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Editorial Policy

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IOBE

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

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FOREWORD

This is the fourth IOBE bulletin on the Greek economy for 2017. Its publication takes place at a time when the domestic economic environment continues to improve upon the completion of the third review of the current economic adjustment programme. However, developments on important matters affecting the medium-term prospects of the Greek economy, such as the refinancing of public debt through the capital markets and banking system issues (stress test, non-performing loans) are about to take place shortly. As every IOBE quarterly bulletin, this report includes **four chapters** and an **appendix** with key structural indicators. The bulletin starts with an analysis of the conditions and the prospects of the Greek economy after the completion of the current programme. The rest of the report is structured as follows:

The **first chapter** presents a **brief overview** of the report. **Chapter 2** examines the general economic conditions, including a) an analysis of the **global economic environment** in the first nine months of 2017 and its outlook for the final quarter of the year and for 2018, based on the latest report of the International Monetary Fund; b) an outline of the **economic climate** in Greece in the fourth quarter of 2017, based on data from the latest IOBE business surveys; c) an analysis of the execution of the **State Budget** in 2017 and an assessment of the 2018 State Budget explanatory note.

Chapter 3 focuses on the performance of the Greek economy in the first nine months of 2017. It includes an analysis of: the **macroeconomic environment** during that period and its projected trends for the final quarter of the year and for 2018; the **developments in key production sectors** in the first three quarters of 2017; the **export performance** of the Greek economy from the start of 2017 until October; the developments in the **labour market** in the first nine months; the trends in **inflation** in 2017 overall; and, finally, the trends in the **balance of payments** between January and November of 2017.

Chapter 4 presents the findings of a study on the significance and the potential of the food bank institution in Greece.

The report is based on data that were available up to 22/01/2018. IOBE's next quarterly bulletin on the Greek economy will be published in late April 2018.

THE ECONOMY AFTER THE END OF THE PROGRAMME

As we approach the end of the third programme in the coming summer, the questions on the state of the economy intensify. The programme progresses steadily, as regards at least its fiscal arm, while the current assessment seems to be nearing its completion without a delay. The external environment is highly favourable and, with that as context, access to markets for borrowing is being sought. However, the growth of the economy is still very weak. Does the end of the economic adjustment programmes mark the beginning of a growth phase? Have we arrived at the end of the crisis?

The year 2017 ended in a positive light regarding the fiscal balance, but with lower than the desired growth rate. The Greek economy moved into recovery, after the stagnation and the slight retreat of the two previous years, under conditions of fiscal consolidation, which is an important and welcome development. Aside from the very low starting point and the effect of reforms, especially in the labour market, there are two key drivers for the current recovery. Firstly, in sharp contrast with the past, and particularly the period 2010-2015, there is now agreement between the government and the opposition on the need to implement the programmes and to avoid disputes with our creditors and partners. The extreme political confrontation and the consequent lack of credibility for the implementation of the programme was the main aggravating factor for the economy over the past few years. As the economy is moving away from the summer of 2015, its wounds are gradually healing. There is a remarkable accumulated growth potential, which, as indeed happened in 2014, transpires in a direct relation to the reduction in uncertainty. Secondly, the strong, above expectations, growth in the external environment and especially in Europe works beneficially, pulling the economy up through stronger inflows of tourism, increased demand for exports of goods, lower cost of capital and positive international energy cost conditions.

The current year will be, overall, a very important year. As long as no significant surprises appear, the economic recovery will continue and strengthen. We estimate in our central scenario that growth in real terms, slightly below 1.5% last year, will increase to just over 2% in the current year. This central prediction, however, requires systematic, albeit slight, improvement of the investment climate. Without a recovery of investment, the economy will find itself again in a painful stagnation.

Despite the recovery, the fact that the growth rate for 2017 reached only half the economic policy target set in the budget and the programme should not be taken too lightly. This development constitutes a policy failure, but also a cause of secondary repercussions. The Greek economy is growing slower than almost all other European, major and regional, economies. Even a growth of a little more than 2% in the current year will fall short of the level that would mark a significant mitigation of the risks for potential investors, failing to improve significantly the conditions for households and companies that today are on the edge. In particular, unemployment will decrease but at a weaker rate. The distance from European averages will increase rather than decrease.

A critical question concerns the risks that the economy might face in the coming period. Compared with the past, the political risk has subsided, as there is no longer a potent force to oppose the agreement with our foreign partners and to seek a path outside the agreed framework. However, a possible sharpening of the political discourse, and the uncertainty that would result, in a way that will chase off long-term investors, cannot be ruled out. The weight of the accumulated private debt and the delay in the return of the banking system to a normal mode of operation also constitute a point that requires sharper attention. The end of the crisis will not come about as long as strong confidence and deposits are not returning to the financial system. The international economy is also a factor that can turn from positive to negative in the coming year.

The change in the external environment during the implementation period of the Greek programmes should not be underestimated. The Eurozone has created mechanisms to minimise the impact of crises arising from economic and financial imbalances. Europe appears poised to deepen its integration, including the banking and fiscal union, while the economy is progressing well, despite the Brexit decision. Global growth is strong, demonstrating perhaps excessive risk-taking and new lending, while the protective rhetoric of American politics does not seem able to reverse the momentum of global trade and innovation.

The Greek crisis erupted following the financial crisis that started in the US in 2008, which in turn put the viability of the Eurozone in doubt. The competitiveness of Greece was weak at least for the two decades that preceded the crisis, mainly because of skewed incentives and introspective business practices that reflected excessive state control. Coupled with irresponsible fiscal policies, this led to high twin deficits that prevented further development and access to finance. When these problems could no longer be covered up by the global euphoria of the 2000s, Greece became the centre of attention, in spite of the small size of its economy, precisely because of the global effects of its potential bankruptcy. Under three successive programmes, Greece gained access to an extremely large loan from the "official sector" - other states and international organisations.

The current situation therefore requires a comprehensive assessment of the medium-term developments and prospects. Almost ten years of recession and eight years in successive bailout and adjustment programmes of unprecedented size and kind is a really long time. With what legacy are we leaving the programmes? On the positive side, the economy has stabilised, a complete and irreversible derailment was averted, and the country remained in the monetary union along with the most developed countries. With the elimination of the twin deficits, there is now a fiscal and macroeconomic balance, while the initiated structural reforms are gradually having a positive impact on growth. Public debt has features that make its management feasible under certain conditions, while the conditions for a positive course of the Greek sovereign bonds in the coming months are present. In addition, the risk of leaving the Euro area, which was a deterrent to investment in the past few years, is now extremely low. On the negative side, the Greek economy still suffers from a lack of confidence, particularly with regard to investments (but also in the banking and insurance system), very high tax rates, accumulation of private debt of households and businesses, youth emigration abroad and a weakened middle class.

With the end of the current programme, hardly anyone sees how another official programme could follow, in terms of new lending, mainly for political reasons and despite the fact that the lending rates in the markets are expected to be relatively high. At the same time, the main obligations that stem from the programmes will remain in place. Fiscal space would be difficult to establish, as indeed relevant commitments have already been undertaken. In the bilateral portion of public debt, the short-term and medium-term measures make its servicing feasible, but under certain conditions, while major interventions are not expected before the Greek economy is set firmly on solid ground, having achieved reliable growth.

Given that the monitoring of the Greek economy by its creditors will continue in the foreseeable future, at least through the debt adjustment measures, the aim should not be to omit its monitoring as a constraint, but to turn this into a tool for reducing financing costs and for boosting growth. After the summer of 2015 and the imposition of capital controls, with the other weak economies having left their programmes and with high growth rates as a whole in the Euro area, Greece is no longer considered as posing a systemic risk - this fact should be taken into account. Stagnation in Greece, even over the long term, would not be economically intolerable and politically unacceptable by the European environment. Whether the economy will embark on a growth path is now considered the sole responsibility of Greece itself - what would likely be decided abroad can have a small relevant effect at most.

For all these reasons, and as we approach the end of the third programme, we should create not only a "buffer" in public funding, but mainly a "buffer" of growth and credibility with an acceleration of the institutional reforms. The very weak momentum of investment and consequently exports remains the core problem of our economy. The change of the investment climate by building confidence in the Greek political system that it would be friendly to investors, providing them with transparent rules, effective and streamlined public administration and stable and simple tax framework, is a prerequisite for strong growth. In such a direction, the growth rate of the economy could strengthen significantly in the following year, clearly in excess of 2%. Such a development could also launch multiple secondary positive effects, through the successive reduction of interest rates.

As we approach the end of the programme, it is perhaps not surprising that, once again, the focus is on the fiscal arm of the adjustment. In particular, the choice to achieve fiscal consolidation of the economy, mainly by increasing tax rates and adjusting the social security system, seems to serve currently both the Greek Government and the European institutions. To avoid a fiscal deficit is, of course, a necessary condition for our economy. However, it should not be the focal point of the reform effort, but only its indispensable background, given that the problem of the Greek economy is primarily its low competitiveness. The truth is that the actual structure of the economy is changing extremely slowly, the State control is not diminishing and the relative importance of the public sector is growing.

The success of the course of the economy will depend directly and emphatically on the pace of progress in reducing trade barriers, particularly of those related to public administration, and the opening of product markets. In a paradoxical way, the Greek economy is again at crossroads, as it was at the beginning of the crisis. Although those who today control the economic policy in Greece, on both the domestic and creditor sides, appear content that Greece returns to a kind of normality, if the pre-crisis habits persist, then growth will remain systematically lower than desired but also below the necessary minimum.

Some cultivate the idea that by the end of the coming summer, Greece will be freed from the limitations of the programme and will continue its natural course, interrupted ten years ago, as if no lesson can be learned from the country's experience in the meantime. This concerns politicians who may not wish to abandon the excessive control of the economy, companies seeking benefits from special treatment and from a dysfunctional public administration that creates barriers to entry in their markets, and special interest groups that are willing to participate in rent-seeking behaviour. However, the Greek economy would need to win the confidence of the markets in the medium term, which can be achieved only by becoming more open and less centrally controlled economy. If the Greek economy does not follow this path, then the current recovery will prove to be merely transient.

The end of the programme clearly means less protection. Now that the programmes are ending, it becomes clear that they were not the source of the problem, as we are again facing the reality of our economy and the choices that still need to be made. How should the economy be reformed so that it can have a standing in a competitive international environment? If the acquired freedom, once the economy is left without the protection of the programme, is misinterpreted, this could prove to be a painful setback, rather than the feasible and necessary beginning of a virtuous growth cycle.

1. BRIEF OVERVIEW - CONCLUSIONS

Stronger global growth in 2017, further acceleration is expected in the current year

The world economy grew at an average rate of 3.3% in the first nine months of 2017, compared to 2.9% in the corresponding period of 2016, its best performance since 2014. In addition, the world economy is anticipated to have accelerated further in the final quarter of 2017 and in the following year. The GDP in the major developed economies (G7) widened in the third quarter by 2.3%, compared with 2.1% in the previous quarter, reaching its fastest growth rate since the third quarter of 2015. In most G7 countries, growth accelerated compared with the previous quarter. The exception was the United Kingdom, where the growth rate did not change, remaining at 1.5% and Canada, where after 3.6% in the second quarter, it fell to 3.0%. The strongest growth boost was recorded in Germany (2.8% from 2.3%) and France (2.2%, from 1.8%). As in the previous quarters, the upward momentum in the Eurozone countries was fuelled primarily by the growth of international trade and the continuing accommodative monetary policy. In the major Asian developing economies, the growth rate in China remained in the range of 6.8-6.9% in the fourth quarter. The growth of India's economy remained unchanged for the second consecutive quarter at 6.1%, a lower rate year on year (7.4%), due to the effects of the banknotes replacement policy. In Latin America, the recovery continued and strengthened in Brazil in the third quarter, to 1.4% from 0.2% in the previous quarter, after three years of recession.

The world economy is anticipated to have accelerated further in the final quarter of 2017 and in the following year. In the developed economies, this trend will be maintained by the continued loose monetary policy, albeit to a lesser extent than in the previous year, the exceptionally strong business sentiment and consumer confidence, the changes in the US tax policy and the boom in the capital markets. Enhanced demand from the developed economies is the "common denominator" of the faster growth of the developing economies. Individual policies also contribute to their economic activity. Then again, the prolonged improvement of the economic environment and demand may have an adverse impact on prices and interest rates. Loose monetary policy could lead to accumulation of new liabilities by businesses. In addition, the probability of a correction in the stock markets, which will have a negative impact on expectations, is rising.

In detail, in the Euro area, the expansionary monetary policy will continue to support its growth, despite its mild tempering. A sharp change is not expected in the medium term, as inflation is not converging to the desired level of 2%. The expansion of international trade will maintain the positive effect of net exports. The completion of fiscal consolidation in most countries increases their fiscal space. The strengthening of the robustness of the banking system in certain countries, the Brexit negotiations and the management of migratory flows remain major challenges in the Euro area.

In the US, the weakening of the impact of the loose monetary policy of the FED more than offsets the fiscal tax reduction package, whose contribution is expected to continue over the medium term and to spread to the economies of the region. The challenges that the American economy is facing are associated with the growing level of leverage among the companies, the prolonged boom in the financial markets, with asset prices exceeding their fundamental values, and the concern as to the adopted policy on the issue of protectionism.

Regarding the developments in the major developing economies, the rapidly increasing credit growth, the strong growth of property prices in certain areas and the rising fiscal deficit are significant challenges for the Chinese economy. The dependence on the international prices of energy commodities, low productivity, the limited fiscal space and the stability of the financial sector determine the prospects of the Russian economy.

Under these conditions and prospects in the world economy, the forecast of IOBE that the growth of world GDP has accelerated in 2017, to 3.7% from 3.2% the year before, remains unchanged, with further acceleration anticipated in 2018, to about 4.0%.

Slower growth in Q3 of 2017

The GDP of the Greek economy remained on the rise for the third consecutive quarter in the third quarter of 2017, with a slightly lower rate than in the previous quarter (1.3% against 1.6%), yet practically the same as in the corresponding quarter of 2016 (1.2%). **Overall in the first nine months of last year, the gross domestic product was higher by 1.1% year on year,** offsetting its marginal fall recorded in the same period of 2016 (0.1%) and 2015 (0.6%).

Regarding the trends in individual components of GDP during the same period of 2017, **domestic consumption remained essentially unchanged (-0.1%) compared to the same period of last year, when it had marginally decreased (-0.3%).** This result came from its slight growth in the first half of 2017, by 0.4%, and the decline during the summer quarter by 1.0%. Regarding its two basic components, only private consumption increased, by 0.6%, as the consumption spending of the public sector declined by 2.6%, their largest contraction in four years.

Investment expanded by 12.9% year on year in the first nine months of 2017, less than in the corresponding period of 2016 (+17.0%). The trend changed again in the third quarter, this time from negative to positive

(+10.6%). As noted in the previous report of IOBE on the Greek economy, before the announcement of the GDP data for the third quarter, the increase of investment in the third quarter did not come from growth in fixed capital formation, but from different trend in stocks compared with the same period of 2016, from negative to positive. **The significant expansion of stocks, by €2.45 billion, is the main cause of higher investment throughout the first nine months of 2017, as 80.5% of its growth is explained by the changes in stocks,** with the rest coming from larger fixed capital formation.

In the external sector, **exports expanded by 7.5%** last year, against a fall by 4.0% a year earlier. They continued to grow in the third quarter, at a lower rate than in the preceding quarter, by 7.8% against 9.8%. This increase came mainly from the strengthening of the exports of services (+11.0%), following their sharp decline a year earlier (-13.5%). The foreign demand for goods produced in Greece strengthened by 5.0%, at a similar rate as in 2016 (+5.1%).

Despite the decline of consumption and fixed capital formation in the third quarter, **imports** kept growing strongly, accelerating quarter on quarter, by 9.3% from 5.0%. As a result, **overall in the first nine months of 2017, imports increased year on year by 8.5%,** compared to no change a year ago. The imports of services increased stronger that the imports of goods, by 11.1% against 7.8%. The higher growth of imports compared with exports resulted in a deterioration of the balance of the external sector in national accounting terms for the second consecutive year, by 2.9%, or €648 million, with an overall deficit of €4.2 billion or 3.0% of GDP. **Apart from the deterioration of the external balance, the extent of the increase in imports, which exceeded that of domestic demand (total private consumption expenditure and investment) as it reached €3.6 billion, against €2.06 billion (elasticity of import demand to domestic demand of 3.5), highlights the strong preference of households and businesses for imported goods and services, compared to the domestic products. This trend leads to substitution of the latter from the former, impeding the growth of domestic output.**

GDP growth in the Greek economy in 2017 of about 1.3%, stronger growth by 2.1% in the current year

The third review of the current programme largely determined the economic environment in the final quarter of last year and at the beginning of 2018. It was concluded much faster than previous reviews, which prevented the escalation of uncertainty that usually accompanies this process due to its long duration and the accompanying intense political developments. However, not all of its effects will be limited to this period, as this depends on the policy measures that have been taken for its conclusion, as well as on the commitments for the implementation of policy actions in view of the next review.

The outcome of the fourth and final review will largely set the tone for the negotiations for finalising the medium-term measures on facilitation of the servicing of public debt, which in turn will determine the refinancing possibilities of the Greek State through the capital markets in a sustainable manner. Apart from the outcome of the reviews, the economic climate is projected to improve further shortly by the improving evaluations of the creditworthiness of the Greek State by the credit rating agencies and the new bond issue in the coming weeks.

Most of the measures that were legislated with the conclusion of the review constitute regulatory policies, rather than fiscal interventions. Quite a few of the measures focus on some sectors and activities (e.g. casinos, Mining – Quarrying, pharmacies). However, some of them relate to a wide range of activities, so the impact will be far-reaching. The establishment of the energy exchange is considered the most significant measures, as it can lead to a more effective operation of this market mainly for large customers, and businesses, which will gain much greater flexibility in their energy supplies. The mediation for the resolution of legal disputes can contribute significantly to the settlement of many cases that are pending for years in the courts. The effect of these reforms is expected to be felt mainly in the following years, when the relevant enterprises and public services will be established, staffed and set in operation, when a sufficient number of ombudsmen in relation to pending court cases are appointed etc.

Although no additional budgetary measures for the current and the following year resulted from the recently concluded review, the Medium Term Fiscal Strategy (MTFS) 2018-2021 legislated measures that entered into force in the beginning of 2018 (lifting of the 1.5% discount on tax down payment during the clearance of tax returns of individuals and the tax discount on medical expenses, increase of social security contributions of freelancers, increase of VAT in Northeast Aegean Islands and the Dodecanese, levy of accommodation tax in hotels, rooms to let and rented apartments, etc.). The new measures will exert pressures mainly on the household disposable income. If the revenue predictions of the 2018 Budget are confirmed, their impact might be greater compared to the 2017 changes in taxation. The payment of the social dividend, with a substantially higher budget than in 2016, will ease the fiscal policy effects in late 2017 and early 2018.

Effects of the public sector on economic activity, slightly different from last year, are expected to come from the Public Investment Programme (PIP). The extent of low PIP execution last year is reflected in the fact that the PIP funding reached its lowest level since at least the year 2000. The grant budget in the current year is the same as last year (€6.75 billion), thus higher by €800 million than its expected final volume of last year. Given the long delay in the implementation of PIP in 2017, this year it will probably be more front-loaded and thus its impetus on investment and employment will be stronger than in the previous year.

Greater impetus to investment activity in the current year compared to 2017 is expected from privatisations and concessions completed in previous years, for which the licencing of the relevant investment projects is at an advanced stage or is being completed. The implementation progress of the privatisation programme in 2017 was weaker than expected, as not all planned actions were implemented, with most important the sale of the 66% stake of DESFA. For the current year, the planned actions include completing more tenders than in any other year since 2011, and particularly of 14 tenders with pending submission of binding offers and two tenders where the binding offers have been submitted (Thessaloniki Port Authority, extension of the Athens International Airport concession). Regardless of the number of privatisations and concessions which will be completed this year, their impact on the economy will be felt gradually over the coming years, since the licensing of accompanying investments requires considerable time, as past evidence suggests.

Developments are anticipated in the banking system, especially in the first half of 2018, regarding the progress with the settlement of non-performing loans and the property auctions, and mostly the new stress test from the ECB. The recent, successful issues of covered bonds by major banks (National Bank of Greece, Eurobank, Piraeus Bank), totalling €1.75 billion, with yields that could not be characterised as high (below 3%) and with the participation of foreign investors as well, on the one hand have increased their capital adequacy, and on the other have highlighted the strengthening confidence of investors in their prospects. Following these issues, if the need for new capital emerges by the stress test, its coverage is considered quite possible with new issues, at lower yields. The completion of the third review and anticipated issues of a New Greek sovereign bond will facilitate this possibility. There is also the possibility of recapitalisation from unused funds of the financial assistance programme, intended for the banking system, totalling approximately €10 billion, which is considered plentiful.

Regardless of how any capital needs of the banks, arising from the upcoming stress test, are going to be covered, the banks are not expected to alter their credit policy and engage in credit expansion, at least until the announcement of the test's outcome and, if some banks need recapitalisation, until its completion. The return of deposits since last May, if it continues and strengthens, can help change the trend of credit supply by the banks to the private sector.

The anticipated continuation of the mild credit contraction at least in the first six months of the current year, possibly with a slower pace than in the second half of last year, will push businesses to search for alternative ways of funding. The large companies, especially those listed on the stock markets, will seek access to financing through the capital markets, in Greece and abroad, at lower yields than the bank interest rates. The successful conclusion of the third review, without lengthy negotiations and the forthcoming issue of a bond by the Hellenic Republic, will promote the marketing of new corporate issues.

Greater support of the liquidity of companies this year compared with the previous year is expected to come from the payment of arrears to suppliers of the Greek State. A big part of the tranche linked to the third review, €1.5 billion in particular, relates to the payment of state arrears. Given the Greek government's commitment that for each euro from the loan for this purpose, it will contribute half a euro of its own resources, over the coming period, with the payment of the tranche, €2.25 billion will be available to cover outstanding obligations. In addition, despite the fact that the last sub-tranche from the previous review, amounting to €800 million, which was paid last October, was intended for this purpose, forming together with the national participation a total amount of €1.2 billion, the arrears declined in November, the latest month for which data are available, by €390 million. Therefore, if major new arrears were not created that month, a large part of the funds that were intended to repay arrears remained untapped at the beginning of December. Together with the funds that will be made available from the new tranche, it becomes possible to reduce significantly the state arrears to suppliers, which at the end of November of 2017 totalled, along with outstanding tax refunds, approximately €3.9 billion.

The export businesses experienced a boost of liquidity and more broadly activity last year, because of strengthening growth in the Euro area, which is the major destination of Greek exports, and from the acceleration of world trade. These trends will carry over to 2018, according to the latest reports of international organisations, which will maintain these effects. That said, the demand for imports strengthened sharply, as a result of the accumulation of needs of businesses and households from the capital controls, but also from the growth of domestic income. This effect will hamper the improvement of the external balance of goods and services.

Taking into account the above trends in economic indicators, and the anticipated developments (mainly those linked to the upcoming review of the economic adjustment programme, the domestic banking sector and the Eurozone growth) for the forecasting of the GDP components and other macroeconomic indicators, the increase of **household consumption** in the first nine months of 2017 is projected to have carried over to the final quarter, at a similar rate with that since the beginning of the year. Its growth will come mainly from the increase of employment during that period and, to a lesser extent, from the payment of a larger year on year social dividend in December. **Despite the expansion of household consumption expenditure in the final quarter of**

last year, after its weaker rise in the preceding quarter, the growth of private consumption is estimated to have reached about 0.8% overall in 2017, less than anticipated in previous reports of IOBE on the Greek economy.

The further expansion of exports in 2018, in both goods and services, and the upturn in construction activity, which will boost employment and household disposable income, will maintain and strengthen the expansion of private consumption. The new fiscal measures will act as an impediment to a greater increase of private consumption. Under the influence of these factors, **private sector consumption is considered most likely to continue to grow this year, at a rate slightly higher than last year, in the region of 1.3%.**

On the side of the public sector, despite the disbursement of tranche linked to the second review in sub-tranches between July and October, which lifted any constraints on the liquidity of the state, the latest trends in **public consumption** point to a decline in the last quarter of 2017, to a lesser extent than in the previous quarters. **Following the restraint of public consumption spending throughout last year, its average contraction rate in 2017 is estimated to have reached around 1.8%.**

Regarding the trend of public consumptions in the current year, the fiscal consolidation will continue mainly through higher revenue from direct and indirect taxes, and social security contributions, rather than from cuts in public spending. Thus, public consumption would most likely increase slightly. Besides, according to the explanatory note of the 2018 Budget, the Ordinary Budget expenditure for salaries and pensions, which constitutes the main component of public consumption, will increase year on year in the coming year, by 3.6%, higher than the envisaged rate in the MTFS 2018-2021 (1.4%). **This development is conducive to an expansion of public consumption in 2018, at a rate expected to reach about 1.5%.**

The steady decline of the supply of funds from the banking system and the significant under-utilisation of the Public Investment Programme are considered to have constituted the major impediment to fixed capital formation in the final quarter of last year. Nevertheless, total investment most probably increased, due to extensive change in the trend of stocks year on year, from negative to positive. After these trends in the final quarter of last year, the investments in fixed capital most probably declined overall in 2017. Nevertheless, **the stock accumulation, in place of their contraction a year earlier, led to growth of investment in 2017, to an estimated growth of about 13.5%.**

As regards the investment prospects in the current year, the upcoming stress test and the settlement of non-performing loans will prevent a change in the restrictive credit policy of the banking system, at least until the completion of the stress testing process. Meeting any new capital needs, but also the continuation and strengthening of the return of deposits that took place between May and November 2017 are prerequisites for the subsequent gradual change of the trend in credit supply. After the delays in the execution of the Public Investment Programme in the previous year, it is quite possible that its contribution to investment activity will strengthen in 2018, as its budget does not differ from last year and its more front-loaded implementation is possible. The large Greek companies will address the difficulty in accessing investment capital from the banking system and the PIP, by drawing funds from the capital markets.

The steady export demand rise, from stronger growth in key (Eurozone) or emerging (Middle East, North Africa) export destinations of Greek exports, will boost investment activity in export-oriented branches of Manufacturing, Tourism and Transport. The start of work on major construction projects in privatisation – concessions is expected to boost activity in the Construction sector. **Taking into account these effects, investment is expected to grow at a double-digit rate this year, by about 16% or perhaps even higher.**

In the external sector of the Greek economy, the **exports of goods** are considered to have benefited from the accelerated growth in the European Union and the US in the final quarter of last year, as well as from the longer tourist season and the increase of exports of transport services. The constant rise in all major categories of exports except fuel implies that the continuous appreciation of the euro against the dollar since April 2017 until the end of the year had no noticeable negative effect on the competitiveness of domestically produced goods and services. **The anticipated small boost of the export growth in the final quarter of last year is estimated to have pushed total exports last year by almost 8% up on their 2016 level.**

The continuous, stronger growth in the EU and the US in 2018, as well as in developing and emerging economies with a growing share in the Greek exports of goods will contribute to their further increase in the coming year. The continuation of conflicts in the Arab countries and the lingering tension in the Turkey-EU relations will favour for one more year the international tourism and transport in Greece. Only a further significant appreciation of the euro against the dollar, a development that is not regarded as likely, would limit the upward trend in exports. Therefore**, exports are anticipated to grow further in 2018, by about 7.0%.**

The steady growth of domestic consumption demand in the final quarter of 2017 will continue to fuel the demand for **imports**. The appreciation of the euro against the dollar in late 2017 boosted the domestic purchasing power. **As a result of their strong growth in the final quarter of 2017, imports are anticipated to have expanded by 8-8.5% overall in the previous year.**

The rise of imports will continue in 2018, from the slightly larger increase in domestic consumption, the strengthening of fixed capital formation, bit also from the high elasticity of imports to changes in domestic demand. However, the projected substantial increase in investment would not have a similar effect on imports, as a large part of it concerns construction projects. Nevertheless, the high elasticity of imports with respect to domestic demand **is expected to lead to a two-digit percentage increase of imports.**

Taking into account the above trends in the GDP components during the last quarter of 2017 and their changes earlier in that year, the projection that the GDP of the Greek economy increased last year by 1.3% remains unchanged. Taking into account the factors that affect the trends in the components of GDP in 2018, our forecast is that the pace of growth will accelerate to 2.1% in the following year.

Execution of the 2017 State Budget: target overshot primarily through cost containment

Based on provisional figures for 2017 overall, **the main State Budget targets were met (on cash basis)**. The **deficit** stood at **€4,241 million**, against **€5,123 million deficit target** in the 2018 budget, while **the primary account was in surplus, of €1.97 billion**, by approximately €1.1 billion more than the relevant target in this year's budget. As in the execution of the State budget in 2017, the **target overshot** came mainly from **expenditure restraint**, by €1.75 billion: The **Ordinary Budget expenditure** was lower than the target by €949 million, because of restraint of primary expenditure by €1.16 billion, but also from **fewer than budgeted grants of the Public Investment Programme**, by €800 million. The **net revenue of the State Budget** fell short of the target by €868 million, which is solely due to fewer PIP inflows from the EU, by about €1.2 billion, rather than from the net income of the Ordinary Budget, which was higher than expected by €110 million.

State Budget 2018: Achievement of the targets with changes in the expected contribution of the fiscal balance components

According to the explanatory note of the 2018 budget, the General Government primary surplus forecast for the current year, on the basis of the methodology of the financial assistance agreement with the ESM, stands at €7.05 billion or 3.82% of GDP, higher than the target set in the MTFS 2018 – 2021 by €425 million (€6.63 billion, or 3.53% of GDP). Compared with the Medium Term Fiscal Strategy 2018-2021, State Budget revenue was once more revised down after the 2018 Draft Budget, by €764 million, primarily from lower direct tax revenue, by €687 million. However, the State budget expenditure is also reduced, by €916 million, primarily from lower interest payments by €700 million, thus marginally improving its cash balance (-€943 million from €1.1 billion). On the other hand, the balance of the State Budget according to ESA 2010 methodology is also burdened by national accounting adjustments, from the increase of the difference between accrued and paid interest by €1 billion and the transfer of the proceeds from the last instalment of the property tax (ENFIA) for last year from January 2018 to 2017. In order to counteract the effects of the national accounting adjustments at the General Government level and to achieve the goal for the primary surplus, the positive balance in the Social Security Funds (SSFs) is predicted to be much larger than anticipated earlier in the MTFS. Their surplus was once more revised in the explanatory note of the 2018 budget, up on the Draft Budget published last October by €270 million, to €1.79 billion, compared to a forecast in the MTFS 2018 – 2021 of a €128 million surplus.

Slightly stronger fall in unemployment last year, its decline will continue at a lower rate in 2018

Unemployment eased further during the summer quarter of last year, to 20.2%, its lowest rate since the last quarter of 2011 and 2.4 percentage points lower year on year. As a result, **the number of unemployed fell to 970,100 in the third quarter of 2017, i.e. below one million for the first time in exactly six years. From the beginning of 2017 until September, the average unemployment rate stood at 21.5% on average, two percentage points lower compared with the same period of the preceding year.** The decline in unemployment in the first three quarters of last year came by 77% from employment growth and by 23% from reduction of the labour force.

In the final quarter of 2017, the continued growth of exports and the expanding household consumption will preserve most jobs created in the preceding quarters. Positive effects on employment are expected to come from the autumn from the Construction sector, following the steady growth in the surface and volume of new building permits during the second and third quarters of last year. Therefore**, the increase in unemployment is considered to have been small in the final quarter of last year. As a result, unemployment will reach 21.5%, two percentage points lower than in 2016.** Unemployment is expected to ease further in 2018, mainly from the predicted further strengthening of export demand, which will create jobs this year in Manufacturing, Tourism and Transport. The contribution of Construction to the new fall in unemployment is expected to be stronger, from the start of investment in privatisations and the recovery of construction activity. Enlargement of employment, of permanent and temporary kind, is expected to take place in the public sector. **As a result of the above effects, unemployment will decline in the current year to about 20%, or perhaps a little lower.**

Slight weakening of inflation in 2018

The Greek economy experienced mild inflation in 2017, after four years of continuous deflation. The Consumer Price Index (CPI) increased on

average by 1.1% year on year, compared with a fall by 0.8% in 2016. The rise in the international oil prices, the increase in indirect taxation since July 2016 and January 2017 and the levy of new indirect taxes since the start of last year, remained the main drivers of the upward trend in prices throughout 2017 or for the most part of it.

The strongest upward impact on prices in 2018 is expected to come from the new indirect tax rises since the beginning of 2018 (VAT in the Northeast Aegean and Dodecanese islands) and the imposition of new levies (residence tax on hotels, rented rooms and apartments). However, given the mild influence of stronger changes in indirect taxes last year, they are unlikely to lead to an acceleration of inflation in the current year. As regards the effects of the international price of oil, despite the sharp increase in international oil prices in the final quarter of last year, inflation eased strongly in Housing and Transport, which is only partly due to the appreciation of the euro against the dollar. Therefore, a possible continuation of the rise in oil prices this year, by 10-15% will exert slight inflationary pressure on prices, as once more it will be partly offset by the expected mild further appreciation of the euro. Together with the changes in the calculation of public service charges in the electricity tariffs from 01/01/2018, which are expected to increase on average, but also to be offset by reductions in the charges for renewable energy support (ETMEAR), energy costs will most likely change only marginally this year. Therefore, **there is no factor at present that would lead to higher price growth compared with last year, thus inflation is estimated to weaken to about 0.8% in the current year.**

Special Study: «Food Bank: A Tool for Addressing Food Insecurity and Food Waste in Greece»

The deep and prolonged economic crisis in Greece has serious social repercussions. As a result of the extensive fall of per capita income and high unemployment, a significant part of the population seems to be facing difficulties in securing sufficient amounts of nutritious food. In this context, the food banks contribute decisively both to the combat of food poverty, and to the reduction of food waste.

The study summarised in this chapter of the quarterly report analyses the data on the extent of food poverty and food waste in Greece. In addition, it presents the tools available to combat these social problems, with emphasis on the Food Bank institution.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the World Economy

The **world economy** grew at an average rate of 3.3% in the first nine months of 2017, compared to 2.9% in the corresponding period of 2016, its best performance since 2014. In addition, the world economy is anticipated to have accelerated further in the final quarter of 2017 and in the following year. In the latest forecasts by the International Monetary Fund[1], the global growth rate recovery was upped to 3.7% in 2017 and 3.9% in both 2018 and 2019.

The acceleration of global economic activity in 2017 came mainly from a further boost of investment, trade and manufacturing in developed and developing economies, coupled with stronger consumer and business sentiment, which provides a boost to consumption and investment. In the developed economies, the steady positive momentum is expected to be powered by stronger international trade, continued loose monetary policy in the Euro area, Japan and the UK, prolonged boom in the capital markets and the expansionary fiscal policy in the US. In the developing economies, the prospects of recovery are based on robust domestic demand in China, the return to growth of Brazil and Russia, and revitalised demand from the developed economies.

In the latest IMF report on the world economy, the growth rate of the volume of international trade was revised up, for 2017, 2018 and 2019. While the world trade volume increased by 2.5% in 2016, it strengthened significantly in 2017, resulting in an expected annual growth rate of 4.7% in 2017, with expectations for similarly high growth rate in 2018 (4.6%) and 2019 (4.4%).

A special feature of the current economic climate is that the overwhelming majority of countries in the world are in a growth phase, a phenomenon referred to as "synchronized global growth". Given these global economic conditions, the IMF (January 2018) in all economic regions of the world. Some countries in the Middle East, Latin America and sub-Saharan Africa, mainly economies relying on oil exports or suffering from political instability, form an exception to this. Such a positive economic environment, if confirmed by the developments, is a great opportunity, but also a challenge for the policy makers. On one hand, this is an opportunity for economic policy to focus on achieving inclusive growth, in implementing structural reforms that increase potential output, and on sound fiscal management, especially in countries with high levels of debt, given the reduced need for expansionary fiscal policies and the great volume of liquidity provided at historically low cost by the current

[1] IMF World Economic Outlook, January 2018

international monetary policy environment.

On the other, the current situation presents significant **challenges**. In the developed economies, according also to reports of international organisations, challenges arise from the slowdown of productivity growth, the aging of the population, the low inflation and low wage growth, income inequality, prolonged euphoria in the capital markets, which exceeds the levels justified by the market fundamentals, risks in the financial system, a gradual process of shrinking central bank assets, political populism, and geopolitical tensions.

Table 2.1

Global Environment (annual % GDP growth, in real terms)

Economy	**2016**	**2017 Est.**	**2018 Forecast**	**2018 Difference from previous forecast***	**2019 Forecast**	**2019 Difference from previous forecast***
World	3.2	3.7	3.9	0.2	3.9	0.2
Developed	1.7	2.3	2.3	0.3	2.2	0.4
Developing	4.4	4.7	4.9	0.0	5.0	0.0
USA	1.5	2.3	2.7	0.4	2.5	0.6
Japan	0.9	1.8	1.2	0.5	0.9	0.1
Canada	1.4	3.0	2.3	0.2	2.0	0.3
United Kingdom	1.9	1.7	1.5	0.0	1.5	-0.1
Eurozone	1.8	2.4	2.2	0.3	2.0	0.3
Germany	*1.9*	*2.5*	*2.3*	*0.5*	*2.0*	*0.5*
France	*1.2*	*1.8*	*1.9*	*0.1*	*1.9*	*0.0*
Italy	*0.9*	*1.6*	*1.4*	*0.3*	*1.1*	*0.2*
Emerging Europe	3.2	5.2	4.0	0.5	3.8	0.5
Turkey	*3.2*	*6.1*	*4.9*		*4.7*	
Developing Asia	6.4	6.5	6.5	0.0	6.6	0.1
China	*6.7*	*6.8*	*6.6*	*0.1*	*6.4*	*0.1*
India	*7.1*	*6.7*	*7.4*	*0.0*	*7.8*	*0.0*
Commonwealth of Ind. States	0.4	2.2	2.2	0.1	2.1	0.0
Russia	*-0.2*	*1.8*	*1.7*	*0.1*	*1.5*	*0.0*
Middle East & North. Africa	4.9	2.5	3.6	0.1	3.5	0.0
Latin America	-0.7	1.3	1.9	0.0	2.6	0.2
Brazil	*-3.5*	*1.1*	*1.9*	*0.4*	*2.1*	*0.1*
Sub-Saharan Africa	1.4	2.7	3.3	-0.1	3.5	0.1
World Trade	2.5	4.7	4.6	0.6	4.4	0.5

* Difference in percentage points compared with the IMF estimates from October 2017
** Estimates from the OECD Economic Outlook, November 2017
Source: World Economic Outlook Update, IMF, January 2018

In the developing economies, high-speed credit expansion in some countries like China, high levels of debt in foreign currency, limited "fiscal space", propensities for trade protectionism and exposure to the risk of a sharp rise in the US interest rates that would cause a flight of investment funds from these countries and exert pressure on their currency, add to the challenges.

In the **developed economies**, the GDP growth rate stood at 2.2% on average in the first three quarters of 2017, compared with 1.6% in the corresponding period of 2016, a similar performance with that of 2015. The GDP of the OECD countries grew by 2.5% during this period, compared to 1.7% in the same period of 2016, with the growth rate strengthening for the fourth consecutive quarter. In the major world economies (G20), the rate of growth in the first nine months of 2017 stood at 3.7%, its best performance for this period of the year since 2011.[2] In all the above regions of major economies, the growth rate strengthened in the second quarter of 2017 both quarter on quarter and year on year. In all the above regions of strong economies the pace of growth accelerated in the third quarter of 2017, both quarter on quarter and year on year.

The developed economies produce 41.8% of the world GDP. In the latest IMF forecasts, the growth rate of the developed economies was revised up to 2.3% for 2017 and 2018 and to 2.2% for 2019, with the strongest positive revisions in the economies of the US, the Euro area and Japan.

Among the developed countries, the growth rate strengthened in the third quarter of 2017 in the **US**, for the fifth consecutive quarter, to 2.3%, up from 2.2% in the second quarter and 1.5% in the corresponding quarter of 2016. The acceleration came from higher consumption and investment, with business sentiment remaining buoyant. Based on the latest IMF forecasts, the US growth rate is expected to reach 2.3% in 2017, 2.7% in 2018, and 2.5% in 2019, higher than the previous projection by 0.1, 0.4 and 0.6 percentage points respectively. As regards fiscal policy and its impact, a significant fiscal package of cuts in income and capital taxes was adopted in late 2017, boosting the outlook primarily for investment and secondarily for consumption in 2018. Meanwhile, the Fed continues its course progressively towards a less loose monetary framework, which is not affected by the coming changes in its governance in February 2018. The challenges that the American economy is facing are associated with the growing leverage of firms, the impact of the initiated pro-cyclical fiscal policies, the prolonged euphoria in the financial markets in excess of the fundamentals, and the uncertainty arising from an

[2] Sources: IMF International Financial Statistics, http://data.imf.org/regular.aspx?key=61545864 and OECD Quarterly National Accounts, https://stats.oecd.org/Index.aspx?DataSetCode=QNA

unpredictable administration in matters such as protectionism in trade.

In the **Euro area**,[3] the growth rate strengthened for the fourth consecutive quarter to 2.6% in the third quarter of 2017, compared with 2.4% in the second quarter and 1.7% in the same quarter of last year. In the **United Kingdom**, the GDP growth slowed to 1.7%, compared with 1.9% in the second quarter and 2.0% a year earlier. The pending negotiations on the post-Brexit put pressures on the pound, which translates into higher inflation and pressure on private consumption, generating uncertainty that burdens the short-term economic prospects, especially in the area of investment. In contrast, the reduction of interest rates by the Bank of England at the end of 2017 eased the negative pressure on sterling and investment. At the same time, however, the high private household debt creates challenges for the banking system. In **Canada**, the rate of growth weakened slightly in the third quarter of 2017, in part due to worse external balance after the appreciation of the Canadian dollar, yet it remained high at 3.0%, compared with 3.6% in the second quarter and 1.5% in the third quarter of 2016.

In **Japan**, the growth rate increased to 2.1% in the third quarter of 2017, from 1.7% in the second quarter and 0.9% in the third quarter of 2016. Aided by exports and fiscal expansion, the country is going through 2 years of mild but steady recovery, its longest period of growth in the last decade. The price change was marginally positive in 2017, while the monetary policy is expected to continue to be loose until prices approach the inflation target of 2%. The high public debt (221% of GDP in 2017) and budget deficit, due to the expansionary fiscal policy remain a challenge for the consolidation of the economic recovery.

The **emerging and developing economies** expanded at an average rate of 4.2% in the first nine months of 2017, compared to 3.9% a year earlier, their best performance since 2014. These countries account for 58.2% of the world GDP. Based on the latest IMF forecasts, the growth rate of the developing economies is expected to accelerate in the second half of 2017, with the rate of change for the whole year reaching 4.7% in 2017, 4.9% in 2018 and 5.0% in 2019. Geographical regions with strong trade relations with Greece, such as the Emerging Europe and the Middle East and North Africa, increased strongly in the first three quarters of 2017, by 5.1% and 2.9% respectively, despite the recent slowdown in the second region and specifically in oil-producing countries. The rest of this subsection refers to five of these economies, which produce 31.6% of the world GDP in total.

In detail, the economy of **China** is anticipated to have grown at 6.8% in 2017, against 6.7% in 2016, mainly

[3] The trends for the Euro area are presented in detail in the next subsection.

because of stronger domestic demand and particularly of consumption. The growth rate remained stable in the third quarter of 2017, at 6.8%, mainly due to restraint of investment. The growth rate of China is expected to marginally slow down in 2018 and 2019, to 6.6% and 6.4% respectively (IMF, January 2018), driven mainly by investment and exports. The rapidly increasing credit growth, the strong growth of property prices in certain areas, the rising fiscal deficit and the need for income redistribution policies are significant challenges for the Chinese economy. As the size of China's economy exceeds 16%-17% of global GDP, addressing these challenges and the gradual transition to a more open economy, affect the trends in the world economy and especially trade.

In **India**, the economy strengthened in the second half of 2017, mainly due to a recovery of consumption. As a result, the growth rate is anticipated to have reached 6.7% in 2017 and is expected to strengthen to 7.4% in 2018 and 7.8% in 2019 (IMF, January 2018), from a boost of investment and productivity as a result of the expected impact of recent structural reforms. The non-performing loans that exceed 10% of the total loans and the significant fiscal deficit constitute a major challenge for the Indian economy.

In **Russia**, after the recession of 2015-2016, the recovery continued in the third quarter at a rate of 2.5%, aided by both consumption and investment, from 2.3% in the previous quarter and a mild contraction of 0.5% in the same quarter of 2016. The recovery in Russia is anticipated to have reached 1.8% in 2017, with expectations for slight slowdown in 2018 and 2019 to 1.7% and 1.5% respectively. The dependence on the international prices of energy commodities, low productivity, the limited fiscal space and the stability of the financial sector are key challenges ahead for the Russian economy.

In **Brazil,** there was a marginal growth of 1.4% in the third quarter, for the first time after three years of recession. The economy is expected to recover mildly from the deep three-year recession, at a rate of 1.1% in 2017, 1.9% in 2018 and 2.1% in 2019. Amid political instability, the double-digit unemployment rate and the high fiscal deficit remain major challenges.

Turkey recorded a significant acceleration of its growth rate 2017, which is anticipated to have reached 6.1%,[4] from 3.2% in 2016, due inter alia to stronger exports, which benefited from the depreciation of the lira, and base effects, as the second half of 2016 was marred by the military coup attempt in the country. At the same time, inflation reached double-digit rates within 2017. The uncertainty generated by political instability and tension in external relations, and the negative balances of the external and fiscal sectors, together with the fact that, according to estimations of international organisations, output has

[4] Economic Outlook, OECD, November 2017

already considerably exceeded its potential level and the economy is facing the threat of overheating, constitute a major challenge for the Turkish economy.

The IFO estimates about the **economic climate** in the world economy in the fourth quarter of 2017 point to a continuously positive trend. In detail, the balance of estimates on the world economic climate increased further, to 17.1 points, reaching a six-year peak level. Regarding the present situation, the balance improved further, to 12 points, remaining positive for the third consecutive quarter after six years of negative levels. Finally, the expectations recovered, as their balance reached 16.9, from 14.0 points in the previous quarter, mainly due to improvement in the emerging economies.

The economic climate in the Euro area continued to improve in the final quarter of 2017, with the economic sentiment index rising to 37.0, from 35.2 points in the third quarter, its best performance since the year 2000. As regards the assessment of the current situation, the balance increased to 42.9 points, from 33.4 points in the previous quarter, a performance that also is the best in a decade. In contrast, the expectations balance deteriorated to 31.3 points, from 37.1 points in the third quarter of 2017, yet it remained at relatively high levels. In the balance of expectations, the negative change comes from countries with political developments, such as Spain and Austria.

The **inflation rate** in the developed economies varied at around 1.8% in 2017, from 0.8% in 2016, remaining slightly lower than the target of major central banks.

Table 2.2

IFO – World economic climate (balances)

Quarter/Year	**IV/15**	**I/16**	**II/16**	**III/16**	**IV/16**	**I/17**	**II/17**	**III/17**	**IV/17**
Economic climate	-5.1	-7.0	-3.5	-6.6	-0.7	3.0	13.5	13.2	17.1
Assessment of current situation	-17.6	-14.2	-17.4	-16.8	-14.9	-8.7	5.1	12.5	17.2
Expectations	8.2	0.5	11.6	4.1	14.6	15.5	22.2	14.0	16.9

Source: IFO, World Economic Survey, Vol. IV, November 2017

Table 2.3

IFO – Economic climate in the Euro area (balances)

Quarter/Year	**IV/15**	**I/16**	**II/16**	**III/16**	**IV/16**	**I/17**	**II/17**	**III/17**	**IV/17**
Economic climate	16.9	13.3	6.6	4.6	8.3	17.3	26.4	35.2	37.0
Assessment of current situation	3.8	1.8	-2.6	6.2	2.4	8.0	21.9	33.4	42.9
Expectations	30.9	25.5	16.2	2.9	14.3	27.0	31.0	37.1	31.3

Source: IFO, World Economic Survey, Vol. IV, November 2017

This phenomenon remains most acute in Japan and the Euro area, where the rate of price change stood at 0.4% and 1.5% respectively in 2017, with "core" inflation, without the impact of oil prices, even lower. As a result, the price change is considered low against the inflation target of "close to 2%". The inflation rate in the major developing economies BRICS (Brazil, Russia, India, China and South Africa) fell to its lowest level in eight years, at 3.3% in 2017, from 5.9% in 2016. This is partly because the international prices of raw materials in foodstuffs and metals remained low in 2017, while most central banks of these countries maintained low interest rate policies.

In the developed economies, the **monetary policy stance** remains broadly accommodative, supplying abundant liquidity in order to boost the price levels closer to target inflation, with the first moves to reverse this trend in 2017 coming from the US and Canada. The fact that three of the largest central banks (US, the Euro area and Japan) have quadrupled the size of their balance sheet, surpassing in total $12 billion, through quantitative easing programmes, is a characteristic outcome of the policy carried on in this context between 2008 and 2017. As it seems that some economies, including the US, are close to the inflation target, and as the economic indicators improve, a shift toward tighter monetary policy framework is expected. The international organisations are urging the transition not to be rushed, but to take place gradually and in a way that is predictable for the markets and the investors. The Fed, as expected, made a slight increase in its interest rates in December 2017, the fifth such increase since December 2015, while it has created expectations for further interest rate rises in the next two years, a policy that seems to be unaffected by the change in its governance in February. Respectively, the Bank of Canada has carried out three small interest rate rises since July 2017. At the same time, the ECB gradually tampers the quantitative easing programme, yet maintaining low interest rates, as the inflation expectations remain low. Note that growing asymmetries among developed economies as to the conduct of monetary policy, with continuing quantitative easing programmes in Europe, Japan and the UK, and a growing trend for tighter monetary policy in the US, may cause changes in capital flows and exchange rates, with possible outcomes such as strengthening of the dollar in the medium term, which would have an impact especially in emerging markets.

The economies of the EU and the Euro area

In the third quarter of 2017, the economies of the European Union and the Euro area kept on growing stronger, by 2.8%, from 2.5% and 2.4% respectively in the second quarter. The EU grew at an average rate of 2.5% in the first nine months of 2017, compared with 1.9% in the same period of 2016, its best performance since 2007. Respectively, the Euro area grew at an average rate of 2.4% in the first three quarters of 2017, compared to 1.7% in

2016, also its best performance since 2007.

According to the latest forecasts of the International Monetary Fund[5] for the year 2017, growth of 2.4% is expected in the Euro area, while the prospects for 2018-2019 appear equally positive, with growth of 2.2% and 2.0% respectively, higher than previous estimates by 0.3 percentage points for both years.

Net exports, which had a positive effect on GDP for the first time since mid-2015, gave a significant boost to growth in both regions in the first nine months of 2017. The positive effect came from stronger growth in exports compared with imports. This result offset the weakening positive impact of consumption in both regions, while the contribution of investment remained unchanged.

The composition of the GDP expenditure components has remained similar in the EU and the Euro area, with consumption representing 76% and 75%, investments 21%, exports 47% and 49%, and imports 44% and 45% of GDP in the two regions respectively.

The highest growth rates in the EU-28 in the second quarter of 2017 occurred in Ireland (10.4%), Romania (8.6%), Malta (7.7%), Latvia (6.2%), Poland (5.2%) and the Czech Republic (5.0%). In contrast, **the lowest growth rate in the EU was recorded in Greece (0.8%),** followed by Denmark (1.5%), the United Kingdom (1.7%), Italy (1.7%) and Belgium (1.7%).

Regarding the **economic climate** and the key leading indicators of economic activity in the Euro area and the European Union, the €-COIN[6] indicator continued to strengthen in the fourth quarter of 2017, approaching 0.91 points in December 2017, its best monthly performance since 2006, capturing the positive climate in the Eurozone economy.

The economic sentiment indicator of the European Commission steadily improved throughout 2017, reaching 116 points in the EU and the Euro area in December, which is its best performance since the year 2000 in both regions. The economic climate in the EU strengthened in December 2017 by 1.6 points month on month and 6.9 points year on year. In the Euro area, the economic climate improved in December 2017 by 1.4 points month on month and by 8.2 points year on year.

Overall in the fourth quarter of 2017, the indicator in the EU was higher by 2.4 points quarter on quarter and by 7.1 points year on year, while in the Euro area, the indicator was higher by 2.8 points quarter on quarter and by 8.0 points year on year. At the EU level, the greatest quarter-on-quarter sentiment gain in the fourth quarter of 2017 was recorded in Malta (+6.2 points), followed by Slovenia (+5.4

[5] World Economic Outlook, IMF, January 2018

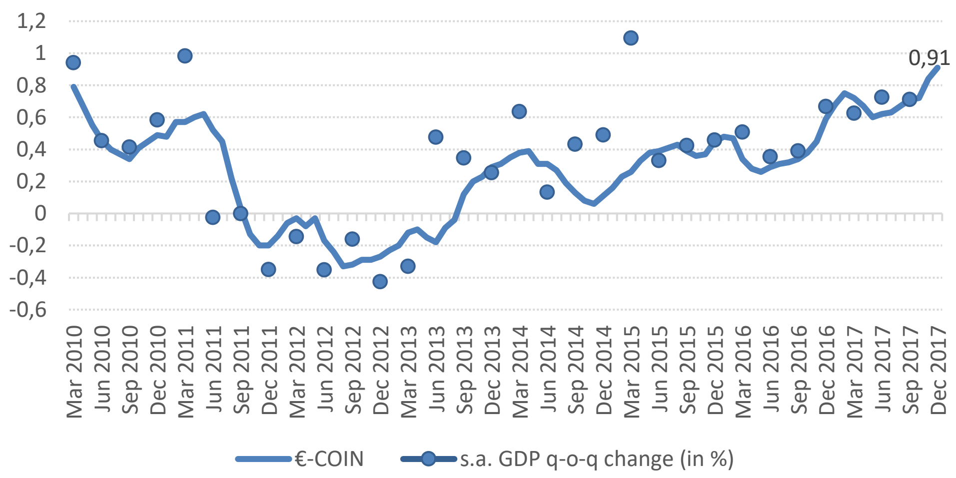
[6] The Centre of Economic Policy Research in collaboration with the Bank of Italy estimates every month the leading indicator of economic activity €-COIN for the Eurozone. The indicator provides a quarterly forecast of GDP growth and is constructed from a range of different data, such as the course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

points), Cyprus (+4.5 points) and Austria (+4.5 points). By contrast, the sentiment deteriorated in four countries: Slovakia (-1.2 points), Romania (-0.7 points), Lithuania (-0.4 points) and Estonia (-0.1 points). In Greece, the economic climate remained unchanged quarter on quarter, despite its improvement in December. It remained the lowest among all EU member countries, lower by 16.5 points than the EU average.

More comprehensive information on the GDP components in the Euro area and the EU, up to the third quarter of 2017, as well as for potential trends in the coming period, is provided next in this subsection. We present data on the third quarter of 2017, as well as predictions for 2018 and 2019, as reflected in the European Commission forecasts (November 2018) for the EU, and the latest IMF report (December 2017) for more recent figures on the Euro area.

Figure 2.1

Monthly Index €-COIN and Euro area GDP



Source: CEPR and Bank of Italy

Table 2.4

Economic Sentiment Indicator EU & Euro Area (1990-2017=100)

Month	Jan-16	Feb-16	Mar-16	Apr-16	May-16	June-16	July-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
EU	106.8	105.4	104.7	105.2	105.6	105.7	104.6	103.7	105.5	106.8	107.2	109.0
Euro area	105.0	103.9	102.9	103.9	104.5	104.3	104.4	103.5	104.8	106.3	106.6	107.8

Month	Jan-17	Feb-17	Mar-17	Apr-17	May-17	June-17	July-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
EU	108.6	108.9	109.1	110.6	109.8	111.3	112.2	111.9	113.1	114.2	114.3	115.9
Euro area	108.0	108.0	108.0	109.7	109.3	111.1	111.3	111.9	113.1	114.1	114.6	116.0

Source: European Commission (DG ECFIN), January 2018

In greater detail, according to Eurostat data for the third quarter of 2017, **private consumption** in the European Union strengthened by 2.0%, compared to 2.1% growth in the second quarter and 2.2% in the corresponding quarter of 2016, while consumption in the Euro area increased by 1.9%, against similar growth in the second quarter and 1.8% in the corresponding quarter of 2016. In 2017 overall, household consumption is anticipated to have increased by around 2.0% and 1.9% in the EU and the Euro area. Among the EU countries, strong growth in private consumption in the second quarter of the year was recorded in Romania (12.8%), Latvia (+5.8%), Poland (+4.9%) and Bulgaria (+4.9%), while in contrast, sluggish growth was observed in Greece (+0.0%), Belgium (+1.0%) and the UK (+1.0%).

Public consumption growth picked up marginally in the third quarter of this year, compared with the first quarter, in the EU, remaining unchanged in the Euro area. Year on year, it slowed down both in the European Union and the Euro area. In particular, public consumption increased by 1.1% in both regions, compared to about 1.4% in the EU and 1.7% in the Euro area in the corresponding quarter of last year. Overall for 2017, the European Commission anticipates growth by 1.2% in both regions, with the same rate expected for 2018 and 2019. The countries with the strongest growth in the third quarter of this year were Romania (+9.2%), Malta (+6.0%) and Latvia (+4.6%), while public spending declined in Greece (-2.2%) and increased only marginally in Portugal (+0.2%) and the UK (+0.3%).

Investment increased in the third quarter in the EU than in the Euro area, by 2.3% and 3.3% respectively, albeit at a lower rate than in the previous quarter (4.6% in both regions).

Table 2.5

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

	EU			Euro area		
	2017	2018	2019	2017	2018	2019
GDP	2.3	2.1	1.9	2.4	2.3	1.9
Private Consumption	2.0	1.8	1.6	1.9	1.7	1.6
Public Consumption	1.2	1.5	1.3	1.2	1.2	1.2
Gross Investment	3.8	3.7	3.1	4.4	4.3	3.4
Exports of goods and services	4.7	4.4	4.2	5.0	5.1	4.1
Imports of goods and services	4.7	4.6	4.3	5.1	5.2	4.4
Employment	1.4	1.0	0.8	1.7	1.3	1.0
Unemployment (% labour force)	7.8	7.3	7.0	9.1	8.4	7.8
Inflation	1.7	1.7	1.8	1.5	1.4	1.5
Balance of General Government (% GDP)	-1.2	-1.1	-0.9	-1.1	-0.9	-0.9
Debt of General Government (% GDP)	83.5	81.6	79.8	87.0	85.1	83.1
Current Account (% GDP)	1.7	1.8	1.8	3.1	2.9	2.7

Sources: For the EU - European Economic Forecast, European Commission, Autumn 2017. For the Euro area - Eurosystem staff macroeconomic projections for the euro area, December 2017.

Overall for 2017, the European Commission anticipates investment growth of 3.8% in the EU and 4.4% in the Euro area, with similar high rates projected for 2018. In the third quarter of 2017, a significant rise in investment was recorded in Latvia (+48.1%), Estonia (+21.4%), Hungary (18.3%) and Bulgaria (+14.6%), while investment declined in Ireland (-33.1%), United Kingdom (-3.7%) and Denmark (-3.5%).

The **exports** of goods and services continued to rise significantly in the third quarter of 2017, at a rate of 6.0% and 5.6% in the EU and the Euro area respectively, compared with 4.7% and 4.5% growth in the second quarter of 2017 and weaker expansion by 3.2% in the third quarter of 2016. Overall for 2017, the European Commission anticipates growth of exports by 4.7% and 5.0% in the EU and the Euro area respectively, with similarly high growth rate projected for 2018, particularly in the Euro area. The strongest rise in exports in the third quarter of 2017 was recorded in Slovenia (+12.9%), Lithuania (+11.7%) and Romania (+8.8%), with **Greece ranking seventh with 7.8%**, while exports declined in two countries – Malta (-0.8%) and Estonia (-0.2%).

Imports strengthened less than exports in both the EU and the Euro area in the third quarter of 2017, at a rate of 4.2% and 4.3% respectively, compared with stronger growth in the two regions by 4.6% and 4.4% in the second quarter of 2017 and by 5.1% and 4.8% respectively in the corresponding quarter of 2016. For 2017 overall, the European Commission anticipates growth of imports by 4.7% and 5.1% in the EU and the Euro area, anticipating similarly high rates in 2018. High growth rates of imports in the third quarter of 2017 were recorded in Latvia (+14.9%), Lithuania (+14.5%), Romania (+11.3%) and Slovenia (+10.9%), with **Greece ranked 6th (+9.3%),** while imports declined in Ireland (-12.9%) and Malta (-4.4%).

As a result of the developments in the GDP components in the Euro area in the first three quarters of 2017, the contribution of net exports is positive and growing (+0.8% in the third quarter), reflecting the rise in international trade, after a period of negative contribution since the end of 2015. The contribution of domestic demand remained positive (+2.0%), albeit weakening slightly, due to the lower contribution of private and public consumption, while that of investment remained unchanged.

The harmonised **inflation** rate stood at 1.7% and 1.4% in the EU and the Euro area respectively in December 2017, while overall for 2017 it reached 1.7% and 1.5%, from 0.3% and 0.2% respectively in 2016.

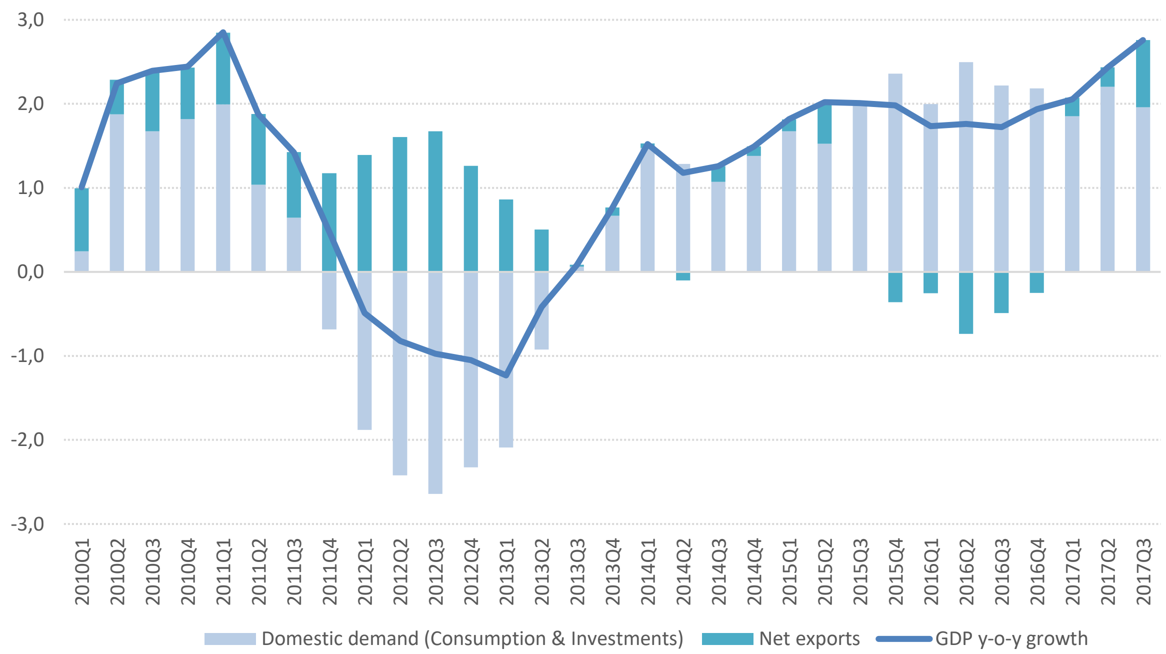
The harmonised inflation excluding energy goods reached 1.5% and 1.2% in the EU and the Euro area respectively in December, with the corresponding annual change standing at 1.4% and 1.2%, compared with 0.8% and 0.9% respectively in 2016. In 2018 and 2019, inflation in the Euro area is expected to vary around 1.5% slightly below the ECB target of 2%. In 2017, the highest inflation was observed in Lithuania at 3.7%, followed by Estonia with 3.7%, Latvia with 2.9% and the UK with 2.7%, while the **lowest inflation** was recorded in Ireland with 0.3%, Cyprus with 0.7%, Finland with 0.8% and **Greece with 1.1%**.

Employment, based on labour force data from Eurostat, increased in the third quarter of 2017 in the EU and the Euro area, by 1.5% and 1.4%, against 1.4% and 1.3% rise respectively in the second quarter of 2017 and 1.4% and 1.7% in the third quarter of 2016. For 2017 overall, the European Commission projected an increase by 1.4% and 1.7% respectively in the two regions, with a gradual weakening of the employment growth in 2018 and 2019. Stronger employment growth in the third quarter of 2017 occurred in Slovenia (+5.5%), Bulgaria (+5.0%), Luxembourg (+5.0%) and Cyprus (+4.5%), while contraction of employment was observed only in Lithuania (-1.1%) and Denmark (-0.2%). **Greece ranked 13th with 2.1% growth.**

Unemployment fell to 7.5% in the third quarter of 2017, compared to 7.7% in the second quarter, while fall of unemployment was also recorded in the Euro area, to 9.0%, from 9.2%. For 2017 overall, the European Commission projects unemployment rate at 7.8% and 9.1% respectively in the two regions, with further reduction anticipated in 2018 and 2019, against 8.6% and 10.0% respectively in 2016.

Figure 2.2

Euro area – Contribution to real GDP growth (in percentage terms)



Source: Eurostat

In the third quarter of the year, **the highest unemployment rate was recorded in Greece, at 20.7%,** followed by Spain with 16.8%, Italy with 11.2%, Croatia with 10.8%, Cyprus with 10.5% and France with 9.5%. In contrast, the lowest unemployment was recorded in the Czech Republic with 2.8% and Germany with 3.7%.Despite the progress with the indicators, there are two major challenges in the labour market in the Euro area, as highlighted in recent reports by international organisations. First, while unemployment is steadily declining, the growth rate of wages substantially lags behind, inter alia because of the weakening growth rate of labour productivity, but also because of demographic changes in the composition of the labour force.[7] In addition, part-time employment has increased significantly in several Member States, reducing unemployment, even though the switch to part-time employment often is not voluntary.

The **fiscal performance** improved in both regions, as the European Commission (November 2017) has projected that the general government deficit has declined in 2017, to 1.2% in the EU and 1.1% of GDP in the Euro area, against 1.7% and 1.5% correspondingly in 2016. The deficit is expected to subside further in 2018 to 1.1% of GDP in the EU and 0.9% of GDP in the Euro area. The countries with the highest deficit in 2017 were Spain (-3.1%), Romania (-3.0%) and France (-2.9%), while the highest surpluses were recorded in the Czech Republic (+1.2%), Cyprus (+1.1%), Germany (+0.9%), Sweden (0.9%) and Malta (0.9%). Within the Eurozone, France and Spain are the two countries that remain under monitoring based on the excessive deficit procedure (EDP), as they must comply with a deficit below 3% until 2017 and 2018 respectively. Public debt also improved in the EU and the Euro area in 2017, projected to reach 83.0% and 89.3% of GDP respectively, while further reduction is expected for 2018. Despite the progress, public debt remains very high in many member states, while the positive economic situation is an opportunity for improvement of the fiscal balance, especially in countries whose GDP is estimated to have exceeded its potential level, thus increasing the risk of "overheating".

As to the **monetary policy framework**, the European Central Bank continues to pursue loose monetary policy through very low interest rates and unconventional quantitative easing (QE) tools. The current bond purchase programme was tampered in late 2017, from a monthly volume of €60 billion to €30 billion, until September 2018, when the ECB is expected to take decisions as to its extension into the following year. While the markets anticipate that interest rates are going to remain at the same low levels for at least 2018, the ECB has three

[7] "Recent wage dynamics in advanced economies: drivers and implications", World Economic Outlook, Chapter 2, IMF, October 2017

choices as to the future of the QE programme in late 2018: the first is to decide to discontinue the programme at the end of September, the second is to extend its duration, but with reduced monthly purchase volume, and the third is to the extend its duration without changing its volume. In light of the current conditions, the first two options seem to prevail, while even under the first option, it is likely that the ECB will continue to replace maturing bonds, thus keeping unabated its exposure for some time into the future. Recall that since the beginning of 2015, when the QE programme began, the ECB has bought bonds of €2.3 trillion total value. The decision that will be taken will have to reconcile diverging opinions of the ECB members in relation, on the one hand, to the proper management of the growth acceleration of Eurozone economies and, on the other, to the resistance of the general price level to grow with an annual rate close to the target of 2%, together with the appreciation of the euro exchange rate against the dollar. International organisations, such as the IMF, point out that the current attitude of the ECB is constructive and that it is not appropriate to shift towards a tighter policy now, given the resistance of current prices, the sustained low inflation expectations and the varying trends in economic activity in the Member States.

The economy in Europe, and particularly in the Euro area, is facing a series of challenges that keep the policy makers on alert:

- Risks for the banking system: very high rate of non-performing loans in some countries, with implications for the liquidity in the European economy and for investment
- Need of deepening of the monetary union and strengthening of its institutions
- Need of sound fiscal management for members with a high level of public debt that have the opportunity to exercise counter-cyclical policy
- Need to mitigate macroeconomic imbalances within the Euro area, as they complicate the joint response to adverse shocks
- Slowdown of the growth of labour productivity and an investment gap, especially in areas such as infrastructure and education
- Demographic trend of an ageing population with an impact on the sustainability of the social security system in many member states
- Refugee flows and possibilities of integration in the economic activity
- Political developments and elections. The upcoming elections in Italy in March 2018 and the protracted consultations in Germany in an attempt to form a government create uncertainty in relation to the stance that the

countries will keep between the opportunity of deepening the Monetary Union, and the rising euro-scepticism

- The Brexit negotiations seem to weigh more on the British economy and less on the Euro area for the time being, but it remains a source of uncertainty for both economies
- Geopolitical tensions in the wider region and separatist tendencies in certain areas within the EU are affecting, inter alia, investment and consumer confidence

2.2 The economic environment in Greece

A) Economic climate

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

The economic climate indicator remained unchanged quarter on quarter and strengthened year on year in the fourth quarter of 2017. The consolidation of the index at this level reflects the easing of the uncertainty about the course of the Greek economy and the conclusion of the third review of the current programme, without the prolonged processes of past reviews. The tax and other charges that affect the expectations of the households and the businesses have already been largely discounted in the preceding time period. In addition, the expectations have stabilised at a higher level year on year, which is considered consistent with the recovery that the Greek economy has been achieved since then. The trend of the Greek index is consistent, but not always, with an overall trend of stronger expectations in the European environment, where both households and businesses present a reinforced optimism, alongside the consolidation of strong growth in the economy. Nevertheless, the index in Greece is still far from the European average. In greater detail:

The Economic Climate Index in Greece remained unchanged quarter on quarter in the fourth quarter of 2017, at 99.2 points on average (from 99.3 in the previous month), at a higher level than the average from the same quarter of 2016 (94.1 points on average). Overall in 2017, the index stood at 96.6 points, higher than the 2016 average (91.3 points).

In Europe, the index increased quarter on quarter in the quarter under examination, both in the EU and in the Euro area. In particular, the economic climate index averaged 114.9 (from 112.1) points in the Euro area and 114.9 (from 112.1) points in the EU in the fourth quarter of 2017. In 2017 overall, the sentiment indicator reached an average of 111.3 points in the Euro area (from 104.8

in 2016) and 111.7 points in the EU (from 105.9).

At the sector level, the business expectations in Greece significantly improved quarter on quarter in the fourth quarter of the year in Industry and Retail Trade, deteriorating in Services and Construction. Strong improvement was observed on the demand side, where the quarterly average of the otherwise very weak consumer confidence increased further. Compared to the same quarter of last year, the index increased Industry and Services and declined in Retail Trade and Construction, while consumer confidence strengthened strongly. **Overall in 2017 compared to 2016, the expectations improved in Industry and Services, and deteriorated in Construction and Retail Trade.** As for the consumer confidence, the annual average balance last year was significantly higher than in 2016. In detail:

The **Consumer Confidence Index** in Greece averaged -52.7 points in the fourth quarter of 2017 (from -57.4 points in the third quarter), higher year on year as well (from -65.0 points). At the country level, the Greeks maintained their top rank on the European pessimism scale. The corresponding average European index improved quarter on quarter in the quarter under review in the Euro area (to -0.2 from -1.5 points) and in the EU (-1 from -2.1 points). The index improved significantly year on year in both regions (-6.5 and -5.7 points respectively in the Eurozone and the EU). Overall in the previous year, the index in Greece averaged -63 points (from-68 in 2016). Consumer confidence improved in the EU and the Euro area as well: it stood last year at-2.5 and-2.7 points respectively, compared to -6.3 and -7.7 a year earlier.

The individual components that make up the overall indicator improved quarter on quarter in the final quarter of 2017. The expectations of the Greek consumers for the financial situation of their households in the following 12 months and the corresponding expectations for the country's economic situation strengthened, as was the case with the unemployment expectations, while the intention to save marginally weakened.

In particular, in the fourth quarter of the year, the percentage of those who were pessimistic about their household's economic situation over the next 12 months fell to an average of 58% (from 62%), with 20% considering once more that it would remain unchanged. Furthermore, the percentage of Greek consumers with gloomy expectations about the country's economic situation declined to 63% (from 68%), with 21% (from 20%) believing that it would not change. Concerning the intention to save, the percentage of households considering unlikely that they would do any savings over the next 12 months increased to 91% (from 88%). Meanwhile, 59% (from 62%) believed that unemployment would deteriorate, with 14% (from 10%) on average holding the opposite opinion. The percentage of consumers responding that they were "running into debt" averaged

14% (from 16%), a slightly lower level than in the same quarter of last year (15%), while 10% of the respondents said they were saving little or a lot (from 9% in the previous year). Finally, the percentage of those who declared they were "just about managing to make ends meet on their income" increased to 63% (from 60%), while the percentage of households reporting that they were " drawing on their savings" stood at 13% (from 14% in the previous quarter and 12% in the fourth quarter of 2016).

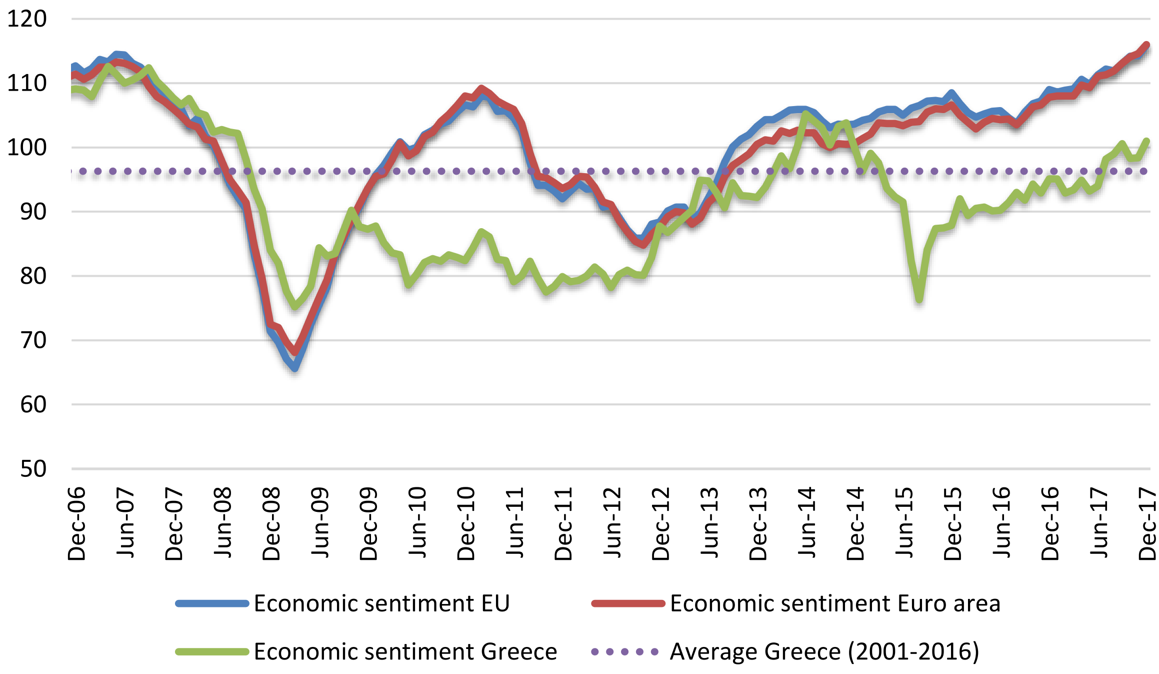
The Business Climate Indicator in **Industry** stood at 95.1 points in the fourth quarter of last year (from 93.9 points in the preceding quarter), higher than its corresponding level of 2016 (91.2 points). Overall last year, the index averaged 93 points (from 91.2 points in 2016). In the key activity indicators, the forecast for short-term output change improved in the examined quarter (+15, from +13 points on average), while the estimates for the level of orders and demand marginally weakened (to -15 from -14 points). The assessment of the stock of finished products point to depletion (at +9 from +12 the relevant index), while the export indicators declined. The export expectations over the following quarter weakened, while the current assessment of the exports in the sector and the assessment of foreign orders and demand also deteriorated. The quarterly balance of employment expectations declined to -3 (from +6) points on average. The production capacity utilisation rate marginally declined to 70.1% (from 71.1%), while the months of guaranteed production of the enterprises averaged 4.5 (from 4).

The Business Climate Indicator in **Retail Trade** increased quarter on quarter in the third quarter, to 93.6 (from 85.3) points, notably lower year on year (99.5). In 2017 overall, the index stood at 98 points on average (from 91.4 in 2016). Among the key components of the indicator, the average balance of the current sales assessment increased to -1 (from -12) points. About 38% (from 30%) of the enterprises reported their sales to have risen, with 39% (from 42%) declaring the opposite. The projected sales indicator increased by 12 points, while the assessment of inventories declined (to +2 from +6 points). Regarding the remaining activity data, the change in the balance of expectations for orders to suppliers is positive (-1 from -9 points on average per quarter), while the sector short-term employment forecast marginally declined to +10 points. Finally, the balance of price expectations remained at -1, with 6% (from 9%) of the companies expressing expectations of a decline in prices and 89% (from 84%) predicting price stability. The fourth quarter of the year saw a rise in all examined subsectors, except for Textiles-Clothing-Footwear.

The business expectations in **Construction** deteriorated in the fourth quarter of 2017, with the balance standing at 47.5 (out of 59) on average, marginally lower year on year as well (48.1). Overall in 2017, the index averaged 50.4 points (from 55.7 in 2016). Among the key components of the indicator, the employment expectations in the sector lost ground, as the index reached -45 (from -39) points, while 53% (from 44%) of the companies were expecting fewer jobs in the sector. The expectations of the businesses about their activity level became more pessimistic (at -64 from -49 points), while the assessment of their current level of activity improved (to -29 from -32). The months of activity accounted for by work in hand in the sector totalled 8.2 (from 7.8). The negative balance of price expectations eased by 6 points, to -23, with 30% (from 34%) of the companies expecting a decrease in the short-term and 7% (from 5%) a new increase. Finally, the percentage of companies reporting that they were not facing any obstacles to the proper functioning of their business averaged 9% (from 12%), while among the remaining businesses, 27% selected as the major obstacle low demand, 45% insufficient funding and 18% factors such as the country's general economic situation, the capital controls, high taxes, lack of projects, and late payment by the state. At the subsector level, the deterioration in overall business confidence in the examined quarter stemmed from Public Works (to 35.3 from 54.7 points), as in Private Construction the average balance gained ground (to 80.1 from 66.3 points).

Figure 2.3

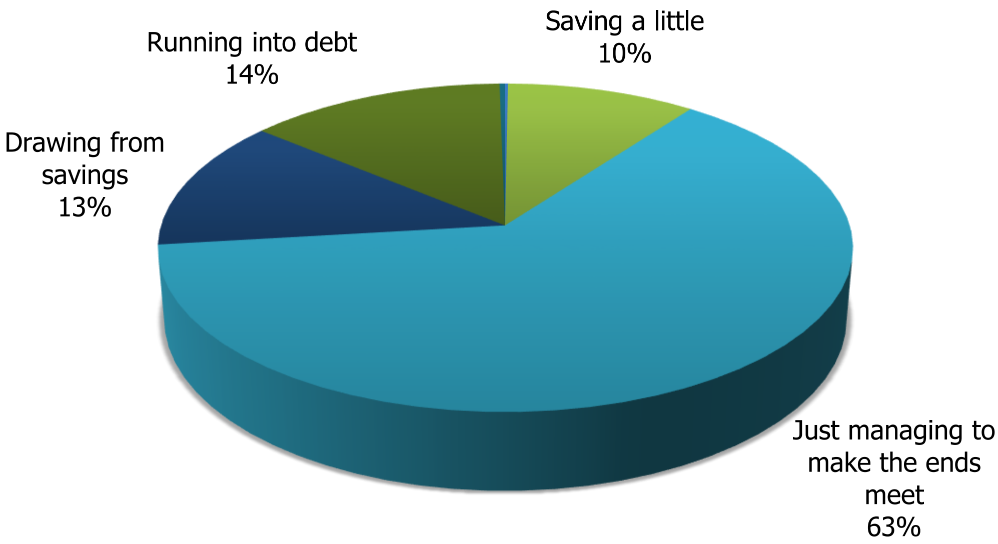
Economic Sentiment Indicators: EU, Euro area and Greece, (1990-2016=100, seasonally adjusted data)



Source: European Commission, DG ECFIN

Figure 2.4

Consumer survey data on the financial situation of households, *(average October – December 2017)*



Source: IOBE

Table 2.6

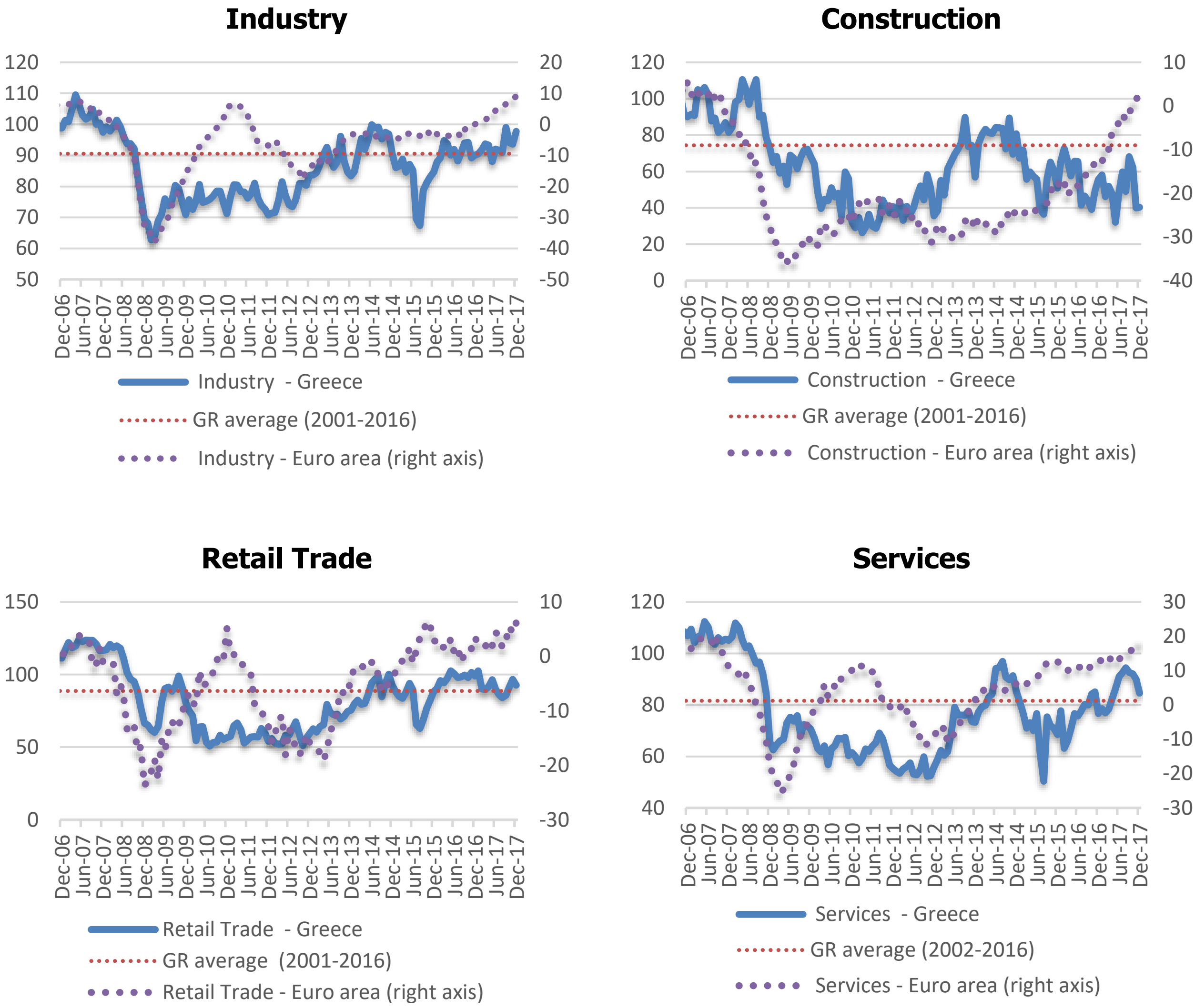
Economic Sentiment Indicators

Time period	Economic Sentiment Indicator[1]			Business Climate Index[2] (Greece)				Consumer Confidence Index[1] (Greece)
	EU	Euro area	Greece	Industry	Construction	Retail Trade	Services	
2006	108.3	108.3	104.9	101.5	91.1	110.8	103.7	-33.3
2007	111.0	110.6	108.4	102.8	92.5	120.8	106.6	-28.5
2008	93.3	94.3	97.4	91.9	95.2	102.5	97.8	-46.0
2009	79.3	80.2	79.7	72.1	65.5	80.4	70.1	-45.7
2010	101.2	101.6	79.3	76.2	45.2	59.5	62.9	-63.4
2011	100.3	102.4	77.6	76.9	34.2	58.9	61.7	-74.1
2012	90.9	90.6	80.0	77.2	43.2	57.1	54.8	-74.8
2013	95.7	93.8	90.4	87.8	65.0	70.2	70.4	-69.3
2014	105.1	101.6	99.3	94.6	81.5	89.1	87.2	-55.0
2015	106.2	104.2	89.4	81.9	56.4	81.0	70.6	-50.7
2016	105.9	104.9	91.3	91.3	55.7	98.0	76.1	-68.0
Q1 2017	108.9	107.9	93.8	92.0	52.0	94.1	77.9	-71.8
Q2 2017	111.3	111.1	94.0	92.0	49.1	90.0	90.9	-68.8
Q3 2017	112.4	112.1	99.3	93.9	59.0	85.3	93.2	-57.4
Q4 2017	114.8	114.9	99.2	95.1	47.5	93.6	88.9	-52.7

Sources: European Commission, DG ECFIN, IOBE

Figure 2.5

Business Climate Index



Source: IOBE

In **Services**, the average Business Climate Indicator declined quarter on quarter in the fourth quarter of 2017 to 88.9 (from 93.2) points, higher than in the same period of last year (82). Overall in 2017, the index averaged 86.6 points (from 76.1 in 2016). Among the key components, the assessment of current demand lost ground, with the relative index estimated at +11 (from +17 points) on average. The assessment of the current level of business activity also deteriorated (+12 from +23 on average), while the short-term demand expectations of the businesses in the sector marginally improved (+10). Regarding the remaining activity indicators, the employment expectations of the respondents also declined (at -2 from +2 points on average), and so did the price expectations, which fell on average to -5 points (from -1). Finally, the percentage of respondents reporting a seamless business operation declined to

24% (from 32%), with 36% declaring as the major barrier to their operation lack of demand, 17% working capital shortage and 20% other factors related to the general economic situation and the crisis, the capital control, lack of access to finance, high taxation, arrears etc. The indicators declined quarter on quarter in the fourth quarter in all examined subsectors of Services, except Information Services and Other Business Activities.

B) Fiscal developments in the first eleven months of 2017 and 2018 Budget

The 2016 results

According to the latest budget data, compiled with the national accounting methodology (ESA 2010), the General Government (GG) reported in 2016, after decades, a surplus of €790 million or 0.5% of GDP.[8] In addition, the primary surplus of GG for the 2016 reached €6,441 million or 3.7% of GDP, well above its target of the third programme, i.e. 0.5% of GDP (see Table 2.7).

However, despite the surplus, the GG debt increased by €3,273 million in 2016 and at the end of the year it stood at €315 billion or 180.8% of GDP. This development is mainly due to the borrowing of approximately €3.5 billion, which took place after the completion of the second evaluation, for the settlement of arrears of the state to suppliers. As long as the outstanding balance of the debt continues to grow, both in absolute volume and as a percentage of GDP, the fiscal consolidation remains incomplete and no complacency on this is warranted.

Estimates of the 2017 results

In 2017, the GG returned to deficit, estimated at €1,086 million, or 0.6% of GDP, slightly lower than the initial forecast for a deficit of 0.8% of GDP, or €1,461 million.[9] Correspondingly, the primary surplus is estimated at 2.6% of GDP (or 2.4% according to the approach of the loan facility agreement). This result exceeds the contractual obligation of the country for a primary surplus of 1.75% of GDP (see Table 2.7).

An analysis of the 2017 estimates suggests that the improved result of GG will come from different sources than those anticipated in the 2017 budget, but also in the Medium Term Fiscal Strategy 2018-2021 (May 2017). In particular, according to the estimates contained in the Explanatory note of the 2018 budget (Table 3.2), the State Budget (SB) deficit, with national accounting adjustments, in 2017 will exceed the target by €1,325 million.

This negative development is fully offset by the higher surplus of all other GG bodies, compared to the 2017 budget. In particular, the surplus will be higher by €262 million in the other Central Government bodies (mutual

[8] Notification of ELSTAT to Eurostat, October 2017

[9] The figures for 2017 and 2018 originate from the introductory report of the 2018 budget (Table 3.2).

intergeneration solidarity fund AKAGE, hospitals etc.), by €101 million in the local authorities and by €1,337 million in the social security funds (SSFs). It should be noted that initially the budget envisaged for 2017 a deficit of €252 million in the SSFs, while the 2018 budget estimates a surplus of €1,085 million.[10]. Thus, 78.7% of the improvement comes from the SSFs.

In addition, the consolidated interest of GG is estimated to be lower by €173 million from the original forecast. So, the primary surplus of the GG is estimated to reach 2.6% of GDP, against the original target of a primary surplus of 2.5% of GDP (see Table 2.7).

State Budget, January – November 2017

While in 2016, when the good course of revenue was the main feature of the execution of the State budget (SB), in the corresponding eleven months of 2017 the achievement of the balance and primary balance targets is based on extensive expenditure restraint.

Important part of this is due to the fact that the implementation of the Public Investment Programme (PIP) presents a much greater delay than any other year in the past. Although often much of the PIP expenditure takes place in December, given the low implementation between January and November, it is very likely that public investment has once again fallen short of the target, as in 2016. This development is taking place while the country needs large investments over several years in order to offset the divestment recorded since 2011, in order to shift to a path of steady recovery.

Table 2.7

General Government balance on national accounting basis (ESA 2010 - % of GDP)

	2013	2014	2015	2016	2017*		2018**
					Initial	Est.	
General Government Balance (without net funding to financial institutions)	-2,4	-3,6	-3,0	0,5	-0,8	-0,6	0,6
Primary GG balance (without the net funding to financial institutions)	1,6	0,4	0,6	3,7	2,5	2,6	4,2
Primary GG balance (Financial Assistance Facility Agreement)	1,2	0,3	+0,25	3,8	2,0	2,4	3,8
FAFA target	-	-	-0,25	0,50	1,75	1,75	3,5

*Provisional figures and estimates.
** 2018 budget
Sources: (a) ELSTAT, Notification in the context of the excessive deficit procedure, ELSTAT, October 2017 and (b) Explanatory note 2018 Budget, Ministry of Finance, November 2017

[10] Respectively, the surplus of SSFs (except hospitals), on national accounting basis, is expected to reach €1,785 million, against a forecast in the MTFS 2018-2021 of just €175 million surplus
.

The Ordinary Budget (OB) revenue, before tax returns, have achieved the target for the first eleven months,[11] but there is no improvement year on year, despite the fact that it was positively influenced in 2017 by a number of favourable factors (see the composition of OB revenue below). Its stability comes to an extent from the fact that the PIP revenues reach only 42% of the respective receipts of last year, with the budgeted annual amount essentially the same as in 2016 (see Table 2.8).

Overall, the OB expenditure are short of the target by €1.7 billion in the first eleven months. Also, by the end of November only about 45% of the annual budgeted grants were disbursed through the PIP, compared to 51% in 2016 and 58% in 2015, despite the large cash difficulties. Subsequently, investment financing of €3.7 billion remains for December in order to achieve the annual target. In addition, note that in the first eleven months €4.8 billion were paid for tax returns, compared to €2.7 billion in 2016, outpacing by far the corresponding target as well (€2.9 billion). This outperformance is associated with the commitments under the current loan agreement for national participation in the payment of arrears, matching the funding from the loan intended for this purpose.

Overall, a "gap" totalling €3.7 billion from the outperformance of the tax refunds and the PIP revenue slippage opened up in the first eleven months. This was covered fully by OB and PIP expenditure restraint, and from slight OB revenue overshoot, as these three sources saved a total of €4.4 billion.

As a result of the above, the fiscal developments in the first eleven months appear satisfactory, prima facie, as the SB deficit falls short of the target by €0.3 billion (see Table 2.8).

SB deficit and primary surplus

In the first eleven months, the SB had a deficit of €774 million or 0.4% of GDP, against a surplus of €1,580 million in the corresponding period of 2016 and a deficit target of €1,084 million. Correspondingly, the SB primary surplus narrowed to €4,647 million, compared with €6,984 million in the same period of 2016 (Table 2.8). Despite the deterioration against 2016, the SB deficit remaining below the target came solely from: (a) the containment of SB expenditure (OB and PIP) by €3,152 million and (b) higher revenue (pre tax returns) by €1,237 million, compared with the target.

Note that the result of 2017 changes radically, depending on how called guarantees are recorded. If the called guarantees are recorded both in 2016 and in 2017 on a net basis (standard practice up until 2016), then the 2017 results were worse compared to 2016. Conversely, if they are recorded on a gross basis, as applied from 2017, then there was a significant improvement last year, compared to 2016.

[11] All targets for 2017 are included in Table 3.16 (p. 95) of the explanatory note of the 2017 budget.

Table 2.8

2017 State Budget Execution

	January-November			% change		2014	2015	2016	2017 Budget	2017 Est.	2018 Budget	% change			
	2015[4]	2016	2017	2016/15	2017/16							15/14	16/15	17/16	18B/17
I. SB REVENUES (1+2)	44.936	48.051	45.130	6,9	-6,1	51.367	51.421	54.152	54.529	52.142	54.244	0,1	5,3	3,7	4,0
1. OB net revenues	41.030	44.761	43.748	9,1	-2,3	46.650	46.589	49.980	50.374	48.715	50.509	-0,1	7,3	-2,5	3,7
Revenues before tax refunds [1]	43.615	47.442	48.590	8,8	2,4	50.020	49.510	53.243	53.663	54.292	54.157	-1,0	7,5	2,0	-0,2
Minus tax refunds	2.585	2.681	4.842	3,7	80,6	3.370	2.922	3.263	3.289	5.577	3.648	-13,3	11,7	70,9	-34,6
2. PIP Revenues	3.906	3.290	1.382	-15,8	-58,0	4.717	4.832	4.172	4.155	3.427	3.735	2.4	-13,7	-17,9	9,0
of which: EU funds	3.502	3.074	1.146	-12,2	-62,7	4.649	3.900	3.861	3.975	3.177	3.555	-16,1	-1,0	-17,7	11,9
II. SB Expenditure (3+4)	46.181	46.471	45.905	0,6	-1,2	55.063	54.952	55.702	56.286	57.265	55.188	-0,2	1,4	2,8	-3,6
3. OB expenses	42.485	42.995	42.847	1,2	-0,3	48.472	48.575	49.418	49.536	50.515	48.438	0,2	1,7	2,2	-4,1
Primary expenses [2,3]	36.901	37.591	37.426	1,9	-0,4	42.902	42.775	43.841	43.987	44.514	43.238	-0,3	2,5	1,5	-2,9
Interest	5.584	5.404	5.421	-3,2	0,3	5.569	5.800	5.577	5.550	6.000	5.200	4,1	-3,8	7,6	-13,3
4. PIP Expenses	3.696	3.476	3.058	-6,0	-12,0	6.592	6.377	6.284	6.750	6.750	6.750	-3,3	-1,5	7,4	0,0
III. SB Balance (I-II)	-1.245	1.580	-774			-3.696	-3.530	-1.551	-1.757	-5.123	-943				
% of GDP	--0,7	0,9	-0,4			-2,1	-2	-0,9	-1,0	-2,9	-0,5				
OB Balance	--1.455	1.766	901			-1.822	-1.956	562	838	-1.800	2.071				
PIP Balance	210	-186	-1.676			-1.875	-1.574	-2.112	-2.595	-3.323	-3.015				
IV. SB Primary Balance	4.339	6.984	4.647			1.873	2.270	4.026	3.793	877	4.257				
% of GDP	2,5	4,0	2,6			1,1	1,3	2.3	2,1	0,5	2,3				
GDP (current prices)	176.312	174.199	178.579			178.656	176.312	174.199	181.204	178.579	184.691				

Source: Explanatory notes Budget 2016, 2017 και 2018, Ministry of Finance (Table 3.2).

[1] The proceeds from the granting of licences and public rights are also included.
[2] Includes called guarantees, military procurement, EFSF disbursement fees and transfers to assume debt of General Government bodies.
[3] The called guarantees were recorded in net terms in 2014, 2015 and 2016 and gross terms in 2017 and 2018. Regarding the monthly data, 2015 and 2016 are in net terms and 2017 in gross terms.
[4] Includes revenues of €555 million from the Financial Stability Fund, €191 million from the granting of licences, €284 million for the settlement of (one-week and 100-installments) arrears and other revenues.

This is due to the fact that the difference in the annual data on net and gross base was very large in 2016, €1,236 million, while in 2017 it was just €207 million.[12] For the 2017, there are monthly figures only on a gross basis, while for 2016 data is published both on a gross and net basis.[13] Note that if the PIP expenditure reach the budgeted amount (€6,750 million) by the end of the year, as envisaged in the recent estimates of the Ministry of Finance,[14] then grants of EUR €3,697 million will be disbursed in December. Also, according to the same Ministry estimates, the OB expenditure will reach €7,668 million in December. That is, a total of €12.1 billion will be disbursed in December.

OB Revenues

In the first eleven months of 2017, the OB revenues before tax refunds increased by 2.4% compared to 2016, reaching €48,590 million. However, the 2017 revenues include one-off receipts of €1,272 million, from the concession of the regional airports, while in the same period of last year the corresponding receipts totalled only €82 million (Table 2.9).

In addition, the VAT revenues include €296 million that are also recorded as tax refunds and eventually appear in receipts from the concession of airports.[15] If the one-off receipts are not taken into account, the 2017 revenues are lower by 0.7% year on year.

Apart from the ad-hoc receipts, the 2017 revenues were positively affected by a variety of other factors, such as: (a) the June 2016 tax measures[16], and primarily the increase of the main VAT rate from 23% to 24% in June 2016, creating a positive "base effect" in the first five months of 2017; (b) the significant growth of the use of electronic means of payment; (c) increase of existing and levy of new excise duties[17] from 1/1/2017; (d) increase of private consumption at nominal prices by 1.8% in the first nine months of 2017; (e) intensification of tax audits; (f) elimination of reduced VAT rates in some of the Aegean Islands; and (g) rise in building activity in the first nine months by 1.1%. Considering all the above, the

[12] The difference lies solely in called guarantees of General Government bodies.

[13] The called guarantees reached €325 million on a net basis and €1,552 million on gross basis in the first eleven months of 2016. The change from net to gross basis in the monthly bulletin increases the 2016 deficit by €1,227 million. In contrast, the difference between net and gross basis in 2017, for the entire year, was only €207 million. To minimise the effect of this methodological change, in table 2.8 and throughout the text, the data for the first eleven months of 2016 is on a net basis, while the 2017 figures are on a gross basis, due to lack of monthly data on net basis.

[14] Explanatory note 2018 Budget, Table 3.2, p. 55.

[15] This handling of the data does not affect the deficit or the primary balance, but alters the rates of change between 2016 and 2017, and between 2017 to 2018.

[16] The only measure of 2016 that had a negative impact on the 2017 revenues was the increase of the advance tax payment in certain categories of taxpayers, which is deducted in the following year.

[17] In addition to the increased revenues from these taxes, the VAT receipts were also affected positively, as the excise duties are included in the VAT base.

performance of revenues is not considered satisfactory.

The receipts from direct taxes fell by 5.9% year on year in the first eleven months of 2017, totalling €18.4 billion (Table 2.9). The greatest lag (-10.7%) was recorded in the revenue from property taxes and to a lesser extent from income taxes (-3.6%). In particular, the decrease in revenues from property taxes is due to: (a) the fact that two instalments of the unified property tax (ENFIA) of the previous year were paid in the first two months of 2016, with only one in 2017,[18] and (b) the single instalment, in January 2017, was low, as 38% of the annual ENFIA receipts were paid in September 2016, with the first instalment.

In the income taxes, the lag lies solely in the revenue from legal entities (-14.8%), which did not exceed €2,988 million, against €3,508 million in 2016. In contrast, the receipts from personal income tax recorded a slight rise 2016 (+1.4%).

Table 2.9

State Budget Revenue (million €)

Revenue categories	**January-November**			**% change**	
	2015	**2016**	**2017**	**2016/15**	**2017/16**
1. SB Net Revenues (2+4)	44,936	48,051	45,130	6.9	-6.1
2. OB net revenues	41,030	44,761	43,748	9.1	-2.3
Tax refunds	2,585	2,681	4,842	3.7	80.6
3. OB revenue	43,615	47,442	48,590	8.8	2.4
Direct taxes	17,741	19,605	18,444	10.5	-5.9
--Income tax	10,931	12,119	11,685	10.9	-3.6
--Property tax	2,644	3,145	2,809	18.9	-10.7
--Direct taxes of previous years	1,601	1,581	1,786	-1.2	13.0
--Other direct taxes	2,565	2,760	2,164	7.6	-21.6
Indirect taxes	20,658	22,550	23,926	9.2	6.1
--Transaction taxes	13,000	14,291	15,193	9.9	6.3
(of which VAT)	12,488	13,825	14,656	10.7	6.0
--Consumption taxes	6,949	7,215	7,470	3.8	3.5
--Indirect taxes of previous years	429	720	923	67.8	28.2
--Other indirect taxes	280	325	340	16.1	4.6
Non-tax revenues	5,217	5,287	6,220	1.3	17.6
--Receipts from the EU	90	387	271	330.0	-30.0
--Non-ordinary revenue	1,751	768	694	-56.1	-9.6
(of which: ANFA, SMP)	291	375	345	28.9	-8.0
--Permits and rights	214	82	1,272	-61.7	1,451.2
--Other	3,162	4,051	3,982	28.1	-1.7
4. PIP revenues	3,906	3,290	1,382	-15.8	-58.0

Source: State Budget Monthly Execution Bulletin January - November, Ministry of Finance, December 2017

[18] The receipts totalled €373 million in February 2016 and only €81 million in February 2017.

However, compared with the initial target, the revenue is estimated to lag behind by €0.9 billion, on an annual basis,[19] as the incomes declared in 2017 from freelancers, farmers etc. declined significantly, despite the rise in GDP.[20] In contrast with the developments in income taxes, the proceeds from direct taxes for previous years increased by 13.0%, due to the recovery measures of arrears to the state.

The observed large decline of revenues from other direct taxes (-21.6%) came from the social security contributions of public servants, which by 2016 were included in this category, while from 2017 are recorded as revenue of the social security fund EFKA (Table 2.9).

In the first eleven months, the receipts from indirect taxation, which strengthened both by the measures, legislated in June 2016 and January 2017, and by other factors, increased by 6.1% from 2016, reaching €23.9 billion. Within two years, these revenues increased by approximately €3.3 billion, due to the hike in existing taxes and the imposition of new ones.

In particular, the VAT revenues increased by 6.0%, totalling €14,656 million. The receipts were affected favourably by the seven factors listed above, but also from higher imports of high-tariff goods, such as cars. As a result, the VAT on imports in the first ten months[21] increased by 10.8%. However, the VAT revenues include receipts of €296 million, which are also recorded as tax refunds, eventually appearing in the proceeds from the concession of airports.[22] Without this revenue, the revenue growth was limited to 3.9%. Taking into account all favourable factors mentioned above, the VAT revenue growth of 3.9% is not considered satisfactory.

In January 2017, the excise duties on fuel and tobacco increased, while new excise duties were imposed on coffee and fixed telephony. As a result of these measures, increased by 3.5% year on year. Among the constituent categories, the receipts from the excise duty on fuels increased by 8.8% year on year. In contrast, By contrast, the revenue from the tobacco tax is significantly reduced, compared to 2016 (-8.9%), due to the extensive stockpiling that took place in late 2016, as the tax increase was legislated in the preceding summer. The road tax increased strongly (45.9%), at a similar rate with the receipts from the car registration tax (48.0%). Also, the receipts from indirect taxes in previous years increased particularly strongly (+28.2%), due to the intensification of the efforts and the measures for the recovery of arrears to the state.

[19] The proceeds in the first eleven months of last year totalled €7,629 million. In December 2016, €647 million were collected. In December 2017, the receipts are estimated at €661 million, thus totalling €8,290 million in 2017, against an initial forecast for annual revenues of €9,172 million.

[20] Explanatory note 2018 Budget, p. 57.

[21] There are currently no detailed data on the first eleven months.

[22] Explanatory Note 2018 Budget , pp. 61-62.

Lastly, non-tax revenues increased by 17.6% year on year, exclusively due to the collection of €1,272 million from the concession of regional airports. If the revenues from permits and rights are deducted from the totals of each year, the non-tax revenues decline by 4.9% year on year, as the receipts from all other subcategories decreased.

Tax refunds

The protracted negotiations for the second evaluation of the third programme, during which the funding to Greece had stopped, caused among other things the swelling of arrears. In this context, with the completion of the second evaluation it was agreed to disburse the sum of €800 million in July and other €800 million until October for the reduction of arrears, including tax refunds. At the same time, for the same purpose, national funds of €400 million in the summer and other €400 in the autumn had to be made available, as indeed happened. In such a way, the arrears to suppliers decreased from €4,096 in March to €3,141 in November, while the pending tax refunds fell from €2,114 million in August to €776 million in November. Note that in July and August the unpaid tax refunds rose by €862 million, because of the tax return submission. Due to these developments, the tax refunds experienced unusually high growth, reaching €4,842 million in the first eleven months, 80.6% more than in 2016. Recall that this amount includes the €296 million mentioned above. Without them, the growth rate totals 69.6%.

OB expenditure

In the examined period, the Ordinary Budget expenditure decreased slightly, by 0.3% year on year, to €42.8 billion. Compared with the initial target, payments were down by €1.7 billion. [23] The restraint comes solely from primary expenditure (-0.4%), as interest payments marginally increased year on year by 0.3% (Table 2.10).

Among the primary expenditure categories, salaries and pensions decreased by 32.9% year on year, as the pensions of the public servants have been paid by EFKA since the beginning of the year and are included in the social expenditure. In contrast, expenditure on wages increased by 2.4%. According to the 2018 Budget as well, the wage growth is projected to carry over into the current year, thus taking on a permanent status.

Social expenditure increased by 47.0% year on year, due to the additional grants to EFKA for the payment of public servant pensions. Overall, the grants to EFKA from the OB increased by 52.3% in the first eleven months, reaching €13.3 billion, of which €4.8 billion concern public sector pensions. The grants to the Manpower Employment Organization OEAD and the expenditure on the social solidarity transfer to pensioners EKAS decreased year on year by €105 million and €394

[23] The targets are indicated in the Explanatory Note of the 2017 Budget, p. 95.

million respectively. Similarly, other income benefits and the extraordinary support to address the "humanitarian crisis" declined by €94 million and €187 million respectively. Meanwhile, the payments for the newly established Social Solidarity Income were lower than the reduction in other social expenditure. Also, the results for the first eleven months include one-off expenditure of €315 million, concerning refunds of unduly paid higher social security (health) contributions to the health fund EOPYY.

The operating and other expenditure increased by 4.3% year on year, totalling €7.2 billion. Their growth came mostly from the subcategory "other expenditure" (6.8%) and in particular from the grants to hospitals, which increased by 11.1%. The subsidies also increased and in particular those of transport operators (+26.4%), because of long delays in the introduction of e-ticketing and the absence of ticket inspections, but also of agriculture subsidies (13.8%).

Table 2.10
State Budget expenditure (€ million)

Expenditure category	January – November			% change	
	2015	**2016**	**2017**	**2016/15**	**2017/16**
1. State Budget Expenditure	46,181	46,471	45,905	0.6	-1.2
2. Ordinary Budget Expenditure	42,485	42,995	42,847	1.2	-0.3
Interest	5,584	5,404	5,421	-3.2	0.3
Primary expenditure	36,901	37,591	37,426	1.9	-0.4
--Salaries & pensions	17,116	16,536	11,095	-3.4	-32.9
Wages	10,975	10,495	10,744	-4.4	2.4
Other allowances	322	251	241	-22.0	-4.0
Pensions	5,819	5,790	110	-0.5	-98.1
--Social expenditure	11,256	11,142	16,375	-1.0	47.0
Grants to Social Security Funds	10,077	9,755	14,856	-3.2	52.3
Social protection	778	920	1,152	18.3	25.2
Grants to OAED	360	420	315	16.7	-25.0
Other	41	47	51	14.6	8.5
--Operational and other	6,178	6,878	7,172	11.3	4.3
Transfers	1,035	1,171	1,205	13.1	2.9
Consumption	1,052	1,071	1,085	1.8	1.3
Conditional	2,058	2,053	2,124	-0.2	3.5
Other*	2,033	2,583	2,758	27.1	6.8
--Earmarked revenue	2,352	3,036	2,785	29.1	-8.3
3. PIP expenditures	3,696	3,476	3,058	-6.0	-12.0

* Includes transfers to cover deficits and arrears of hospitals, military procurement, EFSF disbursement fee, called guarantees, debt assumption and payments for call duties of ESY doctors.
Source: State Budget Monthly Execution Bulletin January - November, Ministry of Finance, December 2017. The bulletins for the first eleven months of 2015 and 2016 were used for the 2015 and 2016 columns respectively.
Since 2016, the recording of the expenditure for on-call NHS doctors and other benefits to the staff of hospitals has changed, which now appear in the category 'grants to hospitals ' and on 'grants to other bodies', which are included here in the category Other costs.

In contrast, the expenditure for debt assumption of GG bodies declined from €553 million in 2016 to €192 million in 2017 (Table 2.12a).

It is estimated that in December, there have been pressures for further spending growth, as an extraordinary allowance of €720 million was granted and then six other allowances were announced: (a) youth solidarity allowance, (b) increase of the total expenditure on the heating oil allowance from €50 million to €70 million, (c) allowance to the unemployed of the Mandra area, (d) allowance to the homeless and (e) extraordinary allowance in 27 islands of the Northern and Eastern Aegean and in the Evros Prefecture, due to the lifting of the reduced VAT rate and (f) retroactive increase of the heating allowance for the winter 2016-2017. The total cost of all these measures is not known. Nevertheless, three of them ((a), (b), (f)) are estimated to cost €55 million.

Public Investment Programme

As mentioned above, the delay in the PIP implementation in the first eleven months is greater than any other year. By October, only €1,979 million were disbursed, with €1,079 million more disbursed in November. There is also a matching lag in revenue and as a result the PIP has a significant deficit, amounting to €1,676 million. On an annual basis, it estimated in the 2018 budget[24] that the payments for investments will reach €6,750 million, achieving the original goal. But this means that €3,692 million will be disbursed in December , i.e. more than was spent in the previous eleven months, a development that is considered difficult to achieve (Table 2.8).

The revenues in the first eleven months fell by 58.0% from 2016, totalling €1,382 million, from €3,290 million the year before and against a receipts target of €3,159 million. This development came from the sharp decline in receipts from EU funds, which decreased by 62.7% compared to 2016. On an annual basis, it is estimated[25] that the revenue will reach €3,427 million, while it was initially budgeted at €4,155 million (Table 2.8). In other words, in order to confirm the projections, €2,045 million should be collected in December, which is considered rather impossible.

The delay in investment disbursements, worse than in 2015 and 2016, is difficult to explain, as the cash difficulties of 2015 are no longer present. Besides, the great need for investment is recognised in the Explanatory note of the 2018 Budget as well (pp. 79-80). Because of the long delay, it is almost certain that public investment of 2017 will be eventually slashed, just as it happened in 2016.

Note also that the receipts from EU funds in the last few years are steadily decreasing, both in the first eleven months of each year, and annually (Table 2.8). At this juncture, the inflows from the EU funds, in addition to financing almost all public investment, enhance the liquidity in

[24] Explanatory Note 2018 Budget , p. 66.

[25] Explanatory Note 2018 Budget , p. 62.

the economy as well, as the bank lending capabilities are very limited. Moreover, the creation of infrastructure through the PIP will create favourable conditions for private investment, which is absolutely necessary for restoring the economy to a path of growth.

The 2018 budget

As in previous years, fiscal policy remains strongly restrictive in 2018. The fiscal consolidation is based mainly on fiscal measures, i.e. on those legislated in May 2017, rather than on the rationalisation of public expenditure. Any cuts in expenditure focus on pensions and investments. **This fiscal policy mix is considered to dampen the incentives for savings, for labour and for taking entrepreneurial risks. This affects the prospects for a sustained recovery of the economy.**

The GG balance, on national accounting basis, is envisaged to switch from a deficit of 0.6% in 2017 to a surplus of 0.6% of GDP in 2018. The primary surplus is projected to increase to 4.2% of GDP, compared with 2.6% in 2017, in order to achieve the objective of the third programme for primary surplus of 3.5% of GDP (Table 2.7).

The improvement of the budgetary performance in 2018 is based on: (a) lower tax refunds by €1.929 million, or 1.0% of GDP, compared to 2017, (b) further enlargement of the surplus of the SSFs by €700 million or 0.4% of GDP, mainly because of last year's cuts in the supplementary pensions, which this year will hold for the entire year, the non-indexation of pensions on the basis of the GDP growth and the growth of social security contributions, (c) reduction or lifting of significant tax exemptions, (d) Introduction of accommodation tax from 1-1-2018 and (e) optimistic macroeconomic scenario. This scenario envisages real growth acceleration to 2.5%, despite the intensely restrictive fiscal policy, based on its effect on the cyclically adjusted primary balance, which is supported by the rise of investments by 11.4%, (compared with an estimate for 5.1% in 2017), weaker growth of imports by 3.8%, compared to 6.0% in 2017, and a rise in private consumption by 1.2%.

However, the necessary conditions to achieve these ambitious macroeconomic targets is the normalisation of the economic conditions, with relaxation of the capital controls, reduction of the tax burden, resolution of the non-performing loans problem, acceleration of privatisation and consistent implementation of the ongoing programme to support the economy, as quite a lot is left to be done in the short time remaining until its completion. In addition, the participation of the country in the quantitative easing programme will greatly improve the access to finance and reduce dramatically the borrowing costs of companies, boosting their competitiveness. However, for the achievement of most of the above, a series of actions are still pending, therefore at present the appropriate conditions have not yet been formed.

State budget 2018

At SB level (in modified cash basis), great year-on-year improvement of the fiscal aggregates is projected for 2018. In particular, the SB deficit will fall from €5,123 million (or 2.9% of GDP), to €943 million or 0.5% of GDP. Correspondingly, the primary surplus is projected to multiply by a factor of five, reaching €4,257 million, against €877 million last year. According to the new budget, the SB deficit in 2018 comes exclusively from the PIP, while the OB is projected to have a surplus of €2.1 billion (Table 2.8).

This great improvement will come from the significant reduction in tax refunds, and the containment of OB expenditure. In particular, the tax refunds fall to €3,648 million, from €1,929 million in 2017. If this happens, the OB net income increases significantly, while the revenue before tax refunds will remain at its 2017 level. In contrast, the OB spending is projected to fall by 4.1%, or €2,077 million compared with the previous year. The restraint will come both from primary expenditure and interest payments.

OB Revenue

The OB revenues (before tax refunds) are budgeted at €54.2 billion, marginally lower (-0.2%) than in 2017 (Table 2.11). However, the 2017 revenue were greatly boosted by extraordinary proceeds, amounting to €1,542 million, stemming mainly from the concession of regional airports, while the corresponding revenue for 2018 is envisaged to total €1,110 million. Also, an amount of EUR €296 million, associated with the concession of the airports, was initially posted as VAT receipt, then it appeared as a tax refund, and eventually it was recorded in the proceeds from the concession of airports.[26] If the necessary adjustments are made in order to make the numbers comparable, then the 2018 revenues, before tax refunds, will grow against 2017 by 1.1%.

The revenue from direct taxes is expected to rise in 2018 by 2.4%, to reach €20,766 million. The increase is mostly found in the receipts from personal income tax (+5.5%), due to the abolishment of the 1.5% discount from 1/1/2018 on advance tax payment of employees and pensioners. By contrast, the revenues from legal entities is projected to fall by 3.2% compared to 2017. The revenue from the taxation of real estate (ENFIA) is anticipated to increase by 5.9%, while the receipts from direct taxes for previous years and other direct taxes are expected to decline against 2017 (Table 2.11).

[26] Explanatory Note 2018 Budget, pp. 62. Although this does not affect the net revenue and the deficit of 2017, it alters the rates of change of VAT, indirect taxes and total revenue, both for 2017 against 2016, and 2018 against 2017.

Table 2.11

Annual State budget revenues- (million €)

Revenue categories	2015	2016	2017 Budget	2017 Est.	2018 Budget.	% 16/15	% 17/16	% 18B/17
1. SB Net Revenues	51.421	54.152	54.529	52.142	54.244	5,3	-3,7	4,0
2. OB net revenues	46.589	49.980	50.374	48.715	50.509	7,3	-2,5	3,7
Tax refunds	2.922	3.263**	3.289	5.577	3.648	11,7	70,9	-34,6
3. OB revenue	49.510	53.243	53.663	54.292	54.157	7,5	2,0	-0,2
Direct taxes	19.758	21.839	20.415	20.288	20.766	10,5	-7,1	2,4
--Income tax	12.093	13.379	13.659	12.897	13.307	10,6	-3,6	3,2
--Property tax	3.180	3.604	3.132	3.200	3.379	13,3	-11,2	5,9
--Direct taxes of previous years	1.700	1.765	1.291	1.821	1.718	3,8	3,2	-5,7
--Other direct taxes	2.785	3.091	2.333	2.370	2.362	11,0	-23,3	-0,3
Indirect taxes	23.773	25.680	26.443	26.917	27.390	8,0	4,8	1,8
--Transaction taxes	14.254	15.540	15.985	16.354	16.441	9,0	5,2	0,5
(of which VAT)	13.629	15.010	15.476	15.767	15.845	10,1	5,0	0,5
--Consumption taxes	8.760	9.033	9.547	9.267	9.706	3,1	2,6	4,7
--Indirect taxes of previous years	450	753	549	922	851	67,3	22,4	-7,7
--Other indirect taxes	310	354	362	374	392	14,2	5,6	4,8
Non-tax revenues	5.979	5.724	6.805	7.086	6.001	-4,3	23,8	-15,3
--Receipts from the EU	428	415	523	510	331	-3,0	22,9	-35,1
--Non-ordinary revenue	1.825	803	618	694	618	-56,0	-13,6	-11,0
(of which: ANFA, SMP)	291	375	345	345	314	28,9	-8,0	-9,0
--Permits and rights	254	106	2.044	1.542	1.110	-58,3	1354,7	-28,0
--Other	3.472	4.400	3.620	4.340	3.942	26,7	-1,4	-9,2
4. PIP revenues	4.832	4.172	4.155	3.427	3.735	-13,7	-17,9	9,0

* Revenues of €126 million, which were added after the vote on the 2016 Budget, due to the change in the accounting method of called guarantees (on the expenditure side) from "net" to "gross basis", are not included.
** Tax refunds of €1,026 million, paid through ad-hoc allocation, are not included.
Source: Explanatory Note 2018 Budget, Ministry of Finance, November 2017.

The receipts from indirect taxes are projected to grow by 1.8% in 2018, to reach €27.4 billion (Table 2.11). If the proceeds of €296 million are removed from the 2017 figures, for the reasons set out above, then the growth rate jumps to 2.9%. The VAT revenues are projected to grow by 0.5%. If, however, the 2017 VAT figures are adjusted as outlined previously, then the rate of change grows to 2.4%. The revenue from excise duties is projected to grow by 4.7%, due to the anticipated large increase (11.9%) in the receipts from tobacco taxation. This prediction is based on the fact that the corresponding revenue was low in 2017, for the reasons discussed above. In contrast, the receipts from indirect taxes of past years is expected to decrease in 2018, after three years of significant growth.

Finally, the non-tax revenue in 2018 is predicted to drop by 15.3% to €6.0 billion. The fall will come from reduced revenue from all sub categories, such as receipts from the EU, revenue from bonds (ANFAs, SMPs), proceeds from licensing, assignment of rights etc. (Table 2.11).

OB expenditure

The OB spending is projected to fall in 2018 by 4.1% compared to the previous year, amounting to €48,438 million (see Table 2.12). According to the new budget, the fall of expenditure will come from both interest payments (-13.3%) and primary expenditure (-2.9%).

The explanatory note[27] does not mention why the interest expenditure would be so reduced in 2018. Possibly this might be due to the recent improvement of the conditions for short-term lending of the state, or to the November 2017 bond swap. The primary expenditure falls to €43,238 million, from €44,514 million in 2017. This development is due to the significant reduction of the grants to the social security funds by 7.6%, or €1,599 million, the expenditure on social protection, the operating expenditure (-13.6%) and other costs (-5.3%).

Table 2.12

State Budget expenditure - (million €)

Expenditure category	2015	2016[1]	2017 Budget	2017 Est.	2018 Budget	% Change 16/15	17/16	18 Π/17
1. SB Expenditure	54.952	55.702	56. 286	57.265	55.188	1,4	2,8	-3,6
2. OB Expenditure	48.575	49.418	49.537	50.515	48.438	1,7	2,2	-4,1
Interest	5.800	5.577	5.550	6.000	5.200	-3,8	7,6	-13,3
Primary expenditure	42.775	43.841	43.987	44.514	43.238	2,5	1,5	-2,9
--Salaries & pensions	18.359	18.065	12.337	12.217	12.660	-1,6	-32,4	3,6
--Social expenditure	14.715	15.638	20.210	21.037	19.438	6,3	34,5	-7,6
-- Grants to others	2.786	3.236	3.119	3.108	3.262	16,2	-4,0	5,0
--Operational and other	5.469	5.297	5.754	6.173	5.333	-3,1	16,5	-13,6
-- Other*	1.446	1.605	1.567	1.632	1.545	11,0	1.7	-5,3
--Reserves	--	---	1.000	346	1.000	---	--	---
3. PIP expenditures	6.377	6.284	6.750	6.750	6.750	--1,5	7,4	0,0

*See the note on Other expenditure below Table 2.12a

** For reasons of comparability, expenses amounting to €2,824 million, related to commitments from previous years, financed by special credit and appearing for the first time in the Explanatory note of the 2018 budget, are not included in the 2016 figures.

Sources: Explanatory notes of Budgets 2016, 2017 and 2018, Ministry of Finance (Table 3.2)

[27] Explanatory Note Budget 2018, pp. 68 and 70.

In contrast, the grants to third parties and the spending on remuneration are anticipated to increase in 2018 (Table 2.12). Note that the projected rise of the remuneration category[28], for the second consecutive year, is particularly worrying.

The restraint of other expenditure comes mainly from the fact that assumption of debt of GG bodies is not envisaged in 2018, unlike 2017 (€192 million). In contrast, defence expenditure and payments for called guarantees will increase compared to 2017 (Table 2.12).

Public Investment Programme

As mentioned above, the SB deficit in 2018 is expected to come exclusively from the PIP, whose deficit is projected to reach €3,015 million, or 1.6% of GDP. This development is due solely to lower revenue, as the corresponding target is at its lowest level in a decade.[29] In contrast, the PIP expenditure is projected to remain exactly the same for the third year running.

Table 2.12a

Other Expenditure breakdown (million €)

Expenditure category	2015	2016	2017 Budget	2017 Est.	2018 Budget	% Change		
						16/15	17/16	18B/17
EFSF disbursement fee	178	65	75	75	65	-63,5	15,4	-13,3
Debt assumptions of GG bodies	---	553	---	192	---	---	---	---
Called guarantees	703*	403*	1017**	890**	970**	---	---	---
Within GG	(650)*	(371)*	(876)*	(855)**	(927)**	---	---	---
Outside GG	(53)	(32)	(141)	(35)	(43)	---	---	----
Military procurement	565	584	475	475	510	3,4	-18,7	7,4
Total	1.446	1.605	1.576	1.632	1.545	11,0	1,7	-5,3

*On a net basis
** On a gross basis
Sources: Explanatory notes of Budgets 2016, 2017 and 2018, Ministry of Finance

In particular, the expenditure target is set back at €6,750 million, despite the fact

[28] The category "Salaries and Pensions" in 2018 no longer includes expenditure on pensions.
[29] PIP revenue targets in recent years - 2008: €3.9 billion, 2009: €3.7 billion, 2010: €3.9 billion, 2011: €3.9 billion, 2012: €4.8 billion, 2013: € €5.1 billion, 2014: €5.0 billion, 2015: €4.7 billion, 2016: €4.4 billion and 2017: €4.2 billion.

that the explanatory note expressly states[30] that public investments support the process of development and modernisation of the country.

Besides, it is well known and documented that in Greece public investment has the greatest multiplier of all other State budget expenditure.

The PIP revenues are predicted at only €3,735 million in 2018. This is due to low inflows from European Union funds, budgeted at €3,555 million, despite the fact that the NSRF 2014-2020 is in full swing, while the Explanatory note states[31] that the implementation of NSRF projects will speed up in 2018. The own PIP revenue is also low, down to €180 million.

C) Financial developments

The upward trend of deposits in the banking system during the second half of 2017 points to a continued recovery of the confidence in the banking system through deposit growth. Nevertheless, credit from the banks to the private sector continues to contract, because of cautiousness ahead of the forthcoming stress test simulations by the ECB and the results of the procedures to settle or sell large amounts of non-performing loans. The positive recorded developments include the reduction of non-performing exposures and the degree of dependency of the banks on emergency lending from the Eurosystem, while the capital controls were relaxed further.

On the liabilities side of the banks' balance sheet, the return of private deposits from households and businesses strengthened in the second half of 2017, which points to a gradual recovery of confidence. The successful completion of the second review (July 2017), as well as the third, in a very short period of time, the application of short-term debt relief measures, the Hellenic Republic's return to the capital markets, the continued growth in employment and more broadly, the modest recovery of the Greek economy and the prospect of stabilisation and normalisation of the capital flows were conducive to this development. Between July and November 2017, the total deposits of the private sector increased by €3.6 billion. The rise of deposits mainly came from households (€1.9 billion), but also from non-financial corporations (€1.1 billion). Since August 2015, the private sector deposits have expanded by €10.0 billion, including €2.9 billion coming from households and €7.2 billion from non-financial corporations. Nevertheless, the stock of total private deposits remains significantly lower than in November 2014, by €34.4 billion, including €31.0 billion from households and €1.0 billion by non-financial corporations.

The average monthly net inflow of deposits between July and November 2017 stands at €390 million for the households and to €221 million for the non-financial corporations, from -€153 million and +€112 million respectively in the first half

[30] Explanatory note 2018 Budget, pp. 79.

[31] Explanatory note 2018 Budget, pp. 81.

of 2017. The average monthly inflow of deposits was positive from August 2015 until last November for both households and non-financial corporations (+€103 million and +€258 million respectively).

The increase in deposits is partly due to inflow of banknotes in the system, which entails a weakening of the "under the mattress" storing phenomenon. This observation is verified by the fact that the banknotes in circulation decreased from its peak of €50.2 billion in August 2015 to €35.5 billion in November 2017, as the supply of banknotes from the ECB to Greece corresponded to €27.7 billion and €30.4 billion respectively. Therefore, the hoarding of cash gradually declined, as the banknotes in circulation beyond the ECB supply declined from €22 billion in 2015 to about €5 billion in November of 2017. The climate of confidence recovery in the banking system is encouraged by the ongoing gradual relaxation of capital controls, with the latest regulatory change of last November allowing the withdrawal of up to 100% of money transferred from abroad, but also raising the limit of payments abroad by bank branches. That said, the caution of households and businesses as to the upcoming stress test and as to the choices that the banks will make in the settlement of non-performing loans hamper a greater deposit growth.

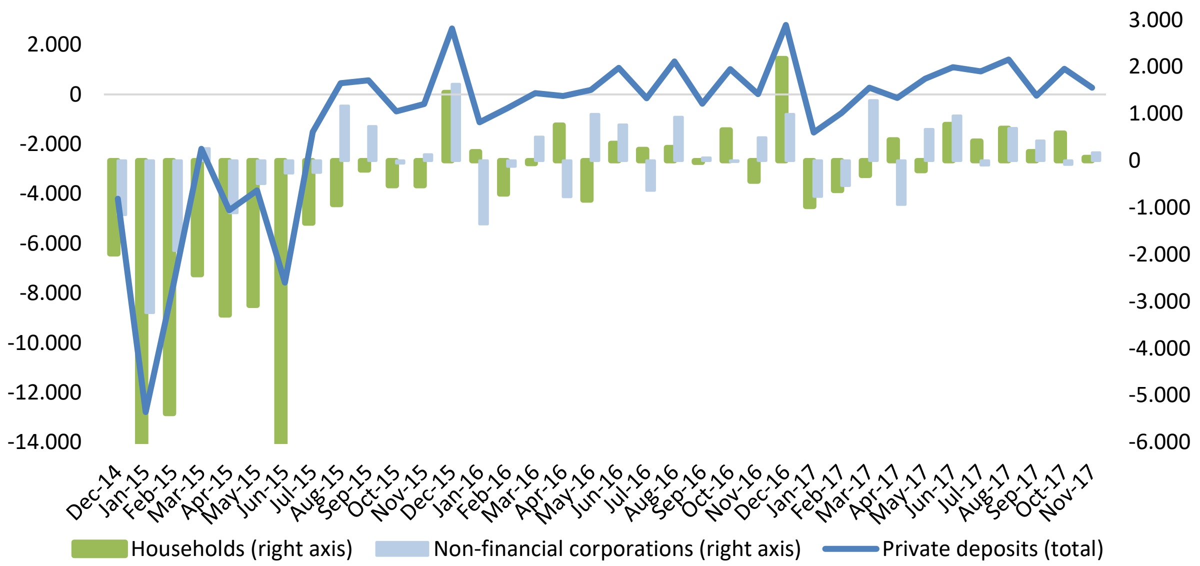
The second largest element of the liabilities of the banks concerns the **financing from the Eurosystem**. The dependence of the banks on the Emergency Liquidity Assistance (ELA) of the ECB continued to decline rapidly in the past few months, as the ELA funding fell to €19.9 billion in November 2017, from €30.9 billion in August 2017 and €86.8 billion in June 2015. In addition, the total funding from the Eurosystem kept falling at a rapid pace, with the outstanding balance standing last November at its lowest level since 2008, at €32.9 billion, from €45.3 billion in August 2017 and €126.6 billion in June 2015.

On the asset side, credit activity remains subdued. The financing of the private sector, excluding loan write-offs, continued to shrink in the second half of 2017, but with a weakening intensity. Between July and November 2017, the annual growth of credit to the private sector was slightly negative,-1.0%, coming from its contraction by 2.3% to households, while for the self-employed and non-financial corporations it remained essentially unchanged (-0.1% for both). The respective annual rates of change in the first half of the 2017 were -1.3% for the private sector,-2.6% for the households,-1.3% for sole proprietors and unincorporated partnerships and -0.1% for non-financial corporations. Among the branches of economic activity, there is a strong diversification of funding from the banks, with credit growth in sectors such as transport and logistics, energy and tourism (Table 2.11).

After a period of tightening of bank lending criteria in 2015 and 2016, a research by the Bank of Greece on the bank lending in the third quarter of 2017 showed that the credit criteria of granting loans to businesses had remained the same since the beginning of 2017. The estimate for the fourth quarter of 2017 is that they will remain unchanged. Similarly, the demand for credit is relatively stable in 2017, as in 2015 and 2016, as opposed to a slight strengthening in 2014.

Figure 2.6

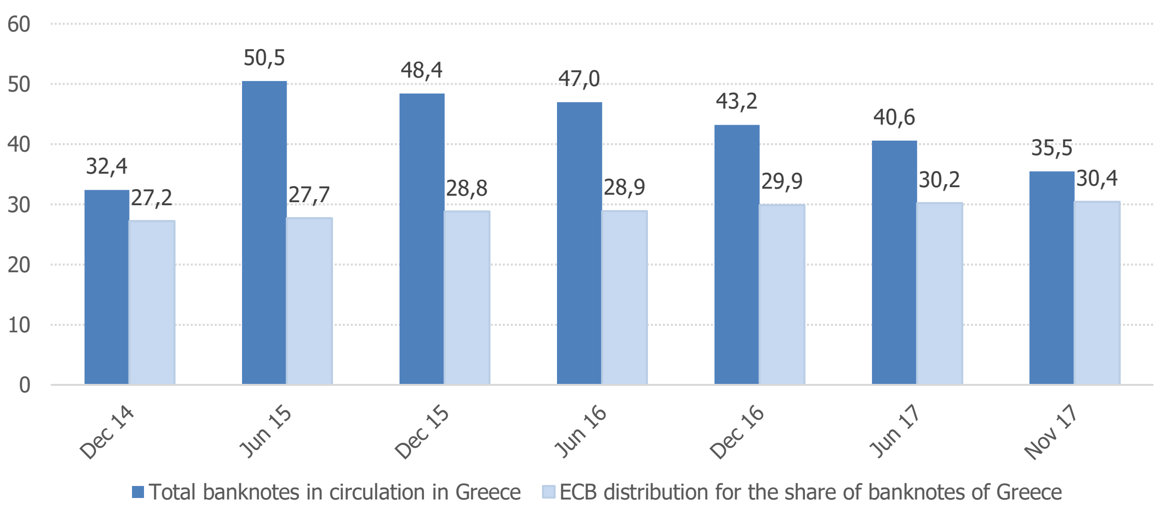
Monthly net flow of private deposits at the Greek banks (million €)



Source: Bank of Greece

Figure 2.7

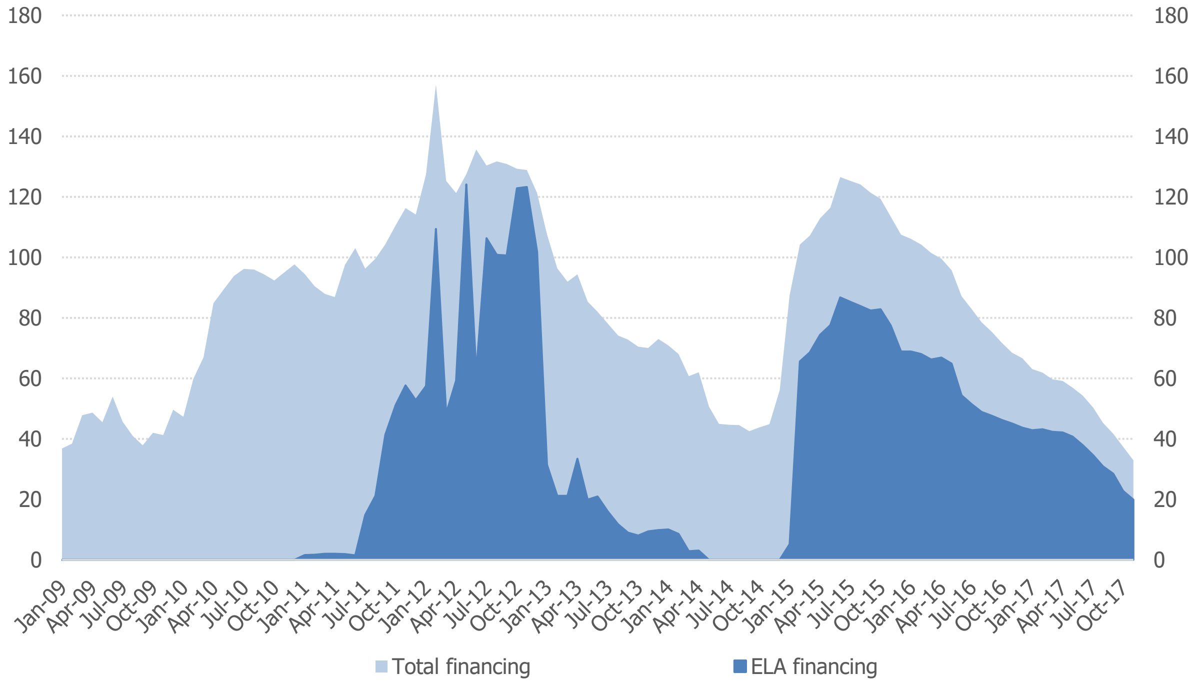
Banknotes in circulation (billion €)



Source: Bank of Greece

Figure 2.8

Financing of the Greek banks from the Eurosystem (billion €)



Source: Bank of Greece

Table 2.12

Bank credit to the domestic sector (annual % change of flows*)

Quarter/Year	1/17	2/17	3/17	Oct 17	Nov 17
Total private sector	-1,5	-1,1	-1,0	-0,9	-0,9
Households & NPIs	-2,7	-2,5	-2,3	-2,3	-2,2
Sole proprietors and unincorporated partnerships	-1,9	-0,7	-0,1	0,0	-0,1
Non-financial corporations	-0,4	0,2	-0,2	0,0	0,0
Agriculture	-2,1	-3,9	-6,4	-5,2	-5,4
Industry	-2,5	-3,4	-4,2	-4,5	-3,8
Trade	1,4	2,4	1,8	2,2	2,4
Tourism	2,4	2,2	1,5	-0,1	0,2
Shipping	-1,0	-0,7	0,6	-0,2	0,4
Construction	-1,8	-2,9	-2,0	-0,4	-3,0
Electricity-gas-water supply	1,7	8,0	2,7	2,3	-1,2
Transport and logistics	9,3	45,0	39,0	27,7	35,2
Interest rates on new loans (period average, %)					
Consumer credit	8,17	8,85	9,10	8,67	9,14
Mortgage credit	2,74	2,73	2,74	2,57	2,92
Loans to non-financial corporations	4,48	4,41	4,43	4,75	4,33

* The flows result from changes of outstanding balances corrected for loan write-offs, re-evaluation of securities, foreign exchange differences and reclassification/transfer of loans.
Source: Bank of Greece

In the medium term, the projected economic recovery, which entails further decline of unemployment, the strengthening of confidence in the banking system from the results of the upcoming stress test, given that the probability of extensive capital needs resulting from the stress test is considered very small, the easing of the broader uncertainty about the prospects of the Greek economy, the completion of the forthcoming evaluation of the current programme and the finalisation – implementation of medium-term measures to facilitate the servicing of public debt are conducive to stronger deposit growth, reinforcing the banks' credit supply potential. However, the credit supply trend is not expected to change in the short term and the credit contraction is most likely considered to continue, albeit to a lesser extent, at least until the stress test is completed and any capital adequacy gaps of the banking institutions are filled. The effective management of non-performing loans, the access to the cross-border banking market and programmes co-financed by the EIB will determine the credit policy after that, while large enterprises will rely more on alternative forms of financing, such as the issuance of bonds.

The Non-Performing Exposures (NPEs) continued to recede gradually in the third quarter of 2017, by 2.4% quarter on quarter, yet their contraction rate should accelerate in order to achieve the objectives of the business plans for 2018 and 2019, agreed between the banks and the SSM. The total NPEs in September 2017 reached approximately 7.6% or €8.2 billion, lower than their peak in March 2016. Note that the target of a cumulative decrease by 40% until the end of 2019 is still in place. In business credit, the NPE rates are higher among sole proprietors and micro-enterprises (66.5% in September compared with 67.8% in June) and small and medium-sized enterprises (59.0% in September compared with 59.8% on June), followed by large enterprises (24.5% in September compared to 25.0% in June). The quarterly default rate remains higher than the cure rate. As a result, until now the reduction of NPEs is based primarily on loan write-offs (€1.1 billion in the third quarter of last year, from €1.9 billion in the preceding quarter) and the sale of non-performing portfolios (€1.8 billion in the third quarter, compared to €0.4 billion in the first half of 2017). Concluding the NPE analysis, it should be noted that a significant proportion of these exposures relate to delays of more than two years, while many already restructured loans present again repayment delays.

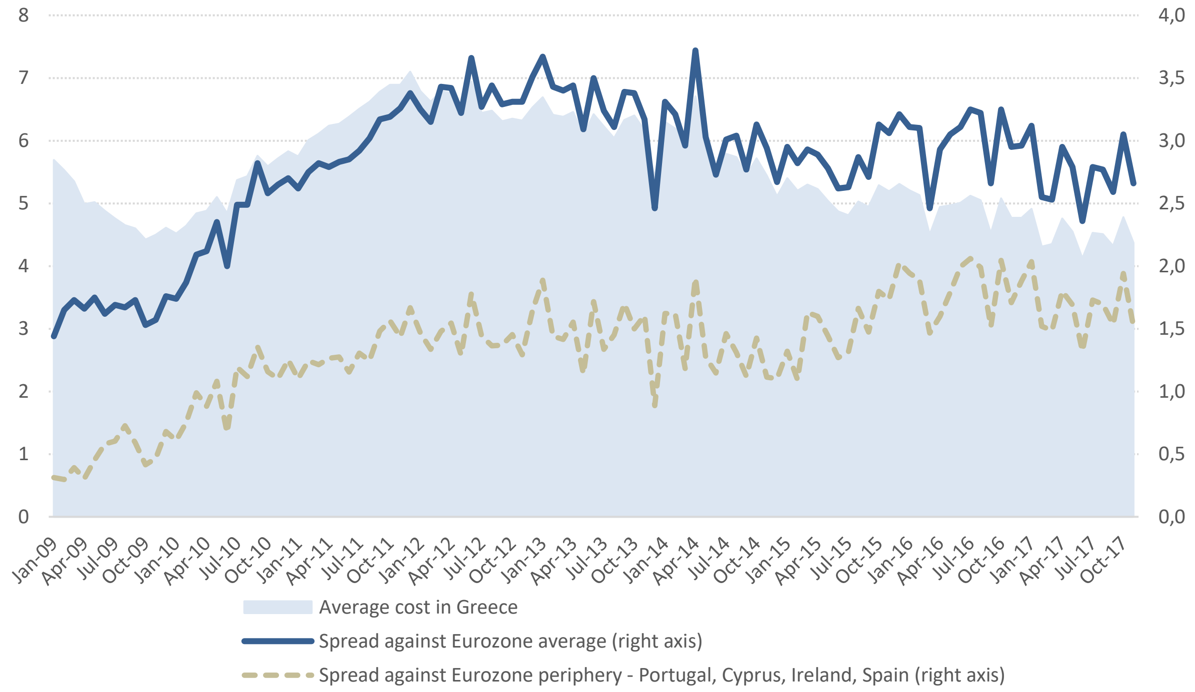
Recent regulatory changes, such as the licencing framework for management companies of credit claims, the establishment and implementation of out-of-court debt settlement and the start of electronic auctions, are expected to contribute to faster reduction of the NPE stock, one of the major inhibitors of new bank financing.

The **cost of capital** had only minor fluctuations in the second half of the year 2017, while it remained significantly higher than in the other Eurozone countries. Indicatively, while the interest rates on new deposits fell marginally, to 0.29% between July and November 2017, from 0.31% in the first half, the interest rates on new loans rose to 4.77% between July and November 2017, from 4.65% in the six months that preceded it. The increase is mainly due to consumer credit interest rates, which rose from 8.5% in the first half of 2017 to 9.0% in the following five months, in contrast to the rates on mortgages and new bank lending to non-financial corporations, which remained near their levels from the first half of the year, at 2.74% and 4.47% respectively. According to the composite indicator of ECB borrowing costs in November 2017, the cost for non-financial corporations was around 4.4%, compared to an average to 4.5% in 2017. The cost of borrowing for businesses remains 270 basis points higher than the Eurozone average and 150 points higher than the average of the countries on the periphery of the Eurozone that completed assistance programmes (Portugal, Ireland, Cyprus, Spain). This difference is significantly higher from pre-crisis levels.

As regards the cost of new borrowing from the markets by the Hellenic Republic, after the trial issue of a five-year bond in July 2017, in November the PSI bonds were bundled and exchanged for new securities, with maturities from 2023 to 2042. This swap improved their liquidity and broadened their potential demand to non-leveraged investors as well. Combined with the prospect of timely completion of the third review and the positive international investment climate, the yield of the 10-year bond significantly dropped in late 2017, below 4.4%, while its spread reached its lowest level in eight years. However, it remained significantly higher compared to other Eurozone countries at the end of 2017, at 410 basis points compared with the German 10-year bond, and at 310 basis points compared to the average of the countries of the region that recently participated in support programmes.

Figure 2.9

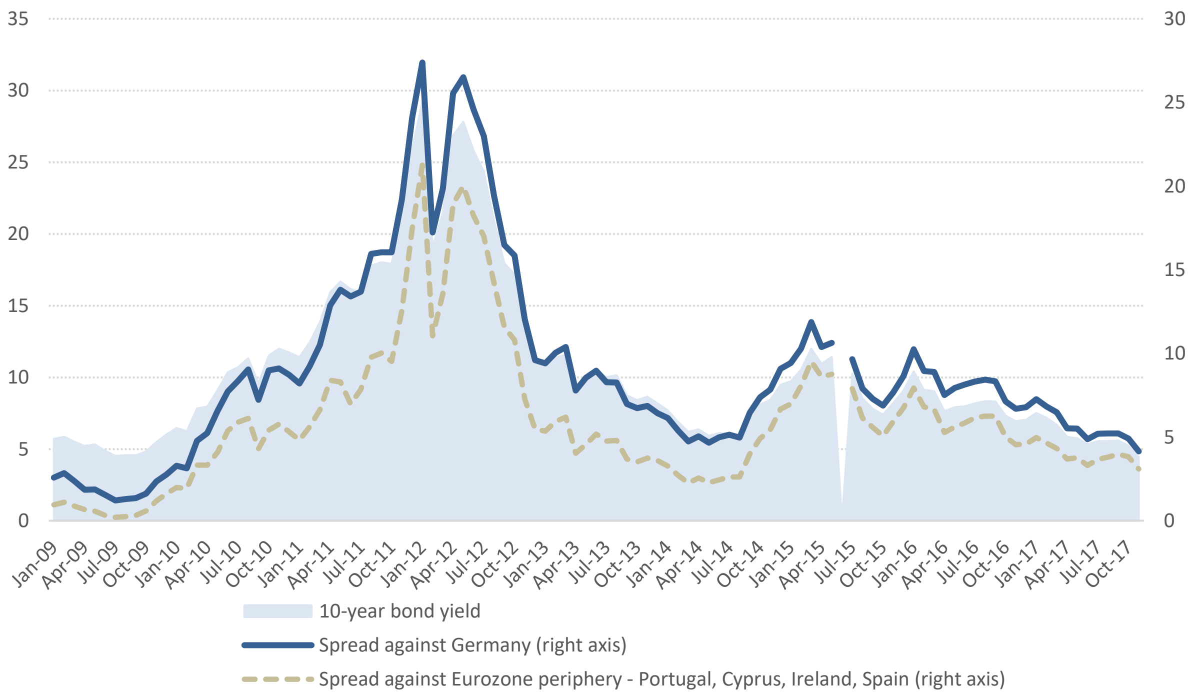
Weighted average cost of bank lending to non-financial corporations (%)



Source: EKT

Figure 2.10

Yield and spread of the 10-year Greek sovereign bond (%)



Source: EKT

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

Recent macroeconomic developments in Greece

The GDP of the Greek economy remained on the rise for the third consecutive quarter in the third quarter of 2017, with a slightly lower rate than in the previous quarter (1.3% against 1.6%), yet practically the same as in the corresponding quarter of 2016 (1.2%). Overall in the first nine months of last year, the gross domestic product was higher by 1.1% year on year, offsetting its marginal fall recorded in the same period of 2016 (0.1%) and 2015 (0.6%). The slight slowdown of output growth during the summer months came almost exclusively from the fact that private consumption did not grow year on year, while in the second quarter it increased slightly. The slowdown in export growth, combined with the unabated growth of imports, exacerbated the external balance, putting further pressure on GDP in the third quarter of 2017. By contrast, stronger investment prevented to a sharper slowdown of the recovery. Still, the investment growth did not come from higher fixed capital formation, but from trend shift in stocks year on year from negative to positive.

In detail as to the trends in individual components of GDP in the first nine months of 2017, domestic consumption remained essentially unchanged (-0.1%) compared to the same period of last year, when it had marginally decreased (-0.3%). This result came from its slight growth in the first half of 2017, by 0.4%, and the decline during the summer quarter by 1.0%. Regarding its two basic components, private consumption increased by 0.6%, against no change a year earlier. Public sector consumption declined by 2.6%, their largest contraction in four years, following their marginal reduction in the same period of 2016 (-0.3%).

Investment expanded by 12.9% year on year in the first nine months of 2017, less than in the corresponding period of 2016 (+17.0%). The trend changed again in the third quarter, this time from negative to positive (+10.6%). However, as noted in the previous report of IOBE on the Greek economy, the increase of investment in the third quarter came from different trend in stocks compared with the same period of 2016, as last year the trend was positive, while a year earlier it was negative. The boost of investment in the third quarter exclusively from stocks is illustrated by the fact that gross fixed capital formation decreased significantly in this interval, by 8.5%. The significant expansion of stocks, by €2.45 billion, is the main cause of higher investment throughout the first nine months of 2017, as 80.5% of its growth is explained by the changes in stocks, with the rest coming from rise in fixed capital formation, by 2.6%, less than in the corresponding period of the previous year (5.0%).

Among particular categories of fixed capital, growth was recorded only in transport equipment in the first nine months of the year, in all of its quarters, albeit with at strongly declining rate. Overall in the first three quarters of 2017, investments in this category was up by 63.4% than in the same period of the preceding year, when it had retreated by 7.5%. Among the remaining categories of fixed capital with a downward trend, the strongest contraction occurred at other construction and information technology - communication equipment, by 10.6% and 9.3% respectively, after extensive growth in the first category by 33.2% in 2016 and stronger decline in the second (20.3%). Housing followed, remaining on a downward path for the eleventh year in a row, at a lower rate than at the start of its contraction (7.8%, compared to 15.2%). Marginal reduction was recorded in agricultural products (-0.5%), machinery (-0.4%) and other products (-0.2%), after growth in the first and third categories in the preceding year, by 19.4% (the largest among categories of capital) and 3.2% respectively, while investment in machinery and equipment had fallen by 6.4%.

In the external sector, exports expanded by 7.5% overall in the first nine months of 2017, against a fall by 4.0% in the corresponding period of last year. They continued to grow in the third quarter, at a lower rate than in the preceding quarter, by 7.8% against 9.8%. This increase came mainly from the strengthening of the international demand for services from Greece (+11.0%), following their sharp decline a year earlier (-13.5%). The foreign demand for goods produced in Greece strengthened by 5.0%, at a similar rate as in 2016 (+5.1%). To highlight any effects of the capital controls on export activity, by comparing the level of 2017 with that in the same period of 2015, when they were not in force for most of its duration, exports in last year were higher by €1.4 billion or 3.3%.

Despite the decline of consumption and fixed capital formation in the third quarter, **imports** kept growing strongly, accelerating quarter on quarter, by 9.3% from 5.0%. As a result, overall in the first nine months of 2017, imports increased year on year by 8.5%, compared to no change a year ago. The imports of services increased stronger that the imports of goods, by 11.1% against 7.8%, albeit after their strong decline in the same period of 2016, by 16.4%, when the imports of goods had increased by 4.1%. As the latter constituted in that period 83.5% of total imports, their contribution to the 2018 increase was much higher than that of imports of services. **The higher growth of imports compared with exports resulted in a deterioration of the balance of the external sector in national accounting terms for the second consecutive year, by 2.9%, or €648 million, with an overall deficit of €4.2 billion or 3.0% of GDP.**

Apart from the deterioration of the external balance, the extent of the increase in imports, which exceeded that of domestic demand (total private consumption expenditure and investment) as it reached €3.6 billion, against €2.06 billion (elasticity of import demand to domestic demand of 3.5), highlights the strong preference of households and businesses for imported goods and services compared to the domestic products, leading to substitution of the latter from the former. A similar trend was recorded in the previous year with a mild GDP growth of the Greek economy, in 2014, when this phenomenon for the same time period was slightly stronger (elasticity of demand 4.8).

On the supply side, the domestic gross value added increased by 1.2% year on year in the first nine months of 2017, more than offsetting its fall by 1.0% in 2016. At the sector level, the number of sectors with year-on-year output growth was slightly lower than the number of sectors with year-on-year decline (four against five), while in two sectors output essentially did not change. In particular, the strongest year-on-year increase in production in the first nine months of 2017 took place in Industry, by 7.4%, compared to a similar growth in the preceding year, by 7.1%. Arts-Entertainment-Recreation followed closely with a growth of 7.0%, much stronger than one year ago (+2.1%). Wholesale – Retail Trade, Transport – Storage, Hotels – Restaurants and Professional – Scientific – Technical – Administrative Activities recorded a similar output growth, by 2.0% and 1.9% respectively compared with a 6.7% and 1.7% contraction in the previous year. Practically no change in the production value added, for the second consecutive year, was recorded in Real Estate Activities (+0.2% in 2017, after 0% the year before).

Among the contracting sectors, the Construction sector experienced the sharpest downturn in activity of around 12.6%, in contrast to its strong growth in the preceding year, by 32.2%, as a result of the completion of a number of public works. Financial-Insurance Activities came next once more, with a 6.7% contraction, considerably stronger than in the corresponding period of the previous year (-1.5%). The remaining three major sectors experienced a similar decline of about 1%. The output of the Primary Sector declined by 1.2%, following its second largest decline among key sectors last year (-8.5%) and Public Administration – Defence – Compulsory Social Security by 1.1%, about as much as the year before (-1.7%). The value added of Information-Communication was 1.1% lower than in the preceding year, when it had also declined, by 3.1%.

The continuation of GDP growth in the third quarter of last year had a positive effect on domestic employment and thus it lowered **unemployment**. Employment increased by 2.3% (+87,000), more than that in the corresponding period of 2016 (+1.7% or +65,600). In conjunction with the reduction of the workforce by 35,500, this resulted in a reduction in the number of unemployed by 122,500, to 970,100, i.e. below one million for the first time in exactly six years (Q3 2011). Subsequently, the unemployment rate declined by 2.4 percentage points, at 20.2%, its lowest rate since the last quarter of 2011. From the beginning of 2017 until September, the average unemployment rate stood at 21.5% on average, two percentage points lower compared with the same period of the preceding year.

At the sector level, most jobs were created in certain sectors with strong output growth. In particular, employment in the first three quarter of last year increased in Wholesale – Retail Trade on average by 20,500 (+3.1%), in Accommodation - Food Services by 13,800 (+3.6%) and in Manufacturing by 9,100 (+2.6%). The employment increase in human health activities and social welfare, by 9,800 (+4.5%) contributed significantly to its overall growth. The fact that employment fell in only three of the 20 single-digit NACE Rev 2 sectors of the Greek economy is indicative of the positive developments in employment. It declined in Agriculture-Forestry-Fishing (-4,300 or -0.9% in the first half on average), Real Estate (-2,100 or -35.8%) and Mining-Quarrying (-1,600 or -11.7%).

With regard to the **price** developments, as predicted in the previous IOBE bulletin on the Greek economy, the growth of the general consumer price index slowed in the third quarter to 1.0%, from 1.3% in the immediately preceding quarter. The slowdown of inflation took place despite an increase of certain indirect taxes (motor diesel and LPG, tobacco, cigarettes) and the imposition of new taxes (fixed telephony, coffee) from 1 January, yet it is consistent with the slowdown in household consumption growth at current prices in the third quarter to 1.2%, from 2.2% in the previous quarter. Overall in the first nine months of the previous year, the average CPI change was +1.2%, compared to 1.0% deflation in the corresponding period of 2016.

The continued rise in prices in the third quarter came once more from changes in indirect taxes, as mentioned earlier, and, from higher oil prices, for which the year on year change strengthened. The effect of these factors is reflected in differences of the price change across categories of goods and services included in the CPI, as the highest price growth rates were recorded in «Alcoholic Beverages – Tobacco», «Transportation» and «Housing» (7.3%, 6.4% and 2.4% respectively). Hotels – Cafés – Restaurants and Communications came next, with +1.8% and +1.3% respectively. In the remaining CPI categories of goods and services prices retreated, with the exception of Education Activities, where they remained unchanged. Although prices in the above categories of goods and services increased, still in all the change rate was lower compared with the previous quarter, with the exception of Alcoholic Beverages – Tobacco, where the price inflation intensified. In addition, Food – Non-Alcoholic Beverages was the only category with a decline in prices, which had the largest rate among all categories. Consequently, the weakening of consumer demand growth during the third quarter was reflected mainly in products and services with growing prices.

Table 3.1

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

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change
2000	189,923	4,0%	165,192	2.8%	43,107	12.5%	42,996	21.9%	62,939	22.5%
2001	197,881	4.2%	171,609	3.9%	44,998	4.4%	42,997	0.0%	62,115	-1.3%
2002	205,774	4.0%	179,614	4.7%	45,982	2.2%	39,900	-7.2%	59,976	-3.4%
2003	217,727	5.8%	187,087	4.2%	54,545	18.6%	39,627	-0.7%	64,428	7.4%
2004	228,110	4.8%	193,967	3.7%	54,192	-0.6%	46,914	18.4%	67,044	4.1%
2005	229,924	0.8%	200,678	3.5%	48,462	-10.6%	48,499	3.4%	68,698	2.5%
2006	242,767	5.6%	207,998	3.6%	59,903	23.6%	50,972	5.1%	77,761	13.2%
2007	250,457	3.2%	216,978	4.3%	64,948	8.4%	56,384	10.6%	88,882	14.3%
2008	249,876	-0.2%	221,542	2.1%	58,983	-9.2%	58,484	3.7%	89,820	1.1%
2009	239,099	-4.3%	219,963	-0.7%	43,176	-26.8%	47,775	-18.3%	71,683	-20.2%
2010	226,037	-5.5%	207,094	-5.9%	38,648	-10.5%	49,963	4.6%	69,215	-3.4%
2011	205,312	-9.2%	188,127	-9.2%	30,223	-21.8%	49,997	0.1%	63,491	-8.3%
2012	190,282	-7.3%	173,952	-7.5%	22,978	-24.0%	50,578	1.2%	57,529	-9.4%
Q1 2013	46,005	-5.2%	41,628	-8.0%	5,887	6.3%	12,581	-1.5%	14,152	-3.0%
Q2 2013	46,040	-3.4%	41,732	-4.4%	5,017	-13.3%	12,886	4.5%	13,770	-3.3%
Q3 2013	46,245	-1.7%	42,193	-1.4%	5,370	1.6%	13,183	6.9%	14,378	0.1%
Q4 2013	45,966	-2.3%	42,242	0.0%	4,441	-30.3%	12,733	-3.1%	13,263	-7.5%
2013	184,257	-3.2%	167,796	-3.5%	20,714	-9.9%	51,383	1.6%	55,563	-3.4%
Q1 2014	46,349	0.7%	42,078	1.1%	4,864	-17.4%	13,287	5.6%	14,162	0.1%
Q2 2014	46,266	0.5%	42,051	0.8%	5,483	9.3%	13,475	4.6%	15,002	8.9%
Q3 2014	46,840	1.3%	42,162	-0.1%	5,991	11.6%	14,374	9.0%	15,170	5.5%
Q4 2014	46,225	0.6%	42,011	-0.5%	5,739	29.2%	14,211	11.6%	15,512	17.0%
2014	185,680	0.8%	168,302	0.3%	22,077	6.6%	55,348	7.7%	59,846	7.7%
Q1 2015	46,371	0.0%	42,273	0.5%	4,792	-1.5%	14,989	12.8%	16,396	15.8%
Q2 2015	46,458	0.4%	42,412	0.9%	4,325	-21.1%	15,050	11.7%	15,689	4.6%
Q3 2015	45,732	-2.4%	41,282	-2.1%	5,056	-15.6%	13,217	-8.1%	13,018	-14.2%
Q4 2015	46,473	0.5%	42,056	0.1%	6,050	5.4%	13,674	-3.8%	14,986	-3.4%
2015*	185,033	-0.3%	168,023	-0.2%	20,223	-8.4%	56,929	2.9%	60,088	0.4%
Q1 2016	46,185	-0.4%	41,727	-1.3%	5,519	15.2%	13,560	-9.5%	14,844	-9.5%
Q2 2016	46,014	-1.0%	41,658	-1.8%	6,084	40.7%	13,517	-10.2%	15,388	-1.9%
Q3 2016	46,289	1.2%	42,223	2.3%	4,984	-1.4%	14,457	9.4%	14,840	14.0%
Q4 2016	46,066	-0.9%	41,807	-0.6%	5,115	-15.5%	14,309	4.6%	15,768	5.2%
2016*	184,554	-0.3%	167,414	-0.4%	21,703	7.3%	55,843	-1.9%	60,839	1.3%
Q1 2017	46,373	0.4%	41,883	0.4%	7,155	29.6%	14,271	5.2%	16,497	11.1%
Q2 2017	46,744	1.6%	41,848	0.5%	6,055	-0.5%	14,842	9.8%	16,157	5.0%
Q3 2017	46,889	1.3%	41,799	-1.0%	5,514	10.6%	15,582	7.8%	16,228	9.3%

* Provisional data

Source: Quarterly National Accounts, December 2017, ELSTAT

In conclusion, the steady high growth of imports since the beginning of 2017 is a major factor holding back the recovery of the Greek economy. Given the slight increase of fixed capital formation in this period and the much stronger expansion of household consumption expenditure, the much higher imports year on year most likely relate to goods and services for the households, rather than business equipment, which is not conducive to growth, restricting further the capacity of the domestic production system.

The escalation of import demand from households is an indication of a possible rise in their incomes, which favours employment growth. The national accounts data on remuneration of hired employees affirm their slightly faster growth than GDP in the first nine months of the year, at a higher rate since the second half of 2009, in the area of 2.0%. The increase in imports of goods and services for consumers highlights the impact of the capital controls, which caused an accumulation of needs that is caught up with imports. In addition, the higher disposal of incomes for consumption purposes rather than savings is considered to be associated with the remaining uncertainty about the soundness of the banking system, the settlement of non- performing loans, and the low returns on saving products. Regardless of the reasons why households are not saving, this fact deprives strongly needed investment resources from the Greek economy.

Therefore, until the accumulated household demand for imports due to the capital controls is exhausted and the developments taking place in the banking system, which will largely restore the confidence in it, are concluded, the growth of economic activity, employment and incomes domestically will be largely channelled to imports, constituting an outflow from the domestic production system and an obstacle to development, for the reasons stated above. In order to address the impact of this process, particularly in terms of investment and the maintenance-upgrade of the production capacity of the country, all available sources of investment funds (Public Investment Programme, the stock market, European financial institutions) should have stronger utilisation.

Medium-term Outlook

The third review of the current programme largely determined the economic environment in the final quarter of last year and at the beginning of 2018. It was concluded much faster than previous reviews, which prevented the escalation of uncertainty that usually accompanies this process due to its long duration and the accompanying intense political developments. However, not all of its effects will be limited to this period, as this depends on the policy measures that have been taken for its conclusion, as well as on the commitments for the implementation of policy actions in view of the next review. The outcome of the fourth and final review will largely set the tone for the negotiations for finalising the medium-term measures on facilitation of the servicing of public debt, which in turn will determine the refinancing possibilities of the Greek State through the capital markets in a sustainable manner.

Apart from the outcome of the reviews, the economic climate is projected to improve further, in the short term and for a longer period of time, by the improving evaluations of the creditworthiness of the Greek State by the credit rating agencies and the new bond issue in the coming weeks, which probably will be repeated at other times within this year. These developments will make a decisive contribution to the strengthening of confidence in the sustainability of public finances and in the recovery prospects of the Greek economy. The official certification of the attainment of the budgetary targets of the previous year by Eurostat in April will also have a positive effect.

Conclusion of the next review, in similar way with the third assessment, and an agreement for medium-term debt relief measures without turbulent negotiations are required in order to maintain the current positive economic environment, which is relatively less uncertain compared to past period, despite certain adversities present in the current period as well. The impact the conclusion of both reviews without major delays will reflect mainly on investment, but also on consumption and subsequently on imports.

Developments are anticipated to take place in the banking system, particularly in the initial half of 2018, concerning the progress in the management of non-performing loans, auctioning and the new evaluation of the capital adequacy by the European Central Bank. Given that any capital needs that might emerge from the stress test can be met by uncommitted funds under the current financing programme or with bond issues, sudden changes in the banking financing of the Greek economy are not anticipated, as shown by the analysis that follows. The privatisation programme does not include many actions, yet many of those that were completed in recent years are expected to enter their investment implementation phase. The further acceleration of the economy of the EU in 2018, the main destination of Greek exports and more broadly, the stronger trade activity worldwide, will preserve the high growth of exports from last year. The aforementioned conditions and trends form the basic assumptions underlying the macroeconomic projections of IOBE that are summarised in Box 3.1.

In greater detail, the staff level agreement, concluded at the beginning of last December among the official lenders and the Greek government, not long after the start of the third review, prevented the concern about its timely completion from escalating, as has happened repeatedly in the past with financial assistance programme reviews. The agreement involves the legislation of certain measures that constitute regulatory policies, rather than fiscal interventions (Law no. 4512/2018). The most important of them concern: a) changes in the functioning of the energy market, with the start of energy exchange, which will include in the future gas and carbon markets, b) monitoring and checking economic activities and products, in order to strengthen the implementation of the regulatory framework governing the establishment and operation of companies and thus the competitive functioning of markets, c) out-of-court settlement through mediation of civil and commercial affairs, d) conditions for labour action by primary unions, e) strengthening of the electronic auctions process f) simplification of the procedures for research and exploitation in mining activities, g) licensing and operation of casinos and h) evaluation of pharmaceuticals, compensation of those who use them and setting minimum opening hours of pharmacies.

From the above regulatory changes, it is obvious that quite a few focus on some sectors and activities. However, some of them relate to a wide range of activities, so the impact will be far-reaching. The establishment of the energy exchange is considered the most significant measures, as it can lead to a more effective operation of this market mainly for large customers, and businesses, which will gain much greater flexibility in their energy supplies, while it will also make it easier to respond to emergencies. The mediation for the resolution of legal disputes can contribute significantly to the settlement of many cases that are pending for years in the courts. Meanwhile, the changes in the supervision and control of economic activities are expected to have positive effects on the operation of many markets. However, the effect of these reforms is expected to be felt mainly in the following years, when the relevant enterprises and public services will be established, staffed and set in operation, when a sufficient number of ombudsmen in relation to pending court cases are appointed etc.

Although no additional budgetary measures for the current and the following year resulted from the recently concluded review, the Medium Term Fiscal Strategy (MTFS) 2018-2021 (Law No. 4472/2017) legislated measures that entered into force in the beginning of 2018.

The most important of them is the increase of VAT in Northeast Aegean Islands and the Dodecanese,[32] the levy of accommodation tax in hotels, rooms to let and rented apartments, the abolition of the 10% discount on the tax on medical expenses if they exceed 5% of a person's annual income, and the lifting of the 1.5% discount on advance tax payment during the clearance of tax returns of employees and pensioners. In addition, existing direct taxes increased or extended, such as the increase of social security contributions of freelancers, as they are no longer determined based on their gross earnings, and the extension of the contribution of shipping companies for one more year.

[32] Lesbos, Chios, Samos, Kos and Leros were excluded from the abolition of the VAT discount until 30/06/2018 because of the refugee flows.

Box 3.1

Assumptions of the central macroeconomic scenario of IOBE

- Successful and timely completion of the remaining reviews of the current financial assistance programme
- Improved creditworthiness and debt refinancing through bond issues
- Determination – implementation of medium-term debt relief measures
- Coverage of any capital needs of the banks resulting from the upcoming ECB stress test and further reduction of NPLs in accordance with the operational targets of banks and SSM
- Accelerating growth in the EU and stronger international trade in 2018
- Finalisation of licensing – start of investment in privatisations

New taxes planned to be imposed from 1/1/2018 include the capital gains tax on property sales, based on the difference between the purchase price and the selling price, and the tax on income from short-term leases of property, however the implementation of the first tax was suspended for 2018.

The new measures will exert pressures mainly on the household disposable income. According to the Explanatory Note of the State Budget for 2018, the revenue from personal income tax this year is projected to be €456 million higher than last year, because of the tax on short-term real estate rentals, and the lifting of the discount on medical expenses and the 1.5% discount on advance tax payment. Despite the expansion of the gross earnings of freelancers, by including their social security contributions as well, the receipts from corporate income tax is estimated to fall short by €111 million, compared to 2017. The decline is due to the significantly higher advance tax payment that was collected the previous year, which is not expected to have similar volume this year, probably due to the decrease of the relevant tax base, as many freelancers have ceased their activity, at least under this particular work status. Many have implemented other options provided by the current tax system, such as partnership with colleagues in order to establish private capital companies. The total direct tax receipts, based on State Budget predictions, which include property taxes and direct taxes from previous fiscal years, will be €478 million higher than in the previous year.

Regarding the revenue from indirect taxation, despite the increase in VAT in Northeast Aegean Islands and the Dodecanese, the corresponding receipts are expected to expand by only €78 million, which probably is also related to the significant reduction in the number of freelancers. The revenue from excise duties will strengthen noticeably, by €439 million, from higher tobacco product revenues, which fell sharply last year due to stockpiling effects in 2016, but also from the new tax on tourist accommodation. The above trends in direct and indirect taxes reveal the intensity of the restrictive effects of the changes in taxation on household disposable income and business profitability in the current year. If these predictions are confirmed, their impact might be greater compared to the 2017 changes in taxation, when the hikes in indirect taxes raised their revenue by €1.2 billion, yet the direct tax receipts declined by €1.55 billion. On the other hand, the payment of the social dividend, with a substantially higher budget than in 2016, will ease the fiscal policy effects in late 2017 and early 2018.

Note that, despite the expected increase in the Ordinary Budget revenue from direct and indirect taxes, the bulk of the improvement of the General Government primary balance this year, around 1.75% of GDP, will come from one category of GG bodies - the social security funds (SSF). Their surplus in the 2018 budget is projected at around €1.8 billion, €1.65 billion higher than the corresponding estimate in the MTFS 2018 – 2021 and €700 million higher than last year. This major improvement will come primarily through further expenditure restraint, by limiting pension payments, their non-indexation as legislated from 2018, and cuts in other expenses. However, the receipts of SSFs are also expected to increase, inter alia from higher contributions from freelancers, which will now be included in their revenues. However, the significant decline in their numbers last year and other relevant developments mentioned above, raise doubts about achieving this goal. Therefore, lower than planned burden with social security contributions to those who provide professional services appears likely in the current year. If during the next review, the SSF revenue deviated significantly from the set target in 2018, other fiscal interventions will be sought after for the replenishment of this gap, in other General Government sectors, and in the revenue and expenditure of the State Budget. Such a development will probably lead to additional taxation of households and businesses.

Effects of the public sector on economic activity, slightly different from last year, are expected to come from the Public Investment Programme (PIP). As repeatedly noted in previous reports of IOBE on the Greek economy, the very low inflows from the EU in the co-funded arm of PIP was the main cause of its underperformance in 2017. Based on provisional data on the implementation of the State budget in 2017 overall, the revenue from the EU structural and investment funds did not exceed €1.96 billion, an amount that corresponds to 61.8% of the target and 50.9% of the 2016 EU inflows. By contrast, the own PIP revenue, which takes up a small part of the total, exceeded their target, perhaps in order to partly offset the lag from the EU funds (€485 million against €250 million target). As a result, the disbursed grants totalled €5.95 billion, almost 12% lower than the target. The extent of low PIP execution last year is reflected in the fact that the PIP funding reached its lowest level since at least the year 2000.

The underwhelming performance of PIP last year and the fact that fewer funds were utilised than originally planned, enhances the possibilities for expansion in the current year. Besides, the grant budget is the same as last year (€6.75 billion), thus higher than its expected final volume of last year. In addition, given the long delay in the implementation of PIP in 2017, this year it will probably be more front-loaded and thus its impetus on investment and employment will be stronger than in the previous year.

Greater impetus to investment activity in the current year compared to 2017 is expected from privatisations and concessions completed in previous years, for which the licencing of the relevant investment projects is at an advanced stage or is being completed. Understandably, if these licensing procedures are simplified and sped up, the investments and their effects on the Greek economy will also start faster. In this regard, the implementation progress of the privatisation programme in 2017 was weaker than expected, as not all planned actions were implemented, with most important the sale of the 66% stake of DESFA. Subsequently, the public revenue amounted to €1.66 billion, roughly €350 million less than the target in the 2017 budget (€2.03 billion). For the current year, the planned actions include completing more tenders than in any other year since 2011, and particularly of 14 tenders with pending submission of binding offers and two tenders where the binding offers have been submitted (Thessaloniki Port Authority, extension of the Athens International Airport concession). The total estimated receipts from these tendering procedures and from those completed in previous years but paid with instalments, reaches €2.74 billion. However, considering the past performance of completed procedures per year, which has reached up to 9, this year's goal is considered highly ambitious, which also extends to the estimates of receipts. Regardless of the number of privatisations and concessions which will be completed this year, their impact on the economy will be felt gradually over the coming years, since the licensing of accompanying investments requires considerable time, as past evidence suggests.

Apart from the lack of uncertainty escalation in the Greek economy due to the short-time completion of the third review and the stronger confidence, domestically and internationally, in its prospects, this fact implies in practice the disbursement of the relevant loan tranche from the European Stability Mechanism. A big part of it, €1.5 billion, relates to the payment of state arrears. Given the Greek government's commitment that for each euro from the loan for this purpose, it will contribute half a euro of its own resources, over the coming period, with the payment of the tranche, €2.25 billion will be available to cover outstanding obligations. With this amount, it can cover a large part of the arrears, as at the end of November of 2017, they totalled, along with outstanding tax refunds, approximately €3.9 billion. Note the fact that although the last sub-tranche from the previous review, amounting to €800 million, which was paid last October, was intended for this purpose, forming together with the national participation a total amount of €1.2 billion, the arrears declined in November, the latest month for which data are available, by €390 million. Therefore, if major new arrears were not created that month, a large part of the funds that were intended to repay arrears remained untapped at the beginning of December. Together with the funds which will be made available from the new tranche, it becomes possible for the first time in many years to reduce significantly the state arrears to suppliers, provided that new arrears are not created at a fast pace. If these payments take place in late 2017 and early 2018, this will contribute greatly to the boost of liquidity of businesses, taking into account that, firstly, Greece remains outside the ECB quantitative easing programme, and secondly, that the supply of loans from the banking system remains low, as will be shown further below in the current subsection.

Regarding the conditions and developments in the banking system, as mentioned above, the new stress test from the ECB, which will start in February and its results will be announced in May, is the most decisive event for the credit policy that will be followed this year and in the coming years. This will be affected by the outcome of the sales and settlement of non-performing loans, and the property auctions. The recent, successful issues of covered bonds by major banks (National Bank of Greece, Eurobank, Piraeus Bank), totalling €1.75 billion, with yields that could not be characterised as high (below 3%) and with the participation of foreign investors as well, on the one hand have increased their capital adequacy, and on the other have highlighted the strengthening confidence of investors in their prospects. Following these issues, if the need for new capital emerges by the stress test, its coverage is considered quite possible with new issues, at lower yields. The completion of the third review and the recent upgrade with positive outlook of the creditworthiness of Greece by S&P will facilitate this possibility. There is also the possibility of recapitalisation from unused funds of the financial assistance programme, intended for the banking system, totalling approximately €10 billion, which is considered plentiful.

Regardless of how any capital needs of the banks, arising from the upcoming stress test, are going to be covered, the banks are not expected to alter their credit policy and engage in credit expansion, at least until the announcement of the test's outcome and, if some banks need recapitalisation, until its completion. The rate of credit contraction to the private sector weakened slightly between last August and November, to 0.9%, from an average of 1.3% in the first half of 2017.[33] Among the main borrower categories, the outstanding balance of loans has declined since August only to households, by 2.3%, while it has basically remained unchanged to non-financial corporations and sole proprietors, compared to a contraction in

[33] Rate of change of outstanding balance of loans, excluding loan write-offs, re-evaluation of securities and foreign exchange differences. Source: Bank of Greece

the first half of last year by 2.6% and 1.3% in the first and the third and no change in the second category.

The return of deposits since last May, if it continues and strengthens, can help change the trend of credit supply by the banks to the private sector, following the completion of the stress testing process. In particular, the outstanding balance of deposits of the private sector (non-financial corporations and households, from Greece and the Eurozone) was steady rising until November, expanding to €4.7 billion, to reach €121.5 billion. Most of the growth, in absolute and relative values, by +€2.5 billion or +14.5%, comes from non-financial corporations, while the households contributed to this with €2.2 billion, corresponding to an increase of their deposits by 2.2%. The continuous increase of deposits since May 2017, when the prior actions of the second review of the third programme were legislated, is considered to reflect the steady unwinding of uncertainty about its completion, as well as for gradual debt relief, after the implementation of the short-term measures for this purpose. This trend has strengthened the positive outcome of the third review in the short term and could continue, if similar developments take place in the next review and mainly from the implementation of medium-term public debt relief measures.

Having said that, despite their observed growth, the deposits remain at a much lower level than at the end of 2014, when their last major slide began. Therefore, their growth needs to continue and strengthen this year, which is linked to the aforementioned politico-economic developments, in order for the banks to be able to gradually alter the flow of credit to the private sector of the economy, after the stress test and fortification of their capital adequacy. The developments around the settling of non-performing loans and the property auctions will affect, apart from the bank assets, the property of businesses and households and therefore their saving decisions. Until the conditions in the banking system settle, mainly form the test of their capital adequacy, a further decline of deposits would have a restraining effect on investment and household consumption.

The anticipated continuation of the mild credit contraction at least in the first six months of the current year, possibly with a slower pace than in the second half of last year, will push businesses to search for alternative ways of funding. In addition to the opportunities from the expected acceleration of the PIP implementation, which mainly concerns the SMEs, the large companies, especially those listed on the stock markets, will seek access to financing through the capital markets, in Greece and abroad, at lower yields than the bank interest rates. Such moves last year, with the issuance of debt securities by many large enterprises, were considered successful, given the achieved yields. There were no new issues during the third review, perhaps because of stronger uncertainty in the investment community that this process causes. Its successful conclusion, without lengthy negotiations and the forthcoming issue of a bond by the Hellenic Republic, will promote the marketing of new corporate issues.

The export businesses experienced a boost of liquidity, activity and employment last year, because of strengthening growth in the Euro area, which is the major destination of Greek exports, and from the acceleration of world trade. These trends will carry over to 2018, according to the latest reports of international organisations,[34] which will maintain these effects. That said, the demand for imports strengthened sharply, as a result of the accumulation of needs of businesses and households from the capital controls, but also from the growth of output, both on the supply and the demand side. This effect will hamper the improvement of the external balance of goods and services.

In greater detail, based on the latest relevant data from the Bank of Greece, the exports of goods and services at current prices rose between August and October this year by 11.3%, less than that in the preceding seven months (+15.5%). Their expansion during that period came mainly from stronger exports of services (+€1.4 billion or +15.0%) and to a lesser extent from higher exports of goods (+€382.5 million or +6.0%). Most of the rise of the exports of services, almost 70%, came from growth of travel receipts, by 15.7%, in contrast with the previous period, when the growth originated from the supply of transport services abroad. Almost all of the remaining growth of exports (27.2%) came once more transport services, which increased by 18.1%. Regarding the exports of goods, the exports except fuel and ships had the largest contribution to the overall growth (115.0%), as their proceeds expanded by 9.8%, with the remaining growth coming from the exports of ships (11%). Fuel exports, which had played a key role in the growth of the exports of goods in the first seven month of the previous year (+45.3%), declined by 5.3%. Overall between January and October of 2017, the exports of goods and services, measured at current prices, expanded by 13.1%.

On the side of imports, the percentage rise was slightly higher than that in exports between August and October (12.7%), albeit lower than in the preceding seven months (14.7%). As noted in previous reports of IOBE on the Greek economy, the growth of imports since 2017 concerned mostly the imports of goods (+€1.35 billion or +13.2% in the three months between August and October) and to a lesser extent of services (+€267 million or +10.6%). As in the exports of goods, the imports of goods strengthened primarily in the category of goods except fuels and ships (57.1% of the overall growth), while in the imports of services the growth came equally from transport and other services. Overall in the first ten months of last year, the percentage increase of the imports of goods and services was marginally higher than that of exports (+14.1% against

[34] World Economic Outlook Update, IMF, January 2018

+14.0%). However, the greater absolute size of the former in 2016 resulted in a widening of the surplus in the balance of goods by 5.7%, from €883 million to €933 million.

As for the trends in key figures of the world economy that affect the prospects of all national economies, the price of Brent oil kept growing throughout the second half of 2017, with a stronger growth rate since about 20 October. At the end of last year, it reached $60, a level that was surpassed in the current year, as it approached $65 in mid-January. Overall since the end of last June, when the price of oil started to grow, until 15 January this year, it has increased by more than 52%. The continuous upward trend came from OPEC's decision at the end of last November to extend the restraint on oil production for the entirety of the current year, from the acceleration of growth in the Eurozone, the US and in some developing economies (Brazil, Russia), but also from harsher than expected winter in the northern hemisphere, particularly in the US. Under these effects, the average price of Brent oil in December reached its highest level of the last two and a half years. While as mentioned, part of the observed increase was due to seasonal factors, which will expire, the effects of reduced oil production and stronger economic activity will continue in 2018. As a result, the average price of Brent oil is expected to be higher than last year ($54.3), yet not significantly, in view of the rise that has already been recorded in the second half of last year, by roughly 10-15%.

The almost constant since last April rise of the exchange rate of the euro against the dollar partly compensates for the impact of rising oil prices on the cost competitiveness of industries in Greece and the Eurozone, particularly those of energy-intensive production. It now has surpassed 1.22, its highest level in three years, while since the beginning of the climb it has appreciated by 17.3%. Its extent so far is considered to mitigate the impact of rising oil prices, without hurting strongly the international competitiveness of the products and services in the Euro area. However, if it continues, its favourable effects on the energy costs of businesses and households will be offset by the rise of their prices. The fact that the monetary policy in the euro area is still expansionary, albeit to a milder degree, maintains the yields of debt instruments of the public sector and banks at a low level, deterring capital inflows and the appreciation of the euro. In contrast, the prolonged wait for a change of economic policy in the US has substantially mitigated the expectations about the extent of fiscal reforms and their effects on business earnings. Furthermore, the acceleration of growth in the Euro area has enhanced the attractiveness of placements in its companies through stock markets and securities. Taking this into account, it is quite probable that the euro-dollar exchange rate will keep on growing at a low rate in the short term.

As to the latest developments in domestic economic activity and in short-term economic indicators, the trends vary, as the growth dynamic from the fourth quarter of 2017 in some figures is weakening, while elsewhere (building activity, foreign receipts in the tourism sector) the rise is accelerating. In detail, based on the latest data, the increase in industrial production slowed down further in the final quarter of 2017, not surpassing 0.8% in October - November. Its growth was lower than in the previous quarter (3.5%) and in the same quarter of 2016 (4.5%). The slowdown came from a trend shift in Mining-Quarrying and Electricity, from strongly positive in the third quarter (+9.3% and +7.7%), to negative towards the end of the year, with particularly strong contraction in Mining – Quarrying (-17.1% and -3.2% respectively). The small strengthening in Manufacturing, the main industrial sector, from 2.3% to 2.8%, and, to a lesser degree, the opposite trend change in Water Supply, from-3.3% to 23.7%, prevented a greater slowdown of output growth or even a contraction in Industry. The latest available data on construction for October shows that, despite the number of building permits increased by 16.4%, while the surface area and volume expanded by 67.2% and 109.2% respectively. Considering the much milder changes in the third quarter of 2017, by 3.5% in the permits, 4.3% in surface and 7.0% in volume, the strong growth in October is perhaps only temporary. The trends in these figures should be observed closely in the coming months, in order to determine their permanency. In the external sector of the Greek economy, as already mentioned, the significant growth of exports came from the exports of services, mainly from the expansion of travel receipts. Nevertheless, the strengthening of the exports of goods, especially those except fuel and ships, is not negligible either.

Regarding the indicators that reflect the sentiment on the demand side of the economy, the seasonally adjusted index of volume in retail trade decreased in October, a negative trend that appeared for the first time in 2017 in September. The index declined by 1.4% in the first month of the fourth quarter, following its marginal growth in the third quarter by 0.6% and average growth by 1.6% overall in the first nine months of 2017.

Taking into account the above trends in economic indicators, and the anticipated developments (mainly those linked to the upcoming review of the economic adjustment programme, the domestic banking sector and the Eurozone growth) for the forecasting of the GDP components and other macroeconomic indicators, the increase of **household consumption** in the first nine months of 2017 is projected to have carried over to the final quarter, at a similar rate with that since the beginning of the year. Its growth will come from the relatively low level of unemployment in that time period, notably lower year on year, coming from the largely steady employment growth since early 2017 in export-oriented Manufacturing branches, Wholesale-Retail Trade and, to a lesser extent, in Tourism, as the tourist season is coming to an end during the fourth quarter. The payment of the larger year on year social dividend will contribute to a mild strengthening of consumer spending late last year and in early 2018. **Despite the expansion of household consumption expenditure in the final quarter, after its weaker rise in the preceding quarter, the growth of private consumption is estimated to have reached about 0.8% overall in 2017, less than anticipated in previous reports of IOBE on the Greek economy.**

The further expansion of exports in 2018, in both goods and services, and the upturn in construction activity, will keep unemployment on a downward path, raising the disposable income of households and consumption spending. The new fiscal measures will act as an impediment to a greater increase of private consumption this year. As in previous years, the expectations of households will depend on developments in the negotiations with the official lenders, initially about the next review of the programme and then on the medium-term public debt relief measures. Under the influence of these factors, **private sector consumption is considered most likely to continue to grow this year, at a rate slightly higher than last year, in the region of 1.3%.**

On the side of the **public sector**, despite the conclusion of the second review at the end of last June and then the disbursement of most of the corresponding tranche, which lifted any economic constraints stemming from the negotiations, the consumption spending of the state declined in the third quarter for the fourth consecutive quarter. In terms of the latest trends in public consumption, according to the latest data on the execution of the budget at the General Government level (consolidated basis) for October and November, certain consumption expenditure categories slightly grow and other categories decline. In particular, the personnel expenses, which constitute the main component of public sector consumption, increased during that period by 1.8% at current prices, from €2.16 billion to €2.21 billion, following their marginal growth in the third quarter (+0.4%). The spending on the procurement of goods and services decreased by 6.0%, from €1.3 billion to €1.23 billion, less than in the third quarter (-9.5%). Given these trends, it is estimated that public consumption fell in the last quarter of 2017, albeit marginally so. **Following the restraint of public consumption spending throughout last year, its average contraction rate in 2017 is estimated to have reached around 1.8%.**

Regarding the trend of public consumptions in the current year, the fiscal consolidation will continue mainly through higher revenue from direct and indirect taxes, and social security contributions, according to the fiscal measures for 2018 in the MTFS 2018-2021, as presented earlier. Thus, public consumption would most likely increase slightly. Besides, according to the Explanatory note of the

2018 Budget, the expenditure for salaries and pensions in the coming year will increase year on year, by 3.6%, notably higher than the rate envisaged in the MTFS 2018-2021 (1.4%). **This development is conducive to an expansion of public consumption in 2018, at a rate expected to reach about 1.5%.**

The steady decline of the supply of funds from the banking system in the second half of 2017, according to the data presented earlier, with a view to the settlement of non-performing loans and the upcoming stress test of the ECB is considered to have constituted the major impediment to **business investment** during that period. The significant under-utilisation of the Public Investment Programme is estimated to have restricted investment activity during that period. As a result of the above, it is estimated that the fixed capital formation fell in the final quarter of last year. Nevertheless, total investment rose, due to extensive change in the trend of stocks year on year, from negative to positive, as in the third quarter of last year. **The stock accumulation, in place of their contraction a year earlier, is considered the key, perhaps the only factor, boosting investment in 2017, to an estimated growth of about 13.5%.**

The negative impact of the issues just mentioned that concern the banking system will carry over into the current year, at least until the announcement of the results of the stress test, retaining the credit contraction, probably with weaker intensity. As mentioned in the above analysis, the necessary conditions for the gradual change of credit policy after that point is, firstly, to cover any capital needs that will arise from the stress test, and secondly to maintain and strengthen until then the return of deposits that occurred between May and November 2017. The options for the settlement of non-performing loans by the banks will also affect the intention of saving in the private sector, for both individuals and businesses.

Following the PIP under-implementation in the previous year, with considerable delay, there are prospects for its greater contribution to investment activity this year. As its expenditure budget in the explanatory note of the State budget for 2018 does not differ from that of 2017, the stronger effect is expected to come mainly from the more upfront implementation of the PIP. Indirect boost to investment from the State's actions will come next year from the start of investment in completed privatisation – concessions. However, it is possible that the implementation of investment is delayed or adjusted, because of issues arising during the authorisation procedures.

The difficulties in finding investment and working capital, from the banking system and the PIP, will be addressed by large Greek corporations by raising capital from financial markets in Greece and abroad. The expected new bond issues of the Greek state will have a decisive effect on the success of new corporate bond issues, possibly by banks in case they will need new capital. The businesses that will took advantage of these financial opportunities in 2017 are expected to begin the implementation of their investment plans in the current year, contributing to the recovery of investment activity.

In terms of sectoral trends and developments that may affect investment activity, the steady export demand rise, from stronger growth in key (Eurozone) or emerging (Middle East, North Africa) export destinations of Greek exports, will boost investment activity in export-oriented branches of Manufacturing, Tourism and Transport. The start of work on major construction projects in privatisation – concessions is expected to boost the sluggish construction activity of last year. **Taking into account these effects, investment is expected to grow at a double-digit rate this year, by about 16% or perhaps even higher.**

In the external sector of the Greek economy, the **exports of goods** are considered to have benefited from the accelerated growth in the European Union and the US in the final quarter of last year, the markets of which absorbed approximately 59% of the total in the first nine months. In addition, it is clear from these figures that the steep trend in the exports of services continues in this period, as the international arrivals at major airports in the country were up year on year by 13.4% in October and November, while tourism receipts increased in October by 14.2%. The contribution of the growth of the exports of transport services remains significant in expanding the exports of services. The constant rise in all major categories of exports except fuel, which came from extensive boost of international oil prices, implies that the continuous appreciation of the euro against the dollar since April 2017 until the end of the year had no noticeable negative effect on the competitiveness of domestically produced goods and services. **The anticipated small boost of the export growth in the final quarter of last year is estimated to have pushed total exports last year by almost 8% up on their 2016 level.**

The continuous, stronger growth in the EU and the US in 2018, according to the latest reports of international organisations[35], a key export destination of Greek products, as well as in developing and emerging economies with a growing share in the Greek exports of goods (Middle East, North Africa), will contribute to their further increase in the coming year. The continuation of conflicts in the Arab countries and the lingering flux in the Turkey-EU relations will continue to act as a deterrent to Tourism in the region and to favour international transport through Greece. That said, given the already significant increase of the euro-dollar exchange rate within 2017, its further substantial increase would have an adverse effect on the competitiveness of exports. However, this development is not considered as the most likely due to the

[35] World Economic Outlook Update, IMF, January 2018

fact that the ECB monetary policy will remain expansionary in the current year, as mentioned above. Therefore**, exports are anticipated to grow further in 2018, with our assessment of their growth set in the region of 7.0%.**

The steady growth of domestic consumption demand in the final quarter of 2017 will continue to fuel the demand for imports. As in previous reports of IOBE on the Greek economy, the increase will primarily concern, for one more period, consumer goods and to a small extent fixed capital, as the investment activity in that particular period was rather sluggish. The appreciation of the euro against the dollar in late 2017 boosted the domestic purchasing power. **As a result of their strong growth in the final quarter of 2017, imports are anticipated to have expanded by 8-8.5% overall in the previous year.**

The rise of imports will continue in 2018, from the slightly larger increase in domestic consumption and the strengthening of fixed capital formation. However, the projected substantial increase in investment would not have a similar effect on imports, as a large part of it concerns construction projects. On the other hand, given the high elasticity of imports to changes in domestic demand (consumer spending and gross capital formation) in 2017, as presented in the subsection on recent macroeconomic developments, the expansion of imports is expected to exceed that of exports. **The high elasticity of imports with respect to domestic demand, which is considered to come in part from the impact of capital controls (curbing imports, preventing the stockpiling of imported products), is expected to lead to a two-digit percentage increase of imports.**

Summing up the forecasts for trends in key components of GDP during the final quarter of last year, household consumption would have continued to grow smoothly, at a similar rate as in earlier in the year, mostly due to the maintenance of much of the employment growth in this period, and - to a lesser extent - from higher year-on-year social dividend payment in December. The latest trends in public consumption components point to its contraction in the concluding quarter of 2017, at a lower rate than in the previous quarters. The continued contraction of credit from the banking system and the extensive delays in the execution of the Public Investment Programme, exerted pressure on fixed capital formation. However, total investment rose, due to extensive change in the trend of stocks compared with the corresponding period of 2016, from negative to positive. In the external sector of the Greek economy, exports remained on an upward trajectory, probably with a greater speed, from the accelerated growth in some major destinations (EU, USA), as well as from the longer tourist season in Greece. Imports expanded as well, by the continued climb in domestic consumption demand. **Taking into account the above trends in the GDP components during the last quarter**

of 2017 and their changes earlier in that year, the projection that the GDP of the Greek economy increased last year by 1.3% remains unchanged.

Regarding the trends in the current year, the further growth of exports, of goods and services, as well as the recovery of construction activity, which will boost employment and household disposable income, will preserve and slightly strengthen the growth of private consumption. The new fiscal measures will prevent a stronger rise of private consumption. As the fiscal consolidation will continue mainly through higher revenue from taxes and contribution, public consumption is most likely to increase slightly in 2018. As regards the investment prospects, the upcoming stress test and the settlement of non-performing loans will prevent a change in the restrictive credit policy of the banking system, at least until the completion of the stress testing process. Meeting any new capital needs, but also the continuation and strengthening of the return of deposits that took place between May and November 2017 are prerequisites for the subsequent gradual change of the trend in credit supply. After the delays in the execution of the Public Investment Programme in the previous year, it is quite possible that its contribution to investment activity will strengthen in 2018, as its budget does not differ from last year and its more front-loaded implementation is possible. The large Greek companies will address the difficulty in accessing investment capital from the banking system and the PIP, by drawing funds from the capital markets.

In the external sector of the Greek economy, the stronger growth in the EU, the US and in developing and emerging economies with a growing share in the Greek exports of goods will contribute to their further increase in the coming year. The continuation of conflicts in the Arab countries and the lingering flux in the Turkey-EU relations will continue to act as a deterrent to Tourism and to favour international transport through Greece. Only a further significant appreciation of the euro against the dollar, a development that is not regarded as likely, would limit the upward trend in exports. The rise will continue on the import side, from the increase in domestic consumption and fixed capital formation, but also from the high elasticity of imports to changes in domestic demand, which is partially due to the capital controls. **Taking into account the above factors that affect the trends in the components of GDP, our forecast is that the pace of growth will accelerate in 2018 to 2.1%.**

Table 3.2

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

	2016	2017	2018	2019
Annual percentage changes				
GDP	-0.2	1.6	2.5	2.5
Private Consumption	0.0	0.9	1.2	1.2
Public Consumption	-1.5	0.9	0.2	0.4
Gross Fixed Capital Formation	1.6	5.1	11.5	12.1
Exports of Goods and Services	-1.8	6.8	4.6	4.4
Imports of Goods and Services	0.3	6.0	3.8	4.2
Employment	0.5	1.9	1.7	1.8
Compensation of Employees per capita	-0.9	0.8	1.5	1.8
Real Unit Labour Cost	0.8	0.2	-0.3	-0.4
Harmonised Index of Consumer Prices	0.0	1.2	0.8	1.3
Contribution to real GDP growth				
Final Domestic Demand	-0.2	1.4	2.2	2.5
Net Exports	-0.7	0.2	0.0	0.0
Inventories	0.6	0.0	0.2	0.0
As a percentage of GDP				
General Government Balance	1.5	-1.2	0.9	0.8
Current Account Balance	-0.6	-0.2	0.4	1.0
General Government Gross Debt	180.8	179.6	177.8	170.1
In percentage terms				
Unemployment (% of labour force)	23.6	21.8	20.4	18.7

Source: European Economic Forecast, autumn 2017, European Commission, November 2017

Table 3.3

Comparison of forecasts for selected economic indicators for the years 2016 – 2019 (at constant 2010 market prices, annual % changes)

	MinFin		EC		IOBE		IMF		OECD	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
GDP	1.6	2.5	1.6	2.5	1.3	2.1	1.8	2.6	1.4	2.3
Private Consumption	0.9	1.2	0.9	1.2	0.8	1.3	:	:	0.9	1.3
Public Consumption	0.9	0.2	0.9	0.2	-1.8	1.5	:	:	1.3	0.4
Gross Fixed Capital Formation	5.4	11.1	5.1	11.5	1.5	12.0	:	:	3.3	7.2
Exports	6.9	4.6	6.8	4.6	8.0	7.0	:	:	5.7	5.8
Imports	6.0	3.8	6.0	3.8	8.3	10.5	:	:	5.0	4.3
Unemployment (%)	21.7	20.2	21.8	20.4	21.5	20.0	22.3	20.7	21.7	20.5
Harmonised Index of Consumer Prices (%)	1.2	0.8	1.2	0.8	1.0	0.8	1.2	1.3	1.2	1.0
General Government Balance (% GDP)	-0.6	0.6	-1.2	0.9	:	:	-1.7	-1.1	-0.9	-0.1
Current Account Balance (% GDP)	:	:	-0.2	0.4	:	:	-0.2	-0.1	0.4	0.4

* Based on the Labour Force Survey methodology

Sources: Explanatory note of the 2018 Budget, Ministry of Finance, November 2017 – European Economic Forecast, autumn 2017, European Commission, November 2017 – IOBE - OECD Economic Outlook No. 102, November 2017 – World Economic Outlook, IMF, October 2017 - Fiscal Monitor, IMF, October 2017

As mentioned above, the continued growth of exports of goods and services in late 2017 and the expanding household consumption will preserve most jobs created in exporting branches of Manufacturing, Tourism and Retail – Wholesale Trade, which primarily drove the decline of unemployment. Positive effects on employment are expected to come from the autumn from the Construction sector, following the steady growth in the surface and volume of new building permits during the second and third quarters of last year. **Therefore, the increase in unemployment is considered to have been small in the final quarter of last year. As a result, unemployment will reach 21.5%, two percentage points lower than in 2016.** Unemployment is expected to ease further in 2018, mainly from the envisaged new boost of export demand, which will create jobs in the current year in Manufacturing, Tourism and Transport. The contribution of Construction to the new fall in unemployment is expected to be stronger, from the start of investment in privatisations and the recovery of construction activity. Enlargement of employment, of permanent and temporary kind, is expected to take place in the public sector, mainly through community service programmes. **As a result of the above effects, unemployment will decline in the current year to about 20%, or perhaps a little lower.**

Concluding with the **inflation** forecasts, the new slowdown in the final quarter of last year, primarily from the quarter on quarter easing of the price growth in Housing, Transport and Hotels – cafés – restaurants, is considered to reflect the attenuation of the inflationary effects of rising international oil prices and the increase in indirect taxation at the beginning of 2017. The fact that inflation eased in two of the above three categories, housing and transport, despite the sharp increase in international oil prices in final quarter of last year, which was partly blunted by the appreciation of the euro against the dollar, is considered to provide strong indication about the price trend this year. Therefore, a possible continuation of the rise in oil prices this year, by 10-15% according to the assumptions underlying the macroeconomic forecasts, will be partly offset by the expected mild further appreciation of the euro, thus it will exert slight inflationary pressure on prices. Together with the changes in the calculation of public service charges in the electricity tariffs from 01/01/2018, which are expected to increase on average, but also to be offset by reductions in the charges for renewable energy support (ETMEAR), energy costs will most likely change only marginally this year. The strongest upward impact on prices in 2018 is expected to come from the new indirect tax rises since the beginning of 2018 (VAT in the Northeast Aegean and Dodecanese islands) and the imposition of new levies (residence tax on hotels, rented rooms and apartments). However, given the mild influence of stronger changes in indirect taxes last year, they are unlikely to lead to an acceleration of inflation in the current year. Therefore, **there is no factor at**

present that would lead to higher price growth compared with last year, thus inflation is estimated to weaken to about 0.8% in the current year.

3.2 Developments and prospects in key areas of the economy

Industry

Industrial production in Greece increased significantly, by 4.4%, in the first eleven months of 2017, compared with a more modest 2.5% growth in the same period of 2016. The stronger growth came mainly from the increase of the index in the first quarter of 2017 (+7.7%, against 0.6% in the first quarter of 2016) and less so from its growth in the second and third quarters, when the index expanded year on year by 3.5% and 0.8% respectively. Industrial production in the Euro area also expanded in the first eleven months of 2017, at double the rate it had in the same period of 2016 (+2.8% against +1.4%).

During the same period of 2017, the producer price index in Industry increased by 5.6%, against a 6.6% drop in the same period of 2016. The price growth came mostly from products exported to other countries (+9.7%, against -8.3% in 2016) and to a lesser extent from those sold on the Greek market (+4.4%, against -6.1% in the preceding year). The rise in prices and production volume led to an increase in turnover by 13.1% in first eleven months of 2017, against a decline by 6.8% in the same period of 2016.

Production increased in most major branches of industry. In particular, production in Electricity generation increased by 10.3%, against a marginal reduction by 0.1% in 2016. The corresponding indicator in Mining and Quarrying increased by 8.1%, against a 15.9% contraction a year earlier, while Manufacturing strengthened further, at a lower rate than in 2016 (2.9%, against 4.7%). Contraction was recorded in Water Production, where the indicator declined by 2.4%, against 0.5% growth in the previous year.

In detail, in **Mining**, production increased significantly in Coal-Lignite, by 19.5%, against a contraction by 32.7% in the previous year, and more modestly in Mining of Metal Ores (1.5% against 6.4% in 2016). In contrast, contraction of production was recorded in Extraction of Crude Petroleum (-21.5%), which had more than doubled in 2016 (+138.1%) and as a result the indicator is still higher than the reference year 2010, by 10 percentage points. Lastly, production declined slightly in Other Mining, where the indicator declined by 1.1%, against growth by 2.4% in the same period of 2016.

In **Manufacturing**, the number of branches with year-on-year production growth in the first eleven months of 2017 increased. In particular, output increased in 15 of its 24 branches. Among the branches with special significance for the Greek economy, production increased in Basic Metals by 21.1% (against +5.8% in 2016), Basic Pharmaceuticals by 13.5%

(against +5.8% in 2016), and in Food Products by +1.6% (against +2.4% in the preceding year).

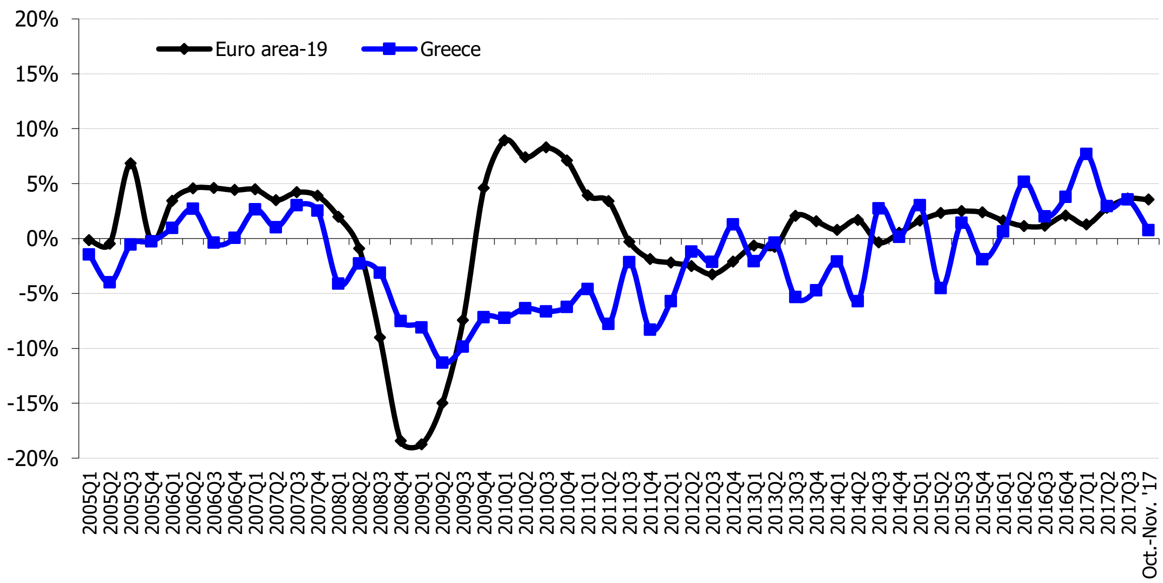
Among the remaining branches of Manufacturing, the largest growth was recorded in Motor Vehicles (+22.4% against +23.9% in 2016), Computers (+9.8% against -19.6%), Electrical equipment (+6.5% compared to +3.4% last year) and Refined Petroleum Products (+4.1%, against +8.1%).

In contrast, large contraction was recorded in Tobacco Products (-17.9% against +2.6% in 2016), Other Transport Equipment (-13.8% compared to +4.3%) and Printing (-12.4% against +0.5%), followed by Clothing (-8.7%, against -8.0%), Beverages (-6.7% against +0.5%) and Furniture (-5.3% against +12.0%).

Among the main groups of industrial products, output declined marginally only in non-durable consumer goods (-0.1%, against an increase of 2.9% in 2016). In all other main groups, output increased. In particular, in the energy sector, production increased by 7.0%, compared with a marginal growth by 0.6% in 2016. The production of Intermediate Goods strengthened by 5.6%, against a growth by 5.2% a year earlier, Capital Goods increased by 2.6% (against +3.5% in 2016). Lastly, the production indicator in Durable Consumer Goods expanded by 1.0%, about the same as in 2016 (+0.8%).

Figure 3.1

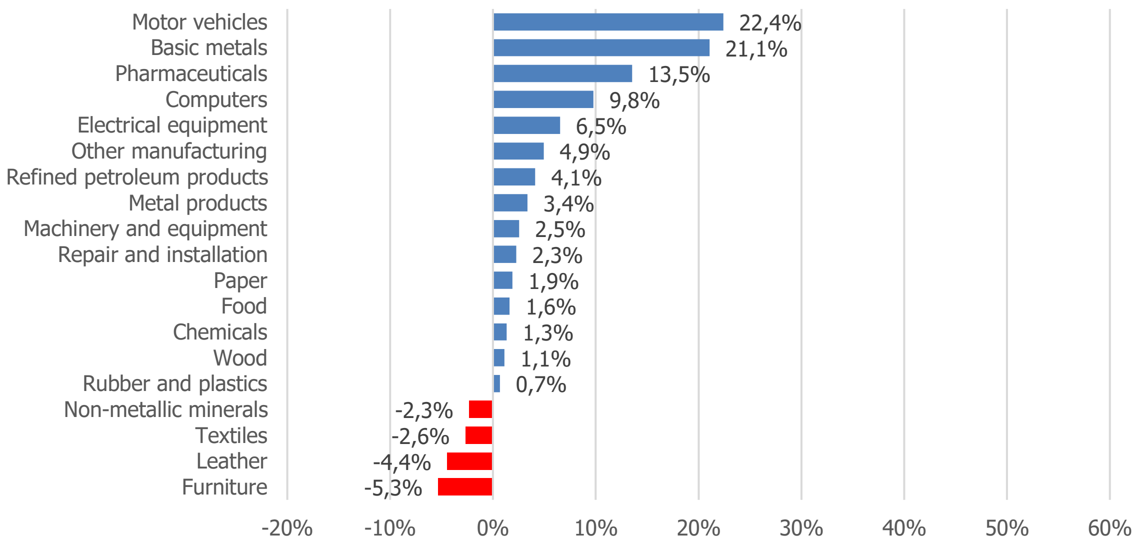
Industrial Production Index in Greece and in the Euro Area (year-on-year % change)



Sources: ELSTAT, Eurostat

Figure 3.2

Change in Industrial Production in branches of Manufacturing, January – November 2017 (annual % change)



Source: ELSTAT **Data processing**: IOBE

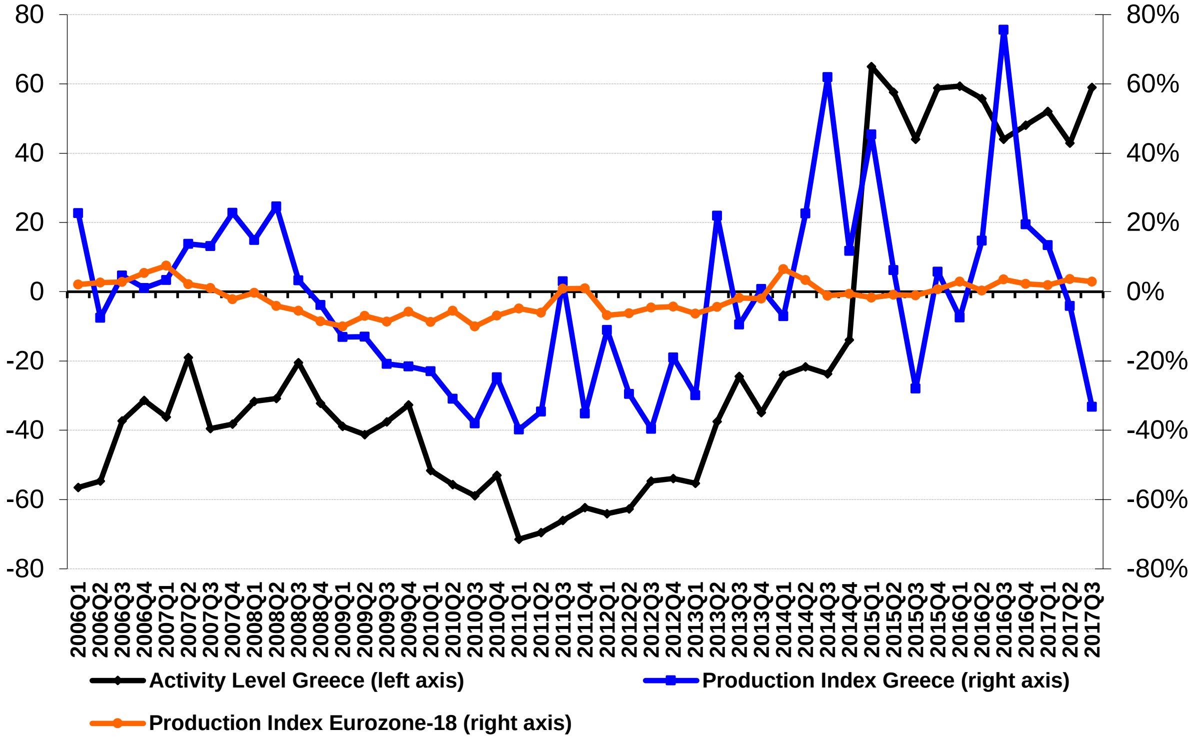
Construction

The trend in the production index in Construction changed in 2017, as in the first nine months of the year, it decreased by 12.1%, compared with 26% growth in the same period of 2016. Note that the positive course of the index during the first quarter of last year was overturned in the next (-4.1%), while in the third quarter the index fell sharply (-33.1%).

In the sub-indices, the Construction of Buildings declined by 10.2% in the first nine months of last year, against an increase by 18.7% in the same period of 2016. Meanwhile, the production index in Civil Engineering declined by 13.5%, against 35.3% growth in the same period of 2016. However, the monthly data on building activity from the same source as the production index in Construction (ELSTAT) indicates that the number of permits increased by 9.3% year on year in the first ten months of this year, compared with a contraction by 6.4% in the same period of last year. Stronger growth was recorded both in the surface (+23.9%, against -5.3%) and in the volume of new buildings (+27.4%, against -5.0% last year).

Figure 3.3

Production Index in Construction and Building Activity Index



Source: ELSTAT

Retail Trade

In the first ten months of 2017, the volume index in retail trade grew by 1.6%, more than offsetting its decline by 1.0% in the corresponding period of 2016.

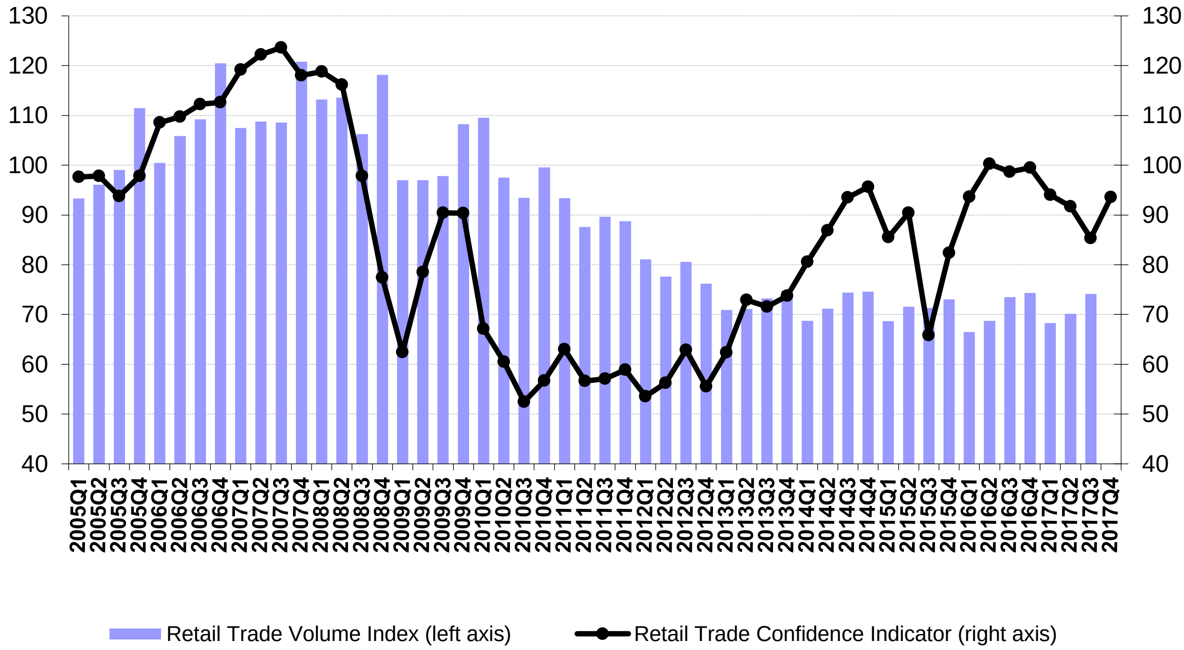
Turnover increased in six of the eight branches of Retail Trade. The strongest growth was recorded in Books-Stationery (+8.4%, against +3.3% a year earlier), Furniture – Electrical Equipment – Household Appliances (+4.6%, against -1.6% in 2016) and Clothing-Footwear (+3.3% against +6.3%). Pharmaceuticals-Cosmetics came next (+1.9% against -2.7%), followed by Supermarkets (+1.5% against losses by 0.3%) and Department Stores, where the index remained unchanged (against +8.5% in 2016). In contrast, the largest, yet contained, decline was recorded in Food-Beverages (-3.5% against -0.4%) and Fuel - Car Lubricants (-1.7%, against -4.0%).

The sentiment in the retail sector deteriorated overall in 2017, according to **the leading indicators of the Business Surveys conducted by IOBE**. The index for total retail trade fell by 6.6 points, against a significant increase by 17.0 points in 2016. The expectations deteriorated in three of the five subsectors. In particular, the pessimism intensified most in Food-Beverages, where the index returned to its 2015 levels (-35.7, against +35.7 points last year), in Department Stores (-10.2, against +19.9 points) and in Household Appliances (-0.8, against +19.3 points in 2016). In contrast, the representatives of Clothing–Footwear appeared more optimistic, as the index increased by 20 points, following an increase of 1 point a year earlier.

The Business Climate Indicator for Motor Vehicles increased by 10.4 points, compared with no change in 2016, at 108.2 points. The trend of the indicator is in line with the annual passenger car sales, which increased last year by 11.6% in comparison with 2016. It should be noted that the above passenger sales primarily relate to corporate sales, which increased in recent years, mainly due to tourism, as retail sales subsided. Among the constituent elements of the Business Climate Indicator for Motor Vehicles, the current sales balance increased to 15 points in 2017, from a negative balance in 2016 (-3), as the share of enterprises that reported an increase in sales expanded to 43%, while the share of those expecting decline in sales decreased. The balance of inventories steadied over time. The sales prospects over the coming period strengthened significantly in 2017, to 21 points, as the share of enterprises expecting growth of sales increased by 10 points, with a corresponding decline in the share of enterprises anticipating reduced sales. The order book balance was marginally negative (-1 point), compared with -7 points in 2016, as the share of enterprises expecting growth of orders increased. Lastly, the employment expectations remained unchanged, as in the previous year.

Figure 3.4

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



Source: IOBE

Table 3.4

Annual Changes in the Volume Index in Retail Trade

Category of Retail Trade Stores	Volume Index (2010=100)				
	Jan- Oct 2015	Jan- Oct 2016	Jan- Oct 2017	Change 2016/2015	Change 2017/2016
Overall Index	70.4	69.8	70.8	-1.0%	1.6%
Overall Index (excluding automotive fuels and lubricants)	72.0	72.1	73.3	0.1%	1.6%
Store Categories					
Supermarkets	79.8	79.6	80.8	-0.3%	1.5%
Department Stores	78.2	85.1	85.1	8.8%	0.0%
Automotive Fuels	66.5	63.9	62.8	-4.0%	-1.7%
Food – Drink – Tobacco	64.6	64.4	62.1	-0.4%	-3.5%
Pharmaceuticals – Cosmetics	66.9	65.1	66.3	-2.7%	1.9%
Clothing – Footwear	70.1	74.4	76.9	6.3%	3.3%
Furniture – Electric Equipment – H. Appliances	61.0	60.0	62.8	-1.6%	4.6%
Books – Stationary	90.0	93.0	100.8	3.3%	8.4%

Source: ELSTAT

Table 3.5

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

	2015	2016	2017	2016/2015	2017/2016
Food-Drinks-Tobacco	82.0	117.7	82.0	43.5%	-30.3%
Textiles - Clothing – Footwear	79.2	80.6	101.0	1.8%	25.3%
Household Appliances	66.4	85.7	84.9	29.1%	-0.9%
Vehicles-Spare Parts	97.3	97.8	108.2	0.5%	10.6%
Department Stores	79.5	99.4	89.2	25.0%	-10.3%
Total Retail Trade	81.0	98.0	91.4	21.0%	-6.7%

Source: IOBE

Wholesale Trade

In the first nine months of 2017, turnover in wholesale trade increased, as the corresponding index strengthened by 4.0%, against a decline by 1.9% in the corresponding period of 2016. This is the first positive change for the first nine months since 2010. Nevertheless, the index remained below its 2010 reference level by about 35 points.

Services

Turnover fell year on year in the first nine months of 2017 in six of the thirteen branches of Services.

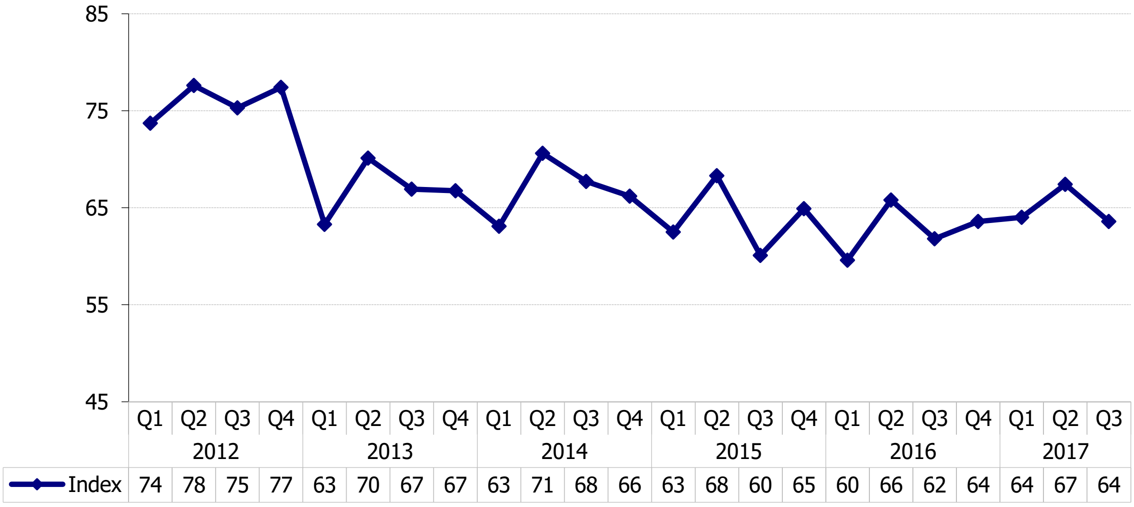
The largest decline was recorded in Publishing Activities (branch 58), where turnover was down by 18.5%, against a decline by 7.5% in the preceding period. Architectural – Engineering Activities (branch 71), where the indicator declined by 13.8% (against -0.8% a year earlier), came next, followed by Cleaning Activities (branch 81.2), where turnover declined by 6.1%, notably less than in 2016 (-23.4%), and Information Service Activities (branch 63) with a decline by 5.8%, slightly less than in 2016 (-7.7%).

In contrast, the strongest activity growth in the first nine months of 2017 was recorded in Other Professional – Scientific – Technical Activities (branch 74), where the indicator increased by 16.7% (against -10.3% last year), followed by Employment Activities (branch 78), with 6.6% growth (against +15.5% in 2016) and Computer Programming (branch 62), with 5.8% growth, significantly lower than in the previous year (+14.2%). A lower increase was recorded in Legal – Accounting – Management Consultancy Activities (branch 69 & 70.2), where turnover increased by 2.5%, against a significant decline by 8.5% in the preceding year, followed by Telecommunications (branch 61 – growth by 1.0%, against +0.1% in 2016) and Postal Activities (+0.2%, against +0.9%).

According to the **leading indicators of the Business Surveys conducted by IOBE** in 2017 overall, the sentiment improved year on year in most branches of Services. The overall indicator for Services rose by 10.5 points compared to the same period of 2016, when it had increased by 5.5 points. At the branch level, the representatives of Financial Intermediaries held by far the least pessimistic expectations (+25.3 points, from 3.5 points last year), followed by Tourism, where the index increased by 18.5 points, from only 0.2 points a year earlier. In contrast, the representatives of Computer Activities were more pessimistic than a year earlier, as the relevant indicator declined by 3.1 points, following a much sharper decline in 2016 (-14.6 points).

Figure 3.5

Turnover Index in Wholesale Trade



Source: ELSTAT

Table 3.6

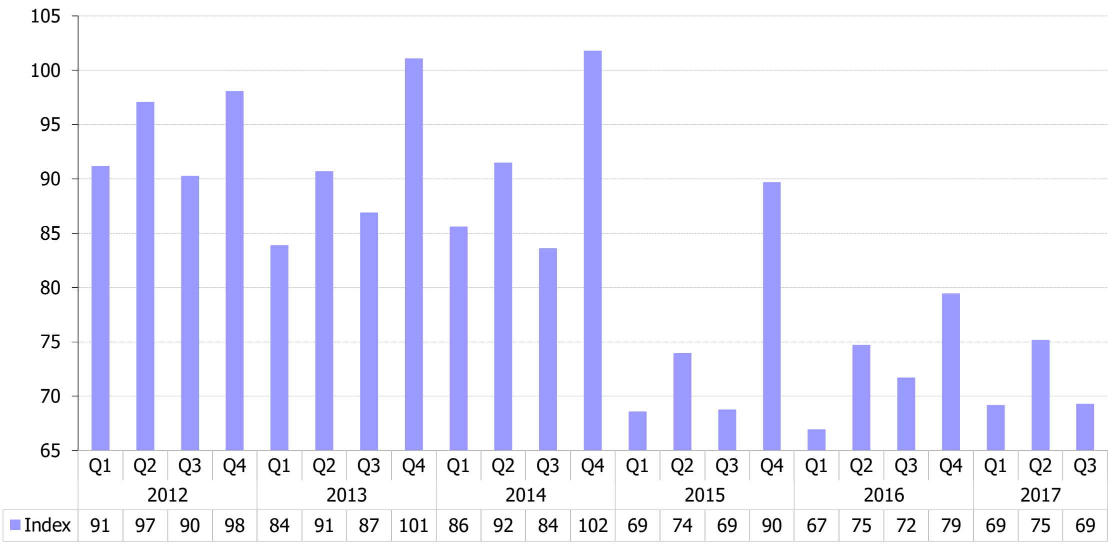
Turnover Indices (2010=100)

	Jan-Sep 2015	Jan-Sep 2016	Jan-Sep 2017	% change '16/'15	% change '17/'16
Computer programming, consultancy and related activities	70.2	80.2	84.9	14.2%	5.8%
Land transport and transport via pipelines	80.1	78.5	85.4	-2.0%	8.7%
Warehousing and support activities for transportation	85.8	94.8	101.4	10.4%	7.0%
Tourism	104.0	103.5	113.9	-0.5%	10.1%
Legal. accounting and management consultancy activities	78.7	72.0	73.8	-8.5%	2.5%
Trade of motor vehicles	56.3	62.3	68.6	10.8%	10.1%
Postal and courier activities	70.5	71.1	71.2	0.9%	0.2%
Air transport	126.5	131.0	143.1	3.6%	9.2%
Telecommunications	71.4	71.5	72.2	0.1%	1.0%
Office administrative activities	101.8	118.9	115.8	16.8%	-2.6%
Advertising and market research	43.5	40.9	41.1	-6.0%	0.6%
Information service activities	92.6	85.4	80.5	-7.7%	-5.8%
Architectural and engineering activities	43.1	42.7	37.2	-0.8%	-13.0%
Water transport	71.4	69.3	61.6	-2.9%	-11.0%
Publishing activities	48.4	44.8	36.5	-7.5%	-18.5%

Source: ELSTAT

Figure 3.6

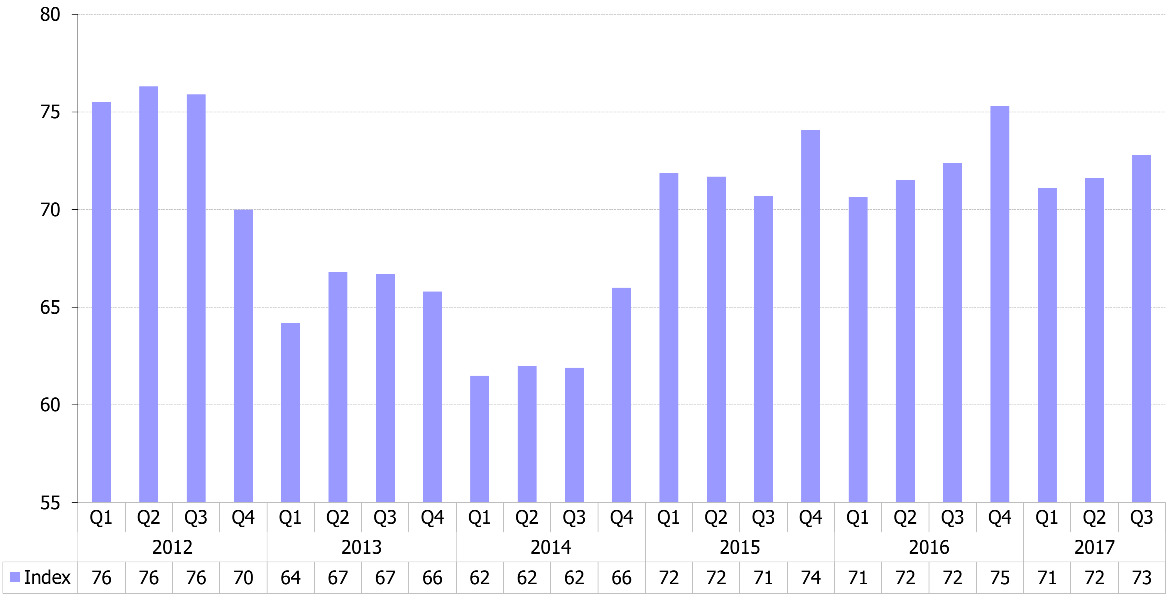
Turnover Index in the Postal and Courier Activities (branch 53)



Source: ELSTAT

Figure 3.7

Turnover Index in Telecommunications (branch 61)

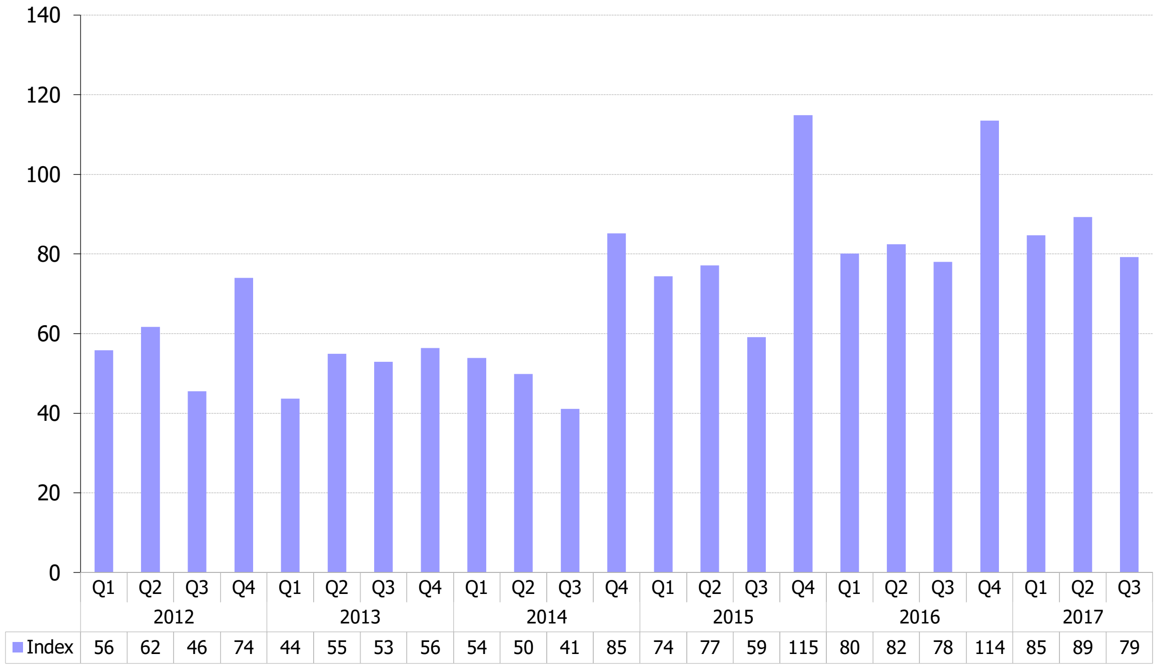


	2012				2013				2014				2015				2016				2017		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Index	76	76	76	70	64	67	67	66	62	62	62	66	72	72	71	74	71	72	72	75	71	72	73

Source: ELSTAT

Figure 3.8

Turnover Index in Information Services (branch 62)

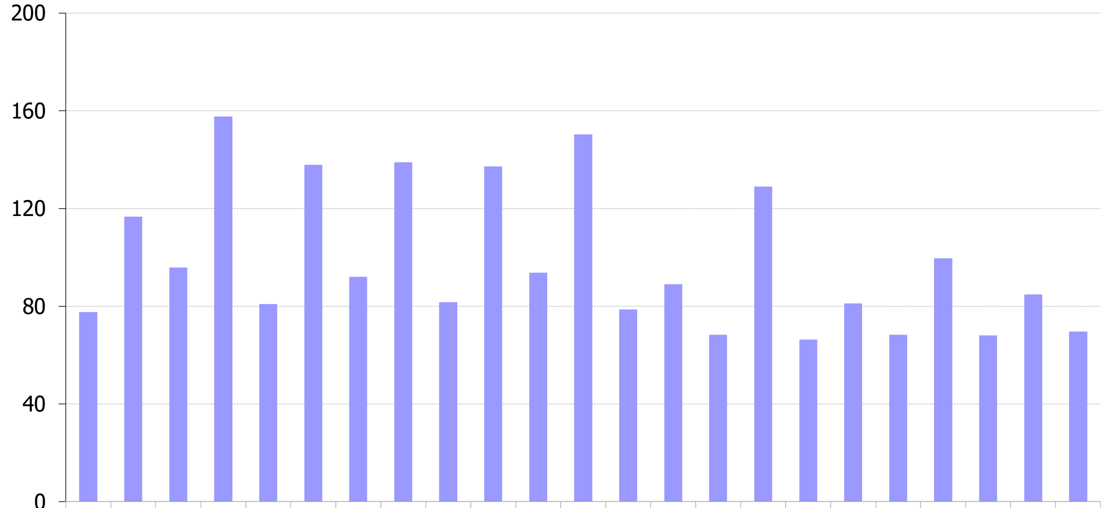


	2012				2013				2014				2015				2016				2017		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Index	56	62	46	74	44	55	53	56	54	50	41	85	74	77	59	115	80	82	78	114	85	89	79

Source: ELSTAT

Figure 3.9

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

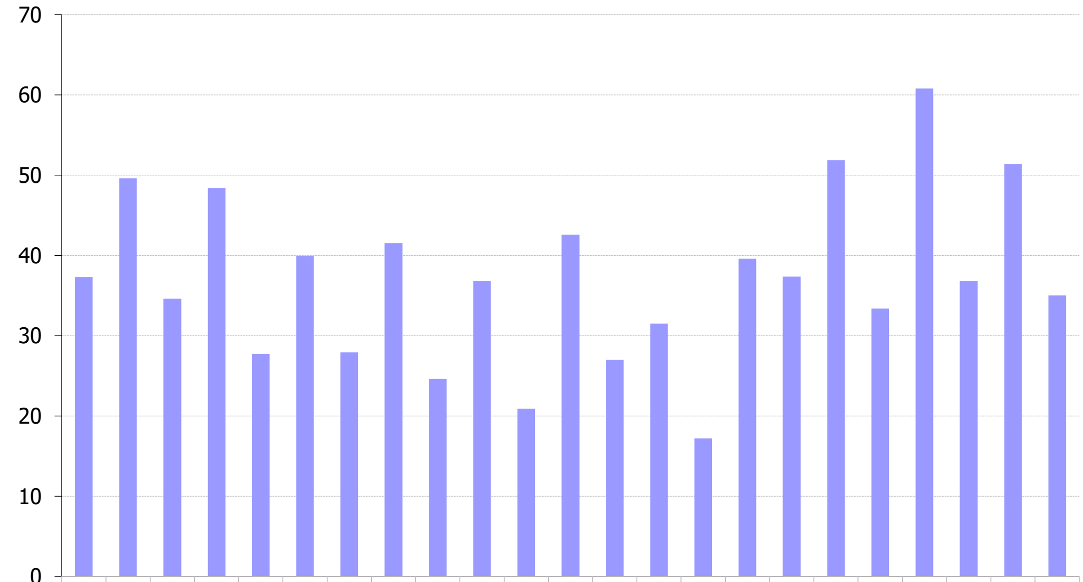


	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3
Index	78	117	96	158	81	138	92	139	82	137	94	150	79	89	68	129	66	81	68	100	68	85	70

Source: ELSTAT

Figure 3.10

Turnover Index in Advertising and Market Research (branch 73)

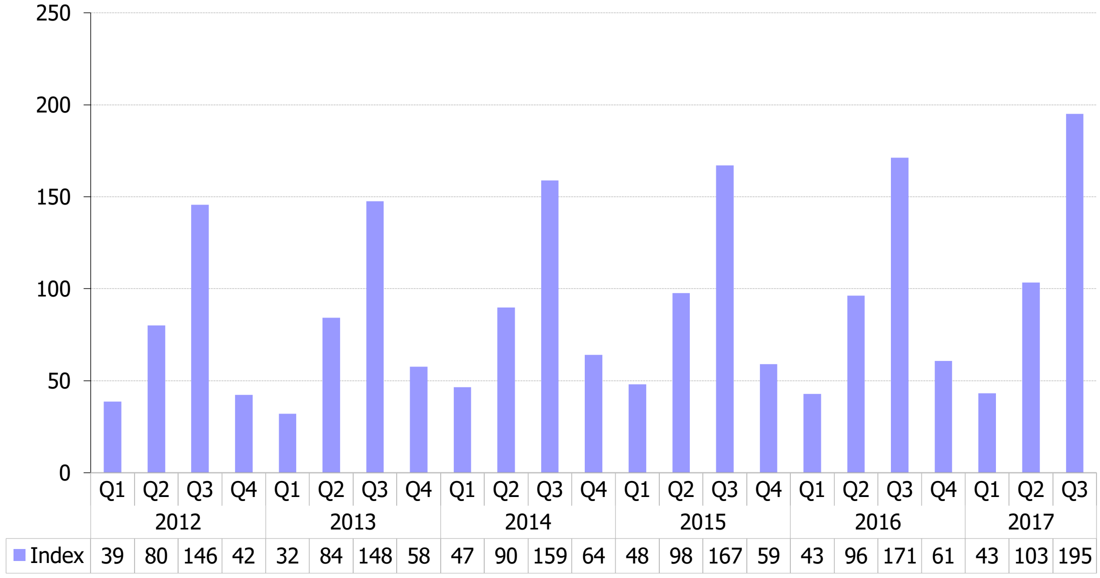


	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3
Index	37	50	35	48	28	40	28	42	25	37	21	43	27	32	17	40	37	52	33	61	37	51	35

Source: ELSTAT

Figure 3.11

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



Source: ELSTAT

Table 3.7

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

	2015	2016	2017	% change '16-'15	% change '17-'16
Hotels – Restaurants – Travel Agencies	89.3	89.5	108.1	0.2%	20.8%
Other Business Services	49.6	56.4	65.6	13.7%	16.3%
Financial Intermediation	57.4	60.9	86.2	6.1%	41.5%
Information Services	91.2	76.6	73.5	-16.0%	-4.0%
Total Services	70.6	76.1	86.6	7.8%	2.0%

Source: IOBE

3.3 Export performance of the Greek economy

The exports of goods stood at €23.3 billion in the first ten months of 2017, from €20.6 billion in 2016, recording an increase of 12.8%. If petroleum and ship exports are not taken into account, the remaining exports increased by 6.4%, to reach €16.2 billion in 2017, from €15.2 billion in 2016 (Figure 3.12). Imports increased by 15.2% in the first ten months of 2017, to reach €40.9 billion, from €35.5 billion a year earlier. As a result of the above trends in the main components of the external balance, the trade deficit increased by €2.7 billion year on year (+18.4%), to €17.5 billion, from 14.8 billion. Subsequently, the value of the exports of goods of the Greek economy accounted for 57% of its imports, from 58.2% in the preceding year.

In greater detail, the exports of Agricultural Products declined by 2.7% in the first ten months of 2017, to reach €4.5 billion, from €4.6 billion in the corresponding period of 2016, while the exports of Fuel increased by 29.6%, as a result of the growth in the global oil prices, approaching €7.3 billion, from €5.6 billion in 2016 (Table 3.8). Note that the exports of these product categories account for 50.8% of Greek exports (from 49.8% in 2016). The decline in Agricultural

Products was mainly due to the 26.9% drop in the exports of Oils and Fats of Animal or Plant Origin, to €413.9 million (from €566.4 million in 2016). As a result, their share in total exports shrank from 2.7% in 2016 to 1.8% in 2017. The exports of Food – Live Animals, which accounts for approximately 77.8% of the exports of Agricultural Products, increased by 1%, from €3.48 billion to €3.52 billion. The foreign demand for Beverages – Tobacco, which represent 13.1% of the exports of Agricultural Products, totalled €593.8 million in the first ten months of 2017, lower by 1.5% year on year.

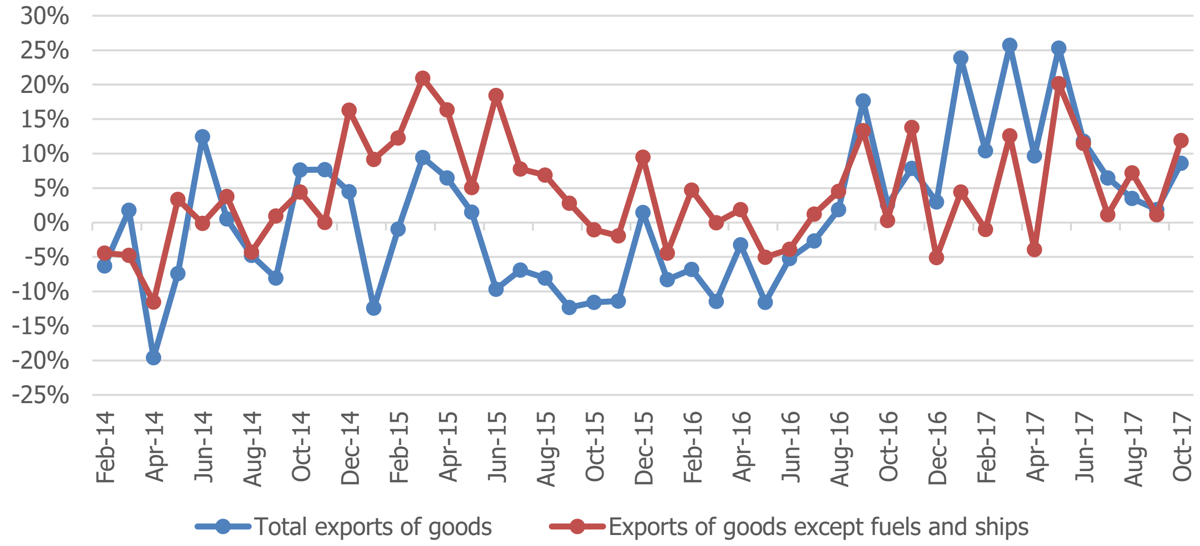
The exports of Industrial Products increased by 10% in the first ten months of 2017, with their value reaching €10 billion, from €9.1 billion a year ago. This rise is explained by the strengthening of foreign demand for Manufactured Goods Classified Chiefly by Raw Material, by 17.2%, with their value reaching €3.8 billion (from €3.2 billion in 2016), while the exports of Chemical and Related Products also rose, by 12.1%, to €2.5 billion in 2017, from €2.2 billion a year earlier. In contrast, deterioration in the export performance was recorded in Machinery and Transport Equipment, by 1.4% (to €2 billion in 2017, from €2.1 billion in 2016), while the exports of Miscellaneous Manufactured Articles increased by 7.3% to €1.67 million in the first ten months of 2017, from €1.55 billion a year earlier.

Finally, the exports of Raw Materials increased by 28.1%, from €759.2 million in the first ten months of 2016, to €972.2 million in the same period of 2017, while the exports of Commodities and Transactions Not Classified by Category decreased by 3% (from €444.8 million in 2016 to €431.4 million in 2017).

Regarding the export trends by geographical area, the exports to the Euro area countries expanded by 6.4%, to reach €8.7 billion in the first ten months of 2017, from €8.2 billion in the corresponding period of 2016, absorbing as a result 37.6% of the Greek exports of goods in the current year. There was a similar increase in the EU-28, by 7.3%, or €851.7 million. Among the Eurozone countries with the largest share of Greek exports, a significant increase was recorded in Italy and Germany, of the order of 5.6% in both, from €2.4 billion and €1.6 billion respectively in 2016 to €2.5 billion and €1.7 billion in 2017. The exports to France also increased, by 10.3%, from €579.1 million to €638.7 million. In contrast, a decline in exports was recorded in Spain and the Netherlands, by 3%, to €559.3 million (from €360 million in 2016) and 1.2%, to €504.2 million (from €510.6 million) respectively. Note that the largest percentage contraction in exports in the first ten months of 2017 in the Eurozone was recorded in Finland, where it reached 14.8% or €18.9 million (from €127.9 million a year earlier to €109 million in 2017). In contrast, the highest percentage increase was recorded in Estonia (+55.2%).

Figure 3.12

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



Source: ELSTAT Processing: IOBE

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Among the remaining countries of the European Union, where total exports grew by 9.4% or €324.8 million in the first ten months of 2017, to €3.8 billion, Bulgaria continues to be the main export destination, with an increase in outflows by 8.5% or €86.5 million. The exports to two other countries which also absorb a significant share of Greek exports from this group of countries, Romania and the UK, also increased, by 11.9% or €74.3 million, to €696.9 million, and by 4.9% or 44.1 million, to €939.7 million, respectively. The largest decrease among the non-Euro area members of the EU, by 7.5%, was recorded in Croatia, where Greek exports declined by €5.5 million, to €67.7 million.

The Greek exports to other European countries increased by 24%, from €3 billion in 2016, to €3.8 billion last year. In Turkey, one of the major export destinations, exports expanded significantly, by 42% or €424.8 million, from €1 billion in the first ten months of 2016 to €1.4 billion a year later.

The exports to the North American countries increased by 7.8%, from €1.1 billion in 2016 to €1.2 billion in 2017, mainly due to the increase in exports to the US by 7.8%, from €883.7 million to €960.7 million, and to a lesser extent from the growth of the export to Canada growing, by 14.8%. In contrast, the exports to Mexico fell by 3.4%.

The exports to the Middle East and North Africa expanded by 16.4%, to €3.5 billion this year, mainly due to an increase in the exports to Lebanon (+20.6%), from €834.2 million to €1 billion, and to Tunisia, where they reached €113.5 million, from €83.8 million (+35.4%). The exports to two other major export destinations in the Middle East, Saudi Arabia and the United Arab Emirates, increased by 49.9%, to €561.2 million and by 14.6%, to €210 million, respectively.

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Table 3.8

Exports per category at current prices, January - October (million €)

PRODUCT	VALUE		% CHANGE	% COMPOSITION	
	2017*	2016*	17*/16*	2017*	2016*
AGRICULTURAL PRODUCTS	4,529.7	4,656.7	-2.7%	19.4%	22.6%
Food and Live Animals	3,522.0	3,487.2	1.0%	15.1%	16.9%
Drinks and Tobacco	593.8	603.1	-1.5%	2.5%	2.9%
Oils and Fats of animal or plant origin	413.9	566.4	-26.9%	1.8%	2.7%
RAW MATERIALS	972.2	759.2	28.1%	4.2%	3.7%
Non-edible Raw Materials excluding Fuels	972.2	759.2	28.1%	4.2%	3.7%
FUELS	7,295.6	5,628.7	29.6%	31.3%	27.3%
Minerals, Fuels, Lubricants etc.	7,295.6	5,628.7	29.6%	31.3%	27.3%
INDUSTRIAL PRODUCTS	10,071.8	9,159.5	10.0%	43.2%	44.4%
Chemicals and Related Products	2,505.5	2,234.4	12.1%	10.8%	10.8%
Industrial Products Sorted by Raw Material	3,799.5	3,243.2	17.2%	16.3%	15.7%
Transport Equipment	2,096.5	2,125.9	-1.4%	9.0%	10.3%
Various Manufactured Goods	1,670.3	1,556.0	7.3%	7.2%	7.5%
OTHER	431.4	444.8	-3.0%	1.9%	2.2%
Goods and Transactions not sorted by Category	431.4	444.8	-3.0%	1.9%	2.2%
TOTAL EXPORTS	23,300.7	20,648.9	12.8%	100.0%	100.0%

* Provisional data

Source: ELSTAT, Data processing: PSE-KEEM

The flow of exports of Greek products to Oceania increased by 20.8%, with their value reaching €137.9 million in the first ten months of 2017, against €114.2 million in the same period a year earlier. The exports to Australia expanded by 20.5%, to €124.9 million, while in New Zealand, which has a small share of the exports to this geographical region, they increased by 23.4% (€10.5 million in 2016 and €13 million in 2017).

The exports to the markets of Central and Latin America declined by 30.2% in the first ten months of 2017, with their value reduced to €172 million, from €246.5 million during the same period a year earlier. The deterioration in the export performance to these countries came mainly from the sharp fall in the demand for Greek products from Brazil, by 75%, with their value falling to €22.5 million.

In contrast, the demand for Greek goods increased significantly in the Asian countries, where exports increased by 43.4%, to €1.4 billion from €971.2 million in 2016. This development came mainly from the strengthening of exports to South Korea (+171.8%, to €178.5 million from €65.7 million), and Singapore (+79.2%, to €335.7 million from €187.4 million). Similarly, a significant expansion of Greek products, by 35%, was recorded in China, from €274.3

million in 2016, to €370.2 million a year later.

Summing up, the exports of Greece increased significantly in the first ten months of 2017, both in terms of total value (+12.8%) and in terms of export value except petroleum products and ships (+6.4%). Exports increased in most major sectors (Raw Materials, Fuels, Industrial Products), with the exception of Agricultural Products and Other Items and Transactions not Classified in Categories.

Then again, the increase in exports was lower in this period than in the first half of last year. The slowdown of the rise, despite the acceleration of output growth in major export destinations in the third quarter (EU, USA), is probably due to the appreciation of the euro against currencies of developing regions, such as North Africa and Asia. Moreover, despite the significant expansion of exports, the bigger rise in imports resulted in the widening of the trade deficit.

The significant increase of exports in the first ten months of last year is anticipated to have continued in the last two months of the previous year, primarily due to the continued high growth in the EU and the US. But their pace will slow down slightly, **resulting in growth of total exports by about 11.5% in 2017, with the exports except petroleum products growing by 6%.**

Table 3.9

Exports by destination, January – October*

ECONOMIC UNION – GEOGRAPHIC REGION	EXPORTS		% CHANGE	% COMPOSITION	
	2017	2016	2017/2016	2017	2016
World	23,300.7	20,648.9	12.8%	100.0%	100.0%
OECD	12,750.2	11,288.8	12.9%	54.7%	54.7%
EU	12,553.6	11,701.9	7.3%	53.9%	56.7%
Euro Area	8,762.4	8,235.5	6.4%	37.6%	39.9%
G7	6,986.0	6,541.4	6.8%	30.0%	31.7%
North America	1,231.8	1,142.3	7.8%	5.3%	5.5%
BRICS	687.8	631.0	9.0%	3.0%	3.1%
Middle East & North Africa	3,501.5	3,007.0	16.4%	15.0%	14.6%
Rest of Africa	1,133.0	1,238.2	-8.5%	4.9%	6.0%
Oceania	137.9	114.2	20.8%	0.6%	0.6%
Latin America	172.0	246.5	-30.2%	0.7%	1.2%
Rest of Asia	1,392.3	971.2	43.4%	6.0%	4.7%
OPEC	1,255.8	1,135.3	10.6%	5.4%	5.5%

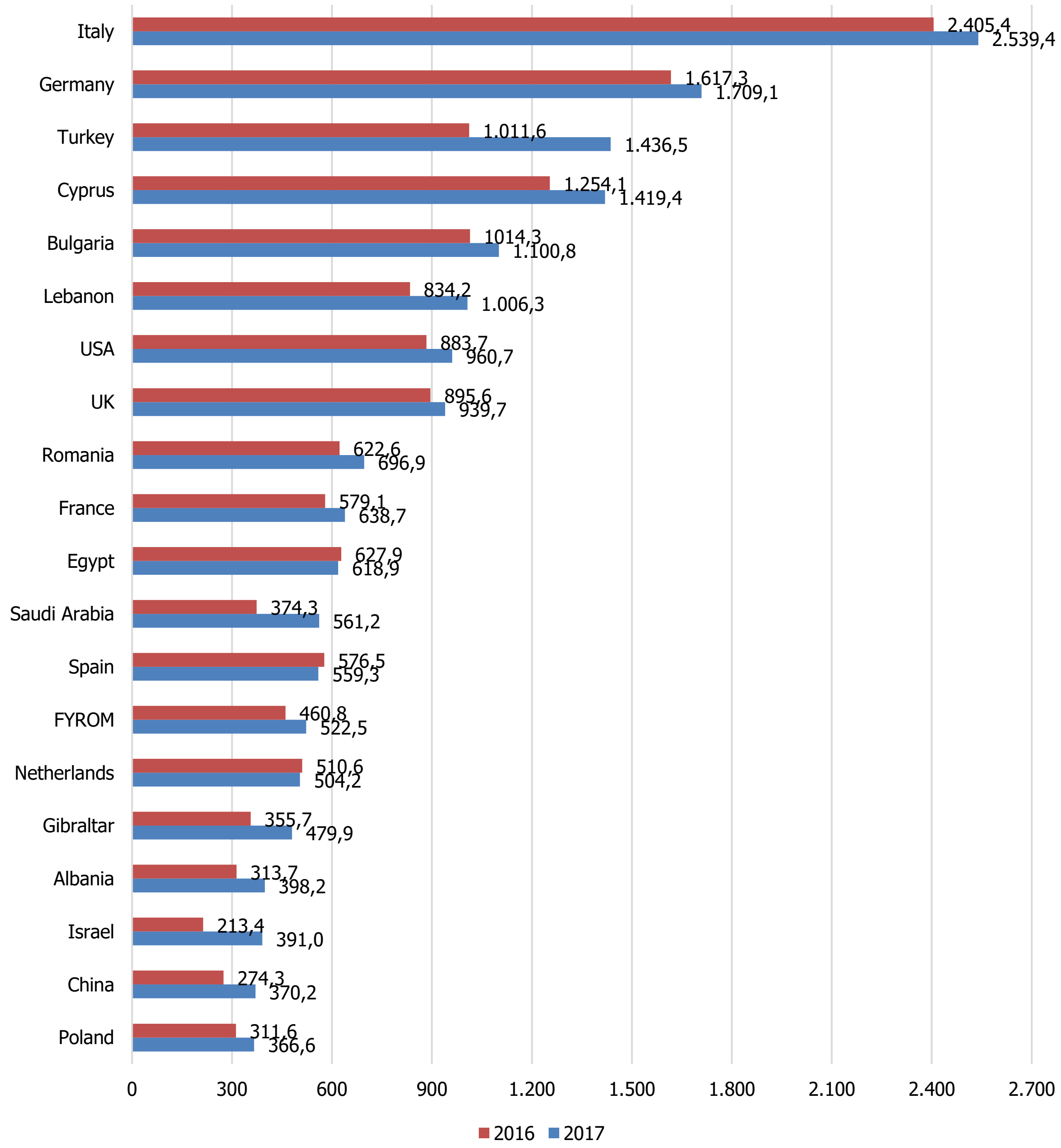
* Provisional data

Source: ELSTAT, Data processing: PSE-KEEM

Figure 3.13

Countries with the largest share in the exports of Greek products,

January -October (million €)



Source: PSE-KEEM **Data processing:** IOBE

As growth will remain high in 2018 in the EU, the US, and in developing – emerging economic regions with a growing share of exports of goods in recent years (e.g. Middle East, North Africa), exports will increase further in the current year. Potential further appreciation of the euro against the dollar, given its extensive increase in 2017, will prevent their stronger growth. **Taking into account the aforementioned effects, total exports are expected to expand at almost a double-digit growth rate in the current year.**

3.4 Employment – Unemployment

According to the latest data of the Labour Force Survey of ELSTAT, the unemployment rate in Greece declined to 20.2% in the third quarter of 2017, from 22.6% a year earlier. For the first time since Q3 of 2011, the number of unemployed fell below one million, as it totalled 970,100 unemployed, from 1,092,600 in the same quarter of 2016 (decline by 11.2% or 122,500 people). Meanwhile, the number of employed persons increased by 87,000 or 2.3%, from 3,736,700 in the third quarter of 2016, to 3,823,700 a year later. Therefore, a part of the fall in unemployment comes from a reduction of the labour force. In addition, the non-seasonally adjusted unemployment rate in October 2017 fell to 20.4%, two percentage points lower compared to October 2016 (22.4%) and 0.6 percentage points higher than in the preceding month.

Among the member countries of the Euro area, Spain followed Greece, with a significantly lower unemployment. Its unemployment rate stood at 16.4%, down by 2.5 percentage points year on year. Italy came next, with 10.6% unemployment rate, followed by Cyprus where unemployment stood at 10%, three percentage points lower year on year. All other Eurozone countries had single-digit unemployment rates, with the lowest rate in the third quarter of this year, at 3.8% from 4.2% a year ago, recorded in Germany, where unemployment stood at 3.6%, from 4% a year earlier. The unemployment rate was similarly low in Malta, where it stood at 4%, from 4.8% a year earlier. Among the other major economies in Europe, in France, unemployment declined for the eight consecutive quarter, to 9.3% from 9.6% in the same quarter of 2016, while in the United Kingdom it stood at 4.4%, from 5% a year earlier.

Regarding the gender differences, unemployment remained higher among women, while since the second quarter of 2010, the difference in unemployment rates between men and women in Greece has increased to the detriment of women. In the third quarter, the unemployment rate among women in Greece stood 8.4 percentage points higher than the unemployment among men, at 24.8% for women against 16.4% among men, from 27.2% and 18.9% respectively. Compared with the Eurozone, the unemployment rate for men in Greece was 8.1 percentage points higher, while among women the difference reached around 15.7 percentage points.

Regarding the age structure, unemployment decreased in all age groups, except for those aged 15-19 years old. The highest fall in unemployment occurred among young people aged 20-24 and 25-29 years, which exhibit the highest unemployment rates among all age groups. In the first category, the rate fell from 43.4% in Q3 2016 to 38.5% one year later. In the second category, the unemployment rate decreased by 4.2 percentage points, i.e. from 33.2% to 29%. Similar, positive development occurred in persons aged 30-44 years, bringing the unemployment rate in Q3 of 2017 at 19.5%, against 21.5% a year earlier. Finally, in the age category of 45-64 years old, unemployment fell for the third consecutive quarter, down to 16.6% in Q3 of 2017, from 18.5% a year earlier.

The percentage of long-term unemployed, which has hovered above 70% since Q4 of 2013 rose to 75.7% in the third quarter of last year, from 73.8% a year earlier. Despite the increase in the long-term unemployment rate, the number of long-term unemployed has been falling since Q4 of 2014, totalling 734,600 people in the third quarter of 2017, from 806,300 a year earlier (down by 71,700 people or 8.9%).

The unemployment rates declined in Q3 of 2017 in most educational levels of the Labour Force Survey. Note that for the first time since Q4 of 2015, the unemployment rate among holders of doctorate or master degrees increased year on year. As a result, it stood at 12.1% from 11.5% a year earlier, yet remaining the lowest among all categories of education. The biggest drop in unemployment based on the level of education is found among holders of lower secondary education diploma, by 3.1 percentage points, from 24.9% to 21.8%. The persons with upper secondary or equivalent education followed with marginally weaker drop, by three units, from 24.7% to 21.7%. The unemployment rate of both people with higher technical vocational education diploma and those with primary education stood at similar levels in the third quarter of last year, at 21.7% and 21.4%, from 23.4% and 24%, respectively.

Regarding the regional structure of unemployment, unemployment decreased in all but three of the 13 regions of the country (Epirus, the Ionian Islands, and the North Aegean). The highest unemployment rate was recorded in Western Macedonia, at 27.3%, from 29.8% a year earlier. Next came Western Greece, where the unemployment rate stood at 25.6%, 3.6 percentage points lower compared with a year earlier (29.2%), followed by Epirus, where unemployment, on the contrary, increased from 23.5% to 24.2%. The highest increase in the unemployment rate was recorded in the North Aegean region, by 2.8 percentage points, from 17.8% to 20.6%, while its strongest reduction was observed in Crete, by six percentage points, from 19.2% to 13.2%. The lowest unemployment rate in the second quarter of this year occurred in the South Aegean (8.6% from 13%) and in the Ionian Islands (12.3% from 12.1%). In Attica, unemployment stood at 21.4%, from 22.8% a year earlier.

At the level of basic economic sectors, in the Primary sector the number of employed has steadily fallen since Q2 of 2014. In the third quarter of 2017, the number of employed in this sector decreased by 4,200 people or 0.9%, from 456,600 to 452,400, after a reduction by 4,700 or 1% in Q3 of 2016. By contrast, in the other two major sectors employment strengthened. In particular, employment strengthened by 22,000 people, from 567,600 to 589,600 (+3.9%) in Q3 of 2017 in the Secondary Sector and by 69,300 people, from 2,712,400 to 2,781,700 (+2.6%) in the Tertiary sector.

Employment declined in eight branches of economic activity (Agriculture-Forestry-Fishing, Mining-Quarrying, Transport-Storage, Financial-Insurance Activities, Real

Estate Activities, Public Administration – Defence, Activities of Households as Employers, and Activities of Extraterritorial Organisations and Bodies). The largest percentage decrease in employment took place in Real Estate Activities, by 42.9%, from 4,900 to 2,800 and Mining-Quarrying, by 19.3%, from 14,000 to 11,300 people. In contrast, the greatest percentage increase in employment in the third quarter was recorded in Electricity, Gas, Steam and Air Conditioning Supply (+20.4%, from 27,500 to 33,100 people) and Other Service Activities (+18.8%, from 68,000 to 80,800). In Manufacturing, a major sector for the Greek economy, employment increased for the 11th consecutive quarter, to reach 362,100 people, from 355,800 people a year earlier (+1.8%). In Wholesale-Retail Trade, employment increased for the third consecutive quarter, standing at 687,700, from 665,900 employees one year earlier. Employment in Accommodation and Food Service Activities strengthened by 4.6%, with the number of employees increasing from 381,000 to 398,700. In Construction, employment increased by 6.9%, from 145,400 to 155,500. By contrast, in Public Administration the number of employees fell for a second consecutive quarter, to 328,100, from 331,400 in Q3 of 2016 (-1%).

In conclusion, the increase of employment in the third quarter of 2017 originated mainly from:

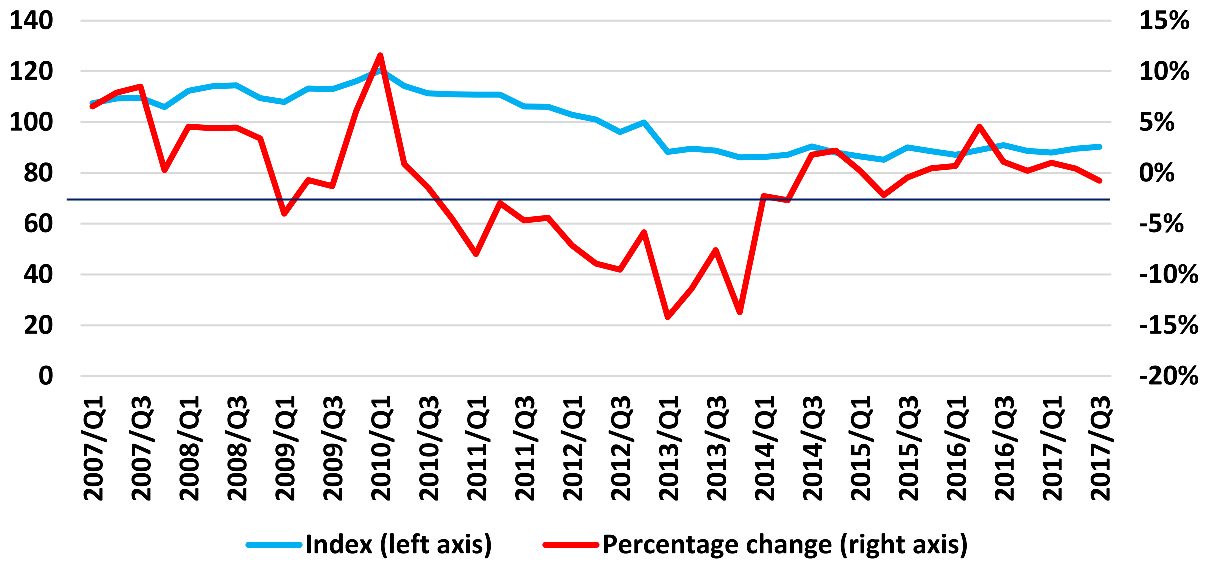
- Wholesale-Retail Trade (+21,800 people or +3.3%), in line with the increase in the seasonally adjusted indices on i) Turnover in Wholesale Trade, by 3% ii) Turnover in Retail Trade, by 0.3%, and iii) Volume of Retail Trade by 0.6%,
- Tourism (+17,700 people or +4.6%), as a result of the growth of international tourist arrivals by 6.6% (from 9.03 million to 9.63 million), but also from the significant increase in turnover (13.9% increase of the relevant indicator)
- Human Health and Social Work Activities (+14,500 people or +6,5%).

Regarding the trend in the **seasonally adjusted labour cost index for the economy as a whole,** after seven consecutive quarters of growth, there was a slight drop of 0.8% in the third quarter of last year (Figure 3.14).

Regarding the trends in part-time employment, in Q3 of 2017 its rate stood at 9.4% (358,900 people), from 9.7% a year earlier. The corresponding rates for men and women stood at 6.5% (144,200 people) and 13.5% (214,700 people), from 6.9% and 13.5% respectively in third quarter of 2016.

Figure 3.14

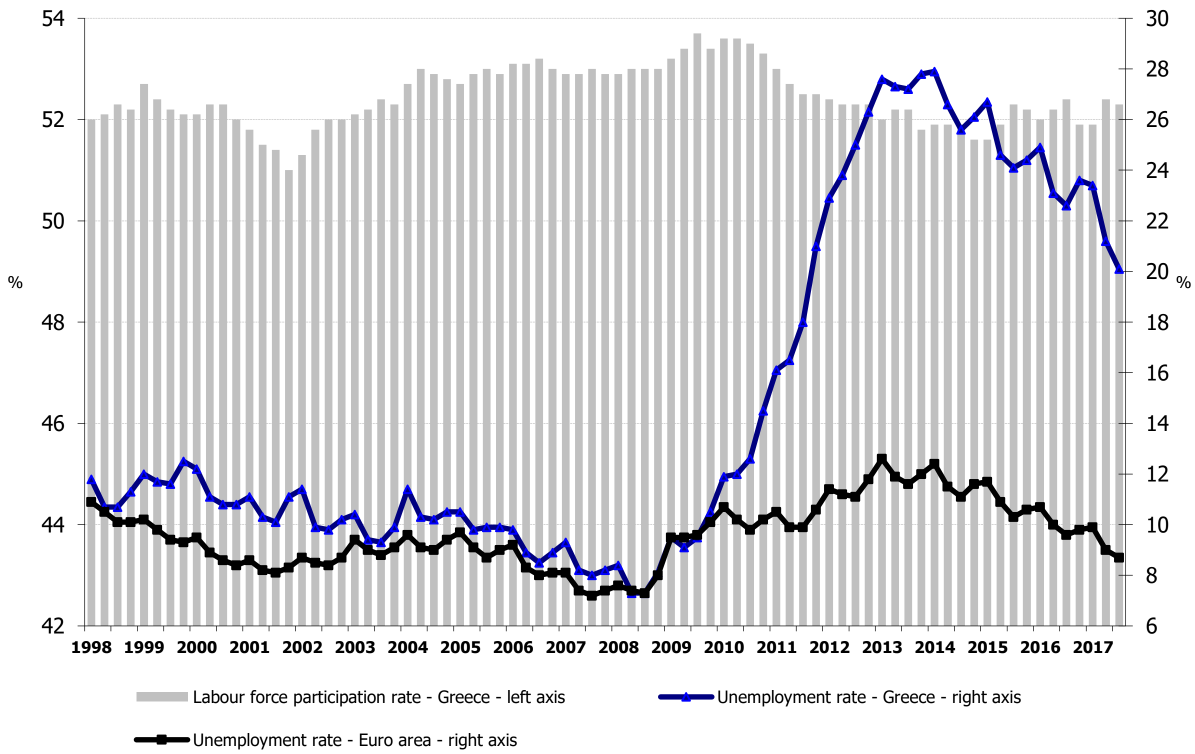
Seasonally adjusted wage cost index (Q1/2007-Q3/2017)



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

Figure 3.15

Labour force participation and unemployment rates



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

Table 3.10

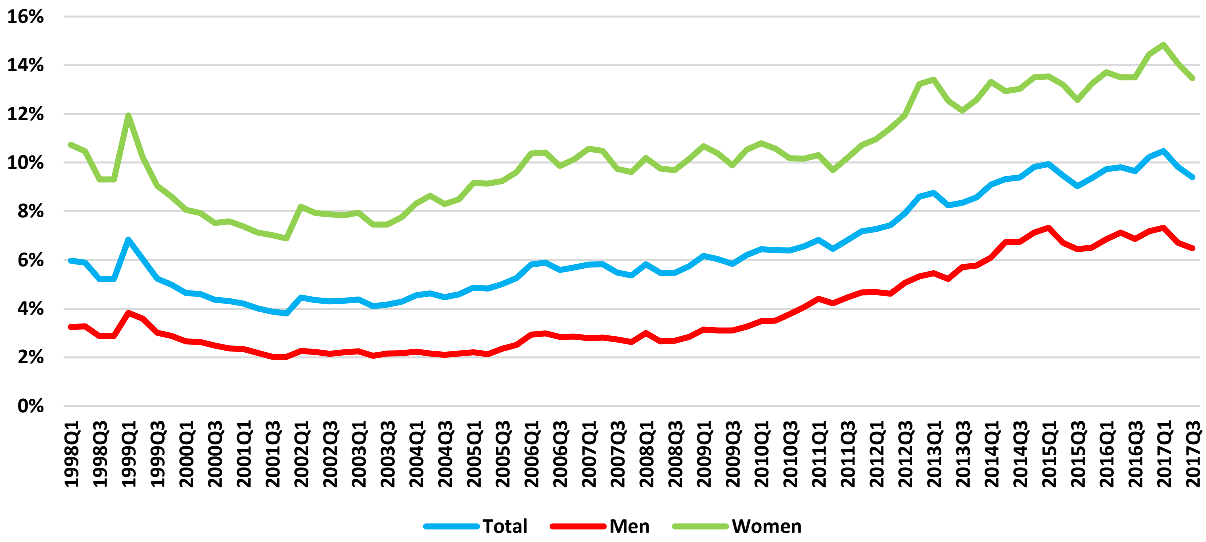
Population aged 15 years and over by employment status (in thousands)

Reference period	Total	% of Population	Employed	Percentage (%) of the labour force	Unemployed	Percentage (%) of the labour force
2006	9,374.1	53.1	4,527.5	91.0	448.2	9.0
2007	9,412.3	52.9	4,564.1	91.6	418.4	8.4
2008	9,435.1	53.0	4,610.5	92.3	387.9	7.8
2009	9,431.1	53.4	4,556.0	90.4	484.7	9.6
2010	9,399.4	53.5	4,389.8	87.3	639.4	12.7
2011	9,372.9	52.7	4,054.4	82.2	881.8	17.9
2012	9,344.8	52.3	3,695.0	75.6	1,195.1	24.4
2013	9,309.5	52.1	3,513.2	72.5	1,330.4	27.5
2014	9,282.1	51.8	3,536.3	73.5	1,274.4	26.5
Q1 2015	9,259.1	51.6	3,504.4	73.4	1,272.5	26.6
Q2 2015	9,250.7	51.9	3,625.5	75.4	1,180.1	24.6
Q3 2015	9,242.3	52.3	3,671.1	76.0	1,160.5	24.0
Q4 2015	9,234.1	52.2	3,641.7	75.6	1,174.7	24.4
2015	9,246.6	52.0	3,610.7	75.1	1,197.0	24.9
Q1 2016	9,226.3	52.0	3,606.3	75.1	1,195.1	24.9
Q2 2016	9,217.2	52.2	3,702.6	76.9	1,112.1	23.1
Q3 2016	9,208.3	52.4	3,736.7	77.4	1,092.6	22.6
Q4 2016	9,199.4	51.9	3,648.6	76.4	1,124.0	23.6
2016	9,212.8	52.1	3,673.6	76.5	1,130.9	23.5
Q1 2017	9,190.7	51.9	3,659.3	76.7	1,114.7	23.3
Q2 2017	9,181.4	52.4	3,791.4	78.9	1,016.6	21.1
Q3 2017	9,172.3	52.3	3,823.7	79.8	970.1	20.2

Source: ELSTAT, Labour Force Survey

Figure 3.16

Part-time employment as percentage of total employment, by gender (Q1/1998-Q3/2017)



Source: Eurostat

Medium-term outlook

As to the political and economic developments, the second half of the 2017 was characterised by a gradual consolidation of the economic recovery and the conclusion of the third review in a much shorter period than in the past, easing significantly the uncertainty about the ability of Greece to complete the third Economic Adjustment Programme and enhancing its attractiveness as an investment destination. If the forthcoming reviews are carried out during the current year within a similar timeframe, the attractiveness of the Greek economy will be strengthen further.

The developments in the external sector have remain positive as well at the beginning of the fourth quarter. Based on data of the Bank of Greece, the exports of goods without fuel and ships last October increased by 13.2% year on year, while in the entire period from January to October they were 14.4% higher compared to the corresponding period of 2016. The growth acceleration in the European Union, the main destination of Greek exports, and the intensification of international trade continue to favour the expansion of exports. The significant strengthening of the tourist flows and turnover in Tourism contributes to job creation in this sector. The momentum provided by these factors is expected to maintain its strength in the last two months of 2017 and in 2018. Besides, the European Commission in its latest forecasts predicted for the EU-27 a growth rate of 2.2% this year. In addition, recent estimates for the total number of tourists (air arrivals, cruises, etc.) that are expected to visit Greece in 2018 are in the area of 30 million people, as the country still benefits from the tense situation in the wider region (Turkey, Egypt, Tunisia), but also from the gradual retreat of the uncertainty about the future of Greece in the Euro area.

The gradual start of investment in privatisations made in previous years, with finalised licencing (e.g. Asteras Vouliagmenis hotel complex, 14 regional airports and the Hellinikon project) will reinvigorate total investment. These and other investment projects, e.g. from large, export companies, will boost employment and activity in the construction sector and in all sectors that provide materials, machinery and equipment for investment.

Positive effects on employment in 2018 will emanate from the temporary employment programmes, both from those that are already in progress and those to be implemented shortly. In that regard, note that six new programmes are planned for this year, targeting 59,180 beneficiaries altogether.

The strengthening of activity and job growth in these sectors will understandably lead to expansion of consumer spending. This will then maintain the growth of jobs in Wholesale-Retail Trade that occurred in the first three quarters of last year, favouring their further growth this year.

Taking into account the above effects, IOBE's forecast regarding the unemployment rate in 2017 is revised down, from 21.7% to 21.5%. This year the unemployment rate is expected to fall to around 20%, or perhaps slightly lower than this.

According to the latest IOBE business surveys, the short-term employment expectations deteriorated quarter on quarter in the final quarter of 2017 in all sectors, with only a marginal change in Retail Trade.

Compared to the same period of the preceding year, the expectations improved in all sectors, except Retail Trade, where it marginally deteriorated. Overall in 2017 compared to 2016, the employment index improved in all sectors except Construction, where it recorded a drop. In detail:

In Industry, the +6 points average balance of the previous quarter declined by 9 points in the final quarter of the year, to -3. Compared to last year's performance, the average quarterly index was higher by 3 points. Overall in 2017, the index stood at -2 points on average (from -5 in 2016). In the quarter under examination, the percentage of industrial firms that expected a drop in employment in the next period stood at 12% (from 8%), while the percentage of those expecting employment growth declined to 9% (from 14%). The vast majority of businesses in the sector (79% from 78%) were expecting employment to remain unchanged.

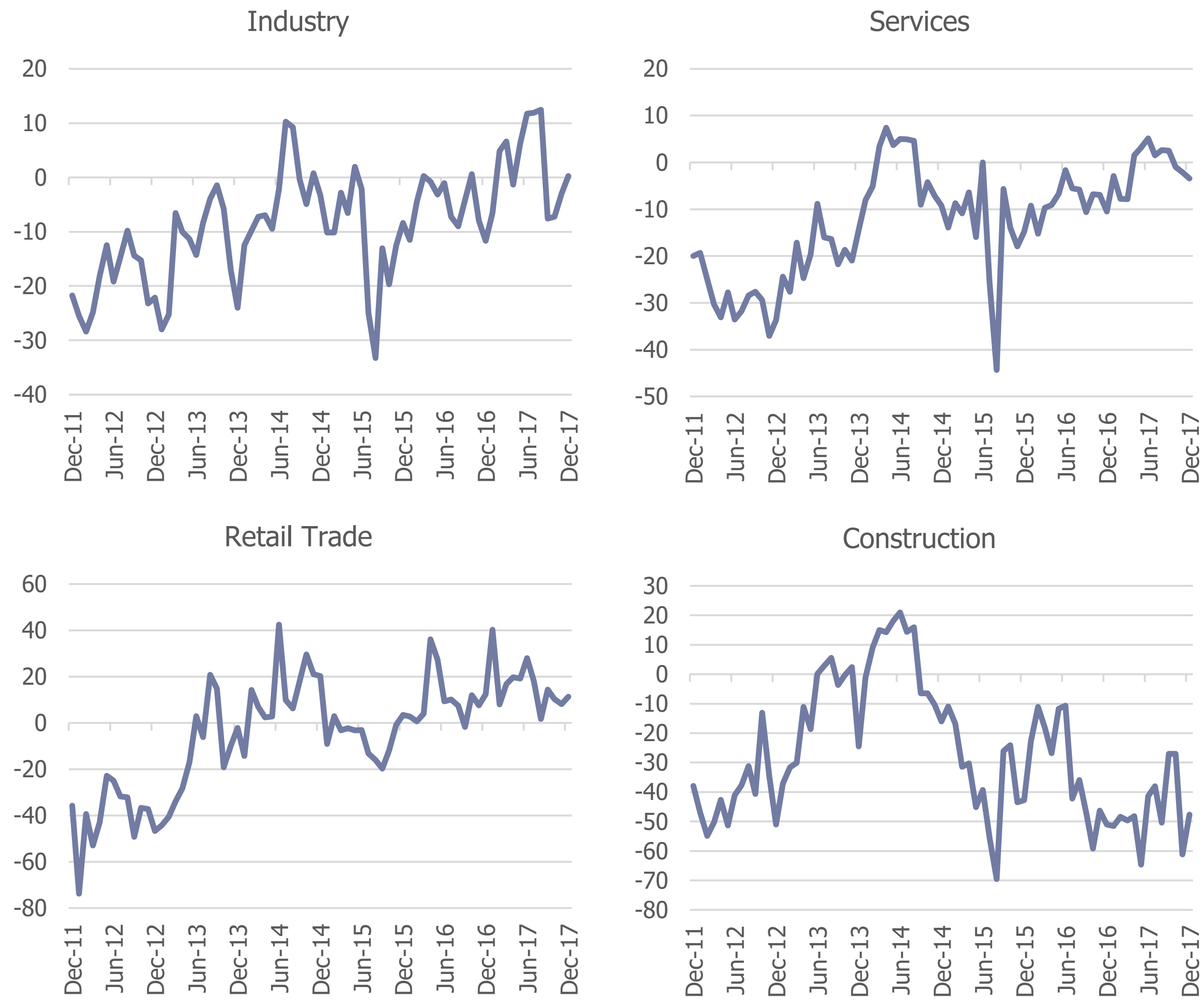
In Construction, the balance of employment expectations deteriorated from an already markedly low level, to -45 (from -39) points, seven points higher year on year. Overall in 2017, the index stood at -46 points on average (from -32 in 2016). In the final quarter of 2017, 53% (from 44%) of the businesses in the sector were anticipating further job losses, while 8% (from 6%) of the respondents were expecting employment growth. At the sub-sector level, the fall of the index in Public Works (to -62 from -43 points on average) was partly offset by an increase in Private Construction (to +1 from -29).

In Services, the employment expectations lost ground compared to the previous quarter, while they improved over the same period of last year. Thus, the relative balance of +2 points of the previous quarter became -2 points in the quarter under examination (from -8 points on average in the corresponding quarter of 2016). Overall in 2017, the index stood at -1 point on average (from -8 in 2016). About 17% (from 11%) of the companies in the sector were expecting a drop in employment, with the percentage predicting an increase standing once more at 14-15%. The trend is negative in all branches of services, except for Information Services.

The employment outlook indicator in Retail Trade marginally declined quarter on quarter in the final quarter of the year, to +10 points. This performance is marginally lower compared to last year. Overall in 2017, the index stood at +16 points on average (from +11 in 2016). About 3% (from 6%) of the firms in the sector were expecting job cuts, while 13% (from 17%) were anticipating employment growth, with those expecting stability taking up 83% (from 77%) of the sample. The employment expectations indicator remained stable in the final quarter of 2017 in Food-Beverages-Tobacco, growing in all remaining branches of Retail Trade, except Department Stores, where it declined significantly.

Figure 3.17

Employment expectations (difference of positive – negative responses)



Source: IOBE

3.5 Consumer Prices

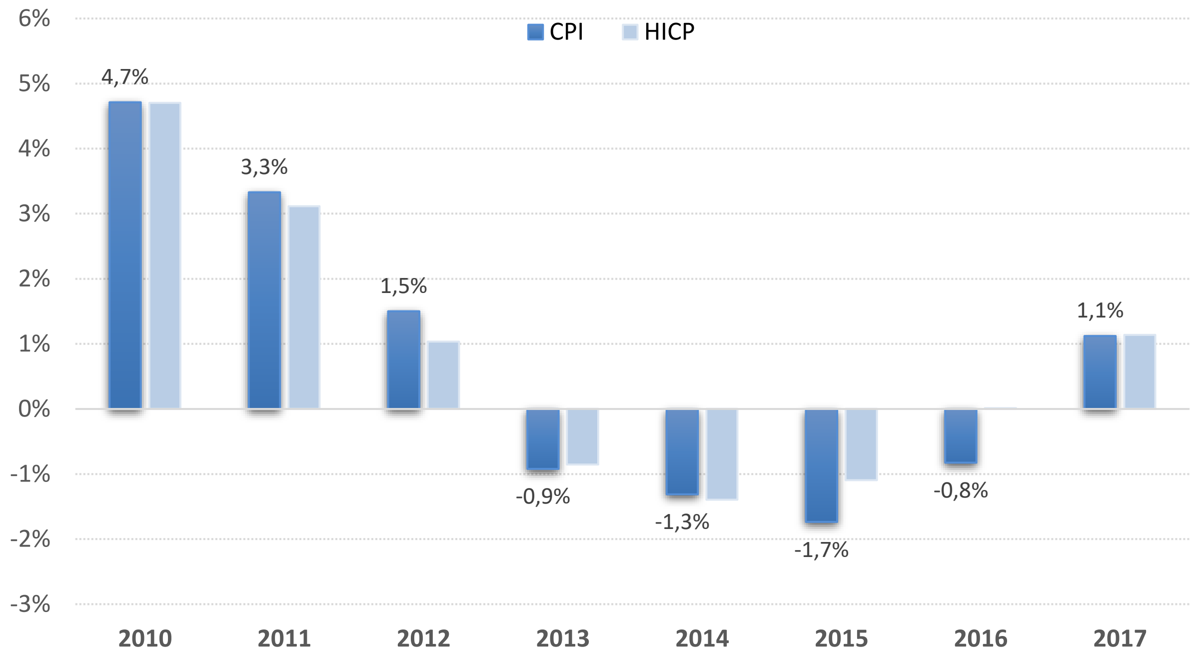
Recent Developments

The Greek economy experienced mild inflation in 2017, after four years of continuous deflation. The Consumer Price Index (CPI) increased on average by 1.1% year on year, compared with a fall by 0.8% in 2016. Respectively, the Harmonised Index of Consumer Prices (HICP) increased by 1.1%, compared to no change last year (Figure 3.18). In the final quarter of 2017, the annualised price increase based on the CPI reached 0.8%, from 1.0% in the third quarter and marginally lower than the annual average.

The rise in the international oil prices and the increase in indirect taxation since July 2016 (VAT, excise duty on beer) and January 2017 (excise duty on petroleum products, tobacco products and e-cigarettes, and new taxes on fixed telephony and coffee) remained the key drivers of the upward trend in prices throughout 2017.

Figure 3.18

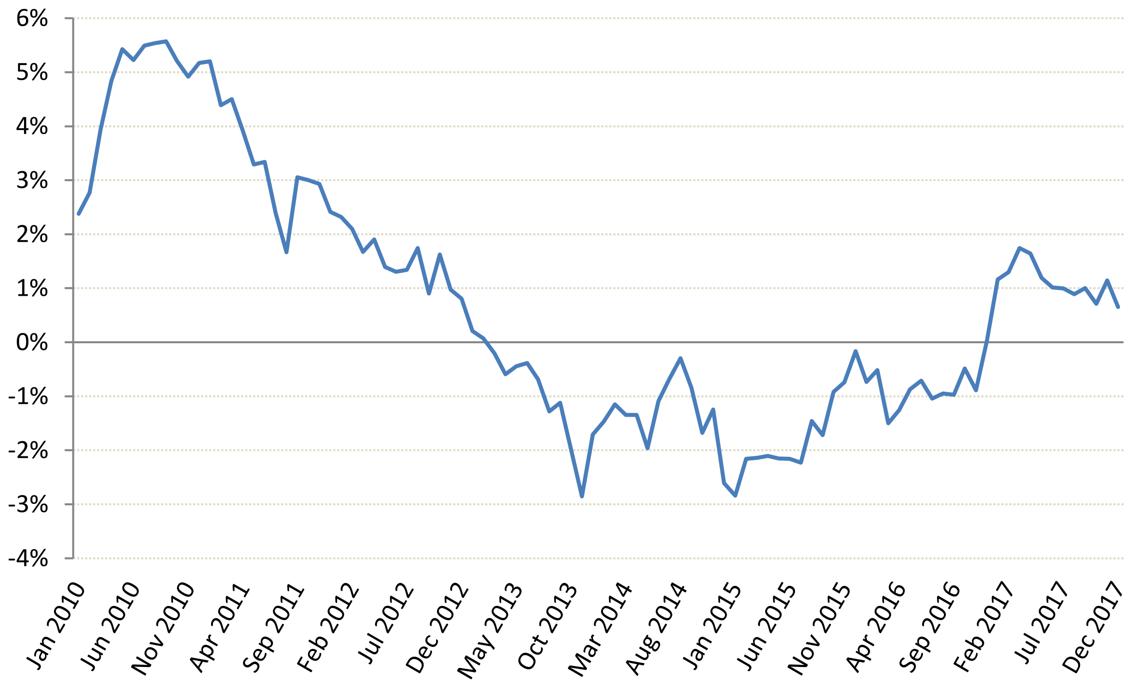
Annual change in the domestic CPI and the HICP in Greece (January – December)



Source: ELSTAT, Processing IOBE

Figure 3.19

CPI in Greece (annual percentage change per month)



Source: ELSTAT, Processing IOBE

The average global oil price ($/barrel) [36] strengthened by 24% in 2017, compared to 2016, which was offset in part by the higher average exchange rate of the euro against the dollar, by 2%, in 2017. After a fall of the international oil prices in the second quarter of 2017, they increased again in the third and the fourth quarters, which, however, was partly offset, as mentioned earlier, by the appreciation of the euro against the dollar. As a result of the above changes, the average crude oil price in the final quarter of 2017 reached about €52/barrel, 15% higher year on year. Indicative of the evolution of the impact of energy prices on annual HICP change is that in the first half of the year it stood at +0.6%, while in the second half it fell to +0.2%.

The indirect taxes had an inflationary, albeit weakening, effect on prices throughout 2017 (Figure 3.20), as apart from the increase in VAT in June 2016, whose effect on prices was completed one year after its implementation, significant changes in indirect taxation came into force on 01/01/2017, such as hikes in the excise duty on motor diesel, LPG, tobacco, electronic cigarettes, fixed telephony and coffee. In addition, the increase of the excise duty on fuel oil and beer came into effect from October and June 2016 respectively, whose effects also expired one year after their imposition. The above hikes were offset only partly by reductions in the excise duty on natural gas used by households and the adjustment of the excise duty of natural gas for uses other than heating and transport since the beginning of 2017, as well as from the abolition of the excise duty for use of natural gas in power generation, adopted earlier since 01/06/2016. Indicative of the diminishing impact of indirect taxes on annual HICP change is that in the first half of the year it stood at +1.1 percentage points, while in the second half it fell to 0.6 percentage points.

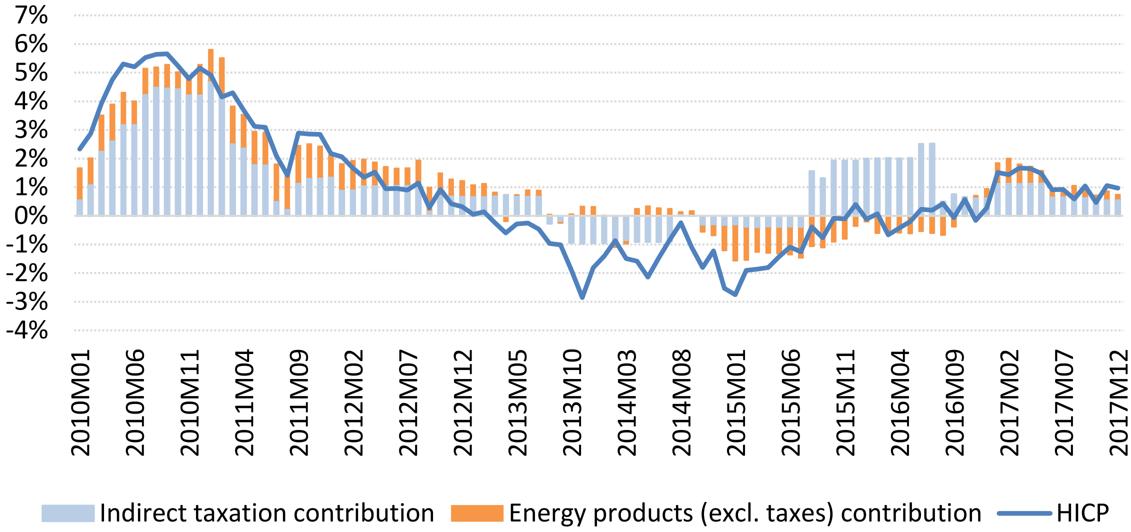
Given the above effects, the positive trend in prices in Greece during 2017 was shaped largely by the impact of indirect taxes and secondarily by the international energy prices (Figure 3.20).

Overall in 2017, the percentage change in the HICP in Greece was lower than the Eurozone average by 40 basis points (1.1% against 1.5%). However, removing the effect of energy prices and taxes, prices rose considerably faster in the Euro area than in Greece, at a rate exceeding 120 basis points (Figure 3.21). In particular, the inflation rate excluding energy products in Greece stood at 0.6%, the fourth lowest rate in the Euro area after Ireland (-0.1%), Cyprus (0.1%) and Finland (0.5%). In addition, the inflation rate without the effect of taxes in Greece averaged 0.3%, which was the second lowest in the Euro area after that of Ireland (0.1%). If the effect of energy prices and taxes is removed, the rate of inflation in Greece in 2017 remained negative for the seventh consecutive year, with an annual change of -0.1%, which was the second lowest in the Euro area after that of Ireland (-0.2%).

[36] Average values based on Europe Brent Spot Price. Source: EIA, US Energy Information Administration, https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm

Figure 3.20

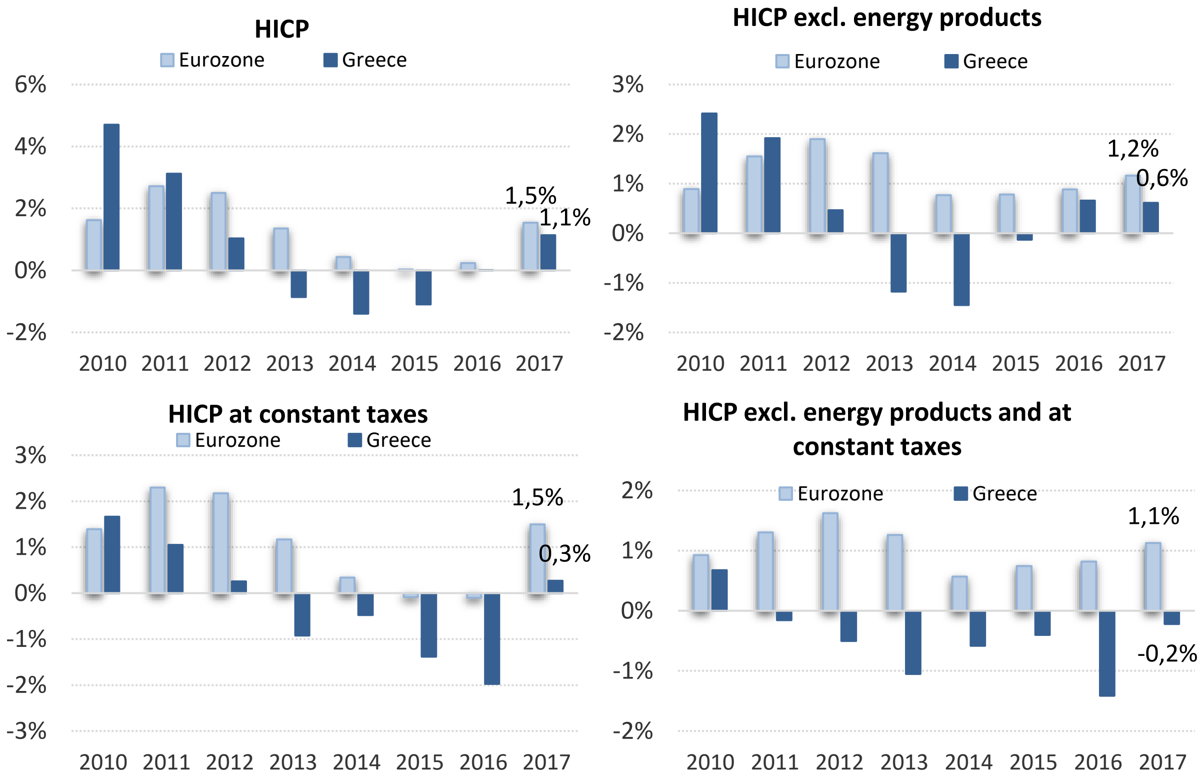
Annual rate of HICP change in Greece and impact of energy product prices and tax changes



Source: Eurostat, Processing IOBE

Figure 3.21

Annual HICP change in Greece and the Euro area



Source: Eurostat, Processing IOBE

The level of the HICP recorded in late 2017 was higher by 1.9 percentage points than the general price level of 2010, at the beginning of the domestic fiscal crisis. Removing the impact of energy prices and taxes, the level of consumer prices in late 2017 showed a cumulative drop of 5 percentage points since 2010, drop that, apart from the recession, is also attributed to the reforms in the markets for goods and services. Nevertheless, this fall is substantially weaker than the cumulative reduction in nominal unit labour costs over the same period, by approximately 14 percentage points.

The inflationary effects of the oil prices and the higher indirect taxes are largely reflected in the different price changes in individual categories of goods and services in 2017. The largest increase in prices was recorded in Transport (+6.3%, compared to -2.7% in 2016) and the third largest in Housing (+2.2%, from -3.2% in 2016), which are most affected by energy cost variations, despite the fact that in both categories prices weakened in the final quarter. Alcoholic Beverages - Tobacco recorded the second highest rise in 2017 (+6.0% against +1.5% in 2016), reflecting increases in indirect taxes on tobacco, cigarettes and beer. In Telecommunications the prices increased as a result of the new levy on fixed telephony, by +1.6%, against +0.4% in 2016. Hotels-Cafe-Restaurants came next (+1.6%, against 2.2% last year), followed by Food–Non-Alcoholic Beverages (+0.3%, from -0.2% in 2016). The prices in the remaining sectors (education, recreation, clothing-footwear, health services) declined last year, with the greatest reduction occurring in durable goods, household appliances and services (-2.9%, after -0.9% in 2016).

The Producer Price Index (PPI) of the domestic and foreign markets as a whole increased by 5.6% in 2017, against a strong decline in 2016 (-6.7%) and 2015 (-7.2%). In the second half of 2017, the PPI inflation slowed to about 3.0%. The large fluctuation of the PPI largely reflects corresponding changes in the prices of energy products due to fluctuations in the price of oil. The index recorded its highest annual increase since 2011. PPI without energy increased by 1.0% last year, against a 1.3% decline in 2016.

In detail, the strongest inflation in 2017 was recorded in Energy goods excluding electricity, by +22% (compared to -28% in 2016), Energy goods, by +13% (against -28% in 2016), and Mining-Quarrying-Manufacturing, by +6% (-6% a year ago). Slight positive changes were recorded, inter alia, in Intermediate Goods (capital and non-capital), Durables and lastly in Consumer Goods.

The Import Price Index (IPI) also increased significantly in 2017, by 5.5%. Its growth was the largest in ten countries of the Euro area with available data, equalling that of Finland. The index increased in all the countries in the Euro area. The rise of import prices came from much higher average oil prices compared to 2016. The differences among the countries in the IPI inflation reflect the varying degree of use of energy products and the size of the trade transactions with countries outside the Euro area. Note that both the easing of global oil prices in the second quarter of 2017 and the appreciation of the euro in the second half of 2017, led to a weakening of the IPI inflation since mid-2017.

Medium-term outlook

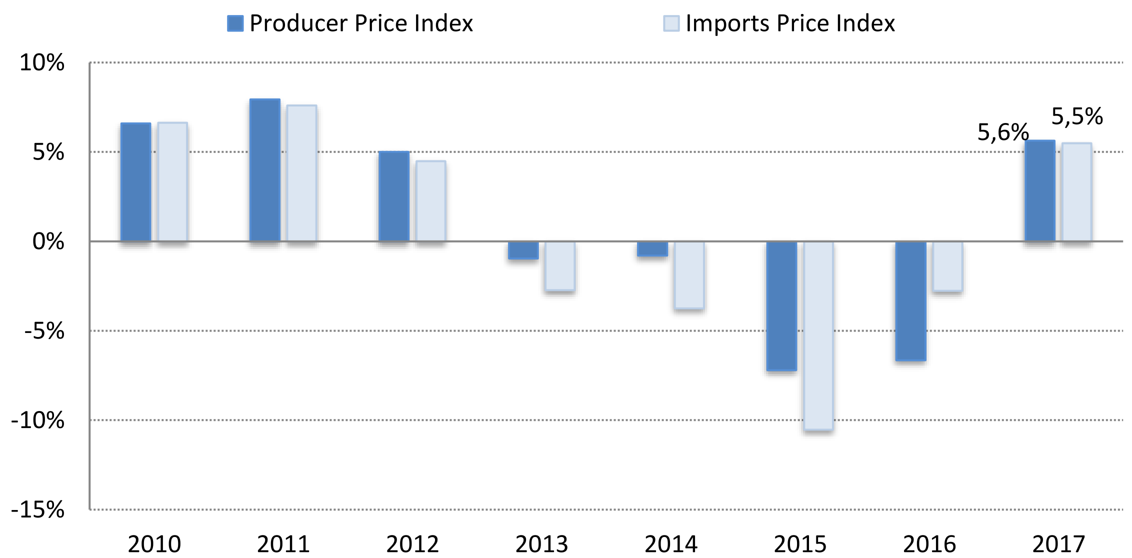
As evident from the analysis of the trends in changes in consumer prices in 2017, the inflation comeback came primarily from higher and more indirect taxes and secondarily as a result of international trends in oil prices. The impact of the first factor is expected to be positive, yet weaker in 2018, while the impact of the oil prices is likely to remain slightly positive in the current year. The rate of core inflation excluding energy and taxes is expected to continue to be negligible, perhaps at marginally positive levels.

In particular, the impact from increases in indirect taxes, especially those on motor diesel and LPG, as well as new indirect taxes (fixed telephony, coffee) elapsed at the end of 2017, when one year since their entry into force expired. The anticipated new indirect tax rises (VAT in Northeast Aegean Islands and the Dodecanese) and the levy of new ones (residence tax in hotels and rented rooms and apartments), since the beginning of the 2018 are expected to have an inflationary impact on the general price level, albeit notably weaker than the impact of indirect taxes overall in 2017 (+0,9%).

During 2018, the international oil prices are expected to fluctuate in the vicinity of the Q4 levels (between 60-64 $/barrel), according to the latest forecasts by analysts (US Energy Information Administration), which implies that it will fluctuate on average 10%-15% higher than the 2017 average. The upward trend in oil prices is supported by accelerating economic growth in both developed and developing economies.

Figure 3.22

Annual change of PPI and IPI in Greece (January – November)



Source: ELSTAT, Processing IOBE

The appreciation of the euro against the dollar ameliorates the propping effect of oil on consumer prices. With the exchange rate of the euro expected on average to remain in the current year at the levels of late 2017, i.e. around 1.22 dollars/euro, the average rate in 2018 will be about 8% higher than last year. With the growth in the Euro area continuing with at least comparable pace next year, a plausible preservation of the exchange rate at the same level would largely alleviate the inflationary pressures of oil prices. As for the tariffs in the Greek electricity market, changes in the calculation of public service charges from 01/01/2018 is expected to cause inflationary pressures, which will likely be offset by reductions in charges for the renewable energy account (ETMEAR), but also from larger discounts on the competitive tariff elements. Overall, energy costs are likely to increase only marginally in 2018.

In summary, the weakening of the inflationary impact of indirect taxes and the small effect of the increase of international oil prices on CPI will marginally slow inflation down in 2018, to about 0.8%.

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

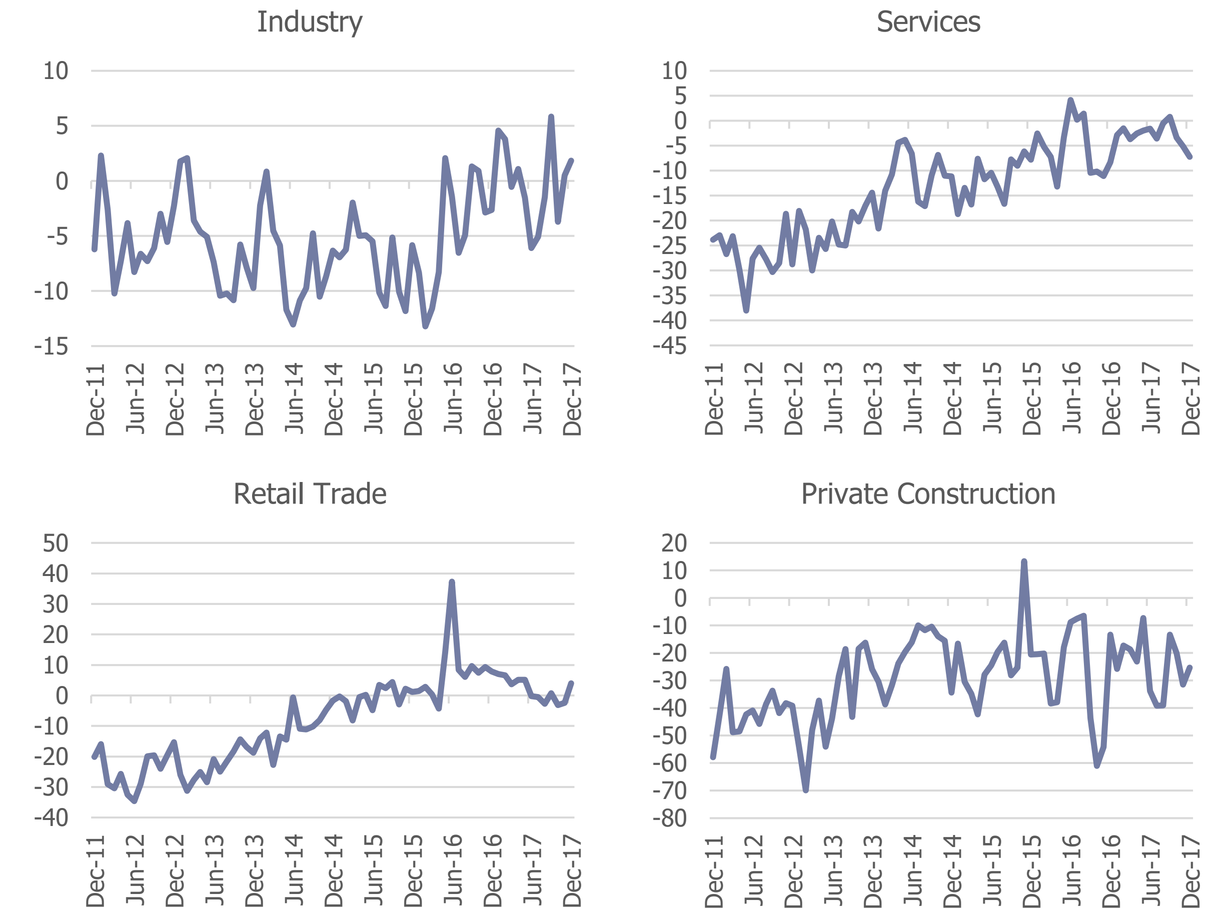
The quarter-on-quarter changes in the price expectations in the final quarter of 2017 varied across the sectors, as the corresponding indicators in Private Construction, Retail Trade, Industry and Services took negative values. In particular, the price expectations indicator remained unchanged quarter on quarter in Industry and Retail Trade, decreased in Services and increased in Private Construction. Year on year, the expectations for price changes strengthened slightly in Services and Industry, stronger in Private Construction, weakening in Retail Trade. Overall in 2017 compared to 2016, the price expectation indices increased in all sectors except Retail Trade. In detail:

In Industry, the price expectations remained unchanged quarter on quarter in the fourth quarter, from -2 points in the previous quarter and in the same period of last year. Overall in 2017, the average index reached a balance of 0 (from -5 point in 2016). Of the companies in the sector, 9% (from 7%) on average predicted once more a fall in prices in the upcoming period, with 82% (from 86%) expecting stability and 9% (from 7%) a price increase.

In Retail Trade, the index for price expectations in the sector remained unchanged at -1 point from the previous quarter (from +8 in the corresponding quarter of last year). Overall in 2017, the index averaged +2 points (+8 in 2016). Of the companies in the sector, 6% (from 9%) were expecting a fall in prices in the short term, while the percentage of those forecasting price growth fell to 5% (from 8%), with the remaining 89% (from 84%) of the businesses expecting price stability. The price expectations strengthened slightly quarter on quarter in the fourth quarter of the year in all sub-sectors of Retail Trade, except for Department Stores, where the indicator declined sharply, and Textiles-Clothing-Footwear, where it remained unchanged.

Figure 3.23

Price expectations (difference between positive and negative answers)



Source: IOBE

The average index for the anticipated change in prices in Services in the examined quarter declined quarter on quarter, moving to -5 (from -1) points, at a higher level than its performance last year (-10 points on average). Overall in 2017, the index averaged -3 points (-5 in 2016). In the current quarter, 13% (from 12%) of the companies in the sector were expecting a fall in prices and a 8% (from 10%) an increase. At the branch level, the index increased in Various Business Activities and Information Services, falling in the remaining branches.

Finally, in Private Construction, the negative balance of -31 points from the previous quarter changed to -26 points, higher than its level from the same period of the preceding year (-43 points). Overall in 2017, the index averaged -25 points (-27 in 2016). About 27% (from 33%) of the businesses in the sector were anticipating their prices to decline, while the percentage of those expecting inflation during the examined quarter totalled 1% (from 3%).

3.6 Balance of Payments

Current Account

January-November 2017

In the first eleven months of 2017, the Current Account deficit totalled €213 million, from €864 million in the corresponding period of 2016. The deficit narrowed despite the surge in the trade deficit, as the surplus in the Services Accounts increased significantly.

In particular, the deficit of the **Goods Account** reached €16.9 billion in the first eleven months of 2017, expanding by 12% or €1.8 billion, compared with a reduction by 4.3% in 2016. Exports amounted to €25.3 billion, significantly strengthened by 14.0% (€3.1 billion),[37] as the exports of fuels (+28%) and other goods increased. Imports stood at €42.3 billion, up by 13.2% (€4.9 billion). The deficit of the **Goods Account excluding fuel and ships** stood at €13.3 billion in the first eleven months of 2017, higher by 6.3% year on year, as alongside the boost of exports by €1.5 billion, imports increased by €2.3 billion. A significant increase was recorded in fuel exports and imports, by €1.5 billion and €2.5 billion respectively. As a result, the deficit of the fuel account increased by €1.5 billion.

The surplus in the **Services Account** increased by €2.1 billion in the first eleven months of 2017, to €17.0 billion, from €14.9 billion in 2016, with a simultaneous increase in receipts and payments. The steady growth of the receipts from transport services throughout the 2017 had a significant effect on the improvement of the services account, while between June and October the receipts from tourism increased by €1.4 billion, fuelling their overall growth in the first eleven months of the year. In the first eleven months of 2017, total receipts from services amounted to €26.9 billion, up by 13.7% (€3.2 billion), while payments stood at €9.9 billion, up by 12.2% (€1.1 billion). The receipts from tourism reached €14.4 billion, while the receipts from transport services increased significantly to €8.3 billion, higher by €1.2 billion year on year. In addition, the receipts from other services increased by 17.5%, to €4.1 billion. The payments for travel services declined by 6.7% to €1.7 billion, while the payments for transport services increased by 13.7% to €4.6 billion. The payments for other services increased by 22.4% to €3.6 billion.

The **Primary Income Account** was in surplus of €202 million in the first eleven months of this year, from €73 million deficit in 2016. Revenues amounted to €5.5 billion, up by 2.7%, while payments declined by 2.4% to €5.3 billion. In greater detail, income from labour remained close to €126 million, from investments increased by 23.3% to €3.0 billion, while other primary income (subsidies and taxes on production) decreased by 15.3%, to €2.4 billion. Payments for labour income increased to €255 million, payments for investment income fell by 3.2%, to €4.7

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

billion, and those for other primary income decreased by 4.9%, to €365 million.

The **Secondary Income Account** recorded a deficit of €479 million, from a deficit of €499 million in 2016. Receipts totalled €1.7 billion, from €1.6 billion in 2016, while payments amounted to €2.2 billion, with an increase by €49 million compared to 2016.

Capital Account

The surplus of the **Capital Account**[38] stood at €445 million, from €756 million in the first eleven months of 2016. Receipts declined significantly by €367 million, while payments decreased by €56 million.

Finally, the **Current and Capital Account**, indicative of an economy's position as a lender or a borrower with respect to the rest of the world, recorded a surplus of €232 million, compared with a deficit of €108 million in 2016.

Financial Account

The **Financial Account** reached a surplus of €15 million in the first eleven months of this year, compared to a deficit of €299 million in 2016.

In detail, the net receivables of the residents from **direct investment** abroad increased by €512 million, while the net liabilities to non-residents (investments of non-residents in the country) increased significantly, by €3.3 billion.

In the category of **portfolio investments,** the claims of the residents to non-residents decreased by €9.9 billion, as according to the Bank of Greece, the placements of residents in bonds and treasury bills abroad decreased. The liabilities to non-residents declined by €1.6 billion, mainly driven by decline in the holdings of Greek sovereign bonds and treasury bills by non-residents.

In the category of **other investments**, the claims of residents to non-residents declined by €11.2 billion in the first eleven months of 2017, with a net decrease of €2.7 billion in the deposits and repos of residents (credit institutions and institutional investors) abroad. The liabilities declined by €22.2 billion, mainly reflecting the decline in the deposits and repos of non-residents in Greece by €19.9 billion, while public and private sector debt to non-residents increased by €5.9 billion.

Finally, the **Reserve Assets** of the country totalled €6.5 billion at the end of November 2017, at the same level as in 2016.

Assessment

The comparative advantage of each product or sector of an economy is calculated with a multitude of indicators. A key indicator for the evaluation of products or industries with a comparative advantage

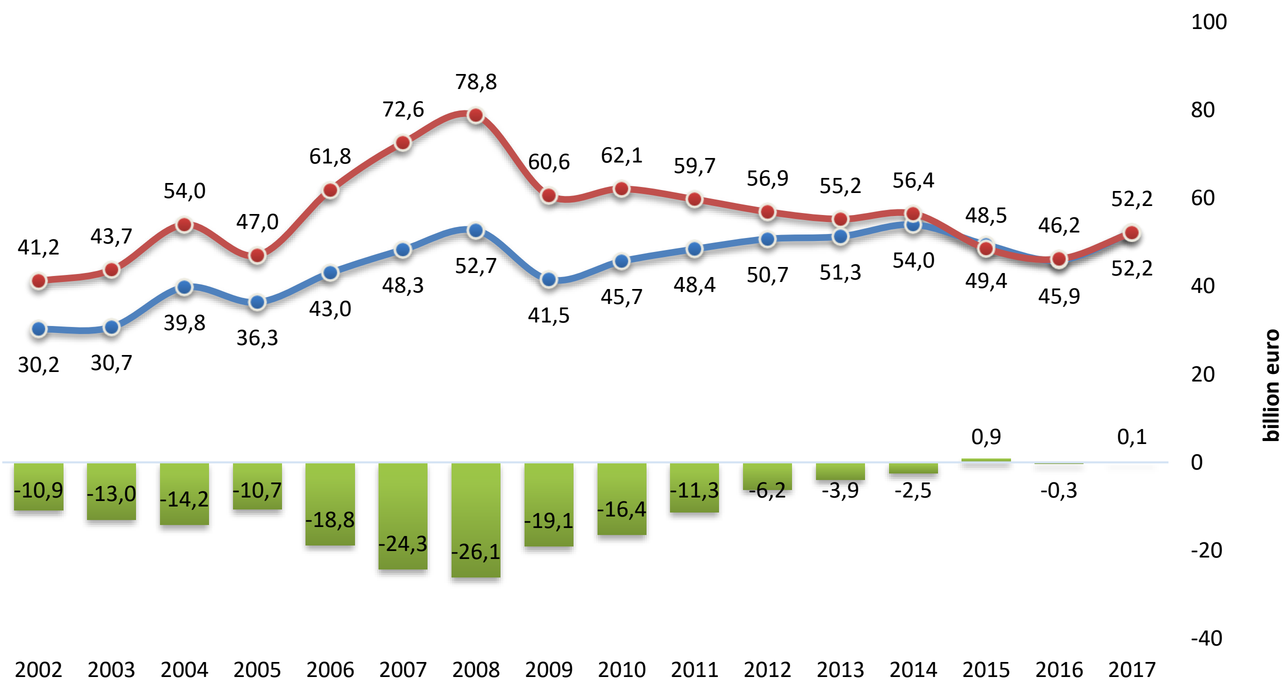
[38] The capital account reflects capital transfers, i.e. ad-hoc receipts and payments between residents and non-residents related to fixed capital formation. Capital transfers include mainly some of the transfers (receipts) from the budget of the EU to the General Government (receipts from the Structural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

is the Balassa index. It is calculated using two separate indices - the exports of a sector of an economy to total exports, and the exports of the same sector globally over total exports worldwide. The comparative advantage index is estimated by dividing the first ratio with the second. Therefore, an index value above one means that the economy has a comparative advantage in this industry, as it exports relatively more than other countries, while a value lower than one indicates that the country does not have a competitive advantage in this industry.

The comparative advantage index was calculated for the double-digit NACE Rev.2 manufacturing sectors in Greece, at the level of total manufacturing trade, intra-EU and extra-EU, but also for each of these two categories separately. We used data from Eurostat, for 2008, before the start of the crisis in Greece, and for 2016, which is the latest year with available data. The European Union was chosen as the reference region of comparison. Therefore, the sectoral performance in Greece was compared with that in the rest of the EU, both for the total trade flows and separately within and outside the EU. Note that the exports and imports of the Greek economy were deducted from the EU data, in order to capture the European competition without the influence of the Greek data.

Figure 3.24

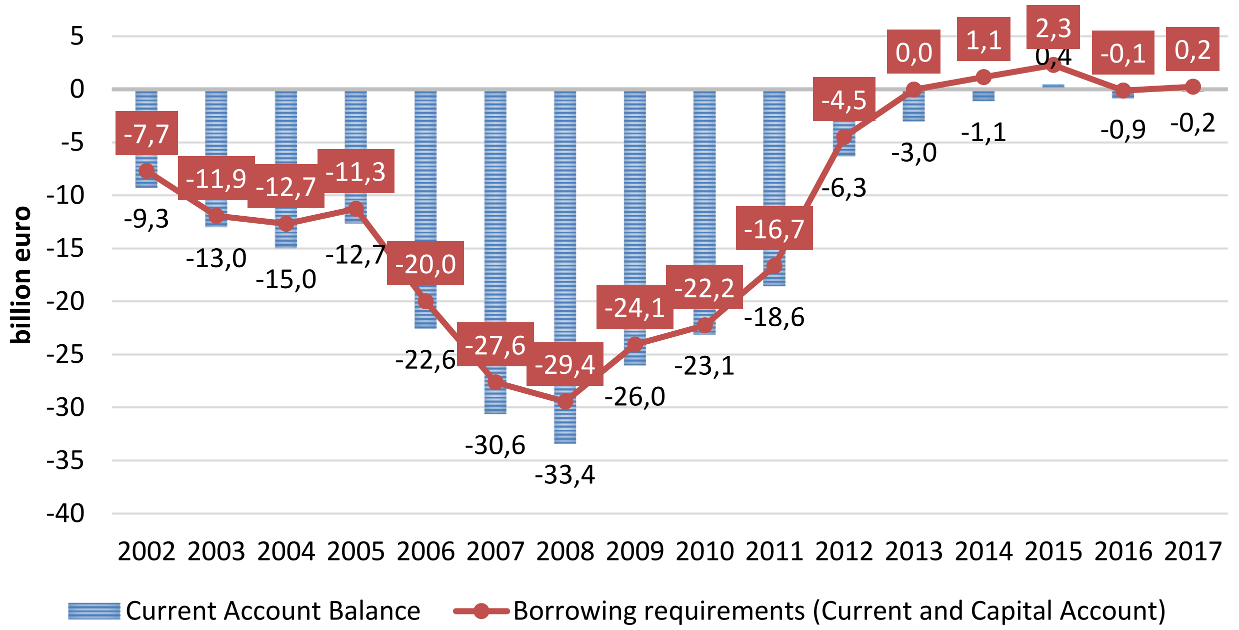
Imports-Exports of Goods and Services (January – November) 2002-2017



Source: Bank of Greece - Data processing IOBE

Figure 3.25

Current Account (January – November) 2002-2017



Source: Bank of Greece - Data processing IOBE

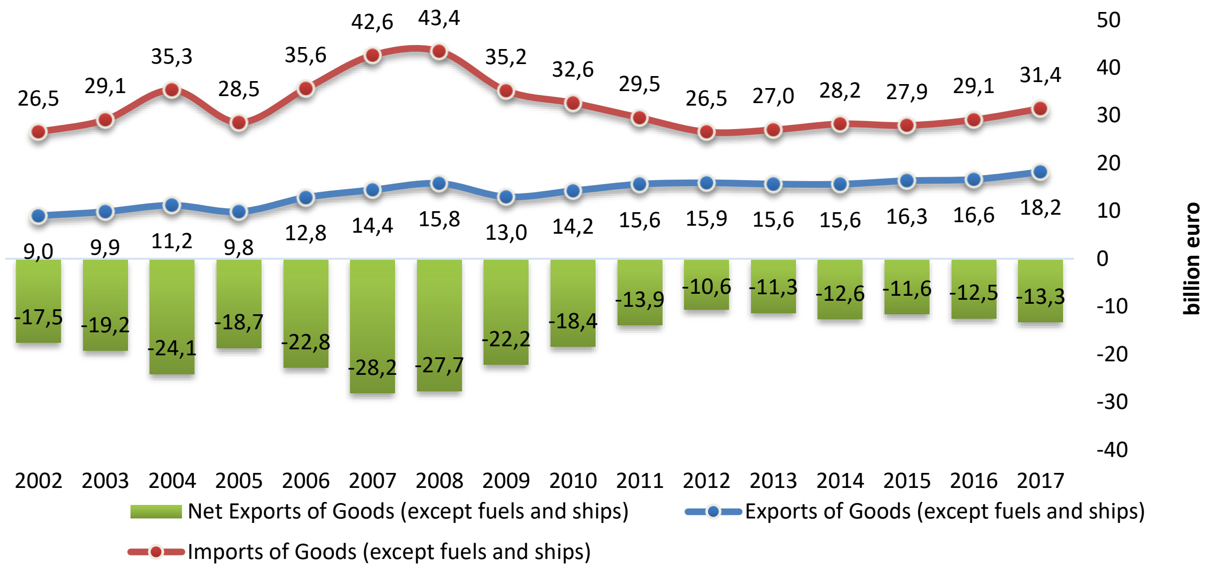
Based on the available data, ten manufacturing sectors had comparative advantage in 2008, i.e. the corresponding index took values above one, indicating that the exports of these sectors over the total exports of Greek manufacturing was relatively stronger, compared with the exports of the same sectors in the EU over total EU exports. Respectively in 2016, the number of sectors with a comparative advantage was also ten. Note that in both years petroleum refining, which is excluded from the analysis due to the specificities of its products, should also be added to the sectors with strong competitiveness. In particular, the production of the sector relies almost exclusively on imported crude oil, while its products cover almost half of the exports, while their prices are set internationally.

In 2008, the tobacco industry had a significant advantage, with notably bigger advantage in the exports outside the EU, compared to the intra-EU trade. Clothing came next in terms of its comparative advantage, followed by Food, Textiles and Basic Metals. Note that in these four sectors there is no difference between intra-EU and extra-EU trade. By contrast, in the production of non-metallic minerals, the comparative advantage is stronger in extra-EU trade, while in Pharmaceuticals, which are in the eighth place in the ranking, the intra-EU comparative advantage is clearly higher, i.e. the sector shows better export performance vis-à-vis its European competitors within the EU.

In 2016, the industry with the strongest comparative advantage is again the manufacture of tobacco products, retaining stronger advantage in the extra-EU trade, while the food industry is fairing stronger compared to 2008, with the same trade dynamic within and outside the EU. Basic Metals and Non-Metallic Minerals come next, where the comparative advantage difference between intra-EU and extra-EU trade expands compared to 2008, with clearly better performance in the exports outside the EU. Finally, the last two branches with a marginal comparative advantage, Beverages and Pharmaceuticals, have a comparative advantage within the EU, but not in the extra-EU trade.

Figure 3.26

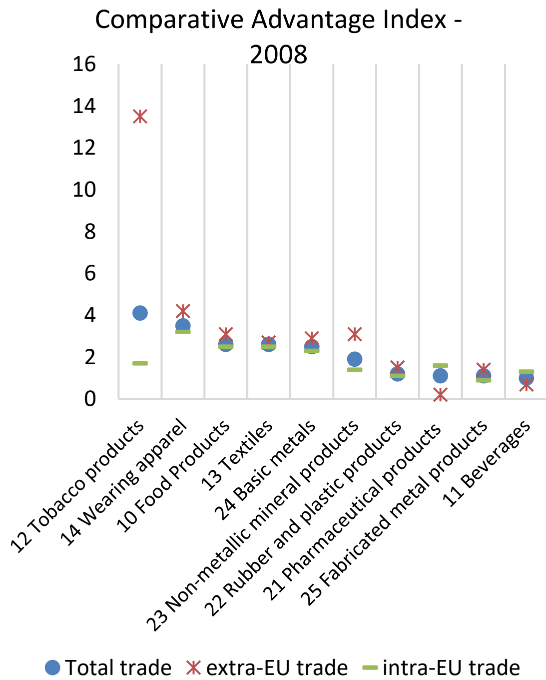
Imports-Exports of Goods and Services excluding fuels and ships (January – November) 2002-2017

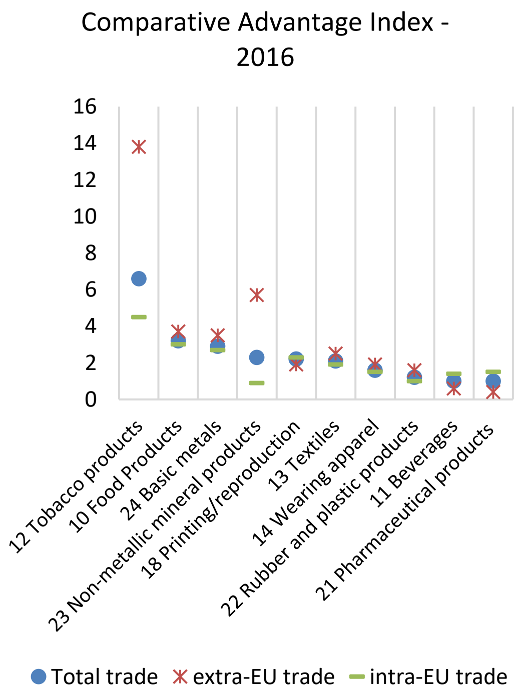


Source: Bank of Greece, **Data processing:** IOBE

Figure 3.27

Comparative advantage index for sectors*





* The numbering of the sectors indicates their code as per the statistical classification of industries NACE Rev.2

Source: Eurostat, EU Trade Since 1988 by CPA, **Data processing:** IOBE

Table 3.11 Balance of Payments in million €

		January - November			November		
		2015	**2016**	**2017**	**2015**	**2016**	**2017**
I	**CURRENT ACCOUNT (I.A + I.B + I.C + I.D)**	**430.1**	**-863.9**	**-212.7**	**-1,220.6**	**-1,249.9**	**-954.0**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**870.9**	**-291.5**	**63.7**	**-1,195.8**	**-1,174.3**	**-869.5**
I.A	**GOODS ACCOUNT (I.A.1 - I.A.2)**	**-15,749.9**	**-15,065.7**	**-16,875.2**	**-1,596.4**	**-1,640.7**	**-1,350.3**
	Oil balance	-3,753.6	-2,434.0	-3,385.9	-302.4	-460.1	28.7
	Trade balance excluding oil	-11,996.3	-12,631.6	-13,489.3	-1,294.0	-1,180.6	-1,379.0
	Ships balance	-425.2	-143.7	-220.7	-36.8	-29.0	-23.5
	Trade balance excluding ships	-15,324.6	-14,922.0	-16,654.5	-1,559.6	-1,611.7	-1,326.8
	Trade balance excluding oil and ships	-11,571.0	-12,487.9	-13,268.6	-1,257.2	-1,151.6	-1,355.5
I.A.1	**Exports**	**22,720.7**	**22,261.3**	**25,376.5**	**2,024.7**	**2,130.7**	**2,516.0**
	Oil	6,204.4	5,499.2	7,040.8	614.9	517.6	740.6
	Ships (sales)	171.1	143.7	165.2	8.7	7.2	22.6
	Goods excluding oil and ships	16,345.1	16,618.4	18,170.5	1,401.1	1,605.9	1,752.8
I.A.2	**Imports**	**38,470.5**	**37,327.0**	**42,251.7**	**3,621.1**	**3,771.4**	**3,866.3**
	Oil	9,958.1	7,933.3	10,426.6	917.3	977.7	712.0
	Ships (buying)	596.3	287.3	385.9	45.5	36.2	46.1
	Goods excluding oil and ships	27,916.2	29,106.4	31,439.1	2,658.3	2,757.4	3,108.3
I.B	**SERVICES ACCOUNT (I.B.1-I.B.2)**	**16,620.8**	**14,774.2**	**16,938.9**	**400.6**	**466.4**	**480.8**
I.B.1	**Receipts**	**26,675.7**	**23,612.2**	**26,856.6**	**1,128.1**	**1,331.8**	**1,383.0**
	Travel	13,941.4	13,025.9	14,413.6	254.5	222.2	225.1
	Transportation	9,313.1	7,087.1	8,332.0	613.6	710.6	798.3
	Other services	3,421.2	3,499.1	4,111.1	260.0	399.0	359.5
I.B.2	**Payments**	**10,055.0**	**8,838.0**	**9,917.7**	**727.5**	**865.4**	**902.1**
	Travel	1,857.8	1,869.7	1,744.1	153.7	165.7	122.6
	Transportation	5,050.9	4,046.9	4,599.9	370.3	403.2	426.9
	Other services	3,146.3	2,921.4	3,573.8	203.4	296.5	352.6
I.C	**PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)**	**119.7**	**-73.1**	**202.2**	**0.5**	**14.1**	**-10.3**
I.C.1	**Receipts**	**6,270.4**	**5,388.4**	**5,531.6**	**420.6**	**421.5**	**278.5**
	From work (wages, compensation)	143.2	122.4	125.6	9.8	11.3	10.1
	From investments (interest, dividends, profit)	3,386.7	2,450.4	3,021.0	290.1	213.0	205.6
	Other primary income	2,740.5	2,815.6	2,385.0	120.8	197.2	62.8
I.C.2	**Payments**	**6,150.7**	**5,461.5**	**5,329.3**	**420.2**	**407.4**	**288.7**
	From work (wages, compensation)	361.2	210.2	254.6	12.8	20.0	21.6
	From investments (interest, dividends, profit)	5,512.4	4,867.7	4,709.6	391.1	354.7	243.5
	Other primary income	277.1	383.5	365.1	16.3	32.7	23.6
I.D	**SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)**	**-560.5**	**-499.3**	**-478.7**	**-25.3**	**-89.7**	**-74.2**
I.D.1	**Receipts**	**1,705.6**	**1,648.7**	**1,718.0**	**110.6**	**144.3**	**103.4**
	General government	913.5	938.5	795.0	40.3	65.7	20.9
	Other sectors	792.1	710.1	923.0	70.4	78.6	82.5
I.D.2	**Payments**	**2,266.1**	**2,148.0**	**2,196.7**	**135.9**	**233.9**	**177.7**
	General government	1,570.2	1,618.6	1,564.5	92.4	185.2	133.8
	Other sectors	695.9	529.4	632.2	43.4	48.8	43.8
II	**CAPITAL ACCOUNT (II.1-II.2)**	**1,851.9**	**756.2**	**445.0**	**190.2**	**116.8**	**83.2**
II.1	**Receipts**	**2,151.4**	**972.8**	**606.0**	**199.5**	**138.0**	**92.9**
	General government	2,105.1	916.0	520.6	196.6	133.9	85.6
	Other sectors	46.2	56.8	85.3	2.9	4.1	7.3
II.2	**Payments**	**299.4**	**216.6**	**161.0**	**9.3**	**21.2**	**9.7**
	General government	4.0	28.4	2.8	0.1	0.2	0.4
	Other sectors	295.4	188.2	158.2	9.2	21.0	9.3
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	***2,282.1***	***-107.7***	***232.3***	***-1,030.4***	***-1,133.0***	***-870.8***
III	**FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)**	**3,198.3**	**-299.4**	**15.3**	**-449.6**	**-712.7**	**-498.1**
III.A	**DIRECT INVESTMENT***	**455.4**	**-3,916.9**	**-2,792.2**	**50.0**	**-87.4**	**-119.0**
	Assets	1,331.5	-1,454.3	512.2	127.3	67.8	56.5
	Liabilities	876.0	2,462.6	3,304.4	77.3	155.2	175.5
III.B	**PORTFOLIO INVESTMENT****	**3,959.2**	**8,964.7**	**-8,249.8**	**-7,214.8**	**665.4**	**1,194.8**
	Assets	1,568.9	6,682.7	-9,878.4	459.6	580.6	1,679.8
	Liabilities	-2,390.4	-2,282.1	-1,628.6	7,674.5	-84.8	485.0
III.C	**OTHER INVESTMENT***	**-1,170.7**	**-5,868.7**	**10,988.2**	**6,713.2**	**-1,212.7**	**-1,530.0**
	Assets	19,059.7	-13,770.2	-11,196.1	-620.1	-1,121.2	-1,876.3
	Liabilities	20,230.5	-7,901.4	-22,184.3	-7,333.3	91.5	-346.3
	(Loans of general government)	6,763.0	6,520.1	5,511.7	1,995.6	13.4	1.8
III.D	**CHANGE IN RESERVE ASSETS*****	**-45.6**	**521.5**	**69.0**	**2.0**	**-78.0**	**-44.0**
IV	**BALANCE ITEMS (I +II +IV +V = 0)**	**916.3**	**-191.7**	**-217.0**	**580.8**	**420.4**	**372.7**
	RESERVE ASSETS (STOCK)***				**5,245**	**6,531**	**6,471**

Source: Bank of Greece
* (+) Increase (-) decrease - According to the new balance of payments methodology training BPM6, increases in demand are presented with a positive sign while the decrease in receivab is displayed with a negative sign. Similarly, the increase in liabilities is captured with a positive sign, while the reduction of liabilities with a negative sign. ** (+) Increase (-) decreas According to the new balance of payments methodology training BPM6, the increase in foreign reserves is now presented with a positive sign, while the reduction of foreign exchar reserves with a negative sign. *** Reserve assets, as defined by the European Central Bank, include only monetary gold, the "reserve position" with the IMF, "Special Drawing Rights" a the claims of the Bank of Greece in foreign currency from residents of countries outside the euro area. Conversely, they do not include claims in euro from residents of countries outs the euro area, claims in foreign currency and in euros from residents of euro area countries and the participation of the Bank of Greece in the capital and the reserve assets of the ECB

4. FOOD BANK: A TOOL FOR ADDRESSING FOOD INSECURITY AND FOOD WASTE IN GREECE[39]

4.1 Introduction

The deep and prolonged economic crisis in Greece has serious social repercussions. As a result of the extensive fall of per capita income and high unemployment, a significant part of the population seems to be facing difficulties in securing sufficient amounts of nutritious food. In this context, the food banks contribute decisively both to the combat of food poverty, and to the reduction of food waste.

The study summarised in this chapter of the quarterly report analyses the data on the extent of food poverty and food waste in Greece. In addition, it presents the tools available to combat these social problems, with emphasis on the Food Bank institution.

4.2 Food poverty

A person experiences food insecurity or food poverty when there is no secure access to sufficient amounts of safe and nutritious food for normal development and for an active and healthy life. Food insecurity is a serious social issue, as it can lead to mental and physical development problems, affect the performance of children at school, and even lead to obesity due to excess consumption of food of low quality and high caloric content, with negative health implications.

In Greece, it is estimated that approximately 1.4 million people, or 12.9% of the population, were experiencing food insecurity in 2015. The corresponding figures are at significantly lower levels in the EU (8.5%, or 43 million people) and the Euro area (7.3% or 25 million people). The figures diverged during the domestic economic crisis, as in 2008 Greece had a smaller proportion of the population with food insecurity (7.1%) than the Eurozone average (7.8% - Figure 4.1). The highest rate of food insecurity was recorded in Greece in 2012 (14.2%). Since then, the indicator has declined, which may be due to a gradual easing of unemployment in the country during the same period.

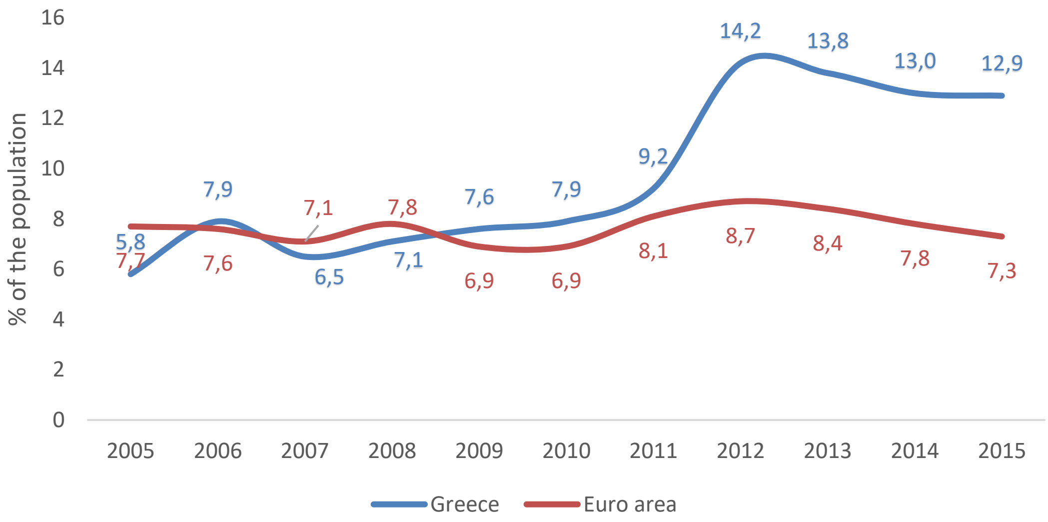
The comparison with other EU countries also points to a worsening of the food insecurity during the economic crisis in Greece. In 2015, Greece had the eighth worst position among 30 European countries, compared with the 15th worst position in 2008. Six countries of Central and Eastern Europe (Bulgaria, Hungary, Slovakia, Romania, Lithuania and Latvia) and Malta experience greater food insecurity than Greece. Other

[39] The full text of the study is available on the IOBE website of (http://iobe.gr/research_dtl.asp?RID=149).

countries who joined relatively recently the EU, such as the Czech Republic, Poland and Slovenia, have a smaller proportion of their population with food insecurity.

Figure 4.1

Evolution of food insecurity in Greece and the Euro area, 2003-2015



Source: Eurostat

The problem of food poverty is particularly acute in vulnerable population groups. About 54% of households with an income below the poverty threshold indicated that they experienced food insecurity in 2015 in Greece, compared to 21.3% in 2006.

The increased food insecurity in Greece is not due to a lack of overall supply of food in the country. Based on data of the Food and Agriculture Organization of the United Nations (FAO), the total food supply in Greece is estimated to have approached 13,600 kcal per person per day in 2013, which is close to the EU average (13,630 kcal per person). In a ranking of 206 countries based on the total food supply per person, Greece is ranked relatively high, in the 23rd position.

4.3 Resources from international programmes to tackle food poverty

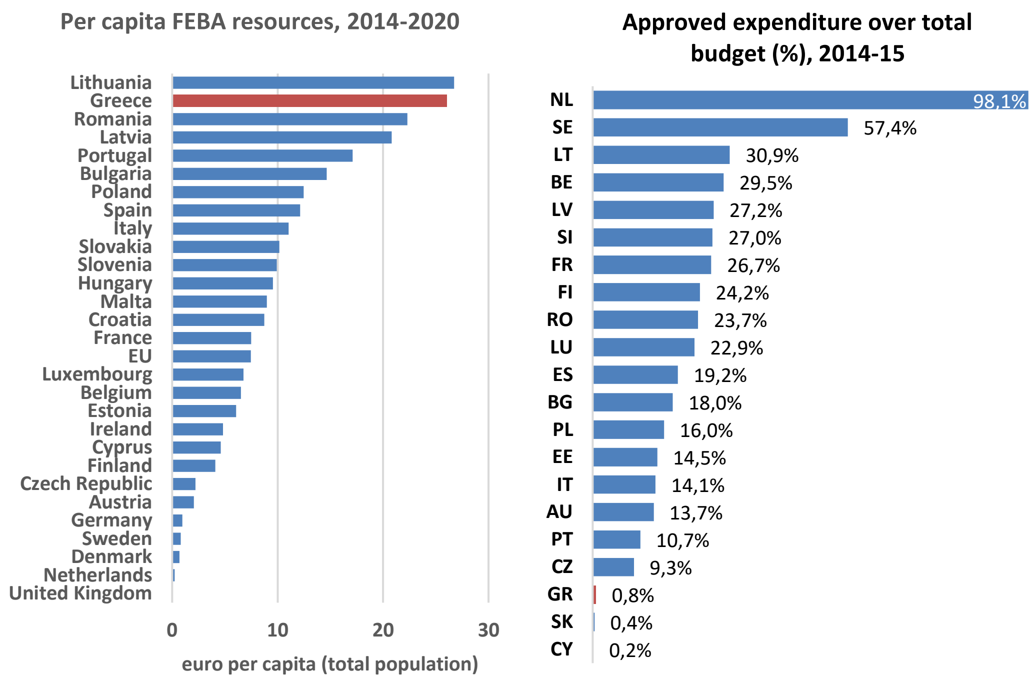
International law provides that the Member States of the International Covenant on Economic, Social and Cultural Rights are obliged to respect, protect and fulfil the right of all to adequate nutrition. This obligation implies that every state must actively undertake measures aimed to strengthen the access of all citizens to resources and means to ensure food sufficiency. In this context, policies, institutions and tools are established internationally for fighting food poverty.

The Fund for European Aid to the Most Deprived (FEAD) is the major such tool at the European level. It was introduced in place of the Food Distribution Programme for the Most Deprived Persons (MDP). Over €3.8 billion (in constant prices) are made available from the EU Community budget to FEAD for the period 2014-2020. In addition, each country contributed to its own program at least 15% of the total budget.

Greece is projected to receive €281 million from FEAD between 2014 and 2020. Together with the national participation, the operational programme of the country amounts to €331 million, of which 83.5% (€276 million) is allocated for food aid. In the ranking of the EU Member States on the basis of national FEAD programme budget, Greece comes sixth, while in the rankings based on per capita resources of the programme, it comes second (€26.0 per inhabitant – Figure 4.3).

Figure 4.3

Budget and implementation of FEAD operational programmes



Source: European Commission

The utilisation of FEAD resources, however, suffers from significant delays in Greece, where the program is implemented mainly by the country's municipalities. In the first two years of the seven-year programme period, only 0.8% of the programme's expenses were approved and only 0.7% of the total budget was paid to beneficiaries that implement actions. Based on the absorption of the programme resources, Greece ranks 19th in terms of approved expenditure and 16th in terms of paid expenditure. Within the first two years, no food assistance seem to have been given to final beneficiaries as part of the programme in Greece.

The utilisation of the programme improved in Greece in 2016. According to the report by the managing authority of the programme, 9,600 tons of food were distributed, with a total value of €3.4 million, as 226,000 meals were prepared. About 412,000 beneficiaries received aid under the programme. Nevertheless, there is considerable scope for intensifying the use of resources, as the value of the food distributed in 2016 represents only 1.2% of the total budget for the seven-year food assistance programme.

For comparison, in France, where civil society institutions have taken an active role in the implementation of the programme, both nationally and locally, the uptake rates in the first two years amounted to 26.7% and 18.0% of the budget in terms of approved and incurred expenditure respectively. As part of the programme, 4.2 million people in France received food assistance in 2014 and 2015.

4.4 Limiting food losses

Apart from the resources of international programmes, the utilisation of the food surplus is another major tool for combating food poverty. Not all produced food ends up consumed. A part of the food production is taken out of the supply chain and is discarded or is used for another purpose (not as food), even when it might contain food fit for human consumption. The term "food waste" denotes the quantity of products grown, farmed, hunted, fished and processed for human consumption, but ultimately not eaten even though it could have been consumed if it had chanced different handling.

Food waste seems to be high in Greece. Based on the FAO methodology of measuring food loss, it is estimated that the edible surplus represented 5.1% of the food production in Greece in 2013 (Figure 4.4). This rate is more than twice as high as the Europe average of that year (2.3%), higher also than the world average (4.5%). Among the 28 Member States of the EU, it is estimated that Greece is in the fifth worst position based on the rate of food production that ends up as edible surplus, and in the fourth worst place in terms of food loss per person (196 kg per person in 2013).

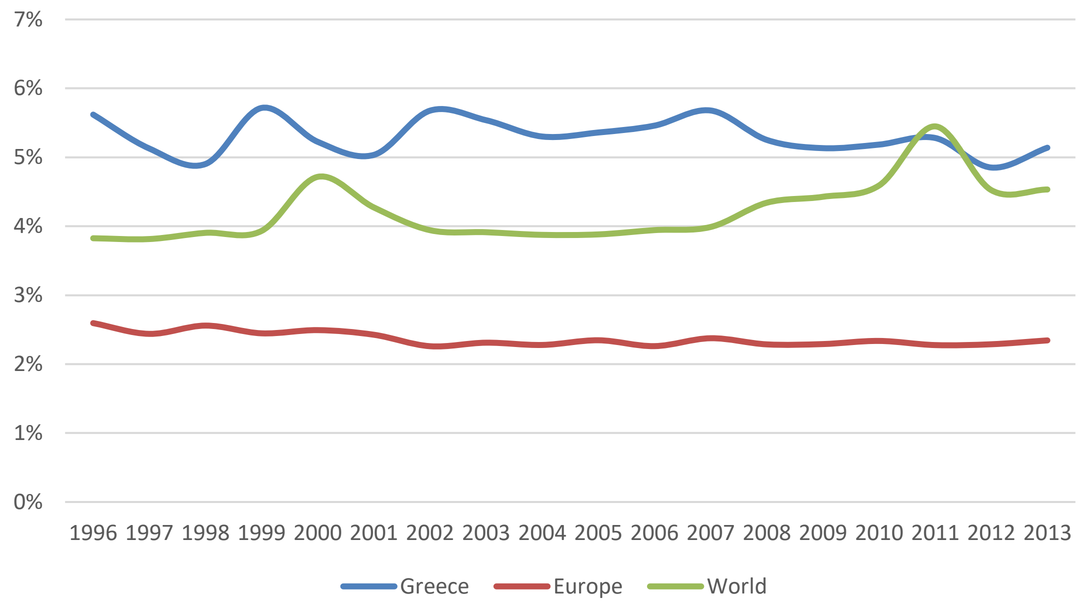
Limiting food wastage is in itself an important policy objective. The objectives for sustainable development of the United Nations provide for the halving of food waste in retail trade and consumption worldwide until 2030. Policies at European and national level have been enacted to achieve this goal. In these policies, the redistribution of the edible food surplus through donations to groups of the population facing food insecurity is recognised as the second most preferred method for limiting waste after prevention.

4.5 The Food Bank institution

Institutions that have accumulated considerable expertise and have developed specific infrastructure to combat poverty and food waste internationally and in Greece. Primary care institutions, such as soup kitchens, shelters and nursing homes, provide ready meals and foodstuffs to vulnerable groups at the local level. In addition, organisations operate at a more aggregate level in the distribution of food donations to primary care institutions. In this context, the food banks receive donations from food manufacturers and trade companies and offer them to primary care institutions for food poverty relief.

Figure 4.4

Evolution of food losses as a percentage of total production in Greece and abroad, 1996-2013



Source: FAO **Data processing**: IOBE

The Food Bank is an institution with a long history and a significant presence internationally. Half a century was completed last year since the founding of the first food bank in Phoenix, Arizona (USA) in 1967. The European Federation of food banks FEBA (Fédération Européenne des Banques Alimentaires) was founded in 1986.

Greece was the tenth country that joined FEBA, with the establishment of the Food Bank - Institution Against Hunger in Athens in 1995. In 1998, the Food Bank's activities expanded to Thessaloniki with the launch of a branch, which evolved into an independent institution in 2015.

The two food banks support on a regular basis the operation of dozens of charitable institutions in Attica and Thessaloniki (144 charities based on data for the 2014). The institutions that cooperate with the food banks include soup kitchens, nursing homes, child care institutions, rehabilitation centres, disability support agencies, mental health centres and other structures to support vulnerable social groups. The final recipients of the food aid of the Food Bank in Attica exceeded 23,000 people in 2014. About 1,200 tons of food in 341,000 boxed were distributed that year.

The Food Bank has many years of presence in Greece, with remarkable action in Attica and Thessaloniki. However, the problems of food insecurity is not confined to the two major urban centres of the country. The widespread economic crisis in the country would justify enhanced activity of the food banks in Athens and Thessaloniki and stronger presence of the institution in the entire Greek territory.

4.6 Policy implications

The study recommends the following actions:

- Examine the possibility of supporting the establishment and development of civil society institutions, following successful examples, with the aim of combating food insecurity and food waste throughout the Greek territory. Resources of the European Social Fund are envisaged to be allocated through the NSRF 2014-2020 for similar purposes, while there are possibilities of supporting charitable organisations through programmes of the European Investment Bank Group as well.

- Ensure the possibility for more active and meaningful participation of civil society institutions in the design and management of food assistance through FEAD. The utilisation of the know-how and the networks of charities can significantly improve the performance of the programme. In this direction, a parallel national network could be created for managing FEAD resources in danger of not been used in time by the existing mechanism, with the participation of accredited non-profit organisations with established record in fighting food poverty.

5. APPENDIX: KEY ECONOMIC INDICATORS

Table 1: GDP growth

	Annual data (%)									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	3.7	1.5	-3.8	1.8	2.9	0.7	0	0.8	1.1	1.5
Belgium	3.4	0.8	-2.3	2.7	1.8	0.2	0.2	1.4	1.4	1.5
Bulgaria	7.3	6	-3.6	1.3	1.9	0	0.9	1.3	3.6	3.9
France	2.4	0.2	-2.9	2	2.1	0.2	0.6	0.9	1.1	1.2
Germany	3.3	1.1	-5.6	4.1	3.7	0.5	0.5	1.9	1.7	1.9
Denmark	0.9	-0.5	-4.9	1.9	1.3	0.2	0.9	1.6	1.6	2
Czech Republic	5.6	2.7	-4.8	2.3	1.8	-0.8	-0.5	2.7	5.3	2.6
EU	3	0.4	-4.3	2.1	1.7	-0.4	0.3	1.8	2.3	2
Greece	3.3	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.3	-0.2
Estonia	7.7	-5.4	-14.7	2.3	7.6	4.3	1.9	2.9	1.7	2.1
Euro area	3	0.4	-4.5	2.1	1.6	-0.9	-0.2	1.3	2.1	1.8
United Kingdom	2.4	-0.5	-4.2	1.7	1.5	1.5	2.1	3.1	2.3	1.9
Ireland	5.2	-3.9	-4.6	1.8	3	0	1.6	8.3	25.6	5.1
Spain	3.8	1.1	-3.6	0	-1	-2.9	-1.7	1.4	3.4	3.3
Italy	1.5	-1.1	-5.5	1.7	0.6	-2.8	-1.7	0.1	1	0.9
Croatia	5.2	2.1	-7.4	-1.4	-0.3	-2.2	-0.6	-0.1	2.3	3.2
Cyprus	4.8	3.9	-1.8	1.3	0.3	-3.1	-5.9	-1.4	2	3
Latvia	10	-3.5	-14.4	-3.9	6.4	4	2.6	1.9	2.8	2.1
Lithuania	11.1	2.6	-14.8	1.6	6	3.8	3.5	3.5	2	2.3
Luxemburg	8.4	-1.3	-4.4	4.9	2.5	-0.4	3.7	5.8	2.9	3.1
Malta	4	3.3	-2.5	3.5	1.4	2.6	4.6	8.2	7.2	5.5
Netherlands	3.7	1.7	-3.8	1.4	1.7	-1.1	-0.2	1.4	2.3	2.2
Hungary	0.4	0.9	-6.6	0.7	1.7	-1.6	2.1	4.2	3.4	2.2
Poland	7	4.2	2.8	3.6	5	1.6	1.4	3.3	3.8	2.9
Portugal	2.5	0.2	-3	1.9	-1.8	-4	-1.1	0.9	1.8	1.5
Romania	6.9	8.3	-5.9	-2.8	2	1.2	3.5	3.1	4	4.8
Slovakia	10.8	5.6	-5.4	5	2.8	1.7	1.5	2.8	3.9	3.3
Slovenia	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3	2.3	3.1
Sweden	3.4	-0.6	-5.2	6	2.7	-0.3	1.2	2.6	4.5	3.2
Finland	5.2	0.7	-8.3	3	2.6	-1.4	-0.8	-0.6	0	1.9

Table 2: General Government Debt as % of GDP

	Annual data (%)									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	64.7	68.4	79.6	82.4	82.2	81.7	81	83.8	84.3	83.6
Belgium	87	92.5	99.5	99.7	102.6	104.3	105.5	106.8	106	105.7
Bulgaria	16.3	13	13.7	15.3	15.2	16.7	17	27	26	29
France	64.3	68	78.9	81.6	85.2	89.6	92.4	95	95.8	96.5
Germany	63.7	65.1	72.6	80.9	78.6	79.8	77.4	74.6	70.9	68.1
Denmark	27.3	33.3	40.2	42.6	46.1	44.9	44	44	39.5	37.7
Czech Republic	27.5	28.3	33.6	37.4	39.8	44.5	44.9	42.2	40	36.8
EU	64.9	68.6	78.4	83.8	86.1	89.4	91.3	91.8	89.9	88.9
Greece	103.1	109.4	126.7	146.2	172.1	159.6	177.4	179	176.8	180.8
Estonia	3.7	4.5	7	6.6	6.1	9.7	10.2	10.7	10	9.4
Euro area	57.5	60.7	72.7	78.3	81	83.7	85.6	86.5	84.5	83.2
United Kingdom	41.9	49.9	64.1	75.6	81.3	84.5	85.6	87.4	88.2	88.3
Ireland	23.9	42.4	61.5	86.1	110.3	119.6	119.4	104.5	76.9	72.8
Spain	35.6	39.5	52.8	60.1	69.5	85.7	95.5	100.4	99.4	99
Italy	99.8	102.4	112.5	115.4	116.5	123.4	129	131.8	131.5	132
Croatia	37.7	39.6	49	58.2	65	70.6	81.7	85.8	85.4	82.9
Cyprus	53.5	45.1	53.8	56.3	65.7	79.7	102.6	107.5	107.5	107.1
Latvia	8	18.2	35.8	46.8	42.7	41.2	39	40.9	36.9	40.6
Lithuania	15.9	14.6	28	36.2	37.2	39.8	38.8	40.5	42.6	40.1
Luxemburg	7.7	14.9	15.7	19.8	18.7	22	23.7	22.7	22	20.8
Malta	62.3	62.6	67.6	67.5	70.1	67.8	68.4	63.8	60.3	57.6
Netherlands	42.7	54.7	56.8	59.3	61.6	66.3	67.8	68	64.6	61.8
Hungary	65	71	77.2	79.7	79.9	77.6	76	75.2	74.7	73.9
Poland	44.2	46.3	49.4	53.1	54.1	53.7	55.7	50.2	51.1	54.1
Portugal	68.4	71.7	83.6	96.2	111.4	126.2	129	130.6	128.8	130.1
Romania	12.7	13.2	23.2	30.2	34.4	37.3	37.8	39.4	37.9	37.6
Slovakia	30.1	28.5	36.3	41.2	43.7	52.2	54.7	53.5	52.3	51.8
Slovenia	22.8	21.8	34.6	38.4	46.6	53.8	70.4	80.3	82.6	78.5
Sweden	39.3	37.8	41.4	38.6	37.9	38.1	40.8	45.5	44.2	42.2
Finland	34	32.7	41.7	47.1	48.5	53.9	56.5	60.2	63.6	63.1

Table 3: General Government Balance as % of GDP

	Annual data (%)									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	-1.4	-1.5	-5.3	-4.4	-2.6	-2.2	-2	-2.7	-1	-1.6
Belgium	0.1	-1.1	-5.4	-4	-4.1	-4.2	-3.1	-3.1	-2.5	-2.5
Bulgaria	1.1	1.6	-4.1	-3.1	-2	-0.3	-0.4	-5.5	-1.6	0
France	-2.5	-3.2	-7.2	-6.8	-5.1	-4.8	-4.1	-3.9	-3.6	-3.4
Germany	0.2	-0.2	-3.2	-4.2	-1	0	-0.1	0.3	0.6	0.8
Denmark	5	3.2	-2.8	-2.7	-2.1	-3.5	-1.2	1.1	-1.8	-0.6
Czech Republic	-0.7	-2	-5.5	-4.2	-2.7	-3.9	-1.2	-1.9	-0.6	0.7
EU	-0.9	-2.5	-6.6	-6.4	-4.6	-4.2	-3.3	-3	-2.4	-1.7
Greece	-6.7	-10.2	-15.1	-11.2	-10.3	-8.9	-13.2	-3.6	-5.7	0.5
Estonia	2.7	-2.7	-2.2	0.2	1.2	-0.3	-0.2	0.7	0.1	-0.3
Euro area	-0.6	-2.2	-6.3	-6.2	-4.2	-3.6	-3	-2.6	-2.1	-1.5
United Kingdom	-2.6	-5.2	-10.1	-9.4	-7.5	-8.2	-5.4	-5.5	-4.3	-2.9
Ireland	0.3	-7	-13.8	-32.1	-12.7	-8	-6.1	-3.6	-1.9	-0.7
Spain	1.9	-4.4	-11	-9.4	-9.6	-10.5	-7	-6	-5.3	-4.5
Italy	-1.5	-2.7	-5.3	-4.2	-3.7	-2.9	-2.9	-3	-2.6	-2.5
Croatia	-2.4	-2.8	-6	-6.5	-7.8	-5.2	-5.3	-5.1	-3.3	-0.9
Cyprus	3.2	0.9	-5.4	-4.7	-5.7	-5.6	-5.1	-8.8	-1.2	0.5
Latvia	-0.5	-4.2	-9.1	-8.7	-4.3	-1.2	-1	-1.2	-1.2	0
Lithuania	-0.8	-3.1	-9.1	-6.9	-8.9	-3.1	-2.6	-0.6	-0.2	0.3
Luxemburg	4.2	3.3	-0.7	-0.7	0.5	0.3	1	1.3	1.4	1.6
Malta	-2.1	-4.2	-3.2	-2.4	-2.4	-3.5	-2.4	-1.8	-1.1	1.1
Netherlands	0.2	0.2	-5.4	-5	-4.3	-3.9	-2.4	-2.3	-2.1	0.4
Hungary	-5	-3.7	-4.5	-4.5	-5.4	-2.4	-2.6	-2.7	-2	-1.9
Poland	-1.9	-3.6	-7.3	-7.3	-4.8	-3.7	-4.1	-3.6	-2.6	-2.5
Portugal	-3	-3.8	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2	-4.4	-2
Romania	-2.8	-5.5	-9.5	-6.9	-5.4	-3.7	-2.1	-1.4	-0.8	-3
Slovakia	-1.9	-2.4	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.7	-2.2
Slovenia	-0.1	-1.4	-5.8	-5.6	-6.7	-4	-14.7	-5.3	-2.9	-1.9
Sweden	3.4	1.9	-0.7	0	-0.2	-1	-1.4	-1.6	0.2	1.1
Finland	5.1	4.2	-2.5	-2.6	-1	-2.2	-2.6	-3.2	-2.7	-1.7

Table 4: Share of population at risk of poverty or social exclusion* (see p. 147)

	Annual data (%)									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	16.7	20.6	19.1	18.9	19.2	18.5	18.8	19.2	18.3	18.0
Belgium	21.6	20.8	20.2	20.8	21	21.6	20.8	21.2	21.1	20.7
Bulgaria	60.7	44.8	46.2	49.2	49.1	49.3	48	40.1	41.3	40.4
France	19	18.5	18.5	19.2	19.3	19.1	18.1	18.5	17.7	:
Germany	20.6	20.1	20	19.7	19.9	19.6	20.3	20.6	20	:
Denmark	16.8	16.3	17.6	18.3	17.6	17.5	18.3	17.9	17.7	16.7
Czech Republic	15.8	15.3	14	14.4	15.3	15.4	14.6	14.8	14	13.3
EU	:	:	:	23.7	24.3	24.7	24.6	24.4	23.7	:
Greece	28.3	28.1	27.6	27.7	31	34.6	35.7	36	35.7	35.6
Estonia	22	21.8	23.4	21.7	23.1	23.4	23.5	26	24.2	24.4
Euro area	21.9	21.7	21.6	22	22.9	23.3	23.1	23.5	23	:
United Kingdom	22.6	23.2	22	23.2	22.7	24.1	24.8	24.1	23.5	22.2
Ireland	23.1	23.7	25.7	27.3	29.4	30	29.5	27.6	26	:
Spain	23.3	23.8	24.7	26.1	26.7	27.2	27.3	29.2	28.6	27.9
Italy	26	25.5	24.9	25	28.1	29.9	28.5	28.3	28.7	:
Croatia	:	:	:	31.1	32.6	32.6	29.9	29.3	29.1	28.5
Cyprus	25.2	23.3	23.5	24.6	24.6	27.1	27.8	27.4	28.9	:
Latvia	35.1	34.2	37.9	38.2	40.1	36.2	35.1	32.7	30.9	28.5
Lithuania	28.7	28.3	29.6	34	33.1	32.5	30.8	27.3	29.3	30.1
Luxemburg	15.9	15.5	17.8	17.1	16.8	18.4	19	19	18.5	:
Malta	19.7	20.1	20.3	21.2	22.1	23.1	24	23.8	22.4	:
Netherlands	15.7	14.9	15.1	15.1	15.7	15	15.9	16.5	16.4	16.8
Hungary	29.4	28.2	29.6	29.9	31.5	33.5	34.8	31.8	28.2	26.3
Poland	34.4	30.5	27.8	27.8	27.2	26.7	25.8	24.7	23.4	21.9
Portugal	25	26	24.9	25.3	24.4	25.3	27.5	27.5	26.6	:
Romania	47	44.2	43	41.5	40.9	43.2	41.9	40.3	37.4	38.8
Slovakia	21.4	20.6	19.6	20.6	20.6	20.5	19.8	18.4	18.4	18.1
Slovenia	17.1	18.5	17.1	18.3	19.3	19.6	20.4	20.4	19.2	18.4
Sweden	13.9	14.9	15.9	15	16.1	15.6	16.4	16.9	16	18.3
Finland	17.4	17.4	16.9	16.9	17.9	17.2	16	17.3	16.8	16.6

Table 5: Inflation

	Annual data (%)							
	2010	2011	2012	2013	2014	2015	2016	2017
Austria	1.7	3.6	2.6	2.1	1.5	0.8	1.0	2.2
Belgium	2.3	3.4	2.6	1.2	0.5	0.6	1.8	2.2
Bulgaria	3.0	3.4	2.4	0.4	-1.6	-1.1	-1.3	1.2
France	1.7	2.3	2.2	1.0	0.6	0.1	0.3	1.2
Germany	1.1	2.5	2.1	1.6	0.8	0.1	0.4	1.7
Denmark	2.2	2.7	2.4	0.5	0.4	0.2	0.0	1.1
Czech Republic	1.2	2.2	3.5	1.4	0.4	0.3	0.6	2.4
EU	2.1	3.1	2.6	1.5	0.5	0.0	0.3	1.7
Greece	4.7	3.1	1.0	-0.9	-1.4	-1.1	0.0	1.1
Estonia	2.7	5.1	4.2	3.2	0.5	0.1	0.8	3.7
Euro area	1.6	2.7	2.5	1.3	0.4	0.0	0.2	1.5
United Kingdom	3.3	4.5	2.8	2.6	1.5	0.0	0.7	2.7
Ireland	-1.6	1.2	1.9	0.5	0.3	0.0	-0.2	0.3
Spain	2.0	3.0	2.4	1.5	-0.2	-0.6	-0.3	2.0
Italy	1.6	2.9	3.3	1.2	0.2	0.1	-0.1	1.3
Croatia	1.1	2.2	3.4	2.3	0.2	-0.3	-0.6	1.3
Cyprus	2.6	3.5	3.1	0.4	-0.3	-1.5	-1.2	0.7
Latvia	-1.2	4.2	2.3	0.0	0.7	0.2	0.1	2.9
Lithuania	1.2	4.1	3.2	1.2	0.2	-0.7	0.7	3.7
Luxemburg	2.8	3.7	2.9	1.7	0.7	0.1	0.0	2.1
Malta	2.0	2.5	3.2	1.0	0.8	1.2	0.9	1.3
Netherlands	0.9	2.5	2.8	2.6	0.3	0.2	0.1	1.3
Hungary	4.7	3.9	5.7	1.7	0.0	0.1	0.4	2.4
Poland	2.6	3.9	3.7	0.8	0.1	-0.7	-0.2	1.6
Portugal	1.4	3.6	2.8	0.4	-0.2	0.5	0.6	1.6
Romania	6.1	5.8	3.4	3.2	1.4	-0.4	-1.1	1.1
Slovakia	0.7	4.1	3.7	1.5	-0.1	-0.3	-0.5	1.4
Slovenia	2.1	2.1	2.8	1.9	0.4	-0.8	-0.2	1.6
Sweden	1.9	1.4	0.9	0.4	0.2	0.7	1.1	1.9
Finland	1.7	3.3	3.2	2.2	1.2	-0.2	0.4	0.8

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

	Annual data (%)								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	125	127	126	128	132	131	130	130	128
Belgium	115	118	120	120	121	120	119	119	118
Bulgaria	43	44	45	45	46	46	47	47	49
France	107	108	108	108	107	108	107	105	104
Germany	117	117	120	123	124	124	126	124	123
Denmark	125	125	129	128	127	128	128	127	124
Czech Republic	84	85	83	83	82	84	86	87	88
EU	100	100	100	100	100	100	100	100	100
Greece	93	94	85	75	72	72	72	69	68
Estonia	69	64	65	71	74	75	76	75	75
Euro area	109	109	108	108	107	107	107	106	106
United Kingdom	110	107	108	106	107	108	109	108	107
Ireland	134	129	130	130	132	132	137	181	183
Spain	101	100	96	93	91	89	90	91	92
Italy	106	106	104	104	102	98	96	95	97
Croatia	63	62	59	60	60	60	59	59	60
Cyprus	105	105	100	96	91	84	81	82	83
Latvia	59	52	53	57	60	62	64	64	65
Lithuania	63	56	60	66	70	73	75	75	75
Luxemburg	262	255	257	265	260	261	270	267	258
Malta	79	81	84	83	84	86	90	93	96
Netherlands	139	137	134	133	133	134	130	129	128
Hungary	63	64	65	66	66	67	68	68	67
Poland	55	60	62	65	67	67	67	68	68
Portugal	81	82	82	77	75	77	77	77	77
Romania	49	50	51	52	54	54	55	56	58
Slovakia	71	71	74	75	76	77	77	77	77
Slovenia	90	85	83	83	82	82	82	82	83
Sweden	127	123	125	126	127	125	124	125	123
Finland	121	117	116	117	115	113	111	109	109

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

	Annual data								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	117.6	117.9	115.4	115.7	117.7	117	116.5	117.7	116.6
Belgium	128.3	129.6	131.3	129.7	130.7	130.2	130.6	130.3	129.5
Bulgaria	39.3	39.4	41.3	42.2	43.5	42.9	43.8	44.2	45.4
France	116.5	117.5	117	116.6	114.9	116.2	115.6	115	114.8
Germany	106.9	104.1	105.2	106.4	105.2	104.7	106.4	106.1	105.8
Denmark	107.6	109.6	115.2	114.6	114.4	115.2	115.2	114.4	111.9
Czech Republic	77.7	79.2	77.1	77.4	76.2	76.6	79.1	79.7	80.2
EU	100	100	100	100	100	100	100	100	100
Greece	98.4	98.1	89.5	85.5	85.9	86.9	86.2	83.2	81
Estonia	66	66.6	70.6	72	73.3	73.3	73.8	70.9	71.8
Euro area	108.5	108.6	107.8	107.7	107.1	107.2	107.3	107.2	107.1
United Kingdom	105.8	103.8	103.6	101.8	102.2	101.9	101.8	101.3	101.1
Ireland	130.5	135	141	142.6	144.8	141.5	145.7	189.7	190.2
Spain	100.8	105.5	101.9	101.3	103.1	103.4	103.4	102.2	101.9
Italy	114.9	114.9	112.8	112.2	110.1	108.7	107.2	106.3	107.5
Croatia	70.5	68.5	67.2	70.2	72.4	73.4	70.7	70.1	70.9
Cyprus	94.9	95.2	91.5	89.9	88.7	86.8	85	84.4	83.7
Latvia	56.1	56.1	58.8	61.4	62.9	62.5	64.6	63.9	64.8
Lithuania	65.1	61.2	67.2	71.3	73	74.1	74.6	73.3	72.1
Luxemburg	169.5	162.8	162.5	166.3	162.1	163.4	170	168.3	163.2
Malta	93.2	94	94.7	91.2	90.3	89.6	91	92.5	93.4
Netherlands	118.3	115.7	113.4	112.1	111.9	113.8	111.9	111.5	110.8
Hungary	70.5	72.4	73	74.1	72.8	73.1	71.1	69.8	67.8
Poland	62	65.3	70.1	72.7	74.1	73.9	73.6	74	74.2
Portugal	77.4	79.5	79.8	76.4	76.7	79.6	78.9	78.2	77.9
Romania	51.3	51.4	50.6	51.6	55.6	56.3	56.6	58.7	61.6
Slovakia	79.3	79.2	83.5	81.5	82.4	83.7	83.9	82.7	81.7
Slovenia	83.7	80.1	79.5	80.7	80.1	80.5	81.4	80.7	80.7
Sweden	118.2	116.2	116.7	116.2	116.2	114	113.3	114.2	113.8
Finland	115.9	113.4	112.6	112.5	109.5	108.3	107.2	107.1	107.9

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

	Annual data (%)			Q3			Change (%)	
	2014	2015	2016	2015	2016	2017	2017/16	2016/15
Austria	74.2	74.3	74.8	75.0	75.5	75.9	0.4	0.5
Belgium	67.3	67.2	67.7	67.4	67.5	68.5	1.0	0.1
Bulgaria	65.1	67.1	67.7	68.8	68.5	73.0	4.5	-0.3
France	69.3	69.5	70.0	70.0	70.3	70.8	0.5	0.3
Germany	77.7	78.0	78.6	78.2	79.0	79.5	0.5	0.8
Denmark	75.9	76.5	77.4	76.7	77.7	77.7	0.0	1.0
Czech Republic	73.5	74.8	76.7	75.1	77.0	79.0	2.0	1.9
EU	69.2	70.0	71.0	70.5	71.5	:	:	1.0
Greece	53.3	54.9	56.2	55.9	57.2	58.9	1.7	1.3
Estonia	74.3	76.5	76.6	78.8	77.3	79.3	2.0	-1.5
Euro area	68.1	68.9	69.9	69.3	70.3	:	:	1.0
United Kingdom	76.2	76.8	77.5	77.0	77.7	78.3	0.6	0.7
Ireland	67.0	68.7	70.3	69.1	70.7	:	:	1.6
Spain	59.9	62.0	63.9	62.6	64.5	66.2	1.7	1.9
Italy	59.9	60.5	61.6	61.0	61.9	62.7	0.8	0.9
Croatia	59.2	60.6	61.4	62.1	62.9	65.6	2.7	0.8
Cyprus	67.6	67.9	68.7	67.6	69.2	71.8	2.6	1.6
Latvia	70.7	72.5	73.2	72.8	73.1	75.5	2.4	0.3
Lithuania	71.8	73.3	75.2	74.0	75.7	76.3	0.6	1.7
Luxemburg	72.1	70.9	70.7	69.9	70.0	71.8	1.8	0.1
Malta	66.4	67.8	69.6	69.2	70.2	72.0	1.8	1.0
Netherlands	75.4	76.4	77.1	76.5	77.4	78.3	0.9	0.9
Hungary	66.7	68.9	71.5	69.7	72.1	73.8	1.7	2.4
Poland	66.5	67.8	69.3	68.4	69.7	71.3	1.6	1.3
Portugal	67.6	69.1	70.6	69.5	71.4	74.1	2.7	1.9
Romania	65.7	66.0	66.3	67.8	67.7	70.3	2.6	-0.1
Slovakia	65.9	67.7	69.8	67.9	70.1	71.3	1.2	2.2
Slovenia	67.7	69.1	70.1	70.2	70.4	74.1	3.7	0.2
Sweden	80.0	80.5	81.2	81.4	82.1	82.7	0.6	0.7
Finland	73.1	72.9	73.4	74.0	74.5	74.8	0.3	0.5

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

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

	Annual data (%)			Q3			Change (%)	
	2014	2015	2016	2015	2016	2017	2017/16	2016/15
Austria	45.1	46.3	49.2	46.7	49.7	51.8	2.1	3.0
Belgium	42.7	44.0	45.4	44.7	45.6	49.2	3.6	0.9
Bulgaria	50.0	53.0	54.5	54.6	55.6	60.4	4.8	1.0
France	46.9	48.7	49.8	49.0	50.1	51.2	1.1	1.1
Germany	65.6	66.2	68.6	66.7	68.9	70.5	1.6	2.2
Denmark	63.2	64.7	67.8	64.4	69.0	70.2	1.2	4.6
Czech Republic	54.0	55.5	58.5	55.9	59.0	62.6	3.6	3.1
EU	51.8	53.3	55.2	53.7	55.6	:	:	1.9
Greece	34.0	34.3	36.3	34.9	37.2	38.8	1.6	2.3
Estonia	64.0	64.5	65.2	68.6	68.1	67.7	-0.4	-0.5
Euro area	51.7	53.3	55.3	53.7	55.6	:	:	1.9
United Kingdom	61.0	62.2	63.4	62.3	63.4	63.9	0.5	1.1
Ireland	53.0	55.6	57.2	55.8	56.9	:	:	1.1
Spain	44.3	46.9	49.1	47.0	49.5	50.8	1.3	2.5
Italy	46.2	48.2	50.3	48.5	50.5	52.4	1.9	2.0
Croatia	36.2	39.2	38.1	39.4	38.9	43.2	4.3	-0.5
Cyprus	46.9	48.5	52.2	48.9	52.9	57.8	4.9	4.0
Latvia	56.4	59.4	61.4	59.6	60.7	62.9	2.2	1.1
Lithuania	56.2	60.4	64.6	61.2	64.8	65.5	0.7	3.6
Luxemburg	42.5	38.4	39.6	34.1	38.4	39.8	1.4	4.3
Malta	37.8	40.3	44.1	42.1	45.5	47.5	2.0	3.4
Netherlands	59.9	61.7	63.5	61.9	63.8	66.0	2.2	1.9
Hungary	41.7	45.3	49.8	46.4	50.6	52.4	1.8	4.2
Poland	42.5	44.3	46.2	45.3	46.6	49.4	2.8	1.3
Portugal	47.8	49.9	52.1	50.2	53.2	57.1	3.9	3.0
Romania	43.1	41.1	42.8	42.4	43.6	45.7	2.1	1.2
Slovakia	44.8	47.0	49.0	47.6	49.5	53.3	3.8	1.9
Slovenia	35.4	36.6	38.5	37.2	37.6	42.8	5.2	0.4
Sweden	74.0	74.5	75.5	74.4	76.1	76.8	0.7	1.7
Finland	59.1	60.0	61.4	60.8	62.4	62.4	0.0	1.6

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

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

	Annual data (%)				Q3 (%)	
	2013	2014	2015	2016	2017/16	2016/15
Austria	0.4	0.1	0.8	1.8	0.5	2.0
Belgium	0.1	0.3	0.0	0.9	1.6	0.3
Bulgaria	-0.2	1.3	1.6	-0.6	5.2	-1.8
France	-0.1	2.3	0.0	0.5	0.9	0.4
Germany	0.8	0.7	0.7	2.5	1.2	2.9
Denmark	0.0	0.7	1.4	2.6	-0.1	2.7
Czech Republic	0.7	0.8	1.0	1.7	1.9	1.6
EU	-0.3	1.3	1.1	1.5	:	1.4
Greece	-4.9	0.6	2.0	1.8	2.2	1.9
Estonia	0.9	0.5	2.3	-0.1	1.8	-1.9
Euro area	-0.6	0.9	0.9	1.7	:	1.7
United Kingdom	0.9	2.2	1.5	1.4	1.1	1.3
Ireland	2.1	1.5	2.3	2.8	:	3.1
Spain	-2.7	1.2	2.9	2.6	2.7	2.6
Italy	-1.8	0.2	0.7	1.2	1.0	1.0
Croatia	-2.3	3.2	1.1	0.5	3.1	0.5
Cyprus	-4.9	-0.4	-1.4	1.1	4.7	2.4
Latvia	1.7	-0.9	1.1	-0.6	0.7	-1.1
Lithuania	1.6	1.9	1.0	1.3	-1.2	1.1
Luxemburg	1.0	2.8	5.1	1.6	5.7	2.1
Malta	3.1	2.8	2.4	3.6	2.9	3.0
Netherlands	-0.9	-0.9	1.1	1.3	1.8	1.5
Hungary	1.8	5.4	2.6	3.2	1.3	2.8
Poland	-0.2	1.8	1.4	0.6	1.2	0.0
Portugal	-2.3	2.3	1.3	1.4	3.2	1.9
Romania	-0.5	0.9	-0.2	-0.8	2.2	-1.3
Slovakia	0.0	1.4	2.4	2.8	1.2	2.8
Slovenia	-2.0	0.5	1.0	0.1	5.6	-1.2
Sweden	1.0	0.9	1.4	1.6	2.2	1.3
Finland	-1.1	-0.7	-0.8	0.5	0.4	0.6

Table 11: Unemployment rate – Total population

	Annual data (%)			Q3			Change (%)	
	2014	2015	2016	2015	2016	2017	2017/16	2016/15
Austria	5.6	5.7	6.0	5.6	6.1	5.5	-0.6	0.5
Belgium	8.5	8.5	7.8	8.2	7.9	7.2	-0.7	-0.3
Bulgaria	11.4	9.2	7.6	8.3	7.0	5.9	-1.1	-1.3
France	10.3	10.4	10.1	10.0	9.6	9.3	-0.3	-0.4
Germany	5.0	4.6	4.1	4.4	4.0	3.6	-0.4	-0.4
Denmark	6.6	6.2	6.2	6.2	6.3	5.9	-0.4	0.1
Czech Republic	6.1	5.1	4.0	4.8	4.0	2.8	-1.2	-0.8
EU	10.2	9.4	8.6	8.9	8.2	7.3	-0.9	-0.7
Greece	26.5	24.9	23.6	24.1	22.6	20.1	-2.5	-1.5
Estonia	7.4	6.2	6.8	5.2	7.5	5.2	-2.3	2.3
Euro area	11.6	10.9	10.0	10.3	9.6	8.7	-0.9	-0.7
United Kingdom	6.1	5.3	4.8	5.5	5.0	4.4	-0.6	-0.5
Ireland	11.9	9.9	8.4	9.9	8.6	6.9	-1.7	-1.3
Spain	24.5	22.1	19.6	21.2	18.9	16.4	-2.5	-2.3
Italy	12.7	11.9	11.7	10.6	10.9	10.6	-0.3	0.3
Croatia	17.2	16.1	13.4	14.5	11.7	9.5	-2.2	-2.8
Cyprus	16.1	15.0	13.0	14.7	13.0	10.0	-3.0	-1.7
Latvia	10.8	9.9	9.6	9.7	9.5	8.5	-1.0	-0.2
Lithuania	10.7	9.1	7.9	8.3	7.5	6.6	-0.9	-0.8
Luxemburg	6.0	6.5	6.3	6.4	6.2	5.5	-0.7	-0.2
Malta	5.8	5.4	4.7	5.3	4.8	4.0	-0.8	-0.5
Netherlands	7.4	6.9	6.0	6.6	5.6	4.5	-1.1	-1.0
Hungary	7.7	6.8	5.1	6.4	4.9	4.1	-0.8	-1.5
Poland	9.0	7.5	6.2	7.1	5.9	4.7	-1.2	-1.2
Portugal	14.1	12.6	11.2	12.1	10.7	8.6	-2.1	-1.4
Romania	6.8	6.8	5.9	6.5	5.7	4.7	-1.0	-0.8
Slovakia	13.2	11.5	9.7	11.3	9.5	8.0	-1.5	-1.8
Slovenia	9.7	9.0	8.0	8.6	7.4	6.3	-1.1	-1.2
Sweden	7.9	7.4	6.9	6.5	6.3	6.2	-0.1	-0.2
Finland	8.7	9.4	8.8	8.4	7.6	7.7	0.1	-0.8

Table 12: Unemployment rate among men

	Annual data (%)			Q3			Change (%)	
	2014	2015	2016	2015	2016	2017	2017/16	2016/15
Austria	5.9	6.1	6.5	6.0	6.4	5.8	-0.6	0.4
Belgium	9.0	9.1	8.1	8.5	7.9	7.5	-0.4	-0.6
Bulgaria	12.3	9.8	8.1	8.8	7.4	6.1	-1.3	-1.4
France	10.6	10.8	10.3	10.3	9.4	9.3	-0.1	-0.9
Germany	5.3	5.0	4.5	4.8	4.3	3.9	-0.4	-0.5
Denmark	6.4	5.9	5.8	5.7	5.6	5.6	0.0	-0.1
Czech Republic	5.1	4.2	3.4	3.9	3.3	2.2	-1.1	-0.6
EU	10.1	9.3	8.4	8.8	7.9	7.1	-0.8	-0.9
Greece	23.7	21.8	19.9	20.7	18.9	16.4	-2.5	-1.8
Estonia	7.9	6.2	7.4	4.7	7.5	5.8	-1.7	2.8
Euro area	11.5	10.7	9.7	10.1	9.2	8.3	-0.9	-0.9
United Kingdom	6.4	5.5	5.0	5.6	5.1	4.4	-0.7	-0.5
Ireland	12.7	10.8	9.1	10.6	9.1	7.1	-2.0	-1.5
Spain	23.6	20.8	18.1	19.9	17.4	14.8	-2.6	-2.5
Italy	11.9	11.3	10.9	10.0	10.2	9.6	-0.6	0.2
Croatia	16.6	15.6	12.7	13.8	10.8	8.6	-2.2	-3.0
Cyprus	17.1	15.1	12.7	14.1	12.5	9.5	-3.0	-1.6
Latvia	11.8	11.1	10.9	11.1	11.2	9.1	-2.1	0.1
Lithuania	12.2	10.1	9.1	9.1	8.5	7.7	-0.8	-0.6
Luxemburg	5.8	5.9	6.1	5.8	6.0	5.8	-0.2	0.2
Malta	6.1	5.5	4.4	5.5	4.6	3.9	-0.7	-0.9
Netherlands	7.2	6.5	5.6	6.3	5.2	4.2	-1.0	-1.1
Hungary	7.6	6.6	5.1	6.1	4.9	3.6	-1.3	-1.2
Poland	8.5	7.3	6.1	6.7	5.7	4.6	-1.1	-1.0
Portugal	13.8	12.4	11.1	11.7	10.5	7.9	-2.6	-1.2
Romania	7.3	7.5	6.6	7.0	6.3	5.3	-1.0	-0.7
Slovakia	12.8	10.3	8.8	10.0	8.7	7.8	-0.9	-1.3
Slovenia	9.0	8.1	7.5	7.2	6.7	5.1	-1.6	-0.5
Sweden	8.2	7.5	7.3	6.7	6.5	6.3	-0.2	-0.2
Finland	9.3	9.9	9.0	8.5	7.4	7.4	0.0	-1.1

Table 13: Unemployment rate among women

	Annual data (%)			Q3			Change (%)	
	2014	2015	2016	2015	2016	2017	2017/16	2016/15
Austria	5.4	5.3	5.6	5.2	5.8	5.0	-0.8	0.6
Belgium	7.9	7.8	7.6	7.8	7.9	6.9	-1.0	0.1
Bulgaria	10.4	8.4	7.0	7.6	6.5	5.5	-1.0	-1.1
France	10.0	9.9	9.9	9.6	9.9	9.3	-0.6	0.3
Germany	4.6	4.2	3.8	4.0	3.7	3.3	-0.4	-0.3
Denmark	6.8	6.4	6.6	6.7	7.1	6.2	-0.9	0.4
Czech Republic	7.4	6.1	4.7	6.0	4.9	3.5	-1.4	-1.1
EU	10.3	9.5	8.8	9.1	8.5	7.7	-0.8	-0.6
Greece	30.2	28.9	28.1	28.2	27.2	24.8	-2.4	-1.0
Estonia	6.8	6.1	6.1	5.8	7.5	4.5	-3.0	1.7
Euro area	11.8	11.1	10.4	10.5	10.1	9.1	-1.0	-0.4
United Kingdom	5.8	5.1	4.7	5.4	4.8	4.4	-0.4	-0.6
Ireland	10.9	8.9	7.6	9.1	7.9	6.7	-1.2	-1.2
Spain	25.4	23.6	21.4	22.7	20.7	18.2	-2.5	-2.0
Italy	13.8	12.7	12.8	11.4	12.0	11.8	-0.2	0.6
Croatia	18.0	16.7	14.2	15.3	12.6	10.5	-2.1	-2.7
Cyprus	15.1	14.8	13.4	15.4	13.4	10.5	-2.9	-2.0
Latvia	9.8	8.6	8.4	8.3	7.9	7.9	0.0	-0.4
Lithuania	9.2	8.2	6.7	7.6	6.5	5.6	-0.9	-1.1
Luxemburg	6.4	7.1	6.5	7.1	6.4	5.3	-1.1	-0.7
Malta	5.3	5.2	5.2	4.9	5.1	4.2	-0.9	0.2
Netherlands	7.8	7.3	6.5	6.9	6.1	4.9	-1.2	-0.8
Hungary	7.9	7.0	5.1	6.7	5.0	4.6	-0.4	-1.7
Poland	9.6	7.7	6.2	7.5	6.2	4.9	-1.3	-1.3
Portugal	14.5	12.9	11.3	12.4	10.8	9.3	-1.5	-1.6
Romania	6.1	5.8	5.0	5.9	4.9	4.0	-0.9	-1.0
Slovakia	13.6	12.9	10.8	12.9	10.6	8.2	-2.4	-2.3
Slovenia	10.6	10.1	8.6	10.1	8.2	7.7	-0.5	-1.9
Sweden	7.7	7.3	6.5	6.3	6.0	6.1	0.1	-0.3
Finland	8.0	8.8	8.6	8.2	7.7	7.9	0.2	-0.5

Table 14: Long-term unemployment rate (*)

	Annual data (%)			Q3			Change (%)	
	2014	2015	2016	2015	2016	2017	2017/16	2016/15
Austria	27.2	30.5	33.7	30.7	33.6	36.4	2.8	2.9
Belgium	49.9	52.9	52.8	51.9	53.4	45.3	-8.1	1.5
Bulgaria	60.4	61.9	59.6	63.9	62.7	55.7	-7.0	-1.2
France	42.8	45.4	47.2	46.0	47.9	48.0	0.1	1.9
Germany	44.3	45.3	42.7	44.9	43.5	43.3	-0.2	-1.4
Denmark	25.2	29.8	25.5	28.6	22.9	23.3	0.4	-5.7
Czech Republic	43.5	48.2	42.8	49.8	40.6	34.3	-6.3	-9.2
EU	52.6	50.2	48.6	49.8	48.3	46.8	-1.5	-1.5
Greece	73.5	73.6	72.4	74.3	74.1	76.0	1.9	-0.2
Estonia	45.3	40.0	32.6	37.7	33.2	41.3	8.1	-4.5
Euro area	49.5	52.8	51.5	52.5	51.5	50.2	-1.3	-1.0
United Kingdom	35.8	33.9	30.3	32.1	28.9	29.7	0.8	-3.2
Ireland	59.2	59.4	57.3	54.8	52.9	42.7	-10.2	-1.9
Spain	52.8	52.5	49.2	52.1	49.1	44.8	-4.3	-3.0
Italy	61.4	59.7	59.1	58.9	58.3	59.7	1.4	-0.6
Croatia	58.4	66.2	53.2	70.8	53.2	45.0	-8.2	-17.6
Cyprus	47.7	46.7	45.3	45.9	46.4	44.5	-1.9	0.5
Latvia	43.0	46.2	41.8	50.9	41.7	40.3	-1.4	-9.2
Lithuania	44.7	43.3	38.8	44.3	37.6	38.7	1.1	-6.7
Luxemburg	27.4	30.3	37.0	28.9	39.9	39.7	-0.2	11.0
Malta	46.9	48.2	45.3	51.2	43.8	45.9	2.1	-7.4
Netherlands	40.0	48.0	47.4	47.7	46.4	44.4	-2.0	-1.3
Hungary	47.5	46.8	47.7	48.9	47.2	39.0	-8.2	-1.7
Poland	42.7	40.1	35.9	38.8	34.7	33.6	-1.1	-4.1
Portugal	59.6	59.1	56.9	59.4	58.8	51.4	-7.4	-0.6
Romania	41.1	45.1	51.7	46.3	50.7	41.9	-8.8	4.4
Slovakia	70.2	66.9	61.4	68.5	60.6	62.7	2.1	-7.9
Slovenia	54.5	53.0	53.9	56.3	53.1	49.4	-3.7	-3.2
Sweden	18.9	24.1	22.4	24.8	21.7	21.9	0.2	-3.1
Finland	22.4	27.5	29.4	29.8	30.4	29.1	-1.3	0.6

(*) long term unemployed (12 months or more) as a % of total unemployed

Table 15: Unemployment rate of persons aged 15-24

	Annual data (%)			Q3			Change (%)	
	2014	2015	2016	2015	2016	2017	2017/16	2016/15
Austria	10.3	10.6	11.2	11.2	12.2	10.5	-1.7	1.0
Belgium	23.2	22.1	20.1	22.2	21.8	19.1	-2.7	-0.4
Bulgaria	23.8	21.6	17.2	19.2	18.8	13.9	-4.9	-0.4
France	24.2	24.7	24.6	24.3	25.2	22.3	-2.9	0.9
Germany	7.7	7.2	7.1	8.3	7.5	7.0	-0.5	-0.8
Denmark	12.6	10.8	12.0	12.8	13.3	12.9	-0.4	0.5
Czech Republic	15.9	12.6	10.5	12.9	11.4	8.7	-2.7	-1.5
EU	22.2	20.3	18.7	19.9	18.5	:	:	-1.4
Greece	52.4	49.8	47.3	48.8	44.2	40.1	-4.1	-4.6
Estonia	15.0	13.1	13.4	11.6	12.7	10.9	-1.8	1.1
Euro area	23.8	22.4	20.9	21.9	20.4	:	:	-1.5
United Kingdom	17.0	14.6	13.0	15.2	14.0	13.0	-1.0	-1.2
Ireland	23.9	20.9	17.2	20.7	17.7	:	:	-3.0
Spain	53.2	48.3	44.4	46.6	41.9	36.0	-5.9	-4.7
Italy	42.7	40.3	37.8	35.3	34.5	32.3	-2.2	-0.8
Croatia	45.5	42.3	31.3	40.9	27.8	22.8	-5.0	-13.1
Cyprus	36.0	32.8	29.1	32.3	30.1	23.9	-6.2	-2.2
Latvia	19.6	16.3	17.3	16.2	19.3	17.6	-1.7	3.1
Lithuania	19.3	16.3	14.5	15.3	13.1	12.0	-1.1	-2.2
Luxemburg	22.6	17.3	18.9	17.4	23.1	13.7	-9.4	5.7
Malta	11.7	11.8	11.0	13.3	12.3	10.4	-1.9	-1.0
Netherlands	12.7	11.3	10.8	11.0	10.3	8.4	-1.9	-0.7
Hungary	20.4	17.3	12.9	16.7	12.7	11.3	-1.4	-4.0
Poland	23.9	20.8	17.7	19.7	18.0	14.7	-3.3	-1.7
Portugal	34.8	32.0	28.0	30.8	26.1	24.2	-1.9	-4.7
Romania	24.0	21.7	20.6	19.9	20.5	16.9	-3.6	0.6
Slovakia	29.7	26.5	22.2	27.9	22.7	19.7	-3.0	-5.2
Slovenia	20.2	16.3	15.2	12.9	13.7	10.8	-2.9	0.8
Sweden	22.9	20.4	18.9	15.9	14.7	14.8	0.1	-1.2
Finland	20.5	22.4	20.1	16.3	14.2	14.1	-0.1	-2.1

(*) For the exact definition of the indicator, refer to:
http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP_GLOSSARY_NOM_DTL_VIEW&StrNom=CODED2&StrLanguageCode=EN&IntKey=16664385&RdoSearch=BEGIN&TxtSearch=&CboTheme=36940331&IsTer=TERM&IntCurrentPage=4&ter_valid=0
http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP_GLOSSARY_NOM_DTL_VIEW&StrNom=CODED2&StrLanguageCode=EN&IntKey=27697382&RdoSearch=BEGIN&TxtSearch=&CboTheme=36940331&IsTer=TERM&IntCurrentPage=44&ter_valid=0