanitary and other materials and measures to reduce hospital spending on pharmaceuticals can generate total savings of €1.081 million (95% C.I.[21]: €1.056, €1.119) in 2011 and further savings of €380 million (95% C.I.: €356, €404) in 2012. The largest share of savings comes from reduction in wages in NHS and reduction in hospital pharmaceutical spending (Figure 4.2). In particular, the expected reduction in wage cost in NHS is estimated at €461 million in 2011, while the expected reduction in hospital pharmaceutical spending stands at €259 million (95% C.I.: €239, €283) in 2011 and €166 million (95% C.I.: €156, €178) in 2012.

[21] C.I.: Confidence interval

Figure 4.2
Composition of Savings in Hospital Expenditures 2011 (€)



Source: Ministry of Finance, Ministry of Health & Social Solidarity, esy-net, EOF, IOBE estimations

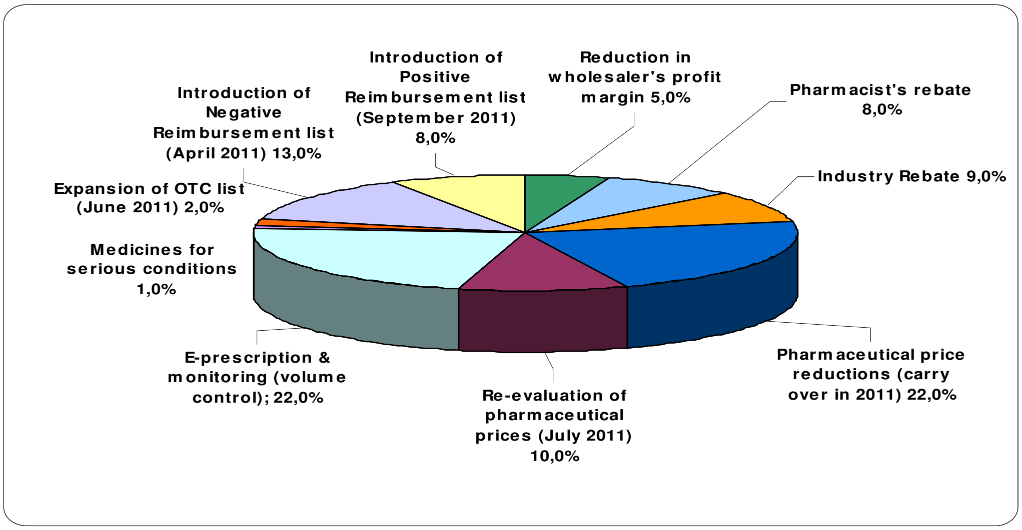
4.4 Policies and savings in SSFs

Correspondingly, regarding SSFs, the operation of a unified agency for the provision of health care services, adoption of electronic prescription of referrals and diagnostic tests, together with measures for the reduction of public pharmaceutical spending can save up to €1.387 million overall (95% C.I.: €1.322, €1.103) in 2011 and up to €1.716 million (95% C.I.: €1.651, €1.796) in 2012.

Policies and savings from the reduction in public pharmaceutical spending

The savings in the Social Security Funds come mainly from reduction in public spending on pharmaceuticals, as large part of the policies that were adopted or announced concerned drugs (Figure 4.3).

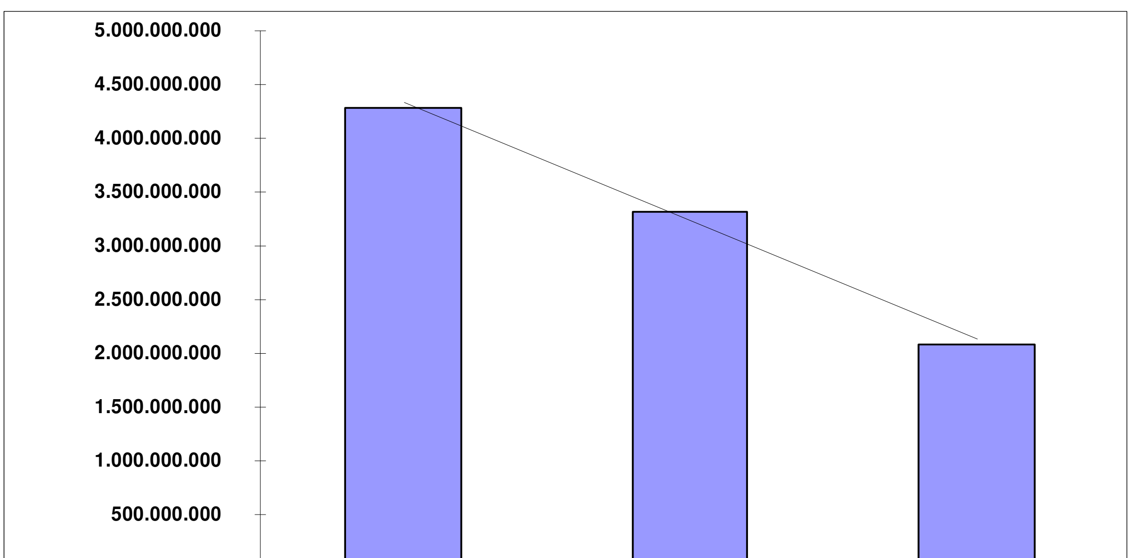
Figure 4.3
Composition of Savings in Public Pharmaceutical Expenditures 2011 (€)



Source: Ministry of health & Social Solidariyt, EOF, IOBE estimations

In particular, the expected saving of public pharmaceutical spending is estimated at €1.033 million (95% C.I.: €966, €1.103) in 2011 and €1.260 million (95% C.I.: €1.194, €1.340) in 2012, not including the legislated refund of €137 million by pharmaceutical companies to SSFs for past years (2009 and 2010).

Figure 4.4
Evolution of Public Pharmaceutical Expenditure



	2010	2011	2012
Public Pharmaceutical Expenditure (€)	4.284.198.052	3.312.151.426	2.089.618.687

Source: General Secretariat of Social Insurance, EOF, IOBE estimations

The above estimates on savings, which assume effective and strict implementation of the planned measures, show that the targets of MEFP regarding the level of public healthcare spending and public spending on pharmaceuticals as percentage of GDP can be met. As a result, until the end of 2012, the reduction in public spending on pharmaceutical will exceed €2 billion, at levels lower than 1% of GDP (Figure 4.4), while total public healthcare spending will approach levels lower than 4% of GDP, which will take it close to the lowest position in the ranking among the OECD countries. However, the effort to reduce the pharmaceutical spending by 50% is likely to lead to market distortions through two main channels: substitution of pharmaceutical treatment with interventional hospital care and transfer of large funding burden on the households. Furthermore, the reduction of total healthcare spending should cause concern, given that in periods of crisis private healthcare spending tends to decrease: based on international experience, reduced healthcare spending has negative impact on life expectancy and quality of life.

4.5 Critical Assessment of the Measures and Policy Suggestions

It should be noted that the majority of measures that were implemented and scheduled until today have had mostly short-term, cash-raising orientation, putting emphasis on reduction of wages, prices and cash refunds. These measures are necessary and useful for the speedy reduction in spending, however they are not structural, modernisation measures and policies. Surely, all weaknesses of the Greek healthcare system cannot be resolved immediately and simultaneously. Nevertheless, it should be stressed that the inherent problems of the system cannot be resolved, even under the pressure of the current developments, with spasmodic and ad-hoc measures. More emphasis should be given on modernisation and improved organisation of the social, insurance and health systems. Thus, strategic and well-designed, stable and coordinated operative action is required, which will not ignore the aspect of developing domestic health industry, within a new, outward-looking model of development of Greece.

Unified Insurance Agency and Primary Healthcare

In more detail, the operation of a unified insurance agency, which as a monopsony undertakes the procurement of health care services for 90% of the populations, makes it necessary to reorganise the system of primary healthcare (PHC) and to introduce incentives in order to ensure the quality of the provided services. Regarding PHC in particular, the establishment of demi-market conditions is proposed, with the introduction of competition between suppliers and global budgeting at regional level, both on total PHC spending and on constituent spending categories. This system is expected to improve the productive and redistributive performance of PHC.

Public Health Promotion

In addition, under the current economic circumstances, it is imperative to promote public healthcare and prevention, which could offset possible reduction of the quantity of health-care services due to reduced funding and spending cuts, ensuring a satisfactory volume of services and the preservation of public health. Besides, the adoption of national programmes of screening tests is expected to lead to savings for the system in the long-term, through their contribution to the prevention of outbreak or aggravation of diseases.

Hospital Healthcare Organisation

Regarding the organisation of hospital healthcare, the operational model of hospitals should be changed from the current state to a more entrepreneurial orientation, by providing the hospitals with extended autonomy and responsibility (self-governing) and instituting management by specialists with relevant studies. In addition, the funding system should be radically changed with: a) establishment of global budgeting in order to avoid moral hazard against the social healthcare insurance system; b) remuneration based on Diagnostic Related Groups (DRGs).

Pharmaceutical Policy

Regarding pharmaceutical policy, most initiatives until today have focused on controlling the prices of pharmaceutical products along all the stages of the supply chain, using up all opportunities for price reduction, which has led to shortages and boost of the substitution mechanism. In contrast, until recently, very few measures were aimed at curbing the volume of consumption, while the administration of new pharmaceutical technologies has remained an issue. Meanwhile, the low share of coinsurance increases consumption. Under this light, rationalisation of spending can be achieved mainly by rational dispersion and assessment of pharmaceutical technology and possibly with the introduction of a rational scheme of positive and negative coinsurance, which will contribute to equilibrating demand and prescription. Meanwhile, the planning of insurance cover for drugs should facilitate the expression of users' preferences, supplier choices and the use of the resources by some of the beneficiaries and should not raise entry barriers or additional distortions of absolute or relative prices, which usually have negative side effects. Consequently, the construction of such a tool should be based on the setting of a reference price per therapeutic category or similar group, which would constitute the price for insurance coverage. The expression of other preferences and/or choices is desirable, under the condition that the difference is covered by the users, envisaging however exemption from co-payments by particular groups of the population. Together with the above, evidence-based prescribing should become focal point of healthcare policy, with the establishment of databases and active support of the clinical doctors with free access to the relevant data.

4.6 Development Opportunities in the Health Industry

In conclusion, within the framework of transition to a new model of development, the development aspects and prospects of the health industry should also be taken into account. Opportunities for performing investment with significant social and economic benefits should not be set aside. In particular, new business initiatives, such as the establishment of rehabilitation centres and mixed hotel units that offer health care services, can become new sources of income and employment in our country. The public sector clearly cannot support this initiative on its own and thus incentives should be given for partnership with the private sector, while existing regulatory obstacles should be removed in order to establish a stable model of development for the private healthcare sector in the country. The challenge today in Greece is to optimise the national healthcare resources, both state-owned and private, to the benefit of the Greek insurance beneficiary and the Greek patient.

5. APPENDIX: STRUCTURAL INDICATORS

The following appendix is divided into two parts, so that it incorporates the monitoring framework of the Lisbon Strategy:

A) Part A shows the performances of the EU member states in 14 structural indicators, which comprise the short list of indicators used by the European Commission to monitor the implementation of the Lisbon objectives.

B) Part B presents a selection from the other indicators adopted by the European Commission in 2000. These indicators (together with the 14 indicators from part A) comprise the long list of indicators, which Eurostat systematically monitors and harmonizes for EU-27.

The main aim of the set of structural indicators is to record the progress that has been made in five key policy domains - **employment, innovation and research, changes in the structure of the economy, social cohesion and environment**. At the same time, a number of **key economic indicators** are also monitored, in order to perceive the general economic environment in which the structural changes are being made.

Each of the indicators presented below is drawn in charts for the European Union in total (wherever data are available), while Greece's performance compared to EU-27, EU-25, EU-15 and the Euro area is presented in tabular form.

EU27	European Union
EU25	European Union (except Bulgaria and Romania, which became EU-member in January 2007)
EA17	Euro Area of 17 member-states
BE	Belgium
CZ	Czech Republic
DK	Denmark
DE	Germany
EE	Estonia
EL	Greece
ES	Spain
FR	France
IE	Ireland
IT	Italy
CY	Cyprus
LV	Latvia
LT	Lithuania
LU	Luxembourg
HU	Hungary
MT	Malta
NL	Netherlands
AT	Austria
PL	Poland
PT	Portugal
SI	Slovenia
SK	Slovakia
FI	Finland
SE	Sweden
UK	United Kingdom

PART A

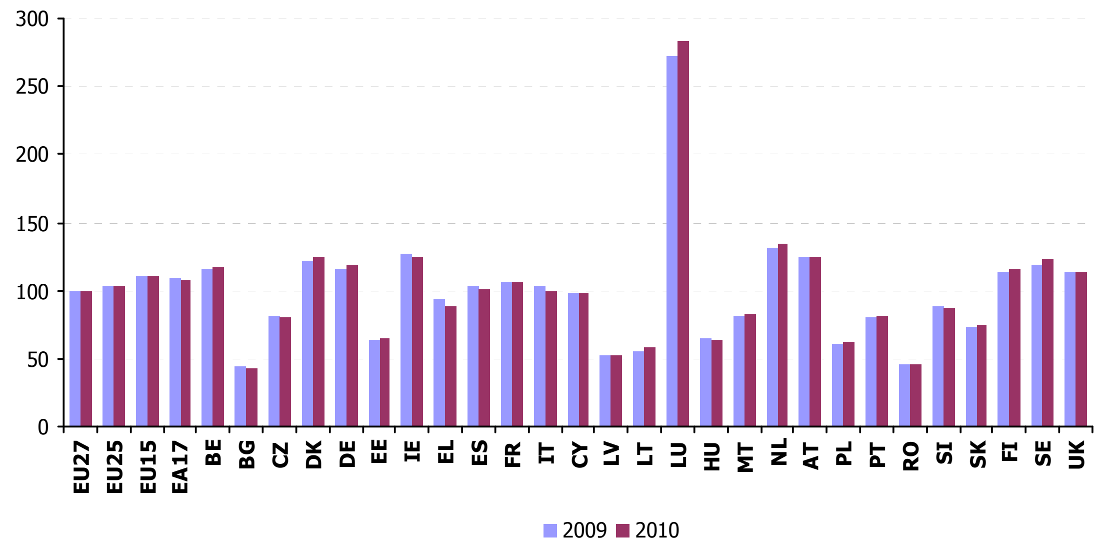
(Headline Indicators)

I-A. GENERAL ECONOMIC BACKGROUND

I-1a. GDP per capita

(Purchasing Power Standards, PPS, EU-27=100)

Purchasing Power Standards (PPS) are indicators of the average price ratios between different countries. Their use enables the comparison of the volume of GDP per capita between different countries.



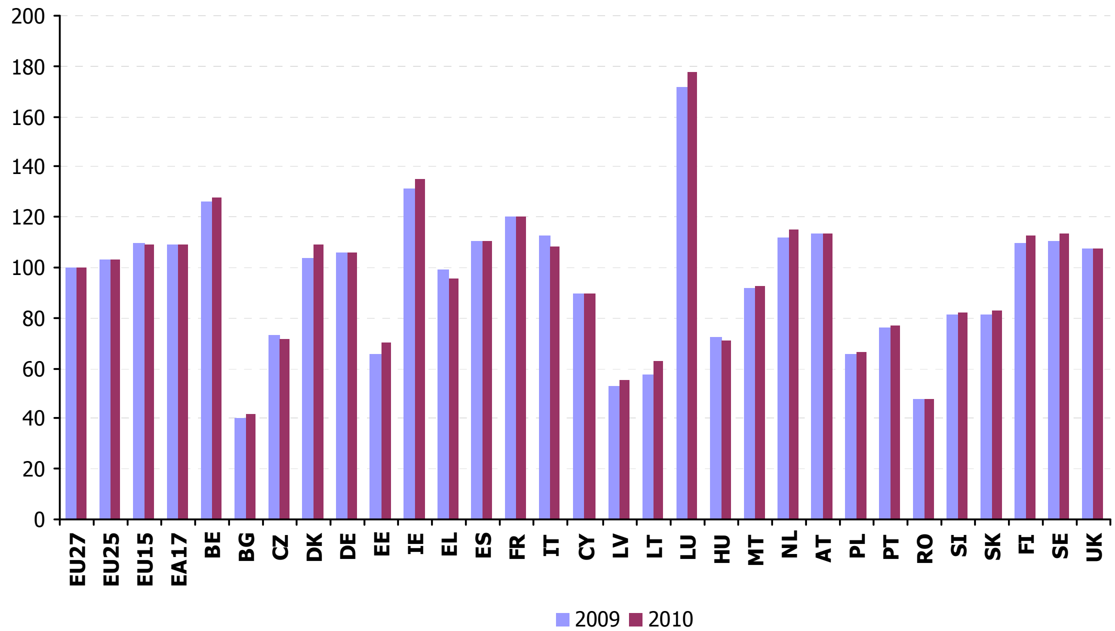
	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	100	100	100	100	100	100	100	100	100
EU25	105	104	104	104	104	104	103	103	103
EU15	114	114	113	113	112	112	111	110	110
EA17	111	110	109	109	109	109	108	109	108
EL	90	93	94	91	93	92	94	94	89

Source: Eurostat

I-2a. Labour productivity per person employed

(GDP in PPS per person employed EU-27=100)

Persons employed cover employees and self employed. Employees include persons engaged by an employer under a contract of employment, civil servants, armed forces and owners of corporations. Persons temporarily not at work because of illness, injury, holidays or vacations, strike or training leave are also considered as employed. The definitions used are consistent with International Labour Organization (ILO) definitions.



	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	100	100	100	100	100	100	100	100	100
EU25	104,4	104,3	104,1	104	103,8	103,6	103,3	103,3	103,2
EU15	111,9	111,4	110,9	110,6	110,5	110,1	109,7	109,4	109,2
EA17	110,6	110	109	109,2	109	109,1	108,9	109,1	108,6
EL	100	101,8	101,1	98,8	99,2	97,7	100,4	99,4	95,7

(p): provisional data

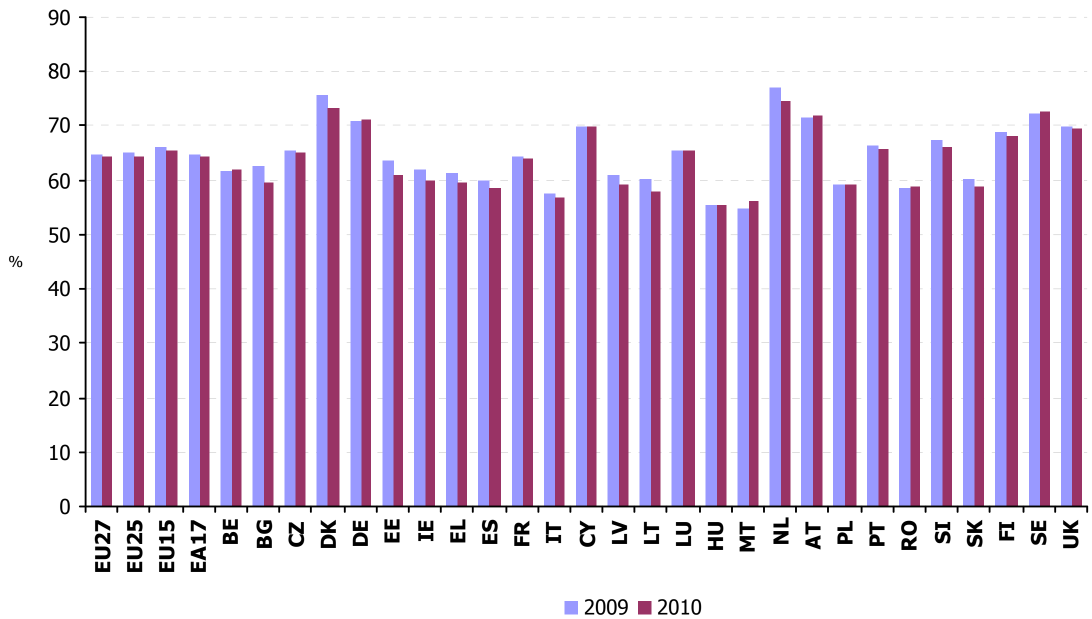
Source: Eurostat

II-A. EMPLOYMENT

II-1a. Total employment rate

(Employed persons aged 15-64 as a share of the total population of the same age group)

The employment population consists of those persons who during the reference week did any work for pay or profit for at least one hour or were not working but had jobs from which they were temporarily absent. The survey covered persons aged 15 years and over, living in private households. Persons living in collective households (halls of residence, medical care establishments, religious institutions, collective worker's accommodations, hostels e.t.c) and persons carrying out obligatory military service were no included.

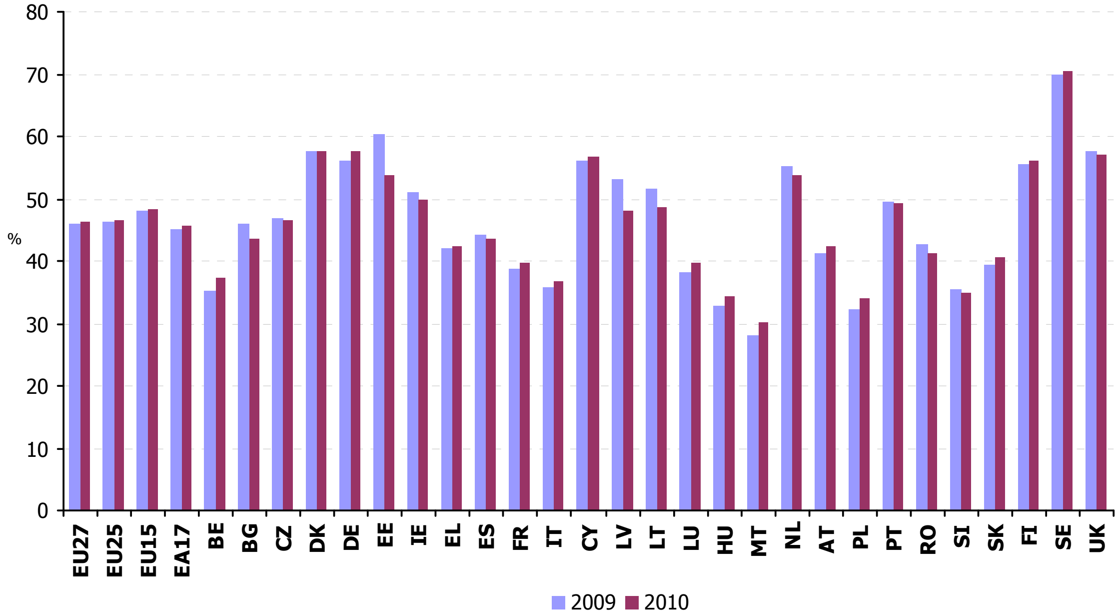


	2003	2004	2005	2006	2007	2008	2009	2010
EU27	62,7	62,8	63,5	64,5	65,4	65,9	64,6	64,2
EU25	63,0	63,1	64,0	64,8	65,8	66,3	65,0	64,5
EU15	64,4	64,6	65,4	66,2	66,9	67,3	65,9	65,4
EA17	62,6	62,8	63,7	64,7	65,6	66,0	64,7	64,2
EL	58,9	59,6	60,1	61,0	61,4	61,9	61,2	59,6
Men								
EU27	70,3	70,2	70,8	71,6	72,5	72,8	70,7	70,1
EU25	70,9	70,7	71,4	72,1	73,0	73,2	71,1	70,4
EU15	72,7	72,5	73,0	73,6	74,2	74,2	71,9	71,4
EA17	71,4	71,2	71,8	72,6	73,3	73,3	71,1	70,4
EL	73,5	74,0	74,2	74,6	74,9	75,0	73,5	70,9
Women								
EU27	55,0	55,4	56,3	57,3	58,3	59,1	58,6	58,2
EU25	55,2	55,6	56,6	57,6	58,6	59,4	58,9	58,6
EU16	56,2	56,7	57,8	58,7	59,6	60,4	59,9	59,5
EA17	53,8	54,3	55,6	56,8	57,9	58,7	58,3	57,9
EL	44,5	45,5	46,1	47,4	47,9	48,7	48,9	48,1

Source: Eurostat

II-2a. Total employment rate of older workers

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

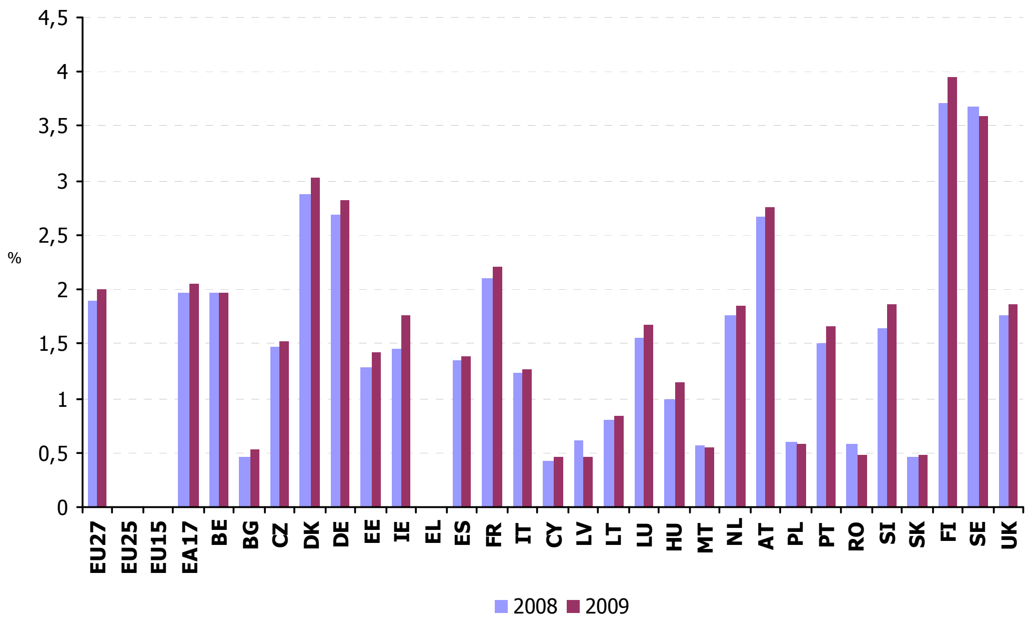


	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	38,2	39,9	40,5	42,3	43,5	44,6	45,6	46,0	46,3
EU25	38,4	40,1	40,8	42,6	43,6	44,8	45,7	46,2	46,6
EU15	39,8	41,5	42,3	44,2	45,3	46,5	47,4	47,9	48,4
EA17	35,9	37,4	38,2	40,4	41,7	43,2	44,3	45,1	45,8
EL	38,9	41,0	39,4	41,6	42,3	42,4	42,8	42,2	42,3
Men									
EU27	48,2	49,7	50,1	51,6	52,7	53,9	55,0	54,8	54,6
EU25	48,6	50,1	50,6	51,9	52,8	54,1	55,0	54,9	54,8
EU15	49,8	51,4	52,0	53,2	54,1	55,3	56,2	56,1	56,2
EA17	46,4	47,7	48,4	49,8	50,9	52,4	53,3	53,5	53,8
EL	55,3	58,3	56,4	58,8	59,2	59,1	59,1	57,7	56,5
Women									
EU27	28,9	30,6	31,4	33,6	34,9	35,9	36,8	37,8	38,6
EU25	28,8	30,6	31,5	33,8	35,0	36,1	36,9	37,9	38,9
EU15	30,2	32,0	32,9	35,5	36,8	38,1	39,0	40,1	40,9
EA17	25,8	27,6	28,4	31,4	32,9	34,5	35,7	37,1	38,1
EL	24,2	25,3	24,0	25,8	26,6	26,9	27,5	27,7	28,9

Source: Eurostat

III-A. INNOVATION & RESEARCH

III-1a. Gross domestic expenditure on R&D
(as a percentage of GDP)



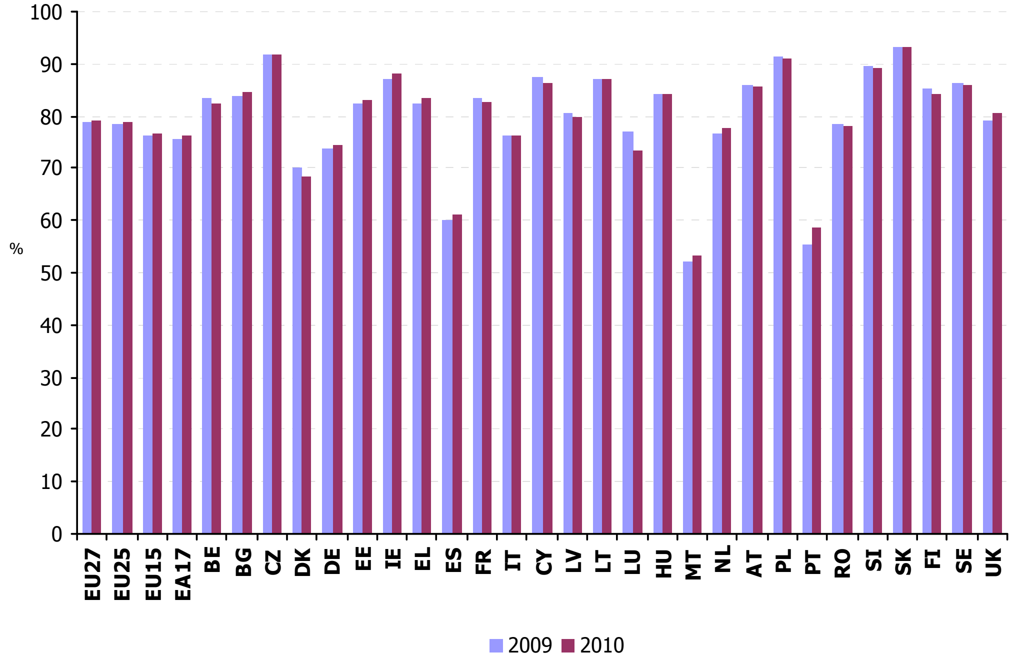
	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU27	1,86[s]	1,87[s]	1,86[s]	1,82[s]	1,82[s]	1,85[s]	1,85[s]	1,92[s]	2,01[s]
EU15	1,92[s]	1,93[s]	1,93	1,89[s]	1,89[s]	1,92[s]	1,93[s]	2,01[s]	2,10[s]
EA16	1,85[s]	1,87[s]	1,87[s]	1,85[s]	1,84[s]	1,87[s]	1,88[s]	1,96[s]	2,05[s]
EL	0,58	:	0,57[e]	0,55[e]	0,59[e]	0,58[e]	0,58[e]	:	:

(s): Eurostat estimate

Source: Eurostat

III-2a. Youth education attainment level

(% of the population aged 20 to 24 having completed at least upper secondary education)



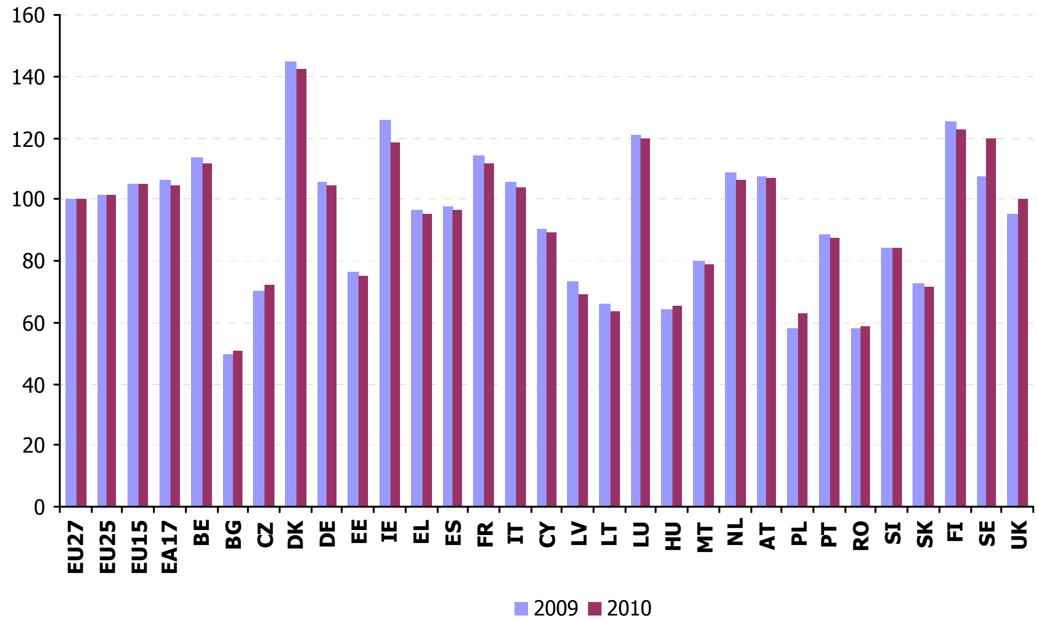
	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	76,7	76,9	77,1	77,5	77,9	78,1	78,4	78,6	79,0
EU25	76,7	77	77,3	77,6	77,9	78	78,3	78,5	78,9
EU15	73,7	74,1	74,4	74,7	75,0	75,2	75,7	76,1	76,6
EA17	73,4	73,5	74,1	74,3	74,5	74,9	75,5	75,7	76,1
EL	81,1	81,7	83,0	84,1	81,0	82,1	82,1	82,2	83,4
Men									
EU27	74,0	74,4	74,4	74,8	75,0	75,4	75,6	75,9	76,2
EU25	74,0	74,4	74,3	74,8	74,9	75,2	75,3	75,6	76,0
EU15	70,9	71,3	71,2	71,8	71,7	72,2	72,5	72,9	73,5
EA17	70,2	70,2	70,5	70,8	70,9	71,5	72,1	72,3	72,7
EL	76,1	76,6	79,2	79,7	75,5	77,5	78,0	77,8	79,5
Women									
EU27	79,3	79,4	80,0	80,2	80,8	80,8	81,3	81,4	81,8
EU25	79,4	79,7	80,2	80,4	81,0	80,9	81,4	81,5	81,9
EU15	76,6	76,9	77,5	77,8	78,4	78,3	79,0	79,3	79,7
EA17	76,7	76,8	77,7	77,7	78,2	78,4	79,0	79,1	79,5
EL	86,0	86,8	86,8	88,5	86,6	87,0	86,6	86,9	87,2

Source: Eurostat

IV-A. Economic Reform

IV-1a.Comparative price levels

(comparative price levels of final consumption by private households including indirect taxes, EU-25=100)



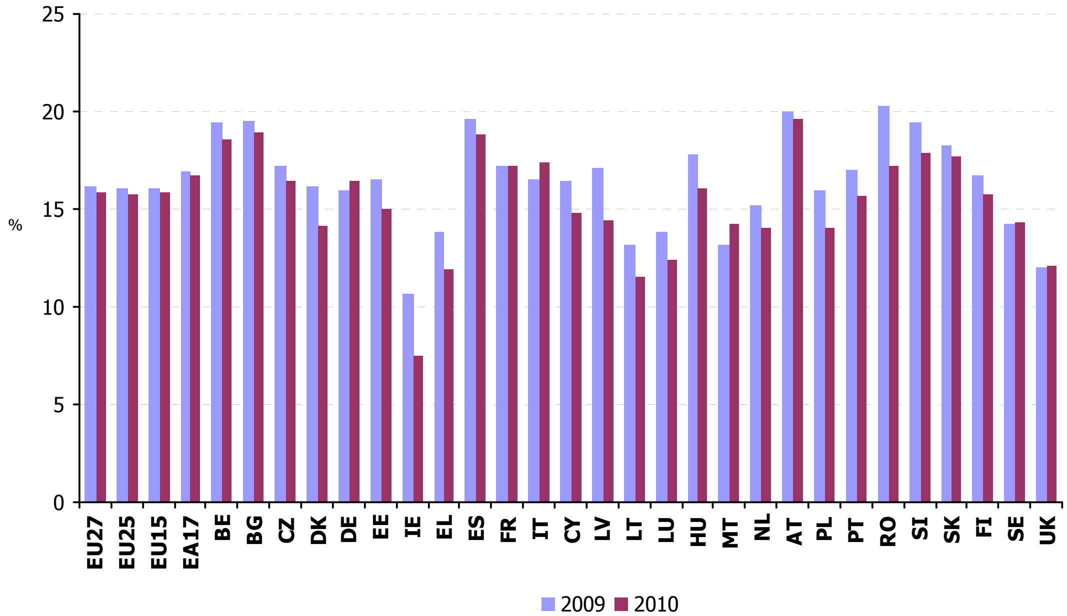
	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	100	100	100	100	100	100	100	100	100
EU25	101,1	101,1	101,2	101,1	101,1	101,1	101,1	101,1	101,1
EU15	104,8	105,2	105,4	104,9	104,8	104,8	104,4	105,1	104,8
EA16*	100,4	102,9	103	102,0	101,9	101,3	103,5	106,0	104,2
EL	80,2	85,9	87,6	88,4	89,1	89,8	91	96,5	95,5

*There is no data on EA-17

Source: Eurostat

IV-2a. Business investment

(Gross fixed capital formation by the private sector as a percentage of GDP)



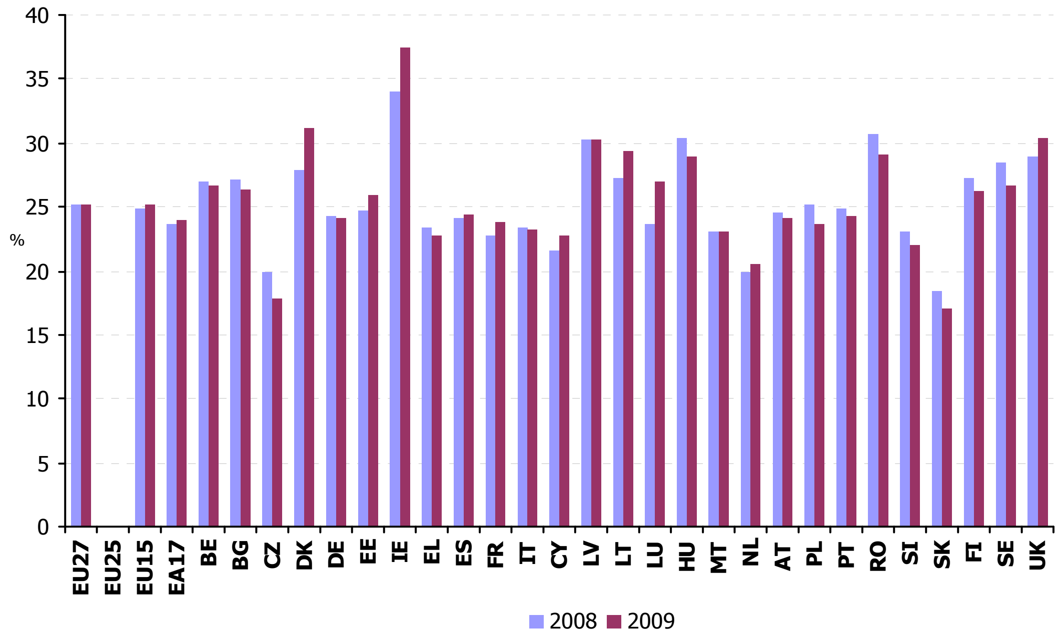
	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	17,3	17,1	17,2	17,8	18,2	18,7	18,4	16,2	15,9
EU25	17,3	17,1	17,2	17,7	18,2	18,6	18,2	16,1	15,8
EU15	17,3	17	17,2	17,7	18,1	18,5	18,2	16,1	15,9
EA17	17,9	17,7	17,9	18,2	18,9	19,3	19,0	16,9	16,7
EL	19,1	19,8	18,5	17,1	17,5	17,6	15,5	14,1	11,9

Source: Eurostat

V-A. Social Cohesion

V-1a. At-risk-of-poverty rate

(share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income)

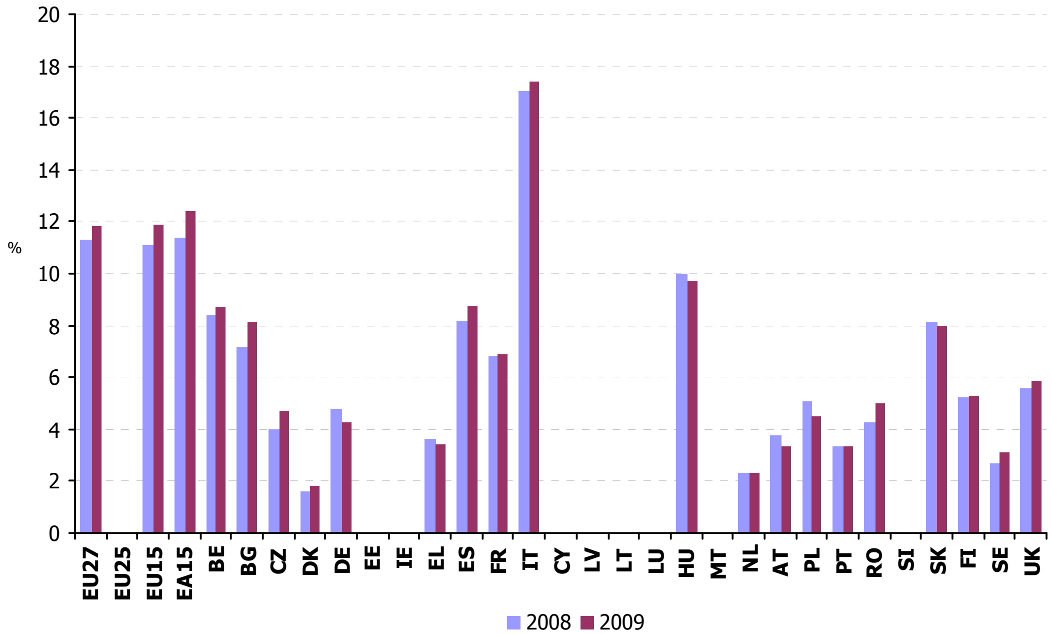


	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU27	:	:	:	:	25,9	26,1	25,9	25,1	25,1
EU25	24,0	:	:	:	:	:	:	:	:
EU15	24,0	:	25,0	26,0	25,4	25,8	25,7	24,8	25,2
EA17	:	:	:	:	24,2	24,7	24,7	23,7	23,9
EL	23,0	:	23,7	22,5	22,6	23,4	23,7	23,3	22,7
Men									
EU27	:	:	:	:	25,0	25,1	24,8	24,0	24,1
EU25	24,0s	:	:	:	:	:	:	:	:
EU15	:	:	23,0	24,0	24,2	24,5	24,4	23,5	24,0
EA17	:	:	:	:	23,1	23,6	23,6	22,6	22,9
EL	21,0	:	22,9	21,2	21,1	22,1	22,7	22,3	21,6
Women									
EU27	:	:	:	:	26,9	27,0s	26,9	26,1	26,1
EU25	26,0	:	:	:	:	:	:	:	:
EU15	:	:	26,0	27,0	26,6	26,9	26,9	26,0	26,2
EA17	:	:	:	:	25,3	25,7	25,8	24,8	24,8
EL			24,5	23,8	24,1	24,7	24,7	24,3	23,7

Source: Eurostat

V-2a. Dispersion of regional employment rates

(Coefficient of variation of employment rates (of the age group 15-64) across regions (NUTS 2 level) within countries)



	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU27	13,2	13,2	12,9	12,1	11,9	11,4	11,1	11,3	11,8
EU25	:	:	:	:	:	:	:	:	:
EU15	13,1	12,4	11,8	11	10,8	10,6	10,6	11,1	11,9
EA15*	12,7	12,1	11,5	10,5	10,5	10,6	10,8	11,4	12,4
EL	4,3	3,8	3,2	4,1	4,3	3,7	3,5	3,6	3,4

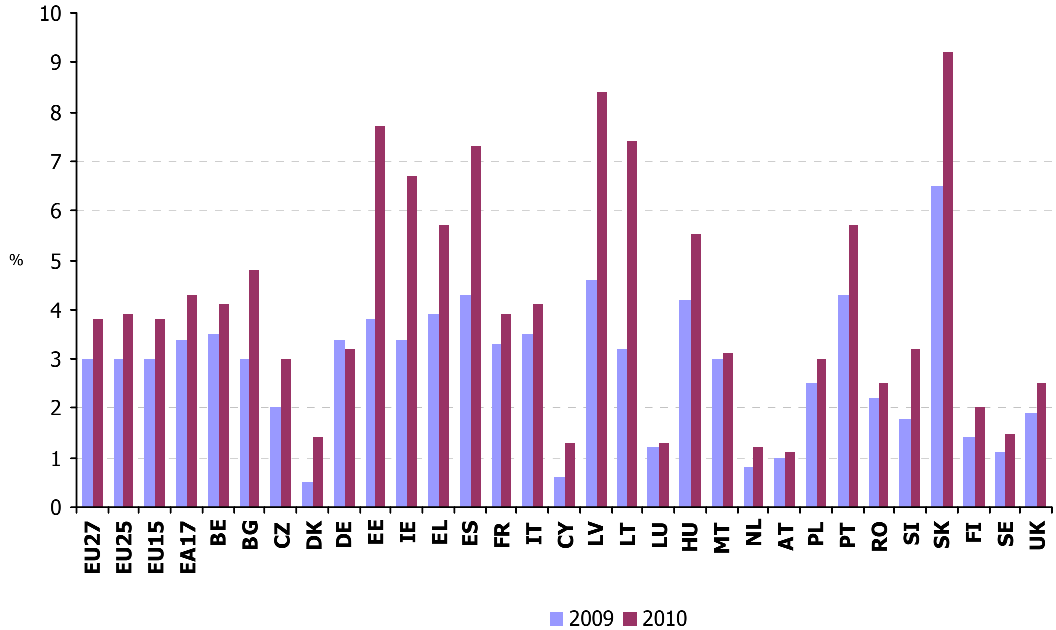
*There is no available data for neither EA-17 nor EA-16

Source: Eurostat

V-3a Long-term unemployment rate

(Long-term unemployed (12 months and more) as a percentage of the total active population)

Unemployed persons are those aged at least 15 years old not living in collective households who are without work within the next two weeks or available to start work within the next two weeks and are seeking for a work. The duration of unemployed is defined as: the period of searching for a job (over 12 months).



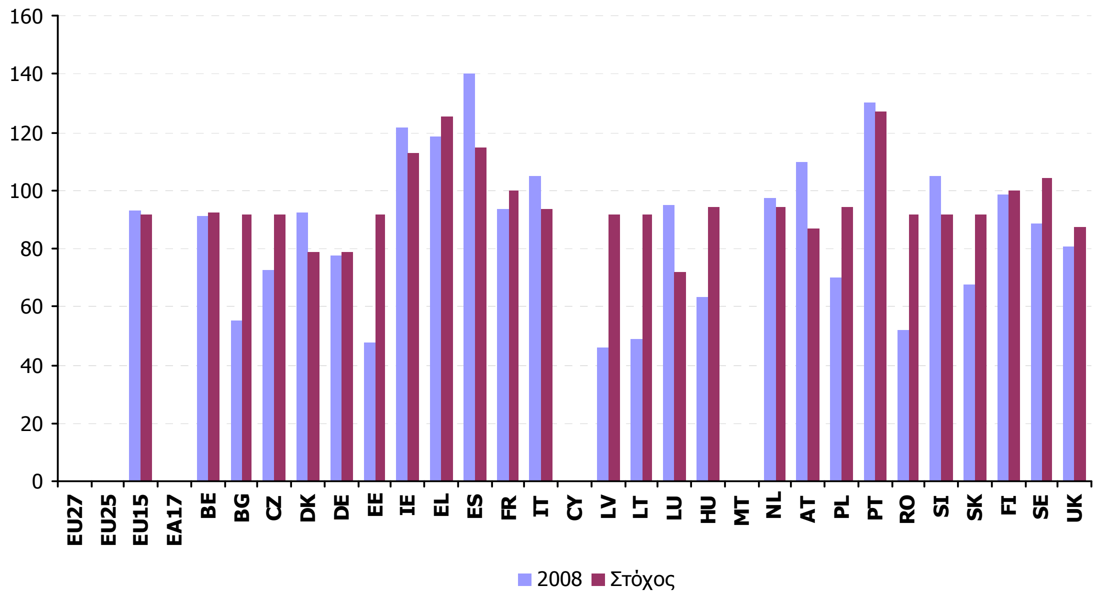
	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	4,0	4,1	4,2	4,1	3,7	3,1	2,6	3,0	3,8
EU25	3,9	4,0	4,1	4,1	3,7	3,0	2,6	3,0	3,9
EU15	3,1	3,3	3,4	3,4	3,2	2,8	2,6	3,0	3,8
EA17	3,7	4,0	4,2	4,1	3,9	3,3	3,0	3,4	4,3
EL	5,3	5,3	5,6	5,1	4,8	4,1	3,6	3,9	5,7
Men									
EU27	3,6	3,8	3,9	3,8	3,5	2,8	2,4	2,9	3,9
EU25	3,4	3,7	3,7	3,7	3,4	2,8	2,4	2,9	3,9
EU15	2,7	3,0	3,1	3,1	3,0	2,6	2,4	2,9	3,9
EA17	3,2	3,5	3,7	3,7	3,5	3,0	2,7	3,2	4,2
EL	3,1	3,0	3,0	2,6	2,6	2,2	2,1	2,4	3,9
Women									
EU27	4,5	4,5	4,6	4,5	4,0	3,3	2,8	3,1	3,7
EU25	4,4	4,5	4,6	4,5	4,0	3,3	2,8	3,1	3,8
EU15	3,6	3,7	3,9	3,7	3,5	3,1	2,8	3,1	3,7
EA17	4,4	4,6	4,8	4,6	4,3	3,8	3,3	3,6	4,3
EL	8,6	8,9	9,4	8,9	8,1	7,0	6,0	6,0	8,1

Source: Eurostat

VI-A. ENVIRONMENT

VI-1a.Total greenhouse gas emissions

(percentage change since base year and targets according to Kyoto Protocol/EU Council Decision for 2008-2012 - (in CO2 equivalents) indexed on actual base year = 100)

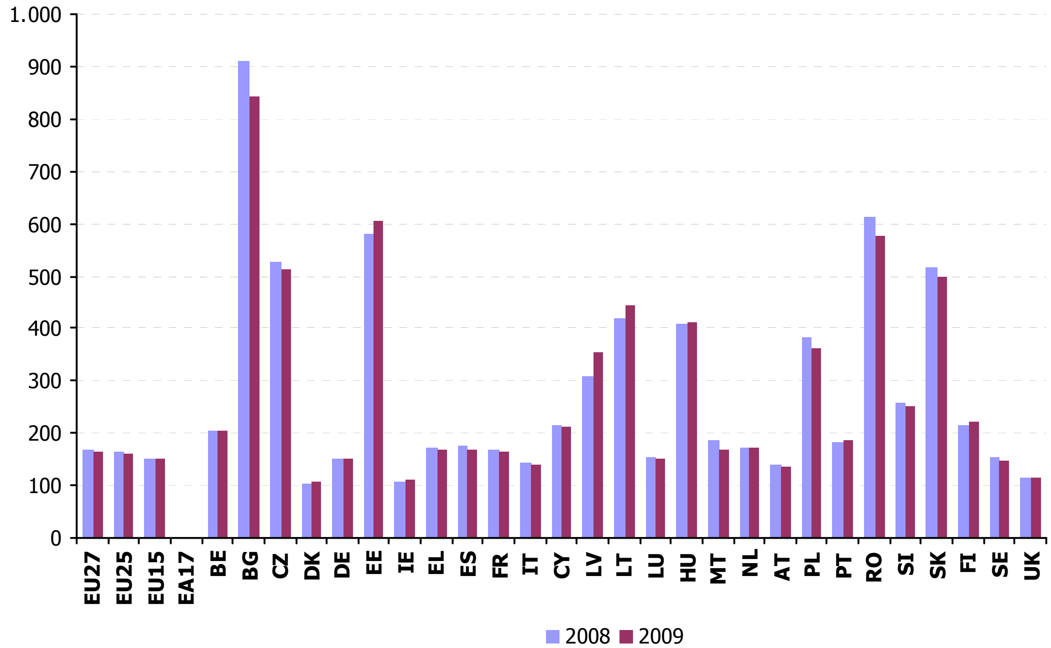


	2001	2002	2003	2004	2005	2006	2007	2008	Στόχος
EU27	:	:	:	:	:	:	:	:	:
EU25	:	:	:	:	:	:	:	:	:
EU15	97,5	96,8	98	97,9	97,2	96,3	94,9	93,1	92
EA17	:	:	:	:	:	:	:	:	:
EL	117,9	117,6	121,1	121,4	124,2	120,3	123,3	118,6	125

Source: Eurostat

VI-2a. Energy intensity of the economy

(Gross inland consumption of energy divided by GDP (at constant prices, 1995=100) - kgoe (kilogram of oil equivalent) per 1000 Euro)

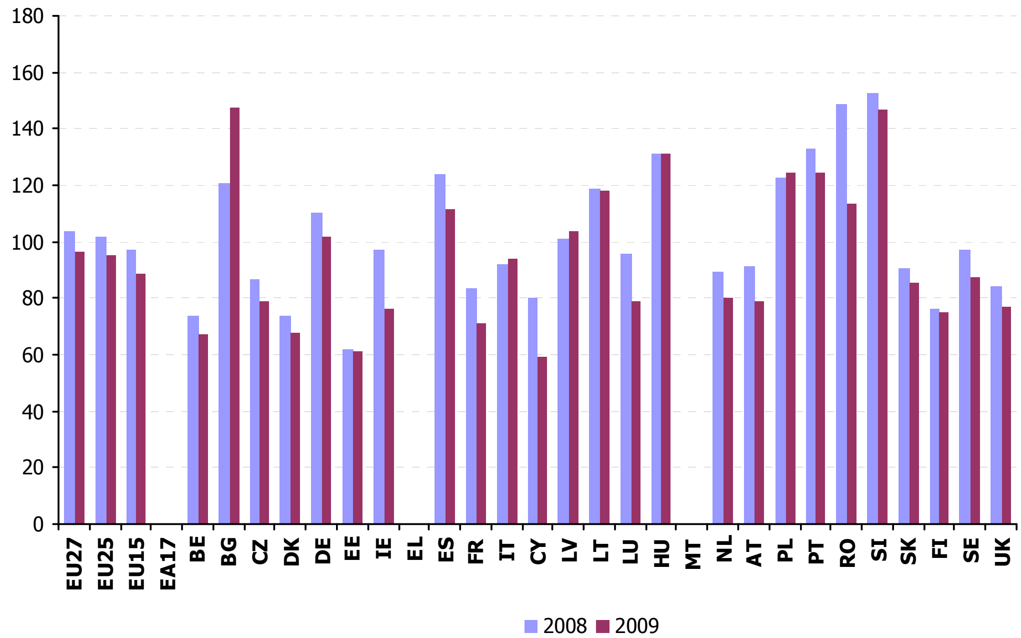


	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU27	187,7	184,9	186,7	184,1	181,0	175,5	168,7	167,4	165,2
EU25	182,8	179,9	181,7	179,4	176,4	170,9	164,3	163,2	161,4
EU15	167,9	165,3	167,0	165,2	162,4	157,1	151,2	150,3	148,8
EA17	:	:	:	:	:	:	:	:	:
EL	202,5	198,8	192,6	187,4	186,7	178,5	171,4	171,0	167,9

Source: Eurostat

VI-3a.Volume of freight transport

(Index of inland freight transport volume relative to GDP; measured in tonne-km / GDP (in constant 2000 Euro), 2000=100)



	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU27	99,0	100,2	99,3	105,2	105,1	105,7	106,4	103,8	96,4
EU25	98,8	99,7	98,6	104	103,2	103,8	104,6	102	95,0
EU15	99,1	99,6	97,7	103	101,3	100,9	100,5	96,9	88,9
EA17	:	:	:	:	:	:	:	:	:
EL	100	:	:	:	:	:	:	:	:

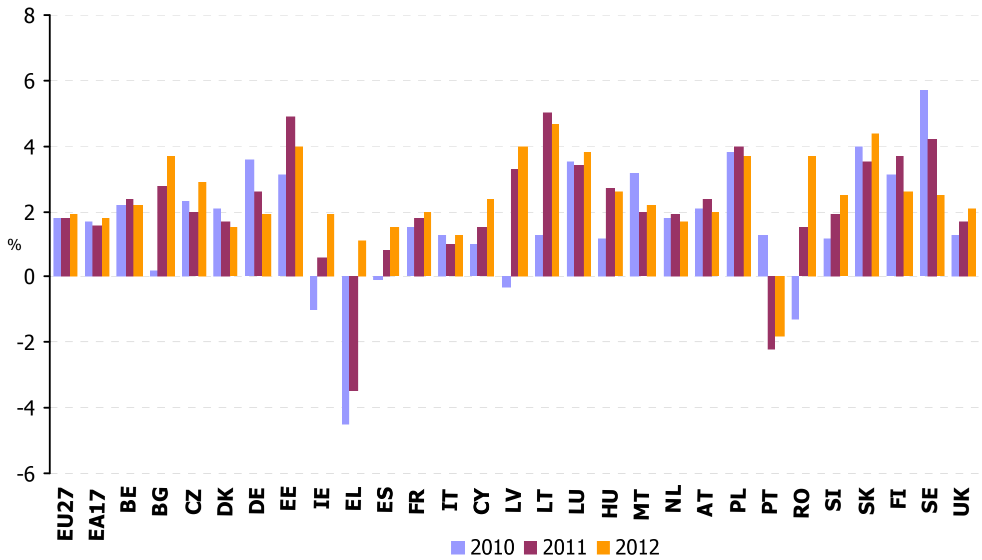
Source: Eurostat

PART B
(OTHER STRUCTURAL INDICATORS)

I-B. GENERAL ECONOMIC BACKGROUND

I-1b. Real GDP growth rate
(constant prices 2000, percentage change on previous year)

GDP at constant prices is used to measure the volume growth of GDP. Changes in the price level (inflation) are illuminated.

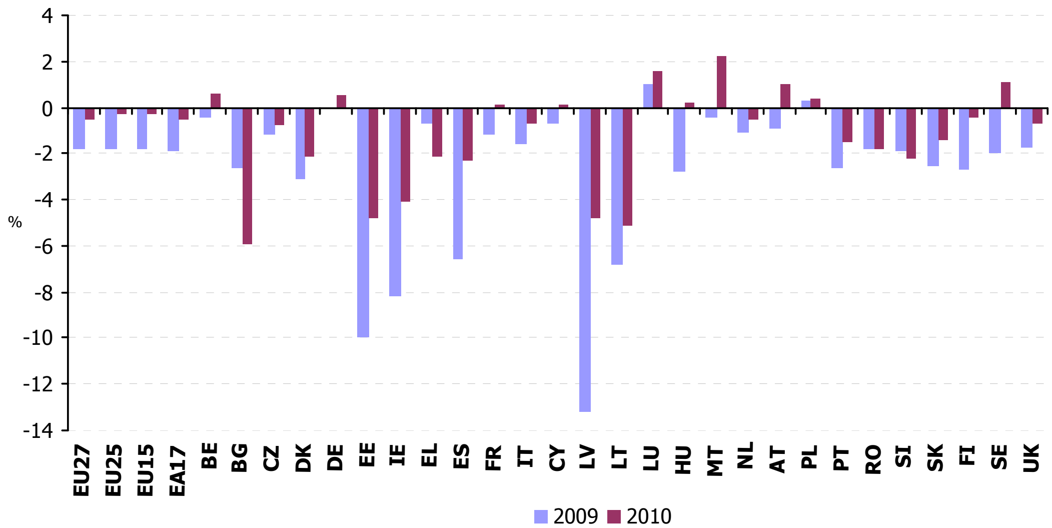


	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU27	2,5	2,0	3,3	3,0	0,5	-4,3	1,8	1,8(f)	1,9(f)
EU25	2,5	1,9	3,2	2,9	0,4	-4,2	1,8	1,8(f)	1,9(f)
EU15	2,4	1,8	3,1	2,7	0,2	-4,3	1,8	1,7(f)	1,8(f)
EA17	2,2	1,7	3,1	2,8	0,4	-4,2	1,7	1,6(f)	1,8(f)
EL	4,4	2,3	5,2	4,3	1,0	-2,0	-4,5	-3,5(f)	1,1(f)

(f): forecast
Source: Eurostat

I-2b. Total employment growth

(annual percentage change in total employed population)



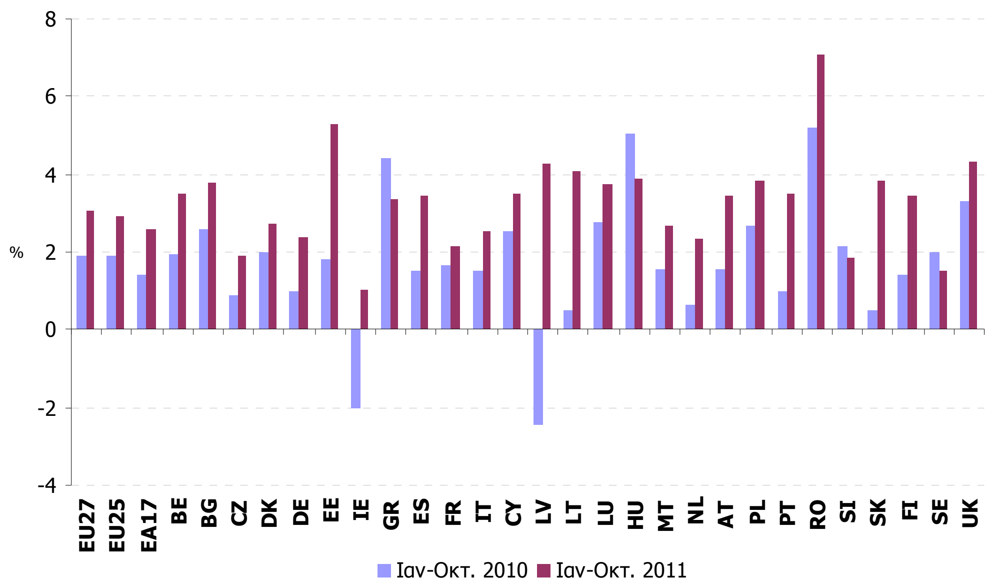
	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	0,4	0,4	0,7	0,9	1,7	1,8	0,9	-1,8	-0,5
EU25	0,4	0,3	0,8	1,0	1,7	1,8	1,0	-1,8	-0,3
EU15	0,7	0,5	0,8	0,9	1,5	1,6	0,7	-1,8	-0,3
EA17	0,7	0,4	0,8	1,0	1,7	1,8	0,8	-1,9	-0,5
EL	2,3	1,2	2,4	0,8	3,3	1,7	0,2	-0,7	-2,1
Men									
EU27	0,0	0,0	0,3	0,7	1,4	1,6	0,5	-2,7	-0,6
EU25	-0,1	-0,1	0,3	0,7	1,5	1,6	0,5	-2,7	-0,5
EU15	0,1	0,0	0,2	0,4	1,3	1,3	0,2	-2,8	-0,4
EA17	0,0	-0,2	0,2	0,4	1,4	1,4	0,1	-2,9	-0,7
EL	1,6	0,7	1,8	0,5	2,5	1,7	-0,4	-1,7	-2,8
Women									
EU27	0,8	0,8	1,2	1,3	2,0	2,1	1,5	-0,7	-0,3
EU25	1,1	0,9	1,3	1,5	2,0	2,2	1,6	-0,6	-0,2
EU15	1,5	1,1	1,5	1,6	1,9	2,0	1,4	-0,6	-0,2
EA17	1,6	1,3	1,6	1,8	2,1	2,3	1,6	-0,6	-0,2
EL	3,3	2,0	3,5	1,3	4,6	1,9	1,1	0,8	-1,1

Source: Eurostat

I-3b. Inflation rate

(Annual average rate of change in Harmonized Indices of Consumer Prices (HICPs))

Harmonized Consumer Price Index (HCPI) are designed for international comparisons of consumer price inflation. Harmonized Consumer Price Index (HCPI) are used by European Central Bank (ECB) for monitoring of inflation in the EMU and the assessment of inflation convergence.

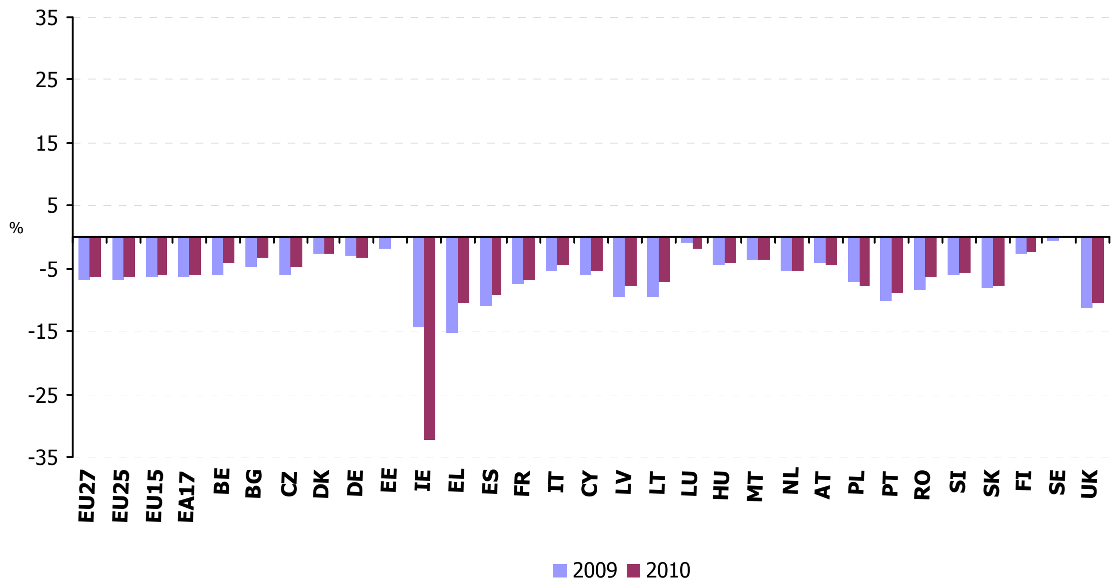


	2003	2004	2005	2006	2007	2008	2009	2010	2010 Ιαν-Αυγ	2011 Ιαν-Αυγ
EU27	2,1	2,3	2,3	2,3	2,4	3,7	1,0	2,1	1,9	3,0
EU25	1,9	2,1	2,2	2,2	2,3	3,5	0,9	2,0	1,9	2,9
EU15	2,0	2,0	2,1	2,2	:	:	:	:	:	:
EA17	2,1	2,2	2,2	2,2	2,1	3,3	0,3	1,6	1,4	2,6
EL	3,4	3,0	3,5	3,3	3,0	4,2	1,3	4,7	4,4	3,4

Source: Eurostat

I-4b. General Government Balance

(% of GDP)

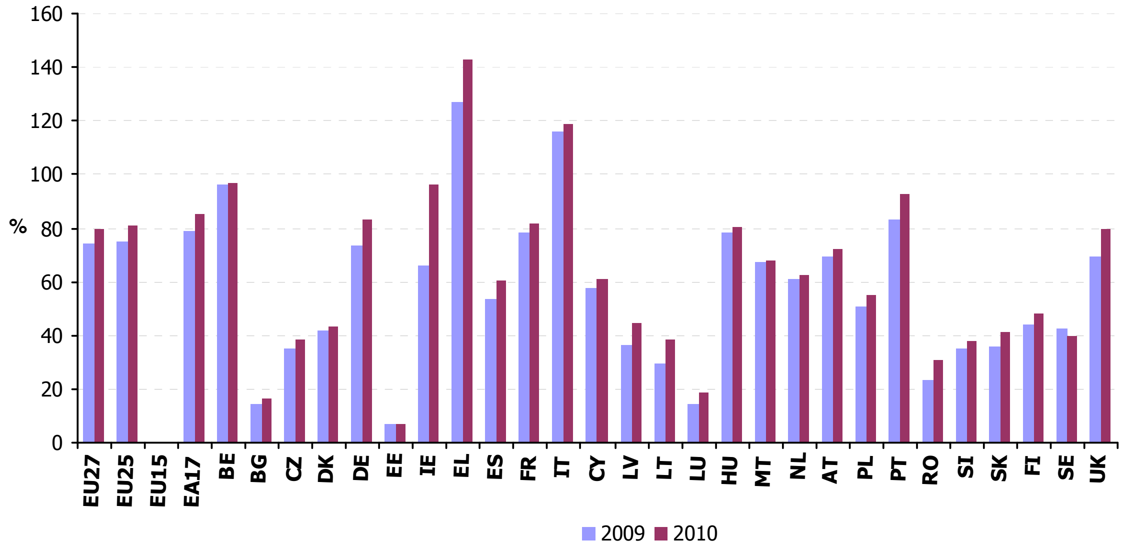


	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	-2,5	-3,1	-2,9	-2,5	-1,5	-0,9	-2,4	-6,8	-6,4
EU25	-2,5	-3,1	-2,9	-2,5	-1,5	-0,9	-2,3	-6,8	-6,4
EU15	:	:	:	:	:	:	:	:	:
EA17	-2,6	-3,1	-2,9	-2,5	-1,4	-0,7	-2	-6,3	-6
EL	-4,8	-5,6	-7,5	-5,2	-5,7	-6,4	-9,8	-15,4	-10,5

Source: Eurostat

I-5b. General government debt
(% of GDP)

General Government debt is defined as the stock of gross debt at end-year nominal value.



	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	60,4	61,8	62,2	62,8	61,5	59	62,3	74,4	80
EU25	60,6	62,1	62,5	63,2	62	59,6	63	75,1	80,7
EU15	:	:	:	:	:	:	:	:	:
EA16*	67,9	69	69,5	70	68,4	66,2	69,9	79,3	85,1
EL	101,7	97,4	98,6	100	106,1	105,4	110,7	127,1	142,8

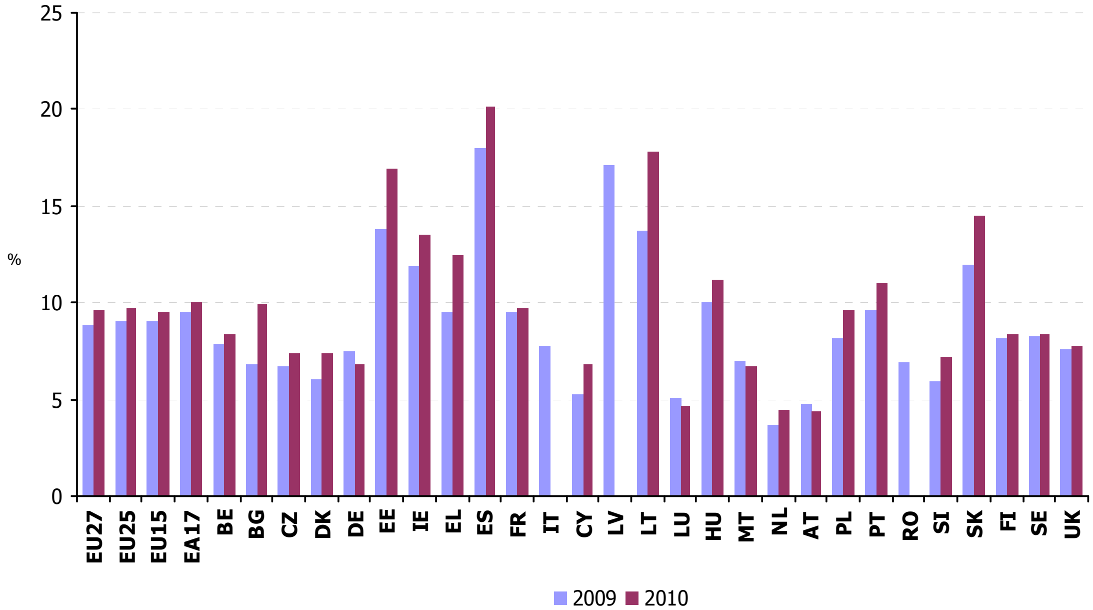
Source: Eurostat

II-B. EMPLOYMENT

II-1b. Total unemployment rate

(Unemployed persons as a share of the total active population)

Unemployed persons are those aged at least 15 years not living in collective households who are without work and available to start work within the next two weeks and are seeking for a work.



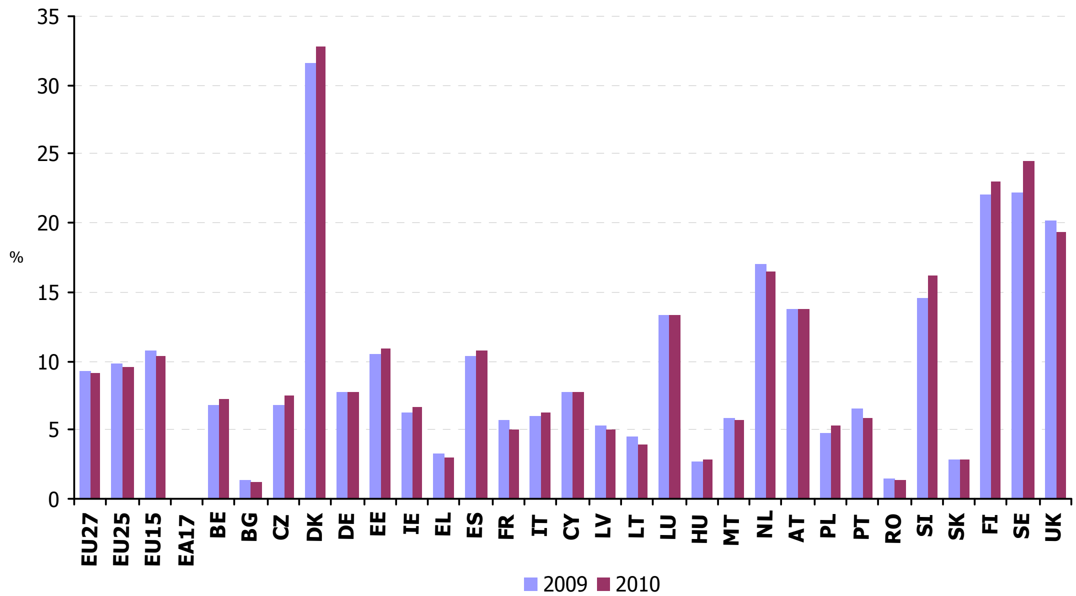
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total									
EU27	8,9	9,0	9,1	8,9	8,2	7,2	7,0	8,9	9,6
EU25	8,8	9,0	9,1	9,0	8,2	7,2	7,1	9,0	9,7
EU15	7,6	8,0	8,1	8,2	7,7	7,0	7,1	9,0	9,5
EA17	8,4	8,8	9,0	9,0	8,4	7,5	7,5	9,5	10,0
EL	10,3	9,7	10,5	9,9	8,9	8,3	7,7	9,5	12,5
Men									
EU27	8,3	8,4	8,5	8,3	7,6	6,6	6,6	9,0	9,6
EU25	8,1	8,4	8,4	8,3	7,5	6,6	6,6	9,1	9,7
EU15	6,9	7,3	7,5	7,6	7,1	6,4	6,7	9,1	9,6
EA17	7,5	7,9	8,1	8,2	7,5	6,7	6,9	9,3	9,9
EL	6,8	6,2	6,6	6,1	5,6	5,2	5,1	6,9	9,9
Women									
EU27	9,7	9,7	9,8	9,6	8,9	7,8	7,5	8,8	9,5
EU25	9,7	9,8	9,9	9,8	9,0	8,0	7,6	9,0	9,6
EU15	8,5	8,8	8,9	8,9	8,5	7,8	7,7	9,0	9,4
EA17	9,7	10,0	10,1	10,1	9,5	8,5	8,3	9,6	10,1
EL	15,7	15,0	16,2	15,3	13,6	12,8	11,4	13,2	16,2

Source: Eurostat

II-2b. Life-long learning

(% of the population aged 25-64 participating in education and training over the four weeks prior to the survey)

The reference period is the last four weeks preceding the survey (except for France, the Netherlands and Portugal for which information is collected only if education or training is under way on the date of the survey). Education include initial education, further training, training within the company apprenticeship, on the job training, seminars, distance learning self learning e.t.c. as well as other courses for example language art/culture, data-processing, management e.t.c. Before 1998, education was related only to educational and vocational training, which was related for the current or possible future job of the respondent.



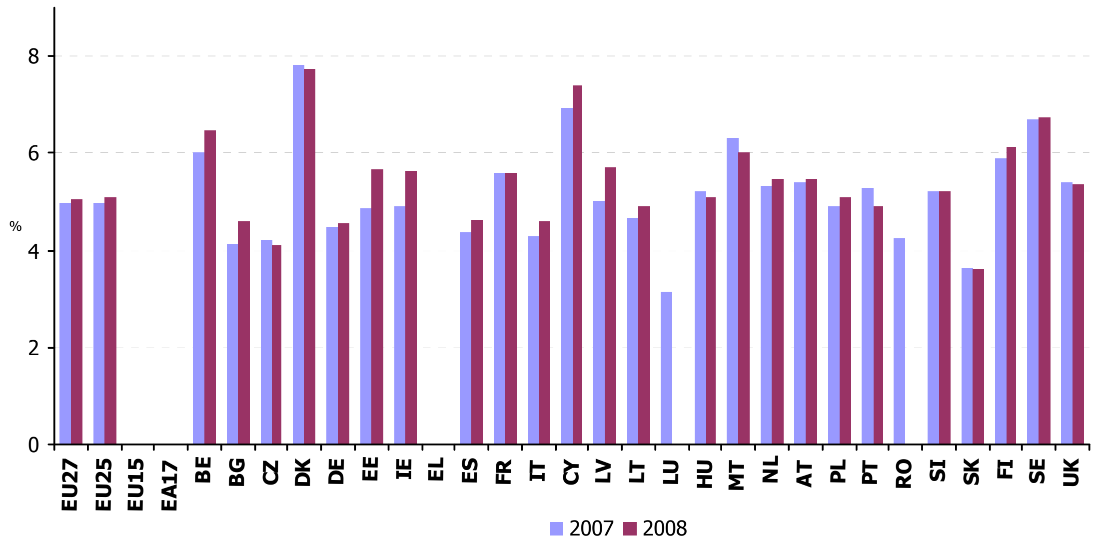
	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	7,2	8,5	9,3	9,8	9,6	9,4	9,4	9,3	9,1
EU25	7,6	9	9,8	10,3	10,1	9,9	9,9	9,8	9,6
EU15	8,1	9,8	10,7	11,3	11,1	10,7	10,8	10,7	10,4
EA17	:	:	:	:	:	:	:	:	:
EL	1,1	2,6	1,8	1,9	1,9	2,1	2,9	3,3	3,0
Men									
EU27	6,6	7,9	8,7	9,0	8,7	8,5	8,5	8,4	8,3
EU25	7,0	8,4	9,1	9,5	9,2	8,9	8,9	8,8	8,7
EU15	7,5	9,1	10,0	10,4	10,1	9,7	9,7	9,7	9,4
EA17	:	:	:	:	:	:	:	:	:
EL	1,1	2,6	1,8	1,9	2,0	2,2	2,8	3,2	3,1
Women									
EU27	7,8	9,1	10,0	10,5	10,4	10,2	10,2	10,2	10,0
EU25	8,2	9,6	10,6	11,1	10,8	10,8	10,8	10,7	10,5
EU15	8,8	10,4	11,4	12,1	12,1	11,8	11,7	11,7	11,4
EA17	:	:	:	:	:	:	:	:	:
EL	1,1	2,7	1,8	1,8	1,8	2,1	3,1	3,3	2,9

Source: Eurostat

III-R. INNOVATION & RESEARCH

III-1b. Public expenditure on education

(% of GDP)

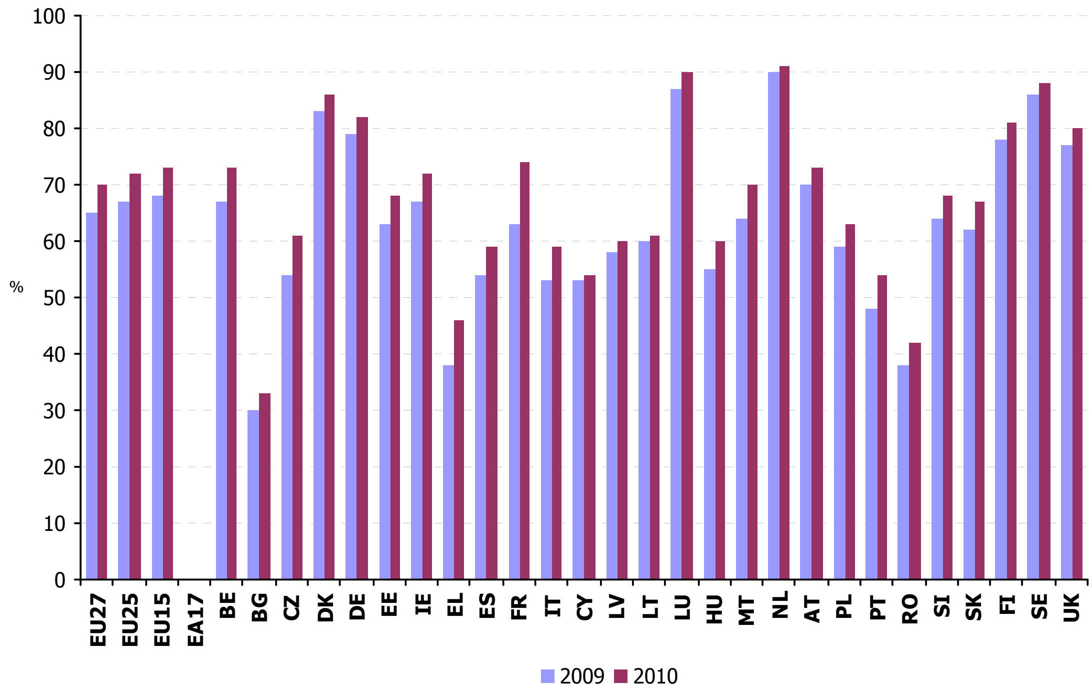


	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU27	4,9	5,0	5,1	5,1	5,1	5,0	5,0	5,0	5,1
EU25	:	:	:	:	:	:	5,1	5,0	5,1
EU15	:	:	:	:	:	:	:	:	:
EA17	:	:	:	:	:	:	:	:	:
EL	3,4	3,5	3,6	3,6	3,8	4,0	:	:	:

*There are no data available for either EA-16 or EA-17
Source: Eurostat

III-2b. Internet access

(% of households who have Internet access at home)



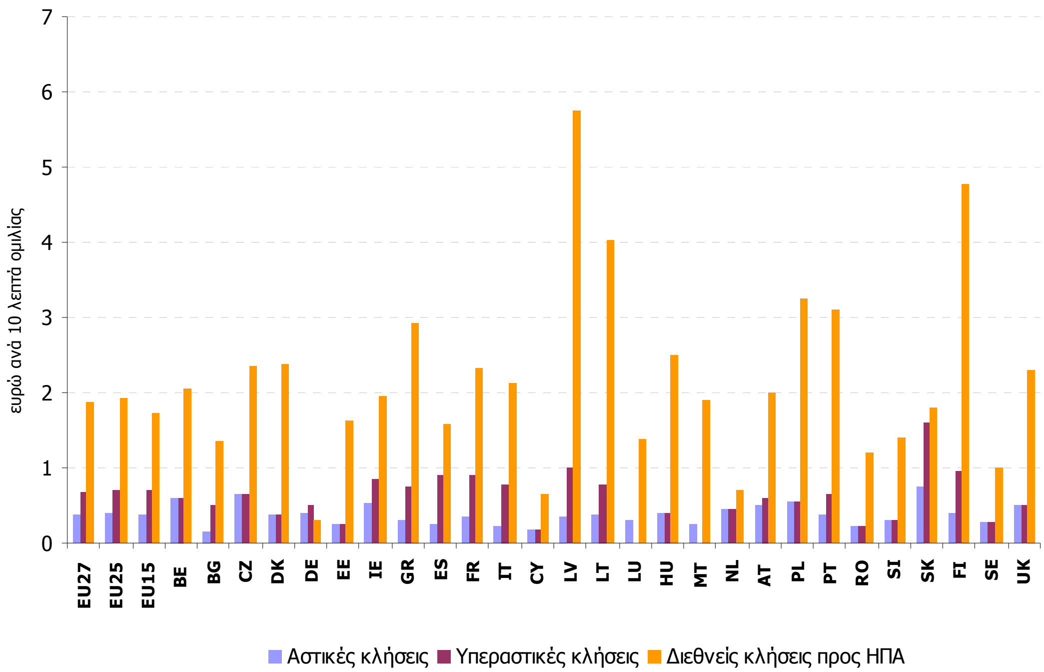
	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	:	:	41	48	49	54	60	65	70
EU25	:	:	43	48	51	56	62	67	72
EU15	39	43	46	53	54	59	64	68	73
EA17	:	:	:	:	:	:	:	:	:
EL	12	16	17	22	23	25	31	38	46

Source: Eurostat

IV-B. ECONOMIC REFORM

IV-1b. Price of telecommunications, 2008

(Euro per 10 min call)

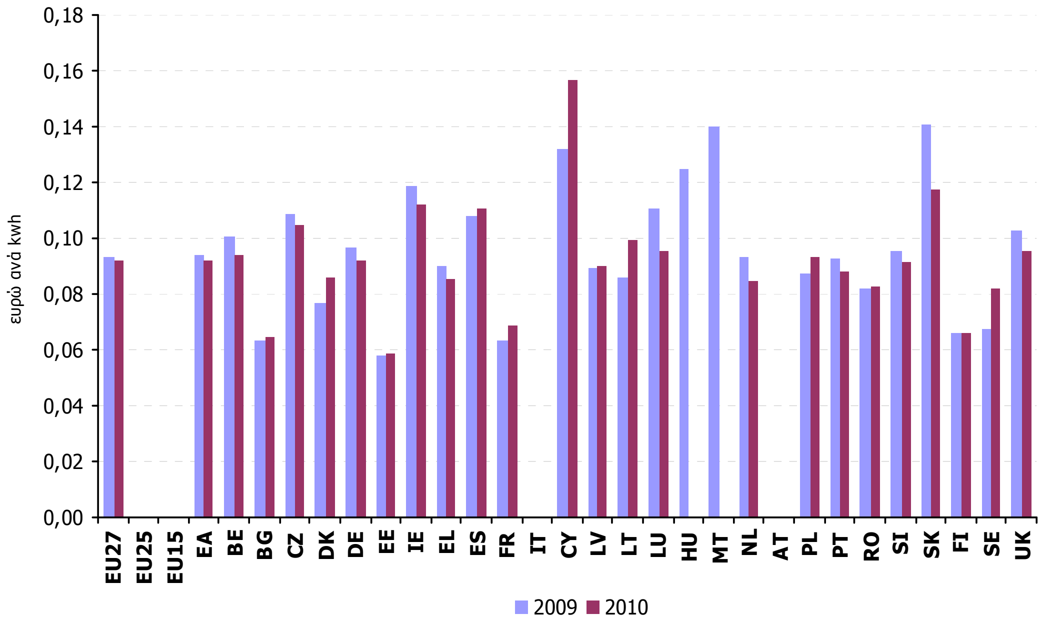


	2000	2001	2002	2003	2004	2005	2006	2007	2008
Local calls									
EU27	:	:	:	0,38	0,37	0,35	0,35	0,36	0,38
EU25	0,39	0,39	0,39	0,39	0,37	0,35	0,35	0,36	0,39
EU15	0,4	0,4	0,39	0,39	0,37	0,35	0,33	0,35	0,37
EA17	:	:	:	:	:	:	:	:	:
EL	0,31	0,36	0,31	0,31	0,31	0,31	0,31	0,31	0,31
National calls									
EU27	1,33	1,18	1,08	1,06	0,92	0,77	0,76	0,76	0,67
EU25	1,33	1,17	1,07	1,05	0,92	0,76	0,77	0,77	0,70
EU15	1,33	1,14	1,03	1,01	0,87	0,69	0,70	0,70	0,71
EA17	:	:	:	:	:	:	:	:	:
EL	1,4	0,98	0,77	0,77	0,73	0,74	0,74	0,74	0,74
International calls to USA									
EU27	:	:	:	3,16	2,21	2,14	2,13	2,07	1,88
EU25	:	:	3,08	2,98	2,13	2,11	2,11	2,12	1,92
EU15	3,03	2,57	2,16	2,07	1,83	1,84	1,86	1,89	1,73
EA17	:	:	:	:	:	:	:	:	:
EL	3,26	2,91	2,95	2,95	2,91	2,93	2,93	2,93	2,93

Source: Eurostat

IV-2b. Electricity prices - Industrial users

(Euro per kWh)

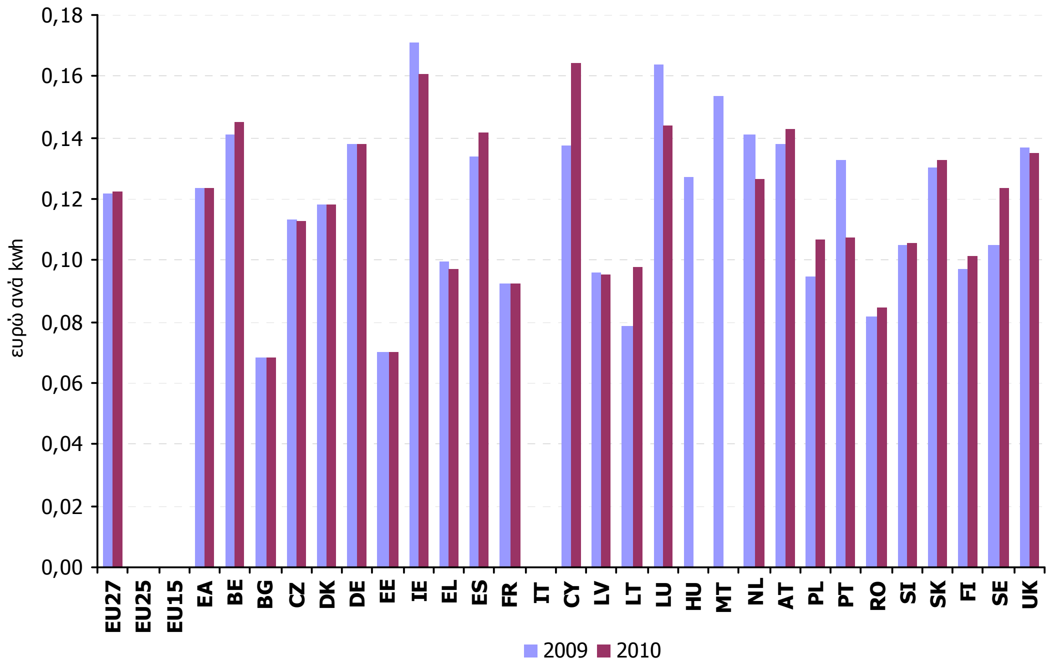


	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	:	:	:	0,0672	0,0752	0,0845	0,0901	0,0932	0,0918
EU25	:	:	0,0623	0,0672	0,0755	:	:	:	:
EU15	0,062	0,0648	0,0634	0,0682	0,0766	:	:	:	:
Euro area*	:	:	0,0667	0,0713	0,0774	0,0828	0,0896	0,0943	0,0920
EL	0,059	0,0614	0,063	0,0645	0,0668	0,0789	0,0891	0,0901	0,0855

*(EA11-2000, EA12-2006, EA13-2007, EA15-2008, EA16, EA17)

Source: Eurostat

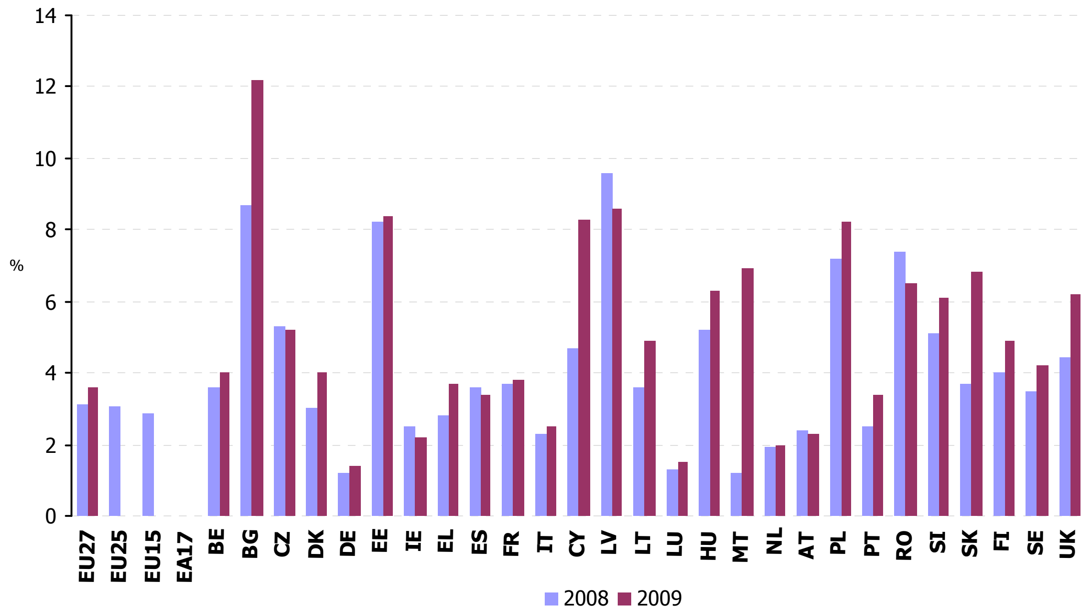
IV-3b. Electricity prices – Households
(Euro per kWh)



	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	:	:	:	0,1013	0,1068	0,1173	0,1175	0,1227	0,1223
EU25	:	:	0,1002	0,1023	0,1077	0,1183	:	:	:
EU15	0,1032	0,1036	0,1027	0,1042	0,1094	0,1205	:	:	:
Euro area*	:	:	0,108	0,1103	0,1137	0,1203	0,1167	0,1246	0,1234
EL	0,058	0,0606	0,0621	0,0637	0,0643	0,0661	0,0957	0,1055	0,0975

*(EA11-2000, EA12-2006, EA13-2007, EA15-2008, EA16, EA17)
Source: Eurostat

IV-4b. Value of public procurement which is openly advertised
(% of GDP)

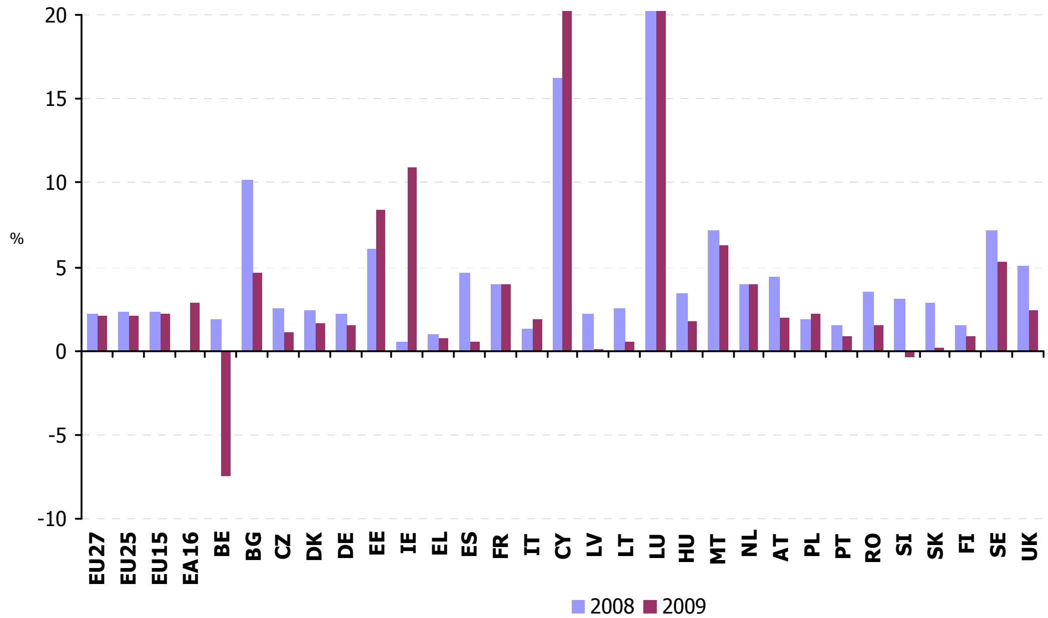


	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU27	:	:	:	:	2,9	3,2	3,0	3,1	3,6
EU25	:	:	:	2,7	2,9	3,3	3,0	3,1	:
EU15	2,4	2,6	3,5	2,7	2,8	3,1	2,8	2,9	:
EA17	:	:	:	:	:	:	:	:	:
EL	4,1	5,21	4,41	3,72	4,9	5,6	3,5	2,8	3,7

Source: Eurostat

IV-5b. Foreign Direct Investment intensity

(average value of inward and outward Foreign Direct Investment flows divided by GDP, multiplied by 100)



	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU27	:	:	:	0,9	1,7	2,3	3,9	2,2	2,1
EU25	2,4	1,3	1,3	1	1,7	2,4	4,0	2,3	2,1
EU15	2,6	1,4	1,4	1,1	2,0	:	4,2	2,3	2,2
EA16*	:	:	:	:	:	:	:	:	2,8
EL	0,8	:	:	0,7	0,4	1,8	1,2	1,0	0,7

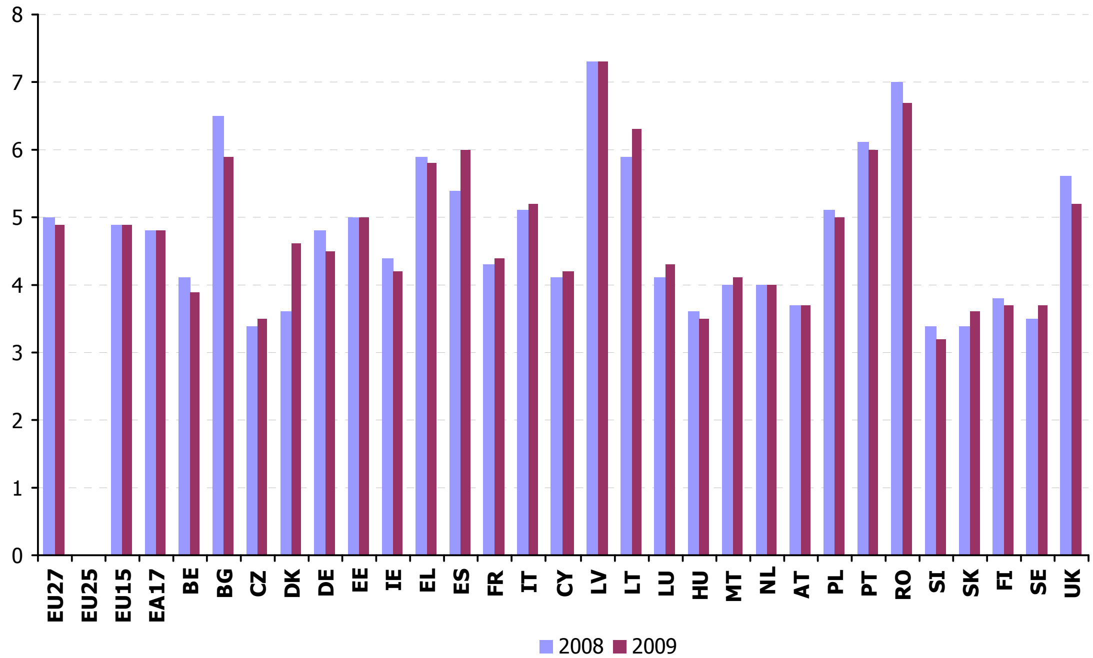
*There are no data available for EA-17

Source: Eurostat

V-B. SOCIAL COHESION

V-1b. Inequality of income distribution

(The ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (lowest quintile))

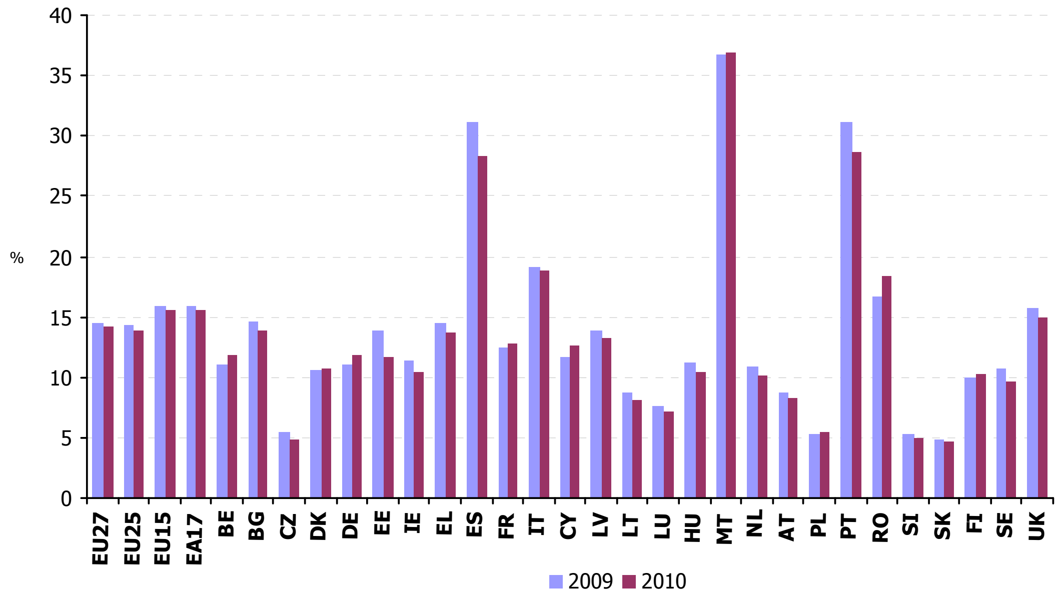


	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU27	:	:	:	:	5,2	5,1	5,0	5,1	5,1
EU25	4,5	:	:	:	:	:	:	:	:
EU15	4,5	:	4,6	4,8	4,8	4,8	5,0	5,0	5,0
EA17	:	:	:	:	:	:	4,9	4,9	4,9
EL	5,7	:	6,4	5,9	5,8	6,4	6,3	6,2	6,2

Source: Eurostat

V-2b. Early school-leavers

(% of the population aged 18-24 with at most lower secondary education and not in further education or training)



	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	17,0	16,6	16,1	15,8	15,5	15,1	14,9	14,4	14,1
EU25	16,6	16,1	15,7	15,5	15,4	15,0	14,9	14,3	13,9
EU15	18,6	18,2	17,7	17,5	17,3	16,9	16,7	15,9	15,5
EA17	18,9	18,5	17,9	17,6	17,4	16,8	16,6	15,9	15,6
EL	16,5	16,0	14,7	13,6	15,5	14,6	14,8	14,5	13,7
Men									
EU27	19,1	18,7	18,4	17,8	17,6	17,1	16,9	16,3	16,0
EU25	18,8	18,3	18,1	17,6	17,6	17,2	17,0	16,3	15,9
EU15	21,0	20,6	20,3	19,8	19,8	19,3	19,1	18,2	17,7
EA17	21,6	21,2	20,9	20,3	20,2	19,5	19,2	18,4	18,0
EL	20,6	20,0	18,1	17,6	20,2	18,6	18,5	18,3	16,5
Women									
EU27	14,9	14,5	13,8	13,7	13,4	13,0	12,9	12,5	12,2
EU25	14,4	13,9	13,3	13,3	13,1	12,7	12,7	12,2	11,8
EU15	16,3	15,8	15,1	15,2	14,9	14,5	14,3	13,7	13,2
EA17	16,2	15,8	14,9	15,0	14,6	14,1	13,9	13,4	13,1
EL	12,5	11,9	11,3	9,7	10,8	10,6	10,9	10,6	10,8

Source: Eurostat