ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ
FOUNDATION FOR ECONOMIC & INDUSTRIAL RESEARCH

The Greek Economy

3/14

Quarterly Bulletin

No. 77, October 2014

Editorial Policy

The analysis of the Greek Economy is the product of a collective effort by the research staff of the Foundation. The views presented here represent a reached consensus and no individual bears sole responsibility for all or part of it. Furthermore, the views expressed do not necessarily reflect those of other organisations that may support, finance or cooperate with the Foundation.

IOBE

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

ISSN 1108-1198

Sponsor of the issue:

PLASTIKA KRITIS S.A.

Foundation for Economic and Industrial Research (IOBE)
11, Tsami Karatassou St, 117 42 Athens, Tel. (+30210 9211200-10), Fax:(+30210 9233977)
http://www.iobe.gr

Table of Contents

FOREWORD

This is the third report that IOBE is publishing for 2014 as part of its periodic surveys of the Greek economy. The publication takes place just before the finalisation of the fiscal measures for the period 2015-2017 and the completion of the fiscal consolidation process, while the negotiations regarding the size and funding sources of the borrowing requirements of Greece in the coming years are still ongoing. As all IOBE quarterly bulletins, the report contains **four sections** and an **appendix** with key structural indicators. It starts with an introductory text on the importance of implementing reforms in the current state of the Greek economy and the features that a new agreement with the partners and lenders of Greece should have. The remaining sections of the report are structured as follows:

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

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

Section four presents a study from IOBE about the entrepreneurship in Greece and especially the GEM programme.

The report refers to and is supported by data, which were available up to 10/10/2014. IOBE's next quarterly report on the Greek economy will be published in January 2015.

REFORMS!

The main characteristics of the Greek economy, as analysed in the current report, do not noticeably differ from those recorded in the previous quarter. The economy is in balance, with the core data indicating that, for the current year in total, a positive growth rate, close to the official forecast of the state budget, is feasible. The reversing of the national product decline, which may mark the end of a deep and prolonged recession, is attributable on the one hand to the reduction of the fall in domestic consumption, and on the other to the increasing exports of services, touristic and other. The recent data confirm these positive trends. But they also confirm that the momentum in investment and exports of goods remains very weak. The effect of the recent revision of the national accounts data, although important and interesting, does not invalidate the overall picture, while the same can be said for the draft budget submitted by the government.

We have already noted, in the last two quarterly reports of IOBE, that keeping the economy in balance, and in particular in terms of the fiscal balance and the current account balance, is extremely important. This constitutes the basis for any further improvement, which should in no way be compromised. It has also been pointed out that, as long as there are indecision, ambivalence, lack of consensus and delays in the implementation of the necessary structural reforms, there will also be weaknesses in attracting investments, boosting exports, achieving significantly high growth rates and overcoming unjustified delays in the reduction of unemployment.

However, despite the fact that the basic characteristics of the economy have not changed in the recent months, there are risks that now appear significantly stronger. This is primarily due to three reasons. First, there is an internationally recorded, small, but definite decline in growth prospects, especially in Europe, as well as rising geopolitical risks in the region. Also, according to the rationale of the adjustment program of the Greek economy, the stabilisation is only an intermediate goal. As long as the structural reforms and growth are delayed, the risk of subversion of the achieved balance will increase and the overall success of the economic policy will become precarious. Finally and most importantly, since the European Parliament elections onwards, a prospect of refutation of the main economic policy features has gradually taken over the political debate. In particular, an impression has been created of lack of intent or even ability for the substantial adoption and deepening of structural reforms. At the level of fiscal equilibrium, the pressure for misguided tax cuts could create future risks. Meanwhile, as far as the external funding is concerned, great emphasis has been given on the immediate disengagement from the agreement with the official creditors and partners, even if such a development is accompanied by additional costs and risks. One could say that, in a large part of the Greek society, the desire to return to the economic behaviour that led the country to the crisis has dominated. In this light, the failure to attract investments and, more particularly, the recent extreme pressure in the bond and capital markets, are easy to explain.

As the risks and uncertainty associated with economic policy and the external environment have increased, it would be useful to record the main relevant perspectives and limitations. The road ahead for the Greek economy is not expected to be straight, but it can be very positive, under certain terms and conditions, of course.

First, it should be noted that a growth policy through looser fiscal policy and deficits is not feasible and that this is not due to the current agreement with our partners. Fiscal discipline is necessary in order to remain in the Euro zone and, in any case, it constitutes an indispensible and reasonable price for the stability that the euro offers. Even after the end of the memorandum agreement, Greece will undergo budgetary surveillance and coordination with its partners, like the rest of the Euro zone countries. Moreover, in the future, and beyond the formal program funding, a stricter monitoring and control will come from the private investors, namely the "markets".

Secondly, the achievement of high growth rates, at the soonest possible time and for years to come, is a crucial condition to avoid the derailment of the adjustment program. The high growth rates require a significant increase in investment and, given the amount of the boost required, this should come from many different sources. Naturally, attracting investment presupposes on the one hand a minimum level of political stability and consensus on the main objectives of economic policy and on the other persistence on the reforms that will alleviate the barriers to entry in the markets. Any failure to achieve sufficiently high growth rates, as early as next year, could cause substantial problems in the financing of the country and the implementation of the state budget. At this point, there is no luxury for complacency and delay.

Thirdly, the overall debt sustainability is closely linked to the achievement of high growth rates and cannot be examined in any other context. Even if a significant lump-sum debt reduction is achieved, it would still not be sustainable if there is no confidence towards the country and the investment levels remain low. Conversely, a relatively milder course of a systematic reduction of the real present value of the debt could guarantee its sustainability, if it operated as a lever to attract investment.

Fourth, a disengagement from the bailout agreement has been at the centre of recent political debate, but it will also be the main issue of interest in the near term. Since the clear objective is to remain in the Euro zone, it is reasonable to proceed with this disengagement gradually. Compared to alternative routes, the overall agreement hitherto brought benefits to the Greek, as well as the European economy, and prevented a collapse. But there were also important elements of failure: the reforms should be implemented with greater intensity and better targeting and the transition to the new production model should be supported as an urgent priority, so that the recession is much milder and the debt more easily manageable. As a next step, a new, mutually beneficial agreement between Greece and the European Union can be promoted as soon as possible. The agreement should aim at correcting the observed failures and, most notably, at promoting the smooth convergence of the Greek economy towards the core of the euro zone. To this respect, it is worth exploring some of the main features that such an agreement must have, regardless of its exact institutional form.

The new growth model of the country, which would give emphasis on openness, innovation and the investments that will support them, should form an explicit basis for the next agreement. On the Greek side, there must be a commitment to the necessary structural reforms, with priority given to those improving the business environment and the efficiency of the public sector. It is important that an agreement on the reforms is outlined with clear and measurable overall objectives. The exact way that each objective will be achieved, should be the responsibility of the Greek side. Besides, and until now, the detailed case-by-case monitoring proved rather inefficient. Furthermore, the maintenance of the agreed budgetary balance is necessary, but without further adjustments, as this would rather have a negative effect on investment, reforms and, ultimately, on growth. From the perspective of the creditors and partners, it should be ensured that the cost of debt servicing will remain sufficiently low for the foreseeable future. Moreover, there should be multiple forms of assistance for undertaking the appropriate investments, with respect to both the necessary infrastructure and private, long-term productive investments. Additionally, a potential credit support line must be put in place, in the event that, despite the reform progress, there is a temporary and unexpected difficulty with the financing of the economy.

It is clear that the core of such an agreement is the reforms that reflect the new growth model. However, the concept of reform has been gradually discredited during the current crisis, for a number of reasons that sometimes result from conscious and selfish refusal and other times by mishaps and implementation weakness. The refusal to reform represents in essence a compromise with the idea that the Greek economy is less competitive than its partners' economies, due to intrinsic reasons that supposedly cannot be changed. On the contrary, the change is not only feasible, but also necessary and overall beneficial for the Greek people. Moreover, it is a generally accepted fact that the total competitiveness of the European economy must be increased, so that its citizens maintain their welfare level, despite the unfavourable demographic dynamics. In each Member State, the priorities can and should be different - for Greece, the distance to be covered is relatively larger, thus the main objective should be to reduce barriers and increase competition in product markets and services and change the nature and the role of public administration, with a drastic reduction of overregulation and the administrative burden for citizens and businesses.

It is well understood that the path to a new, mutually beneficial agreement with our European partners, passes through the achievement of a minimum political consensus and stability in the country. This can act as a catalyst for the final exit from the crisis and the beginning of a virtuous circle of significant reforms and sustainable economic growth. The alternative way, an obsession to return to the pre-crisis norms and behaviour, will lead the Greek economy to a new crisis, possibly much deeper than the current one.

1. BRIEF OVERVIEW – MAIN CONCLUSIONS

Stabilisation of the global economy in 2014

The global GDP growth rate marginally slowed down in the second quarter of 2014, compared to the previous quarter, remaining at considerably higher level compared to the corresponding period of the previous year. The GDP of the OECD member-states was higher year-on-year by 1.9% in April through June 2014, compared with 1.1% increase one year before and the first quarter GDP growth of +2.2%. The GDP growth continued to strengthen in the current year in the more developed economies, as the rate for the G-7 countries increased to 1.7% in the second quarter of this year from 1.2% in the previous year. The strongest acceleration was recorded in the United Kingdom (+3.2% from +1.8%) and the US (+2.4% from +1.8%), with the strongest deceleration observed in Japan (0% from +1.3% one year before). The limited adoption of new fiscal measures and the expansionary monetary policy seem to have given a boost to the economic activity in the United States. The low inflation rates and the slowdown of the demand for exports had an adverse effect on the growth momentum in the EU, restricting the incentives for investment. The increase in the consumption tax in Japan since the second quarter of this year had boosted the growth rate in early 2014, but it led to a sharp slowdown thereafter.

On the other hand, the decision by the President of the European Central Bank, Mario Draghi, to set for the first time a negative rate for bank deposits in June, reinforced the incentives to provide the necessary liquidity to businesses and households and motivated the investment of the former and the demand of the latter for the rest of 2014 and onwards. However, the continued geopolitical dispute between EU and Russia because of the clashes in Eastern Ukraine will affect the EU exports, making domestic demand even more important for their growth. In the United States, the boost from the better financial conditions has had an impact on investment in construction and real estate. The temporary negative effect from the tax consumption in Japan will defuse in the coming quarters. The country's economy will regain some of the momentum that it had in early 2014 from the loose monetary policy. new tax incentives for investment and the significant increase in exports. Under these circumstances, **the GDP of the developed economies will increase by 1.8% in 2014, compared to 1.3% in the previous year.**

In the developing economies, the attempt to move to a new growth model in China has resulted in a slight slowdown of the growth rate. In Brazil, the rise in interest rates and the significant deterioration of business and consumer confidence will bring the growth in 2014 to a halt. The slowdown of the Russian economy will continue stronger in the second half of 2014, driven by the consequences of the clashes in Eastern Ukraine and the continuing geopolitical dispute with the developed countries. In this context, **the developing economies will have a growth rate of about 4.5% this year, marginally lower than in 2013 (4.7%). The slowdown in growth this year in the developing economies will offset the stronger growth in the developed countries, with the world GDP growth for 2014 estimated to stand close to its level from the previous year(+3.3%)**.

Marginal recession in the second quarter of this year, for the first time since 2008

The decline of GDP weakened during the second quarter, standing at 0.3%, which was the second lowest contraction since Greece went into recession during the third quarter of 2008, from 1.1% in the preceding quarter of this year and 4.0% a year ago. Overall in the first half of this year the GDP was 0.7% lower compared to the same period in 2013, when it had fallen by 5.0%. The new easing of the recession was caused by the drop in investment, as household consumption was stable compared to last year (as in the first quarter of this year), while exports increases by 5.3%, also as in the quarter January-March of this year.

In greater detail, in the first half of 2014 household consumption remained unchanged over the same period of the previous year, during which it had fallen by 7.7%. This stability was due to the easing of unemployment year on year, for the first time in years, as well as improving consumer expectations from the success of the efforts in the fiscal field and the achievement of primary surplus, along with its partial distribution to certain social groups. The consumer expenditure of the public sector marginally declined (-0.4%), compared to a drop of 7.6% in the first half of the previous year, which is attributed to the postponement of the scheduled reforms and the employment restructuring in the public sector, because of the elections in the spring. Subsequently, domestic consumption was also stable in the first half of 2014, in contrast to its contraction by 7.6% in the corresponding period of last year. As a result of the quarter-on-quarter slowdown in the contraction of investment in the second quarter, from 11.9% to 4.1%, due to the year-on-year stability of fixed capital formation, the contraction in the first half of the year was close to 8.1%, a greater reduction than that recorded in the same period of 2013 (-6.2%).

Regarding the external sector of the Greek economy, the large increase in the first quarter carried over to the second quarter and exports increased by 5.3% in the first half of 2014. The largest increase since 2009 was a result of the significant increase in the exports of services by 14.6%, while the exports of goods decreased by 1.6%. Imports grew throughout the first half, at an accelerating rate, reaching 4.6% in the second quarter. As a result, imports were higher year on year, for the first time since 2008, by 3.4%. The boost of the demand for imports was similar for goods (3.2%) and for services (4.0%). As a result of the changes in the key components of the balance of the external sector in the first half of 2014, its deficit declined by 9,2% (-€282 mil.), compared to a decrease of 43.1% over the same period in 2013 (-€2,2 bil.).

On 10th October the Hellenic Statistical Authority (ELSTAT) published the data of the National Accounts for the period 1995-2013, using the European System of Accounts (ESA 2010). According to these data, the recession in the Greek economy over the period 2008-2013 was higher than in the previous National Accounts data, prepared with the ESA-95 methodology. **Greece's GDP fell by 25.9%, according to the new data, compared to 23.7% in the earlier data.** The recession was sharper between 2008 and 2011, particularly in 2009 and 2011, and slightly milder in 2012-2013. **The depth of contraction of key components of GDP was also modified**, without changing the key recession drivers, **which remained the drop of household consumption and the sharp decline in fixed capital formation**. However, **the cumulative contraction of investment is more extensive** than previously thought, reaching 65.3% (from 60.5%). The **decline is milder in exports** (-8.8% from -13.5%) and imports (-36.7% from -42.9%), **resulting in slightly weaker adjustment of the external balance in national accounts terms.**

It should be noted that the Quarterly National Accounts data for the first two quarters of 2014 have still not been revised. As the direction of the change in each component of GDP due to the implementation of the ESA 2010 cannot be taken as given, conclusions about the impact of the methodology change on the GDP data for 2014 cannot be made with safety.

Modest growth in the Greek economy in 2014

The extension of the electoral cycle due to the May elections and the subsequent government reshuffle brought a new delay in the public sector reforms, in the process of privatisation and the concession of part of the government property to the private sector and in the structural changes in various sectors and professions. Note that many of the policy actions related to the above are prerequisites for the current assessment by the Troika.

The conditions and the effects of the electoral cycle are still to some extent present. The main reason for this is the possibility that the present parliament will not succeed in electing a new President of the country, leading to a call of elections. In this case, the uncertainty about the government that will emerge from the elections and the economic policy strategy that it will follow, do not allow for the formation of clear expectations for the next six months, hampering the decision making of economic units, and mainly the domestic and foreign investors.

In the field of fiscal developments, and in the context of the current review of the Economic Adjustment Programme (EAP), the necessity to extend the existing fiscal measures, which were planned to expire this year, is currently examined, along with the possibility of undertaking new measures for the period 2015-2017, during which the fiscal adjustment will be completed. According to the State Budget Draft for 2015, achieving a general government primary surplus during the next year, slightly lower than the target set in the EAP, without taking any additional measures, is feasible. Regardless of whether and which fiscal measures will be continued or undertaken in 2015, the accumulation of tax liabilities (ENFIA, income tax) in the last quarter of 2014 will probably exert more pressure on the household disposable income than the corresponding last year's liabilities (EETAA).

The stress tests in the four largest Greek banks, as well as the processes following a potential exit of the IMF from the programme of Greek state financing, on Greek government request, will lead to a redefinition of the financial needs of the Greek state and the possible ways to cover them. Until the completion of the stress tests and the coverage of the estimated small, additional capital needs, which will arise for all or some banks, no significant changes are expected as far as the followed credit policy is concerned until the end of 2014. The reduction of the credit to the non-financial firms continued in the first eight months of 2014, for a fifth year in a row, with a rate slightly lower this year than in 2013 (-5.3% versus -6.8% in the same period of last year). However, 2015 is expected to become a turning point for bank lending, which is expected to expand, especially to businesses. To this development, the recent ECB decision to limit the "haircut" on the Greek bonds it holds as collateral to provide liquidity to the Greek banks, will also play a significant role.

On the other hand, it is expected that the international business interest in Greece will be revived in the current semester, after the spring elections. In the May - July quarter, during which the elections' influence began to languish, the net inflow of foreign direct investment reached €790.6 million vs. €228.6 million in the first quarter of 2014. Throughout the first seven months of the year, the FDI amounted to €1.02 bn., almost four times more than a year ago (€235.4 mil.), when they were at one of their historically low levels. However, as already noted, there still remains an element of election uncertainty, in view of the election of the new President of Greece, which continues to act as an impediment to investment to certain foreign investors.

Foreign direct investment and the more general investment activity are partly affected by this year's low activity level of the Public Asset Development Fund (TAIPED). The downward adjustment of its revenues, after the latest review by the Troika - which primarily regarded the current year (at €1.5 bn., from €3.6 bn. in the Explanatory Report of the State Budget 2014) - will affect investment and production activity, not only in 2014, but in 2015 as well. A counterbalancing force to the restrictive effects on investment due to the small number of deals by TAIPED, is the more frontload implementation of the Public Investment Program (PIP), relative to 2013. Although the total budget of the PIP is not significantly higher than that of the previous year (€ 6,8 bn. vs. € 6,65 bn.), the expenditure acceleration by 30% in the January - August period this year, is a catalyst for the fuller impact of the multipliers within the current year.

The significant boost of the tourist sector activity, which is reflected in the largest gross value added growth during the first half of 2014, compared to the other key areas, consists the key to halting the recession of the Greek economy. Whether this trend will continue in this semester, and to what degree, will largely determine the course of GDP this year, as noted in previous reports of IOBE. In the first seven months of 2014, the Travel BOP surplus was 13.8% higher than a year ago (by €662 million). A surplus of €610 million occurred in just the May-July quarter, a development that points to a mild growth of the Greek economy in the third quarter. This will help increase employment in Tourism and the associated activities and sectors, which are also labour-intensive, and hence support further easing of unemployment.

The current socio-economic environment is shaped by the halting of the recession, the boost of the GDP, received primarily from the tourist sector, the current review of the EAP, the consultations among official creditors for the funding of Greece in the coming years and the pressures on household disposable income from the accumulated at the end of the year taxes and the wages and pension cuts that took place until last July. In this environment, **a modest recovery of the Greek economy is expected in the second half of 2014, and especially in the third quarter.**

Consumer expenditure is estimated to have increased in the third quarter, mainly due to the rise in employment in the second and third quarter, which in turn benefited from the labour market reforms, but also due to deflation. This increase will be weaken or even come to a halt in the last quarter of 2014, as the seasonal employment will have ended and the households' tax payments will be slightly higher than last year. Moreover, the level of consumer spending was also higher quarter on quarter in the last quarter of 2013, providing a high basis of comparison. **Subsequently, household consumption spending will be about 0.7% higher this year compared to last year**.

Public consumption remained at last year's level or close to it up to the third quarter, due to the inhibitory effects of the elections on the reforms in the public sector. However, the implementation, especially in the fourth quarter, of those reforms planned to be completed during the current review - including the 6,500 layoffs - will lead to **a decline in public consumption in 2014 by 1.5%.**

In the part of **public spending on investment**, the boost from the faster year-on-year implementation of the Public Investment Program will continue throughout 2014. In terms of **private investment**, construction activity will not recover in the second half of 2014. Its further, stronger decline in the first half of the year, which reached 40% in housing, will ease, but not cease, in the current semester, partly because of the confusion caused in August and September by the new property tax system (ENFIA). The low supply of funds by the banks to the firms will continue to be an inhibiting factor in investment activity, until the capital adequacy of those having additional capital needs - according to the results of the stress tests by the ECB - is restored.

On the other hand, the completion of the spring elections will have a catalytic effect on the implementation of **private investment projects**, mainly by foreign investors who avoid making business moves under conditions of political uncertainty. **As a result of the trends in the various determinants of investment activity, a modest decline, by 2-3%, is still expected for this year as well**.

On the side of the external balance of the economy, the persistence of the strong year-on-year growth in international tourist arrivals, perhaps somewhat weaker due to base effects, will lead to an **increase in total exports**, **of about 4.0-4.5%.** The reduction of the exports of goods will prevent a greater increase. On the other hand, the imports of goods will experience an increase, because of the boost in consumer demand and also - but to a smaller extent – because of the reduction of the excise duty on heating oil. Combined with higher imports of services, due to a higher demand for tourist services, there will be an increase of imports this year of about 2.5%, for the first time since 2008.

These trends in the main components of GDP keep the prediction of IOBE for the growth rate of the Greek economy this year unchanged, in the region of 0.7%.

The achievement of the primary surplus target in the State Budget is on track

The primary surplus of the state budget reached €1.95 billion in the first eight months of 2014, compared to €2.95 billion in the same period of 2013. However, the surplus achieved was twice as high as the target for the specific period of the year (€980 million). Throughout this period, the primary surplus improved due to expenditure cuts, which reached €1.06 billion. In particular, the operating and other expenditure this year were cut by €1.0 billion, whereas social spending was reduced by €791 million. The revenues were nearly €2 billion less, leaving a gap from their target of €329 million. Although the tax revenues increased by €550 million (+0.9%), due to higher payments of direct taxes (+€1.1 billion), the tax refunds almost doubled (+€1.0 billion). The collection of ENFIA, the first instalment of which was postponed for a month, as well as the income tax are expected to cover up for the aforementioned gaps.

State Budget Draft for 2015: continuation of the fiscal consolidation

According to the draft of the State Budget for 2015, the general government primary surplus[1] will reach, without any additional measures taken, €5.4 billion next year (2.9% of GDP), being slightly lower than its EAP target (€5.65 billion). The projected revenues are higher in the State Budget, relative to the Medium Term Fiscal Strategy (MTFS) over 2015-2018, by €2.2 billion, which comes mainly from higher ordinary revenues (higher revenues from direct taxes) by €1.2 billion. The projected increase is expected to be achieved without taking into account certain potential positive effects (e.g. a significant recovery of non-tax revenue this year) and despite tax reductions, such as the lower excise duty on heating oil, the lower social solidarity contribution (by 30%), the abolition of third-party taxes, etc. The ordinary budget expenditure will be marginally higher than projected in the MTFS 2015-2018 (+€170 million), due to an increase of approximately €400 million of the primary expenditure, resulting from higher payments in wages and pensions. Recall that in the latest EAP reviews, both the IMF and the EU also forecasted a strong positive primary surplus of the General Government in 2015 (3.0%). However, for its achievement, additional measures (or expanding the existing ones) of 1.0% - 1.1% of the GDP, are considered necessary.

Easing of unemployment in the second quarter of the year, for the first time between successive years

The continued easing of the recession since the second quarter of 2013 had a limiting effect on unemployment, although with a time lag of a few quarters, as predicted in previous reports of IOBE. **In the second quarter of this year, the unemployment rate stood at 26.6%, versus 27.3% in the corresponding quarter of last year and 27.8% at the beginning of 2013, falling year on year for the first time since 2008.** The unemployment rate was slightly lower than last year throughout the first half of 2014 as well, reaching 27.3% from 27.5%.

The mild growth of the Greek economy during the current semester, derived mainly from labour-intensive activities, such as those in the tourist and food services sectors, will continue to exert pressure on unemployment, at least until the third quarter. The extensive structural changes in the labour market during the recent years, as well as the reduction of social security contributions for those insured in IKA, by 3.9% since last July, will support the boost of employment.

[1] As defined in the EAP.

The programmes of the Manpower Employment Organisation (OAED) for the unemployed, with a large number of beneficiaries, will continue to have a positive effect on employment. In contrast, the planned 6,500 layoffs in the public sector towards the end of the year will have an upward, albeit minor, effect on unemployment. Taking into account the high level of unemployment at the beginning of 2014, the prediction **for its average level in 2014 is maintained at 26.7%, slightly lower than last year (27.5%).**

Weakening deflation due to reviving demand

The Consumer Price Index fell by 0.6% in the third quarter, following a decrease of 1.5% in the second quarter of this year and 1% during the same quarter of 2013. Throughout the first nine months of 2014, the deflation rate was 1.1%, versus 0.5% a year ago. The deceleration of the decline of domestic income, due to the mild increase in employment until the third quarter, will positively affect consumer household demand, by further slowing the decline of the CPI by the end of this year. This effect will be partially offset by the 30% reduction in the excise duty on heating oil in October, as well as by the drop of the urban transport ticket prices in Athens and Piraeus. Subsequently, **deflation will continue in 2014 as well with a similar intensity with last, 0.8% against 0.9%.**

Special Study of IOBE: "Entrepreneurship in Greece, 2013-14"

Since 2003, IOBE has been participating as the Greek partner in the international research project of the World Observatory for Entrepreneurship (Global Entrepreneurship Monitor, GEM). The project was initiated in 1999, with the participation of 10 countries and has expanded to 70 countries by now. Today, GEM examines the entrepreneurial activity in various regions of the world, covering ¾ of the world's population and more than 85% of the world output. The main research objective of GEM is to examine the business demographic trends in new entrepreneurship, including self-employment.

From the preliminary processing of the data for this year's GEM report - which will be published by IOBE in late 2014 - the "early stages of entrepreneurship", i.e. the percentage of population aged 18-64 who start a new business, fell in 2013, for a second consecutive year, to its lowest level since the beginning of the survey in 2003 (at 5.2%). Moreover, there seems to be a reinforcement of opportunity entrepreneurship (3 in 4 early stage entrepreneurs) and an attenuation of necessity entrepreneurship. The strengthening of opportunity entrepreneurship is generally desirable in an economy, since it reflects a proactive choice, while necessity entrepreneurship may lead to business projects that are not as sustainable.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the World Economy

The Global Economic Environment

The global economic activity kept on strengthening year on year in the first half of 2014. GDP in the OECD member-states grew by 1.9% year on year in the second quarter of this year, compared to only 1.1% in the corresponding quarter of last year and 0.4% in the previous quarter. On the other hand, the latest IMF estimates point to a stabilisation of the growth rate of global GDP in 2014 at the previous year level of 3.3%. The latest estimate of IMF is slightly revised down, relatively to the previous one (3.6%). The revised estimations indicate modest growth momentum in both areas of the European economy.

The effects of the global financing crisis of 2008, mainly in terms of accumulation of public debt and high unemployment, linger on and confronting these challenges remains a key point. Without the appropriate fiscal and growth policy measures, a new turmoil in the global economy cannot be ruled out. Among the developed economies, the US seems to have finally overcome the crisis. In Europe, the recent result of the referendum about the independence of Scotland from the United Kingdom prevented potential economic shocks, which could have extended to the rest of the European Union. However, low inflation in the EU continues to be a problem, despite the decisions of the European Central Bank for introducing negative interest rates. Moreover, the armed conflict in eastern Ukraine creates political and economic disputes between the developed economies, particularly the US and the European Union, and Russia, affecting mainly the trade flows between them and the energy supply in the EU.

In the emerging economies, there are various trends. In China, high growth levels have remained for another year, while in Brazil the rate of growth has slowed significantly.

In greater detail, regarding the economic activity in the major economies of the world by the middle of this year and the estimates for all of 2014:

In the **USA,** GDP increased by 2.4% year on year during the second quarter of 2014, compared to 1.9% growth rate in the first quarter of 2014. Overall for 2014, the US economy is expected to grow at the same rate as in the previous year (2.2%). The continued growth at a relatively high rate will come mainly from expansion of investment and activity in the construction industry. The gradual implementation of fiscal measures, combined with the accommodative monetary policy, creates the conditions for a steady growth of the US economy.

In **Japan**, the GDP growth rate weakened abruptly, from 2.7% in the second quarter of 2013 to zero in the second quarter of 2014. The Japanese economy has been stagnant for the first time since the first quarter of 2013. Quarter on quarter, the growth rate made a very sharp drop from + 1.5% to -1.8%. The sharp slowdown reflects primarily the fact that in the first quarter of the year there was a significant increase in consumption in anticipation of the impending increase in consumption tax. The consequent reduction in consumption after the implementation of the additional tax was expected. For the whole year, growth is expected to slow down by 0.6 percentage points to 0.9% (from 1.5% in the previous year).

The GDP of **China** increased year on year by 7.5% in the second quarter of 2014, with the same rate as in the first quarter of the year. The growth stabilisation is due to a series of policies to boost investment in public infrastructure and construction. The growth of exports, derived from stronger demand in the developed economies and the weakening of the exchange rate of its currency, also had a significant impact. Overall in 2014, the GDP of China is projected to grow by 7.4%, slightly less than in the previous year (7.7%). However, the risks to China's economy remain due to the unstable environment of the real estate and financial markets.

The GDP growth of the **Russian** economy weakened further in the second quarter of 2014, standing at 1% y-o-y. The IMF estimates that the Russian GDP will grow by 0.2% overall this year, significantly less than it had predicted previously (1.3%). The significant downward revision was expected, given the continuous crashes in Eastern Ukraine and the on-going geopolitical dispute between USA-EU and Russia. Investment has fallen significantly in Russia, with the already low levels of business confidence continuing to weaken. In addition, the ruble devaluated, which leaded to an increase in inflation. In contrast, a positive development for Russia's economy was the export growth in non-energy goods and services.

Regarding the economic climate indicator published by IFO, the world economic sentiment improved during the second quarter of 2014, standing at 105.0 points, from 102.3 points in the previous quarter. The assessment of the current financial situation also improved, with the relevant indicator growing to 95.3 points compared to 91.6 points in the two previous two quarters of the year.

The expectations for the economic outlook over the next six months returned to 114.0 points, as in the first quarter, after the decline to 112.3 points in the second quarter of 2014. This indicates that the global economy is still growing, slightly stronger than earlier in the year. However, the increased energy prices and the energy supply risks, because of the crashes in Eastern Ukraine, pose a serious risk to the global economy.

Table 2.1

IMF, World Economic Outlook
(annual % change, in real prices)

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

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

An examination of the economic sentiment indicator in the major economic regions worldwide shows opposite tendencies, with the indicators declining slightly in Europe, and improving significantly in North America and Asia.

In greater detail, in **Europe** the economic sentiment indicator reached 117.5 points in the third quarter 2014, falling by 0.9 points compared to the previous quarter. This is the first time the indicator declined since the first quarter of 2013. However, it remained high and significantly above 100, so there are few concerns about growth in the EU.

In **North America**, the economic sentiment indicator recorded a significant increase in the second quarter of this year, by 3.4 points, reaching 110.5 points. This sizeable improvement is primarily attributed to the improvement of the current economic situation compared to the previous quarter.

The economic sentiment indicator in **Asia** recorded a significant quarter-on-quarter increase in the third quarter of 2014, by 9.6 points, reaching 99.1 points from 89.5 points of the previous quarter. The improvement came from a significant boost of the optimism regarding the economic outlook in Asia over the next six months.

The Economies of the EU and the Euro area

The recovery of the Eurozone is getting stronger, as in the second quarter of 2014 its GDP grew by 0.7% year on year. Compared to the first quarter, the Eurozone GDP increased by 0.9%. The same trends dominated in the GDP of the European Union as well, leading to an increase by 1.2% year on year and 1.4% quarter on quarter.

According to the recent estimates of the IMF, the Eurozone economy will grow by 0.8% overall in 2014, after two consecutive years of recession. However, these forecasts have been revised down compared with the summer assessment, when the growth rate was projected at 1.1% in the Eurozone. As for the EU-28, GDP is expected to increase by 1.4%.

Table 2.2

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

Quarter/ Year	III/12	IV/12	I/13	II/13	III/13	IV/13	I/14	II/14	III/14
Economic sentiment	85,1	82,4	94,1	96,8	94,1	98,6	103,2	102,3	105,0
Current situation	78,5	76,6	80,4	84,1	82,2	84,1	91,6	91,6	95,3
Expectations	91,2	87,7	107,0	108,8	105,3	112,3	114,0	112,3	114,0

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

Table 2.3

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

Quarter /Year	III/12	IV/12	I/13	II/13	III/13	IV/13	I/14	II/14	III/14
North America	81,2	80,3	86,2	87,0	93,7	88,7	102,1	107,1	110,5
Europe	86,4	80,6	90,3	93,2	99,0	109,7	116,5	118,4	117,5
Asia	83,3	81,6	97,4	106,1	89,5	98,2	97,4	89,5	99,1

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

Therefore, it seems that the recovery in the Eurozone still has not gained a significant momentum. The concern of the European Central Bank about the low inflation and liquidity in the real economy in June led to unprecedented easing of monetary policy by introducing negative interest rates. However, there are doubts about how supportive this policy will be to facilitate the provision of credit from banks to businesses, as it might be the case that the liquidity problem of the enterprises is coming now from low credit demand and not by the limited supply of credit[2].

From 26 member-states of the European Union with available data, the majority (21) recorded positive GDP growth rates in the second quarter of 2014. In more detail, the countries with the highest GDP growth rates were Hungary (3.7%), Latvia (3.5%), Poland (3.3%), United Kingdom (3.1%), Lithuania (3.1%), and Slovenia (2.8%). In contrast, the largest recession was recorded in Cyprus (-2.5%) and Croatia (-0.8%).

The analysis below provides more information on the GDP components of the Eurozone and the European Union, as well as on their near-term outlook, based on the relevant predictions of the European Commission (Table 2.4), emphasising the year-on-year percentage changes in the second quarter of 2014.

In greater detail, according to Eurostat data, the total **exports** of goods and services in the second quarter of 2014 increased by 2% in the Eurozone and 2.4% in the European Union. However, the other component of the trade balance, **imports**, recorded a larger increase in both regions, by 2.8% in the Eurozone and by 3.4% in the European Union, which means that net exports are no longer the main driving force of European growth. The significant increase of imports is mainly attributed to the increase of domestic demand. The recent estimates by the European Commission are similar for the whole year, as an increase of exports by 4% is anticipated for both zones, while imports are expected to grow even more, by 5%. Therefore, it is evident that the European recovery should be based not only on net exports, but also on domestic demand, as evident by the analysis that follows.

As far as **investment** is concerned, the growth rate strengthened in the second quarter of the year, standing at 1.3% for the Eurozone and 2.2% for the EU-28. The increase in investment is anticipated to grow even stronger in the rest of the year, leading to estimates of 2.3% and 3.1% for the Eurozone and the EU-28, respectively. This is because the improvement of the financial conditions and the ease of uncertainty are expected to stimulate investment, particularly in equipment. However, in several European countries, the high levels of debt held by

[2] According to the two regular field surveys, Bank Lending Survey and Survey on the Access to Finance of SMEs, performed by the European Central Bank in order to analyse the lending restrictions in the Euro area, with the former focusing on credit supply and the latter on credit demand, the key cause for the lack of liquidity in the enterprises has more to do with credit demand than credit supply.

many enterprises and the need to consolidate their balances may serve as an impediment for the undertaking of new investment plans.

Private Consumption increased by 0.7% and 1.2% in the Eurozone and the European Union respectively during the second quarter of 2014. The modest increase in private consumption is expected to get stronger, reaching 0.8% and 1.2% on average for the two regions this year, mainly due to the improvement in consumer confidence and disposable income, as a result of small improvements in the labour market, low inflation rates and the easing of the fiscal consolidation effort. The same trends characterised **public consumption** as well in the second quarter of this year, as there was an increase by 0.8% in the Eurozone and 1.1% in the European Union. Public consumption is anticipated to contribute to GDP only by 0.7% overall this year in both regions.

The conditions in the **labour market** eased somewhat in comparison to the previous year and, given the gradual acceleration of the GDP growth and the lag between the changes in employment and those in output, the rate of job creation is anticipated to be modestly higher than the rate of job losses in the short term. Specifically, according to the estimates of the European Commission, the annual change of the employment rate will be positive (0.6% in the Eurozone and 0.4% in EU-28). Furthermore the unemployment rate is expected to be slightly lower in 2014, reflecting partly the benefits from the recovery of GDP, standing at 11.8% in EU-28 and at 10.5% in the Eurozone.

Concerning **inflation**, a further deceleration is expected in 2014 overall, reaching 1% in the Eurozone (from 1.4% last year) and 1.2% in EU-28 (from 1.5% in 2013). The low inflation rates in the European periphery are attributed both to external factors, such as the appreciation of the Euro, and to internal factors, such as the weak economic environment.

Regarding the **fiscal performance**, the General Government deficit is expected to decline again, standing at 2.5% for both European regions. This positive development reflects primarily the benefits from the implementation of fiscal measures aiming to reduce the large deficits in several countries of the European periphery. The debt-to-GDP ratio is anticipated to increase marginally in 2014, both in the Eurozone (96%) and in the EU (89.5%), probably reaching its peak, since the expectations for next year predict a decrease, as a consequence of the continuing primary surpluses in several European countries and the acceleration of growth.

Table 2.4

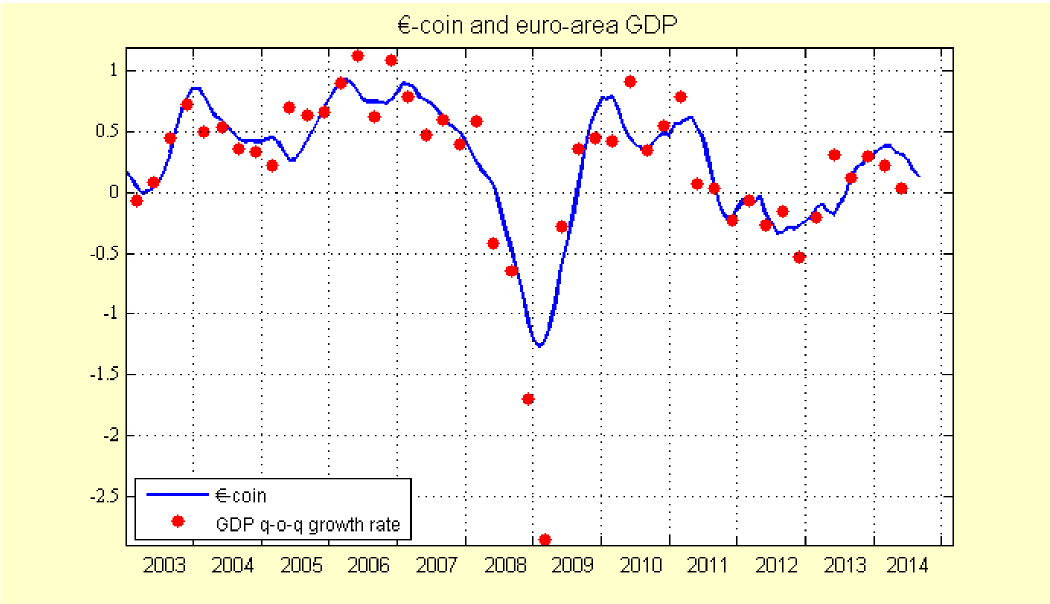
Macroeconomic fundamentals, EU-28, Eurozone (annual % changes)

	EE-28			Eurozone		
	2013	2014	2015	2013	2014	2015
GDP	0,2	1,4	1,8	-0,4	0,8	1,3
Private consumption	0,0	1,2	1,6	-0,7	0,8	1,3
Public consumption	0,4	0,7	0,6	0,2	0,7	0,5
Investments	-2,3	3,1	4,7	-2,9	2,3	4.3
Employment	-0,4	0,6	0,7	-0,9	0,4	0,7
Unemployment (% workforce)	10,8	10,5	10,1	12,0	11,8	11,4
Inflation	1,5	1,2	1,5	1,4	1,0	1,3
Exports of goods-services	1,6	4,0	5,1	1,4	4,0	5,3
Imports of goods-services	0,4	3,7	5,2	0.2	3,8	5,5
General Government Balance (% of GDP)	-3,3	-2,6	-2,5	-3,0	-2,5	-2,3
General government Debt (% of GDP)	88,9	89,5	89,2	95,0	96,0	95,4
Current Account Balance (% of GDP)	1,6	1,8	1,8	2,6	2,9	2,9

***Source:** World Economic Outlook, IMF, October 2014
Source: European Economic Forecast, Spring 2014, European Commission, May 2014

Figure 2.1

Monthly Index €-COIN of CEPR



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

Table 2.5

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

Month	Jan-13	Feb-13	Mar-13	Apr-13	Ma-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
EU-28	91,0	91,5	91,5	89,9	91,0	92,8	95,3	98,4	100,9	101,9	102,4	103,8
Eurozone	89,7	90,5	90,1	89,0	89,8	91,7	92,9	95,7	97,3	98,1	98,8	100,4
Month	Jan -14	Feb-14	Mar-14	Apr-14	Ma-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
EU-28	104,8	105,0	105,3	106,3	106,5	106,4	105,8	104,6	103,6			
Eurozone	101,0	101,2	102,5	102,0	102,6	102,1	102,2	100,6	99,9			

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

Source: European Commission (DG ECFIN), September 2014

The main leading indicators of economic climate and activity deteriorated in the last months both in the Eurozone and the European Union. In particular, Figure 2.1 depicts on a monthly basis the €-COIN[3] indicator, a leading indicator for the economic activity in the Eurozone. The indicator decreased in September 2014, to 0.13 points, compared to 0.19 points in the previous month. This decrease came after a large fall between July and August (falling from 0.27 to 0.19 points). The deterioration of business confidence in the recent months came from weaker optimism of both businesses and consumers, slowdown of industrial activity and weaker exports.

According to the European Commission, the leading indicator of economic climate for both the Eurozone and the European Union has deteriorated as well. Specifically, the indicator for EU-28 has decreased, as in September it stood at 103.6 points, from 104.6 points in August and 105.8 points in July 2014. For the Eurozone, the same indicator in September decreased to 99.9 points from 100.6 points in August and 102.2 points in July. The deterioration is due to the weak consumer confidence, which weakened for a fourth consecutive month, and to lower expectations in the retail industry. In contrast, confidence in the construction sector strengthened, but not enough to compensate for the loss.

2.2 The economic environment in Greece

A) Economic Sentiment

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

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

The economic sentiment indicator remained higher year on year in the third quarter, suggesting a steady improvement in expectations, which is in line with the gradual deceleration of the economic recession. Despite the rise of the indicator in July and August, in September, the expectations slightly deteriorated, which was largely expected, due both to the increased tax obligations of households and businesses in the last quarter of the year, and the end of the tourist season, during which there was a high seasonal employment and activity in certain sectors. Moreover, some major programs for the unemployed, which temporarily reduced unemployment, were completed. In particular:

The Economic Sentiment Indicator in Greece rose slightly in the third quarter of 2014, to 101.4 points on average (from 99.8 points in the preceding quarter), at its highest since mid-2008.

In Europe, the climate indicator declined quarter on quarter, both in the Euro zone and the EU. In particular, the indicator reached 100.9 (from 102.2) and 104.7 (from 106.4) in the Euro zone and the EU respectively, higher year on year (from 95.3 and 98.3 points respectively on both zones).

Business confidence in Greece in the third quarter improved mildly quarter on quarter in the Industry sector, and more profoundly in Retail Trade and Services. In Industry, the increase was limited to two points, while in Retail Trade and Services, both relevant indicators gained 7 points. Unlike the other sectors, in Construction, the climate deteriorated slightly in the examined quarter, by 2 points. Finally, consumer confidence also mildly dropped in the quarter under review, by 2 points, steadily remaining low.

Compared to the corresponding period of last year, the average indicators increased in almost all sectors, and significantly in some: the index in Industry gained 8 points and in Services and Retail Trade 22 points. Only the Construction the indicator remained at the same level. There was a marked year-on-year rise in consumer confidence in the examined quarter (by 21 points). More specifically:

The Consumer Confidence Indicator in Greece in the third quarter decreased quarter on quarter by 2 points, with its average standing at -52.7, significantly higher year on year (from -73.3). Although the confidence of households has stabilised since the end of 2013, the Greek consumers have remained the most pessimistic Europeans over the past 4½ years. However, the corresponding average of the European indicators deteriorated this quarter, by approximately 2 units, both in the Euro zone and in the EU, reaching -9.9 and -6.6 points, respectively, higher year on year (at -15.9 and -13.0 respectively on average).

The trends of the various components that constitute the aggregate indicator vary in the current quarter: the negative predictions of the Greek consumers about the financial situation of their households and the economic situation of the country in the coming 12 months have worsened, the former marginally and the latter mildly. In contrast, the index of savings over the next 12 months has improved slightly, albeit from historically low levels in the previous quarter. Finally, the consumers' predictions on the evolution of unemployment have remained unchanged, at unfavourable levels.

The percentage of those who were pessimistic about the economic situation of the household within the next 12 months increased to 58% (from 56%), whereas 22% (19%) of the households declared that this would remain the same. Moreover, the percentage of Greek consumers with pessimistic predictions about the economic situation of the country reached 61% (from 56%), with 17% (from 19%) believing that it would remain the same. As to the intention to save, 88% of the households still consider unlikely or highly unlikely that their savings will increase in the next 12 months, with 10% (8%) expecting otherwise. The vast majority of the respondents (67%) continued to believe that employment would get worse, with an 11% expressing the opposite view. Finally, the percentage of consumers who indicated that they were "in-debt" increased slightly to 17% (from 15% in the previous quarter and 12% in the same quarter of last year). The percentage of the respondents who said that they save a little stood at 8-9% once again, while the percentage of those who declared that they were "just getting by" decreased on average to 61% (from 65%). Finally, the percentage of households who reported that they were "drawing from their savings" remained at 11-12%.

The Business Climate Indicator in **Industry** in the third quarter stood at 97.8 (from 95.6) points, higher compared to last year's performance (90.1 points). With respect to its basic components, the positive expectations for the short-term activity slightly weakened in the examined quarter, with the relevant indicator moving to 19 (from 23) on average. On the other hand, the negative estimates for the level of order books and demand slightly improved (to -18 from -26). The estimates for the stocks of finished products suggest that they were at marginally high for that season levels, with the relevant indicator falling by 2 points compared to the previous quarter (at 2 units.). In the other activity variables, the trends in export balances suggest an improvement of the current estimates for exports and stability as far as the current export order books and the predicted export potential is concerned. The balance of employment expectations turned positive (from -6 to +6 points on average), higher year on year as well (from -5 points). The capacity utilisation ratio in the manufacturing industry remained low during the third quarter, at 69%, slightly higher, however, year on year (67%). Finally, the estimated number of months of production assured by overall current order books, reached 3.8 on average (from 4.6 months in the previous quarter and 3.6 months last year).

The Confidence Indicator in **Retail Trade** in the period under review increased to 93.5 points (from 86.9) points, higher from the corresponding quarter of last year (71.5 points). This development stems from an improvement in the projected sales indicator (-2 points from -18). From the companies in the sector, 38% (from 45%) stated that sales declined quarter on quarter, while 37% (from 27%) reported sales growth. Regarding the expectations of current sales, however, the relative indicator increased slightly by 3 points, reaching +7.

The negative inventories indicator remained stable year on year at -3 points on average. Among the remaining activity indicators, the expectations on orders to suppliers decreased significantly (-7 on average in the quarter from -5). Regarding the employment in the sector, the balance of expectations decreased to +11 points (from +16), reaching the corresponding level of last year as well. Finally, in terms of prices, the deflationary expectations remained stable quarter on quarter in the quarter under review (-11 points on average). About 14% (from 17%) of the businesses were expecting prices to fall, while an overwhelming 84% majority (from 76%) were anticipating price stability. In all the constituent branches of the sector, expectations improved in the examined period, except for the Department Stores, where the indicator remained stable quarter on quarter.

The business expectations in **Construction** deteriorated modestly quarter on quarter in the third quarter, with the indicator decreasing by 2 points to 80 points. Year on year, the indicator remained unchanged. Regarding the basic components of the index, the fall in the employment expectations in the sector (to +8 from +18 points) was partly offset by the easing of the strongly negative expectations of the businesses on the level of planned activities (dropping to -55 from -61 points). The improvement stemmed mainly from undertaken construction works on main highways, environmental management projects and the operation of domestic firms abroad. Among the companies in the sector, 1/5 were expecting job cuts and 29% (from 36%) job creation. Regarding the assessment of the companies on their current business activity, the indicator remained stable at -23, while the number of months of assured activity has remained unchanged in the past year (at 11 months on average).

The balance of price expectations also remained unchanged quarter on quarter at -29 points. About 34% of the firms were expecting prices to fall in the short term. Finally, the percentage of firms reporting that their business activity was being conducted without obstacles increased marginally to 15% (from 11%), with the remaining businesses reported as major obstacles low demand (31%), inadequate funding (1/3) and factors such as the general economic situation, the recession, high taxes, lack of projects, late payments from the state, large discounts, etc. Among the constituent branches, the sentiment remained unchanged in Private Construction (54.5 points). In contrast, the indicator in Construction of Public Works fell slightly to 89.6 points from 94.5 points.

In **Services**, the Business Climate Indicator increased quarter-on-quarter in the third quarter, to 94.1 (from 87.1), 18 points higher in comparison to the same period of last year. All the key components of the indicator improved this quarter: the assessment of the enterprises on their current demand reached +19 points (from +4) and the assessment of the enterprises of their current activity improved to +16 points (from +4). In contrast, the short-term demand expectations lost strength (to +16 from +18), while employment expectations balanced out (from +5 on average). Regarding prices, the deflationary expectations eased, with the corresponding index losing 10 points to reach -15. About 18% (from 10%) of the firms were expecting prices to fall and 78% (from 85%) of them to remain unchanged.

Finally, the percentage of those who were reporting unimpeded business operation increased to 1/4 from 1/5 this quarter, with 25% of the respondents declaring as a key obstacle to their operation insufficient demand, 32% lack of working capital, 3% inadequate labour supply and 13% factors associated with the general economic situation and the crisis, the global current affairs, borrowing difficulties, high taxes, late payments etc.

All the constituent branches of the Services sector, except for IT Services, recorded a small or big quarter-on-quarter rise in the business climate indicator. The most significant improvement was recorded in Land Transport and Financial Intermediaries.

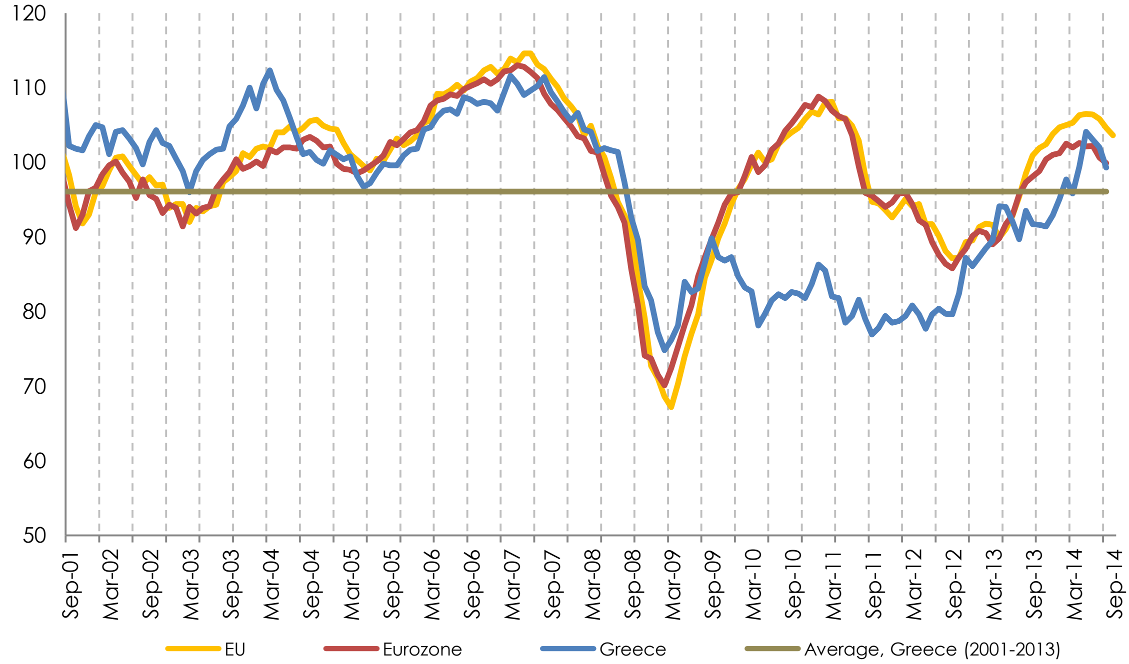
B) Fiscal developments and outlook

Execution of the State Budget (January–August 2014)

During the first eight months of 2014, the State Budget recorded a deficit of €2.85 billion, compared to €2.5 billion in the corresponding period of 2013. The deterioration by €347 mil. can be explained from the fact that the decline in revenues in that period was greater than that on the expenditure side (-5.7% vs. -4.3%). A primary surplus of € 1.95 billion was recorded in the first eight months, compared to € 2.9 billion surplus in the previous year, exceeding the target for the period by approximately € 980 million.

Figure 2.2

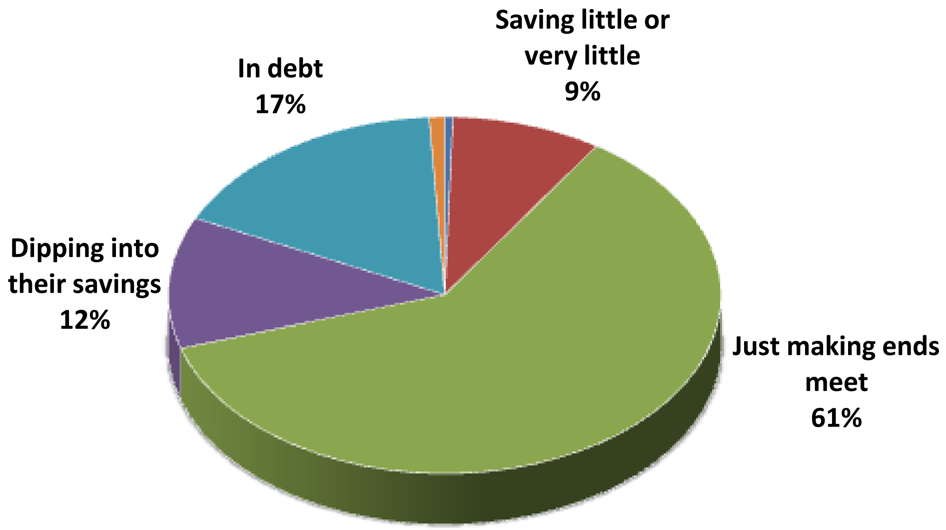
Economic Sentiment Indicators: EU28, Euro Area and Greece
(1990-2013=100, seasonally adjusted data)



Source: European Commission, DG ECFIN

Figure 2.3

Consumers' Survey data on their household's financial situation
(July-August 2014 average)



Source: IOBE

Table 2.6

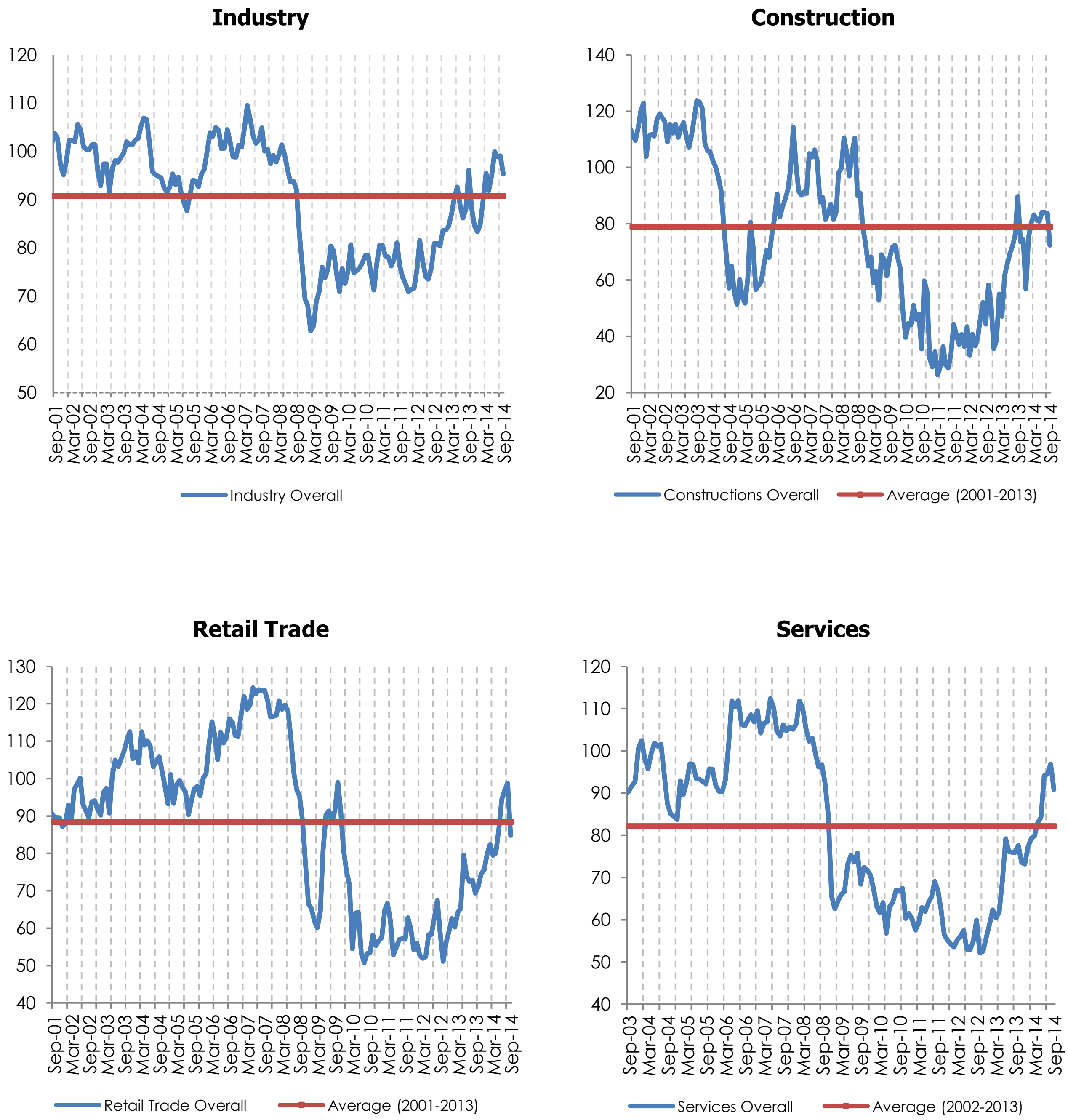
Short-term economic sentiment indicators

Month/ year	Economic Sentiment Indicators[1]		Business confidence indicators[2] (Greece)				Consumer Confidence indicator [1] (Greece)
	E.U-27	Greece	Industry	Constructions	Retail Trade	Services	
2002	97,3	102,0	101,2	114,0	93,3	82,8	-27,5
2003	95,4	100,1	97,9	115,0	102,0	85,5	-39,4
2004	103,3	104,8	99,1	81,5	104,8	94,6	-25,8
2005	100,8	98,1	92,6	63,0	96,8	93,6	-33,8
2006	108,3	104,9	101,5	91,1	110,8	103,7	-33,3
2007	111,0	108,4	102,8	92,5	120,8	106,6	-28,5
2008	93,3	97,4	91,9	95,2	102,5	97,8	-46,0
2009	79,3	79,7	72,1	65,5	80,4	70,1	-45,7
2010	101,2	79,3	76,2	45,2	59,5	62,9	-63,4
2011	100,3	77,6	76,9	34,2	58,9	61,7	-74,1
2012	90,9	80,0	77,2	43,2	57,1	54,8	-74,8
2013	95,7	90,4	87,8	65,0	70,2	70,4	-69,3
Jan–13	91,3	86,1	83,7	38,5	62,6	58,9	-71,9
Feb-13	91,8	87,3	84,4	55,0	60,3	62,3	-71,4
Mar-13	91,6	88,5	87,1	47,1	64,2	60,4	-71,2
Apr-13	89,9	89,5	90,3	61,5	65,4	61,9	-71,8
May-13	91,0	94,2	92,6	65,7	79,5	69,3	-63,4
Jun-13	92,8	94,0	88,8	69,5	73,9	79,2	-66,5
Jul-13	95,3	92,1	86,2	72,3	72,43	76,1	-70,9
Aug-13	98,4	89,7	88,0	75,9	72,9	76,0	-76,6
Sep-13	100,9	93,6	96,1	89,7	69,4	75,9	-72,2
Oct-13	101,9	91,7	88,4	73,6	71,2	77,6	-66,2
Nov-13	102,4	91,6	84,6	74,4	74,6	73,6	-66,7
Dec-13	103,8	91,4	83,4	56,9	75,5	73,2	-63,3
Jan–14	104,8	92,6	84,7	75,2	79,9	77,3	-64,5
Feb-14	105,0	94,8	89,9	80,4	82,4	79,3	-65,2
Mar-14	105,3	97,5	95,5	83,2	79,5	79,8	-59,7
Apr-14	106,3	95,4	91,9	81,3	80,1	83,0	-55,0
May-14	106,5	99,1	95,1	80,9	86,2	84,2	-52,5
Jun-14	106,4	103,7	99,9	84,2	94,4	94,2	-49,8
Jul-14	105,8	103,0	98,9	84,1	96,83	94,5	-48,1
Aug-14	104,6	102,0	99,1	83,7	98,80	96,9	-54,2
Sept-14	103,6	99,3	95,3	72,40	84,80	90,80	-55,8

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

Figure 2.4

Business Sentiment Indicators



Source: IOBE

Spending

The reduction in the primary spending (Table 2.7) came mainly from the following changes:

a) A cut in the operating and other expenses by €1 billion (-20.2% y-o-y) and

b) A €791 million cut in social spending, as a result of a 17.4% year-on-year cut in the grants to the social security sector, leaving these grants at about €6.9 billion.

c) Small reduction in salaries and pensions spending by 0.2%, much less than in the corresponding period of last year (9%).

In contrast, the Public Investment Program spending increased by €764 mil. (+30%).

Table 2.7

State budget expenditure, January - May

€ mill.	**2013**	**2014**	**Change**	**% Change 2014/13**
TOTAL STATE BUDGET	**37.395**	**35.769**	**-1.626**	**-4,3%**
INTERESTS	**5.363**	**4.795**	**-568**	**-10,6%**
TOTAL REGULAR BUDGET	**32.032**	**30.974**	**-1 058**	**-3,3%**
TOTAL PRIMARY COSTS	**29.487**	**27.692**	**-1.795**	**-6,1%**
REMUNERATION AND PENSIONS	**12.262**	**12.241**	**-21**	**-0,2%**
Remunerations	7.654	7.455	-199	-2,6%
Other Benefits	741	741	0	0,0%
Pensions	3.867	4.045	178	4,6%
INSURANCE, CARE, SOCIAL PROTECTION	**9.915**	**9.124**	**-791**	**-8,0%**
Grants of insurance funds	8.410	6.948	-1.462	-17,4%
Grants of the Employment	316	327	11	3,5%
Social Protection	277	926	649	234,3%
Grants of hospitals	912	923	11	1,2%
OPERATING AND OTHER EXPENSES	**4.966**	**3.965**	**-1.001**	**-20,2%**
Grants	1.148	1.057	-91	-7,9%
Consumer spending	721	748	27	3,7%
Mirror expenditure	2.057	1.495	-562	-27,3%
Other Spending	1.040	665	-375	-36,1%
EARMARKED REVENUE	**2.344**	**2.362**	18	0,8%
PIP	**2.544**	**3.308**	**764**	**30,0%**

Source: Bull Run State Budget in May 2014, MoF., September 2014

Revenues

According to the data from the General Accounting Office, during the first eight months of 2014 the State Budget revenues decreased by €2 billion year-on-year, falling short of the target set for this period in the MTFS 2015-2018 by €329 million (Table 2.8). Net revenues declined year-on-year by €1.3 billion, while the revenues of the Public Investment Programme fell by €632 million year-on-year. This evolution in revenues is partly explained by the increase in tax refunds to businesses, which almost doubled from last year. Additionally, a year-on-year decline is recorded in the revenues from indirect taxes of around €551 million (or -3.5%).

Overall, it appears that the revenue targets for 2014 can be achieved, due to the slight economic recovery expected in the second half. The collection of the unified property tax (ENFIA), the first instalment of which was scheduled for August, but was postponed for a month, will boost the revenue from direct taxes. The upward trend in personal income tax revenues, which increased year-on-year by €537 million (or +12%), a momentum which is likely to strengthen until the end of the year in a period with accumulated payments of instalments of taxes, is another factor expected to boost revenues. The tax receipts from legal entities, which have almost doubled year-on-year, also emit encouraging indications.

Table 2.8
State Budget Revenue, January-August

€ mill.	**2013**	**2014**	**Change**	**Change% 2014/13**
REVENUES OF STATE BUDGET	**34.893**	**32.919**	**-1.974**	**-5,7%**
NET REVENUES OF REGULAR BUDGET	**30.913**	**29.571**	**-1.342**	**-4,3%**
TAX REFUNDS OF REGULAR BUDGET	**1.167**	**2.177**	**1.010**	**86,5%**
TOTAL REVENUES OF REGULAR BUDGET	**32.080**	**31.748**	**-332**	**-1,0%**
TAX REVENUES	**27.240**	**27.790**	**550**	**2,0%**
DIRECT TAXES	**11.606**	**12.707**	**1.101**	**9,5%**
Income taxes	6.521	7.711	1.190	18,2%
Property taxes	1.789	1.547	-242	-13,5%
Direct taxes PIP	2.003	1.588	-415	-20,7%
Other direct taxes	1.293	1.861	568	43,9%
INDIRECT TAXES	**15.634**	**15.083**	**-551**	**-3,5%**
Transaction taxes	9.809	9.513	-296	-3,0%
Consumption taxes	5.176	4.948	-228	-4,4%
Indirect taxes PIP	419	373	-46	-11,0%
Other indirect taxes	231	250	19	8,2%
NON-TAX REVENUES	**4.840**	**3.958**	**-882**	**-18,2%**
DRAWINGS FROM EU	47	87	40	85,1%
NON REGULAR REVENUES	3.170	1.399	-1.771	-55,9%
PERMITS AND RIGHTS	65	0	-65	-100,0%
OTHER	1.558	2.472	914	58,7%
PIP	**3.980**	**3.348**	**-632**	**-15,9%**

Source: Bull Run State Budget in August 2014, MoF., September 2014

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

Recent macroeconomic developments in Greece

Greek GDP contracted slightly in the second quarter of 2014 (-0.3%). This was the second lowest contraction rate since the Greek economic crisis begun, in the third quarter of 2008, according to the latest ELSTAT data on National Accounts. In the second quarter of the previous year the GDP had contracted by 4.0%. **In the first semester of 2014 the Greek GDP was 0.7% lower than in the corresponding period of the previous year, when it had contracted by 5.0%**. The low likelihood of political turmoil after the results of the municipal and the European Parliamentary elections, the confirmation by Eurostat of the 2013 primary budget surplus and the redistribution of part of that surplus to a number of social groups, reinforced the credibility of the Greek fiscal consolidation, boosted consumer confidence and stabilised household spending in the quarter of April – June 2014. Public spending did not change, among other reasons because the layoffs in the public sector planned for this year have not yet been implemented. Furthermore, the trend of stronger year-on-year tourist traffic continued in the third quarter. As a result of these trends, the Greek GDP reached a level similar to that of the previous year.

On the other hand, investment continued to drop, albeit at a slower pace than in the preceding quarter, once again due to the considerable shrinking of housing construction, which contracted by approximately 40% in the first half of 2014 overall. This trend, combined with imports growing faster from the easing of private consumption contraction, prevented the Greek GDP from rising for the first time after six years.

On October 10, 2014, ELSTAT published new data on the Greek National Accounts for the period 1995-2013, following the new European System of National and Regional Accounts (ESA 2010). Based on the new data, the recession of the Greek economy in the period 2008-2013 was greater than what the previous National Accounts data (based on the ESA 95 methodology) suggested. **Greek GDP contracted by 25.9%, based on the new data, compared to a contraction of 23.7% with the previous methodology.** The recession was sharper in the period 2008-2011, particularly so in the years 2009 and 2011, and milder in the period 2012-2013. **The new data imply changes in the way the main GDP components have developed.** Nevertheless, the implications about the critical factors driving GDP contraction did not change. Shrinking household consumption and the sharp drop in fixed capital formation remain the primary factors causing the GDP drop. However, **the aggregate contraction of investment in fixed capital is larger** than what the previous data implied, (-65.3%, against -60.5%). The **decrease in exports is significantly smaller** (-8.8%, against -13.5%), **as is the decrease in imports** (-36.7%, against -42.9%). Consequently, **the decrease in the current accounts deficit is slightly smaller** (-85.2%, against -92.9%). It should be noted that **the Quarterly National Accounts data for the first two quarters of 2014 have not yet been revised.** The effects of the application of ESA 2010 on the 2014 GDP cannot be safely predicted, as the effect of the revised calculation on each GDP component is not guaranteed to be in the same direction.

In particular, regarding the trends of GDP components, **total domestic consumption stabilised in the first half of 2014, after a contraction by 7.6% in the same period a year earlier**. This was the first time consumption did not shrink since 2008. Stabilising trends prevailed in both public and private consumption. Household consumption expenditure in the period January-June 2014 remained constant year-on-year, while public consumption expenditure decreased slightly (by 0.4%). In the first half of the previous year both components of domestic consumption had dropped (both to a similar extent, by 7.6% and 7.7% respectively).

The **significant slowing in the contraction of fixed capital formation in the second quarter of 2014** (0.8%, against 7.8% in the preceding quarter), eased the contraction of investment in the first half of the year as a whole, compared with 2013. The decrease in investment during this period did not exceed 4.3%, against 11.4% a year earlier. The contraction of inventories by €500 million in the second quarter, following an increase the previous year, pushed in the opposite direction. Nevertheless, shrinking inventories did not outweigh the effect of slowing contraction of fixed capital formation. As a result, **in the first half of 2014 investment was 8.2% lower year-on-year**, which is a slightly greater drop, compared with the same period of 2013 (-6.2%).

As previously mentioned, **housing construction shrank sharply, by 41.9%,** over the first half of this year, a decline greater than that a year earlier (-37.0%). Other categories of fixed capital contracted as well, yet to a far smaller extent: contraction in metal products-machinery did not exceed 4.6% (against 8.6% in 2013), a decline exclusively attributed to their drop in the first quarter of this year, while agricultural machinery, the only category of fixed capital other than housing that contracted throughout the entire first semester of 2014, decreased by 3.5%, in contrast to its expansion (by 12.2%) in the same period of the previous year. On the contrary, investment in transportation equipment was 24.8% higher than a year earlier, significantly reinforced by the increased tourist traffic, which boosted the demand for rented cars and motorcycles. Investment in other constructions also increased by 0.6%. Considering these trends, and the small decline in metal products – machinery and agricultural machinery investment, it becomes apparent that a substantial increase in overall investment, to the extent necessary to support high growth rates in the following years, still depends crucially on housing investment.

An increase in exports slightly over 5% (5.3%) for the second consecutive quarter led to a small surplus in the balance of the external sector of the economy (€38 million in National Accounts terms) in the second quarter of 2014, for the first time since 2000. The growth of exports by 5.3% in the first half of the year is exclusively due to the large increase of the exports of services (+14.6%), which was the second largest increase for the period January – June since 2000 and stands in contrast to the decrease by 6.3% in the exports of services a year earlier. Despite this increase, the exports of services did not exceed €10 billion and were lower than in 2010 (€10.05 billion). A small rise in the exports of goods in the first quarter of 2014 was followed by a drop in the second quarter, which resulted to an overall drop in the exports of goods in the first half of the year (-1.6%). In the same period of 2013, exports had increased by 5.1%. **The cumulative exports of goods and services in the first semester of 2014 were €20.3 billion and were the highest since 2009.**

The fast rise of imports in the second quarter of 2014 (+4.6%) prevented a further improvement in the balance of the external sector of the economy. Imports in the first half of the year rose for the first time since 2008 by 3.9%, against a drop by 9.0% in the same period of 2013. The imports of services this year were 4.0% higher than a year earlier, while imports of goods rose by 3.2%. Increasing imports throughout three of the four most recent quarters, combined with a halt in the drop of private consumption (from 7.8% to 0.0%), suggests that the imported goods and services have not been substituted by domestic production over the past years. **With exports rising faster than imports, the deficit of the external sector has been reduced by 9.7% over the first half of the previous year, at €2.6 billion (3.4% of the GDP), while during the same period of 2013 that deficit had shrank much faster (-43.1%).**

Focusing on the production approach of the GDP, **the domestic gross value added shrank by 0.6% in the first half of 2014, against a drop by 4.9% a year earlier**. Among the main sectors of the Greek economy, Construction had the greatest decline in terms of value added (-18.8%), slightly weaker than in 2013 (-19.6%), as was expected due to the sharp decline in housing construction activity. The sector with the second strongest contraction was, as in 2013, Professional – Scientific – Technical – Administrative activities, with a similar drop as in the previous year (-11.0%, against

-10.4%), followed by Arts – Recreation – Entertainment (-6.3%) and Financial – Insurance activities (-5.4%), against a respective decrease by 9.4% and an increase by 1,0% a year earlier. The contraction in Industry deteriorated further in the second quarter, causing a decline in industrial gross value added by 2.9% in the first six months of the year, similar to its drop a year earlier. The Information – Communication sector had the smallest contraction (-1.7%). Among the sectors with increased output, Wholesale – Retail Trade – Repair of Motor Vehicles – Motorcycles and Accommodation – Food Services had the greatest rise, by 6.0%, after the strong decline in 2013 (-10.0%), followed by Agriculture (+2.0%, against -2.9%). A slight increase, by 0.9%, was observed in the Public Sector, following a decline by 2.5% a year earlier, while Real Estate consolidated at its 2013 level (+0.2%).

As the recession has eased since the second half of 2013, **unemployment started receding in the second quarter of 2014**, according to ELSTAT's Labour Force Survey. **In the second quarter of 2014 unemployment was 26.6%, 1.2 percentage points lower than in the preceding quarter and 0.7 percentage points lower than a year earlier. In the first half of the year the average unemployment rate was 27.2%, against 27.5% in the first half of the previous year,** dropping in the period January – June for the first time since 2008. The decrease in unemployment in the second quarter could be attributed to seasonal causes and special circumstances. Seasonal causes include a rise in employment in Accommodation – Food Services by about 25,600 (+10.2% on a year earlier, when tourism did not affect employment), according to the Labour Force Survey. Special circumstances include a rise in employment in Education by 20,500 (+34.6%) and in Support – Administration Activities by 18,400 (+6.7%), which could be attributed to the employment programmes of the Manpower Employment Organization (OAED). Employment continues to recede significantly in Construction (-19,300) and in Wholesale – Retail Trade – Repair of Motor Vehicles – Motorcycles (-14,200).

The consolidation of household consumption in the second quarter of 2014 did not slow the decrease in the Consumer Price Index (CPI), which dropped by 1.5% in the second quarter, against a drop of 0.5% a year earlier and of 1.3% in the preceding quarter. In the first semester of 2014 the overall deflation was 1.4%, against a slight price decrease by 0.2% in the corresponding period of 2013. Persistent deflation was caused by lower prices in major categories such as "Food – Non Alcoholic Beverages", "Clothing – Shoes" and "Education", which amount to 31% of the CPI, in terms of cumulative weight.

The fact that Eurostat confirmed the 2013 Greek primary budget surplus in April, highlighted the importance of fiscal consolidation – notwithstanding the problems in fiscal policy over the past years – during the second semester of 2014, in light of the positive effects the fiscal consolidation had on the Greek economy. The decrease of the interest rates of Greek bonds and the return of major Greek banks to the capital markets reflect a significant improvement of the credibility of the Greek economy abroad. These developments, along with the fact that no further fiscal measures were taken this year and that part of the primary surplus was transferred to a number of social groups, led to an increase of the business and household confidence indices to early 2008 levels, before the global financial crisis.

Stronger consumer confidence was also reflected in the stabilisation of household consumption expenditure. The European Parliament and local elections did not cause great uncertainty.

However, the better than expected fiscal results and the electoral cycle had a negative effect in the design and implementation of structural reforms in the public sector and in the markets of products and services, which are necessary in order for Greece to achieve high growth rates in the following years and to ensure the viability of its public finances.

Table 3.1

Main Economic Volumes-Quarterly National Accounts (constant prices)

Quarter/Year	GDP		Final Consumption		Investment		Exports		Imports	
	mil. €	Annual rate of change	mil. €	Annual rate of change	mil. €		mil. €	Annual rate of change	mil. €	Annual rate of change
2000	189,862	4.0%	164,523	3.2%	43,612	9.6%	42,916	22.2%	61,865	19.0%
2001	196,957	3.7%	171,457	4.2%	44,344	1.7%	43,156	0.6%	62,590	1.2%
2002	203,186	3.2%	178,732	4.2%	44,471	0.3%	40,002	-7.3%	60,448	-3.4%
2003	216,673	6.6%	186,407	4.3%	53,397	20.1%	39,712	-0.7%	63,973	5.8%
2004	227,404	5.0%	194,403	4.3%	53,395	0.0%	47,066	18.5%	68,513	7.1%
2005	229,430	0.9%	203,243	4.5%	45,365	-15.0%	48,651	3.4%	68,055	-0.7%
2006	242,772	5.8%	210,384	3.5%	57,712	27.2%	51,188	5.2%	77,372	13.7%
2007	251,360	3.5%	218,637	3.9%	63,975	10.9%	56,611	10.6%	89,069	15.1%
2008	250,243	-0.4%	222,534	1.8%	59,484	-7.0%	58,592	3.5%	91,347	2.6%
2009	239,245	-4.4%	221,619	-0.4%	42,989	-27.7%	47,772	-18.5%	73,412	-19.6%
2010	226,210	-5.4%	207,340	-6.4%	38,270	-11.0%	49,984	4.6%	69,384	-5.5%
2011*	206,159	-8.9%	187,308	-9.7%	31,978	-16.4%	49,984	0.0%	63,111	-9.0%
2012*	192,610	-6.6%	173,894	-7.2%	25,323	-20.8%	50,559	1.2%	57,359	-9.1%
2013*	186,223	-3.3%	168,632	-3.0%	22,203	-12.3%	51,645	2.1%	56,416	-1.6%
Q1 2014*	36,866	-1.1%	34,863	0.1%	4,680	-11.9%	8,897	5.4%	11,548	2.2%
Q2 2014*	40,677	-0.3%	35,636	0.0%	4,787	-4.1%	11,416	5.3%	11,378	4.6%

* provisional data

Source: 2000-2013: Annual National Accounts with ESA 2010 in 2010 prices, October 2014, EL.STAT. 2014: Quarterly National Accounts with ESA 95 in 2005 prices, September 2014, EL.STAT.

Medium-term outlook

Changes in the Greek cabinet, caused by the recent elections, were followed by a brief period of adjustment for the new cabinet. This period of adjustment essentially prolonged the electoral cycle, with the forthcoming evaluation by the troika approaching. In addition, it caused delays in the implementation of reforms in the public sector and in the privatisation – concession programme, as well as delays in the structural reforms regarding markets and professions. On top of the effects of this period of sluggishness of the reform effort on the modernisation of the Greek state apparatus and on the growth potential of the economy, there appears to be an increasing unwillingness in the bureaucracy to proceed to the necessary steps for the implementation of the planned policies.

Even after the elections in May, the conditions and the effects of the electoral cycle are still in place to an extent, because of the impending election of the President of the Hellenic Republic, which must be completed by next February. If the parliament, in its current composition, fails to elect the next president, snap parliamentary elections will be called. The prospect of snap elections and the uncertainty about the government scheme to which they could lead, inhibit the decision making of the economic actors, particularly of Greek and foreign investors.

Regarding the fiscal developments, based on the most recent budget data, which cover the first eight months of the year, the targets set in the Medium Term Fiscal Strategy (MTFS) 2015-2018 have been slightly exceeded. The primary deficit of the general government was slightly reduced in the first quarter of 2014, after the adjustment for the support of the financial institutions, to €1.04 billion, against €1.25 billion in the same quarter of 2013 (-17.2%). It should be noted, however, that these figures were calculated based on a slightly different approach than that of the Economic Adjustment Programme.[4]

The draft government budget for 2015 was compiled taking into account the fiscal results for 2014 available so far. According to the draft, the primary surplus of the general government next year will reach €5.4 billion[5] (2.9% of the GDP), without any additional measures, slightly lower than the target set in the Economic Adjustment Programme (€5.65 billion).

Regarding the government budget in particular, it should be noted that the expected budget revenue is higher by €2.2 billion, compared with the target set in the MTFS 2015-2018 (€1.2 billion greater regular revenue – mostly direct taxes – and €1.0 billion greater revenue for the Public Investment Programme – of which €500 million is revenue raised by the government). The projected increase in revenue is expected to be achieved

[4] E.g. revenue from ANFAs, SMPs
[5] As defined in the Economic Adjustment Programme

without taking into account some potential positive effects (e.g. a significant increase in non-tax revenue this year) and despite some cuts in taxes, such as the excise duty on heating diesel, the social solidarity tax (by 30%), third-party levies etc. The budget expenditure will be marginally higher, by €170 million, than the target set in the MTFS 2015-2018, as primary expenditure will be raised by approximately €400 million, for higher salary and pension payments. Some potential positive factors have not been taken into account on the expenditure side as well, such as savings in operating expenses this year, without an increase in pending payments.

In the recent IMF report on public finances,[6] the deficit of the general government is expected to reach 2.7% of the GDP in this year, and 1.9% of the GDP in 2015, calculated according to the methodology of the Economic Adjustment Programme, similar to that in the latest IMF evaluation report.[7] The estimates for the deficit of the general government correspond to primary surpluses of 1.5% of GDP this year, and 3.0% in 2015, according to the evaluation report. However, the IMF reckons that achieving such results for the deficit of the general government would require additional fiscal measures amounting to 1.1% of GDP.

The additional fiscal measures for the period 2015-2017 will be determined later on, as part of the ongoing review of the EAP, along with the examination of the potential "financing gap" and the possible ways to cover it. As mentioned in the previous quarterly IOBE bulletin, the latest IMF review estimates the "financing gap" in the period 2015-2017 to be €7.5 billion. The corresponding European Commission report[8] estimates the necessary additional measures for the following year at 1% of GDP, which is similar to the IMF's estimation. Part of that will be covered by extending existing measures, which were initially intended to expire in 2014-2015 (e.g. the solidarity tax could be extended, perhaps with a lower rate). A planned restructuring of the VAT will lead to increased VAT revenue in 2015. Restructuring the public sector and rationalising its operating costs will cut down public expenses. In addition, a re-evaluation of the Social Security System, aimed at ensuring its sustainability, is forthcoming. This could lead to changes in the pension system, albeit in secondary aspects (e.g. minimum years of work necessary for retirement).

Nevertheless, the accumulation of tax burdens (e.g. unified property tax, income tax) in the last four months of 2014 is expected to apply even greater pressure on the disposable income of households than did the corresponding measures of the previous year (Temporary Special Property Fee - EETA), thereby restricting household consumption.

[6] Fiscal Monitor - October 2014, IMF

[7] Greece, Fifth Review under the Extended Arrangement Under the Extended Facility, IMF, June 2014

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

The results of the stress tests on the four biggest Greek banks, which will be published shortly, as well as the developments that will follow the likely ending of IMF financing for Greece, following a request by the Greek government that the planned financing until early 2016 be covered by the European Stability Mechanism (ESM) instead of the IMF, will lead to a revision of the estimated financing needs of the Greek government in the medium term. It should be noted that the remaining "financing gap" is €12.6 billion, according to the IMF, and concerns exclusively the difference between financing requirements and financing sources for 2015. Some measures have already been taken to cover financing needs over the next year that were not planned until past April (e.g. central management of idle liquid assets of government agencies, issuing of repos covered by fixed assets of the government in order to raise capital for the general government, consolidating liquid assets of the general government hitherto scattered across numerous accounts).

Taking into account the draft budget for 2015, a significant part of the additional financing needs of the government is expected to be covered by issuing new bonds. In the draft budget, the outstanding balance of public bonds in 2015 is projected to be €9 billion higher than this year. The value of short-term titles will remain the same, whereas short-term loans will be lower by €2 billion.

Undistributed funds of the Financial Stability Fund may be used to cover part of the "financing gap". Those funds amount to €11 billion. However, the procedures necessary to use those funds are complex and are different than the ones applicable for the installments of the programme's loan. If the additional financing needs of the four largest Greek banks, which will be determined by the ECB's stress tests, turn out to be smaller than the remaining ESM bonds at the Financial Stability Fund's disposal, a rather likely prospect, then some of the available ESM funds may be used to cover part of the "financing gap".

The servicing of the Greek public debt held by Eurozone governments and the ESM will be eased with the implementation of measures put forward with the Eurogroup decision of 26 November 2012 (e.g. interest rates cuts).

The new downwards revision, in the latest review by the troika, of the expected revenue from the Hellenic Republic Asset Development Fund (HRADF-TAIPED) by 2020 to €22.4 billion, €3.9 billion less than previously expected, was taken into account in the calculation of the financing requirements to €12.6 billion. Nevertheless there is uncertainty regarding future revenue from privatisations and the development of government-owned real estate. Any further decrease in revenue from the HRADF will increase the financing requirements. The downwards revision of HRADF revenue, which chiefly concerned revenue for 2014 (€1.5 billion in the MTFS

2015-2018, against €3.6 billion in the draft budget of 2014), will affect investment, as well as output, not merely in 2014 (which was supposed to be the year of contracting and settling bureaucratic issues in order for investments to start), but especially in 2015, when a large expansion of investment is necessary for fast growth, required in order for Greece to achieve the fiscal targets.

Despite the fact that Greek banks returned to international capital markets and despite the strong interest shown for their share capital issues in the spring, lending to non-financial enterprises contracted for the fifth consecutive year, at a rate slightly smaller this year than in the previous one (-5.3% in the first eight months of 2014, against -6.8% in the corresponding period of 2013). This decline in lending remains an important factor inhibiting investment. Similarly, the contraction of lending for housing slowed down, from -5.0% in the first eight months of 2013 to -3.2% this year. Lending to non-financial enterprises in the three months from June to August 2014 was 24.7% lower than in the same period of 2009, when lending started declining. The corresponding decline in housing lending is much smaller (-11.0%). Interest rates for new loans to non-financial enterprises dropped slightly compared with the previous year, by 50 basis points (5.65%, against 6.19%), while interest rates for new housing loans increased slightly (3.05%, against 2.73%).[9]

These developments confirm IOBE's estimate, as published in the first quarterly bulletin on the Greek economy for 2014, that "the positive effects [of Greek banks returning to capital markets and of them increasing their share capital] on liquidity in the Greek economy will become apparent in the second half of the year, probably after the ECB's stress tests have been completed", predicting then that the stress tests would demonstrate that the Greek banks would not need much additional recapitalisation. No broad changes in banks' lending policies, regarding issuing more loans with better terms, should be expected this year, despite the aforementioned positive developments. However, in 2015 the lending trends are expected to be reversed, primarily regarding lending to businesses, and to a smaller extent regarding household loans. The ECB's recent decision to limit the 57% haircut on Greek bonds it holds as collateral for providing liquidity to Greek Banks will help reinvigorate lending in Greece.

The foreign investors' interest in Greece increased in the period from May to July 2014. The net inflow of foreign direct investment in this period was €790.6 million, against €228.6 million in the first four months of the year. In the first seven months of the year the net inflow of investment was €1.02 billion, almost four times higher than in the corresponding

[9] Source for the data on lending to non-financial enterprises: Bank of Greece

period of 2013 (€235.4 million), which was, however, one of the lowest investment levels in recent history. Compared with the first seven months of 2012, for instance, this year's net foreign direct investment was 32.3% lower. As mentioned in previous bulletins, the uncertainty caused by the local and European Parliament elections had a negative effect on investment in general, and particularly on foreign investment. Nevertheless, in the first half of 2012 Greece was also facing upcoming elections, which carried far more important political and economic risks, and yet foreign direct investment then was significantly greater than in the current year. Moreover, the slow progress in privatisation/concessions of state-owned property is also impeding foreign direct investment. In light of the above, no significant rise of foreign investment should be expected in the rest of the year. Foreign investment in 2014 as a whole is expected to be slightly higher than in the previous year (€1.93 billion).

The primary factor helping avert recession in Greece is the significant increase in activity in the tourist sector, which is reflected in the gross value added of Accommodation – Food and Wholesale – Retail Trade Services rising (by +6.0%) faster than the other major sectors of the economy, chiefly because of tourism, while Retail Trade volume increased slightly (+1.1%). According to data from the Bank of Greece, the surplus in the tourism/travel balance of payments in the first seven months of 2014 increased by 13.8% (+€662 million). That surplus had increased by €50 million, on a year earlier, in the first four months of 2014, as mentioned in IOBE's previous bulletin, and by approximately €610 million year-on-year from May to July. This development is expected to contribute to a marginal expansion of the Greek economy in the third quarter. It should be noted that the rise in tourism revenue during the first seven months of the year, similar to the rise in the tourism balance of payments surplus, was caused exclusively by a rise of foreign tourist arrivals, by 20.8%, while average spending per trip shrank by 11.8%.

The rest of the most recent data on domestic economic activity largely paint a picture of easing recession or mild recovery since the beginning of the year. Industrial production is an exception, having dropped below last year's levels.

In particular, industrial production contracted by 3.9% in the period from May to July, faster than the drop by 2.6% in the preceding three months. This year's contraction of industrial output was greater also than that in the corresponding months of 2012 (-3.5%). The trends changed in many major industrial sectors. The large contraction in Production-Distribution of Electrical Power continued stronger, reaching 16.0% in the period from May to July, against 12.4% in the preceding three months. The second largest contraction was recorded in Mining - Quarrying, by 7.4%, against an increase, by a similar percentage, in the preceding three months (+7.5%). Manufacturing has consolidated since early 2014 (+0.4%, against -0.4%). The gradual easing of contraction in Construction during 2014 started to become apparent in the second quarter, as predicted in the previous IOBE quarterly bulletin. Nevertheless, there were important changes in the trends of measures of construction activity such as the surface area and volume of constructed buildings. While in May and June built surface area and volume increased significantly, this trend changed in July, with sharp drops in both measures of construction activity (-30% for both). It should be noted that the aforementioned increases and falls in building construction activity were caused by much smaller changes in the number of building licenses, which is estimated to reflect the start of some big building construction projects (e.g. hotels, shopping malls). The small change in building construction trends is reflected on the factors that determined the output of the Construction sector in the second quarter of 2014. The unprecedented since 2008 growth in Construction, by 23.4%, was caused almost exclusively by a sharp increase in engineering works, by 41.1%. Building works increased to a small extent, by 2.2%, against however a drop by 9.3% in the preceding quarter.

Regarding trends on the demand side of the economy, including both domestic and foreign demand for Greek products, the volume of Retail Trade consolidated in the first seven months of the year to its 2013 level in the same period. It increased by 1.6% this year, whereas a year earlier it had contracted by 11.0%. Nevertheless, excluding the effect of fuel and lubricant sales, the retail trade volume marginally dropped, by 0.7%. It should be expected that the rising trends of the volume of retail trade will ease over the last months of 2014. Wholesale trade volume was stable throughout the first half of the year (whereas it had dropped by 12.4% a year earlier), marginally increasing, by 0.4%, in the second quarter, after having slightly decreased (by -0.3%) in the preceding three months.

Regarding prices, deflation eased in the third quarter to 0.6%, against 1.5% in the second quarter. For the first time this year, deflation in the third quarter was milder compared with a year earlier (-1.0% in the third quarter of 2013). Price increases in drugs, caused by increases in the proportion of medical expenditure covered by consumers, as well as price rises in alcoholic beverages – tobacco, combined with an easing of deflationary trends in food and non-alcoholic beverages, were the primary cause of lower deflation.

According to Bank of Greece data, the exports of goods and services (including oil products) grew in the period from May to July by 6.6% on a year earlier, slightly less than in the preceding quarter when they had increased by approximately 8.0%. The foreign demand for services was stronger (+11.4%), mainly in tourism and miscellaneous services, as was the foreign demand for goods (+9.7), mainly for goods other than fuel, and to a smaller extent for oil products themselves. In the same period, the imports of goods grew by 13.5%, faster than the respective exports, as a result of a sharp rise in the imports of ships (+164%) and an increase in the imports of fuel (+13.5%), while the imports of services increased slightly (+3.8%). As a result of those changes, the surplus of the external sector increased by 6.6% in the period from May to July, on a year earlier, reaching €2.8 billion. It should be noted that only two years back, the external sector had a small deficit (-€39.2 million).

In the current socioeconomic context, the main characteristics of which are the easing of the recession (with output boosted primarily by the Accommodation – Food Services sector and Agriculture), the review of the Economic Adjustment Programme, the negotiations with the official lenders of Greece for the management of the country's financing over the following years, as well as the pressure from taxes over the past four months on the household disposable income, the Greek economy should be expected to show some small signs of recovery in the second half of 2014, particularly in the third quarter of the year, for the first time since the first quarter of 2008, with growth of about 1.3% over the semester.

Regarding the trends of GDP components, stable household consumption in the first half of the year will be followed by a small rise in the third quarter, as suggested by the increasing volume in retail trade in July and August, while deflation will recede. These developments will be supported by rising employment in the second and the third quarter, particularly in seasonal activities in tourism, which will be facilitated by the recent structural reforms in the labour market and by the decrease in social security fees for employees insured at the Social Insurance Institute (IKA). The growth in private consumption will be held back, perhaps private consumption will even consolidate, in the last quarter of the year, as seasonal employment will end (however, the tourist season this year will be longer than in the past), while the tax burdens on households will be slightly heavier than in the previous year. Pensioners will see their income shrink, after the new cuts in auxiliary pensions this summer. It should also be noted that consumption expenditure was higher in the last quarter of 2013, than in the other quarters of that year, and therefore the consumption growth over a year earlier in the last quarter of 2014 should not be expected to be high. **Household consumption expenditure will be approximately 0.7% higher in 2014 overall, compared with the previous year.**

As the reform momentum in the public sector is halted due to the effect of the electoral cycle, **public consumption** will consolidate to its 2013 level, or potentially increase slightly, until the end of the third quarter of the year. The implementation of the public sector reforms that were scheduled to have been competed (or significantly advanced) in the ongoing review, among which reducing the number of civil servants by 6.000, will help curb public consumption by the end of the year. In the last quarter of the year, parts of the salary cuts for some categories of civil servants, which had been imposed since 2012 and had been recently annulled in court, will start to be paid back. This will ease the downward pressure on public consumption, but will not reverse the trend. Anyhow, as mentioned in the previous IOBE quarterly bulletin, the government budget report of 2014 did not incorporate the wage cuts associated with the extension of the new unified remuneration scheme to the armed forces (€144 million in wages and €192 million in pensions in gross terms[10]). Hence, no divergence is expected in public expenditure in 2014 from the implementation of the court rulings discussed above. **As a result of the aforementioned policies and measures, public consumption will contract by approximately 1.5% in 2014.**

Public investment expenditure increased, compared with the previous year, throughout the first eight months of 2014, albeit the increase in public investment has slowed since the beginning of the year. Expenditure for the Public Investment Programme was 30% greater in the period January – August this year, than a year earlier, at €3.3 billion. The slowing in the increase of public investment was to be expected, since the target set in the MTFF 2015-2018 for the total expenditure of the Public Investment Programme is not significantly higher than the total such expenditure of the preceding year (€6.8 billion against €6.65 billion). Nevertheless, the frontloaded implementation of the investment programme, compared with 2013, will allow the corresponding multipliers to come into effect to a fuller extent within the current year. In addition, given the developments in public expenditure from the beginning of 2014 up to August and given the fact that the other targets of the government budget and of the Public Investment Programme have largely been achieved for this year, approximately 50% of the scheduled payments for the investment programme will be made in the period from August to December, boosting investment activity, as had been the case, to an even greater extent, in the previous year. However, the much slower than projected in late 2013 progress with the privatisation-concession plan will partly counterweight the positive effects of the Public Investment Programme on overall investment. As previously mentioned, the slow progress with privatisations and concessions of state-owned real estate this year will harm growth potential in 2015 as well.

A small boost in investment in the second half of the year will come, as noted above, from an increase in **foreign direct investment**. After the completion of the local and the European Parliament elections without major disturbances in

[10] Page 94, Government Budget Report 2014, Ministry of Finance, November 2013

the government structure, the inhibitory effect of the electoral cycle on foreign investment has eased. The improved credibility of the Greek economy in the first four months of 2014, after the previous year's fiscal results and the return of the government and the largest Greek banks to the international capital markets, made Greece more attractive to foreign investors. Yet, some foreign investors were waiting for the results of the May elections, cautious of the potential effects on the composition of the government. On the other hand, the prospect that the current parliament will fail to elect a new President of the Hellenic Republic in February 2015 and parliamentary elections will have to be called, preserves a measure of uncertainty, which deters foreign investors from starting new projects. Investors are also waiting for the results of the new evaluation of capital adequacy of the four largest Greek banks by the ECB, as the financing for foreign direct investment, especially for large projects, usually comes from syndicated loans, issued by foreign and domestic banks.

The anticipation of the results of the ECB stress tests on the four largest banks and the process of covering the small additional capital requirements that might arise from the stress will keep the lending trends for business and housing loans unchanged in the last months of 2014, relative to its first eight months. The growth of construction works this semester will be negatively affected, in addition, by the high base of comparison, as construction activity in the last quarter of 2013 was high, as well as by the confusion in August – September 2014 regarding the new regime in real estate taxation (unified property tax – ENFIA). **Taking into account the trends discussed above, investment in the remaining months of 2014 should be expected to fall slightly, by 2-3%.**

Regarding the external sector of the Greek economy, the growth of the **exports of services,** which helped improve the balance of the external sector in the first half of 2014, will ease in the second half of the year. The great increase of the exports of services in the first semester was partly a result of their low level in the corresponding period of 2013. However, the exports of services in the last half of 2013 will form a higher base for comparison, as foreign tourist traffic rose in the summer of the previous year. Regarding the exports of goods, on top of the weak demand for Greek products during the first half of 2014 in many important markets (EU, North America, North Africa and the Middle East), in the second half of the year demand will shrink in the markets of the Commonwealth of Independent States, exports to which had recorded the greatest growth up to June. This will come as a result of the geopolitical tensions between Russia and Ukraine and of the turbulence this causes on their economies, along with the general deterioration it brings in the diplomatic and economic relations between the EU and Russia. The contraction of the exports of goods will be eased by the falling exchange rate of the Euro against the dollar, as well as by a small increase of exports to Balkan markets. Under these effects, **the expected rise of exports by 4.0%-4.5% in the current year will come exclusively from growth of the exports of services, by about 12.0%, while the exports of goods will be about 3.0% lower.**

The imports of goods in 2014 as a whole will be boosted by the slightly increased consumer demand in the second quarter. As pointed out in the previous quarterly IOBE bulletin, the imports of goods are expected to decline slightly in the third quarter, compared with their relatively high level in the same period of 2013. Nonetheless, they are expected to increase again in the final quarter of this year, helped by a reduction by 30% in the excise duty of heating oil. A similar trend fluctuation is expected for the **imports of services**, with growing demand for tourism services and other services from abroad determining the extent of their increase this year. **Taking into account the factors discussed above, the imports of products and services should be expected to increase by about 3% this year, compared with 2013.** The slightly greater increase in exports will further improve the balance of the external sector. The deficit of the external sector will be around 1.2% of GDP (against 1.4% in the previous year) in National Account terms.

Recapping the trends of the major GDP components in 2014, boosted employment, particularly in the sector of tourism and activities related to it, combined with falling prices throughout most of the current year, will allow a small increase of household consumption. A greater increase will be halted by high tax payments from the middle of the third quarter on and by the fiscal measures on salaries and transfer payments, which were enacted in the first half of the year (cuts in auxiliary pensions, the new unified remuneration scheme in the public sector). The acceleration of restructuring in the public sector, after the delays caused by the electoral cycle, will lead to a decrease in public consumption in the year as a whole. Regarding public investment, the frontloaded, compared with the previous year, implementation of the Public Investment Programme will boost the contribution of investment as a whole to GDP. However, it will be partly counterweighted by the slow progress in privatisations-concessions of state-owned real estate. Regarding private investment, the foreign investors' interest in Greece is expected to increase slightly after the May elections, however political uncertainty still persists, in light of the upcoming election of a new President of the Hellenic Republic in February and the potentially extensive political and economic changes this might spur. Bank lending for businesses and for housing construction will remain relatively tight throughout 2014, until any additional capital requirements after the ECB stress tests are covered. In the external sector of the Greek economy, the consistently stronger than in the previous year foreign tourist flows will boost exports, despite a small decline in the exports of goods. Increased consumer demand will boost the imports of goods, while the imports of services will rise as well, particularly the imports of tourism services. **Considering the trends of the major GDP components discussed above, IOBE holds on to its forecast, published earlier this year, for the course of the Greek economy in 2014, expecting it to grow by 0.7%.** Foreign institutions, in their most recent reports, publish similar forecasts about the trend of the Greek GDP and the extent of growth. Some of those forecasts are presented in detail in tables 3.2 and 3.3.

The mild growth of the Greek economy in the second half of this year, springing mainly from labour-intensive activities, such as those in tourism and food services, will constrain unemployment, at least up to the third quarter of the year. Employment growth in those sectors will be helped by the broad structural changes in the labour market over the past years and the reductions of social security fees for employees insured at the Social Insurance Institute (IKA) by 3.9% since past July.

Table 3.2

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

	2012	**2013**	**2014**	**2015**
Annual rate of change				
Gross Domestic Product	-6.0	-3.9	0.6	2.9
Private Consumption	-9.3	-6.0	-1.8	1.6
Public Consumption	-6.9	-4.1	-1.8	-2.0
Gross Fixed Capital Formation	-19.2	-12.8	5.3	11.7
Exports of goods and services	-1.7	1.8	4.1	5.2
Imports of goods and services	-13.8	-5.3	-1.2	2.2
Employment	-8.3	-4.1	0.6	2.6
Compensation of employees per capita	-3.7	-6.6	-2.7	0.0
Real unit cost of Labour	-4.8	-4.9	-2.0	-0.7
Harmonized Index of consumer prices	1.0	-0.9	-0.8	0.3
Contribution to real GDP rate of change				
Final Domestic Demand	-11.1	-6.8	-1.9	2.3
Net exports	4.1	2.2	1.6	0.8
Inventories	0.0	0.8	0.0	-0.2
GDP percentage				
General Government Balance	-8.9	-12.7	-1.6	-1.0
Current Account Balance	-4.6	-2.4	-2.3	-2.2
Gross net government debt	157.2	175.1	177.2	172.4
Percentage				
Unemployment (% of labour force)	24.3	27.3	26.0	24.0

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

Table 3.3

Comparison of forecasts on selected economic indicators for years 2013-2015
(Constant 2005 market prices, annual % changes and levels)

	MinFin			EC			OECD			IMF		
	2013	*2014*	*2015*	*2013*	*2014*	*2015*	*2013*	*2014*	*2015*	*2013*	*2014*	*2015*
GDP	-3.9	0.6	2.9	-3.9	0.6	2.9	-3.5	-0.3	1.9	-3.9	0.6	2.9
Final Demand	:	:	:	-4.2	0.2	2.6	:	:	:	:	:	:
Private Consumption	-6.0	-1.8	1.6	-6.0	-1.8	1.6	-6.0	-1.9	0.3	-6.0	-1.8	1.7
Harmonized Consumer price Index (%)	-0.9	-0.8	0.3	-0.9	-0.8	0.3	-0.9	-1.1	-1.0	-0.9	:	:
Gross Fixed capital formation	:	:	:	-12.8	5.3	11.7	-12.7	-2.7	4.4	-12.8	5.9	9.7
Unemployment (%)	25.8*	24.5*	22.5*	27.3	26.0	24.0	27.3	27.1	26.7	27.3	25.8	23.8
General Government Balance (% GDP)	-1.9	-0.8	-0.2	-12.7	-1.6	-1.0	-12.7	-2.5	-1.4	-3.2	-2.7	-1.9
Current Account Balance (% GDP)	:	:	:	-2.4	-2.3	-2.2	0.7	0.2	0.8	0.7	0.7	0.2
General Government Debt (% GDP)	175.1	174.8	167.9	175.1	177.2	172.4	175.1	177.7	177.2	175.1	174.2	171.0

* On a national accounts basis

Source: 2015 Draft State Budget, Ministry of Finance, October 2014 — European Economic Forecast, Spring 2014, European Commission, May 2014 - OECD Economic Outlook No. 95, May 2014 – Greece, Fifth Review Under the Extended Arrangement Under the Extended Facility, IMF, June 2014

Programmes for the unemployed, run by the Manpower Employment Organization, with a large number of beneficiaries, will continue boosting employment, as already reflected over the first half of the year in the sectors with the greatest employment growth (Education, Administrative – Support Activities). However, 6,500 lay-offs in the public sector scheduled for later this year will affect employment negatively. Taking into account the persistently high level of unemployment at the start of the year, IOBE's forecast for the **average level of unemployment in 2014 remains at 26.7%**, slightly lower than a year earlier (27.5%).

With employment slowly rising since the second quarter of 2014, easing notably the GDP contraction, consumption demand will start rising, weakening the drop of the Consumer Price Index. Deflation in the last quarter of the year will be weaker also due to the fact that the base of comparison, the level of the CPI a year earlier, will be very low, as deflation had reached its highest level since at least 1960 in the last quarter of 2013 (2.2%). These factors may even lead to a marginal increase in consumer prices in the last two months of the year. On the other hand, a downward pressure on the CPI will come from the reduction by 30% of the excise duty on heating oil starting in October and from the reduction in public transportation fares. As a result, **deflation will persist in 2014, at a similar rate as in the previous year (0.8%, against 0.9% in 2013).**

In summary, the completion of the electoral cycle and the current review by the troika have highlighted the delays in the implementation of the necessary structural changes in various sectors and activities of the economy, as well as the slow progress of structural reforms in the public sector. Any further delay and/or omissions in the implementation of those changes and reforms will greatly undermine the growth potential of the Greek economy in the following years. This would lead to complications in the fiscal consolidation process, as fiscal consolidation in the following years depends mainly on the reinvigoration of production through structural reforms, not on additional fiscal measures. In a broader sense, such developments would undermine the sustainability of the Greek public finances.

These considerations highlight the importance of, and the urgent need for, structural changes in various sectors of the Greek economy and a broad reform of the public sector. Such changes are feasible, regardless of the particular fiscal policy mix chosen by the government (the current, or any future one). Such changes have been implemented in many countries, indeed in very different ones in terms of their level of economic development and in terms of the fiscal policy followed in each one, in order to reinvigorate their economies. The wide support that they have enjoyed came from the fact that they can positively influence nearly every macroeconomic and fiscal factor, regardless of the initial conditions in the economy, for years, perhaps even decades, after they have been implemented. Therefore, the political and economic debate in Greece should be focused on determining the details of a reform policy, in the directions mentioned above, in order to maximise its efficiency.

3.2 Developments and outlook in key sectors of the economy

Industry

The industrial production index continued to fall in the first eight months of 2014, by 2.8%, slightly faster than in the corresponding period of 2013 (-2.6%). The consolidation trends noticed early this year did not persist over the following months. This should be party attributed to the stagnation of the European economy in the first half of the year, which is a primary export market for Greek products. However, those trends are also a cause for concern, regarding the issue whether the structural changes in various sectors and professions in the economy, including industrial and manufacturing sectors, over the past few years, were adequate. For the time being, most industrial and manufacturing sectors have not followed the general trend in the Greek economy of easing of the recession.

Meanwhile, over the first seven months of this year industrial production in the Eurozone improved by 1.2%, whereas in the corresponding period of 2013 it had decreased by 1.6%.

At the sector level, the largest decline in production over the period January – August 2014 was recorded in the Electricity sector, with a drop almost twice as sharp as in the previous year (-13.0%, against -6.9% a year before). The Water Supply sector follows, the output of which is still shrinking, albeit at a lower rate compared with the corresponding period in 2013 (-0.9%, from -2.3%). In Mining and Quarrying output grew slightly, after a strong contraction in 2013 (1.0%, against -11.8%). Manufacturing output increased slightly as well, by 0.3%, against a marginal drop in the corresponding period of 2013 (-0.2%).

In greater detail, output declined in two out of the four subsectors of Mining and Quarrying over the first eight months of 2014. The largest drop was recorded in Mining of Coal and Lignite, where the index fell by 6.9% year-on-year, while the drop a year before was 8.0%. The subsector of Oil and Gas Extraction also contracted, yet at a smaller rate than a year before (-5.9%, against -13.5%). On the other hand, Various Mining and Quarrying activities showed a strong increase, by 21.5%, following a slight decline by 1.3% in the same period of 2013. Finally, Mining of Metal Ores grew by 5.8% over the first eight months of the year, after a strong contraction a year earlier (-19.6%).

Output fell in 10 out of the 24 subsectors of Manufacturing. However, overall Manufacturing output increased slightly, as in most of the subsectors production either grew, or contracted only slightly.

Among the Manufacturing subsectors with the greatest contribution to the Greek economy, the largest decrease in production was recorded in Pharmaceuticals, by 2.7% in the first eight months of 2014, against an increase by 7.8% in the same period of 2013. In contrast, the production of Basic Metals increased by 6.2%, against a drop by 5.9% last year. Output in Food Manufacturing followed a similar pattern, increasing by 1.3% this year, after a drop by more than 3.8% in the first eight months of 2013.

Regarding the other Manufacturing subsectors, the largest output drop was recorded in Leather-Footwear (-16.8%, from +2.8% a year before), Textiles (-15.4%, from -8.3%) and Electrical Equipment (-15.5%, against -9.6%). Next came Wood and Cork products, dropping by 13.1% (following an even sharper decrease, by 21.6%, in 2013), Tobacco (-10.6%, against +0.1%) and Clothing (-8.44%, against +0.3%).

In contrast, among the subsectors of Manufacturing that had a better year-on-year performance in the first eight months of 2014 were Computers, Electronic and Optical Products (+35.6%, against a drop by 1.6% last year) and Transportations Equipment, where output increased by 34.2%, following a milder improvement by 2.4% in 2013. Next came Motor Vehicles (+9.6%, from -5.0%), Metal Products (+5.5%, against -6.9%), Paper Products (5.2%, against 3.0%) and miscellaneous manufacturing activities (5.1%, from 2.9%). Smaller increases were recorded in Repair – Installation of Machinery and Equipment (2.5%, against -5.4%), Petroleum Products (1.8% compared with 12.4%) and Plastic Products (0.5%, against 1.9%).

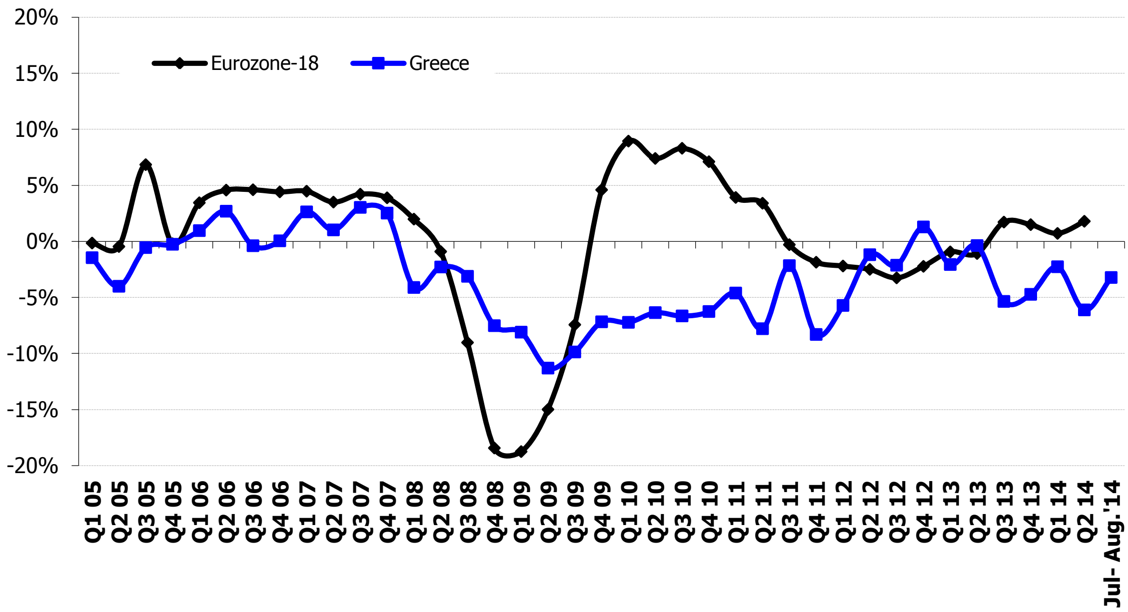
In general, the branches providing Capital and Intermediate Goods recorded an increase of their output by 2.7% (from a decline by 3.5% last year) and by 2.3% (from -4.0% in 2013), respectively. In contrast, there was a drop in the production of Durable consumer goods by 7.5%, which is however much slower than the corresponding contraction in the first eight months of 2013 (-14.1%). A small drop was recorded in the Non-Durable consumer goods, where production contracted by 1.1%, to a similar extent than in the first eight months of the previous year (-1.5%).

Construction

The production index in Construction continued to drop over the first half of 2014. Nevertheless, in the second quarter the fall of the index tended to recede. In the first semester of 2014 the index dropped by 4.4%, a drop similar to that of the first half of the previous year (-4.3%). However, in the second quarter the Construction index rose, for the first time since 2009, by 23.4%, against a fall by 16.8% in the same period of 2013.

The Construction sector in the Eurozone-18 appears to be recovering. The respective output index increased in the first semester of 2014 by 4.9%, whereas in the same period of the previous year it was falling by over 5.3%.

Figure 3.1
Production Index in Manufacturing, Greece and Euro Area-18,
% change w.r.t. the same quarter of the previous year (2005=100)



Source: ELSTAT

Regarding the trends in building activity, the number of building permits[11] in the first seven months of 2014 decreased yet further, by 18.5%, compared with the same period of the previous year, when it had dropped by 37.2%. The number of building permits decreased in most geographic regions of the country. In more detail, over the first seven months of 2014, the largest decline in building permits numbers was recorded in Thessaly (-32.0%), Attica (-29.9%) and the North Aegean (-29.5%), followed by Central Macedonia (-19.6%) and the Peloponnese (-19.6%), Central Greece (-18.5%) and West Greece (-12.5%). Small decline was recorded in the regions of the Ionian Islands (-4.0%) and Crete (-3.7%). A small increase in the number of building permits was recorded only in Epirus (+4.0%).

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

Finally, as far as the funding of building activity is concerned, according to the latest data for August 2014, the interest rate in mortgage loans with duration of over five years reached 2.93%, falling by 0.3 percentage points compared with July.

Retail Trade

The contraction in the Retail Trade sector ceased in the first seven months of 2014, as the volume index increased by 1.6%, against a large decline by 11.0% in the same period of the previous year. Receding unemployment in the second quarter, for the first time in years on a year-on-year basis, combined with improved consumer confidence, after achieving primary budget surplus and transferring part of it to a number of social groups, appear to have led to a small increase in the demand for goods.

During the first seven months of 2014 the volume indices for four of the eight subsectors of retail trade increased compared with the same period of 2013. Among the subsectors with shrinking volume, in most cases the decrease was smaller compared with the previous year. In greater detail, the biggest increase was recorded in Books – Stationery, with the respective index rising by 10.4%, against a drop by 2.0% in the same period a year earlier. Positive changes were also recorded in Clothing – Footwear (+6.2%, against -7.2% in 2013), Automotive Fuel and Lubricants (+2.6%, against -9.6%) and Supermarkets, where sales consolidated (+0.1%) compared with a significant drop by 12.0% in the same period of 2013.

In contrast, Department Stores contracted further by 10.7% in the first

[11] This covers all types of building permits, including permits for new construction, addition, restoration, demolition, enclosure, legalization, renewal and amendment of a construction

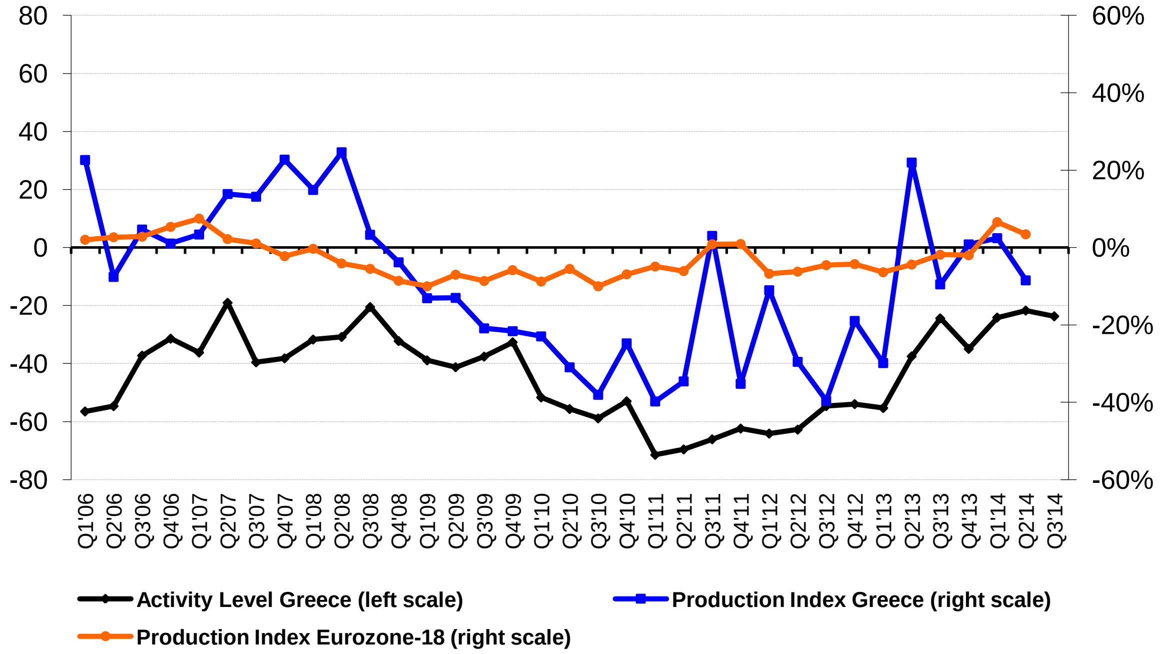
seven months of the year, after a slightly slower decline in the same period of 2013 (-9.6%). Next came Furniture – Household Appliances, the contraction of which eased, as the respective index dropped by 7.7%, against a decline by 10.8% in 2013. Finally, the decline in the turnover of Food eased (-4.5%, against -5.1% last year), as was the case for Pharmaceutical – Cosmetics (-3.5%, against 14.6%).

The improvement in retail trade activity is also reflected on the **business sentiment indicators, from the Business Surveys compiled by IOBE**. In the first nine months of 2014, business sentiment improved significantly in every subsector of retail trade. Consequently, the overall business sentiment indicator improved by 27.4%, against a milder improvement by 19.0% in the same period of the previous year.

The biggest change in the business expectations indices was recorded in Textiles – Clothing – Shoes, where expectations improved by 43.8%, against 23.4% in the first nine months of 2013. A similar improvement was recorded in Vehicles –Spare Parts, with the respective index reaching 113 points, 42.1% higher compared with the same period of last year.

Figure 3.2

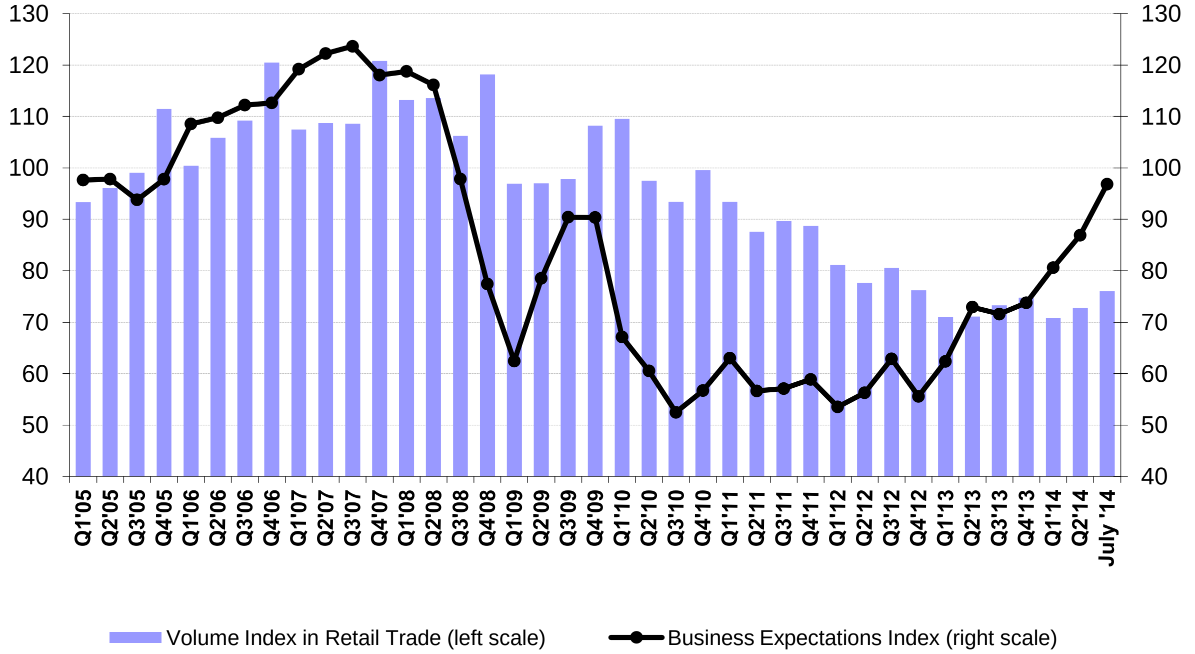
Production Index in Construction – y-o-y % change – in Greece and in Eurozone -18 and Activity Level Index in Greece (Greece: 1996-2006=100, Eurozone 18: 2010=100)



Source: ELSTAT, Eurostat, IOBE

Figure 3.3

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



Source: IOBE, ELSTAT

Table 3.4

Annual Changes in the Index of Retail Trade Volume

Store Categories of Retail Trade	Volume Index (2005=100)				
	Jan. - Jul. 2012	**Jan. - Jul. 2013**	**Jan. - Jul. 2014**	**P.C. 2012/2013**	**P.C. 2014/2013**
Overall Index	80.07	71.24	72.40	-11.0%	1.6%
Overall Index (excluding car fuels and lubricants)	81.69	72.60	72.07	-11.1%	-0.7%
Store Subcategories					
Large Food Stores	90.34	79.54	79.63	-12.0%	0.1%
Department Stores	93.69	84.67	75.64	-9.6%	-10.7%
Car Fuels and Lubricants	72.51	65.52	67.21	-9.6%	2.6%
Food-Drink-Tobacco	73.90	70.13	66.97	-5.1%	-4.5%
Medicare-Cosmetics	82.93	70.85	68.40	-14.6%	-3.5%
Clothing-Footwear	66.72	61.93	65.79	-7.2%	6.2%
Furniture-Electric Household appliances - Household goods	70.07	62.53	57.69	-10.8%	-7.7%
Books - Stationery - Other gift items	79.62	78.02	86.10	-2.0%	10.4%

Source: IOBE

The significant improvement of the overall index is driven by changes in the assessment of current sales, as well as in the expected future sales over the next quarter, which are now both positive. In specific, the indicator of expected current sales, which was negative (-42 points, on average) in the period January – September 2013, is now positive, at 13 points, with about 40% of the firms assessing that their sales increased this year. A similar trend is recorded in the expected future sales indicator, which was -42 points in 2013 and reached +13 points this year, with 37% of the firms expecting higher sales. The indicator for new orders remains positive throughout the first semester of 2014, after several months of negative values, with 25% of the firms expecting new orders to increase. Stabilisation trends dominated the employment indicator, whereas over the past four months, and especially in September, the positive expectations strengthened significantly.

Regarding market data, the sales of passenger cars increased year-on-year by 22% in the first nine months of 2014, after six consecutive years of decline. In more detail, the share of diesel passenger vehicles in total sales increased further, to 61.5%, from 55.9% in 2013, while the trend towards "small" cars tends weaken, with the share of sales of passenger cars with engine displacement under 1,400 cubic centimetres reaching 61.7% in the first nine months of this year, against 69% in 2013.

In Food – Beverages – Tobacco the trend of expectations changed this year, as the indicator increased by 31.1%, whereas in the previous year it had receded by 15.8%. At the same time, expectations in Household Equipment continue to improve (by 25.8%, after an increase by 13.7% last year). Finally, expectations in Department Stores also kept improving, albeit to a slightly smaller extent than last year (9.2%, against 14.0%).

Wholesale Trade

Wholesale trade appeared to consolidate in the first half of 2014, as turnover remained essentially stable, compared with the same period of the previous year, when the respective index dropped by 11.8%.

Services

The decline of activity in Services continued over the first semester of 2014, as turnover contracted significantly in 9 out of the 13 subsectors of Services. Nevertheless, in most of those subsectors the decline was much smaller compared with the first half of 2013.

The strongest contraction was observed in Architectural and Engineering Activities, where the drop in construction activity led to a fall of the turnover by 31.2%, following a smaller contraction, by 14.6%, in the same period of the previous year. Cleaning Activities followed (-12.7%, against -13.4% in 2013), along with Office and Other Businesses Support Activities, where the drop rate was smaller than in 2013 (-11.7%, against -17.3%).

Turnover in Advertising and Market Research declined further (-10.2%), yet to a smaller extent than last year (-21.3%).

Easing of the contraction was recorded in Telecommunications as well, with turnover declining by 5.7%, after a sharper drop by 13.7% in the first half of 2013. Employment services also contracted (-5.4%), despite a significant increase in their turnover recorded a year earlier (+7.1%). At the same time, the contraction in Computer Programming, Consultancy and Related Activities eased significantly, with a decline of 3.5%, against a drop of 21.1% in the corresponding period of 2013.

Table 3.5

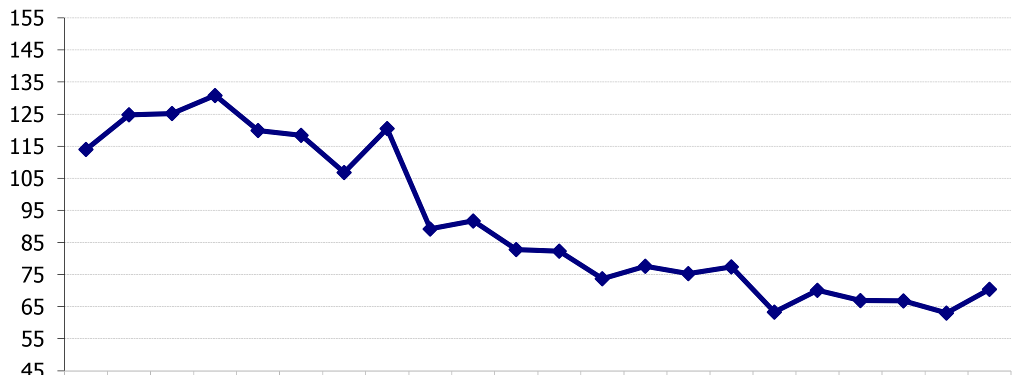
Business Expectation Indexes in Retail Trade (1996-2006=100)

	Jan. - Sep. 2012	Jan. - Sep. 2013	Jan. - Sep. 2014	P.C. '13/'12	P.C. '14/'13
Food-Drinks-Tobacco	79.0	66.5	87.2	-15.8%	31.1%
Textile-Clothing-Footwear	57.8	71.3	102.5	23.4%	43.8%
Household Equipment	54.8	62.3	78.4	13.7%	25.8%
Vehicles-Spare Parts	57.5	79.5	113.0	38.3%	42.1%
Department Stores	50.7	57.8	63.1	14.0%	9.2%
Retail Trade Total	**57.4**	**68.3**	**87.0**	**19.0%**	**27.4%**

Source: IOBE

Figure 3.4

Turnover Index in Wholesale Trade (2005=100)



	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	2009				2010				2011				2012				2013				2014	
Indicator	114	125	125	131	120	118	107	121	89	92	83	82	74	78	75	77	63	70	67	67	63	70

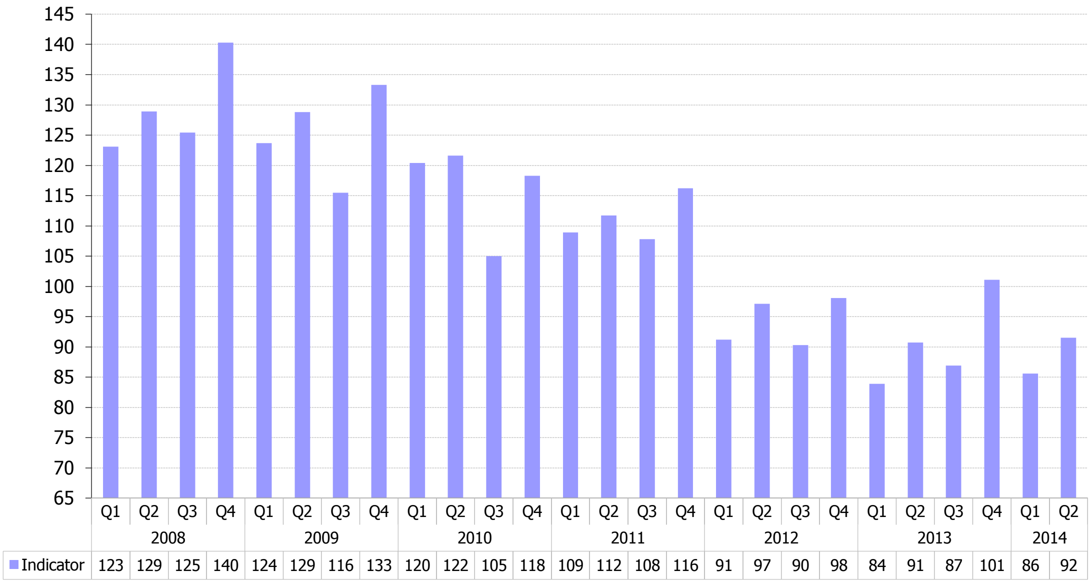
Source: ELSTAT

In contrast, turnover improved over the first half of 2014 in Publishing services (+4.0%, against -2.7% in 2013) as well as in Information Service Activities, with the respective index rising by 4.0%, following a significant drop, by 14.6%, in the same period a year earlier. Finally, Postal and Courier Activities grew by 1.4%.

Regarding expectations in Services in the first nine months of 2014, **as reflected in the Business Surveys of IOBE**, expectations improved in every sector of Services compared with the same period of 2013, while in some sectors expectations improved to an even greater extent than they had improved a year earlier. In particular, the overall expectations index for Services increased by 24.2%, against a rise by 27.1% in 2013. The expectations index of Travel Agencies improved by 39.1% (against 35.9% last year), while a similar improvement, by 31.1%, was recorded in IT Services (against 35.3% in 2013) and in Hotels – Restaurants (22.6%, against 14.8%). Expectations in Financial Intermediaries were still improving this year, yet at a lower rate (16.9%, against 42.9% in 2013), as was the case in Various Services to Businesses, with the respective index reaching 68 points, 11.1% higher than a year earlier.

Figure 3.5

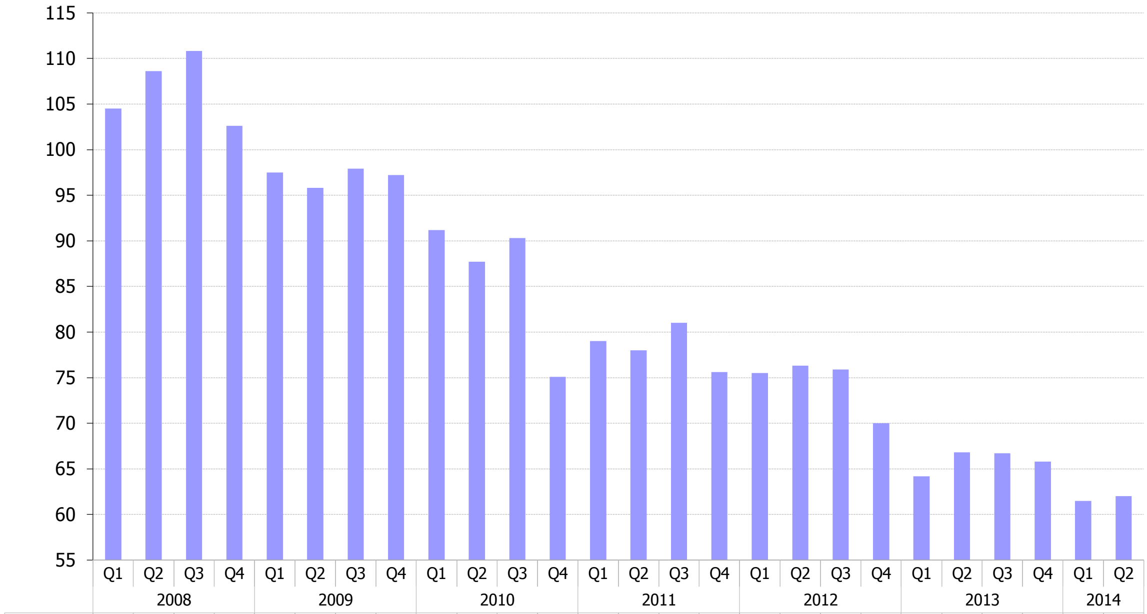
Turnover Index in Postal and express delivery services **(Sector 53)**



Source: ELSTAT

Figure 3.6

Turnover Index in telecommunication services **(sector 61)**

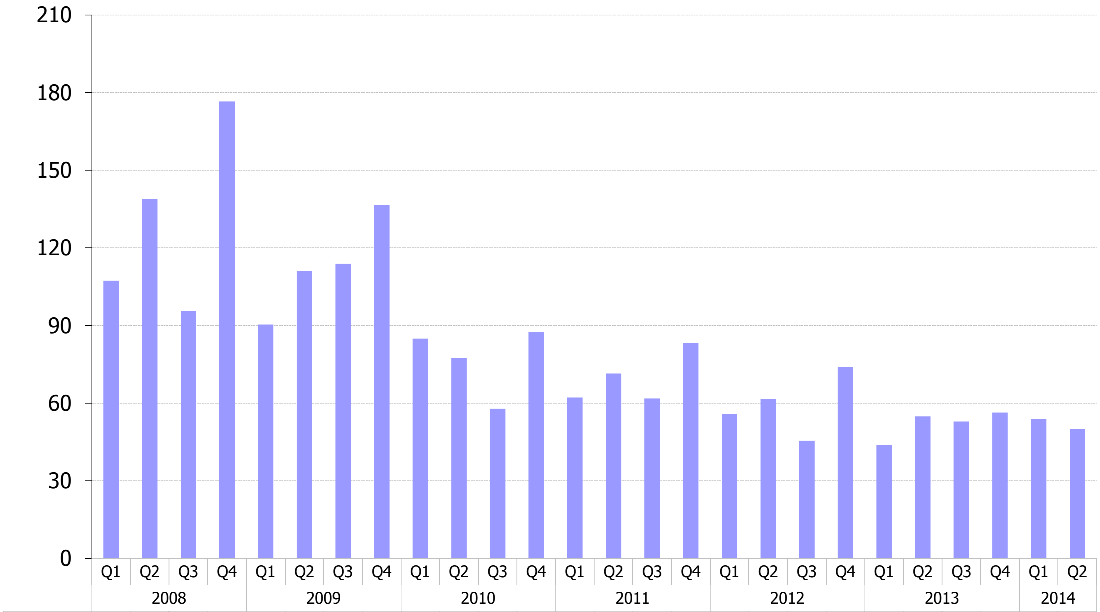


	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2
Indicator	105	109	111	103	98	96	98	97	91	88	90	75	79	78	81	76	76	76	76	70	64	67	67	66	62	62

Source: ELSTAT

Figure 3.7

Turnover Index in informatics **(sector 62)**

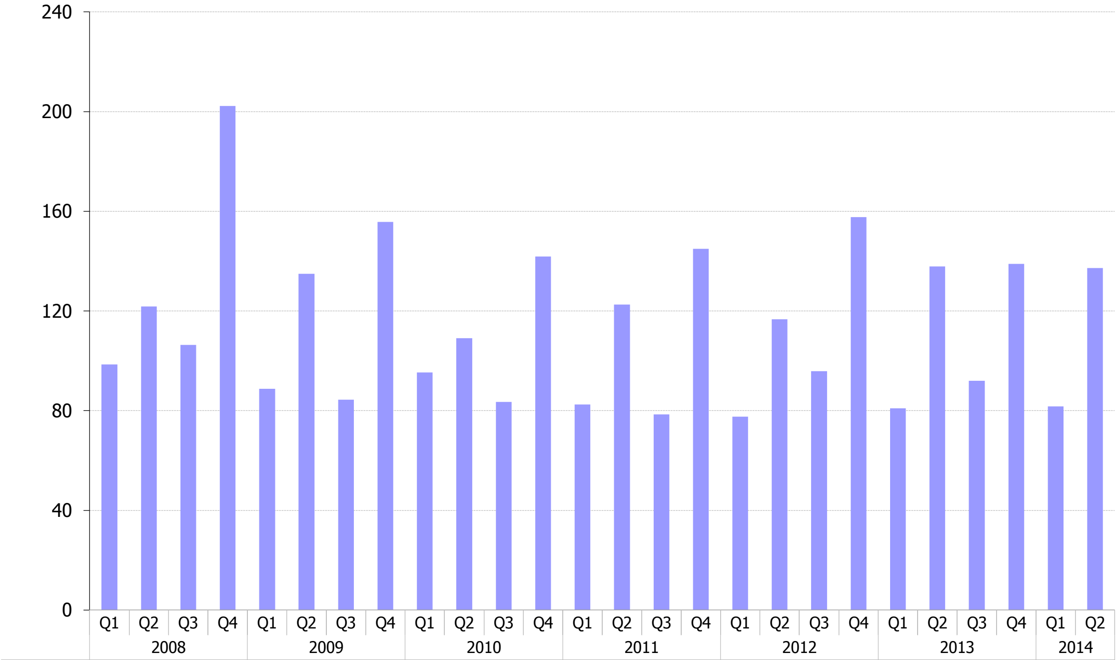


	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2
Indicator	107	139	96	177	90	111	114	137	85	78	58	87	62	71	62	83	56	62	46	74	44	55	53	56	54	50

Source: ELSTAT

Figure 3.8

Turnover Index in legal, accounting, consulting services **(sectors 69 & 70.2)**

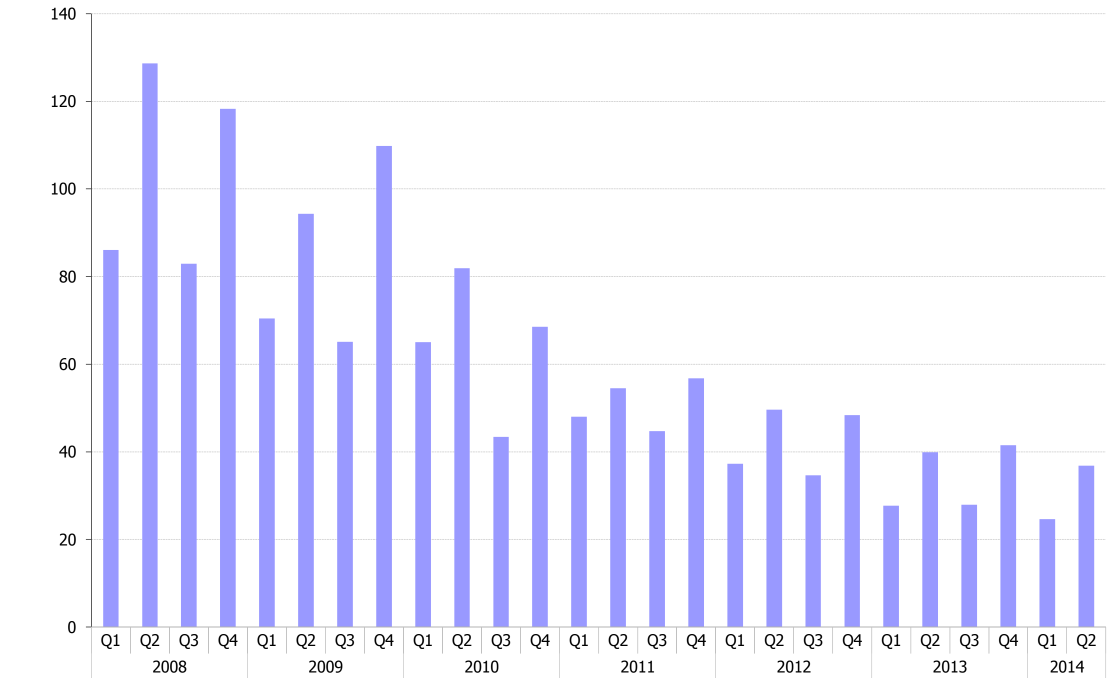


	2008				2009				2010				2011				2012				2013				2014	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Indicator	99	122	106	202	89	135	84	156	95	109	84	142	83	123	79	145	78	117	96	158	81	138	92	139	82	137

Source: ELSTAT

Figure 3.9

Turnover Index in advertising, market research and opinion polling services **(Sector 73)**



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

Source: ELSTAT

Table 3.6

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

	Jan. - Jun. 2012	Jan. - Jun. 2013	Jan. - Jun. 2014	P.C. '13/'12	P.C. '14/'13
Car Trade	51.7	48.1	58.4	**-6.9%**	**21.4%**
Overland transports & via pipelines	95.8	86.9	85.2	**-9.3%**	**-2.0%**
Water Transports	59.4	65.3	53.2	**9.9%**	**-18.6%**
Air Transports	82.0	86.7	99.5	**5.8%**	**14.7%**
Auxiliary to transport services & warehouse activities	58.0	77.4	80.3	**33.4%**	**3.7%**
Travel agencies	36.2	36.8	38.0	**1.8%**	**3.1%**
Postal and express delivery services	94.2	87.3	88.6	**-7.3%**	**1.4%**
Publishing services	44.8	43.6	45.3	**-2.7%**	**3.9%**
Telecommunications	75.9	65.5	61.8	**-13.7%**	**6.1%**
Informatics	58.8	50.2	52.2	**-14.6%**	**4.0%**
Data processing	170.1	134.2	129.4	**-21.1%**	**-3.5%**
Legal, accounting, consulting services	97.2	110.2	109.5	**13.4%**	**-0.6%**
Architect, Engineering	57.1	48.7	32.9	**-14.6%**	**-32.5%**
Advertising, market research polls	43.5	34.2	30.7	**-21.3%**	**-10.2%**
Administrative office works	64.1	53.0	46.8	**-17.3%**	**-11.7%**
Tourist services	59.3	58.2	67.3	**-1.9%**	**15.6%**

Source: ELSTAT

Table 3.7

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

	Jan. - Jun. 2012	Jan. - Jun. 2013	Jan. - Jun. 2014	P.C. '13/'12	P.C. '14/'13
Hotels - Restaurants	70.9	81.4	99.8	14.8%	22.6%
Travel agencies and tour operators, tourist business activities	65.4	88.9	123.7	35.9%	39.1%
Other Services to Businesses	45.6	61.4	68.2	34.6%	11.1%
Intermediate Financial Organisations	51.6	73.3	85.7	42.1%	16.9%
Informatics	45.1	61	80	35.3%	31.1%
Total Services	**54.9**	**69.8**	**86.7**	**27.1%**	**24.2%**

Source: IOBE

3.3 Export Performance of the Greek Economy

The **exports of Greek goods** in the first seven months of 2014 reached €15.4 billion, against €16.1 billion in the same period of the previous year, **contracting by 4.2%.** Excluding fuel, exports contracted year-on-year by 2.3%, reaching €9.4 billion in the first seven months of the year, against €9.6 billion in the same period of 2013. Imports in the same period increased by 1.6%, reaching €27.5 billion, from €27 billion in 2013. Consequently, the **trade deficit** increased by €1.1 billion (+10.2%), reaching €12.0 billion, against €10.9 billion in the previous year. Thus, the **value of Greek exports of goods reached 56.2% of the value of imports** of goods, whereas in the same period of the previous year that ratio was 59.6%.

Regarding **August 2014**, the last month for which some data was available at the time of writing this report, the total value of exports reached €2.05 billion, against €2.18 a year earlier, falling by 5.9%. The contraction of exports excluding fuel was slightly larger (-6.1%). The imports of goods decreased by €0.6 billion, reaching €3.3 billion, dropping by 16.4%, while excluding fuel the contraction of imports was slightly smaller (-13%). Therefore, the trade deficit decreased in August by 29.5%, standing at €1.2 billion, against €1.8 billion in August 2013.

In greater detail (see Table 3.8), the exports of Agriculture Products fell in the first seven months of 2014 by 11.4%, standing at €2.6 billion, from €2.9 billion in the same period of the previous year and so did the exports of fuel, where a contraction of 6.9% was observed, to reach €6.06 billion, from €6.5 billion in the first seven months of 2013. As a result, the overall share of these two product categories reached 56% of the total Greek exports (58.5% in 2013). Concerning the Agriculture Products, a considerable decline was recorded in Animal Oils and Fats (-66.7%), the value of which did not exceed €151 million, against €454.2 million in the same period of last year (a drop of €303.2 million), and consequently the share of this category in the exports of Agriculture Products shrank (from 15.6% in the first seven months of 2013 to 5.8% this year). Meanwhile, a slight contraction by 0.2% (from €2.121 billion in 2013 to €2.118 billion this year) was recorded in the exports of Food-Live Animals, which is the main category of exportable agriculture products, corresponding to 82% of the total. Moreover, a decline by 8%, or €27.4 million, was observed in the exports of Beverages-Tobacco, from €343.9 million in the first seven months of 2013 to €316.5 million this year, with this category corresponding to 12% of the exported Agriculture Products.

In contrast, an upward trend characterised the exports of Industrial Products in the first seven months of 2014 (+1.7%, or €101.4 million), as their value reached €5.9 billion, from €5.8 billion a year earlier. The improvement in this category came mainly from the increase in exports of Chemical Products by 7.1%, or €104.2 million (from €1.5 billion in January-July 2013 to €1.6 billion in the same period this year) and Various Industrial Products by 4.7%, or €43.1 million (from €914 million in the first seven months of 2013 to €957 million this year). The exports of Vehicles – Transport Equipment also grew by 2.1%, reaching €1.21 billion from €1.18 billion last year. In contrast, a slight decline by 3.5%, or €71 million, was observed in the exports of "Industrial Goods Classified by Raw Material", which took up 36.8% of the exports of Industrial Products (reduction from €2.25 billion in the first seven months of 2013 to €2.18 billion this year).

Finally, the exports of Raw Materials grew by 2% (from €549 million to €550 million), while the exports of Commodities Not Classified Elsewhere contracted by 0.5% (from €345 million to €343 million).

As for the destination of Greek exports, the exports to the Eurozone countries, corresponding to about a third of total Greek exports, took a fall in the first seven months of 2014 by 3.6%, approaching €4.64 billion (against €4.8 billion in the same period last year), while the contraction was more modest in the exports to the EU countries, which fell by 2.2%, or €153.8 million (from €7.12 billion in the first seven months of 2013 to €6.97 this year). At country level, a small decline by 1.3%, or €13.9 million, was recorded in the exports to Germany (from €1.06 billion to €1.05 billion), while the exports to Italy shrank more, by 7.1%, or €110.8 million (from €1.56 billion to €1.45 billion). Similarly, the exports to France contracted by 6.3%, or €25.7 million (from €406.9 million last year to €381.1 million in 2014). In contrast, the exports to the United Kingdom and to Spain grew by 3.4% and 2.7%, respectively, reaching €532.5 million (from €515.2 million in the first seven months of 2013) and €357.7 million (from €348.1 million), respectively. The exports to Denmark shrank by 28.7%, the greatest contraction in percentage terms among the older EU member-states, (from €78.5 million a year ago to €56 million this year, a reduction by €22.5 million), while the greatest percentage increase was observed in Portugal (+6.2%, or €4.6 million).

Among the more recent members of the European Union, total exports to which grew by 5.6%, or €65 million (from €1.17 billion in 2013 to €1.124 billion this year), Cyprus is the main export market for Greek products. Exports to Cyprus increased remarkably relative to the first seven months of 2013, by 15.2%, or €94.4 million. Similar positive results regarding exports were observed in two more countries of this group, Poland and the Czech Republic, where Greek exports increased by 8%, or €13.3 million (reaching €179.3 million), and by 42.1%, or €32.7 million (reaching €110.5 million), respectively. The greatest decline, by 54.2%, was recorded in exports to Slovenia, which shrank by €75.1 million (from €138.6 million to €63.5 million).

The export flows to Turkey, which remained the most important market for Greek exports this year, contracted to a small extent by 3%, or €55.8 million, falling from €1.84 billion in the first seven months of 2013 to €1.79 billion this year.

The demand for Greek products in the Balkan countries (the third largest market for Greek exports as a group) decreased slightly, by 1.1%, reaching €2.09 billion in the period January – July 2014, against €2.11 billion in the same period last year. This is mainly due to a decrease of exports to i) Bulgaria (which is the fourth most important market for Greek exports overall) by 6.5%, or €51.8 million, ii) FYROM, by 1.4%, or €5.8 million and iii) Kosovo, exports to which shrank from €48.6 million in 2013 to €20 million this year (-58.9%). Strong improvement was recorded in the exports to i) Albania, by 25.4% and ii) Croatia, by 44%.

Table 3.8

Exports per 1-digit product classification in current prices (mil. €), Jan. – Jul.

PRODUCT	VALUE (mil. €)		P.C.	Structure (%)	
	2014*	2013*	2014*/2013*	2014*	2013*
Agricultural Products	2,585.5	2,919.7	-11.4%	16.7%	18.1%
Food and living animals	2,118.0	2,121.6	-0.2%	13.7%	13.2%
Beverages and tobacco	316.5	343.9	-8.0%	2.0%	2.1%
Animal or natural oils and fats	151.0	454.2	-66.7%	1.0%	2.8%
Raw materials	549.7	539.1	2.0%	3.6%	3.3%
Crude materials inedible, except fuel	549.7	539.1	2.0%	3.6%	3.3%
Fuel	6,054.7	6,505.8	-6.9%	39.2%	40.4%
Minerals, fuel, lubricants	6,054.7	6,505.8	-6.9%	39.2%	40.4%
Industrial products	5,906.8	5,805.4	1.7%	38.3%	36.0%
Chemicals and related products	1,569.1	1,464.9	7.1%	10.2%	9.1%
Manufactured goods classified by raw materials	2,174.5	2,245.6	-3.2%	14.1%	13.9%
Machinery and transport equipment	1,205.7	1,180.6	2.1%	7.8%	7.3%
Miscellaneous manufactured products	957.4	914.3	4.7%	6.2%	5.7%
Others	343.2	344.9	-0.5%	2.2%	2.1%
Commodities and transactions not classified by category	343.2	344.9	-0.5%	2.2%	2.1%
Total exports	15,439.9	16,114.9	-4.2%	100.0%	100.0%

* Provisional Data

Source: PEA-ERC-ELSTAT

The exports to North America contracted by 14.5% (from €703.3 million to €601.3 million), mainly due to the decrease in exports to the United States from €583.2 million to €468.9 million (-19.6%), despite growing exports to Mexico and Canada by 12% and 7.7%, respectively.

The Greek exports to countries in North Africa and the Middle East (the second largest market for Greek exports as a group, after the EU-15) contracted by 11.2% (from €2.38 billion to €2.11 billion), mainly due to a sharp decline of exports to North Africa countries, namely Morocco (-75.5%, from €152 million to €37.2 million), Libya (-72.3%, from €476.6 million to €132 million) and Algeria (-€37.8%, from €269.3 million to €167.5 million). A remarkable increase occurred in the exports to Saudi Arabia, which reached €393 million, rising by 60.5%. The exports to Egypt grew by 39.2%, reaching €532.4 million, as did the exports to the United Arab Emirates, by 18.1%, reaching €212.1 million. In another two important export markets for Greek products in the Middle East, Lebanon and Israel, exports contracted by 13.2% and 38.9%, respectively, reaching €274.1 million and €134.4 million.

The exports to the countries of the Commonwealth of Independent States increased by 14.2%, to reach €450.3 million. This change was driven mainly by the strong upward trend of the exports to

Georgia, which reached €92.2 million in the first seven months of the year (€60 million in 2013), the exports to Ukraine, reaching €66.9 million (against €48.5 million in the first seven months of 2013), despite the geopolitical turmoil in the area, and the exports to Moldova, reaching €47.3 million (from €15.3 million in the previous year). However, the Greek exports to the most important market in this group, Russia, contracted by 13.3% (from €244.1 million in 2013 to €211.6 million this year).

A notable fall was observed in the exports to the Latin American countries in the first seven months of this year, with their total value falling to €43.9 million, from €93 million a year earlier. This disappointing export performance came from a sharp decline in the demand for Greek products in Brazil, where the value of exports was down by 70.3%, falling to €22.1 million this year form €74.3 million in 2013.

In contrast, it seems that demand for Greek products in the emerging countries of S.E. Asia keeps growing, as during the first seven months of 2014 the Greek exports to this region increased by 25.2% compared with the same period of 2013, to reach €468.7 million. This increase was caused mainly by growing exports to Singapore (+18.6%, reaching €220.4 million), South Korea (+33.8%, reaching €134.7 million) and Indonesia (+76.6%, reaching €61.8 million). This increase of exports cancelled out to a great extent the sharp decline in the demand for Greek products in China during the first seven months of the year, as the exports to China shrank by 26.7%, reaching €178.4 million, against €243.6 million in 2013.

In summary, the decline of Greek exports of goods over the first seven months of this year was caused primarily by shrinking exports of Fuel (-€451.1 million, or -6.9%) and Animal or Natural Oils and Fats (-€303.2 million, or -66.7%), despite growing exports of Chemicals and Related Products (+€104.2 million, or +7.1%). The slowing of Greek exports, relative to the strong exporting performance of previous years, stems primarily from shrinking demand for Greek products in the two most important markets for Greek exports, namely countries of the Eurozone and countries of North Africa and the Middle East. These effects prevailed, despite stronger demand for Greek exports from S.E. Asia countries and from more recent members of the EU.

Table 3.9

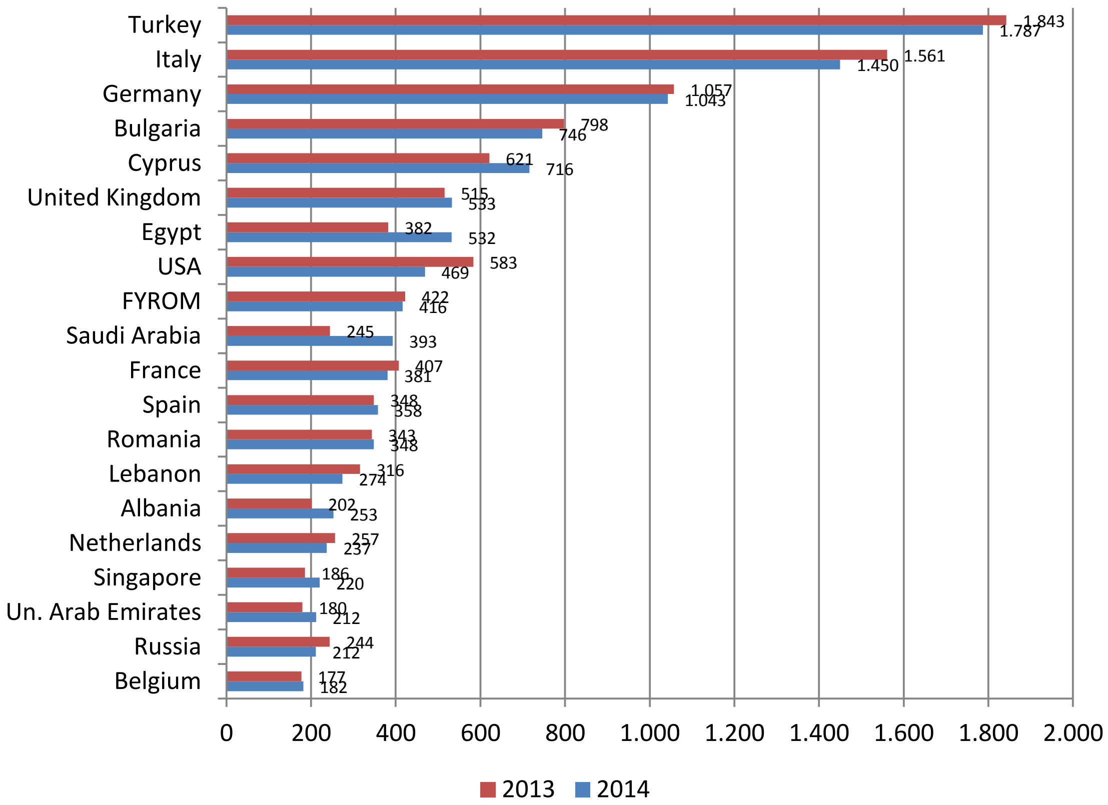
Exports per destination, January - July 2014 and 2013

Geographical Areas	Exports value (mil. €)		P.C.	Structure (%)	
	2014*	2013	2014/2013*	2014*	2013
OECD (29 countries)	7,751.9	7,994.5	-3.0%	50.2%	49.6%
EU-27	6,968.8	7,122.6	-2.2%	45.1%	44.2%
Eurozone-15	4,637.5	4,809.7	-3.6%	30.0%	29.8%
N. America	601.3	703.3	-14.5%	3.9%	4.4%
Other Developed countries	110.6	102.3	8.1%	0.7%	0.6%
Rest OECD (excl. S. Korea)	1,876.3	1,939.3	-3.3%	12.2%	12.0%
Balkans	2,087.2	2,109.5	-1.1%	13.5%	13.1%
Commonwealth of Independent States (CIS)	450.3	394.2	14.2%	2.9%	2.4%
N. Africa and Middle East	2,108.6	2,375.4	-11.2%	13.7%	14.7%
African countries (excl. S. Africa)	79.5	72.4	9.8%	0.5%	0.4%
SE Asia	468.4	374.3	25.2%	3.0%	2.3%
Latin America	43.9	93.0	-52.8%	0.3%	0.6%
Rest Countries	1,739.0	1,969.9	-11.7%	11.3%	12.2%
Total	15,439.9	16,114.9	-4.2%	100.0%	100.0%

* Provisional data
Source: ELSTAT, ERC

Figure 3.10

Countries with the biggest share of Greek exports (mil. €), January - July 2014 and 2013



Source: PEA, **Data Processing:** IOBE

These trends will most probably continue throughout the year. Furthermore, the growth of exports to countries of the Commonwealth of Independent States over the first seven months of the year should be expected to slow considerably, as an effect of the political and economic dispute between the European Union and Russia since last summer, regarding the geopolitical tensions between Russia and Ukraine. On the other hand, the falling exchange rate of the Euro against the dollar will have a positive impact on Greek exports, preventing them from contracting sharply.

Despite the recovery of the Eurozone's economy this year, after two consecutive years of recession, the Greek exports to the Eurozone countries took a fall. However, the demand from the Balkan countries, Cyprus and the Commonwealth of Independent States is expected to have a positive impact on exports. **Taking all those factors into account, the value of Greek exports in 2014, fuel included, is still expected to reach €26.5 billion, as mentioned in previous IOBE bulletins, down from €27.2 billion in 2013, recording a drop by 2.5%.** Excluding fuel, exports are expected to approach €16.2 billion, from €16.8 billion in 2013, contracting by 3.5%.

3.4 Employment-Unemployment

Unemployment fell in the second quarter of 2014 to 26.6%, against 27.8% in the first quarter of the year, whereas it retreated by 0.7 percentage points compared with the second quarter of 2013, according to ELSTAT's Labour Force Survey. In particular, the number of unemployed decreased by about 62,200 in the second quarter this year, compared with the preceding quarter (from 1,342,300 to 1,280,100), whereas compared with the second quarter of 2013 (1,327,900), the unemployed were 47,800 fewer. It should be noted that in July 2014 unemployment decreased further, at 25%, against 26% in June 2014 and 27% in July 2013.

Greece has remained the country with the highest unemployment rate in the Eurozone-18 since the third quarter of 2012. In general, the highest unemployment rates were recorded in countries receiving or having received EFSF/ESM financial assistance in the past. The second highest unemployment rate was recorded in Spain (24.7%), where unemployment has been falling for the fourth consecutive quarter. Next came Cyprus, with 15.9% unemployment, and Portugal, where unemployment receded for the fifth consecutive quarter to 14.4%. Unemployment in Ireland fell for the fifth consecutive quarter as well, at 11.7%, while in Latvia, the 18th member of the Eurozone since January 1st 2014, unemployment stood at 10.8%. The lowest unemployment rate in the Eurozone-18 in the second quarter of 2014 was recorded in Austria (4.9%), which was followed by Germany (5%), Malta (6%) and Luxemburg (6.1%).

As mentioned repeatedly in previous IOBE bulletins, **the increase of**

unemployment over the past years came exclusively from employment reduction. However, in the second quarter of this year employment increased by 1.6%, or 55,400 people, compared with the first quarter of 2014 (from 3,483,700 to 3,539,100), while compared with the second quarter of 2013 employment increased by merely 0.1%, or about 4,100 people (3,535,000 employed in the second quarter of 2013). It is worth stressing that employment remains persistently low, at its lowest level since 1998.

Regarding the labour force characteristics, **unemployment in Greece continues to be higher among women**, as the unemployment rate among women was higher by 7.1 percentage points in the second quarter of 2014, compared with the rate among men. The unemployment rate among men in the second quarter of the year (24%) was slightly lower compared with the preceding quarter (24.4%) as well as compared with the second quarter of the previous year (24.6%). Unemployment among women in Greece in the second quarter of this year was lower by 0.4 percentage points year-on-year (31.1%, against 31.5%), yet it was marginally higher, by 0.3 percentage points quarter-on-quarter (30.8% in the first quarter of 2014).

In the Eurozone-18, the difference of unemployment rates between women and men in the second quarter of 2014 was negligible, at 0.3 percentage points. In more detail, the unemployment rate among men in the Eurozone-18 in the second quarter of the year stands at 11.4%, smaller than that in the preceding quarter (11.6%) and smaller than a year earlier (11.9%). Among women in the Eurozone, the unemployment rate does not exceed 11.7%, 0.1 percentage points smaller than in the preceding quarter and 0.4 percentage points smaller than a year earlier (12.1%).

Regarding **age,** unemployment has been more severe among young people for several years now, however youth unemployment receded in the second quarter of this year. The unemployment rate among people aged 15-24 in the second quarter of the year declined by 7.2 percentage points on a year earlier, from 59.2% to 52%. In the age group of 25-29, unemployment decreased for the first time since the fourth quarter of 2008, reaching 40%, against 44.1% in the previous year. Unemployment in the productive ages 30-44 remained stable compared with a year earlier, at 25.5%, this being the first time in years that it had not increased on a year-on-year basis. In the age group of over 65, unemployment fell, for the first time since 2009, by 0.7 percentage points on a year-on-year basis (from 10.9% to 10.2%). In contrast, the unemployment rate among those aged 45-64 increased by 1.1 percentage points on a year earlier, from 18.8% in the second quarter of 2013 to 19.9% in the same period this year, which however was a smaller increase in unemployment than in the same period of 2013 (+2.8 percentage points).

The longstanding weakness of the Greek economy in creating new jobs is reflected in the growing number of unemployed people who are out of work for more than twelve months. Since the third quarter of 2008, when the Greek recession begun, the percentage of the **long-term unemployed** over the total number of unemployed people has increased by 24.9 points, reaching 74.4% in the second quarter of 2014 (952,200 people), 9.3 percentage points higher than a year earlier (from 65.1%, or 864,700 people). On the other hand, the percentage of **"newly unemployed"** in the second quarter was reduced year-on-year, falling to 22.8%, from 23.6% in the second quarter of 2013.

Unemployment continues to be more acute among people with low **education level**. However, in five out of the eight categories of education level unemployment declined year-on-year for the second consecutive quarter. In more detail, the highest unemployment rates were recorded among those who have attended (without finishing) primary school (43.3% in the second quarter of 2014 from 39.7% in the previous year) and among those who have not attended school at all (34.8% in the current year, from 43.6% in 2013). Unemployment was also high among people who have completed lower secondary education (ISCED 2), with about one third (32%) of them being out of work, yet this rate was lower than a year earlier (32.8% in 2013). Slightly lower unemployment than a year earlier (29.5%, from 29.6%) was observed among people who have completed upper secondary education (ISCED 3), followed by graduates of technical/professional education (ISCED 5B) with a rate of 27.5% in the second quarter this year, similar to the country average, against 30.7% in the corresponding quarter of 2013. Unemployment among people who have completed primary education (ISCED 1) was lower than the country average (26.2%, from 27% a year earlier). The unemployment rate was even lower among university graduates (19%, up from 17.9% in the second quarter of 2013) and people with postgraduate and/or doctorate degrees (13.4%, from 14.4% in the same quarter of 2013).

Unemployment declined in the second quarter of 2014 in eight of the thirteen **regions of Greece.** It should be noted that unemployment fell in some regions that face longstanding employment problems, such as East Macedonia – Thrace and West Macedonia, while in Central Macedonia unemployment declined for the first time since the third quarter of 2008. Meanwhile, unemployment also receded in the most populous regions (e.g. Attica, for the second consecutive quarter) and in regions with important industrial activity (e.g. Central Greece, for the second consecutive quarter), while it also decreased in Thessaly, the South Aegean and Crete. The greatest year-on-year decline in unemployment rates was recorded in West Macedonia (-5.3 percentage points) and East Macedonia –

Thrace (-3.5 percentage points). Unemployment in Central Greece marginally decreased (-0.2 percentage points), while in Attica it fell by 1.1 percentage points. In contrast, unemployment increased in the Ionian Islands (+4.7 percentage points), the Peloponnese (+1.9 points), West Greece (+1.3 points) and Epirus (+1.1 points), while in the North Aegean it increased only marginally (+0.4 points).

The highest unemployment rate in the second quarter of the year was recorded in West Greece (29.9%, against 28.6% in the same period of 2013), followed by Central Macedonia (29.4%, against 30.3%) and Epirus (28.3%, from 27.2% a year earlier). Next came Attica (27.4%, from 28.5% the previous year) and West Macedonia (27.3%), with unemployment rates close to the country's average, while the lowest unemployment rate was recorded in the South Aegean (17.9%, against 19.8% a year earlier), followed by the Ionian Islands, where however unemployment increased to 21.1% in the second quarter of 2014, from just 16.4% a year before.

The largest unemployment contraction rate was recorded in West Macedonia (-17.2%, from about 37,200 people in the second quarter of 2013 to 30,800 people in the same period this year), followed by East Macedonia – Thrace, where the number of the unemployed decreased by 8,700 (or 12.4%) from 70,100 to 61,400 in the second quarter this year. In the South Aegean the unemployed were 9.9% (or 3,100 people), fewer than a year earlier, with their number declining from 31,200 to 28,100 this year. In Central Greece, Central Macedonia and Thessaly the reduction in the number of the unemployed ranged between 3.5% (Central Greece) and 3.8% (Thessaly). The number of the unemployed in Central Greece decreased by 2,300 (from 65,300 to 63,000), in Central Macedonia by 8,900 (from 241,100 to 232,200) and in Thessaly by 3,100 (from 81,200 to 78,100). In Attica, where 38% of the country's labour force lives, unemployment fell by 4.3%, or 22,400 people (from 523,500 to 501,100). On the contrary, the number of the unemployed increased considerably, by 28.9% in the second quarter of the year, in the Ionian Islands (to 19,600, up from 15,200 in the second quarter of 2013). A less severe increase was recorded in the Peloponnese (+9.3%, or +5,000 people), in Western Greece (+3.6%, or +2,900 people) and in Epirus (+2.6%, or +1,000 people).

Regarding the **main economic sectors,** employment declined further in the **secondary sector**, by 3.7% in the second quarter of the year, following a reduction of 10.2% in the second quarter of 2013. The number of employed in the secondary sector fell by 20,500 (from 552,300 to 531,800) in the second quarter of 2014. In the **primary sector**, employment fell by 1.1%, compared with a decrease by 0.7% in the second quarter of 2013. The number of employed in the primary sector decreased by 5,200 (from 481,100 to 475,900). Nevertheless, in the **tertiary sector** employment increased for the second consecutive quarter, by 1.2%, in contrast to the second quarter of 2013, when employment in this sector declined by 4.9%. The number of employed in the tertiary sector increased by 29,700 (from 2,501,600 to 2,531,300).

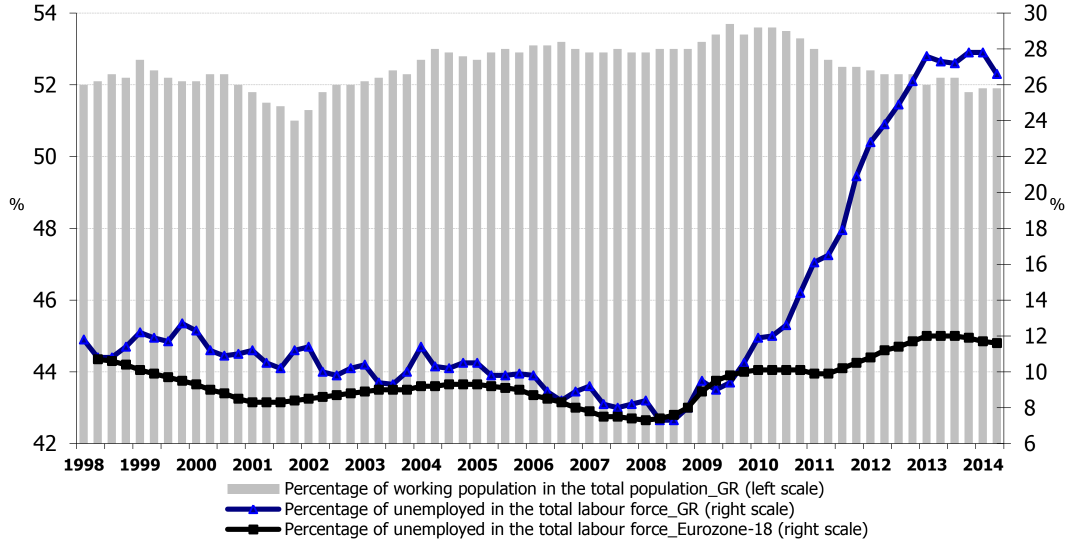
Employment decreased in the second quarter of 2014 in eleven **branches of economic activity** (Agriculture-Forestry-Fisheries, Manufacturing, Construction, Wholesale-Retail Trade- Repair of Motor Vehicles-Motorcycles, Information-Communication, Financial-Insurance Activities, Professional-Scientific-Technical Activities, Public Administration-Defence-Compulsory Social Insurance, Health-Social Work Activities, Activities of Households as Employers, Extraterritorial Organisations). In Real Estate Services the number of employed did not change, while in the remaining nine branches (Mining-Quarrying, Electricity-Natural Gas, Water Supply, Transport-Storage, Tourism, Administrative-Support Services, Education, Arts-Recreation-Entertainment, Miscellaneous Services) employment increased, compared with the same quarter of 2013.

The largest employment contraction was recorded in Financial-Insurance Activities, a fall by 13.8% (-15,300 people), followed by Activities of Households as Employers, where employment fell by 10.7% (from 53,400 people in the second quarter of 2013 to 47,700 in the same quarter of this year) and Construction, with a drop of 10.4% (from 165,400 to 148,200). Although employment in Construction declined further in the second quarter of the year, there was no change in employment in Real Estate Services (2,300 people in the second quarter of both 2013 and 2014). Employment in two important sectors of the Greek economy, Manufacturing and Wholesale-Retail Trade, contracted further in the second quarter of 2014, though at a slower pace, by 2.5% (from 326,800 people to 318,500) and 2.3% (from 639,000 to 624,500), respectively. Employment in Public Administration also declined by 2.7%, although a year before it was increasing by 2.2%.

The largest employment increase in the second quarter of 2014 was recorded in Administrative-Support Services, by 44.3% (from 59,800 people in the same quarter of 2013 to 86,300), against a contraction by 17.2% a year earlier. Equally important was the increase of employment in Arts-Recreation-Entertainment by 19% (from 40,600 people to 48,300), against a contraction by 0.7% a year earlier. Employment in Tourism, a branch with particular significance for Greece, increased considerably, for the second consecutive quarter, by 14.6% (+38,500 people), whereas a year earlier it was contracting by 4%. Employment in Electricity-Natural Gas and in Water Supply also increased, by 6% and 11.8%, respectively, while the number of employed people in Education increased by 5.7%, from 277,400 to 293,300.

Figure 3.11

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



Sources: ELSTAT-Labour Force Survey, Eurostat

In conclusion, the employment statistics per branch show that the growth of employment mainly came from:

a) Tourism (+38,500 people), due to the increase of foreign tourist arrivals in the second quarter by 16%, or by approximately 631,000 tourists (from 3.95 million tourists to 4.58 million[12])

b) Administrative – Support Activities (+26,500 people), due to temporary employment as part of the public benefit employment programme of the Manpower Employment Organization, which commenced in the first quarter of 2014 and

c) Education (+15,900 people), where a similar programme of the Manpower Employment Organization commenced as well

Employment grew overall, despite its contraction in Construction (-17,200 people), Wholesale-Retail Trade (-14,500) and Financial-Insurance Activities (-15,300). The labour cost in the private sector increased slightly in the first quarter of 2014, for the first time since the second quarter of 2010, by 1.9% compared with the first quarter of the previous year, when that labour cost had fallen by 12.7%. The labour cost in the public sector, after having dropped by 7.6% in the last quarter of 2013, increased in the first quarter of this year (as it had increased in the third quarter of 2013) by 2.5%, in contrast to the first quarter of 2013, when the public sector labour cost was contracting by 11.7%. Nonetheless, it is noteworthy that the trends of labour costs in the private and in the public sector have been very similar since late 2012.

[12] According to the latest data by the Association of Greek Tourism Enterprises about foreign tourist arrivals at the main Greek airports.

Table 3.10

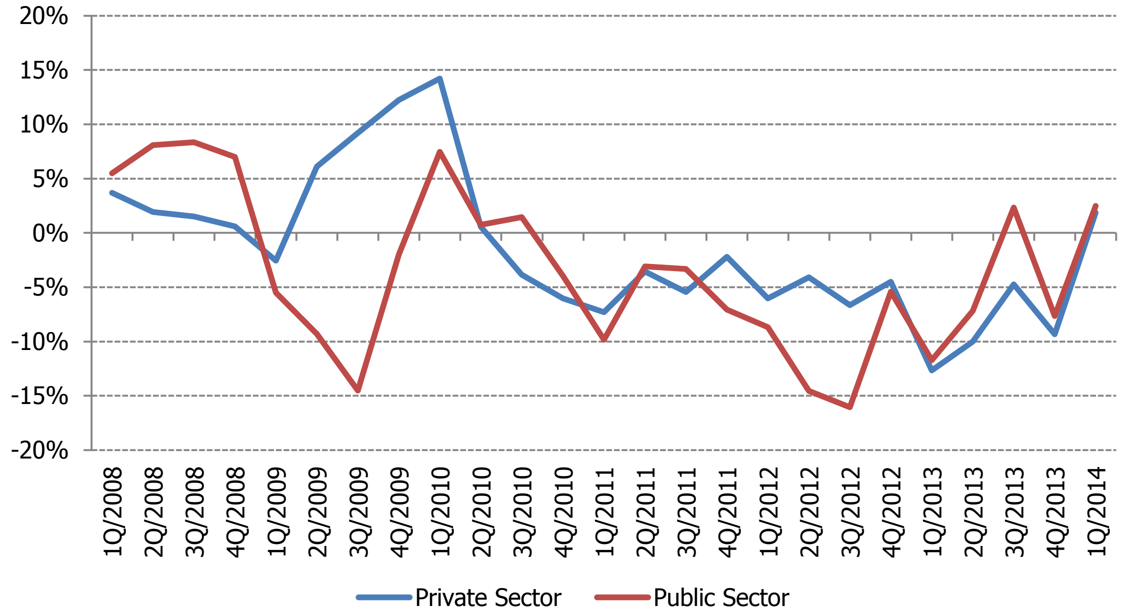
Population of 15 years old and over by employment status (in thousands)

Quarter/Year	Grand Total	Labour Force				
		% of population	Employed	% of labour force	Unemployed	% of labour force
1998	**8,680.4**	**52.1**	**4,017.9**	**88.8**	**507.9**	**11.2**
1999	**8,764.5**	**52.3**	**4,031.4**	**87.9**	**554.7**	**12.1**
2000	**8,839.8**	**52.2**	**4,088.5**	**88.6**	**523.5**	**11.4**
2001	**9,156.0**	**51.4**	**4,202.1**	**89.2**	**508.4**	**10.8**
2002	**9,188.3**	**51.8**	**4,265.0**	**89.7**	**492.7**	**10.4**
2003	**9,234.9**	**52.3**	**4,353.2**	**90.2**	**472.7**	**9.8**
2004	**9,285.3**	**52.9**	**4,389.5**	**89.4**	**520.0**	**10.6**
2005	**9,332.4**	**52.9**	**4,443.6**	**90.0**	**493.6**	**10.0**
2006	**9,374.1**	**53.1**	**4,527.5**	**91.0**	**448.2**	**9.0**
2007	**9,412.3**	**52.9**	**4,564.1**	**91.6**	**418.4**	**8.4**
2008	**9,435.1**	**53.0**	**4,610.5**	**92.3**	**387.9**	**7.8**
2009	**9,431.1**	**53.4**	**4,556.0**	**90.4**	**484.7**	**9.6**
Q1 2010	9,418.1	53.6	4,446.0	88.1	600.2	11.9
Q2 2010	9,405.4	53.6	4,436.5	88.0	604.6	12.0
Q3 2010	9,393.1	53.5	4,398.0	87.4	631.9	12.6
Q4 2010	9,381.0	53.3	4,278.5	85.6	720.8	14.4
2010	**9,399.4**	**53.5**	**4,389.8**	**87.3**	**639.4**	**12.7**
Q1 2011	9,374.4	53.0	4,165.5	83.9	799.6	16.1
Q2 2011	9,373.1	52.7	4,124.2	83.5	815.6	16.5
Q3 2011	9,372.2	52.5	4,040.8	82.1	883.5	17.9
Q4 2011	9,371.7	52.5	3,886.9	79.1	1,028.6	20.9
2011	**9,372.9**	**52.7**	**4,054.4**	**82.2**	**881.8**	**17.9**
Q1 2012	9,364.7	52.4	3,785.0	77.2	1,119.1	22.8
Q2 2012	9,351.2	52.3	3,729.9	76.2	1,163.0	23.8
Q3 2012	9,338.0	52.3	3,668.0	75.1	1,218.4	24.9
Q4 2012	9,325.3	52.3	3,597.0	73.8	1,279.9	26.2
2012	**9,344.8**	**52.3**	**3,695.0**	**75.6**	**1,195.1**	**24.4**
Q1 2013	9,316.5	52.0	3,504.2	72.4	1,336.0	27.6
Q2 2013	9,311.7	52.2	3,535.0	72.7	1,327.9	27.3
Q3 2013	9,307.1	52.2	3,533.7	72.8	1,320.3	27.2
Q4 2013	9,302.7	51.8	3,479.9	72.2	1,337.2	27.8
2013	**9,309.5**	**52.1**	**3,513.2**	**72.5**	**1,330.4**	**27.5**
Q1 2014	9,295.8	51.9	3,483.7	72.2	1,342.3	27.8
Q2 2014	9,286.6	51.9	3,539.1	73.4	1,280.1	26.6

Source: ELSTAT, Labour Force Survey

Figure 3.12

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



Source: Eurostat, ELSTAT

Medium-term Outlook

The stabilising trends in the Greek economy, as reflected mainly in the remarkable slowing of GDP contraction in the second quarter of 2014 to 0.3%, will allow unemployment to recede on an annual basis, albeit to a small extent, for the first time since 2008. Apart from the general effect of the GDP trend, the constant strengthening of foreign tourist flows, along with the fact that the tourism season has lengthened, as reflected in the remarkable increase of tourist arrivals in the first nine months of the year by 14.3% compared with the same period a year earlier, will boost seasonal employment in tourism-related activities, thus helping sustain a declining unemployment trend.

Apart from the weakening of the recession, employment will also get a boost from the broad structural changes in the labour market that took place over the past few years, as well as from the reduction of the social security contributions for the policyholders of the Social Insurance Institute (IKA) by 3.9%, a measure that was implemented in July 2014. The 6,500 layoffs in the public sector, which are scheduled to take place this year, are not expected to hamper the decline in unemployment to a significant extent.

Taking into account the trends discussed above, **IOBE's forecast for the average unemployment rate this year stands as stated in the previous quarterly bulletin: unemployment will fall to 26.7% in 2014,** against an average rate of 27.5% in 2013.

Shortterm employment expectations deteriorated in all sectors, except for Industry, in the third quarter of 2014 compared with the preceding one, according to the Business Surveys compiled by IOBE.

In particular, **short-term employment expectations deteriorated in the third quarter of the year, compared with the second one, to a greater extent in Construction and to a lesser extent in Services and Retail Trade. In Industry, the employment expectations index increased slightly in the third quarter.** Compared with the same period of the previous year, the expectations improved in all sectors, except for Retail Trade, where the expectations remain unchanged, while the greatest year-on-year improvement was recorded in Services.

In greater detail, **in Industry, the negative balance of employment expectations eased quarter-on-quarter in the third quarter**, turning positive and reaching +6 (from -6) points on average. Compared with the corresponding period of 2013, the average quarterly index was higher by 11 points. The share of enterprises in Industry that were expecting an increase of employment in the coming months increased to 13% (from 8%), whereas the share of enterprises that were expecting a decrease of employment declined to 7%, half that of the preceding quarter. The vast majority of the respondents (80%) were expecting no change in employment in the short term.

In Construction, employment expectations deteriorated quarter-on-quarter, with the corresponding indicator turning negative in September, for the first time since January 2014. In particular, the average value of the indicator in the third quarter decreased by 10 points, reaching +8 points, which is nevertheless a significantly higher level, by 16 points, year-on-year. The percentage of enterprises expecting fewer jobs in the sector increased to 21% (from 18%), while the share of those expecting employment growth decreased to 29% (from 36%). At sector level, the decrease of the overall indicator for Construction came mainly from the negative change in Private Construction, where the average indicator reached -21 points (from -12), as well as from Public Construction (+16 from +29 on average).

In Services, positive employment expectations in the second quarter of 2014 were followed by a slight deterioration to balanced expectations on average over the third quarter of the year. Nevertheless there was significant improvement year-on-year. In particular, the expectations indicator in the third quarter stood near zero (from +5 points in the second quarter of this year and -18 in the third quarter of 2013). Among the enterprises in the sector, 13-14% were anticipating a further drop in employment in the coming months, while the share of enterprises expecting employment growth fell to 14%

(from 18%). Employment expectations showed mixed signs in the various branches of Services: deterioration was recorded in Hotels – Restaurants – Travel Agencies, Land Transport and IT Services, while in Financial Intermediaries and in Various Business Activities the expectations improved. Finally, the average quarterly indices for Hotels – Restaurants – Travel Agencies and Various Business Activities had a positive sign, while in Financial Intermediaries the positive and negative expectations balanced out.

The employment expectations deteriorated slightly in Retail Trade in the third quarter of the year, compared with the preceding quarter, with the expectations indicator falling to +11 (from +16) points. This performance was similar to that of the previous year in the same period. The percentage of firms expecting a reduction in employment decreased from 12% to 7%, whereas the share of the firms anticipating employment growth fell to 18% (from 28%). Meanwhile, the percentage of firms anticipating stability in employment stood at 75% (from 61%). The employment expectations improved in all of the branches of Retail Trade, apart from Food-Beverages-Tobacco and Department Stores, where the expectations indicator declined. Finally, the quarterly expectations indices for Vehicles-Spare Parts, Food-Beverages-Tobacco and Textile-Clothing-Footwear were positive, while the employment expectations in Department Stores balanced out.

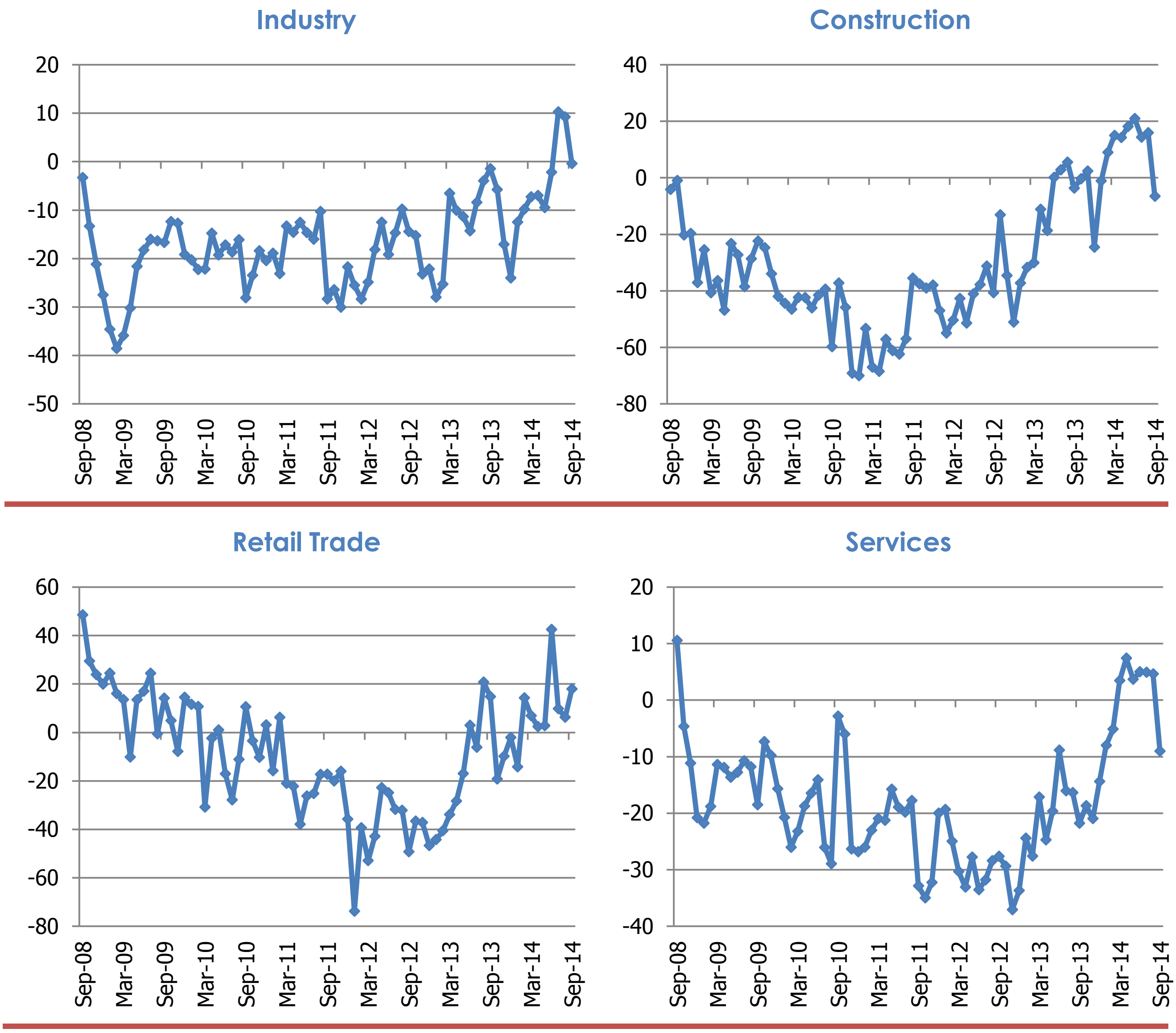
3.5 Consumer Prices

Recent Developments

The deflationary trends prevailing in the Greek economy over the past 18 months continued in the third quarter of 2014, though slightly weaker, with deflation standing at 0.6%, compared with the same period of the previous year, when deflation was 1%, as well as compared with the preceding quarter (deflation of 1.5%). The fall of disposable income, albeit to a lesser extent than in the previous year, and hence the contraction of consumer demand, was the main cause of falling prices. On the contrary, rising employment since the second quarter of the year, which is expected to have been stronger over the summer in seasonal activities, helped ease the fall of prices. As a result, in the period from January to September 2014 the Consumer Price Index (CPI) fell by 1.1%, whereas in the same period of the previous year the index had dropped by 0.5%.

Figure 3.13

Employment Expectations (% difference between positive – negative answers)



Source: IOBE

At the branch level, in the first nine months of 2014, prices fell for most categories of products and services. The price falls were milder in Transport (-1%), Housing (-1.1%) and Durable Goods (-1.1%). In September 2013, the prices declined in Transport (-2.1%) and Durable Goods (-4%), and increased notably in Housing (7.7%). Food prices fell faster this year, by 1.9%, reversing the marginally inflationary trend a year earlier (0.3%), a development that helped ease the contraction of the real income of the poorer households.

The deflationary trends in Hotels and Recreation were similar to the respective trends in the same period of 2013, despite the rise in tourism this year. In particular, the prices in Hotels fell by 1.8%, just as in the first nine months of 2013, while in

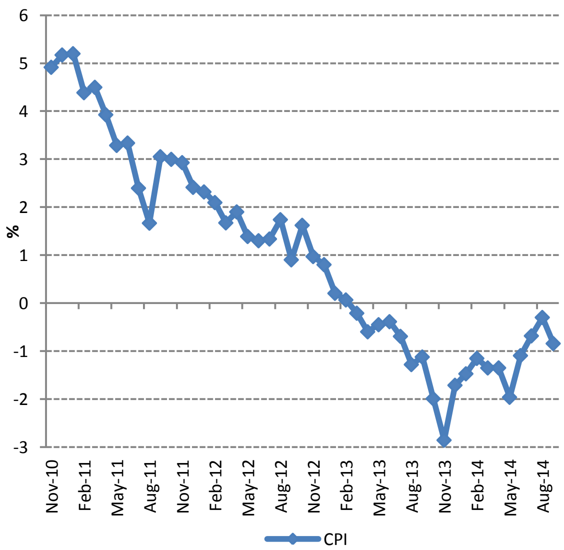
Recreation they dropped by 1.8%, against a decrease by 3% a year earlier.

Prices in Clothing-Footwear fell to a significant extent by 2.7%, whereas in the first nine months of 2013 they had increased by 1%. Persistently low demand led retailers to engage in prolonged sales, which explains the falling trend of prices. The greatest price decreases were recorded in Miscellaneous Goods and Services and in Education, where prices fell by 3.8% and 3.9% respectively, against a similar drop a year earlier (-3.5% and -4%, respectively).

In contrast to the deflationary trends of most CPI subcategories, prices increased in Alcoholic Beverages-Tobacco, in Health and in Telecommunications. In specific, the prices in Alcoholic Beverages-Tobacco rose by 1.7% in the first nine months of the year, a slower increase than a year earlier, when prices rose by 3.4%.

Figure 3.14

Headline Inflation -(annual % change)



Source: ELSTAT **Data Processing:** IOBE

Inflationary trends persisted in Health, after price increases in the period January-May 2014. The prices in Health increased by 2.4% in the period January-September 2014, in contrast to a price decrease by 3.8% in the same period of 2013. Prices remained stable in Telecommunications (+0.1%), against a reduction by 4.7% a year earlier.

The average rate of change, on a year earlier, of the Greek harmonised index of consumer prices (HICP) over the months from January through August 2014 was -1.2%, against a marginal average deflation, by 0.4%, in the same period of the previous year. In particular, following a large drop in May 2014, by 2.1%, the decline of the index eased. However, up to August 2014, the Greek HICP has not yet increased, year-on-year. As a result, Greece was one of the four member-states of the Eurozone with HICP deflation (together with Cyprus, -0.3%, Portugal, -0.2% and Slovakia, -0.1%). Yet, this trend appears to be reversing.

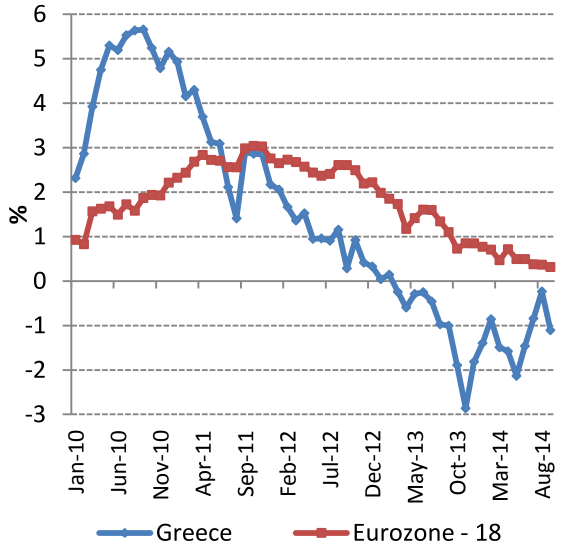
Regarding the average inflation rate in the Eurozone-18, the trend of easing inflation, observed over the first half of the year, continued until August. Average inflation reached 0.5% in the period from January through August, which is 0.9 percentage points lower compared with the same period of 2013. Apart from the countries with deflationary trends, lower inflation than the Eurozone average was observed in the Netherlands and Ireland (0.4% each), as well as in Italy (0.3%), while the prices in Spain did not change on average. The strongest inflationary pressures in the Eurozone were recorded in Finland (1.3%).

Meanwhile, in the EU-28 the average rate of HICP change was 0.7% in the first eight months of 2014, from 1.7% in the same period of 2013. The strongest deflationary trend was observed in Bulgaria (-1.6%), against inflation of +1.1% in the first eight months of 2013. On the other hand, the highest inflation was recorded in the United Kingdom, where prices increased by 1.7% in HICP terms, a rate considerably smaller than a year earlier (2.7%).

Producer prices also followed deflationary trends, suggesting a decrease in the cost of production. In specific the general Producer Price Index in Greece fell by 0.3% in the period from January to August 2014, against a reduction by 0.6% in the same period of the previous year. Producer prices excluding energy decreased to an ever greater extent, by 0.7%, against a marginal increase, by 0.2%, a year earlier.

Figure 3.15

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



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

In the Eurozone-18, the cost of production tends to consolidate, with the respective Producer Price Indices changing only slightly over the first eight months of the year. At branch level, the greatest producer price increase in the period January - August 2014 was observed in Electricity - Natural Gas, by 6.7%, same as the increase in the first eight months of the previous year.

Next comes the branch of Various Transport Equipment, with producer prices rising by 1.3%, against a similar rise, by 1.4% a year earlier. Producer prices for Tobacco products increased slightly, against a drop by 4.7% in the first eight months of 2013.

However, in most branches, producer prices declined year-on-year in the first eight months of 2014. Notably, producer prices for Coke Products fell by 4.7% (against a drop by 8.4% a year earlier), while prices for Electrical Equipment also dropped considerably (-4.4%, against -4.7%), as did prices for Energy Goods (-4.3%, against -6.9%). Finally, producer prices for Basic Pharmaceutical Products and for Crude Oil decreased by 4.1% and 4.2%, respectively.

The prices of imported raw materials in Greece fell by 2.1% in the first eight months of 2014, less than the drop by 3.1% in the same period of 2013. The prices of imported raw materials in the Eurozone-18 continued to fall, by 2.8% in the first eight months of the year, against a drop by 1.7% in the same period of 2013. The greatest decrease of producer prices was observed in Slovakia, with prices falling by 4.8% (against -2.3% last year). Remarkable producer price drops were also recorded in Spain and Germany, by 2.6% and 2.5%, respectively, against slightly smaller price decreases (-1.6% and -2.3%) a year earlier.

Medium-Term Outlook

The trend of the Consumer Price Index in the last quarter of 2014 and in early 2015 will be primarily affected by two factors, applying an upward pressure on the index. The first one is growing household demand for consumption, as employment slowly increases from the second quarter on, easing the contraction of domestic output. The second one is the technical effect from the fact that the very low levels of the CPI in the last quarter of 2013, when the greatest deflation (2.2%) since at least 1960 was recorded in Greece, as well as in the first quarter of 2014, when prices continued to fall significantly (-1.3%), will form a very low base for comparison for the CPI in late 2014 and early 2015. On the other hand, the reduction of the excise duty on heating diesel by 30% starting in October and the reduction of public transport fares in Athens and Piraeus will exert deflationary pressures on prices. Nevertheless, these deflationary pressures are not expected to prevail. Thus, a marginal price increase is likely in the last two months of 2014. Taking those factors into account, it should be expected that **deflation will carry on in 2014, however it will not be stronger than last year. The average rate of deflation will be 0.8%, against 0.9% in 2013.**

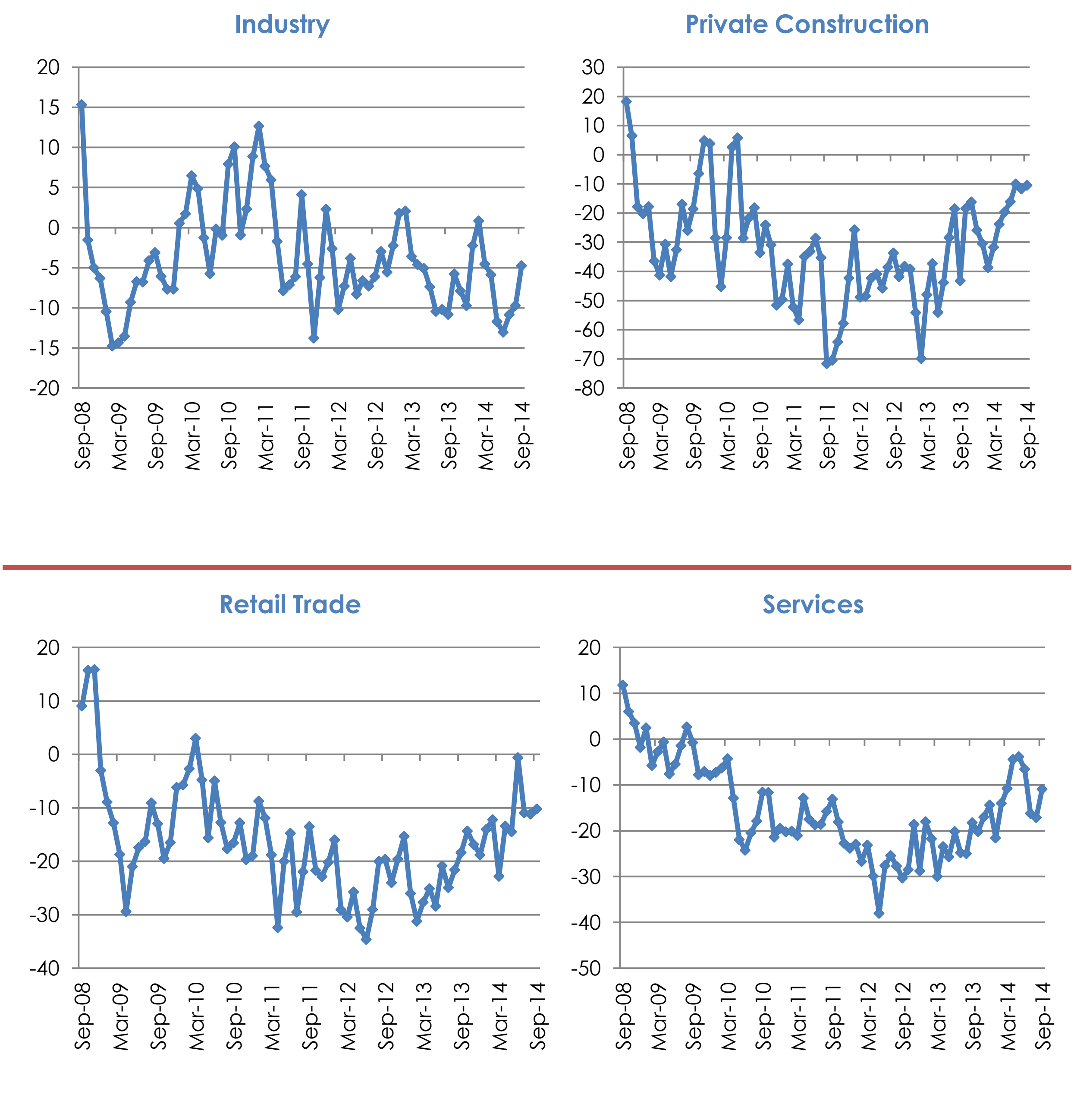
Important information on the trends of prices in the coming period is also provided by IOBE's monthly business surveys, the results of which serve as leading indicators of price developments on the supply side.

The expectations on price changes are not uniform in the third quarter of 2014. However, the balance of expectations remains negative for all sectors, suggesting consistently deflationary expectations for yet another quarter, as common over the past four years. In particular, quarter-on-quarter the deflationary expectations in the third quarter of the year slightly weakened in Industry and to a greater extent in Private Construction, remained unchanged in Retail Trade, and became stronger in Services. Compared with the third quarter of the previous year, the deflationary expectations weakened in every sector, with the smallest improvement recorded in Industry. In greater detail:

In Industry, the deflationary expectations in the third quarter of the year weakened to a small extent, quarter-on-quarter, with the respective indicator changing from -10 points in the preceding quarter to -8 points (against -10 points on average in the third quarter of 2013). Among the enterprises in this sector, 12-13% on average were expecting a further reduction of prices in the near future, 84% were expecting price stability, while 4% (against 2% in the preceding quarter) were expecting price increases.

Figure 3.16

Price Expectations (% difference between positive – negative answers)



Source: IOBE

In Retail Trade, the deflationary expectations remained essentially unchanged in the third quarter of 2014, compared with the preceding quarter, with the balance of expectations standing at -11 points (from -22 points a year earlier). About 14% (from 17% in the preceding quarter) of the sector's enterprises were expecting prices to fall in the short term, with only 3% (from 7%) anticipating inflationary pressures and 84% (from 76%) expecting prices to remain stable. The deflationary expectations eased quarter-on-quarter in Textiles–Clothing-Footwear and in Department Stores, they became stronger in Vehicles and Spare Parts, as well as in Household Equipment, and remained unchanged in Food-Beverages-Tobacco.

In Services, the price expectations indicator fell by 10 points in the third quarter of 2014, compared with the preceding one, reaching -15 points (8 points higher than a year earlier). About 18% (from 10% in the preceding quarter) of the sector's enterprises were expecting price drops in the next three months, while 4-5% (from 5%) were expecting further inflationary pressures.

Among the branches of the Services sector, the deflationary expectations eased in Various Business Activities, Land Transport, and IT Services. The price expectations did not change in Hotels – Restaurants – Travel Agencies, the only sector where price increases were anticipated since the beginning of the year, nor did they change in Financial Intermediaries.

Finally, the deflationary expectations in Private Construction eased in the period from July to September 2014, quarter-on-quarter, with the respective balance of expectations reaching -11 points (from -20 in the preceding quarter and -30 in the third quarter of 2013). About 14% (from 20%) of the sector's enterprises were expecting prices to fall in the short run, while the share of enterprises expecting price increases increased to 3% (from 0%, after two years of practically no respondents reporting inflationary expectations).

3.6 Balance of Payments

Current Account

The **current account balance** was yet again positive in the first seven months of the year, as in the corresponding period of 2013, despite the trade deficit growing for the first time since 2008. The current account surplus reached €567 million in the period from January to July 2014, against a surplus of €398.6 million in 2013 and a deficit of €5.3 billion in 2012. This is a rather remarkable improvement, considering that in the first seven months of 2008 the deficit of the current account was €21.4 billion. The strong trend of shrinking deficits over the past years should not be expected to continue with the same intensity. It should be noted that the trade deficit is almost entirely counterweighted by the surplus in the services balance.

In greater detail, the **trade deficit** increased by 10.1% (or by €984 million) on a year earlier, reaching €10.8 billion in the first seven months of 2014, after a reduction by 23.6% in 2013. Exports increased by 3.5% (or €457 million) year-on-year, while imports increased by 6.3% (or €1.4 billion). The **trade deficit of goods excluding fuel and ships** contracted by 5.1% (or by €244 million) year-on-year, a smaller rate than in 2013, when it had dropped by 12.4%, and exports this year increased by 4.3% (or €352 million). Imports of those goods increased slightly, by 0.8% (or €108 million), against a drop by 2.6% in 2013. The trade deficit of fuel increased by 4.2% (or €183 million) on a year earlier, which was caused by increased fuel imports by 2.4% (or €218 million), while the exports of fuel remained essentially unchanged (rising by 0.7%). The ratio of exports of fuel over imports remained near 50% (exports were half the imports of fuel), against 25% in the period 2002-2009.

The surplus in the **services balance** increased considerably in the first seven months of the year, by 20.1% (or €1.7 billion) on a year earlier, reaching €10.1 billion, against approximately €7.3 billion in the period 2001-2013. This improvement was caused by a strong increase of receipts by 12.7% (or €1.9 billion), against a small increase of payments, by 3.1% (or €197 million). Regarding particular categories of receipts, the tourist revenue increased in 2014 by 13.8% (or €809 million) year-on-year, the best performance since 2001, revenue from transport increased by 7.6% (or €527 million), while revenue from other services improved by 26.6%. As a result, total receipts reached €16.8 billion, against €14.9 billion in 2013. Regarding payments, travel service payments increased by 13.7% (or €146 million) year-on-year, as did payments for other services by 10.2% (or €221 million), while transport payments decreased by 5.3%.

The **income deficit** fell significantly by 24.9% (or €534 million) on a year earlier, reaching €1.6 billion, against an increase by 25.3% in 2013. The contraction of the income deficit was caused by a decrease in payments for fees, salaries, interest and dividends by 10.2% (or €424 million), along with an increase in receipts by 5.5% (or €111 million).

The surplus of **current transfers** decreased in the first seven months of 2014, reaching €2.8 billion, against €3.8 billion in 2013. Total revenues[13] of the general government fell by 21.8% (or €1.3 billion) year-on-year, reaching €4.0 billion, while payments[14] declined by 10.7% (or €229 million).

Capital Account

The surplus of **capital transfers** contracted by 33.8% on a year earlier, reaching €1.8 billion, after the spectacular expansion in 2013 by 129.6%. Receipts[15] fell to €2.0 billion, while payments reached €117 million, reduced by 19.5%.

The cumulative surplus of **the current account and the capital account,** decreased to €2.4 billion in 2014, against €3.2 billion in the first seven months of 2013. The sum of the balances of those accounts roughly reflects the Greek economy's external borrowing requirements, and therefore maintaining a surplus in this combined balance for the second consecutive year, over the first seven months, suggests that Greece has a strong potential to finance itself, by reducing its deficits and gradually becoming less reliant on foreign markets.

Financial Account

The **financial account** recorded a net outflow of €1.6 billion in the first seven months of 2014, compared with a net outflow of €3.4 billion in the previous year.

In particular, **direct investment** had a net inflow of €715 million, down from €929 million in 2013. Foreign direct investment in Greece amounted to an inflow of €1.0 billion, while Greek investment abroad amounted to an outflow of €303.8 million. The most important single investment in

[13] The revenues refer to receipts from the European Agricultural Guidance and Guarantee Fund (EAGGF) and the European Social Fund (ESF).

[14] The payments include contributions of Greece to the Community Budget.

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

July 2014 was an inflow of €78 million from the participation of the Luxemburg based company "Consolidated Lamda Holdings" in the increase of the share capital of "Lamda Development", a Greek subsidiary of the former.

The net inflow in **portfolio investment** reached €3.8 billion in the first seven months of the year, against an outflow of €8.9 billion in 2013. Claims reached €4.6 billion, mainly due to increased placements in foreign bonds and treasury bills by Greek residents, while liabilities reached €8.4 billion, mainly due to increased placements in Greek corporate equity by non-residents.

Other investment recorded a net outflow of €5.6 billion in the first seven months of the year, against an inflow of €4.6 billion in 2013, while the loans of the general government reached €6.9 billion. The total claims amounted to an inflow of €1.7 billion, with a reduction of placements in deposits and repos abroad by Greek residents, while total liabilities amounted to an outflow of €7.3 billion, which is mainly attributed to a decrease of foreign placements in deposits and repos in Greece.

Finally, **foreign-exchange reserves** reached €5.0 billion in July 2014, from €4.6 billion in the same month a year before.

Assessment

The deep recession in Greece since 2008 brought forward a number of crucial and persistent structural problems of the economy. Weak exports combined with a high level of imports and an excessive contribution of consumption to GDP caused deficits and debt accumulation in the external balances of the economy.

Focusing on the components of GDP, namely consumption, investment, imports and exports, it is useful to assess the contribution of each to shaping GDP trends.

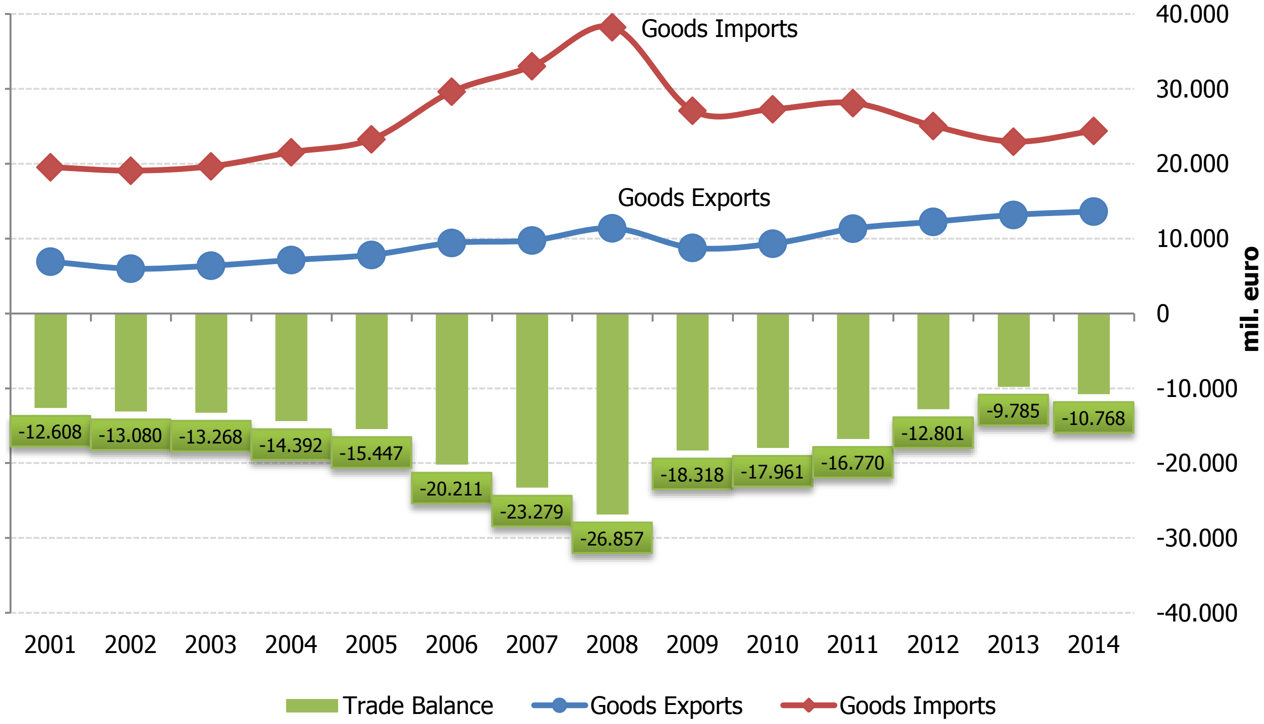
Throughout the period from 2001 to 2008 the main components contributing to GDP growth were private and public consumption, while investment was also boosting GDP from 2001 to 2003. However, net exports (exports minus imports) had a detrimental effect on GDP growth for most of the years in this period, as a result of imports growing faster than exports.

Figure 3.19 presents the trends of imports and exports (separately for products and services), illustrating their effect on GDP (positive/negative), since 2008. It should be noted that imports, being in essence demand for goods produced abroad, are subtracted from the GDP, thereby weakening its growth potential. Thus, shrinking imports have a positive effect on GDP, since they imply a smaller "outflow of demand" towards foreign producers. In contrast, growing exports boost GDP.

Greek net exports shrank in 2009, partly due to a decline in international trade, while the drop of imports of products and services had a positive effect on GDP, indeed to a large extent, reflecting a shift in trends compared with the past. After Greece entered the support mechanism in 2010, the fiscal adjustment effort halted consumption growth, while the enterprises pursued to offset the decline of domestic demand, turning to foreign markets.

Figure 3.17

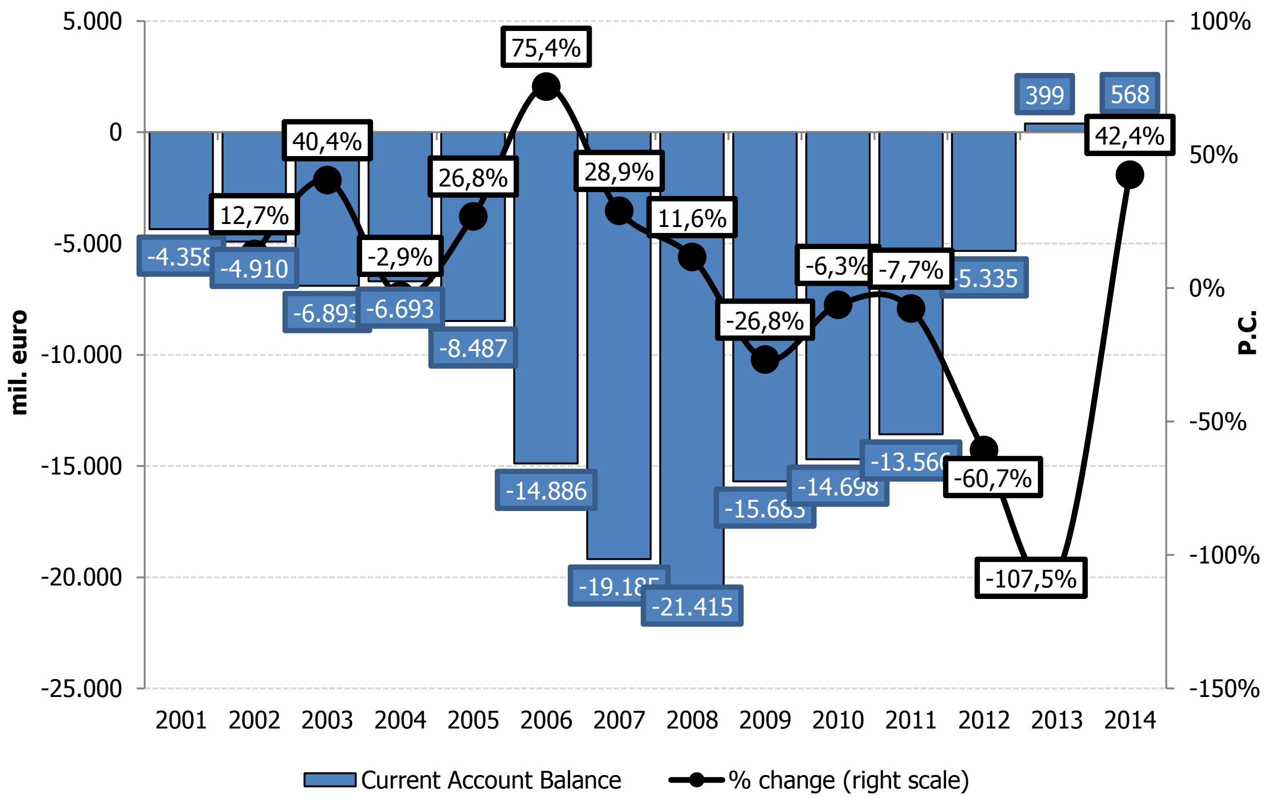
Imports-Exports of Goods, 2001-2014 (January - July)



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

Figure 3.18

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

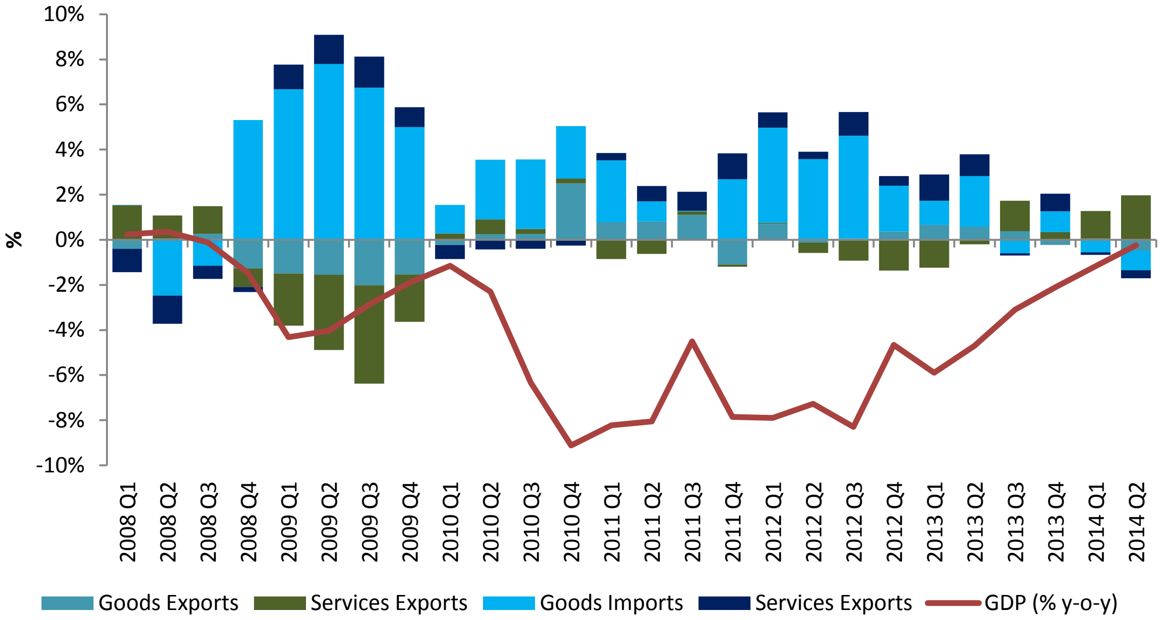


Source: Bank of Greece – **Data Processing:** IOBE

Consequently, after 2010 the balances of trade and services did not negatively affect GDP trends, as they had done over the previous years, while in many cases they had a positive effect on GDP growth. Growing exports of products boosted GDP after 2010, with a few exceptions (such as in late 2011, and in the first and in the third quarter of 2014, when turmoil in international markets led to anaemic exports). On the contrary, the exports of services had a negative effect on GDP growth, as they shrank in eight quarters since 2010. Nevertheless, this effect has recently been reversed, as a result of boosted revenue in tourism and in transport services, and now the exports of services affect positively the GDP growth. Furthermore, imports had a positive impact on GDP growth over the period 2010-2013, as shrinking disposable income led to a dramatic drop in the demand for imports, in contrast to the previous years, when growing imports hampered GDP growth. However, relying on shrinking imports to boost GDP growth is not a sustainable strategy, since in the case of Greece the decrease in imports came primarily from fewer imported capital goods, which are vital for the restructuring of the economy. Without a boost in the domestic production of capital goods, shrinking imports of such goods will probably harm the potential of the Greek economy to grow.

Figure 3.19

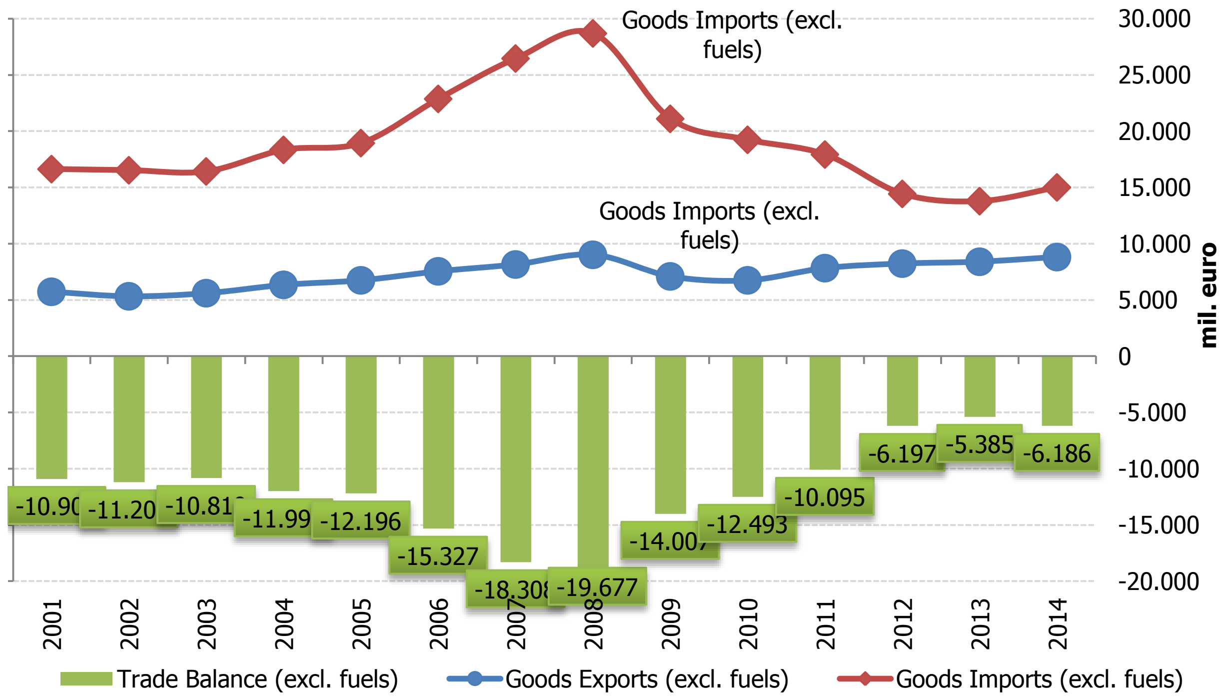
Goods and Services exports and imports impact on GDP growth rate



Source: ELSTAT – **Data Processing:** IOBE

Figure 3.20

Imports-Exports (excl. fuels) 2001-2014 (January-July)



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

Table 3.11

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

		January – July			July		
		2012	2013	2014	2012	2013	2014
I	**CURRENT ACCOUNT BALANCE (I.A +I .B+ I.C + I.D)**	**-5,334.3**	**398.6**	**567.4**	**691.0**	**2,821.7**	**1,683.3**
I.A	**GOODS (I.A.1 - I.A.2)**	**-12,801.4**	**-9,784.6**	**-10,768.1**	**-1,725.1**	**-1,517.7**	**-1,728.8**
	Oil Balance	-6,604.4	-4,399.3	-4,582.2	-942.7	-779.0	-1,004.4
	Trade Balance excluding oil	-6,197.1	-5,385.3	-6,185.9	-782.4	-738.7	-724.4
	Ships Balance	-748.5	-614.0	-1,658.6	-90.7	-63.5	-83.1
	Trade Balance excluding oil and ships	-5,448.6	-4,771.3	-4,527.3	-691.7	-675.2	-641.3
I.A.1	**Exports**	**12,256.3**	**13,175.5**	**13,632.3**	**1,857.6**	**2,109.1**	**2,165.1**
	Oil	4,016.2	4,770.6	4,806.1	615.8	794.3	708.7
	Ships	482.1	317.8	387.3	95.1	33.5	30.4
	Other goods	7,758.0	8,087.1	8,438.9	1,146.6	1,281.4	1,426.0
I.A.2	**Imports**	**25,057.7**	**22,960.1**	**24,400.4**	**3,582.7**	**3,626.8**	**3,893.9**
	Oil	10,620.6	9,169.9	9,388.3	1,558.5	1,573.3	1,713.1
	Ships	1,230.5	931.7	2,045.9	185.8	97.0	113.5
	Other goods	13,206.6	12,858.4	12,966.2	1,838.4	1,956.5	2,067.3
I.B	**SERVICES (I.B.1 - I.B.2)**	**7,738.2**	**8,474.1**	**10,173.8**	**2,617.5**	**2,868.1**	**3,339.6**
I.B.1	**Receipts**	**15,273.1**	**14,905.9**	**16,802.3**	**3,640.3**	**3,852.4**	**4,333.3**
	Travel*	5,117.6	5,875.5	6,684.2	2,159.3	2,399.8	2,744.3
	Transportation	8,006.5	6,925.4	7,452.3	1,170.4	1,098.7	1,173.6
	Other services	2,149.0	2,105.0	2,665.8	310.6	354.0	415.5
I.B.2	**Payments**	**7,534.9**	**6,431.8**	**6,628.6**	**1,022.8**	**984.4**	**993.8**
	Travel	1,116.6	1,068.6	1,214.9	199.6	182.2	191.5
	Transportation	3,789.9	3,205.4	3,035.0	525.7	468.4	447.0
	Other services	2,628.4	2,157.9	2,378.6	297.5	333.7	355.2
I.C	**INCOME (I.C.1 - I.C.2)**	**-1,709.3**	**-2,142.4**	**-1,608.2**	**-101.0**	**-387.0**	**-248.3**
I.C.1	**Receipts**	**2,214.6**	**2,018.5**	**2,129.0**	**349.2**	**280.7**	**312.4**
	Compensation of employees	112.2	123.4	123.6	16.9	19.0	20.8
	Investment income	2,102.4	1,895.1	2,005.4	332.4	261.8	291.6
I.C.2	**Payments**	**3,923.9**	**4,160.9**	**3,737.2**	**450.2**	**667.7**	**560.7**
	Compensation of employees	278.7	274.5	259.8	36.9	45.8	47.2
	Investment income	3,645.2	3,886.4	3,477.4	413.3	621.9	513.5
I.D	**CURRENT TRANSFERS (I.D.1 - I.D.2)**	**1,438.2**	**3,851.5**	**2,769.9**	**-100.3**	**1,858.3**	**320.8**
I.D.1	**Receipts**	**3,835.3**	**5,999.6**	**4,688.8**	**254.1**	**2,145.3**	**525.0**
	General Government (mainly transfers from EU)	3,205.2	5,186.3	4,002.6	163.1	2,044.9	426.1
	Other sectors	630.1	813.3	686.2	90.9	100.5	98.9
I.D.2	**Payments**	**2,397.2**	**2,148.1**	**1,918.8**	**354.4**	**287.0**	**204.2**
	General Government (mainly transfers from EU)	1,723.9	1,713.0	1,507.5	268.6	214.0	130.2
	Other sectors	673.3	435.1	411.3	85.8	73.0	74.0
II	**CAPITAL TRANSFERS (II.1 - II.2)**	**1,218.9**	**2,798.9**	**1,852.0**	**151.3**	**1,690.6**	**10.1**
II.1	**Receipts**	**1,358.5**	**3,019.1**	**2,029.3**	**172.3**	**1,723.1**	**25.6**
	General Government (mainly transfers from EU)	1,313.4	2,969.6	1,986.9	164.6	1,716.1	17.5
	Other sectors	45.1	49.5	42.4	7.7	6.9	8.1
II.2	**Payments**	**139.5**	**220.3**	**177.4**	**20.9**	**32.5**	**15.5**
	General Government (mainly transfers from EU)	6.9	2.5	6.7	0.5	0.5	0.5
	Other sectors	132.6	217.7	170.6	20.4	32.0	15.0
III	**CURRENT ACCOUNT AND CAPITAL TRANSFERS (I + II)**	**-4,115.4**	**3,197.4**	**2,419.4**	**842.4**	**4,512.3**	**1,693.4**
IV	**FINANCIAL ACCOUNT (IV.A + IV.B + IV.C + IV.D)**	**4,979.1**	**-3,411.7**	**-1,562.4**	**-1,086.0**	**-4,175.7**	**-1,143.7**
IV.A	**DIRECT INVESTMENT****	**1,414.1**	**929.6**	**715.0**	**2,079.4**	**644.9**	**78.1**
	Abroad	-89.8	694.2	-303.9	-48.3	665.8	-5.0
	Home	1,504.0	235.4	1,018.9	2,127.7	-20.9	83.2
IV.B	**PORTFOLIO INVESTMENT****	**-72,094.9**	**-8,916.7**	**3,779.3**	**-516.9**	**-1,504.7**	**-766.2**
	Assets	-40,350.2	-1,845.1	-4,604.5	-721.9	-737.2	-1,304.3
	Liabilities	-31,744.7	-7,071.6	8,383.9	205.0	-767.6	538.1
IV.C	**OTHER INVESTMENT****	**75,689.8**	**4,627.4**	**-5,571.8**	**-2,618.4**	**-3,333.8**	**-485.6**
	Assets	11,494.0	15,181.6	1,705.3	909.0	-1,565.1	-233.5
	Liabilities	64,195.8	-10,554.2	-7,277.1	-3,527.4	-1,768.7	-252.2
	(Loans of general government))	75,153.8	31,358.5	6,866.2	-141.8	4,112.4	881.0
IV.D	**CHANGE IN RESERVE ASSETS*****	**-30.0**	**-52.0**	**-485.0**	**-30.0**	**18.0**	**30.0**
V	**BALANCE ITEMS (I + II + IV + V = 0)**	**-863.7**	**214.3**	**-857.0**	**243.6**	**-336.6**	**-549.7**
	RESERVE ASSETS (STOCK) (end period)***				**5,512.0**	**4,607.0**	**5,032.0**

Source: Bank of Greece

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

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

* * * (+) decrease (-) increase

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

4. ENTERPRENEURSHIP IN GREECE[16]

Since 2003, IOBE has been the Greek partner in the international survey of the Global Entrepreneurship Monitor (GEM). The survey begun in 1999, covering 10 countries, and has gradually expanded to cover 70 countries in 2013. GEM studies entrepreneurship in regions of the world covering ¾ of the global population and more than 85% of the global output. The GEM’s empirical analysis focuses on studying the trends of new entrepreneurship, including self-employment. In GEM’s terminology, the analysis evaluates each country’s performance in “early stage” entrepreneurial activity. In addition, the survey examines the opinions and perceptions towards entrepreneurship in each country’s population, regardless of the professional activity of each individual, both at the personal level (individual characteristics) and at the level of social attitudes (cultural characteristics). Furthermore, the survey examines the qualitative attributes of entrepreneurial activities (innovation, competition, employment etc.), along with the main profile characteristics of the entrepreneurs. Finally, the analysis covers the profile characteristics of established entrepreneurs and their enterprises, in the sense of individuals operating an enterprise for over 3.5 years, according to the GEM methodology.

Based on the first results of this year’s report on entrepreneurship, which IOBE will publish in December 2014, the Early Stage Entrepreneurial Activity (TEA index), defined as the percentage of a country’s population aged 18-64 engaged in the initial stage of a new entrepreneurial activity, stood in Greece at its lowest level since the survey begun in 2003, for a second year in a row. In particular, the percentage of the Greek population engaged in the initial stage of an entrepreneurial activity in 2013 is approximately 5.2%. Apparently, the dismal economic conditions, tight liquidity, along with the considerable uncertainty throughout 2013 in Greece, crucially affected the people’s eagerness to engage in new entrepreneurial projects, despite narrowed employment opportunities in an economy with 27% unemployment, as a result of the recession. In such a context, one might expect that more people would engage in new entrepreneurial activities, even if motivated merely by the need to sustain themselves financially. However, the macroeconomic factors and uncertainty seem to have prevailed, largely deterring entrepreneurial initiatives by Greeks.

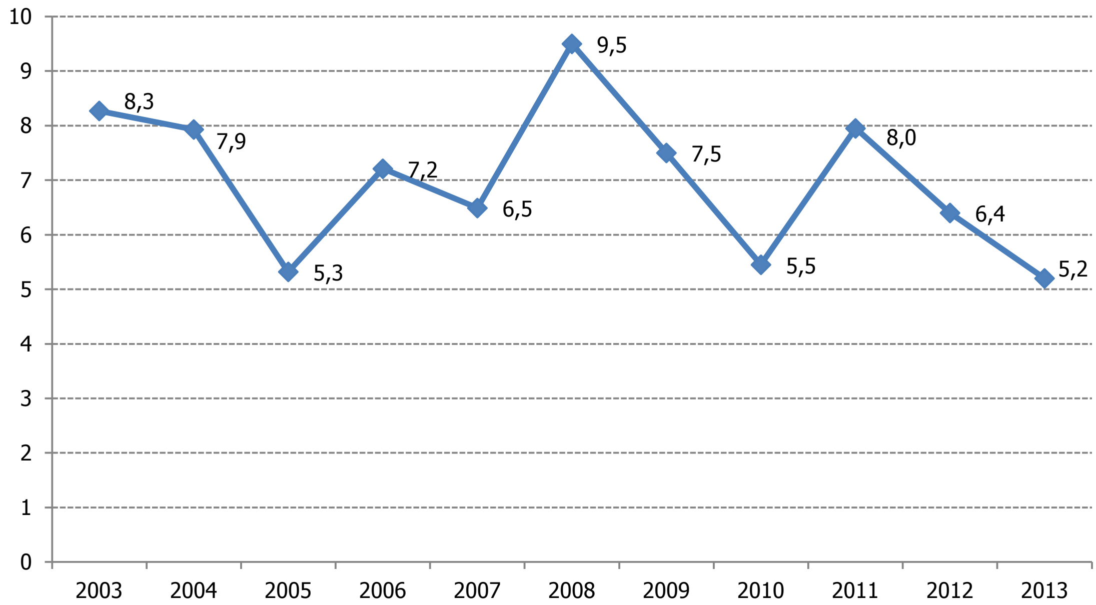
In the current economic context in Greece, the motives spurring entrepreneurial activities are particularly interesting. The GEM survey distinguishes between two types of motives that could determine an individual’s decision to commit to an entrepreneurial activity, and thus two types of entrepreneurship: a) opportunity entrepreneurship, referring to one’s motive to take advantage of an entrepreneurial opportunity that arose in one’s surroundings and b) necessity entrepreneurship, referring to entrepreneurial initiatives driven by the lack of other

[16] Advance publication of the Annual Report for Entrepreneurship in Greece 2013-2014 (to be published in December 2014)

employment options. Figure 4.2 illustrates entrepreneurial trends by type of motive since 2003, when Greece started been covered by the GEM survey.

Figure 4.1

Evolution of early stage entrepreneurship in Greece
(% of the population aged 18-64)



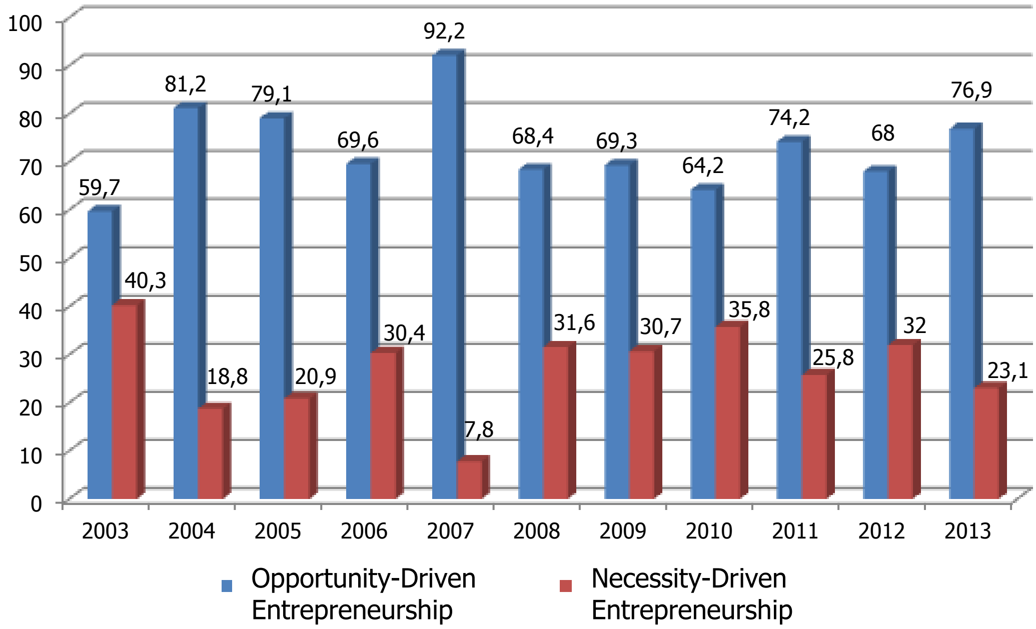
Source: IOBE, Data processing GEM

Opportunity entrepreneurship increased in 2013, while necessity entrepreneurship contracted. In specific, nearly 3 out of 4 early stage entrepreneurs reported engaging in an entrepreneurial activity in order to take advantage of an opportunity they found, and only one in four reported starting, or planning to start, an enterprise driven by necessity. Growing opportunity entrepreneurship in an economy is a positive development, as it suggests that individuals actively chose to get involved in entrepreneurial projects, rationally evaluating the prospects of those projects, and thus, notwithstanding the risk that miscalculations might have been made in the process, those projects have a greater chance of success. On the contrary, projects started as a result of necessity might more often be economically irrational, and therefore such projects might have a greater chance of being unsustainable.

As illustrated in Figure 4.2, before 2008 the percentage of new entrepreneurs reporting necessity as their primary motive was consistently decreasing over time. After 2008 this trend changed, as nearly three out of ten new entrepreneurs admitted having started their projects out of necessity. Nevertheless, the fact that in 2013 new opportunity entrepreneurship was at the highest level recorded over the period of the economic crisis, particularly since overall in that year early stage entrepreneurship receded, is a remarkably positive development. This development should be attributed to the factors mentioned above: in a period of tight liquidity and great uncertainty, even people pressed by unemployment to find new ways of being economically active cannot afford to risk entrepreneurial activity, unless they have found a truly promising opportunity in the market.

Figure 4.2

Evolution of distribution of necessity and opportunity driven entrepreneurial activities



Source: IOBE, Data processing GEM

Another important aspect of entrepreneurship examined in the GEM survey is the allocation of the new entrepreneurial projects in each country across economic sectors. Ideally, new entrepreneurial initiatives would take advantage of new knowledge and advanced technology, would be innovative, would lead to internationally competitive products and services, and would thus contribute to the qualitative development of the overall entrepreneurial environment of an economy, in the direction of a new, knowledge-based, growth model. As a general trend across countries, most new entrepreneurial initiatives involve producing goods, or rendering services, aimed to the end consumer (consumer oriented activities). However, in developed economies[17], in the sense of economies relying on innovation to achieve growth, the sector of services rendered to businesses (business to business) is consistently stronger. New entrepreneurial initiatives in this sector are particularly beneficial, since they do not merely affect a narrow "retail" market, but instead they are incorporated into the value chain of a greater production process, which could have broader economic significance, both domestically and in the context of international markets. Nonetheless, new entrepreneurial projects in manufacturing are also important, since such

[17] According to GEM methodology, countries are classified in one of three groups: low cost countries, namely countries relying on low labour cost to achieve competitiveness, innovation countries, namely developed countries, including Greece, and improving efficiency countries, which are developing countries in transition to an innovation-based growth model.

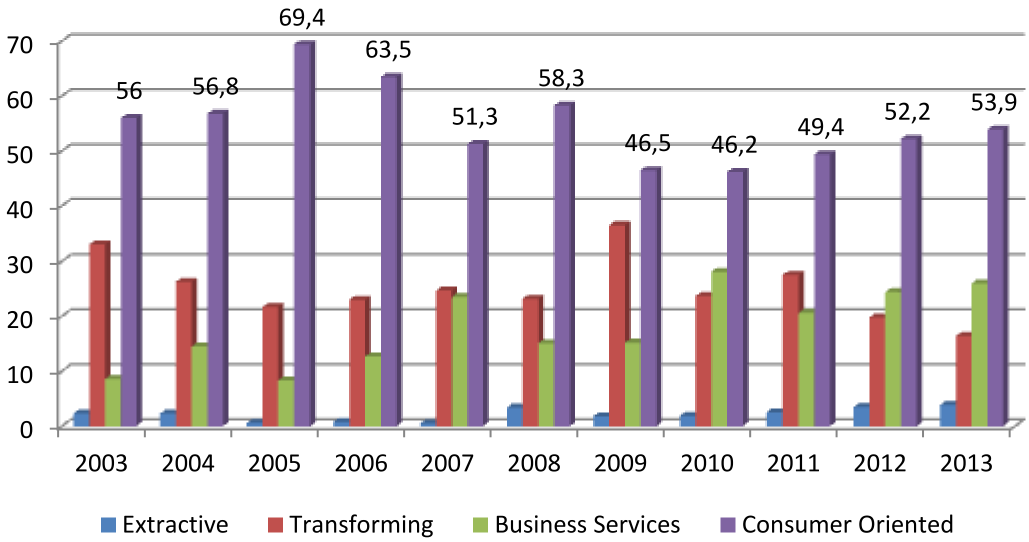
projects usually imply considerable investment in fixed capital and typically have large multiplying effects on the economy.

As illustrated in Figure 4.3, in 2013 more than half of the new entrepreneurial initiatives in Greece involved providing products and services to the end consumer. The percentage of such projects has consistently been high in Greece over the years, especially so up to 2008. After 2009, during the economic crisis, the percentage of new projects directed to the end consumer declined, as a result of the great drop in consumer demand. Nevertheless, since 2010, and over the past three years in particular, that percentage has been increasing. However, over the same period the share of new entrepreneurial projects providing services to businesses also increases, approaching the average such ratio for developed countries. In contrast, the share of new enterprises in manufacturing is shrinking.

Finally, the GEM survey also examines to what extent the people in Greece, regardless of whether they are currently engaged in any entrepreneurial activity, expect that new entrepreneurial opportunities will arise in their economic environment over the next six months, and how these expectations would develop over time. This is a particularly interesting issue in the current economic context in Greece. Optimistic expectations about new entrepreneurial opportunities may reflect that people believe the economic crisis is ending and that the economy is entering a period of growth, over which new chances for entrepreneurial projects will arise.

Figure 4.3

Evolution of industry structure of new entrepreneurial attempts in Greece

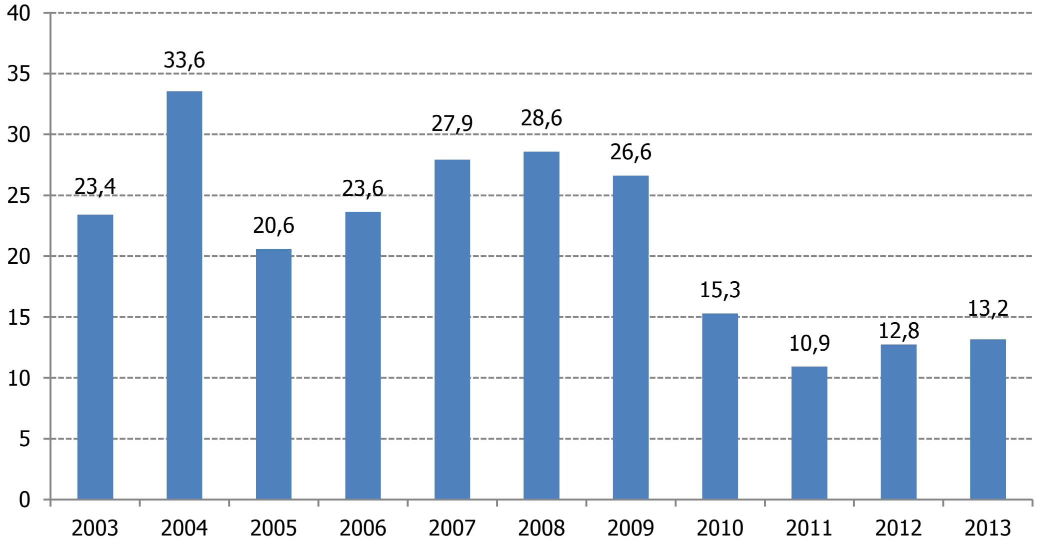


Source: IOBE, Data processing GEM

As Figure 4.4 illustrates, the index tracing the expectations for new entrepreneurial opportunities fell dramatically in 2010. While before 2010 the percentage of people expecting new opportunities to arise in the near term in Greece was consistently in the range 20-25%, in 2011 that percentage fell to almost 10%. In 2012 there was a small improvement, which appears to have consolidated in 2013 with the percentage of optimists standing at approximately 13%. This improvement in expectations was rather small and does not reflect a dramatic shift of trends in the entrepreneurial environment. Nevertheless, the fact that a few more people than in the past now expect new entrepreneurial opportunities to arise in the near term is a positive development and suggests that expectations regarding the end of the recession are also improving.

Figure 4.4

Percentage of individuals expecting new business opportunities in the coming six months (% of population aged 18-64)



Source: IOBE, Data processing GEM

5. APPENDIX: KEY ECONOMIC INDICATORS

Table 1: Real GDP growth rate

	Annual data (%)								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	2.4	3.7	3.7	1.4	-3.8	1.8	2.8	0.9	0.3
Belgium	1.8	2.7	2.9	1	-2.8	2.3	1.8	-0.1	0.2
Bulgaria	6.4	6.5	6.4	6.2	-5.5	0.4	1.8	0.6	0.9
France	1.8	2.5	2.3	-0.1	-3.1	1.7	2	0	0.2
Germany	0.7	3.7	3.3	1.1	-5.1	4	3.3	0.7	0.4
Denmark	2.4	3.4	1.6	-0.8	-5.7	1.4	1.1	-0.4	0.4
Czech Republic	6.8	7	5.7	3.1	-4.5	2.5	1.8	-1	-0.9
EU-28	2.2	3.4	3.2	0.4	-4.5	2	1.6	-0.4	0.1
Greece	2.3	5.5	3.5	-0.2(p)	-3.1(p)	-4.9(p)	-7.1(p)	-7(p)	-3.9(p)
Estonia	8.9	10.2	7.3	-4.1	-14.1	3.3	8.7	4.5	2.2
EA-18	1.7	3.3	3	0.4	-4.5	1.9	1.6	-0.7	-0.4
United Kingdom	3.2	2.8	3.4	-0.8	-5.2	1.7	1.1	0.3	1.7
Ireland	6.1	5.5	5	-2.2	-6.4	-1.1	2.2	0.2	-0.3
Spain	3.6	4.1	3.5	0.9	-3.8	-0.2	0.1	-1.6	-1.2
Italy	0.9	2.2	1.7	-1.2	-5.5	1.7	0.4	-2.4	-1.9
Croatia	4.3	4.9	5.1	2.1	-6.9	-2.3	-0.2	-2.2	-0.9
Cyprus	3.9	4.1	5.1	3.6	-1.9	1.3	0.4	-2.4	-5.4
Latvia	10.1	11	10	-2.8	-17.7	-1.3	5.3	5.2	4.1
Lithuania	7.8	7.8	9.8	2.9	-14.8	1.6	6	3.7	3.3
Luxemburg	5.3	4.9	6.6	-0.7	-5.6	3.1	1.9	-0.2	2.1
Malta	3.6	2.6	4.1	3.9	-2.8	4.3	1.4	1.1	2.9
The Netherlands	2	3.4	3.9	1.8	-3.7	1.5	0.9	-1.2	-0.8
Hungary	4	3.9	0.1	0.9	-6.8	1.1	1.6	-1.7	1.1
Poland	3.6	6.2	6.8	5.1	1.6	3.9	4.5	2	1.6
Portugal	0.8	1.4	2.4	0	-2.9	1.9	-1.3	-3.2	-1.4
Romania	4.2	7.9	6.3	7.3	-6.6	-1.1	2.3	0.6	3.5
Slovakia	6.7	8.3	10.5	5.8	-4.9	4.4	3	1.8	0.9
Slovenia	4	5.8	7	3.4	-7.9	1.3	0.7	-2.5	-1.1
Sweden	3.2	4.3	3.3	-0.6	-5	6.6	2.9	0.9	1.6
Finland	2.9	4.4	5.3	0.3	-8.5	3.4	2.8	-1	-1.4

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

Table 2: General government debt (% GDP)

	Annual data (%)								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	62.2	60.6	58.4	61.8	66.8	70.2	70.8	72	72.3
Belgium	92	87.9	84	89.2	96.6	96.6	99.2	101.1	101.2
Bulgaria	27.5	21.6	17.2	13.7	14.6	16.2	16.3	18.4	18.9
France	64.6	62	62.3	66.1	77	80.2	83.8	88	91.1
Germany	66.4	65.8	63.1	64.6	72.1	79.9	77.3	78.6	76.4
Denmark	36.8	31.1	26.4	32.6	39.5	41.9	45.3	44.4	43.7
Czech Republic	27.2	27	26.7	27.5	33.1	36.8	39.4	43.9	43.8
EU-28	:	:	:	:	:	:	:	:	:
Greece	101.2	107.5	107.2	112.9	129.7	148.3	170.3	157.2	175.1
Estonia	4.5	4.4	3.6	4.5	7	6.5	6	9.7	9.8
EA-18	:	:	:	:	:	:	:	:	:
United Kingdom	41.7	42.7	43.7	51.9	67.1	78.4	84.3	89.1	90.6
Ireland	27.2	24.6	24.9	44.2	64.4	91.2	104.1	117.4	123.7
Spain	43.2	39.7	36.3	40.2	54	59.6	68.6	83.8	91.6
Italy	101.9	102.5	99.7	102.3	112.4	115.3	116.4	122.2	127.8
Croatia	38.5	35.7	33.3	30	36.6	45	52	56.2	67.4
Cyprus	69.4	64.7	58.8	48.9	58.5	61.3	71.5	86.6	111.7
Latvia	12.5	10.7	9	19.8	36.9	44.5	42	40.8	38.1
Lithuania	18.3	17.9	16.8	15.5	29.3	37.8	38.3	40.5	39.4
Luxemburg	6.2	6.8	7	14.4	15.3	19.5	18.4	21.3	23.2
Malta	65.2	60.4	58.8	59.3	64.6	64.5	66.8	67.9	69.8
The Netherlands	49.2	44.6	42.5	54.7	56.4	58.9	61.2	66.7	68.9
Hungary	60.8	64.9	65.8	71.9	78.2	80.8	81	78.4	77.3
Poland	47.1	47.7	45	47.1	50.9	54.9	56.2	55.6	57
Portugal	65.8	67.2	66	68.9	80.4	90.3	105.2	120.6	124.7
Romania	15.8	12.4	12.8	13.4	23.6	30.5	34.7	38	38.4
Slovakia	34.2	30.5	29.6	27.9	35.6	41	43.6	52.7	55.4
Slovenia	26.3	26	22.7	21.6	34.5	37.9	46.2	53.3	70
Sweden	48	43	38.1	36.7	40.2	37.4	36.8	36.9	39.1
Finland	39.9	38.1	33.9	32.5	41.4	46.6	47.3	51.8	54.7

Table 3: General government balance (% GDP)

Annual data (%)									
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	-1.7	-1.5	-0.9	-0.9	-4.1	-4.5	-2.5	-2.6	-1.5
Belgium	-2.5	0.4	-0.1	-1	-5.6	-3.8	-3.8	-4.1	-2.6
Bulgaria	1	1.9	1.2	1.7	-4.3	-3.1	-2	-0.8	-1.5
France	-2.9	-2.3	-2.7	-3.3	-7.5	-7	-5.2	-4.9	-4.3
Germany	-3.3	-1.6	0.2	-0.1	-3.1	-4.2	-0.8	0.1	0
Denmark	5.2	5.2	4.8	3.2	-2.7	-2,5	-1.9	-3.8	-0.8
Czech Republic	-3.2	-2.4	-0.7	-2.2	-5.8	-4.7	-3.2	-4.2	-1.5
EU-28	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-3.9	-3.3
Greece	-5.2	-5.7	-6.5	-9.8	-15.7	-10.9	-9.6	-8.9	-12.7
Estonia	1.6	2.5	2.4	-3	-2	0.2	1.1	-0.2	-0.2
EA-18	-2.5	-1.3	-0.7	-2.1	-6.4	-6.2	-4.1	-3.7	-3
United Kingdom	-3.4	-2.8	-2.8	-5	-11.4	-10	-7.6	-6.1	-5.8
Ireland	1.6	2.9	0.2	-7.4	-13.7	-30.6	-13.1	-8.2	-7.2
Spain	1.3	2.4	2	-4.5	-11.1	-9.6	-9.6	-10.6	-7.1
Italy	-4.4	-3.4	-1.6	-2.7	-5.5	-4.5	-3.7	-3	-3
Croatia	-2.8	-2.8	-1.9	-1.9	-5.4	-6.4	-7.8	-5	-4.9
Cyprus	-2.4	-1.2	3.5	0.9	-6.1	-5.3	-6.3	-6.4	-5.4
Latvia	-0.4	-0.6	-0.7	-4.4	-9.2	-8.2	-3.5	-1.3	-1
Lithuania	-0.5	-0.4	-1	-3.3	-9.4	-7.2	-5.5	-3.2	-2.2
Luxemburg	0	1.4	3.7	3.2	-0.7	-0.8	0.2	0	0.1
Malta	-2.9	-2.7	-2.3	-4.6	-3.7	-3.5	-2.7	-3.3	-2.8
The Netherlands	-0.3	0.5	0.2	0.5	-5.6	-5.1	-4.3	-4.1	-2.5
Hungary	-7.9	-9.4	-5.1	-3.7	-4.6	-4.3	4.3	-2.1	-2.2
Poland	-4.1	-3.6	-1.9	-3.7	-7.5	-7.8	-5.1	-3.9	-4.3
Portugal	-6.5	-4.6	-3.1	-3.6	-10.2	-9.8	-4.3	-6.4	-4.9
Romania	-1.2	-2.2	-2.9	-5.7	-9	-6.8	-5.5	-3	-2.3
Slovakia	-2.8	-3.2	-1.8	-2.1	-8	-7.5	-4.8	-4.5	-2.8
Slovenia	-1.5	-1.4	0	-1.9	-6.3	-5.9	-6.4	-4	-14.7
Sweden	2.2	2.3	3.6	2.2	-0.7	0.3	0.2	-0.6	-1.1
Finland	2.9	4.2	5.3	4.4	-2.5	-2.5	-0.7	-1.8	-2.1

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

Annual data (%)									
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	16.8	17.8	16.7	18.6	17	16.6	16.9	18.5(b)	18.8
Belgium	22.6	21.5	21.6	20.8	20.2	20.8	21	21.6	:
Bulgaria	:	61.3	60.7	44.8(b)	46.2	49.2	49.1	49.3	48
France	18.9	18.8	19	18.5(b)	18.5	19.2	19.3	19.1	:
Germany	18.4	20.2	20.6	20.1	20	19.7	19.9	19.6	:
Denmark	17.2	16.7	16.8	16.3	17.6	18.3	18.9	19	18.9
Czech Republic	19.6	18	15.8	15.3	14	14.4	15.3	15.4	14.6
EU-28	:	:	:	:	:	23.7	24.3	24.8	:
Greece	29.4	29.3	28.3	28.1	27.6	27.7	31	34.6	:
Estonia	25.9	22	22	21.8	23.4	21.7	23.1	23.4	23.5
EA-18	21.7	22	21.8	21.7	21.4	21.9	22.9	23.4	:
United Kingdom	24.8	23.7	22.6	23.2	22	23.2	22.7	24.1(b)	:
Ireland	25	23.3	23.1	23.7	25.7	27.3	29.4	30	:
Spain	24.3	24	23.3	24.5	24.5	26.7	27.7	28.2	27.3
Italy	25	25.9	26	25.3	24.7	24.5	28.2	29.9	28.4
Croatia	:	:	:	:	:	30.7	32.3	32.3	:
Cyprus	25.3	25.4	25.2	23.3(b)	23.5	24.6	24.6	27.1	27.8
Latvia	46.3	42.2	35.1	34.2(b)	37.9	38.2	40.1	36.2	35.1(b)
Lithuania	41	35.9	28.7	27.6	29.6	34	33.1	32.5	30.8
Luxemburg	17.3	16.5	15.9	15.5	17.8	17.1	16.8	18.4	:
Malta	20.5	19.5	19.7	20.1	20.3	21.2	22.1	23.1	24
The Netherlands	16.7	16	15.7	14.9	15.1	15.1	15.7	15	:
Hungary	32.1	31.4	29.4	28.2	29.6	29.9	31	32.4	33.5
Poland	45.3	39.5	34.4	30.5(b)	27.8	27.8	27.2	26.7	25.8
Portugal	26.1	25	25	26	24.9	25.3	24.4	25.3	:
Romania	:	:	45.9	44.2	43.1	41.4	40.3	41.7	:
Slovakia	32	26.7	21.3	20.6	19.6	20.6	20.6	20.5	19.8(p)
Slovenia	18.5	17.1	17.1	18.5	17.1	18.3	19.3	19.6	20.4
Sweden	14.4	16.3	13.9	14.9	15.9	15	16.1	15.6	:
Finland	17.2	17.1	17.4	17.4	16.9	16.9	17.9	17.2	16

b=break in time series, p=provisional

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

Table 5: Inflation

	Annual data (%)				January - August (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	1.7	3.6	2.6	2.1	2.4	2.3	1.6	-0.1	-0.8
Belgium	2.3	3.5	2.6	1.1	2.7	1.3	0.8	-1.4	-0.5
Bulgaria	3.0	3.4	2.4	0.4	2.1	1.1	-1.6	-1.0	-2.7
France	1.7	2.3	2.2	1.0	2.4	1.1	0.7	-1.3	-0.3
Germany	1.2	2.5	2.1	1.6	2.2	1.7	0.9	-0.5	-0.8
Denmark	2.2	2.7	2.4	0.5	2.4	0.6	0.4	-1.8	-0.2
EU-28	2.1	3.1	2.6	1.5	2.7	1.7	0.7	-1.0	-1.1
EZ-18	1.6	2.7	2.5	1.4	2.6	1.6	0.5	-1.0	-1.0
Greece	4.7	3.1	1.0	-0.9	1.3	-0.3	-1.3	-1.6	-0.9
Estonia	2.7	5.1	4.2	3.3	4.4	3.8	0.6	-0.6	-3.1
United Kingdom	3.3	4.5	2.8	2.6	3.0	2.7	1.7	-0.2	-1.0
Ireland	-1.6	1.2	1.9	0.5	1.9	0.7	0.4	-1.2	-0.3
Spain	1.8	3.3	2.4	1.5	2.0	2.2	0.0	0.1	-2.2
Italy	1.6	2.9	3.3	1.3	3.5	1.6	0.3	-2.0	-1.3
Croatia	1.1	2.2	3.3	2.3	2.8	3.1	0.2	0.3	-2.8
Cyprus	2.6	3.5	3.1	0.4	3.5	0.9	-0.3	-2.7	-1.2
Latvia	-1.2	4.2	2.3	0.0	2.6	0.2	0.6	-2.4	0.5
Lithuania	1.2	4.1	3.2	1.2	3.2	1.5	0.3	-1.7	-1.2
Luxemburg	2.8	3.7	2.9	1.7	2.9	1.9	1.1	-1.0	-0.8
Malta	2.0	2.4	3.3	1.0	3.3	1.2	0.9	-2.1	-0.3
The Netherlands	0.9	2.5	2.8	2.6	2.7	3.1	0.4	0.4	-2.7
Hungary	4.7	3.9	5.7	1.7	5.6	2.1	0.2	-3.5	-1.9
Poland	2.7	3.9	3.7	0.8	4.0	0.9	0.3	-3.1	-0.6
Portugal	1.4	3.6	2.8	0.4	3.0	0.6	-0.2	-2.4	-0.8
Romania	6.1	5.9	3.4	3.2	2.7	4.2	1.3	1.6	-2.9
Slovakia	0.7	4.1	3.7	1.5	3.8	1.9	-0.1	-1.9	-2.0
Slovenia	2.1	2.1	2.8	1.9	2.6	2.3	0.6	-0.3	-1.7
Sweden	1.9	1.4	0.9	0.4	0.9	0.5	0.2	-0.4	-0.3
Czech Republic	1.2	2.1	3.5	1.4	3.8	1.5	0.4	-2.2	-1.2
Finland	1.7	3.3	3.2	2.2	3.0	2.4	1.3	-0.6	-1.1

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

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

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

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

	Annual data								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2012**
Austria	36.1	37.3	38.1	38.3	38.2	38.9	39.1	39.5	39.9
Belgium	45.4	45.8	46.2	46	45.3	45.9	45.8	45.7	45.9
Bulgaria	4	4.1	4.3	4.3	4.3	4.5	4.7	4.8	4.9
France	43.6	44.9	44.9	44.4	44.2	44.7	45.3	45.4	45.6
Germany	39.9	41.3	42	42	40.9	41.7	42.4	42.6	42.8
Denmark	51.4	51.9	52.2	51.1	49.8	52.4	52.5	52.6	53.4
Czech Republic	11.7	12.4	13	13	12.8	13	13.3	13.2	13.1
EU-28	30.2	30.9	31.3	31.2	30.7	31.4	31.8	31.9	32.1
Greece	19.8 (b)	20.8	21.5	22.2 (p)	21.1 (p)	20.4 (p)	19.9 (p)	20.2 (p)	20.2
Estonia	9.2	9.7	10.3	10	10.3	10.9	10.8	11.2	11.4
EA-18	34.8	35.5	36	35.9	35.5	36.3	36.7	37	37.3
United Kingdom	38.9	39.7	40.8	40.3	39.3	39.8	40	39.3	39.2
Ireland	44.1 (p)	44.6 (p)	45.1 (p)	45 (p)	46.5 (p)	48.2 (p)	50.1 (p)	50.4 (p)	48.8 (p)
Spain	27.9	28.1	28.5	28.7	29.4	30	30.4	31.5	32.1
Italy	32.4	32.5	32.6	32.4	31.7	32.5	32.5	32.2	32.2
Croatia	:	:	:	:	:	:	:	:	:
Cyprus	20.1	20.4	20.8	21.2	21	21.3	21.2	21.5	21.6
Latvia	5.9	6.3	7.9 (b)	7.3 (b)	7.2 (b)	7.6 (b)	7.9 (b)	8.2 (b)	8.4 (b)
Lithuania	7.7	8.2	8.7	8.8	8.3	9.4	10.1	10.3	10.6
Luxemburg	63.1	63.9	64.9	60.8	59.4	60	59.5	58.2	:
Malta	15.3 (e)	15.5 (e)	15.4 (e)	15.4 (e)	14.6 (e)	15.2	14.2	14.5	:
The Netherlands	44.7	45.5	46.2	46.2	45.1	46	46.1	45.6	45.8
Hungary	10.7	11.1	11.1	11.3	10.9	11	11	11.3	11.5
Poland	8.4	8.6	8.8	9	9.1	9.8	10.2	10.4 (b)	10.6
Portugal	15.6	15.8	16.1	16.1	16.1	16.7	16.9 (p)	17 (p)	17.1
Romania	4.6	4.9	5.2	5.6	5.4	5.3	5.4	5.4	5.6
Slovakia	10.4	11	11.8	12.1	11.8	12.3	12.6	12.8	13.2
Slovenia	18.2	19.3	20.1	20.1	20.1	20.6	21.4	21.3	21.4
Sweden	42.7	44	44.1	43.3	42.3	44	44.4	44.9	45.5
Finland	38.4	39.5	40.8	40.3	38.2	39.4	40	39.5	39.7

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

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

	Annual data (%)				2nd Quarter (%)			Change (%)	
	2010	**2011**	**2012**	**2013**	**2012**	**2013**	**2014**	**13/12**	**14/13**
Austria	74.9	75.2	75.6	75.5	75.9	75.9	76.2	0.0	0.3
Belgium	67.6	67.3	67.2	67.2	67.2	67.5	67.4	0.3	-0.1
Bulgaria	65.4	63.9	63.0	63.5	62.6	63.6	65.0	1.0	1.4
France	69.2	69.2	69.3	69.5	69.6	69.7	70.1	0.1	0.4
Germany	74.9	76.3	76.7	77.1	76.8	77.2	77.5	0.4	0.3
Denmark	75.8	75.7	75.4	75.6	75.5	76.0	75.9	0.5	-0.1
EU-28	68.6	68.6	68.4	68.4	68.6	68.4	69.3	-0.2	0.9
EA-17	68.4	68.5	69.4	69.3	68.3	67.8	68.3	-0.5	0.5
Greece	64.0	59.9	55.3	53.2	55.4	53.2	53.3	-2.2	0.1
Estonia	66.7	70.4	72.1	73.3	72.2	74.2	74.1	2.0	-0.1
United Kingdom	73.6	73.6	74.2	74.9	74.0	74.6	76.2	0.6	1.6
Ireland	65.0	63.8	63.7	65.5	63.7	65.3	66.7	1.6	1.4
Spain	62.5	61.6	59.3	58.6	60.0	58.6	59.9	-1.4	1.3
Italy	61.1	61.2	61.0	59.8	61.3	59.8	59.9	-1.5	0.1
Croatia	58.7	57.0	55.4	53.9	56.3	57.8	59.4	1.5	1.6
Cyprus	75.4	73.4	70.2	67.1	70.7	67.3	67.8	-3.4	0.5
Latvia	65.0	66.3	68.2	69.7	67.3	69.4	71.1	2.1	1.7
Lithuania	64.4	67.2	68.7	69.9	68.6	69.9	71.3	1.3	1.4
Luxemburg	70.7	70.1	71.4	71.1	71.5	70.7	72.2	-0.8	1.5
Malta	60.1	61.5	63.1	64.8	62.7	64.6	65.7	1.9	1.1
The Netherlands	76.8	77.0	77.2	76.5	77.2	76.6	75.9	-0.6	-0.7
Hungary	60.4	60.7	62.1	63.2	62.1	63.1	66.5	1.0	3.4
Poland	64.6	64.8	64.7	64.9	64.8	64.6	66.1	-0.2	1.5
Portugal	70.5	69.1	66.5	65.6	67.0	65.1	67.7	-1.9	2.6
Romania	63.3	62.8	63.8	63.9	64.3	64.4	66.0	0.1	1.6
Slovakia	64.6	65.1	65.1	65	65.2	65.0	65.7	-0.2	0.7
Slovenia	70.3	68.4	68.3	67.2	68.1	67.1	68.4	-1.0	1.3
Sweden	78.7	80.0	79.4	79.8	79.8	80.0	80.2	0.2	0.2
Czech Republic	70.4	70.9	71.5	72.5	71.5	72.7	73.3	1.2	0.6
Finland	73.0	73.8	74.0	73.3	74.6	74.4	74.0	-0.2	-0.4

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

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

	Annual data (%)				2nd Quarter (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	13/12	14/13
Austria	42.4	41.5	43.1	44.9	43.6	45.3	47.7	1.7	2.4
Belgium	37.3	38.7	39.5	41.7	40.3	41.6	43.7	1.3	2.1
Bulgaria	43.5	43.9	45.7	47.4	46.0	47.4	49.2	1.4	1.8
France	39.8	41.5	44.5	45.6	44.1	45.7	47.1	1.6	1.4
Germany	57.7	59.9	61.5	63.5	61.1	63.1	65.2	2.0	2.1
Denmark	58.4	59.5	60.8	61.7	60.9	61.4	62.9	0.5	1.5
EU-28	46.3	47.4	48.8	50.1	48.7	50.0	51.7	1.3	1.7
EA-17	45.8	47.1	50.9	52.3	48.6	49.9	51.7	1.3	1.8
Greece	42.3	39.4	36.4	35.6	36.4	35.9	34.0	-0.5	-1.9
Estonia	53.8	57.2	60.6	62.6	60.8	65.3	64.1	4.5	-1.2
United Kingdom	57.1	56.7	58.1	59.8	58.0	59.6	60.9	1.6	1.3
Ireland	50.2	50.0	49.3	51.3	49.5	50.8	52.6	1.3	1.8
Spain	43.6	44.5	43.9	43.2	44.3	43.1	44.0	-1.2	0.9
Italy	36.6	37.9	40.4	42.7	40.4	42.1	45.8	1.7	3.7
Croatia	37.6	37.1	36.7	36.5	36.7	37.5	36.6	0.8	-0.9
Cyprus	56.8	54.8	50.7	49.6	50.6	49.3	46.6	-1.3	-2.7
Latvia	48.2	50.5	52.8	54.8	52.3	55.2	57.3	2.9	2.1
Lithuania	48.6	50.5	51.8	53.4	51.6	52.6	55.5	1.0	2.9
Luxemburg	39.6	39.3	41.0	40.5	40.1	44.8	43.8	4.7	-1.0
Malta	30.2	31.7	33.6	36.2	34.2	35.7	37.9	1.5	2.2
The Netherlands	53.7	56.1	58.6	60.1	58.4	59.8	60.5	1.4	0.7
Hungary	34.4	35.8	36.9	38.5	37.2	38.4	41.6	1.2	3.2
Poland	34.0	36.9	38.7	40.6	38.3	39.9	41.7	1.6	1.8
Portugal	49.2	47.9	46.5	46.7	46.8	47.1	47.8	0.3	0.7
Romania	41.1	40.0	41.4	41.5	42.4	41.9	43.3	-0.5	1.4
Slovakia	40.5	41.4	43.1	44	43.3	44.0	44.3	0.7	0.3
Slovenia	35.0	31.2	32.9	33.5	32.8	34.2	36.7	1.4	2.5
Sweden	70.5	72.3	73.0	73.6	73.0	73.3	74.4	0.3	1.1
Czech Republic	46.5	47.6	49.3	51.6	49.1	51.4	53.6	2.3	2.2
Finland	56.2	57.0	58.2	58.5	58.3	59.0	59.4	0.7	0.4

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

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

	Annual data (%)						2nd Quarter (%)		
	2008	2009	2010	2011	2012	2013	2012/11	2013/12	2014/13
Austria	2	-0.7	0.8	1.7	1.0	-0.2	1.2	-0.4	1.2
Belgium	1.8	-0.2	0.7	1.4	0.3	0.1	-0.4	0.5	-0.1
Bulgaria	2.6	-2.6	-4.7	-4.2	-1.1	0.0	-1.1	0.9	1.3
France	0.5	-1.3	-0.1	0.5	0.1	0.0	-0.1	0.0	0.1
Germany	1.2	0.1	0.6	1.4	0.8	0.9	0.8	1.3	0.3
Denmark	1.7	-2.4	-2.3	-0.4	-0.5	0.0	-0.7	0.1	0.2
EU-28	1	-1.8	-0.5	0.3	-0.5	-0.2	-0.3	-0.3	0.6
EE-17	0.8	-1.8	-0.5	0.2	-0.3	-0.3	-0.8	-0.7	0.3
Greece	0.8	-0.2	-1.9	-6.7	-8.0	-4.0	-9.6	-5.2	0.1
Estonia	0.2	-9.9	-4.8	7	2.5	1.0	2.8	2.9	-1.2
United Kingdom	0.3	-1.7	-0.7	0.5	1.2	1.3	0.9	1.1	2.8
Ireland	-1.1	-8.1	-4.2	-2.1	-0.6	2.4	-1.3	1.8	1.7
Spain	-0.1	-6.5	-2.5	-1.5	-4.5	-2.8	-4.6	-3.4	1.1
Italy	0.3	-1.6	-0.7	0.3	-0.3	-2.1	-0.2	-2.5	-0.1
Croatia	:	:	:	:	-3.1	-3.9	-1.0	5.3	1.6
Cyprus	2.1	-0.5	0.1	0.5	-2.4	-3.5	-3.8	-5.8	0.1
Latvia	0.9	-13.2	-4.8	-8.1	2.8	2.1	1.0	2.6	0.0
Lithuania	-0.7	-6.8	-5.1	2	1.8	1.3	1.7	1.0	0.9
Luxemburg	:	:	:	:	5.0	1.1	6.2	1.0	3.4
Malta	2.6	-0.3	2.4	2.5	2.4	3.0	2.0	2.9	1.3
The Netherlands	1.5	-0.7	-0.4	0.7	0.7	-0.7	0.9	-0.6	-0.9
Hungary	-1.4	-2.8	0.3	0.3	1.7	1.6	1.8	1.4	4.8
Poland	3.9	0.4	0.5	1	-3.3	-0.1	0.2	-0.5	1.7
Portugal	0.5	-2.6	-1.5	-1.5	-4.2	-2.6	-4.1	-3.9	2.0
Romania	:	-2	-1.4	0.4	1.4	-0.2	1.7	-0.2	-7.1
Slovakia	3.2	-2	-1.5	1.8	-1.0	0.0	0.7	-0.3	1.1
Slovenia	2.6	-1.8	-2.2	-1.6	-1.3	-1.9	-1.9	-1.8	2.9
Sweden	0.9	-2.4	1.2	2.2	0.7	1.0	0.7	0.8	1.3
Czech Republic	2.3	-1.2	-1.7	0.2	-0.3	1.0	0.2	1.3	0.2
Finland	2.6	-2.6	-0.1	1.1	0.4	-1.1	0.3	-0.7	-0.7

Table 11: Unemployment rate (total)

	Annual data (%)				2nd Quarter (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	4.4	4.2	4.3	4.9	4.4	4.7	4.9	0.3	0.2
Belgium	8.3	7.2	7.6	8.4	7.6	8.4	8.5	0.8	0.1
Bulgaria	10.2	11.2	12.3	13	12.3	13.0	11.5	0.7	-1.5
France	9.3	9.2	10.3	10.3	9.7	10.3	10.2	0.6	-0.1
Germany	7.1	5.9	5.5	5.3	5.5	5.3	5.0	-0.2	-0.3
Denmark	7.5	7.6	7.5	7	7.9	6.9	6.5	-1.0	-0.4
EU-28	9.6	9.6	10.5	10.8	10.4	10.9	10.3	0.5	-0.6
EA-18	10.0	10.1	0	11	11.2	12.0	11.6	0.8	-0.4
Greece	12.6	17.7	24.3	27.3	24.1	27.6	26.9	3.5	-0.7
Estonia	16.9	12.5	10.2	8.6	10.2	8.3	7.5	-1.9	-0.8
United Kingdom	7.8	8.0	7.9	7.5	7.9	7.7	6.3	-0.2	-1.4
Ireland	13.7	14.7	14.7	13.1	14.8	13.7	11.7	-1.1	-2.0
Spain	20.1	21.7	25	26.4	24.6	26.3	24.7	1.7	-1.6
Italy	8.4	8.4	10.7	12.2	10.6	12.2	12.5	1.6	0.3
Croatia	11.8	13.5	15.9	17.2	15.3	17.2	17.0	1.9	-0.2
Cyprus	6.2	7.9	11.9	15.9	11.5	15.8	15.9	4.3	0.1
Latvia	18.7	16.2	14.9	11.9	15.5	11.8	10.8	-3.7	-1.0
Lithuania	17.8	15.4	13.3	11.8	13.7	12.0	11.4	-1.7	-0.6
Luxemburg	4.4	4.9	5.1	5.8	5.1	5.8	6.1	0.7	0.3
Malta	6.9	6.5	6.4	6.5	6.4	6.3	6.0	-0.1	-0.3
The Netherlands	4.5	4.4	5.3	6.7	5.2	6.7	7.0	1.5	0.3
Hungary	11.2	10.9	10.9	10.2	11.0	10.4	8.0	-0.6	-2.4
Poland	9.6	9.7	10.1	10.3	10.0	10.5	9.2	0.5	-1.3
Portugal	11.0	12.9	15.9	16.5	15.4	16.9	14.4	1.5	-2.5
Romania	7.3	7.4	7	7.3	6.9	7.2	6.9	0.3	-0.3
Slovakia	14.4	13.5	14	14.2	13.9	14.3	13.4	0.4	-0.9
Slovenia	7.3	8.2	8.9	10.1	8.5	10.5	9.5	2.0	-1.0
Sweden	8.4	7.5	8	8	7.9	8.0	8.0	0.1	0.0
Czech Republic	7.3	6.7	7	7	6.9	6.9	6.2	0.0	-0.7
Finland	8.4	7.8	7.7	8.2	7.7	8.1	8.6	0.4	0.5

Table 12: Unemployment rate among men

	Annual data (%)				2nd Quarter (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	4.6	4.0	4.4	4.9	4.5	4.7	5.0	0.2	0.3
Belgium	8.1	7.1	7.7	8.7	7.3	8.6	9.3	1.3	0.7
Bulgaria	10.9	12.3	13.5	13.9	13.6	14.0	12.5	0.4	-1.5
France	6.0	8.1	10.1	10.4	9.6	10.4	10.5	0.8	0.1
Germany	6.4	5.8	5.7	5.6	5.7	5.7	5.3	0.0	-0.4
Denmark	8.4	7.7	7.5	6.7	7.8	6.4	6.2	-1.4	-0.2
EU-28	19.5	13.1	10.4	10.8	10.4	10.9	10.2	0.5	-0.7
EA-18	9.9	9.9	0	11	11.1	11.9	11.4	0.8	-0.5
Greece	9.6	9.5	21.4	24.3	21.2	24.6	23.8	3.4	-0.8
Estonia	9.1	8.4	11	9.1	11.4	8.4	8.0	-3.0	-0.4
United Kingdom	9.0	8.8	8.3	8	8.4	8.3	6.5	-0.1	-1.8
Ireland	7.5	6.2	17.7	15	18.0	15.7	13.4	-2.3	-2.3
Spain	9.9	15.0	24.7	25.8	24.6	25.7	23.9	1.1	-1.8
Italy	11.6	11.0	9.9	11.5	9.9	11.5	11.6	1.6	0.1
Croatia	11.4	13.8	16.2	17.8	15.3	18.1	15.5	2.8	-2.6
Cyprus	16.9	17.8	12.6	16.6	12.3	16.5	17.1	4.2	0.6
Latvia	7.6	7.6	16	12.6	16.8	12.4	12.1	-4.4	-0.3
Lithuania	21.7	18.6	15.1	13.1	15.7	13.5	13.1	-2.2	-0.4
Luxemburg	21.2	17.8	4.5	5.4	4.5	5.4	6.1	0.9	0.7
Malta	3.8	3.8	5.9	6.6	6.0	6.2	6.2	0.2	0.0
The Netherlands	6.8	6.1	5.3	7.1	5.2	7.1	7.1	1.9	0.0
Hungary	4.4	4.5	11.2	10.2	11.4	10.3	7.9	-1.1	-2.4
Poland	9.3	9.0	9.4	9.7	9.3	9.9	8.7	0.6	-1.2
Portugal	10.0	12.7	16	16.4	15.5	16.9	14.0	1.4	-2.9
Romania	7.9	7.9	7.6	7.9	7.5	7.8	7.6	0.3	-0.2
Slovakia	14.2	13.5	13.5	14	13.5	14.0	13.2	0.5	-0.8
Slovenia	7.5	8.2	8.4	9.5	7.9	10.1	8.6	2.2	-1.5
Sweden	19.7	21.2	8.2	8.2	8.0	8.3	8.2	0.3	-0.1
Czech Republic	8.5	7.6	6	5.9	5.9	5.9	5.1	0.0	-0.8
Finland	8.6	8.7	8.3	8.8	8.3	8.8	9.2	0.5	0.4

Table 13: Unemployment rate among women

	Annual data (%)				2nd Quarter (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	4.2	4.3	4.3	4.9	4.3	4.8	4.8	0.5	0.0
Belgium	8.5	7.2	7.4	8.2	8.0	8.3	7.5	0.3	-0.8
Bulgaria	9.5	10.0	10.8	11.8	10.8	11.9	10.4	1.1	-1.5
France	9.7	9.7	10.5	10.2	9.8	10.2	10.0	0.4	-0.2
Germany	6.6	5.6	5.2	5	5.2	5.0	4.7	-0.2	-0.3
Denmark	6.5	7.5	7.5	7.3	8.0	7.4	6.8	-0.6	-0.6
EU-28	9.6	9.7	10.6	10.9	10.4	10.9	10.4	0.5	-0.5
EA-18	10.2	10.4	0	11	11.3	12.1	11.7	0.8	-0.4
Greece	16.2	21.4	28.1	31.3	27.7	31.6	30.7	3.9	-0.9
Estonia	14.3	11.8	9.3	8.2	9.0	8.2	7.0	-0.8	-1.2
United Kingdom	6.8	7.3	7.4	7	7.4	7.1	6.0	-0.3	-1.1
Ireland	9.7	10.8	11	10.7	10.9	11.3	9.5	0.4	-1.8
Spain	20.5	22.2	25.4	27	24.6	26.9	25.6	2.3	-1.3
Italy	9.7	9.6	11.9	13.1	11.7	13.1	13.8	1.4	0.7
Croatia	12.3	13.2	15.6	16.6	15.2	16.2	18.6	1.0	2.4
Cyprus	6.4	7.7	11.1	15.2	10.6	15.1	14.6	4.5	-0.5
Latvia	15.7	13.8	13.9	11.1	14.3	11.3	9.5	-3.0	-1.8
Lithuania	14.5	13.0	11.5	10.5	11.7	10.6	9.8	-1.1	-0.8
Luxemburg	5.1	6.3	5.8	6.4	5.8	6.3	6.1	0.5	-0.2
Malta	7.1	7.1	7.3	6.4	7.0	6.6	5.6	-0.4	-1.0
The Netherlands	4.5	4.4	5.2	6.3	5.1	6.1	6.8	1.0	0.7
Hungary	10.7	10.9	10.6	10.2	10.5	10.5	8.2	0.0	-2.3
Poland	10.0	10.5	10.9	11.1	10.9	11.3	9.8	0.4	-1.5
Portugal	12.1	13.2	15.8	16.6	15.3	17.0	14.8	1.7	-2.2
Romania	6.5	6.8	6.4	6.6	6.1	6.4	6.1	0.3	-0.3
Slovakia	14.6	13.6	14.5	14.5	14.3	14.7	13.7	0.4	-1.0
Slovenia	7.1	8.2	9.4	10.9	9.3	11.0	10.5	1.7	-0.5
Sweden	8.3	7.5	7.7	7.8	7.7	7.7	7.7	0.0	0.0
Czech Republic	8.5	7.9	8.2	8.3	8.1	8.2	7.5	0.1	-0.7
Finland	7.6	7.1	7.1	7.5	7.0	7.4	7.9	0.4	0.5

Table 14: Long-term unemployment rate (*)

	Annual data (%)				2nd Quarter (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	39.9	42.9	24.8	17.8	24.6	25.2	27.4	0.6	2.2
Belgium	42.5	45.2	44.7	44.7	44.6	46.3	50.3	1.7	4.0
Bulgaria	48.8	48.4	55.2	:	55.6	55.7	58.2	0.1	2.5
France	46.4	56.1	40.3	39.3	41.2	40.8	43.8	-0.4	3.0
Germany	41.0	40.6	45.5	36.8	46.8	45.4	45.8	-1.4	0.4
Denmark	20.2	24.4	28	26.9	27.2	28.7	23.1	1.5	-5.6
EU-28	47.4	48.0	44.6	39.3	44.7	47.1	50.1	2.4	3.0
EA-17	45.3	56.8	44	41.9	46.6	49.5	53.4	2.9	3.9
Greece	49.3	59.3	59.3	63.2	57.1	65.1	74.4	8.0	9.3
Estonia	45.0	49.6	54.1	:	52.6	48.4	49.5	-4.2	1.1
United Kingdom	36.6	41.6	34.8	23.1	35.2	37.3	36.8	2.1	-0.5
Ireland	40.2	41.5	61.7	57.8	62.5	59	58.6	-3.5	-0.4
Spain	48.4	51.9	44.5	39.9	44	49.3	52.8	5.3	3.5
Italy	20.3	20.8	53	47.8	53.7	56.4	62.7	2.7	6.3
Croatia	56.9	63.9	64.6	:	64.2	63.3	58	-0.9	-5.3
Cyprus	45.1	54.5	30.1	28.7	28.4	36.5	50.1	8.1	13.6
Latvia	41.4	51.9	51.9	:	54.3	48.8	40.2	-5.5	-8.6
Lithuania	29.3	28.6	49	:	49.3	42.2	44.3	-7.1	2.1
Luxemburg	49.3	47.9	30.3	31.9	29.7	24.4	33.7	-5.3	9.3
Malta	46.3	46.2	47.4	:	48.6	40.6	46.1	-8.0	5.5
The Netherlands	27.5	33.5	34	32.2	35.2	36.1	40.3	0.9	4.2
Hungary	25.2	25.9	45	:	45.2	47	48.9	1.8	1.9
Poland	31.1	37.2	40.3	:	40.8	42.1	43	1.3	0.9
Portugal	52.3	48.1	48.7	57.3	47.8	56.2	62.4	8.4	6.2
Romania	34.9	41.9	45.3	:	45.7	42.8	42.6	-2.9	-0.2
Slovakia	43.3	44.2	67.3	:	66.5	70.7	71.5	4.2	0.8
Slovenia	64.0	67.8	47.9	:	48	49.5	57.1	1.5	7.6
Sweden	24.0	22.2	18.9	23.9	17.3	16.8	17.6	-0.5	0.8
Czech Republic	17.8	18.6	43.4	45.2	44.3	44.4	43.2	0.1	-1.2
Finland	32.6	33.4	21.4	:	19.4	17.1	19.3	-2.3	2.2

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

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

	Annual data (%)				2nd Quarter (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	8.8	8.3	8.7	9.2	8.8	8.8	9.3	0.0	0.5
Belgium	22.4	18.7	19.8	23.7	20.8	23.6	23.3	2.8	-0.3
Bulgaria	23.2	26.6	28.1	28.4	28.2	29.0	24.2	0.8	-4.8
France	22.8	22.0	24.6	24.8	23.6	25.1	23.7	1.5	-1.4
Germany	9.9	8.6	8.1	7.9	8.1	7.8	7.8	-0.3	0.0
Denmark	14.0	14.2	14.1	13	14.9	12.4	12.6	-2.5	0.2
EU-28	20.9	21.3	23	23.4	22.8	23.6	22.0	0.8	-1.6
EA-17	20.6	20.7	22.3	23.9	23.0	23.9	23.5	0.9	-0.4
Greece	32.9	44.4	55.3	58.6	54.1	59.1	52.2	5.0	-6.9
Estonia	32.9	22.3	20.9	18.7	22.9	15.7	17.0	-7.2	1.3
United Kingdom	19.6	21.1	21	20.5	21.1	21.2	16.7	0.1	-4.5
Ireland	27.8	29.1	30.4	26.8	31.1	27.7	25.1	-3.4	-2.6
Spain	41.6	46.4	53.2	55.7	52.5	55.7	53.1	3.2	-2.6
Italy	27.8	29.1	35.3	40	35.1	39.2	43.4	4.1	4.2
Croatia	32.6	36.1	43	49.8	39.6	51.7	43.9	12.1	-7.8
Cyprus	16.7	22.4	27.8	38.9	26.5	39.9	37.1	13.4	-2.8
Latvia	34.5	31.0	28.4	23.2	29.5	22.0	21.8	-7.5	-0.2
Lithuania	35.1	32.9	26.4	21.9	26.4	22.4	21.7	-4.0	-0.7
Luxemburg	14.2	16.8	18	17.4	18.4	16.9	15.7	-1.5	-1.2
Malta	13.0	13.7	14.2	13.5	14.3	13.4	12.8	-0.9	-0.6
The Netherlands	8.7	7.6	9.5	11	9.3	10.8	10.7	1.5	-0.1
Hungary	26.6	26.1	28.1	27.2	28.5	27.8	20.7	-0.7	-7.1
Poland	23.7	25.8	26.5	27.3	26.0	27.0	23.9	1.0	-3.1
Portugal	22.4	30.1	37.7	37.7	37.1	38.9	37.2	1.8	-1.7
Romania	22.1	23.7	22.7	23.6	22.9	23.7	24.3	0.8	0.6
Slovakia	33.6	33.2	34	33.7	33.6	33.9	30.7	0.3	-3.2
Slovenia	14.7	15.7	20.6	21.6	19.8	23.5	19.2	3.7	-4.3
Sweden	25.2	22.9	23.7	23.4	23.0	23.5	23.2	0.5	-0.3
Czech Republic	18.3	18.0	19.5	18.9	19.8	18.5	16.5	-1.3	-2.0
Finland	21.4	20.1	19	19.9	18.6	20.1	19.9	1.5	-0.2