ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ
FOUNDATION FOR ECONOMIC & INDUSTRIAL RESEARCH

The Greek Economy

4/14

Quarterly Bulletin

No. 78, January 2015

Editorial Policy

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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.

ISSN 1108-1198

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FOREWORD

This is the fourth report that IOBE is publishing for 2014 as part of its periodic surveys of the Greek economy. The publication takes place in a crucial period for Greece, just after the elections that led to unprecedented governmental and political shifts and right before the restart of the negotiations of the lenders with the new government. As all IOBE quarterly bulletins, this report contains four sections and an appendix with key structural indicators. It starts with a text about the positive prospects, but also the dangers that the Greek economy faces from complacencyof the economic policy. The remaining sections of the report are structured as follows:

The first section presents a brief overview of the report's main points. Section two examines the general economic conditions, containing: a) an analysis of the global economic environment in the first nine months of 2014, based on the latest reports and data from the IMF, the European Commission and other international organisations; b) an outline of the economic climate in Greece in the final quarter of 2014, as compiled in the latest IOBE business surveys; c) an analysis of the execution of the State Budget in the first eleven months (January-November) of the current year and a presentation of the new State Budget for 2015.

Section three focuses on the performance of the Greek economy in the third quarter of 2014. It includes an analysis of: the current macroeconomic environment and its outlook for late 2014 and 2015; the developments in key production sectors in the first nine or ten months of 2014, depending on data availability; the export performance of the Greek economy in the first ten months of 2014; the developments in the labour market from July through September; the course of inflation in 2014; and, finally, the course of the balance of payments from January through November.

Section four presents a study from IOBE about the impact of the 2004 Olympic Games on the Greek economy.

The report refers to and is supported by data, which were available up to 20/1/2015. IOBE's next quarterly report on the Greek economy will be published in early April of 2015.

GROWTH AND PREREQUISITES

The key features of the Greek economy today include concrete and tangible indications of growth, together with big uncertainty in both the short and the long term. There are certainly still opportunities for the Greek economy to continue its recovery from the crisis, at an accelerating rate even, but this crucially depends on the economic policy choices.

The Greek economy, as stated in previous reports as well, has entered a consolidation phase. The consolidation of the State Budget, with the achieved primary surplus, the consolidation of the external sector, and the stabilisation of the banking system, provided the basis for the gradual recovery of consumer confidence in Greece and increased the demand for services from abroad, which led to positive growth rates. Although investment and exports were not as high as anticipated, the gained momentum could lead to growth rates in 2015 in excess of 2%, while unemployment is predicted to drop by approximately two percentage points and deflation to weaken as well. To these observations, however, we should also include the following equally important details:

The external environment tends to contribute to these developments with two significant favourable conditions. First, the decrease of the energy price internationally signifies a reduction of the production cost, creating the conditions for Greek production and exports to grow. Second, the monetary policy of the European Central Bank and the devaluation of the euro also contribute to the improvement of the competiveness of the Greek economy, boosting the demand for Greek products.

On the other hand, the delay on reaching an agreement with our partners for the completion of the review of the Greek programme and subsequently the heightened political uncertainty, especially during the election period brought a reduction in investment and a deterioration of the lending terms, while delaying tax collection, which put pressure on the execution of the State Budget. In addition, the economic sentiment, tracked systematically by IOBE, deteriorated in January, in contrast with previous election campaigns, when the economic sentiment had usually improved.

An important fact here is that the new government disagrees with the framework of the existing agreement with the country’s lenders, as anticipated from their election pledges. However, the equilibrium that the Greek economy has achieved is especially fragile. While it is important that the new government explicitly confirms that its economic policy will not endanger either Greece’s place in the Eurozone or the fiscal consolidation, there are still factors creating significant uncertainty, which will likely intensify until a new agreement is concluded.

Given the above, it would be useful to outline the main prospects and the relevant limitations. The road ahead for the Greek economy over the short and the medium term is expected to be bumpy, yet under certain terms and conditions it could lead us to a positive resolution of the crisis.

The first condition is that under no circumstances should Greece risk its place in the Eurozone. The cost for Greece from an exit from the Eurozone would be inestimably high. The return of this possibility, even as an empty threat from any of the sides, complicates significantly the solution to the problem.

The second point that should be stressed is that economic growth can never come without investments. In particular, as analysed in many studies of IOBE and others, the main problem of the adjustment of the Greek economy so far is that the very weak momentum of investment and exports. Investment still has a very small share of GDP, which should almost double in the coming years, so that growth reaches the desired and required rates. The main aim of the economic policies should be to attract investments of any kind and from any source, otherwise the necessary systemic reduction of unemployment would not be feasible.

Of course, investment and economic activity in general require stability and transparency of the economic rules and environment. The most important part of the adjustment of the Greek economy is not to achieve fiscal consolidation and to service its debt , even if both of these aims are obviously very important for the Greek economy, but to make the necessary changes to the economic rules and the institutions, which should be deep and systemic and not just marginal improvements to the already existing system. A common thread that connects the changes needed for the Greek economy to achieve a real convergence to the most developed European economies is the reduction of the state intervention in the economy, boosting at the same time the independence of the public administration from changes in government.

Overall, the Greek economy and economic policy are standing at an important crossroad. Which terms would bring the best solution? Allow us to outline once more an opportunity which was already described in the foreword of the last report:

"As a next step, a new, mutually beneficial agreement between Greece and the European Union can be promoted as soon as possible. The agreement should aim at correcting the observed failures and, most notably, at promoting the smooth convergence of the Greek economy towards the core of the euro zone. (…) The new growth model of the country, which would give emphasis on openness, innovation and the investments that will support them, should form an explicit basis for the next agreement. On the Greek side, there must be a commitment to the necessary structural reforms, with priority given to those improving the business environment and the efficiency of the public sector. (…)The exact way that each objective will be achieved, should be the responsibility of the Greek side. Besides, and until now, the detailed case-by-case monitoring proved rather inefficient. Furthermore, the maintenance of the agreed budgetary balance is necessary, but without further adjustments, as this would rather have a negative effect on investment, reforms and, ultimately, on growth. From the perspective of the creditors and partners, it should be ensured that the cost of debt servicing will remain sufficiently low for the foreseeable future. Moreover, there should be multiple forms of assistance for undertaking the appropriate investments, with respect to both the necessary infrastructure and private, long-term productive investments. (…)."

Therefore, the outlook of the Greek economy can be very positive. A necessary prerequisite for this is to achieve an agreement with our European partners that would set the conditions for a systematic growth of investment and output, within the Eurozone's framework. This agreement could and should be achieved as soon as possible.

1. BRIEF OVERVIEW – MAIN CONCLUSIONS

Slight acceleration of global economic growth in 2015

The growth rate of global output in the third quarter of 2014 reached a similar level with the corresponding period of last year, as a result of the weakening global economic activity. The GDP of the OECD member-states was higher year-on-year by 1.7% in July through September, compared with 1.6% increase one year before and 2.2% in the first quarter. In the developing countries, the GDP growth strengthened in the current year, whereas growth eased in the developed countries: in the G-7 countries the growth rate was below 1.5% against 1.8% in the previous quarter and 1.6% in corresponding quarter of the previous year. In Japan the economic recession deepened (-1.1%) following the stabilisation of the GDP in the second quarter of last year. Slight weakening of the growth of GDP, by 0.2-0.3 percentage points, was recorded in the third quarter in all developed economies, except of France, where GDP marginally increased.

According to the latest IMF estimates[1], the growth rate of the global economy was lower year-on-year (3.1% against 3.7%) in the last quarter of 2014. Overall in 2014, the global GDP growth stood close to the level of 2013 (+3.3%).

The growth rate is expected to strengthen in the current year for both the developed and the developing economies. The decision of the ECB to embark on a programme of buying sovereign debt and bonds of European agencies and institutions in the secondary market is expected to affect positively the Eurozone. The depreciation of the euro against the US dollar benefits the competitiveness of the goods and services produced in the Eurozone, while the significant drop of the global oil prices outweighs the negative impact of the euro depreciation on energy costs. However, the developments with regard to the Greek programme and sovereign debt comprise a potential source of strong turmoil in the Eurozone, the effect of which has not been yet assessed. In the USA, the planned fiscal policy this year will have a smaller impact on the economy compared with the recent past. Investments in Constructions due to the adopted monetary policy have a positive impact on the economy. The fiscal adjustment process in Japan will counteract the revival of the investment sentiment, with the growth rate standing at a similar level compared with the previous year. Under these circumstances, **the GDP of the developed countries will increase by 2.0% this year against 1.8% in 2014.**

[1] World Economic Outlook Update, IMF, January 2015

Among the developing economies, China is progressively exiting the extensive growth phase and the growth rate quite possibly will slightly slow down this year. Exports strengthen the growth perspectives of India. In contrast, the effect of the sharp decline in the oil price and the capital flows will be evident in the Russian economy this year. Subsequently, **the growth of the developing countries will strengthen somewhat to a rate of slightly below 5% (from 4.4% in 2014). Overall, the world GDP is expected to increase by 3.7% this year, against 3.3% last year.**

The Greek economy recovered in the third quarter of 2014

The GDP of Greece increased substantially, by 1.6%, in the third quarter of 2014, against the contraction by 3.5% in the corresponding period of last year. According to the latest national accounts data (revised using the ESA 2010 methodology) provided by the Hellenic Statistical Authority, the recovery of the Greek economy started in the second quarter of 2014, when GDP increased marginally by 0.4%, against the estimate for marginal contraction by 0.3% according to the previous methodology. **Between January and September of 2014 the GDP level was higher by 0.6%, compared with the corresponding period of last year, when it had fallen by 4.3%.** This was mainly due to higher international tourist arrivals during the summer period, leading to the strongest growth in the exports of goods since the 2004 Olympic Games. The increase in household expenditure during the third quarter - the largest since the second quarter of 2008 – is mainly due to the drop of unemployment for a second consecutive quarter. Mild reductions took place in public consumption, the other component of the domestic consumption expenditure.

In greater detail, **total domestic consumption increased by 1.2% between January and September, due to strengthening of household expenditure, against a contraction by 4.2% a year before.** Respectively, public expenditure increased mildly (+0.1%) against a contraction by 7.7% in the corresponding period of last year. The increase in household expenditure accelerated quarter-on-quarter in 2014, reaching 3.1% in July through September and 1.5% overall in the first nine months of the year, compared to a drop by 3.3% during the same period in 2013.

The strengthening of the contraction in **investment** in the third quarter of 2014, by 17.7%, resulted in a contraction by 13.6% in the first nine months of 2014, compared to a drop by 9.8% in the corresponding period of last year. However, the decline in fixed capital formation was substantially lower compared to 2013 (3.3% against 9.6%), which implies that contrarily to the previous years the drop in investments is mainly due to the rundown of inventories. During the third quarter, fixed capital investment increased slightly (1.0%) for the first time since the beginning of 2008.

Regarding the external sector of the Greek economy, the substantial increase of **exports** in the first half of 2014 carried over to July through September (8.6%), due to the increase in the exports of services. As a result, their growth in the first nine months of 2014 stood at 8.4%, compared to 2.9% in 2013. The increase in the exports of services accelerated in the third quarter, for the first time since the fourth quarter of 2014, by 16.4%.

In the first nine months of 2014, the exports of services increased by 13.9% against a small drop by 1% the corresponding period of last year. The growth in the exports of goods has eased since the first quarter of 2014, standing at 3.5% between January and September, compared to 6.0% in the previous year.

The growth of **imports** eased in the third quarter of 2014 compared with the previous quarter (2.9% against 8.2%). As a result, the growth rate of imports stood at 3.8% in the first nine months of the year, compared to a drop by 1.6% in 2013. The stronger increase of exports compared to imports resulted in the reduction of the **external sector deficit** in the first nine months of 2014 by 46.5% compared with the corresponding period of last year, reaching €1.9 billion (1.4% of the GDP) against €3.6 billion (2.6% of the GDP).

Consolidation of the recovery of the Greek economy in the last quarter of 2014

The economic activity in Greece in the fourth quarter of 2014 was mainly affected by strong international tourist arrivals, at least until the middle of the quarter, and to a lesser extent by uncertainty with regard to the political-economic developments. The extended tourism season, except of the direct impact on GDP through the increase in the **exports of services**, also had a positive effect on seasonal employment (at least for some period during the last quarter of 2014) leading to a drop of unemployment and an increase of **private expenditure** through the creation of additional income.

The delayed review of the economic adjustment programme, which in December 2014 was granted an extension to the end of February 2015, once more led to postponement of decisions by the economic agents (households and enterprises) during the fourth quarter of 2014. The accumulation of additional tax obligations for households in the past December, compared to the corresponding month in 2013, had a negative effect on disposable income. The heightening of the political uncertainty, due to the early start of the procedures for the Presidential election and the uncertainty surrounding its outcome, led to a deterioration of the consumer confidence (following its improvement in the previous months).

Nevertheless, the increase of household expenditure, observed since the second quarter of 2014, strengthened until the end of the year.

Apart from its effect on the economy, the lengthy programme review had a negative impact on structural reforms, including changes in the public sector. This prevented further savings in **public expenditure** during the last months of 2014. Nevertheless, the exceptionally high level of public consumption expenditure in the last quarter of 2013, most probably resulted in their slight year-on-year decline in the same period of 2014.

With regard to **investment**, the increase in capital formation accelerated in the last quarter of 2014. In particular, the contraction in construction activity eased to 2.5% in August through October, mainly due to the initiation of large construction projects, whereas the drop in permits strengthened. Regarding **public investment expenditure**, half of the PIP was implemented in the fourth quarter of 2014, which is slightly below the corresponding levels of last year. The increase in investments was mainly due to growth in the main fixed capital categories, except of Constructions (Metallic Products-Machinery, Transportation Equipment, Other Constructions) already from the second quarter of 2014 and high rundown of inventories in the final quarter of 2013.

The unchanged quarter-on-quarter level of employment between October and December affected positively consumer demand and strengthened the increase in the **imports of goods**. In contrast, the growth in the **imports of services** eased in the fourth quarter of 2014, due to the decline in imports of transport services, as the domestic demand for tourism services was gradually growing throughout 2014.

Based on these trends in the main components of GDP in the last quarter of 2014 and the revised data of GDP for the first three quarters of the year, according to the ESA 2010 methodology, IOBE revises upward the estimation for the average growth rate of the Greek economy in 2014 to approximately 1%.

The recovery of the Greek economy is expected to carry over and strengthen in 2015

The recovery of the Greek economy from the second half of 2014 is expected to strengthen in the current year. Some basic determinants of the macroeconomic environment either continued to improve or started to recover after many years. The positive impact of these developments can become, under certain circumstances, notable in 2015.

In greater detail, the fiscal adjustment process has remained in place. The final outcome is expected to lag below the target, albeit slightly, given the unrealised SMP revenues (which are independent of the tax administration performance) and the delay of payments in arrears to the State due to the repayment arrangement plan. As a result revenues are expected to drop in the short term, yet an increase in the long term is possible. The further improvement of the fiscal performance in 2014 strengthened the international confidence towards the domestic effort for sustainable public finances. At the same time, this has strengthened the position of the Greek government to negotiate with its creditors the restructuring of the sovereign debt.

Conditions for the substantive improvement of the liquidity of the Greek economy were initiated in the previous year. The announcement of the stress test results by the ECB for the 130 largest banking institutions of the Eurozone, among which the four largest Greek banking institutions, also contributed in this direction. The results revealed the capital adequacy of the banking institutions in Greece, as predicted in previous IOBE economic bulletins.

The assured capital adequacy was expected to provide the impetus for a mild relaxation of the credit policy of the banks for the first time since the outburst of the global financial crisis and the exchange of the Greek sovereign bonds in April 2012. Between October and November the credit contraction to businesses eased by one percentage point, varying in the area of 3.6%-3.8%. In the next few months, credit is expected to increase, with better terms and conditions for the borrowers, compared with the period 2009-2014. This, however, presupposes that the new government will continue the fiscal adjustment process and the reform implementation.

As a result, the opportunities for adopting investment schemes will strengthen. The substantial drop of the energy cost, due to the sharp decline in the price of oil, also contributes in this direction. Investment in housing is also very likely to recover in 2015 (following the unprecedented contraction of Constructions for seven consecutive years), given the substantial weakening of its decline at the end of 2014.

The fiscal adjustment effort in the past few years, combined with the achieved primary surplus in the last couple of years and the implementation of reforms, has rekindled the investment interest. A governmental priority with regard to the sustainability of the public debt and the implementation of structural changes in sectors and activities can contribute to the significant strengthening of the FDI inflows.

The positive impact of tourism on the Greek economy in the past two years does not show signs of abatement for the time being in the current year. However, the potential for further strengthening in tourism activity is limited, compared to the previous two years, since most of the firms in the sector have reached their operational capacity. In any case, a substantial number of jobs is expected in tourism in 2015, as in the previous year, preventing in this way a further increase of unemployment.

The unprecedented depreciation of the euro against the dollar has a positive effect on the demand for tourism services and for Greek exports in general from countries outside the Euro area. A positive impact on the exports of goods is also expected from the mild (albeit stronger compared with the previous year) recovery of the Eurozone.

Apart from the above economic trends, the political developments due to the inability to elect a new President by the Parliament are very likely to become the main determinant of the forthcoming socio-economic developments in 2015, as well as for a number of years after that. The uncertainty with regard to the priorities of the new government, mainly those concerning economic issues, inhibits macroeconomic forecasting with relatively limited margins of error. It goes without saying that the fiscal policy adopted by the new government, the means employed for its implementation and its outcome will affect the decision making of economic units in Greece and abroad. This will also have an impact on the decisions of other countries, mainly the other EU member-states and the lender countries, regarding their future relations with Greece.

The outcome of the negotiations with the official lenders of the country is of primary importance for the future developments. Despite that, however, the uncertainty until the negotiations are concluded will negatively affect the economic decisions both domestically and outside of Greece. On the other hand, in the absence of substantial changes in the politico-economic choices compared to the past two decades, it is very possible that pessimism is replaced by an optimistic view, leading to decisions and actions that will counterbalance the uncertainty. Yet, this uncertainty towards Greece from abroad is expected to ebb only gradually.

Apart from the impact of the current political developments and those in the near future on the economy, we should not forget that the improvement of the economic environment, prior to the start of the electoral cycle, had weakened due to the extended negotiations with the troika and the strong likelihood of additional fiscal measures. The most recent report of the European Commission regarding the assessment of the Economic Adjustment Programme estimates the additional measures at 1% of the GDP. This figure is close to the IMF estimate (1.1%).

Based on the preceding trends and data for the Greek economy, the **increase in household expenditure is expected to strengthen this year, at slightly above 2%**, considering that the decline of unemployment will continue at least with the same pace as in the previous year. Given that the economic sentiment and household expenditure were affected by the length and the outcome of the negotiations in the previous years, the talks with the lenders will be the main determinant of household expenditure in the current year as well. These will also affect the sectors in which employment and output increased last year, given the demand generated by households for goods and services.

The current extension of the programme until the end of February implies a delay of public sector reforms until the negotiations with the lenders are concluded. As a result, **public expenditure** will not be affected by this factor. Irrespective of the developments in the negotiations, **public expenditure is expected to increase slightly** due to the retraction of the 2012 pay cuts, extended also to other categories of employees in the public sector (e.g. to academic staff) from the beginning of 2015. Public expenditure in the current year is very possible to be affected by the policy adopted by the new government with regard to employment in the public sector and the outcome of the negotiations with the troika.

With regard to the **public expenditure for investments**, the budget cut of PIP in 2015 and the delay in implementation due to the elections were foreboding in early 2015 a lower contribution of PIP to investment activity in 2015 compared with last year. However, this could be counterbalanced from the planned acceleration in the activity of the Hellenic Republic Asset Development Fund (TAIPED), if implemented.

The recovery in Constructions and the expected return of business investment interest, in Greece and abroad, mainly due to the favourable liquidity conditions, can give substantial boost to **private investment** in the current year. Based on that, **a growth rate by 7-8% in capital formation** is feasible.

However, for the duration of the negotiations and the respective political processes domestically and outside Greece, the adoption of major investment decisions will be suspended. Subsequently, the decisions will be affected by the outcome of the negotiations. In case that there would not be any substantial amendments concerning parameters of the Greek economy, higher investment activity is very likely to occur.

The effect from the PIP will probably depend on the priorities of the new government. However, the target will not differ substantially from that set in the State Budget of 2015.

With regard to the external balance of the economy, the positive impact from tourism (expected to be slightly higher compared to the previous year) and the improvement of exports competitiveness due to the depreciation of the euro against the dollar will lead to an **increase of exports this year by approximately 4.5%.** The expected strengthening of consumer demand and the acceleration of investment activity will lead to an increase in the demand for imported goods. The level of growth will affect the **extent of the increase in total imports, which is expected to stand at approximately the same level compared with the previous year.**

These trends in the main components of GDP, without taking into account the changes in the policy adopted by the new government and the uncertainty for the content and the outcome of the negotiations with the lenders, which cannot be adequately assessed for the time being, compose an average growth rate of the Greek economy in the region of 2.3%.

Deviation from the primary surplus target in the State Budget

The State Budget deficit in the first nine months of 2014 stood at €1.8 billion (1% of GDP) compared with €3.2 billion deficit (1.7% of GDP) in the corresponding period in 2013. Respectively, the primary surplus of the State Budget increased from €2.8 billion (or 1.5% of GDP) in 2013 to €3.6 billion (or 2% of GDP) in 2014. The contraction of the State Budget deficit is due to the restraint of expenditure in the Ordinary Budget by €3.2 billion, given the drop in the revenues of the Ordinary and the State Budget and the increase in PIP expenditure in the first eleven months of the year. The expenditure restraint in the Ordinary Budget is primarily due to a fall in primary expenses (83%), with the remaining coming from interest payments.

However, the improvement of public finances in the first eleven months lagged against the target set in the preamble to the 2015 State Budget. Additionally, the current performance does not ensure that the annual targets will be accomplished. This can be accomplished if revenues of €9.4 billion are collected in December (including the revenues from the SMP programme), the primary surplus is extended by 0.8% of the GDP, etc. However, destabilising factors lead to deviation from the targets. In particular, the planned revenues for December incorporated the €1.9 billion SMP revenues from the European Central Banks. Precondition for this development was the timely completion of the review of the Greek programme, which is still pending. Therefore, the fiscal target for 2014 will not be achieved in case the SMP payment is delayed.

Unemployment is expected to drop further in the current year

Unemployment dropped for a second consecutive quarter in July through September of 2014 and stood at 25.5% against 27.2% in the corresponding quarter of 2013, while it is lower by 1.1 percentage points compared to the previous quarter. This trend is mainly evident in the sectors where output increased in the specified period. Job positions increased by 109,000 compared with the third quarter of 2013, of which 51,000 were recorded in Accommodation-Food Services.

The recovery of the Greek economy in the last months of 2014, mainly in these sectors, averted the increase of unemployment in the fourth quarter. The delays of public sector employment reforms, due to the continuation of the negotiations with the troika, also contributed to the halt of unemployment. **The unemployment rate stood at 26.4%, falling year-on-year by one percentage point (27.5%).**

Unemployment is expected to drop further in 2015 due to the strengthening of the recovery of the Greek economy, initiated in the second half of 2014. In this context, **the unemployment rate can drop by approximately two percentage points, to stand in the region of 24.5%.** However, the impact on unemployment from the current domestic political developments cannot be assessed at the moment. The domestic macroeconomic environment, the tax framework and the regulations in the labour market affect primarily the decisions of enterprises with regard to employment. The clarification of these issues, according to the policies adopted by the new government, will make feasible a more precise estimation of the unemployment level.

Weakening deflation in 2015

The intensity of deflation strengthened in the fourth quarter of 2014. Despite the increase of consumer demand, the deflation rate stood at 1.9% between October and December compared to 0.6% in the previous quarter. This was mainly due to the sharp decline in the price of oil, affecting subsequently housing and transportation costs, which are among the main determinants of the CPI. Subsequently, **the level of prices dropped by 1.3% in 2014, slightly more compared to 2013 (0.9%).**

The drop of unemployment in the current year might have a positive impact on demand, easing any deflationary pressures. The effect will be partially offset by the increase in VAT in tourism, under the condition that it will be implemented. However, the low level of oil prices compared with the previous years (as OPEC is not expected to cut production) is expected to have a negative effect on CPI. The deflationary effect from the decline of the oil price should disappear in the third quarter of 2015. As a result of the preceding trends **deflation is expected to weaken in the current year (0.3%).**

However, the increased political uncertainty during the course of the negotiations with the lenders complicates any predictions with regard to employment, the level of domestic demand and the demand for exports. A lengthy process will either preserve or accelerate the reticence of firms and households, with a negative effect on the level of unemployment and consumption at least until the completion of the review. Subsequently, deflation will strengthen.

Special study of IOBE: "The impact of the 2004 Athens Olympic Games on the Greek economy"

A decade after the staging of the Olympic Games in Athens, IOBE examined the impact of the Games on the Greek economy. This study investigated the revenues and the expenditure for the preparations for the Games, employed econometric techniques to quantify the effect on inbound tourism and assessed the impact of the Games on the economy with the use of appropriate macroeconomic models.

According to the study, the infrastructure investment for the staging of the Games, together with the catalytic effects on inbound tourism and productivity after their completion, had a positive effect on economic activity and employment. Considering the public expenditure for the Olympic projects and the fiscal benefit from the additional economic activity during the preparation period and after the end of the competition, the Games did not burden significantly the country's fiscal position. However, the inadequate utilisation of the Olympic legacy and the negative publicity of Greece since 2009 reduced the benefits from the Games.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the World Economy

The Global Environment

The global economic activity strengthened year on year by 3.7% in the third quarter of 2014. The latest IMF estimations point to a growth rate of global GDP in 2015 by 3.5%, slightly higher compared to the respective estimate regarding 2014. This slight downward revision compared to the previous estimation for 2015 (by 0.3 percentage points) is mainly due to revision of the economic outlook of China, Russia, Spain and the Eurozone. In contrast, the US economy is the only case with improved revised estimates, given that the recovery of the economy has been better than anticipated. Similarly, the sharp decline in the oil price is expected to boost economic activity, mainly of the developed economies, yet it will negatively affect the oil-exporting countries.

The deflation in the Eurozone, as well as the political instability in EU member states, such as Greece, continues to be a problem. However, the recent ECB decision to embark on a quantitative easing programme through sovereign bond purchase is expected to have a positive effect on inflation and the European economy, yet delays in the reform implementation are very possible to occur in the peripheral countries of the EU. Additionally, the continuation of clashes in eastern Ukraine is considered a source of increased friction at political and economic level between Russia and the EU – USA, which results in increasing uncertainty with regard to investments. In greater detail, regarding the economic activity in the major economies of the world during the third quarter of 2014 and the estimates for all of 2014:

In the **USA**, GDP increased by 2.4% year on year during the third quarter of 2014, compared to 2.6% growth rate in the second quarter of 2014. Overall for 2014, the US economy is expected to grow by 2.4%, while a stronger growth is expected in 2015 (3.6%). The continued growth at a relatively high rate is mainly associated with the accommodative monetary policy, the increase in employment and the expansion of investment.

In **Japan**, the GDP growth rate weakened abruptly by -1.1% in the third quarter of 2014, compared with the same period of last year. For the whole year, output is expected to remain stagnant, with a slight growth by 0.6% expected for 2015. The imposed taxation due to the fiscal adjustment requirements, the restraint of nominal wage growth below CPI inflation and the sharp decline of the Yen are the primary drivers of the decline in consumption expenditure, leading to the slight growth of GDP.

Table 2.1
IMF, World Economic Outlook
(annual % change, at constant prices)

	2013	2014	2015
GDP			
USA	2,4	3,6	3,3
Japan	0,1	0,6	0,8
Growing Asia	6,5	6,4	6,2
of which China	7,4	6,8	6,3
India	5,8	6,3	6,5
AESEAN-5	4,5	5,2	5,3
Euro zone	0,8	1,2	1,4
UE-28	2,7	2,9	3,1
Central and East Europe	0,9	-1,4	0,8
CIS	0,6	-3,0	-1,0
of which Russia	2,8	3,3	3,9
Middle East and North Africa	1,2	1,3	2,3
Latin America	0,1	0,3	1,5
of which Brazil	4,8	4,9	5,2
Sub-Saharan Africa	3,3	3,5	3,7
Global economy	3,3	3,3	3,8
Global Trade			
World Trade Volume (goods and services)	3,1	3,8	5,3
Imports: Advanced Economies	3,0	3,7	4,8
Imports: Upcoming and Developing Economies	3,6	3,2	6,1
Exports: Advanced Economies	2,3	4,2	4,8
Imports: Upcoming and Developing Economies	4,4	5,0	6,2

Developing Asia: Vietnam, India, Indonesia, China, Malaysia, Thailand, Philippines **AESEAN-5:** Vietnam, Indonesia, Malaysia, Thailand, Philippines **Middle East and North Africa:** Egypt, Algeria, Morocco, United Arab Emirates, Jordan, Iraq, Iran, Qatar, Kuwait, Lebanon, Libya, Bahrain, Oman, Saudi Arabia, Soudan, Syria, Yemen, Djibouti, Tunisia.
Sub-Saharan Africa: Angola, Ethiopia, Côte d'Ivoire, Gabon, Equatorial Guinea, Cameroon, Kenya, Congo, Mauritius, Botswana, Namibia, Nigeria, South Africa, Uganda, Cape Verde, Seychelles, Swaziland, Tanzania, Chad etc.
Source: World Economic Outlook, IMF, October 2014

Table 2.2
IFO – Expectations for global economy (Indexes, base year:2005=100)

Quarter/ Year	**III/12**	**IV/12**	**I/13**	**II/13**	**III/13**	**IV/13**	**I/14**	**II/14**	**III/14**	**IV/14**
Economic sentiment	85.1	82.4	94.1	96.8	94.1	98.6	103.2	102.3	105.0	95.0
Current situation	78.5	76.6	80.4	84.1	82.2	84.1	91.6	91.6	95.3	91.6
Expectations	91.2	87.7	107.0	108.8	105.3	112.3	114.0	112.3	114.0	98.2

Source: IFO, World Economic Survey, WES Vol.13, No. 03/ August 2014

Table 2.3

IFO - Economic sentiment indicator in economic zones (base year:2005=100)

Quarter /Year	III/12	IV/12	I/13	II/13	III/13	IV/13	I/14	II/14	III/14	IV/14
North America	81.2	80.3	86.2	87.0	93.7	88.7	102.1	107.1	110.5	101.3
Europe	86.4	80.6	90.3	93.2	99.0	109.7	116.5	118.4	117.5	101.0
Asia	83.3	81.6	97.4	106.1	89.5	98.2	97.4	89.5	99.1	93.9

Source: IFO, World Economic Survey, WES Vol.13, No. 03/ August 2014

The GDP of **China** increased year on year by 7.3% in the third quarter of 2014. Overall in 2014, the GDP of the Chinese economy is expected to have grown by 7.4%, while it is projected to grow slightly less in 2015 (6.8%). Recently, the Central Bank of China decided to follow an accommodative monetary policy to halt the current economic slowdown. However, the risks to China's economy remain due to the unstable environment of its real estate and financial markets.

The growth of GDP in **Russia** weakened again between July and September of 2014 by 0.7% year on year. Overall in 2014, the IMF expects GDP to grow by 0.6%, whereas in 2015 GDP is projected to weaken by 3%, mainly due to the adverse geopolitical developments in Ukraine and the ongoing dispute with USA-EU, which place the Russian economy in isolation. In addition, the significant drop of the oil price, the rouble devaluation and the acceleration of inflation, as well as the increased financing cost for the banking institutions and enterprises, are the primary factors affecting the slowdown of the growth rate and the projected recession.

Regarding the economic climate indicator published by IFO, the world economic sentiment deteriorated during the fourth quarter of 2014, standing at 95 units from 105 in the previous quarter, which is its lowest level since the third quarter of 2013. The assessment for the current economic conditions slightly deteriorated with the relative indicator for the next six months showing a decline.

The expectations for the economic outlook in the major economic regions showed substantial signs of deterioration, among which the largest was recorded in Europe. In particular, the economic sentiment in **Europe** stood at 101.0 units – below the mean average - having declined by 16.5 units compared with the third quarter of 2014. In **North America** the economic sentiment indicator recorded a significant decline in the last quarter of 2014, by 9.2 units, reaching 101.3 units. However, the indicator remained above the mean average of the last fifteen years.

The economic sentiment indicator in **Asia** declined in the fourth quarter of 2014 by 5.2 units compared to the previous quarter and stood at 93.9 units from 99.1. As a result, the indicator is approximately at the same level compared with its long term mean value.

The Economies of the EU and the Euro area

The recovery of the Eurozone continued, albeit modestly, as in the last quarter of 2014 GDP grew by 0.8% compared to the same period of last year. Similar trends were also recorded in the EU, with a growth rate of GDP by 1.3% in the third quarter of 2014 compared with 2013. Similar rates of growth are expected for 2014 overall, whereas according to the estimates of the IMF and the European Commission the economy in the Eurozone will grow by 1.1%-1.2% in 2015. Similarly, the GDP in the EU-28 is expected to grow by 1.5 percentage points in 2015.

Therefore, the recovery in the Eurozone is still weak and at the same time deflation continues. However, the very recent decision of the ECB for quantitative easing through a purchase programme of sovereign bonds worth €1.1 billion is expected to boost effectively liquidity in the real economy and at the same time deal with deflation, supporting in this way a stronger recovery of the Eurozone. However, a solid recovery of the European economy requires further implementation of structural reforms, mainly in the peripheral countries of the EU.

Based on available data for 25 EU member states, the majority of them (21 countries) recorded positive GDP growth rates in the third quarter. In particular, the countries with the largest GDP growth rates were Poland (3.4%) and Hungary (3.1%) followed by Slovenia (3.1%), the United Kingdom (3.0%) and Romania (3.0%). In contrast, the largest recession was recorded in Cyprus (-2.0%), Croatia (-0.5%), Italy (-0.5%) and Finland (-0.3%).

The analysis below provides more information on GDP components of the Eurozone and the European Union, as well as on their near-term outlook, presenting the year-on-year percentage changes in the third quarter of 2014.

In greater detail, according to data from Eurostat, the **exports** of goods and services increased by 3.3% and by 2.8% in the Eurozone and the EU respectively in the third quarter of 2014. With regard to the other component of the trade balance, **imports** grew at a slightly lower pace in both regions (3.1% in Eurozone and 2.6% in the EU). In general, the contribution of net exports to the growth of the European economy was marginal during the third quarter of 2014. According to the latest projections of the European Commission, exports are expected to grow by 3.1% and 2.9% in the Eurozone and the EU-28 respectively in 2014 overall, whereas their growth is projected to strengthen (3.9%) in both regions in 2015. This is mainly due to the recent devaluation of the euro, which is expected to strengthen the price competitiveness of the enterprises in the Euro area and gradually lift exports. In 2015 imports are expected to follow a similar trend as in 2014 in both regions, driven by the growing domestic demand in the European economy.

Investment in the Eurozone grew marginally in the third quarter of 2014, while a slight increase by 1.5% was recorded in the EU-28. The weak growth of investment is the main determinant of the sluggish recovery observed. Overall in 2014, investment is expected to grow by 2% in the EU-28 and only by 0.6% in the Eurozone. This is mainly due to the economic and political uncertainty and the existence of substantial financing constraints in some countries of the Eurozone. Nevertheless, investment activity is expected to grow in 2015, albeit slightly, by 1.7 and 2.9 percentage points in the Eurozone and EU-28 respectively.

Private consumption increased by 1.1% and 1.4% in the Eurozone and the EU-28 respectively in the third quarter of 2014. A slight increase is expected in 2014 overall (0.7 and 1.1 percentage points in the Eurozone and the EU-28 respectively), whereas a further improvement is expected in 2015 (1.1 and 1.4 percentage points in the Eurozone and the EU-28 respectively). The growth in the Eurozone is mainly due to the slight and gradual increase in private consumption, particularly the increased available income, the positive outlook in the labour market and the lower level of inflation. Similar trends are also observed during the second quarter of 2014 in **public expenditure** which increased by 1.1% in the Eurozone and by 1.2% in the EU-28. Overall in 2014, public expenditure is expected to have a slight contribution to GDP growth (approximately by 0.6% in the Eurozone and by 0.8% in the EU-28), whereas the growth rate is expected to weaken in 2015 (0.3 and 0.4 percentage points in the Eurozone and the EU-28 respectively).

The conditions in the **labour market** eased somewhat in 2014 mainly due to the gradual growth of GDP. In particular, the European Commission estimates positive annual change of employment in 2014 and in 2015 respectively (0.4% and 0.7% respectively for both regions). As a result, the unemployment rate is expected to reach 11.6% in the Eurozone and 10.3% in the EU-28, while a further drop, albeit small, is projected for 2015 (11.3% and 10% respectively).

Inflation is expected to reach 0.5% in the Eurozone and 0.6% in the EU-28, whereas a slight acceleration is expected in 2015 (0.8% in the Eurozone and 1.0% in the EU-28). The low inflation rates in the European periphery are attributed to a combination of factors such as the substantial drop in oil prices and the weak economic environment.

Regarding the **fiscal performance,** the General Government deficit is expected to reach 2.6% in the Eurozone and 3% in the EU-28 in 2014, with further decline in 2015 (2.4% and 2.7% respectively). This positive development reflects mainly the benefits from the fiscal measures adopted in order to reduce the large deficits in many countries of the European periphery. The debt-to-GDP ratio increased marginally in 2014 both in the Eurozone (94.5%) and the EU-28 (88.1%). In 2015 it is expected to reach its peak (94.8% in the Eurozone and 88.3% in the EU-28), since the expectations for next year are for a decrease, as a consequence of the continuing primary surpluses in several European countries and the acceleration of growth.

Table 2.4

Macroeconomic fundamentals, EU-28, Eurozone (annual % changes)

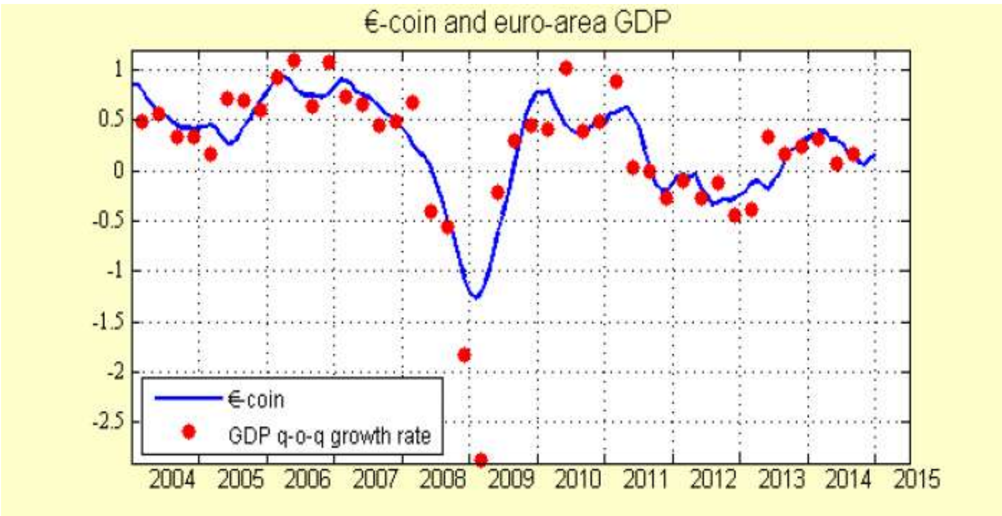
	EE-28			Eurozone		
	2013	2014	2015	2013	2014	2015
GDP	1,3	1,5	2,0	0,8	1,1	1,7
Private consumption	1,1	1,4	1,6	0,7	1,1	1,4
Public consumption	0,8	0,4	0,8	0,6	0,3	0,8
Investments	2,0	2,9	4,5	0,6	1,7	3,9
Employment	0,7	0,6	0,8	0,4	0,5	0,9
Unemployment (% workforce)	10,3	10,0	9,5	11,6	11,3	10,8
Inflation	0,6	1,0	1,6	0,5	0,8	1,5
Exports of goods-services	2,9	3,9	5,0	3,1	3,9	5,0
Imports of goods-services	3,1	4,0	5,3	3,2	3,9	5,5
General Government Balance (% of GDP)	-3,0	-2,7	-2,3	-2,6	-2,4	-2,1
General government Debt (% of GDP)	88,1	88,3	87,6	94,5	94,8	93,8
Current Account Balance (% of GDP)	1,4	1,5	1,5	2,5	2,6	2,5

***Source:** World Economic Outlook, IMF, October 2014

Source: European Economic Forecast, Spring 2014, European Commission, May 2014

Figure 2.1

Monthly Index €-COIN of CEPR



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

Table 2.5
European Commission - Economic Sentiment Indicator EU-28 & Eurozone (1990-2013=100)*

Month	Jan-13	Feb-13	Mar-13	Apr-13	Ma-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
EU-28	91.0	91.5	91.5	89.9	91.0	92.8	95.3	98.4	100.9	101.9	102.4	103.8
Eurozone	89.7	90.5	90.1	89.0	89.8	91.7	92.9	95.7	97.3	98.1	98.8	100.4

Month	Jan -14	Feb-14	Mar-14	Apr-14	Ma-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
EU-28	104.8	105.0	105.3	106.3	106.5	106.4	105.8	104.6	103.6	104.2	104.1	104.2
Eurozone	101.0	101.2	102.5	102.0	102.6	102.1	102.2	100.6	99.9	100.7	100.7	100.7

* The weights of the countries and the time series of the index in the EU were revised after the entry of Croatia since July 1st , 2013

Source: European Commission (DG ECFIN), September 2014

According to the European Commission the leading economic climate indicator stabilised both in the Eurozone and the EU-28. In particular, the indicator for the Eurozone stood at 100.7 units in December of 2014, unchanged for a third consecutive month. Respectively, in the EU-28 the index improved marginally, as it stood at 104.2 units in December from 104.1 units the previous month. At sector level, the improved business confidence in the Retail Trade and Constructions was counterbalanced by the deterioration recorded in Manufacturing.

2.2 The economic environment in Greece

A) Economic Sentiment

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

The economic sentiment indicator remained at the same level in the final quarter of the year, compared with the previous quarter. Overall in 2014, the indicator reached, on average, its highest level in six years, which points to a notable improvement of the sentiment in the previous year. This development is also related to the recovery of the Greek economy and the drop of unemployment for the first time since 2008. In December, however, a slight decrease was recorded, following the rise of the indicator in October and November. This was mainly due to the political uncertainty, resulting from bringing forward the Presidential election process, which was anticipated to fail and lead to early parliamentary elections. The specific trend of the indicator was contradictory to other pre-election periods in the past, when the economic sentiment was improving. In greater detail:

The economic sentiment indicator in Greece remained unchanged quarter on quarter in the final quarter of 2014, standing at 101.3. This level is higher by 10 units, compared with

the corresponding period of last year, and at the same time it is the highest level since 2008.

In Europe the climate indicator also remained at similar level compared with the preceding quarter in both the Eurozone and the EU-28. In particular, the indicator reached 100.7 units in the Eurozone and 104.2 units in the EU-28, slightly higher year on year (99.1 units and 102.8 units respectively in both regions).

Business confidence in Greece improved mildly in the fourth quarter of 2014, compared to the preceding quarter, mainly in Retail Trade and Constructions, while in Industry and Services the climate slightly deteriorated. In Industry the climate deteriorated slightly by 3 units and in Services by 5 units. In Retail Trade and Constructions the relevant indicators gained 3 and 4 units respectively. Finally, consumer confidence improved marginally, by 1 unit, mainly due to its growth observed in October and November.

Compared to the corresponding period of last year, the average indicators increased in all sectors, significantly in some. The index gained 10 units in Industry, 14 units in Services, 22 units in Retail Trade and 16 points in Constructions. Consumer confidence had a marked year-on-year rise in the examined quarter, gaining 13 units. More specifically:

The Consumer Confidence Indicator improved mildly in Greece between October and December compared with the preceding period, with its average standing at 56.1 units (from -52.7) substantially above the corresponding period of last year (-65.4). Although the confidence of households has stabilised since the end of 2013, the Greek consumers remained the most pessimistic Europeans over the past 5 years. The respective average European indicators slightly deteriorated in the examined period, compared with the previous quarter, both in the Eurozone (to -11.2 units from -9.9 units) and in the EU-28 (to -7.7 units from -6.6 units), which is also higher compared with the corresponding period of last year (-14.4 and -11.6 units respectively on average).

The trends in most of the various components that constitute the aggregate indicator are marginally positive in the current quarter. The negative predictions of the Greek consumers regarding the financial situation of their households, the economic situation of the country and unemploymnet in the coming 12 months slightly weakened. In contrast, the index of savings deteriorated, reaching a historical low.

The percentage of those who were pessimistic about the economic situation of their households over the next 12 months remained on average at 58% during the quarter under examination, whereas 23% (from 22%) of the households declared that their household's economic situation would remain stable. Moreover, the percentage of Greek consumers with pessimistic predictions of the economic situation of the country remained at 61%, with 19% (from 17%) believing that it would remain the same. As to the intention to save, 90% of the households considered unlikely or highly unlikely that their savings would increase in the next 12 months, with 8% (from 9%) expecting otherwise.

The vast majority of the respondents (65%) continued to believe that employment would get worse, with 11% expressing the opposite view. Finally, the percentage of consumers who indicated that they were "in-debt" decreased slightly to 15% (from 17% in the previous quarter and 16% in the same quarter of last year). The percentage of the respondents who said that they were saving a little stood at 8%, while the percentage of those who declared that they were "just getting by" increased on average to 66% (from 61%). Finally, the percentage of households who reported that they were "drawing from their savings" declined to 10% (from 12%).

The Business Climate Indicator in **Industry** in the fourth quarter stood at 94.9 (from 97.8) points, higher compared to its last year performance (85.4 points). With respect to its basic components, the positive expectations for the short-term activity weakened in the examined quarter, with the relevant indicator moving to 13 (from 19) on average. On the other hand, the negative estimates for the level of order books and demand slightly improved (to -16 from -18). The estimates for the stocks of finished products suggest that they were at marginally high for that season levels, with the relevant indicator increasing by 4 points compared to the previous quarter (at 6 units). In the other activity variables, the trends in the export indicators moved in opposing directions, as the current estimates for exports remained stable, the current export order books and export demand improved, whereas the predicted export potential deteriorated. The balance of employment expectations turned negative (from +6 to -2 points on average), albeit remaining higher year on year (-16 points).

The capacity utilisation ratio in the manufacturing industry remained low during the fourth quarter, at 68.8%, slightly higher, however, year on year (67.3%). Finally, the estimated number of months of production assured by current orders, reached 4.4 on average (from 3.8 months in the previous quarter and 4.3 months last year).

The Confidence Indicator in **Retail Trade** in the period under review increased to 95.6 points (from 93.5), up on the corresponding quarter of last year (73.8 points). This development stems from an improvement in the projected sales indicator (0 points from -2). From the companies in the sector, 36% (from 38%) stated that sales declined quarter on quarter, while a similar percentage reported sales growth. Regarding the expectations of future sales, however, the relative indicator increased slightly by 3 points, reaching +7. The negative inventories indicator deteriorated year on year at -9 points (from -3) on average. Among the remaining activity indicators, the expectations on orders to suppliers increased significantly (+9 on average in the quarter from -7). Regarding the employment in the sector, the balance of expectations improved to +4 points (from +11). Finally, in terms of prices, the deflationary expectations reduced quarter on quarter in the quarter under review (-5 from -11 points on average). About 15% of the businesses were expecting prices to fall, while the majority (75% from 84%) were anticipating price stability. In all the constituent branches of the sector, expectations deteriorated in the examined period, except for the Department Stores, where the indicator improved quarter on quarter.

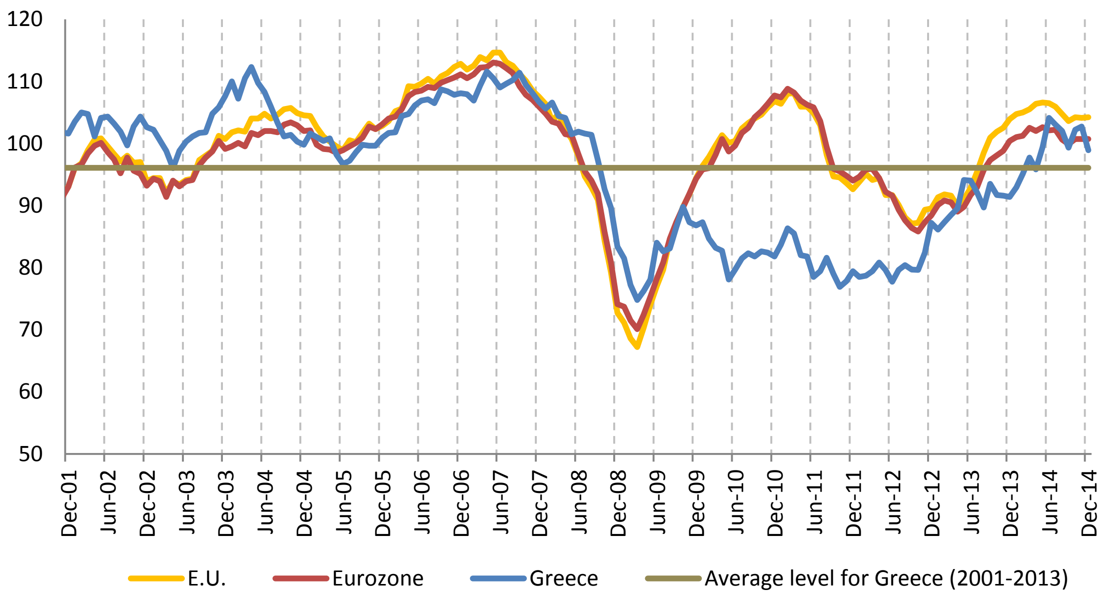
The business expectations in **Construction** remained unchanged quarter on quarter in the fourth quarter, with the indicator reaching 79.9 points. The indicator increased from the corresponding period of the previous year (68.3 units on average). Regarding the basic components of the index, the fall in the employment expectations in the sector (to -11 from +8 points) was partly offset by the easing of the strongly negative expectations of the businesses on the level of planned activities (to -37 from -55 points). The improvement stemmed mainly from undertaken construction works on main highways, environmental management projects and the operation of domestic firms abroad. Among the companies in the sector, 30% (from 21%) were expecting job cuts and 19% (from 29%) job creation. Regarding the assessment of the companies on their current business activity, the indicator improved to -9 (from -23 units), while the number of months of assured activity has remained unchanged in the past year (at 11.5 months on average).

The balance of price expectations also improved quarter on quarter to -14 points (from -29 points). About 26% of the firms were expecting prices to fall in the short term. Finally, the percentage of firms reporting that their business activity was being conducted without obstacles remained stable at 14%-15%. The remaining businesses reported as major obstacles low demand and inadequate funding (32% respectively), while 1/5 reported factors such as the general economic situation, the recession, high taxes, lack of projects, late payments from the state, large discounts, etc. Among the constituent branches, the sentiment improved mildly in Private Construction (57.5 points from 54.5 points). In contrast, the indicator in Construction of Public Works fell slightly to 87.5 points from 89.6 points.

In **Services**, the Business Climate Indicator deteriorated quarter-on-quarter between October and December, to 88.8 (from 94.1), 18 points higher in comparison to the same period of last year. All the key components of the indicator deteriorated this quarter: the assessment of the enterprises on their current demand reached +14 points (from +19) and the assessment of the enterprises of their current activity deteriorated to +12 points (from +16). Similarly, the short-term demand expectations lost strength (to +7 from +16), while employment expectations declined to -7 on average. Regarding prices, the deflationary expectations eased, with the corresponding index gaining 5 points to reach -10. About 11% (from 18%) of the firms were expecting prices to fall and 87% (from 78%) of them to remain unchanged.

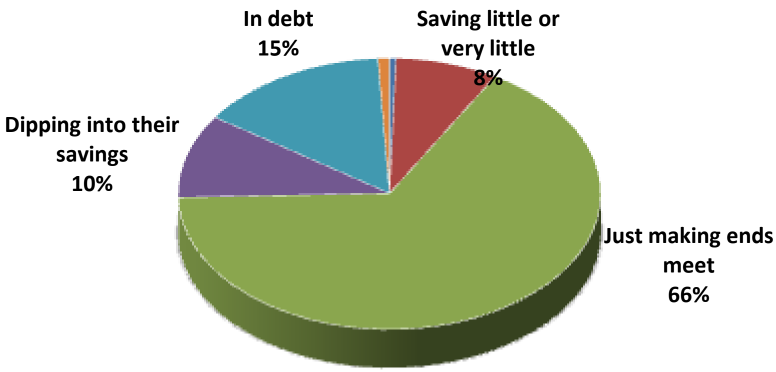
Finally, the percentage of those who were reporting unimpeded business operation remained at 1/4 this quarter, with 34% of the respondents declaring as a key obstacle to their operation insufficient demand, 23% lack of working capital, 3% inadequate labour supply and 14% factors associated with the general economic situation and the crisis, the global current affairs, borrowing difficulties, high taxes, late payments etc. All the constituent branches of the Services sector, except for IT Services, recorded a small or big quarter-on quarter drop in the business climate indicator. The most significant deterioration was recorded in Financial Intermediaries.

Figure 2.2
Economic Sentiment Indicators: EU28, Euro Area and Greece
(1990-2013=100, seasonally adjusted data)



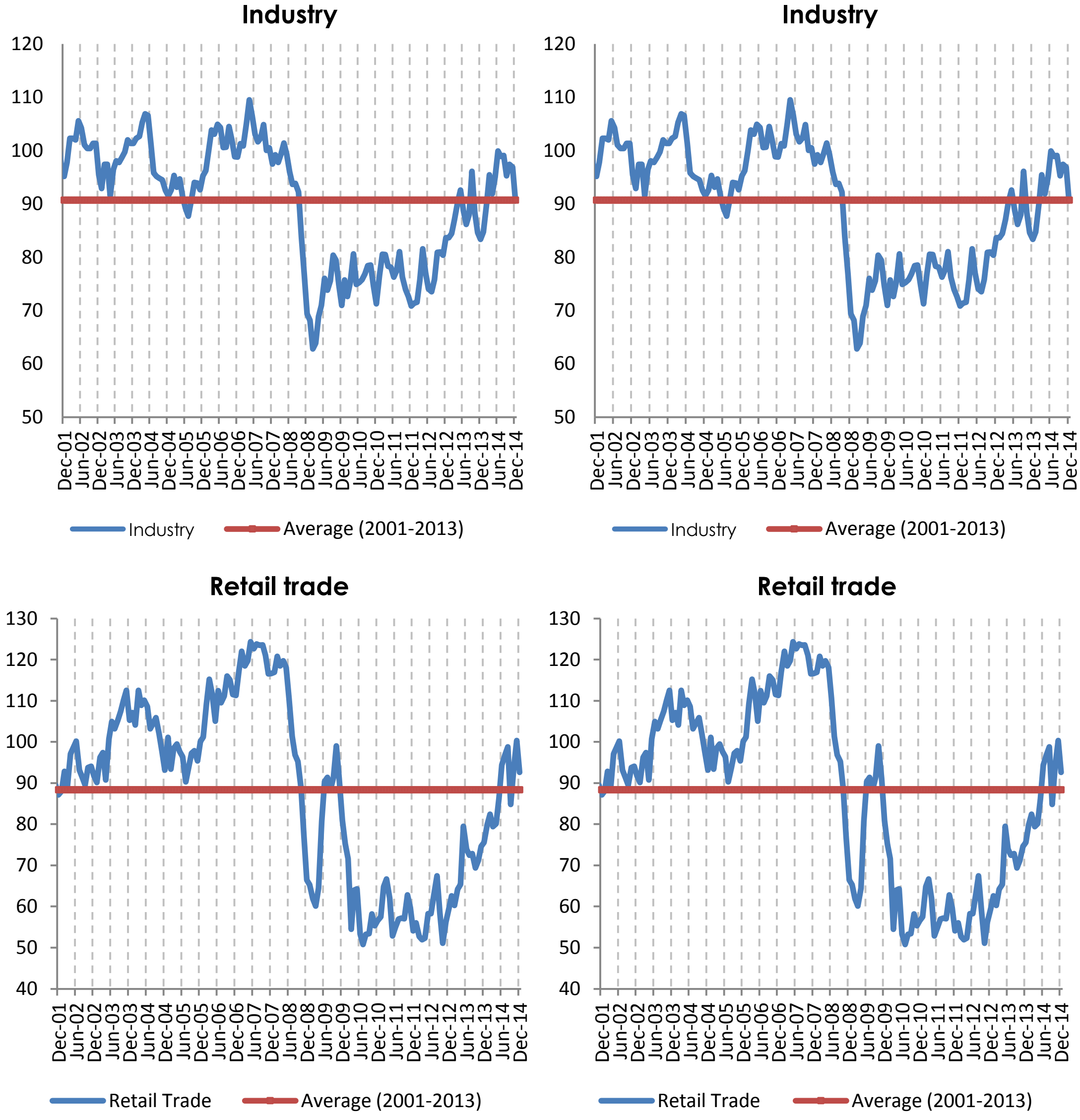
Source: European Commission, DG ECFIN

Figure 2.3
Consumers' Survey data on their household's financial situation
(September-December 2014 average)



Source: IOBE

Figure 2.4
Business Sentiment Indicators



Source: IOBE

Table 2.6
Short-term economic sentiment indicators

Month/ year	Economic Sentiment Indicators[1]		Business confidence indicators[2] (Greece)				Consumer Confidence indicator [1] (Greece)
	E.U-27	Greece	Industry	Constructions	Retail Trade	Services	
2002	97.3	102.0	101.2	114.0	93.3	82.8	-27.5
2003	95.4	100.1	97.9	115.0	102.0	85.5	-39.4
2004	103.3	104.8	99.1	81.5	104.8	94.6	-25.8
2005	100.8	98.1	92.6	63.0	96.8	93.6	-33.8
2006	108.3	104.9	101.5	91.1	110.8	103.7	-33.3
2007	111.0	108.4	102.8	92.5	120.8	106.6	-28.5
2008	93.3	97.4	91.9	95.2	102.5	97.8	-46.0
2009	79.3	79.7	72.1	65.5	80.4	70.1	-45.7
2010	101.2	79.3	76.2	45.2	59.5	62.9	-63.4
2011	100.3	77.6	76.9	34.2	58.9	61.7	-74.1
2012	90.9	80.0	77.2	43.2	57.1	54.8	-74.8
2013	95.7	90.4	87.8	65.0	70.2	70.4	-69.3
Jan–13	91.3	86.1	83.7	38.5	62.6	58.9	-71.9
Feb-13	91.8	87.3	84.4	55.0	60.3	62.3	-71.4
Mar-13	91.6	88.5	87.1	47.1	64.2	60.4	-71.2
Apr-13	89.9	89.5	90.3	61.5	65.4	61.9	-71.8
May-13	91.0	94.2	92.6	65.7	79.5	69.3	-63.4
Jun-13	92.8	94.0	88.8	69.5	73.9	79.2	-66.5
Jul-13	95.3	92.1	86.2	72.3	72.43	76.1	-70.9
Aug-13	98.4	89.7	88.0	75.9	72.9	76.0	-76.6
Sep-13	100.9	93.6	96.1	89.7	69.4	75.9	-72.2
Oct-13	101.9	91.7	88.4	73.6	71.2	77.6	-66.2
Nov-13	102.4	91.6	84.6	74.4	74.6	73.6	-66.7
Dec-13	103.8	91.4	83.4	56.9	75.5	73.2	-63.3
Jan–14	104.8	92.6	84.7	75.2	79.9	77.3	-64.5
Feb-14	105.0	94.8	89.9	80.4	82.4	79.3	-65.2
Mar-14	105.3	97.5	95.5	83.2	79.5	79.8	-59.7
Apr-14	106.3	95.4	91.9	81.3	80.1	83.0	-55.0
May-14	106.5	99.1	95.1	80.9	86.2	84.2	-52.5
Jun-14	106.4	103.7	99.9	84.2	94.4	94.2	-49.8
Jul-14	105.8	103.0	98.9	84.1	96.83	94.5	-48.1
Aug-14	104.6	102.0	99.1	83.7	98.80	96.9	-54.2
Sept-14	103.6	99.3	95.3	72.40	84.80	90.80	-55.8
Oct-14	104.2	102.2	97.4	89.4	93.9	89.8	-50.9
Nov-14	104.1	102.7	96.9	69.6	100.3	91.3	-49.9
Dec-14	104.2	98.9	90.6	93.7	92.6	85.3	-53.9

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

B) Fiscal developments and Outlook

General Government deficit according to the National Accounts data

According to the data notified to Eurostat by the Hellenic Statistical Authority in October, combined with those included in the Introductory Report of the State Budget for 2015, the General Government deficit, in national account terms, dropped to 1.3% of GDP (against 1.8% of GDP), while in 2015 it is expected to decline further to 0.2% of GDP (i.e. it will consolidate). It should be clarified that the funds for strengthening the banking institutions are not included in the specified deficit.

In addition, the primary surplus is estimated at 2.9% of GDP in 2014 (from 2.2% in 2013) and at 4% in 2015, under the condition that the budget will be executed without gaps. The primary surplus, as measured in the Economic Adjustment Programme,[2] also improved to reach 1.8% in 2014, while it is expected to increase to 3.0% of GDP in 2015.

It should be underlined that the substantial fiscal adjustment was implemented under very adverse economic conditions until 2013. In particular, the cyclically adjusted primary balance has improved by 17-18% of GDP in five years. This is an unprecedented fiscal adjustment that should be preserved at all costs.

General Government fiscal results (January-November)

According to data from the General Accounting Office, the deficit in the General Government reached €1.8 billion between January and November of 2014, from €4.4 billion in the corresponding period of the previous year. In addition, the (consolidated) primary surplus of the General Government increased to €3.7 billion between January and November of 2014 from €1.5 billion during the same period of the previous year (Table 2.8).

As evident in Table 2.8, the increase of the primary surplus is exclusively due to the reduction in spending, prior to subsidies, by €3.0 billion. As in the past, the most significant improvement is recorded in the Social Security Funds, followed by Legal Entities and Local Authorities (by €1.3 billion in total). In contrast, an increase by €1.0 billion is recorded in the spending of the State Budget. The subsidies (prior to national account adjustments) of the State Budget decreased by €6.9 billion. However, the expenditure of the Social Security Funds continues to represent more than half of the General Government spending.

The General Government revenues dropped by €2.2 billion between January and November of 2014 compared to the corresponding period of the previous year. The reduction is stronger in the State Budget (-€1.25 billion) and in the Social Security Agencies (-€0.4 billion), with the other constituents of the General Government also receiving less revenue.

[2] The EAP does not include certain extraordinary revenues.

Table 2.7
General Government data in national account basis (ESA 2010)
(% of GDP)

	2010	2011	2012	2013	2014*	2015**
General Government balance (without the net financing towards the banking institutions)	-11,5	-10,4	-5,9	-1,8	-1,3	-0,2
Primary balance G.G. (without the net financing towards the banking institutions)	-5,6	-3,2	-0,9	2,2	2,9	4,0
Primary balance G.G. (EAP)	-	-	-1,3	1,2	1,8	3,0

Source: a) ELSTAT, Notification under the Excessive Deficit Procedure (October 2014), b) Introductory Budget Report 2015, November 2014
1. The data with regard to the 2013 in the introductory report differ by 0.2% compared to that in ELSTAT
*) Provisional data **) From the Budget

Table 2.8
General Government primary surplus: January – November 2013 & 2014
(million euro)

2013	**Revenues**	**Primary Spending**	**Subsidies**	**Primary Balance**
State Budget	46,795	18,702	30,842	**-2,749**
Legal Entities	1,862	4,382	-4,570	**2,050**
Local Authorities	2,149	6,081	-4,385	**453**
Social Security Funds	18,228	36,079	-20,005	**2,154**
Total	**69,034**	**65,244**	**1,882**	**1,908**
Consolidated Primary Balance of the General Government				**1,528**
2014	**Revenues**	**Primary Spending**	**Subsidies**	**Primary Balance**
State Budget	45,541	19,732	23,980	**1,829**
Legal Entities	1,476	3,737	-3,617	**1356**
Local Authorities	2,013	5,401	-3,757	**369**
Social Security Funds	17,796	33,350	-15,989	**435**
Total	**66,826**	**62,220**	**617**	**3,989**
Consolidated Primary Balance of the General Government				**3,678**

Source: General Government Monthly Bulletin – November 2014, Ministry of Finance, Jan. 2015

It is reminded that the revenue of the State Budget was estimated to increase in 2014 compared to the previous year.

Execution of the State Budget (January-November 2014)

According to data from the General Accounting Office, the deficit in the State Budget during the first eleven months of 2014 reached €1.8 billion (1% of GDP), compared to €3.2 billion (1.7% of GDP) in the corresponding period of 2013. Respectively, the primary surplus increased from 2.8 billion (or 2.5% of GDP) in 2013 to €3.6 billion (2.0% of GDP) in 2014 (Table 2.9)

This improvement came exclusively from the fall of the expenditure in the Ordinary Budget by €3.2 billion, given that between January and November the revenues for both the Regular Budget and the State Budget overall dropped, whereas the expenditure of the Public Investment Programme (PIP) increased. Most of the expenditure moderation in the Ordinary Budget came from the primary expenditure (83%), while the rest concerns interest expenditure.

It should be underlined that the improvement of the fiscal measures during the first eleven months of 2014 lagged behind the State Budget report estimates of 2015, indicating that the annual target would not be accomplished. In order for the annual targets to be accomplished, measures such as the collection of €9.4 billion (including SMP revenues) from the State Budget or a further rise of the primary surplus by 0.8% of the GDP should be accomplished. For reasons discussed below and given the political developments that took place in December (which set the economy off its usual course for this time of the year), the achievement of the annual targets is difficult.

Table 2.9
Execution of State Budget: January-November 2014
(million euros)

	2013	2014	y-o-y
Net Revenues of the State Budget (SB)	47,232	45,928	-1,304
1. Net revenues from the Ordinary Budget (OB)	42,808	41,773	-1,035
a. OB Revenues before tax returns	45,193	44,465	-728
b. Revenues from licensing	86	382	296
c. Tax returns	2,471	3,074	603
2. Revenues from the Public Investment Programme (PIP)	4,424	4,154	-270
SB Expenses	50,385	47,755	-2,630
3. OB Expenses	46,435	43,207	-3,228
α. Primary Expenses	39,272	37,061	-2,211
β. Other (primary) expenses*	1,230	753	-477
γ. Interest payments	5,933	5,393	-540
4. PIP Expenses	3,950	4,548	598
SB Balance	-3,153	-1,827	1,326
% of GDP	*-1.7*	-1.0	-
SB Primary balance	2,780	3,566	786
% of GDP	*1.5*	2.0	
GDP (at current prices)	182,438	181,872	

Source: State Budget Execution - Monthly Bulletin for November 2014, GAO, December 2014
*Armament programmes, EFSF.

State Budget Revenues

The net revenues dropped by 2.8%, compared with the corresponding period of the previous year (Table 2.10). The estimate/target for 2014 included in the State Budget report of 2015 is higher by 4.1% compared with 2013. This estimate was mainly based on the collection of €1.9 billion revenues from the European central banks in the context of the Securities Market Programme in December. However, this presupposed the timely completion of the review of the Greek programme, which is still pending.

However, the other categories of revenues (apart from SMP), are also expected to fall below the most recent estimates for 2014. In particular, by the end of November the revenues from direct taxes increased by 4.1%, instead of 6.7% in the set target. Additionally, the revenues from indirect taxes dropped by 3.4% between January and November, against a target for 1.3% reduction on an annual basis. In particular, VAT revenues decreased by 1.7% in the examined period (despite the increase in VAT imposed on imported goods by 6%), while the annual target envisaged an increase of 0.3%. The gap in the revenues is difficult to close in December.

The revenues from taxes were positively affected by the recovery of the economic activity, the stabilisation of private consumption, the increase in car sales and the higher receipts (by 67.4%) from the taxation of legal entities. The latter is mainly due to the taxation of professionals as legal entities from 2014, with the respective revenues appearing in the specified category.

Additionally, the collection of the remaining instalments of the unified property tax (ENFIA) in the first two months of 2015 will be recorded as revenues for 2014, according to the State Budget report, affecting positively the 2014 State budget revenues. A positive impact is also expected from the single payment scheme of pensions and supplementary pensions that was initiated in mid 2014.

In contrast, the revenues were negatively affected by the decline in the excise duty on heating oil, the non collection of the SMP revenue and the delay in the final settlement of arrears. The deadline for participating in this settlement is set at the end of March 2015, while the majority of tax payers have not yet applied for this procedure.

Based on the above, the lag in public revenues for 2014 is estimated at €3.1-3.2 billion, which includes the revenues from the SMP.

Table 2.10
State Budget Revenues
(million euro)

€ mill.	2013	2014	Change% 2014/13
STATE BUDGET REVENUES	**47,732**	**45,928**	**-2.8**
NET REVENUES OF THE ORDINARY BUDGET	**42,808**	**41,774**	**-2.4**
TAX REFUNDS OF THE ORDINARY BUDGET	**2,471**	**3,074**	**24.4**
TOTAL REVENUES OF THE ORDINARY BUDGET	**45,279**	**44,847**	**-1.0**
TAX REVENUES	**17,910**	**18,641**	**4.1**
DIRECT TAXES	**10,289**	**11,123**	**8.1**
Income taxes	2,707	3,042	12.4
Property taxes	2,628	1,841	-29.9
Direct taxes PIP	2,286	2,635	15.3
Other direct taxes	2,286	2,635	15.3
INDIRECT TAXES	**21,639**	**20,911**	**-3.4**
Transaction taxes	13,545	13,172	-2.8
Consumption taxes	7,266	6,944	-4.4
Indirect taxes PIP	504	447	-11.3
Other indirect taxes	324	348	7.4
NON-TAX REVENUES	5,730	5,296	-7,6
DRAWINGS FROM EU	62	103	66,1
NON REGULAR REVENUES	3,390	1,653	-51,2
PERMITS AND RIGHTS	86	382	344,2
OTHER	2,192	3,158	44,1
PIP	**4,424**	**4,154**	**-6.1**

Source: State Budget Execution: Monthly Bulletin for November 2014, GAO, December 2014

Spending

Between January and November of 2014 the State Budget spending increased by 2.6%, compared with the corresponding period of the previous year. This development is entirely due to the increase in the PIP expenditure by 15.1%. In contrast, during the same period the Ordinary Budget spending fell by 6.9%, against a target for 5% decline on an annual basis (Table 2.11).

The reduced spending in the Ordinary Budget is mainly due to the cuts in primary spending (-6.6%) and interest payments (-9.1%). "Social expenditure" was the primary source of reduction in primary spending (-10.8%), due to the reduction of the subsidies to the social security funds. Operational and other spending was also reduced by 15%, with the largest cuts recorded in payments to the European Union, military spending, EFSF commissions and activated guarantees within and outside the General Government. In contrast, spending for pensions remained unchanged compared with the same period of the previous year. In particular, pensions spending increased by 4.1%, while remuneration spending dropped by 1.9% (Table 2.11).

The 2015 State Budget

The drafting of the 2015 State Budget and the estimates for 2014 included in the preparatory State Budget report of 2015 were made long before the call of snap elections and thus they do not incorporate these developments.

Final estimate of the 2014 figures

According to the estimates incorporated in the introductory report of the State Budget of 2015, the State Budget deficit was expected to fall to €761 million (or 0.4% of GDP) in 2014 against €5,441 million (or 3% of GDP) in 2013. Respectively, the primary surplus was projected to increase from €603 million (0.3% of GDP) to €4,939 million (or 2.8% of GDP) in 2014.

These estimates presupposed the completion of the programme review by the Troika and the receipt (in December) of the outstanding €1.9 billion from the SMP. However, the delay of the review is expected to have a negative impact on public revenues. Therefore, it is very likely that the total revenues will lag by approximately €3.0 billion against the estimated amount.

An important also issue is whether the expenditure moderation is permanent or it reflects payment delays of some obligations that will consequently have a negative impact during the first months of 2015. Overall, more favourable final results of the State Budget aggregates are expected in 2014 compared with 2013, yet not as favourable as the estimates in the introductory report of the 2015 State Budget.

Table 2.11
State budget expenditure

€ mill.	January - November		% Change 2014/2013
	2013	2014	
1.Total State Budget	**50,385**	**47,755**	**2.6**
2. Total Ordinary Budget	**46,434**	**43,208**	**-6.9**
Interest	5,933	5,393	-9.1
Primary Spending	**40,501**	**37,815**	**-6.6**
--Remunerations and Pensions	16,841	16,828	-0.1
Salaries	10,457	10,262	-1.9
Other Benefits	1,023	983	-3.9
Pensions	5,361	5,583	4.1
-- Social Spending	**12,782**	**11,396**	**-10.8**
Grants to social security funds	11,578	9,810	-15.3
Social Protection	678	1,165	71.8
Grants to OEAD	476	377	-20.7
Other	50	44	-12.0
--Operating and other expenses	**7,659**	**6,512**	**-15.0**
Grants	1,501	1,293	-13.9
Consumer spending	1,105	1,172	6.1
Mirror expenditure	2,481	1,883	-24.1
Other*	2,572	2,164	-15.9
--Earmarked Revenue	**3,219**	**3,079**	**-4.3**
3. PIP	**3,950**	**4,548**	**15.1**

Source: State Budget Execution: Monthly Bulletin for November 2014, GAO, December 2014
*Includes payment for deficits and debt of hospitals, military spending, EFSF commissions and activation of guarantees.

2015 State budget

The 2015 State Budget depends on an optimistic macroeconomic scenario. The economy is expected to grow by 2.9%, against 0.6% in 2014. This estimation is based to a large extent on growth of investment by 11.7% (despite the decline in public investment) and exports by 5.2%. The growth in exports implies that substantial increase is expected in the exports of services, mainly from international tourist arrivals, for a third consecutive year.

The 2015 State Budget includes a further reduction of the State Budget deficit by €103 million or 0.06% of GDP, implying a balanced budget. Respectively, the primary surplus is expected to increase to €5,978 million or 3.1% of GDP. The projections of the State Budget have substantially improved, compared with those in the Medium-Term Fiscal Strategy, according to which the deficit in 2015 was expected at 1.2% of GDP (€2,269 million) and the primary surplus at 2.0% of GDP.

Ordinary Budget

The revenues of the Ordinary Budget, before tax returns, are estimated to increase by 0.9% compared with 2014 and reach €53,748 million. The net revenues (after tax returns) are expected to increase by 1.4%, due to the anticipated drop in tax returns (Table 2.12). The anticipated increase in revenues comes mainly from personal income tax receipts (increase by 3.2%) revenues from past years and VAT revenues (increase by 3.7%). The increase of the personal income tax revenues is expected to come from the unified tax withholding in pensions (including supplementary pensions) by a single payment scheme. This process was initiated in mid 2014 (although in some Funds it started in October), strengthening the revenues in 2014 by increasing the withholding. Additionally, the reduction in social insurance contributions (of the private sector) from 43.9% to 40.0% from July 2014 is expected to strengthen the revenues from the withholding of contributions from salaries in the first half of 2015.

The high expected revenues from the taxation of past years carried over to 2015 are based on the anticipated positive response of taxpayers from the settlement of arrears in 100 instalments. Given that the deadline for the settlement expires on 31 March 2015, it is difficult to assess this anticipation. The increase of VAT revenues presupposes the increase of GDP (by 2.9%) and the abolishment of low tax rates which has not been implemented yet. The estimated increase in revenues from the unified property tax and other taxes on real estate by 2.3% has not incorporated the recent decision of the Supreme Court for the re-adjustment of the objective property values at market prices within the next six month. Even though the unified property tax is certified in January, the associated taxes (heritage, donations) will also be affected.

Table 2.12
Annual revenues of State Budget
(in million euro)

Categories of revenues	2012	2013	2014 estimates	2015 Budget	% 13/12	% 14/13	% 15/14
1. Net revenues of State Budget	**51,926**	**53,079**	**55,280**	**55,603**	**2.2**	**4.1**	**0.6**
2. Net revenues of Ordinary Budget	**48,326**	**48,415**	**50,149**	**50,871**	**0.2**	**3.6**	**1.4**
Tax returns	3,172	3,105	3,136	2,877	-2.1	1.0	-8.3
3. Ordinary budget revenues	**51,498**	**51,520**	**53,285**	**53,748**	**0.0**	**3.4**	**0.9**
Direct taxes	21,097	20,058	21,396	21,880	-4.9	6.7	2.3
Income tax	13,311	11,489	12,778	13,184	-13.7	11.2	3.2
Property tax	2,857	2,991	3,432	3,512	4.7	14.7	2.3
Direct taxes of past years	1,811	2,826	2,105	2,474	56.0	-25.5	17.5
Other direct taxes	3,118	2,752	3,081	2,710	-11.7	11.9	-12.0
Indirect taxes	26,083	24,556	24,228	25,154	-5.9	-1.3	3.8
Transaction taxes	15,688	14,673	14,541	15,085	-6.5	-0.9	3.7
(of which VAT)	(14,956)	(13,856)	(13,892)	(14,411)	-7.4	0.3	3.7
Consumption taxes	9,625	8,995	8,804	8,922	-6.5	-2.1	1.3
Indirect taxes of past years	452	533	500	756	17.9	-6.2	51.2
Other indirect taxes	318	355	383	391	11.6	7.9	2.1
Non taxed revenues	4,318	6,905	7,661	6,714	59.9	10.9	-12.4
Revenues from the EU	246	183	183	231	-25.6	0.0	26.2
Non ordinary revenues	1,820	3,626	3,670	2,847	99.2	1.2	-22.4
Permits and Rights	15	86	474	577	473.3	451.2	21.7
Other	2,237	3,010	3,334	3,056	34.6	10.7	-8.2
4. PIP revenues	**3,601**	**4,665**	**5,131**	**4,732**	**29.5**	**10.05**	**-7.8**

Source: Introductory State Budget 2015, Ministry of Finance, November 2014

Finally, it is underlined that the revenues for 2015 will increase significantly if SMP revenues are collected in 2015, as a result of the successful completion of the programme review by the Troika.

The spending of the Ordinary Budget is expected to increase marginally (by 0.1%) compared with 2014. It will be also higher by €251 million against the target of the MFTS 2015-2018. The spending of 2015 includes: i) higher salaries and pensions to acting and retired officers of the armed and security forces and ii) retrospective payments (due to the cuts made in July 2012) to magistrates and military officers (Table 2.13).

However, the primary spending (including military procurement, activated guarantees and EFSF commissions) is estimated to decrease by 0.3% (-€136 million). In contrast, interest expenditure will increase by 3.5% and will reach €5.9 billion.

From the primary expenditure, consumption spending (-18.0%) and earmarked revenues are expected to remain low. In the latter case, the decrease is due to the abolishment of the withholding of contributions to the Agricultural Insurance Scheme (OGA), which was substituted with an increase in the subsidy towards the organisation. The expenditure for salaries and pensions is higher by 1.0%, since they include the amendments, following court decisions, regarding the salaries of military officers and judges. Finally, substantial increase (+17.5%) is recorded in other expenses, due to the increased payments for military procurement and activated guarantees within and outside the General Government.

Public Investment Budget

The expenditure in the Public Investment Programme is estimated to decrease in 2015 by €400 million or 5.9%, compared to 2014. This is a negative development which impedes the required economic recovery. A similar decline (-€399 million) is estimated in the revenues of the Public Investment Programme, due to reduced receipts from the EU structural funds.

Table 2.13
State Budget spending
(in million euro)

Category of spending	2012	2013	2014 Estimates	2015 Budget	% change		
					13/12	14/13	15/14
1. State budget spending	**67,612**	**58,456**	**56,041**	**55,705**	**-13.5**	**-4.1**	**-0.6**
2. Ordinary budget spending	**61,498**	**51,806**	**49,241**	**49,305**	**-15.8**	**-5.0**	**0.1**
Interest	12,224	6,044	5,700	5,900	-50.6	-5.7	3.50
Primary spending	49,274	45,762	43,541	43,405	-7.1	-4.9	-0.3
Remuneration and Pensions	20,292	18,379	18,542	18,733	-9.4	0.9	1.0
Social security expenditure	18,329	17,042	15,103	15,097	-7.0	-11.4	-0.4
Consumption expenditure	2,337	1,932	2,175	1,784	-17.3	12.6	-18.0
Other expenditures*	2,721	2,462	2,001	2,352	-9.5	-18.7	17.5
Earmarked revenues	5,595	5,947	5,358	4,439	6.3	-9.9	-17.2
Reserves	-	-	362	1,000	-	-	-
3. PIP expenditure	**6,114**	**6,650**	**6,800**	**6,400**	**8.8**	**2.3**	**-5.9**

Source: Introductory State Budget 2015, Ministry of Finance, November 2014
*Includes debt reimbursements to hospitals, military procurement, activated guarantees

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

Recent macroeconomic developments in Greece

The Greek GDP grew by 1.6% in the third quarter of 2014, according to the latest ELSTAT data on National Accounts, calculated based on the ESA 2010 methodology. In the same period of 2013 GDP had contracted by 3.5%.[3] Based on the revised data on National Accounts, the Greek economy has been recovering since the second quarter of 2014. In that quarter GDP grew slightly, by 0.4%, while the calculation using the previous methodology, ESA 95, suggested a slight contraction (-0.3%). **In the first nine months of 2014 as a whole, GDP was 0.6% higher, compared with the same period of 2013, when it had shrunk by 4.3%.** Strong foreign tourist flows in the summer caused the greatest growth in the exports of services since the Athens Olympic Games in the summer of 2004. The exports of services were the primary factor contributing to GDP growth in the first three quarters of 2014. After the spring, uncertainty regarding elections eased and unemployment continued to shrink over the third quarter, causing a significant rise in household consumption, the greatest since the beginning of the recession in Greece, in the second quarter of 2008. Public consumption, though, slightly contracted.

[3] In this section, all mentions to changes in economic variables refer to changes compared with the same period a year earlier, unless otherwise stated. Data on National Accounts are seasonally adjusted, in 2010 prices.

Nonetheless, the contraction of investment intensified, approaching the extent of contraction recorded in the first quarter of the year. Yet, in contrast to the previous quarters and years, the contraction of investment in the third quarter was caused exclusively by shrinking inventories. Imports continued to grow over the third quarter, though at a slower pace than in the second quarter, thus facilitating the improvement of the external sector balance and hence contributing to GDP growth.

Regarding the trends of GDP components in the first nine months of 2014, **total domestic consumption grew by 1.2%, for the first time since 2008, as a result of increased household consumption expenditure, against a drop by 4.2% a year earlier.** Public consumption consolidated (+0.1%), despite having shrunk by 2.4% in the third quarter, against a drop by 7.7% in the first nine months of 2013. Household consumption growth intensified in the third quarter, reaching 3.1%. As a result, household consumption in the first nine months of the year was 1.5% higher than in the same period of 2013, when it had shrunk by 3.3%.

Investment continued to shrink in the third quarter of the year, by 17.7%, against 4.3% in the second quarter. Consequently, investment over the period from January to September 2014 contracted by 13.6%, significantly more than the

9.8% contraction of investment over the same period of 2013. Nonetheless, the decrease of fixed capital formation over the first nine months of 2014 was considerably smaller than in 2013 (-3.3%, against -9.6%), implying that the drop in investment was primarily due to shrinking inventories, in contrast to what was the case in previous years. Over the third quarter in particular, investment in fixed capital grew by 1.0%, for the first time since the first quarter of 2008, despite continuing fall of housing construction.

Among the main components of fixed capital, **only housing construction shrank in the third quarter, to a similar extent as in the preceding quarters. In the first nine months of 2014 housing construction shrank by 51%, a far greater contraction than in 2013 (-28.5%).** The greatest growth in fixed capital investment was recorded in transportation equipment, which has been growing at an almost steady rate (+24.4%) since the beginning of the year. Investment in transportation equipment was the fastest growing component of fixed capital in the third quarter of 2013 as well, albeit at a smaller growth rate (+14.9%). Consistently growing investment in transportation equipment over the past two years reflects mainly boosted purchases of passenger cars by car rental enterprises in regions of the country with high tourist traffic. In contrast to housing construction, construction of non-residential buildings grew by 14.1%, which mainly reflects increased activity in public works, as also implied by the rapid rise of the ELSTAT indicator for civil engineering works (+137% in the third quarter, +41.7% in the preceding one). Investment growth in agricultural machinery was milder (+4.3%), after a strong performance (+45.7%) in the third quarter of 2013. Investment both in metal products – machinery and in miscellaneous products consolidated in the first nine months of 2014 (+0.3% and +0.2% respectively). However, the trends of investment in these two components of fixed capital varied. Investment in metal products – machinery shrank significantly in early 2014 (-13.4%), and subsequently turned to strong growth (+12.7%), whereas investment in miscellaneous products grew slightly in the first quarter (+3.6%), consolidated in the second quarter and contracted by 3.7% in the third quarter of the year.

Exports continued to grow over the third quarter of 2014 at a similar rate as they had increased in the preceding two quarters (+8.6%), due to rising exports of services. In the first nine months of the year exports grew by 8.4%, against an increase by only 2.9% a year earlier. Exports of services kept growing at an increasing rate, which reached 16.4% in the third quarter – for the first time since the last quarter of 2004. In the first nine months of 2014, exports of services increased by 13.9%, against a small drop (-1%) a year earlier. The exports of goods also continued to grow in the third quarter (+1.7%), yet at an ever slowing rate since the first quarter. In the first nine months of the year, the exports of goods increased by 3.5%, against a growth by 6.0% a year before. **The cumulative exports of goods and services in the first nine months of 2014 reached €42.2 billion and were the highest since 2009 and the second highest since 2000.**

Imports have been continuously growing over the first nine months of the year, for the first time since 2008, albeit at a slower rate in the third quarter than in the second (+2.9%, against +8.2%). In the period from January through September imports increased by 3.8% compared with 2013, when they had contracted by 1.6%. The imports of goods increased by 5.0% in the third quarter, while the imports of services contracted (-6.5%). In the first nine months of 2014, the imports of goods were 4.4% higher than a year before, the greatest rise since 2008. The imports of services grew at a slower rate, by 1.4%, against a contraction by 10.4% in the same period of 2013. The ever accelerating growth of the imports of goods throughout the first nine months of 2014, coupled with growing private consumption, suggest that domestically produced goods have not managed to substitute imported ones. **As a result of the exports growing faster than the imports in the first nine months of the year, the deficit of the external sector of the economy shrank by 46.5%, compared to the first nine months of 2013, reaching €1.9 billion (1.4% of GDP), against €3.6 billion (2.6% of GDP) a year before.**

On the supply side, **the domestic gross value added was 0.7% higher in the first nine months of 2014, against a drop by 3.9% a year earlier. Yet, most sectors of the economy are still in recession. The greatest decline in output in the third quarter was recorded in Construction (-9.6%)**, which was however considerably milder than in the second quarter (-20.5%), reflecting, on the one hand, a further significant drop in housing construction and, on the other, an increase in public works. Throughout the first nine months of the year the gross value added of Construction shrank by 13.5%, against a contraction by 19.9% a year before. The sector with the second strongest contraction was, as in the first nine months of 2013, Professional – Scientific – Technical – Administrative activities, with a similar drop as in the previous year (-8.0%, against -8.6%). The output of Financial – Insurance activities contracted by 5.9%, slightly less than a year earlier (-6.6%). It should be noted that the contraction in Financial – Insurance activities intensified, albeit to a small extent, in the third quarter of the year, when it exceeded the contraction rate for Professional – Scientific – Technical – Administrative activities. The gross value added of output in the Information – Communication sector declined by 2.2% in the first nine months of 2014, while a similar decline was recorded in Arts –

Recreation – Entertainment (-2.0%) and in Industry. The decline of output in Information – Communication and in Arts – Recreation – Entertainment gradually intensified over the first three quarters of 2014, in contrast to the output growth recorded in both of these sectors in the first nine months of 2013 (+2.4% and +3.3%, respectively). The output of Industry started to shrink from the second quarter on, with the overall contraction in the first nine months of the year notably smaller than in 2013 (-2.0%, against -6.9%). The smallest decline of output was recorded in Agriculture (-1.4%, against -7.7% a year earlier).

Among the sectors with growing output, the greatest growth was recorded in the Wholesale-Retail Trade/Repair of Motor Vehicles – Motorcycles/Accommodation – Food Services sector (+5.9%), against a contraction by 3.3% in the first nine months of 2013. The sector's growth momentum was consistently strengthening throughout the first three quarters of 2014, with the sector's growth rate reaching 7.5% in the third quarter, as a result of increased tourist flows. The output of the Public Sector grew, albeit to a small extent, by 2.0%, against a contraction by 6.3% in 2013. The output of the Real Estate sector also grew slightly, by 0.3%, against +0.7% in the first nine months of the previous year.

Unemployment receded for the second consecutive quarter in the period from July through September 2014, to 25.5%, against 27.2% a year earlier. The unemployment rate in the third quarter was 1.1 percentage points lower than in the preceding one. This reduction in unemployment came primarily from the sectors where output grew in the third quarter. There were 109,000 more jobs in the third quarter of 2014 than a year earlier, 51,000 of which were in Accommodation – Food Services. The greatest reduction in employment was recorded in Financial – Insurance Activities, by 20,700 people. Yet, in Support – Administration Activities, which include public sector services, there were 25,300 more jobs than a year before. This sector had the second highest increase in employment, which mainly reflects the impact of the employment programmes of the Manpower Employment Organization (OAED). Nonetheless, employment fell in Public Administration – Defense – Social Security (-13,200) and in Agriculture (-5,200).

Boosted household consumption, along with increased foreign tourist flows, in the third quarter of 2014 slowed down the drop of the Consumer Price Index (CPI), compared with the preceding quarter, to 0.6% (against 1.5%). The CPI drop in the third quarter was smaller than a year earlier (-1.0%). Deflation persisted, albeit at a small rate, despite decreases in fuel prices and in public transport fares in Athens since September. Nevertheless, deflation was eased by higher prices in Healthcare (over +3.0%), caused by increases in the proportion of expenditure for drugs covered by consumers. In the first nine months of 2014 the deflation rate was 1.1%, against a deflation of 0.5% in the same period of 2013.

In summary, the economic sentiment in the third quarter improved, as a result of easing uncertainty regarding elections, along with the confirmation by Eurostat of the 2013 primary budget surplus and the redistribution of part of that surplus to a number of social groups and to certain categories of civil servants. This boosted notable household consumption. As expected, foreign tourist flows increased for the second consecutive summer, boosting the exports of services. These developments had a positive impact on GDP and employment, contributing to a growth of approximately 1.6% in the third quarter.

Medium-term outlook

Steadily high foreign tourist flows up to mid-November, as well as by the gradual rise of uncertainty, yet again, regarding the political and economic prospects of the country, after the parliamentary vote on the 2015 budget in late November determined, to a large extent, the economic trends in Greece in the last quarter of 2014. According to the most recent data of the Bank of Greece, foreign tourist arrivals in October 2014 were 18.9% higher than a year earlier, a slightly smaller rise than the increase in arrivals over the third quarter (+25.5%).[4]

The remarkable rise in foreign tourist arrivals in October led to a 4.6% increase in travel receipts and to a marginal rise in the travel balance surplus (+0.4%), as the travel payments of Greek residents kept on increasing. The long tourist season, apart from having a direct positive impact on GDP through higher exports of services, helped preserve some of the seasonal jobs created in the summer over some part of the fourth quarter, thus easing unemployment and generating more income.

On the political front, concern about the political developments in Greece intensified, both domestically and abroad, over the last weeks of the year. The process of selecting the next President of the Hellenic Republic started earlier than anticipated, in the beginning of December. The process came to a standstill and snap elections were called later that month (scheduled for January 25, 2015). The last review of the Economic Adjustment Programme (EAP) for Greece, which was originally due to be completed in early December, did not finish on time. The European Union granted an extension of the Programme until the end of February 2015, in order to allow for the pending review to be completed. This delay in the completion of the review contributed to rising uncertainty, causing economic actors (enterprises, households) to delay decisions. The delay in the completion of the review prompted yet again discussions regarding alternative ways to service the Greek debt (financing gap) and alternative measures to complete the fiscal adjustment by 2017 (fiscal gap).

[4] In this section, all mentions to changes in economic variables refer to changes compared with the same period a year earlier, unless otherwise stated.

Table 3.1

Main Economic Volumes - Quarterly National Accounts (seasonally adjusted data at constant 2010 prices)

Quarter/Year	GDP		Final Consumption		Investment		Exports		Imports	
	Millions of €	Change on previous year	Millions of €	Change on previous year	Millions of €	Change on previous year	Millions of €	Change on previous year	Millions of €	Change on previous year
2000	**189,862**	**4.0%**	**164,523**	**3.2%**	**43,612**	**9.6%**	**42,916**	**22.2%**	**61,865**	**19.0%**
2001	**196,957**	**3.7%**	**171,457**	**4.2%**	**44,344**	**1.7%**	**43,156**	**0.6%**	**62,590**	**1.2%**
2002	**203,186**	**3.2%**	**178,732**	**4.2%**	**44,471**	**0.3%**	**40,002**	**-7.3%**	**60,448**	**-3.4%**
2003	**216,673**	**6.6%**	**186,407**	**4.3%**	**53,397**	**20.1%**	**39,712**	**-0.7%**	**63,973**	**5.8%**
2004	**227,404**	**5.0%**	**194,403**	**4.3%**	**53,395**	**0.0%**	**47,066**	**18.5%**	**68,513**	**7.1%**
2005	**229,430**	**0.9%**	**203,243**	**4.5%**	**45,365**	**-15.0%**	**48,651**	**3.4%**	**68,055**	**-0.7%**
2006	**242,772**	**5.8%**	**210,384**	**3.5%**	**57,712**	**27.2%**	**51,188**	**5.2%**	**77,372**	**13.7%**
2007	**251,360**	**3.5%**	**218,637**	**3.9%**	**63,975**	**10.9%**	**56,611**	**10.6%**	**89,069**	**15.1%**
2008	**250,243**	**-0.4%**	**222,534**	**1.8%**	**59,484**	**-7.0%**	**58,592**	**3.5%**	**91,347**	**2.6%**
2009	**239,245**	**-4.4%**	**221,619**	**-0.4%**	**42,989**	**-27.7%**	**47,772**	**-18.5%**	**73,412**	**-19.6%**
Q1 '10	58,980	0.3%	54,249	-1.4%	10,140	5.3%	12,477	-0.6%	18,705	2.8%
Q2 '10	57,369	-4.9%	52,907	-4.5%	9,710	-6.3%	12,623	4.4%	17,366	-4.0%
Q3 '10	55,425	-7.7%	50,654	-9.8%	9,629	-8.4%	11,925	1.7%	16,684	-8.9%
Q4 '10	54,615	-9.0%	49,676	-9.7%	8,960	-28.5%	12,818	12.1%	16,502	-11.5%
2010	**226,390**	**-5.3%**	**207,485**	**-6.4%**	**38,439**	**-10.7%**	**49,842**	**4.3%**	**69,256**	**-5.5%**
Q1 '11	53,121	-9.9%	48,015	-11.5%	9,619	-5.1%	12,462	-0.1%	16,575	-11.4%
Q2 '11	52,314	-8.8%	47,407	-10.4%	8,399	-13.5%	12,557	-0.5%	16,325	-6.0%
Q3 '11	51,212	-7.6%	46,875	-7.5%	7,501	-22.1%	12,569	5.4%	15,878	-4.8%
Q4 '11	49,670	-9.1%	45,062	-9.3%	6,575	-26.6%	12,752	-0.5%	15,078	-8.6%
2011*	**206,316**	**-8.9%**	**187,359**	**-9.7%**	**32,094**	**-16.5%**	**50,341**	**1.0%**	**63,857**	**-7.8%**
Q1 '12	49,166	-7.4%	44,881	-6.5%	6,651	-30.8%	12,686	1.8%	14,757	-11.0%
Q2 '12	48,307	-7.7%	43,606	-8.0%	6,501	-22.6%	12,374	-1.5%	14,301	-12.4%
Q3 '12	47,840	-6.6%	42,933	-8.4%	5,415	-27.8%	12,720	1.2%	14,086	-11.3%
Q4 '12	47,346	-4.7%	42,363	-6.0%	6,830	3.9%	13,046	2.3%	14,709	-2.4%
2012*	**192,659**	**-6.6%**	**173,783**	**-7.2%**	**25,398**	**-20.9%**	**50,825**	**1.0%**	**57,853**	**-9.4%**
Q1 '13	46,503	-5.4%	42,049	-6.3%	6,146	-7.6%	12,722	0.3%	14,279	-3.2%
Q2 '13	46,340	-4.1%	42,005	-3.7%	5,208	-19.9%	12,945	4.6%	13,917	-2.7%
Q3 '13	46,155	-3.5%	41,869	-2.5%	5,394	-0.4%	13,222	3.9%	14,279	1.4%
Q4 '13	45,994	-2.9%	42,462	0.2%	4,467	-34.6%	12,709	-2.6%	13,725	-6.7%
2013*	**184,993**	**-4.0%**	**168,384**	**-3.1%**	**21,214**	**-16.5%**	**51,598**	**1.5%**	**56,200**	**-2.9%**
Q1 '14	46,374	-0.3%	42,248	0.5%	5,052	-17.8%	13,669	7.4%	14,319	0.3%
Q2 '14	46,540	0.4%	42,490	1.2%	4,986	-4.3%	14,122	9.1%	15,064	8.2%
Q3 '14	46,889	1.6%	42,727	2.0%	4,439	-17.7%	14,360	8.6%	14,687	2.9%

* provisional data

Source: ELSTAT, Quarterly National Accounts, December 2014

In addition, the delay of the completion of the review had a detrimental effect on the progress of structural reforms regarding various industries and economic activities, as well as on the progress of reforms in the public sector.

The delay in the completion of the review of the EAP also had a negative impact on the implementation of the government budget. The central banks of the Eurosystem were scheduled to remit to Greece €1.9 billion in December, according to the provisions of the Securities Market Programme (SMP). However, the completion of the review of the EAP was a prerequisite for this transfer and therefore the transfer was postponed. This development, coupled with missing the targets for tax collection, caused the total government revenue to be €3.95 billion lower than planned in the 2015 budget, and €1.7 billion lower than it was in 2013. According to provisional data published by the General Accounting Office, the revenue from direct and indirect taxation was €123 million lower than in 2013, against a planned increase by €1.01 billion in the 2015 budget. The difference is mainly attributed to lower than projected revenue from VAT (-€230 million), capital transfer tax (-€226 million) and fuel tax (-€170 million).

Government expenditure in 2014 was also €1.08 billion lower than planned in the 2015 budget, and €3.6 billion lower than it was in 2013. However, reductions in spending did not outweigh the effects of reduced revenue, and as a result the target for the budget deficit was missed. The budget deficit reached €3.6 billion, which is €2.9 billion more than the target. Therefore, even if the €1.9 billion of transfers to the Greek government under the Securities Market Programme had been received, the budget deficit (before adjustments related to national account calculations) would still have been €1 billion higher than the target for 2014.

The results of the stress tests that the ECB performed on the four largest Greek banks were announced in late October and had a positive impact on the credibility of the Greek economy, helping to improve its growth prospects for 2015. The stress tests proved that these banks have adequate capital, as anticipated in previous IOBE bulletins on the Greek economy. IOBE had also predicted that the positive results of the stress tests will prompt a gradual expansion of lending by Greek banks, for the first time since the swap of Greek government bonds in April 2012. Indeed, over the period from October through November the contraction rate of lending to enterprises dropped by one percentage point, compared with the preceding months, to 3.6%-3.8%. The contraction rate of lending to households did not change (-3.0%). Also, there was no reduction in the interest rates for new loans in the month after the results of the stress tests were announced. In the following months the trend in lending is expected to shift to an expansion of credit, with terms significantly more favorable to borrowers, compared with the period from 2009 to 2014, provided that the new government remains committed to ensuring the sustainability of public finances and to the implementation of reforms that are necessary to reinforce confidence in the Greek economy. Indeed, some of the big banks have already announced their intention to significantly expand lending in 2015, compared with the previous year. Under similar assumptions, the contractionary trend in fixed capital formation is also expected to change in 2015, for the first time since 2008.

The trends in certain categories of investment over the last months of 2014 point to stronger investment in 2015, assuming there will be no political and economic turmoil. In particular, the average drop in the volume of building construction in the third quarter was merely 2.5%, while in the period from June to July it exceeded 30% and in May it was around 10%. In fact, the volume of building construction increased by 6.7% in September. In addition, in August and in October 2014, when building construction volume shrank, the number of building permits shrank much faster – approximately three times as fast – suggesting that some large building construction projects have commenced. Considering that investment in the other main categories of fixed capital (metal products – machinery, transportation equipment, miscellaneous constructions) is growing since the second quarter of 2014, growth momentum in investment activity has seemingly built up in the last months of 2014, which should lead to - at least - a mild increase of investment in 2015, unless disruptions caused by the political developments of December and the resulting uncertainty prevail.

Nevertheless, after a short period in June and July, after the local and European Parliament elections, when foreign direct investment briefly increased, foreign interest for investment in Greece remained low. In the period from August to October, the net inflow of foreign direct investment fell sharply, by 67.0%. In the previous bulletin on the Greek economy, IOBE had forecasted that investors' interest in Greece will weaken over the second half of 2014. Since September, the rhetoric about completing the programme and refinancing public debt by issuing new bonds, just a few months after Greece returned to the global bond markets, coupled with long delays in completing the negotiations with the troika, created uncertainty about whether the fiscal adjustment strategy would be kept on track. Furthermore, slow progress in privatisations and concessions of government-owned real estate did not help improve foreign investors' sentiment. Nevertheless, there is now a significant number of projects regarding concessions of state-owned property, for which the necessary preparation has been done and are thus ready to start. Implementing these projects in 2015, in a fiscal and macroeconomic environment clearly more favourable than in the past, would improve the prospects for successful development of the projects and would yield greater dividends for the Greek government, than what was previously anticipated.

The Greek economy has benefited over the past two years by a boost in tourism. In 2014 there were no signs that tourist flows would weaken. Nevertheless, the growth potential for tourism is rather limited, compared with two years earlier, as many enterprises in the sector are close to reaching the limits of their operational capacity. At any case though, thousands of jobs could be created in tourism over 2015, just as over the past year, preventing a rise in unemployment. The unprecedented since 2008 devaluation of the Euro against the dollar facilitates a rise in demand for tourist services in Greece and, in a broader sense, favours Greek exports to markets outside the Eurozone. Greek exports to the Eurozone countries will be facilitated by the mild recovery of the Eurozone, which despite being small will nevertheless be stronger than a year before.

Apart from the aforementioned trends of various parameters affecting the economic environment, the political developments triggered by the call of snap elections are very likely to be the main determinant of the social and economic prospects of Greece, not only for 2015, but for many years to come. Persistent uncertainty, even after the elections in late January 2015, regarding the political priorities of the new government and its position on a wide range of economic issues, is an obstacle to macroeconomic forecasting. Clearly, the new government's fiscal strategy, the impact of that strategy and the means the government will use to implement it, will greatly influence the decisions of economic actors in Greece and abroad. Such choices by the new government will also determine the decisions and the attitude of other counties towards Greece, especially by European Union members and other creditor countries.

The negotiations with the country's official lenders will be of paramount importance for the prospects of Greece. The economic actors will be very cautious, at least until the negotiations are concluded, delaying economic decisions on a wide range of issues, including investment, demand for imports of raw materials and finished products, willingness to export to Greece, domestic household demand, foreign residents plans to visit the country for vacations etc. The longer the negotiations take to conclude, the more cautious the economic actors will become and the effects of the postponed economic decisions will be more intense. Yet, it is quite likely that after the negotiations have been concluded, and provided that the fundamental political and economic choices made in Greece over the past two decades will not radically change, the intense caution will be succeeded by pronounced optimism, leading to decisions and actions with positive impact on the economy that would outweigh the effects of past procrastination. At any rate though, skepticism and hesitation towards Greece abroad will be slow to ease.

The effects of prolonged negotiations will depend on whether these negotiations are held while the current agreement with the EU is still in place, with a potential extension of the adjustment programme beyond the end of February 2015, when it is currently scheduled to expire. While the programme is still in place, the Greek banks have access to cheap liquidity from the ECB. Indeed, since last October, the Greek banks have access to ECB liquidity under more favourable terms, after the ECB decided to limit the 57% haircut on Greek bonds it held as collateral when providing liquidity. The liquidity provided by the ECB also facilitates servicing Greek public debt in the short term. This liquidity allows the Greek banks to provide the Greek government with short-term loans (by purchasing Treasury Bills), and thus give the Government some flexibility in managing its debt repayment obligations. The largest Greek banks had adequate capital in the end of 2014, according to the results of the ECB stress tests. In addition, they have drawn liquidity from the Emergency Liquidity Assistance (ELA) mechanism, in order to manage the effects of both political uncertainty in the country and the sudden appreciation of the Swiss franc. Therefore, liquidity problems are unlikely to arise in the short term. Nevertheless, the probability of liquidity shortages will increase as negotiations with the country's creditors drag on, particularly if the current programme is not extended to cover the period of negotiations.

Notwithstanding the effects of the recent political developments and of the uncertainty about future political developments, it should be noted that even before the snap elections were called, the improvement of the economic environment had slowed down due to the delays in the negotiations with the troika and the strong likelihood that the government would take additional fiscal measures, or would extend measures scheduled to expire in 2014 or 2015, in order to conclude the fiscal adjustment in 2017. In the IMF report on the latest review of the programme, the "fiscal gap" for that period was estimated at €7.5 billion. The European Commission, in its latest report on the Greek programme,[5] estimated that the necessary additional measures amount to 1% of GDP, which is very close to the IMF estimate (1.1%). Even if snap polls had not been called, during the negotiations to determine these measures, caution and hesitance among many categories of economic actors would have persisted. Clearly these additional fiscal measures would harm some of those economic actors, resulting in negative effects on GDP components, such as public and private consumption.

In light of the aforementioned considerations, it is clear that the main goals of government policy and the instruments used to achieve those goals greatly influence the main parameters of the macroeconomic environment. However, at the time this bulletin is being compiled, neither the main aspects of the

[5] Occasional Papers No. 192, DG ECFIN, European Commission, April 2014

new government's policy, nor the outcome of the negotiations with the country's creditors can be predicted. Therefore, it is difficult to make forecasts for the GDP, unemployment, or inflation. In what follows, the potential trends of the main GDP components will be discussed, along with forecasts based on the assumption that the negotiations will not cause strong, persisting turbulences in the Greek economy and, crucially, that the outcome of the negotiations will not change fundamental features of the economy.

The latest data on domestic economic activity suggest that in the last months of 2014 output increased mildly in most of the main sectors of the economy. In the sectors with shrinking output, the contraction was slower than in the preceding months. The stronger economic activity boosted employment. The unemployment rate started falling in March, and carried on decreasing, as of October 2014.

In more detail, industrial production increased by 2.0% in the period from October to November 2014, against a contraction by 4.0% in the third quarter of the year. Regarding the main industrial sectors, output in Water Supply shrank (-12.0%), after a similar decrease in the third quarter. The greatest increase in output was recorded in the largest industrial sector, Manufacturing (+4.8%), following the consolidation of manufacturing output in the third quarter. Mining output increased at a slightly smaller rate (+3.9%), against a sharp drop in the preceding quarter (-8.9%). The data suggests that the output in Tourism kept on growing for at least the first month of the fourth quarter. As mentioned above, the average drop of the volume of construction of buildings over the period from August to October was notably smaller than in the preceding three months (-2.5%, against -26.5%). Construction in general increased fast in the third quarter of the year, by 61.3%, after an increase by 22.9% in the preceding quarter. The output form engineering works (i.e. construction of public works) more than doubled in the third quarter (+137%), this being the main driver of the fast recovery of Construction.

Although unemployment normally increases in the fourth quarter of the year, compared with the third quarter, these positive developments averted a rise in unemployment, at least at the start of the fourth quarter. Even the non-seasonally adjusted unemployment rate was marginally lower in October than in September, at 25.3% from 25.4%, and almost two percentage points lower than a year earlier (27.2%).

The mild recovery of production, combined with the continuing fall of unemployment, have caused consistent growth of demand in the Greek economy. The volume of Retail Trade was higher than a year earlier in every month of the third quarter of 2014, increasing by 4.7% on average, and continued to rise in October, at a slightly lower rate (+3.7%). Over the period from January to October, the volume of Retail Trade rose by 2.4%, compared with 2013, while retail trade of goods excluding fuels also grew, albeit marginally (+0.4%). The volume of Retail trade is expected to grow in the last two months of the year, at similar rates as in October. As a result, the volume of Retail Trade is expected to grow in the fiscal year 2014, for the first time since 2008. Increased activity in Retail Trade positively influences Wholesale Trade, the turnover of which was 1.3% higher in the third quarter than a year earlier, following an increase by 0.7% in the second quarter.

The higher domestic demand was reflected in easing deflation, with a deflation rate of only 0.6% in the third quarter, against deflation of 1.5% in the preceding quarter. Nevertheless, the sharp fall of oil prices in the second half of the year, affecting costs in both accommodation and transportation, two groups of goods with very high weights in the CPI, increased deflation in the fourth quarter to 1.8%. Prices fell by 1.3% in 2014 as a whole, slightly more than in 2013, when prices fell by 0.9%. Falling oil prices had a positive effect not only on real household incomes, reinforced by deflation, but also on reducing the cost of energy for enterprises, which is an important part of production cost in industrial sectors. Oil prices are expected to stay low in 2015, compared with the previous year, thus helping businesses this year.

The demand for Greek exports continues to rise. According to the latest data of the Bank of Greece, in the period from August to October exports of goods and services (including petroleum products) were 9.5% higher than a year earlier, a growth of exports only slightly smaller than that in the preceding three months (+10.6%). In particular, exports of services grew at a slightly slower rate in the period from August to October, than they did from May to July (+10.3%, against +11.7%), as did exports of goods (+8.2% against +9.0%). Slower growth of exports of goods, was caused exclusively by slower growth of exports of miscellaneous products, excluding fuels and ships (+6.4%, against +11.2%). However, imports grew much slower over that period (+3.0%, against +11.3% in the preceding three months), primarily due to the much slower rise of imports of goods (+3.7%, against +13.5%). This resulted to a considerable increase of the surplus in the trade balance (including petroleum products). In particular, the trade surplus stood at €3.56 billion in the period from August to October 2014, €1.1 billion higher (+44.2%) than a year earlier.

In summary, output increased in some of the main economic sectors in the beginning of the fourth quarter, unemployment stabilised at the levels it reached in the summer and domestic demand, as well as the demand for Greek exports of goods and services, continued to increase, suggesting that the Greek economy will continue to grow for a third consecutive quarter. However, rising political uncertainty in December, caused by the process of selecting the new

President of the Republic and by the delays in the negotiations with the troika, should be expected to weaken the momentum for growth. Indeed, the growth momentum will be further weakened in the first months of 2015, as political uncertainty will keep on rising, at least while the negotiations with the country's creditors are still under way. Nevertheless, the growth momentum was expected to weaken, to some extent, as a result of fiscal measures that would have to be implemented in order to reach the 2015 fiscal targets.

Regarding the trends of GDP components in the last quarter of 2014 and the beginning of 2015, falling unemployment over the period from March to October 2014 allowed domestic disposable incomes to continue to grow. **Household consumption expenditure** kept on increasing. Indeed, activity in the two sectors that contributed most to employment growth, namely Wholesale – Retail Trade and Accommodation and Food Services, was steadily increasing in the beginning of the fourth quarter. However, consumption growth would have slowed down, to a small extent, by slightly higher taxes on households in December 2014, compared to a year earlier, as well as by the political uncertainty. **Therefore, household consumption expenditure in 2014 is expected to have been 1.7% higher than a year earlier.**

For the greatest part of the first half of 2015, unemployment should be expected to be 2 to 2.5 percentage points lower than in 2014, and will thus probably help sustain the growth of private consumption. **If there are no disturbances in the economy, unemployment will continue to fall**, largely due to employment growth in the same sectors, where employment increased in 2014. This **may cause household consumption to increase by slightly more than 2% this year.** Nevertheless, in the past few years household expectations and consumption decisions have been greatly influenced by the negotiations with the country's partners, both by the duration of the negotiation process and by its outcome. Therefore, it should be expected that over the first half of 2015 developments regarding the negotiations will gradually become the main determinant of household consumption spending. The negotiation process will strongly affect the sectors where employment and output increased last year, as these sectors produce final goods and services for the consumers.

The delays in the review of the Economic Adjustment Programme slowed down the reform progress in the public sector, and thus averted further savings in **public consumption** in the last months of 2014. Notably, the target for 6,500 fewer jobs in the public sector by the end of 2014 was missed. Until these public sector job cuts are implemented, public consumption expenditure will continue to be negatively affected this year. In addition, the Greek courts recently annulled salary cuts imposed since mid-2012 to certain groups of civil servants and ruled that salary revenue lost due to these cuts should be returned to the civil servants. The reimbursement started in the fourth quarter of 2014, and therefore public consumption expenditure would have increased further in the last quarter. Nevertheless, public consumption expenditure was particularly high in the fourth quarter of 2013, and thus, in comparison, public consumption in the last quarter of 2014 would have turned to be slightly lower. As a result, **public consumption is estimated to have shrunk by 1.0% in 2014.**

As the negotiations with the country's creditors drag on, and considering that until the negotiations are concluded the reforms in the public sector are on hold, no changes in public consumption due to reforms should be expected. Regardless of the effects of reforms, the return of funds corresponding to wage cuts since 2012, which will expand to more groups of civil servants starting in early 2015 (e.g. university professors), may contribute to a **small increase of public consumption** this year. Clearly, the new government's policy regarding employment in the public sector and the outcome of the government's negotiations with the troika may affect both the trend and the extent of the change in public consumption this year.

Regarding public investment expenditure, despite the fact that the implementation of the Public Investment Programme was more frontloaded than in 2013, 50% of investment expenditure took place in the last four months of 2014, while the total amount of public investment was marginally lower than a year earlier (€6.6 billion, against €6.65 billion). Thus the Public Investment Programme is not expected to boost investment in the last quarter of 2014, relative to a year earlier. Moreover, the Public Investment Programme expenditure for 2015 is planned to be slightly lower than in 2014 (€6.4 billion), while the elections pushed back the implementation of the Programme. Consequently, the contribution of the Programme to investment activity is expected to be lower this year, than in 2014. The effect of the Programme on investment activity may also depend on the policy priorities the new government may set, yet at any rate investment expenditure this year should not be expected to differ significantly from what was set in the 2015 Budget.

The activity of the Hellenic Republic Asset Development Fund (HRADF-TAIPED) did not contribute to investment in the period from October to December 2014. However, an important tendering process, regarding the concession of 14 regional airports, was concluded in late November. The eventual implementation of this concession will be one of the greatest, (possibly the single greatest) source of revenue from privatisations in 2015. In addition, investment projects for the modernisation of these regional airports will contribute to fixed capital formation over the next four years. Indeed, as previously mentioned, over the past few years privatisations have repeatedly been delayed and postponed, and as a result there is now a great potential for progress with privatisations in 2015 and the following years. Progress with privatisations could offset the negative effects of reducing the public sector's contribution to investment with lower expenditures in the 2015 Public Investment Programme. Nonetheless, it is possible that the new government will revise the current plans for privatisations of state-owned property, and thus the effects of privatisations on investment and government revenue may eventually be different than what was discussed above.

The decisions of private investors, both domestic and foreign, in 2015 and in the following years, will be influenced to a great extent by the duration and the intensity of the political uncertainty springing from the negotiations with the country's creditors, and by the outcome of these negotiations. The positive results of the stress tests on the four largest Greek banks, published at the start of the fourth quarter of 2014, visibly improved the prospects of investing in the country, from the point of view of the potential to raise capital for investments. Provided that political developments do not alter fundamental parameters of the Greek economy, this potential for funding will be maintained at least over the medium term. Considering that the shrinking of construction of buildings has apparently started to ease significantly in the last months of 2014, fixed capital formation, and investment in general, over these months should be expected to have increased. A large-scale shrinking of inventories in the last quarter of 2013 would also have contributed to a rise in investment in late 2014. **After an increase of total investment in late 2014, for the first time on a quarterly basis after seven years, the contraction of investment expenditure in 2014 overall is estimated to have been slightly under 10%.** The reinvigoration of building activity and the greatly improved conditions, compared with the previous year, for a revival of entrepreneurial investments, both from domestic and foreign investors, mainly due to better liquidity conditions, can boost **private investment** significantly this year. As a result, and despite the fact that public investment will not rise, the growth rate of **fixed capital formation may reach 7-8%**.

However, while the negotiations and related political developments in Greece and abroad are under way, most decisions regarding investment, particularly in the business sector, will be deferred. Clearly, these decisions will depend on the outcome of the negotiations. Assuming that there will be no radical changes in the fundamental parameters of the Greek economy, it is very likely that after the negotiations are concluded, investment activity will strengthen.

Regarding the external balance of the Greek economy, as discussed above, the

exports of services appear to have kept on rising until the end of 2014, albeit at a slightly slower rate. Rising exports of services have probably been the sole contributor to overall export growth, as the **exports of goods** remained unchanged, or marginally contracted, compared with 2013. The exports of goods have gradually lost their growth momentum, as a result of shrinking demand for Greek products in important markets for Greek exports (EU, North America, North Africa and the Middle East), combined with the fighting in Ukraine, and the Russian economy having been hit by a collapse of oil prices. Russia and Ukraine were the markets with the second highest increase of demand for Greek products in the first nine months of 2014 (+11.1%). Overall, **exports were about 8.0% higher in 2014 than a year earlier; exports of services increased by 13.5%, while exports of goods increased by no more than 2.5%**. Tourism will probably continue to grow this year, albeit to a smaller extent compared with 2014, and the competitiveness of Greek exports to markets outside the Eurozone will be boosted by the low exchange rate of the euro against the dollar. These factors will help **exports grow this year by about 4.5%**. On the other hand, political uncertainty will negatively affect foreign tourist bookings; all the more so, if uncertainty persists for a long time. Apart from the domestic political developments, sluggish growth in the Euro area, one of the main markets for Greek exports, and the economic crisis in Russia and in Ukraine, which affects the broader group of the Commonwealth of Independent States, will hold back the growth momentum of Greek exports this year.

The imports of goods appear to have kept growing, indeed at a faster rate, in the last months of 2014, boosted by consistently increasing consumer demand. The relatively low level of the imports of goods in the last quarter of 2013 also helps explain their growth in late 2014. In contrast, the **imports of services** should be expected to grow at a slower rate in the last quarter of 2014, as a result of a contraction of the imports of transportation services. Notably, the domestic demand for tourist services gradually increased throughout 2014. Taking the trends of the components of imports into account, the **total imports in 2014 are estimated to have grown by slightly more than 4.0%**. Consequently, the deficit of the external sector did not exceed 1.6% of GDP in National Account terms, against a deficit of 2.5% a year earlier. Regarding the trend of imports this year, both consumer demand and investment are expected to increase, leading to stronger demand for imports of goods. The increase of the imports of goods will largely determine the **extent of the increase of total imports, which is expected to be close to its 2014 level**.

Summing up the trends of the main GDP components in the last quarter of 2014, unemployment consolidating at the levels it reached in the third quarter, primarily due to the long tourist season, combined with stronger deflation, maintained a significant growth of household consumption expenditure. The prolonged negotiations with the troika held back reforms in the public sector and consequently hindered the effort to curb public consumption. Nevertheless, public consumption in the fourth quarter of 2014 was lower than a year earlier, since it had been relatively high in the last quarter of 2013. Public investment was high in the last four months of 2014, yet slightly lower than a year earlier. Regarding private investment, Construction appears to be steadily recovering, after seven years of severe contraction, due to a sharp increase in public works. The strong construction activity led to rising overall investment. Investment growth in late 2014 is also connected with the fact that inventories had greatly decreased a year earlier. Nonetheless, foreign investors' interest in Greece was remarkably low. Regarding the external sector of the economy, the long tourist season counterweighted the small contraction of the exports of goods, boosting overall exports. Enduring growth of consumer demand raised the imports of goods. Domestic demand for travel services was high, boosting the imports of services. **Taking the trends of the GDP components in the fourth quarter of 2014 into account, along with the revised GDP data for the first three quarters of the year, on the basis of the ESA 2010 methodology, IOBE updates its forecast for the growth rate of the Greek economy in 2014 upwards, to approximately 1.0%.**

In recent reports by international organisations, the forecasts for the growth rate were slightly lower than the IOBE estimate (0.6% - 0.8%). These forecasts are presented in detail in tables 3.2 and 3.3.

The aforementioned forecasts regarding the trends of GDP components in 2015 suggest an average growth rate of the Greek GDP in 2015 close to 2.3%. This estimate does not take into account the potentially significant effects of changes in government policy, which could be decided by the new administration, or the effects of the uncertainty regarding the content and the outcome of the negotiations with the country's creditors, as it is impossible to safely predict the impact of these factors at the present time.

In the sectors with the strongest recovery in the first nine months of 2014, where most new jobs were created, activity kept on increasing over the last quarter of the year. Thus, most new jobs are estimated to have been preserved until the end of 2014. A pending reform, involving layoffs in the public sector, which would have caused unemployment to rise, was not implemented in 2014. Consequently, unemployment remained unchanged in the fourth quarter and **the average unemployment rate in 2014 overall was approximately 26.4%, more than one percentage point lower than in 2013 (27.5%).**

The potential for consistent and significant recovery of the economy in 2015 suggests that unemployment will recede further this year. Indeed, **unemployment will possibly fall by nearly two percentage points, to 24.5%**. On the other hand, at the present time it is impossible to predict how the ongoing political developments regarding Greece, both domestically and abroad, may affect unemployment. The domestic macroeconomic environment, taxation scheme and labour market regulations clearly influence enterprises in their decisions regarding employment. Therefore, the effects of the new administration's policies on these factors need to be clarified, in order for enterprises to be able to make choices regarding employment.

If unemployment keeps falling in 2015, this could boost demand, easing deflationary pressures. Moreover, if VAT rates for tourism-related services are indeed increased, this will also contribute to easing deflation. However, oil prices will remain at a much lower level than in 2014, at least for the first semester of 2015, as OPEC does not appear willing to limit production. Deflationary pressures from low oil prices will ultimately prevail, probably until the third quarter of 2015. Consequently, in 2015 deflation will most likely be mild (0.3%). Nonetheless, political uncertainty, while negotiations with the country's creditors are under way, makes forecasting regarding unemployment, domestic consumer demand, or the demand for Greek exports, extremely difficult.

3.2 Developments and outlook in key sectors of the economy

Industry

In the first eleven months of 2014, industrial production contracted at a slightly slower rate than a year earlier, falling by 2.4%, against a contraction by 3.3% in the same period of 2013.

In contrast, industrial production in the Euro Area-18 has been increasing since the third quarter of 2013. In the first 11 months of 2014 industrial production in the Euro Area-18 rose by 0.8%, against a fall by 0.9% in the same period of 2013.

Regarding the output of the main industrial sectors, the greatest decline was recorded in Electricity Generation, which contracted faster in the first 11 months of 2014 than a year earlier (-13.2%, against -7.0%). Output in Water Supply also contracted, yet at a slower rate than in 2013 (-0.5%, against -2.5% in 2013). In contrast, output increased, albeit marginally, in Manufacturing (+0.6%, against a fall by 1.2% in 2013) and in Mining (+0.5%, against -1.2%).

Table 3.2

Domestic Expenditure and Gross Domestic Product – European Commission Forecasts
(Constant prices, base year=2005)

	2013	2014	2015	2016
Annual rate of change				
Gross Domestic Product	-3.3	0.6	2.9	3.7
Private Consumption	-2.0	-0.6	1.6	2.2
Public Consumption	-6.5	-3.1	-2.9	-1.4
Gross Fixed Capital Formation	-4.6	4.5	11.7	15.0
Exports of Goods and Services	2.1	5.3	5.4	4.9
Imports of Goods and Services	-1.6	0.4	2.1	3.4
Employment	-7.8	-3.8	0.6	2.6
Compensation of employees per capita	-7.1	-1.5	0.1	1.7
Real Unit Cost of Labour	-4.9	0.0	-0.7	0.9
Harmonized Index of Consumer Prices	-0.9	-1.0	0.3	1.1
Contribution to the rate of change of real GDP				
Final Domestic Demand	-3.3	-0.6	1.9	3.2
Net Exports	1.1	1.5	1.0	0.5
Inventories	-1.1	-0.3	0.0	0.0
GDP percentage				
General Government Balance	-12.2	-1.6	-0.1	1.3
Current Account Balance	-2.7	-2.8	-2.5	-2.2
Gross Net Government Debt	174.9	175.5	168.8	157.8
Percentage				
Unemployment (% of labour force)	27.5	26.8	25.0	22.0

Sources: European Economic Forecast, autumn 2014, European Commission, November 2014

Table 3.3

Comparison of forecasts on selected economic indicators for the years 2013 - 2016
(Constant 2010 market prices, annual % changes and levels)

	Ministry of Finance -GR			Europ. Commission			OECD			IMF		
	2013	*2014*	*2015*	*2014*	*2015*	*2016*	*2014*	*2015*	*2016*	*2013*	*2014*	*2015*
GDP	-3.9	0.6	2.9	0.6	2.9	3.7	0.8	2.3	3.3	-3.9	0.6	2.9
Final Demand	:	:	:	0.7	2.7	3.6	-0.4	0.9	2.0	:	:	:
Private Consumption	-2.0	0.2	1.6	-0.6	1.6	2.2	0.3	0.7	1.9	-6.0	-1.8	1.7
Harmonized Consumer Price Index (%)	-0.9	-1.0	0.3	-1.0	0.3	1.1	-1.0	-0.7	-0.3	-0.9	:	:
Gross Fixed Capital Formation	:	:	:	4.5	11.7	15.0	-3.5	6.8	7.7	-12.8	5.9	9.7
Unemployment (%)	25.5*	24.8*	22.6*	26.8	25.0	22.0	26.4	25.2	24.1	27.3	25.8	23.8
General Government Balance (% GDP)	-1.6	-0.9	-0.2	-1.6	-0.1	1.3	-1.0	-0.5	0.2	-3.2	-2.7	-1.9
Current Account Balance (% GDP)	:	:	:	-2.8	-2.5	-2.2	1.2	1.0	1.8	0.7	0.7	0.2
Gross Public Debt (% GDP)	174.9	177.7	171.4	175.5	168.8	157.8	176.1	174.3	171.4	175.1	174.2	171.0

* On a national accounts basis

Sources: 2015 Draft State Budget, Ministry of Finance, November 2014 – European Economic Forecast, autumn 2014, European Commission, November 2014 - OECD Economic Outlook No. 96, November 2014 – Greece, Fifth Review under the Extended Arrangement under the Extended Facility, IMF, June 2014

More than 12 of the 24 sub-sectors of **Manufacturing** continued to shrink in the first eleven months of 2014. Focusing on the most important subsectors of Manufacturing, output in Basic Metals increased (+6.0%, against -6.0% in the first eleven months of 2013), as did output in Food Manufacturing (+0.5%, against -3.9% in 2013). In contrast, the production of Pharmaceuticals fell by 4.1%, against a strong increase, by 8.7%, in the first eleven months of 2013.

Manufacturing of Transportation Equipment contracted sharply (-39.0%, against +20.6% in the first eleven months of 2013), as did manufacturing of Leather Products – Footwear, by 15.5%, against a milder contraction by 2.4% in 2013. The output of Textiles kept on decreasing, by 14.0%, after a contraction by 9.0% in the same period of 2013.

In contrast, output in the sub-sector of Computers – Electrical and Optical Products increased significantly, by 13.9%, after an increase by 15.4% in the first eleven months of 2013. The sub-sector of Miscellaneous Manufacturing Activities also grew (+7.1%, against +2.3%), while manufacturing of Petroleum Products grew slightly faster in the first eleven months of 2014, compared with a year earlier.

Regarding the main groups of industrial sectors, the production of intermediate goods increased by 2.1%, against a contraction by 4.0% in 2013. On the other hand, the production of durable consumer goods contracted yet again, albeit at a slower rate (-8.7%, against -13.5%). The production of non-durable consumer goods decreased slightly (-2.0%, against -1.3%).

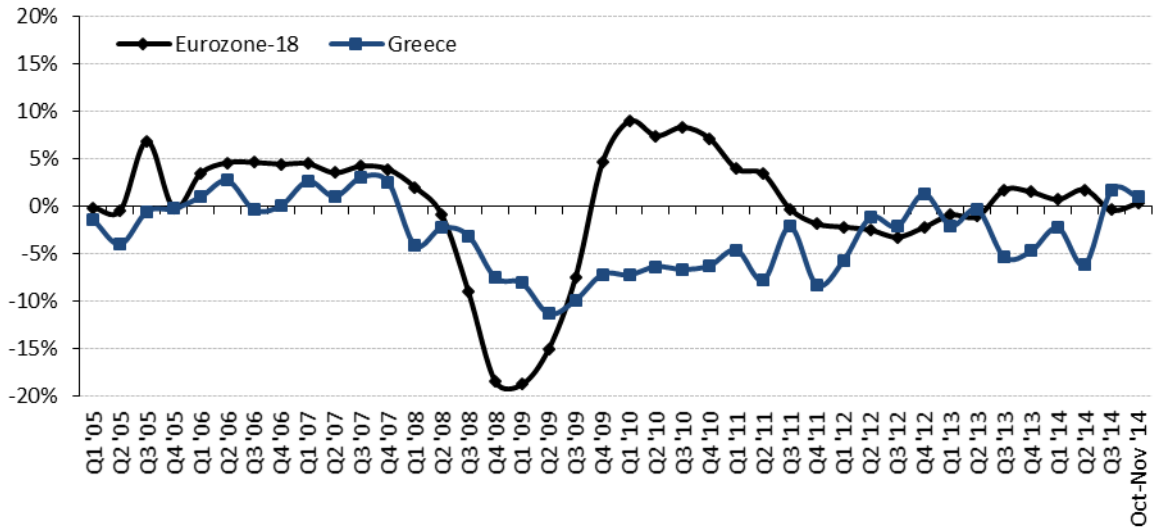
Construction

The strong shrinking trend in Construction, which prevailed ever since the onset of the recession of the Greek economy, appears to have ended in the first nine months of 2014. The output indicator for Construction increased by 16.8%, against a fall by 6.1% in the first nine months of 2013. This improvement over the first nine months of 2014 was a result of a strong performance in Construction both in the second quarter (+22.9%) and in the third quarter of the year (+61.3%).

Regarding the sub-categories of Construction, Construction of Buildings continued to fall, however the decrease is significantly slower than a year earlier (-8.2%, against -22.4% in the first nine months of 2013). In contrast, the output of Civil Engineering Works increased, for the first time in five years, by 63.4%, after a contraction by 39.4% in the first nine months of 2013.

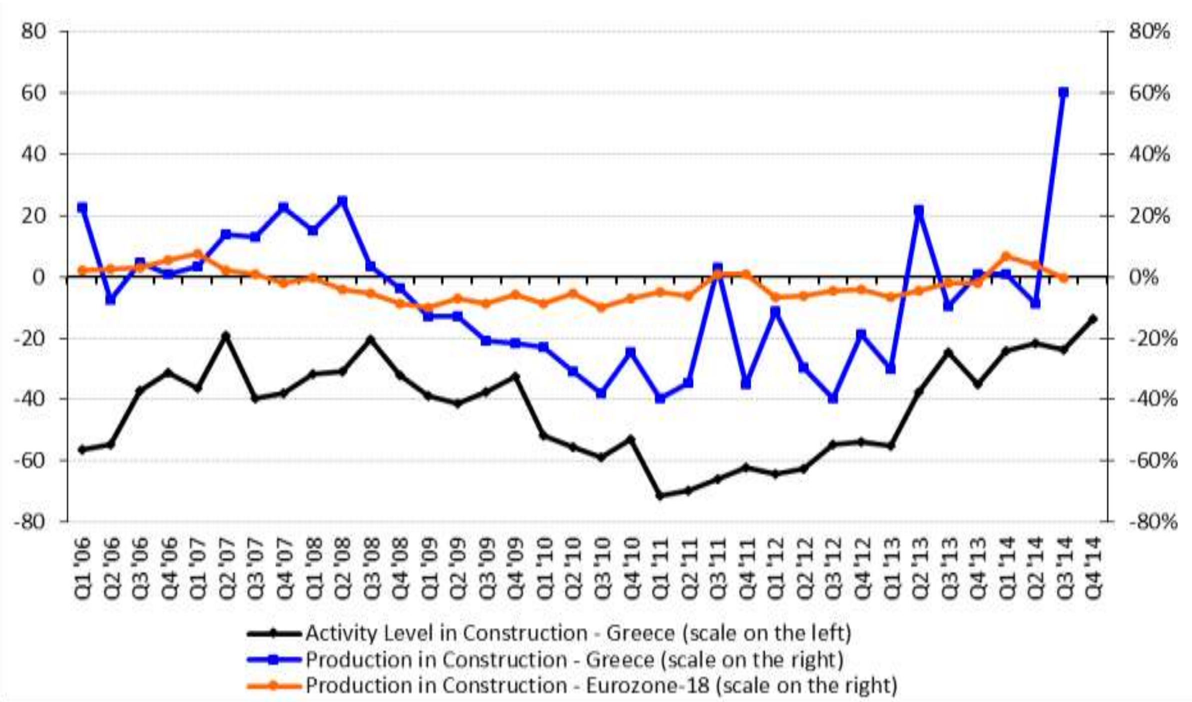
The corresponding indicator for the EA-18 also increased in the first nine months of 2014, by 3.2%, after a decline by 4.2% in the previous year.

Figure 3.1
Industrial Production Index in Greece and in the Euro Area-18 (changes on a year earlier)



Sources: ELSTAT, Eurostat

Figure 3.2
Indicators of Production in Construction in Greece and in the Euro Area-18 (changes on a year earlier) and Indicator of Activity Level in Construction



Sources: ELSTAT, Eurostat, IOBE

Construction of buildings (both private and public) declined in the first nine months of 2014. Building permits were 18.0% fewer than in the same period of 2013 (13,544 permits). The indicator for the surface area of newly constructed buildings and the indicator for the volume of new buildings were 14.1% and 6.7% lower respectively than a year earlier.

The decline of building construction is significant in most of the country's regions. Regarding numbers of building permits, the strongest decline was recorded in Thessaly (-31.5%) and in Attica (-29.0%). The smallest decline was recorded in Crete (-7.4%). In contrast, building permits increased in West Macedonia (+4.8%), Epirus (+0.2%) and the Ionian Islands (+0.2%).

Furthermore, according to the latest data published by the Bank of Greece, during the first half of 2014, residential property transactions contracted yet again, by 55.5% year-on-year. Only 7,011 property transactions took place during this period, in contrast to the first half of 2013, when 15,759 transactions had been recorded. The value of appraisals – transactions also took a further drop, as it fell by 58.1%, reaching 6.8 points.

Retail Trade

In the first ten months of 2014 the index of retail trade volume increased by 2.5%, in contrast to a decline by 9.2% in the same period of 2013.

In four out of the eight sub-sectors of retail trade, turnover increased. The sub-sectors with the greatest increase in revenues in the first ten months of 2014 include Books – Stationery (increase by 9.7%, against a drop by 0.8% a year earlier), Clothing – Footwear (+6.7%, against -4.7%), Fuels – Lubricants (+2.6%, against -6.4%) and Supermarkets, with marginally higher revenues in the first ten months of 2014, against a decline by 10.1% a year earlier.

The improvement in retail trade in 2014 is fully reflected in the leading indicators of business sentiment from the **Business Surveys conducted by IOBE**. Expectations are more optimistic than in 2012 and in 2013. As a result, the index of business expectations in retail trade increased by 26.9%, following a rise by 22.9% in 2013. It should be noted that these measurements do not reflect the impact of the political developments in the last two months of 2014 (failure to elect a new President of the Republic, resulting in the call of snap polls), after which the insecurity mood reemerged and consumer confidence deteriorated during the Christmas holiday season.

Regarding the various surveyed sectors, expectations improved greatly in Vehicles – Spare Parts (+39.7%, against +34.9% in 2013), in Clothing – Footwear (+30.5%, against +34.5%) and in Food – Drinks – Tobacco (+27.9%, against -1.9% in 2013). Furthermore, there has been considerable improvement in Household Equipment (+24.0%, against +3.2%) and in Supermarkets (+19.7%, against +15.8% in 2013).

In the **Business Surveys conducted by IOBE,** the Business Sentiment Indicator for Cars – Vehicles reached 88 points in January, declining compared to the preceding period, as the uncertainty caused by the snap elections affected business sentiment in this sector. However, it should be noted that this indicator was consistently high throughout 2014, with an average value of approximately 114 points, against 82 points on average in 2013 and 61 points in 2012. The rise of the indicator in 2014 was caused by the fact that the balance of expectations regarding current sales and the one regarding prospective sales over the next three months changed from negative to positive. Both these balances deteriorated in the first month of 2015, compared to the preceding months. Nevertheless, in January 2014 these balances had been at about the same levels as they were in January 2015. In particular, the balance of expectations regarding current sales (estimated sales) was near zero in January, against 8 points in January 2014 and 22 points in December. The balance regarding expected sales, after 9 months of positive values, was negative in January 2015 (-14 points), with 40% of the enterprises expecting sales to fall. Similarly, the indicator for new orders had a similar trend, reaching -24 points in January 2015, after several months of positive values, with 43% of the enterprises expecting new orders to fall. Negative expectations prevailed in the employment indicator as well, however the majority of enterprises expect that employment will consolidate.

The positive economic sentiment in 2014 was reflected in the sales statistics, with sales of passenger cars increasing by 22%, compared with 2013. Sales were boosted in all vehicle categories (trucks, busses, motorcycles), with sales of light trucks increasing by 42%. Notably, the share of diesel passenger vehicles in total sales increased further, to 64%, from 58% in 2013. Retail sales of vehicles are now 50% of total sales, against about 53% in 2013.

Figure 3.3
Index of Retail Trade Volume (2005=100) and Index of Business Expectations in Retail Trade (1996-2006=100)

Source: IOBE, ELSTAT

Table 3.4

Annual Changes in the Index of Retail Trade Volume

Category of Retail Trade Stores	Volume Index (2005=100)				
	Jan. - Oct. 2012	**Jan. - Oct. 2013**	**Jan. - Oct. 2014**	**Change 2012/2013**	**Change 2014/2013**
Overall Index	78.9	71.6	73.4	-9.2%	2.5%
Overall Index (excluding car fuels and lubricants)	80.5	72.8	73.0	-9.6%	0.3%
Categories of Stores					
Large Food Stores	89.2	80.1	81.3	-10.1%	1.5%
Department Stores	99.3	85.5	77.3	-13.8%	-9.6%
Car Fuels and Lubricants	71.1	66.5	68.2	-6.4%	2.6%
Food - Drink - Tobacco	73.2	69.9	67.6	-4.5%	-3.2%
Medicare - Cosmetics	79.8	69.0	67.8	-13.5%	-1.7%
Clothing - Footwear	63.8	60.8	64.9	-4.7%	6.7%
Furniture - Electric Household appliances - Household goods	70.3	64.5	60.0	-8.3%	-6.9%
Books - Stationery - Other gift items	78.9	78.2	85.9	-0.8%	9.7%

Source: ELSTAT

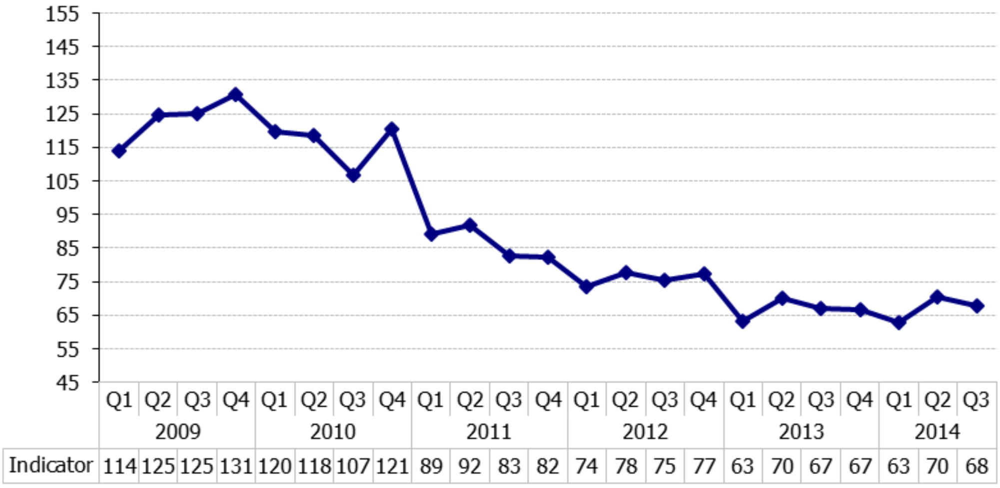
Table 3.5

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

	2012	**2013**	**2014**	**Change '13/'12**	**Change '14/'13**
Food-Drinks-Tobacco	69.8	68.5	87.6	-1.9%	27.9%
Textiles-Clothing-Footwear	57.6	77.3	100.9	34.2%	30.5%
Household Equipment	61.8	63.8	79.1	3.2%	24.0%
Vehicles-Spare Parts	60.7	81.9	114.4	34.9%	39.7%
Department Stores	48.1	55.7	66.7	15.8%	19.7%
Retail Trade Total	**57.1**	**70.2**	**89.1**	**22.9%**	**26.9%**

Source: IOBE

Figure 3.4
Turnover Index in Wholesale Trade (2005=100)



Source: ELSTAT

Wholesale Trade

In the first nine months of 2014, turnover in wholesale trade increased marginally, by 0.4%, influenced by growing retail trade, while in the same period of 2013 wholesale trade had contracted by 11.6%.

In the third quarter of 2013, turnover in wholesale trade increased by 1.4% year-on-year, against a contraction by 11.2% in the third quarter of 2013. This was the first quarter of wholesale trade growth, on a year-on-year basis, since 2008.

Services

The activity in Services continued to contract in the first nine months of 2014, with turnover falling in 10 out of 13 sectors. Notably, the decline accelerated in most of the Services sectors.

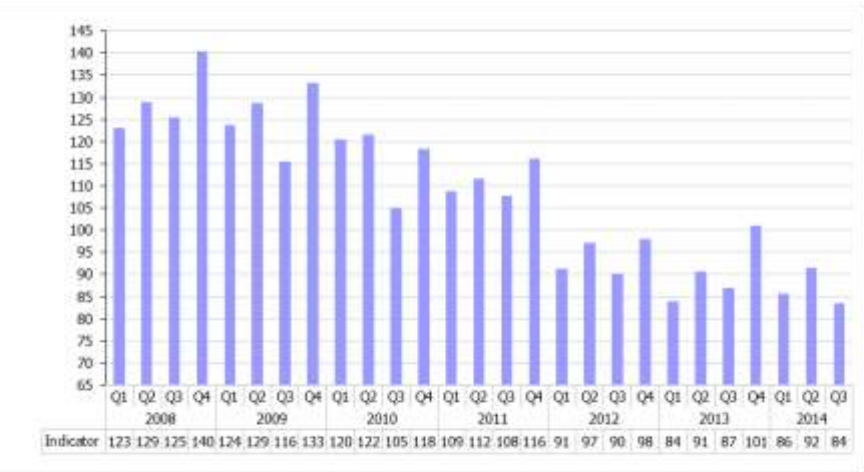
The greatest decline in the first nine months of 2014 was recorded in Architectural and Engineering Services (sector 71), with turnover contracting twice as fast as a year earlier (-24.4%, against -12.8%). Office and Other Business Support Activities (sector 82) followed, with sharply declining turnover (-18%, against a similar decline, by 17.4%, in 2013). Weak demand affected Cleaning Services (sector 81.2) as well, with turnover contracting by 14.0%, against a decline by 13.2% in 2013. Turnover in Advertising and Market Research (sector 73) also kept falling, albeit at a much slower rate than in 2013 (-11.4%, against -23.5%).

Turnover growth was recorded in very few sectors in the first nine months of 2014. The greatest increase was recorded in Professional – Scientific – Technical Activities (sector 74), with turnover rising by 9.1%, against a significant drop, by 22.8%, in the same period of 2013. Turnover in Publishing (sector 58) also increased, by 1.3%, against a drop by

2.9% a year earlier. Similarly, turnover increased marginally in Legal and Accounting Services and in Consulting Services (sectors 69 and 70.2).

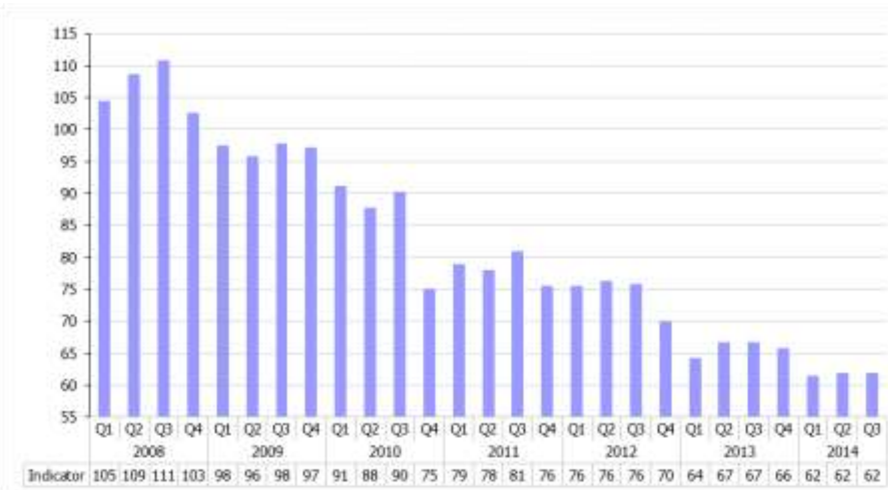
As expected, turnover in Accommodation and Food Services (sectors 55 and 56) was significantly boosted, by 7.7%, in the third quarter of 2014, after a milder increase, by 1.2% a year earlier. Over the first nine months of 2014 the sector's revenue rose by 11.9%, while in 2013 it had contracted slightly (-0.2%).

Figure 3.5
Turnover Index in Postal and Express Delivery Services (sector 53)



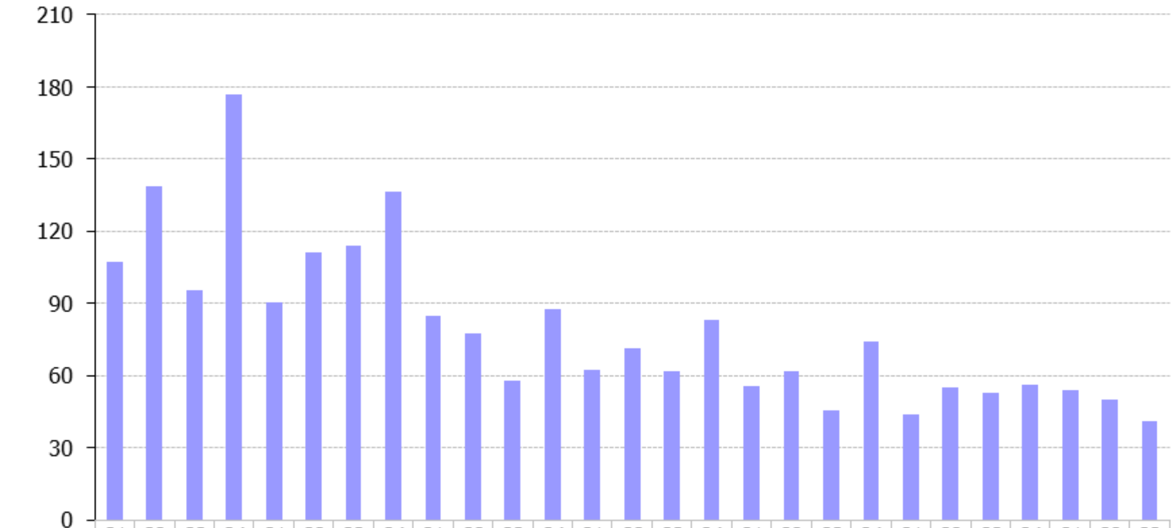
Source: ELSTAT

Figure 3.6
Turnover Index in Telecommunication Services (sector 61)



Source: ELSTAT

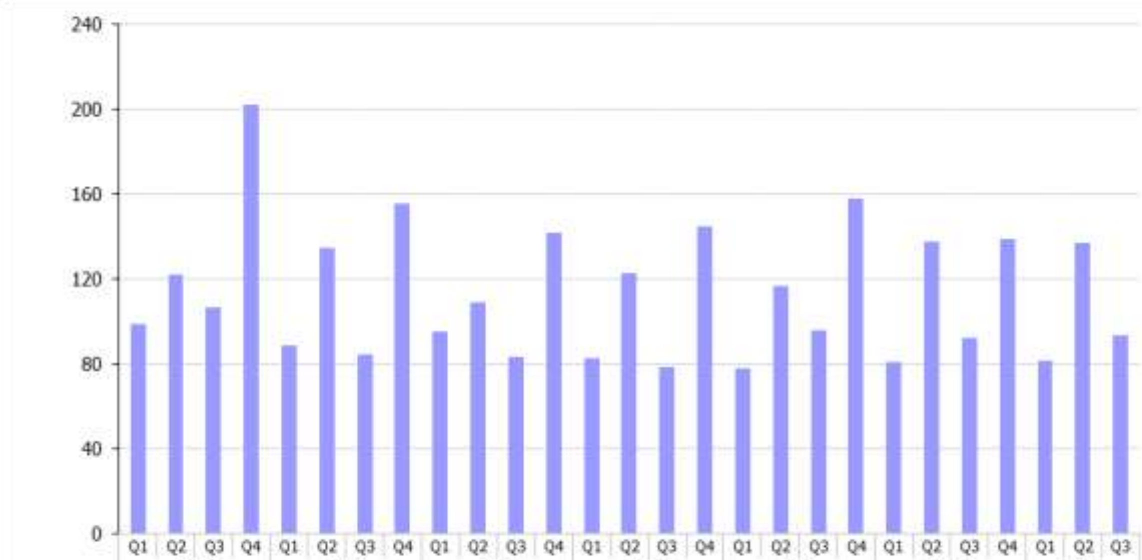
Figure 3.7
Turnover Index in Informatics Services (sector 62)



	2008				2009				2010				2011				2012				2013				2014		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Indicator	107	139	96	177	90	111	114	137	85	78	58	87	62	71	62	83	56	62	46	74	44	55	53	56	54	50	41

Source: ELSTAT

Figure 3.8
Turnover Index in Legal, Accounting, Consulting Services (sectors 69 & 70.2)

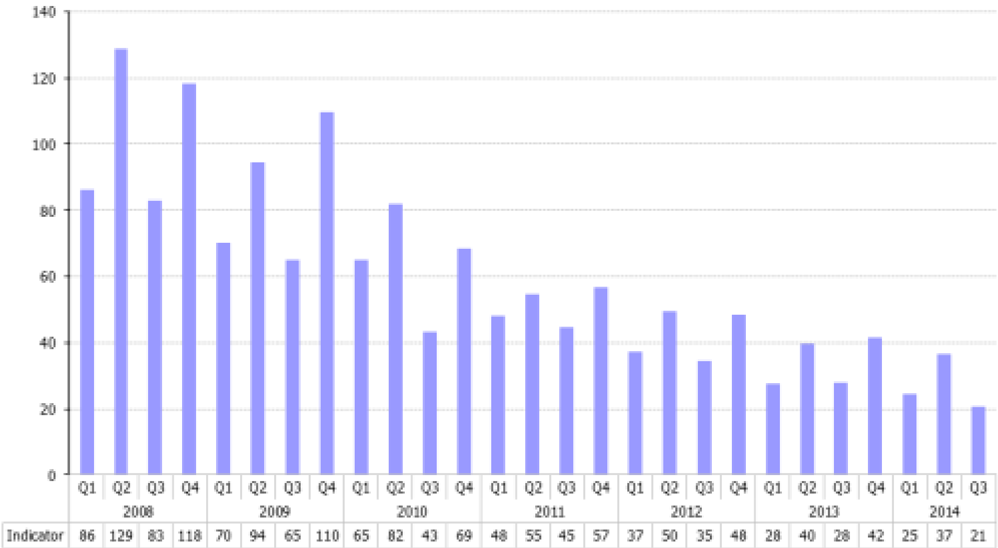


	2008				2009				2010				2011				2012				2013				2014		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Indicator	99	122	106	202	89	135	84	156	95	109	84	142	83	123	79	145	78	117	96	158	81	138	92	139	82	137	94

Source: ELSTAT

Figure 3.9

Turnover Index in Advertising, Market Research and Opinion Polling Services (sector 73)

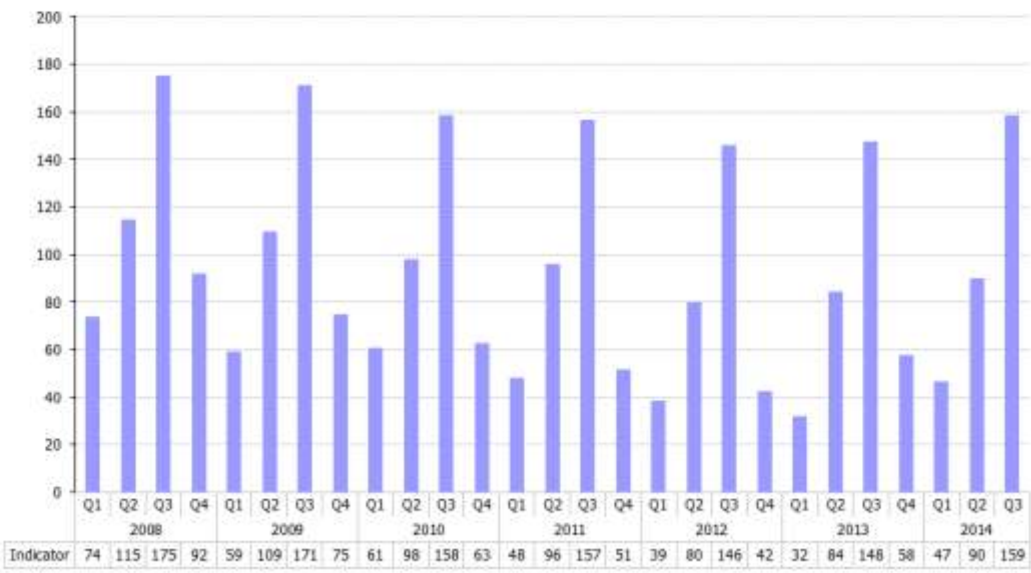


	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3
Indicator	86	129	83	118	70	94	65	110	65	82	43	69	48	55	45	57	37	50	35	48	28	40	28	42	25	37	21

Source: ELSTAT

Figure 3.10

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



	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3
Indicator	74	115	175	92	59	109	171	75	61	98	158	63	48	96	157	51	39	80	146	42	32	84	148	58	47	90	159

Source: ELSTAT

Expectations in the sub-sectors of Services, as measured in the **Business Surveys conducted by IOBE**, in 2014 overall notably improved, compared with 2013. The overall indicator for Services in 2014 reached 87.2 points, 23.9% higher than in 2013 (when it had increased by 28.5%).

In more detail, expectations were positive in four out of the five sub-sectors of Services. Travel Agencies were particularly optimistic, with the respective indicator rising by 36.8%, following a considerable improvement in 2013 (+20.9%). Furthermore, expectations improved in Hotels – Restaurants (+26.9%, against +15.3% in 2013), and in Informatics Services, with the respective indicator rising by 25.8%, after having improved by 31.6% in 2013. In contrast, pessimism was recorded in Financial Intermediaries, with the respective indicator declining by 14.5%, after growing significantly, by 79.1%, in 2013.

Table 3.6
Turnover Indices in Services (Annual Change-2005=100)

	Jan. - Sep. 2012	Jan. - Sep. 2013	Jan. - Sep. 2014	Change '13/'12	Change '14/'13
Car Trade	52.0	48.7	58.3	**-6.2%**	**19.6%**
Overland transports & via pipelines	95.9	88.4	85.3	**-7.8%**	**-3.6%**
Water Transports	74.2	82.7	74.6	**11.5%**	**-9.8%**
Air Transports	100.9	120.0	123.8	**19.0%**	**3.2%**
Auxiliary to transport services & warehouse activities	60.6	80.3	83.3	**32.5%**	**3.8%**
Travel agencies	48.9	54.4	58.6	**11.4%**	**7.7%**
Postal and express delivery services	94.2	87.3	88.6	**-7.3%**	**1.4%**
Publishing services	44.8	43.6	45.3	**-2.7%**	**3.9%**
Telecommunications	75.9	65.5	61.8	**-13.7%**	**6.1%**
Informatics	58.8	50.2	52.2	**-14.6%**	**4.0%**
Data processing	170.1	134.2	129.4	**-21.1%**	**-3.5%**
Legal, accounting, consulting services	97.2	110.2	109.5	**13.4%**	**-0.6%**
Architectural – Engineering services	57.1	48.7	32.9	**-14.6%**	**-32.5%**
Advertising, market research, polls	43.5	34.2	30.7	**-21.3%**	**-10.2%**
Administrative office works	64.1	53.0	46.8	**-17.3%**	**-11.7%**
Tourist services	88.1	87.9	98.4	**-0.2%**	**11.9%**

Source: ELSTAT

Table 3.7
Sector Indices of Business Sentiment in Services (1996-2006=100)

	2012	2013	2014	Change '13-'12	Change '14-'13
Hotels - Restaurants	69.2	79.8	101.3	15.3%	26.9%
Travel agencies and tour operators, tourist business activities	73.8	89.2	122	20.9%	36.8%
Other Services to Businesses	45.0	63	66	40.0%	4.8%
Financial Intermediation	54.5	92.7	79.3	70.1%	-14.5%
Informatics	47.1	62	78	31.6%	25.8%
Total Services	**54.8**	**70.4**	**87.2**	**28.5%**	**23.9%**

Source: IOBE

3.3 Export Performance of the Greek Economy

The **exports of Greek goods** in the period from January to October 2014 reached €22.3 billion, against €23.billion in the same period of 2013, **falling by 3.3%**. **Exports excluding petroleum products in the same period contracted by 1.1**%, reaching €13.5 billion, from €13.7 billion a year earlier. Imports in the first ten months of 2014 grew by 0.5%, reaching €39.2 billion, against €38.9 billion in 2013. As a result, the **trade deficit** increased by €1 billion (or by 6%), to €16.8 billion. Thus the **value of Greek exports** of goods is **57% of the value of imports**, while a year earlier this ratio was 59.2%.

In more detail, the exports of Agricultural Products (Table 3.8) contracted by 7.4% in the first nine months of 2014, reaching €3.7 billion, down from €4 billion in the same period a year earlier, while the exports of fuels also declined by 6.4%, standing at €8.8 billion, down from €9.4 billion in the first ten months of 2013. Notably, these two product categories accounted cumulatively for 56.2% of total Greek exports (58.2% a year earlier). The decline in the exports of Agricultural Products stemmed mainly from a remarkable fall in demand for Animal and Vegetable Oils and Fats, by 61.9%, the value of which did not exceed €198.9 million, when in the same period of 2013 it had reached €522.1 million (a decrease by €323.2 million). The share of Animal and Vegetable Oils and Fats in the exports of Agricultural Products declined, from 12.9% in the first 10 months of 2013 to 5.3% in 2014. The exports of Food and Live Animals, which account for 82.3% of the exports of Agricultural Products, increased by 1.4%, form €3.02 billion in 2013 to €3.06 billion in 2013. The exports of Beverages and Tobacco, accounting for 12.4% of the exports of Agricultural Products, declined by 3.7%, or €17.5 million, from €479.3 million in the first ten months of 2013 to €461.8 million in the same period of 2014.

In contrast, the exports of Industrial Products grew in the first 10 months of 2014, by 2.9%, or €238.5 million, reaching €8.5 billion, from €8.2 billion a year earlier. This improvement came mainly from the increase in the exports of Chemical Products by 4.6%, or €97.2 million (from €2.1 billion in the first ten months of 2013 to €2.2 billion in the same period of 2014), as well as from the increase in the exports of Various Industrial Products, by 3.7% or €50.3 million (form €1.37 billion in the first ten months of 2013 to €1.42 billion in 2014). In addition, the exports of Machinery and Transport Equipment increased in the same period, by 7.5%, reaching €1.77 billion, from €1.65 billion a year before. On the other hand, the exports of "Industrial Goods Classified by Raw Material", which account for 36.3% of the exports of Industrial Products, decreased slightly, by 1.1%, or €33 million (from €3.12 billion in the first ten months of 2013 to €3.08 billion in 2014).

The exports of Raw Materials also declined, by 10% (from €872.6 million to

€785.4 million), as did the exports of "Commodities Not Classified Elsewhere", by 1.6% (from €497.1 million to €489.2 million).

Regarding the destination of Greek exports, the exports to the fifteen oldest members of the European Union, EU-15, which account for approximately a third of the total Greek exports, declined by 3.3%, reaching €6.6 billion in 2014, down from €6.8 billion in the first ten months of 2013. The exports to the other countries of the European Union were 1.6% lower than a year earlier, contracting by €166.4 million (from €10.1 billion in the first ten months of 2013 to €10 billion in 2014). Regarding the major markets for Greek products in the EU-15, the exports to Germany contracted slightly, by 0.3%, or €4.9 million (from €1.50 billion to €1.49 billion), while the exports to Italy contracted significantly, by 6.2%, or €131.3 million (from €2.1 billion to nearly €2.0 billion). Similarly, the export to France contracted by 4.2%, or €23.2 million (from €550.3 million in 2013 to €527.2 million in the first ten months of 2014). On the other hand, the exports to Portugal increased by 5.4%, reaching €106.6 million (from €101.1 million in the first ten months 2013) and the exports to Spain increased by 4.3%, reaching €498.4 million (from €478 million). Among the EU-15 countries, the greatest percentage decline in Greek exports was recorded in the exports to Denmark, which shrank by 24.6%, or €25.9 million (from €105.2 million in 2013 to €79.2 million), while the greatest percentage increase was recorded in the exports to Luxemburg (+19%, or €0.6 million).

Among the more recent members of the European Union, the total exports to which grew by 7.9%, or €133 million (from €1.68 billion in 2013 to €1.81 billion in 2014), Cyprus is the main export market for Greek products. The exports to Cyprus grew by 10%, or €93 million, in the first ten months of 2014. The exports to Poland and to the Czech Republic, two important markets for Greek products, also increased. In more detail, the exports to Poland grew by 11.4%, or €27.1 million, reaching €264.7 million, while the exports to the Czech Republic increased by 38.7%, or €43.4 million, reaching €155.6 million. The greatest decline was recorded in the exports to Slovenia, which shrank by 50.5%, or €75.1 million (from €156.3 million to €77.4 million).

The export flows to Turkey, which remained the most important market for Greek exports in 2014, contracted to a small extent, by 1.7%, or €46.2 million, from €2.74 billion in the first ten months of 2013 to €2.7 billion in 2014.

The demand for Greek products in the Balkan countries (the third largest market for Greek exports as a group) decreased slightly, by 1.4%, reaching €3.02 billion in the first ten months of 2014, down from €3.07 billion in the same period of 2013.

This decline was mainly due to a decrease of exports to i) Bulgaria (which is the fourth most important market for Greek exports overall) by 6.9%, or €80.8

million, ii) FYROM, by 1.8%, or €11.4 million and iii) Kosovo, exports to which shrank from €67.6 million in 2013 to €29 million in 2014 (a decline by 57.1%). On the other hand, strong improvement was recorded in the exports to i) Albania, by 24.5% and ii) Croatia, by 34.1%.

The Greek exports to North America contracted by 12% (from €964.3 million to €848.4 million), mainly due to the decrease in exports to the United States from €792.3 million to €660.9 million (-16.6%), despite growing exports to Mexico and Canada by 7.6% and 11%, respectively.

The Greek exports to countries in North Africa and the Middle East (the second largest market for Greek exports as a group, after the Euro Area-15) contracted by 2.7% (from €3.17 billion to €3.09 billion), mainly due to a sharp decline of the exports to North Africa countries, namely Morocco (-75.3%, from €187.4 million to €46.3 million), Libya (-79.4%, from €647.4 million to €162.7 million) and Algeria (-28.7%, from €317.7 million to €226.5 million). Nonetheless, a remarkable increase occurred in the exports to Saudi Arabia, which reached €622.2 million, rising by 87.6%. The exports to Tunis also grew, by 324.4%, reaching €244.2 million, as did the exports to Iraq, by 69.2%, reaching €32.4 million. In another important export market for Greek products in the Middle East, Lebanon, exports increased by 23.6%, reaching €477.6 million, while the exports to Israel contracted by 49.6%, reaching €165.5 million.

The Greek exports to the countries of the Commonwealth of Independent States increased by 8.5%, to reach €719.6 million. This change was driven mainly by the increase of the Greek exports to Belarus, which reached €12.6 million in the first ten months of the year (€11.3 million in 2013), to Ukraine, which reached €152.9 million, (against €106.3 million in the first ten months of 2013), despite the geopolitical turmoil in the area, and to Moldova, reaching €81.4 million (from €23.7 million in the previous year). However, the Greek exports to the most important market in this group, Russia, contracted by 10.2% (from €345.9 million in 2013 to €310.5 million in 2014). A notable fall was observed in the exports to the Latin American countries in the first ten months of 2014, with their total value falling to €66.2 million, from €142.6 million a year earlier.

This disappointing export performance came from a sharp decline in the demand for Greek products in Brazil, where the value of exports was down by 71%, falling to €34.4 million in 2014, from €118.7 million in 2013.

In contrast, it seems that the demand for Greek products in the emerging countries of S.E. Asia keeps growing, as during the first ten months of 2014 the Greek exports to this region increased by 25% compared with the same period of 2013, to reach €608.4 million.

This increase was caused mainly by growing exports to Singapore (+24.9%, reaching €253.3 million), South Korea

(+29.3%, reaching €190.9 million) and Indonesia (+64.4%, reaching €77.2 million). This increase of exports cancelled out to a great extent the sharp decline in the demand for Greek products in China during the first ten months of 2014, as the exports to China shrank by 37.1%, reaching €233.5 million, against €371.2 million in 2013.

In summary, the decline of the Greek exports of goods over the first ten months of this year was caused primarily by shrinking exports of Fuel (-€606.7 million, or -6.4%) and Animal and Vegetable Oils and Fats (-€323.2 million, or -61.9%), despite growing exports of Chemicals and Related Products (+€97.2 million, or +4.6%). The slowing of Greek exports, relative to the strong exporting performance of previous years, stems primarily from shrinking demand for Greek products in the two most important markets for Greek exports, namely the countries of the EU-15 and the countries of North Africa and the Middle East. These effects prevailed, despite stronger demand for Greek exports from South-East Asia countries and from more recent members of the EU.

Table 3.8

Exports per 1-digit product classification in current prices (millions of €, provisional data)
January – October, 2014 and 2013

Product	**Value (millions of €)**		**Change**	**Share of total (%)**	
	2014	**2013**	**2014/2013**	**2014**	**2013**
Agricultural Products	**3,723.4**	**4,021.4**	**-7.4%**	**16.7%**	**17.4%**
Food and living animals	3,062.7	3,019.9	1.4%	13.7%	13.1%
Beverages and tobacco	461.8	479.3	-3.7%	2.1%	2.1%
Animal or natural oils and fats	198.9	522.1	-61.9%	0.9%	2.3%
Raw materials	**785.4**	**872.6**	**-10.0%**	**3.5%**	**3.8%**
Crude materials excluding food and fuel	785.4	872.6	-10.0%	3.5%	3.8%
Fuel	**8,811.7**	**9,418.5**	**-6.4%**	**39.5%**	**40.8%**
Minerals. fuel. lubricants	8,811.7	9,418.5	-6.4%	39.5%	40.8%
Industrial products	**8,515.5**	**8,277.0**	**2.9%**	**38.1%**	**35.9%**
Chemicals and related products	2,221.5	2,124.3	4.6%	10.0%	9.2%
Manufactured goods classified by raw materials	3,089.8	3,122.8	-1.1%	13.8%	13.5%
Machinery and transport equipment	1,775.6	1,651.7	7.5%	8.0%	7.2%
Miscellaneous manufactured products	1,428.6	1,378.3	3.7%	6.4%	6.0%
Others	**489.2**	**497.1**	**-1.6%**	**2.2%**	**2.2%**
Commodities and transactions not classified by category	489.2	497.1	-1.6%	2.2%	2.2%
Total exports	**22,325.2**	**23,086.6**	**-3.3%**	**100.0%**	**100.0%**

Sources: ELSTAT, PEA-ERC

These trends are estimated to have carried over to the last two months of 2014.

During November and December 2014, the growth of exports to countries of the Commonwealth of Independent States, recorded over the first ten months of the year, has probably slowed considerably, as an effect of the prolonged political and economic dispute between the European Union and Russia since last summer, regarding the geopolitical tensions between Russia and Ukraine.

On the other hand, the falling exchange rate of the Euro against the dollar, as well as against the Japanese yen, have had a positive impact on Greek exports, preventing them from contracting sharply.

Taking all those factors into account, the value of Greek exports in 2014, fuel included, is still expected to approach €26.3 billion, as mentioned in previous IOBE bulletins, down from €27.2 billion in 2013, recording a drop by 3.3%. Excluding fuel, exports are expected to approach €15.9 billion, from €16.4 billion in 2013, contracting by 3%.

Table 3.9

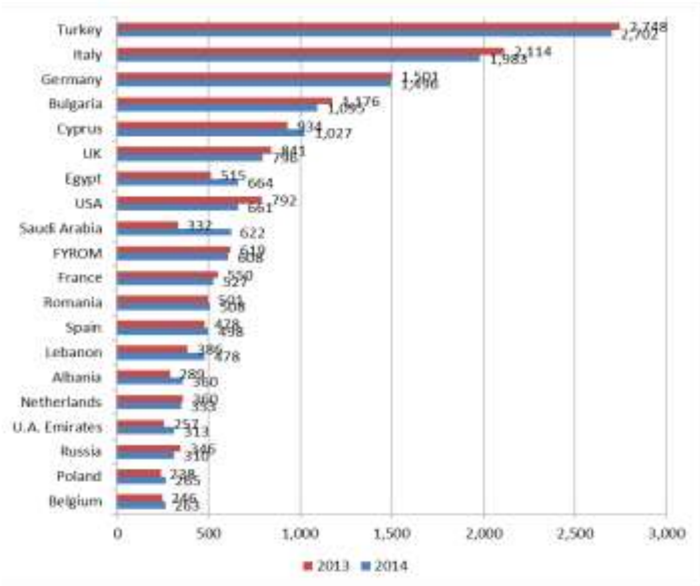
Exports per destination, January – October, 2014 and 2013

Region	Exports (millions of €)		Change	Share of total (%)	
	2014*	2013	2014*/2013	2014*	2013
OECD (29 countries)	11,133.9	11,401.2	-2.3%	49.9%	49.4%
EU-27	9,971.3	10,137.7	-1.6%	44.7%	43.9%
EU-15	6,552.4	6,777.1	-3.3%	29.3%	29.4%
North America	848.4	964.3	-12.0%	3.8%	4.2%
Other Developed countries (Japan, Australia, New Zealand)	155.3	149.4	3.9%	0.7%	0.6%
Other OECD countries (Iceland, Norway, Switzerland, Turkey)	2,831.1	2,885.5	-1.9%	12.7%	12.5%
Balkans	3,029.0	3,072.3	-1.4%	13.6%	13.3%
Commonwealth of Independent States (CIS)	719.6	663.2	8.5%	3.2%	2.9%
North Africa and the Middle East	3,091.8	3,178.9	-2.7%	13.8%	13.8%
Sub-Saharan Africa (8 largest markets)	111.6	103.8	7.5%	0.5%	0.4%
South East Asia (incl. South Korea)	608.4	486.8	25.0%	2.7%	2.1%
Latin America	66.2	142.6	-53.5%	0.3%	0.6%
Other countries	2,216.5	2,568.8	-13.7%	9.9%	11.1%
TOTAL	**22,325.2**	**23,086.6**	**-3.3%**	**100.0%**	**100.0%**

* Provisional data

Source: ELSTAT, PEA-ERC

Figure 3.11
Countries that absorb the largest share of Greek exports (millions of €)
January – October, 2014 and 2013



Source: ELSTAT, PEA-ERC **Data processed by:** IOBE

3.4 Employment - Unemployment

Unemployment fell in the third quarter of 2014 to 25.5%, against 27.8% in the third quarter of 2013. Unemployment also retreated compared with the unemployment in the first two quarters of 2014, according to ELSTAT's Labour Force Survey. In particular, the number of unemployed decreased by about 107,800 (8.1%) in the third quarter of this year, compared with the third quarter of 2012 (from 1,337,200 to 1,229,400). It is also worth mentioning that in the first 3 quarters of 2014 unemployment decreased to 26.6%, 1 percentage point lower compared with the first three quarters of 2013.

Greece remained the country with the highest unemployment rate in Eurozone-18. The second highest unemployment rate was recorded in Spain (23.7%), while next came Cyprus, with 16.1% unemployment. Portugal, which left the stabilization mechanism, had an unemployment rate which receded to 13.3%. Unemployment also decreased significantly in Ireland to 11.3%. The lowest unemployment rate in Eurozone-18 in the third quarter of 2014 was recorded in Germany (4.8%), followed by Austria (5%), Malta (5.9%) and Luxemburg (5.9%).

As mentioned repeatedly in previous IOBE bulletins, the increase of unemployment over the past years came exclusively from employment reduction**. However, in the third quarter of this year employment dropped by 1.3% compared with the third quarter of 2013, and the total number of employed persons was 3,586,000.** It is worth stressing that employment remains persistently low, at its lowest level since 1998.

Regarding the labour force characteristics, unemployment in Greece continues to affect women more than men, as the unemployment rate among women was higher by 6.6 percentage points (29.2% compared to 22.6%) in the third quarter of 2014, compared with the unemployment rate of men. Unemployment among women in the third quarter of the year decreased by 6.7% compared with the same period in 2013, but it had already increased by 8.3% in 2013 in comparison with the same period in 2012. Unemployment among men in Greece in the third quarter of this year was 5.8% lower, compared with the same period in 2013 (it was 24%), but it has increased by 10.6% since 2012.

In the Eurozone-18, the difference in unemployment rates between women and men in the third quarter of 2014 was negligible, at 0.6 percentage points. In more detail, the unemployment rate among men in the Eurozone-18 in the second quarter of the year stood at 10.8%, smaller than that of the preceding year (11.4%). Among women in the Eurozone, the unemployment rate does not exceed 11.4%, 0.3 percentage points lower than a year earlier (11.7%).

Regarding age, unemployment has been more severe among the young. The unemployment rate among people aged 15-24 in the third quarter of the year declined by 13.3% in comparison with 2013, from 57.1% to 49.5%. In the age group of 25-29, unemployment decreased reaching 39.7%, against 43.5% in the previous year. Unemployment was also high in the ages 30-44, but still 1.2% lower than in 2013 (declining from 25.9 to 24). The unemployment rate among those aged 45-64 declined by 0.4 percentage points, from 18.9% in the third quarter of 2012 to 18.5% in the same period of this year.

The percentage of the long-term unemployed, people who are unemployed for more than 12 months, over the total number of unemployed people has increased by 5.6% points, reaching 75.4% in the third quarter of 2014. On the other hand, the percentage of newly unemployed, those who have never worked in the past, dropped by 4.1%, falling to 24% of the unemployed.

The unemployment of **foreigners** dropped by 17.2%, from 36.6% in the third quarter of 2013 to 30.3% in 2014. The unemployment of **local residents** fell from 26.1% in 2013 to 25.1% in 2014, a reduction of 3.8%.

Unemployment continues to be more acute among people with low education level. In more detail, the highest unemployment rates were recorded among those who have attended (without finishing) primary school (34.8% in the third quarter of 2014, and 39.6% in the previous year, 12.2% decrease). Among those who have not attended school at all the unemployment in the last year dropped from 38.3% to 33%.

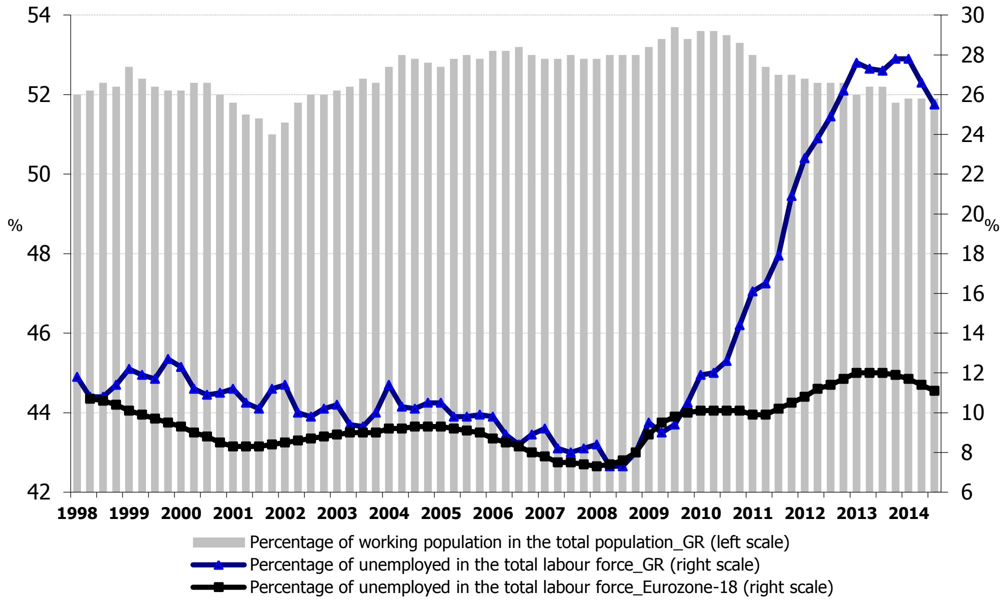
Unemployment was also high among people who have completed lower secondary education (ISCED 2), with 28.6% of them being out of work, yet this rate was lower than a year earlier (31.9% in 2013). Slightly lower unemployment than a year earlier (28%, from 29.4%) was observed among people who have completed upper secondary education (ISCED 3). Unemployment among university graduates was lower than the country average, but increased to 20.6% from 18.8% a year earlier. The unemployment rate was 12.7%, 3 percentage points less than in 2013 for people with postgraduate and/or doctorate degrees.

Unemployment declined in the third quarter of 2014 in nine of the thirteen regions of Greece**.** It should be noted that unemployment remained higher than 20% in all Greek regions, except from the Ionian islands (16.1% from 12.8% in 2013) and the South Aegean (15.2% from 17.3%). The greatest year-on-year decline in unemployment rates was recorded in West Macedonia (-16.8%) , East Macedonia – Thrace (-15.1%), the South Aegean (-12.1%) and Crete (-8.7%). There was also a smaller decrease in unemployment in Central Greece (-8.5%), Central Macedonia (-7.9%), Attica (-5.9%), Epirus (-5.8%) and Western Greece (-4.8%). In contrast, unemployment increased in the Ionian Islands by 33%, in the northern Aegean by 3.8%, in the Peloponnese (2.7%), and in Thessaly (1.2%).

Regarding the main economic sectors**,** employment declined further in the secondary sector, by 1.7% in the third quarter of the year, following a reduction of 9.9% in the third quarter of 2013. In the primary sector, employment fell by 2.4% in the third quarter of 2014. Nevertheless, in the tertiary sector employment increased by 2.7%, in contrast to the second quarter of 2013, when employment in this sector declined by 2%.

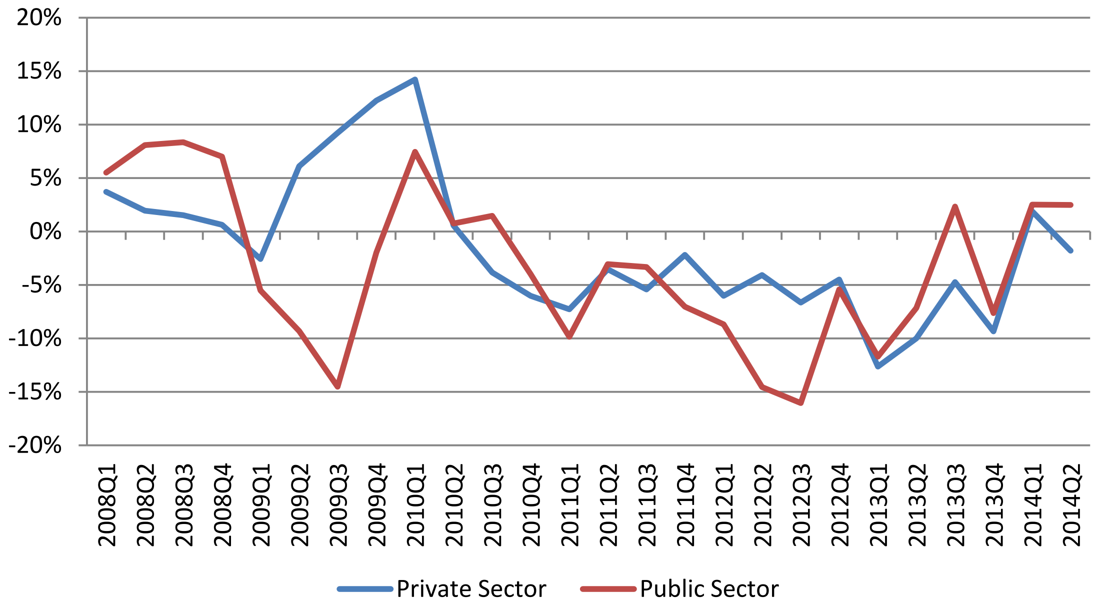
Employment increased in the third quarter of 2014 in fourteen branches of economic activity. Some of the branches with the biggest increase in employment were Public Administration-Defence-Compulsory (-31.2% in 2013, +50% in 2014), Real Estate Services (-39.7% in 2013, +43.2% in 2014), Administrative-Support (0.5% in 2013, 39% in 2014), and Mining-Quarrying (from -26.8 in 2013 to + 28.1). Also there was a big increase in Tourism (from -3.1 in 2013, +17.8%), mainly due to the increase of tourist arrivals last year and the optimistic expectations of the operators. In contrast, in the remaining seven branches employment decreased in 2014. The bigger reduction of employment was recorded in Financial-Insurance Activities (from +6.1% in 2013 to -18.9% in 2014), while there was also a small decrease in Transport (-5.8%, to 3.1%), in Wholesale-Retail Trade (from -2.2% to -0.2%) and in Professional-Scientific-Technical Activities (from -7.1% to –0.9%).

Figure 3.12
Labour force (% proportion as to population of 15 years old and over) and unemployed (% proportion as to labour force)



Source:ELSTAT –Labour Force Survey, Eurostat

Figure 3.13
Labour cost in the public and private sector in Greece (Q1/2008-Q2/2014)



Source: Eurostat

Table 3.10

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

Quarter/Year	Grand Total	Labour Force				
		% of population			% of population	
1998	**8.680,4**	**52,1**	**4.017,9**	**88,8**	**507,9**	**11,2**
1999	**8.764,5**	**52,3**	**4.031,4**	**87,9**	**554,7**	**12,1**
2000	**8.839,8**	**52,2**	**4.088,5**	**88,6**	**523,5**	**11,4**
2001	**9.156,0**	**51,4**	**4.202,1**	**89,2**	**508,4**	**10,8**
2002	**9.188,3**	**51,8**	**4.265,0**	**89,7**	**492,7**	**10,4**
2003	**9.234,9**	**52,3**	**4.353,2**	**90,2**	**472,7**	**9,8**
2004	**9.285,3**	**52,9**	**4.389,5**	**89,4**	**520,0**	**10,6**
2005	**9.332,4**	**52,9**	**4.443,6**	**90,0**	**493,6**	**10,0**
2006	**9.374,1**	**53,1**	**4.527,5**	**91,0**	**448,2**	**9,0**
2007	**9.412,3**	**52,9**	**4.564,1**	**91,6**	**418,4**	**8,4**
2008	**9.435,1**	**53,0**	**4.610,5**	**92,3**	**387,9**	**7,8**
2009	**9.431,1**	**53,4**	**4.556,0**	**90,4**	**484,7**	**9,6**
Q1 2010	9.418,1	53,6	4.446,0	88,1	600,2	11,9
Q2 2010	9.405,4	53,6	4.436,5	88,0	604,6	12,0
Q3 2010	9.393,1	53,5	4.398,0	87,4	631,9	12,6
Q4 2010	9.381,0	53,3	4.278,5	85,6	720,8	14,4
2010	**9.399,4**	**53,5**	**4.389,8**	**87,3**	**639,4**	**12,7**
Q1 2011	9.374,4	53,0	4.165,5	83,9	799,6	16,1
Q2 2011	9.373,1	52,7	4.124,2	83,5	815,6	16,5
Q3 2011	9.372,2	52,5	4.040,8	82,1	883,5	17,9
Q4 2011	9.371,7	52,5	3.886,9	79,1	1.028,6	20,9
2011	**9.372,9**	**52,7**	**4.054,4**	**82,2**	**881,8**	**17,9**
Q1 2012	9.364,7	52,4	3.785,0	77,2	1.119,1	22,8
Q2 2012	9.351,2	52,3	3.729,9	76,2	1.163,0	23,8
Q3 2012	9.338,0	52,3	3.668,0	75,1	1.218,4	24,9
Q4 2012	9.325,3	52,3	3.597,0	73,8	1.279,9	26,2
2012	**9.344,8**	**52,3**	**3.695,0**	**75,6**	**1.195,1**	**24,4**
Q1 2013	9.316,5	52,0	3.504,2	72,4	1.336,0	27,6
Q2 2013	9.311,7	52,2	3.535,0	72,7	1.327,9	27,3
Q3 2013	9.307,1	52,2	3.533,7	72,8	1.320,3	27,2
Q4 2013	9.302,7	51,8	3.479,9	72,2	1.337,2	27,8
2013	**9.309,5**	**52,1**	**3.513,2**	**72,5**	**1.330,4**	**27,5**
Q1 2014	9.295,8	51,9	3.483,7	72,2	1.342,3	27,8
Q2 2014	9.286,6	51,9	3.539,1	73,4	1.280,1	26,6
Q3 2014	9.277,5	51,9	3.586,9	74,5	1.229,4	25,5

Source: ELSTAT, Labour Force Survey

The labour cost in the private sector decreased slightly in the second quarter of 2014, by 1.8% compared with the second quarter of the previous year, when labour cost had fallen by 10%. The labour cost in the public sector, after having dropped by 7.2% in the last quarter of 2013, increased in the second quarter of this year by 2.5%, in contrast to the second quarter of 2012, when the public sector labour cost was contracting by 9.1%. The labour cost of the private sector remained stable in the first half of 2014, while 1 year ago it was contracting by 11.3%.

Medium-term Outlook

The strengthening recovery of the Greek economy in late 2014, mainly in the branches of Tourism and Wholesale-Retail Trade, which had contributed substantially to the stabilisation of unemployment in the first nine months of the year, prevented unemployment from surging in the last quarter of the year, as has often been the case previously. The failure to reach an agreement in the negotiations with the country's lenders stalled the reforms in the public sector, including the restructuring of its employment, which contributed to unemployment remaining stable in the last quarter. As a result, the average unemployment rate was 26.4%, 1% lower than in 2013.

The recovery momentum of the Greek economy will be the main factor leading to a drop in unemployment in 2014. In this regard, unemployment might even drop by about 2 percentage points, to 24.5%. On the other hand, the impact on unemployment of political developments in Greece and at international level about Greece cannot be currently assessed. The new government should clarify its stance on policies that would affect the macroeconomic environment, the tax framework and the labour market, in order to facilitate the decision-making process of businesses and households. Otherwise, it would be difficult to predict the direction and size of change of unemployment in the next few months.

According to the Business Surveys compiled by IOBE, the short-term employment expectations deteriorated quarter on quarter in the final quarter of 2014, in all branches of the Greek economy, except from Retail Trade.

In particular, **the employment expectations weakened once more in the final quarter, with the largest drop recorded in Constructions, followed by Services and Industry. Only in Retail Trade, the employment expectations improved.** Year on year, the employment expectations are more optimistic, in all branches, except from Constructions, with the largest improvement in Retail Trade.

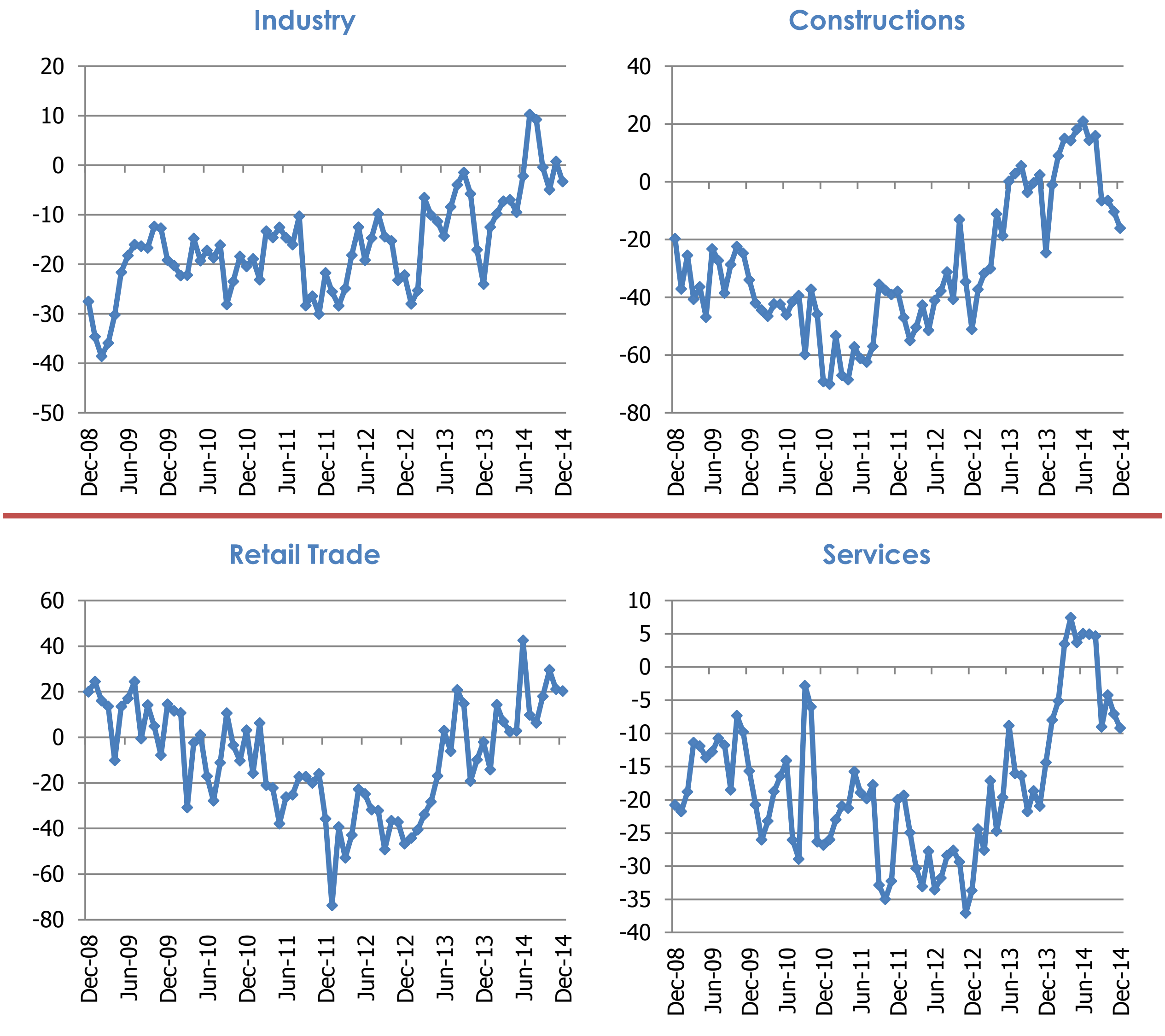
In greater detail, **in Industry, the positive balance of employment expectations in the final quarter of 2014 turned negative** and reached -2 points on average (from +6 in the third quarter). Compared with the corresponding period of 2013, the average quarterly index was higher by 13 points. The share of enterprises in Industry that were expecting an increase of employment in the coming months increased to 9% (from 13%), whereas the share of enterprises that were expecting a decrease of employment increased to 11%. The vast majority of the respondents (80%) were expecting no change in employment in the short term.

In Construction, the employment expectations deteriorated notably quarter on quarter in the final quarter of 2014. In particular, the average value of the indicator in the third quarter decreased by 19 points, reaching -11 points, down by 3 points year on year. The percentage of enterprises expecting fewer jobs in the sector increased to 30% (from 21%), while the share of those expecting employment growth decreased to 19% (from 29%). At sector level, the decrease of the overall indicator for Construction came mainly from the negative change in Private Construction, where the average indicator reached -11 points (from +12 on average), while the indicator increased in Public Construction (to -13 from -21).

In Services, the employment expectations deteriorated quarter on quarter, yet they improved year on year. In particular, the expectations indicator in the fourth quarter reached -7 points (from -18 in the fourth quarter of 2013). Among the enterprises in the sector, 20% (from 14%) were anticipating a drop in employment in the coming months, while the share of enterprises expecting employment growth remained stable at 14%. The employment expectations weakened in the most branches of Services, except from Land Transport, where the expectations improved and IT Services, where the expectations remained stable quarter on quarter.

The employment expectations improved in Retail Trade in the fourth quarter of the year, compared with the preceding quarter, with the expectations indicator increasing to +24 (from +11) points. This performance was much better year on year as well (from -10 points). The percentage of firms expecting a reduction in employment decreased to 7%, whereas the share of the firms anticipating employment growth increased to 31% (from 18%). Meanwhile, the percentage of firms anticipating stability in employment stood at 62% (from 75%). The employment expectations improved in Food-Beverages-Tobacco and Department Stores, and got worse for the remaining branches.

Figure 3.13
Employment Expectations (% difference between positive – negative answers)



Source: IOBE

3.5 Consumer prices

Recent Developments

The deflationary trends prevailing in the Greek economy over the past 2 years, since March of 2013, continued in the fourth quarter of 2014. The deflation rate stood at 1.9%, lower than in the same period of the previous year, when it had peaked at 2.2%, yet much higher compared with the preceding quarter (deflation of 0.6%).

The strengthening of the deflation in the last quarter of 2014 largely came from the decrease of the global petroleum prices, which affected negatively the housing and transportation costs, two of the three key categories in the calculation of the consumer price index. Meanwhile, the political instability that started after the announcement of early elections for the new president of Greece contributed further to the boost of deflation in December. The Consumer Price Index (CPI) dropped by 2.6% in comparison with December 2013, which was the second largest price drop since the start of the deflation period. The price level was 0.5% lower than in November, when a year before the corresponding change in the price index was notably positive (+0.9%). The prices would have dropped even more, if the euro had not depreciated against the dollar. The prices dropped by 1.3% in 2014, slightly more than in 2013 (0.9%), which was one the biggest price drop in at least 54 years.

At branch level, in 2014, prices fell in most categories of products and services. The price falls were bigger in Housing (-7.1% from +0.1% in 2013), due to the decrease in rents and the sharp fall of the price of heating oil in the last quarter. This price fall would have been even bigger, if the price of electricity hadn't increased in mid 2014.

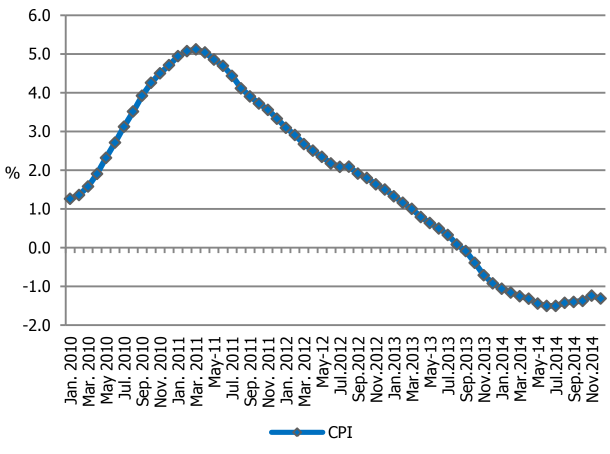
There was a smaller decrease in the prices of Transport (-4.2% from -2.5% in 2013), and Clothing-Footwear (-3.9% from -3.0% in 2013). The fall in transportation prices was exclusively due to the gasoline price decline, as airline and public transport fairs increased. The price drop for Education was slightly weaker than in 2013 (-3.1% from -4.0%), yet stronger than in Miscellaneous Goods-Services (from -2.4% in 2014, from -4.6% in 2013).

A price decline of medium intensity was observed in Recreation and Culture (-1.7% from -3%), and in Durable Goods (-1.7% from -2.3%). The prices in Recreation and Culture dropped mainly due to fall in the price of computers and audiovisual material, while the drop in the price of Durable Goods came mainly from lower prices of Furniture and Household Equipment. The same price drop of 1.2% happened in Hotels (-3.0% in 2013) and Food and Non-Alcoholic Beverages (-0.8% in 2013). The smallest price fall was recorded in Health (-1%, from + 0.8% in 2013), as a result of the drop of the fees for medical and paramedical services.

The only branch with a price increase, by 3.0%, was Alcoholic Beverages-Tobacco, exactly as strong as in 2013.

The average rate of change of the Harmonised Index of Consumer Prices (HICP) in Greece in 2014 reached -1.4%, against an average deflation of 0.9% in the previous year. After the temporary deflation weakening in the third quarter of 2014, the HICP once more returned to strong decline. In December, the HICP deflation rate peaked at -2.5%.

Figure 3.14
Headline Inflation -(annual % change)



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

As a result, Greece was the member-state of the Eurozone with the highest HICP deflation in 2014 (-2.5%). The deflation in Greece was stronger even compared with Bulgaria (-2.0%), which was ahead in this ranking for most of the year. Other countries with strong deflation were Spain (-1.1%), Cyprus (-1%), Luxemburg (-0.9%). Somewhat weaker deflation was recorded in Belgium (-0.4%), Ireland (-0.3%) and Portugal (-0.3%). There was also small deflation (-0.1%) in Italy, Netherlands, Slovenia and Slovakia.

France and Germany had minor inflation trends (+0.1%), while Malta (0.4%), the United Kingdom (0.5%) and Finland (0.6%), were the 3 countries with the highest inflation in the EU.

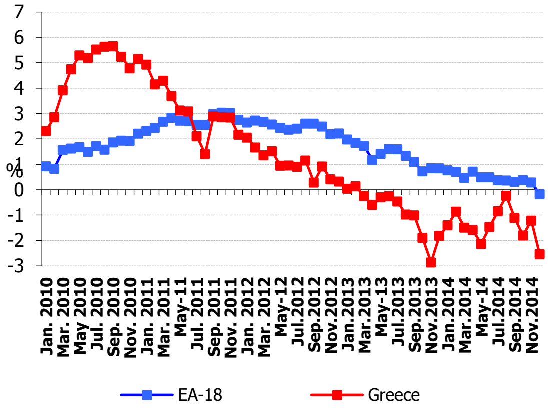
The general Producer Price Index (total for domestic and foreign markets) in Greece fell by 2.5% in 2014, against a reduction by 0.9% in the same period of the previous year. Producer prices excluding energy moved in the opposite direction, increasing by 1.7%.

At branch level, the greatest producer price fall in 2014 was observed in Petroleum Products - Energy Goods and its subsectors. In particular, the producer prices of refined petroleum products declined by 14.3%, of natural gas by 12.4% and of energy goods by 6.4%.

However, in most branches (63%), producer prices declined slightly year-on-year in 2014. In the remaining branches, producer prices increased. Notably, the producer prices for tobacco products, and coal-lignite increased compared with January 2014 by 6% and 18% respectively.

The prices of imported raw materials in Greece fell by 0.8% in 2014, less than the drop by 2.7% in 2013. In most branches, prices changed by less than ±0.5% in 2014. Exemptions to this were the branches of energy (-12.9%), the coke and refined petroleum products (-14.2%), tobacco (+3.7%) and textiles (+1.6%).

Figure 3.15
Harmonized Index of Consumer Prices – Greece & Euro Area-18 (annual % change)



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

Medium-Term Outlook

Domestic consumer demand increased in the second half of 2014, for the first time since the second half of 2009. One of the main factors, boosting demand was the reduction of unemployment. The continuous fall of unemployment will be pushing demand up in the current year, easing the deflationary pressures. A potential increase of VAT in tourism, and the restructuring of VAT (e.g. abolishment of the reduced rate), which is one of the subjects of the negotiations with the lenders, are factors that might limit the decrease of prices. Nevertheless, prices might continue to fall, with the price of petroleum remaining stable, at levels lower than in the first half of 2013, since OPEK does not seem willing to limit petroleum production in 2015. Deflation will be less affected by the low petroleum price in the last quarter of 2015, when the slump of oil prices would have lasted for a whole year, which might lead the Consumer Price Index to start increasing again in late 2015. As a result of the above trends, deflation will likely be low (0.4%) in 2015.

The heightened political instability because of the snap elections and the risk of unpredictable political developments in the next few months make any prediction for employment, domestic demand and demand for exports difficult. If the negotiations of the new government with the lenders are prolonged, the cautiousness of the households and businesses will remain strong and even intensify, dampen the fall of unemployment and the rise in demand, at least until the end of the negotiations. As a result, deflation might remain strong.

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

The changes in inflation expectations were not uniform in the fourth quarter of 2014. The balance of expectations remained negative for all sectors, indicating consistently deflationary expectations for yet another quarter, as has been common over the past four years. In particular, quarter-on-quarter the deflationary expectations in the fourth quarter of the year slightly weakened in Services and Retail Trade, remained unchanged in Industry, and became stronger in Private Construction. Compared with the fourth quarter of the previous year, the deflationary expectations weakened in Services and Retail Trade, with the expectations in Private Construction and Industry remaining essentially unchanged. In greater detail:

In Industry, the deflationary expectations in the fourth quarter of the year remained at the same level quarter-on-quarter, with the respective indicator remaining at -9 percent points. Among the enterprises in this sector, 14% on average were expecting a further reduction of prices in the near future, 81% were expecting price stability, while 5% were expecting prices to increase.

In Retail Trade, the deflationary expectations weakened in the fourth quarter of 2014, with the balance of expectations standing at -5 points (from -11 points in the previous quarter and -17 points a year earlier). About 15% (from 13% in the preceding quarter) of the sector's enterprises were expecting prices to fall in the short term, with 10% (from 3%) anticipating inflationary pressures and 75% (from 84%) expecting prices to remain stable. Among the subsectors of Retail Trade, the deflationary expectations became stronger in Textiles–Clothing-Footwear. In contrast, they weakened in Vehicles-Spare Parts and remained unchanged in Food-Beverages-Tobacco and Department Stores.

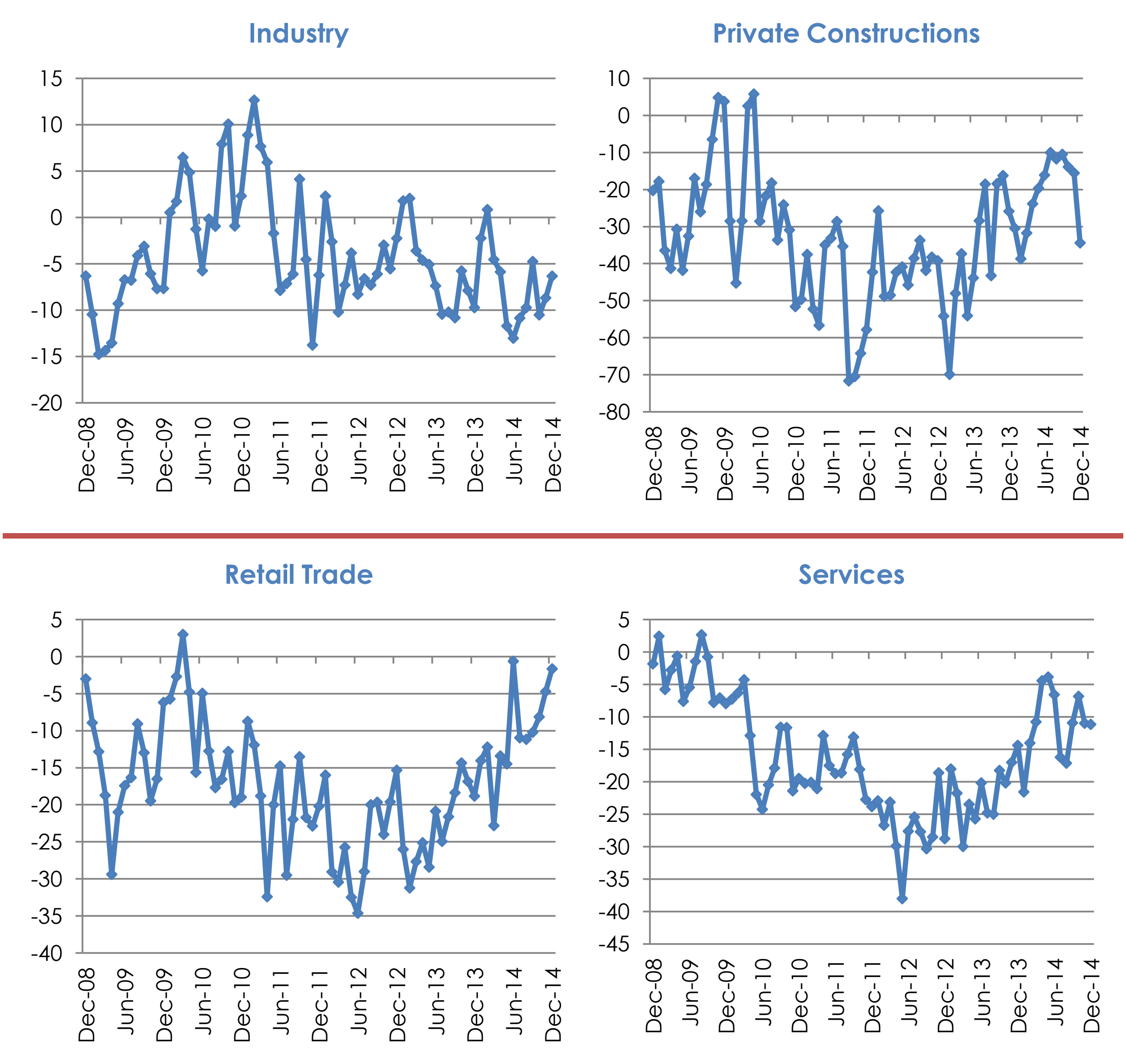
In Services, the price expectations indicator went up by 5 points in the final quarter of 2014, compared with the preceding quarter, reaching -10 points (8 points higher than a year earlier). About 11% (from 18% in the preceding quarter) of the sector's enterprises were expecting price drops in the next three months, while 2%

(from 4%) were expecting further inflationary pressures. Among the branches of the Services sector, the deflationary expectations eased in Hotels-Restaurants-Travel Agencies and Financial Intermediaries.

Finally, the deflationary expectations in Private Construction intensified in the final quarter of 2014, quarter on quarter, with the respective balance of expectations reaching -21 points (unchanged year on year). About 21% (from 14%) of the sector's enterprises were expecting prices to fall in the short run, while none of the enterprises were expecting prices to increase (from 3% of the sector's enterprises).

Figure 3.16

Price Expectations (% difference between positive – negative answers)



Source: IOBE

3.6 Balance of Payments

Current Account

The **current account balance** was yet again positive in the first eleven months of the year, as in the corresponding period of 2013. The current account surplus reached €2.5 billions, against a surplus of €1.3 billions in 2013. The big increase in the surplus of services was the main reason for this increase, with the reduction of the income deficit contributing as well. In contrast, the deficit in the trade balance increased, while the surplus of current transfers decreased.

In greater detail, the **trade deficit** increased by 5.8% (or by €917.4 million)[6] in the first eleven months of 2014. The trade deficit increased after 5 years of decline, with both imports and exports increasing, but with the imports increasing more. In particular, exports increased by 4.7% (or €961.7 million), against 3.3% in 2013, while imports increased by 5.1% (or €1.9 billion), returning to their 2012 level. The trade deficit of goods excluding fuel and ships contracted by 1.6% (or by €116.4 million) and exports this year increased by 5% (or €644.1 million), against 2.4% in 2012. The imports of those goods increased by 3.8% (or €760.7 million), against a drop by 1.8% in 2013. The fuel trade deficit increased by 2.5% (or €180 million),with fuel imports increasing by 2.2% and the exports of fuel rising by 2.0%. The deficit in fuel trade thus reached €7.5 billion.

The surplus in the services account increased in the first eleven months of the year, by 17.1% (or €2.8 billion), against approximately 11.4% in 2013, with growth in both tourist receipts and in the receipts from other services. Total receipts increased by 11.3% (or €3 billion), against an increase by 1.6% in 2013, while payments increased by 1.9% (or €193.6 million), against a decrease by 11% in the corresponding period of 2013. Regarding particular categories of receipts, the tourism revenue increased in 2014 by 10.8% (or €1.3 billions), in the aftermath of the strong growth in 2013 (+16.3%). Tourist receipts increased even in November, by 30.7%, an indication that the touristic period expanded in 2014. Transport receipts increased by 8.8% (or €967 million), while the revenue from other services improved significantly, by 21.7%. Regarding payments, tourism payments increased by 11.2% (or €188.5 million), as did payments for other services, by 10.3% (or €335.1 million), while transport payments decreased by 6.5% (-€329.8 millions).

The **income deficit** fell significantly by €366 million to reach €2.6 billion. The receipts from fees, salaries, interest and dividends stayed the same at €3.1 billion in the first 11 months of 2014, while the corresponding payments decreased by 5.9%, to end up at €5.7 billion. The surplus of **current transfers**[7] decreased in the first eleven months of 2014, after the big increase of 2013, reaching €2.8 billion, against €3.9 billion in 2013. Total revenues fell by 20.2% year on year, reaching €5.5 billion, while payments declined by 11%, to 2.7 billion.

[6] The amounts in brackets represent absolute year-on-year change, unless indicated otherwise.

[7] The revenues refer to receipts from the European Agricultural Guidance and Guarantee Fund (EAGGF) and the European Social Fund (ESF), while the payments include contributions of Greece to the Community Budget.

Capital Account

The surplus of capital transfers reached €2.7 billion, lower by 24.6% less than 2013. Receipts[8] fell to €2.5 billion, while payments remained close to €280 million.

The cumulative balance of the current account and the capital account, changed from deficit to surplus in 2013, while in 2014 the surplus increased to €4.8 billion, from €4.3 billion in 2013. The sum of the balances of these accounts roughly reflects the Greek economy's external borrowing requirements,[9] and therefore maintaining a surplus in this combined balance over the first eleven months implies that Greece strengthened its potential to finance itself, by reducing its deficits and gradually becoming less reliant on the global markets.

Financial Account

The financial account recorded a net outflow of €3.3 billion in the first eleven months of 2014, compared with a net outflow of €3.6 billion in the previous year. This result is consistent with the accounting standards on Balance of Payments, where a surplus in the current account corresponds to a deficit in the financial account, i.e. the country becomes a lender and vice versa. In particular, direct investment had a net inflow of €904 million, down from €1.6 billion in 2013.

Foreign direct investment in Greece amounted to a net inflow of €1.4 billion, while Greek investment abroad amounted to a net outflow of €516 million, from €688 million in 2013. The most important single investment in November 2014, according to data from the Bank of Greece, was the inflow of €132 million from the purchase of 25% of Costa Navarino from Fivedunes Limited (Cyprus).

The net outflow in portfolio investment reached €6.0 billion in the first eleven months of the year, against a net outflow of €5.6 billion in 2013. Claims reached a net outflow of €8.2 billion, while liabilities reached a net inflow of €2.2 billion.

Other investment recorded a net inflow of €2.3 billion in the first eleven months of the year, against an inflow of €532 billion in 2013, while the loans of the general government reached €4.8 billion in the first 11 months of 2014. The total liabilities amounted to an inflow of €736 billion, while the total claims amounted to an inflow of €1.5 billion.

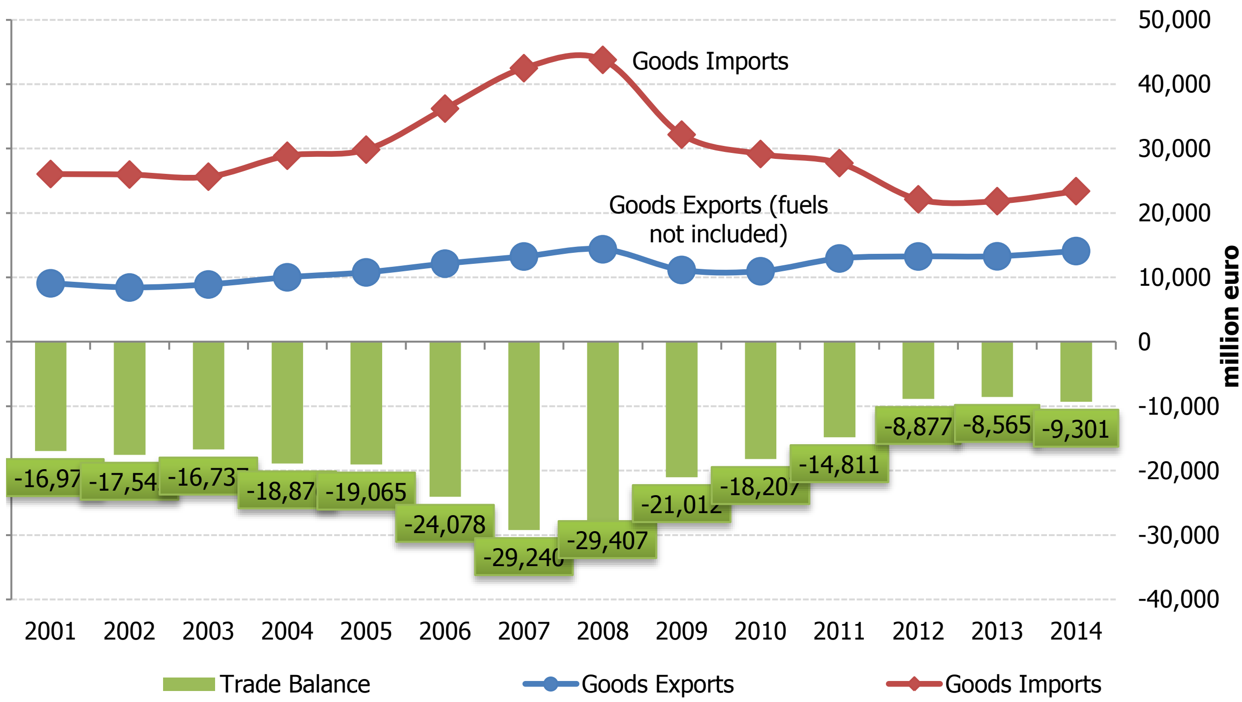
Finally, **foreign-exchange reserves** reached €4.9 billion in November 2014, from €4.3 billion in the same month a year before, with an increase of the foreign currency reserve and monetary gold.

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

[9] The two accounts together represent the total change in the net foreign assets of a country, either through the markets (current transactions), or outside the markets (capital transfers).

Figure 3.17

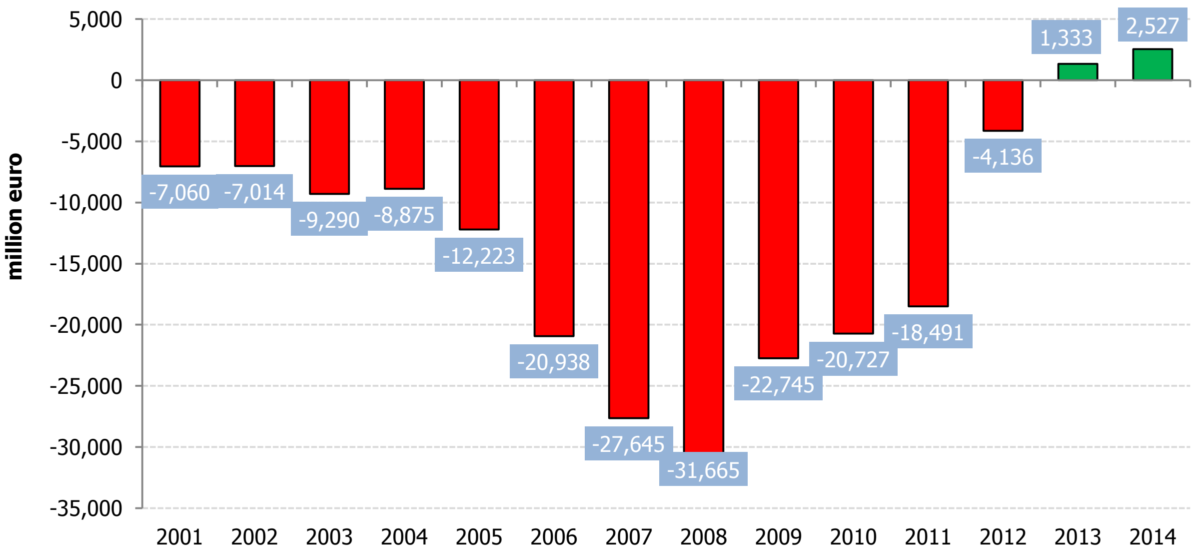
Imports-Exports of Goods, 2001-2014 (January - November)



Source: Bank of Greece – **Data Processing:** IOBE

Figure 3.18

Current Account Balance, 2001-2014 (January - November)



Source: Bank of Greece – **Data Processing:** IOBE

Assessment

According to the basic theory of international trade, every country benefits from trade, even if it is the less productive or the most productive country in all branches. This theory is based on Ricardo's concept of comparative advantage,[10] which says that every country may benefit from trade by producing and exporting to other countries the goods in which it has the lowest relative cost.

In other words, the advantage of a country is not limited to the goods with the lowest cost to produce in absolute terms, but it can be found in those goods that the country produces utilising better than other countries the resources that it has, in relation to other goods that it could produce with these resources.

The chart below depicts in which branches[11] Greece has comparative advantage, in relation with its main trading partners, the other EU member-states (EU27). On the horizontal axis, we have the productivity of the Greek economy per branch, relative to the EU-27, while on the vertical axis we have the ratio of Greek exports to the EU-27 member-states over the exports of the EU-27 member-states to Greece.

There is a positive relation between the productivity ratio and the exports ratio, in accordance with Ricardo's theory of comparative advantage.

In Fishing in particular, the relative productivity of the Greek economy is rather high, and as a result the ratio of exports is also quite high both in 2008 and 2011 (above 7).

In other branches as well, such as Basic Metals and Refined Petroleum Products**,** where productivity is higher in Greece than in the EU-27 and the productivity ratio is higher than one, the exports of Greece to the EU are also higher than the flows in the other direction. In fact, the difference increased between 2008 and 2011.

The Greek economy also has significant comparative advantage in Food Manufacturing, with a notable productivity growth between 2008 and 2011**.** According to Ricardo's theory, even in branches with lower (absolute) productivity, compared with competitor countries, a country could have better export performance.

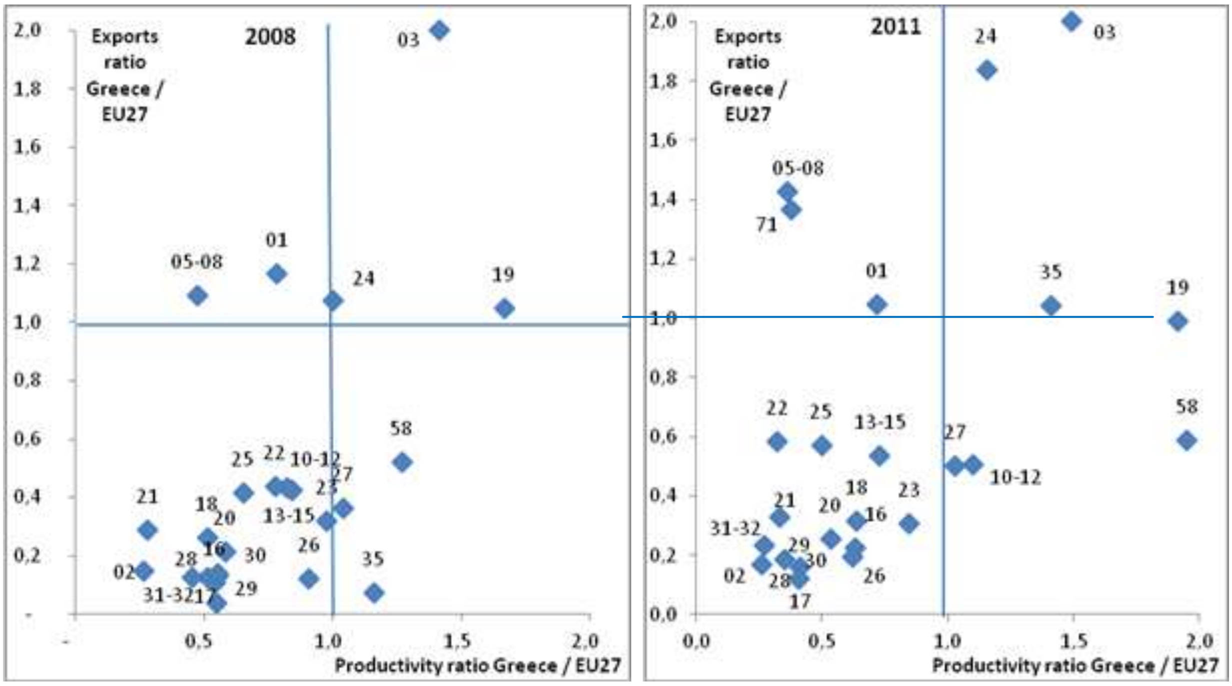
This seems to hold in Mining and in Crop and Animal Production, where Greece is less productive than the rest of the Europe, yet it still is exporting more than the EU. Nevertheless, Greece is more productive than the rest of the EU only in few branches, indicative of the significant restructuring that must take place to make many more branches and activities competitive.

[10] David Ricardo (1772-1823) was a Classical economist with a significant contribution to the development of the science of economics.

[11] For branches with available data on exports and productivity.

Figure 3.19

Productivity and exports per sector, Greece and EU27 *



*Greece is exempted

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

Sector's code	Sector's description
01	Crop and animal production, hunting and related service activities
02	Forestry and logging
03	Fishing and aquaculture
05-08	Mining and Quarrying
10-12	Manufacture of food products, beverages, tobacco
13-15	Manufacture of textiles, wearing apparel, leather and related
16	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
17	Manufacture of paper and paper products
18	Printing and reproduction of recorded media
19	Manufacture of coke and refined petroleum products
20	Manufacture of chemicals and chemical products
21	Manufacture of basic pharmaceutical products and pharmaceutical preparations
22	Manufacture of rubber and plastic products
23	Manufacture of other non-metallic mineral products
24	Manufacture of basic metals
25	Manufacture of fabricated metal products, except machinery and equipment
26	Manufacture of computer, electronic and optical products
27	Manufacture of electrical equipment
28	Manufacture of machinery and equipment n.e.c
29	Manufacture of motor vehicles, trailers and semi-trailers
30	Manufacture of other transport equipment
31-32	Manufacture of furniture and other manufacturing
35	Electricity, gas, steam and air conditioning supply
58	Publishing activities
71	Architectural and engineering activities; technical testing and analysis

Table 3.11

Provisional Balance of External Payments (January – November) in mil. €

		January – November			November		
		2012	2013	2014	2012	2013	2014
I	**CURRENT ACCOUNT BALANCE (I.A +I .B+ I.C + I.D)**	**-4.135,7**	**1.332,8**	**2.526,8**	**-752,9**	**-752,9**	**-996,7**
I.A	**GOODS (I.A.1 - I.A.2)**	**-18.641,0**	**-15.912,9**	**-16.830,4**	**-1.368,0**	**-1.359,3**	**-1.369,3**
	Oil Balance	-9.764,1	-7.348,6	-7.528,9	-731,9	-584,9	-689,2
	Trade Balance excluding oil	-8.876,9	-8.564,3	-9.301,5	-636,1	-774,4	-680,1
	Ships Balance	-1.020,7	-1.391,5	-2.012,3	-61,1	-124,8	-30,4
	Trade Balance excluding oil and ships	-7.856,2	-7.172,7	-7.289,1	-575,0	-649,6	-649,7
I.A.1	**Exports**	**20.010,0**	**20.670,1**	**21.631,8**	**1.990,7**	**1.840,1**	**1.878,9**
	Oil	6.758,8	7.393,7	7.540,9	699,2	625,8	557,0
	Ships	682,8	402,1	572,2	43,0	22,5	68,5
	Other goods	12.568,5	12.874,3	13.518,6	1.248,4	1.191,8	1.253,4
I.A.2	**Imports**	**38.651,0**	**36.583,0**	**38.462,1**	**3.358,7**	**3.199,4**	**3.248,2**
	Oil	16.522,8	14.742,3	15.069,8	1.431,1	1.210,7	1.246,2
	Ships	1.703,5	1.793,6	2.584,6	104,1	147,3	98,9
	Other goods	20.424,7	20.047,1	20.807,7	1.823,5	1.841,4	1.903,1
I.B	**SERVICES (I.B.1 - I.B.2)**	**14.679,8**	**16.348,5**	**19.141,3**	**593,4**	**636,8**	**764,3**
I.B.1	**Receipts**	**25.946,0**	**26.369,9**	**29.356,5**	**1.538,0**	**1.475,3**	**1.637,4**
	Travel*	10.296,7	11.973,5	13.262,0	193,8	204,5	267,2
	Transportation	12.272,1	11.032,3	11.999,5	1.014,6	974,9	1.046,6
	Other services	3.377,2	3.364,1	4.095,0	329,6	295,9	323,5
I.B.2	**Payments**	**11.266,2**	**10.021,4**	**10.215,2**	**944,7**	**838,5**	**873,1**
	Travel	1.682,9	1.677,3	1.865,7	121,5	135,8	159,2
	Transportation	5.815,6	5.100,0	4.770,2	527,7	444,7	434,2
	Other services	3.767,8	3.244,1	3.579,3	295,4	258,0	279,7
I.C	**INCOME (I.C.1 - I.C.2)**	**-1.584,4**	**-2.972,4**	**-2.606,5**	**81,1**	**-267,0**	**-329,9**
I.C.1	**Receipts**	**3.493,3**	**3.135,5**	**3.141,9**	**332,5**	**286,2**	**254,2**
	Compensation of employees	175,6	188,2	188,8	13,6	15,7	14,7
	Investment income	3.317,7	2.947,3	2.953,1	319,0	270,5	239,5
I.C.2	**Payments**	**5.077,7**	**6.107,9**	**5.748,4**	**251,4**	**553,2**	**584,1**
	Compensation of employees	429,0	413,9	433,8	38,9	31,3	43,0
	Investment income	4.648,7	5.694,0	5.314,5	212,5	521,9	541,1
I.D	**CURRENT TRANSFERS (I.D.1 - I.D.2)**	**1.409,8**	**3.869,5**	**2.822,3**	**-59,4**	**236,6**	**-61,8**
I.D.1	**Receipts**	**4.786,8**	**6.907,0**	**5.513,5**	**135,0**	**412,2**	**155,6**
	General Government (mainly transfers from EU)	3.799,4	5.723,5	4.482,2	52,3	325,4	59,4
	Other sectors	987,4	1.183,4	1.031,3	82,7	86,8	96,2
I.D.2	**Payments**	**3.377,0**	**3.037,5**	**2.691,1**	**194,5**	**175,6**	**217,4**
	General Government (mainly transfers from EU)	2.402,1	2.314,6	1.947,9	136,3	118,9	157,0
	Other sectors	974,9	722,8	743,2	58,2	56,8	60,4
II	**CAPITAL TRANSFERS (II.1 - II.2)**	**1.829,9**	**3.005,5**	**2.265,3**	**252,9**	**231,0**	**485,7**
II.1	**Receipts**	**2.036,1**	**3.294,0**	**2.546,1**	**271,2**	**247,4**	**496,7**
	General Government (mainly transfers from EU)	1.964,2	3.219,5	2.476,7	264,9	241,1	487,7
	Other sectors	71,9	74,5	69,4	6,3	6,3	9,0
II.2	**Payments**	**206,2**	**288,5**	**280,8**	**18,3**	**16,5**	**11,0**
	General Government (mainly transfers from EU)	13,4	4,5	8,4	0,9	0,3	0,4
	Other sectors	192,8	284,0	272,5	17,4	16,1	10,6
III	**CURRENT ACCOUNT AND CAPITAL TRANSFERS (I + II)**	**-2.305,8**	**4.338,3**	**4.792,1**	**-500,1**	**-522,0**	**-511,0**
IV	**FINANCIAL ACCOUNT (IV.A + IV.B + IV.C + IV.D)**	**3.334,3**	**-3.599,8**	**-3.288,4**	**716,8**	**171,4**	**364,8**
IV.A	**DIRECT INVESTMENT****	**340,3**	**1.607,8**	**904,5**	**-480,6**	**-146,6**	**78,4**
	Abroad	-458,8	687,8	-515,3	-258,1	-87,0	-53,9
	Home	799,1	920,0	1.419,9	-222,5	-59,5	132,3
IV.B	**PORTFOLIO INVESTMENT****	**-74.259,8**	**-5.650,9**	**-6.017,6**	**2.806,7**	**798,9**	**-2.542,6**
	Assets	-39.095,6	2.318,7	-8.237,0	1.376,1	335,1	-1.444,9
	Liabilities	-35.164,2	-7.969,5	2.219,4	1.430,6	463,9	-1.097,7
IV.C	**OTHER INVESTMENT****	**77.292,9**	**532,3**	**2.261,7**	**-1.596,2**	**-474,0**	**2.846,0**
	Assets	13.699,4	15.749,4	1.525,4	-321,4	-674,4	-319,8
	Liabilities	63.593,5	-15.217,1	736,3	-1.274,8	200,5	3.165,9
	(Loans of general government))	75.122,0	29.949,0	4.842,0	-0,1	-634,9	-707,9
IV.D	**CHANGE IN RESERVE ASSETS*****	**-39,0**	**-89,0**	**-437,0**	**-13,0**	**-7,0**	**-17,0**
V	**BALANCE ITEMS (I + II + IV + V = 0)**	**-1.028,5**	**-738,5**	**-1.503,7**	**-216,8**	**350,6**	**146,2**
	RESERVE ASSETS (STOCK) (end period)***				**5.289,0**	**5.960,0**	**4.319,0**

Source: Bank of Greece

* Travel receipts include data on cruises, other than those recorded in the Border Survey.

** (+) net inflow (-) net outflow

* * * (+) decrease (-) increase

**** 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. The impact of the 2004 Olympic Games on the Greek economy[12]

4.1 Introduction

The hosting of the Olympic and Paralympic Games in Greece in 2004 influenced the Greek economy in a number of ways. The need to construct the necessary sporting installations to host the Games, together with the surrounding infrastructure projects, generated economic activity on a broad scale. The publicity of Athens as a host city upgraded the image of the country abroad. However, the utilisation of the Olympic heritage is lacking, while the negative publicity accompanying Greece since late 2009 has limited the benefits from the positive impression that the successful hosting of the Games created abroad.

This study aims to assess the total impact of the Games on the Greek economy over time. In particular, the study examines the economic impact of the Olympic Games internationally, analyses the revenue and expenditure from the Olympic Games in Greece, quantifies econometrically the impact of the Games on incoming tourism and assesses their overall impact on the Greek economy, using appropriate macroeconomic models.

4.2 The economic impact of recent summer Olympic Games

The international experience show that the costs and the benefits from hosting the competition depend on a range of parameters, during both the preparation phase and the period of Olympic heritage utilisation. This makes the achievement of a significant positive economic impact a rather complex endeavour. On the expenditure side, the gross cost depends on the degree of readiness of the host city's infrastructure, the share of the private sector in the investment spending and the choice of the authorities between permanent and temporary facilities, a choice that stems from their intentions in regard to upgrading the infrastructure of the host city.

For example, the 1996 Olympic Games in Atlanta were characterised by a relatively small gross cost of preparation and use, as the needed infrastructure was largely in place prior to the Games. In contrast, in the London 2012 Games quite a few infrastructure projects were implemented that upgraded significantly the East London area, while at the same time many temporary sport installations were put in place, which reduced significantly the net cost of use after the end of the Games. Lastly, both in Barcelona 1992 and in Sydney 2000, significant investment was made in permanent infrastructure and installations, in order to achieve more permanent benefits for the residents and the visitors of these cities.

Accordingly, the benefits from the hosting the competition depend strongly on the size of the investment for Olympic preparation (without large investment constituting a sufficient condition for large benefits), the potential for further publicity and tourist development of the

[12] The report was published in January 2015 and it is available online at http://www.iobe.gr/research_dtl.asp?RID=103.

host area and the success in the utilisation of the Olympic heritage. The Games may lead to a significant increase of tourism over the years, as it happened in the case of the Barcelona 1992 Olympics. On the other hand, there are significant indications in the literature that the impact on tourism is limited by "crowding-out" effects. Higher prices and high demand conditions may hinder tourists from visiting the hosting city (i.e. Atlanta), pushing them to other destinations.

Stronger investment, tourist arrivals and exports stimulate GDP and employment of the host country's economy. The impact of the Games on GDP and employment was significant in Barcelona and Sydney, but is considered relatively limited in Atlanta and Beijing.Hence, hosting the Games can have low fiscal burden and low economic benefit (e.g. Atlanta), high burden and high benefit (Barcelona), but also high burden and uncertain economic benefit (Beijing).

4.3 Assessment of the 2004 Olympic Games

The infrastructure of the city was upgraded significantly both with the Olympic projects and with other infrastructure projects that were completed during the same period (e.g. the new Athens International Airport, the motorway system Attiki Odos, the Suburban Railway of Athens, the Athens Tramway etc.). In most cases, the planners opted for permanent installations, so that the city can host major sporting events in the future and to promote mass sport in the city.

The exact estimation of the costs and the corresponding benefits of the Games to the economy is influenced by the fact that the designation of a project as "Olympic" can be subjected to alternative interpretations. That said, based on the data for expenses recorded as "Olympic" in the Public Investment Programme and the Ordinary Budget, the total financing from the State Budget is estimated at €6.5 billion for the whole period for which such expenses were recorded (2000-2010). The gross burden on the State Budget thus corresponds to only 1% of the State expenditure during that period and to less than 2% of the gross debt of the General Government at the end of 2013.

On the side of fiscal receipts, about €2.9 billion are estimated to have returned in the State coffers as tax revenues and social security contributions during the preparation and the staging of the Games. We should add to this the State revenues stemming from increased economic activity during the post-Olympic period. From the macroeconomic simulations conducted to evaluate the impact on fiscal deficit, public debt and economic activity, it is evident that the Games did not bear a substantial burden on the fiscal position of the country.

Table 4.1

Cost and benefits for those involved in the preparations for the Olympic Games

Entity	Cost	Benefit
State Budget	- PIP expenditure (€6.0 billion) - Ordinary Budget expenditure (€571 million)	- Revenues from the final surplus of ATHOC 2004, after the expenditure on behalf of the Greek State (€7 million) - Estimated direct and indirect fiscal revenue (taxation and contributions) from investment spending (€2.4 billion) - Estimated fiscal revenue from current spending (Ordinary Budget & ATHOC 2004 - €0.5 billion) - Fiscal revenues from additional economic activity, due to better infrastructure, increase in tourist arrivals and improved image of Greece abroad
ATHOC	- Operating expenditure (€1968 million) - Expenditure on behalf of the Greek State (€304 million)	- Operating revenues (€2098 million) - Subsidies for activities on behalf of the Greek State (€180 million)
Self-financed projects	- OEK expenditure for the construction of the Olympic village (€280 million) - Renovation of "Karaiskakis" stadium (€60 million) - Media villages in Marousi and Pallini (€40 million)	- Supply of 2292 flats to OEK beneficiaries - Revenues from the commercial use of "Karaiskakis" stadium - Revenues from the sale and rent of luxury residences

Source: State Budget reports 2000-2010, Official report ATHOC 2004, IOBE estimations

Regarding the Organising Committee "Athens 2004", the net financial result has a positive sign. Without taking into account the expenses of the committee for projects executed on behalf of the public administration, the Olympic Games Organising Committee "Athens 2004" recorded an operating surplus of €131 million. Even when the above expenses are taken into account, the net result of the Organising Committee remains positive, amounting to €7 million. In addition, some of the preparation for the Games was covered by resources of entities and enterprises, which received in exchange the right to utilise the installations that they funded.

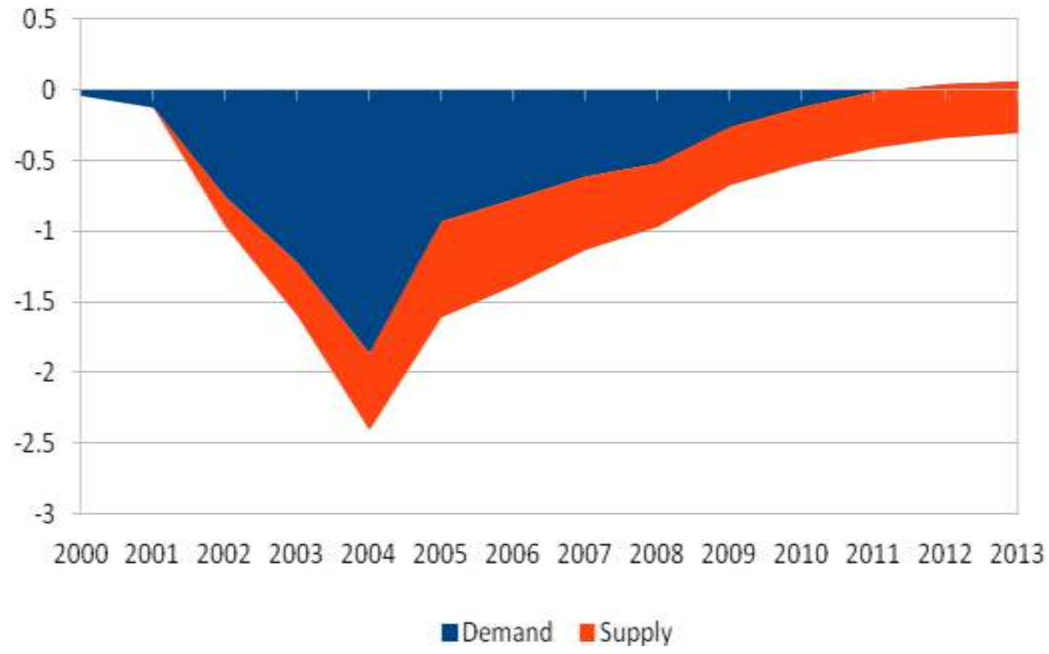
Apart from the results for the State, for the Organising Committee and for other institutions and enterprises that financed the competition with their own funds, the Olympic Games had a wider impact on the economy as well. From the econometric analysis, we found that there was a positive and statistically significant correlation of the competition with the number of international arrivals, the size of tourist expenditure and the value of exports. The impact on tourism was immediate, yet it did not last beyond 2008. Perhaps, the brevity of the impact stemmed from the negative effects of the crisis on the image of the country and the city of Athens abroad.

4.4 Impact assessment: A macroeconomic approach

The Olympic Games had a notably positive impact on economic activity and employment throughout the examined period (2000-2013). The combined impact of the demand and supply factors on activity was immediate, gradually growing between 2000 and 2004. If the Games had not taken place, the level of GDP in 2004 would have been lower by 2.5% and employment would have been lower by about 44,000 jobs.

Figure 4.2

Total impact of demand and supply factors on GDP, percentage deviations from base



Source: IOBE estimates

After the end of the Games, the impact of the demand factors declined, however the complexity and the diversity of the endeavour and the high level of technical standards of the construction projects contributed to the boost of productivity by the supply factors, leaving their mark on the economy over the medium term (Figure 4.2). From the analysis of the Olympic public spending and the macroeconomic simulations conducted to evaluate the impact on fiscal deficit, public debt and economic activity, it is evident that the Games did not bear a substantial burden on the fiscal position of the country. Nevertheless, the abandonment of quite a few facilities after the end of the Games (the cost for which is estimated at 20% of the investment expenditure) has lowered the GDP of the country by about 0.2 percentage points, according to our estimations.

Despite the significant delay in the utilisation of many facilities, the forthcoming development in the Hellenikon area and the upgrade of the Palio Faliro area create hopes for better use of the infrastructure built for the Games. To the extent that the construction of the Olympic facilities was the first major step for the development of these areas (through settling land-use issues, expropriating private land, securing licences and performing other similar significant tasks), the possibility of their development will have a positive effect on the assessment of the benefits from the Games over a longer time span.

5. Appendix: KEY ECONOMIC INDICATORS

Table 1: Real GDP growth rate

	Annual Data (%)								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	2,4	3,7	3,7	1,4	-3,8	1,8	2,8	0,9	0,3
Belgium	1,8	2,7	2,9	1	-2,8	2,3	1,8	-0,1	0,2
Bulgaria	6,4	6,5	6,4	6,2	-5,5	0,4	1,8	0,6	0,9
France	1,8	2,5	2,3	-0,1	-3,1	1,7	2	0	0,2
Germany	0,7	3,7	3,3	1,1	-5,1	4	3,3	0,7	0,4
Denmark	2,4	3,4	1,6	-0,8	-5,7	1,4	1,1	-0,4	0,4
Czech Republic	6,8	7	5,7	3,1	-4,5	2,5	1,8	-1	-0,9
EU-28	2,2	3,4	3,2	0,4	-4,5	2	1,6	-0,4	0,1
Greece	2,3	5,5	3,5	-0,2(p)	-3,1(p)	-4,9(p)	-7,1(p)	-7(p)	-3,9(p)
Estonia	8,9	10,2	7,3	-4,1	-14,1	3,3	8,7	4,5	2,2
EA-18	1,7	3,3	3	0,4	-4,5	1,9	1,6	-0,7	-0,4
United Kingdom	3,2	2,8	3,4	-0,8	-5,2	1,7	1,1	0,3	1,7
Ireland	6,1	5,5	5	-2,2	-6,4	-1,1	2,2	0,2	-0,3
Spain	3,6	4,1	3,5	0,9	-3,8	-0,2	0,1	-1,6	-1,2
Italy	0,9	2,2	1,7	-1,2	-5,5	1,7	0,4	-2,4	-1,9
Croatia	4,3	4,9	5,1	2,1	-6,9	-2,3	-0,2	-2,2	-0,9
Cyprus	3,9	4,1	5,1	3,6	-1,9	1,3	0,4	-2,4	-5,4
Latvia	10,1	11	10	-2,8	-17,7	-1,3	5,3	5,2	4,1
Lithuania	7,8	7,8	9,8	2,9	-14,8	1,6	6	3,7	3,3
Luxemburg	5,3	4,9	6,6	-0,7	-5,6	3,1	1,9	-0,2	2,1
Malta	3,6	2,6	4,1	3,9	-2,8	4,3	1,4	1,1	2,9
The Netherlands	2	3,4	3,9	1,8	-3,7	1,5	0,9	-1,2	-0,8
Hungary	4	3,9	0,1	0,9	-6,8	1,1	1,6	-1,7	1,1
Poland	3,6	6,2	6,8	5,1	1,6	3,9	4,5	2	1,6
Portugal	0,8	1,4	2,4	0	-2,9	1,9	-1,3	-3,2	-1,4
Romania	4,2	7,9	6,3	7,3	-6,6	-1,1	2,3	0,6	3,5
Slovakia	6,7	8,3	10,5	5,8	-4,9	4,4	3	1,8	0,9
Slovenia	4	5,8	7	3,4	-7,9	1,3	0,7	-2,5	-1,1
Sweden	3,2	4,3	3,3	-0,6	-5	6,6	2,9	0,9	1,6
Finland	2,9	4,4	5,3	0,3	-8,5	3,4	2,8	-1	-1,4

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

Table 2: General government debt (% GDP)

	Annual Data (%)								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	62,2	60,6	58,4	61,8	66,8	70,2	70,8	72	72,3
Belgium	92	87,9	84	89,2	96,6	96,6	99,2	101,1	101,2
Bulgaria	27,5	21,6	17,2	13,7	14,6	16,2	16,3	18,4	18,9
France	64,6	62	62,3	66,1	77	80,2	83,8	88	91,1
Germany	66,4	65,8	63,1	64,6	72,1	79,9	77,3	78,6	76,4
Denmark	36,8	31,1	26,4	32,6	39,5	41,9	45,3	44,4	43,7
Czech Republic	27,2	27	26,7	27,5	33,1	36,8	39,4	43,9	43,8
EU-28	:	:	:	:	:	:	:	:	:
Greece	101,2	107,5	107,2	112,9	129,7	148,3	170,3	157,2	175,1
Estonia	4,5	4,4	3,6	4,5	7	6,5	6	9,7	9,8
EA-18	:	:	:	:	:	:	:	:	:
United Kingdom	41,7	42,7	43,7	51,9	67,1	78,4	84,3	89,1	90,6
Ireland	27,2	24,6	24,9	44,2	64,4	91,2	104,1	117,4	123,7
Spain	43,2	39,7	36,3	40,2	54	59,6	68,6	83,8	91,6
Italy	101,9	102,5	99,7	102,3	112,4	115,3	116,4	122,2	127,8
Croatia	38,5	35,7	33,3	30	36,6	45	52	56,2	67,4
Cyprus	69,4	64,7	58,8	48,9	58,5	61,3	71,5	86,6	111,7
Latvia	12,5	10,7	9	19,8	36,9	44,5	42	40,8	38,1
Lithuania	18,3	17,9	16,8	15,5	29,3	37,8	38,3	40,5	39,4
Luxemburg	6,2	6,8	7	14,4	15,3	19,5	18,4	21,3	23,2
Malta	65,2	60,4	58,8	59,3	64,6	64,5	66,8	67,9	69,8
The Netherlands	49,2	44,6	42,5	54,7	56,4	58,9	61,2	66,7	68,9
Hungary	60,8	64,9	65,8	71,9	78,2	80,8	81	78,4	77,3
Poland	47,1	47,7	45	47,1	50,9	54,9	56,2	55,6	57
Portugal	65,8	67,2	66	68,9	80,4	90,3	105,2	120,6	124,7
Romania	15,8	12,4	12,8	13,4	23,6	30,5	34,7	38	38,4
Slovakia	34,2	30,5	29,6	27,9	35,6	41	43,6	52,7	55,4
Slovenia	26,3	26	22,7	21,6	34,5	37,9	46,2	53,3	70
Sweden	48	43	38,1	36,7	40,2	37,4	36,8	36,9	39,1
Finland	39,9	38,1	33,9	32,5	41,4	46,6	47,3	51,8	54,7

Table 3: General government balance (% GDP)

	Annual data (%)								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Austria	-1,7	-1,5	-0,9	-0,9	-4,1	-4,5	-2,5	-2,6	-1,5
Belgium	-2,5	0,4	-0,1	-1	-5,6	-3,8	-3,8	-4,1	-2,6
Bulgaria	1	1,9	1,2	1,7	-4,3	-3,1	-2	-0,8	-1,5
France	-2,9	-2,3	-2,7	-3,3	-7,5	-7	-5,2	-4,9	-4,3
Germany	-3,3	-1,6	0,2	-0,1	-3,1	-4,2	-0,8	0,1	0
Denmark	5,2	5,2	4,8	3,2	-2,7	-2,5	-1,9	-3,8	-0,8
Czech Republic	-3,2	-2,4	-0,7	-2,2	-5,8	-4,7	-3,2	-4,2	-1,5
EU-28	-2,5	-1,5	-0,9	-2,4	-6,9	-6,5	-4,4	-3,9	-3,3
Greece	-5,2	-5,7	-6,5	-9,8	-15,7	-10,9	-9,6	-8,9	-12,7
Estonia	1,6	2,5	2,4	-3	-2	0,2	1,1	-0,2	-0,2
EA-18	-2,5	-1,3	-0,7	-2,1	-6,4	-6,2	-4,1	-3,7	-3
United Kingdom	-3,4	-2,8	-2,8	-5	-11,4	-10	-7,6	-6,1	-5,8
Ireland	1,6	2,9	0,2	-7,4	-13,7	-30,6	-13,1	-8,2	-7,2
Spain	1,3	2,4	2	-4,5	-11,1	-9,6	-9,6	-10,6	-7,1
Italy	-4,4	-3,4	-1,6	-2,7	-5,5	-4,5	-3,7	-3	-3
Croatia	-2,8	-2,8	-1,9	-1,9	-5,4	-6,4	-7,8	-5	-4,9
Cyprus	-2,4	-1,2	3,5	0,9	-6,1	-5,3	-6,3	-6,4	-5,4
Latvia	-0,4	-0,6	-0,7	-4,4	-9,2	-8,2	-3,5	-1,3	-1
Lithuania	-0,5	-0,4	-1	-3,3	-9,4	-7,2	-5,5	-3,2	-2,2
Luxemburg	0	1,4	3,7	3,2	-0,7	-0,8	0,2	0	0,1
Malta	-2,9	-2,7	-2,3	-4,6	-3,7	-3,5	-2,7	-3,3	-2,8
The Netherlands	-0,3	0,5	0,2	0,5	-5,6	-5,1	-4,3	-4,1	-2,5
Hungary	-7,9	-9,4	-5,1	-3,7	-4,6	-4,3	4,3	-2,1	-2,2
Poland	-4,1	-3,6	-1,9	-3,7	-7,5	-7,8	-5,1	-3,9	-4,3
Portugal	-6,5	-4,6	-3,1	-3,6	-10,2	-9,8	-4,3	-6,4	-4,9
Romania	-1,2	-2,2	-2,9	-5,7	-9	-6,8	-5,5	-3	-2,3
Slovakia	-2,8	-3,2	-1,8	-2,1	-8	-7,5	-4,8	-4,5	-2,8
Slovenia	-1,5	-1,4	0	-1,9	-6,3	-5,9	-6,4	-4	-14,7
Sweden	2,2	2,3	3,6	2,2	-0,7	0,3	0,2	-0,6	-1,1
Finland	2,9	4,2	5,3	4,4	-2,5	-2,5	-0,7	-1,8	-2,1

Table 4: People at risk of poverty or social exclusion (*)

	Annual Data (%)								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Austria	16,8	17,8	16,7	18,6	17	16,6	16,9	18,5(b)	18,8
Belgium	22,6	21,5	21,6	20,8	20,2	20,8	21	21,6	20,8
Bulgaria	:	61,3	60,7	44,8(b)	46,2	49,2	49,1	49,3	48
France	18,9	18,8	19	18,5(b)	18,5	19,2	19,3	19,1	18,1
Germany	18,4	20,2	20,6	20,1	20	19,7	19,9	19,6	20,3
Denmark	17,2	16,7	16,8	16,3	17,6	18,3	18,9	19	18,9
Czech Republic	19,6	18	15,8	15,3	14	14,4	15,3	15,4	14,6
EU-28	:	:	:	:	:	23,7	24,3	24,8	24,5
Greece	29,4	29,3	28,3	28,1	27,6	27,7	31	34,6	35,7
Estonia	25,9	22	22	21,8	23,4	21,7	23,1	23,4	23,5
EA-18	21,7	22	21,8	21,7	21,4	21,9	22,9	23,4	23
United Kingdom	24,8	23,7	22,6	23,2	22	23,2	22,7	24,1(b)	24,8
Ireland	25	23,3	23,1	23,7	25,7	27,3	29,4	30	:
Spain	24,3	24	23,3	24,5	24,5	26,7	27,7	28,2	27,3
Italy	25	25,9	26	25,3	24,7	24,5	28,2	29,9	28,4
Croatia	:	:	:	:	:	30,7	32,3	32,3	29,9
Cyprus	25,3	25,4	25,2	23,3(b)	23,5	24,6	24,6	27,1	27,8
Latvia	46,3	42,2	35,1	34,2(b)	37,9	38,2	40,1	36,2	35,1(b)
Lithuania	41	35,9	28,7	27,6	29,6	34	33,1	32,5	30,8
Luxemburg	17,3	16,5	15,9	15,5	17,8	17,1	16,8	18,4	19
Malta	20,5	19,5	19,7	20,1	20,3	21,2	22,1	23,1	24
The Netherlands	16,7	16	15,7	14,9	15,1	15,1	15,7	15	15,9
Hungary	32,1	31,4	29,4	28,2	29,6	29,9	31	32,4	33,5
Poland	45,3	39,5	34,4	30,5(b)	27,8	27,8	27,2	26,7	25,8
Portugal	26,1	25	25	26	24,9	25,3	24,4	25,3	27,4
Romania	:	:	45,9	44,2	43,1	41,4	40,3	41,7	40,4
Slovakia	32	26,7	21,3	20,6	19,6	20,6	20,6	20,5	19,8(p)
Slovenia	18,5	17,1	17,1	18,5	17,1	18,3	19,3	19,6	20,4
Sweden	14,4	16,3	13,9	14,9	15,9	15	16,1	15,6	16,4
Finland	17,2	17,1	17,4	17,4	16,9	16,9	17,9	17,2	16

b=break in time series, p=provisional

(*)For the precise definition of the indicator , please see:http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/dataset?p_product_code=T2020_50

Table 5: Inflation

	Annual Data (%)					Change(%)			
	2010	2011	2012	2013	2014	2011/10	2012/11	2013/12	2014/13
Austria	1,7	3,6	2,6	2,1	1,5	1,9	-1,0	-0,5	-0,7
Belgium	2,3	3,5	2,6	1,1	0,6	1,1	-0,9	-1,5	-0,5
Bulgaria	3,0	3,4	2,4	0,4	-1,6	0,4	-1,0	-2,0	-2,0
France	1,7	2,3	2,2	1,0	0,6	0,6	-0,1	-1,2	-0,4
Germany	1,2	2,5	2,1	1,6	0,8	1,3	-0,3	-0,5	-0,8
Denmark	2,2	2,7	2,4	0,5	0,3	0,5	-0,3	-1,9	-0,2
Czech Republic	2,1	3,1	2,6	1,5	0,6	1,0	-0,4	-1,1	-1,0
EU-28	1,6	2,7	2,5	1,4	0,4	1,1	-0,2	-1,1	-0,9
Greece	4,7	3,1	1,0	-0,9	-1,4	-1,6	-2,1	-1,9	-0,5
Estonia	2,7	5,1	4,2	3,3	0,5	2,3	-0,9	-1,0	-2,8
EA-18	3,3	4,5	2,8	2,6	1,5	1,2	-1,7	-0,3	-1,1
United Kingdom	-1,6	1,2	1,9	0,5	0,3	2,8	0,7	-1,4	-0,2
Ireland	1,8	3,3	2,4	1,5	-0,2	1,5	-0,9	-0,9	-1,7
Spain	1,6	2,9	3,3	1,3	0,2	1,3	0,4	-2,0	-1,1
Italy	1,1	2,2	3,3	2,3	0,2	1,1	1,1	-1,0	-2,1
Croatia	2,6	3,5	3,1	0,4	-0,3	0,9	-0,4	-2,7	-0,7
Cyprus	-1,2	4,2	2,3	0,0	0,7	5,4	-1,9	-2,3	0,7
Latvia	1,2	4,1	3,2	1,2	0,2	2,9	-1,0	-2,0	-0,9
Lithuania	2,8	3,7	2,9	1,7	0,7	0,9	-0,8	-1,2	-1,0
Luxemburg	2,0	2,4	3,3	1,0	0,8	0,4	0,8	-2,3	-0,2
Malta	0,9	2,5	2,8	2,6	0,3	1,5	0,4	-0,3	-2,3
The Netherlands	4,7	3,9	5,7	1,7	0,0	-0,8	1,7	-4,0	-1,7
Hungary	2,7	3,9	3,7	0,8	0,1	1,2	-0,2	-2,9	-0,7
Poland	1,4	3,6	2,8	0,4	-0,2	2,2	-0,8	-2,3	-0,6
Portugal	6,1	5,9	3,4	3,2	1,4	-0,2	-2,5	-0,2	-1,8
Romania	0,7	4,1	3,7	1,5	-0,1	3,4	-0,3	-2,3	-1,6
Slovakia	2,1	2,1	2,8	1,9	0,4	0,0	0,7	-0,9	-1,6
Slovenia	1,9	1,4	0,9	0,4	0,2	-0,5	-0,4	-0,5	-0,2
Sweden	1,2	2,1	3,5	1,4	0,4	0,9	1,4	-2,2	-1,0
Finland	1,7	3,3	3,2	2,2	1,2	1,6	-0,2	-0,9	-1,0

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

	Annual Data								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	125(b)	126	124	124	126	126	129	130	129
Belgium	120(b)	118	116	116	118	120	120	120	119
Bulgaria	37(b)	38	40	43	44	44	46	47	47
France	110(b)	108	108	107	109	109	109	109	108
Germany	116(b)	115	115	116	115	120	123	123	124
Denmark	124(b)	124	122	124	123	128	125	126	125
Czech Republic	79(b)	80	83	81	82	81	81	81	80
EU-28	100(b)	100	100	100	100	100	100	100	100
Greece	91(b)	92	90	93	95	89	81	76	75
Estonia	62(b)	66	70	69	64	64	69	71	72
EA-18	109(b)	109	109	108	108	108	108	108	108
United Kingdom	124(b)	122	118	114	112	108	105	104	106
Ireland	144(b)	145	146	131	128	128	128	129	126
Spain	102(b)	105	105	103	103	99	96	96	95
Italy	105(b)	105	104	104	104	103	101	100	98
Croatia	59(b)	60	62	65	63	60	60	61	61
Cyprus	93(b)	93	94	99	100	97	93	91	86
Latvia	50(b)	53	57	58	54	55	60	64	67
Lithuania	55(b)	58	62	64	58	62	67	72	74
Luxemburg	254(b)	270	274	263	252	262	265	263	264
Malta	80(b)	79	78	81	84	87	86	86	87
The Netherlands	131(b)	131	132	134	132	130	129	127	127
Hungary	63(b)	63	61	64	65	66	67	67	67
Poland	51(b)	52	54	56	60	63	65	67	68
Portugal	80(b)	79	79	78	80	80	77	76	75
Romania	35(b)	39(b)	43	49	50	51	51	53	54
Slovakia	60(b)	63	68	72	73	74	75	76	76
Slovenia	87(b)	88	88	91	86	84	84	84	83
Sweden	122(b)	123	125	124	120	123	125	126	127
Finland	114(b)	114	117	119	114	114	116	115	112

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

Table 7: Real labour productivity per person employed (EU-28=100)

	Annual Data								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Austria	36,1	37,3	38,1	38,3	38,2	38,9	39,1	39,5	39,9
Belgium	45,4	45,8	46,2	46	45,3	45,9	45,8	45,7	45,9
Bulgaria	4	4,1	4,3	4,3	4,3	4,5	4,7	4,8	4,9
France	43,6	44,9	44,9	44,4	44,2	44,7	45,3	45,4	45,6
Germany	39,9	41,3	42	42	40,9	41,7	42,4	42,6	42,8
Denmark	51,4	51,9	52,2	51,1	49,8	52,4	52,5	52,6	53,4
Czech Republic	11,7	12,4	13	13	12,8	13	13,3	13,2	13,1
EU-28	30,2	30,9	31,3	31,2	30,7	31,4	31,8	31,9	32,1
Greece	19,8 (b)	20,8	21,5	22,2 (p)	21,1 (p)	20,4 (p)	19,9 (p)	20,2 (p)	20,2
Estonia	9,2	9,7	10,3	10	10,3	10,9	10,8	11,2	11,4
EA-18	34,8	35,5	36	35,9	35,5	36,3	36,7	37	37,3
United Kingdom	38,9	39,7	40,8	40,3	39,3	39,8	40	39,3	39,2
Ireland	44,1 (p)	44,6 (p)	45,1 (p)	45 (p)	46,5 (p)	48,2 (p)	50,1 (p)	50,4 (p)	48,8 (p)
Spain	27,9	28,1	28,5	28,7	29,4	30	30,4	31,5	32,1
Italy	32,4	32,5	32,6	32,4	31,7	32,5	32,5	32,2	32,2
Croatia	:	:	:	:	:	:	:	:	:
Cyprus	20,1	20,4	20,8	21,2	21	21,3	21,2	21,5	21,6
Latvia	5,9	6,3	7,9 (b)	7,3 (b)	7,2 (b)	7,6 (b)	7,9 (b)	8,2 (b)	8,4 (b)
Lithuania	7,7	8,2	8,7	8,8	8,3	9,4	10,1	10,3	10,6
Luxemburg	63,1	63,9	64,9	60,8	59,4	60	59,5	58,2	:
Malta	15,3 (e)	15,5 (e)	15,4 (e)	15,4 (e)	14,6 (e)	15,2	14,2	14,5	:
The Netherlands	44,7	45,5	46,2	46,2	45,1	46	46,1	45,6	45,8
Hungary	10,7	11,1	11,1	11,3	10,9	11	11	11,3	11,5
Poland	8,4	8,6	8,8	9	9,1	9,8	10,2	10,4 (b)	10,6
Portugal	15,6	15,8	16,1	16,1	16,1	16,7	16,9 (p)	17 (p)	17,1
Romania	4,6	4,9	5,2	5,6	5,4	5,3	5,4	5,4	5,6
Slovakia	10,4	11	11,8	12,1	11,8	12,3	12,6	12,8	13,2
Slovenia	18,2	19,3	20,1	20,1	20,1	20,6	21,4	21,3	21,4
Sweden	42,7	44	44,1	43,3	42,3	44	44,4	44,9	45,5
Finland	38,4	39,5	40,8	40,3	38,2	39,4	40	39,5	39,7

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

Table 8: Employment rate on persons aged 20-64 (*)

	Annual Data (%)				3rd Quarter (%)			Change(%)	
	2010	**2011**	**2012**	**2013**	**2012**	**2013**	**2014**	**13/12**	**14/13**
Austria	74,9	75,2	75,6	75,5	76,4	76,2	76,4	-0,2	0,2
Belgium	67,6	67,3	67,2	67,2	67,4	67,6	67,1	0,2	-0,5
Bulgaria	65,4	63,9	63,0	63,5	64,8	65,3	66,9	0,5	1,6
France	69,2	69,2	69,3	69,5	69,7	70,1	70,1	0,4	0,0
Germany	74,9	76,3	76,7	77,1	77,2	77,6	78,1	0,4	0,5
Denmark	75,8	75,7	75,4	75,6	75,6	76,1	76,7	0,5	0,6
Czech Republic	68,6	68,6	68,4	68,4	68,8	68,8	69,8	0,0	1,0
EU-28	68,4	68,5	69,4	69,3	68,3	68	68,6	-0,3	0,6
Greece	64,0	59,9	55,3	53,2	54,7	53,2	54,1	-1,5	0,9
Estonia	66,7	70,4	72,1	73,3	73,2	73,7	74,8	0,5	1,1
EA-18	73,6	73,6	74,2	74,9	74,4	75,0	76,5	0,6	1,5
United Kingdom	65,0	63,8	63,7	65,5	63,8	65,9	67,5	2,1	1,6
Ireland	62,5	61,6	59,3	58,6	59,7	59,0	60,4	-0,7	1,4
Spain	61,1	61,2	61,0	59,8	61,0	59,7	60,2	-1,3	0,5
Italy	58,7	57,0	55,4	53,9	57,2	58,3	61,6	1,1	3,3
Croatia	75,4	73,4	70,2	67,1	70,0	67,0	67,9	-3,0	0,9
Cyprus	65,0	66,3	68,2	69,7	69,7	70,5	70,6	0,8	0,1
Latvia	64,4	67,2	68,7	69,9	69,6	70,6	73,4	1,0	2,8
Lithuania	70,7	70,1	71,4	71,1	72,1	71,5	71,5	-0,6	0,0
Luxemburg	60,1	61,5	63,1	64,8	63,4	65,0	67,3	1,6	2,3
Malta	76,8	77,0	77,2	76,5	77,3	76,4	76,3	-0,9	-0,1
The Netherlands	60,4	60,7	62,1	63,2	63,1	64,0	67,7	0,9	3,7
Hungary	64,6	64,8	64,7	64,9	65,2	65,6	67,3	0,4	1,7
Poland	70,5	69,1	66,5	65,6	66,4	65,9	68,3	-0,5	2,4
Portugal	63,3	62,8	63,8	63,9	65,0	65,1	67,2	0,1	2,1
Romania	64,6	65,1	65,1	65	65,4	65,2	66,3	-0,2	1,1
Slovakia	70,3	68,4	68,3	67,2	68,3	68,2	68,2	-0,1	0,0
Slovenia	78,7	80,0	79,4	79,8	80,3	80,7	81,1	0,4	0,4
Sweden	70,4	70,9	71,5	72,5	72,0	72,8	73,9	0,8	1,1
Finland	73,0	73,8	74,0	73,3	74,9	74,1	73,9	-0,8	-0,2

(*)% of employed aged 20-64 to the total number of this population

Table 9: Employment rate in persons aged 55-64 (*)

	Annual Data (%)				3rd Quarter (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	13/12	14/13
Austria	42,4	41,5	43,1	44,9	43,7	45,1	48,0	1,4	2,9
Belgium	37,3	38,7	39,5	41,7	40,2	42,9	42,4	2,7	-0,5
Bulgaria	43,5	43,9	45,7	47,4	47,0	48,9	51,5	1,9	2,6
France	39,8	41,5	44,5	45,6	45,0	45,9	47,3	0,9	1,4
Germany	57,7	59,9	61,5	63,5	62,2	64,2	66,1	2,0	1,9
Denmark	58,4	59,5	60,8	61,7	60,5	62,5	64,0	2,0	1,5
Czech Republic	46,3	47,4	48,8	50,1	49,3	50,7	52,4	1,4	1,7
EU-28	45,8	47,1	50,9	52,3	49,1	50,5	52,2	1,4	1,7
Greece	42,3	39,4	36,4	35,6	36,3	36,0	34,0	-0,3	-2,0
Estonia	53,8	57,2	60,6	62,6	61,1	61,7	66,5	0,6	4,8
EA-18	57,1	56,7	58,1	59,8	58,3	60,2	61,0	1,9	0,8
United Kingdom	50,2	50,0	49,3	51,3	48,8	51,3	53,4	2,5	2,1
Ireland	43,6	44,5	43,9	43,2	44,2	43,6	44,6	-0,6	1,0
Spain	36,6	37,9	40,4	42,7	40,9	43,5	46,9	2,6	3,4
Italy	37,6	37,1	36,7	36,5	37,6	38,4	37,5	0,8	-0,9
Croatia	56,8	54,8	50,7	49,6	51,0	50,3	48,1	-0,7	-2,2
Cyprus	48,2	50,5	52,8	54,8	54,7	56,6	55,8	1,9	-0,8
Latvia	48,6	50,5	51,8	53,4	53,0	53,9	57,9	0,9	4,0
Lithuania	39,6	39,3	41,0	40,5	42,3	39,0	43,2	-3,3	4,2
Luxemburg	30,2	31,7	33,6	36,2	35,5	37,0	39,5	1,5	2,5
Malta	53,7	56,1	58,6	60,1	59,0	60,5	61,1	1,5	0,6
The Netherlands	34,4	35,8	36,9	38,5	37,8	39,0	43,0	1,2	4,0
Hungary	34,0	36,9	38,7	40,6	39,6	41,3	43,3	1,7	2,0
Poland	49,2	47,9	46,5	46,7	46,9	47,2	48,4	0,3	1,2
Portugal	41,1	40,0	41,4	41,5	42,9	42,4	44,2	-0,5	1,8
Romania	40,5	41,4	43,1	44	33,2	34,2	36,3	1,0	2,1
Slovakia	35,0	31,2	32,9	33,5	43,0	44,2	46,0	1,2	1,8
Slovenia	70,5	72,3	73,0	73,6	73,2	73,9	74,0	0,7	0,1
Sweden	46,5	47,6	49,3	51,6	50,4	52,2	54,7	1,8	2,5
Finland	56,2	57,0	58,2	58,5	58,7	59,2	58,9	0,5	-0,3

(*)% of employed aged 55-64 to the total number of this population

Table 10: Total employment growth (ages 15 years or over)

	Annual Data (%)						3rd Quarter (%)		
	2008	2009	2010	2011	2012	2013	2012/11	2013/12	2014/13
Austria	2	-0,7	0,8	1,7	1,0	-0,2	1,0	-0,3	0,8
Belgium	1,8	-0,2	0,7	1,4	0,3	0,1	1,0	0,5	-0,2
Bulgaria	2,6	-2,6	-4,7	-4,2	-1,1	0,0	-0,6	-0,1	1,6
France	0,5	-1,3	-0,1	0,5	0,1	0,0	0,0	0,1	-0,2
Germany	1,2	0,1	0,6	1,4	0,8	0,9	1,1	0,8	1,0
Denmark	1,7	-2,4	-2,3	-0,4	-0,5	0,0	-1,1	0,4	1,5
Czech Republic	1	-1,8	-0,5	0,3	-0,5	-0,2	-0,6	-0,7	0,7
EU-28	0,8	-1,8	-0,5	0,2	-0,3	-0,3	0,0	-0,1	0,9
Greece	0,8	-0,2	-1,9	-6,7	-8,0	-4,0	-9,2	-3,7	1,5
Estonia	0,2	-9,9	-4,8	7	2,5	1,0	0,6	0,2	1,1
EA-18	0,3	-1,7	-0,7	0,5	1,2	1,3	1,8	1,7	2,4
United Kingdom	-1,1	-8,1	-4,2	-2,1	-0,6	2,4	-0,2	3,1	1,5
Ireland	-0,1	-6,5	-2,5	-1,5	-4,5	-2,8	-4,4	-2,5	1,6
Spain	0,3	-1,6	-0,7	0,3	-0,3	-2,1	0,0	-2,3	0,5
Italy	:	:	:	:	-3,1	-3,9	-0,8	2,3	5,0
Croatia	2,1	-0,5	0,1	0,5	-2,4	-3,5	-2,9	-5,3	0,6
Cyprus	0,9	-13,2	-4,8	-8,1	2,8	2,1	2,2	1,3	-2,3
Latvia	-0,7	-6,8	-5,1	2	1,8	1,3	3,0	0,8	3,1
Lithuania	:	:	:	:	5,0	1,1	5,9	-0,2	1,2
Luxemburg	2,6	-0,3	2,4	2,5	2,4	3,0	2,0	3,1	3,7
Malta	1,5	-0,7	-0,4	0,7	0,7	-0,7	0,8	-1,0	-0,3
The Netherlands	-1,4	-2,8	0,3	0,3	1,7	1,6	2,1	1,4	4,8
Hungary	3,9	0,4	0,5	1	-3,3	-0,1	0,2	0,1	2,1
Poland	0,5	-2,6	-1,5	-1,5	-4,2	-2,6	-4,0	-2,1	2,1
Portugal	:	-2	-1,4	0,4	1,4	-0,2	2,4	-0,1	-6,6
Romania	3,2	-2	-1,5	1,8	-1,0	0,0	-2,0	-0,3	0,4
Slovakia	2,6	-1,8	-2,2	-1,6	-1,3	-1,9	0,5	-0,4	1,8
Slovenia	0,9	-2,4	1,2	2,2	0,7	1,0	0,6	1,1	1,9
Sweden	2,3	-1,2	-1,7	0,2	-0,3	1,0	0,5	0,7	0,8
Finland	2,6	-2,6	-0,1	1,1	0,4	-1,1	0,6	-1,5	-0,1

Table 11: Unemployment rate (total)

	Annual Data (%)				3rd Quarter (%)			Change(%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	4,4	4,2	4,3	4,9	4,5	4,9	5,0	0,4	0,1
Belgium	8,3	7,2	7,6	8,4	7,6	8,4	8,6	0,8	0,2
Bulgaria	10,2	11,2	12,3	13	12,4	12,8	11,5	0,4	-1,3
France	9,3	9,2	10,3	10,3	9,8	10,3	10,3	0,5	0,0
Germany	7,1	5,9	5,5	5,3	5,3	5,2	5,0	-0,1	-0,2
Denmark	7,5	7,6	7,5	7	7,5	7,1	6,5	-0,4	-0,6
Czech Republic	9,6	9,6	10.5	10,8	11,5	12,0	11,5	0,5	-0,5
EU-28	10,0	10,1	0	11	10,5	10,9	10,1	0,4	-0,8
Greece	12,6	17,7	24,3	27,3	25,5	27,8	26,2	2,3	-1,6
Estonia	16,9	12,5	10,2	8,6	9,8	8,1	7,5	-1,7	-0,6
EA-18	7,8	8,0	7,9	7,5	7,8	7,6	5,9	-0,2	-1,7
United Kingdom	13,7	14,7	14,7	13,1	14,8	12,8	11,2	-2,0	-1,6
Ireland	20,1	21,7	25	26,4	25,3	26,2	24,2	0,9	-2,0
Spain	8,4	8,4	10,7	12,2	10,8	12,3	12,8	1,5	0,5
Italy	11,8	13,5	15,9	17,2	16,1	18,0	16,8	1,9	-1,2
Croatia	6,2	7,9	11,9	15,9	12,4	16,4	16,3	4,0	-0,1
Cyprus	18,7	16,2	14,9	11,9	14,3	11,7	10,7	-2,6	-1,0
Latvia	17,8	15,4	13,3	11,8	13,2	11,4	9,9	-1,8	-1,5
Lithuania	4,4	4,9	5,1	5,8	5,1	5,9	6,0	0,8	0,1
Luxemburg	6,9	6,5	6,4	6,5	6,1	6,4	6,0	0,3	-0,4
Malta	4,5	4,4	5,3	6,7	5,3	7,0	6,6	1,7	-0,4
The Netherlands	11,2	10,9	10,9	10,2	10,8	10,1	7,6	-0,7	-2,5
Hungary	9,6	9,7	10,1	10,3	10,2	10,3	8,6	0,1	-1,7
Poland	11,0	12,9	15,9	16,5	15,9	16,0	13,6	0,1	-2,4
Portugal	7,3	7,4	7	7,3	6,8	7,0	6,8	0,2	-0,2
Romania	14,4	13,5	14	14,2	14	14,3	13,1	0,3	-0,8
Slovakia	7,3	8,2	8,9	10,1	9,5	9,8	9,7	0,3	-0,1
Slovenia	8,4	7,5	8	8	8,1	8,0	7,8	-0,1	-0,2
Sweden	7,3	6,7	7	7	7,0	7,0	5,9	0,0	-1,1
Finland	8,4	7,8	7,7	8,2	7,8	8,1	8,7	0,3	0,6

Table 12: Unemployment rate among men

	Annual Data (%)				3rd Quarter			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	4,6	4,0	4,4	4,9	4,5	5,0	5,4	0,5	0,4
Belgium	8,1	7,1	7,7	8,7	7,6	8,7	8,9	1,1	0,2
Bulgaria	10,9	12,3	13,5	13,9	13,8	13,5	12,4	-0,3	-1,1
France	6,0	8,1	10,1	10,4	9,9	10,4	10,4	0,5	0,0
Germany	6,4	5,8	5,7	5,6	5,5	5,5	5,3	0,0	-0,2
Denmark	8,4	7,7	7,5	6,7	7,5	7,3	6,5	-0,2	-0,8
Czech Republic	19,5	13,1	10,4	10,8	11,3	11,9	11,3	0,6	-0,6
EU-28	9,9	9,9	0	11	10,5	10,8	9,9	0,3	-0,9
Greece	9,6	9,5	21,4	24,3	22,6	24,8	23,3	2,2	-1,5
Estonia	9,1	8,4	11	9,1	10,5	8,6	8,1	-1,9	-0,5
EA-18	9,0	8,8	8,3	8	8,2	8,0	6,2	-0,2	-1,8
United Kingdom	7,5	6,2	17,7	15	17,8	14,9	12,6	-2,9	-2,3
Ireland	9,9	15,0	24,7	25,8	25,1	25,8	23,1	0,7	-2,7
Spain	11,6	11,0	9,9	11,5	9,9	11,7	12,0	1,8	0,3
Italy	11,4	13,8	16,2	17,8	15,8	18,1	15,9	2,3	-2,2
Croatia	16,9	17,8	12,6	16,6	13,0	17,2	17,6	4,2	0,4
Cyprus	7,6	7,6	16	12,6	15,3	12,4	11,4	-2,9	-1,0
Latvia	21,7	18,6	15,1	13,1	15,1	12,2	11,2	-2,9	-1,0
Lithuania	21,2	17,8	4,5	5,4	4,5	5,8	5,9	1,3	0,1
Luxemburg	3,8	3,8	5,9	6,6	5,5	6,5	6,3	1,0	-0,2
Malta	6,8	6,1	5,3	7,1	5,4	7,4	6,7	2,0	-0,7
The Netherlands	4,4	4,5	11,2	10,2	11,2	10,1	7,4	-1,1	-2,7
Hungary	9,3	9,0	9,4	9,7	9,6	9,7	8,1	0,1	-1,6
Poland	10,0	12,7	16	16,4	16,1	15,6	12,7	-0,5	-2,9
Portugal	7,9	7,9	7,6	7,9	7,4	7,6	7,3	0,2	-0,3
Romania	14,2	13,5	13,5	14	13,4	14,1	12,6	0,7	-1,5
Slovakia	7,5	8,2	8,4	9,5	8,8	8,8	8,9	0,0	0,1
Slovenia	19,7	21,2	8,2	8,2	8,4	7,9	8,1	-0,5	0,2
Sweden	8,5	7,6	6	5,9	6,0	5,9	4,9	-0,1	-1,0
Finland	8,6	8,7	8,3	8,8	8,5	8,7	9,4	0,2	0,7

Table 13: Unemployment rate among women

	Annual Data (%)				3rd Quarter			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	4,2	4,3	4,3	4,9	4,4	4,9	4,7	0,5	-0,2
Belgium	8,5	7,2	7,4	8,2	7,5	8,1	8,2	0,6	0,1
Bulgaria	9,5	10,0	10,8	11,8	10,8	11,9	10,4	1,1	-1,5
France	9,7	9,7	10,5	10,2	9,8	10,2	10,3	0,4	0,1
Germany	6,6	5,6	5,2	5	5,1	4,8	4,7	-0,3	-0,1
Denmark	6,5	7,5	7,5	7,3	7,4	6,9	6,6	-0,5	-0,3
Czech Republic	9,6	9,7	10,6	10,9	11,6	12,0	11,8	0,4	-0,2
EU-28	10,2	10,4	0	11	10,6	10,9	10,2	0,3	-0,7
Greece	16,2	21,4	28,1	31,3	29,3	31,9	29,9	2,6	-2,0
Estonia	14,3	11,8	9,3	8,2	9,0	7,6	6,9	-1,4	-0,7
EA-18	6,8	7,3	7,4	7	7,3	7,1	5,7	-0,2	-1,4
United Kingdom	9,7	10,8	11	10,7	11,0	10,3	9,4	-0,7	-0,9
Ireland	20,5	22,2	25,4	27	25,5	26,6	25,5	1,1	-1,1
Spain	9,7	9,6	11,9	13,1	12,1	13,1	13,9	1,0	0,8
Italy	12,3	13,2	15,6	16,6	16,3	17,8	17,8	1,5	0,0
Croatia	6,4	7,7	11,1	15,2	11,7	15,5	14,9	3,8	-0,6
Cyprus	15,7	13,8	13,9	11,1	13,3	10,9	10,1	-2,4	-0,8
Latvia	14,5	13,0	11,5	10,5	11,3	10,5	8,7	-0,8	-1,8
Lithuania	5,1	6,3	5,8	6,4	5,8	6,2	6,1	0,4	-0,1
Luxemburg	7,1	7,1	7,3	6,4	7,2	6,3	5,6	-0,9	-0,7
Malta	4,5	4,4	5,2	6,3	5,3	6,6	6,4	1,3	-0,2
The Netherlands	10,7	10,9	10,6	10,2	10,3	10,1	7,8	-0,2	-2,3
Hungary	10,0	10,5	10,9	11,1	11,0	11,0	9,3	0,0	-1,7
Poland	12,1	13,2	15,8	16,6	15,7	16,4	14,5	0,7	-1,9
Portugal	6,5	6,8	6,4	6,6	6,1	6,3	6,1	0,2	-0,2
Romania	14,6	13,6	14,5	14,5	14,6	14,5	13,6	-0,1	-0,9
Slovakia	7,1	8,2	9,4	10,9	10,3	11,0	10,6	0,7	-0,4
Slovenia	8,3	7,5	7,7	7,8	7,8	8,0	7,5	0,2	-0,5
Sweden	8,5	7,9	8,2	8,3	8,3	8,3	7,2	0,0	-1,1
Finland	7,6	7,1	7,1	7,5	7,2	7,5	7,9	0,3	0,4

Table 14: Long-term unemployment rate (*)

	Annual Data (%)				3rd Quarter (%)			Change(%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	39,9	42,9	24,8	24,4	26,7	26,9	27,1	0,2	0,2
Belgium	42,5	45,2	44,7	46,1	43,3	45,4	49,8	2,1	4,4
Bulgaria	48,8	48,4	55,2	57,3	56,4	58,9	61,3	2,5	2,4
France	46,4	56,1	40,3	40,4	41,2	41,1	43,2	-0,1	2,1
Germany	41,0	40,6	45,5	44,7	46,1	44,4	43,0	-1,7	-1,4
Denmark	20,2	24,4	28	25,5	27,7	23,8	25,4	-3,9	1,6
Czech Republic	47,4	48,0	44,6	49,8	47,0	50,6	53,3	3,6	2,7
EU-28	45,3	56,8	44	47,4	45,0	48,0	49,9	3,0	1,9
Greece	49,3	59,3	59,3	67,0	60,5	69,2	75,4	8,7	6,2
Estonia	45,0	49,6	54,1	44,4	53,5	42,6	43,4	-10,9	0,8
EA-18	36,6	41,6	34,8	36,2	34,6	35,0	34,1	0,4	-0,9
United Kingdom	40,2	41,5	61,7	60,6	60,0	59,2	57,6	-0,8	-1,6
Ireland	48,4	51,9	44,5	49,7	44,5	50,4	53,4	5,9	3,0
Spain	20,3	20,8	53	56,9	54,2	57,6	63,1	3,4	5,5
Italy	56,9	63,9	64,6	63,6	67,5	65,6	61,5	-1,9	-4,1
Croatia	45,1	54,5	30,1	38,2	32,2	39,3	48,5	7,1	9,2
Cyprus	41,4	51,9	51,9	48,5	47,4	44,5	42,7	-2,9	-1,8
Latvia	29,3	28,6	49	42,9	50,9	42,6	47,5	-8,3	4,9
Lithuania	49,3	47,9	30,3	30,7	21,6	34,8	27,7	13,2	-7,1
Luxemburg	46,3	46,2	47,4	45,8	49,5	44,4	46,3	-5,1	1,9
Malta	27,5	33,5	34	35,5	33,6	36,3	40,4	2,7	4,1
The Netherlands	25,2	25,9	45	49,0	45,1	52,2	47,7	7,1	-4,5
Hungary	31,1	37,2	40,3	42,6	40,4	43,8	43,7	3,4	-0,1
Poland	52,3	48,1	48,7	56,4	50,2	59,0	60,1	8,8	1,1
Portugal	34,9	41,9	45,3	46,5	47,0	50,4	39,7	3,4	-10,7
Romania	43,3	44,2	67,3	51,2	67,5	70,4	69,9	2,9	-0,5
Slovakia	64,0	67,8	47,9	70,3	49,9	52,1	52,6	2,2	0,5
Slovenia	24,0	22,2	18,9	18,6	19,2	18,2	19,4	-1,0	1,2
Sweden	17,8	18,6	43,4	43,4	43,3	43,7	43,8	0,4	0,1
Finland	32,6	33,4	21,4	21,0	21,6	23,8	25,5	2,2	1,7

(*)% of unemployed for 12 months or higher to the total number of unemployed persons

Table 15: Youth unemployment rate (aged 15-24)

	Annual Data (%)				3rd Quarter			Change(%)	
	2010	**2011**	**2012**	**2013**	**2012**	**2013**	**2014**	**2013/12**	**2014/13**
Austria	8,8	8,3	8,7	9,2	9,0	9,4	9,1	0,4	-0,3
Belgium	22,4	18,7	19,8	23,7	20,4	22,7	21,1	2,3	-1,6
Bulgaria	23,2	26,6	28,1	28,4	26,6	27,8	22,5	1,2	-5,3
France	22,8	22,0	24,6	24,8	24,7	24,7	24,5	0,0	-0,2
Germany	9,9	8,6	8,1	7,9	8,0	7,8	7,6	-0,2	-0,2
Denmark	14,0	14,2	14,1	13	13,2	13,7	12,6	0,5	-1,1
Czech Republic	20,9	21,3	23	23,4	23,5	24,2	23,5	0,7	-0,7
EU-28	20,6	20,7	22,3	23,9	23,2	23,6	21,8	0,4	-1,8
Greece	32,9	44,4	55,3	58,6	57,0	58,0	50,1	1,0	-7,9
Estonia	32,9	22,3	20,9	18,7	20,9	16,7	13,8	-4,2	-2,9
EA-18	19,6	21,1	21	20,5	20,7	20,9	16,1	0,2	-4,8
United Kingdom	27,8	29,1	30,4	26,8	30,6	26,4	23,2	-4,2	-3,2
Ireland	41,6	46,4	53,2	55,7	53,6	55,7	53,9	2,1	-1,8
Spain	27,8	29,1	35,3	40	35,3	40,7	42,9	5,4	2,2
Italy	32,6	36,1	43	49,8	44,3	48,1	45,5	3,8	-2,6
Croatia	16,7	22,4	27,8	38,9	27,5	39,9	34,8	12,4	-5,1
Cyprus	34,5	31,0	28,4	23,2	30,5	23,8	20,3	-6,7	-3,5
Latvia	35,1	32,9	26,4	21,9	26,2	21,7	17,4	-4,5	-4,3
Lithuania	14,2	16,8	18	17,4	28,8	26,4	20,7	-2,4	-5,7
Luxemburg	13,0	13,7	14,2	13,5	13,6	12,9	13,3	-0,7	0,4
Malta	8,7	7,6	9,5	11	9,5	11,5	10,1	2,0	-1,4
The Netherlands	26,6	26,1	28,1	27,2	18,3	15,4	18,4	-2,9	3,0
Hungary	23,7	25,8	26,5	27,3	26,4	27,4	23,8	1,0	-3,6
Poland	22,4	30,1	37,7	37,7	39,4	37,9	33,5	-1,5	-4,4
Portugal	22,1	23,7	22,7	23,6	22,6	23,7	23,3	1,1	-0,4
Romania	33,6	33,2	34	33,7	34,2	33,5	29,7	-0,7	-3,8
Slovakia	14,7	15,7	20,6	21,6	23,0	20,7	20,4	-2,3	-0,3
Slovenia	25,2	22,9	23,7	23,4	24,3	23,4	22,3	-0,9	-1,1
Sweden	18,3	18,0	19,5	18,9	19,1	19,1	15,7	0,0	-3,4
Finland	21,4	20,1	19	19,9	19,0	20,0	20,3	1,0	0,3