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Editorial Policy

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

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Contents

FOREWORD

This is the fourth IOBE bulletin on the Greek economy for 2016. The negotiations for the second review of the third economic adjustment programme and the short-term debt relief measures are still ongoing. The entry of Greece in the quantitative easing programme of the ECB depends on their outcome. As every IOBE quarterly bulletin, this report contains **four chapters** and an **appendix** with key structural indicators. Before that, the bulletin starts with an analysis of the current politico-economic situation and the terms and conditions for the return of the Greek economy to a path of recovery and growth. The rest of the report is structured as follows:

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

Chapter three focuses on the performance of the Greek economy in the first nine months of 2016. It includes an analysis of: the **macroeconomic environment** during that period and its projected trends for the rest of 2016 and in 2017; the **developments in key production sectors** in the first nine months of 2016; the **export performance** of the Greek economy in the first ten months of 2016; the developments in the **labour market** in the third quarter of 2016; the trends in **inflation** in 2016 overall; and, finally, the trends in the **balance of payments** between January and November of 2016. **Chapter four** presents the findings of two IOBE studies on the impact of the new hikes in the taxation of fuel and tobacco products.

The report is based on data that were available up to 16/01/2017. IOBE's next quarterly bulletin on the Greek economy will be published in late April 2017.

ECONOMIC RECOVERY AND SUSTAINABLE GROWTH

On the face of it, the short-term trend in incomes (is GDP increasing and unemployment falling and by how much?) determines the success of economic policy. However, economic policy should fundamentally create the conditions for sustainable economic growth over the medium term. There are many ways to have immediate superficial benefit but with a subsequent delayed real cost, as the economic policy in many countries has shown over the years. Excessive borrowing can fuel current demand, but create a burden for the following generations. Excessive taxation could allow additional public spending and transfer payments in the short-run, yet it distorts the production structure of the economy. A centralised allocation of resources without a concern for the functioning of the underlying institutions, is ultimately harmful for investment and employment.

The Greek economy is expected to show a very modest recovery in the short-run in the current year. The key issue, however, is to set the country on a path of sustainable and robust growth. From this perspective, there is still a lot to be done. What are the main features of the current recovery? The delay in the ongoing review and negotiations and, as a result, in the improvement of the credit and investment conditions puts into serious doubt the achievement of the ambitious target for growth by nearly 3% in the current year. Nevertheless, the economy is likely to expand by about 1.5% to 2.0% under the current conditions, which, in any event, is not a negligible rate. Several functions of the economy are gradually recovering from the shock of the summer of 2015, returning closer to normality. Thus, as the starting point is quite low, the recovery should not come as a surprise. In addition, reforms in the labour and product markets have a positive, albeit delayed, contribution. Furthermore, the more intensive and extensive use of electronic means of payment stimulates GDP and tax revenues, reducing correspondingly the unrecorded activity. However, this positive reaction of the economy should not be misinterpreted as guaranteeing a course of sustainable growth over the medium term.

Let us put the current conditions into perspective. After the deep recession that has been lasting since 2008, the real GDP per capita in the country today is close to its 2000 level. The very fast income growth recorded from the entry of Greece in the Euro area and until 2008, supported mainly by external debt, gave way to a fall of about the same intensity until 2016. More or less the same can also be said about housing prices. The strong capital inflow and the positive expectations of households and the businesses supported the growth recorded during that period. The 2008 crisis was a global one, yet in Greece it put in doubt the viability of its growth model and triggered a cycle of extreme uncertainty. Nevertheless, even heavily wounded, the Greek economy has not fallen below the level recorded before the entry in the Euro, while it does not lack pulse and positive prospects. A new growth cycle is feasible, yet it cannot start automatically, particularly as the access to foreign capital will necessarily remain limited. A very clear political signal and corresponding social support are essential. Only then, investment will grow significantly and the negative expectations will turn positive, based on a credible growth model. As the key economic imbalances have essentially been corrected, already since 2015, it is hard to understand why the time essentially wasted is not assessed as an extremely important factor, on the side of both Greece and the foreign institutions involved.

Besides, the success in the consolidation of the twin deficits could be lost as well, if a wrong path is followed from now on. In the external balance, economic growth will inevitably increase imports, therefore exports should be growing steadily as well. On the fiscal front, budget balancing through placing an excessive burden on the law-abiding parts of the economy, or through an excessive reallocation of funds from taxing employees to cover the deficits in the social security system, cannot be sustainable. Therefore, in order to preserve the very significant consolidation and rebalancing that has been achieved, we should persist with the appropriate reform effort. Structural measures will contribute overall to the recovery of the economic programme’s credibility and ultimately to economic growth.

Overall, the economic policy in Greece should become more consistent and credible, without leaving doubts about possible reversals, in order to ensure that the economy will steadily grow starting from today’s level. As long as catastrophic scenarios are left open as possible, the economy will linger at its current levels. If those responsible for managing the economy on both sides of the negotiation table, cannot make a convincing case that their only and full intention and care is to put the economy on a path of sustainable economic growth, any thought or intention of a third party can only have a marginal significance.

It would be both disappointing and dangerous if the ongoing programme is derailed, and a prolonged delay would indeed correspond to a derailment. The conditions for improvement in the immediate future are certainly present, as revealed by various indicators, such as industrial production, exports of goods and some types of investment. The economy has passed through exceptionally difficult paths, yet it still has a pulse. The performance of particular companies in a number of sectors, characterised by export orientation and without the need to resort for their profitability to the support of the state, is notably positive. However, the overall economic policy should turn away from choices that only serve transient goals and at the same time have a subsequent negative impact.

As long as there is a delay in settling the key conditions for economic growth, additional cost and risks arise with respect to three issues. First, while almost the whole of the Greek population has experienced a drastic drop in income, property and living standards, the loss is particularly heavy for those experiencing conditions of increasing poverty, and for the long-term unemployed in particular. It is imperative to accelerate the creation of an effective safety net, with targeted actions centred around the universal minimum guaranteed income programme. It is also crucial to boost the quality of the health and education services, where a lack of effectiveness is observed.

Second, as long as uncertainty prevails, there is a significant delay in decisions on major investment, both in physical capital (such as in energy and other key sectors where there is underinvestment and the need for further clarification of the rules) and in human capital (education is a necessary lever for innovation, for social mobility and for competitiveness without wage cuts).

Third, the Greek crisis is taking its course in an unstable and unclear European and international environment. The process of separation of the UK from the EU creates the need for Europe to make significant decisions. In relation to this, a stance of indecision and delay by the Greek side cannot be considered reasonable. If there is an attempt to accelerate the deepening of common policies at the European level (such as on fiscal coordination and banking supervision), which is quite likely, Greece should not allow for it to be considered to be at a large distance from the appropriate starting point. Then again, if lack of coordination and break-away tendencies prevail, this is one more reason to cover the necessary ground on time, otherwise Greece will find itself exposed and vulnerable.

Overall, it is clear that the global economy is entering a new cycle where the economic and political developments will closely interact under conditions of deleveraging and pressure on incomes. The exceptionally long period of welfare and steady income growth that started in the 1980s was based on three pillars: productivity growth, primarily due to technological progress and gradual integration of computer technology in production; reduction of trade barriers and tighter links between all economies on a global scale; and conditions of political stability and peace, at least to some extent. After 2000, the impact of these factors weakened and the income growth momentum was maintained through increasing private and public income growth rates and higher risk aversion with respect to new investment. In this regard, political developments and social reactions that challenge the current status quo in various countries should not come as a surprise. They could, however, potentially restore the pressure on the economy if they undermine the above three key drivers that have supported and could continue to support growth today: investment in human capital and technological innovation, international trade and political stability.

For our country, the clear message should be that there is no room for complacency or indecision. Given the developments in the global environment, the mild recovery observed today should become the start of a new course of growth that is sustained over the medium term. Even though particular aspects of economic policy are very important (such as reduction and simplification of taxation, support of investment, reduction of the costs stemming from ineffective public administration), a positive course requires a common theme and direction – reduction of the barriers to entry and business mobility, mitigation of the incentives for rent seeking and opening the economy to those that are currently excluded. The unemployed and all those leaving the country, and enterprises could potentially contribute to production but they are not allowed to. They also have an anaemic representation in the current economic and political status quo; yet, their integration in the economic system is a key condition for a decisive turn of the economy to economic growth.

1. BRIEF OVERVIEW – CONCLUSIONS

Steady growth of the world economy in 2016; its acceleration uncertain in 2017

The growth of the world economy seems to have consolidated at low rates in 2016. The GDP of the OECD member states increased year on year by 1.7% in the third quarter of 2016, compared with 1.6% in the preceding quarter of last year and 2.3% in the corresponding quarter of 2015. The average growth rate in the first three quarters of 2016 was notably weaker compared with 2015, when the GDP was growing by about 2.4%, compared with 1.7% on average in 2016. The growth rate marginally strengthened in both the developing and the developed economies. In the seven largest economies (G7), the growth rate increased to 1.4% in the third quarter, from 1.3% in the preceding quarter. There was no major change in the growth rate in any of these economies. The growth rate remained unchanged in the large developing economies of Asia (China, India), while in Latin America the contraction eased once more. Despite the initial forecasts for stronger world economy in 2016, various challenges it faced during the year, such as the UK referendum, the inflow of refugees in Europe, the weakening of world trade and the turmoil in the capital markets, led to a slowdown of the growth rates compared to 2015.

The major factors that are anticipated to have an impact on the world economy in the first few quarters of the current year are as follows: 1) the trend in the oil price, which has risen following the decision taken at the International Energy Forum in September to limit its daily production; 2) the fiscal policy in the US and China, and the future US trade policy; 3) the burgeoning protectionist tendencies, especially after the UK referendum, and the impact of UK's exit from the EU; 4) persistent geopolitical tension in the Middle East and North Africa and the resulting refugee flows.

The ongoing quantitative easing programme in the Euro area and the – most likely – exertion of expansionary fiscal policy by the new US administration will boost the demand for basic commodities from the developing economies during the current year, provided that the US will not adopt a protectionist trade policy. The economies of the oil-producing countries in particular are already benefitting from the decision to cut the daily production. In China, the adoption of a policy of fiscal stimulus will continue to boost its economy, yet there is no evident progress with the resolution of its structural problems, such as the growing corporate debt, particularly of state-owned enterprises. That said, the transition to new banknotes undermines the growth rate of India, which expanded stronger than China in 2015.

Regarding the developed economies, the change in the US administration is expected to lead to changes in the adopted economic policy. However, there are many policy scenarios and while some of them, such as the adoption of an expansionary fiscal policy, are more likely, there is a lack of clarity for the time being on which scenario will eventually materialise. Nevertheless, the rise in the interest rate in December by the Federal Reserve has significantly stimulated the transfer of capital from the emerging economies. In the Euro area, the ongoing quantitative easing programme will inhibit a further slowdown of the economy. The process of the UK exiting the EU and its impact will act in the opposite direction. The forthcoming elections in major Euro area countries (the Netherlands, France, Germany) raise the uncertainty in the economies and the markets, leading to the postponement of decisions. The Brexit outcome, the immigrant flows of the past few years and acts of violence have intensified the political scepticism in Europe. This political current is anticipated to be reflected in the post-election political coalitions, with a likely impact on the adopted policy mix.

In line with the above conditions and prospects of the world economy, the latest forecasts of the international organisations on the growth of the world economy in 2016 remained unchanged, projecting once more a growth rate marginally higher than 3.0%, as in 2015, which does not differ from the IOBE forecast. **Regarding 2017, the growth of the world economy is expected to accelerate slightly. However, as many of the factors presented earlier will act in the opposite direction, we anticipate that the growth rate is likely to remain unchanged.**

Growth of GDP in Q3 of 2016, mainly due to the political events and the imposition of capital controls a year earlier

The one-year recession of the Greek economy (from Q3 2015 to Q2 2016) ended in the third quarter of 2016, when GDP increased by 1.8%. The significant GDP growth during that period – the largest since the second quarter of 2008 – came mostly from the low base in the corresponding quarter of 2015, when GDP had declined by 2.2%, as a result of the heightened political uncertainty, the bank holiday and the imposition of capital controls. **Therefore, the GDP growth in 2016 almost offset the fall in 2015**. **Overall in the first nine months, GDP increased by 0.2%, against a decline by 0.6% in the same period of 2015.**

Regarding the trends in the GDP components in the first nine months of 2016, **domestic consumption expanded by 0.5% from its level in the preceding year when it had declined marginally by 0.3%.** The 2016 increase came exclusively from growth in the third quarter, by 3.8%. The growth of household consumption expenditure by 5.1% during that quarter was the driver of growth in domestic consumption, as public consumption kept falling. Apart from the effects from the politico-economic events during the summer of 2015 on the reference level of private consumption (4.1% contraction), the significant increase in digital payments expanded the officially recorded economic activity and strengthened the positive trend one year on.

The strong growth of **investment** from the first half of 2016 (+23.7%) ended in the third quarter, when it declined by 16.9%. Note that the decline in that quarter came from extensive decline in inventories, by €1.7 billion. **Overall in the first three quarters of last year, investment increased by 10.2% compared with the same period of 2016, when it had fallen by 13.2%.** Its growth, the largest for this period of the year since 2008, came mainly from expansion in fixed capital investment by 6.1% and to a lesser extent from the less negative impact of the change in inventories.

In the external sector of the economy, the completion of a year since the imposition of the capital controls in July last year eliminated the technical impact on the year-on-year comparisons of imports and exports. As a result of this, the contraction on both sides of the external sector during the first half of 2016 gave way to an expansion. In particular, **exports increased by 10.2% in the third quarter of last year. Despite the significant growth during the summer quarter, exports declined by 1.6% year on year in the first nine months of 2016**, compared with 5.0% growth a year earlier. The contraction of exports came from a decline in the exports of services by 14.1%. In contrast, the exports of goods expanded by 10.7%.

The growth of imports in the third quarter of 2016 (12.0%) was stronger than that of exports. The further relaxation of the capital controls in July was also conducive to the growth of imports. **Given the significantly milder reduction of imports, compared with exports, in the first half of the year, imports increased by 2.0% in the first nine months of 2016,** slightly more than in the same period of 2015 (+1.4%). The expansion of imports came from stronger domestic demand for goods produced abroad (+6.6%) as the imports of services were lower by 15.6% year on year. **The growth of imports, together with the decline of exports, led to the expansion of the external sector deficit in national accounting terms for the first time in three years, by €1.6 billion (+92.0%), to €3.3 billion (2.4% of GDP).**

Marginal GDP growth in 2016, stronger recovery in 2017

The progress with the negotiations for the second review of the implementation of the third economic adjustment programme has largely shaped the domestic politico-economic environment during the last quarter of 2016 and in early 2017. Regarding the implementation of the prior actions for the conclusion of the review, the results so far are mixed. In particular, the Medium-Term Fiscal Strategy 2017-2020, which was envisaged to be completed by December 2016, is still pending. In addition, except for the regulatory measures for digital payments, the remaining planned actions to boost the public revenue collection mechanism and in particular the steps to make the Independent Authority for Public Revenue fully operational, are still incomplete.

Some of the structural reforms that constitute prior actions for the conclusion of the review have already been legislated. These reforms include the implementation of the recommendations from the third OECD competition review, the new regulatory framework for economic activity in three sectors, the new bankruptcy code, the new land-use plan, and the acceleration of the administrative court proceedings. The most important among the pending reforms concerns the further changes in the labour market, while the codification of the labour legislation is also incomplete. The list of pending reforms includes the remaining actions in order to make the Hellenic Corporation of Assets and Participations S.A operational, changes in the boards of the banks and the Financial Stability Fund, a revision of the social benefit allowances, legislative strengthening of the Regulatory Authority for Energy, amendment of the legislative framework for out-of-court settlement of non-performing loans, etc.

Together with the second review, negotiations for the short-term debt-relief measures began in accordance with the Eurogroup decision of 24 May 2016. As this procedure aims to gradually ensure public debt sustainability, the start of the talks with the International Monetary Fund (IMF) for the provision of a new loan facility have become feasible. The decisions of the Eurogroup of 5 December 2016, which included a reference to the target for primary surplus in 2018 and over the medium term have not been officially assessed by the IMF. However, the disagreement between the EU institutions and the IMF on the public debt interventions and the size of the required primary surpluses, together with the ongoing negotiations on this and other aspects of the third programme for Greece, such as the changes in labour relations, is reflected in the fact that almost two months after the Eurogroup decision, the IMF has not yet taken an official decision on a new financing facility to the Hellenic Republic.

Apart from the delay on public debt relief, as long as the negotiations on the suitability of relevant measures and the current review are ongoing, the induction of Greece in the Asset Purchasing Programme (APP) of the European Central Bank (ECB) will remain stalled. The induction of Greece in the APP will boost significantly the liquidity of the banks and thus their ability to provide corporate credit, improving the growth prospects of the Greek economy. As long as the negotiations on public debt and the second review are taking place, these opportunities cannot be utilised and assessed. In addition, the duration over which they would be available gets shorter. In any case, the ECB decision to extend the programme mentions that it reserves the right to extend the size and/or the duration of the programme beyond 2017.

For the time being, the liquidity of the domestic banking system has gradually strengthened from the low-speed return of deposits. The outstanding balance of deposits and repos in the banks in Greece increased by €8.2 billion between June and November, replenishing a small part of their contraction between December 2014 and June 2015 (-€54.1 billion). The low rate of deposit return reflects the lingering high level of concern about the capital controls, despite their relaxation in July and November. The pending resolution of non-performing loans also hampers the return of deposits.

Given the sluggish response of the households and the enterprises to the relaxation of the capital controls in the second half of the year and the pending issues surrounding the non-performing loans, no major developments with respect to the liquidity in the banking sector and the supply of credit are expected until the conclusion of the talks on public debt relief. The entry of the country in the APP is required in order to set off a series of developments that would improve the capital adequacy of the banks. This fact will boost the confidence of domestic depositors and international investors, resulting in a capital inflow. Subsequently, the capacity to provide credit will strengthen and the steps to lift the capital controls will accelerate.

Apart from the developments regarding the review of the Economic Adjustment Programme and the debt relief, the new fiscal measures constituted a key driver of the trend in the Greek economy in the second half of last year, which will continue to have an impact, albeit to a lesser extent, in 2017. The increase of existing taxes (excise duties on gasoil, LPG, tobacco products) and the imposition of new taxes (fixed telephony levy, tax on coffee), from the beginning of the new year will limit the real disposable income of the households.

The income of freelancers and farmers will receive the hardest hit from the new measures, from the change in the calculation of the social security contributions. The lack of clarity on how to implement the new social security law that has lasted for months has exacerbated the uncertainty to freelancers, causing turmoil in the final quarter of 2016 (e.g. closure of sole businesses, legal status changes to Private Capital Company or Société Anonyme). The transition to the new status quo will limit, temporarily at least, the activity and the income of the freelancers subjected to this process.

Regarding the remaining developments that could have an impact on the Greek economy in 2017, the delays in the actions that would make the Hellenic Corporation of Assets and Participations operational impede the completion of privatisations. That said, the higher number of privatisation deals in 2016 will have an impact on investment in the current year, after the accompanying investments are finalised and all licences are obtained. The Public Investment Programme (PIP) is expected to provide a similar stimulus to investment in the current year as in 2016.

Regarding the external sector of the economy, some of the amendments to the capital controls made in July 2016 were conducive to imports. According to the latest data from the Bank of Greece, the exports of goods and services expanded in the three months between August and October by 4.7% year on year. The growth of imports was stronger (+6.6%). As a result of the stronger growth of imports, the surplus in the goods and services account declined year on year by €87.8 million or 2.9%. The latest trends in exports and imports reveal the support that the exporting companies gradually receive from the sale of goods and services abroad. In addition, the accumulated needs of the enterprises and the households for imports due to the capital controls lead to stronger growth of imports, compared with exports, as the capital controls are gradually being relaxed. Therefore, further export growth, but also a deterioration of the goods and services account are anticipated in late 2016 and in the first half of 2017, at least.

Taking into account the latest and the anticipated politico-economic developments and the available data on the trends in economic indicators in Greece for the forecasting of the GDP components, the strong growth of **household consumption** in the third quarter of 2016 will have weakened substantially in the following quarter, due to the fiscal measures that were taken as part of the first review. The handout to the low-income pensioners of €616 million would have slightly boosted private consumption towards the end of last year, despite the small rise in unemployment from the summer. **As a result of the slight boost in the final quarter of last year, household consumption is projected to have increased by about 1.0% in 2016, its highest rate since 2010.**

The fiscal measures will take a full impact from the start of 2017, when all planned measures will come into force (changes in the direct taxation of freelancers and in the estimation of their social security contributions). Certain fiscal interventions that are going to be finalised during the second review (e.g. on special wage categories in the public sector) will create a further burden. In contrast, the continuation of the year-on-year growth of employment, mainly in the export-oriented branches of Manufacturing, Tourism and Construction, albeit at a lower rate than in 2016, will support the expansion of household consumption. The expansion of digital transactions will boost the officially recorded economic activity, which will contribute to the growth of private consumption. **As a result of the various counteracting forces that will act on private consumption in the current year, it is expected to grow slightly by about 1.7%.**

The restart of the fiscal consolidation in the second half of 2015 and the efforts to achieve the primary deficit target set for that year had resulted in a decline of **public consumption**. This explains why the year-on-year decline of public consumption expenditure eased during the third quarter. Public consumption was at its lowest in the final quarter of 2015, which together with the good performance in the execution of the budget in the first nine months of 2016 with respect to expenditure, has created the conditions for an increase of public consumption spending in the final quarter of 2016, by about 1.5%. **The projected growth in consumption expenditure of the public sector in the final quarter of 2016 is not expected to have changed its trend for the year overall, resulting in an overall contraction by 0.5%.** Regarding the public consumption trend in the current year, the emphasis in the 2017 Budget with respect to the fiscal consolidation effort is placed on boosting tax revenues. Besides, the already known measures on the expenditure side concern almost exclusively pensions, benefits and social security contributions of the public sector, rather than consumption spending. **Under the fiscal interventions planned for 2017, public consumption is likely to expand slightly throughout the year.**

Regarding **investment,** the induction of Greece in the quantitative easing programme of the ECB has a crucial importance, in order to boost the capital adequacy of the banking system and thus its capacity to supply credit to the enterprises. As long as there are no developments on the issues that would lead to the induction of Greece in the quantitative easing programme (second review of the programme and debt relief measures), the credit policy of the banks is not going to change. In addition, the lifting of the capital controls will be delayed and their relaxation will slow down, depending on the rate of return of deposits to the banks. In any case, the process of dealing with the non-performing loans will impede the implementation and the funding of investment projects by enterprises and banks respectively.

Apart from the strengthening of the banking system and the implementation of measures to secure public debt sustainability, i.e. interventions to improve the macroeconomic environment, the investors care about the conditions that prevail in the business environment. The successive changes in the taxation of businesses and freelancers in the last two years, the changes in the social security contributions and the feeling of instability of the regulatory framework in Greece that they cause impede the undertaking of investment risks. Changes in the remaining elements of the business environment, such as the planned labour market reform, will also have an effect on the investment decisions.

Apart from the events and the likely developments that would affect the investment decisions of many sectors, there are conditions that pertain to investment in specific sectors. For example, the continuous growth of foreign demand in 2016 and the energy cost remaining low, despite the recent increase in the oil price, are conducive to investment in particular branches of the primary sector and Manufacturing.

Regarding the contribution of the public sector to investment activity, the PIP expenditure is projected to have remained unchanged year on year (€6.4 billion). Given that the PIP expenditure in 2017 is set at the same level as in the previous year (€6.75 billion), its contribution to investment is likely to remain unchanged for the third year in a row. In contrast, the boost from investment related to privatisation and concession deals completed last year is expected to be much stronger than in 2016.

Given that the conclusion of the second review and its effects, the changes in the board members of the banks, and the social security and labour market measures are still pending, while investment was relatively high in the final quarter of 2015, investment is projected to have marginally fallen in the corresponding period of 2016. Therefore, **investment is projected to have increased by 7.0% overall in 2016. The positive trend is expected to carry over to the next year, at the slightly stronger rate of 12%, due to investment in export-oriented manufacturing subsectors, public works and the start of the implementation of investment plans linked to privatisation deals.**

In the external sector of the economy, the growth recorded on both sides of its balance in the third quarter of last year will have carried over to the final quarter of 2016 and to the first quarter of the current year, as the capital controls did not ease during the corresponding period of last year with respect to international trade transactions that could have contributed to the relieve of the accumulated demand for both imports and exports. **After the notably weaker export growth in the final quarter of last year, their contraction overall in 2016 will total about 0.7%.** The low exchange rate of the euro against the dollar will continue to support the competitiveness of the Greek products and services in the current year. The persistent turmoil in the countries of the South-east Mediterranean, and Turkey in particular, is going to be conducive to further growth of international tourism and receipts. International transport will also support the exports of services, owing also to the operation of the additional pier that was inaugurated last year at the Port of Piraeus. **Taking into account the trends in their components, exports are expected to grow by about 5.5-6.0% in 2017.**

Regarding imports, the positive impact of the relaxation of the capital controls will have carried over at least to the final quarter of last year and to most months of the first half of the current year, until the accumulated demand for imports is sufficiently relieved. That said, the gradual implementation of the fiscal measures that affect the disposable income will have moderated the growth of consumption and the demand of imports, without preventing their growth in the final quarter. **The strong growth of imports in the second half of 2016 will have led to a growth of about 2.5% to 3.0% overall in 2016.** Apart from the accumulated demand for imports due to the capital controls, the anticipated increase of domestic demand in 2017, from both higher private consumption and investment, will largely spill over to goods and services that are not produced domestically. The rise in the oil price and the low exchange rate of the euro against the dollar, which limit purchasing power, will impede the growth of imports. As a result, **imports are anticipated to increase by 7.5%-8.0% in 2017**.

Taking into account the above trends in factors that affect the GDP components and its strong growth in the third quarter of 2016, **the projection of IOBE for the GDP rate of change is revised from contraction to growth of about 0.4%. According to the up to now available data, the growth of the Greek economy is expected to strengthen in 2017 to about 1.5%-1.8%.**

The execution of the State Budget outperformed the targets set for the first eleven months

According to the final data on the **execution of the State Budget** in the first eleven months of 2016, the SB account had a **surplus of €2.02 billion,** against a target for a deficit of €1.85 billion. **The primary surplus reached €7.42 billion,** more than twice its target (€3.55 billion). The outperformance of the primary surplus came **mainly from a restraint on primary expenditure** by €2.36 billion. **Higher than anticipated Ordinary Budget revenues,** by €1.45 billion, also contributed to this performance.

The **cutback of primary expenditure** came mainly from lower **Ordinary Budget (OB) expenditure** by €1.28 billion. Yet, the execution of the **Public Investment Programme (PIP)** also had a significant contribution, as its expenditure was shorter than the target by €1,08 billion. The restraint of OB expenditure was stronger in **consumption expenditure, social protection and grants to social security funds.** Regarding the ordinary revenue, the **receipts from the corporate income tax** were **higher by 13.7% than the target**, mainly due to the hike in the tax rate on SA and in tax prepayment, while the outperformance was less strong in the **revenues from the taxation of private individuals** (+2.0%). Regarding the indirect taxes, **the receipts from other excise duties** were higher than the target by 5.2%, while the receipts from **VAT** exceeded the target by **1.7%**. All the excise duty targets were met, except for the target on the excise duty of energy products. Apart from the additional fiscal measures that were introduced gradually, the extensive use of credit and debit cards contributed to the stronger fiscal revenue.

State Budget 2017: Emphasis on higher tax revenues in order to achieve the targets

According to the **introductory report of the 2017 Budget, the State Budget (SB) deficit will decline from €4,18 billion, or 2.4% of GDP, to €1,55 billion (0.9% of GDP).** Correspondingly, **the primary surplus** is expected to almost triple, from €1,42 billion to €4,0 billion, or 2.2% of GDP. The significant improvement comes from the increase of **Ordinary Budget (OB) revenues** by €2,4 billion, or 5.0%, year on year, while the OB expenditure will decline slightly (-0.9% or €440 million). The increase is expected to come mainly from **indirect taxes** (+5.3% or €335 million), **income taxes of private individuals** (+14.5% or €1,16 billion) and **non-tax revenues** (+25.0% or €1.36 billion), due to stronger receipts from the concession of permits and rights. Therefore, as evident already from the Draft State Budget for the current year, **the 2017 target for the State Budget balance is anticipated to be met primarily by increasing tax revenues.**

Ease of unemployment in 2016, further decline at a lower speed in 2017

Unemployment in Greece declined in the third quarter of 2016 to 22.6%, from 24% in the corresponding quarter of 2015 and 23.1% in the preceding quarter. Overall in the first three quarters of last year, unemployment stood at 23.5%, 1.5 percentage points less than in the same period of the preceding year. The new decline of unemployment reflected the positive output trend in certain sectors (e.g. Manufacturing) and the usual favourable seasonal effects on employment in particular sectors (Tourism, Transport-Storage). The job creation in the public sector remained significant, due to the programmes for temporary public-benefit work of the Manpower Employment Organization OAED and the recruitment of candidates that succeeded in competitions of the Supreme Council for Civil Personnel Selection ASEP in past years. The branches with the strongest contribution to the fall of unemployment in the first nine months of last year will have kept creating jobs in the last quarter of 2016, as the latest available data on their production point to their continuous growth during that period. That said, the changes in direct taxation and social security contributions of freelancers caused an upheaval, with an impact on their employment in the last quarter of 2016. **Taking into account the above effects on employment, unemployment is expected to have increased slightly in the final quarter of 2016. Nevertheless, it has remained notably lower year on year and it is projected to have fallen to 23.4% overall in 2016.**

Regarding the trends in the labour market in 2017, the expansion of employment in the private sector branches with the strongest contribution to the fall of unemployment in the current year will most likely lead to further decline in the following year. Indicatively, the growth in the exports of goods will support job creation in Manufacturing, while the stronger tourist flows, boosted by the persistent geopolitical instability in the South-East Mediterranean, will keep employment growing in Tourism for one more year. The forthcoming changes in the regulatory framework of the labour market are also anticipated to be conducive to investment and job creation. The significant job creation from the OAED programmes will carry over to 2017, as according to the Draft State Budget for 2017, short-term employment opportunities are going to be created for 52,000 long-term unemployed for the protection of socially vulnerable groups. That said, the changes in direct taxation and social security contributions of freelancers from the beginning of 2017, at least initially, are going to impede job creation in the affected sectors. The increase in indirect taxes, together with the reduction in the tax allowance for individuals and the cuts in supplementary pensions that have come into force since the autumn of 2016 are expected to compress disposable income, with corresponding effects on consumption demand, retail trade activity and employment in this sector. **Taking into account the anticipated effects,** unemployment will most probably continue to contract in 2017, yet its decline is going to be weaker than in the previous year, by about one percentage point (22.3%).

End of the deflation in late 2016, price growth mainly from rising oil price and indirect taxes in the current year

The decline of the Consumer Price Index weakened to 0.4% in the final quarter of 2016. In December, prices remained unchanged year on year, for the first time in almost four years. **Overall in 2016, the deflation rate stood at 0.8%, lower by almost one percentage points than in 2015 (1.7%).**

The fall of the oil price was the key deflation driver from the autumn of 2014 until last October. The decision at the International Energy Forum to curb the daily oil production is the underlying cause for the end of this trend. The rise in the oil price, which eliminated the deflation already from the final quarter of 2016, is expected to be the key driver of the Consumer Price Index expansion in the current year. The new indirect levies and the hikes in the existing taxes that came into force from 1st January 2017 will continue to restrain the deflationary pressures in the Greek economy for the fifth consecutive year. The boost of consumption demand, mainly from employment growth and not from an expansion of per capita income, which will decline from the growth in direct taxation and higher social security contributions, will also prevent a new price fall in the Greek economy. **The Consumer Price Index is thus expected to increase by 1.3% in 2017.**

Special studies on the economic impact from the new hikes in the taxation of fuels and tobacco products

A significant part of the increase in tax revenues in 2017 is anticipated to come from the increase in the taxation of fuels and tobacco products (Law No. 4389/2016). Recent special studies of IOBE examined the economic impact from the increase in the excise duties on particular product categories and the extent to which the targets for additional revenues could be met.

The studies revealed that the targets for additional revenues in the 2017 budget are particularly ambitious. The impact on revenues becomes more adverse when we take into account the further effects from the reduction of economic activity that comes from the tax increase.

One of the key factors that contributes to this result is the possibility of illegal trade, which seems to be very widespread in these particular product categories. This makes the ability to raise additional revenues by increasing the tax coefficients remarkably precarious.

2. ECONOMIC ENVIRONMENT

2.1 Trends and prospects of the world economy

The global environment

The growth of the world economy seems to have consolidated at low rates in 2016. The GDP of the OECD member states increased year on year by 1.7% in the third quarter of 2016, compared with 1.6% in the preceding quarter of last year and 2.3% in the corresponding quarter of 2015. The average growth rate in the first three quarters of 2016 was notably weaker compared with 2015, when the GDP was growing by about 2.4%, compared with 1.7% on average in 2016. In the 20 largest economies (G20), the average growth rate in the first three quarters of 2016 stood at 2.9%, from 3.4% in 2015.[1] The slowdown came from various challenges that the world economy faced in 2016. The UK referendum, the inflow of refugees in Europe, the weakening of world trade and the turmoil in the capital markets led to a slowdown of the growth rates.

Among the developed economies, the US economy slowed down in the third quarter of last year, as the GDP growth rate stood at 1.6%, from 2.2% in the same quarter of 2015. The growth rate steadied in the Euro area for a second quarter in a row, at a lower level than in 2015. In contrast, the growth rate in the UK strengthened to 2.3%, from 1.9% a year earlier. In China, the growth rate remained at 6.7% for a third quarter in a row, against 6.9% in 2015. Meanwhile, the growth rate marginally fell in India. In Brazil, the recession eased to 2.9%, from 3.6% in the preceding quarter, while in Turkey the economy slipped into a 1.5% recession, after strong growth in the preceding quarters, as a result of the political turmoil caused by the attempted coup.

According to the latest forecasts of the International Monetary Fund (January 2017), the world economy is expected to have grown by 3.1% in 2016, slightly weaker year on year. The forecast remained unchanged from the previous issue published in October 2016. The growth of the world economy is expected to strengthen in the coming year to 3.4%, and to increase further to 3.6% in 2018. In greater detail regarding 2016, the growth rate in the developed economies is projected to have increased, compared to the previous forecast, as in many countries the economic figures improved in the second half of 2016, offsetting the impact from the UK referendum - the key instability factor during that period. This is expected to generate a momentum that will carry over to the current year. In the developing economies, the growth rate is expected to remain almost unchanged,

[1] Source: OECD G20 GDP growth – Third quarter of 2016: http://www.oecd.org/std/na/G20-GDP-Eng-Q316.pdf

slightly weaker than in the October forecast.

In particular, the GDP of the developed economies is expected to increase by 1.9% in 2017 and 2.0% in 2018, faster than in the previous forecasts. As already mentioned, the key reason for this is the improved performance in the second half of 2016. Germany, Japan, Spain and the UK are the countries with the strongest positive trends.

The growth of the developing countries of Asia is anticipated to have weakened to 6.3% in 2016, from 6.7% in 2015. Nevertheless, the growth rate will steady in the coming years, as the stronger growth in India is expected to offset the slowdown of the Chinese economy. A similar trend is observed in the emerging and developing countries of Europe, where the GDP growth rate fell to 2.9% in 2016, from 3.7% in 2015, and is expected to remain at that level in the coming two years. In the Commonwealth of Independent States, the GDP growth projection for 2016 marginally exceeded 0% (at 0.3%), against a recession of 2.8% in 2015, with a forecast for an acceleration of growth to 1.8% until 2018. The acceleration is anticipated to come from the trends in the Russian economy, where the recession is easing, while the remaining economies in this region are also expected to strengthen significantly. The strongest GDP growth in 2016, at 3.8%, is projected for the Middle East and North Africa countries, which is expected to remain about 3% until 2018.

The volume of world trade weakened in 2016 to 1.9% growth, from 2.7% in the previous year, with the deceleration coming mainly from the developed countries. In the coming two years, the growth rate of world trade is expected to strengthen substantially, to 3.8% in 2017 and 4.1% in 2018. The return to strong growth will come both from developed and developing economies, yet the growth rate in the former category is weaker than in previous forecasts.

The factors that are anticipated to have an impact on the world economy in the current year are not limited to the economic sphere, but include political and geopolitical developments:

- The expansionary fiscal policy in the US and China, the two largest economies in the world, is considered a positive factor. The fiscal expansion in Japan and Germany since mid-2016, to offset the sluggish foreign demand, is a related development.
- The wake of the UK referendum continues to infuse instability in the economic and political environment in Europe. Together with the protectionist tendency on the other side of the Atlantic ocean, this creates turbulence for world trade.
- The increase of oil prices weakens the growth prospects in certain countries – oil importers. However, it also creates conditions for stronger demand from oil-producing countries, due to income growth

there. The price growth is caused by recent decisions taken at the International Energy Forum in Algeria to limit the global daily production to 740 thousand barrels. The oil price hike is expected to result in an inflation rate in the Euro area that does not undermine the quantitative easing programme of the ECB. Nevertheless, the trend in the cost of oil will most likely restrain the growth outlook of the weakest economies. In contrast, the oil price growth, together with the appreciation of the rouble, is expected to boost income in Russia and its imports from third countries, strengthening the world trade flows on the side of the emerging economies.

- The political developments in the US, UK and other European countries strengthen the protectionist trends, which creates risks for further weakening of the volume of world trade, coming from the developed economies, over the next few years.
- In the developing economies, growing private debt (particularly in China), falling corporate profits and capital outflow, linked to the appreciation of the dollar, remain significant drivers.
- The low commodity prices undermine the economic growth and the outlook of the least developed economies.
- Geopolitical risks, such as civil wars in the Middle East and North Africa, refugee flows and terrorism threats, remain significant factors of uncertainty.

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

In the **US**, the stronger dollar inhibits the demand for exports, yet it attracts capital from abroad. Consumption remained strong, fuelled by the relatively strong labour market and wage growth, partly offset by public spending and investment. As a result, the 2016 growth rate is projected at 1.6%, accelerating to 2.3% and 2.5% in 2017 and 2018 respectively, adjusted in the upward direction compared with the previous forecast.

In **Japan,** private and public consumption strengthened in 2016. Capital formation did too, yet the weak foreign demand hampered growth. As a result, the growth rate for 2016 is projected at 0.9%, expected to remain close to that level in 2017 as well (0.8%), after an upward revision from the previous forecast.

In **China**, the 2016 GDP growth rate is projected at 6.7%, with a stronger than previously forecasted growth for 2017 at 6.5%. The improved forecast is based on the current economic policy of the Chinese government, yet it bears risks with respect to private debt, particularly if we also take into account the credit expansion in the private sector.

The very negative expectations for the economy of **Russia** were revised and now its GDP contraction rate is projected at 0.6% for 2016. Subsequently, the economy is expected to return to a growth of 1.1% and 1.2% in 2017-2018. The growth of the oil prices, which began in late 2016 and is expected to carry over to the next few months, is the key driver of the GDP expansion in Russia.

The World Economic Climate indicator, estimated by IFO, reveals that expectations strengthened in the last quarter of 2016. The indicator returned to its level from the second quarter, after the fall that came mostly from the UK referendum. In particular, the World Economic Climate index totalled 90.5 points, from 86.0 points in the third quarter, a level that is slightly higher year on year. Its rise came mainly from stronger expectations, as the corresponding sub-index increased to 94.7, from 86.0 points in the third quarter.

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

	2015	2016	2017	2018
GDP				
U.S.A.	2.6	1.6	2.3	2.5
Japan	1.2	0.9	0.8	0.5
Emerging Asia	6.7	6.3	6.4	6.3
of which China	*6.9*	*6.7*	*6.5*	*6.0*
India	*7.6*	*6.6*	*7.2*	*7.7*
AESEAN-5	4.8	4.8	4.9	5.2
Eurozone	2.0	1.7	1.6	1.6
Emerging and developing Europe	3.7	2.9	3.1	3.2
Commonwealth of Independent States (CIS)	-2.8	-0.1	1.5	1.8
of which Russia	*-3.7*	*-0.6*	*1.1*	*1.2*
The Middle East and North Africa (MENA)	2.5	3.8	3.1	3.5
Latin America	0.1	-0.7	1.2	2.1
of which Brazil	*-3.8*	*-3.5*	*0.2*	*1.5*
Sub-Saharan Africa	3.4	1.6	2.8	3.7
World economy	**3.2**	**3.1**	**3.4**	**3.6**
World Trade				
Volume of World Trade (goods and services)	**2.7**	**1.9**	**3.8**	**4.1**
Advanced Economies	4.0	2.0	3.6	3.8
Emerging and Developing Economies	0.3	1.8	4.0	4.7

Emerging Asia: East Timor, Vanuatu, Vietnam, India, Indonesia, Cambodia, China, Malaysia, Thailand, Philippines, Kiribati, Laos, Malaysia, Maldives, Myanmar, Mongolia, Bangladesh, Bhutan, Brunei, Nepal, the Marshall Islands, Solomon Islands, Federated States of Micronesia, Palau, Papua New Guinea, Samoa, Sri Lanka, Thailand, Tonga, Tuvalu, Philippines, Fiji
AESEAN-5: Vietnam, Indonesia, Malaysia, Thailand, Philippines
The Middle East and North Africa: Egypt, Algeria, Morocco, United Arab Emirates, Jordan, Iraq, Iran, Qatar, Kuwait, Lebanon, Libya, Mauritius, Bahrain, Oman, Saudi Arabia, Soudan, Syria, Yemen, Djibouti, Tunisia
Sub-Saharan Africa: Angola, Ethiopia, Ivory Coast, Gabon, Equatorial Guinea, Cameroon, Kenya, Congo, Maurice, Botswana, Namibia, Nigeria, North Africa, Uganda, Cape Verde, Seychelles, Swaziland, Tanzania, Chad, etc.
Source: World Economic Outlook update, IMF, January 2017

The assessment of the current economic situation remained almost unchanged throughout last year, close to 86.0 points.

The economic climate index improved in all major world economic regions in the fourth quarter of 2016. In greater detail, the economic climate index reached 106.8 points in **Europe**, returning to its level from the second quarter. In the **Euro area**, the indicator strengthened to 116.8 points, remaining notably lower year on year. In **North America**, the economic climate index increased to 97.1 points, from 91.2 in the previous quarter, recording its best performance in 18 months. Lastly, the economic climate index in **Asia** reached 78.1 points, from 71.1 points in the third quarter of 2016, higher than in the corresponding quarter of 2015.

The economies of the EU and the Euro area

The economies of the EU and the Euro area, in particular, have had fairly fragile growth in the past few years. As a result, despite the recovery in 2016, the EU economies have remained exposed to various risk factors. Favourable developments, such as low energy prices, improved euro/dollar exchange rate and the loose monetary policy by the ECB were offset by events such as the UK referendum and the turmoil in the Asian capital markets, while domestic demand and international trade remained weak.

Table 2.2

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

Quarter/Year	IV/14	I/15	II/15	III/15	IV/15	I/16	II/16	III/16	IV/16
Economic climate	95.0	95.9	99.5	95.9	89.6	87.8	90.5	86.0	90.5
Assessment of current situation	91.6	91.6	95.3	87.9	86.0	87.9	86.0	86.0	86.0
Expectations	98.2	100.0	103.5	103.5	93.0	87.7	94.7	86.0	94.7

Source: IFO, World Economic Survey, WES, No. 04/ November 2016

Table 2.3

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

Quarter/Year	IV/14	I/15	II/15	III/15	IV/15	I/16	II/16	III/16	IV/16
North America	101.3	107.1	97.9	96.2	91.2	85.4	93.7	91.2	97.1
Europe	101	108.7	120.4	116.4	113.6	110.7	107.8	101.0	106.8
Euro area	*102.3*	*112.7*	*129.2*	*124.0*	*122.0*	*118.9*	*112.7*	*111.6*	*116.8*
Asia	93.9	90.4	93.0	87.7	75.4	78.9	78.1	71.1	78.1

Source: IFO, World Economic Survey, WES, No. 04/ November 2016

Accordingly, GDP increased in the European Union by the same rate in the first three quarters of 2016 (1.9%), against 2.1% growth in the same period of 2015. Meanwhile, the growth rate in the Euro area fell to 1.7% in the first three quarters, from about 2.3% in 2015. The factors that have hampered growth throughout 2016 did not change significantly in the third quarter. The year-on-year slowdown in the third quarter came from weaker investment activity, as private and public consumption kept their growth rate unchanged. Exports and imports weakened at a similar rate and as a result the net contribution to GDP growth of the external sector remained unchanged. In contrast, the slowdown in the Euro area came both from investment and private consumption. This contradicts the implementation logic of the quantitative easing programme, which aimed precisely at boosting these two factors. The highest growth rates in the third quarter of 2016 were recorded in Ireland (6.6%), Luxembourg (4.8%) and Romania (4.5%), while sluggish growth was observed in Latvia (0.3%) and France (1.0%). Overall in 2016, according to the autumn forecasts of the European Commission, the economy in the EU and the Euro area is projected to have grown by 1.8% and 1.5% respectively, with marginally weaker growth anticipated for 2017.

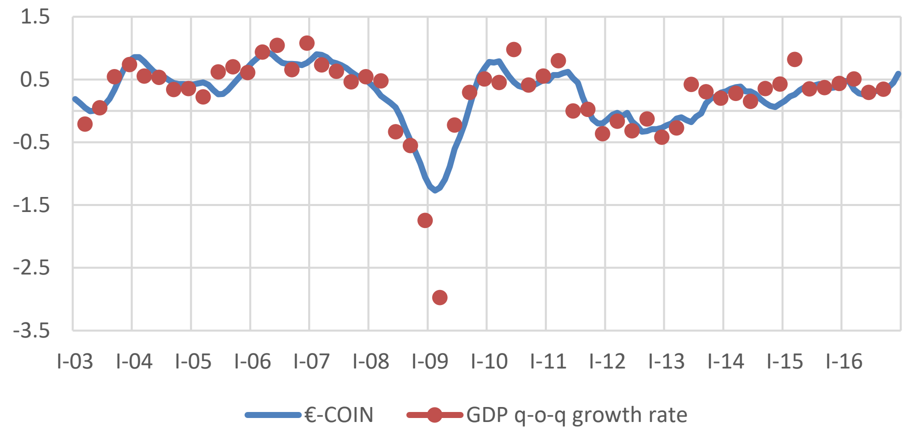
The key leading indicators of economic activity in the Euro area and the EU, such as the index €-COIN[2], increased in the last quarter of 2016. The value of the €-COIN index reached 0.59 points in December, from 0.45 points in both November 2016 and December 2015. Overall in 2016, the index increased to 0.38, from 0.35 in 2015, recording its best performance in six years.

The economic climate index of the European Commission increased in December in the European Union and the Euro area, stronger year on year as well. In particular, the index increased to 109.1 points in the EU in December, from 107.3 points in the previous month, while in the Euro area, the index reached 107.8 points, from 106.6 points in November. The growth of the index in the EU originated from improvement in all sub-indices, except Retail Trade, while the strongest growth was recorded in Services. In the Euro area, all sub-indices improved, with the strongest boost recorded in Retail Trade. Consumer confidence strengthened to the same extent in both regions. At the country level, the climate index improved most in the Netherlands (+5.9), followed by Finland (+4.2) and Sweden (+3.7%), while it weakened in Spain, Slovenia and Romania.

[2] 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.

Figure 2.1

Monthly Index €-COIN of CEPR



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

Table 2.4

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

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

Month	Jan-16	Feb-16	Mar-16	Apr-16	May-16	June-16	July-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
EU	106.7	105.3	104.6	105.1	105.6	105.7	104.7	103.8	105.5	106.9	107.3	109.1
Euro area	105.1	103.9	103.0	104.0	104.6	104.4	104.5	103.5	104.9	106.4	106.6	107.8

Source: European Commission (DG ECFIN)

Table 2.5

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

	EU			Euro area		
	2016	2017	2018	2016	2017	2018
GDP	1.8	1.6	1.8	1.7	1.5	1.7
Private Consumption	2.1	1.6	1.5	1.7	1.4	1.5
Public Consumption	1.8	1.2	1.3	1.9	1.3	1.3
Investment	2.8	2.5	3.1	3.3	3.1	3.5
Employment	3.0	3.5	4.2	2.7	3.3	4.1
Unemployment (% labour force)	3.6	3.9	4.3	3.2	4.0	4.7
Inflation	1.4	0.9	0.8	1.4	1.0	1.0
Exports of goods and services	8.6	8.3	7.9	10.1	9.7	9.2
Imports of goods and services	0.3	1.6	1.7	0.3	1.4	1.4
Balance of General Government (% GDP)	-2.0	-1.7	-1.6	-1.8	-1.5	-1.5
Debt of General Government (% GDP)	86.0	85.1	83.9	91.6	90.6	89.4
Current Account (% GDP)	2.1	2.1	2.2	3.7	3.5	3.3

Source: European Economic Forecast, Autumn 2016, European Commission

More comprehensive information about the key economic indicators that drive the formation of the GDP of the Eurozone and of the EU, as well as their potential trends in the upcoming time period, is presented below in this chapter. In particular, we outline the latest data on their changes in the third quarter of 2016, their projection for 2016 overall and their anticipated trends for 2017 and 2018, as presented in the latest forecasting report of the European Commission (Autumn 2016).

In greater detail **private consumption**, according to Eurostat data, strengthened year on year by 2.0% in the EU in the third quarter of 2016, against an increase by 2.2% in the same quarter of 2015. In the Euro area, private consumption slowed down slightly in the third quarter of 2016 as well, to 1.6%, from 1.7% in the preceding quarter and 2.3% in the third quarter of 2015.

The slight slowdown of consumption growth is considered to come from a corresponding slight deterioration in the labour market during the same quarter. At the EU country level, private consumption increased most in Romania (7.0%), Lithuania (5.7%) and Greece (5.1%), while the slowest growth was observed in Luxembourg and Belgium, with 0.5% and 0.9% respectively. Overall in 2016, according to the latest forecasts of the European Commission, **private consumption** in the EU is projected to have increased by 2.1% and is anticipated to slow down to 1.6% in 2017 and 1.5% in 2018. Private consumption is expected to slow down in 2017 and 2018 in the Euro area as well.

Public consumption kept growing strongly in the European Union and the Euro area in the third quarter of 2016, by 1.9% and 2.0% respectively, at about the same rate as in the first two quarters of last year. Recall that in the corresponding quarter of 2015, the growth rates were lower, by 1.4 percentage points, in both regions. Public consumption increased once more significantly in the third quarter in Ireland, Poland and Germany, by more than 4.5%. In contrast, public consumption declined by 7.2% in Malta, 1% in Bulgaria and 0.6% in Greece. Overall in 2016, public consumption is projected to have expanded by 1.8% and 1.9% in the EU and the Euro area respectively, while a significant slowdown is anticipated for 2017 and 2018, to 1.2% and 1.3% in both regions.

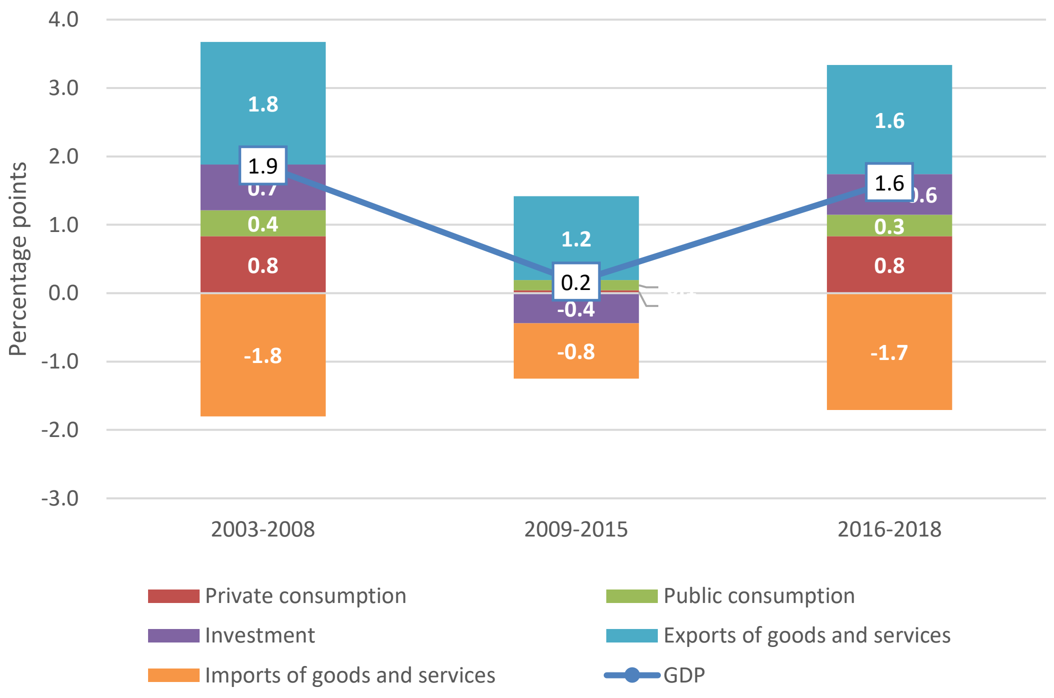
Investment in the EU increased by 2.2% in the third quarter of 2016, against 3.5% in the preceding quarter and 2.6% in the same period of 2015. In the Euro area, the growth of investment reached 2.6%, unchanged year on year, yet lower than in early 2016 (3.7%). At the country level, investment increased significantly in Finland, the Netherlands and Sweden, by about 6.0%, while significant contraction of investment was recorded in Malta, Estonia and Greece, by more than 17%. According to the autumn forecasts of the European Commission, investment is projected to have increased overall in 2016 by 2.8% in the European Union and 3.3% in the Euro area. For 2017, investment is expected to slow down, returning to higher growth rates in 2018 in both regions.

The **exports** of goods and services weakened further in the European Union and the Euro area in the third quarter of the year, growing by 2.6% and 2.2% respectively, against 3.0% and 2.5% in the second quarter and 5.6% and 6.4% in the same quarter of 2015. The strongest export growth, by 10.2%, was recorded in Greece, followed by Romania (+7.1%) and Croatia (+6.5%). In contrast, the export performance was sluggish in Malta and France, growing by 0.4% and 0.9% respectively. Overall in 2016, exports are projected to have grown by 3.0% in the EU and 2.7% in the Euro area, strengthening gradually to about 4.2% until 2018.

Imports followed a similar trend in the third quarter, growing by 3.1% and 2.9% in the EU and the Euro area respectively, against 4.3% and 3.8% in the second quarter. Overall for 2016, imports are projected to have expanded by 3.6% in the EU and 3.2% in the Euro area, with even stronger growth anticipated over the following two years, particularly in the Euro area, where it is expected to reach 4.7% in 2018.

Figure 2.2

Analysis of the GDP components of the Euro area (average for each period)



Source: Eurostat

Judging from the trends in the GDP components for the Euro area between 2003 and 2018, the growth mix of 2016-2018 will return to the 2003-2008 pattern. In particular, exports are anticipated to have a strong positive contribution to GDP growth (1.6 percentage points of GDP), at a similar extent, but in opposite direction with the expansion of imports (-1.7 p.p.). Private consumption comes back as a growth driver (+0.8 p.p.), and the same holds for public consumption. Lastly, investment is expected to have a positive contribution to the GDP of the Euro area in the coming period, by 0.6 percentage points, about the same as in 2003-2008.

The harmonised inflation strengthened notably in December in the Euro area and the EU, reaching 1.1% and 1.2% respectively, on the back of an upward trend since April 2016. In the last quarter of 2016, inflation strengthened to 0.7% in the Euro area and 0.8% in the EU, against 0.2% and 0.1% growth in the same quarter of 2015. The price growth in the past few months is linked to the weaker contraction of fuel prices and their return to growth in December. The fuel prices have now an inflationary impact on the overall price index, while price growth is also recorded in the remaining categories of goods and services. As a result of this trend, certain central banks have started to exert pressure on ECB to curtail or conclude the quantitative easing programme, as the target for inflation close to 1.8%-2.0% tends to be achieved in the coming months. Regarding the final quarter of last year, prices declined in five countries – Bulgaria (-2.0%), Cyprus (-0.6%), Ireland (-0.2%), Romania (-0.1%) and Slovakia (-0.1%). In contrast, the highest inflation rate was recorded in Belgium (+2.0%), Estonia (+1.6%), the Czech Republic, Latvia and Austria (+1.5%). Overall in 2016, inflation stood at about 0.3% in both regions, while for 2017 it is anticipated to accelerate significantly, to 1.6% in the EU and 1.4% in the Euro area.

The momentum that the conditions in the **labour market** had gained since early 2015 weakened, as employment increased in the third quarter of 2016 by 1.2% in the EU and the Euro area, from 1.4% in the second quarter. Strong employment growth of about 3.0% was recorded in Luxembourg, Ireland and Spain, while employment declined by about 1.1% in Estonia and Lithuania. Overall in 2016, employment is projected to have increased by 1.4% in both economic regions. In the following two years, the employment expansion rate will slightly decline to about 1.0%. According to data from the Labour Force Survey of Eurostat, unemployment declined once more in the third quarter of 2016, to 8.2% in the EU and 10% in the Euro area, from 9.0% and 10.3% respectively in the same quarter of 2015.

The **fiscal performance** improved in both regions, as the general government deficit declined in the third quarter of 2016 to 1.8% in the EU and 1.6% in the Euro area, from 2.0% and 1.7% respectively a year ago. High deficits were recorded in Belgium (-7.7%), France (-4.5%) and the UK (-3.9%), while strong surpluses were recorded in the third quarter in Greece

(+6.0%), Cyprus (+4.0%) and Hungary (+3.2%). The strongest fiscal consolidation year on in year in 2016 was recorded in Greece and Hungary, where the general government account improved by 7.8 and 4.7 percentage points of GDP respectively. According to the forecasts of the European Commission, the deficits in the two economic regions are expected to decline further until 2018. Public debt declined in the third quarter in the EU and the Euro area, to 83.3% and 90.1% respectively, reaching their lowest rate since early 2013.

2.2 The economic environment in Greece

A) Economic sentiment

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

The economic sentiment indicator increased quarter on quarter in the fourth quarter of 2016. Overall in 2016, the economic climate improved year on year. As the current Economic Adjustment Programme is being executed, with delays but without substantial deviations, the expectations of the households and the enterprises seem to return to normal, after their sharp drop around July 2015. The resolution of the last issues pending from the first review mitigated the uncertainty, mostly on the side of the households. The gradual improvement of the economic sentiment seems to act as a leading indicator for the easing of the recession in the real economy and the return to marginally positive growth rates in the second half of the year, as anticipated by relevant analyses and the latest available data. The expectations of the households and the businesses thus seem to follow a transition to a new equilibrium point, which incorporates the new tax and social security measures. This correction should perhaps come as no surprise, as the stabilisation of the economy allows for more sombre evaluations by the consumers and the businesses, while there is still uncertainty over the medium-term outlook of the economy. In particular:

The Economic Sentiment Indicator in Greece improved quarter on quarter in the final quarter of 2016, totalling 93.6 points on average (from 91.6), a level that is significantly higher year on year (from 86.7 points on average). Overall in 2016, the index reached 91.3 points, higher than the 2015 average (89.4 points).

In Europe, the corresponding indicator also increased quarter on quarter, in both the EU and the Euro area. However, the indicator slightly fell year on year overall in 2016 in the EU, increasing marginally in the Euro area. In particular, the economic sentiment indicator stood at 106.9 on average in the Euro area (from 104.3 in the preceding quarter), reaching 107.8 points (from

104.7) in the EU. Overall in 2016, the sentiment indicator reached 104.9 points in the Euro area (from 104.2 points in 2015) and 105.9 points in the EU (from 106.2 points).

At the sector level, the business expectations in Greece improved quarter on quarter in the fourth quarter in Construction, Services and to a lesser extent in Retail trade, with the increase in consumer confidence contributing to the growth of the overall indicator as well. In Industry, the expectations consolidated quarter on quarter in the quarter under examination. Year on year, the indicators increased on average in all sectors, except for Construction, which declined substantially, and Consumer Confidence, which deteriorated as well. Overall in 2016, the expectations improved in all sectors, except for Construction. Consumer Confidence also deteriorated significantly compared to 2015. In greater detail:

The **Consumer Confidence** indicator reached -65 points on average in the fourth quarter (from -68.4 points in the preceding quarter), yet it fell lower year on year (from -61.6 points). At the country level, the Greeks are by far the most pessimistic consumers in the EU. The corresponding average European indices improved slightly in the examined quarter, compared with the preceding quarter, in both the Euro area (to -6.4 from -8.2 points), and the EU (to -5.6 from -7.3 points). Year on year, the indicator declined in the Euro area (from -4.7). Overall in 2016, the consumer confidence weakened in both the EU and the Euro area.

The quarter-on-quarter trends in the components of the overall index are mostly positive in the current quarter. The expectations of the Greek consumers for the economic situation of their household in the next 12 months and the expectations for the economic situation of the country improved. The unemployment expectation improved as well, while the intent to save remained largely unchanged.

In particular, during the fourth quarter of the year, the percentage of those who were pessimistic about the economic situation of their household in the following 12 months declined on average to 72% (from 74%), with 27% (from 24%) believing that their economic situation will remain unchanged. The percentage of Greek consumers holding negative expectations about the economic situation of the country also slightly declined to 78% (from 80%), with 13% (from 12%) believing that it would stay the same. Regarding the intention to save, the percentage of households not likely to consider making any savings in the next 12 months remained unchanged at 90-91%. Concerning the unemployment expectations, the percentage of those foreseeing that the situation will slightly deteriorate remained at 77%, while on average 7% (from 5%) expressed the opposite opinion. The percentage of consumers who reported to be "running into debt" remained at 14-15% in the fourth quarter of 2016, unchanged year on year, while the percentage of respondents who declared to be saving little or a lot stood once more at 9-10%. Lastly, the percentage of those reporting that they were "just about managing to make ends meet on their income" stayed at 63-64% and the percentage of households reporting that they were "drawing on their savings" remained at 12%.

The Business Climate Indicator in **Industry** totalled 91.1 points in the fourth quarter of 2016, unchanged quarter on quarter and slightly higher year on year (from 82.9 points). Overall in 2016, the Industry BCI reached 91.3 points on average, from 81.9 points in 2015.

Concerning the key economic activity indicators, the short-term production forecasts remained unchanged quarter on quarter (at +9 on average), while the assessment for the number of orders and the level of demand also did not change much (at about -19 points). The expectations concerning the stock of finished goods remained stable (with the index at +12 from +13 points). In the remaining economic activity components, the trends for export-related variables remained mixed. The expectations for exports in the next quarter deteriorated, while the assessments on the current level of exports of the sector remained unchanged and the assessment for the number of orders and demand from abroad improved. The average quarterly balance of employment expectations stayed at a similar level (to -6 points from -7 points), performing better year on year (from -14 points). The industrial capacity utilisation rate increased to 70% (from 67.5%), up year on year as well (from 65.2%). Finally, the months of production accounted for by the order book of the companies reached 4.3 on average (from 4.1), slightly higher year on year as well (from 3.7 months).

The Business Climate Indicator in **Retail Trade** slightly recovered quarter on quarter to 99.5 (from 98.6) points, a better performance compared with the same quarter of last year as well (from 82.4 points). Overall in 2016, the Retail Trade BCI reached 98 on average, considerably higher than in 2015 (81 points).

Concerning the key components of the index, the average assessment of current sales remained at +14 points. The percentage of the companies in the sector reporting growth of sales increased to 44% (from 42%), with 30% (28%) reporting the opposite observation. The index for expected sales increased to +19 (from +10) points, and so did the index for inventories (at +2 from -2). Regarding the remaining activity indicators, the balance of expected orders from suppliers improved (to +7 from 0 points on average per quarter), with the short-term employment expectations strengthening as well to +11 (from +5) points. Finally, the balance of price expectations remained unchanged in the current quarter at +8, with 5% (from 8%) of the companies expecting price deflation and 82% (from 76%) expecting prices to remain stable.

In the constituent branches, the business sentiment deteriorated quarter on quarter in the fourth quarter of the year in Food-Beverages-Tobacco and Textiles-Clothing-Footwear, improving in Department

Stores, Vehicles – Spare Parts and Household Appliances.

The business expectations in **Construction** improved in the fourth quarter of 2016, with the index totalling 48.1 (from 43.9) points on average. That said, the index declined year on year, from 58.8 points. In 2016, the expectations index in Construction stood at 55.7 points on average, from a marginally higher level in 2015 (56.4 points).

Regarding the components of the index, the employment expectations dropped by 10 points on average, with the index reaching -52 points, as about 60% (from 48%) of the businesses were expecting job losses. In contrast, the expectations of the businesses on their order book became less pessimistic (with the index at -56 from -75). The assessment of the businesses of their current level of activity deteriorated in the fourth quarter, with the index falling to -32 (from -24) points. The months of activity accounted for by work in hand reached 8.4 (from 8.9). The negative balance of price expectations slightly expanded, by 4 points, reaching -31, with 39% (from 33%) of the businesses expecting a reduction in the short term and 8% (from 6%) expecting prices to rise. Finally, the percentage of companies reporting that they were not facing any obstacles to the proper functioning of their business stood at 6%, while among the remaining businesses, 40% selected as the major obstacle low demand, 34% insufficient funding and 16% factors such as the general economic situation of the country, the capital controls, high taxes, lack of projects and late payments by the state.

At the branch level, the stronger business sentiment in the sector in the fourth quarter came from Private Construction (with the index growing to 78.5 from 52.1 points on average) and Public Works (to 33 points from 40.5 points on average).

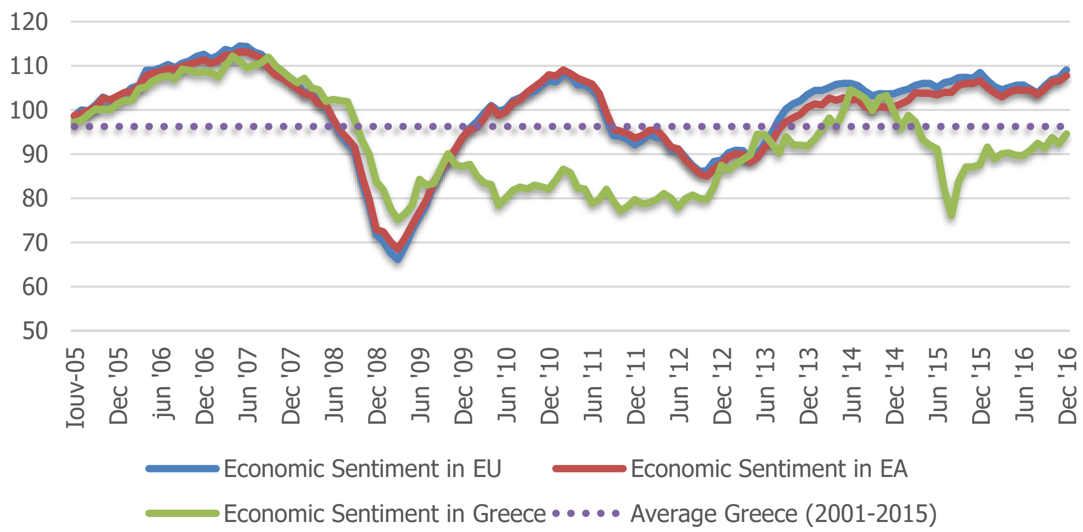
In **Services,** the Business Climate Indicator increased quarter on quarter in the fourth quarter of 2016, to 82 (from 79.3) points on average, higher year on year as well (from 70.5 points). Overall in 2016, the Services BCI stood on average at 76.1 points, compared with 70.6 points in 2015.

Among the basic components of the index, the assessment for current demand gained some ground, with the indicator growing to +4 (from -3) points on average. The assessment of the current level of business activity also increased (to +5 from -1 point on average). In contrast, the short-term demand expectations of the businesses of the sector slightly deteriorated (to -3 from -1 point). Regarding the remaining activity indicators, the average balance of the employment expectations index remained largely unchanged (at -8 on average). The deflationary price expectations strengthened, with the index standing on average at -10 (from -3) points. Finally, the percentage of respondents, declaring that there were no significant obstacles to their business operation, fell to 22% (from 25%), with 36% stating as the main obstacle to the proper functioning of their business insufficient demand, and 18% citing insufficient working capital. The remaining enterprises (21%) reported other factors, such as the general economic situation and the crisis, the capital controls, inability to borrow, high taxes, and delay in payments.

At the branch level of Services, the business climate deteriorated in the fourth quarter of the year in Hotels, Restaurants, Travel Agencies and Financial Intermediaries, remained unchanged in Information Services and improved in Land Transport and Various Business Activities.

Figure 2.3

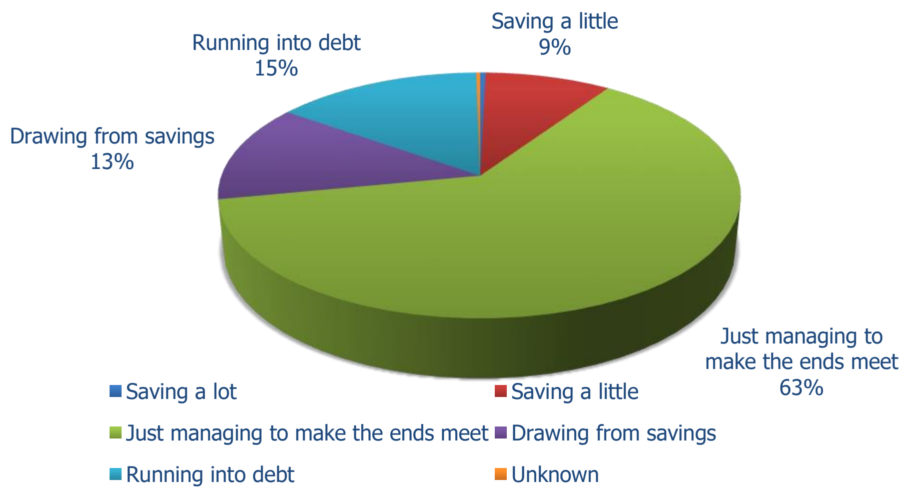
Economic Sentiment Indicators: EU, Eurozone and Greece, (1990-2015=100, seasonally adjusted data)



Source: European Commission, DG ECFIN

Figure 2.4

Consumer Survey data on their household's financial situation *(average of October – December 2016)*



Source: IOBE

Table 2.6

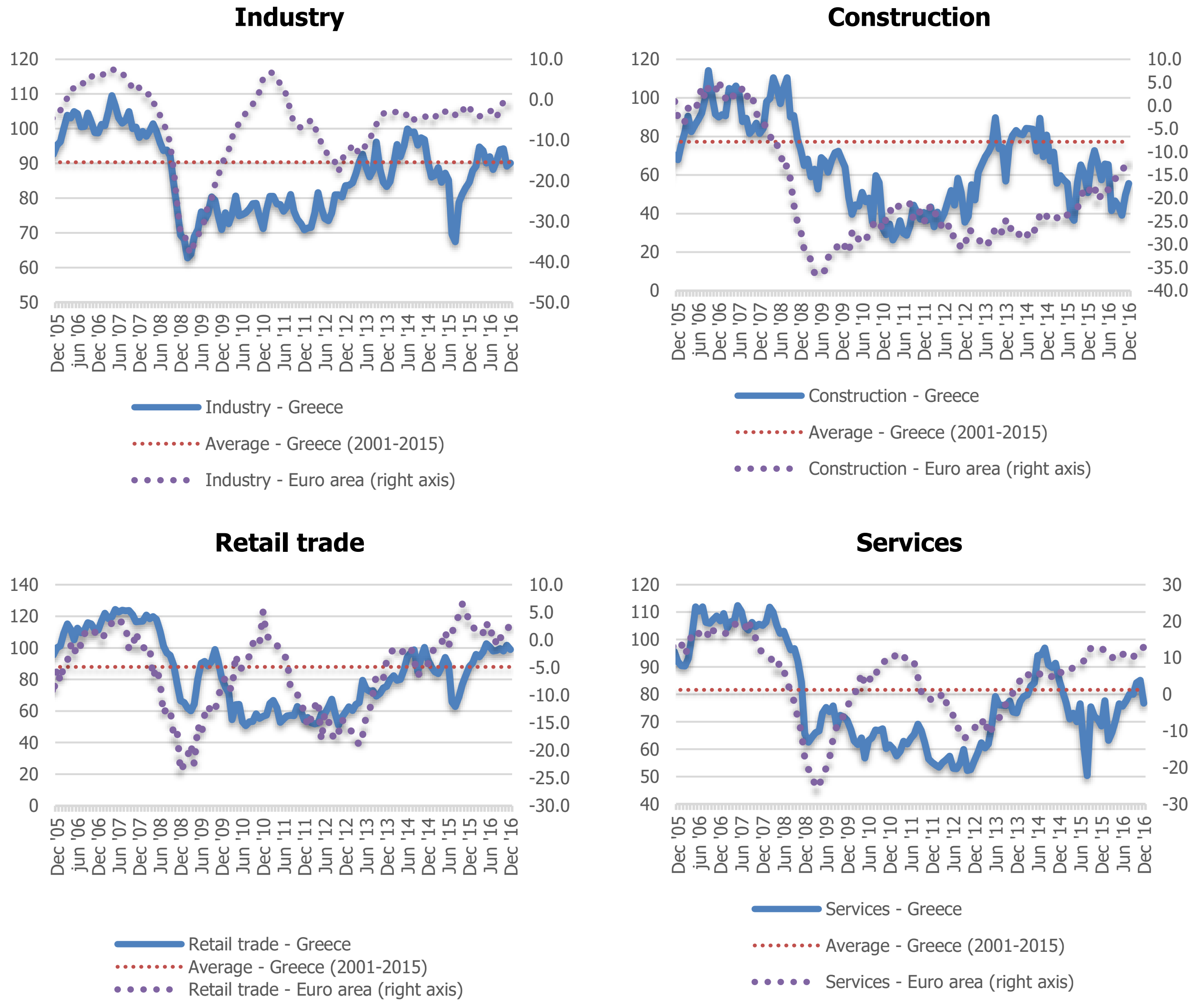
Economic sentiment indicators

Time period	Economic Sentiment Indicator[1]			Business Climate Index[2] (Greece)				Consumer Confidence Index[1] (Greece)
	EU	Euro area	Greece	Industry	Construction	Retail Trade	Services	
2002	97.3	96.8	102.0	101.2	114.0	93.3	82.8	-27.5
2003	95.4	95.4	100.1	97.9	115.0	102.0	85.5	-39.4
2004	103.3	101.6	104.8	99.1	81.5	104.8	94.6	-25.8
2005	100.8	100.5	98.1	92.6	63.0	96.8	93.6	-33.8
2006	108.3	108.3	104.9	101.5	91.1	110.8	103.7	-33.3
2007	111.0	110.6	108.4	102.8	92.5	120.8	106.6	-28.5
2008	93.3	94.3	97.4	91.9	95.2	102.5	97.8	-46.0
2009	79.3	80.2	79.7	72.1	65.5	80.4	70.1	-45.7
2010	101.2	101.6	79.3	76.2	45.2	59.5	62.9	-63.4
2011	100.3	102.4	77.6	76.9	34.2	58.9	61.7	-74.1
2012	90.9	90.6	80.0	77.2	43.2	57.1	54.8	-74.8
2013	95.7	93.8	90.4	87.8	65.0	70.2	70.4	-69.3
2014	105.1	101.6	99.3	94.6	81.5	89.1	87.2	-55.0
2015	106.2	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 2015	105.4	102.6	96.8	87.2	65.0	85.5	76.4	-37.0
Q2 2015	106.1	103.7	91.6	85.7	57.6	90.4	73.2	-43.6
Q3 2015	107.1	104.6	79.9	71.9	44.0	65.8	62.4	-60.6
Q4 2015	107.7	106.2	87.3	82.9	58.8	82.4	70.5	-61.6
Q1 2016	105.5	104.0	90.2	90.7	68.0	93.6	69.0	-67.5
Q2 2016	105.5	104.3	89.9	91.9	62.9	100.2	74.3	-71.2
Q3 2016	104.7	104.3	91.6	91.1	43.9	98.6	79.3	-68.4
Q4 2016	107.8	106.9	93.6	91.2	48.1	99.5	82.0	-65.0

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

Figure 2.5

Business Climate Index



Source: IOBE

B) Fiscal developments and outlook

General Government Deficit (national accounting data)

In the autumn of 2016, ELSTAT revised the 2015 fiscal data compiled according to the national accounting methodology (ESA 2010). In particular, the General Government (GG) deficit increased by €480 million (or from 3.1% to 3.4% of GDP), while the primary surplus declined by €858 million (or about 0.5% of GDP) to only €259 million (0.25% of GDP, Table 2.7). Correspondingly, the primary surplus, as compiled based on the definition given in the Greek Loan Facility (GLF) agreement, declined from 0.5% to 0.25% of GDP. Despite the revision, the primary surplus still exceeded the contractual obligation of Greece for a primary surplus of 0.25% of GDP in 2015.

Table 2.7

General Government figures in national accounting terms (ESA 2010 - % of GDP)

	2012	2013	2014	2015		2016*	2017**
				Initial	Revised		
General Government Balance (excluding the net financing to banking institutions)	-6.0	-2.4	-3.7	-3.1	-3.4	-2.2	-0.8
GG Primary Balance (excluding the net financing to banking institutions)	-0.9	1.7	0.3	0.7	0.2	1.3	2.5
GG Primary Balance (Economic Adjustment Programme)	-1.3	1.2	0.3	0.5	0.25	1.1	2.0
GLF targets	**-**	**-**	**-**	**-0.25**	**-0.25**	**0.50**	**1.75**

Sources: (a) ELSTAT, Excessive Deficit Procedure (April 2016 and October 2016), (b) Introductory Report, 2017 Budget, November 2016.
*Provisional data and estimates. The ad-hoc handout of €616 million to pensioners is not taken into account.
** 2017 Budget

For 2016, the Ministry of Finance projects that the primary surplus, according to the GLF methodology, has reached 1.1% of GDP, a level that exceeds significantly the set target of 0.5% of GDP. The particular estimate for 2016 does not include expenditure of €616 million for ad-hoc economic support of pensioners, which will limit the primary surplus by 0.35% of GDP, to about 0.75% of GDP.

According to the latest estimates[3] for 2016, the better-than-the-target performance, after national accounting adjustments, can be traced to the (revised) State Budget (SB), where the primary deficit is lower by €1,258 million year on year, to reach €710 million, without taking into account the €616 million handout to the pensioners. The results for Hospitals, state-owned enterprises and social security funds also improved slightly. In contrast, the surplus of the local authorities declined.

Regarding 2017, the SB account is anticipated to improve substantially, which comes mainly from higher revenues in the Ordinary Budget (OB). In addition, the legal entities account is anticipated to improve notably, with a small improvement in the account of the hospitals as well. In contrast, the primary deficit of the social security funds is expected to increase slightly, while the local authorities account is anticipated to deteriorate as well.

State Budget, January - November 2016

Throughout the first eleven months of last year, revenue collection was significantly better both year on year and against the set targets for 2016. Already since the first

[3] Budget 2017: Introductory Report, Table 3.2, pp. 57-58.

half of the year, the Ordinary Budget (OB) revenues exceeded the corresponding target by €0.9 billion. The revenue performance improved further since July, as the new tax measures that were adopted in the preceding month came to fruition. As a result, by the end of November, the revenues exceeded the corresponding target by about €2.4 billion.

The outperformance of the revenues, together with the collection of the tranche for the first review of the current programme, of about €10.3 billion improved significantly the cash liquidity in the public sector, allowing for some of the repayment of some of its arrears.

Despite the positive developments on the revenue side, both the OB and the Public Investment Programme (PIP) expenditures were very restrained throughout the first eleven months. The OB payments were short of the corresponding target for the first eleven months of 2016 by almost €2.3 billion. Correspondingly, only 51% of the annual public investment was executed until the end of November, compared with 58% in 2015, when the public administration was facing severe liquidity constraints. As a result, the execution of almost €3.3 billion public investment is left for December.

The great expenditure restraint, together with the outperformance of the revenues, formed a very positive picture for the execution of the Budget in the first eleven months. In particular, the State Budget (SB) had a significant surplus and an exceptionally high primary surplus of about 4.2% of GDP.

Note, however, that the positive result at the SB level was achieved, first, with an increase of the tax burden on the economy and second through a delay in the execution of the investment programme. Meanwhile, the privatisation process, the resolution of the problem with the non-performing loans and more generally the normalisation of the financial system are systematically delayed.

The better fiscal performance (only at the SB level) most likely ensures the achievement of the fiscal targets for 2016 and forms good prospects for 2017. But, the current fiscal policy mix and the delay in privatisation and reforms hampers the possibility of the Greek economy to return to a path of growth.

SB account and primary surplus

The SB account had a surplus of €2,023 million or 1.2% of GDP in the first eleven months of the year, compared with a target for a deficit of €1,852 million and a deficit of €1,245 million in the same period of 2015. Correspondingly, the SB primary surplus reached €7,416 million, or 4.2% of GDP (Table 2.8).

The good performance came mainly from a restraint on the SB expenditure (OB and PIP) against the corresponding targets by €3,382 million and outperformance of revenues (before tax refunds) against the target by €1,658 million.

Table 2.8

State Budget Execution (€ million)

	January – November			% change	
	2014	**2015**	**2016**	**2015/14**	**2016/15**
I. SB Net Revenues	**45,928**	**44,936**	**47,942**	**-2.2**	**6.7**
1. OB net revenues	41,774	41,030	44,652	-1.8	8.8
a. Revenues before tax refunds	**44,847**	**43,615**	**47,333**	**-2.7**	**8.5**
b. Tax refunds	3,074	2,585	2,681	-15.9	3.7
2. PIP Revenues	4,154	3,906	3,290	-6.0	-15.8
of which: EU funds	*4,093*	*3,502*	*3,074*	*-14.4*	*-12.2*
II. SB Expenditure	**47,755**	**46,181**	**45,919**	**-3.3**	**-0.6**
3. OB expenses	**43,207**	**42,485**	**42,442**	**-1.7**	**-0.1**
a. Primary expenses*	37,814	36,901	37,048	-2.4	0.4
b. Interest	5,393	5,584	5,393	3.5	-3.4
4. PIP Expenses	4,548	3,696	3,476	-18.7	-6.0
III. SB Balance (I-II)	**-1,827**	**-1,245**	**2,023**		
% of GDP	*-1.0*	*-0.7*	*1.2*		
OB Balance	-1,433	-1,455	2,210		
PIP Balance	-394	210	-186		
IV. SB Primary Balance	**3,566**	**4,339**	**7,416**		
% of GDP	*2.0*	*2.5*	*4.2*		
GDP (current prices)	**177,941**	**175,697**	**174,908**	-1.0	-0.4

Source: State Budget Execution Bulletin November 2016 (final data), GAO, December 2016
* Includes military procurement, called guarantees and disbursement fee to EFSF.

Note, however, that in case that PIP is executed until the end of the year without deviations, both in revenues and in expenditure, the SB primary surplus will decline by €2,188 million by the end of December. Correspondingly, if the OB is executed without deviations as well, the primary surplus will decline further by €2,230 million.[4] In addition, if the deficit of the remaining GG agencies is covered, than the primary surplus at a GG level, as defined in the Greek Loan Facility, will not exceed 0.8% of GDP. Nevertheless, even in this case, the corresponding target (0.5% of GDP) is going to be exceeded.

Ordinary Budget Revenues

The revenues of the Ordinary Budget (before tax refunds) increased year on year by 8.5% in the first eleven months of 2016, to reach €47.3 billion. This performance is better than the 2016 Budget projections[5] for 5.8% revenue growth year on year. In any case, note that despite the good performance of revenues, the introductory report of the 2017 Budget estimated that the

[4] Including the €616 million handout to the pensioners.
[5] When the 2016 budget was submitted (November 2015), the revenues were estimated at €51,988 million in 2015 and €52,375 million in 2016, implying an increase by only 0.7%. However, the 2015 revenues fell significantly short of the target to reach €49,510 million and as a result the envisaged revenue growth for 2016 reached 5.8%.

OB receipts were significantly short (by €1,112 million) of the initial forecast (€52,375 million) totalling €51,263 million, due to the performance of non-tax revenues.

The significant revenue growth in the first eleven months came primarily from the tax measures that were gradually implemented from July 2015 until June 2016. The increased use of credit and debit cards, due to the imposition of capital controls, which expanded the official economic activity, also contributed to this, together with the collection of ad-hoc, non-budgeted revenues and the intensification of tax audits. The last factor concerns primarily the issue of receipts, as the checks on fuel transfers declined a lot.

Regarding particular categories, the revenues from direct taxation increased year on year by 10.5% in the first eleven months, to reach €19.6 billion, exceeding the corresponding target (Table 2.9). This positive development came largely from higher receipts from income taxes on legal entities by 40.0% (or €1,003 million), which exceeded the target for the first eleven months by €423 million. The revenue growth came mainly from the increase in the profit tax for SA and the hike in tax prepayment. That said, the high rate of tax prepayment deprived the large companies from working and investment capital. The receipts from the income taxation of individuals also increased, both year on year and against the corresponding target.

The revenues from property taxes and mainly from the single property tax (ENFIA) also increased significantly year on year, by about 18.9%.

The higher ENFIA receipts (+26.9%) came from: a) the fact that its collection started a month earlier than in 2015, therefore one more instalment was collected during the same period, b) expansion of the tax base, c) additional tax on property value exceeding €200,000 (against a previous threshold of €300,000) and d) the fact that the ENFIA collection of the first instalment was higher year on year as more tax payers used credit cards to pay the tax in full.

The receipts from "other direct taxes" also increased, with the additional revenue coming almost entirely from the solidarity levy on the income of individuals. In contrast, the revenues from direct taxes of previous years slightly declined year on year, albeit exceeding the target for the first eleven months by €40 million.

The collection of indirect taxes increased by a similarly notable margin (€1,892 million or 9.2% year on year), to reach €22.5 billion. The VAT receipts were a key driver of this development, responsible for 68.2% of the total increase in the revenues from indirect taxation (Table 2.9). The year-on-year growth of VAT revenue by 10.7% came from: a) transfer of many goods and services from the reduced to the standard rate in July 2015; b) increase of the standard rate to 24% from 23% since 1 June 2016; c) growth in the use of electronic means of payment since July

2015 due to the imposition of capital controls and d) intensification of audits for the issuance of purchase receipts.

The revenues from indirect taxes of previous years increased significantly, by about 67.8%, to total €270 million. The detailed data shows that this growth stems from the collection of VAT of previous years, which increased by 103,0% (or €303.7 million) year on year.

The revenues from consumption taxes increased by 3.8% year on year, to reach €7.2 billion (Table 2.9). The increase came from the excise duty on tobacco products, where the revenues increased by 4.7% year on year, to reach €2,285 million, and the car registration tax, which increased by 67.7% year on year. In contrast, the revenues from the excise duty on fuels declined by 2.0% year on year, falling short of the target by €34 million.

Table 2.9

State Budget Execution (€ million)

Revenue categories	**January-November**			**% change**	
	2014	**2015**	**2016**	**2015/14**	**2016/15**
1. SB Net Revenues (2+4)	**45,928**	**44,936**	**47,942**	**-2.2**	**6.7**
2. OB net revenues	**41,773**	**41,030**	**44,652**	**-1.8**	**8.8**
Tax refunds	3,074	2,585	2,681	-15.9	3.7
3. OB revenue	**44,847**	**43,615**	**47,333**	**-2.7**	**8.5**
Direct taxes	18,641	17,741	19,605	-4.8	10.5
--Income tax	11,123	10,931	12,119	-1.7	10.7
--Property tax	3,042	2,644	3,145	-13.1	18.9
--Direct taxes of previous years	1,841	1,601	1,581	-13.0	-1.2
--Other direct taxes	2,634	2,565	2,760	-2.6	7.6
Indirect taxes	20,911	20,658	22,550	-1.2	9.2
--Transaction taxes	13,172	13,000	14,291	-1.3	9.9
(of which VAT)	*12,621*	*12,488*	*13,825*	*-1.1*	*10.7*
--Consumption taxes	6,944	6,949	7,215	0.1	3.8
--Indirect taxes of previous years	447	429	720	-4.0	67.8
--Other indirect taxes	348	280	325	-19.5	16.1
Non-tax revenues	5,296	5,217	5,179	-1.5	-0.7
--Receipts from the EU	103	90	387	-12.6	330.0
--Non-ordinary revenue	1,653	1,751	768	5.9	-56.1
(of which: ANFA, SMP)	*580*	*291*	*375*	*-49.8*	*28.9*
--Permits and rights	382	214	82	-44.0	-61.7
--Other	3,158	3,162	3,942	0.1	24.7
4. PIP revenues	**4,154**	**3,906**	**3,290**	**-6.0**	**-15.8**

Source: State Budget Execution Bulletin November 2016 (final data), GAO, December 2016

In contrast with the tax revenues, the non-tax revenues slightly declined, by 0.7%, in the first eleven months of the year. The revised targets, indicated in the State Budget execution bulletin for the first eleven months of the year, do not allow for an evaluation. However, a significant loss of revenues is evident when comparing the (annual) figures in the 2016 State Budget with the projections for 2016 in the Introductory Report of the 2017 Budget.[6] In particular, the annual receipts from the gains of the central banks holding Greek sovereign bonds (ANFA and SMP programmes) are estimated to total €375 million, coming from the Bank of Greece, against a target of €1,691 million. In addition, the revenues from permits and rights are estimated at €123 million, against a target of €1,802 million. The difference comes mostly from the revenue from the concession of regional airports. The collection of this revenue has been transferred to the 2017 budget. The revenues shortage of these two sources overall approaches €3 billion (€2,995 million).

Part of the shortage was offset by the increased participation of the Hellenic Republic in the profits of Bank of Greece, which reached €775 million (against a target of €350 million), from extraordinary, non-budgeted revenues of HCCA of about €200 million and higher withdrawals from EU funds. Overall, the non-tax revenues from any kind for 2016 were budgeted at €7,610 million, yet only €5,445 million are projected to be collected.[7] Another part of the non-tax revenue shortage was covered by outperformance of the tax revenues. As a result, the shortage of the total OB revenues was limited to €1,112 million on an annual basis.[8]

OB expenditure

The OB expenditures marginally declined year on year in the first eleven months of the year, by 0.1%, to €42.4 billion, compared with an expenditure target for that period[9] of €44.7 billion. From the expenditure restraint of €2,298 million, €2,066 million come from primary expenditure and €232 million from interest payments.

According to the revised annual target, the OB expenditure is projected to have increased year on year by 1.5% to reach about €49.2 billion, exceeding the initial target in the 2016 Budget (€49.0 billion) by €219 million. The new interest payments estimate totals €5,600 million, lower than the initial estimate by €330 million. In contrast, the new estimate on primary expenditure amounts to about €43.6 billion, exceeding the initial target by €549 million. In other words, the annual primary expenditure is higher by 2.0% year on year, exceeding the target by €549 million. Note that the above slippage does not include the €616 million that were spent in December as an ad-hoc handout to pensioners.

Primary expenditure of about €6,777 million, interest payment of €201 million and

[6] Table 3.2, p. 57.
[7] Op.cit.
[8] According to the estimates in the Introductory Report of the 2017 Budget.
[9] The monthly revenue and expenditure targets for 2016 appear in the Introductory Report of the 2016 Budget, Table 3.20, p. 97.

€3,274 million for investment, i.e. €10,258 million expenditure should have been disbursed in December in order to achieve the revised targets. If we also take into account the €616 million to the pensioners, the total amount approaches €11 billion.

The payment execution in the first eleven months does not create predispositions that this will take place, as total expenditure in the first eleven months declined marginally by 0.1%. The expenditure restraint came both from the interest payments, lower year on year by 3.4%, and from the primary expenditure, which slightly increased (0.4%) year on year, yet remained substantially below the target (Table 2.10).

The restraint of the primary expenditure in the first eleven months can be traced to wage payments (-4.4%), although part of this reduction came from the transfer of the call duties of doctors and other allowances to other expenditure categories[10] (Table 2.10). In addition, the payments for pensions declined by 0.5% year on year, despite the increase in the number of beneficiaries,[11] perhaps due to the measures that came in force in May 2016. Lastly, the grants to social security funds decreased by 3.2%, with the reduction coming from the Social Solidarity to Pensioners Allowance EKAS[12] (-16.5% year on year) and grants to the Wage Earners' Fund IKA (-5.1%).

In contrast, almost all other expenditure categories increased year on year. Other grants, which essentially concerned the local authorities, increased notably.[13] Significant growth was also recorded in the social protection expenditure (18.3%) and in the grants to the Manpower Employment Organization OEAD (16.7%). Lastly, the grants to institutions increased by 13.1%. Some of the hospital staff allowances were transferred to this category.

Public Investment Programme

The PIP in the examined period had a small deficit of about €186 million. This development was temporary, coming from the very large payment restraint, which declined by 6.0% year on year to about €3,476 million (see Table 2.8). In addition, expenditure was short of the target by €1,084 million. The investment payments on an annual basis are projected to have reached €6,750 million, hitting their initial target.[14]

[10] The total amount of the transferred funds for the first eleven months is not known. The annual figure for 2016 is estimated at €321 million (2017 Budget, Introductory Report, Table 3.9, p. 67).

[11] The number of public sector pensioners increased from 475,900 in 2015 to 478,200 in 2016 (2017 Budget, Introductory Report, Table 3.7, p. 64).

[12] Except public sector pensioners.

[13] 2017 Budget, Introductory Report, Table 3.9, p. 67.

[14] 2017 Budget, Introductory Report, Table 3.2.

Table 2.10

State Budget Expenditure (million €)

Expenditure category	January – November			% change	
	2014	**2015**	**2016**	**2015/14**	**2016/15**
1. State Budget Expenditure	**47,755**	**46,181**	**45,919**	**-3.3**	**-0.6**
2. Ordinary Budget Expenditure	**43,207**	**42,485**	**42,442**	**-1.7**	**-0.1**
Interest	5,393	5,584	5,393	3.5	-3.4
Primary expenditure	37,815	36,902	37,049	-2.4	0.4
--Salaries & pensions	16,828	17,116	16,536	1.7	-3.4
Wages	10,935	10,975	10,495	0.4	-4.4
Other allowances	310	322	251	3.9	-2.2
Pensions	5,583	5,819	5,790	4.2	-0.5
--Social expenditure	11,397	11,256	11,142	-1.2	-1.0
Grants to Social Security Funds	9,810	10,077	9,755	2.7	-3.2
Social protection	1,166	778	920	-33.3	18.3
Grants to OAED	377	360	420	-4.5	16.7
Other	44	41	47	-6.8	14.6
--Operational and other	6,512	6,178	6,336	-5.1	2.6
Transfers	1,293	1,035	1,171	-20.0	13.1
Consumption	1,172	1,052	1,071	-10.2	1.8
Conditional	1,883	2,058	2,053	9.3	-0.2
Other*	2,164	2,033	2,041	-6.1	0.4
--Earmarked revenue	3,079	2,352	3,036	-23.6	29.1
3. PIP expenditures	**4,548**	**3,696**	**3,476**	**-18.7**	**-6.0**

Source: State Budget Execution Bulletin November 2016 (final data), GAO, December 2016. Data from the budget execution bulletins for the first eleven months of 2014 and 2015 were used for the corresponding columns. The recording of the expenditure for on-duty and other allowances of the medical personnel of the National Healthcare Service ESY changed from 2016, showing up now in grants to hospitals and grants to other entities. For this reason, the figures for 2015 and 2016 are not comparable for these particular expenditure categories.

* Includes transfers to cover deficits and arrears of hospitals, military procurement, EFSF disbursement fee and called guarantees (in net terms).

In contrast, revenues exceeded the target for the first eleven months by €54 million, yet year on year they declined by 15.8%, mainly due to weaker inflows from various EU funds by 12.2% (Table 2.8). On an annual basis, revenues are projected to have had a slight shortage of about €44 million.

The longer delay in the disbursements for investment in 2016, compared with the previous year, despite the notably better cash position of the public sector, is hard to explain. In addition, if the disbursements do not accelerate, there is a risk of losing capital, as NSRF 2007-2013 draws to a close. It is very likely that the PIP expenditure has fallen short of the target by the end of the year.

The fact that the revenues from the EU funds are constantly declining is also impressive. In particular, according to the new budget, the 2017 revenues from EU funds will decline to €3,975 million, from €4,649 million in 2014. This trend is hard to explain, given that the return of the country to growth remains a priority objective.

The 2017 Budget

The fiscal policy will remain strongly contractionary in 2017 as well. According to the new budget, the GG deficit, on a national accounting basis, will decline from 2.2% of GDP in 2016 to 0.8% in 2017. Correspondingly, the primary surplus will increase from 1.3% to 2.5% of GDP. Likewise, the primary surplus, as measured according to the GFL methodology, is expected to increase from 1.1% of GDP in 2016[15] to 2.0% in 2017, in order to meet the terms in the agreement for a surplus of 1.75% of GDP (see Table 2.7).

The improved fiscal performance in 2017 is based first on the tax measures of July 2016[16] and January 2017, and second on an optimistic macroeconomic scenario. In particular, the Greek economy is forecasted to grow by 2.7% in 2017, despite the strongly contractionary fiscal policy. The increase, according to the new Budget,[17] is expected to come from growth in private consumption by 1.8%, investment by 9.1% and exports by 5.3%.

According to the 2017 Budget, the conditions to achieve this ambitious macroeconomic scenario are: a) consistent implementation of the new bailout programme; b) gradual relaxation of the capital controls; c) progress with the settlement of non-performing loans; and d) continuation of the consultations and gradual implementation of specific short-term, medium-term and long-term measures to reduce the public debt burden.

In fact, the Greek authorities announced a time plan of sorts in November 2016, which envisaged the conclusion of the second review until the Eurogroup of 5th December 2016, with the announcement of specific short-term and medium-term public-debt measures. The restructuring of the gross financing needs for debt servicing would have restored significantly the confidence of the investors and the markets, allowing Greece to take part in the quantitative easing programme of ECB in early 2017.

The settlement of non-performing loans, together with the participation in the quantitative easing, could restore the Greek financial system to a normal mode of operation and to improve considerably the liquidity in the Greek economy. In order to have sufficient time for the positive economic effects to transpire, all these processes should, of course, have been completed on time, at the latest until the end of the first quarter. If, for example, the participation in the quantitative easing starts in December, then the positive effects on the economy will transpire in 2018.

Unfortunately, not only the conclusion of the review, but all the other actions, are delayed once more, resulting in heightened uncertainty, as for the time being

15 The 1.1% GDP surplus does not include the €616 million expenditure (0.35% of GDP).

16 These measures will have an annual impact for the first time in 2017.

17 2017 Budget, Introductory Report, Table 1.3, p. 27.

there are no announcements on the re-commencement of the negotiations or other actions. The only measure that came in force since 1st January was the hike in taxation, with an impact on sentiment and disposable income. In such a way, the achievement of the macroeconomic and indirectly the fiscal targets is put at high risk. In addition, there is substantial lack of clarity on the deficit of the social security funds and particularly of the unified social security fund EFKA. For these reasons, it is not possible to make credible comments and assessments regarding the achievement of the fiscal targets at General Government level for 2017 before the conclusion of the review.

2017 State Budget

At the SB level (on a fiscal basis), public finances are expected to improve significantly in 2017. In particular, the SB deficit will decline from €4,178 million, or 2.4% of GDP, to €1,550 million (0.9% of GDP). Correspondingly, the primary surplus is expected to almost triple, from €1,422 million, or 0.8% of GDP, to €4,000 million, or 2.2% of GDP (Table 2.11). Note that according to the Budget, the SB deficit in 2017 will come exclusively from the PIP, as the OB is projected to have a surplus of about €1.0 billion.

The significant improvement comes from the increase of OB revenues (before tax refunds) by €2,399 million, or 4.7%, year on year. That said, the expenditure of both OB and PIP remains essentially unchanged, except for "other primary expenditure", which includes the debt of public entities undertaken by the Central Government of €554 million in 2016. No such expenditure is envisaged for 2017, nor were there such expenditures before 2016 (Table 2.11). Note that the 2016 figures do not include the €616 million expenditure for the ad-hoc financial handout to pensioners.

OB revenues

The OB revenues (before tax refunds) are projected to increase by 4.7% year on year, to reach €53.7 billion. The budgeted increase, in absolute terms, amounts to €2,399 million in 2017, compared with a projected increase by €1,754 million for 2016. In other words, the disposable income of the households declined by €4,153 million or 2.4% of GDP in two years (2016 and 2017) as a result of the additional taxes (Table 2.12). The increase is expected to come mainly from indirect taxes, income taxes and non-tax revenues.

In particular, the revenues from direct taxes are expected to decline by 1.4% year on year, to reach €20.4 billion, as the receipts from all constituent categories, except for income taxes, decrease. Income taxes are expected to grow by 7.8% to reach €13.7 billion. The increase will come exclusively from the taxes on the income of private individuals, which is projected to increase by 14.5% year on year. Their growth comes from changes in the tax scale and other measures on the taxation of individuals that have come into force from 2017. Meanwhile, the revenues from taxing legal entities is expected to decline by 7.0%.

Table 2.11

State Budget 2016 (estimates) και 2017 (€ million)

	2016 Est.	**2017 Budget**	**% change**
Net SB revenues	52,353	54,529	4.2
1. Net OB revenues	47,977	50,374	5.0
a. OB revenues before tax refunds	51,264	53,663	4.7
b. Tax refunds	3,287	3,289	-
2. PIP revenues	4,376	4,155	-5.1
SB expenditures	56,531	56,079	-0.8
3. OB expenditures	49,780	49,330	-0.9
a. Primary expenditures	42,473	42,419	-0.1
b. Other (primary) expenditures*	1,707	1,360	-20.3
c. Interest payments	5,600	5,550	-0.9
4. PIP expenditures	6,750	6,750	
SB balance	-4,178	-1,550	
% of GDP	*-2.4*	*-0.9*	
SB primary balance	1,422	4,000	
% of GDP	*0.8*	*2.2*	
GDP (in current prices)	174,908	180,817	3.4

Source: Introductory report, 2017 Budget, Ministry of Finance, November 2016
*Military procurement, called guarantees, transfers to cover deficits of hospitals and other entities (only 2016) and EFSF disbursement fees.

The revenues are also expected to be lower from property taxation, by 11.4%, direct taxes of previous years (-20.5%), and other direct taxes (-19.0%). In the last category, the reduction comes from the fact that the social security contributions of public sector employees (about €600 million) are going to be attributed to the single social security fund EFKA and will no longer constitute OB revenue.

The revenue from indirect taxes is projected to increase by 5.3% to reach €26.4 billion. According to the forecasts, the revenue from indirect taxes will take up 56.4% of the tax revenues in 2017, from 53.7% in 2014. In particular, the VAT revenue is anticipated to increase by 5.2% to reach €15,985 million, contributing 57.6% to the growth of all revenues from indirect taxation. Its growth will come from the hike in the standard rate from 23% to 24% since 1st June 2016, and the increased use of electronic means of payment, due to the new measures on the tax allowance. The revenues from excise duties are also anticipated to increase significantly, by 8.0%, due to the measures that came into force on 1st January 2017.[18] Receipts will increase from the taxes on fuels, by 9.3%, and from the taxes on tobacco products by 9.7%. That said, the revenues from indirect taxes of previous years are anticipated to decline, returning to their long-term

18 For instance, hike in the taxation on fuels and tobacco products and the introduction of new taxes on coffee, telecommunications, electronic cigarettes etc.

trend, after their large ad-hoc increase in 2016.

Lastly, the non-tax revenues are budgeted to increase by 25.0% year on year to reach €6,805 million. The increase will essentially come from the receipts in the category “concession of permits and rights” of the public sector, which are expected to increase from €123 million in 2016 to €2,044 million in 2017. This increase comes from the revenues of the regional airports concession, which was initially planned to be collected in 2016.

OB expenditure

The OB expenditure is budgeted to decline by 0.9% in 2017, to reach €49.3 billion (Table 2.13). The expenditure restraint comes both from interest payments, which are expected to decline by 0.9%, and from primary expenditure, expected also to decline by 0.9%.

The interest payments, after their significant increase in 2015, will return in 2017 to their 2014 levels at about €5,550 million. The primary expenditure is anticipated to decline to €43.8 billion, from €44.2 billion in 2016. However, its decline comes exclusively from the fact the an expenditure of €554 million on undertaking debt of public entities that took place in 2016 will not come again in 2017. The remaining primary expenditure will remain essentially unchanged year on year (see Tables 2.11 and 2.13). In general, despite the cuts that happened in the last three years and the increase in arrears, the OB primary expenditure in 2017 is higher than in 2014 by €847 million (Table 2.13).

The large decline by 31.8% that appears in the category “salaries and pensions” comes from the fact that from 2017 the disbursement of the pensions of public sector employees will take place from the single social security fund EFKA.[19] Correspondingly, the grants to social security funds grows by 34.4% or about €5.0 billion. The grants to other entities, essentially local authorities, are budgeted to decline by 4.2%, after their large increase in 2016.

Public Investment Programme

The investment expenditure is budgeted at €6,750 million, unchanged from 2016, even though NSRF 2014-2020 should now be in full swing. As a result, the contribution of the public sector to investment activity will at best remain unchanged in absolute terms, despite the anticipated increase in domestic investment by 9.1% in 2017.

In contrast, the PIP revenues will decline by 5.1% to reach €4,155 million, due to reduced inflow from EU funds. As a result, the PIP deficit will increase to €2,595 million, or 1.4% of GDP (see Table 2.11).

[19] The 2017 Budget does not mention the total amount of these pensions. Until November 2016, the pension expenditure totalled €5,790 million. It is estimated that the total amount on an annual basis sums up to about €6.3 billion.

Table 2.12

Annual State Budget revenues (€ million)

Revenue categories	2014	2015	2016 Budget	2016 Esti-mates	2017 Budget	% 15/14	% 16/15	% 17B/16
1. SB net revenues	**51,367**	**51,421**	**53,527**	**52,353**	**54,529**	**0.1**	**1.8**	**4.2**
2. OB net revenues	**46,650**	**46,589**	**49,107**	**47,977**	**50,374**	**-0.1**	**3.0**	**5.0**
Tax refunds	3,370	2,922	3,268	3,287	3,289	-13.3	12.5	0.1
3. OB revenues	**50,020**	**49,510**	**52,375**	**51,264***	**53,663**	**-1.0**	**3.5**	**4.7**
Direct taxes	20,464	19,758	20,028	20,711	20,415	-3.5	4.8	-1.4
--Income taxes	12,207	12,093	12,025	12,676	13,659	-0.9	4.8	7.8
--Property taxes	3,474	3,180	3,788	3,533	3,132	-8.5	11.1	-11.4
--Direct taxes of previous fiscal years	1,928	1,700	1,379	1,623	1,291	-11.8	-4.5	-20.5
--Other direct taxes	2,855	2,785	2,836	2,879	2,333	-2.5	3.4	-19.0
indirect taxes	23,776	23,773	24,738	25,108	26,443	-0.0	5.6	5.3
--Transaction taxes	14,224	14,254	14,875	15,209	15,985	0.2	6.7	5.1
of which: VAT	*13,618*	*13,629*	*14,376*	*14,707*	*15,476*	*0.1*	*7.9*	*5.2*
--Consumption taxes	8,702	8,760	9,102	8,836	9,547	0.7	0.9	8.0
--Indirect taxes of previous fiscal years	469	450	385	717	549	-4.1	59.3	-23.4
--Other indirect taxes	381	310	376	347	362	-18.6	11.9	4.3
Non-tax revenues	5,780	5,979	7,610	5,445	6,805	3.4	-8.9	25.0
-- Receipts from the EU	196	428	325	400	523	118.4	-6.3	30.8
--Non-ordinary revenue	1,817	1,825	2,269	790	618	0.4	-56.7	-21.8
(of which: ANFA. SMP)	*580*	*291*	*1,691*	*375*	*345*	*-49.8*	*28.9*	*-8.0*
--Permits and rights	384	254	1,802	123	2,044	-33.9	-51.6	1561.8
--Other	3,383	3,472	3,214	4,132*	3,620	2.6	19.0	-12.4
4. PIP revenues	**4,717**	**4,832**	**4,420**	**4,376**	**4,155**	**2.4**	**-9.4**	**-50.5**

Source: Introductory report, 2017 Budget, Ministry of Finance, November 2016
*Revenues of 126 million euro, where were added after the adoption of the 2016 Budget, due to the change in the recording of called guarantees (on the expenditure side) from net to gross terms, are not included.

Table 2.13

State Budget Annual Expenditure (million €)

Expenditure category	2014	2015	2016 Budget	2016 Estimates	2017 Budget	% Change 15/14	16/15	17/16
1. SB expenditure	**55,053**	**54,952**	**55,751**	**56,531**	**56, 079**	**-0.2**	**2.9**	**-0.8**
2. OB expenditure	**48,461**	**48,575**	**49,001**	**49,780**	**49,330**	**0.2**	**2.5**	**-0.9**
Interest	5,528	5,800	5,930	5,600	5,550	4.9	-3.4	-0.9
Primary expenditure	42,933	42,775	43,071	44,180	43,780	-0.4	3.3	-0.9
--Salaries & pensions	18,479	18,359	18,536	18,085	12,337	-0.6	-1.5	-31.8
-- Social expenditure	14,450	14,715	13,925	15,033	20,210	1.8	2.2	34.4
-- Grants to other entities	3,293	2,786	3,254	3,255	3,119	-15.4	16.8	-4.2
-- Operational and other	5,697	5,469	5,146	5,700	5,754	-4.0	4.2	0.9
-- Other*	1,014	1,446	1,210	1,707	1,360	42.6	18.0	-20.3
-- Reserves	--	--	1,000	400	1,000	--	--	--
3. PIP expenditures	**6,592**	**6,377**	**6,750**	**6,750**	**6,750**	**-3.3**	**5.8**	**0.0**

Sources: Introductory report, 2016 Budget, Ministry of Finance, November 2015 (Table 3.2) and Introductory report, 2017 Budget, Ministry of Finance, November 2016 (Table 3.2).
* Includes military procurement, called guarantees and EFSF / ESM disbursement fees. The 2016 estimates also include an expenditure of €554 million for transfers to cover deficits and arrears of hospitals.

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic developments

Recent macroeconomic developments in Greece

The one-year recession of the Greek economy (from Q3 2015 to Q2 2016) ended in the third quarter of 2016, when GDP increased by 1.8%.[20] **The significant GDP growth during that period – the largest since the second quarter of 2008 – came mostly from the low base in the corresponding quarter of 2015, when GDP had declined by 2.2%.** Therefore, the GDP growth in 2016 almost offset the fall in 2015 and as a result the GDP in the third quarter of 2016 was lower by 0.4% compared with the same period of 2014. The base effect is reflected in the fact that quarter on quarter GDP increased by 0.5% in the third quarter, a similar rate as in Q2 and Q1 of 2016 (0.3%). **After its strong growth in Q3, GDP increased overall in the first nine months as well, by 0.2%, against a decline by 0.6% in the same period of 2015.** Apart from the favourable base effect, the ease of uncertainty over the implementation of the new Economic Adjustment Programme (EAP) after the completion of its first review, the strong activity in Construction, mainly public works, which remained at a much higher year on year level for one more quarter, and the new boost in Tourism during the summer months, weaker than in previous years, also contributed to the growth of GDP. In contrast, the fiscal measures that have been gradually implemented since July (social security contributions increase, higher tax on income of private individuals, pension cuts, hikes in indirect taxes) prevented a stronger growth of domestic output.

The reduced uncertainty over the EAP's implementation was reflected mainly in the strong boost in household consumption. Fixed capital formation also increased significantly, yet the strong domestic demand resulted in an extensive decline in inventories, leading to a fall of total investment. The reinstatement of the waiver on the acceptance of Greek sovereign bonds as collateral, restoring the access of the Greek banking system to the standard financing mechanism of the European Central Bank, after the conclusion of the initial, major phase of the first review in May 2016, was conducive to the positive trend in fixed capital investment. This development was reflected in the notable weakening of the contraction of credit to non-financial corporations, while the intensity of credit contraction to individuals remained unchanged.

In greater detail regarding the trends in the GDP components in the first nine months of 2016, **domestic consumption expanded by 0.5% compared to its**

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

level from last year when it had declined marginally by 0.3%. The 2016 increase came exclusively from growth in the third quarter, by 3.8%, recording its best performance since the second quarter of 2008. The growth of household consumption expenditure by 5.1% during that quarter was the driver of growth in domestic consumption, as public consumption kept falling, at a lower rate than in the first half of last year (-0.6%, against -1.0%). The burst in private consumption during that period was due to their sharp decline a year earlier, by 4.1%, a period characterised by the bank holiday, the imposition of capital controls and the uncertainty on the continuation of the fiscal consolidation process and the position of Greece in the Euro area. The increase in digital payments strengthened the positive trend. Still, quarter on quarter the growth was marginal at only 0.3%. Overall in the first nine months of last year, household consumption increased by 1.0% year on year. In contrast, the consumption expenditure of the public sector declined by 1.2%, which came from both cuts in certain expenditure categories and the continuous growth of arrears until June, when they reached €6.1 billion, €1.4 billion higher than in December 2015.[21]

The strong growth of **investment** in the first half of 2016 (+23.7%) ended in the third quarter, when it declined by 16.9%. Nevertheless, note that the decline in that quarter came from extensive decline in inventories, by €1.7 billion. In contrast, fixed capital formation, the basic component of investment, increased by 12.6%. That said, fixed capital formation increased quarter on quarter by only 1.7%. **Overall in the first three quarters of last year, investment increased by 10.2% compared with the same period of 2016, when it had fallen by 13.2%.** Its growth, the largest for this period of the year since 2008, came mainly from expansion in fixed capital investment by 6.1% and to a lesser extent from the less negative impact from the change in inventories, which declined during the first nine months of last year by €751 million, €482 million less than a year earlier. As evident further below from the trends in the fixed capital categories, the growth in fixed capital investment did not come from a similar positive trend in all or most categories, but stemmed primarily from stronger public investment and the significant growth in the acquisition of machinery and equipment.

Regarding the trends in the fixed capital components in more detail, **other construction, which also includes public works, increased most in the first nine months of 2016 (+17.7%),** in contrast with a contraction by 5.5% in the previous year. Investment in machinery and equipment came next with the second highest growth rate (+10.7%), following their boost by 6.1% in the previous year, which was the second highest growth rate during that period as well. The growth in ITC equipment was considerably weaker at 3.6%, lower year on year as well (6.3%).

[21] General Government Monthly Data Bulletin – July 2016, Ministry of Finance, September 2016.

The lowest investment growth rate was recorded in transport equipment and other investment goods, at 0.9% and 0.8% respectively, almost unchanged from the 2015 rates (0.9% and 1.1%). Regarding the investment categories in decline, agriculture machinery contracted marginally (-0.5%), less than a year earlier (-4.0%). **The largest contraction, for one more year, was recorded in residential construction, at 15.5%, albeit weaker than in 2015 (-27.9%).** As a result, the cumulative decline in this fixed capital category reached 95.1% since 2007.

In the external sector of the economy, **the contraction trend of export activity that lasted over a year ended in the third quarter of this year, when exports increased by 10.2%. Nevertheless, the trend inversion came mainly from the completion of a year since the imposition of the capital controls, which have hampered export activity since the third quarter of 2015. This technical impact expired one year after their imposition.** The further relaxation of the capital controls in July, when the daily limit on the value of imports per company that could be approved by the competent subcommittee per banking institutions and the weekly cap for all companies per bank were raised, was also conducive to the growth of exports and the overall cross-boundary trade activity. **Despite the significant growth during the summer quarter, exports declined by 1.6% year on year in the first nine months of 2016**, compared with 5.0% growth a year earlier. The trends in export activity in 2016 could alternatively be assessed by comparing it with the same period of 2014, when the capital controls had not raised obstacles to cross-border trade. Under this approach, exports in the third quarter of 2016 increased by 2.6%, while in the first nine months they were higher by 3.3% on their level from 2014. Quarter on quarter, exports increased by 3.7% in the summer period of 2016.

Regarding the trends in the two basic components of exports in the first nine months of 2016, the exports of goods and the exports of services, and their impact on total exports, the overall decline came exclusively from the extensive contraction of the exports of services in the first half of this year, which resulted in their contraction by 14.1% in the first nine months of 2016. According to the balance of payments data of the Bank of Greece, the decline in the exports of services came from the sluggish demand for international transport services and other services in the first half of 2017, which was reflected in their contraction by 44.0% and 23.7% respectively, while tourism receipts declined much less, by 7.9%. In contrast to the exports of services, the exports of goods kept growing after the imposition of the capital controls, at a higher rate year on year in the first three quarters of 2016 (10.7% against 8.1%).

The end of the technical effect of capital controls on international trade from the third quarter of 2016 revealed a slightly stronger positive trend in imports than in exports, as the former increased during that period by 12.0%. Given the significantly milder reduction of imports, compared with exports, in the first half of the year, imports increased by 2.0% in the first nine months of 2016, slightly more than in the same period of 2015 (+1.4%), maintaining the positive trend in imports for the third year in a row. As in exports, the expansion of imports came from stronger domestic demand for goods produced abroad, by about 6.6% on average since the beginning of the year, a rate stronger than a year earlier (+3.4%). Despite their sharp increase in the third quarter (+38.1%), the imports of services were lower by 15.6% year on year in the first nine months of 2016. **The growth of imports, together with the decline of exports, led to the expansion of the external sector deficit in national accounting terms for the first time in three years, by €1.6 billion (+92.0%), to €3.3 billion (2.4% of GDP).**

On the supply side, gross value added increased year on year by 0.3% in the first nine months of 2016, compared with a contraction by 0.9% in the same period of 2015. As in the expenditure approach, the increase came exclusively from growth in the third quarter, by 1.8%, which was also its highest growth rate since the second quarter of 2008. **The output growth in the first nine months of the year came mainly from stronger output in Industry (+1.6%) and Construction (+6.8%), with the two sectors recording a similar increase in absolute terms.** Construction followed a positive trend, which had started in the first quarter of 2016, intensifying sharply in the third quarter (+13.9%), for the first time since 2008. The growth trend in Construction was the strongest among the key sectors of the economy in the first nine months of last year. As evident from the data on the fixed capital categories, the trend was driven by stronger activity in other construction and not in housing. Industry output expanded during that period of the year for the first time since 2010, following its decline by 1.0% in 2015, yet the boost of production activity in Arts-Entertainment-Recreation by 2.5%, against a contraction by 4.3% in 2015, came second after Construction. Information – Communications was the last sector with output growth during that period (+1.2% against -2.2% a year earlier).

Output remained largely unchanged in Real Estate Activities (+0.2%), after four years of continuous growth, and Public Administration – Defence – Compulsory Social Security – Education (0.0%), following its decline by 1.5% in 2015. Output declined in four sectors. The strongest contraction was recorded in Professional – Scientific – Technical – Administrative – Support Service Activities (-2.7%), more than offsetting their growth a year earlier (+2.1%). Financial Services came next (-2.2%), in contrast with their growth by 1.1% in the preceding year. The output contraction of 2.2% in Agriculture-Forestry-Fishing from 2015 carried over to 2016, albeit at a lower rate (-1.0%). The lowest contraction rate was recorded in Wholesale-Retail Trade (-0.6%), yet due to its large share in GDP, the sector recorded the strongest contraction in absolute terms. **To sum up the output trends in the 10 basic sectors of the Greek economy in the first nine months of 2016, the number of sectors with output growth equalled the number of sectors with output contraction (four), while in two sectors output remained unchanged. The balance in the distribution of sectors with respect to their output trend is reflected in the overall trend in domestic value added of production, which was marginally positive.**

Regarding the developments in the labour market during the third quarter of last year, the new decline of unemployment reflected first the aforementioned positive trend in output of certain sectors (e.g. Manufacturing, Information – Communications), and second the usual favourable seasonal effects on employment that came from particular sectors (Tourism, Transport-Storage, which includes passenger transport). That said, note that the boost of employment in the sector with the largest output growth during the first nine months of last year – Construction – did not carry over to the third quarter, despite its strong output growth. The job creation in the "core" public sector (Public Administration-Defence-Compulsory Social Security) remained significant, due to the programmes for temporary public-benefit work of the Manpower Employment Organization OAED and the recruitment of candidates that succeeded in competitions of the Supreme Council for Civil Personnel Selection ASEP in past years (e.g. successful candidates from 1998). **Under the mostly favourable aforementioned effects, employment increased by 1.8% in the third quarter, while the unemployment rate fell below 23%, to 22.6%, for the first time since the second quarter of 2012. In the first three quarters of 2016, employment increased by 2.3% on average, while unemployment fell to 23.5%, 1.6 percentage points less than in the same period of the preceding year.**

At the sector level, the easing of unemployment in the first nine months of the year continued to come[22] from employment growth in Public Administration – Defence – Compulsory Social Security – Education (+23,200 or +7.6%) and Tourism (+20,200 or +6.2%). The contribution of Transportation - Storage gradually strengthened (+16,700 or +9.9%), in contrast to Manufacturing where it weakened (+13,400 or +4.0%). The employment growth in Information – Communications came next (+7,700 or +10.6%), followed by Financial – Insurance Activities (+6,400 or +7.3%). Employment continued to decline in four sectors. The strongest contraction was recorded once more in Agriculture – Forestry – Fisheries (-12,300 or -2.6%), followed by Other Service Activities (-6,000 or -8.1%) and Professional – Scientific – Technical Activities (-5,000 or -2.4%). The weakest contraction of employment was recorded in Wholesale-Retail Trade (-1,500 or -0.2%), a sector that

[22] As in the first half of the year.

led the employment growth in 2014 and 2015.

Prices continued to decline at a steady rate in the third quarter, despite the hike of the standard VAT rate and the abolishment of the VAT discount in 9 islands from 1st June. As in the first half of 2016 and during the preceding year, the steady deflation trend in the Consumer Price Index came from the low oil price, which affected the prices of products derived from it (heating oil, motor oil, gasoline, etc.), remaining unaffected at least during the third quarter of last year from the new hike in indirect taxes. Still, according to the ELSTAT press releases, the increase of air ticket prices, land passenger transport, tolls and parking fees moderated this particular restrictive impact on prices during that period, mainly in the Transport category. As a result of these effects, the price deflation rate remained at 1.0% in both the third quarter and in the first nine months of 2016. Compared with the same period of last year, the deflation rate was considerably lower (2.1%). The deflationary pressures from the low oil price in the third quarter was reflected in the price declines in the product and service categories Housing and Transport, two of the three largest constituent categories of the Consumer Price Index (-4.2% and -3.2% respectively). In contrast, the inflationary pressure from the higher VAT, mainly from the elimination of the lower rates in the islands, was reflected in a price growth in Hotels-Cafes-Restaurants, by 1.9%, the category with the largest inflation among all categories of goods and services.

To sum up, the trend in the Greek economy shifted abruptly in the third quarter of 2016, from a contraction to a recovery of 1.8%. Yet, this change came mostly from the effects of the politico-economic turmoil and the imposition of the capital controls during the corresponding period of last year, which formed a low basis of comparison for the following year. The quarter-on-quarter changes in GDP and its key components, such as private consumption, exports and investment during the third quarter, which albeit positive were fairly weak, confirmed the presence of base effects and indicated that there were no significant shifts in economic activity during the summer months.

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
2005	**229,935**	**0.8%**	**16,120**	**3.5%**	**16,120**	**-10.6%**	**16,120**	**4.3%**	**16,120**	**2.4%**
2006	**242,766**	**5.6%**	**16,223**	**3.6%**	**16,223**	**23.7%**	**16,223**	**5.2%**	**16,223**	**13.2%**
2007	**250,461**	**3.2%**	**16,250**	**4.3%**	**16,250**	**8.5%**	**16,250**	**10.0%**	**16,250**	**14.3%**
2008	**249,869**	**-0.2%**	**14,881**	**2.1%**	**14,881**	**-9.2%**	**14,881**	**3.6%**	**14,881**	**1.1%**
2009	**239,110**	**-4.3%**	**63,474**	**-0.7%**	**63,474**	**-26.8%**	**63,474**	**-18.2%**	**63,474**	**-20.2%**
Q1 2010	59,054	0.5%	14,627	-0.1%	14,627	-2.8%	14,627	-0.4%	14,627	2.7%
Q2 2010	57,235	-5.2%	14,160	-4.0%	14,160	-8.1%	14,160	4.5%	14,160	-2.5%
Q3 2010	55,233	-7.9%	14,350	-9.4%	14,350	-12.5%	14,350	2.0%	14,350	-9.8%
Q4 2010	54,543	-9.2%	14,386	-9.8%	14,386	-17.9%	14,386	12.5%	14,386	-4.0%
2010	**226,064**	**-5.5%**	**57,522**	**-5.8%**	**57,522**	**-10.6%**	**57,522**	**4.5%**	**57,522**	**-3.4%**
Q1 2011	53,009	-10.2%	14,182	-12.1%	14,182	-5.4%	14,182	0.0%	14,182	-12.3%
Q2 2011	52,111	-9.0%	13,681	-9.8%	13,681	-17.5%	13,681	-0.4%	13,681	-6.2%
Q3 2011	51,106	-7.5%	14,398	-6.5%	14,398	-22.4%	14,398	5.3%	14,398	-2.0%
Q4 2011	49,088	-10.0%	13,314	-8.0%	13,314	-42.1%	13,314	-1.7%	13,314	-12.3%
2011	**205,314**	**-9.2%**	**55,576**	**-9.2%**	**55,576**	**-21.8%**	**55,576**	**0.7%**	**55,576**	**-8.3%**
Q1 2012	48,512	-8.5%	14,186	-5.4%	14,186	-39.4%	14,186	2.2%	14,186	-9.3%
Q2 2012	47,737	-8.4%	14,907	-8.2%	14,907	-27.7%	14,907	-1.7%	14,907	-12.7%
Q3 2012	47,067	-7.9%	15,178	-9.4%	15,178	-27.9%	15,178	0.2%	15,178	-11.7%
Q4 2012	46,962	-4.3%	15,523	-7.1%	15,523	11.9%	15,523	3.5%	15,523	-3.3%
2012	**190,278**	**-7.3%**	**59,794**	**-7.5%**	**59,794**	**-24.0%**	**59,794**	**1.0%**	**59,794**	**-9.4%**
Q1 2013	46,003	-5.2%	16,328	-8.0%	16,328	7.7%	16,328	-0.9%	16,328	-3.0%
Q2 2013	46,071	-3.5%	15,504	-4.4%	15,504	-14.8%	15,504	4.1%	15,504	-3.4%
Q3 2013	46,238	-1.8%	13,042	-1.4%	13,042	0.5%	13,042	4.3%	13,042	0.3%
Q4 2013	45,924	-2.2%	15,104	-0.1%	15,104	-29.7%	15,104	-2.8%	15,104	-7.4%
2013	**184,236**	**-3.2%**	**59,978**	**-3.5%**	**59,978**	**-9.9%**	**59,978**	**1.1%**	**59,978**	**-3.4%**
Q1 2014	46,261	0.6%	14,909	0.9%	14,909	-15.7%	14,909	5.5%	14,909	0.0%
Q2 2014	46,090	0.0%	16,265	0.6%	16,265	5.8%	16,265	4.0%	16,265	9.0%
Q3 2014	46,616	0.8%	14,608	-0.2%	14,608	6.6%	14,608	9.7%	14,608	5.4%
Q4 2014	45,980	0.1%	18,374	-0.7%	18,374	26.3%	18,374	11.5%	18,374	16.6%
2014*	**184,948**	**0.4%**	**17,293**	**0.1%**	**17,293**	**4.1%**	**17,293**	**7.7%**	**17,293**	**7.6%**
Q1 2015	46,295	0.1%	16,584	0.5%	16,584	0.0%	16,584	12.5%	16,584	15.1%
Q2 2015	46,316	0.5%	16,977	0.8%	16,977	-21.3%	16,977	10.3%	16,977	4.0%
Q3 2015	45,587	-2.2%	69,228	-2.2%	69,228	-17.3%	69,228	-7.0%	69,228	-14.1%
Q4 2015	46,171	0.4%	16,120	-0.2%	16,120	4.1%	16,120	-2.2%	16,120	-2.7%
2015*	**184,369**	**-0.3%**	**16,223**	**-0.3%**	**16,223**	**-8.7%**	**16,223**	**3.1%**	**16,223**	**0.3%**
Q1 2016	45,915	-0.8%	16,250	-1.2%	16,250	17.9%	16,250	-10.5%	16,250	-8.7%
Q2 2016	46,078	-0.5%	14,881	-1.0%	14,881	30.6%	14,881	-3.2%	14,881	4.9%
Q3 2016	46,428	1.8%	63,474	3.8%	63,474	-16.9%	63,474	10.2%	63,474	12.0%

* provisional data

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

In addition, a significant part of the increase in domestic demand (domestic consumption and gross fixed capital formation) concerned imported products and services, as domestic demand increased year on year by €1.82 billion in the third quarter, while imports grew by €1.57 billion, resulting in a "leak" of resources abroad.

The above changes highlight the large probability of a significant slowdown of the Greek economy in the last quarter of 2016, as evident from the analysis of the medium-term outlook in the next section of the bulletin. Nevertheless, the confirmation of this forecast should not undermine the significance of the entry of the Greek economy into a modest recovery in the second half of last year and perhaps overall in 2016. That said, a marginal or small GDP growth in the coming years is not sufficient to cover the losses from the previous years and to secure the sustainability of the public finances. From the data on the supply side GDP components, certain sectors emerge with a steady output growth in the first three quarters of 2016, such as Industry and Construction, which could have a determining role in ending the contraction of the Greek economy and in the restart of its growth. The analysis of particular short-term indicators, presented in the next section, reveals the good performance of Tourism during the summer months for the fourth consecutive year, in contrast with the small turnover reduction during the first half of 2016. As the momentum in Industry and Tourism came largely from foreign demand, it is likely to remain steady over the medium term. In addition, as noted in the previous bulletin on the Greek economy and as evident from the employment data presented earlier, the positive output trends in significant for the Greek economy sectors had a positive effect on employment, contributing to both GDP growth and the easing of unemployment.

Medium-term outlook

The progress with the negotiations for the second review of the implementation of the third economic adjustment programme has largely shaped the domestic politico-economic environment during the last quarter of 2016 and in early 2017. The results so far are mixed. In particular, the Medium-Term Fiscal Strategy 2017-2020, which was envisaged to be completed by December 2016 in the first Compliance Report of the European Commission for the current programme, published in June 2016, is still pending. In addition, except for the regulatory measures for digital payments, the remaining planned actions to boost the public revenue collection mechanism and in particular the steps to make the Independent Authority for Public Revenue fully operational, are still incomplete. There is no evident progress in the preparation of the corporate tax reform and the new revision of the special public sector wage categories.

Some of the structural reforms that constitute prior actions for the conclusion of the review have already been legislated. These reforms include the implementation of the recommendations from the third OECD competition review, the new regulatory framework for economic activity in three sectors (food-beverages, tourist accommodation, licensed premises – theatres – cinemas), the new bankruptcy code, the new land-use plan, and the acceleration of the administrative court proceedings. Nevertheless, based on the time plan of reform implementation of the first Compliance Report of the European Commission, many of the reforms that were planned to be implemented by January 2017 have not yet been adopted (except for the fiscal measures presented above). The most important reform concerns the further changes in the labour market, regarding collective bargaining and layoffs, while the codification of the labour legislation is also pending. The list of pending reforms includes the remaining actions in order to make the Hellenic Corporation of Assets and Participations S.A., i.e. the new privation agency, operational, changes in the boards of the banks and the Financial Stability Fund, revision of the social benefit allowances based on World Bank recommendations, full implementation of the universal basic income, legislative strengthening of the Regulatory Authority for Energy, privatisation of 20% of the Independent Power Transmission Operator ADMIE, amendment of the legislative framework for out-of-court settlement of non-performing loans, etc.

Regardless of the sufficiency of the measures adopted in order to continue and conclude the fiscal consolidation process, and the extent of implementation of structural changes and reforms, the recent decision to grant ad-hoc economic support to low-income pensioners and the suspension of the VAT increase in 2016 in certain Aegean islands have caused a confusion regarding the compliance with the terms of the third economic adjustment programme with regard to the primary surplus and have added to the reasons for the delay of the second review.

The conclusion of the first review, together with the Eurogroup decision of 24 May 2016 for public debt relief measures (the implementation of the short-term measures were conditional on the conclusion of the review), led to the start of the negotiations for their finalisation and implementation. As this procedure aims to gradually ensure public debt sustainability, the start of the talks with the International Monetary Fund (IMF) for the provision of a new loan have become feasible. The relevant decisions of the Eurogroup of 5 December 2016, which included a reference to the target for primary surplus in 2018 and over the medium term have not been officially assessed by the IMF. Unofficially, however, the Fund does not consider the immediately implementable measures as sufficient in order to ensure public debt sustainability, which was not their aim anyhow. Furthermore, the fiscal measures taken so far in order to achieve a primary surplus of about 3.5% of GDP, the target set by Eurogroup over the medium term, are also not considered sufficient. In addition, according to the IMF, such a high surplus could undermine the growth prospects of the Greek economy.

The disagreement between the EU institutions and the IMF on the public debt interventions and the size of the required primary surpluses, together with the ongoing negotiations on this and other aspects of the third programme for Greece, such as the changes in labour relations, is reflected in the fact that almost two months after the Eurogroup decision, the IMF has not yet taken an official decision on a new financing facility to the Hellenic Republic. The lack of IMF decision on Greece, which in part is due to the transition in the US administration, prevents, temporarily at least, the confidence in the outlook of the Greek economy abroad to strengthen, pushing into the future relevant decisions (e.g. on investment).

Apart from the delay on public debt relief, as long as the negotiations on the suitability of relevant measures and the current review are ongoing, the induction of Greece in the quantitative easing mechanism of the European Central Bank (ECB) will remain stalled as well. According to the ECB decision of 8 December 2016, the Asset Purchase Programme was extended for one year until the end of 2017. Understandably, the induction of Greece in the APP will boost significantly the liquidity of the banks and thus their ability to provide corporate credit, improving the growth prospects of the Greek economy. As long as the negotiations on public debt and the second review are taking place, these opportunities cannot be utilised and assessed. In addition, the duration over which they would be available gets shorter, based on the extension provided so far. In any case, the same ECB decision mentions that if "the outlook becomes less favourable or if financial conditions become inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intends to increase the programme in terms of size and/or duration." Therefore, the possibility that this non-standard liquidity-boosting measure remains available after 2017 cannot be precluded.

For the time being, the liquidity of the domestic banking system has gradually strengthened from the low-speed return of deposits after the conclusion of the initial phase of the first review in June. In particular, the relevant Bank of Greece data reveal that the outstanding balance of deposits and repos in the banks in Greece increased by €8.2 billion between June and November, replenishing a small part of their contraction between December 2014 and June 2015 (-€54.1 billion). The households and the non-financial corporations (+€2.8 billion), together with the public sector (+€2.6 billion), contributed to this increase. The growth of deposits of non-residents of the Euro area was smaller in absolute terms, yet still significant (€1.4 billion or 29.1%), given their size in May, while the deposits of Euro area residents increased by €705 million (+43.3%). The low rate of deposit return by the households and the non-financial corporations, which withdrew about €39.7 billion between late 2014 and June 2015, reflects the lingering high level of concern from the capital controls, despite their relaxation in July and November. The most important intervention, for withdrawing without restrictions on deposits made after 22 July 2016, does not seem to be particularly effective. The pending resolution of non-performing loans also hampers the return of deposits. In any case, bank deposits are not expected to return over the medium term to their level from November 2014, as part of them has already been spent on purchases and tax payments.

Together with the growth of deposits, the banks limit their cost of borrowing from the ECB, reducing their exposure to the Emergency Liquidity Assistance (ELA) and utilising their recovered access to the ECB's standard lending facilities since 22 June 2016. Since then and until 8 December, the cap on ELA had declined by €18.4 billion, to €50.7 billion. However, the largest part of this reduction (€16.1 billion) had already taken place by 4 October. The deceleration of the reduction of ELA exposure might come from the difficulties in enacting the change in the banks' board members.

The slow return of the deposits prevents the credit policy of the banking institutions to shift from credit contraction to credit expansion, with a reduction of the interest rate on loans. The contraction rate of the credit to non-financial corporations eased from 7.4% in the first four months of 2016 to about 3.0% from May to November, yet no further improvement has been recorded since then. The contraction rate of the credit to households remained steady throughout last year (at -3.5% on average). Given the sluggish response of the households and the enterprises to the relaxation of the capital controls in the second half of the year and the pending issues surrounding the non-performing loans, no major developments with respect to the liquidity in the banking sector and the supply of credit are expected until the conclusion of the talks on public debt relief. The liquidity and the credit supply will depend on the decisions that will be taken subsequently, and primarily on whether these decisions would make it feasible for Greece to access ECB's APP. Therefore, a formal certification and substantive support with the entry of the country in the programme is required in order to set off a series of developments that would improve the capital adequacy of the banks. This fact will boost the confidence of domestic depositors and international investors, resulting in a capital inflow. Subsequently, the capacity to provide credit will strengthen and the steps to lift the capital controls will accelerate.

Apart from the developments regarding the review of the Economic Adjustment Programme and the debt relief, the new fiscal measures constituted a key driver of the trend in the Greek economy in the second half of last year, which will continue to have an impact, albeit to a lesser extent, in 2017. The increase of existing taxes (excise duties on gasoil, LPG, tobacco products) and the imposition of new taxes (fixed telephony levy, tax on coffee), from the beginning of the new year will limit the real disposable income of the households.

Regarding the enterprises, the changes in the tax rate on the profits of the companies that keep category C accounting books (single entry), the dividend tax and the social security contributions that came after the conclusion of the first review, increased the burden on their operation. The forthcoming changes in the labour market and the anticipation for the implementation of the new bankruptcy code lead to the postponement of business decisions. The imminent changes in labour issues are expected to affect mainly job creation linked in most cases to investment, while their impact on existing jobs would likely be limited, as the labour market has been extensively restructured over the past few years. The adoption of the new bankruptcy code is expected to accelerate the consolidation of viable businesses, settling their bank obligations as well. The new legislative framework gives a second chance to the entrepreneurs that go bankrupt due to a genuine inability to service their debt in arrears. The attempt of the enterprises to utilise these opportunities will initially have a restrictive impact on their production decisions, yet a consolidation process will commence for the companies that would benefit from it, which is going to be conducive to investment and employment.

The income of freelancers and farmers will receive the hardest hit from the new measures, from the change in the calculation of the social security contributions, which from now on are going to be determined based on the taxable income of previous years. Despite the fact that this change was legislated in May 2016, the secondary legislation on how it should be implemented was not issued until the end of December, which exacerbated the uncertainty on the contributions that should be paid from now on. Particularly for wage earners that can in parallel issue invoices for offered services, the secondary legislation is still pending and, according to what is still in force, they should pay double contributions. The lack of clarity on how to implement the new social security law that has lasted for months has caused turmoil in the sectors with a large share of freelancers in the final quarter of 2016. It led to closure of sole businesses, change of the legal status (to Private Capital Company or Société Anonyme) or even transfer of base abroad. These changes are anticipated to carry over to the first few months of 2017. The transition to the new status will limit, temporarily at least, the activity and the income of the freelancers subjected to this process. The tax revenues and the social security contributions are quite likely to decline in the final quarter of 2016 and the first quarter of 2017.

The impact of the measures that concern the enterprises are reflected in the trends in their expectations. All the constituent business climate indicators that are included in the Economic Sentiment Indicator of the European Commission declined in Greece in December, compared with June when the initial phase of the first review was concluded. The almost continuous growth of the Economic Sentiment Indicator during that period, which reached 94.6 points in December, its highest level in 21 months, came exclusively from growth in Consumer Confidence, which reflects the expectations of the households.

It seems that despite the new fiscal measures that limit disposable income, the conclusion of the first review and the decision on the short-term debt relief measures have slightly eased the concern of the households about the implementation of the third economic adjustment programme and the stability of Greece's position in the Euro area. The improvement of expectations is probably largely due to the continuous decline of unemployment, which has had a positive impact on the household expectations included in the Consumer Confidence index, such as the expectations on the financial situation over the coming twelve months.

Regarding the remaining developments that could have an impact on the Greek economy in 2017, the delays in the actions that would make the Hellenic Corporation of Assets and Participations operational impede the completion of privatisations. According to the Introductory Report of the 2017 Budget, €1.93 billion of the revenues from privatisation, envisaged for the current year (€2.6 billion), which come exclusively from the actions of the HRADF, come from revenues of competitions for which binding bids have been submitted and the first disbursement is expected to take place in 2017. About €100 million more come from instalments on deals completed in previous years. Therefore, they do not concern revenues from competitions of HRADF that would take place in the current year, which are anticipated to total only €560 million, reflecting its limited planned actions for the current year. That said, considering the high revenues from the first instalment in competitions completed in 2016, which were initially budgeted for the previous year (concessions of 14 regional airports, sale of the shares of Hellinikon S.A.), together with the €500 million collected last year, it seems that the revenue target of almost €2.0 billion in the 2016 Budget would have been achieved if the necessary prior actions were completed more swiftly. Regardless of when the instalments are going to be collected for the competitions that took place last year, the higher number of privatisation deals in 2016 will have an impact on investment in the current year, after the accompanying investments are finalised and all licences are obtained. Nevertheless, the notably lower number of competitions in the current year, together with the recently failed privatisation of the Hellenic Gas Transmission System Operator DESFA, reduce the credibility of the privatisation programme and limit its attractiveness to foreign investors.

The Public Investment Programme (PIP) is expected to provide a similar stimulus to investment in the current year as in 2016. Regarding the execution of PIP last year, only 51.5% of the programmed grants for the whole year were disbursed by November (€3.48 billion, from €6.75 billion).[23] The delay in expenditure by €1.1 billion from the corresponding target for the first eleven months is most probably due to lack

[23] State Budget Execution Bulletin – November 2016 (final data), GAO, December 2016

of capital of the same amount to cover the domestic participation in the co-financed part of the PIP, which is short of the target by that amount. Besides, the inflows from the EU marginally exceed the envisaged level for that period (€3.07 billion, against €3.06 billion). That said, each year large part of the PIP expenditure is disbursed during the final month of the year. Indicatively, grants of €2.8 billion were disbursed in December 2015, hitting the target for the year overall (€6.4 billion). However, the corresponding target for 2016 is higher by €350 million, so taking into account the payment for the first eleven months of the year, €3.27 billion of expenditure should be spent in December in order to meet the annual target. The disbursement of such a high amount within a month is considered exceptionally difficult. The final expenditure in 2016 is estimated to have totalled €6.3-6.4 billion. Given that the PIP budget for 2017 once more stands at €6.75 billion, the grants that will be spent in the current year in the most favourable scenario exceed those for 2016 by €300-€350 million, while most probably they would remain at their level from last year and as a result the contribution of PIP to investment in the current year will remain unchanged.

Regarding the external sector of the economy, the international transactions of the Greek economy continued to be affected by the capital controls. The changes in July were conducive to imports, as the daily cap on the total value of imports per company that can be approved by the competent subcommittee per bank and the weekly cap on total imports per bank were raised. The conclusion of a full year since the imposition of the capital controls in July has eliminated the base effects from comparing imports and exports year on year.

In greater detail, according to the latest data from the Bank of Greece, which extends until October 2016, the exports of goods and services expanded in the three months between August and October, when the new terms of the capital controls came into force, by 4.7% year on year. In the preceding seven months, they had declined year on year by 14.5%. The growth of imports was stronger, at 6.6%, against a decline by 10.7% in the first seven months. As a result, the surplus in the goods and services account declined year on year by €87.8 million or 2.9%. The stronger exports of goods, by 8.5%, drove the overall growth of exports, as the exports of services increased less (by 2.2%). The growth of imports came mostly from stronger imports of services (+17.1%), as the imports of goods expanded by 4.3%. Overall in the first ten months, the surplus of the goods and services account declined by 46.7% to €965 million. The latest trends in exports and imports that were presented just now, reveal the support that the exporting companies gradually receive from the sale of goods and services abroad. In addition, the accumulated needs of the enterprises and the households for imports due to the capital controls lead to stronger growth of imports, compared with exports, as the capital controls are gradually relaxed. Therefore, further export growth, but also a deterioration of the goods and services account are anticipated in late 2016 and in the first half of 2017, at least.

Regarding the trends in key indicators of the world economy that will affect the prospects of all economies, the Brent oil price has risen steadily since November, when it varied at around $45 per barrel. During the preparation of this bulletin, it has increased to about $55, its highest level since August 2015 and almost double year on year. The recent positive trend came as a result of the decision taken at the International Energy Forum in Algeria in September to reduce the world oil daily production by 240,000 – 740,000 barrels, to about 33 million barrels. Based on the latest forecasts of the International Monetary Fund on the oil price in 2017, it will continue to grow, but not at a strong rate, resulting in an average price level for 2017 at about 20% higher than in the previous year. However, as the improvement of the global cost competitiveness of the Greek products during the past few years came from the fall of the oil price, the inversion of this trend will have a counteracting impact on their attractiveness.

After the US elections, the already low exchange rate of the euro against the dollar declined further, reaching in late December its lowest level in at least a decade (1.03907 at 20/12). There are significant capital outflows of non-residents from emerging markets after the US elections. The transfer of capital to the US is related first to the increase in the short-term interest rate by the US Federal Reserve in December and second with the expectations of a change in the economic policy by the new administration. The investors are expecting an expansionary fiscal policy, which will push inflation up and lead the Fed to make monetary policy interventions. The prevailing low exchange rate of the euro is conducive to the competitiveness of the Eurozone products and services. This positive effect is moderated by the growth in the oil price that it causes. Nevertheless, while the trend in the euro-dollar exchange rate and its impact can be estimated to an extent, the effects from the rumoured possible changes in the US tariff policy cannot be assessed for the time being, as it is not clear if and to what extent they will take place.

The list of other exogenous factors that could have an impact on the Greek economy in the current year include the war in Syria and the refugee flows, the political events in Turkey and its relations with the EU, and the negotiations on Cyprus. As of now, it seems that the tourism sector will benefit from the developments in Turkey, which put in doubt the political stability and safety in the neighbouring country.

The latest available data on sections of domestic economic activity, and short-term economic indicators point to a return (e.g. building activity) or continuation of growth. In particular, industrial production kept growing in the final quarter of 2016: in the two months between October and November it increased by 2.3%, at the same rate as in the second quarter, compared with a weaker growth in the same period of the previous year (1.8%).[24] Overall in the first eleven months, the production of industry was also higher by 2.3% compared with the same period of 2016, when it had increased by 0.5%. The growth of production in Manufacturing (+4.6%) remained the key driver for the trend in overall industrial production by the end of 2016. The notably stronger activity in Electricity (+8.5%) also contributed to this trend. Activity in Mining-Quarrying continued to contract, albeit less than in the first three quarters of the year (-5.7%, against -18.3%). Regarding construction activity, the latest available data of ELSTAT refer to October. The surface and volume of new buildings increased by 14.1% and 14.8% respectively, despite the fall in the number of permits by 5.7%. The growth is not transient as it carries over the average growth from August and September by 40.1% in volume and 34.2% in surface. It is, however, driven by the slump in building works in the summer of 2015 due to the capital controls and the sharp uncertainty over the political events then, resulting in a low base of comparison. The real construction activity trend will transpire over the coming months, when the impact of transient factors will weaken from the start of 2017. Most probably, it will continue to expand, albeit at a rate lower than 10%.

Regarding the indicators that reflect the sentiment on the demand side of the economy, the seasonally adjusted Volume Index in Retail Trade increased by 2.0% in October, slowing down from the third quarter (2.9%). Here too, the growth over the summer of last year came from the effects of the summer 2015 events, which expanded to the autumn months. As the growth driven by base effects was not large, it is quite possible that it would weaken or even turn to contraction in the coming months. The momentum of consumption demand can alternatively be assessed by examining the trend in the prices of consumption goods and services. After the first nine months of 2016, when the Consumer Price Index was falling by about 1.0%, its deflation weakened to 0.4% in the final quarter. Furthermore, the prices remained unchanged year on year in December, for the first time in almost four years (since February 2013). The key reason for the sharp weakening of deflation that ended in price stability was the exact opposite of its driver in the past few years: the domestic fuel prices increased in the fourth quarter, as a result of the increase in the global oil price and the hike in the excise duty on heating oil. This impact on the Consumer Price Index was reflected in the sharp trend inversion in the categories of goods and services Housing (+0.6%, from -4.4% in the first nine months) and Transport (+0.5%, from -3.7%). Note that in the categories of goods and services affected by the increase of VAT in June, the price growth either weakened (Hotels-Cafes-Restaurants) or turned into deflation (Food – Non-alcoholic beverages). Hence,

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

neither the price trends point to a significant boost of household consumption demand.

Taking into account the latest and the anticipated politico-economic developments and the available data on the trends in economic indicators in Greece for the forecasting of the GDP components and other macroeconomic indicators, the strong growth of **household consumption** in the third quarter of 2016 will have weakened substantially in the following quarter, due to the fiscal measures that were taken as part of the first review in May, particularly of those that led to a decline in disposable income (lower income tax allowance, cuts in auxiliary pensions). The handout to the low-income pensioners of €616 million would have slightly boosted private consumption towards the end of last year, despite the small rise in unemployment from the summer. Besides, the capital controls and the uncertainty over the first review in the final quarter of 2015 had formed a low base of comparison for the corresponding period of 2016. **As a result of the slight boost in the final quarter of last year, household consumption is projected to have increased by about 1.0% in 2016, its highest rate since 2010, which offsets its decline by 0.3% in 2015.**

As already predicted in the previous quarterly bulletin, the fiscal measures will take a full impact from the start of 2017, when all planned measures will come into force, such as the changes in the direct taxation of freelancers and in the estimation of their social security contributions. Certain fiscal interventions that are going to be finalised during the second review (e.g. on special wage categories in the public sector) will bring a further burden. In contrast, the continuation of the year-on-year growth of employment, mainly in the export-oriented branches of Manufacturing, Tourism and Construction, will support the expansion of household consumption. The unemployment decline is expected to weaken and perhaps to turn to growth in some of the 2017 quarters, from the burden of high income taxation and increased social security contributions. The expansion of digital transactions will boost the officially recorded economic activity, which will contribute to an artificial increase in private consumption. The management of non-performing loans of the households is expected to have a limited scope in 2017, and thus a limited impact on their decisions. **As a result of the various counteracting forces that will act on private consumption in the current year, it is expected to grow slightly by about 1.7%.**

The consumption spending of the public sector most probably kept falling throughout 2016. That said, the restart of the fiscal consolidation in the second half of 2015 and the efforts to achieve the primary deficit target set for that year, had resulted in a decline of **public consumption** to levels that formed a low level of comparison. This explains why the decline of public consumption expenditure eased during the third quarter, despite the fact that in absolute terms public spending remained unchanged. Public consumption was at its lowest in the final quarter of 2015, which together with the good performance in the execution of the budget in the first nine months of 2016 with respect to expenditure, has created the conditions for an increase of public consumption spending in the final quarter of 2016, by about 1.5% or perhaps a little bit more. Nevertheless, **the projected growth in consumption expenditure of the public sector in the final quarter of 2016 is not expected to have changed its trend for the year overall, resulting in an overall contraction by 0.5%.** Regarding the public consumption trend in the current year, the emphasis in the 2017 Budget with respect to the fiscal consolidation effort is placed on boosting tax revenues. Besides, the already known measures on the expenditure side concern almost exclusively pensions, benefits and social security contributions of the public sector. **Under the fiscal interventions planned for 2017, public consumption is likely to expand slightly throughout the year.**

Regarding **investment,** the crucial importance of the induction into the quantitative easing programme of the ECB, as fast as possible, in order to boost the capital adequacy of the banking system and thus its capacity to supply liquidity to the enterprises, both for the execution of investment plans and for working capital, was highlighted previously in this section of the bulletin. Obviously, this development is not independent of other developments. When it would take place is tightly linked with the conclusion of the second review, where the relevant prior actions include the appointment of new board members of the banks and the Hellenic Financial Stability Fund, and with the outcome of the public debt negotiations, mainly with regard to the implementation of the short-term debt relief measures and to a lesser extent the IMF participation in its refinancing. As long as there are no developments on these issues that would lead to the induction of Greece in the quantitative easing programme, the credit policy of the banks is not going to change. In addition, the lifting of the capital controls will be delayed and their relaxation will slow down, depending on the rate of return of deposits to the banks.

Understandably, the above developments will affect not only the decisions of the investors and the depositors in Greece, but also the credibility of the Greek economy abroad. Apart from the administrative restructuring of the banking system, the strengthening of its capital adequacy and the implementation of measures to secure public debt sustainability, i.e. interventions to improve the macroeconomic environment, the investors care about the conditions that prevail in the business environment. The successive changes in the taxation of businesses and freelancers in the last two years, the changes in the social security contributions and the feeling of instability of the regulatory framework in Greece that they cause impede the undertaking of investment risks. The impact of these changes on the investment sentiment of industrial enterprises was reflected in the latest biannual Industry Investment Survey of IOBE. According to the survey results, the profit taxation and the overall economic policy constituted the factors with the most negative impact on investment activity both in 2016 and 2017.

Apart from the social security and taxation measures, the changes in the remaining elements of the business environment from the reforms will also have an effect on the investment decisions. As mentioned earlier, the labour market reform is the major structural change included in the third economic adjustment programme. Apart from the specific structural changes and their direct impact, the contribution to boosting the government's "reform profile", with a corresponding impact on its credibility, is a significant knock-on effect.

Apart from the events and the likely developments that would affect the investment decisions of many sectors, i.e. with a horizontal impact, there are conditions that pertain to investment in specific sectors. In particular, the continuous growth of foreign demand in 2016 and the energy cost remaining low, despite the recent increase in the oil price, are conducive to investment in particular branches of the primary sector and Manufacturing. In Construction, the activity growth in public works from last year will most likely carry over to the current year, perhaps at a lower rate, boosting investment. Furthermore, after the finalisation of the tax measures on the property of households and businesses in 2016, the extensive contraction of building activity of the previous years is likely to end in the current year, as it might increase or at least remain close to its level from last year.

Regarding the contribution of the public sector to investment activity, according to the final data on the State Budget execution in the first eleven months of 2016, the PIP expenditure remained unchanged year on year (€6.4 billion). Given that the PIP expenditure in 2017 is projected at the same level as in the previous year (€6.75 billion), investment is not expected to receive a further boost from PIP for the second year in a row. In contrast, the boost from investment related to privatisation and concession deals completed last year, such as the Hellinikon project, the regional airports and the Asteras hotel, is expected to be much stronger than in 2016.

Given that the conclusion of the second review and its effects, the changes in the board members of the banks, and the social security and labour market measures are still pending, while investment was relatively high in the final quarter of 2015, investment is projected to have marginally fallen in the corresponding period of 2016. Therefore, **investment is projected to have increased by 7.0% overall in 2016. The positive trend is expected to carry over to the next year, at the slightly stronger rate of 12%, due to investment in export-oriented manufacturing subsectors, public works and the start of the implementation of investment plans linked to privatisation deals.**

As already predicted in the previous bulletin of IOBE, the completion of a year since the imposition of the capital controls in June 2016 changed radically the trend in both exports and imports in the third quarter of last year. That said, the sharp growth during that period on both sides of the external balance came mainly from their low level a year before. As their contraction had eased in the final quarter of 2015, their growth in the same quarter of 2016 is projected to have weakened.

In greater detail, the further decline of the exchange rate of the euro against the dollar after the US elections is conducive to the growth of total **exports** in the final quarter of last year. Particularly with respect to the exports of services, the anticipated sudden change in the trend in transport and other services between the second and the third quarter, from sharp contraction to growth will continue until the end of the year. As a result, the receipts from the exports of services will grow overall in the second half of 2016, despite their marginal decline in the final quarter and the continuous contraction of revenues from international tourism. **After the notably weaker export growth in the final quarter of last year, their contraction overall in 2016 will total about 0.7%.** The low exchange rate of the euro against the dollar will continue to support the competitiveness of the Greek products and services in the current year. The anticipated strengthening of world trade will also boost the foreign demand for Greek products. The persistent turmoil in the countries of the South-east Mediterranean, and Turkey in particular, is going to be conducive to further growth of international tourism and receipts. International transport will also support the exports of services, owing also to the operation of the additional pier that was inaugurated last year at the Port of Piraeus. **Taking into account the trends in their components, exports are expected to grow by about 5.5-6.0% in 2017.**

The relaxation of capital controls, apart from the artificial impact from the conclusion of a year since their imposition, contributed to the growth of imports since July. The positive impact of these measures will have carried over at least to the final quarter of last year and to most months of the first half of the current year, until the accumulated demand for imports that could not be satisfied due to the capital controls is sufficiently relieved. In addition, a significant part of the growth in consumption demand and in investment in fixed capital in the second half of 2016 concerned imported products and services, maintaining the growth of imports. That said, the gradual implementation of the fiscal measures that affect the disposable income will have moderated the growth of consumption and the demand of imports, without preventing their growth in the final quarter, by about 4-5%. **The strong growth of imports in the second half of 2016 will have led to a growth of about 2.5% to 3.0% overall in 2016.**

Apart from the accumulated demand for imports due to the capital controls, the anticipated increase of domestic demand in 2017, from both higher private consumption and investment, will largely spill over to goods and services that are not produced domestically. The aforementioned relaxation of the controls on imports in last July and any other decision in this direction in the current year will facilitate the coverage of import demand. The rise in the oil price and the low exchange rate of the euro against the dollar, which limit purchasing power, will impede the growth of imports. Taking into account the relation between domestic demand and exports, and the impact of the capital controls, **imports are anticipated to increase by 7.5%-8.0% in 2017**.

To sum up the forecasted trends of the GDP components in the final quarter of 2016 and in 2017, the fiscal measures that were adopted in the first review will have a contractionary impact on disposable income and household demand. However, the significant decline of unemployment last year, which will carry over to this year at a lower speed, and the impact from the more extensive use of electronic means of payment on expanding the official economic activity, will boost private consumption. The growth of public consumption in the final quarter of 2016 would not have prevented its marginal decline overall last year. As the emphasis in the fiscal consolidation is placed on boosting tax revenue in the current year, public consumption expenditure is anticipated to increase slightly in the current year.

The developments related to the induction of Greece into ECB's quantitative easing programme will largely determine the course of investment - if or when this will take place will have a crucial impact on the liquidity in the banking system. Therefore, the available capital for credit is tightly linked to the conclusion of the second review and the outcome of the public debt negotiations. The successive changes in the taxation and social security contributions of businesses and freelancers have increased the corresponding burden and limited the confidence of potential investors in the stability of the regulatory framework, with a negative impact on the execution of investment. The implementation of some of the investment plans is going to be suspended in anticipation of the finalisation of the changes in the regulatory framework of the labour market in the talks with the institutions.

At the branch level, the continuing growth of export demand in Manufacturing in 2016 supports the execution of investment. Regarding the support of the investment activity by the public sector, the PIP expenditure will remain unchanged from last year. However, investments linked to privatisations and concessions concluded in 2016 will commence in the current year, boosting the Construction sector.

Table 3.2

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

	2015	2016	2017	2018
Annual percentage changes				
GDP	-0.2	-0.3	2.7	3.1
Private Consumption	-0.2	-0.5	1.5	1.6
Public Consumption	0.0	-0.7	-0.7	-0.1
Gross Fixed Capital Formation	-0.2	4.0	13.7	14.2
Exports of Goods and Services	3.4	-4.0	3.6	4.7
Imports of Goods and Services	0.3	-2.8	3.0	4.2
Employment	0.5	2.2	2.2	2.3
Compensation of Employees per capita	-2.9	0.2	1.0	2.0
Real Unit Labour Cost	-1.2	2.9	-0.4	0.0
Harmonised Index of Consumer Prices	-1.1	0.1	1.1	1.0
Contribution to real GDP growth				
Final Domestic Demand	-0.2	0.0	2.5	2.9
Net Exports	1.0	-0.4	0.2	0.2
Inventories	-1.0	0.1	0.0	0.0
As a percentage of GDP				
General Government Balance	-7.5	-2.5	-1.0	0.9
Current Account Balance	0.0	0.0	0.2	0.3
General Government Gross Debt	177.4	181.6	179.1	172.4
In percentage terms				
Unemployment (% of labour force)	24.9	23.5	22.2	20.3

Source: European Economic Forecast, autumn 2016, European Commission, November 2016

Table 3.3

Comparison of forecasts for select economic indicators for the years 2015 - 2018
(in constant 2010 market prices, annual % change)

	MinFin			EC			OECD			IMF		
	2015	*2016*	*2017*	*2016*	*2017*	*2018*	*2016*	*2017*	*2018*	*2016*	*2017*	*2018*
GDP	-0.2	-0.3	2.7	-0.3	2.7	3.1	0.0	1.3	1.9	-0.2	0.1	2.8
Final Demand	:	:	:	0.0	2.4	2.9	0.6	0.8	1.6	:	:	:
Private Consumption	-0.2	-0.6	1.8	-0.5	1.5	1.6	-0.9	0.8	1.6	:	:	:
Harmonised Index of Consumer Prices (%)	-1.1	0.0	0.6	0.1	1.1	1.0	0.1	1.1	1.4	-1.1	-0.1	0.6
Gross Fixed Capital Formation	-0.2	3.3	9.1	4.0	13.7	14.2	3.3	4.3	4.6	:	:	:
Unemployment (%)*	24.9	23.7	22.6	23.5	22.2	20.3	23.5	23.1	22.7	25.0	23.3	21.5
General Government Balance (% GDP)	-7.5	-2.2	-0.8	-2.5	-1.0	0.9	-2.0	-0.2	0.5	:	:	:
Current Account Balance (% GDP)	:	:	:	0.0	0.2	0.3	-1.0	-0.6	-0.1	0.0	0.0	0.0
Gross Public Debt (% GDP)	177.4	180.3	176.5	181.6	179.1	172.4	179.7	176.6	171.5	:	:	:

* According to the Labour Force Survey methodology

Sources: Introductory Report 2017 Budget, Ministry of Finance, November 2016 – European Economic Forecast, autumn 2016, European Commission, November 2016 - OECD Economic Outlook No. 100, November 2016 – World Economic Outlook, IMF, October 2016

In the external sector of the economy, the growth recorded on both sides of its balance in the third quarter of last year, once one year had passed since the imposition of the capital controls, will have carried over to the final quarter of 2016 and the first quarter of the current year, as the capital controls did not ease during the corresponding period of last year with respect to international trade transactions that could have contributed to the relieve of the accumulated demand for both imports and exports. The further decline of the exchange rate of the euro against the dollar will have contributed to the growth of exports in the final quarter of last year, while the continuing turmoil in the countries of the South-East Mediterranean, particularly in Turkey, will further boost international tourist arrivals and tourism receipts. In contrast, the full implementation of the fiscal measures for the conclusion of the first review, the increase in the oil price and the low exchange rate of the euro will moderate the growth of imports. **Taking into account the above trends in factors that affect the GDP components and its strong growth in the third quarter of 2016, the projection of IOBE for the GDP rate of change is revised from contraction to growth of about 0.4%. According to the up to now available data, the growth of the Greek economy is expected to strengthen in 2017 to about 1.5%-1.8%.**

Regarding the anticipated developments in the labour market, the branches with the strongest contribution to the fall of unemployment in the first nine months of last year, such as Manufacturing, Construction, Tourism and Public Administration, will have kept creating jobs in the last quarter of 2016, as the latest available data on their production point to their continuous growth during that period. As the tourist period approached its conclusion, the positive contribution of the sector to employment would have weakened. The positive contribution of the public sector to employment will have weakened or fizzled out completely, as the number of beneficiaries of the public benefit employment programmes run by the Manpower Employment Organization OEAD during that period was lower year on year. In addition, the changes in direct taxation and social security contributions of freelancers caused an upheaval, with an impact on their employment in the last quarter of 2016. **Taking into account the above trends and their impact on employment, unemployment is expected to have increased slightly in the final quarter of 2016, to about 23.0%. Nevertheless, it has remained notably lower year on year and it is projected to have fallen to 23.4% overall in 2016, about 1.5 percentage points lower than in 2015.**

Regarding 2017, the expansion of employment in the private sector branches with the strongest contribution to the fall of unemployment in the current year will most likely lead to further decline in the following year. The growth in the exports of goods supports job creation in Manufacturing, while the stronger tourist flows will keep employment growing in Tourism for one more year. A particularly strong employment boost is anticipated in the Construction sector in the second half of the year, from the execution of investment plans related to privatisation and concession deals concluded in 2016. The forthcoming changes in the regulatory framework of the labour market, which constitute prior actions for the conclusion of the second review of the third economic adjustment programme, are also anticipated to be conducive to investment and job creation. That said, the changes in direct taxation and social security contributions of the freelancers from the beginning of 2017, at least initially, are going to impede job creation in the affected sectors. The significant job creation from the OAED programmes will carry over to 2017, as according to the Draft State Budget for 2017, short-term employment opportunities are going to be created for 52,000 long-term unemployed for the protection of socially vulnerable groups, while 43,000 unemployed are going to be hired in public works. **Hence, unemployment will most probably continue to contract in 2017, for the fourth consecutive year. Its decline is going to be weaker than in the previous year, by about one percentage point (22.3%).**

Lastly, the fall of the oil price was the key deflation driver from the autumn of 2014 until last October. The decision at the International Energy Forum to curb the daily oil production is the underlying cause for the end of this trend. The rise in the oil price, which eliminated the deflation already from the final quarter of 2016, is expected to be the key driver of the Consumer Price Index expansion in the current year. The new indirect levies and the hikes in the existing taxes that came into force from 1st January 2017 will continue to restrain the deflationary pressures in the Greek economy for the fifth consecutive year. The boost of consumption demand, mainly from employment growth and not from an expansion of per capita income, which will decline from the growth in direct taxation and higher social security contributions, will also prevent a new price fall in the Greek economy. **The Consumer Price Index is thus expected to increase by 1.3% in 2017.**

3.2 Developments and outlook in key sectors of the economy

Industry

The Industrial Production Index in Greece increased by 2.3% in the first eleven months of 2016, compared with a marginal contraction of 0.5% in the same period of last year. As a result, it is certain that industrial production increased in the past year. Nevertheless, despite the year-on-year production increase, the decline in the prices in Industry by 7.2% led to a corresponding year-on-year decline of the turnover (-6.3%).

In the Euro area, industrial production increased during the same period by 1.3%, slightly less than in the same period of 2015 (+2.1%).

At the sector level in Greece, the largest contraction was recorded in Mining-Quarrying, where production fell by 16.0% in the first eleven months of 2016, compared with a 7.6% decline in the preceding year. Electricity generation came next with a marginal decline of about 0.1%, against 0.5% in the previous year. In contrast, production increased significantly in Manufacturing, by 4.6%, against a weaker growth by 1.5% a year earlier. Lastly, production in Water Supply increased year on year by 0.4%, less than in the same period of 2015 (+1.9%).

In greater detail, in **Mining** three of the four subsectors experienced significant output growth. The output of Extraction of Crude Petroleum and Natural Gas more than doubled (+138.7%), after a slight increase by 4.3% in 2015. Output in Mining of Metal Ores increased by 6.4% (against 8.7% contraction in the previous year) and in Other Mining Activities, by 2.5%, after a decline by 2.8% in 2015. Output declined only in Mining of Coal and Lignite, by 33.0%, after a milder contraction by 9.8% in 2015.

In **Manufacturing**, production declined in 7 of its 24 subsectors in the first eleven months of 2016. Among the branches of particular importance for the Greek economy, output increased more than in 2015, in Basic Pharmaceutical Products by 5.1% (from +5.0% in the preceding year), in Basic Metals by 5.8% (from 4.7%) and in Food Products by 2.8% (against a decline by 1.8% in 2015).

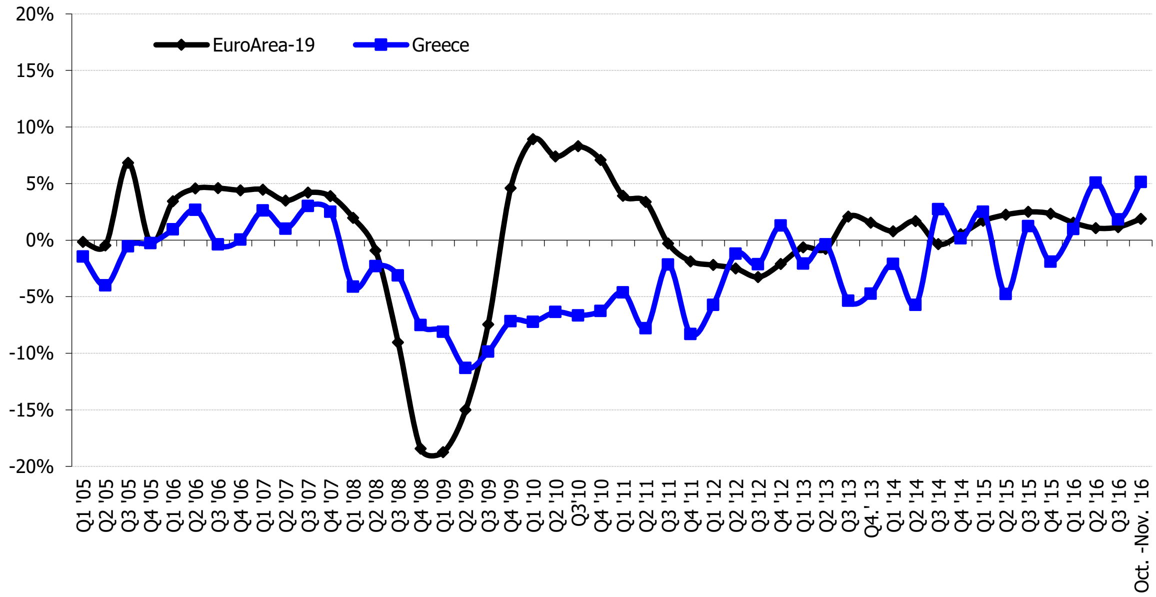
In the remaining Manufacturing subsectors, the biggest decline was observed in Computers, Electronic and Optical Products (-19.6%, against +27.0% in 2015), Wearing Apparel (-8.6% against -17.6%) and Plastic and Rubber Products (-2.2%, against +4.5%).

Output increased in quite a few sectors during that period. In particular, the production of Motor Vehicles increased by 24.5%, compared with a 13.4% decline in the same period of 2015, in Non-Metallic Minerals (+15.4% against -1.3% a year before) and in Machinery – Equipment (13.1%, after 3.2% growth in 2015). Output increased significantly in Furniture (+10.5%, against a marginal contraction of 0.6%), Chemical products (+7.1%, against +3.3%) and Wood and Cork Products (+5.2%, against a 7.2% contraction in the previous year).

Regarding the main groups of industrial products, the production of Durable Consumer Goods marginally declined (-0.1%, against +0.5%). In contrast, output increased in Intermediate Goods (+5.0% against +1.9%) and Non-Durable Consumption Goods (+2.6% against +0.8%). In Energy, output marginally increased, by 0.4%, compared with a contraction of production by 0.6% in the same period of the preceding year.

Figure 3.1

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



Sources: ELSTAT, Eurostat

Construction

During the first nine months of 2016, the production index in the Construction sector increased by 25.0%, significantly stronger than in the corresponding period of 2015 (+1.2%). The strong growth during the third quarter, when the indicator increased year on year by 77.4%, contributed significantly to the spectacular growth over this period.

The trends in the constituent categories of the index in the first nine months of 2016 were significantly different than in the preceding year. In particular, output in Buildings increased by 19.0%, compared with a 9.5% increase in the preceding year, while the production index in Civil Engineering Works expanded by almost 30%, against a contraction by 4.5% in the preceding year. However, the strong growth does not bode well with the data on new construction activity during that period, as the surface area of new buildings declined by 14.4%, while their volume contracted by 37.0%.

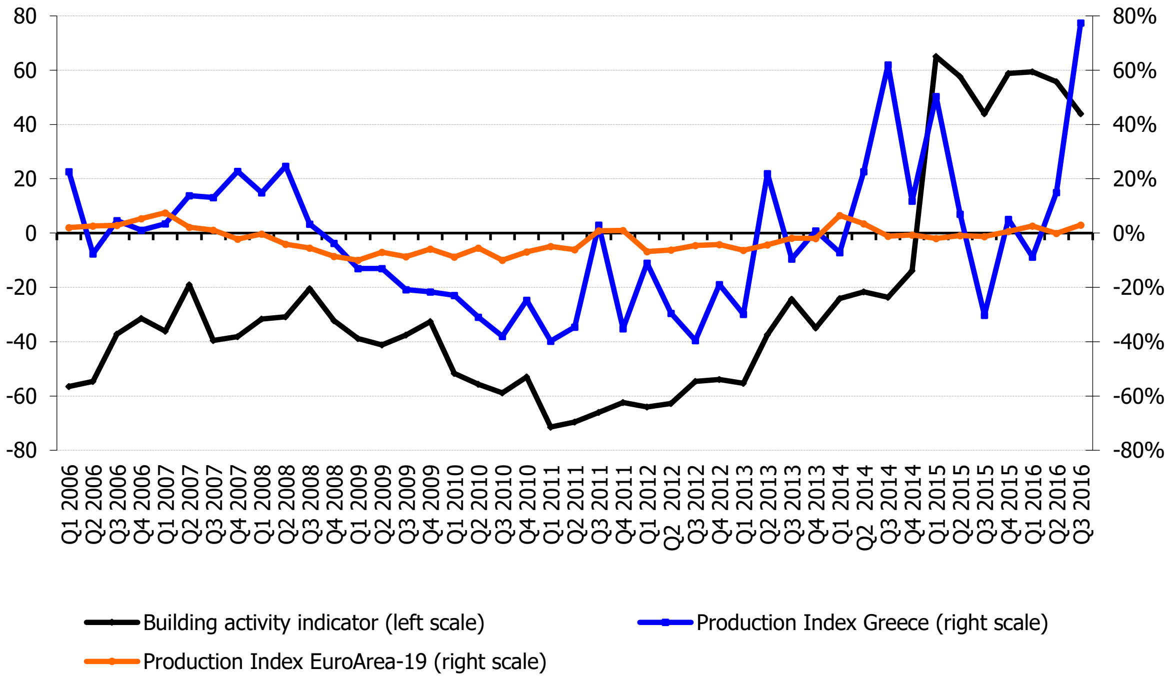
Correspondingly, output in Construction in the Euro area increased by 1.8% in the first nine months of 2016, against a contraction by 1.4% in the same period of 2015.

Retail Trade

The volume index of Retail Trade declined by 1.0% in the first ten months of 2016, in the aftermath of a similar contraction in 2015 (-1.4%).

Figure 3.2

Production Index in Construction και Building Activity Index



Source: ELSTAT – Eurostat

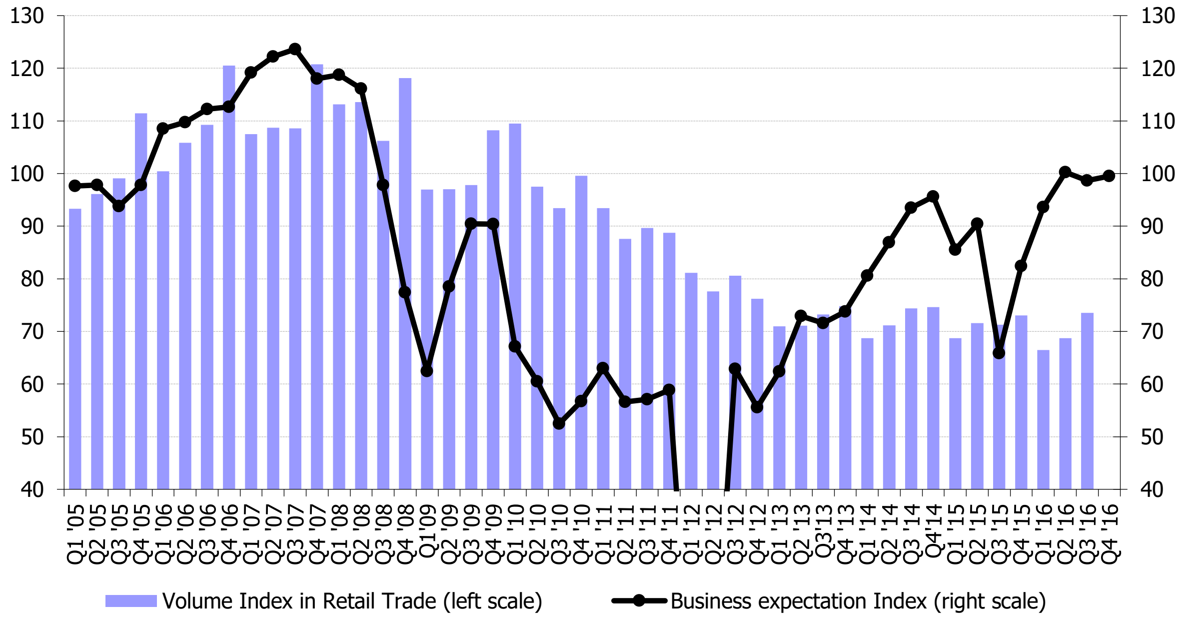
Turnover expanded in three of the eight subsectors of Retail Trade. The strongest growth was recorded in Department Stores (+8.8% against a contraction of 4.2% in the previous year), Clothing-Footwear (+6.3% against +7.5%) and Books-Stationery (+3.2% against +6.3%). In contrast, the strongest contraction was observed in Automotive Fuel, where the index declined by 3.9%, in the aftermath of a more modest decline of 1.8% in the corresponding period of 2015. Pharmaceutical Products - Cosmetics came next (-2.7% against -1.1%), followed by Furniture – Household Appliances (-1.6% against +4.3%). Lastly, turnover declined in Supermarkets as well (-0.3%, against -0.9%).

The expectations of the retail trade enterprises improved in 2016, according to **the leading indicators of the Business Surveys conducted by IOBE**. The indicator for the overall Retail Trade sector increased by 17 points, compared with an 8-point decline in the previous year. It is indicative that the expectations improved in all the constituent branches of retail trade, without an exception.

In particular, the expectations improved strongly in Food-Beverages (+35.7 points, against a 5.6-point decline in the previous year), Department Stores (+19.9 against +12.8) and Household Appliances (+19.3, against -12.7). The expectations in Clothing-Footwear improved at a much more modest rate (+1.4, against -21.7).

Figure 3.3

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



Source: IOBE

Lastly, the indicator in Motor Vehicles totalled 97.8 points in 2016, at the same level as in 2015, compared with 114 points in 2014, with significant monthly fluctuations due to the end of the cash-for-clinkers programme and unsteady demand. The sales of new passenger cars increased year on year by 4.0% in 2016, against growth by 6.4% in 2015. In the constituent elements of the indicator for 2016, the assessment of current sales remained almost unchanged year on year, at -3 points, from -6 points in 2015, with about 1/3 of the enterprises assessing their sales as having increased and a corresponding share considering the car sales sluggish in 2016. The share of enterprises considering their stock to be at normal levels (>67%) continued to dominate the balance of inventories. The sales prospects over the coming quarter improved in 2016, as the index reached 0, from -10 in 2015, implying that the number of enterprises expecting sales growth over the near term increased. In fact, the balance in this indicator improved significantly between September and the end of the year, despite the end of the cash-for-clunkers programme in May and its six-month grace period. A similar trend was observed in the orders expectations, as the index improved in 2016 to -7 points, from -18 points in 2015. Lastly, the employment expectations indicate stability in the sector, as the share of the enterprises expecting no employment changes approached 99%.

Table 3.4

Annual Changes in the Volume Index in Retail Trade

Category of Retail Trade Stores	Volume Index (2010=100)				
	Ian – Oct 2014	**Ian – Oct 2015**	**Ian – Oct 2016**	**Change 2015/2014**	**Change 2016/2015**
Overall Index	71.4	70.4	69.7	-1.4%	-1.0%
Overall Index (excluding automotive fuels and lubricants)	72.2	72.0	72.1	-0.3%	0.1%
Store Categories					
Supermarkets	80.5	79.8	79.5	-0.9%	-0.3%
Department Stores	81.6	78.2	85.1	-4.2%	8.8%
Automotive Fuels	67.8	66.5	63.9	-1.8%	-3.9%
Food – Drink – Tobacco	67.4	64.6	64.4	-4.1%	-0.4%
Pharmaceuticals – Cosmetics	67.7	66.9	65.1	-1.1%	-2.7%
Clothing – Footwear	65.2	70.1	74.5	7.5%	6.3%
Furniture – Electric Equipment – H. Appliances	63.7	61.0	60.0	-4.3%	-1.6%
Books – Stationary	84.7	90.0	92.9	6.3%	3.2%

Source: ELSTAT

Table 3.5

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

	2014	**2015**	**2016**	**2015/2014**	**2016/2015**
Food-Drinks-Tobacco	87.6	82.0	117.7	-6.4%	43.5%
Textiles - Clothing – Footwear	100.9	79.2	80.6	-21.5%	1.8%
Household Appliances	79.1	66.4	85.7	-16.1%	29.1%
Vehicles-Spare Parts	114.4	97.3	97.8	-14.9%	0.5%
Department Stores	66.7	79.5	99.4	19.2%	25.0%
Total Retail Trade	**89.1**	**81.0**	**98.0**	**-9.1%**	**21.0%**

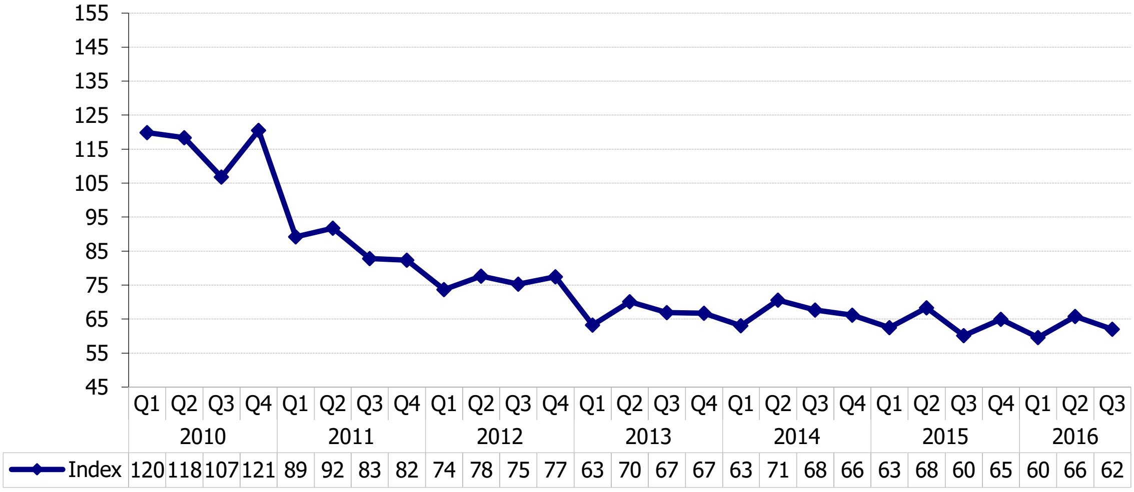
Source: IOBE

Wholesale Trade

The turnover index of Wholesale Trade continued to contract in the first nine months of the year, albeit at a significantly lower rate than in the previous year (-1.8% against -5.2%). As a result of the continuous contraction of activity in Retail Trade over the past few years, the Wholesale Trade indicator reached its lowest level since 2008.

Figure 3.4

Turnover Index in Wholesale Trade



Source: ELSTAT

Services

Turnover contracted year on year in the first nine months of 2016 in eight of the 13 subsectors of Services. The largest contraction was recorded in Cleaning Activities (branch 81.2), where turnover declined at a higher rate than in the preceding year (-23.4%, against -0.1%), and in Professional, Scientific and Technical Activities (branch 74), where turnover declined by 12.8%, compared with 21.0% growth in the corresponding period of 2015. Information Service Activities (branch 63) came next, with a turnover contraction by 9.9% (compared with a growth of 28.3% in 2015). Turnover in Legal – Accounting – Management Consultancy Activities (branches 69 and 70.2 combined) declined less than in the preceding year (-7.0% against -14.0%). Despite the sharp drop in the production index in Construction presented earlier, turnover in Architectural and Engineering Activities (branch 71) declined slightly, by 0.9%, compared with a marginal growth by 0.3% in 2015.

In contrast, activity strengthened in the first nine months of 2016 in Office Administrative Activities (branch 82), where turnover expanded by 27.4%, after its strong growth a year before (+63.0%). Turnover in Employment Activities (branch 78) increased by 19.5% (against +23.5%), followed by Computer Programming (branch 62), with a turnover growth of 15.6% (after +11.0% in the preceding year). Turnover in Postal and Courier Activities (branch 53) increased less, by 0.9% (against 5.7%). Lastly, activity in Telecommunications (branch 61) remained essentially unchanged (+0.1%, against +0.6%).

According to the **leading indicators of the Business Surveys conducted by IOBE** for 2016, the respondents in all subsectors of Services were found to be more optimistic year on year. The overall indicator for Services increased by 5.5 points, compared with 2015 when it had lost 16.6 points. Among the constituent subsectors, the representatives of the Computer Programming subsector became more optimistic, as the index increased by about 21 points, offsetting the strong deterioration in the corresponding period of 2015 (-22 points). Similarly, the index improved in Other Business Activities (+4 points, from -21 points in the previous year). The enterprises in the Financial Intermediaries subsector came next, as the index in this subsector increased by 3.5 points, after a strong decline in the previous year (-22 points). Lastly, the respondents in Hotels-Restaurants were marginally more optimistic, as the expectations index increased by only 0.2 points in this sector, compared with a 12 point decline in 2015.

Table 3.6

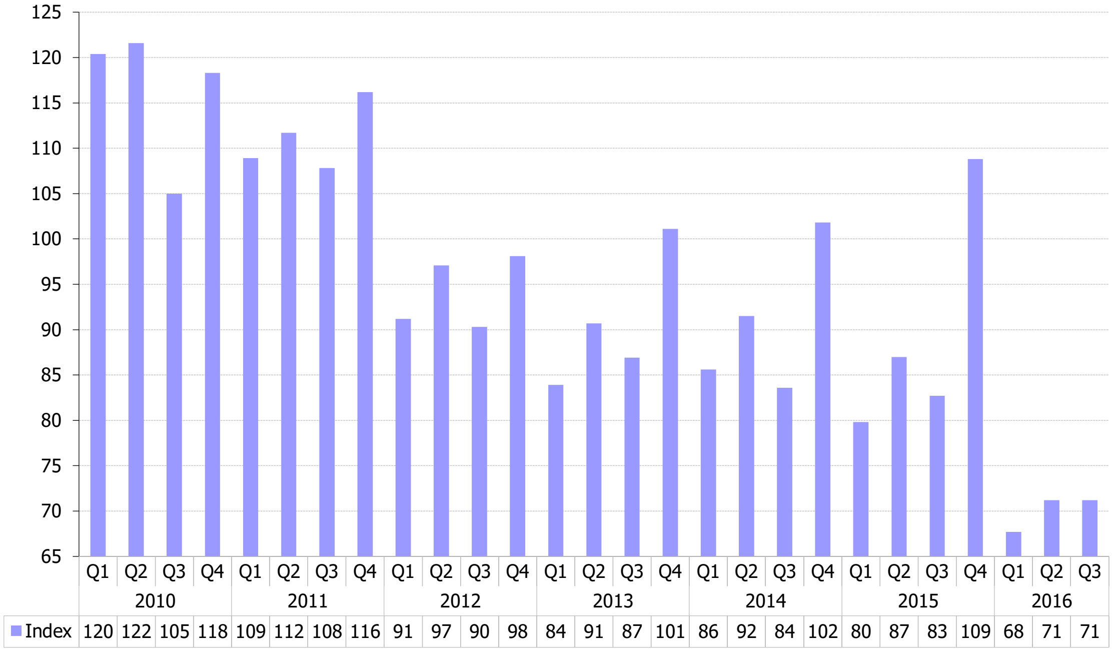
Turnover Indices (annual change, 2010=100)

	Jan - Sep 2014	**Jan - Sep 2015**	**Jan - Sep 2016**	**% change '15/'14**	**% change '16/'15**
Trade of motor vehicles	58.2	62.5	69.2	**7.4%**	**10.7%**
Land transport and transport via pipelines	85.2	80.1	78.7	**-5.9%**	**-1.7%**
Water transport	74.2	71.4	69.1	**-3.9%**	**-3.1%**
Air transport	117.6	126.5	131.0	**7.6%**	**3.6%**
Warehousing and support activities for transportation	83.3	85.8	95.2	**3.0%**	**10.9%**
Postal and courier activities	86.9	83.2	70.2	**-5.7%**	**0.9%**
Publishing activities	44.7	36.3	45.3	**-17.4%**	**-6.1%**
Telecommunications	61.8	61.3	71.5	**-0.6%**	**0.1%**
Computer programming. consultancy and related activities	48.7	53.0	78.2	**11.0%**	**15.6%**
Information service activities	124.6	135.5	88.1	**28.3%**	**-9.9%**
Legal. accounting and management consultancy activities	104.3	97.6	76.2	**-14.9%**	**-7.0%**
Architectural and engineering activities	37.4	41.9	76.2	**0.3%**	**-0.9%**
Advertising and market research	27.4	25.2	40.8	**2.5%**	**-6.1%**
Office administrative activities	44.8	48.6	117.3	**63.0%**	**27.4%**
Tourism	98.4	104.0	103.3	**5.7%**	**-0.7%**

Source: ELSTAT

Figure 3.5

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

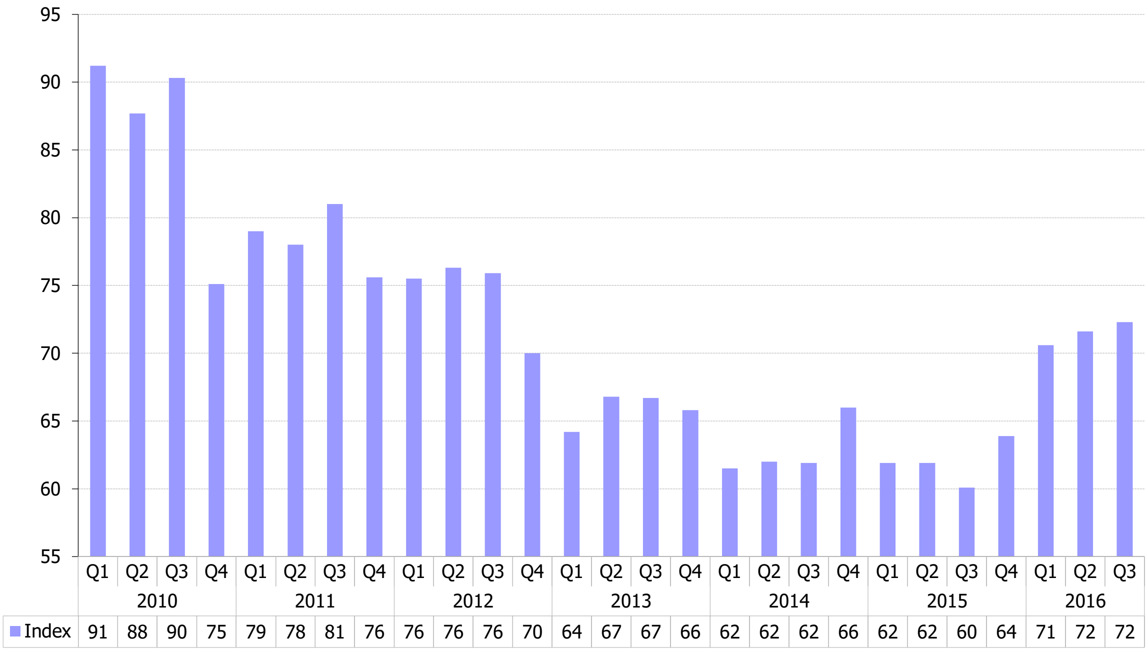


	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Index	120	122	105	118	109	112	108	116	91	97	90	98	84	91	87	101	86	92	84	102	80	87	83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

Source: ELSTAT

Figure 3.6

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

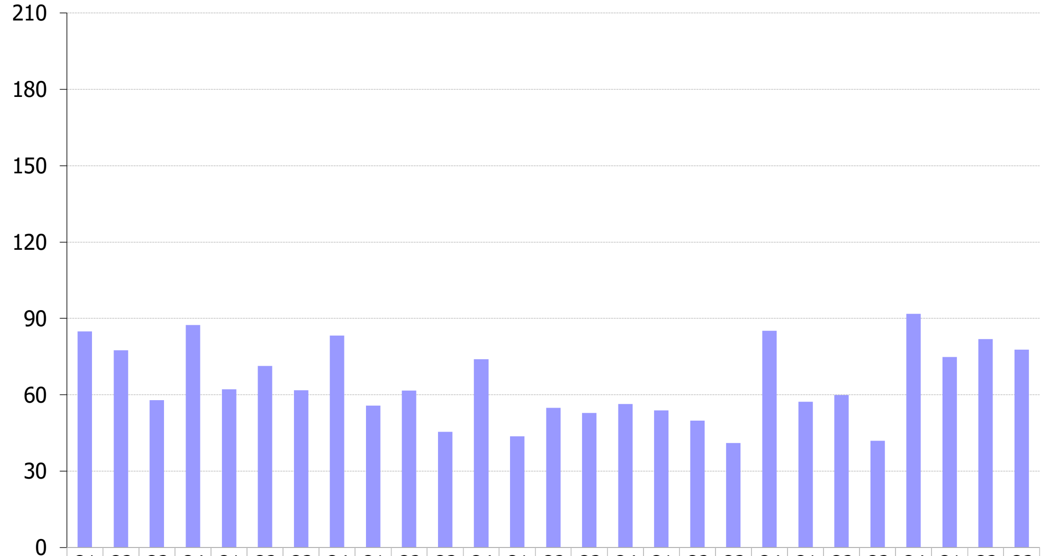


	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Index	91	88	90	75	79	78	81	76	76	76	76	70	64	67	67	66	62	62	62	66	62	62	60	64	71	72	72

Source: ELSTAT

Figure 3.7

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

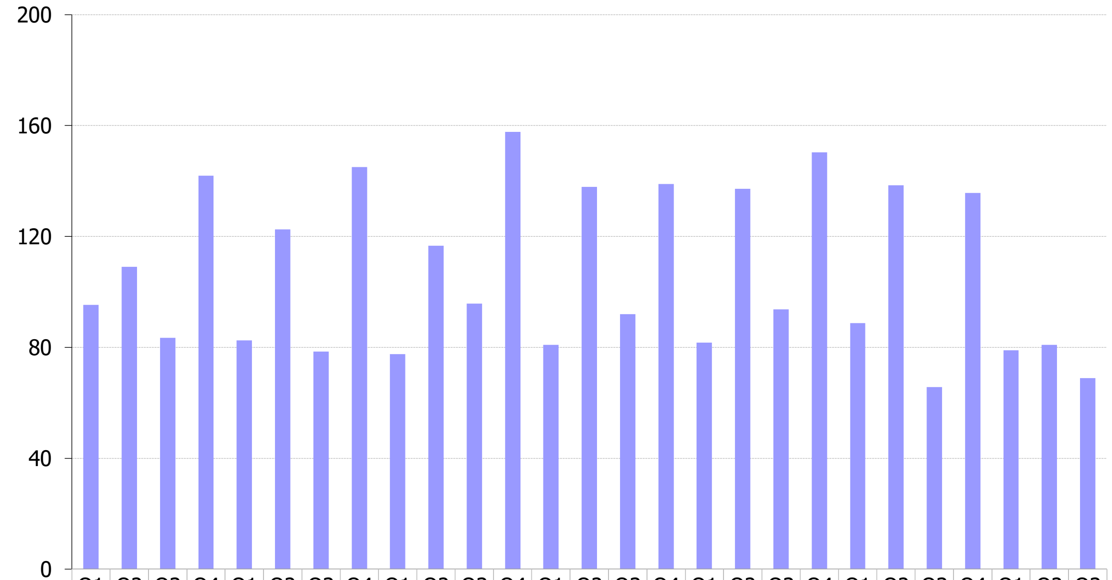


	2010				2011				2012				2013				2014				2015				2016		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Index	85	78	58	87	62	71	62	83	56	62	46	74	44	55	53	56	54	50	41	85	57	60	42	92	75	82	78

Source: ELSTAT

Figure 3.8

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

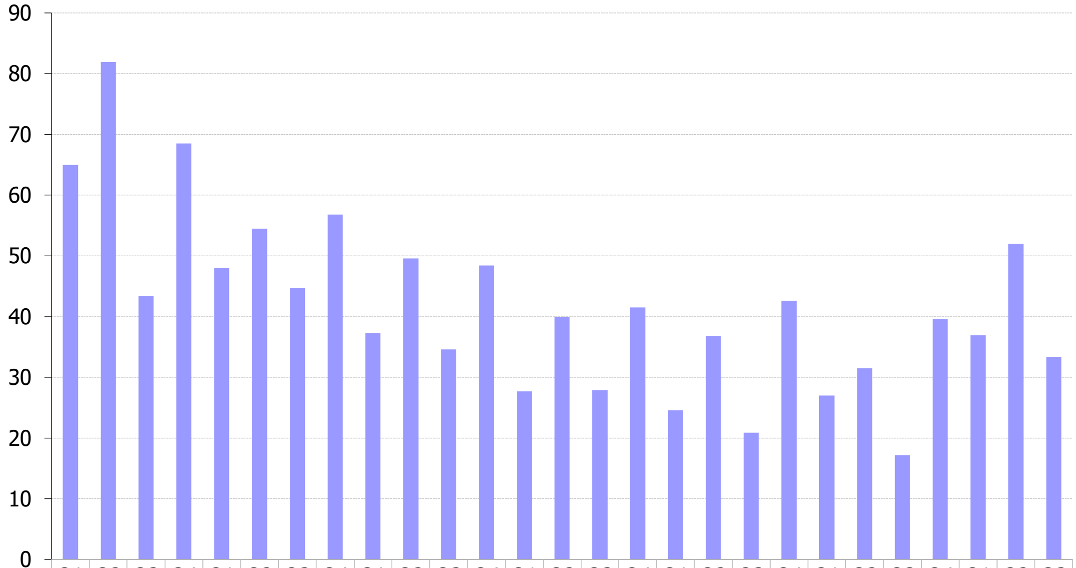


	2010				2011				2012				2013				2014				2015				2016		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Index	95	109	84	142	83	123	79	145	78	117	96	158	81	138	92	139	82	137	94	150	89	139	66	136	79	81	69

Source: ELSTAT

Figure 3.9

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

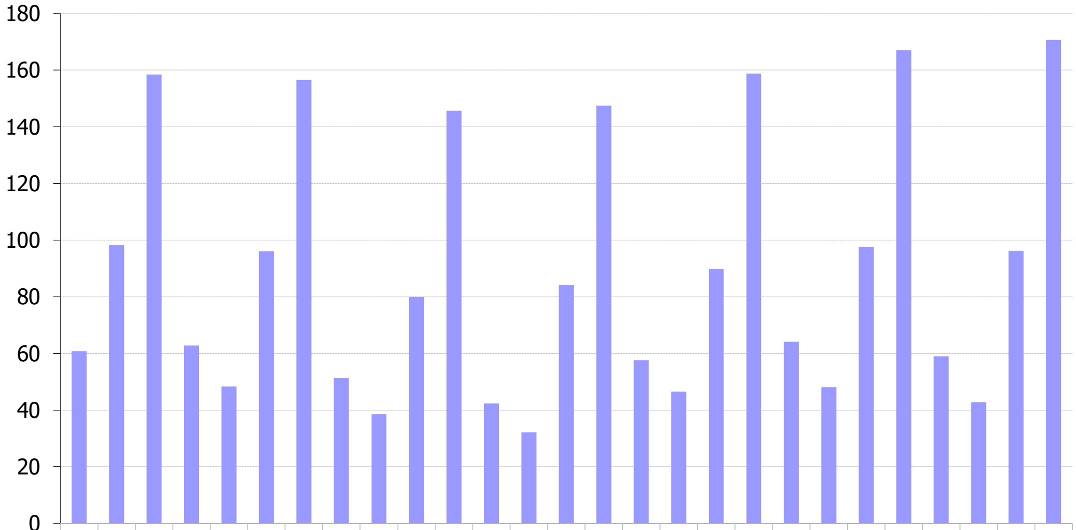


	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	2010				2011				2012				2013				2014				2015				2016		
Index	65	82	43	69	48	55	45	57	37	50	35	48	28	40	28	42	25	37	21	43	27	32	17	40	37	52	33

Source: ELSTAT

Figure 3.10

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



	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	2010				2011				2012				2013				2014				2015				2016		
Index	61	98	158	63	48	96	157	51	39	80	146	42	32	84	148	58	47	90	159	64	48	98	167	59	42.	96.	170

Source: ELSTAT

Table 3.7

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

	2014	2015	2016	% change '15-'14	% change '16-'15
Hotels – Restaurants – Travel Agencies	101.3	89.3	89.5	-11.8%	0.2%
Other Business Services	66.2	49.6	56.4	-25.1%	13.7%
Financial Intermediation	79.3	57.4	60.9	-27.6%	6.1%
Information Services	78.0	55.7	76.6	-28.6%	37.5%
Total Services	**87.2**	**70.6**	**76.1**	**-19.0%**	**2.0%**

Source: IOBE

3.3 Export performance of the Greek economy

The **exports of goods** reached €22.9 billion in the first eleven months of 2016, against €23.3 billion in 2015, **recording a contraction of 1.9%.** However, if **the exports of petroleum products and ships are not taken into account, the exports of the remaining goods increased by 1.9%,** totalling €16.9 billion in 2016, against €16.5 billion in 2015 (Figure 3.11). Note that the much lower exports of petroleum products came from the lower year on year oil prices, particularly in the first quarter. Hence, the reduction in value is not reflected in a reduction in volume terms. Meanwhile, imports decreased by only 0.2% in the first eleven months of 2016, to reach €39.1 billion from €39 billion a year earlier. As a result of the above trends in the components of the external balance, the **trade deficit** increased year on year by €540.3 million (+3.4%), to reach €16.2 billion, from €15.7 billion in the previous year. Consequently, **the value of the exports of goods** of the Greek economy **corresponded to 58.5% of its imports**, while in 2015 this ratio stood at 59.8%.

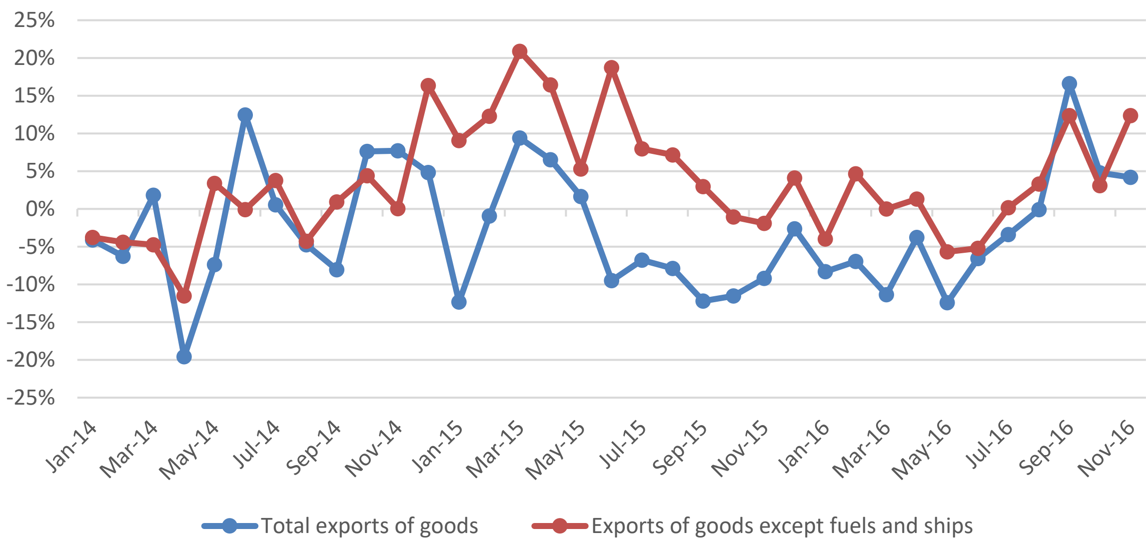
Particularly between July and November, when the base effect from the imposition of capital controls in July 2015 was no longer present, exports increased by 5.6%, from €10.5 billion to €11.1 billion, while imports increased by 4.6%, from €17.3 billion to €18.1 billion.

In greater detail, the exports of Agriculture Products increased by 9.3% in the first eleven months of 2016, to reach €5.2 billion, against €4.7 billion in the same period of last year, while the exports of Mineral Fuels decreased by 12%, to no more than €6.2 billion, from €7 billion in 2015 (Table 3.7).

Note that these two product categories represented 49.8% of Greek exports (from 50.5% in 2015). The increase in Agriculture Products mainly came from growth in the demand for Beverages and Tobacco by 11.6%, the value of which reached €664.4 million (from €595.2 million in 2015). As a result, their share in total exports increased from 2.6% in 2015 to 2.9% in the current year.

Figure 3.11

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



Source: ELSTAT. Data processing: IOBE

In Food-Live Animals, which represented about 75.2% of the exports of Agriculture Products, exports increased by 11.3%, from €3.5 billion in 2015 to €3.9 billion in 2016. The demand for Oils and Fats of Animal or Plant Origin, which represented 12% of the exports of Agriculture Products, stood at €617.7 million in the first eleven months of 2016, lower by 3.6% in relation to 2015 (€640.7 million).

The exports of Manufactured Good increased marginally, by 0.3%, with their value approaching €10.1 billion, from €10 billion a year ago. This increase was largely explained by stronger foreign demand for Machinery and Transport Equipment, by 3%, with their value totalling €2.3 billion (from €2.2 billion in 2015), Chemicals and Related Products, by 0.3% (at €2.46 billion in 2016, from €2.45 million a year ago) and Miscellaneous Manufactured Articles, by 8.4% (at €1.7 billion from €1.6 billion). In contrast, the export performance of Manufactured Goods Classified Chiefly by Raw Material deteriorated by 4.7%, from €3.8 billion in the first nine months of 2015 to €3.6 billion in the following year.

Finally, the exports of Raw Materials decreased by 0.9% (from €903.6 million in the first eleven months of 2015 to €895.7 million in 2016), while the exports of Commodities and Transactions Not Classified by Category declined by 11.7% (from €558.2 million in 2015, to €492.7 million in 2016).

Regarding the export trends per geographical area, the exports to the countries of the Euro area expanded by 3.6%, to reach €9 billion. As a result, about 39.5% of the Greek exports were transported to this region. The exports to the EU increased at a similar rate, by 3.4% or €428.2 million. Among the Eurozone countries that absorb most Greek exports, the largest growth was recorded in the Netherlands by 23.3%

(from €460.8 million in 2015 to €568 million in 2016), followed by Germany with 4.1% (from €1.70 billion in the preceding year to €1.77 billion in the current year). Exports also increased towards France, by 9.1% (from €609.6 million in 2015 to €665 million in the current year). In contrast, contraction of exports was observed in Italy, by 1.8%, to €2.61 billion (from €2.66 billion in 2015), yet it remained the major destination for Greek exports. The largest percentage contraction of exports to Euro area countries in the first eleven months of 2016 was recorded in Latvia, a country with relatively low demand for Greek products, where exports declined by 34% (from €23.5 million a year earlier to €15.5 million in the current year). In contrast, the highest percentage increase was observed in Estonia (+43.9%).

Among the remaining EU countries, where total exports increased by 3.1% or €114.6 million (from €3.7 billion in 2015 to €3.8 billion in 2016), Bulgaria remained the main destination for Greek products, despite the year-on-year decline by 2.4% or €27.6 million. In contrast, the export performance strengthened in two other countries that absorb a large share of exports in this category of countries, Romania and Poland, where exports expanded by 4.7% or €30.5 million (to €679.9 million) and by 20.3% or €61.4 million (to €364.1 million) respectively. The biggest contraction of 25.2% was recorded in the exports to Denmark, where the Greek exports increased by €27.4 million (from €109 million in 2015 to €136.4 million in the current year).

The exports to Turkey, one of the major export destinations of Greek products, fell abruptly by 26% (or €406.9 million), which was one of the largest contraction among all countries that receive Greek exports. As a result, the exports to this country declined from €1.6 billion in the first eleven months of 2015 to €1.2 billion in 2016.

The exports to the countries of North America decreased by 5% (from €1.4 billion in 2015 to €1.3 billion in 2016), due to a decline in the exports towards the US market by 6.1%, from €1.07 billion in the first eleven months of 2015 to €1 billion one year later. In contrast, the exports to Mexico increased by 1.8%.

The exports to the countries of the Middle East and North Africa declined by 3.5% (from €3.08 billion in 2015 to €3 billion in 2016), mainly due to the contraction of exports to specific North Africa countries. In particular, a decrease of exports was recorded in Egypt, by 26.3% (to €695 million from €943.3 million) and Tunisia by 37.5% (from €152.3 million to €95.2 million). The exports to two other significant destinations in the Middle East - Saudi Arabia and the United Arab Emirates - decreased by 38.9% (to €416.1 million) and 16.5% (to €204.7 million) respectively.

Table 3.8

Exports per category in current prices (million €)

PRODUCT	VALUE		% CHANGE	% COMPOSITION	
	2016*	2015*	2016*/2015*	2016*	2015*
AGRICULTURAL PRODUCTS	5,165.9	4,725.9	9.3%	22.6%	20.3%
Food and Live Animals	3,883.8	3,490.0	11.3%	17.0%	15.0%
Drinks and Tobacco	664.4	595.2	11.6%	2.9%	2.6%
Oils and Fats of animal or plant origin	617.7	640.7	-3.6%	2.7%	2.7%
RAW MATERIALS	895.7	903.6	-0.9%	3.9%	3.9%
Non-edible Raw Materials excluding Fuels	895.7	903.6	-0.9%	3.9%	3.9%
FUELS	6,202.0	7,050.1	-12.0%	27.1%	30.2%
Minerals, Fuels, Lubricants etc.	6,202.0	7,050.1	-12.0%	27.1%	30.2%
INDUSTRIAL PRODUCTS	10,115.4	10,086.3	0.3%	44.2%	43.2%
Chemicals and Related Products	2,462.7	2,454.5	0.3%	10.8%	10.5%
Industrial Products Sorted by Raw Material	3,597.9	3,777.2	-4.7%	15.7%	16.2%
Transport Equipment	2,340.4	2,273.1	3.0%	10.2%	9.7%
Various Manufactured Goods	1,714.3	1,581.4	8.4%	7.5%	6.8%
OTHER	492.7	558.2	-11.7%	2.2%	2.4%
Goods and Transactions not sorted by Category	492.7	558.2	-11.7%	2.2%	2.4%
TOTAL EXPORTS	22,871.7	23,324.0	-1.9%	100.0%	100.0%

* Provisional data
Sources: ELSTAT, PSE-KEEM

The flow of Greek exports to Oceania weakened, with their value reaching €128.2 million in the first eleven months of 2016, from €134.9 million a year earlier. The exports to Australia decreased by 6.6% (to €116.3 million, from €124.4 million). In contrast, the exports to New Zealand increased by 13.1% (€10.5 million in 2015, €11.9 million in 2016).

A significant growth of exports, by 30.9%, was recorded in the markets of the Central and Latin American countries, with their value growing to €257.3 million, from €196.6 million in the same period of 2015. The growth of exports to these countries came mainly from much stronger demand for Greek products in Brazil, by 168.4%, where their value reached €91.8 million in 2016, from €34.2 million in 2015.

In contrast, the demand for Greek products in Asia weakened slightly, by 0.8%, to €1.13 billion, from €1.14 billion in 2015. This development mostly came from export contraction in South Korea (-57.7%, to €112.8 million in 2016, from €266.7 million in 2015) and Taiwan (-84.4%, to €10.8 million from €69.3 million in the previous year). In contrast, the exports of Greek products in China increased significantly, by 48.1%, (from €204.6 million in 2015 to €303 million in 2016).

To sum up, Greek exports continued to decline in the first eleven months of 2016 overall. However, if we focus on the available data for the second half of the year, when there was no longer a base effect from the imposition of capital controls in July 2015, exports increased by 5.6%.

Therefore, the decline of exports over the first eleven months can be attributed to the impact of capital controls on the ease of exporting goods and on the attractiveness of the Greek products. That said, the depreciation of the euro-dollar exchange rate since October, which boosted the cost competitiveness of the Greek products, contributed to the growth of exports. The significant increase of the oil price since October, in the aftermath of the decision taken at the International Energy Forum to curb the daily oil production, also boosted the value of exports. **Taking into account the growth of exports in the second half of 2016, until November, which was not sufficient to offset the negative trend from the previous half of the year, exports are projected to have declined by 1.4% overall in 2016. The exports without fuels in particular are projected to have grown by 2.3%.**

The much higher average oil price in the current year, the low euro-dollar exchange rate, which creates a competitive advantage and the relaxation of the capital controls, will keep exports on a growth path. The prolonged turbulence in Turkey, one of the major markets for Greek products, will dampen the growth of foreign demand. **Taking these effects into account, exports are expected to increase by at least 8% in 2017.**

Table 3.9

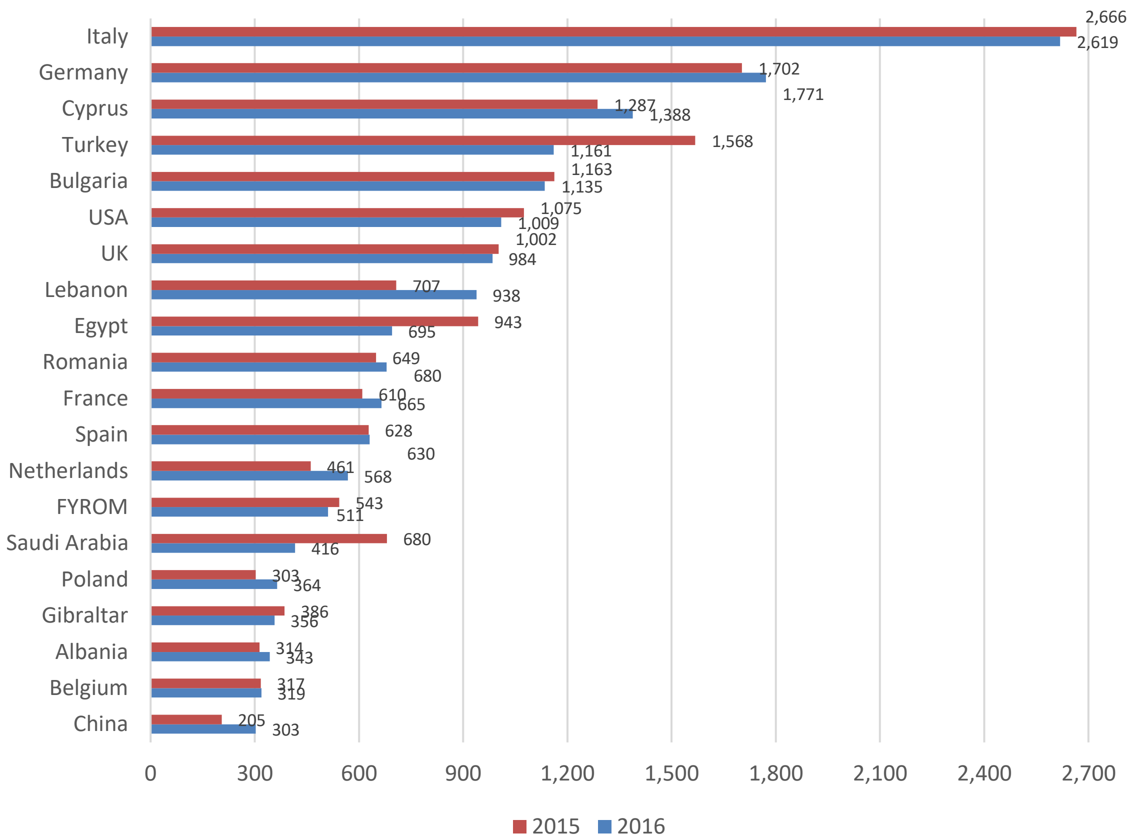
Exports by destination from January to November 2016 and 2015*

ECONOMIC UNION – GEOGRAPHIC REGION	EXPORTS		% CHANGE	% COMPOSITION	
	2016	2015	2016/2015	2016	2015
World	22,871.7	23,324.0	-1.9%	100.0%	100.0%
OECD	12,682.6	12,784.2	-0.8%	55.5%	54.8%
EU	12,886.9	12,458.7	3.4%	56.3%	53.4%
Euro Area	9,039.8	8,726.2	3.6%	39.5%	37.4%
G7	7,222.5	7,238.3	-0.2%	31.6%	31.0%
North America	1,293.0	1,360.4	-5.0%	5.7%	5.8%
BRICS	694.6	533.3	30.3%	3.0%	2.3%
Middle East & North Africa	3,325.3	3,444.3	-3.5%	14.5%	14.8%
Rest of Africa	1,349.6	1,450.5	-7.0%	5.9%	6.2%
Oceania	128.2	134.9	-5.0%	0.6%	0.6%
Latin America	257.3	196.6	30.9%	1.1%	0.8%
Rest of Asia	1,132.7	1,141.9	-0.8%	5.0%	4.9%
OPEC	1,239.1	1,398.0	-11.4%	5.4%	6.0%

* Provisional data for both years
Source: ELSTAT, KEEM

Figure 3.12

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



Source: KEEM. **Data processing: IOBE**

3.4 Employment-Unemployment

According to the latest data from the Labour Force Survey of ELSTAT, **unemployment in Greece declined to 22.6% in the third quarter of 2016, from 24% in the same quarter of 2015 (a reduction by 1.4 percentage points) and from 23.1% in the preceding quarter of 2016 (-0.5 percentage points).** Note that unemployment has declined now year on year for the tenth consecutive quarter. The number of employed increased by 1.8% year on year (by 65,600 people, from 3,671,100 to 3,736,700 people).

Despite its decline since the second quarter of 2014, unemployment in Greece has remained the highest in the Euro area since the third quarter of 2012. Next came Spain, where unemployment fell below 20% to reach 18.9% in the third quarter of the current year, from 21.2% a year before. Cyprus followed, with an unemployment rate of 13.1%, lower year on year by 1.6 percentage points (from 14.7%). Italy and Portugal came next, with a similar unemployment rate. In Italy, unemployment marginally increased to 10.9% in the third quarter of 2016, from 10.6%, for the first time after six quarters of steady decline. In contrast, unemployment in Portugal declined for the 13th quarter in a row to reach

10.7%, from 12.1% in the same quarter of 2015.

The lowest rates of unemployment were observed once more in Malta and Germany. In Germany, where unemployment has been falling since the second quarter of 2010, the jobless rate declined to 4,0% in the third quarter of 2016, from 4.4% in the same quarter of the previous year. In Malta, unemployment has been falling for the twelfth consecutive quarter, to reach 4.8%, from 5.3% in the same quarter of 2015.

Regarding the remaining major European economies, the unemployment in France declined year on year for a fourth quarter in a row, to reach 9.6%, from 10.1% in the third quarter of 2015. In the UK, unemployment has been falling since the third quarter of 2012, to reach 5% in the third quarter of 2016, from 5.5% a year earlier.

Regarding the gender differences of unemployment in Greece, the unemployment rate among women was higher than that of men by eight percentage points in the third quarter of 2016. In particular, the unemployment rate among women reached 27.2% (from 28.2% in the third quarter of 2015), while the corresponding rate among women declined to 18.9% (from 20.7%). The unemployment rate among men and women in Greece was higher by 9.7 and 17.2 percentage points than the average for the Euro area (9.2% and 10%) respectively.

Regarding the **age composition**, unemployment eased in all age groups, except for those aged 45 or more, while the largest rates were recorded among the young. The decline of unemployment was strongest in the category of 15-19 years old (9 percentage points), where it reached 49.3% in the third quarter of 2016, from 58.3% one year earlier. In the age group of 20-24 years old, unemployment declined by 4.3 percentage points, to 43.4% from 47.7% a year earlier. The unemployment decline was less pronounced in the age category of 25-29 years old (1.1 percentage points, to 33.2% from 34.3%) and 30-44 years old (1.9 percentage points, to 21.5%, from 23.4%). In the age category of 45-64 years old and among those aged 65 or more, the unemployment was slightly higher, by 0.1 and 2.2 percentage points respectively (to 18.5% and 13% respectively in the third quarter of 2016).

Long-term unemployment remained largely unchanged, totalling 73.8% of the unemployed in the third quarter of 2016, from 73.7% in the same quarter of 2015.

Concerning the **education level**, the unemployment rate decreased year on year in all education attainment levels, except for those with completed primary education. The largest fall of unemployment was recorded among those that never received any education, which declined from 46.9% in the third quarter of 2015, to 23.7% in the third quarter of 2016 (-23.2 percentage points), followed by those that received but did not finish primary education (by 8.6 percentage points, from 33.3% to 24.7%). The lowest unemployment rate was recorded among holders of postgraduate or doctoral degree and university graduates. The unemployment rate in the first category declined from 13.2% to 11.5% (decline by 1.7 percentage points), while in the secondary category unemployment fell by 1.9 percentage points (from 20% in the third quarter of 2015 to 18.1% a year later).

Regarding the **regional composition,** unemployment eased in ten of the country's thirteen regions, with the opposite taking place in Epirus, North and South Aegean. The highest unemployment rate was recorded in Western Macedonia, reaching 29.8%, from 31.5% in the third quarter of 2015 (-1.7 percentage points). Western Greece came next, as the unemployment rate in the region reached 29.2% in the third quarter of 2016, from 28.1% in the same period of 2015 (+1.1 percentage points). In Attica, unemployment was close to the country average at 22.8%, from 24.8% in the third quarter of 2015 (decline by 2 percentage points). The Ionian Islands was the region with the lowest unemployment rate in the third quarter of 2016, at 12.1%, essentially unchanged year on year (from 12.2%). Lastly, the largest percentage decline among the regions was recorded in Peloponnese, by 4.8 percentage points (to 22.4% from 17.6%).

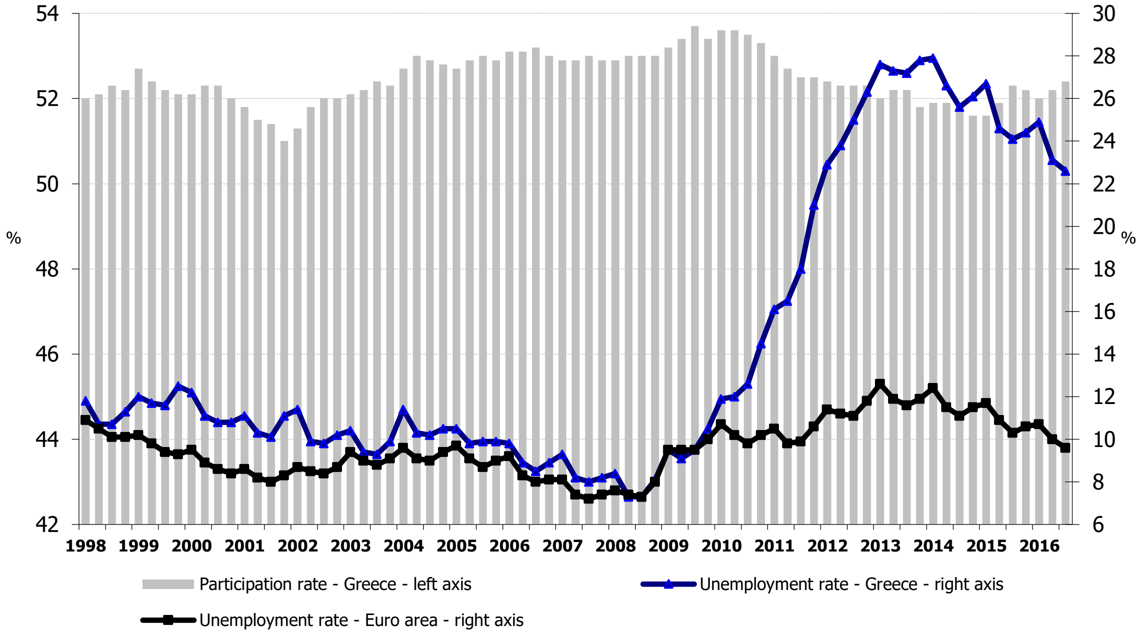
In terms of the **key economic sectors,** employment in the primary sector has been steadily falling for the seventh quarter in a row. In the third quarter of this year, employment in the sector declined by 1% and as a result, the number of employed totalled 456,600, from 461,300 in the same quarter of 2015. In the secondary and tertiary sectors, the number of employed strengthened for the seventh and eleventh consecutive quarter respectively. As a result, the number of employed reached 567,600 people (from 551,200, up by 3%) in the secondary sector and 2,712,400 people (from 2,658,600, up by 2%) in the tertiary sector.

Employment declined in eight **branches of economic activity** (Agriculture – Forestry – Fishing, Construction, Wholesale - Retail Trade, Real Estate Activities, Professional – Scientific – Technical Activities, Education, Other Service Activities and Activities of Households as Employers), yet in the remaining 12 branches employment expanded. The largest percentage growth in employment was recorded in Mining-Quarrying (+44.3%, from 9,700 to 14,000), followed by Transport and Storage (+15.5%, from 166,700 to 192,600). Employment in Financial – Insurance Activities increased by 5.2% (from 90,000 to 94,700 people), while employment in Public Administration and Defence expanded by 4% (from 318,700 to 331,400 people).

Lastly, in two major for the Greek Economy sectors – Accommodation-Food Service Activities and Manufacturing – employment in the third quarter increased by 4.4% (from 365,000 to 381,000 people) and 3% (from 345,300 to 355,800 people) respectively. In contrast, the largest employment contraction was recorded in Real Estate Activities, by 21% (from 6,200 to 4,900 people).

Figure 3.13

Labour force participation and unemployment rates



Source: ELSTAT – Labour Force Survey, Eurostat

Meanwhile, employment declined by 1.6% in Wholesale – Retail Trade (from 676,800 to 665,900 people), by 3.8% in Professional-Scientific-Technical Activities (from 210,400 to 202,300 people) and marginally in Construction (-0.3%, from 145,900 to 145,400 people), after two quarters of growth.

In summary, from the available data of employment at branch level, we can conclude that employment increased in the third quarter of the current year, mainly due to:

- increase in Transport and Storage (+25,900 people or +15.5%),
- growth in Tourism (+16,000 people or +4.4%), despite the decline of arrivals of non-residents in the first half of the year by 1.6% and the fall in receipts in the first nine months by 7.9% (-€1.0 billion),
- increase in Public Administration – Defence (+12,700 people or +4%), mainly due to the implementation of public-benefit employment programmes and the recruitment of successful candidates of Supreme Council for Civil Personnel Selection (ASEP) competitions from past years

and despite the decline in:

- Wholesale and Retail Trade (-10,900 people or -1.6%), in congruence with the decline in the seasonally adjusted turnover index in the first nine months of last year, both in Wholesale Trade (-1.8%) and Retail Trade (-2.9%),
- Professional, Scientific and Technical Activities (-8,100 people or -3.8%).

Table 3.10

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

Quarter/Year	Total	% of Population	Employed	Percentage (%) of the labour force	Unemployed	Percentage (%) of the labour force
2008	9.435,1	53,0	4.610,5	92,3	387,9	7,8
2009	9.431,1	53,4	4.556,0	90,4	484,7	9,6
2010	9.399,4	53,5	4.389,8	87,3	639,4	12,7
Q1 2011	9.374,4	53,0	4.165,5	83,9	799,6	16,1
Q2 2011	9.373,1	52,7	4.124,2	83,5	815,6	16,5
Q3 2011	9.372,2	52,5	4.040,8	82,1	883,5	17,9
Q4 2011	9.371,7	52,5	3.886,9	79,1	1.028,6	20,9
2011	**9.372,9**	**52,7**	**4.054,4**	**82,2**	**881,8**	**17,9**
Q1 2012	9.364,7	52,4	3.785,0	77,2	1.119,1	22,8
Q2 2012	9.351,2	52,3	3.729,9	76,2	1.163,0	23,8
Q3 2012	9.338,0	52,3	3.668,0	75,1	1.218,4	24,9
Q4 2012	9.325,3	52,3	3.597,0	73,8	1.279,9	26,2
2012	**9.344,8**	**52,3**	**3.695,0**	**75,6**	**1.195,1**	**24,4**
Q1 2013	9.316,5	52,0	3.504,2	72,4	1.336,0	27,6
Q2 2013	9.311,7	52,2	3.535,0	72,7	1.327,9	27,3
Q3 2013	9.307,1	52,2	3.533,7	72,8	1.320,3	27,2
Q4 2013	9.302,7	51,8	3.479,9	72,2	1.337,2	27,8
2013	**9.309,5**	**52,1**	**3.513,2**	**72,5**	**1.330,4**	**27,5**
Q1 2014	9.295,8	51,9	3.483,7	72,2	1.342,3	27,8
Q2 2014	9.286,6	51,9	3.539,1	73,4	1.280,1	26,6
Q3 2014	9.277,5	51,9	3.586,9	74,5	1.229,4	25,5
Q4 2014	9.268,5	51,6	3.535,3	73,9	1.245,9	26,1
2014	**9.282,1**	**51,8**	**3.536,3**	**73,5**	**1.274,4**	**26,5**
Q1 2015	9.259,1	51,6	3.504,4	73,4	1.272,5	26,6
Q2 2015	9.250,7	51,9	3.625,5	75,4	1.180,1	24,6
Q3 2015	9.242,3	52,3	3.671,1	76,0	1.160,5	24,0
Q4 2015	9.234,1	52,2	3.641,7	75,6	1.174,7	24,4
2015	**9.246,6**	**52,0**	**3.610,7**	**75,1**	**1.197,0**	**24,9**
Q1 2016	9.226,3	52,0	3.606,3	75,1	1.195,1	24,9
Q2 2016	9.217,2	52,2	3.702,6	76,9	1.112,1	23,1
Q3 2016	9.208,3	52,4	3.736,7	77,4	1.092,6	22,6

Source: ELSTAT, Labour Force Survey

Medium-term outlook

As already noted in previous bulletins, the key drivers of the unemployment decline in Greece in 2016 was the employment growth, first in Tourism, despite the decline of turnover in the sector in the first nine months, and second in the Public Sector, as a result of implementing public benefit employment programmes and the recruitment of successful ASEP candidates from past years. The Manufacturing and Construction sectors came next in terms of their contribution to employment growth.

Regarding the employment outlook in the last quarter, the latest available activity data of Tourism point to a change in the turnover trend during the third quarter of

2016, from contraction to growth (+2.6%). That said, as the tourist period approached its conclusion, the positive contribution of the sector to employment would have weakened. In Industry, the seasonally adjusted production indicator kept growing from the start of the year until last November. Particularly in October and November, it expanded by 2.3%. In Construction, the seasonally adjusted activity indicator increased strongly once more in the third quarter of 2016, by more than 76%. In addition, building activity kept growing at two-digit rates between August and October in terms of both volume and surface of new buildings. In the Public Sector, the positive effects from the public benefit employment programmes will carry over to the last quarter of 2016, with about 6,800 beneficiaries from three programmes. Still, as the number of beneficiaries is lower year on year, the employment growth will weaken or it might even turn to a decline.

Apart from the employment trends in sectors that have contributed to the fall in unemployment in the first nine months of the previous year, the changes in direct taxation and social security contributions of freelancers will cause an upheaval, with an impact on their employment in the last quarter of 2016. **Taking into account the above trends and their impact on employment, unemployment is expected to have increased slightly in the final quarter of 2016, to about 23.0%. In 2016 overall, unemployment is projected to have fallen to 23.4%, about 1.5 percentage points lower year on year.**

Regarding 2017, the expansion of employment in the private sector branches with the strongest contribution to the fall of unemployment in the current year will most likely lead to further decline in the following year. The growth in the exports of goods supports job creation in Manufacturing, while the stronger tourist flows, boosted by the turbulent political developments in Turkey, will keep employment growing in Tourism for one more year. A particularly strong employment boost is anticipated in the Construction sector in the second half of the coming year, from the execution of investment plans related to privatisation and concession deals concluded in 2016. The forthcoming changes in the regulatory framework of the labour market are also anticipated to be conducive to investment and job creation. The significant job creation from the OAED programmes will carry over to 2017, as according to the Draft State Budget for 2017, short-term employment opportunities are going to be created for 52,000 long-term unemployed for the protection of socially vulnerable groups, while 43,000 unemployed are going to be hired in public works.

In contrast, the changes in direct taxation and social security contributions of the freelancers from the beginning of 2017, at least initially, are going to impede job creation in the affected sectors. The increase in indirect taxes (e.g. excise duty of fuels, cigarettes and coffee), together with the reduction in the tax allowance for individuals and the cuts in supplementary pensions that have come into force since the autumn of 2016 are expected to compress disposable income, with corresponding effects on consumption demand, retail trade activity and employment in this sector. **Taking into account the effects that were presented above, unemployment will most probably continue to contract in 2017, for the fourth consecutive year. Its decline is going to be weaker than in the previous year, by about one percentage point (22.3%).**

According to the latest IOBE business surveys, **the expectations on the short-term prospects for employment improved quarter on quarter in the final quarter of the year in Retail Trade, and to a lesser degree in Industry, while in contrast they deteriorated in Construction and less so in Services.**

Year on year, the expectations improved in all sectors, except of Construction, where they deteriorated. Overall in 2016, the employment indicators improved in all sectors. However, they remained negative in all sectors, except for Retail Trade, where the indicator remained positive. In greater detail:

In Industry, the negative balance of employment expectations improved marginally quarter on quarter in the fourth quarter of 2016 to -6 points on average. Year on year, the average quarterly index increased by 8 points. Overall in 2016, the indicator reached -5 on average (from -12 in 2015).

In the examined quarter, the share of industrial enterprises foreseeing growth in employment in the coming period remained at 5-6%, while the percentage of those expecting a fall in the number of jobs declined slightly to 11% (from 13%). The vast majority of the sector undertakings (84% from 81%) were expecting employment to remain unchanged.

In Construction, the sentiment indicator fell by 10 points, to reach -52 points, lower year on year by 15 points. Overall in 2016, the index stood on average at -32 points (from -36 points in 2015). In the fourth quarter of 2016, 60% (from 48%) of the undertakings in the sector were anticipating job losses, while the percentage of respondents expecting a rise in employment remained at 7-8%.

In terms of individual sectors, the large decline of the index in Public Works (to -69 from -45 points on average) was partly offset by an increase in Private Construction (to -16 from -35).

In Services, the employment expectations marginally declined quarter on quarter, yet they improved year on year. Thus, the balance of -7 points in the previous quarter changed to -8 points in the fourth quarter, compared with -16 in the same quarter of 2015. Overall in 2016, the indicator stood on average at -8 points (from -15 in 2015).

Among the companies in the sector, 17% (from 19%) were expecting a decrease of employment in the coming period, with the proportion of those predicting an increase falling to 9% (from 11%).

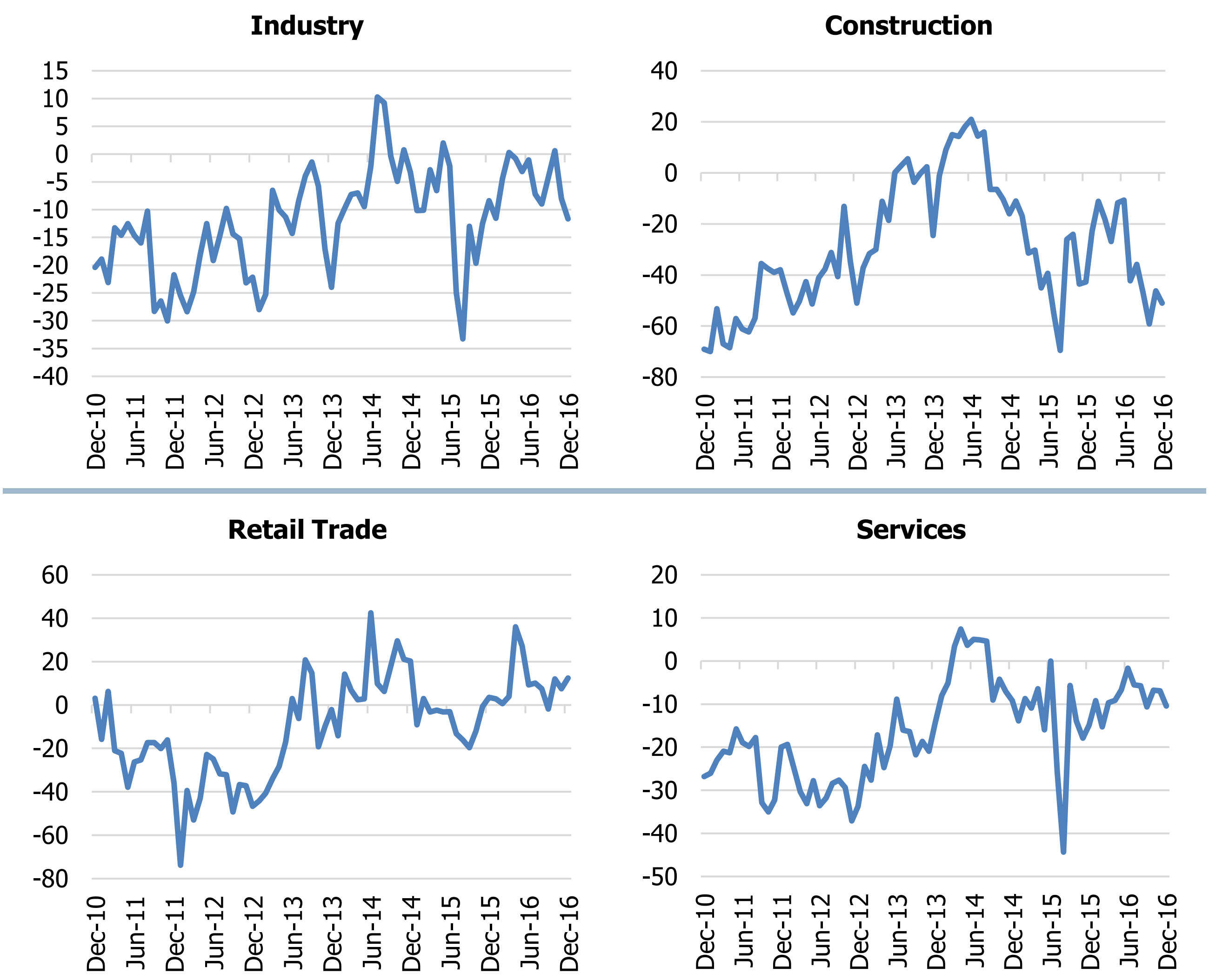
The expectations strengthened in all subsectors, except for Hotels, Restaurants, Travel Agencies, where they deteriorated, and in Miscellaneous Business Activities, where the indicator remained unchanged.

The employment expectations in Retail Trade strengthened quarter on quarter in the fourth quarter of the year to +11 points (from +5). This level is higher year on year as well (from -3 points). Overall in 2016, the indicator stood on average at +11 points (from -6 points in 2015). About 3% of the undertakings in the sector were once more expecting job cuts, while 13% (from 8%) were predicting employment growth, with 84% (from 89%) expecting job stability.

At the subsector level, the balance of employment expectations strengthened in Food-Beverages-Tobacco, Household Appliances and Department Stores, declining in the remaining subsectors.

Figure 3.14

Employment expectations (difference of positive – negative responses)



Source: IOBE

3.5 Consumer Prices

Recent Developments

A deflation, of about 0.8%, was recorded in the Greek economy in 2016, for the fourth consecutive year. The corresponding negative change of the Consumer Price Index (CPI) in 2015 had totalled 1.7%. The deflation rate was lower in 2016 than in 2013, which was the first year since the start of the post-war period that the Greek economy experienced deflation. In the final quarter of 2016, deflation eased abruptly, with prices remaining unchanged in December. This trend came from the significant growth in oil prices since October, following the decision taken at the International Energy Forum in Algeria at the end of September to cut the global oil production, together with the hike in the excise duty on heating oil during the same period.

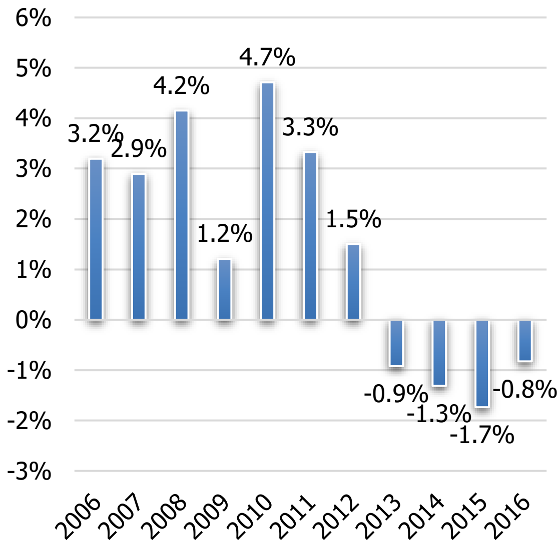
Regarding the changes at the branch level in 2016, prices increased in four of the 12 categories of goods and services included in the CPI. Price growth was observed in Health Services (+1.7%, against -0.7% in 2015), Alcoholic Beverages - Tobacco Products (+1.5%, compared to +2.0% in 2015) and Communications (+0.4%, against -0.0%).

Prices declined, albeit less than in 2015, in all other sectors, except for Food - Non-Alcoholic Beverages, where weak price deflation appeared in 2016 (-0.2%) in place of significant inflation in 2015 (+1.8%).

In particular, the prices declined once more in 2016 in Housing, by 4.5% (against -6.5% in 2015), in Transport (-2.7%, against -4.4%) and Recreation (-1.5% in both years). In addition, prices declined in Education, by 1.1% (against -2.4% in 2015), and in Durable Goods, with -0.9% rate, from -2.2% a year before. Lastly, prices declined by 2.8% in Clothing – Footwear (against -3.0% in 2015) and by 1.7% in Other Goods (against -3.4% in 2015).

Figure 3.15

Average annual CPI changes in Greece (2006-2016)



Source: ELSTAT, data processing IOBE

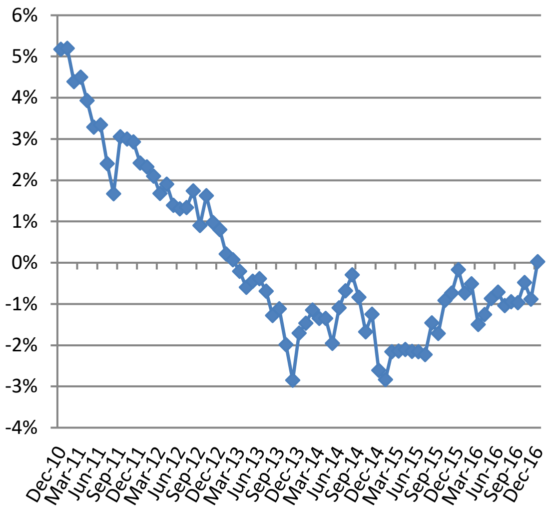
The Harmonized Index of Consumer Prices (HICP) remained unchanged in 2016 in Greece (0.0%), against a deflation of 1.1% in 2015. Compared with the other member states of the Euro area, Greece belongs to the group of countries with a small change of the HICP. The set of other countries in the same group includes Luxembourg, Latvia and the Netherlands (0.1%).

The group of countries with slightly positive price changes includes France (+0.3%), Germany (+0.4%), Finland (+0.4%), Portugal (+0.6%), Lithuania (+0.7%), Estonia

(+0.8%), Malta (+0.9%) and Austria (+1.0%). The highest HICP inflation was recorded in Belgium (1.8%).

Figure 3.16

CPI in Greece (annual percentage change)



Source: ELSTAT, data processing IOBE

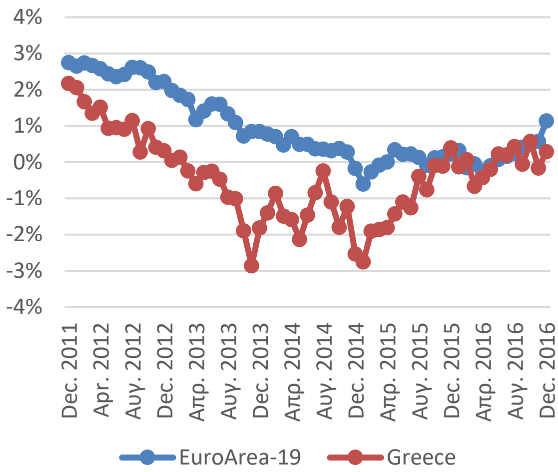
Slight price reduction was recorded in Spain (-0.3%), Slovakia (-0.5%), Slovenia (-0.2%), Italy (-0.1%) and Ireland (-0.2%). Once more, prices declined most in Cyprus (-1.6%).

According to the latest available data, the Producer Price Index of the domestic and foreign markets as a whole fell by 6.7% in the first eleven months of the current year, slightly less than in the same period of 2015. This reduction was the third strongest of the last decade for this particular period of the year.

In greater detail, the highest price decline among the constituent subsectors in the first eleven months of 2016 was recorded in Energy Goods except Electricity (-18%), Energy Goods (-14%) and Mining – Quarrying – Manufacturing (-6.2%). Smaller negative changes were recorded in a number of sub-sectors, including Intermediate Goods (capital and not), Durable Goods, Furniture and Computers.

Figure 3.17

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



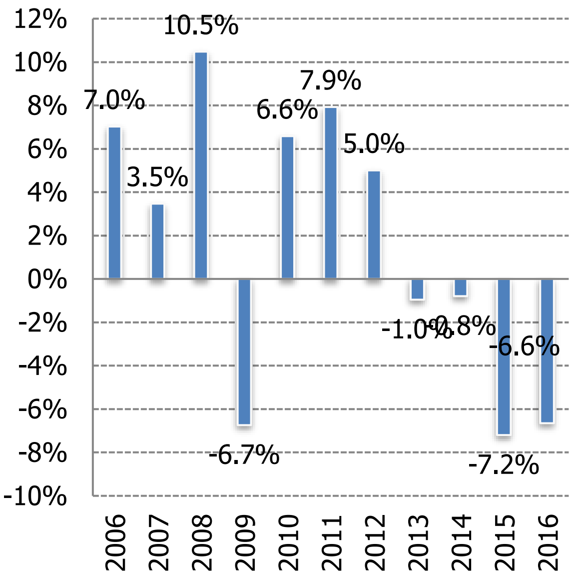
Source: Eurostat, data processing IOBE

In contrast, the largest price growth occurred in Coal - Lignite (+7.7%). Smaller positive changes were also recorded in Other Manufactured Goods, Metallic Ores, Textiles, Beverages, Motor Vehicles – Trailers and more generally in Services.

Based on the latest available data (November 2016), the Import Price Index declined by 3.75% since the start of the year. The index declined in all Euro area countries, with Greece approaching the average value for this region. In particular, larger decline than in Greece was recorded in Lithuania and Latvia (-6.7%), Slovakia (-5.6%), the Netherlands (-5.1%), France (-4.4%) and Italy (-3.9%). Next, with lower deflation rate than Greece, came Germany (-3.7%), Spain (-3.6%), Estonia (-2.8%), Denmark and Slovenia (-1.6%). Despite the price decline overall in the first eleven months of 2016, the trend in the import price index changed from negative to positive in September, mainly due to the strong growth in the import prices of Extraction of Crude Petroleum – Natural Gas and Coke – Refined Petroleum Products, as a result of the rise in the oil prices following the decision to curb the daily oil production, taken at the International Energy Forum in Algeria in September 2016.

Figure 3.18

Average change of CPI in Greece (January - November, 2006-2016)



Source: ELSTAT, data processing IOBE

Medium-term outlook

The fall of the oil price was the key deflation driver from the autumn of 2014 until last October. The aforementioned decision at the International Energy Forum to curb the daily oil production is the underlying cause for the end of this trend. The rise in the oil price, which eliminated the deflation already from the final quarter of 2016, is expected to be the key driver of the Consumer Price Index expansion in the current year. The new indirect levies and the hikes in the existing taxes that came into force from 1st January 2017 will continue to restrain the deflationary pressures in the Greek economy for the fifth consecutive year. The boost of consumption demand, mainly from employment growth and not from an expansion of per capita income, which will be limited by the growth in direct taxation and higher social security contributions, will also prevent a new price fall in the Greek economy. **The Consumer Price Index is thus expected to increase by 1.3% in 2017.**

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

Mixed trends prevailed in the quarter on quarter price change expectations in the final quarter of 2016, with most indicators still bearing negative signs, pointing to further continuation of the deflationary trend. In particular, the balance of price expectations increased marginally in the fourth quarter in Industry, fell significantly in Private Construction and, to a lesser extent, in Services, remaining unchanged in Retail Trade. Note that Retail Trade is the only sector with a positive balance of price expectations in the fourth quarter. Year on year, the price expectations followed a negative trend in Private Construction and to a lesser extent in Services, and a positive trend in Industry and Retail Trade. Overall in 2016, the balance of price expectations increased in all sectors, except for Private Construction, where it declined further. In greater detail:

In Industry, the price expectations in the fourth quarter of the current year declined marginally quarter on quarter, with the index moving to -2 points, 7 points higher year on year. Overall in 2016, the index totalled -5 (-7 in 2015). Among the companies in the sector, once more 9% on average were expecting a price reduction in the near future, with 83% (from 85%) expecting prices to remain stable and 8% (from 6%) expecting them to increase.

In Retail Trade, the price expectations index of +8 points in the preceding quarter remained unchanged in the final quarter (from +0 points in the corresponding period of last year). Overall in 2016, the index stood at +8 points on average (from +0 in 2015). In the final quarter, 5% of the sector companies (from 8%) were expecting prices to fall in the short term, while the share of companies expecting prices to rise declined to 13% (from 16%), with the remaining 82% (from 76%) expecting price stability.

Regarding the constituent subsectors of Retail Trade, the price expectations weakened quarter in quarter in Household Appliances and Motor Vehicles – Spare Parts, and strengthened in Food-Beverages-Tobacco and Textiles-Clothing-Footwear.

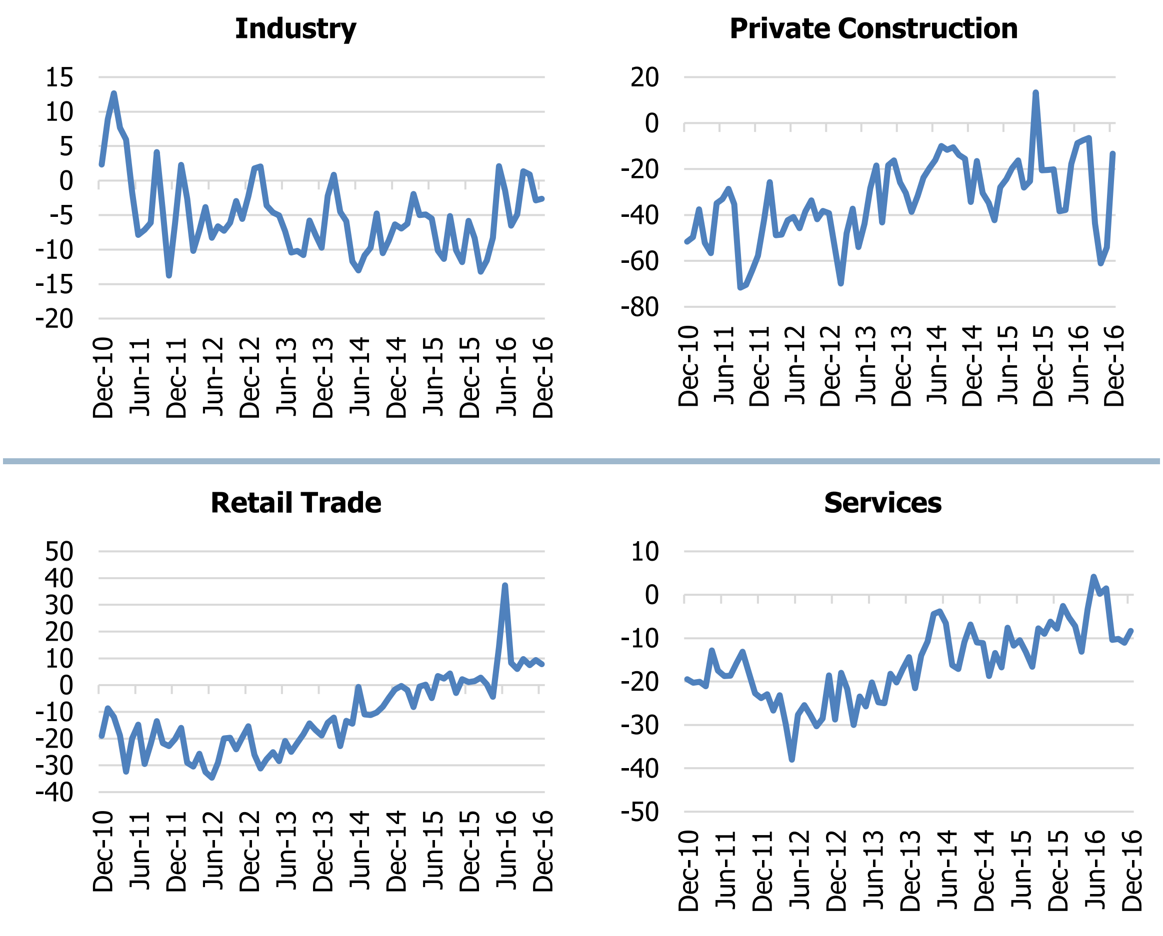
The average index of expected price changes in Services declined quarter on quarter in the examined quarter, to reach -10 (from -3) points, lower year and year as well (from -8 points). Overall in 2016, the index totalled -5 points on average (-12 in 2015). In the examined quarter, 14% of the firms (from 11%) were expecting a price decrease in the next quarter and 4% (from 8%) were predicting prices to increase.

The index decreased in all constituent subsectors, apart from Various Business Activities, where it remained unchanged.

Lastly, the negative balance of price expectations of the previous quarter in Private Construction strengthened substantially, to -43 (from -19) points, a level that is lower year on year as well (-11 on average). Overall in 2016, the indicator reached -27 on average (from -23 in 2015). About 43% of the businesses in the sector (from 23%) were expecting a decline in prices, while no respondents were expecting prices to rise (from 3% in the preceding quarter).

Figure 3.19

rice expectations (% difference between positive and negative answers)



Source: IOBE

3.6 Balance of Payments

Current Account

The **Current Account (CA)**[25] had a deficit of €171 million in the first eleven months of 2016, against a surplus of €990 million in 2015. The change of sign came mainly from a contraction in the surplus of the Services Account, as the Goods Account deficit declined. **As noted in previous bulletins, the 2015 surplus came as a result of the sharp drop of imports in July and August 2015, due to the imposition of capital controls.**

The deficit of the **Goods Account** declined to €15.1 billion, from €15.7 billion in 2015. Exports totalled €22.3 billion, lower by 2.0% (-€460 million),[26] with the decrease coming primarily from the contraction of the exports of fuel by €705 million. Imports declined to €37.3 billion (-€1.1 billion), with the drop once more coming from fuel, by about €2.0

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

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

billion. The deficit of the **Goods Account excluding fuel and ships** expanded by 7.9% in the first eleven months of 2016, to reach €12.5 billion, as the exports of goods increased slightly to €16.6 billion (+€273 million), while imports increased by €1.2 billion to €29.1 billion. The fuels account had a deficit of €2.4 billion, against a deficit of €3.8 billion in 2015. Fuel exports corresponded to 70% of the imports of fuel, from 60% in 2015 and 50% in 2012.

The surplus of the **Services Account** fell in the first eleven months of 2016 by 11.1%, to €14.8 billion, from €16.6 billion in 2015, as the decline of receipts was more than twice as high than that of payments in absolute terms. Total receipts amounted to €23.6 billion, lower by 11.5% (-€3.1 billion) year on year, while payments amounted to €8.9 billion, declining by 12.1% (-€1.2 billion). The receipts from Tourism reached €13.0 billion, lower by 6.6%, as they have been falling steadily since April (with the exception of October) while the revenues from Transport declined as well, by 23.9% (-€2.2 billion). Only the receipts from other services increased, by 2.3% (+€78 million). Travel payments remained unchanged, at €1.9 billion, while the payments for transport services declined by 19.9% to €4.0 billion. The payments for other services fell by 7.2% to €2.9 billion.

The surplus of the **Primary Income Account** reached €617 million in the first eleven months of 2016, from €679 million in 2015. Receipts decreased by 9.5% (-€640 million) to €6.1 billion. In greater detail, the receipts from employment fell by 14.7% to €122 million, the receipts from investments declined by 18.1% to €3.1 billion, while other primary income (subsidies and taxes on production) increased by 2.7% to €2.8 billion. Payments reached €5.5 billion, lower by 9.5%, with the payments for compensation of employees falling by 41.8% to €210 million. The payments for income from investment declined by 9.9% to €4.9 billion, while the payments for other primary income increased by 38.6% to €384 million.

The deficit of the **Secondary Income Account** declined to €496 million, from €560 million in 2015. Receipts once more totalled €1.6 billion, from €1.7 billion in 2015, while payments fell to €2.1 billion, from €2.3 billion in 2015.

Capital Account

The **Capital Account**[27] balance stood at €756 million, against €1.9 billion in 2015, with a significant decline in receipts to €973 million, from €2.2 billion in 2015, while payments decreased to €217 million, from €299 million in 2015.

Finally, the **Current and Capital Account**, indicative of an economy's position as a lender or a borrower with respect to the rest of the world, stood at a surplus of €586 million, against a surplus of €2.8 billion in 2015.

Financial Account

The deficit of the **Financial Account (FA)** reached €391 million in the first eleven months of 2016, against €3.8 billion in 2015.

27 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).

Regarding the FA components, the net receivables from **direct investments** abroad made by residents decreased by €758 million, while the liabilities to non-residents increased by €2.5 billion.

In **Portfolio Investment**, the claims of the residents to non-residents increased by €6.7 billion, as according to the Bank of Greece the holdings of residents in foreign bonds and treasury bills increased by €9.1 billion, while their holdings in shares declined by €2.5 billion. The liabilities to non-residents decreased by €2.3 billion, due to the decline of holdings of non-residents in Greek bonds and treasury bills.

In the category of **other investments**, the receivables of residents from non-residents declined by €13.8 billion, as the deposits and repos of Greek residents abroad declined by €8.4 billion. The liabilities also decreased, by €8.0 billion, due to a reduction of the deposits and repos of non-residents in Greece.

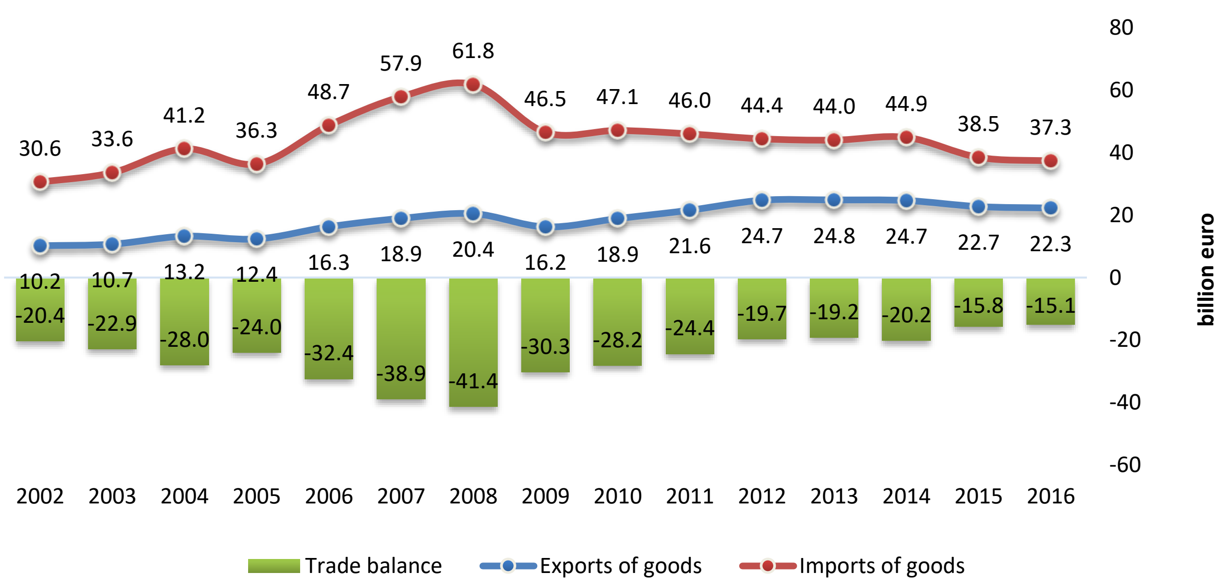
Lastly, the **Reserve Assets** of the country totalled €6.5 billion by the end of November 2016, from €5.2 billion in 2015, due to the significant growth of foreign exchange by €474 million, monetary gold by €428 million and reserve position in the IMF by €416 million.

Assessment

Since 1995, investment in Greece exceeded domestic savings. Consequently, inflow of capital from abroad contributed to the needed financial support. The gap expanded after 2002, as the investments for the Olympic preparations peaked during that time. The main volume of incoming capital came in the shape of portfolio investment. In particular, investment as percentage of GDP reached 24% on average, between 2001 and 2008, while savings stood at 14%. These indicators changed radically after 2008, with a sharp fall in both investment and savings.

Figure 3.20

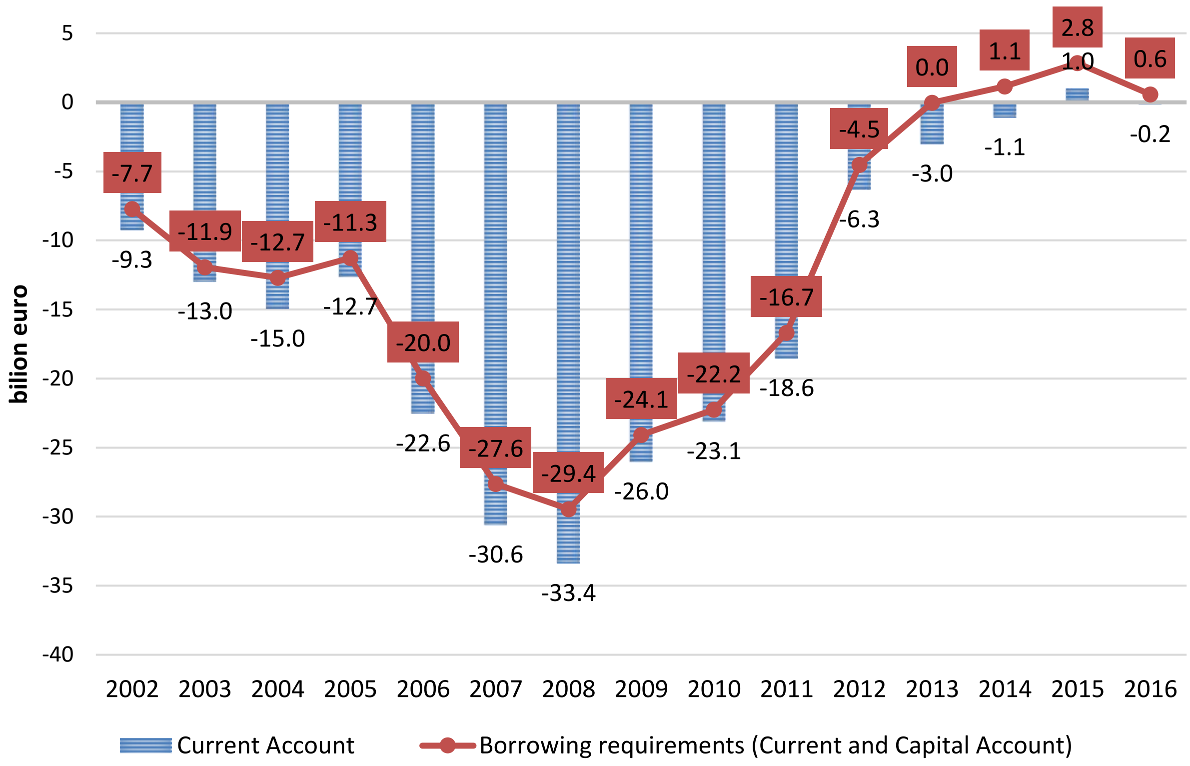
Imports-Exports (January-November, 2002-2016)



Source: Bank of Greece - Data processing IOBE

Figure 3.21

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



Source: Bank of Greece - Data processing IOBE

That said, the stronger contraction of investment gradually allowed it to be potentially financed from domestic savings after 2012. Investment corresponded to 11.5% of GDP in 2015, while savings stood at 9.9%.

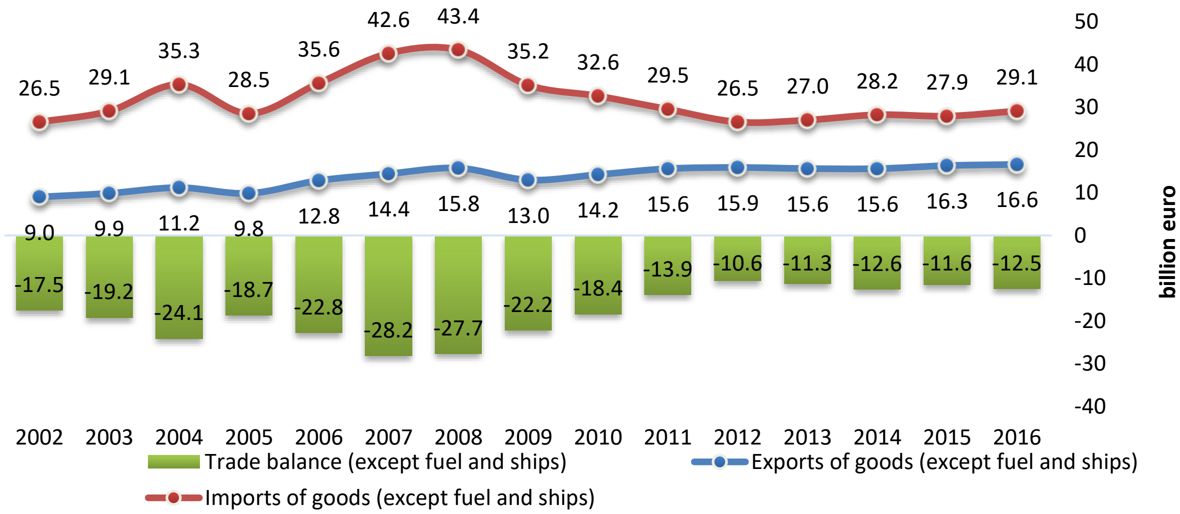
The further analysis of direct investment shows that after 2008, the inflow of capital in the form of direct investment came mostly from Financial and Insurance Activities, Information and Communication, Trade and Food-Beverages-Tobacco. The above sectors represented 85% of the growth in direct investment between 2001 and 2008.

The need to shift to a new production model that is export-oriented and less dependent on internal demand requires an investment boost, at least to the pre-crisis levels. This implies that from 11.5% of GDP, investment should grow to 24% of GDP, i.e. €24 billion more than in 2015. The question is which sectors could provide the desired boost of investment in the coming years, given that the domestic savings will remain sluggish, due to the fall of income. Attracting foreign direct investment becomes crucially important for achieving a sustainable economic growth rate. The Bank of Greece data on the trends in direct investment during the crisis could provide an indication of this, based on the sectors with an increase of direct investment despite the adverse economic environment. The sectors with growth in direct investment between 2010 and 2015, in a descending order, are Trade (+€1.5 billion), Electricity – Gas – Water Supply (+€185 million), Transport–Storage (+€174 million), Administrative - Support Service Activities and Arts–Entertainment–Recreation (+€120 million). Lastly, investment increased by €30 million in Real

Estate Activities. Thus, the above sectors, together with the sectors where foreign investors are taking part in ongoing or forthcoming privatisation procedures, could attract the needed capital for the strengthening of the production base of the Greek economy and its return to growth in the coming years.

Figure 3.22

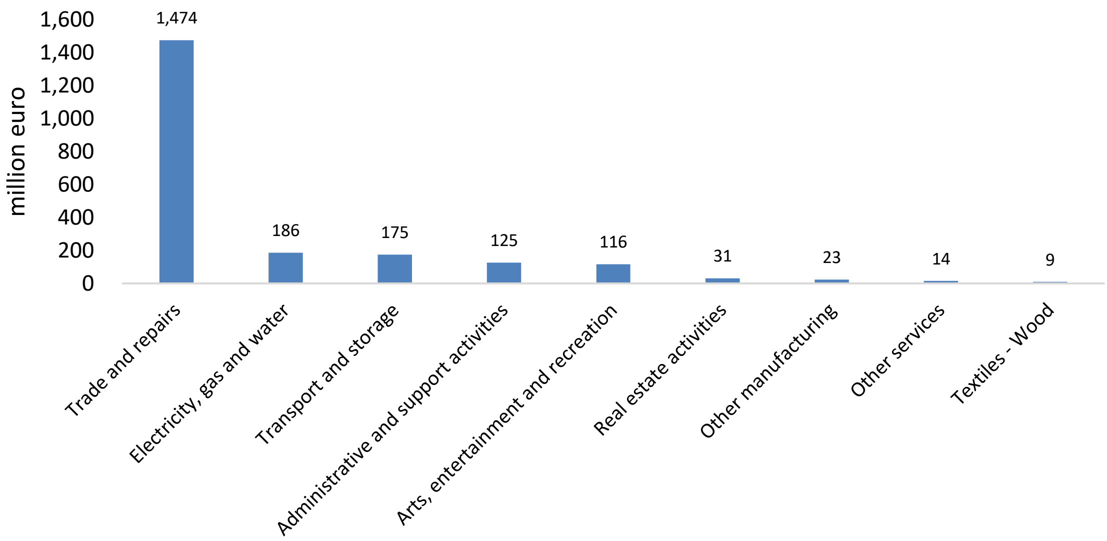
Imports – Exports without fuels and ships (January-November, 2002-2016)



Source: Bank of Greece - Data processing IOBE

Figure 3.23

Change in direct investment 2010-2015



Source: Bank of Greece - Data processing: IOBE

Table 3.11 Balance of Payments (€ million)

		January – November			November		
		2014	**2015**	**2016**	**2014**	**2015**	**2016**
I	**CURRENT ACCOUNT (I.A + I.B + I.C + I.D)**	**-1,118.8**	**989.6**	**-170.5**	**-1,426.7**	**-1,169.7**	**-1,190.9**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**-2,467.7**	**870.9**	**-292.1**	**-1,136.8**	**-1,195.8**	**-1,179.0**
I.A	**GOODS ACCOUNT (I.A.1 - I.A.2)**	**-20,219.4**	**-15,749.9**	**-15,065.7**	**-1,704.4**	**-1,596.4**	**-1,640.7**
	Oil balance	-5,616.0	-3,753.6	-2,434.0	-386.9	-302.4	-460.1
	Trade balance excluding oil	-14,603.4	-11,996.3	-12,631.6	-1,317.5	-1,294.0	-1,180.6
	Ships balance	-1,991.1	-425.2	-143.7	-30.4	-36.8	-29.0
	Trade balance excluding ships	-18,228.3	-15,324.6	-14,922.0	-1,674.0	-1,559.6	-1,611.7
	Trade balance excluding oil and ships	-12,612.3	-11,571.0	-12,487.9	-1,287.1	-1,257.2	-1,151.6
I.A.1	**Exports**	**24,655.9**	**22,720.7**	**22,261.3**	**2,282.0**	**2,024.7**	**2,130.7**
	Oil	8,462.3	6,204.4	5,499.2	746.4	614.9	517.6
	Ships (sales)	572.2	171.1	143.7	68.5	8.7	7.2
	Goods excluding oil and ships	15,621.3	16,345.1	16,618.4	1,467.2	1,401.1	1,605.9
I.A.2	**Imports**	**44,875.3**	**38,470.5**	**37,327.0**	**3,986.5**	**3,621.1**	**3,771.4**
	Oil	14,078.3	9,958.1	7,933.3	1,133.3	917.3	977.7
	Ships (buying)	2,563.4	596.3	287.3	98.9	45.5	36.2
	Goods excluding oil and ships	28,233.6	27,916.2	29,106.4	2,754.3	2,658.3	2,757.4
I.B	**SERVICES ACCOUNT (I.B.1-I.B.2)**	**17,751.8**	**16,620.8**	**14,773.5**	**567.6**	**400.6**	**461.7**
I.B.1	**Receipts**	**29,318.0**	**26,675.7**	**23,613.1**	**1,575.6**	**1,128.1**	**1,328.9**
	Travel	13,210.4	13,941.4	13,026.9	207.6	254.5	219.4
	Transportation	11,951.2	9,313.1	7,087.1	1,038.9	613.6	710.6
	Other services	4,156.4	3,421.2	3,499.1	329.1	260.0	399.0
I.B.2	**Payments**	**11,566.2**	**10,055.0**	**8,839.6**	**1,007.9**	**727.5**	**867.3**
	Travel	1,876.1	1,857.8	1,871.3	166.8	153.7	167.6
	Transportation	5,670.5	5,050.9	4,046.9	513.1	370.3	403.2
	Other services	4,019.7	3,146.3	2,921.4	328.0	203.4	296.5
I.C	**PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)**	**1,374.1**	**679.2**	**617.5**	**-205.4**	**51.3**	**76.9**
I.C.1	**Receipts**	**7,768.2**	**6,724.6**	**6,085.1**	**434.4**	**461.9**	**484.9**
	From work (wages, compensation)	188.8	143.2	122.4	14.7	9.8	11.3
	From investments (interest, dividends, profit)	4,445.0	3,840.9	3,147.1	375.2	331.4	276.3
	Other primary income	3,134.4	2,740.5	2,815.6	44.6	120.8	197.2
I.C.2	**Payments**	**6,394.1**	**6,045.4**	**5,467.6**	**639.8**	**410.6**	**408.0**
	From work (wages, compensation)	433.8	361.2	210.2	43.0	12.8	20.0
	From investments (interest, dividends, profit)	5,668.1	5,407.1	4,873.9	573.2	381.5	355.3
	Other primary income	292.2	277.1	383.5	23.5	16.3	32.7
I.D	**SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)**	**-25.3**	**-560.5**	**-495.8**	**-84.5**	**-25.3**	**-88.7**
I.D.1	**Receipts**	**2,379.1**	**1,705.6**	**1,648.7**	**111.0**	**110.6**	**144.3**
	General government	1,347.8	913.5	938.5	14.9	40.3	65.7
	Other sectors	1,031.3	792.1	710.1	96.2	70.4	78.6
I.D.2	**Payments**	**2,404.4**	**2,266.1**	**2,144.5**	**195.6**	**135.9**	**233.0**
	General government	1,655.7	1,570.2	1,618.6	133.4	92.4	185.2
	Other sectors	748.6	695.9	525.9	62.1	43.4	47.9
II	**CAPITAL ACCOUNT (II.1-II.2)**	**2,265.3**	**1,851.9**	**756.2**	**485.7**	**190.2**	**116.8**
II.1	**Receipts**	**2,546.1**	**2,151.4**	**972.8**	**496.7**	**199.5**	**138.0**
	General government	2,476.7	2,105.1	916.0	487.7	196.6	133.9
	Other sectors	69.4	46.2	56.8	9.0	2.9	4.1
II.2	**Payments**	**280.8**	**299.4**	**216.6**	**11.0**	**9.3**	**21.2**
	General government	8.4	4.0	28.4	0.4	0.1	0.2
	Other sectors	272.5	295.4	188.2	10.6	9.2	21.0
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	***1,146.5***	***2,841.5***	***585.7***	***-941.0***	***-979.5***	***-1,074.1***
III	**FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)**	**3,561.8**	**3,757.8**	**391.2**	**-792.3**	**-398.8**	**-649.9**
III.A	**DIRECT INVESTMENT***	**233.8**	**1,014.9**	**-3,226.3**	**25.1**	**100.9**	**-24.6**
	Assets	2,010.5	1,785.6	-757.5	189.9	168.6	131.2
	Liabilities	1,776.7	770.7	2,468.8	164.8	67.8	155.7
III.B	**PORTFOLIO INVESTMENT****	**6,017.6**	**3,959.2**	**8,964.7**	**2,542.6**	**-7,214.8**	**665.4**
	Assets	8,237.0	1,568.9	6,682.7	1,444.9	459.6	580.6
	Liabilities	2,219.4	-2,390.4	-2,282.1	-1,097.7	7,674.5	-84.8
III.C	**OTHER INVESTMENT***	**-3,126.7**	**-1,170.7**	**-5,868.7**	**-3,377.0**	**6,713.2**	**-1,212.7**
	Assets	-8,744.4	19,059.7	-13,770.2	-338.2	-620.1	-1,121.2
	Liabilities	-5,617.7	20,230.5	-7,901.4	3,038.9	-7,333.3	91.5
	(Loans of general government)	4,842.0	6,763.0	6,520.1	-707.9	1,995.6	13.4
III.D	**CHANGE IN RESERVE ASSETS*****	**437.0**	**-45.6**	**521.5**	**17.0**	**2.0**	**-78.0**
IV	**BALANCE ITEMS (I +II +IV +V = 0)**	**2,415.3**	**916.3**	**-194.6**	**148.7**	**580.8**	**424.2**
	RESERVE ASSETS (STOCK)***				**4,941**	**5,245**	**6,531**

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

4. The economic impact from the new hikes in the taxation of fuels and tobacco products

A significant part of the increase in tax revenues in 2017 is anticipated to come from the increase in the taxation of fuels and tobacco products (Law No. 4389/2016). Recent special studies of IOBE[28] examined the economic impact from the increase in the excise duties on particular product categories and the extent to which the targets for additional revenue could be met.

The demand for fuels and tobacco products is inelastic with respect to changes in their prices, as found in a number of relevant international studies, which limits the economic efficiency losses from higher excise duties. However, the possibility of illicit trade to expand, as it becomes more profitable with the increase in excise duties, creates doubts about the ultimate impact on fiscal revenues from the increase in the excise duties of fuels and tobacco products.

Fuels

The economic crisis has affected substantially the domestic market for petroleum products. Both the sales and the employment in the fuel trade sector have decreased in the past few years, while the sector's financial results were on the whole negative, as most sector companies recorded losses. These development came mostly as a result of the contraction of domestic demand and the fluctuations in the global fuel prices. The prices were also affected by the sharp increases in taxation since 2010. Fuel taxes reached one of the highest levels in the EU (Figure 4.1), representing a significant share of the total tax revenues (11.8% in 2015).

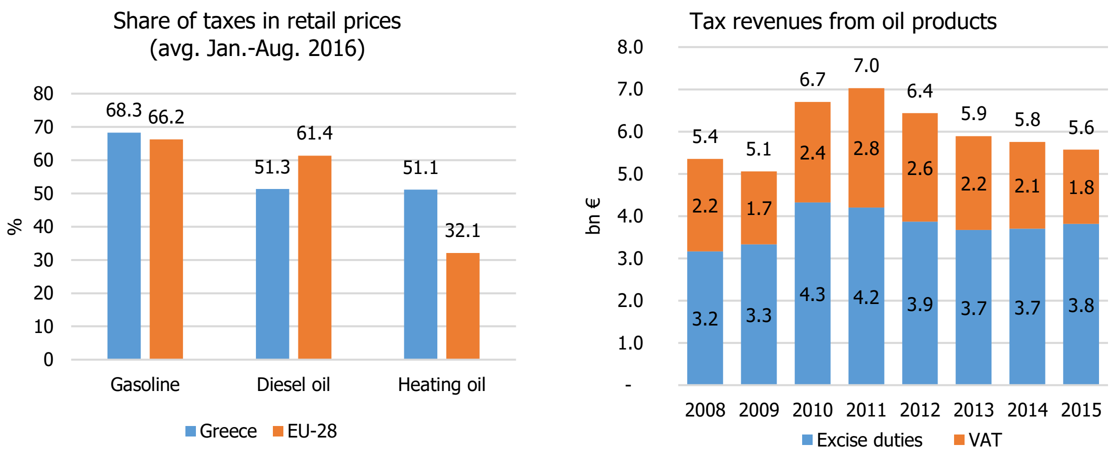
Despite the decline in its activity, the fuel trade sector contributes substantially to the Greek economy in terms of employment, value added and tax revenues. Given the sector's linkages with other sectors of the economy, we estimated that about €1.8 billion of value added and 42,400 jobs are directly or indirectly related to the fuel trade sector in Greece (Figure 4.2).

The increase in excise duties on gasoline and motor diesel from January 2017 and heating oil from October 2016 is anticipated to have a negative impact on the industry and the economy. The average prices of gasoline, diesel and heating oil are expected to increase by about 2.6%, 9% and 7.8% respectively, compared to the case of no tax increases. We estimated that these price increases will lower demand for fuel by 1.1% (gasoline) to 4.1% (heating oil).

[28] See "The economic impact of the increase in excise duties on fuels in Greece", October 2016 and "The impact from the planned increase in the excise duty on tobacco products", November 2016. The two studies are available in Greek at the IOBE website (www.iobe.gr).

Figure 4.1

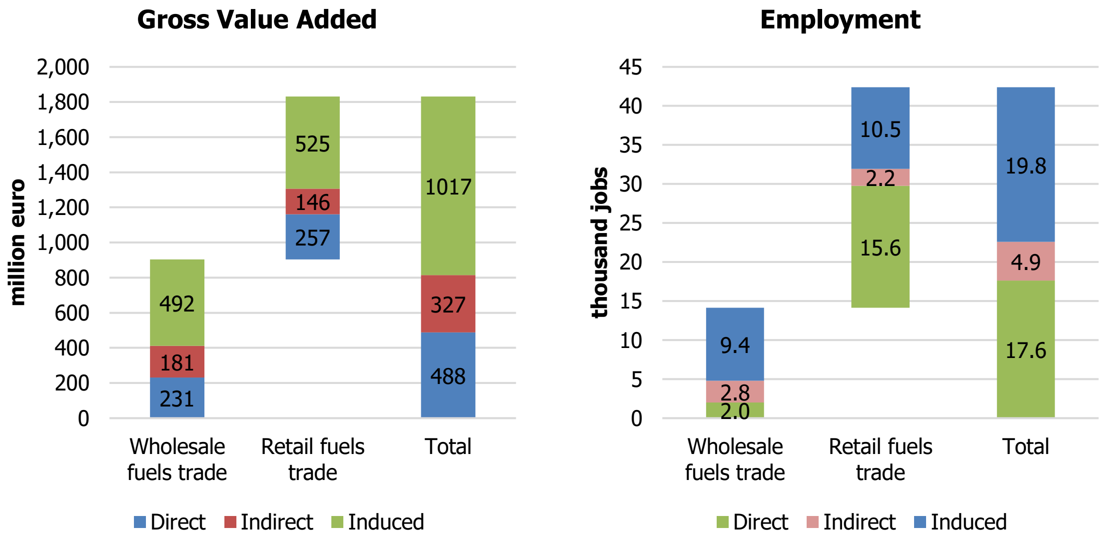
Share of tax in final prices of fuels and in revenues from taxes on petroleum products



Sources: Ministry of Finance and IOBE analysis.

Figure 4.2

Contribution of the petroleum trade sector to the Greek economy



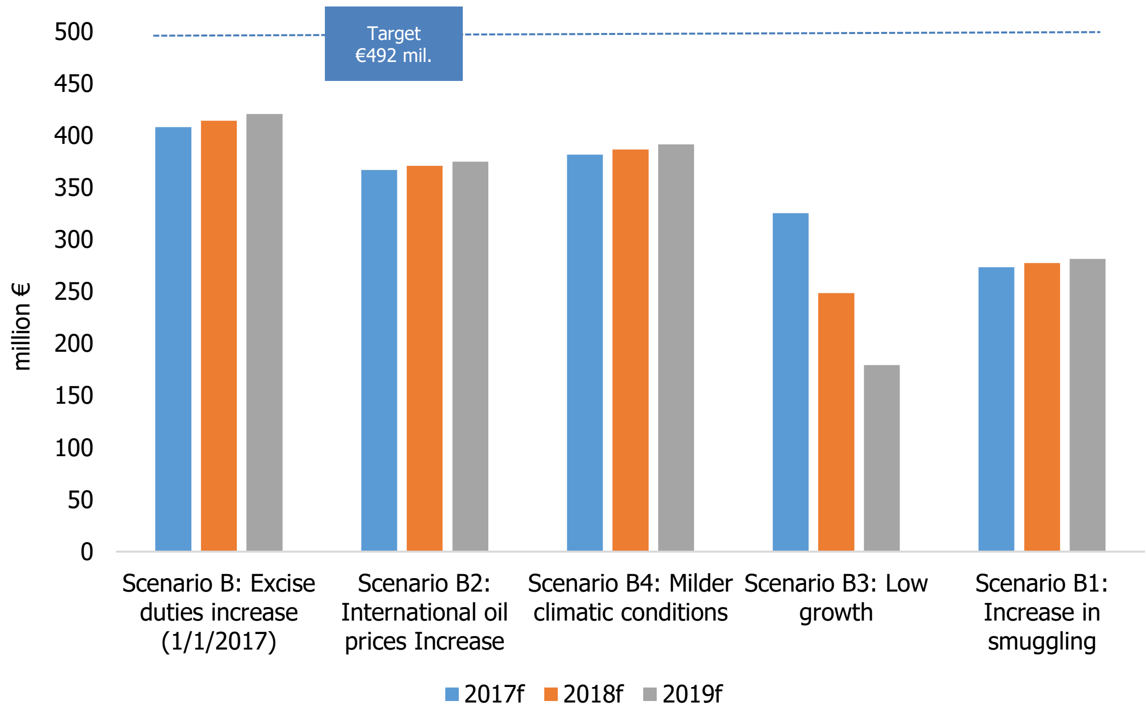
Source: IOBE analysis.

The revenue target of €492 million is unlikely to be achieved. Instead, we expect a shortfall in revenues of €84 million. The shortfall widens significantly in case of a hike in illicit trading or lower than expected economic growth (Figure 4.3).

The increase in excise duties will also have a negative impact on the Greek economy. The value added of the economy is estimated to decrease by €530 million per year (0.3% of GDP), while employment is expected to decline by 10,700 jobs. If we also take into account the impact of higher excise duties on economic activity, the revenue shortfall expands further.

Figure 4.3

Estimates of the change in tax revenues (difference from the non-tax change scenario)



In addition, according to the study and under the current economic conditions, the industry and the economy are very vulnerable to an increase in international oil prices (e.g. from a reversal to their long-term mean value).

Therefore, emphasis should be given to combatting illicit trade in all its forms (e.g. smuggling, adulteration of fuels, etc.), to measures to support the financial liquidity of the sector (e.g. by extending the credit period to the companies for the payment of the excise duties) and to measures to smooth price fluctuations, such as reducing the excise duties when international prices soar (in a predetermined and transparent way), in order to contain the adverse impact of fuel prices on the economy and the fuel trade sector.

Tobacco products

The increase in the excise duty on tobacco products is also anticipated to have a negative impact on tax revenues and the overall economic activity.

In particular, Law 4389/2016 provides for an increase of the ad valorem excise duty rate on cigarettes from 20% to 26% and the specific excise duty rate on fine cut tobacco from €156.7 to €170 per tax unit, effective from January 2017. With this increase, additional tax revenues of €121.8 million are expected annually.

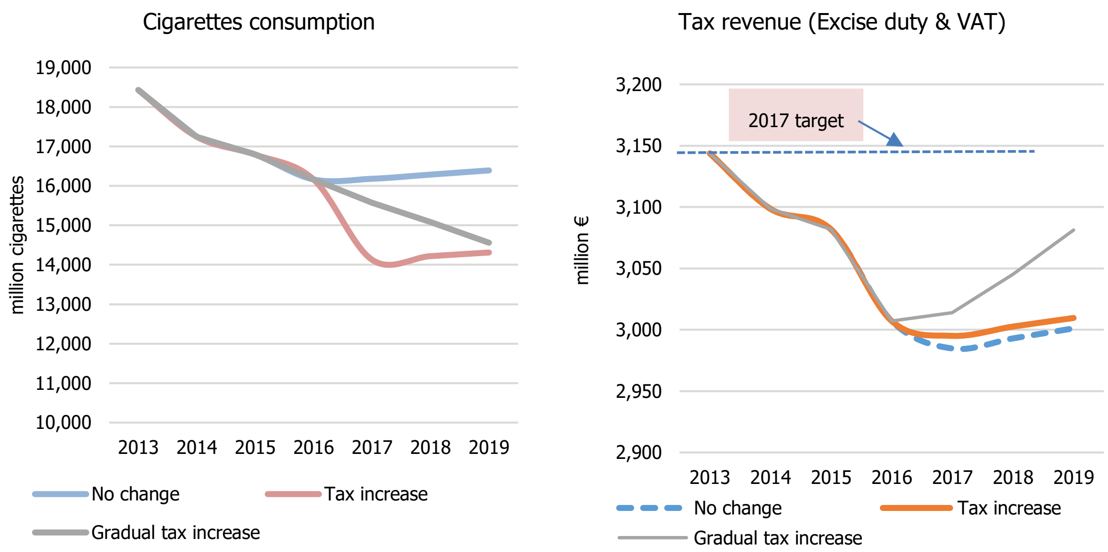
The tax increase on tobacco products will lead to a significant price increase (by 40-50 cents per 20 cigarettes and 50 cents per 30 grams of fine-cut tobacco) and a large decline in the use of legal tobacco products, ultimately failing to achieve the intended effect on tax revenues. The fall in tax revenues due to the decrease in the demand for legal tobacco products is expected to offset the increase in tax revenues from the higher tax per unit. This result is mainly due to the impact on cigarettes, where tax revenues are actually expected to decline as a result of the increase in tax rates.

The shortfall against the budget's revenue target in 2017 for taxes on tobacco products (€3.1 billion) is expected to exceed €100 million. This estimate does not take into account any tax revenue reductions during the year of tax hike adoption from the hoarding of tobacco products and any impact from the increase in the minimum quantity of fine-cut tobacco per pouch size to 30 grams in 2017 (Figure 4.4).

The increase in excise duties is also expected to boost the illicit trade of tobacco products, provided that more effective mitigation measures are not implemented (Figure 4.5). The penetration of illegal cigarettes is estimated to increase by more than 5 percentage points (to 30% of total cigarette consumption), compared to the case of no change in the taxation of tobacco products.

Figure 4.4

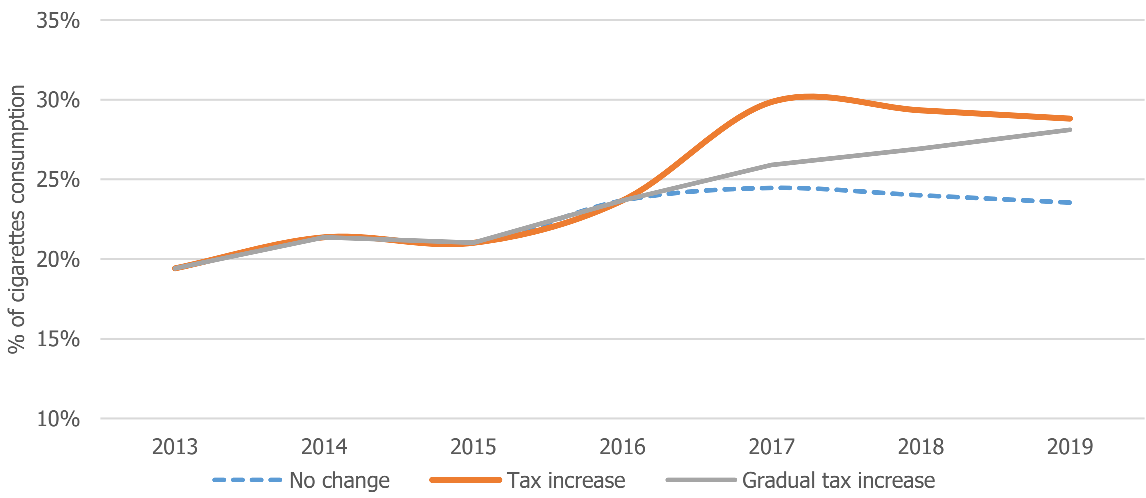
Cigarette consumption scenarios and tax revenues from tobacco products



Source: IOBE.

Figure 4.5

Illicitly traded cigarettes per scenario



Source: IOBE.

The wider impact on the Greek economy from the increased taxation of tobacco products is also expected to be substantial. Compared with the scenario of no change in excise duties, the gross value added of the economy is expected to fall by €66 million annually, employment to contract by 1,700 full-time equivalent jobs and the tax revenues (other than from tobacco taxes) and social security contributions to decline by €19 million.

Therefore, if the loss of taxes and contributions from the reduction in economic activity and the rising unemployment is also taken into account, the tobacco tax hike is expected to have a negative fiscal impact.

Given the negative impact on public revenues and economic activity, an alternative tax scenario is examined, based on the premise that planned and reasonable increases in the excise duty rates have a milder impact on the tobacco market equilibrium and tax revenues, as the consumers adapt better to small price increases.

The results of the alternative scenario show that a gradual increase in the excise duty rates on tobacco products is expected to have a better impact on tax revenues (although the budget target is still not achieved) and milder adverse effects on economic activity and employment.

Indicatively, the gradual increase in the excise duty rates over the next three years brings in cumulatively €133 million additional revenue and limits the losses in gross value added by €7-45 million per year and in employment by nearly 700-1,300 jobs.

The study also assesses the contribution of the tobacco industry (production and distribution of tobacco products) to the Greek economy. Taking into account the linkages of this sector with other sectors of the economy, the study estimates that a total of approximately €1.2

billion of gross value added and 28,500 jobs (in full-time equivalent terms) are directly or indirectly related to the production and trade of cigarettes and other tobacco products (Figure 4.6).

Figure 4.6

Contribution of the manufacturing and trade of tobacco products to the Greek economy

Source: Ανάλυση ΙΟΒΕ.

In particular:

- For every euro of final consumption of tobacco products, €1.6 of gross value added are generated in the economy overall.
- Each job in the tobacco industry is associated with 10 jobs (in full-time equivalent terms) in the Greek economy, while each job in the distribution of tobacco products is associated with 2 jobs in the wider economy. Overall, each job in the production and distribution of tobacco products is associated with 4 full-time equivalent jobs in the Greek economy.

In conclusion, the targets for additional revenues in the 2017 budget are particularly ambitious and difficult to achieve for both products categories that were examined here. The impact on revenues becomes more adverse when we take into account the further effects from the reduction of economic activity that comes from the tax increase. One of the key factors that contributes to this result is the possibility of illegal trade, which seems to be very widespread in these particular product categories. This makes the ability to raise additional revenues by increasing the tax coefficients remarkably precarious.

5. APPENDIX: KEY ECONOMIC INDICATORS

Table 1: GDP growth

	Annual data (%)									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	3.4	3.6	1.5	-3.8	1.9	2.8	0.7	0.1	0.6	1
Belgium	2.5	3.4	0.7	-2.3	2.7	1.8	0.1	-0.1	1.7	1.5
Bulgaria	6.9	7.3	6	-3.6	1.3	1.9	0	0.9	1.3	3.6
France	2.4	2.4	0.2	-2.9	2	2.1	0.2	0.6	0.6	1.3
Germany	3.7	3.3	1.1	-5.6	4.1	3.7	0.5	0.5	1.6	1.7
Denmark	3.9	0.9	-0.5	-4.9	1.9	1.3	0.2	0.9	1.7	1.6
Czech Republic	6.9	5.5	2.7	-4.8	2.3	2	-0.8	-0.5	2.7	4.5
EU	3.3	3.1	0.4	-4.4	2.1	1.7	-0.5	0.2	1.6	2.2
Greece	5.7	3.3	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.4	-0.2
Estonia	10.3	7.7	-5.4	-14.7	2.3	7.6	4.3	1.4	2.8	1.4
Euro area	3.2	3	0.4	-4.5	2.1	1.5	-0.9	-0.3	1.2	2
United Kingdom	2.5	2.6	-0.6	-4.3	1.9	1.5	1.3	1.9	3.1	2.2
Ireland	5.9	3.8	-4.4	-4.6	2	0	-1.1	1.1	8.5	26.3
Spain	4.2	3.8	1.1	-3.6	0	-1	-2.9	-1.7	1.4	3.2
Italy	2	1.5	-1.1	-5.5	1.7	0.6	-2.8	-1.7	0.1	0.7
Croatia	4.8	5.2	2.1	-7.4	-1.7	-0.3	-2.2	-1.1	-0.5	1.6
Cyprus	4.5	4.8	3.9	-1.8	1.3	0.3	-3.2	-6	-1.5	1.7
Latvia	11.9	9.9	-3.6	-14.3	-3.8	6.2	4	2.9	2.1	2.7
Lithuania	7.4	11.1	2.6	-14.8	1.6	6	3.8	3.5	3.5	1.8
Luxemburg	5.1	8.4	-0.8	-5.4	5.8	2	0	4.2	4.7	3.5
Malta	1.8	4	3.3	-2.5	3.5	1.4	2.7	4.6	8.4	7.4
Netherlands	3.5	3.7	1.7	-3.8	1.4	1.7	-1.1	-0.2	1.4	2
Hungary	3.9	0.4	0.9	-6.6	0.7	1.7	-1.6	2.1	4	3.1
Poland	6.2	7	4.2	2.8	3.6	5	1.6	1.4	3.3	3.9
Portugal	1.6	2.5	0.2	-3	1.9	-1.8	-4	-1.1	0.9	1.6
Romania	8.1	6.9	8.5	-7.1	-0.8	1.1	0.6	3.5	3.1	3.9
Slovakia	8.5	10.8	5.6	-5.4	5	2.8	1.7	1.5	2.6	3.8
Slovenia	5.7	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3.1	2.3
Sweden	4.7	3.4	-0.6	-5.2	6	2.7	-0.3	1.2	2.6	4.1
Finland	4.1	5.2	0.7	-8.3	3	2.6	-1.4	-0.8	-0.7	0.2

Table 2: General Government Debt as %GDP

	Annual data (%)								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	65.1	68.8	80.1	82.8	82.6	82	81.3	84.4	85.5
Belgium	87	92.5	99.5	99.7	102.3	104.1	105.4	106.5	105.8
Bulgaria	16.3	13	13.7	15.3	15.2	16.7	17	27	26
France	64.3	68	78.9	81.6	85.2	89.5	92.3	95.3	96.2
Germany	63.7	65.1	72.6	81	78.7	79.9	77.5	74.9	71.2
Denmark	27.3	33.4	40.4	42.9	46.4	45.2	44.7	44.8	40.4
Czech Republic	27.8	28.7	34.1	38.2	39.8	44.5	44.9	42.2	40.3
EU	65	68.6	78.4	83.8	86.1	89.5	91.3	92	90.4
Greece	103.1	109.4	126.7	146.2	172.1	159.6	177.4	179.7	177.4
Estonia	3.7	4.5	7	6.6	6.1	9.7	10.2	10.7	10.1
Euro area	57.5	60.7	72.8	78.4	81.1	83.8	85.7	86.7	85
United Kingdom	42	50.2	64.5	76	81.6	85.1	86.2	88.1	89.1
Ireland	23.9	42.4	61.7	86.3	109.6	119.5	119.5	105.2	78.6
Spain	35.5	39.4	52.7	60.1	69.5	85.7	95.4	100.4	99.8
Italy	99.8	102.4	112.5	115.4	116.5	123.3	129	131.9	132.3
Croatia	37.7	39.6	49	58.3	65.2	70.7	82.2	86.6	86.7
Cyprus	53.5	44.7	53.4	55.8	65.2	79.3	102.2	107.1	107.5
Latvia	8.4	18.7	36.6	47.4	42.8	41.3	39	40.7	36.3
Lithuania	15.9	14.6	28	36.2	37.2	39.8	38.7	40.5	42.7
Luxemburg	7.8	15.1	16	19.9	18.8	21.8	23.5	22.7	22.1
Malta	62.4	62.7	67.8	67.6	70	67.6	68.4	67	64
Netherlands	42.7	54.8	56.9	59.3	61.6	66.4	67.7	67.9	65.1
Hungary	65.6	71.6	77.8	80.5	80.7	78.2	76.6	75.7	74.7
Poland	44.2	46.3	49.4	53.1	54.1	53.7	55.7	50.2	51.1
Portugal	68.4	71.7	83.6	96.2	111.4	126.2	129	130.6	129
Romania	12.7	13.2	23.2	29.9	34.2	37.3	37.8	39.4	37.9
Slovakia	30.1	28.5	36.3	41.2	43.7	52.2	54.7	53.6	52.5
Slovenia	22.8	21.8	34.6	38.4	46.6	53.9	71	80.9	83.1
Sweden	39	37.5	41	38.3	37.5	37.8	40.4	45.2	43.9
Finland	34	32.7	41.7	47.1	48.5	53.9	56.5	60.2	63.6

Table 3: General Government Balance as % of GDP

	Annual data (%)								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	-1.4	-1.5	-5.4	-4.5	-2.6	-2.2	-1.4	-2.7	-1.0
Belgium	0.1	-1.1	-5.4	-4.0	-4.1	-4.2	-3.0	-3.1	-2.5
Bulgaria	1.1	1.6	-4.1	-3.1	-2.0	-0.3	-0.4	-5.5	-1.7
France	-2.5	-3.2	-7.2	-6.8	-5.1	-4.8	-4.0	-4.0	-3.5
Germany	0.2	-0.2	-3.2	-4.2	-1.0	0.0	-0.2	0.3	0.7
Denmark	5.0	3.2	-2.8	-2.7	-2.1	-3.5	-1.1	1.5	-1.7
Czech Republic	-0.7	-2.1	-5.5	-4.4	-2.7	-3.9	-1.2	-1.9	-0.6
EU	-0.9	-2.4	-6.6	-6.4	-4.6	-4.3	-3.3	-3.0	-2.4
Greece	-6.7	-10.2	-15.1	-11.2	-10.3	-8.8	-13.2	-3.6	-7.5
Estonia	2.7	-2.7	-2.2	0.2	1.2	-0.3	-0.2	0.7	0.1
Euro area	-0.6	-2.2	-6.3	-6.2	-4.2	-3.6	-3.0	-2.6	-2.1
United Kingdom	-2.9	-4.9	-10.2	-9.6	-7.6	-8.3	-5.7	-5.7	-4.3
Ireland	0.3	-7.0	-13.8	-32.1	-12.6	-8.0	-5.7	-3.7	-1.9
Spain	2.0	-4.4	-11.0	-9.4	-9.6	-10.5	-7.0	-6.0	-5.1
Italy	-1.5	-2.7	-5.3	-4.2	-3.7	-2.9	-2.7	-3.0	-2.6
Croatia	-2.4	-2.8	-6.0	-6.2	-7.8	-5.3	-5.3	-5.4	-3.3
Cyprus	3.2	0.9	-5.4	-4.7	-5.7	-5.8	-4.9	-8.8	-1.1
Latvia	-0.7	-4.1	-9.1	-8.5	-3.4	-0.8	-0.9	-1.6	-1.3
Lithuania	-0.8	-3.1	-9.1	-6.9	-8.9	-3.1	-2.6	-0.7	-0.2
Luxemburg	4.2	3.4	-0.7	-0.7	0.5	0.3	1.0	1.5	1.6
Malta	-2.3	-4.2	-3.3	-3.2	-2.5	-3.6	-2.6	-2.1	-1.4
Netherlands	0.2	0.2	-5.4	-5.0	-4.3	-3.9	-2.4	-2.3	-1.9
Hungary	-5.1	-3.6	-4.6	-4.5	-5.5	-2.3	-2.6	-2.1	-1.6
Poland	-1.9	-3.6	-7.3	-7.3	-4.8	-3.7	-4.1	-3.4	-2.6
Portugal	-3.0	-3.8	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2	-4.4
Romania	-2.8	-5.5	-9.5	-6.9	-5.4	-3.7	-2.1	-0.8	-0.8
Slovakia	-1.9	-2.4	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.7
Slovenia	-0.1	-1.4	-5.9	-5.6	-6.7	-4.1	-15.0	-5.0	-2.7
Sweden	3.3	1.9	-0.7	-0.1	-0.2	-1.0	-1.4	-1.6	0.2
Finland	5.1	4.2	-2.5	-2.6	-1.0	-2.2	-2.6	-3.2	-2.8

Table 4: Share of population at risk of poverty

	Annual data (%)									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Αυστρία	17.8	16.7	20.6	19.1	18.9	19.2	18.5	18.8	19.2	18.3
Austria	21.5	21.6	20.8	20.2	20.8	21	21.6	20.8	21.2	21.1
Belgium	61.3	60.7	44.8	46.2	49.2	49.1	49.3	48	40.1	41.3
Bulgaria	18.8	19	18.5	18.5	19.2	19.3	19.1	18.1	18.5	17.7
France	20.2	20.6	20.1	20	19.7	19.9	19.6	20.3	20.6	20
Germany	16.7	16.8	16.3	17.6	18.3	17.6	17.5	18.3	17.9	17.7
Denmark	18	15.8	15.3	14	14.4	15.3	15.4	14.6	14.8	14
Czech Republic	:	:	:	:	23.7	24.3	24.7	24.6	24.4	23.7
EU	29.3	28.3	28.1	27.6	27.7	31	34.6	35.7	36	35.7
Greece	22	22	21.8	23.4	21.7	23.1	23.4	23.5	26	24.2
Estonia	22.1	21.9	21.7	21.6	22	22.9	23.3	23.1	23.5	23
Euro area	23.7	22.6	23.2	22	23.2	22.7	24.1	24.8	24.1	23.5
United Kingdom	23.3	23.1	23.7	25.7	27.3	29.4	30	29.5	27.6	:
Ireland	24	23.3	23.8	24.7	26.1	26.7	27.2	27.3	29.2	28.6
Spain	25.9	26	25.5	24.9	25	28.1	29.9	28.5	28.3	28.7
Italy	:	:	:	:	31.1	32.6	32.6	29.9	29.3	29.1
Croatia	25.4	25.2	23.3	23.5	24.6	24.6	27.1	27.8	27.4	28.9
Cyprus	42.2	35.1	34.2	37.9	38.2	40.1	36.2	35.1	32.7	30.9
Latvia	35.9	28.7	28.3	29.6	34	33.1	32.5	30.8	27.3	29.3
Lithuania	16.5	15.9	15.5	17.8	17.1	16.8	18.4	19	19	18.5
Luxemburg	19.5	19.7	20.1	20.3	21.2	22.1	23.1	24	23.8	22.4
Malta	16	15.7	14.9	15.1	15.1	15.7	15	15.9	16.5	16.4
Netherlands	31.4	29.4	28.2	29.6	29.9	31.5	33.5	34.8	31.8	28.2
Hungary	39.5	34.4	30.5	27.8	27.8	27.2	26.7	25.8	24.7	23.4
Poland	25	25	26	24.9	25.3	24.4	25.3	27.5	27.5	26.6
Portugal	:	47	44.2	43	41.5	40.9	43.2	41.9	40.3	37.4
Romania	26.7	21.4	20.6	19.6	20.6	20.6	20.5	19.8	18.4	18.4
Slovakia	17.1	17.1	18.5	17.1	18.3	19.3	19.6	20.4	20.4	19.2
Slovenia	16.3	13.9	14.9	15.9	15	16.1	15.6	16.4	16.9	16
Sweden	17.1	17.4	17.4	16.9	16.9	17.9	17.2	16	17.3	16.8

(*) % of individuals with a disposable income less than 60% of the national medium income

Table 5: Inflation

	Annual data (%)					Change (%)		
	2012	2013	2014	2015	2016	2014/13	2015/14	2016/15
Austria	2.6	2.1	1.5	0.8	1.0	-0.7	-0.7	0.2
Belgium	2.6	1.2	0.5	0.6	1.8	-0.8	0.1	1.1
Bulgaria	2.4	0.4	-1.6	-1.1	-1.3	-2.0	0.5	-0.3
France	2.2	1.0	0.6	0.1	0.3	-0.4	-0.5	0.2
Germany	2.1	1.6	0.8	0.1	0.4	-0.8	-0.6	0.2
Denmark	2.4	0.5	0.4	0.2	0.0	-0.2	-0.1	-0.2
Czech Republic	3.5	1.4	0.4	0.3	0.7	-1.0	-0.2	0.4
EU	2.6	1.5	0.5	0.0	0.2	-1.0	-0.6	0.3
Greece	1.0	-0.8	-1.4	-1.1	0.0	-0.5	0.3	1.1
Estonia	4.2	3.3	0.5	0.1	0.8	-2.8	-0.4	0.7
Euro area	2.5	1.4	0.4	0.0	0.2	-0.9	-0.4	0.2
United Kingdom	2.8	2.6	1.5	0.1	0.6	-1.1	-1.4	0.6
Ireland	1.9	0.5	0.3	0.0	-0.2	-0.2	-0.3	-0.2
Spain	2.4	1.5	-0.2	-0.6	-0.3	-1.7	-0.4	0.3
Italy	3.3	1.3	0.2	0.1	0.0	-1.0	-0.1	-0.2
Croatia	3.3	2.3	0.2	-0.3	-0.6	-2.1	-0.5	-0.4
Cyprus	3.1	0.4	-0.3	-1.5	-1.2	-0.7	-1.3	0.3
Latvia	2.3	0.0	0.7	0.2	0.1	0.7	-0.5	-0.1
Lithuania	3.2	1.2	0.2	-0.7	0.7	-0.9	-0.9	1.4
Luxemburg	2.9	1.7	0.7	0.1	0.0	-1.0	-0.6	0.0
Malta	3.2	1.0	0.8	1.2	0.9	-0.2	0.4	-0.3
Netherlands	2.8	2.6	0.3	0.2	0.1	-2.2	-0.1	-0.1
Hungary	5.7	1.7	0.0	0.1	0.5	-1.7	0.0	0.4
Poland	3.7	0.8	0.1	-0.7	-0.2	-0.7	-0.8	0.5
Portugal	2.8	0.4	-0.2	0.5	0.6	-0.6	0.7	0.1
Romania	3.4	3.2	1.4	-0.4	-1.1	-1.8	-1.8	-0.6
Slovakia	3.7	1.5	-0.1	-0.3	-0.5	-1.6	-0.2	-0.1
Slovenia	2.8	1.9	0.4	-0.8	-0.2	-1.6	-1.1	0.6
Sweden	0.9	0.4	0.2	0.7	1.1	-0.2	0.5	0.4
Finland	3.2	2.2	1.2	-0.2	0.4	-1.0	-1.4	0.5

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

	Annual data (%)								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	124	124	126	126	128	131	131	130	128
Belgium	117	116	118	121	120	121	120	120	119
Bulgaria	41	43	44	45	45	46	46	46	47
France	108	107	108	108	108	107	109	107	106
Germany	117	117	117	120	123	124	124	125	124
Denmark	123	125	125	129	128	127	128	127	127
Czech Republic	82	84	85	83	83	83	84	86	87
EU	100	100	100	100	100	100	100	100	100
Greece	93	93	94	85	75	72	72	70	68
Estonia	69	69	64	65	71	74	75	76	75
Euro area	109	109	109	108	108	107	107	107	106
United Kingdom	111	109	107	107	105	107	107	109	108
Ireland	148	134	129	130	131	132	133	137	177
Spain	103	101	101	96	93	91	90	90	90
Italy	107	107	106	104	104	102	99	97	96
Croatia	61	63	62	59	60	60	59	59	58
Cyprus	104	106	105	100	96	91	84	81	82
Latvia	57	59	52	53	57	60	62	64	64
Lithuania	60	63	56	60	66	70	73	75	75
Luxemburg	262	259	250	256	263	259	261	267	264
Malta	79	79	81	84	83	84	86	86	88
Netherlands	138	139	137	134	133	133	134	131	128
Hungary	60	62	64	64	66	65	67	68	68
Poland	53	55	60	62	65	67	67	68	69
Portugal	81	81	82	82	77	75	77	77	77
Romania	43	49	50	52	52	54	55	55	57
Slovakia	67	71	71	74	75	76	77	77	77
Slovenia	87	90	85	83	83	82	81	83	83
Sweden	128	127	123	125	126	127	125	124	124
Finland	119	121	117	116	117	115	113	111	109

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

	Annual data								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Austria	116	115.8	115.7	114.7	114.6	116.3	116.2	115.6	115
Belgium	130.2	128.4	129.8	131.4	129.8	130.9	130.2	131	130.1
Bulgaria	37.7	39.4	39.5	41.3	42.2	43.6	43	43.5	44.2
France	117.5	116.6	117.6	117.1	116.7	115	116.3	115.4	115.3
Germany	108	107	104.3	105.2	106.5	105.4	104.8	106.2	106
Denmark	106.2	107.7	109.7	115.3	114.7	114.5	115.4	114.8	114.5
Czech Republic	76.6	77.6	79.1	77	77.4	76.2	76.7	79.3	80
EU	100	100	100	100	100	100	100	100	100
Greece	98.1	98.5	98.2	89.6	85.6	86	87.1	85.6	82.6
Estonia	66.5	66.1	66.7	70.6	72.1	73.4	73.2	73.7	71.1
Euro area	108.9	108.6	108.7	107.9	107.8	107.2	107.3	107.3	107.2
United Kingdom	106.7	105.3	103.2	103.2	101.4	101.7	101.3	101.7	101.2
Ireland	139.5	130.7	134.9	140.8	143.6	145.1	141.6	145.1	186
Spain	100.6	100.9	105.6	102	101.3	103.2	103.5	103.2	101.5
Italy	114.1	115	115	112.9	112.3	110.2	108.8	107.7	107.4
Croatia	70.6	70.6	68.5	67.1	70.1	72.4	73.1	70.3	68.8
Cyprus	93.9	95	95.4	91.6	90	88.7	86.8	85.2	85.2
Latvia	54.5	56.1	56.2	58.8	61.4	62.8	62.4	64.5	64.5
Lithuania	62	65.1	61.3	67.2	71.4	73.1	74.3	74.5	73.2
Luxemburg	173.7	167.6	160	161.8	165.4	161.6	163.2	167.8	166.3
Malta	92.4	94	96.9	97.1	91.8	90.3	89.5	90.2	92.2
Netherlands	118	118.4	115.8	113.5	112.2	112	113.9	112.9	111.1
Hungary	65.9	70.3	72.2	72.7	73.8	72.5	72.9	71	70.3
Poland	61.4	62.1	65.4	70.2	72.7	74.1	74	73.9	74.3
Portugal	77.8	77.5	79.6	79.9	76.5	76.8	79.7	79	78.2
Romania	43.6	50	49.9	51.1	51.9	55.7	56.3	57	59.4
Slovakia	75.9	79.4	79.3	83.6	81.6	82.5	83.8	84.1	83.3
Slovenia	83	83.8	80.2	79.6	80.8	80.1	79.8	81.7	81.5
Sweden	119.2	118.3	116.4	116.8	116.3	116.4	114.2	113	113.4
Finland	113.2	114	111.4	111.1	111.4	109.2	108	106.9	106.9

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

	Annual data (%)				Q3			Change (%)	
	2012	**2013**	**2014**	**2015**	**2014**	**2015**	**2016**	**2015/14**	**2016/15**
Austria	74.4	74.6	74.2	74.3	74.8	75.0	75.5	0.2	0.5
Belgium	67.2	67.2	67.3	67.2	67.1	67.4	67.5	0.3	0.1
Bulgaria	63.0	63.5	65.1	67.1	66.9	68.8	68.5	1.9	-0.3
France	69.4	69.5	69.4	69.5	69.6	70.0	70.3	0.4	0.3
Germany	76.9	77.3	77.7	78.0	78.1	78.2	78.9	0.1	0.7
Denmark	75.4	75.6	75.9	76.5	76.7	76.7	77.7	0.0	1.0
Czech Republic	71.5	72.5	73.5	74.8	73.9	75.1	77.0	1.2	1.9
EU	68.4	68.4	69.2	70.1	69.7	70.5	71.5	0.8	1.0
Greece	55.0	52.9	53.3	54.9	54.1	55.9	57.2	1.8	1.3
Estonia	72.2	73.3	74.3	76.5	74.8	78.8	77.3	4.0	-1.5
Euro area	68.0	67.7	68.1	68.8	68.5	69.3	70.3	0.8	1.0
United Kingdom	74.1	74.8	76.2	76.9	76.5	77.0	77.7	0.5	0.7
Ireland	63.7	65.5	67.0	68.8	67.5	69.1	70.7	1.6	1.6
Spain	59.6	58.6	59.9	62.0	60.4	62.6	64.5	2.2	1.9
Italy	60.9	59.7	59.9	60.6	60.2	61.0	61.9	0.8	0.9
Croatia	58.1	57.2	59.2	60.5	61.6	62.1	63.0	0.5	0.9
Cyprus	70.2	67.2	67.6	68.0	67.9	67.6	69.2	-0.3	1.6
Latvia	68.1	69.7	70.7	72.5	70.6	72.8	73.1	2.2	0.3
Lithuania	68.5	69.9	71.8	73.4	73.4	74.0	75.7	0.6	1.7
Luxemburg	71.4	71.1	72.1	70.9	71.5	69.9	70.0	-1.6	0.1
Malta	63.1	64.8	66.4	67.8	67.3	69.2	70.2	1.9	1.0
Netherlands	76.6	75.9	75.4	76.4	75.7	76.5	77.4	0.8	0.9
Hungary	61.6	63.0	66.7	68.9	67.5	69.7	72.1	2.2	2.4
Poland	64.7	64.9	66.5	67.8	67.3	68.4	69.7	1.1	1.3
Portugal	66.3	65.4	67.6	69.1	68.3	69.5	71.4	1.2	1.9
Romania	64.8	64.7	65.7	66.0	67.2	67.8	67.7	0.6	-0.1
Slovakia	65.1	65.0	65.9	67.7	66.3	67.9	70.1	1.6	2.2
Slovenia	68.3	67.2	67.7	69.1	68.2	70.2	70.4	2.0	0.2
Sweden	79.4	79.8	80.0	80.5	81.1	81.4	82.1	0.3	0.7
Finland	74.0	73.3	73.1	72.9	73.9	74.0	74.5	0.1	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 (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	41.6	43.8	45.1	46.3	45.5	46.7	49.7	1.2	3.0
Belgium	39.5	41.7	42.7	44.0	42.4	44.7	45.6	2.3	0.9
Bulgaria	45.7	47.4	50.0	53.0	51.5	54.6	55.6	3.1	1.0
France	44.5	45.6	46.9	48.7	47.1	49.0	50.1	1.9	1.1
Germany	61.6	63.6	65.6	66.2	66.1	66.7	68.9	0.6	2.2
Denmark	60.8	61.7	63.2	64.7	64.0	64.4	69.0	0.4	4.6
Czech Republic	49.3	51.6	54.0	55.5	54.7	55.9	59.0	1.2	3.1
EU	48.7	50.1	51.8	53.3	52.2	53.7	55.6	1.5	1.9
Greece	36.5	35.6	34.0	34.3	34.0	34.9	37.2	0.9	2.3
Estonia	60.5	62.6	64.0	64.5	66.5	68.6	68.1	2.1	-0.5
Euro area	48.6	50.0	51.7	53.3	52.1	53.7	55.6	1.6	1.9
United Kingdom	58.1	59.8	61.0	62.2	60.9	62.3	63.4	1.4	1.1
Ireland	49.3	51.3	53.0	55.6	53.4	55.8	56.9	2.4	1.1
Spain	43.9	43.2	44.3	46.9	44.6	47.0	49.5	2.4	2.5
Italy	40.3	42.7	46.2	48.3	46.9	48.5	50.5	1.6	2.0
Croatia	37.5	37.8	36.2	39.0	37.5	39.5	39.0	2.0	-0.5
Cyprus	50.7	49.6	46.9	48.2	48.1	48.9	52.6	0.8	3.7
Latvia	52.8	54.8	56.4	59.4	55.8	59.6	60.7	3.8	1.1
Lithuania	51.7	53.4	56.2	60.4	57.9	61.2	64.8	3.3	3.6
Luxemburg	41.0	40.5	42.5	38.5	43.2	34.1	38.2	-9.1	4.1
Malta	34.7	36.3	37.8	40.4	39.5	42.1	45.5	2.6	3.4
Netherlands	57.6	59.2	59.9	61.7	60.2	61.9	63.8	1.7	1.9
Hungary	36.1	37.9	41.7	45.3	42.6	46.4	50.6	3.8	4.2
Poland	38.7	40.6	42.5	44.3	43.3	45.3	46.6	2.0	1.3
Portugal	46.5	46.9	47.8	49.9	48.4	50.2	53.2	1.8	3.0
Romania	41.6	41.8	43.1	41.1	44.2	42.4	43.6	-1.8	1.2
Slovakia	43.1	44.0	44.8	47.0	46.0	47.6	49.5	1.6	1.9
Slovenia	32.9	33.5	35.4	36.6	36.3	37.2	37.6	0.9	0.4
Sweden	73.0	73.6	74.0	74.5	74.0	74.4	76.1	0.4	1.7
Finland	58.2	58.5	59.1	60.0	58.9	60.8	62.4	1.9	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	2014	2015	2016
Austria	0.4	0.1	0.8	-0.2	1.6	1.5
Belgium	0.1	0.3	0.0	0.4	-0.3	-0.4
Bulgaria	-0.2	1.3	1.6	0.9	1.3	-2.2
France	-0.1	2.3	0.0	2.4	0.7	0.0
Germany	0.8	0.7	0.7	0.6	0.6	2.9
Denmark	0.0	0.7	1.4	-0.3	0.0	2.9
Czech Republic	0.7	0.8	1.0	0.7	2.0	2.2
EU	-0.3	1.3	1.1	1.5	1.1	1.5
Greece	-4.9	0.6	2.0	3.4	2.6	1.6
Estonia	0.9	0.5	2.3	1.7	2.3	-2.7
Euro area	-0.6	0.9	0.9	1.0	1.1	1.9
United Kingdom	0.9	2.2	1.6	2.5	1.6	1.4
Ireland	2.1	1.5	2.3	0.9	2.3	3.3
Spain	-2.7	1.2	2.9	0.7	3.1	3.3
Italy	-1.8	0.2	0.7	1.0	0.2	2.0
Croatia	-2.3	3.2	1.4	5.6	-0.3	0.0
Cyprus	-4.9	-0.4	-1.4	2.6	-3.9	4.2
Latvia	1.7	-0.9	1.1	-3.5	3.2	-1.0
Lithuania	1.6	1.9	1.0	3.3	0.3	1.1
Luxemburg	1.0	2.8	5.1	3.7	6.7	4.1
Malta	3.1	2.8	2.4	6.7	3.2	2.4
Netherlands	-0.9	-0.9	1.1	-1.3	1.6	2.0
Hungary	1.8	5.4	2.6	5.6	2.5	3.0
Poland	-0.2	1.8	1.4	2.0	2.0	0.1
Slovakia	-2.3	2.3	1.3	2.3	1.6	1.7
Slovenia	-0.5	0.9	-0.2	1.8	-1.8	-1.5
Sweden	0.0	1.4	2.4	0.9	2.8	3.6
Czech Republic	-2.0	0.5	1.0	-0.3	1.6	0.6
Finland	1.0	0.9	1.4	2.2	1.1	0.9

Table 11: Unemployment rate – Total population

	Annual data (%)				Q3			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	4.9	5.4	5.6	5.7	4.8	4.8	5.2	0.0	0.4
Belgium	7.6	8.4	8.5	8.5	7.5	7.0	6.8	-0.5	-0.2
Bulgaria	12.3	13.0	11.4	9.2	10.0	7.6	6.4	-2.4	-1.2
France	9.8	10.3	10.3	10.4	8.3	8.4	7.9	0.1	-0.5
Germany	5.4	5.2	5.0	4.6	4.4	4.0	3.7	-0.4	-0.3
Denmark	7.5	7.0	6.6	6.2	5.3	5.0	5.0	-0.3	0.0
Czech Republic	7.0	7.0	6.1	5.1	5.1	4.3	3.5	-0.8	-0.8
EU	10.5	10.9	10.2	9.4	8.5	7.8	7.1	-0.7	-0.7
Greece	24.5	27.5	26.5	24.9	23.9	22.5	21.4	-1.4	-1.1
Estonia	10.0	8.6	7.4	6.2	6.9	4.6	7.0	-2.3	2.4
Euro area	11.4	12.0	11.6	10.9	9.9	9.1	8.5	-0.8	-0.6
United Kingdom	7.9	7.6	6.1	5.3	4.3	3.9	3.5	-0.4	-0.4
Ireland	14.7	13.1	11.3	9.4	10.1	8.2	7.0	-1.9	-1.2
Spain	24.8	26.1	24.5	22.1	21.4	19.2	17.3	-2.2	-1.9
Italy	10.7	12.1	12.7	11.9	9.8	8.9	9.4	-0.9	0.5
Croatia	16.0	17.3	17.3	16.3	13.3	13.0	8.9	-0.3	-4.1
Cyprus	11.9	15.9	16.1	15.1	14.2	13.1	11.3	-1.1	-1.8
Latvia	15.0	11.9	10.8	9.9	9.5	9.1	8.7	-0.4	-0.4
Lithuania	13.4	11.8	10.7	9.1	8.4	7.7	7.0	-0.7	-0.7
Luxemburg	5.1	5.9	6.0	6.4	4.9	5.6	5.2	0.7	-0.4
Malta	6.3	6.4	5.8	5.4	4.8	3.9	3.6	-0.9	-0.3
Netherlands	5.8	7.3	7.4	6.9	6.1	5.7	4.7	-0.4	-1.0
Hungary	11.0	10.2	7.7	6.8	6.2	5.6	4.3	-0.6	-1.3
Poland	10.1	10.3	9.0	7.5	6.8	6.0	4.9	-0.8	-1.1
Portugal	15.8	16.4	14.1	12.6	11.7	10.6	9.5	-1.1	-1.1
Romania	6.8	7.1	6.8	6.8	5.2	5.4	4.5	0.2	-0.9
Slovakia	14.0	14.2	13.2	11.5	11.4	9.9	8.4	-1.5	-1.5
Slovenia	8.9	10.1	9.7	9.1	8.5	8.2	6.9	-0.3	-1.3
Sweden	8.0	8.0	7.9	7.4	5.5	5.1	5.1	-0.4	0.0
Finland	7.7	8.2	8.7	9.4	6.7	7.3	6.6	0.6	-0.7

Table 12: Unemployment rate among men

	Annual data (%)				Q3			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	5.0	5.4	5.9	6.1	4.8	5.2	5.4	0.4	0.2
Belgium	7.7	8.7	9.0	9.1	7.8	7.2	6.7	-0.6	-0.5
Bulgaria	13.5	13.9	12.3	9.8	10.8	8.1	6.7	-2.7	-1.4
France	9.8	10.4	10.5	10.8	8.3	8.6	7.7	0.3	-0.9
Germany	5.6	5.5	5.3	5.0	4.7	4.3	3.9	-0.4	-0.4
Denmark	7.5	6.7	6.4	5.9	5.1	4.3	4.2	-0.8	-0.1
Czech Republic	6.0	5.9	5.1	4.2	3.9	3.4	2.8	-0.5	-0.6
EU	10.4	10.8	10.1	9.3	8.2	7.6	6.8	-0.6	-0.8
Greece	21.6	24.5	23.7	21.8	21.3	19.4	17.6	-1.9	-1.8
Estonia	10.9	9.1	7.9	6.2	7.2	3.9	6.8	-3.3	2.9
Euro area	11.2	11.9	11.5	10.7	9.6	8.9	8.1	-0.7	-0.8
United Kingdom	8.4	8.0	6.4	5.5	4.3	3.8	3.4	-0.5	-0.4
Ireland	17.7	15.0	12.9	10.9	11.3	9.4	7.9	-1.9	-1.5
Spain	24.6	25.6	23.6	20.8	20.2	17.9	15.6	-2.3	-2.3
Italy	9.8	11.5	11.9	11.3	9.0	8.3	8.7	-0.7	0.4
Croatia	16.0	17.7	16.5	15.7	12.7	11.7	7.6	-1.0	-4.1
Cyprus	12.6	16.6	17.1	15.2	15.0	12.8	11.4	-2.2	-1.4
Latvia	16.2	12.6	11.8	11.1	9.8	10.3	10.0	0.5	-0.3
Lithuania	15.2	13.1	12.2	10.1	9.6	8.8	7.9	-0.8	-0.9
Luxemburg	4.5	5.6	5.8	5.8	4.3	4.9	4.8	0.6	-0.1
Malta	5.7	6.5	6.1	5.5	5.0	4.0	3.4	-1.0	-0.6
Netherlands	5.5	7.2	7.2	6.5	5.8	5.4	4.3	-0.4	-1.1
Hungary	11.3	10.2	7.6	6.6	5.9	5.1	4.2	-0.8	-0.9
Poland	9.4	9.7	8.5	7.3	6.1	5.5	4.6	-0.6	-0.9
Portugal	15.9	16.3	13.8	12.4	11.0	10.4	9.3	-0.6	-1.1
Romania	7.4	7.7	7.3	7.5	5.4	6.1	5.2	0.7	-0.9
Slovakia	13.5	14.0	12.8	10.3	10.6	8.4	7.6	-2.2	-0.8
Slovenia	8.4	9.5	9.0	8.1	7.7	6.7	6.1	-1.0	-0.6
Sweden	8.2	8.2	8.2	7.5	5.6	5.1	5.2	-0.5	0.1
Finland	8.3	8.8	9.3	9.9	6.9	7.2	6.4	0.3	-0.8

Table 13: Unemployment rate among women

	Annual data (%)				Q3			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	4.8	5.3	5.4	5.3	4.8	4.2	4.9	-0.6	0.7
Belgium	7.4	8.2	7.9	7.8	7.3	6.7	6.8	-0.6	0.1
Bulgaria	10.8	11.8	10.4	8.4	9.2	7.0	6.0	-2.2	-1.0
France	9.8	10.2	10.0	9.9	8.4	8.2	8.2	-0.2	0.0
Germany	5.2	4.9	4.6	4.2	4.2	3.6	3.3	-0.6	-0.3
Denmark	7.5	7.3	6.8	6.4	5.6	5.8	5.9	0.2	0.1
Czech Republic	8.2	8.3	7.4	6.1	6.6	5.3	4.3	-1.3	-1.0
EU	10.5	10.9	10.3	9.5	8.8	8.0	7.5	-0.8	-0.5
Greece	28.2	31.4	30.2	28.9	27.2	26.4	26.0	-0.8	-0.4
Estonia	9.1	8.2	6.8	6.1	6.7	5.4	7.2	-1.3	1.8
Euro area	11.5	12.1	11.8	11.0	10.3	9.4	9.0	-0.9	-0.4
United Kingdom	7.4	7.1	5.8	5.1	4.3	3.9	3.7	-0.4	-0.2
Ireland	11.0	10.7	9.4	7.7	8.6	6.7	5.8	-1.9	-0.9
Spain	25.1	26.7	25.4	23.6	22.9	20.8	19.1	-2.1	-1.7
Italy	11.8	13.1	13.8	12.7	10.9	9.8	10.3	-1.1	0.5
Croatia	16.1	16.8	18.3	17.0	13.9	14.4	10.5	0.5	-3.9
Cyprus	11.1	15.2	15.1	14.9	13.3	13.4	11.3	0.1	-2.1
Latvia	14.0	11.1	9.8	8.6	9.2	8.0	7.5	-1.2	-0.5
Lithuania	11.6	10.5	9.2	8.2	7.2	6.7	6.1	-0.5	-0.6
Luxemburg	5.8	6.2	6.4	7.2	5.6	6.4	5.7	0.8	-0.7
Malta	7.3	6.3	5.3	5.2	4.5	3.8	4.1	-0.7	0.3
Netherlands	6.2	7.3	7.8	7.3	6.3	6.1	5.3	-0.2	-0.8
Hungary	10.6	10.1	7.9	7.0	6.6	6.1	4.3	-0.5	-1.8
Poland	10.9	11.1	9.6	7.7	7.6	6.5	5.3	-1.1	-1.2
Portugal	15.6	16.6	14.5	12.9	12.4	10.7	9.7	-1.7	-1.0
Romania	6.1	6.3	6.1	5.8	4.9	4.6	3.6	-0.3	-1.0
Slovakia	14.5	14.5	13.6	12.9	12.4	11.7	9.5	-0.7	-2.2
Slovenia	9.4	10.9	10.6	10.1	9.5	9.9	7.7	0.4	-2.2
Sweden	7.7	7.9	7.7	7.3	5.4	5.1	5.0	-0.3	-0.1
Finland	7.1	7.5	8.0	8.8	6.5	7.3	6.9	0.8	-0.4

Table 14: Long-term unemployment rate

	Annual data (%)				Q3 (%)			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	24.9	24.6	27.2	29.2	27.3	28.9	31.7	1.6	2.8
Belgium	44.7	46.1	49.9	51.7	49.8	51.0	51.7	1.2	0.7
Bulgaria	55.2	57.3	60.4	61.2	61.3	63.0	62.2	1.7	-0.8
France	40.0	40.5	42.8	42.6	42.7	42.9	44.8	0.2	1.9
Germany	45.4	44.7	44.3	43.6	42.6	42.9	41.2	0.3	-1.7
Denmark	28.0	25.5	25.2	26.9	25.4	25.2	19.5	-0.2	-5.7
Czech Republic	43.4	43.4	43.5	47.3	43.8	48.5	39.3	4.7	-9.2
EU	46.4	49.8	52.6	48.2	49.5	47.8	46.2	-1.7	-1.6
Greece	59.1	67.1	73.5	73.1	75.4	73.7	73.8	-1.7	0.1
Estonia	54.7	44.5	45.3	38.3	43.4	35.6	32.9	-7.8	-2.7
Euro area	44.5	47.3	49.5	51.2	52.7	51.0	49.9	-1.7	-1.1
United Kingdom	34.7	36.2	35.8	30.7	34.0	28.2	26.0	-5.8	-2.2
Ireland	61.7	60.6	59.2	56.2	56.7	54.1	52.0	-2.6	-2.1
Spain	44.4	49.7	52.8	51.6	53.4	51.0	48.1	-2.4	-2.9
Italy	53.2	56.9	61.4	58.1	62.4	58.1	57.2	-4.3	-0.9
Croatia	63.7	63.6	58.4	63.0	61.2	67.5	49.7	6.3	-17.8
Cyprus	30.1	38.3	47.7	45.3	48.5	45.0	44.7	-3.5	-0.3
Latvia	52.1	48.6	43.0	45.3	42.5	50.1	41.6	7.6	-8.5
Lithuania	49.2	42.9	44.7	42.9	47.5	43.9	37.4	-3.6	-6.5
Luxemburg	30.3	30.4	27.4	28.4	27.7	26.7	36.3	-1.0	9.6
Malta	48.5	45.7	46.9	43.6	46.3	44.5	40.1	-1.8	-4.4
Netherlands	33.7	35.8	40.0	42.9	39.0	42.8	40.6	3.8	-2.2
Hungary	45.3	48.6	47.5	45.6	46.6	47.4	45.6	0.8	-1.8
Poland	40.3	42.5	42.7	39.3	43.7	37.7	33.7	-6.0	-4.0
Portugal	48.8	56.4	59.6	57.4	60.1	57.5	56.7	-2.6	-0.8
Romania	44.2	45.2	41.1	43.9	39.7	45.2	48.7	5.5	3.5
Slovakia	67.3	70.2	70.2	65.8	69.9	67.0	59.0	-2.9	-8.0
Slovenia	47.9	51.0	54.5	52.3	52.6	55.6	52.4	3.0	-3.2
Sweden	18.9	18.5	18.9	19.6	18.8	21.2	19.1	2.4	-2.1
Finland	21.4	20.7	22.4	24.4	25.2	28.0	28.1	2.8	0.1

(*) 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 (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	9.4	9.7	10.3	10.6	10.5	11.2	12.2	0.7	1.0
Belgium	19.8	23.7	23.2	22.1	21.3	22.2	21.8	0.9	-0.4
Bulgaria	28.1	28.4	23.8	21.6	21.4	19.2	18.8	-2.2	-0.4
France	24.4	24.9	24.2	24.7	23.8	24.3	25.1	0.5	0.8
Germany	8.0	7.8	7.7	7.2	8.4	8.3	7.6	-0.1	-0.7
Denmark	14.1	13.0	12.6	10.8	13.1	12.8	13.3	-0.3	0.5
Czech Republic	19.5	18.9	15.9	12.6	16.3	12.9	11.4	-3.4	-1.5
EU	23.3	23.7	22.2	20.4	21.6	19.9	18.5	-1.7	-1.4
Greece	55.3	58.3	52.4	49.	49.5	48.8	44.2	-0.7	-4.6
Estonia	20.9	18.7	15.0	13.1	13.4	11.6	12.7	-1.8	1.1
Euro area	23.6	24.4	23.7	22.4	23.1	21.9	20.4	-1.2	-1.5
United Kingdom	21.2	20.7	16.9	14.6	17.3	15.2	13.9	-2.1	-1.3
Ireland	30.4	26.8	23.9	20.9	23.2	20.7	17.7	-2.5	-3.0
Spain	52.9	55.5	53.2	48.3	52.4	46.6	41.9	-5.8	-4.7
Italy	35.3	40.0	42.7	40.3	39.6	35.3	34.5	-4.3	-0.8
Croatia	42.1	50.0	45.5	43.0	40.4	41.0	28.0	0.6	-13.0
Cyprus	27.7	38.9	36.0	32.8	33.4	32.3	30.1	-1.1	-2.2
Latvia	28.5	23.2	19.6	16.3	21.4	16.2	19.3	-5.2	3.1
Lithuania	26.7	21.9	19.3	16.3	16.4	15.3	13.1	-1.1	-2.2
Luxemburg	18.0	16.9	22.3	17.3	26.4	14.3	17.1	-12.1	2.8
Malta	14.1	13.0	11.7	11.8	12.0	13.3	12.3	1.3	-1.0
Netherlands	11.7	13.2	12.7	11.3	12.0	11.0	10.3	-1.0	-0.7
Hungary	28.2	26.6	20.4	17.3	21.6	16.7	12.7	-4.9	-4.0
Poland	26.5	27.3	23.9	20.8	23.1	19.7	18.0	-3.4	-1.7
Portugal	38.0	38.1	34.7	32.0	32.2	30.8	26.1	-1.4	-4.7
Romania	22.6	23.7	24.0	21.7	:	:	:	:	:
Slovakia	34.0	33.7	29.7	26.5	30.0	27.9	22.7	-2.1	-5.2
Slovenia	20.6	21.6	20.2	16.3	18.4	12.9	13.7	-5.5	0.8
Sweden	23.7	23.6	22.9	20.4	18.1	16.0	14.7	-2.1	-1.3
Finland	19.0	19.9	20.5	22.4	13.5	16.3	14.2	2.8	-2.1