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Editorial Policy

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IOBE

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

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FOREWORD

This is the first report that IOBE is publishing for 2013 as part of its periodic series on the Greek economy. The publication takes place in the fluid environment created by the recent entry of Cyprus in the EU-IMF support mechanism, which was accompanied with eventful negotiations and an unprecedented restructuring of the banking system. As all IOBE quarterly bulletins, the report contains **four sections** and an **appendix** with key structural indicators. The report contains an introductory text, regarding **the outlook for the Greek economy, taking into account the events in Cyprus and their likely momentum.** 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 late 2012 and in 2013**, based on the latest reports of the European Commission, IMF and other international organisations; b) an outline of the **economic climate** in Greece, as compiled in the latest IOBE business surveys; c) a presentation on the **budget execution** during the first two months of 2013.

Section three focuses on the performance of the Greek economy in 2012 and contains forecasts for 2013. It includes an analysis of: the current **macroeconomic environment** and its medium-term outlook; the **developments** in **key production sectors** in the past year and, depending on data availability, in the first month of 2013; the **export performance** of the Greek economy in 2012; the developments in the **labour market** for the same period; the course of **inflation** in the first two months of 2013; and, finally, the course of the **balance of payments** in the previous year.

Section four presents a **special study of IOBE** on the contribution of the pharmaceutical industry to the Greek economy.

The report refers to and is supported by data, which were available up to 29/03/2013. IOBE's next quarterly report on the Greek economy will be published in July 2013.

VIGILANCE IS REQUIRED TO MAINTAIN MOMENTUM

IOBE in its last quarterly report envisaged that there are prospects for the recovery of the Greek economy to start in 2013, stressing however the equally important goal of avoiding any sense of complacency.

The first 10 weeks of the first quarter bestowed to Greece precisely the above mix of positive economic developments and issues of concern.

On the one hand, the internal and external balance, which in the past, with the «twin deficits», constituted the root cause of the current debt problem and the consequent suffering, kept improving. The balance of the General Government in the first two months of the current year was positive, with a surplus of €72 million, however in early 2012 its surplus was reaching €2.3 billion. The current account deficit in January stood at €221.6 million, 84.7% lower year-on-year (€1.45 billion). Another positive development came from the improvement of the economic climate for four consecutive months, as captured in IOBE's Business Surveys. The recovery of the share prices in the Greek stock market and the considerable increase of the prices of Greek sovereign bonds are also signs of a positive turn.

These developments and mainly the fulfilment of the conditions set in the Eurogroup decision of 26 November 2012 allowed for the disbursement of the supplementary second and third instalments of €9.2 billion and €2.8 billion from the so-called super-tranche of the financial support programme, with the last instalment's disbursement currently under review.

The microeconomic side of the economy also brought good news, with most prominent the completion of the rail link between Iconio and the Thriasian Plain, which we believe represents a key development that sharply enhances the position of Piraeus in the global transit trade market. The news for production relocation by significant multinational corporations to Greece, such as the installation of a new production line by Philip Morris in its factory in Aspropyrgos, with the purchase of over 50% of the tobacco production in Greece over the next three years, and the relocation of the head quarters for South Europe of the German business software company SAP in Greece can also be considered very positive.

The developments in the domestic banking sector, at least during the first ten weeks of the year, can also been seen as positive. The liquidity conditions are gradually normalising, as the return of deposits is strengthening. Already, in February 2013 the deposits stood at €164 billion from €161.3 billion in Dec' 12 and €150.5 in June '12. The payment of some of the arrears by the state to the private sector also improved somewhat the liquidity in the economy.

The gap between Greek and Eurozone inflation (using the harmonised index) turned negative in 2012 for the first time in history reaching -1.7% in February 2013, which is also a positive development. A more important development regarding the inflation is the record fall by 0.8% of the GDP deflator, which even seems to be strengthening. The deflation provides an indication that the policy of internal devaluation has started to bear fruit and the labour cost reduction is passing through, albeit with some delay, to prices. The resulting reduction of the real exchange rate, however, is not sufficient to compensate for the social costs that came with the significant reduction of wages and pensions, implemented in order to achieve this reduction.

On the other hand, the recession is still strong, which is a cause of concern, even though the contraction in the last quarter of 2012 was weaker year-on-year (5.7% from 7.9% in 2011). In January industrial production fell slightly and the new industry orders also declined, while the turnover index in retail trade fell sharply. The high unemployment rate (26.4% in December) remains a huge economic and social problem, both regarding its size and its composition, and in particular the course of long-term and youth unemployment.

The ineffectiveness of revenue collection also has developed into a serious issue of concern that is attributed firstly to the payment delay of obligations by the tax-abiding section of the population (which might be waiting for more clarity on the number of allowed instalments for the payment of tax arrears) and secondly to tax evasion, with strengthening evidence for the latter. The tensions surrounding existing and planned investment projects also constitutes a cause for concern, as these are considered as representative of a resistance attitude to every investment effort in the country.

However, the above anticipated and relatively "balanced" state was upset in the last three weeks of the quarter as a result of two major negative developments: The dramatic events that took place in Cyprus constituted obviously one of these developments. These, apart from their impact at local level to the citizens and the economy of Cyprus, also have a wider and even more serious dimension, as the adopted measures harm and violate fundamental and internationally established institutions and principles.

However, these events were preceded by another development in Athens, of a less explosive nature, but also negative for the image and the prospects of the Greek economy. In particular, the negotiations with the troika during their last visit returned to a dysfunctional state and the payment of the last instalment from the remaining financial support has been delayed. The image of the Greek economy had thus suffered even before the outburst of the Cypriot crisis, resulting in a sharp increase of the yield spread between the 10-year bonds of the Hellenic Republic and the corresponding German paper, when the delay in the completion of the troika's evaluation had become evident.

The embroilment in the negotiations with the troika revealed an uncomfortable reality, forbearing unfavourable prospects: the economic policy seems to be limited to an "instalment strategy", instead of setting medium-term plans for the country's development, alongside the resolution of the short-term problems, regardless of the troika's presence in the country. But even within the current strategy, once more we appeared to break our commitments. How the planned for the next years rationalisation of the employment in the public sector will be carried out has still not being made clear, as we stubbornly insist on holding positions that no responsibly thinking citizen, worker or unemployed would adopt, such as keep-ing employed public servants who have committed neglect of duty and other serious offences. With the negotiations' embroilment, the bitterness and the criticism for a lack of solidarity by the strong European states towards our country have intensified. As justified as the latter might be, what is important today is to address the largest economic and social problem of the country – the high unemployment – which can only be reduced if we manage to attract new foreign investment. It would not come easily as long as our attitude, statements and systems insist to discourage them in every way.

To criticise either the approach to the negotiations by the lenders' representatives or the image that was presented by our side is not part of IOBE's competence. We can and should point out, however, the consequences of this situation, as they are reflected in our own, widely acknowledged as reliable, business and consumer confidence surveys.

IOBE had measured and commented in our Business and Consumer Survey reports of the past summer and autumn that the very weak expectations reflected in the business sentiment and consumer confidence indicators, were largely due to the protracted negotiations with the troika and the uncertainty on their final outcome. The return to a state of uncertainty will lead to a deterioration of the business and consumer confidence, which will mostly affect the exceptionally sensitive banking sector and as a result the crucial for the recovery factor of liquidity in the real economy. The return of deposits that was mentioned in the beginning of this text could be reversed if the economic and financial leadership does not provide immediate and clear signs of a serious response to the situation.

The required signs of serious response have been mentioned repeatedly. We reiterate that there is no room for taking additional fiscal measures. The resolution revolves around the implementation of the reforms, based on the timetable set in the recent update of the second economic adjustment programme and primarily of the prerequisites for resuming the disbursement of the tranches from the second loan from the EU and the IMF. The drawing of a plan for the restructuring of the employment in the public sector, which remains unclear, is one of these prerequisites.

Lastly, regarding the programme for Cyprus, a range of evaluations and studies have appeared and continue to enjoy publicity, coming from organisations with varying degree of reliability and competence. The large majority of these estimates reach dramatic and even catastrophic conclusions about the outlook of the Cypriot economy, while doom scenarios for the entire Eurozone are also often part of the analyses.

IOBE would like to put down a less pessimistic outlook, without being able to rigorously support it. Not only as a different possible scenario, but also as a goal and a wish:

Based at least on the composition of the Cypriot economy, the banking and other financial services sector does not surpass 8.7% of Cyprus's GDP (twice the corresponding share in Greece, which stands at 4.5%). Even though the assets of the banking sector are huge, compared with the national income of Cyprus, it is neither the only, not even the major GDP driver. Of course, the deposits are used to finance the Cypriot economy and their sharp fall, together with the liquidity problems that will come for as long as the controls imposed on handling deposits are in place, will have negative multiplier effects in other sectors as well. Without a doubt, the prospects for the Cypriot economy in the near future are not bright. However, the gloom need not last for a particularly long period of time.

Cyprus, despite the dramatic situation today and despite the flawed manoeuvres of its leaders, that have been numerous and at various levels, has latent abilities that have allowed it to respond and rebound from serious crises in the past. It has an exceptionally well trained labour force, very capable lawyers and accountants, a better functioning public administration, a much swifter justice system and overall a much more effective system of governance, which is precisely the major weakness of Greece.

Because in Greece the above "immunizing" mechanism are weak, any diffusion of the problem of Cyprus to Greece could have more serious and longer lasting consequences here than in the island itself. This is why the dramatic events in Cyprus do not provide an excuse to avoid promoting the reforms in the Greek economy. In contrast, they impose vigilance on all stakeholders, public and private, in order to maintain the climate of cautious optimism that seems to have emerged earlier this year, after so much effort and so many sacrifices.

1. BRIEF OVERVIEW – MAIN CONCLUSIONS

The fiscal developments are a key driver for the world economy in 2013

The growth of the world economy slowed down **in 2012 to 3.2%, from 3.9% in 2011**. **Despite the fact that the developed economies grew by about 1.3% in the past year (from 1.6% in 2011), the slowdown was stronger in the developing economies, from 6.3% in 2011 to 5.1% in 2012.** In key developed countries (Italy, Spain, United Kingdom) the GDP growth was either weaker than in 2011 or even negative. **As a result, the contraction reached -0.6% in the Euro Area and -0.3% in EU-27.**

As evident almost from the start of 2012, the fiscal consolidation efforts in member-states of the Euro area had negative impact that was not limited to the domestic economic activity, spilling over to the remaining countries of the Euro area and the European Union in general. In the USA, the fiscal gridlock did not have a significant negative impact on past year's GDP, mainly due to the postponement of critical fiscal decisions for 2013. The revival of the housing market and the significant improvement of the climate in the capital markets nudged the economy to grow. The developing economies suffered from weakening of the growth of the demand for their exports, mainly from European countries, while domestic economic policies also had contractionary impact there.

The contractionary impact of fiscal policies in the developed countries is expected to strengthen in 2013, while the emergence of further sources of turbulence in the world economy cannot be ruled out. The Euro area is in the epicentre of the fiscal consolidation effort, with the most recent such development concerning the entry of Cyprus to the EU-IMF support mechanism. The potential impact, both domestically and in the Euro area, of the measures that were adopted in Cyprus after turbulent negotiations and the implementation of an unprecedented restructuring programme for the banking sector, **with unconventional – for the established international and European practices – means**, **cannot be evaluated with sufficient degree of certainty for the time being.** In any case, however, the events in Cyprus **intensified sharply the concern over the cohesion and the outlook of the Eurozone.**

The deterioration of the European environment had started earlier this year, with the outcome of the elections in Italy, where a new government has still not being formed. Under these unfavourable conditions, the Eurozone will remain in a recession in 2013, perhaps stronger than in the previous year. In the US, the recent adoption of fiscal measures and the prolonged embroilment regarding the debt ceiling will perhaps moderate its growth momentum in 2013. The implemented structural reforms and economic policies in the developing economies are expected to begin reflecting positively on their economic activity from the current year, offsetting, partly or fully, the impact from the contraction of their exports to the developed economies. The above trends in the global economic regions, and in particular the latest developments in the Euro area that have not been taken into account in the latest reports of the international organisations, are **expected to slow down the rate of growth of the global economy for a second year in a row in 2013 to the region of 3.0%. In Europe, correspondingly, the recession is expected to remain at its 2012 rate, albeit the uncertainties are still sizable.**

Limited weakening of the contraction in Greece in 2012 to -6.4% from -7.1% in 2011

According to the provisional National Accounts data, the GDP contraction rate fell in the fourth quarter of 2012 to 5.7%, from 6.7% in the preceding quarter and 7.9% in the last quarter of 2011. The observed slowdown came mostly from growth of investment (gross capital formation), for the first time since the last quarter of 2007, by 4.9%, and weaker cuts in public consumption. The increase of investment, however, did not come from the formation of fixed capital, which kept contracting (-10.2%), but from the exceptionally high accumulation of inventories that reached €2.5 billion, their largest volume since the end of 2007. This development is difficult to interpret, as most enterprises are very cautious in ordering raw materials and in setting their production level, while key economic variables (GDP, fixed capital formation) have kept falling. In contrast, the contraction of the household consumption expenditure strengthened anew to 9.6%, which is the largest quarterly drop in the previous year, reflecting mostly the full implementation of the measures from the second economic adjustment programme, concern over the impact from the fiscal measures, planned during that period for 2013, and continuation of the growth of unemployment. The extensive contraction of the external sector's deficit since the beginning of 2012 weakened somewhat in the last quarter from the milder reduction of imports. As a result, the extent of the contraction in 2012 was limited to 6.4%, from 7.1% in 2011. The cumulative contraction of domestic output in Greece since 2008, when the recession kicked off, until 2012 has reached 20.1%.

The contraction of the Greek economy carries over to 2013, at a weaker rate than in the previous year

The conditions formed in early 2013 in the domestic politico-economic environment allowed for a gradual lifting of the uncertainty that dominated in 2012. The months of negotiations with the troika and the consultations between the Eurozone and IMF on the measures that would make the Greek public debt sustainable led to the decision of the Eurogroup from 26 November. As part of this decision, the Greek government carried out a bond repurchase programme. The heightened caution regarding the ability of Greece to continue the fiscal consolidation process eased significantly. In addition, the continuation of the financing of the Greek state by ESM and IMF was secured, allowing the country to service its debt, to capitalise its banks and the public sector to start paying its arrears to the private sector. Against this background, the developments in 2013 are expected to revolve around the implementation of the agreed fiscal measures and reforms in the Medium Term Fiscal Strategy 2013-2016, as many of them constitute milestones for the continuation of the financing as part of the second bailout from the EU and the IMF. However, the implementation of the extensive fiscal interventions that were decided for 2013, to the amount of €9.5 billion, of which €7.4 billion will take place on the public expenditure side (mostly pensions, wages, benefits), will have a significant impact in income and demand in both the public and the private sector and thus on the production activity in the current year, aggravating further the unemployment problem.

The entry of Cyprus in the support mechanism added to the factors that will influence the economic developments in Greece and the Euro Area. The complete overhaul of its banking system, using unconventional means (deposit "haircut", involuntary full bail-in of shareholders and bondholders), seriously affected the credibility and the attractiveness of the banking system and combined with the implementation of a fiscal consolidation programme, is expected to have strong recessionary impact on the Cypriot economy. The anticipated economic impact on the Greek economy can already be observed in the realignment of the Greek banking sector that the Cypriot crisis caused, the significant weakening of the demand for Greek exports to Cyprus (fourth largest export destination of Greece in 2012) and the losses that the Greek residents and companies with production activity in Greece with large deposits in the two largest Cypriot banks will endure. Gradually, there could quite probably be a loss of the trust towards the banking systems in countries of the Eurozone that implement policies to address their fiscal imbalances and/or banking sector problems. **In any case, the impact from the recent developments in Cyprus on the Greek economy cannot be evaluated precisely for the time being.**

Focusing on the recent economic developments in Greece, the revival of the international interest in direct investment in the country should be noted, with the most important relevant developments the investment announcements by Hewlett Packard, the software company SAP and Philip Morris. These investment decisions were prompted by already adopted or implemented reforms for the facilitation of investment and business activity. Investment projects of global origin and similar calibre are expected to continue to flow in, perhaps even at an accelerating rate, in the coming months.

On the other hand, the investment propensity of the domestic **private sector** will be affected in 2013 by the falling for one more year domestic demand, which is put under pressure by the fiscal measures that cut wages-pensions-benefits and by the wider implementation of the structural reforms in the labour market. The demand in the Eurozone, which has the largest share in the exports of Greek products and services, will also weaken, due to the effort to consolidate the public finances in many of its member-states. Construction activity will continue to contract, albeit at a weaker rate than in the previous year. The contribution of the public sector to investment in the current year is expected to be higher than in 2012 – when however it was already very low – through acceleration of the activities of the Hellenic Republic Asset Development Fund, the frontloaded implementation of the Public Investment Programme and the restart of the works at the large road projects. **Therefore, the fall of investment in 2013 will be milder compared with the previous year, reaching about 10%.**

The implementation of the fiscal measures planned for 2013, mainly regarding cuts of pensions and income of public sector employees, will affect the disposable income of the corresponding social groups. The expansion to a large section of the labour market of the structural measures that were decided in 2012 (minimum wage reduction, abolishment of benefits, suspension of wage maturation etc.) will have a restrictive impact in the private sector. Reduction of the individual income will also come from the abolishment of the tax allowance that existed until 2012. **Taking into consideration the above trends, the reduction of consumption expenditure in the private sector is expected to reach similar intensity with the previous year (about -9.0%).**

The emphasis on achieving fiscal consolidation mainly by reducing public expenditure will also have a contractionary impact on the **consumer expenditure of the public sector.** This approach is reflected in the Medium Term Fiscal Strategy 2013-2016: about ¾ of the fiscal interventions planned for this period, to the amount of €13.4 billion, will take place on the expenditure side. In this regard, **further reduction of public consumption is envisaged in 2013, stronger than in 2012.**

Regarding the **external sector of the economy**, the fall of the demand for imports that constituted the key driver for improving the current account balance for 2012 is expected to carry over into the current year and remain equally strong, due to the fall of income and the lower investment activity. The anticipated stronger slowdown of the global economy, the persistence of the recession in the Euro area (the key export destination of Greece), the recession and the abrupt fiscal consolidation and restructuring of the Cypriot economy, foretell further weakening of the demand for exports of Greek goods. However, a slight boost of the exports of services from improved tourist flows, moderating the reduction of domestic exports, cannot be ruled out. The impact of the events in Cyprus on the supply of Greek products and services – including the transactions between a corporation's subsidiaries – cannot be determined for the time being. In any case, **the fall of imports will lead to a fur-**

ther reduction of the external deficit or even to a surplus in 2013, in national accounts terms.

Taking into account the above trends in the key components of GDP**, the contraction of the Greek economy in 2013 could well exceed the previous forecast of IOBE (4.6%), remaining weaker than in 2012.** However, as already noted, the recent events in Cyprus breed new developments, a process that is still in progress. Therefore, their impact on the Greek economy cannot be determined for the time being with a sufficient degree of confidence. **On the other hand, a more vigorous implementation of the reforms and a fruitful outcome of the increased investment interest would have a positive impact on the economy.**

The State Budget deficit increased in the first two months of 2013, remaining on target

The State Budget had a deficit of €789 million in the first two months of the year against a deficit of €495 million in the corresponding period of 2012, despite the increase of its primary surplus. This deterioration, however, came exclusively from the large year-on-year increase of interest payments (+€413 million), which was due to the post-PSI arrangement that the bonds' interest should be paid each February. Besides, the target for the net deficit for the first two months of the year stood at €3.4 billion, hence the outcome is much better than anticipated. In more detail, the primary expenditure of the Ordinary Budget fell by €832 million to reach €226 million below the corresponding target. The Public Investment Budget's expenditure increased substantially, albeit still at a significant distance from the target for the first two months of 2013. On the other hand, the State Budget revenue fell by 6.7%, against an annual target of a fall by 3.5%. Then again, the revenues exceeded the target for the first two months of the year by €689 million, which is mostly due to lower tax refunds (+€394 million) and higher PIB net revenues (+€454 million).

Unemployment will increase for one more year in 2013

The growth of unemployment slightly weakened in the last quarter of 2012, reaching 26% of the labour force, 5.3 percentage points higher year-on-year. On average for 2012, total unemployment stood at 24.2% of the labour force, against 17.7% in 2011. With a significant, albeit weaker than in 2012, recession and strong contraction of demand in the Greek economy in 2013, the conditions in the labour market are not expected to improve. Nevertheless, the restart of the road projects and the rehabilitation programmes in the labour market can stimulate employment in the coming months. In any case, the unemployment rate for 2013 is expected to reach 27.6%.

Price stability in 2013, with inflation at its lowest rate in 40 years

The slowdown of inflation in late 2012 carried over to the first two months of 2013, when essentially a state of price stability prevailed (+0.1%). The continuous disinflation came primarily from weakening domestic demand. The restrictive impact of demand on inflation is highlighted by the fact that neither the increase of the excise duty of heating oil since October, nor the first out of three hikes of the electricity prices planned to take place until July, deterred inflation from falling. As the fall of domestic demand and of private consumption in particular will continue throughout 2013, due to the implementation of fiscal measures (e.g. abolishment of summer, Easter and Christmas bonuses, which had a seasonal impact on prices), broader adoption of structural measures in the labour market and slight increase of unemployment, inflationary pressures are not expected to emerge in the current year. Slight upward push may come only from the planned hikes of electricity tariffs in early May and July. **Therefore, inflation for 2013 is expected to be close to zero, implying that after many decades prices will remain stable.**

Special IOBE study: "The growth prospects of the Greek pharmaceutical industry"

The results from a recently completed study of IOBE on the contribution of pharmaceutical manufacturing to the Greek economy and its comparative growth advantages are presented briefly in the fourth chapter. According to the results of the study, the contribution of the pharmaceutical industry to the country's GDP reached €2.8 billion in 2010. The sector's direct contribution to employment stood at 10.8 thousand jobs. However, 42.3 thousand more jobs are created indirectly in sectors that provide inputs to the production of pharmaceutical products and from the consumer expenditure borne out of the wages paid along the pharmaceutical value chain. As a result, the overall impact on employment is estimated at 53.1 thousand jobs. Overall for each €1,000 spent for the purchase of pharmaceuticals produced in Greece, the GDP increases by €3,420.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the World Economy

The Global Economic Environment

The world economy lost part of its momentum in 2012, with its growth slowing down to 3.2%, from 3.9% in 2011. This development came from the course of economic activity both in the advanced and in the developing economies. Nevertheless, the growth rate of the world economy is expected to bounce back slightly in 2013 to 3.5%, as some of the potential sources of turbulence seems to be weakening at a slow pace, without however disappearing completely. The potential threats for the recovery of the world economy are located mainly in the feedback between the fragile public finances and the vulnerable banking systems in some of the Eurozone countries and in the uncertainty regarding the achievement of fiscal discipline in the US. For example, the prolonged difficulty of forming a government in Italy after the recent elections in early 2013 and the recent entry of Cyprus in the EU-IMF support mechanism, together with the deep restructuring of the two pillars of its banking system, using unconventional, for past and current international and European practices, means (deposit "haircut", involuntary full bail-in of shareholders and bondholders), could spark developments in the European and global economy. The structural problems of a member-state, regardless of the size of its economy, and any intense domestic shocks during the effort to address them that threaten its stability, could abruptly intensify the uncertainty and under certain conditions could spur a new cycle of the economic crisis. Hence, decisive yet constructive political actions are required in order to largely eliminate the likelihood of rekindling the crisis in the Eurozone and the US.

In the majority of the developing economies, the structural reforms that have been either adopted or whose implementation has already started are going to help with the recovery in the long term, providing solid foundations for economic growth. In addition, the disposable income is expected to continue to grow rapidly in these countries, sharply raising the private consumption. The advanced economies, and mainly those in Europe and the US seem to be entering once more into a phase of uncertainty and deviation, moderate or intense, from the recovery path which they followed in 2010-2011. The fiscal consolidation effort that is being exerted in almost all advanced economies, mainly by a number of Eurozone member-states, whose beneficiary impact is anticipated to appear in the long term, is expected to lead to a lower rate of economic growth over the medium term, compared with past experience of recovery from global economic crises. In other words, the recovery from the global financial crisis of 2008 is expected to be milder and to last longer than in comparable past episodes, provided of course that the aforementioned threats are not rekindled.

In more detail regarding the major world economies in late 2012 and their outlook for 2013:

During the last quarter of 2012, the GDP of the **US** economy increased by 1.6% year-on-year, while quarter-on-quarter it remained unchanged. For 2012 overall, the US economy grew by 2.3%. Regarding 2013, IMF forecasts a growth rate of 2% for the US economy. In particular, the favourable environment in the US financial markets and the recovery of the housing market have contributed to a boost of the households' disposable income, which in turn is expected to lead to a stable growth of consumption. Hence, the housing market seems to be the strongest growth driver of the US economy at this stage.

Regarding the labour market, 201,000 new jobs were created in the fourth quarter of 2012 (from 168,000 new jobs in the preceding quarter). Along with the substantial growth of job creation, the slight reduction of the unemployment rate in the second half of 2012, reaching 7.9% in January 2013, can also be seen as a positive development.

Nevertheless, the uncertainty regarding the fiscal policy continues to impede the future course of the US economy. A deal in Congress to avoid the "fiscal cliff" in late 2012, slightly before the expiration of the deadline set by a previous deal from 2011, temporarily prevented sudden tax hikes and budget cuts to take place from early 2013.[1] Meanwhile, fiscal consolidation measures have been put in place until early March. Despite all this, the uncertainty eased but was not fully eliminated, as the resolution of the debt ceiling problem was postponed, rather than achieved with the bill passed in late January that approved an increase of the debt ceiling with an amount that corresponds to the borrowing needs of the government until 19 May. The forthcoming negotiations could disrupt the financial markets and to impair the confidence of investors, businesses and consumers. The likely contractionary fiscal policy is expected to reduce disposable income, resulting in consumption expenditure reduction. A repeated failure to reach agreement between the political fractions regarding the public finances is an undesirable scenario that would inevitably lead to a strong deterioration of confidence, investment and consumption. In contrast, if the negotiations bring positive messages, the chances of satisfactory resolution of the short-term fiscal issues would be boosted. Under this scenario, the financial concerns will be allayed, making the US fiscal position less ephemeral, while giving in parallel a strong boost to the economic climate and the medium-term growth prospects of the US economy.

In **Japan**, the Gross Domestic Product in the fourth quarter of 2012 increased marginally by 0.2% year-on-year, remain-

[1] The income tax for households with income above 45,000 USD increased, taxes levied on the overall labour income were imposed on all employees, while the emergency benefits to the unemployed were extended for one more year.

ing unchanged quarter-on-quarter. Overall for 2012, the Japanese economy grew by 2.0%. It is expected to remain on a growth path in 2013, albeit at a lower speed (1.2%). The course of the Japanese economy in the current year will be set primarily by the extensive fiscal consolidation programme that has been adopted, together with the further easing of the monetary policy which is expected to provide an immediate boost to growth, supporting a weaker yen and thus stronger demand for exports. The boost of GDP through a more ambitious monetary policy is a priority, which however could lead to inflationary pressures. Meanwhile, special emphasis is given on the adoption of a credible medium-term plan of fiscal consolidation, tightly linked with increases of consumption taxes in 2014 and 2015, and on growth coming from structural reforms. The lack of a strong medium-term fiscal strategy would have contained significant risks for the economic recovery effort, as without it the remaining recovery measures would have proven to be short-lived, while the forecast for the course of debt would have deteriorated significantly, developments that would have hurt both the business and the consumer confidence.

In **China** the growth rate started to accelerate again in late 2012. In particular, the GDP growth in the last quarter of 2012 slightly increased to 7.9% year-on-year, from 7.4% in the preceding quarter. This performance is expected to set the growth rate for 2012 overall at 7.8%, quite lower than in 2011 (9.3%). Still, the slight improvement in the last quarter of the past year came from a significant boost of net exports, recovery of domestic consumption and robust investment demand, mainly due to acceleration of the expenditure on public infrastructure. Continuous progress in the structural reforms aimed at opening of the markets and stronger focus on the production activities aimed at satisfying the consumption needs of the private sector are prerequisites to secure sustainable and fast growth in China in the medium and long term. In 2013 the economy is expected to accelerate and to achieve 8.2% growth rate.

The **Russian** economy, which recovered from the global economic crisis mainly through exports, as the commodity prices remained persistently high, slowed down in 2012. Its GDP grew by 3.6% in 2012, compared with 4.3% in 2011. During 2012 the economic growth was slowing down from quarter to quarter, starting from 4.9% in the first to reach 1.8% in the last. For 2012 overall, household consumption constituted the most significant growth driver, with its annual change reaching 6.6%. Public consumption remained unchanged, while the growth of investment slowed down to 6%. Despite the slowdown of the economic activity, the unemployment rate fell significantly in the first half of 2012, remaining low since than to stand at only 5.3% in December 2012. As the competent authorities of Russia are following a strategy of sector diversification, in order to reduce the strong dependence of Russia on the exports of oil, the growth rate of GDP in 2013 is expected to reach similar levels (around 3.7%).

On the other hand, the leading indicators, such as those estimated on a quarterly basis by IFO, contain cautious optimism for a gradual acceleration of the recovery in 2013, both at the level of the global economy and for the major economic regions.

Table 2.1

International Environment – International Monetary Fund (real annual % change)

	2011	2012	2013	2014
USA	1.8	2.3	2.0	3.0
Japan	-0.6	2.0	1.2	0.7
Developing Asia	8.0	6.6	7.1	7.5
China	9.3	7.8	8.2	8.5
ASEAN-5	4.5	5.7	5.5	5.7
Euro area	1.4	-0.4	-0.2	1.0
Commonwealth of Independent States	4.9	3.6	3.8	4.1
of which Russia	4.3	3.6	3.7	3.8
MENA	3.5	5.2	3.4	3.8
Sub-Saharan Africa	5.3	4.8	5.8	5.7
World Economy	3.9	3.2	3.5	4.1

Developing Asia:Vietnam, India, Indonesia, China, Malaysia, Thailand, Philippines.
ASEAN-5: Vietnam, Indonesia, Malaysia, Thailand, Philippines.
MENA (Middle East & North Africa): Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, Yemen.
Sub-Saharan Africa: All countries excl. African MENA countries.
Source: World Economic Outlook Update, IMF, January 2013

In particular, according to estimates of the German institute IFO, the economic climate indicator for the world economy improved significantly, by about 11 points, in the first quarter of 2013, following two quarters of deterioration (Table 2.2).[2] It is worth noting that the value of the indicator approached the long-term average of 96.0 for 1997 to 2012. Its notable improvement was mostly due to the much more positive expectations about the economic outlook in the coming six months, with the assessment of the current economic situation improving slightly. Therefore, the expectations that the global economy will experience a mild recovery over the projection period seems to have consolidated.

The positive course of the economic climate is observed in all major economic regions (Table 2.3). The economic climate indicator in **North America** increased to reach 86.2 from 80.3 in the preceding quarter. Nevertheless, it remained below its long-term average for the last 15 years (91.6). The increase of the indicator in North America came mainly from more positive assessment of the current economic situation. The economic outlook for the next six months improved, but to a lesser degree. Despite the improvement of the indicator in the US, the assessment

[2] IFO's world economy indicator is calculated from the arithmetic mean of the assessment of the current economic situation and the economic expectations over the coming six months.

of the current economic situation has not yet reached a satisfactory level.

In **Western Europe** the economic climate indicator has increased notably since the last quarter of the previous year (coming at 94.3 from 83.4), remaining however significantly below its long-term average (104.7). Its recent increase was mostly due to more positive outlook for the coming six months. In contrast, the assessment of the current economic situation slightly deteriorated to remain unfavourable. Similar trends were observed in the Euro area, where the indicator increased, remaining below its long-term average.

The economic climate indicator in **Asia** increased strongly, by more than 15 points, due to more positive assessment of both the current economic situation and the course of the region's economies over the coming six months. The fact that the indicator reached 97.4, exceeding its long-term average (90.0), is an indication of the optimism in the region.

The Economics of the EU and the Euro area

The recession in the Euro area continued in the fourth quarter of 2012, with GDP contracting by 0.9% year-on-year and 0.6% quarter-on-quarter, according to the Eurostat data. Similar trends dominated in EU-27 as well, with the GDP rate of change in the last quarter reaching -0.6% year-on-year and -0.5% quarter-on-quarter. Slightly more than half (13) of the 24 EU member-states with data available for the fourth quarter of 2012[3] experienced a year-on-year contraction. The countries with the largest GDP contraction were Greece (-6.0%), Portugal (-3.8%), Cyprus (-3.0%), Slovenia (-2.8%) and Italy (-2.7%), while in contrast the countries that achieved the strongest growth rates were Latvia (5.7%), Estonia (3.4%) and Lithuania (3.0%).

Regarding the latest politico-economic developments, the systemic risks subsided significantly in early 2013 for the public administrations and the banks in the Eurozone countries with structural problems. The financial markets were confirming, albeit with some reservation, their trust in the integrity of the Eurozone, mainly due to the determination of its member-states to restore the sustainability of their public finances, but also to make supplementary (to the fiscal consolidation) adjustments that are required either at macroeconomic level or at the level of structural and/or institutional reforms. Still, the entry of Cyprus in the EU-IMF support mechanism, with (a) turbulent negotiations; (b) unprecedented rejection by a member-state of a bailout plan that had been agreed upon by the Eurogroup, before reaching final agreement on 24 March; and (c) unconventional, for the established practices at European and global level, solution (deposit "haircut", involuntary full bail-in of shareholders and bondholders) that eventually was adopted for the restructuring of the two largest banks in Cyprus, inten-

[3] The three countries for which the data for the last quarter of 2012 is not available are Ireland, Luxembourg and Malta.

sify anew the uncertainty of the long-term integrity of the Eurozone and affect the confidence towards the banking systems of its member-states and especially of those that try to address the fiscal imbalances and/or the problems in their banking system.

Besides, the strict fiscal discipline measures that are already being implemented in many countries of the Eurozone affect negatively GDP, at least over the medium term, delaying the economic recovery. In addition, the time span over which the positive impact of the fiscal consolidation is going to materialise still cannot be determined and is surrounded by a lot of uncertainty.

Regarding the course of GDP in 2012 overall, the latest available estimates of the European Commission for the Eurozone envisage contraction of 0.6%, while the forecasts for 2013 point to a slight easing to -0.3% (compared with stabilisation by +0.1% anticipated previously in the autumn forecasts).[4]

Correspondingly, contraction by 0.3% is envisaged for EU-27 in 2012 overall, and essentially stagnation in the current year (+0.1%, against +0.4% in the autumn forecasts). At the level of member-states in 2012, the largest contraction of GDP is estimated to have taken place in Greece (-6.4%), Portugal (-3.2%), Cyprus (-2.3%), Italy (-2.2%) and Slovenia (-2.0%). In contrast, mostly countries in transition, such as Latvia (5.3%), Lithuania (3.6%), Estonia (3.2%), Poland (2.0%) and Slovakia (2.0%) are estimated to have experienced relatively high growth rates.

Useful information about the trends that drove GDP in 2012 and that are expected to affect it in 2013 can be extracted by analyzing the key macroeconomic figures of the European economy.

In particular, net exports constituted the key driver of the European economy in 2012 and are expected to play the same role in 2013 as well. Regarding **exports**, the Eurozone and to a lesser degree the European Union benefited from the weakening of the euro, which boosted their competitiveness. The exports of goods and services are estimated to have increased by 2.8% in EA-17 and 2.3% in EU-27 in 2012. For 2013 despite the forecasts for slowdown of the world economic activity and international trade flows, the Euro area and EU-27 are expected to benefit from the low exchange rate of the euro. As a result, exports are expected to grow by 2.6% in both regions.

On the other side of the external balance, **imports** fell in 2012, reflecting the impact from the fiscal consolidation on demand and recorded a reduction by about 0.7% in EA-17 and marginally in EU-27 (-0.1%). The forecasts for 2013 envisage recovery of imports, by 1.5% in EU-27 and by 1.2% in EA-17, which however is not consistent with further weakening of demand and preservation of the euro exchange rate at lower levels than in previous years. Hence, given that the growth of exports exceeds that of imports, the net external demand will continue to have

[4] European Economic Forecast, Winter 2013, European Commission, February 2013

a positive contribution to GDP growth in the near future as well.

Private consumption kept falling throughout 2012. The fall of real disposable income, the significant deterioration in the labour market and the effort by the households to streamline their finances and to bring their obligations to sustainable levels contributed to its contraction.

According to the latest estimates of the European Commission, in 2012 private consumption fell by 1.2% in the Euro area and by 0.7% in EU-27. In addition, it is expected to continue to fall in 2013 in both the Euro area and EU-27, under the influence of the adopted contractionary fiscal policy in many countries, declining by 0.7% and 0.2% respectively.

Besides, the heightening of the uncertainty due to the prolonged recession and the deterioration of the conditions in the labour market resulted in a boost of the households' propensity to save, limiting the income disposable for consumption purposes.

Reduction in EA-17 in 2012 was also observed in **public consumption,** by about 0.2%. Similar reduction is expected in 2013, due to the cuts in public expenditure as part of fiscal consolidation programmes

In EU-27 the annual growth rate of public consumption is expected to be marginally positive (0.2%), however in 2013 it is expected to turn negative (-0.1%).

Table 2.2

IFO – Estimations for the global economy (Index, 2005=100)

Quarter/Year	I/11	II/11	III/11	IV/11	I/12	II/12	III/12	IV/12	I/13
Economic Climate	106.8	107.7	97.7	78.7	82.4	95.0	85.1	82.4	94.1
Current Situation	102.8	108.4	99.1	86.0	84.1	87.9	78.5	76.6	80.4
Expectations	110.5	107.0	96.5	71.9	80.7	101.8	91.2	87.7	107.0

Source: IFO, World Economic Survey, WES Vol.12, No. 01/ February 2013

Table 2.3

IFO – Estimations for the global economy (Index, 2005=100)

Quarter/Year	I/11	II/11	III/11	IV/11	I/12	II/12	III/12	IV/12	I/13
North America	104.6	98.7	81.2	69.5	87.9	95.4	81.2	80.3	86.2
Western Europe	113.2	115.1	105.2	81.4	82.4	99.3	89.3	83.4	94.3
Asia	105.3	101.8	94.7	77.2	74.6	90.4	83.3	81.6	97.4

Source: IFO, World Economic Survey, WES Vol.12, No. 01/ February 2013

The continuous fall of **investment** has a negative contribution on GDP growth in both the Euro area and EU-27. The key factors that contributed to the contraction of investment are linked to reduced demand for goods and services, disappointing corporate profits and exacerbation of the financial difficulties that the businesses face, due to reduction of the supply of credit in the banking system and the use of funding mainly to service debt, rather than implement investment plans. In EU-27, the investment expenditure for 2012 overall was lower by 2.9% than in 2011, while in 2013 the contraction is expected to ease to 1.0%. In the Euro area, the European Commission estimates stronger contraction of investment expenditure for 2012 and 2013 (-4.1% and -1.8% respectively).

The lack of recovery in Europe in the previous year understandably affected significantly the labour market, with **unemployment** in the last quarter of 2012 reaching a new historic record both in the Euro area (11.7%) and in the European Union (10.7%). As such, the conditions in the labour market continue to be dismal in both regions, reflecting the deterioration of the overall economic situation and the heightening of the uncertainty observed since late 2011. The unemployment rate in the Euro area for 2012 overall is estimated to have reached 11.4% of the labour force and is expected to increase further to 12.2% in 2013. Correspondingly, unemployment in EU-27 in the previous year stood at 10.5% and is expected to reach 11.1% in 2013.

On the other hand, the weakening of economic activity in 2012 caused a reduction of **inflation** to 2.6% in the European Union and 2.5% in the Euro area. Nevertheless, the disinflation was partly inhibited by the increase of indirect taxation in many member-states, the fluctuations in the price of oil (especially in euro terms) and the increase of food prices during the first half of 2012. According to the latest forecasts of the European Commission, inflation is expected to ease further in 2013, both in EU-27 (2.0%) and in the Euro area (1.8%), as a result once more of the deterioration of the economic conditions and the weakening of demand.

Regarding the **fiscal performance**, the extensive contractionary fiscal policy, mainly in some Euro area member-states, has started to show up in significant reduction of the budget deficits. In 2012 the General Government deficit fell to 0.4% of GDP in EA-17, while a budget surplus of 0.4% is expected for the current year. The corresponding balance for EU-27 stood at -0.8% in 2012, while for 2013 the budget deficit is expected to fall to 0.4%. In contrast, the prolonged recession, mainly in the European periphery, combined with increased interest payments, increased the debt-to-GDP ratio in EA-17 to 93.1% in 2012 (from 88.1% in 2011), while in 2013 it is expected to continue to increase and to reach 95.1%.

Table 2.4

Main Macroeconomic Figures, EU-27, Euro area (annual % changes)

	EU-27			Euro Area		
	2012	2013	2014	2012	2013	2014
GDP	-0.3	0.1	1.6	-0.6	-0.3	1.4
Private Consumption	-0.7	-0.2	1.1	-1.2	-0.7	0.9
Public Consumption	0.2	-0.1	0.3	-0.2	-0.2	0.5
Investment	-2.9	-1.0	2.8	-4.1	-1.8	2.4
Employment	-0.4	-0.4	0.5	-0.9	-0.8	0.3
Unemployment (% of labor force)	10.5	11.1	11.0	11.4	12.2	12.1
Inflation	2.6	2.0	1.7	2.5	1.8	1.5
Goods and Services Exports	2.3	2.6	5.0	2.8	2.6	4.9
Goods and Services Imports	-0.1	1.5	4.6	-0.7	1.2	4.8
General Govern. Balance (% of GDP)	-0.8	-0.4	-0.1	-0.4	0.4	0.5
General Govern. Debt (% of GDP)	87.2	89.9	90.3	93.1	95.1	95.2
Current Account Balance (% of GDP)	0.4	1.1	1.3	1.4	2.1	2.2

Source: European Economic Forecast, Winter 2013, European Commission, February 2013

The persistence of the recession in the Eurozone in 2013 and the uncertainty that was recently generated, mostly by the new approach in dealing with the structural problems in the Cypriot banking system, are reflected in the course of the leading indicators, such as the indicator of economic activity €-COIN[5] and the economic sentiment indicator of the European Commission (DG ECFIN).

In more detail, as shown in the figure below, the economic activity indicator €-COIN for the Euro area continued to be negative in March 2013 (-0.12), reflecting the persistence of the recession in the Euro area. The indicator increased slightly month-on-month in March, by 0.08 percentage points. It is worth noting that this indicator has remained negative since November 2011. On the other hand, it should be noted that the €-COIN indicator has kept improving for a fourth consecutive month since November 2012. The continuous improvement is mostly due to less pessimistic assessment by the enterprises.

Lastly, the economic sentiment indicator of the European Commission (DG ECFIN) fell in March 2013, in the aftermath of a positive trend that had lasted for several months (since October/November 2012), confirming the instability of the expectations.

In particular, the economic sentiment indicator fell month-on-month by 1.1 points in March in the Euro area (to 90.0 from 91.1) and by 0.6 points in the European Union (to 91.4 from 92). The deterioration of the indicator came from a reduc-

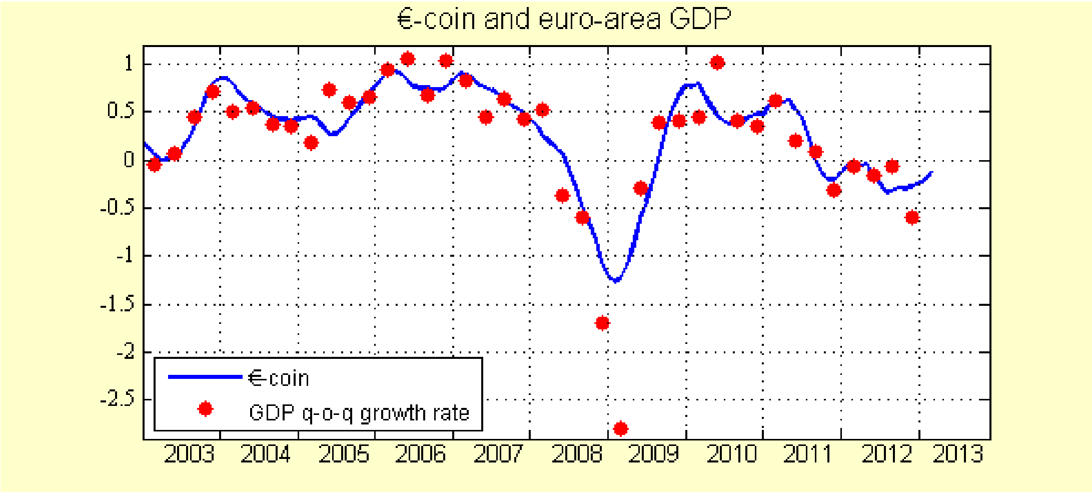
[5] The Center of Economic Policy Research (CEPR) in cooperation with the Bank of Italy each month calculates the €-COIN leading indicator of economic activity for the Euro Area. The indicator provides a forecast of GDP growth and is constructed from a range of different data, such as the course of industrial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

tion in all the substituent branch indicators.

In contrast, the Consumer Confidence indicator marginally improved in both regions (+0.1). The consumers were less pessimistic regarding the unemployment outlook, while they were slightly more pessimistic regarding their savings over the next 12 months. The expectations of the consumers regarding the future economic situation and the economic situation of their households over the next 12 months remained relatively unchanged month-on-month.

Figure 2.1

€-COIN Index (CEPR)



Source: CEPR (www.cepr.org)

Table 2.5

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

Month	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
EU27	93.8	95.0	94.4	94.5	91.6	91.3	89.9	87.9	87.0	87.2	89.4	89.3
Euro-area	94.6	95.7	95.9	94.4	91.8	90.9	88.9	87.2	86.1	85.7	87.2	88.0

Μήνας	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
EU27	90.8	92.0	91.4									
Euro-area	89.5	91.1	90.0									

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

Source: European Commission (DG ECFIN), March 2013.

2.2 The Economic Environment in Greece

A) Economic Sentiment

The IOBE economic sentiment studies offer significant indications on the developments in 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 development and even the course of GDP. In more detail:

In the first quarter of 2013, the dominant trend in the economic sentiment signifies an improvement, reflecting the effort by households and businesses to adjust to the conditions created by the new fiscal measures. The uncertainty of the past autumn regarding the continuation of the funding of the Greek state and the sustainability of its debt has clearly eased after the Eurogroup's 26 November decision. The decisions of the official lenders are perceived as an expression of their greater trust in Greece, which has a positive impact on business expectations. On the other hand, most agree that the current year, and especially the first half, will be exceptionally difficult, with the cost of the additional fiscal consolidation effort spreading to the whole economy. Nevertheless, the conviction that an intervention cycle is nearing its end and the economy's stabilisation is approaching is gradually taking over. In any case, the sentiment remains subdued, as unemployment continues to expand, taking up unfavourable structural characteristics, which require stronger intervention in order to create new jobs.

In more detail, the **Economic Sentiment Indicator in Greece in the first quarter of 2013** increased by about 4 points quarter-on-quarter to reach 86.9, its highest level in three years. **The economic sentiment also improved quarter-on-quarter in both the Euro area and the EU.**[6] **The indicator reached 90.2 and 91.4, in the Euro area and the EU respectively, from 87.0 and 88.6 in the previous quarter, down year-on-year, however, by 5 and 3 points respectively.**

The business sentiment in Greece improved in the quarter under investigation, compared with the preceding quarter, in Industry, Retail Trade and Services and deteriorated in Construction. The consumer confidence indicator also increased on average in the first quarter, in the aftermath of the recovery of the indicator in November and December, which was followed by a period of a relative stability until March.

Year-on-year, the average indicators increased in all sectors. An increase of more than 10 points was recorded in In-

[6]Due to the annual update of the relative weight per county and the inclusion of 2012 in the normalised sample (1990-2012), DG ECFIN revised the data for past periods as well. In particular, the results for the Economic Sentiment Indicator sample *in general* were revised up, both in the totals (EU, Euro area) and per country.

dustry, about 9-10 points in Retail Trade and Construction and by 6 points in Services. In more detail:

The **Consumer Confidence Indicator** in Greece improved quarter-on-quarter in the first quarter to reach -71.5 on average (from -74.6 in the corresponding quarter of the previous year), up also on its level from the same period of the previous year (-81). The confidence of the consumers had shown signs of stabilisation already from the end of the previous year: the indicator increased in November and December, remaining essentially unchanged since then. The Greek consumers have steadily remained the most pessimistic in Europe in the past 3 years. The corresponding average of the European indicators fell by 2 points quarter-on-quarter in both the EU and the Euro area, to reach -23.7 and -21.7 respectively. They remained, however, notably lower than in the previous year (-20 in both regions).

Most constituent indicators improved quarter-on-quarter. In particular, the very dismal expectations of the Greek consumers about the financial situation of their household and the general economic situation over the next 12 months eased, while small improvement was also observed in the indicator tracing the unemployment expectations, which however remained exceptionally pessimistic. Meanwhile, the intension to save indicator deteriorated quarter-on-quarter.

On average, the share of the consumers who were pessimistic about the financial outlook of their household reached 72% (from 79% in the preceding quarter), with 4% expecting improvement of their finances in the coming months. About 75% of the consumers were expressing negative expectations regarding the economic situation in the country (from 83% on average in the last quarter of 2012), while in contrast the intention to save indicator slightly deteriorated, with 9/10 of the households (from 87%) considering not likely or not at all likely to save any money over the next 12 months. The unemployment expectations over the next 12 months remained exceptionally dismal, despite the slight improvement of the indicator average to +80 from +82, as here as well almost 9/10 of the Greek consumers were expecting unemployment to increase. The unemployment expectations in the same period of 2012 were stronger, with the indicator at +88 on average.

Additionally, the percentage of consumers reporting that they were "in debt" slightly increased to 22% on average (from 18% in the preceding quarter), with 7% (from 11%) of the respondents declaring that they were saving small or large amounts. Lastly, the share of consumers reporting that they were "just making ends meet" fell to 55% (from 53%), while the percentage of those declaring that they were "dipping into their savings" fell to 15% (from 18%).

Regarding the expectations in key sectors of the Greek economy, in **Industry** the Business Climate Indicator increased quarter-on-quarter, reaching 85.1 (from 81.6), significantly up on its past year performance (72.9). This result indicates a continuation of the recovery trend that the indicator has been experiencing since the previous year. Regarding the key activity indicators, the short-term expectations on production levels improved significantly to reach positive levels, to +5 on average (from -5 in the previous quarter). The assessment of order-book levels and demand was also less pessimistic (at -39 from -42), while the assessment for the stocks of finished products slightly increased, with the relevant indicator reaching +6 (from +4). Among the remaining indicators, the assessment of the export order-book levels slightly deteriorated, but the expectations on their future course improved (+18 from +12 on average for the quarter). The negative balance of employment expectations remained unchanged at the same negative level in the quarter under investigation, at -20 on average, slightly up year-on-year (from -26). The utilisation rate of the production factors slightly fell, even though it was already very low, to 64.5% (from 66% in the preceding quarter), yet in the corresponding period of 2011 it was even lower (63%). Lastly, the number of months of assured production reached 4 on average, unchanged year-on-year.

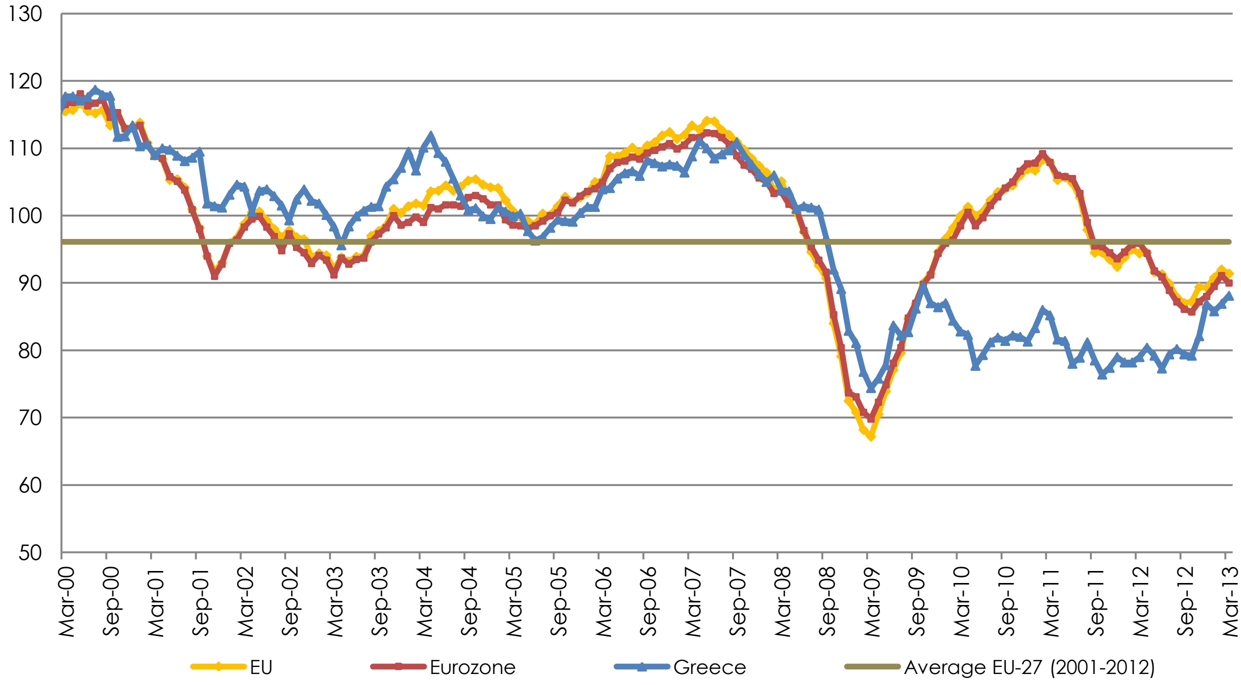
The Confidence Indicator in **Retail Trade** reached 62.4 on average in the quarter under examination, from 55.6 in the preceding quarter and 53.5 in the same period of 2012. This increase came from a slight improvement of all key activity data and mostly from an upturn of the indicator tracing the enterprises' assessment of their exceptionally low current sales. In particular, the assessment of the enterprises on their current sales increased quarter-on-quarter by 10 points to reach -55. The negative expectations of the enterprises on their short-term sales slightly eased to -54 on average, with 60% of the enterprises expecting their sales to fall in the coming period. The negative inventories indicator strengthened notably to -13 on average (from -2), down year-on-year (also -2), revealing more that the inventories were not being replenished, as opposed to being liquidated. The negative expectations on orders to suppliers changed slightly to -52 from -55, while the employment expectations in the sector remained at -40, with the share of enterprises expecting reduction of employment in their sector in the coming months standing at 40%. Lastly, deflationary expectations have steadily dominated in the sector, having strengthened quarter-on-quarter, to represent 1/3 of the enterprises (from ¼), compared with only 5% of the enterprises that were expecting prices to increase. A quarter-on-quarter increase was observed in all constituent branches, except Motor Vehicles and Spare Parts, where the indicator slightly deteriorated.

The business expectations in **Construction** lost ground quarter-on-quarter, with the indicator reaching +46.9 from +48.3, up however on their past year level (37.7). The intensely negative expectations on the level of planned activities fell further to reach -78 (from -75), unchanged year-on-year. The negative employment expectations indicator remained unchanged at -33, with 47% of the enterprises expecting further job losses and 14% expecting employment to increase. The assessment of the enterprises of their current activity level eased from -37 to -23. The months of activity ensured by current backlog doubled to 18, mainly from their large increase in Public Works, as a result of expectations for completion of the negotiations regarding the restart of the large road projects. This fact also justifies the recovery of the price expectations to +4 on average in the first quarter (from -26). Lastly, only a very limited 2% (from 7%) of the enterprises were reporting that they were not facing any obstacles to their construction activities. Among the remaining enterprises, 55% stated as the main obstacle insufficient funding, 27% low demand and 18% factors such as the state of the Greek economy in general, the recession, high taxation, lack of projects, delays in payments by the State, large discounts etc. At branch level, the expectations improved, albeit at a milder rate than in the previous quarter, in Private Construction, while in contrast in Public Works the indicator lost ground in the first quarter, dragging down the overall performance of the sector.

In **Services**, the business climate indicator increased quarter-on-quarter to reach 60.6 (from 56.5), up also on its past year performance (54.3). The increase came from improved, on average, assessment and expectations regarding the demand in the sector. In particular, the assessment of the enterprises of the current demand in the sector gained 10 points to reach -24, a development similar with that observed in the expectations on near-term demand, where the indicator increased by 24 to reach -13. In contrast, the assessment of the enterprises of their current activity deteriorated to reach -36 (from -28), offsetting in part the above positive result. Among the remaining indicators, the employment expectations improved, with the indicator gaining 10 points to reach -23. The price expectations remained strongly deflationary, almost unchanged quarter-on-quarter, with 27% of the enterprises expecting prices to fall and the vast majority of the respondents (71%) expecting prices to remain unchanged. Lastly, the share of enterprises reporting that their business activity was being conducted without obstacles remained close to 10% in this quarter as well, with 44% of the respondents indicating as main obstacle insufficient demand, 29% reporting lack of working capital and further 15% indicating factors connected with the overall economic situation and the crisis, the global current affairs, borrowing difficulties, high taxation, arrears, Athens' rundown centre, a crime surge, etc. Among the constituent branches, only Hotels-Restaurants recorded significant fall of their business expectation in the first quarter (to 62 from 72 in the preceding quarter), which however was not enough to offset the positive changes in the indicators of the remaining branches and in particular in Land Transport and Various Business Activities.

Figure 2.2

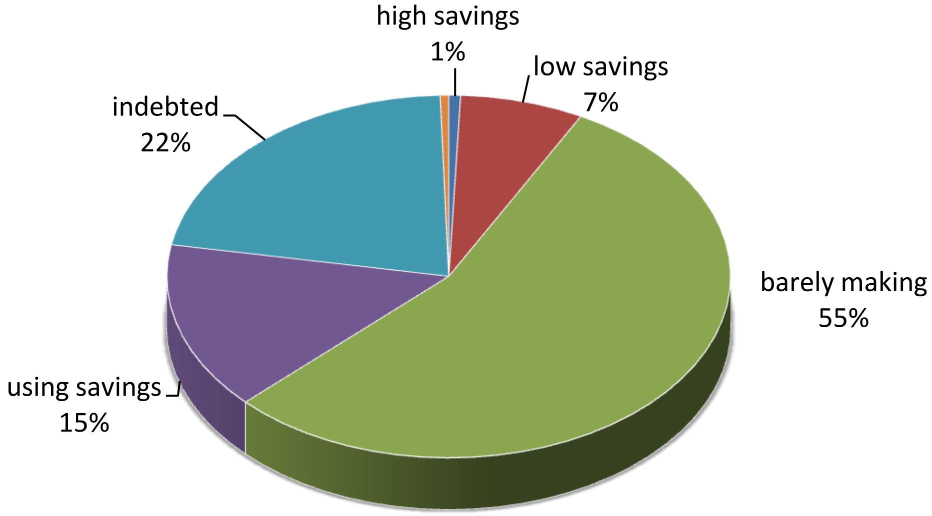
Economic Sentiment Indicators: EU27, Euro Area and Greece
(1990-2011=100, seasonally adjusted data)



Source: European Commission, DG ECFIN

Figure 2.3

Consumer survey data on their household's financial situation
(January-March 2013 average)



Source: IOBE

Table 2.6

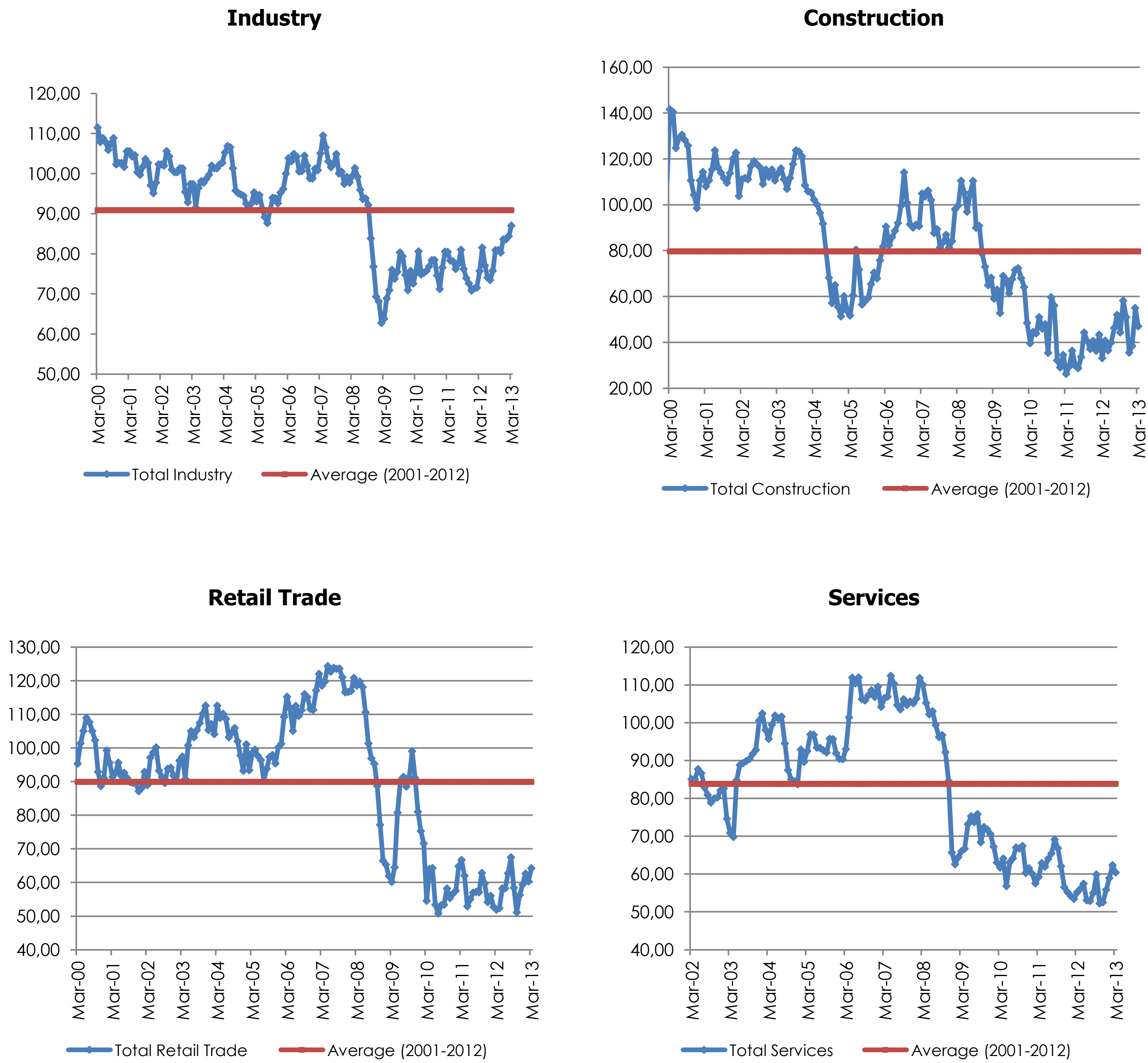
Economic Sentiment Short-Term Indices

Month/ Year	**Economic Sentiment Indicator**[1]		**Business Confidence Indicators**[2] (Greece)				**Consumer Confidence Indicator**[1] **(Greece)**
	E.U-27	***Greece***		***E.U-27***	***Greece***		
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
Jan–12	92.8	74.9	71.4	36.4	56.0	54.2	-80.1
Feb-12	93.9	74.9	71.6	43.4	52.7	53.4	-83.5
Mar-12	93.2	75.7	75.7	33.2	51.9	55.2	-79.3
Apr-12	93.2	77.3	81.6	40.8	52.4	56.1	-78.7
Mai-12	90.4	76.0	77.1	36.5	58.2	57.4	-75.8
Jun-12	90.4	74.1	74.1	40.0	58.2	53.0	-70.4
Jul-12	89.0	76.1	73.5	46.3	62.7	52.9	-64.7
Aug-12	87.0	77.0	75.8	52.0	67.4	54.9	-65.2
Sep-12	86.1	76.1	80.9	44.3	58.4	59.9	-75.6
Oct-12	86.1	75.8	80.9	58.3	51.1	52.2	-77.5
Nov-12	88.1	79.0	80.3	51.06	56.2	52.5	-74.1
Dec-12	89.3	86.9	83.6	35.6	59.4	55.8	-72.1
Jan–13	90.8	85.8	83.7	38.5	62.6	58.9	-71.9
Feb-13	92.0	86.9	84.4	55.0	60.3	62.3	-71.4
Mar-13	91.4	88.1	87.1	47.1	64.2	60.4	-71.2

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

Figure 2.4

Business Confidence Indicator[1]



Source: IOBE

B) Fiscal developments

Execution of the State Budget (first two months of 2013)

The State Budget in the first two months of the current year had a deficit of €789 million, compared with a deficit of €495 million in the corresponding period of 2012. This deterioration, by €294 million, came despite the improvement of the primary surplus from €368 million in 2012 to €487 million in 2013, exclusively from higher interest payments by €413 million.[7] It should be noted that the indicative targets[8] for net and primary deficit during this period were €3.4 billion and €1.2 billion respectively and hence the results are much better than anticipated.

Expenditure

The primary expenditure of the Ordinary Budget fell by €832 million (Table 2.7). This reduction was due mainly to the following changes:

a) The expenditure for salaries and pensions fell by €150 million. This reduction corresponds to a rate of -4.6%, which is short of the annual target rate, but this should be due to the fact that recently implemented measures (e.g. cuts in special category salaries) were not in force in the first two months.

b) Reduction of the grants to the social security sector by €995 million. This reduction was much larger than the one that was envisaged on an annual basis in the budget and is expected to weaken as the financing needs of the social security funds increase over the duration of the year.

c) Increase of operational and other expenditure by €321 million (+35.8% against an annual target of stabilisation). This increase is mostly due to a special grant of €66 million to local government authorities and an increase of agricultural subsidies by €112 million (mirror expenditure), together with an increase of the transfers to international organisations and of various consumption expenditures.

Meanwhile, large increase was observed in the Public Investment Budget expenditure, even though it was still considerably short of the target for 2013. Overall, the primary expenditure of the Ordinary Budget stood below the target by €226 million. In general, the indications are that expenditure, despite the conjunctural deviation from the annual rate of change that is observed up to now, will keep close to the budgeted levels, with the only significant threat coming from the grants to the social security system, if the reduction of employment deteriorates further and is not compensated by payments of contributions in the remainder of the year.

[7] From this year, the interest of the post-PSI bonds are paid every February, leading to swollen interest payments in that month.

[8] As evident from the Preamble to the 2013 State Budget, p. 108.

Table 2.7

State budget's expenditure – January-February

(mil. €)	2012	2013	Change 2013/12	
			Jan.-Feb.	Budget target
STATE BUDGET TOTAL EXPENDITURE	**9,753**	**9,422**	**-3.4%**	**-7.4%**
INTEREST EXPENDITURE	**9,562**	**9,143**	**-4.4%**	**-8.3%**
STATE BUDGET PRIMARY EXPENDITURE	**862**	**1,275**	**47.9%**	**-27.2%**
ORDINARY BUDGET PRIMARY EXPENDITURE	**8,700**	**7,868**	**-9.6%**	**-3.5%**
SALARIES & PENSIONS	**3,229**	**3,080**	**-4.6%**	**-9.8%**
Wages	2,144	1,998	-6.8%	-9.1%
Other allowances	41	83	101.2%	5.3%
Pensions	1,044	998	-4.4%	-12.2%
SOC. SECUR., MEDIC., SOC. PROT.	**3,979**	**2,985**	**-25.0%**	**-6.7%**
Grants to Social Security Funds	3,534	2,582	-26.9%	-13.1%
Social Protection	80	85	6.4%	-5.8%
Grants to OAED	139	35	-13.0%	38.1%
Other Healthcare Expenses	227	283		
OPERATIONAL-OTHER EXPENDITURE	**895**	**1,215**	**35.8%**	**0.0%**
Transfers to other entities	82	201	146.3%	-0.2%
Consumption Expenditure	37	58	54.5%	-8.4%
Conditional Expenditure	711	827	16.3%	3.0%
Other Expenditure*	65	130	99.6%	6.0%
EARMARKED EXPENDITURE	**596**	**588**	**-1.3%**	**8.7%**
RESERVE	**0**	**0**		
PUBLIC INVESTMENT PROGRAMME	**191**	**279**	**46.2%**	**0.0%**

** Including EFSF costs, equipment expenditures and guarantees called*

Source: General Government data Bulletin - February 2013, MinFin, March 2013

Revenues

As evident from the provisional data of the General Accounting Office, the State Budget revenue during the first two months of the year fell by 6.7%, compared with an annual target of a contraction by 3.5%. Relative to the target for the first two months, however, the revenue is higher by €689 million. This prima facie good performance is due mostly to non-payment of tax refunds (€394 million) and excessive collection of PIB revenue (€454 million). The revenue of the Ordinary Budget before tax refunds was short of target by €158 million, which is quite significant, yet it can be overturned in the coming period, taking into account certain conjunctures[9] and provided that the rate of verification of payment of taxes, and especially VAT, is restored.

In particular, as evident from Table 2.8, tax revenue fell by 12.1%, against an annual target of 5.8% reduction, which is almost exclusively due to a significant reduction of VAT and consumption tax collection. Particularly for VAT, the slump of revenue cannot be completely explained with reduction of demand and should be attributed partly to postponement of

[9] For example, the tobacco tax experienced very large slippage in the first two months. Nevertheless, the indications for March is that the revenues increased, even though overall for the year a reduction is envisaged in the budget. This is probably due to stockpiling at the end of the previous year, which implies that the outcome from the tax reform will be felt from March onwards.

payment in anticipation of a possible settlement of arrears, which will probably take place after the negotiations with the troika in April. On the other hand, direct taxation seems to be performing better than anticipated, but we should wait to see the performance of more significant taxes later in the year (such as, for example, the fate of the extraordinary levy on electrified surfaces for 2013) and the payment rate of the property taxes (electrified surfaces levy, immovable property tax) which were not collected in the years that they were supposed to be verified and have become collectible in 2013. Overall, it seems that the revenue targets could be conditionally achieved in the current year, especially if demand does not fall by more than expected, if the property tax revenue is sufficient and if the VAT collection returns to normal.

Table 2.8

State budget's Revenues – January-February

(mil. €)	**2012**	**2013**	**Change 2013/12**	
			Jan.-Feb.	**Budget target**
TOTAL STATE BUDGET REVENUE	**9,258**	**8,634**	**-6.7%**	**-3.5%**
ORDINARY BUDGET NET REVENUE	**8,067**	**7,750**	**-3.9%**	**-4.8%**
TAX REFUNDS	**343**	**96**	**-71.9%**	**3.0%**
O.B. REVENUE BEFORE TAX REFUNDS	**8,410**	**7,846**	**-6.7%**	**-4.2%**
TAX REVENUE	***7,911***	***6,954***	***-12.1%***	***-5.8%***
DIRECT TAXES	3,041	2,988	-1.8%	-4.6%
Income Taxes	*1,442*	*1,377*	*-4.5%*	*-15.6%*
Property Taxes	*791*	*490*	*-38.0%*	*15.5%*
Direct Tax Arrears	*533*	*842*	*58.0%*	*57.5%*
Other Direct Taxes	*275*	*278*	*1.1%*	*-19.1%*
INDIRECT TAXES	4,870	3,966	-18.6%	-6.8%
Transaction Taxes	*3,020*	*2,513*	*-16.8%*	*-8.8%*
Consumption Taxes	*1,655*	*1,237*	*-25.2%*	*-3.5%*
Indirect Tax Arrears	*137*	*170*	*23.7%*	*-5.6%*
Other Indirect Taxes	*58*	*47*	*-19.2%*	*-8.5%*
NON TAX REVENUE	***499***	***892***	***78.8%***	***13.1%***
DRAWINGS FROM EU	9	6	-31.4%	-4.5%
NON-RECURRING REVENUE	166	488	194.1%	28.7%
LICENSING & PUBLIC RIGHTS	0	62		168.8%
OTHER	324	336	3.6%	-0.6%
PUBLIC INVESTMENT PROGRAMME	**1,191**	**884**	**-25.8%**	**9.6%**

Source: General Government data Bulletin - February 2013, MinFin, March 2013

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic developments

Developments in the first nine months of 2012

The socioeconomic developments in Greece during the last quarter of 2012 were determined by the negotiations on the country's fiscal problems that had started in the previous quarter and by the events that followed. The negotiations with the troika that had started in July carried over into the last quarter. In addition, the 2013 Budget and the Medium Term Fiscal Strategy 2013-2016 were passed through parliament. Also, the talks between Eurozone and IMF officials on the terms for granting the next trance of the loan to Greece resulted in the Eurogroup 26 November decision. Subsequently, a bond repurchase programme, envisaged in the Eurogroup's decision as a prerequisite for the approval of the first part of the tranche, corresponding to ESM's share, was carried out by the Greek state within a tight timetable. Understandably, as a result of the aforementioned events and developments, the uncertainty about Greece's ability to continue the fiscal consolidation process reached very high levels during this period, with an impact domestically and on the country's international image.

Despite all this, **the recession eased in the last quarter of the previous year to 5.7% from 6.7% in the preceding quarter**, lower year-on-year by 2.2 percentage points.[10] As a result, **the GDP contraction rate for 2012 as a whole stood at 6.4%**, slightly lower than in 2011 (7.1%). **At the end of a fifth year of recession, the Greek economy has cumulatively lost 20.1% of its GDP (since 2007).**

The GDP contraction in 2012 ended up very close to the rate that had been forecasted by IOBE since mid-October (6.6%), and at somewhat larger distance than our July estimates (6.9%). Still, it should be noted, as analysed in more depth in the below outline of the trends in the key GDP components, the lowest quarterly reduction in the last quarter was due to a rise in investment, due to the exceptionally high, unprecedented for the last few years, inventory accumulation (€2.5 billion in constant prices, nearly 1.5% of the annual GDP). This development cannot be explained with ease, given that due to the prolonged recession the businesses are particularly cautious when they order raw materials or decide on the volume of their production activity.

Moving on to the performance of the key GDP components in the last quarter of 2012, the trends that had dominated in investment and imports earlier in the year were overturned. On the other hand, **the intense reduction of household consumption continued and strengthened, constituting the key driver for**

[10] Quarterly National Accounts, EL.STAT., March 2012

the GDP contraction for one more quarter and becoming the most decisive factor for the recession of the Greek economy in 2012. The public consumption cuts were lower, despite the significant delay of the disbursement of the tranche from the EU-IMF loan. The deficit of the external sector of the economy increased, as a result of a significant slowdown of the contraction in the demand for imports, moderating its very good performance from the first nine months of the year.

In greater detail, **domestic consumption (total of private and public sector) was lower year-on-year by 9.0% in the last quarter of 2012, its largest quarterly contraction in the past year. As a result, the consumption expenditure fall in 2012 reached 8.2%**, slightly stronger than in the previous year (7.2%), which was the strongest contraction since the beginning of the recession of the Greek economy in 2008. The stronger contraction came exclusively from further weakening of household consumption demand. Its largest contraction took place in the last quarter of 2012 (-9.6%), while for the year overall it fell by 9.1%, in the aftermath of a drop by 7.7% in 2011. **In contrast, despite the sudden reduction in the third quarter (-10.2%), the public consumption's contraction in the past year was weaker than in 2011 (4.2% against 5.2% in the previous year).** In the last quarter it did not exceed 5.8%, despite the relatively high base level from late 2011.

The trend in investment in the last quarter was not determined by fixed capital formation, which is its key component**, but by accumulation of inventories.** As a result, **while fixed capital investment continued to contract, falling by 10.2%,** a weaker reduction than the average for the first nine months of 2012 (-22.0%), **the accumulation of inventories reached €2.5 billion, its largest volume since 2008, when the levels of key indicators of the Greek economy (GDP, fixed capital investment) were very different from late 2012**. Regardless of the inventories' impact, the relatively high volume of fixed capital formation is considered to reflect the intensification of the Public Investment Programme, rather than a boost of the investment activity of the private sector, which remained wary of the outcome of the negotiations on the continuation of the fiscal consolidation during the second half of the year. Under the above influences, investment increased in the last quarter, for the first time since the corresponding period of 2007, by 4.9%. **For 2012 overall, investment was lower by 17.6% than in 2011, when it had fallen by about the same rate (-16.4%). As a result, its cumulative contraction since 2007 has reached 57.5%.**

Regarding the trends in the basic fixed capital categories, **the largest contraction was observed in Housing Construction, by 32.9%, followed by investment in Transport Equipment (-28.9%),** despite coming first in the first nine months of the year, as its reduction in the last quarter was relatively mild (-5.5%). In 2011 the investment in Transport Equipment had also recorded the second largest contraction (-18.4%), behind Other Construction (-25.1%). In the past year, Other Construction and Metal Products – Machinery contracted at a significantly lower rate than the other two categories (-7.9% and -7.3% respectively). The investment in Other Products fell by 2.6% and the investment in Agricultural Equipment remained unchanged, while in 2011 it had fallen least compared with the other categories (-1.5%).

The continuous improvement of the balance of the external sector in the first nine months of 2012 was interrupted towards the end of the year, due to the significant slowdown of the contraction of imports. Their reduction did not exceed 8.1% in the last quarter, from 17.4% in the first nine months and 12.0% in the last quarter of 2011. This came from notably weaker contraction of the imports of both goods and services. **Despite the weaker import contraction in the last quarter, they remained the exclusive driver for the reduction of the external sector's deficit, as the export contraction intensified further. Imports in the past year were lower on average by 13.8% than in 2011**, when they had fallen by 7.3%. The imports of goods were 14.8% down, while the imports of services fell by 9.5%.

On the other side of the external balance, the weakening of the demand for exports continued for a third quarter in October – December, accelerating slightly. Their reduction reached 4.8%, which was the second largest contraction rate in the past three years, behind that observed in the fourth quarter of 2011 (-5.1%). However, **in 2012 the overall exports contracted by 2.9%, for the first time in 3 years, in the aftermath of an increase by 5.2% in 2010 and 0.3% in 2011.** Still, it should be noted that their reduction came exclusively from the exports of services (-6.7%), as the exports of goods increased, albeit at a low rate (+1.8%). Despite the negative trends in the export demand and the slowdown of the import contraction in the last quarter of 2012, **the external sector's deficit in national accounting terms was lower by 52.7% than in 2011, standing at only €5.9 billion (3.5% of GDP), when in 2008 it was standing at €29.6 billion (14.1% of GDP).**

In production terms, **domestic gross value added of production was lower by 6.2% in 2012 than in 2011, when it had fallen by 6.6%.** As already noted from the first quarters of 2012, the slump in the fixed capital formation in construction, mainly housing, had a particularly negative impact on **the construction sector's output, which contracted by 15.6%, more than in any of the remaining basic sectors of the Greek economy.** As a result, construction remained the sector with the strongest fall of production activity for a second year in a row, as in 2011 the vertical drop of its output by 28.4% had placed it on the top of this ranking as well. It was followed already from early 2012 by Wholesale-Retail Trade, Repair of Motor Vehicles – Motorcycles and Accommodation – Food Services (-13.3%), which in 2011 had recorded the third largest output contraction (-10.9%), and Art – Entertainment – Recreation Activities (-11.4%). Next came Financial – Insurance Activities and Information – Communications (-9.4% and -5.7% respectively). A minor reduction of output was observed in Industry (-1.7%), while Real Estate Activities, for a second consecutive year, was the only sector where output increased, albeit marginally (+0.3%).

The renewed intensification in the last quarter of 2012 of the uncertainty about the ability of Greece to continue its fiscal consolidation and the developments in its economy in the near term, together with the adjustment of the production processes to the deeper than anticipated recession, deteriorated further the conditions in the labour market. The significant reduction of employment continued, albeit at a slightly lower rate than in the first nine months of the year, by 6.4% against 8.5% (8.0% yearly average). **As a result, unemployment reached 26.0% in the last quarter, 5.3 percentage points up year-on-year. On average for 2012 it stood at 24.2%, 6.5 percentage points higher than in 2011.**

The accelerated weakening of the domestic private consumption in the last quarter inhibited the impact of the increase of the heating oil's excise duty on inflation.

As a result, **inflation in the last quarter did not exceed 1.1% on average,** falling further by 0.2 percentage points quarter-on-quarter, while a year before it stood at 3.0%. **Taking into account its course in the last quarter, the average inflation rate for 2012 reached 1.5%, as predicted by IOBE since July, 1.8 percentage points lower than in 2011**.

In summary, for one more quarter the uncertainty in Greece and abroad regarding the developments on the fiscal front in the country remained the key driver of the developments at socio-economic level. As analysed in IOBE's previous quarterly bulletin, the prolonged flux regarding the fiscal outlook of the country, due to the continuous negotiations of the Greek government with the lenders, the talks at international level on the Greek issue (between EU-IMF) and the frequent changes and reshuffles at government level in the last one and a half years has had a strong impact on the domestic economic climate and economic activity, beyond the direct impact from the fiscal measures. Because of the impact of these factors, the recession and the unemployment still cannot subside.

Table 3.1

Main Economic Volumes-Quarterly National Accounts (constant 2005 prices)

Year/ Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	mil. €	Annual rate of change	mil. €	Annual rate of change	mil. €	Annual rate of change	mil. €	Annual rate of change	mil. €	Annual rate of change
2001	**165,023**	**4.2%**	**146,095**	**4.1%**	**38,908**	**-3.9%**	**39,522**	**0.0%**	**59,274**	**4.2%**
2002	**170,700**	**5.2%**	**153,724**	**5.2%**	**39,399**	**1.3%**	**36,205**	**-8.4%**	**58,532**	**-1.3%**
2003	**180,847**	**2.4%**	**157,479**	**2.4%**	**46,687**	**18.5%**	**37,262**	**2.9%**	**60,267**	**3.0%**
2004	**188,746**	**3.8%**	**163,422**	**3.8%**	**45,578**	**-2.4%**	**43,712**	**17.3%**	**63,682**	**5.7%**
2005	**193,049**	**3.8%**	**169,662**	**3.8%**	**41,321**	**-9.3%**	**44,807**	**2.5%**	**62,741**	**-1.5%**
2006	**203,688**	**4.1%**	**176,612**	**4.1%**	**50,048**	**21.1%**	**46,739**	**4.3%**	**69,711**	**11.1%**
2007	**210,895**	**4.3%**	**184,176**	**4.3%**	**56,524**	**12.9%**	**50,066**	**7.1%**	**79,820**	**14.5%**
a' 2008	49,525	0.1%	47,982	3.1%	11,243	-11.4%	10,170	5.7%	19,863	2.6%
b' 2008	53,148	0.1%	48,142	3.3%	12,864	-0.6%	12,955	4.6%	20,806	10.5%
c' 2008	55,247	-0.1%	47,219	2.9%	11,894	-9.5%	16,902	5.2%	20,771	4.8%
d' 2008	52,522	-0.9%	46,091	2.2%	14,671	-17.4%	10,871	-9.3%	19,095	-12.4%
2008*[1]	**210,443**	**-0.2%**	**189,436**	**2.9%**	**50,672**	**-10.4%**	**50,899**	**1.7%**	**80,535**	**0.9%**
a' 2009	47,439	-4.2%	45,860	-4.4%	9,258	-17.7%	8,296	-18.4%	16,017	-19.4%
b' 2009	51,254	-3.6%	47,727	-0.9%	9,072	-29.5%	10,368	-20.0%	15,961	-23.3%
c' 2009	53,607	-3.0%	47,941	1.5%	8,526	-28.3%	13,378	-20.9%	16,279	-21.6%
d' 2009	51,543	-1.9%	47,396	2.8%	11,135	-24.1%	8,973	-17.5%	16,004	-16.2%
2009*	**203,843**	**-3.1%**	**188,924**	**-0.3%**	**37,992**	**-25.0%**	**41,014**	**-19.4%**	**64,261**	**-20.2%**
a' 2010	46,972	-1.0%	46,939	2.4%	7,305	-21.1%	8,310	0.2%	15,707	-1.9%
b' 2010	49,816	-2.8%	44,856	-6.0%	8,979	-1.0%	10,826	4.4%	14,828	-7.1%
c' 2010	50,064	-6.6%	43,437	-9.4%	7,916	-7.2%	13,677	2.2%	14,829	-8.9%
d' 2010	46,916	-9.0%	40,884	-13.7%	10642	-4.4%	10,328	15.1%	14,932	-6.7%
2010*	**193,768**	**-4.9%**	**176,116**	**-6.8%**	**34,842**	**-8.3%**	**43,142**	**5.2%**	**60,297**	**-6.2%**
a' 2011	42,840	-8.8%	41,632	-11.3%	7,180	-1.7%	8,282	-0.3%	14,274	-9.1%
b' 2011	45,889	-7.9%	41,433	-7.6%	7,576	-15.6%	10,922	0.9%	14,051	-5.2%
c' 2011	48,072	-4.0%	41,932	-3.5%	6,229	-21.3%	14,278	4.4%	14,406	-2.9%
d' 2011	43,201	-7.9%	38,424	-6.0%	8,138	-23.5%	9,801	-5.1%	13,141	-12.0%
2011*	**180,001**	**-7.1%**	**163,421**	**-7.2%**	**29,124**	**-16.4%**	**43,282**	**0.3%**	**55,871**	**-7.3%**
a' 2012	39,954	-6.7%	38,512	-7.5%	4,947	-31.1%	8,626	4.1%	12,152	-14.9%
b' 2012	42,951	-6.4%	38,406	-7.3%	6,092	-19.6%	10,594	-3.0%	12,234	-12.9%
c' 2012	44,873	-6.7%	38,227	-8.8%	4,429	-28.9%	13,674	-4.2%	11,718	-18.7%
d' 2012	40,737	-5.7%	34,947	-9.0%	8,535	4.9%	9,334	-4.8%	12,074	-8.1%
2012*	**168,515**	**-6.4%**	**150,093**	**-8.2%**	**24,003**	**-17.6%**	**42,227**	**-2.4%**	**48,179**	**-13.8%**

* provisional data
Source: ELSTAT, Quarterly National Accounts, March 2013

Medium-term outlook

Following the implementation of the PSI+ programme for the devaluation of the outstanding value of Greek bonds, the prolonged election cycle, the months of negotiations with the lenders and then the bond buyback by the Greek state, events that largely determined the politico-economic environment in Greece in 2012, in 2013 the developments are expected to revolve around the implementation of the agreed measures and reforms of the Medium Term Fiscal Strategy 2013-2016. Besides, the implementation of quite a few of these reforms constitutes a milestone for the continuation of the flow of funding as part of the second EU-IMF bailout. The review of the fiscal and reform efforts in the third quarter of the current year, when the finalisation of the fiscal interventions for 2014-2015 is planned to take place, in order to achieve General Government primary deficit of 3.0% in 2015, will be a critical juncture for their continuation, content and direction in the coming years. Any further extensive fiscal measures would understandably have a negative impact on economic activity, extending further the domestic economic recession.

However, the entry of Cyprus in the EU-IMF support mechanism is a new driver for the economic developments in 2013 and beyond in Greece and the Eurozone, with impact that still cannot be estimated with precision. The fundamental restructuring of the two largest banks based in Cyprus, which hurt significantly the credibility and the attractiveness of the overall banking system, around which a large part of the economic activity in the country has been built, together with the implementation of a fiscal consolidation programme, both prerequisites for the provision of funding from the EU and the IMF, are expected to have strong contractionary impact on the Cypriot economy for the next three years at least. The impact of the Cypriot crisis on the Greek economy manifested already in the realignment of the Greek banking sector, which in the meantime is passing through its crucial recapitalisation process, a realignment induced in order to absorb the domestic activities of the Cypriot banks to avoid spreading of the severe turmoil of the Cypriot banking system to Greece. The acquisition of the activities of the three Cypriot banks in Greece by one of the largest domestic banking groups (Piraeus Bank) came along when the merger of two large Greek banks (National Bank of Greece and Eurobank) was still in progress, after the completion of the acquisitions of Emporiki Bank by Alpha Bank and Agrotiki Bank by Piraeus Bank. These developments are changing radically the structure of the banking sector in Greece. Meanwhile, the Greek individuals, companies and banks with large deposits (above €100,000) in the largest Cypriot banks in Cyprus or with significant investment in financial products through these banks will suffer losses from the restructuring programme of the two largest Cypriot banks.

Impact on the Greek economy is also expected to come from the significant weakening of the demand for Greek exports in Cyprus. The island economy is the fourth largest export destination for Greece, with the exports of goods to it reaching €990.5 million in 2012, which corresponds to 6.0% of the Greek exports of goods. In addition, the subsidiaries of the Cypriot banks in Greece play a significant role in the transactions related to the bilateral trade between the countries, a mechanism that will perhaps work less well after the breaking of their activities in Greece and Cyprus and most probably will lead to a move of these transactions to other banks that are active in both countries.

In addition, the loss of trust towards the banking systems of the Eurozone countries that try to harness their fiscal imbalances or to address the problems of their financial sector, can have a negative impact on the Greek economy over the medium term, slowing down or inhibiting the return of deposits to the banks operating in Greece that has been observed since the second half of 2012. The volumes of funds flowing from the Cypriot banks in Cyprus to Greece are expected to be small, due to the restrictions that have been placed on the capital flows by the Central Bank of Cyprus. Nevertheless, it is premature to quantify at this stage the probability of materialisation of the aforementioned and other effects, with a positive or negative sign, and their intensity, as they depend on a number of factors that for the time being cannot be evaluated.

Focusing on the current and upcoming politico-economic events in Greece, the implementation of the reforms, based on the timetable set in the recent update of the second economic adjustment programme, primarily of the prerequisites for the continuation of the disbursement of instalments from the second EU-IMF loan, is at the epicentre of the developments. Among these prerequisites, the approach for restructuring the employment in the public sector in order to limit it by 150,000 people overall in the period from 2011 to 2016, a target that was initially set in the Medium Term Fiscal Strategy 2012-2015, has still remained indeterminate. This and other pending issues of lesser importance are considered to have led to a delay in the disbursement of the fourth and last instalment of the tranche approved in last December.

The payment of arrears by the state to the private sector, utilising part of the last tranche of the loan that was granted for this purpose, continues at a relatively slow pace. According to an announcement by the Ministry of Finance, until February, arrears funding applications for about €1.5 billion were approved, out of which €419 million were actually paid.[11] Recall that a target of €3.5 billion was set for the payment of arrears from the tranches that were disbursed in 2012. Also, the preamble of the 2013 State Budget envisaged a further €3.5 billion expenditure for the settlement of obligations of General Government entities for the current year. At the end of February the arrears of the state and the pending tax returns to the private sector reached €8.1 billion.[12] Nevertheless, the payments so far are expected to ameliorate the acute liquidity problems of many enterprises that supply the public sector.

Regarding the fiscal measures for 2013 that were included in the Medium Term

[11] Funding – Payment of Arrears, February 2013, Ministry of Finance

[12] General Government Data, February 2013, Ministry of Finance

Fiscal Strategy 2013-2016, the cuts of pensions, special remuneration categories of the public sector and benefits, and the increase of direct taxation with the lifting of the tax allowance are already being implemented. The abolition of summer, Christmas and Easter bonuses for pensioners and public sector employees will take effect in 2013. These measures are expected to have a significant contractionary impact on disposable income and on consumer demand. The volume of retail trade (except fuel) contracted stronger in January than in late 2012 or in the same month of 2011 (-15.8% against -13.7% and -10.6% respectively), while inflation decelerated significantly in the first two months of 2013 to a rate that implies price "freeze" (0.1%). These two developments constitute first signs of extensive further reduction of consumption demand.

On the other hand, mild recovery is observed in foreign direct investment in the beginning of the current year. Hewlett Packard opted for a COSCO terminal in the Port of Piraeus for its transit centre for Eastern Europe and the Middle East. Meanwhile, Philip Morris installed a new production line in its Aspropyrgos factory and bought more than 50% of the tobacco production of Greece for the next three years. In addition, the German software company SAP relocated its headquarters for South Europe in Greece.

Mixed trends prevail in the first available data on economic activity in Greece in early 2013, as the contraction is easing year-on-year in some indicators and is strengthening in other. In more detail, industrial production in January was 4.8% lower year-on-year, when its contraction was slightly stronger (-6.8%). It should be noted, however that in the last quarter of 2012 the industry sector overall had managed essentially to stabilise its production at 2011 levels (-0.1% y-o-y). Examining the recent developments in key industry branches, the fall of production came mostly from contraction in Mining-Quarrying by 13.9%, against an increase of 6.5% that was observed during the same month of the previous year, while the reduction in Manufacturing was notably milder, by 2.4%, compared with the previous year (-9.1%). The milder reduction is expected to continue in the upcoming months, as the fall of new orders was less pronounced in January than a year ago.

Regarding indicators that reflect closer the trends on the demand side of the economy, the volume index of retail trade (except fuel and lubricants) continued to contract in January for a third consecutive year, at a faster rate than a year before (-15.8% against -10.6%). The new strong reduction is a clear indication of the shrinking purchasing power of the households in the current year as well, due to the implementation of the new fiscal measures and the rising unemployment. The exports of goods and services, except fuel, fell marginally in January (-0.8%), yet a year ago they were growing at 8.3%.[13] The reversal of the trend from positive to negative perhaps

[13] Balance of Payments, January 2013, Bank of Greece

reflects the – anticipated – weakening of demand from the Euro area and the European Union in general. The domestic demand for imports of goods and services (except fuel) has kept falling, at a slightly lower rate than in the first month of 2012 (-9.5% against -12.9%), for the same reasons for which the retail trade activity is shrinking.

As already mentioned, the fall of purchasing power is reflected mainly in the continuous disinflation. The increase of the excise duty of heating oil for residential use in October had interrupted disinflation only for one month, increasing the rate from 0.9% to 1.6%. Disinflation continued at a mild speed until the end of 2012 to reach 0.8% in December. Still, in January the inflation rate fell sharply to a level signifying price stability: in the first two months it stood at 0.1%, while in the corresponding period of the previous year it stood at 2.2%.

The purchasing power of the private sector is under pressure, as repeatedly noted, also from the continuous rapid contraction of employment, which fuels unemployment. According to the newest data from the Manpower Agency, the registered unemployed increased by 10% in the first two months of 2013, a similar rate with that observed in early 2012 (+10.9%).

The reduction of income, from the aforementioned fiscal measures and the widening of the implementation of the labour market reforms that were included in the second economic adjustment programme, together with the continuous rise of unemployment, perhaps at a milder rate than in the previous year, are expected to continue to curb the **household consumption expenditure** throughout 2013. Soon, a negative impact will also be felt from the abolition of the summer, Christmas and Easter bonuses in the public sector and the pensions and the expiration of the three-month extension of the national labour collective agreement in mid February, which inter alia will imply that the payment of marriage benefits from 15 May will no longer be obligatory. **The above factors are expected to lead to a contraction of private consumption in 2013 of similar intensity with that experienced in the previous year (~-9.0%).**

Regarding **public consumption,** the other component of domestic consumption expenditure, the emphasis on the achievement of fiscal consolidation in the coming two years mainly through public expenditure cuts, as stressed in the previous quarterly bulletin, will restrict consumption expenses. This particular approach is also reflected in the updated Medium Term Fiscal Strategy 2013-2016, according to which about ¾ of the fiscal interventions planned for this period, to the amount of €13.4 billion, will take place on the expenditure side. Hence, **the reduction of public consumption in 2013 is expected to be larger than in 2012**, when the spending cuts were relatively weak.

Various counteracting effects will act upon **investment** in the current year. As already mentioned, there are signs of recovery of the international interest in direct investment in Greece in early 2013. This development comes also from a recognition of completed and under implementation reforms for the facilitation of investment and the operation of businesses (e.g. faster – easier establishment of companies and licensing, reduction of the required transactions with public authorities, expansion of the electronic transactions, more flexible labour relations, lifting of restrictions in some markets and professions), despite the fact that a lot more can be achieved in order to improve the investment and business environment (e.g. completion of the regional land-use plans, simplification of the corporate tax system, liberalisation of markets that remain restricted, facilitation of trade transactions, acceleration of the operation of the judiciary system). Investment ventures of international origin and similar calibre are expected to continue to emerge, perhaps at an accelerating rate, in the coming months.

Besides, the completion of the months of negotiations with the troika towards the end of the previous year allowed for a gradual lifting of the reservations that had accumulated internationally in the second half of 2012 on the ability of Greece to continue its fiscal consolidation process and even on its presence in the Eurozone. The Greek government has now the chance to be more active in the implementation of the required structural reforms for the stimulation of investment and entrepreneurship. The measures that were taken by the EU and the IMF on the sustainability of Greek debt and the continuation of the financing of the Greek state, secure not only the smooth services of the country's debt but also the recapitalisation of the Greek banks, the completion of which constitutes a key prerequisite for the contribution of the banks in the recovery of investment activity, provided that the overall conditions in Greece continue to improve. Of course, as already mentioned, the unexpected restructuring of the Cypriot banking system and the reshuffle that it ignited in the banking system in Greece, together with the non-negligible activity of the latter in Cyprus, bring back, temporarily at least, the uncertainty for the quick restoration of the ability of the Greek banks to contribute to the recovery of the Greek economy.

On the other hand, the falling for one more year domestic demand, together with its fall in the Eurozone, an economic region with the largest share of the global demand for Greek products and services, will have a negative impact on the **private sector's inclination to invest.** The retractions regarding property taxation have kept the real estate market on hold, affecting construction activity in the first quarter of the year. A decision for slightly lower taxation, as rumoured, will lift this uncertainty and will have a positive impact on the "frozen" transactions and construction activities, yet it would not prevent their contraction in the current year as well, at a lower rate than in the previous year.

The **direct contribution of the public sector to investment activity** in the current year is expected to grow compared with 2012, when it was quite low. The planned range of activities of the Hellenic Republic Asset Development Fund is notably wider than in the previous year. On the other hand, their implementation accelerates in the last quarter of 2013, according to this year's budget, while there are already some delays in the actions planned for the first quarter of this year (e.g. extension of the deadline for the DEPA-DESFA tender). A slightly stronger push is expected to come from the implementation of the Public Investment Programme (PIP). Its planned volume of funding for 2013 (€6.85 billion) is larger than in 2012 (€6.1 billion). Taking into account the under-utilisation of PIP in the period from 2010 to 2012, in order to cover deviations in the remaining elements of the State Budget,[14] the 2013 expenditure is estimated to stand close to its 2012 level. However, it will be more front-loaded, as the inactivity which election periods cause in the public administration will not be felt in the first half of the year, as in 2012, while the banking sector conditions have improved, facilitating the coverage of the private sector's participation.

The eventual restart of the five major road projects will boost significantly the investment activity and employment in the coming months. **Taking into account the effects that were presented above, the investment contraction is expected to be milder in 2013, compared with 2012 (-17.6%), standing at around 10%.**

Regarding the economy's **external sector**, the fall of the demand for imports, which was the main reason for the improvement of the balance in 2012, is expected to continue in the current year at a similar rate. On the other hand, the anticipated in the latest reports of the international organisations stronger slowdown of the world economy, the persistence of the recession in the Euro area and the sudden fiscal adjustment - restructuring of the Cypriot economy portend further weakening of the demand for exports in national accounting terms.

In particular, the weakening of consumption demand, for the aforementioned reasons, will have an impact on the demand for **imports**, and mainly on that for goods. Additional contractionary pressures from late 2012 and in the first months of 2013 are exerted on the demand for oil, due to the increase of the excise duty on heating oil, as predicted before its levy in IOBE's quarterly bulletins. The anticipated milder contraction of investment will correspondingly reduce the imports of machinery and equipment for one more year. Therefore, **imports are expected to fall in 2013 by a marginally double-digit rate.**

[14] Indicatively, the PIP expenditure target for 2012 in the budget's preamble was set at €7.7 billion.

Regarding **exports,** falling demand from the EU, milder growth of the developed and developing economies outside the EU with high share of the Greek exports of goods (e.g. USA, Russia) and a sharp reduction of the demand from Cyprus will push down the export of goods. In contrast, a small boost of the export of services from is likely, as the first indications show that the tourist flows will be stronger than in 2012 (surplus in the balance of travel services in January, compared with a deficit in the previous year),[15] which will moderate the fall of overall exports. The extent of their contraction will depend on the course of the exports to Cyprus, which is the fourth largest destination for Greek products and services, an impact that for the time being cannot be determined. **Nevertheless, the stronger contraction of imports will lead to a further reduction of the external sector's deficit in 2013, in national accounting terms, and perhaps even to a surplus.**

Summarising the forecasts on the trends in the key GDP components in 2013, the private sector consumption will continue to contract, at a similarly high rate with that observed in the previous year, due to the fall of income and purchasing power from the new fiscal measures, wider implementation of the structural reforms in the labour market and further rise of unemployment. The focus mainly on reduction of public expenditure for the achievement of fiscal consolidation will bring further cuts in the consumption expenditure of the public sector, perhaps larger than in 2012.

Regarding investment, the end of the negotiations with the troika, the actions at Eurozone level to secure the sustainability of the Greek debt and the restart of the financing of the Greek state from the end of 2012 constitutes a basis for gradual improvement of the investment environment and the attractiveness of the Greek economy in the current year. These trends have already reflected in the announcement of certain significant new foreign direct investments in Greece in the first quarter of 2013. On the other hand, the significant weakening of domestic demand for one more year and the shrinking global demand from regions and countries with large share in Greek exports are weakening the investment incentives. In addition, the recapitalisation of the domestic banking sector and its on-going restructuring, which took a new turn after the crisis in Cyprus, together with concerns that it caused for an eventual utilisation of the banking system in countries of the Euro area with finding gaps, are expected to keep the flow of domestic bank lending to investment projects at low levels in 2013 as well. Hence, investment will contract for a sixth year in a row, albeit at a lower rate than in 2012. The balance of the economy's external sector is expected to improve further, with likely the emergence of a surplus. The improvement will come from a further drop of imports, as the exports will decline, despite the boost of tourist

[15] Balance of Travel Services, Bank of Greece, January 2013

flows, due to the falling foreign demand. Taking into account the anticipated trends in the GDP components, **a strengthening of the recession in 2013 compared with the previous IOBE forecast (4.6%) is quite possible, with the recession remaining in all cases weaker than in 2012. However, as already noted, the recent events in Cyprus have been spawning new developments, a process that is still under way. Hence, their impact on the Greek economy still cannot be evaluated with a relative certainty.** Therefore, a change of IOBE's assessment on the course of GDP in the current year in the coming quarterly reports is quite possible.

The continuation of the strong demand contraction in 2013, both in the public and the private sector will understandably disallow improvements of the conditions in the **labour market**. In the first months of the current year redundancies are likely to accelerate from late 2012 and year-on-year, due to changes in the size of severance payments and the notification time period, depending on the years of work experience with the same employee, which were included in the Medium Term Fiscal Strategy 2013-2016 (Law No. 4093/2012). On the other hand, the wider adoption of the structural reforms of the second economic adjustment programme in the labour market and the weaker recession are expected to decelerate the increase of unemployment. The restart of the work on the five major road projects is expected to boost employment in the upcoming months. Under the above effects, **unemployment is expected to reach 27.6% in 2013**.

Regarding **inflation**, the data for the first two months reveal prices stability, confirming the impact of the shrinking demand. The deterrent effect is heightened by the fact that not even the increase of the excise duty of heating oil in the residential sector from October, neither the first out of three planned until July hikes of the electricity prices prevented disinflation. In this light, inflationary pressures are not expected to emerge in the current year. In contrast, as the implementation of the fiscal measures has not year finished (e.g. abolition of the summer vacation, Christmas and Easter bonuses, which had a seasonal impact on prices), while the implementation of the structural reforms in the labour markets is accelerating, pushing down income and purchasing power, the inflation rate overall in 2013 is expected to be close to the levels recorded in the first two months. A mild push is expected only to come from the planned hikes in electricity tariffs in early May and July. **Therefore, inflation is expected to come close to zero in the current year, implying that for the first time in many decades price stability will prevail in Greece.**

Table 3.2

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

	2011	2012	2013	2014
Annual percentage changes				
Gross Domestic Product	-7.1	-6.4	-4.4	0.6
Private Consumption	-7.7	-8.0	-7.7	-1.3
Public Consumption	-5.2	-6.7	-3.5	-3.8
Gross Fixed Capital Formation	-19.6	-19.1	-4.9	5.7
Exports of Goods and Services	0.3	-2.0	2.7	4.7
Imports of goods and services	-7.3	-14.4	-5.9	-0.8
Employment	-5.6	-8.6	-3.5	0.5
Compensation of employees / head	-3.4	-6.0	-7.0	-2.0
Real Unit Cost of Labor	-1.8	-8.2	-6.1	-2.1
Harmonized Index of Consumer Prices	3.1	1.0	-0.8	-0.4
Contribution to real GDP change				
Domestic Demand	-10.1	-10.1	-6.8	-0.8
Net Exports	2.4	4.0	2.3	1.5
House Inventories	0.6	-0.3	0.0	-0.0
GDP percentage				
General Government Balance	-9.4	-6.6	-4.6	-3.5
Current Account Balance	-11.7	-7.7	-4.3	-3.3
General Government Debt	170.6	161.6	175.6	175.2
Percentage				
Unemployment (% of civilian labor force)	17.7	24.7	27.0	25.7

Source: European Economic Forecast, Winter 2013, European Commission, January 2013

Table 3.3

Comparison of forecasts on selected Economic Indices for years 2012-2014
(Constant 2005 market prices, annual % changes and levels)

	MFIN			EU			OECD			IMF		
	2012	*2013*	*2014*	*2012*	*2013*	*2014*	*2012*	*2013*	*2014*	*2012*	*2013*	*2014*
GDP	-6.5	-4.5	0.2	-6.4	-4.4	0.6	-6.3	-4.5	-1.3	-6.0	-4.2	0.6
Final Demand	:	:	:	-7.4	-4.6	0.4	-9.2	-6.2	-3.9	:	:	:
Private Consumption	-7.7	-7.0	-1.6	-8.9	-7.7	-1.3	-8.1	-5.4	-4.3	-7.7	-6.9	-1.6
Harmonized Index of Consumer Prices (%)	1.1	-0.8	-0.4	1.0	-0.8	-0.4	1.0	-0.2	-0.8	1.2	-0.8	-0.4
Gross Fixed Capital Formation	:	:	:	-19.1	-4.9	5.7	-18.0	-9.5	-1.2	-14.4	-3.3	5.7
Unemployment (%)	22.4	22.8	21.4	24.7	27.0	25.7	23.6	26.7	27.2	24.4	26.6	25.1
General Government Balance (% GDP)	-6.6	-5.2	-3.8	-6.6	-4.6	-3.5	-6.9	-5.6	-4.6	-6.7	-4.5	-3.4
Current Account Balance (% of GDP)	:	:	:	-7.7	-4.3	-3.3	-5.5	-4.6	-2.3	-4.2	-1.2	-0.3
Gross Public Debt (% of GDP)	175.6	189.1	189.1	161.6	175.6	175.2	176.7	188.6	195.2	157.5	178.5	174.5

Sources: Medium Term Fiscal Strategy Framework 2013-2016 & 2013 Budget, Ministry of Finance, November 2012 – European Economic Forecast, Winter 2013, European Commission, January 2013 - OECD Economic Outlook No. 92, November 2012 – Greece, First and Second Reviews Under the Extended Arrangement Under the Extended Facility, IMF, January 2013

In summary, given, first, the contractionary pressures that the Greek economy will endure for one more year from the fiscal consolidation measures and, second, the negative spill-over effects from the sudden entry of Cyprus in a fiscal consolidation programme, with a thorough restructuring of the two basic pillars of its banking system, using unconventional for the established international and European practices means ("deposit" haircut, involuntary full involvement of shareholders – bondholders), the priority that the Greek government should give to measures and initiatives that boost investment activity has become even more compelling. The planning and the start of large investment projects will constitute the most effective bulwark to the aforementioned adverse effects, creating in parallel the conditions for the recovery of the Greek economy.

To this end, emphasis should be given primarily on the implementation of agreed structural changes in the latest update of the second economic adjustment programme, and especially those concerning the structure and the operation of the Greek economy and the Greek state. A new cycle of delays and procrastination, observed in the previous years, with negative impact on the Greek economy that extended beyond the direct impact of the fiscal measures, should be avoided. In addition, the implementation of the reforms could become a negotiation card against accusations of implementation failure of the economic adjustment programme by the lenders, perhaps preventing or postponing the imposition of further fiscal measures in case of a deviation of the budget's execution from its targets.

3.2 Developments and outlook in key sectors of the economy

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

Industry

The contraction of the industrial production index eased further in the last quarter of 2012, falling by only 0.1% year-on-year. Overall in 2012, the index contracted by 3.3%, compared with 7.8% fall in the year before that. The first data on 2013 indicate a continuation of the annual easing of contraction, as the index fell by 4.9% in January 2012, compared with 6.8% in the same month of 2011.

On the other hand, in the Eurozone the industrial production index fell year-on-year by 0.9% in the last quarter of 2012, while in the corresponding quarter of 2011 it was growing marginally by 0.1%. In 2012 overall, the index fell by 1.7%, compared with a growth by 3.7% in 2011. In addition, the contraction slightly strengthened in early 2013, reaching 2.1% in January.

At sector level in the Greek industry, the largest contraction in 2012 was observed in Manufacturing, where the indicator fell by more than 3.9% (from 8.5% reduction in 2011), followed by the Electricity sector (-3%, compared with 8.8% contraction in 2011). The above lower reduction in 2012, together with the boost of production activity in Water Supply by 0.9% (compared with 1.6% contraction in 2011) and the growth for a second year in a row of the index in Mining-Quarrying by 0.6% (+0.6% in 2011 as well) led to the slowdown of the contraction in the overall index. In January the industrial production index in Mining-Quarrying fell by 13.9%, while in the same month a year before it was growing by 6.5%. In Manufacturing the contraction was much weaker than in the previous year, -2.4% from -9.1% one year earlier.

Among the constituent branches of Mining-Quarrying, growth in the previous year was observed only in Mining of Coal & Lignite (8.6%, from 5.9% increase in 2011). In contrast, production in Mining of Metal Ores fell by 13.9% (compared with a significant growth by 18.5% in 2011). A similar trend was also observed in the Extraction of Crude Oil and Natural Gas, which fell by 2.2%, yet this reduction was significantly weaker than in 2011, when it had contracted by more than 24.3%.

The limited demand exerted pressures on the production in 23 of the 24 Manufacturing branches in 2012. Still, its impact on the constituent branches draws a mixed picture, as in some of them the contraction accelerated year-on-year, in others it weakened, while in one branch it even increased. In more detail, among the major manufacturing branches of the Greek economy, the production of Basic Metals fell by 6.1% (from +6.4% in 2011), while a similar contraction was also observed in Basic Pharmaceutical Products, where the indicator fell by 5.5% (against a marginal drop by 0.4% in 2011). The production of Food Products fell by 3.8%, stronger than in 2011 (-0.9%).

Regarding January 2013, in 8 out of the 24 branches of Manufacturing, the indicator increased (beverages, textiles, clothing, leather-footwear, wood products, paper, pharmaceuticals, non-metallic minerals), while in 9 branches the contraction slowed down (food, printing, chemical products, rubber and plastic, machinery and equipment, other transport equipment, furniture, other manufacturing, repair and installation of machinery and equipment). The largest increase was observed in Non-Metallic Minerals, where the index grew by 37.5% (compared with 53.3% contraction in January 2012), while the strongest fall, by 49.7%, was recorded in Motor Vehicles, on top of the 14.5% contraction in January of 2012.

Among the remaining branches, the largest contraction in 2012 was observed in Leather Products (-31.6% from -15.6% in 2011), followed by Furniture (contraction by 28.6% from 22.1%) and Other Transport Equipment (-26.5% from -32.4%). Printing – Reproduction of Recorded Media came next (-18.6% in 2012 from -24.5% in 2011) and Textiles, where production contracted by 17.4%, slightly milder than in 2011 (-22%). The contraction continued in Non-Metallic Minerals, yet at a significantly weaker rate than in the preceding year (-15.8% against -35.7% in 2011).

In contrast Coke – Refined Petroleum Products was the only sector where production increased in 2012 by 24.3% (compared with a contraction exceeding 14.5% in 2011).

In general, the sectors connected with durable consumer goods contracted anew, by about 17.8% (from a milder reduction by 15.6% in 2011), reflecting both the reduction of consumer household income and the overall pessimism. Stronger contraction was also observed in Capital goods (-14.8% against -9.7%), due to the vertical drop of investment, while in contrast growth of production by 5.3% was recorded in the energy branches (against reduction by 8.4% in 2011).

Construction

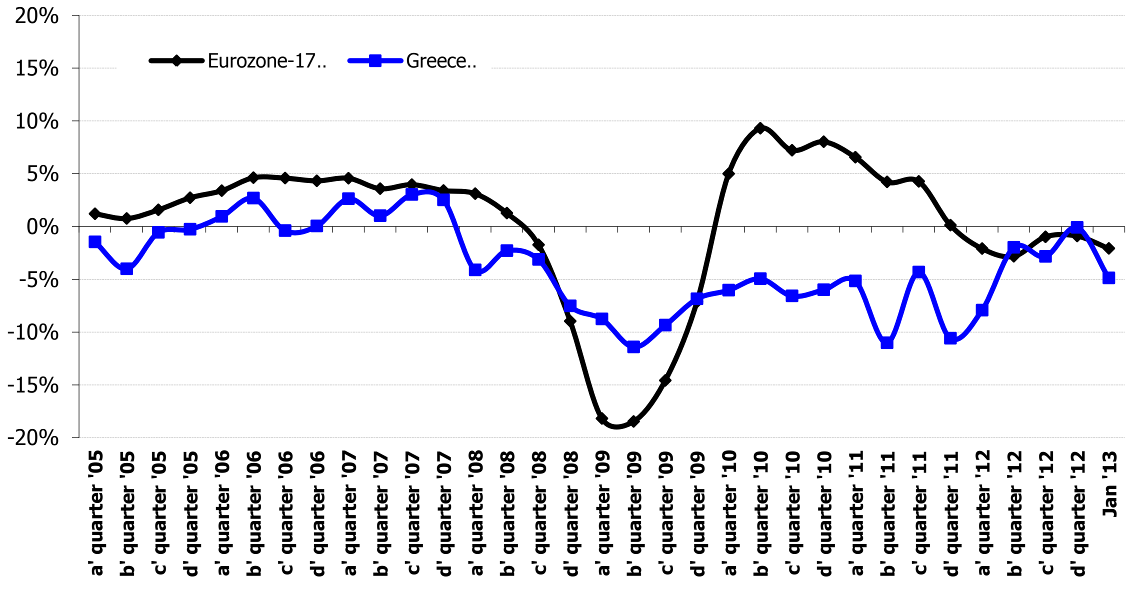
The production index in Construction decreased by 26.1% in 2012, while in 2011 it was falling by 28.1%, which depicts the rapid shrinkage of the sector in just two years, a course that had started already from 2008. As a result, the average of the index fell in 2012 to its lowest level since 2005.

Regarding the sector's constituent indicators, the number of building permits fell by 36.7% in 2012 (against 28.5% in 2011).

Figure 3.1

Production Index in Manufacturing, Greece and Euro Area-17,

% change w.r.t. the same quarter of the previous year (2005=100)

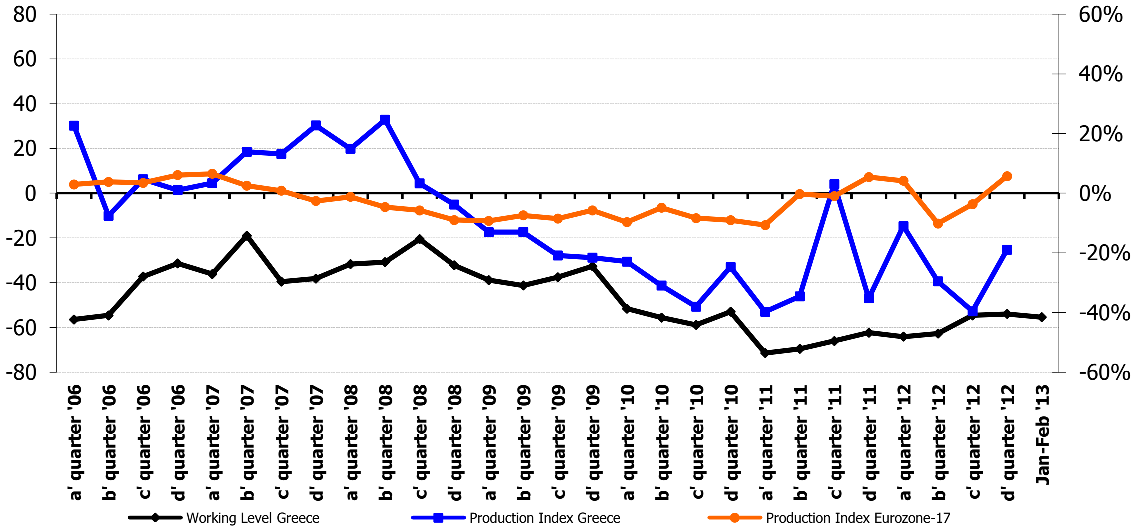


Sources: ELSTAT/Eurostat

Figure 3.2

Construction Production Index (annual % changes) in Greece and the Euro area-17

Business Level Index in Greece (1996-2006=100)



Sources: ELSTAT/Eurostat/IOBE

The indicator did not increase in any of the regions: the largest reduction was recorded in Attica (-47.8%), followed by the Ionian Islands (-47.7%), Central Greece (-41.3%), East Macedonia and Thrace (-36.1%) and Thessaly (-35.9%). The mildest contraction was observed in Epirus (-27.5%).

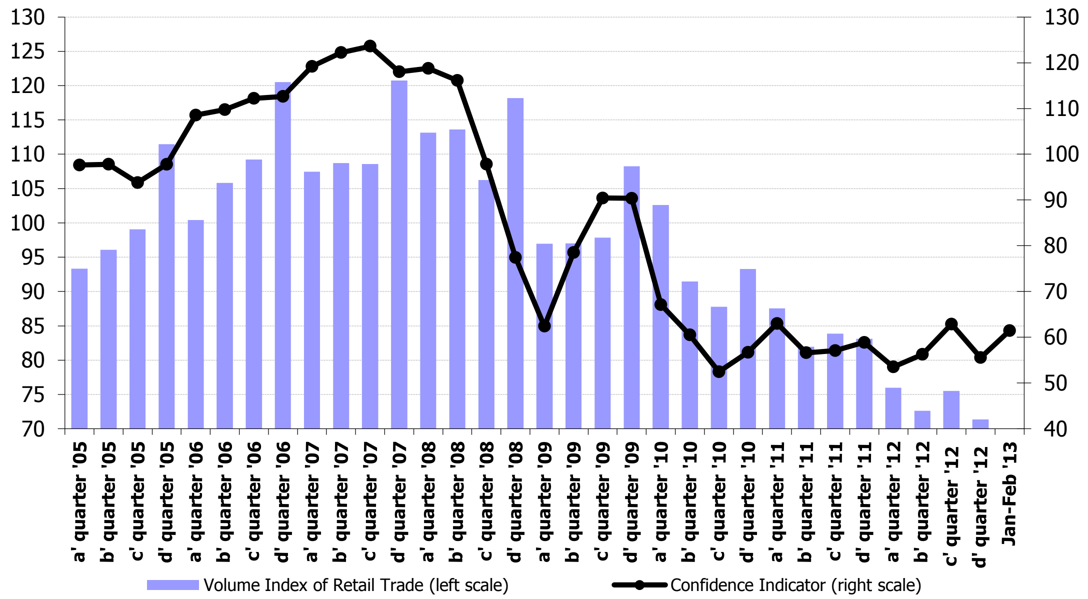
A similar trend was observed in both the Building Volume and the Surface of New-Built Property indicators, which fell by 28.9% and 30.4% respectively. Regarding the financing of building activities, according to the latest data published by the Bank of Greece (January 2012), the interest rates of mortgage loans with duration of more than 5 years reached 3.20%, falling marginally from November and December of 2012 (3.22% on average). The index of residential property appraisals-transactions with MFI intermediation fell by 34.2% in 2012, against a contraction by 42.5% in 2011. The slight slowdown of the contraction was due to an year-on-year increase of the index in the last quarter of 2012 (by 15.4%), due to an increase of the number of appraisals in 2012, as a result of the decision of certain large merchant banks to re-evaluate a significant part of the residential property that is being financed or used as a collateral for granting loans. Despite the above unfavourable developments, the IOBE Business Surveys indicate that in 2012 the business sentiment in the construction sector slightly improved from the historic low that was recorded in 2011.

Retail Trade

The continuous recession and its impact on the households has reflected with precision on the retail trade indicators. In particular, the Volume Index in Retail Trade fell by 12.2% in 2012, slightly stronger than in 2011 (10.3%). Indicative of the sector's dismal state is the fact that turnover decreased significantly in all its constituent branches for one more year, without a single exception.

Figure 3.3

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



Source: IOBE

Table 3.4

Annual Changes in the Index of Retail Trade Volume

Store Categories of Retail Trade	Volume Index (2005=100)				
	2010	**2011**	**2012**	**Annual Change '12/'11**	**Annual Change '11/'10**
Overall Index	93.7	84.2	73.9	-12.2%	-10.1%
Overall Index (excluding car fuels and lubricants)	92.0	84.0	74.1	-11.8%	-8.7%
Store Subcategories					
Large Food Stores	101.4	97.8	90.1	-7.9%	-3.6%
Car Fuels and Lubricants	96.6	99.0	94.4	-4.6%	+2.5%
Food-Drink-Tobacco	81.8	68.3	58.1	-14.9%	-16.5%
Medicare-Cosmetics	88.9	75.7	65.4	-13.6%	-14.8%
Clothing-Footwear	107.7	98.1	85.7	-12.6%	-8.9%
Furniture – Electric household appliances - Household Goods	86.5	70.2	55.7	-20.7%	-18.8%
Books - Stationery- Other gift items	88.8	74.9	62.7	-16.3%	-15.7%
Car Fuels and Lubricants	79.4	75.3	66.2	-12.1%	-5.2%

Source: IOBE

Table 3.5

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

	2010	2011	2012	P.C.% '11/'10	P.C.% '12/'11
Food – Drinks - Tobacco	76.3	80.6	69.8	5.6%	-13.4%
Textile-Clothing - Footwear	68.4	54.3	57.6	-20.6%	+6.1%
Household Equipment	55.2	47.9	61.8	-13.2%	+29.0%
Vehicles – Spare Parts	42.9	60.7	60.7	41.5%	0.0%
Multi stores	87.1	53.8	48.1	-38.2%	-10.6%
Retail Trade Total	**59.2**	**58.9**	**57.1**	**-0.5%**	**-3.1%**

Source: IOBE

In greater detail, the largest reduction in 2012 was observed in Clothing-Footwear (-20.6% against -18.8% in 2011), while the index also fell significantly in Furniture-Household Appliances (-16.3% against -15.7%). Significant reduction of demand was also recorded in Automotive Fuels & Lubricants, by 15%, in the wake of an extensive contraction in 2011 by 16.5%. Meanwhile, the contraction persisted in Food-Beverages-Tobacco, by 13.6%, following a reduction by 14.9% in 2011. A milder reduction was observed in Supermarkets (-7.9% against -3.5% in 2011) and Department Stores (-4.7% against 2.5% in 2011).

The contraction in retail trade continued stronger in January, with the volume index lower by 16.4% year-on-year, when in January 2011 it was falling by 10.6%. All of its branches contracted year-on-year and in half of them (fuel-lubricants, pharmaceuticals-cosmetics, clothing-footwear and furniture-electric appliances-household equipment) the contraction was stronger than in the overall index.

The Retail Trade contraction was reflected in the leading indicators of the **Business Surveys** compiled by IOBE. In Retail Trade overall, the pessimistic sentiment strengthened, as the indicator fell at a faster rate than in 2011 (-3.1% against -0.5%). In particular, in the constituent categories pessimism for the first time in the past three years was observed in Food and Beverages (-13.4% in 2012 from +5.6% in 2011). In Department Stores, the expectations weakened in 2012 as well (-10.6%), despite the sharp fall of the index in 2011 (-38.2%). In contrast, the expectations improved in Clothing-Footwear (+6.1%), in the aftermath of their sharp deterioration in 2011 (-20.6%). In Household Appliances the 2012 increase overcompensated for their 2011 drop (+29% against -13.2%).

Lastly, the expectations in Motor Vehicles – Spare Parts remained unchanged, at 60.7, above their 2010 level (42.9). Seemingly, the cash-for-clunkers programme, despite not boosting significantly current sales, nor their outlook, is considered to have improved the inventory management by the companies, which resulted in the stabilisation of the indicator.

In the first two months of 2013, the indicator was close to its 2012 average (61.4), albeit up on its level from the first two months of 2012, when the political and economic developments had discouraged any positive expectations. As a result, the assessment of the current sales improved somewhat in early 2013, while in contrast the forecast for their sales in the upcoming months deteriorated. It is worth mentioning that the balance of inventories has turned negative, as the uncertainty that dominated in the last quarter of 2012, when the business plans of the enterprises on orders are carried out, had a decisive impact on their current inventory level. Certain improvement was also observed in the employment balance.

Regarding the official sales data, the sales of passenger cars in 2012 stood at 58.5 thousand vehicles, having fallen by 40% from 2011. The turnover index in the motor vehicles retail branch, according to ELSTAT data, fell at a similar rate, about 35%, with a gradual easing of the contraction rate with each quarter of the year. In the first two months of 2013, the sales were lower by 21%, with the continuation of the "cash for clunkers" programme considered a necessary measure to keep some movement in the market.

Wholesale Trade

The deep contraction of the volume of retail trade has had a negative impact on the Turnover Index for Wholesale Trade as well. Despite the fact that the contraction in 2012 (-11.9%) eased compared with 2011 (-13.5%), the average of the turnover index in 2012 reached its lowest level since 2005.

Services

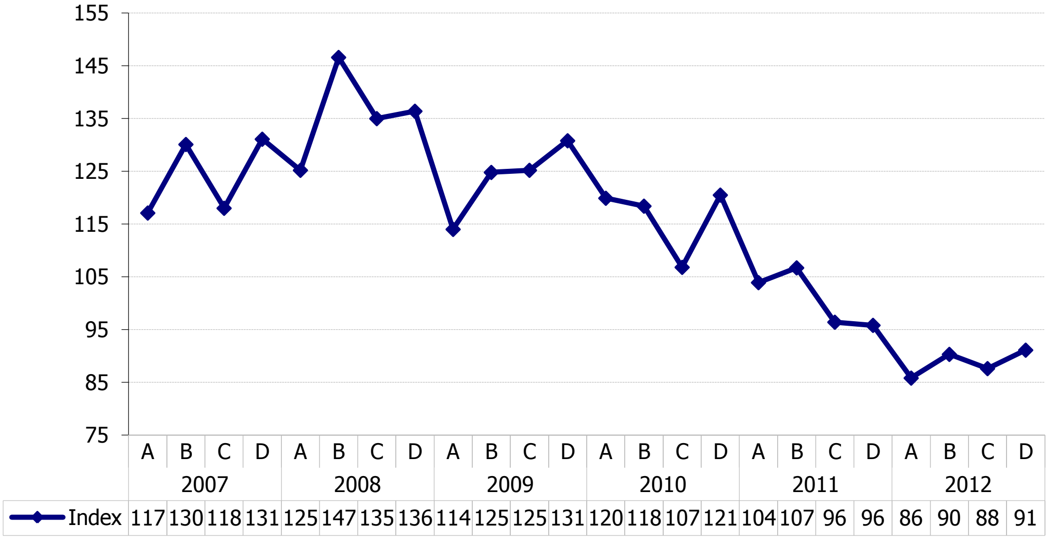
The effects of the economic crisis in 2012 are notable in the Services sector as well, where the contraction intensified in almost all the constituent branches, extending the downward trend that had started already since 2009.

In particular, the largest contraction in 2012 was observed in Other Professional, Scientific and Technical Activities (branch 74), where the index fell by 25.2% (after a significant contraction by 22.1% in 2011). The turnover in Tourism (Hotels and Restaurants), a major sector for the Greek economy, was disappointing. The year 2012 was the worst in the sector at least since 2006, as the turnover fell further by 17.2% (after -7.4% in 2011).

Meanwhile, the contraction continued in Advertising and Market Research (branch 73), by 16.3%, in the aftermath of extensive losses in 2011 (-21.2%). The turnover in Publishing Activities (branch 58) was also down on its 2011 level, by 16.3%, when it had contracted by 26.9%. A stronger fall was observed in Postal and Courier Services (branch 53), from 4.4% in 2011 to 16% in 2012. The turnover was lower in Information Service Activities (branch 63) in the last year by 14.6%, following its contraction by 9.4% in 2011, while similar trends dominated in Architectural and Engineering Activities (-12.4% in 2012, -19.6% in 2011).

Figure 3.4

Turnover Index in Wholesale Trade (2005=100)



Source: ELSTAT

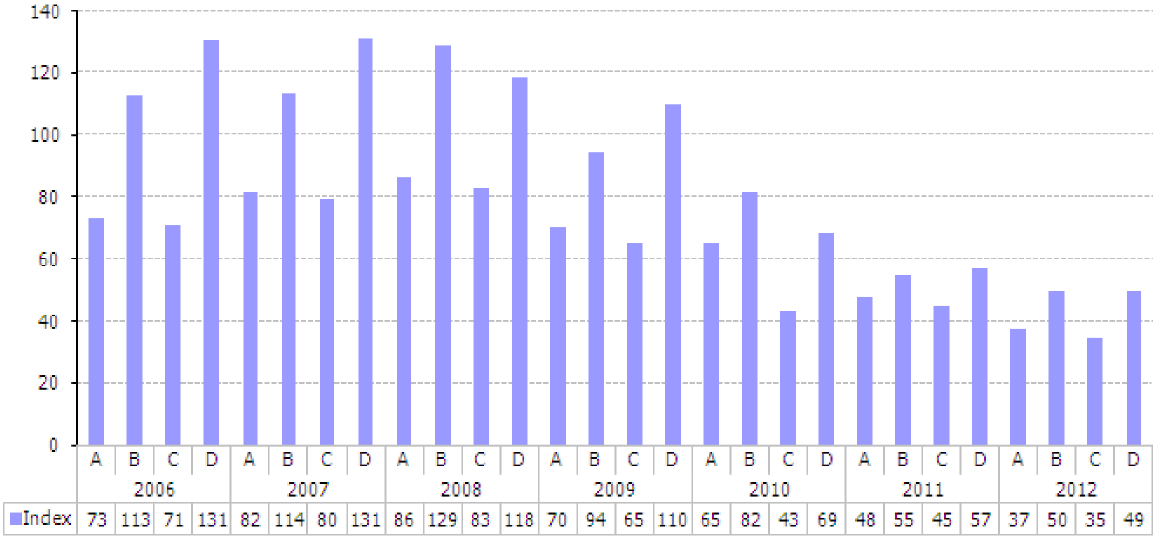
Lastly, a milder contraction was observed in Telecommunications (branch 61), where turnover fell by 5% in 2012, while in 2011 it had fallen by 8.9%.

In contrast with the preceding branches that were in recession in 2012, turnover in Management Consultancy, Legal and Accounting Activities (branches 69+70.2) increased slightly by 1.1%, while in 2011 the contraction was only marginal (-0.3%), reflecting the branch's resilience to the domestic long-lasting economic crisis.

The above trends were **timely reflected in IOBE Business Surveys.** In particular, the business expectations indicator in Services overall in 2012 fell by 11.2%. The deterioration of expectations spread to two branches, where the sentiment was improving in 2011. These branches were hotels and restaurants (-8.7% in 2012 against +2.6% in 2011) and IT services (-5% against +4.4% in 2011). In addition, expectations deteriorated further in financial intermediaries (-11.2% in 2012 against -17.1% in 2011) and various business activities (-12.1% against -15.8%). In contrast, marginal improvement by 1.1% was observed in support activities to transportation of travel agencies, which had improved strongly in 2011 (+20.9%).

Figure 3.5

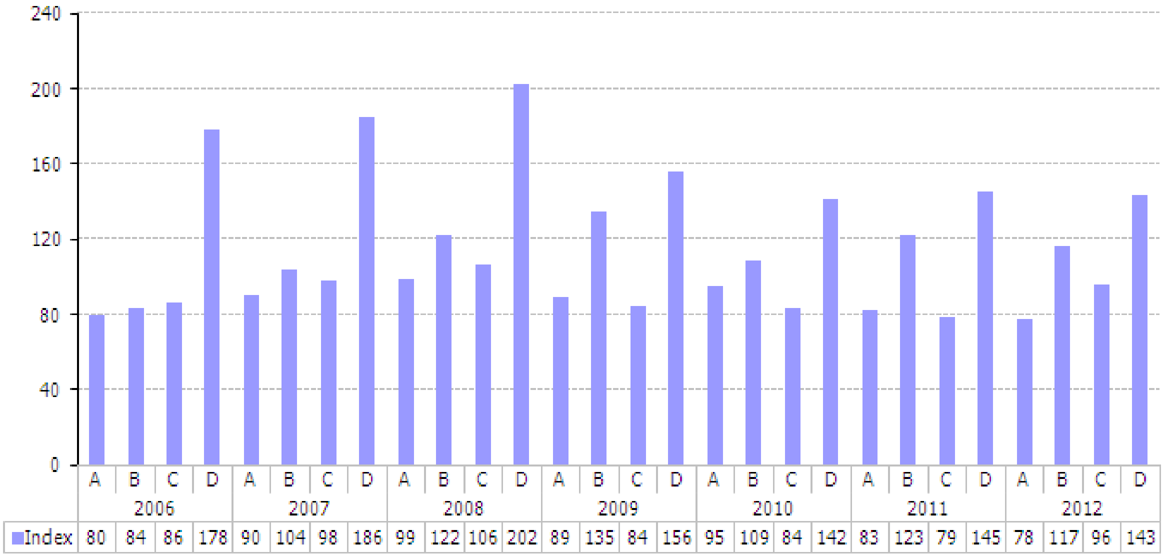
Turnover Indicator in Advertising and Market Research- Sector 73 (2005=100)



Source: ELSTAT

Figure 3.6

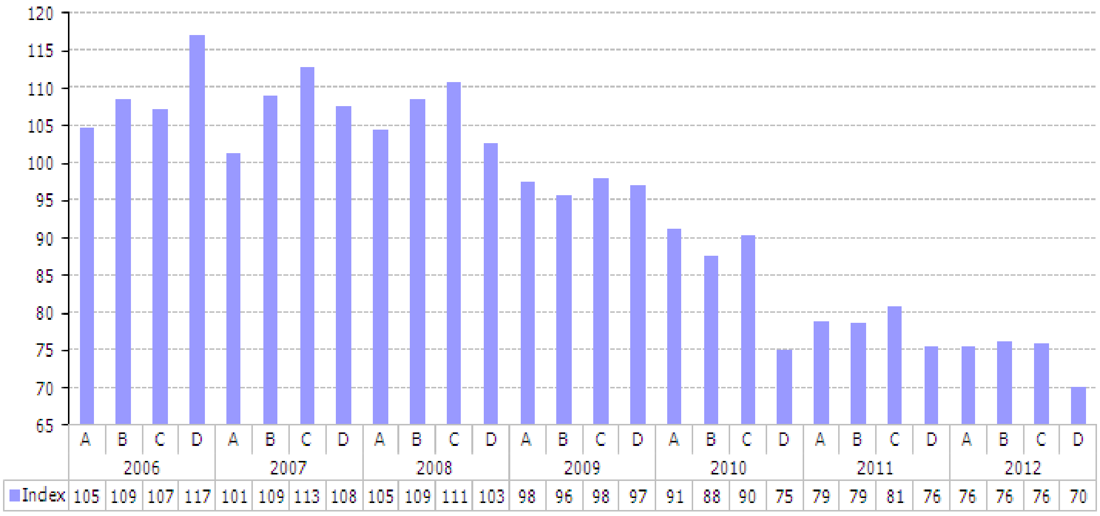
Turnover Indicator in Legal, Accounting and Consulting Services -Sectors 69 & 70.2 (2005=100)



Source: ELSTAT

Figure 3.7

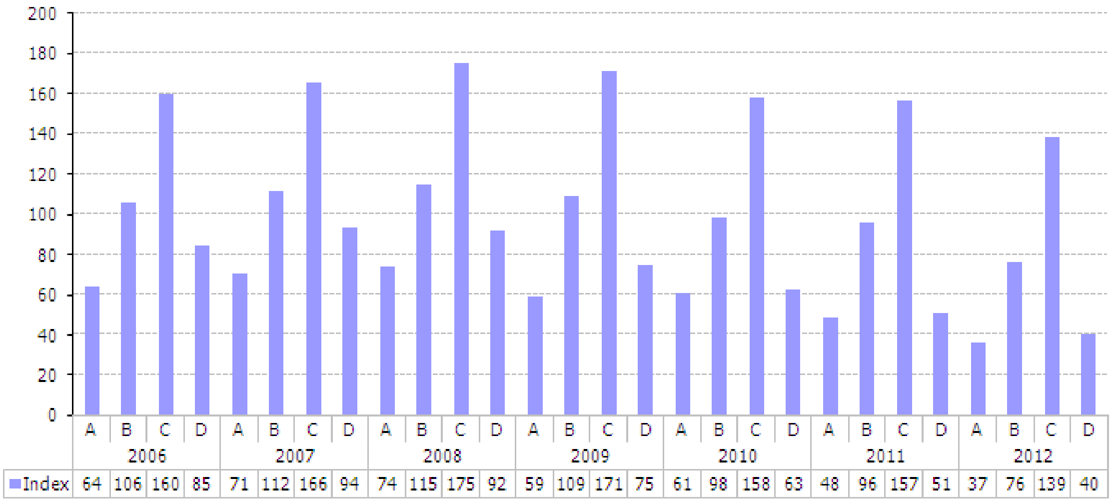
Turnover Index in Telecommunications-Sector 61 (2005=100)



Source: ELSTAT

Figure 3.8

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



Source: ELSTAT

Table 3.6

Sectoral Indices of Business Expectations in Services (1996-2006=100)

	2010	2011	2012	P.C.% '11/'10	P.C.% '12/'11
Hotels - Restaurants	73.9	75.8	69.2	+2.6%	-8.7%
Travel agencies and tour operator. tourist assistance activities	60.4	73.0	73.8	+20.9%	+1.1%
Other Services to Businesses	60.8	51.2	45.0	-15.8%	-12.1%
Intermediate Financial Organizations	74.1	61.4	54.5	-17.1%	-11.2%
Informatics	47.5	49.6	47.1	+4.4%	-5.0%
Total Services	**63.6**	**61.7**	**54.8**	**-3.0%**	**-11.2%**

Source: IOBE

3.3 Export Performance of the Greek Economy

Greece's exports in 2012 exceeded €17 billion, increasing year-on-year by 5.1%. Meanwhile, imports fell by 6.0%. As a result, the trade deficit fell by €2.7 billion (or -17.2%). The value of Greek exports reached half of the value of imports, with the coverage ratio higher by 6 percentage points than in 2011.

The increase in export value by €800 million came mainly from growth in Agriculture Products (+10.5%), whose share exceeded ¼ of the overall exports. Significant growth was also observed in Raw Materials (+55.1%), whose value reached €1.4 billion. In particular, the exports of Food-Live Animals, which is the main category of exportable agriculture products, increased at a similar rate with the overall sector (+9.3% or €300 million), while in Beverages-Tobacco the value of exports increased by €17 million (+10.2%). The largest increase was observed in vegetable and animal oil and fats (+23.6%), even though their share in Food-Live Animals remains very small.

The exports of Industrial Products fell by 1.4%, yet their share in the Greek exports of goods remained relatively high (~60%). Among its constituent categories, the largest reduction (-7.9% or €327.5 million) was recorded in 'Industrial goods classified by raw material', whose share fell to 37.5% of total industrial products. In contrast, Vehicles – Transport Equipment increased by 6.3%, while Various industrial products increased by 2.5%, whose value reached €1.6 billion. The value of exports of 'Products and transactions not classified elsewhere' declined in 2012 by 12.9% to reach €587.3 million.

Regarding destination, the exports of Greek products to the remaining European Union countries fell by 1.7% (or €150 million) in 2012. This reduction came mostly from a reduction of exports to the remaining Eurozone member-states – which absorb 40.5% of the Greek exports – by €163 million (-2.3%). The largest reduction was observed in the exports to Cyprus (-5.7% or €60 million) which constitutes a major trading partner, while equally significant was the fall of exports to Italy (-5.5% or €108 million). In Germany, the major trading partner of the country in the previous years, the exports fell by 2%, with the export value reaching €1.7 billion, without the country losing its first place in the ranking of export destinations for the Greek products. In contrast, in the countries outside the Euro area, a small increase (+3.7%) was observed in the exports to the United Kingdom – the largest trading partner of Greece outside the Euro area – with the total export value approaching €820 million.

A significant boost to the external trade of the country comes from the exports to Turkey, USA and Russia. Turkey came third last year in the ranking of Greece's largest trading partners outside the Euro area, as the value of exports there increased by 19.6%, exceeding €814 million, while the export value to the US was higher by 27% in 2012, at €669 million. The value of exports to Russia reached €460 million, when in 2011 it did not exceed €387 million (+19%).

Table 3.7

Exports per 1-digit product classification in current prices* (mil. €)

January - December					
	Value (mil. €)		**P.C. (%)**	**Structure (%)**	
	2012	**2011**	**'12/'11**	**2012**	**2011**
Agricultural Products	**4,549.0**	**4,117.8**	**10.5%**	**26.8%**	**25.4%**
Food and live animals	3,541.1	3,241.0	9.3%	20.8%	20.0%
Beverages & Tobacco	624.1	566.2	10.2%	3.7%	3.5%
Animal, Vegetable oils and fats	383.8	310.5	23.6%	2.3%	1.9%
Raw Materials	**1,408.6**	**908.3**	**55.1%**	**8.3%**	**5.6%**
Crude materials inedible, except fuels	1,408.6	908.3	55.1%	8.3%	5.6%
Fuels	**252.8**	**135.1**	**87.1%**	**1.5%**	**0.8%**
Minerals, fuels, lubricants, etc.	252.8	135.1	87.1%	1.5%	0.8%
Industrial products	**10,206.7**	**10,347.4**	**-1.4%**	**60.0%**	**63.9%**
Chemicals and related products	2,425.1	2,415.5	0.4%	14.3%	14.9%
Manufactured goods classified chiefly by raw material	3,829.3	4,156.8	-7.9%	22.5%	25.7%
Machinery and transport equipment	2,313.7	2,177.2	6.3%	13.6%	13.5%
Miscellaneous manufactured articles	1,638.6	1,598.0	2.5%	9.6%	9.9%
Other	**587.3**	**674.2**	**-12.9%**	**3.5%**	**4.2%**
Commodities and transactions not classified by category	587.3	674.2	-12.9%	3.5%	4.2%
Total Exports	**17,004.3**	**16,182.8**	**5.1%**	**100.0%**	**100.0%**

* Provisional Data
Sources: PEA-ERC-ELSTAT

The exports to the Balkan countries increased by 6.6%, with the exports to Bulgaria, the largest trading partner in the region (third largest overall), exceeding €1.1 billion to grow slightly by 1.1%. Still, the largest increase was recorded in the exports to Bosnia-Herzegovina, whose value more than doubled to reach €245 million. Growth was also observed in the exports to Serbia-Montenegro-Kosovo (+12%), whose value approached €245 million. In contrast, weakening of exports was observed in Croatia (-8.2%) and Romania (-7.6%), which however have a small share of the Greek exports, while the value of exports remained unchanged in FYROM and Albania (€280 and €352 million respectively).

In non-US North America, the exports increased in Mexico (+26%), offsetting in part the reduction of the value of exports to Canada (-42.5%).

In contrast, the exports of Greek products to North Africa and the Middle East increased, with their value reaching €1.4 billion in 2012, up by 8.4% on 2011. Algeria emerged as the major trading partner in the area, with the value of exports there reaching €281.1 million, albeit falling by 20%. In contrast, the exports to Libya, a long-standing major trading partner of Greece, more than tripled (+287%), with their value approaching €171 million, while similarly sharp was the increase of exports to the United Arab Emirates (+59.2%), with their value – the second largest in the region – reaching €275.4 million.

The exports to the countries of the Commonwealth of Independent States increased by €114.7 million (+21.8%), which is explained by an increase of the exports to Russia (+19%) and Ukraine (+42.6%), with the total value reaching €102 million. The exports of Greek products to China continued to increase, as a result of the boost of the trading relations between the two countries observed in the past few years, with their value increasing by 7.5 percentage points or €20.7 million, to exceed €290 million. The fact that the Greek exports to China represent only 1.7% of the total is indicative of the potential to boost the trade of Greece with this country.

The boost of Greek product penetration in India was also significant in 2012, given the size of this country and the demand that could develop there in the future. Exports increased by 10.3%, with their value reaching €60 million. Strong expansion of the Greek goods was also observed in the countries of Latin America and S.E. Asia, where the export growth approached 47.5% and 28.5% respectively.

In summary, the growth of the exports of Greek products in 2012, despite the slowdown of the world economy and the recession in the EU, reflects the gradual boost of the competitiveness of the Greek products, as a result also of the structural reforms that were completed in the last few years or are currently being implemented. The persistence of the recession in the EU in 2013 as well, which absorbs more than half of the Greek exports, but whose share is shrinking, reveals emphatically the need to realign the Greek export efforts to destinations outside the Euro area (e.g. Asia – N. America - Commonwealth of Independent States), where the Greek positions are strengthening already, yet the share of these markets is still small and therefore there is a potential for a significant boost.

Table 3.8

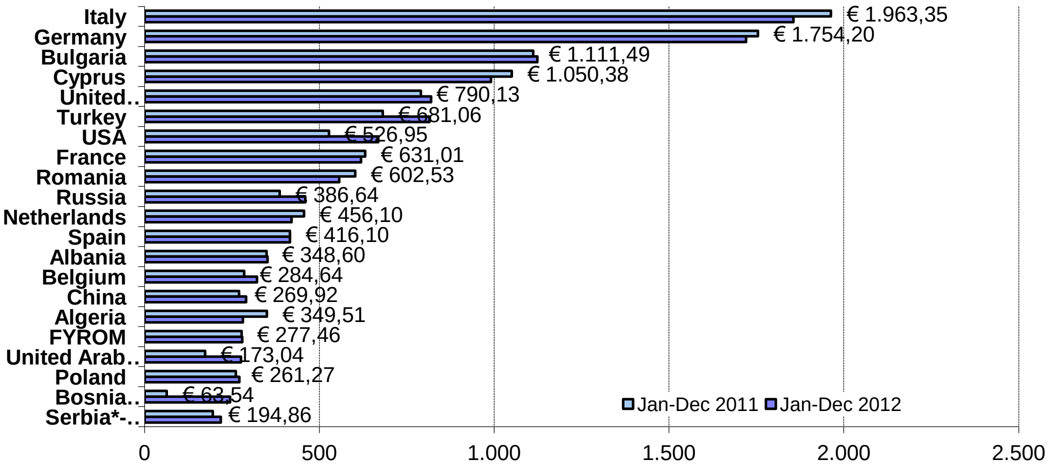
Exports per destination, January-December 2011-2012

	Value (mil. €)			Structure	
	2012*	**2011***	**P.C. (%)**	**2012**	**2011**
OECD (29 countries)	9,519.4	9,445.6	0.8%	56.0%	58.4%
EU-25	8,667.7	8,818.1	-1.7%	51.0%	54.5%
Euro Area-15	6,905.6	7,068.3	-2.3%	40.6%	43.7%
North America	857.2	769.7	11.4%	5.0%	4.8%
Other developed countries	188.6	150.9	25.0%	1.1%	0.9%
Rest OECD (excl. S. Korea)	972.2	840.7	15.6%	5.7%	5.2%
Balkans	2,805.8	2,633.1	6.6%	16.5%	16.3%
Commonwealth of Independent States (CIS)	641.4	526.7	21.8%	3.8%	3.3%
Middle East and N. Africa	1,381.3	1,274.5	8.4%	8.1%	7.9%
African Countries (excl. S. Africa)	134.1	135.4	-1.0%	0.8%	0.8%
S.E. Asia	341.6	266.0	28.4%	2.0%	1.6%
Latin America	73.3	49.7	47.5%	0.4%	0.3%
Rest Countries	941.1	718.1	31.1%	5.5%	4.4%
Total	**17,004.3**	**16,182.8**	**5.1%**	**100.0%**	**100.0%**

* Provisional Data
Source: ELSTAT-ERC

Figure 3.9

Countries with the biggest share on Greek exports (mil. €), January- December 2011 and 2012



* Serbia - Montenegro -Kossovo

Source: PEA **Data Processing:** IOBE

The entry of Cyprus, the fourth largest trading partner of Greece, with 6.0% share of the Greek exports in 2012 (€990 million) in the EU-IMF support mechanism, which led to a rapid and deep restructuring of the two major Greek banks and the implementation of a fiscal consolidation programme, is a recent development, whose impact on Greek exports cannot be quantified for the time being. In any case, the exports to Cyprus are expected to fall.

On the other hand, the first preliminary trade balance data from ELSTAT for January 2013 showed a continuation of the increase of the exports of goods (3.5% increase of exports except ships-fuels, from 1.9% in 2012). Taking into account the aforementioned developments and trends, the exports of goods in the current year are expected to increase further in the current year, albeit at a milder rate.

3.4 Employment - Unemployment

The already unfavourable conditions in the labour market deteriorated further in the last quarter of 2012. According to data from ELSTAT's Labour Force Survey, the unemployment rate during this period reached 26%, increasing by 5.3 percentage points year-on-year and by 1.3 percentage points quarter-on-quarter. As a result, **the number of unemployed reached 1,295.5 thousand people**, higher by 269.6 thousand (or +26.3%) year-on-year and by 64.6 thousand (or +5.2%) quarter-on-quarter.

Overall for 2012, unemployment reached 24.2%, from 17.7% in 2011, while the number of unemployed reached 1,203.8 thousand from 876.9 thousand in 2011. With this result, Greece had the second largest rate in the Euro area (11.4% on average) slightly below Spain (25%). The lowest unemployment rate in the Euro area in 2012, according to the latest available data,[16] was recorded in Austria (4.3%), while in Ireland, Portugal and Cyprus, countries that have also entered the support mechanism, unemployment reached 14.7%, 15.9% and 11.9% respectively.

The growth of unemployment has continued to come from the sharp fall of employment. The number of employed in Greece fell in the last quarter of 2012 by 6.4% year-on-year (or 250.9 thousand) when in the Euro area, employment fell by 0.7% (-0.2% in the last quarter of 2011). In 2012 overall, the total number of employed reached its lowest level in the last decade (3,763.0 thousand), falling by 8.0% from 2011.

Regarding the characteristics of the labour force, **unemployment among women** reached 29.7% in the third quarter, from 24.5% in the same period of 2011. Overall in 2012, the unemployment among women stood at 28.1% (from 21.4% in 2011). **Unemployment among men** reached 23.3%, against 17.8% in the corresponding quarter of 2011. Overall in 2012, unemployment among men stood at 21.4% (from 14.9% in 2011).

Regarding **age**, 57.8% of those aged 15-24 that were willing to work could not find a job (from 49.9% in the corresponding period of 2011), a higher rate than in any age group, with the unemployment rate for 2012 reaching 55.3%, from 44.4% in 2011. In the age group of 25-29 years old, the unemployment rate reached 37.5% in 2012 (from 29.6% in 2011). The impact of the recession on employment is also strongly felt by those belonging to the productive age of 30-44, where the unemployment rate reached 23% in 2012, from 16.3% in 2011. Among those aged 45-64, the unemployment rate in the previous year was relatively lower than in the previous categories (16.6% in 2012, from 11.1% in 2011).

[16] From Eurostat

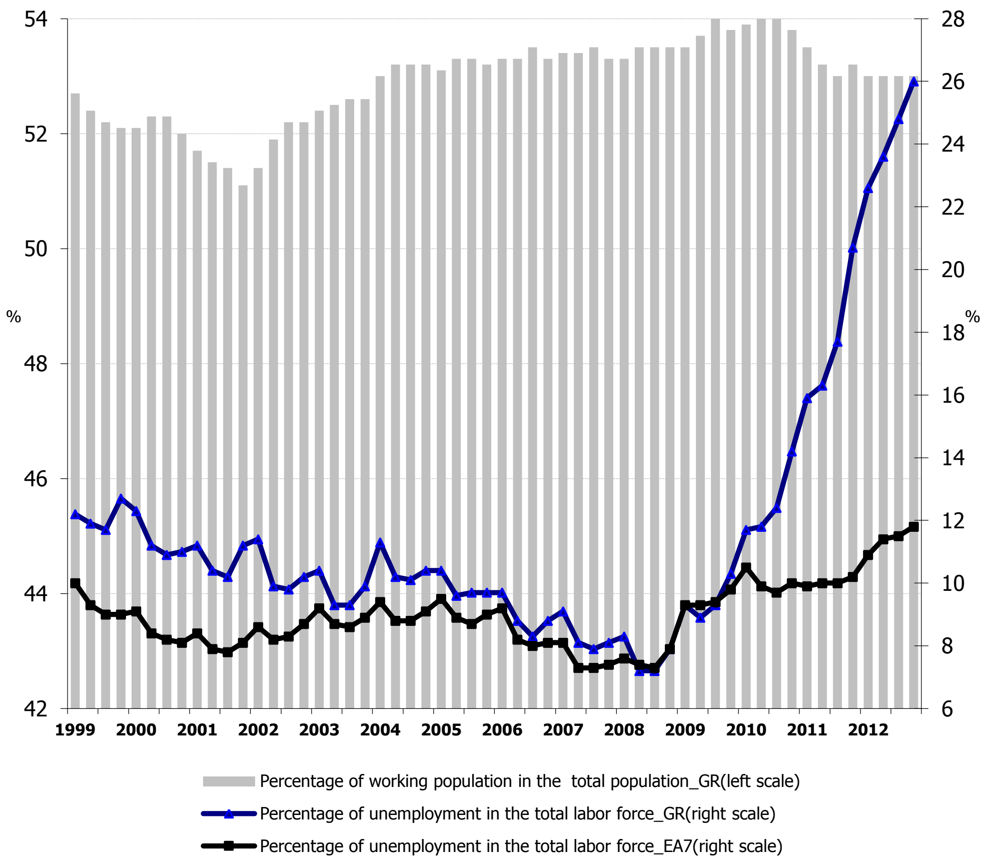
Indicative of the trends in the age composition of unemployment is the fact that about 70% of all unemployed in the country in 2012 were aged 30 or more, from 63.3% in 2011. The growth of unemployment in these age groups could have a particularly negative impact on social cohesion, given that most persons at that age are responsible to cover the obligations of their family or household.

Meanwhile, the weakness of the Greek economy to create new jobs is acute, given that the number of unemployed that are out of job for a time period above twelve months is increasing. In particular, the rate of **long-term unemployment** reached 61% in 2012 from 51.3% in 2011. The increase of the unemployment rate among **foreign nationals** in 2012 exceeded half of its 2011 rate – it grew by 12.5 percentage points from 20.7% to reach 33.3%. Much weaker was the growth among Greek nationals, where unemployment did not exceed the country's average (from 17.4% to 23.4%).

Unemployment is particularly acute among **individuals with average or lower educational attainment level**.

Figure 3.10

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



Sources: ELSTAT-Labor Force Survey, Eurostat

The highest unemployment in 2012 was recorded amongst individuals that have not attended school at all (38% from 29% in 2011), followed by those who have not completed primary education, where the unemployment rate reached 28.2% (24.0% in 2011). Next came individuals that have completed lower secondary education (ISCED 2) with unemployment rate at 27.3% (from 19.2%) and graduates of technical / professional education (ISCED 5B) with 27% (from 20%). More than 1/3 of the unemployed in the country have completed upper secondary education (ISCED 3), with the unemployment in this category reaching 26.5% in 2012 (from 19.4% in 2011). Lower unemployment than the country average – albeit higher than in 2011 – was recorded among university graduates (ISCED 5A – 16.4% from 12.7%) and holders of post-graduate and doctorate degrees (ISCED 6 – 13% from 10.3%).

At a **regional level**, the highest unemployment rate was observed in Central Greece (27.8% from 18.9% in 2011), which inter alia was due to the contraction in the manufacturing sector, as the region of Boeotia hosts quite a few industrial units. The second highest unemployment was recorded in Macedonia (Central Macedonia, West Macedonia and East Macedonia – Thrace) at 25.6% from 20% in 2011. Next came Western Greece and Attica with 25.5% and 25.3% respectively (from 17.3% and 17.6%). The unemployment rate in these regions was higher than the national average (24.2%). On the other hand, the lowest unemployment rate was observed in the Ionian Islands (14.7% in 2012 from 14.2% in 2011) and the South Aegean (15.1% in 2012 from 15% in 2011). The largest percentage growth of the number of unemployed was observed in North Aegean, where unemployment increased by 54.7% (from 11.4 thousand in 2011 to 17.6 thousand in 2012). The second largest percentage growth took place in Western Greece (by 47.6% from 54.9 thousand to 81.1 thousand), followed by Attica (with 45.2%, from 328.3 thousand in 2011 to 476.8 thousand in 2012) and Central Greece (with 42.3%, from 46.1 thousand in 2011 to 65.6 thousand in 2012). The Ionian Islands experienced the lowest positive growth of unemployment by 4.5% or 0.7 thousand, while in the South Aegean the number of unemployed remained stable at 20.2 thousand.

Regarding the **main economic sectors**, the largest percentage drop of employment in 2012, just as in the previous years, was observed in the secondary sector, which is indicative of the continuous deindustrialisation of the Greek economy and the "shift" of the employed to the other two sectors and mainly to Services. Employment in the secondary sector shrank further in 2012 by 14%, in the aftermath of 15.7% contraction in 2011. In particular, the number of employed fell by 101.9 thousand to reach 627 thousand, from 728.9 thousand in 2011. In the tertiary sector, the most populous sector of the Greek economy, which takes up 7 out of 10 employees, the employment contracted for a fourth consecutive year, at a stronger rate than in 2011, by 7.3% against 4% in the preceding year, with the number of employed standing at 2,646 thousand from 2,854.4 thousand in 2011. Lastly, the employment contraction persisted in the primary sector as well, for a second year in succession, following three years of growth from 2008 to 2010, albeit at a weaker rate than in 2011 (3.4% in 2012 against 7.7% in 2011).

Among the largest (in employment terms) **branches of economic activity**, the largest employment contraction was observed in Construction, where employment fell by 17.4% or 43.4 thousand employees, in the aftermath of 22.5% contraction in 2011 (-72.6 thousand).

Manufacturing employment fell by 13.4% or 55.8 thousand employees (against a 11.4% reduction in 2011).

In A further drop of employment by 10.9% or 82.1 thousand employees was recorded in one of the largest branches of the Greek economy – Wholesale-Retail Trade – where the employment contraction in 2011 had been relatively mild (-5% or 39.7 thousand). A similar reduction of employment was observed in Accommodation – Food Services and Public Administration – Defence – Compulsory Social Security, by 7.5% and 7.0%. Lastly, the fall of employment in Education in 2012 did not exceed 3.8% or 11.8 thousand, from 4.4% or 14.1 thousand employees in 2011.

Medium-term Outlook

Undoubtedly, unemployment constitutes the largest social problem that has emerged from long-lasting economic recession in Greece. During the year that passed, significant changes took place in the labour market, such as a significant cut of the minimum wage, suspension of the automatic wage maturation, abolition of benefits and abolition of the extension of collective bargaining agreements to all non-participants. Nevertheless, unemployment grew faster in 2012 than in the previous year, by 6.5 percentage points, against 5.2 percentage points in 2011.

On the other hand, under the process of front-loaded fiscal consolidation, with strong impact on domestic demand and economic activity, but also due to the heightened uncertainty in 2012 in the domestic politico-economic environment, due to successive negotiations with the troika and the prolonged election period, the investment and business climate remained unfavourable throughout the previous year. As a result, output fell further (-6.6% contraction of the domestic value added) and investment shrank extensively (-17.6%). Under these conditions, which brought a strong fall of employment (-8.0%), it is not feasible to assess the impact of the structural changes on the labour market.

Table 3.9

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

Quarter/Year	Grand Total	Labour Force					
		Total	% of population	Employed	% of labour force	Unemployed	% of labour force
1998	8,680.4	4,525.8	52.1%	4,017.9	88.8%	507.9	11.2%
1999	8,764.5	4,586.1	52.3%	4,031.4	87.9%	554.7	12.1%
2000	8,839.8	4,611.9	52.2%	4,088.5	88.6%	523.5	11.4%
2001	8,906.4	4,580.3	51.4%	4,086.3	89.2%	493.9	10.8%
2002	8,964.3	4,656.0	51.9%	4,175.8	89.7%	480.2	10.3%
2003	9,014.9	4,734.4	52.5%	4,274.5	90.3%	460.0	9.7%
2004	9,063.5	4,818.8	53.2%	4,313.2	89.5%	505.7	10.5%
2005	9,108.1	4,846.5	53.2%	4,369.0	90.1%	477.5	9.9%
2006	9,157.4	4,886.8	53.4%	4,452.3	91.1%	434.5	8.9%
2007	9,207.4	4,916.8	53.4%	4,509.9	91.7%	406.9	8.3%
2008	9,234.1	4,937.3	53.5%	4,559.4	92.3%	377.9	7.7%
2009	9,267.5	4,979.8	53.7%	4,508.7	90.5%	471.1	9.5%
2010	9,306.3	5,017.4	53.9%	4,388.6	87.5%	628.7	12.5%
a' quart. 2011	9,329.4	4,987.0	53.5%	4,194.4	84.1%	792.6	15.9%
b' quart. 2011	9,337.6	4,967.2	53.2%	4,156.3	83.7%	810.8	16.3%
c' quart. 2011	9,346.0	4,957.6	53.0%	4,079.3	82.3%	878.3	17.7%
d' quart. 2011	9,354.5	4,958.7	53.0%	3,932.8	79.3%	1,025.9	20.7%
2011	**9,341.9**	**4,967.6**	**53.2%**	**4,090.7**	**82.3%**	**876.9**	**17.7%**
a' quart. 2012	9,362.3	4,958.0	53.0%	3,837.9	77.4%	1,120.1	22.6%
b' quart. 2012	9,369.7	4,961.9	53.0%	3,793.1	76.4%	1,168.8	23.6%
c' quart. 2012	9,377.2	4,969.9	53.0%	3,739.0	75.2%	1,230.9	24.8%
d' quart. 2012	9,384.9	4,977.5	53.0%	3,681.9	74.0%	1,295.5	26.0%
2012	**9,373.5**	**4,966.8**	**53.0%**	**3,763.0**	**75.8%**	**1,203.8**	**24.2%**

Source: ELSTAT, Labor Force Survey

Regarding 2013, despite the fact that the uncertainty from the previous year has subsided after the end of the negotiations with the troika, the measures that were adopted at the Eurogroup on 26 November 2012 and the restart of the financing of the Greek state by the EU and the IMF, the labour market trends have not changed significantly compared with the previous year. According to data from the Manpower Employment Agency, the number of unemployed in the first two months of 2013 grew by 10.0%, marginally below the rate observed in the same period of 2012 (10.9%). Based on data from the same source, the employment flow (recruitment – redundancies – voluntary resignations) remained negative, yet it has weakened significantly year-on-year.

Nevertheless, the persistence of the recession and the weakening of demand in

2013 do not foretell improvement of the conditions in the labour market in 2013. In addition, in the first months of the current year redundancies might increase, after the changes in the severance payment and the period of notification, that were included in the Medium Term Fiscal Strategy 2013-2016. In contrast, the restart of the work on the five major road projects could stimulate employment in the upcoming months. The indolence that election periods cause will not be observed in the current year as in 2012. This, in addition to the acceleration of NSRF 2007-2013, as the fourth programming period approaches its end, will boost investment activity, putting a break on further extensive employment contraction. Furthermore, the broader implementation of the structural changes from last year could slow down the rise of unemployment. Under the above influences, **unemployment is expected to reach 27.6% in 2013.**

The expectations on the short-term employment prospects in the economy's sectors indicate **stabilisation, albeit at very low levels,** as evident in the data from the Business Surveys conducted by IOBE.

In particular:

In the first three months of the year, the short-term employment expectations remained unchanged compared with the last quarter of 2012 in Industry, Retail Trade and Construction, while in Services they improved. Year-on-year, the expectations improved slightly in all sectors, to a lesser degree in Services and stronger in Retail Trade and Construction. In more detail:

In Industry the negative balance of employment expectations remained unchanged in the first quarter of 2012, compared with the preceding quarter, standing at -20. Still, this performance was less adverse, compared with the corresponding period of the previous year, when they stood at -26. About 3% of the enterprises in manufacturing were expecting an increase of employment in the coming months, while in contrast 23% of the enterprises were expecting further job losses in their sector in the short term, with the vast majority of the respondents (74%) expecting no change in employment in the short term.

In Construction, the expectations also remained unchanged quarter-on-quarter in the first quarter of 2013. In particular, the indicator reached -33, higher by 18 points year-on-year. About half of the enterprises in the sector (from 47% in the previous quarter and 61% in the same quarter of the previous year) were expecting fewer jobs in the sector, while the share of those expecting increase of employment slightly increased to 18% (from 16% in the fourth quarter of 2012). In Public Works, the indicator slightly fell in the period under examination (-30 from -27), which was offset by an increase of the negative indicator in Private Building Activity (-43 from -48).

In Services the negative employment expectations improved in the first

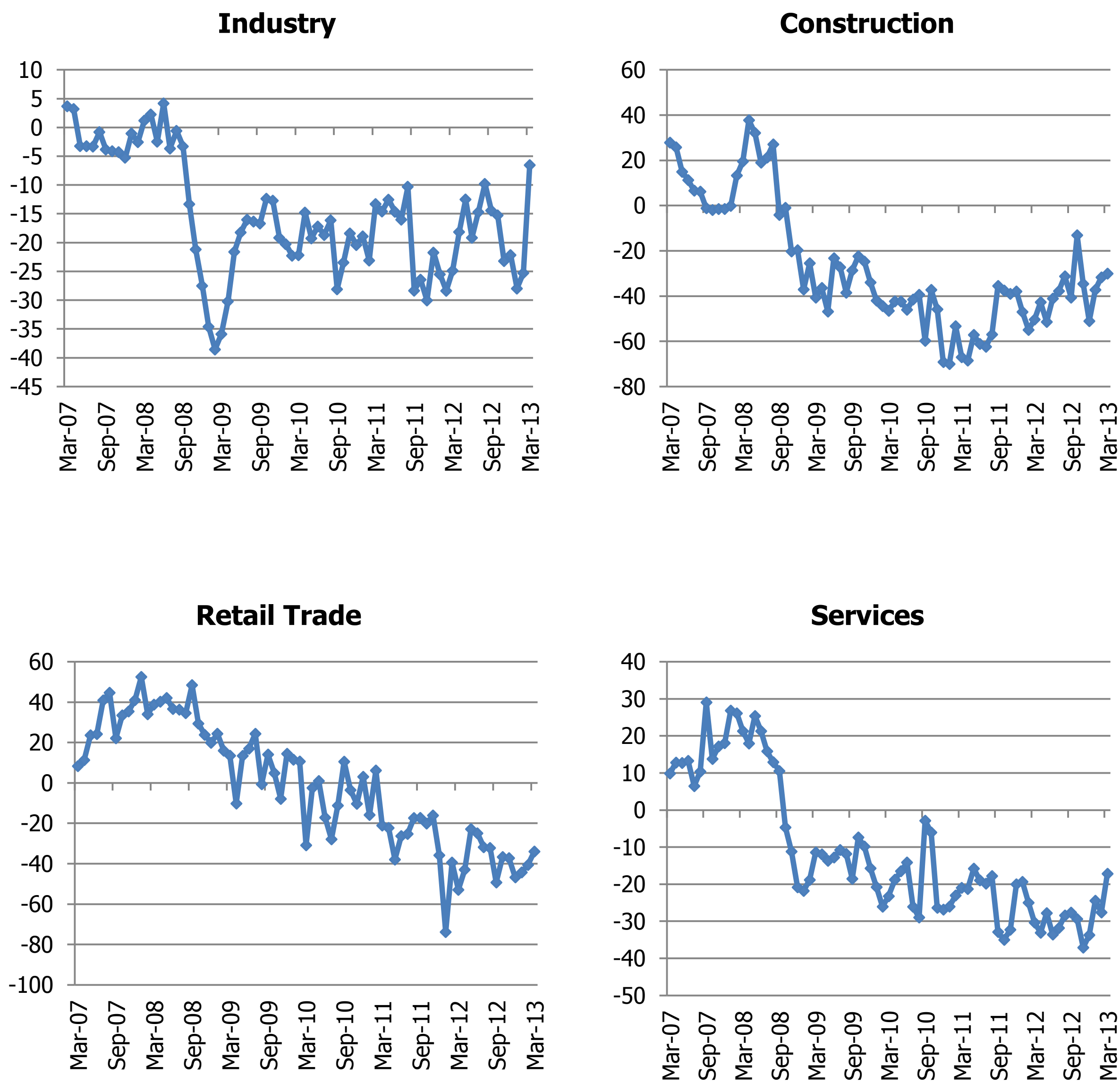
quarter of 2013, compared with the average for the last quarter of the previous year. As a result, the index reached -23, gaining 10 points quarter-on-quarter, marginally higher year-on-year.

Among the enterprises in the sector, 3/10 were anticipating further drop in employment in the coming months (from 36%), while the share of enterprises expecting employment growth increased to 7% (from 30%).

The employment expectations improved in all the constituent branches, with a more pronounced improvement in Hotels – Restaurants – Travel Agencies and Transport, while weaker gains were observed in Financial Intermediaries.

Figure 3.11

Employment Expectations (% difference between positive – negative answers)



Source: IOBE

The employment expectations remained unchanged quarter-on-quarter in Retail Trade as well. **The negative balance of expectations reached -40 once more, yet it was down by 15 points year-on-year.** About 2/5 of the enterprises in the sector were anticipating further employment contraction, while only 1% were expecting an increase in the near term. Among the constituent branches, employment expectations deteriorated significantly in Food – Beverages – Tobacco and Vehicles – Spare Parts, while mild improvement was recorded in Textiles – Clothing – Footwear, Household Appliances and Department Stores.

3.5 Consumer Prices

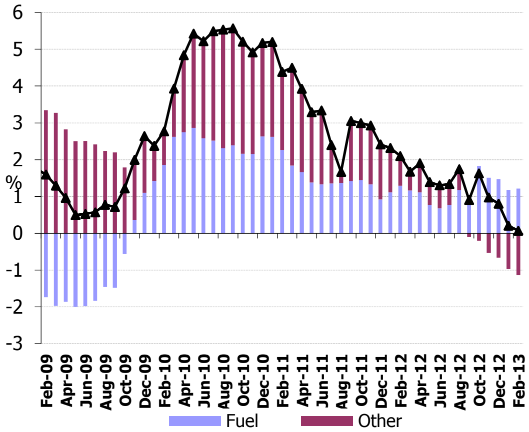
Recent Developments

The reduction of wages in the public and private sector in 2012, the pension cuts, the broadening of the direct taxation, with the abolition of the tax allowance and the payment of new contributions, together with the strong employment contraction, reduced significantly the domestic disposable income and consumption demand, which in turn exerted contractionary pressures on the price level. As a result, the average inflation rate in Greece in 2012 stood at 1.5%, falling by 1.8 percentage points compared with 2011. The disinflation continued in the first two months of 2013 as well, when the inflation rate reached 0.1%, a rate that signified price stability, compared with 2.2% in the corresponding period of 2012.

The significant disinflation can be explained with the negative year-on-year impact exerted on CPI by certain categories of goods. In particular, notably weaker inflationary pressures in the first two months of 2013 came primarily from Fuel, with the increase of this indicator standing at 11.7% from 13.0% in the same period of 2012, and from Energy, where the indicator increased by 11.8% from 13.2% in the previous year.

Figure 3.12

Contribution of the change of Fuel prices to inflation (annual % change)



Source: ELSTAT **Data Processing**: IOBE

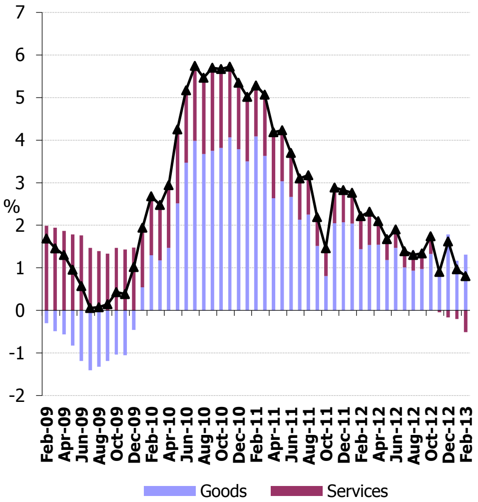
Correspondingly, the rate of price increase in Fruits – Vegetables was slightly lower than in the first two months of 2012 (2% from 2.2%), while the price index for consumer goods increased by 1.5% from 2.8% in the same period of 2012.

In contrast, the prices of services fell by 1.6%, which is reflected in the course of core inflation, which fluctuated at negative levels to reach -1.3% from +1.1% in the first two months of 2012. In the remaining categories of goods and services, significant inflation was observed in Housing, for a fourth consecutive year, which even accelerated year-on-year (9.2%

from 8.3%), and in Clothing – Footwear, where the index stood at 2.1% (from 0.2% in 2012).

Figure 3.13

Headline Inflation and main components (annual % change)



Source: ELSTAT **Data Processing**: IOBE

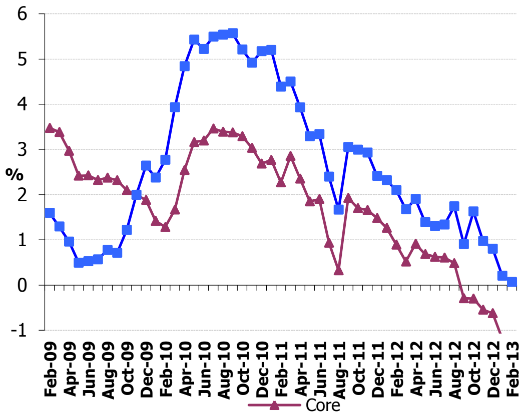
In contrast, a significant reduction was observed in Telecommunications (-5.1%), Health Services and Education (-4.2% and -4% respectively), while prices also declined in Durables, where the index fell by 3.3%, slightly stronger than in the corresponding period of the previous year (-1.9%).

The inflation rate of the harmonised index (HICP) in Greece in the previous year reached 1.0%, from 3.1% in 2011, significantly lower than the average rate for the Eurozone member-states (2.5%). In the first two months of 2013, the harmonised inflation rate fell by 1.8 percentage points to reach 0.1%, a rate signifying price stability.

As a result of this development, Greece had the lowest harmonised inflation rate among the Eurozone member-states, with Portugal coming next at 0.3%. In contrast, the highest inflation rate in the EU was observed in Romania (5%), three percentage points higher than the EU-27 average rate (2%).

Figure 3.14

Core and Headline Inflation (annual % change)



Source: ELSTAT **Data Processing**: IOBE

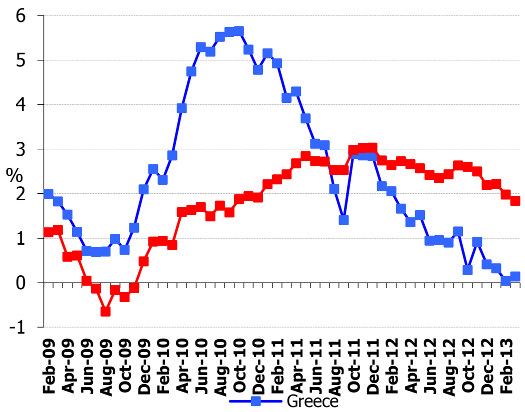
Regarding the cost of production, the domestic indicator in Greece experienced the second largest increase (4.9% from 7.4% in 2011) in the Euro area (2.6% on average) in 2012, after that of Cyprus (7.3%). Nevertheless, this trend seems to be reverting, as in the first two months of 2013 the general index increased only marginally by 0.5%, compared with 7.7% in the same period of 2012.

The branches that experienced the largest reduction were Tobacco (-8%), Coal-Lignite (-4.6%) and Electrical Equipment (-2.4%). Milder reduction was observed in Energy except Electricity (-2.2%) and Coke – Refinery Products (-2%).

In contrast, significant increase (+5.6%) was observed in Electricity, Natural Gas, Steam and Air Conditioning, while equally significant growth was recorded in Minerals (+5%).

Figure 3.15

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



Source: Eurostat **Data Processing:** IOBE

Increase of prices was also observed in Crude Petroleum and Chemical Products, by 3.5% and 3.1% respectively.

On the other hand, inflationary pressures on the product cost came from the course of the prices of imported raw materials, with the indicator increasing by twice the Eurozone average in 2012 (4.5% from 7.6% in 2011). Here too though, the trend was interrupted in January 2013, with the index falling by 1.6%, while the corresponding indicator for the Eurozone also fell (-0.3%), improving the conditions for the production process in the Euro area.

Medium-term Outlook

As already mentioned, the price stability that essentially prevailed in the first two months of 2013 reflects the strong contractionary pressures on domestic disposable income and hence on the purchasing power of the households of the aforementioned fiscal measures, the gradual expansion of the implementation of the changes in the labour market that were agreed in the second economic adjustment programme and the rapid growth of unemployment. The neutralisation of the inflationary pressures by these factors will probably continue throughout 2013, as the implementation of the fiscal measures has not yet finished – e.g. the implementation of the abolition of the summer vacation, Easter and Christmas bonuses is still pending – while unemployment continues to increase at rapid rates, according to the data from the Manpower Employment Agency for the first two months of the current year (+10.0%). Besides, the fiscal measures for 2013 do not include for the time being, according to the recently updated Medium Term Fiscal Strategy 2013-2016, increases of indirect taxes or the levy of new taxes for the achievement of the fiscal targets, measures that had led to sharp price increases in 2010 and 2011. Mild inflationary pressures are only expected to come from the planned hikes of the electricity tariffs in May and July. **Taking into account the above factors, inflation is expected to be close to zero in 2013, which implies that for the first time since the 1960s Greece will achieve price stability.**

Correspondingly, in the Euro area the inflation rate is expected to fall in the current year to 1.8%. Despite the likelihood of inflationary pressures from the increase of indirect taxation in Eurozone countries that aim to achieve their fiscal targets, the marginal recession anticipated by international bodies for the Eurozone and the rise of unemployment to unprecedented levels will overcompensate for this, bringing disinflation from the 2.5% rate recorded in 2012.

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

Deflationary expectations dominated, as in almost every quarter in the past three years, in most sectors, except **Industry, where the balance of price expectations evened out in the first quarter of the new year.** In the remaining sectors, **the deflationary expectations eased slightly quarter-on-quarter in the first three months of 2013 in Services and in contrast strengthened in Private Construction and Retail Trade.** Year-on-year, the deflationary expectations eased slightly in Industry and strengthened notably in Private Construction and to a lesser degree in Retail Trade. Lastly, in Services the price expectations remained almost unchanged. In greater detail:

In Industry, the deflationary expectations slightly weakened quarter-on-quarter in the first quarter of 2013, with the indicator balancing out (from -4 on average in the previous quarter). Year-on-year, the indicator slightly increased as well (from -4). Among the enterprises in the sector, 1/10 were expecting prices to increase and the same share of enterprises were expecting prices to decrease, with the remaining 4/5 of the enterprises expecting prices to remain stable over the near term.

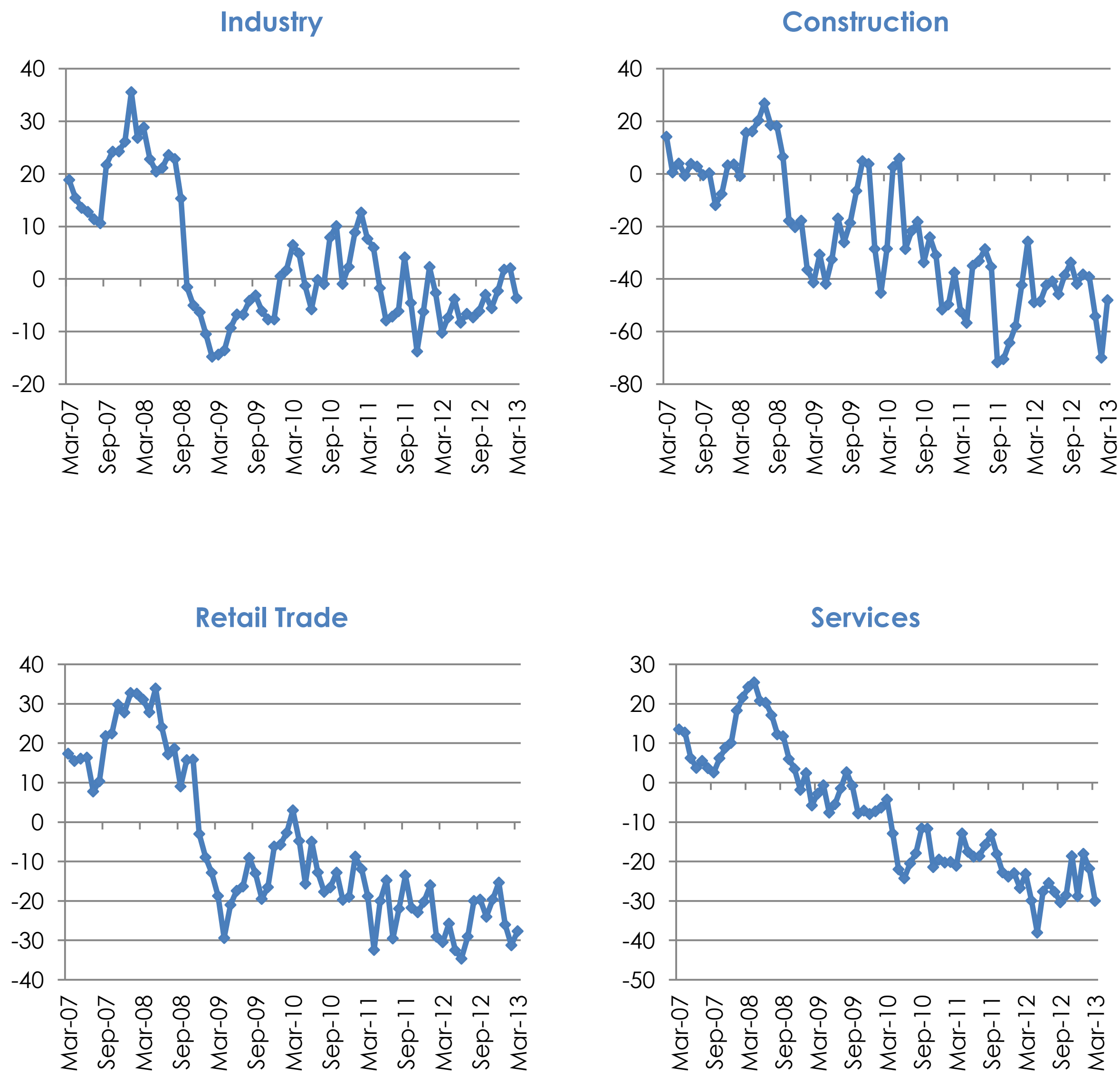
In Retail Trade, the deflationary expectations strengthened in the first quarter, with the negative balance of expectations falling to -28 on average (from -20 in the previous quarter and -25 in the same period of 2012). About 1/3 of the enterprises were expecting prices to fall in the next 3 months, while only 5% were holding inflationary expectations. The deflationary expectations strengthened quarter-on-quarter in all the constituent branches in the sector, with the strongest change observed in Food-Drinks-Tobacco, Textiles–Clothing-Footwear and Department Stores.

The deflationary expectations changed slightly quarter-on-quarter in Services in the period under examination, with the indicator reaching -23 on average (from -25 in the last quarter of 2012), remaining unchanged year-on-year. About 28% of the sector's enterprises held expectations that prices would fall in the near term, while 5% of the enterprises were anticipating prices to increase (from 2%). The negative balance of price expectations slightly fell in all the constituent branches, except Land Transport, which is the only branch with a positive indicator, i.e. where more enterprises were expecting prices to increase, rather than to decrease, and in Various Business Activities, where the negative indicator slightly increased.

Lastly, in Private Construction the balance of price expectations in the period under investigation fell sharply quarter-on-quarter, to reach -57 on average (from -40 both in the preceding quarter and in the same quarter of 2012). In the period under examination, 57% of the enterprises in the sector were expecting prices to fall further in the near term, while steadily not a single respondent has been expecting prices to increase since June. The remaining 43% of the enterprises were expecting prices to remain stable in the near-term.

Figure 3.16

Price Expectations (% difference between positive – negative answers)



Source: IOBE

3.6 Balance of Payments

Current Account

The **current account deficit** contracted sharply in 2012, by 72.9%, to reach €5.6 billion, down year-on-year by €15 billion and by €29.2 billion since 2008 (from €34.8 billion).[17] The large reduction came mostly from a contraction of the trade deficit and the income account deficit, while the services surplus remained almost unchanged. The current account deficit reached its lowest level since 2001, as it stood at -2.9% of GDP in 2012, from -9.9% in 2011 and -14.9% in 2008. The data for January 2013 indicate strengthening of the trend of rapid contraction of the deficit that was observed throughout 2012, as it fell further by 84.7%, while the 2012 trends carried over into the new year in the key constituent categories as well (trade account, services account and income account).

In more detail regarding the constituent categories, the **trade deficit** reached €19.6 billion in 2012, down by 28.1% (-€7.6 billion), while compared with 2008 it has fallen by €24.5 billion. Almost half of the reduction came from the trade account of goods excluding oil and ships, whose deficit fell by 34.6% to reach -€8.3 billion, as the exports of goods reached €13.9 billion (+€505 million), compared with €22.2 billion imports (-€3.9 billion), with the reduction of imports largely responsible for the final outcome. The export of goods approached the 2008 peak (€14 billion), while in contrast the import of goods stood at their lowest level since 2001. The fuel exports increased further, by 20%, to reach their highest level in 12 years, at €7.4 billion, while imports also approached their historic peak (€17.6 billion), having increased by 1.9%, compared with a much stronger growth by 27.5% in 2011. As a result, the fuel deficit declined by 8.2% in 2012 to reach €10.2 billion.

The services surplus remained almost unchanged in 2012 at €17.7 billion, as the reduction of receipts by 5.3%, to €27.1 billion, was accompanied with a corresponding contraction of payments by 11.4% to €12.4 billion. In greater detail, tourist receipts reached €10 billion, lower by 4.6%, while the receipts from transport and other services increased by 5.7% and 5.3% respectively, to €13.3 billion and €3.8 billion. The payments for tourist services reached their lowest level in 12 months, at €1.8 billion, down by 18.4%, while the payments for transport services did not exceed €6.3 billion, lower by 12.6%. Lastly the payments for other services stood at €4.2 billion, having fallen by 5.9%.

The **income account deficit** reached -€2.2 billion in 2012 to stand at ¼ of its 2011 level and 1/5 of its 2008 level. This contraction was mostly due to a significant fall in the outgoing payments for wages, salaries, interest and dividends by €6.5 billion, from €12 billion in 2011, while in contrast the corresponding receipts steadied at €3.3 billion.

The surplus of **current transfers** almost tripled in 2012 to reach €1.4 million, close

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

to its 2007 level. Total receipts[18] increased by 15.5% (€689.6 million), as the contraction of immigration transfers by €115.7 million was more than offset by an increase of the General Government transfers by €805.3 million. Total payments[19] fell by 5% (-€195 million), with the payments to the EU increasing by €162.5 million.

Capital Account

The strong recovery of the surplus of **capital transfers** in 2011, by 29%, was followed by a fall by 12.9%, and as a result it reached €2.3 billion. Receipts[20] fell to €2.6 billion (-€368 million), while payments, which have a small contribution to the account, fell by 9.1% to €237.1 million.

Lastly, the **Current and Capital Account** deficit, which to some extent reflects the economy's external borrowing requirements, did not exceed €3.3 billion, from €18 billion in 2011, its lowest level since 2003. Indicatively, the borrowing requirements have declined by €27.4 billion since 2008.

Financial Account

The **financial account surplus** fell in 2012 by 80.1%, to reach only €3.6 billion, from €17.8 billion in 2011.

At the level of specific accounts, **direct investment** experienced net inflow of €2.3 billion in 2012 overall. Foreign direct investment to Greece formed a €2.2 billion net inflow, compared with €822 million in 2011, while the residents' direct investment abroad reached €30 million, compared with net outflow of €1.3 billion in 2011. The most significant investments that took place in the country in 2012 were as follows:

→ **Inflow of 2.3 billion** for participation in the increase of the equity capital of Emporiki bank by the French bank Credit Agricole (July)
→ **Inflow of 460 million** for the sale of Eurobank's subsidiary in Poland "EFG Eurobank Ergasias SA Spolka Akcyjna Oddzial w Polsce" to the Austrian "Raiffeisen Bank International AG" (divestment, April)
→ **Inflow of 286 million** for participation of the French bank Societe Generale in the increase of the equity capital of Geniki Bank (December)
→ **Inflow of 213 million** for the capital endowment of RBS NV from its Dutch headquarters (June)
← **Outflow of 80 million** for the participation of Emporiki Bank in the increase of the equity capital of its subsidiary Emporiki Bank Cyprus Ltd (November)
← **Outflow of 72 million** for the participation of Eurobank in the increase of the equity capital of its subsidiary EFG New Property Holdings in Cyprus (November)
← **Outflow of 70 million** for the participation of Jumbo SA in the increase of the equity capital of Jumbo ECB in Bulgaria (June)

The net outflow in **portfolio investment** increased five times in 2012, from -€19.7

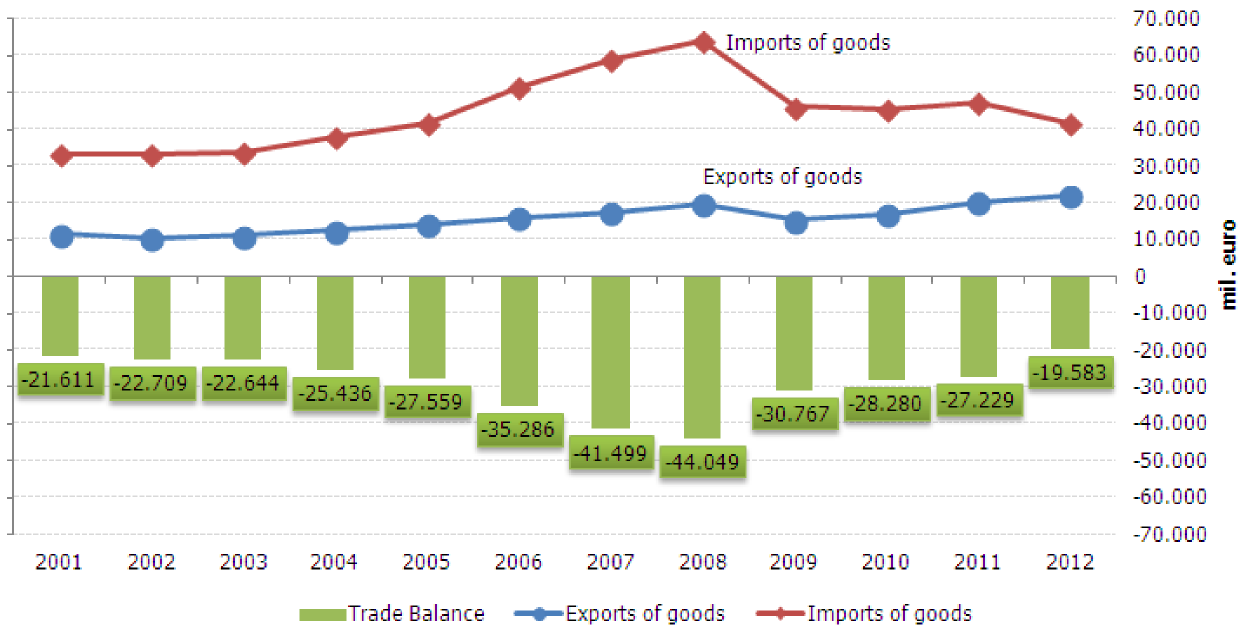
[18] Including receipts from the European Agricultural Guidance and Guarantee Fund (EAGGF) and the European Social Fund (ESF).
[19] Mainly contributions to the Community Budget.
[20] The capital transfer receipts refer to incoming payments from structural and cohesion funds.

billion in 2011 to -€100.5 billion. According to the Bank of Greece, the holdings of residents in bonds and treasury bills issued abroad increased by €57.7 billion, while the holdings in foreign financial derivatives and shares also increased by €831 million and €129 million respectively, generating a net outflow of €58.7 billion. Regarding payables, the reduction in holdings by non-residents of bonds and treasury bills issued by Greek residents by €41.76 billion and the reduction of foreign holdings of domestic shares by €52 million generated a total net outflow of €41.8 billion.

A net inflow of €101.7 billion was recorded in **other investment** in 2012, from €38.1 billion in 2011. This development mostly reflects an increase of the net debt liabilities to non-residents of the General Government as part of the second bailout and secondarily of the private sector, overall by €111.2 billion. The gross borrowing of the General Government, mostly from the EFSF and the IMF, reached €109.1 billion, the holdings of domestic investors in deposits and repos abroad fell by €15.3 billion, while the holdings of non-residents in deposits and repos in Greece fell by €23.4 billion. Lastly, the country's **reserve assets** stood at €5.5 billion at the end of December, from €5.3 billion in December 2011.

Figure 3.17

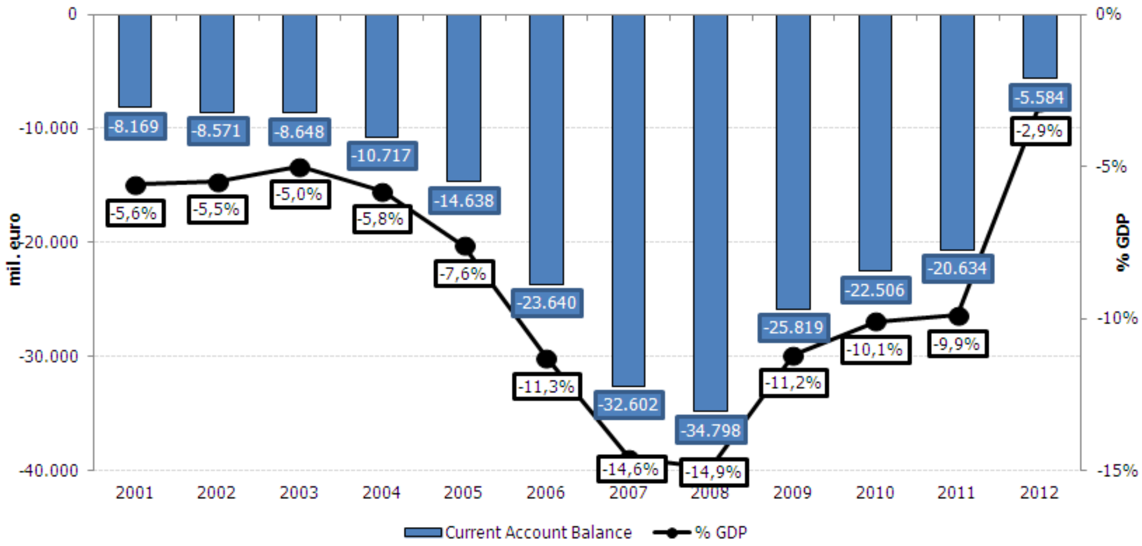
Imports-Exports 2001-2012 (January-December)



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

Figure 3.18

Current Account Balance 2001-2012 (January-December)



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

Assessment

The lookout for a new growth model of the Greek economy has been a longstanding topic in the public discourse, however with the global financial crisis of 2008 and the continuous, deep economic recession, this has come to the top of the agenda. The position that a new growth model constitutes the only way-out from the deep recession has been repeatedly stated in the last three years. The elimination of the very high "twin" deficits (fiscal – current account), which implies a reduction of the import dependence and a gradual boost of exports that both would lead to expansion of the domestic economic activity, is an integral element of the new growth model. The reflective attempt by many enterprises to increase their exports from the start of the domestic crisis, in order to offset the shrinking domestic demand, seems gradually to become for quite a few of them a sustained and evolving strategy.

Besides, the sluggish domestic demand is not expected to recover any time soon at rates strong enough to support their production activity. In addition, using data on total demand,[21] imports,[22] industrial production and output of services[23] from 2001 to 2012, we can examine if and to what extent there is a trend in Greece towards domestically produced foods and services and a reduction of the external deficit, beyond the reduction of imports due to the crisis. According to the data shown in Figure 3.20, the imports indicator in 2012 stood at 40% of its 2008 level, which reflects the rapid contraction of the domestic

[21] Sum of private consumption, public consumption and gross capital formation (source: National Accounts, ELSTAT).

[22] In volumes from the Bank of Greece's Current Account Balance.

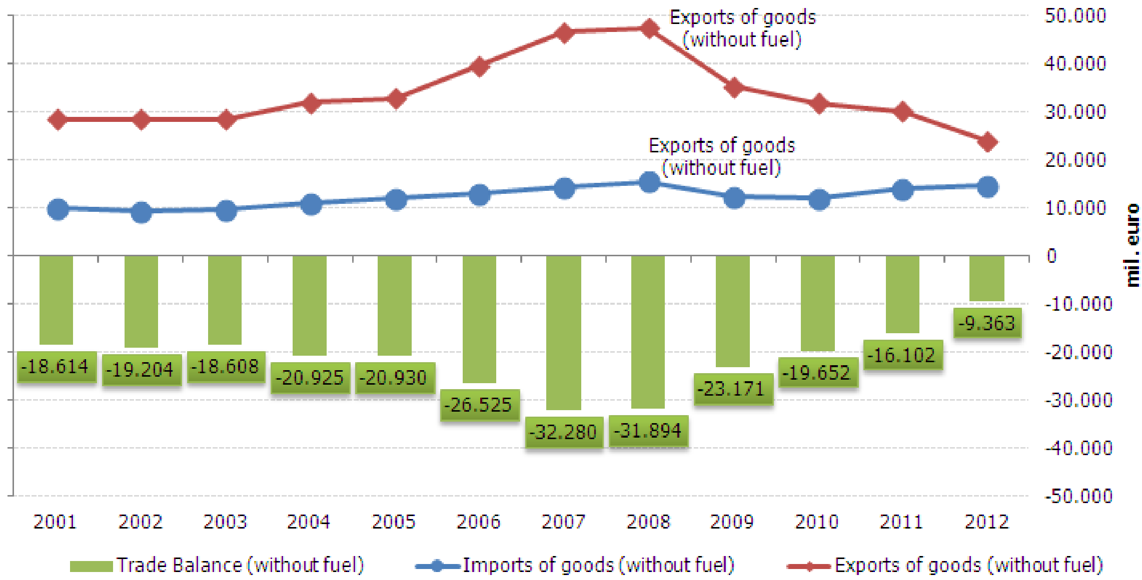
[23] The sum of the added value of 5 key services branches (supply side approach of GDP, National Accounts, ELSTAT):

- Wholesale and retail trade, repair of motor vehicles and motorcycles, transporting and storage, accommodation and food service activities
- Information and communication
- Financial and insurance activities
- Real estate activities
- Professional, scientific and technical activities, administrative and support service activities

demand for goods and services produced abroad. Meanwhile, however, total demand in the Greek economy, which includes imports, contracted significantly less, by 27%. Therefore, as the reduction of imports exceeds by much that of domestic demand, which includes imports, the gap is filled by expanding production in Greece. This substitution trend is also validated with indicators on the supply side of the Greek economy: both the industrial production index and the services output index have fallen in the period from 2008 to 2012 by about 24%, a similar rate with that of domestic demand and lower rate than that of imports. Hence, even though the effort to establish a new growth model is at an early stage, without the needed conditions for the transition to it being formed (e.g. effective public sector; functional institutional framework; real, high investment in human capital, research and technology), it is a fact that gradually the domestic production is managing to cover a large part of the domestic needs, thus contributing to the reduction of the current account deficit.

Figure 3.19

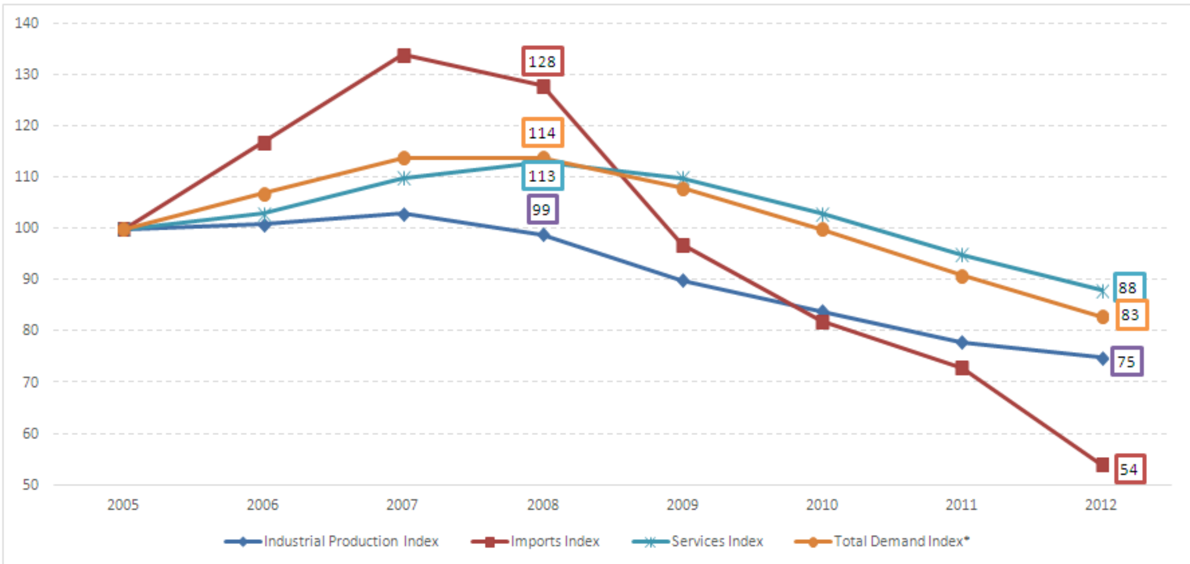
Imports-Exports (**excl. fuels**) 2001-2012 (January-December)



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

Figure 3.20

Index of Industrial Production/Imports/Services/Total Demand (2005=100)



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

Table 3.10

Provisional Balance of External Payments in mil. €

		January- December			December		
		2010	**2011**	**2012**	**2010**	**2011**	**2012**
I	**CURRENT ACCOUNT BALANCE (I.A+I.B+I.C+I.D)**	**-22,506.0**	**-20,633.5**	**-5,583.7**	**-1,779.5**	**-2,142.8**	**-534.2**
I.A	**GOODS (I.A.1 - I.A.2)**	**-28,279.6**	**-27,229.1**	**-19,582.7**	**-1,456.9**	**-1,961.6**	**-978.1**
	Oil Balance	-8,627.2	-11,126.9	-10,220.0	-10.8	-670.3	-455.9
	Trade Balance excluding oil	-19,652.4	-16,102.1	-9,362.8	-1,446.1	-1,291.2	-522.2
	Ship's Balance	-3,672.7	-3,370.9	-1,042.6	-341.6	-164.5	-21.9
	Trade Balance excluding oil and ships	-15,979.7	-12,731.2	-8,320.1	-1,104.5	-1,126.7	-500.3
I.A.1	**Exports**	**17,081.5**	**20,230.6**	**22,017.6**	**1,869.0**	**1,639.4**	**2,010.6**
	Oil	4,950.0	6,187.7	7,426.4	692.9	536.4	667.6
	Ships	858.1	695.1	737.8	29.7	23.5	55.0
	Other goods	11,273.4	13,347.8	13,853.5	1,146.4	1,079.5	1,288.0
I.A.2	**Imports**	**45,361.0**	**47,459.6**	**41,600.4**	**3,325.9**	**3,600.9**	**2,988.7**
	Oil	13,577.1	17,314.6	17,646.3	703.7	1,206.7	1,123.5
	Ships	4,530.8	4,066.0	1,780.4	371.3	188.0	76.9
	Other goods	27,253.1	26,079.0	22,173.7	2,250.9	2,206.2	1,788.3
I.B	**SERVICES (I.B.1 - I.B.2)**	**13,248.5**	**14,629.6**	**14,719.4**	**470.7**	**611.9**	**449.0**
I.B.1	**Receipts**	**28,477.8**	**28,609.2**	**27,105.6**	**1,746.1**	**1,764.3**	**1,571.9**
	Travel	9,611.3	10,504.7	10,024.1	153.8	144.7	137.4
	Transportation	15,418.4	14,096.6	13,286.4	1,234.8	1,212.9	1,015.2
	Other services	3,448.1	4,007.9	3,795.2	357.4	406.7	419.3
I.B.2	**Payments**	**15,229.4**	**13,979.6**	**12,386.3**	**1,275.4**	**1,152.4**	**1,122.9**
	Travel	2,156.0	2,266.5	1,848.7	161.0	180.9	162.7
	Transportation	8,155.4	7,234.4	6,322.0	669.7	573.7	512.5
	Other services	4,917.9	4,478.7	4,215.5	444.7	397.8	447.7
I.C	**INCOME (I.C.1 - I.C.2)**	**-7,673.8**	**-8,594.8**	**-2,164.8**	**-810.8**	**-1,016.5**	**-32.7**
I.C.1	**Receipts**	**4,009.3**	**3,322.1**	**3,272.8**	**333.7**	**328.6**	**292.1**
	Compensation of employees	199.7	188.0	200.0	16.5	19.2	25.2
	Investment Income	3,809.6	3,134.1	3,072.7	317.1	309.4	266.8
I.C.2	**Payments**	**11,683.1**	**11,916.9**	**5,437.5**	**1,144.4**	**1,345.1**	**324.8**
	Compensation of employees	377.6	470.0	468.0	36.6	48.2	39.0
	Investment Income	11,305.5	11,447.0	4,969.6	1,107.8	1,296.8	285.8
I.D	**CURRENT TRANSFERS (I.D.1 - I.D.2)**	**198.9**	**560.8**	**1,444.4**	**17.5**	**223.3**	**27.6**
I.D.1	**Receipts**	**4,654.3**	**4,435.0**	**5,124.6**	**295.3**	**409.4**	**338.8**
	General Government (mainly transfers from EU)	3,188.5	3,254.9	4,060.2	189.6	308.2	260.8
	Other sectors	1,465.8	1,180.1	1,064.4	105.7	101.2	78.0
I.D.2	**Payments**	**4,455.4**	**3,874.2**	**3,680.2**	**277.9**	**186.1**	**311.2**
	General Government (mainly transfers to EU)	2,860.4	2,485.4	2,647.9	120.6	106.1	245.8
	Other sectors	1,595.0	1,388.8	1,032.3	157.3	80.0	65.4
II	**CAPITAL TRANSFERS (II.1-II.2)**	**2,071.5**	**2,671.8**	**2,327.6**	**1,190.9**	**794.7**	**497.7**
II.1	**Receipts**	**2,356.2**	**2,932.7**	**2,564.6**	**1,216.4**	**820.8**	**528.5**
	General Government (mainly transfers from EU)	2,239.3	2,798.5	2,486.0	1,205.7	809.0	521.8
	Other sectors	116.9	134.2	78.6	10.7	11.7	6.7
II.2	**Payments**	**284.7**	**260.8**	**237.1**	**25.5**	**26.1**	**30.8**
	General Government (mainly transfers to EU)	15.8	12.7	13.7	0.7	0.5	0.3
	Other sectors	268.9	248.1	223.3	24.7	25.6	30.5
III	**CURRENT ACCOUNT & CAPITAL TRANSFERS (I + II)**	**-20,434.5**	**-17,961.7**	**-3,256.1**	**-588.6**	**-1,348.1**	**-36.5**
IV	**FINANCIAL ACCOUNT (IVA+IVB+IVC+IVD)**	**20,853.9**	**17,838.1**	**3,556.0**	**99.5**	**828.3**	**-648.0**
IV.A	**DIRECT INVESTMENT***	**-927.0**	**-452.6**	**2,322.4**	**-145.3**	**1,856.1**	**611.4**
	Abroad	-1,176.2	-1,274.9	30.4	-132.5	16.1	-22.0
	Home	249.2	822.3	2,292.0	-12.8	1,840.0	633.4
IV.B	**PORTFOLIO INVESTMENT***	**-20,855.0**	**-19,778.3**	**-100,504**	**3,226.7**	**-322.8**	**-25,744.1**
	Assets	13,278.7	4,139.0	-58,686.1	1,994.9	1,461.2	-19,090.4
	Liabilities	-34,133.6	-23,917.3	-41,817.8	1,231.8	-1,784.0	-6,653.6
IV.C	**OTHER INVESTMENT***	**42,538.8**	**38,050.0**	**101,742.6**	**-2,971.9**	**-701.0**	**24,450.7**
	Assets	7,658.7	7,638.7	13,976.2	7,082.8	2,023.6	201.6
	Liabilities	34,880.2	30,411.3	87,766.4	-10,054.8	-2,724.5	24,249.1
	(Loans of General Government)	29,978.2	39,873.9	109,093.9	2,430.2	7,950.1	33,972.0
IV.D	**CHANGE IN RESERVE ASSETS****	**97.0**	**19.0**	**-5.0**	**-10.0**	**-4.0**	**34.0**
V	**BALANCE ITEM**	-419.4	123.6	-299.9	489.1	519.8	684.5
	RESERVE ASSETS (STOCK) (end period)***				**4,777**	**5,332**	**5,500**

Source: Bank of Greece

* (+) net inflow (-) net outflow, * * (+) increase (-) decrease

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

4. GROWTH PROSPECTS OF THE GREEK PHARMACEUTICAL INDUSTRY[24]

4.1 Introduction

In light of the sustained, strong recession of the Greek economy and the intense pressures from the new developing economies, which are growing rapidly (China, India, Russia etc.), in the globalised economic environment, improvement of competitiveness, together with specialisation in sectors where Greece has comparative advantages, seems to be the most effective solution to the increasingly urgent problem of economic sustainability and stable growth in the country.

For this reason, along with the process of fiscal consolidation, the issue of the development strategy in Greece's "tomorrow" and the revival of the productive fabric of the Greek economy, usually coded with the term "new model of economic development", is put constantly in the public discourse. Openness, innovation and focus on sectors in which the country has strategic advantages are thought to be key features of this model.

The pharmaceutical industry and in particular the manufacturing of pharmaceutical and chemical products for health purposes is one of the economic branches with strategic advantages, in the sense of both having mature capabilities and enjoying favourable conditions and a potential for growth. Meanwhile, the performance of the branch depends strongly on the applied pharmaceutical and insurance policies, given the particular nature of the drug as a commodity with special social features. Particularly in the current domestic situation, which is largely determined by the fiscal consolidation process, it is obvious that the pharmaceutical industry is closely affected by the policy changes in the social insurance and public health care systems, as health expenditure has been identified as an area for significant savings and/or cuts.

4.2 Scope and contents of the study

The study conducted by IOBE on the growth prospects of the Greek pharmaceutical industry highlights its importance for the Greek economy. In particular, it determines the pharmaceutical manufacturing's contribution to the Greek economy, by quantifying its impact in terms of gross value added of production, output, employment, external trade, innovation and international competitiveness. The openness of the sector is assessed with competitiveness criteria. Its direct, indirect and induced impact on the Greek economy, in terms of GDP, employment and competitiveness is estimated using an input-output model. The scope of this study is to highlight the comparative growth advantages of the pharmaceutical industry, tak-

[24] This text summarises the final outcome of a IOBE study, recently published and available at http://www.iobe.gr/index.asp?a_id=359&news_id=1180

ing into account the key data on its production activity and focusing mainly on its emerging export orientation and continuously strengthening position in the global markets. The Greek productive pharmaceutical industry has the features of a dynamic sector that could contribute significantly to the new model of economic development in Greece.

4.3 Key structural features of the Greek pharmaceutical industry

Manufacture of pharmaceutical products is one of the most dynamic branches of the Greek economy and one of the few that in a period of crisis is growing and making investment in production.

Figure 4.1

Gross Added Value in the Pharmaceutical Products & Preparations industry in Greece, (2000-2010)

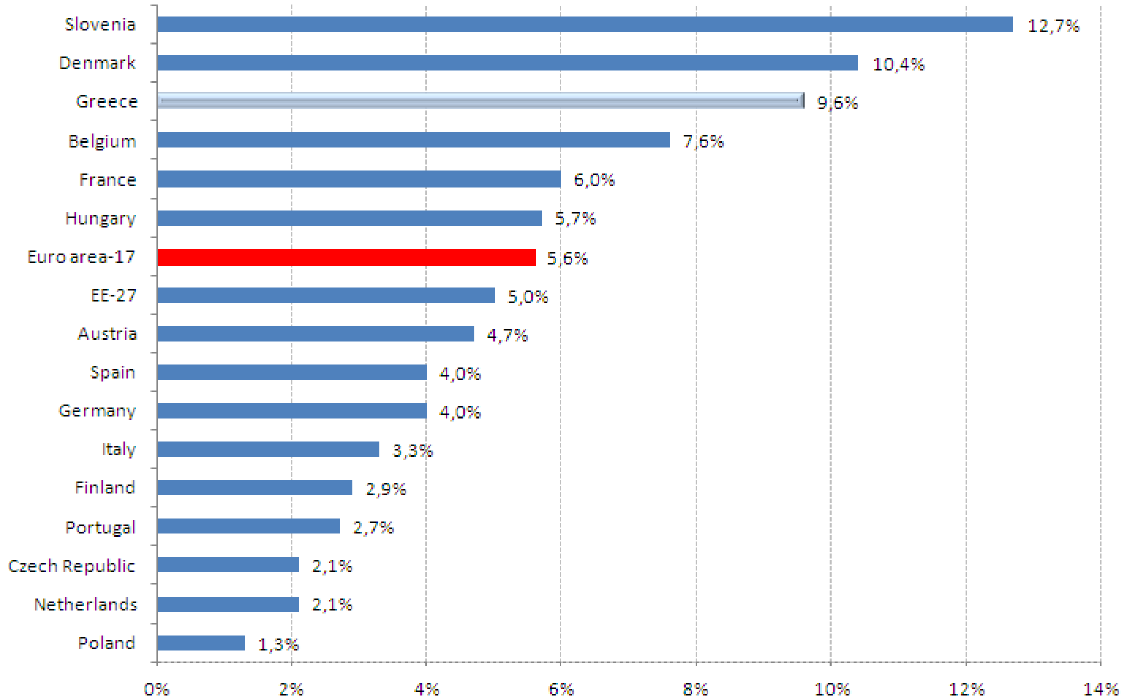
Source : Eurostat

In terms of Gross Value Added (Figure 4.1), the Manufacture of Pharmaceuticals in Greece contributed 9.6% of the total of the Manufacturing sector in 2010, one of the highest rates in Europe, after Slovenia (12.7%) and Denmark (10.4%). In fact, from 2000 to 2010 the branch increased its share in Greek manufacturing by about 7 percentage points (from 2.7% in 2000), recording the largest increase among the European countries with data availability (Figure 4.2).

The Industrial Production Index (IPI) helps with the examination of the trends in the production volume of a branch, in effect tracing the course of its value added in constant prices. Among the manufacturing branches in Greece, the Manufacture of Basic Pharmaceutical Products and Preparations has been growing faster than the remaining branches in 2000 to 2011, achieving an annual rate of 12% on average (Figure 4.3).

Figure 4.2

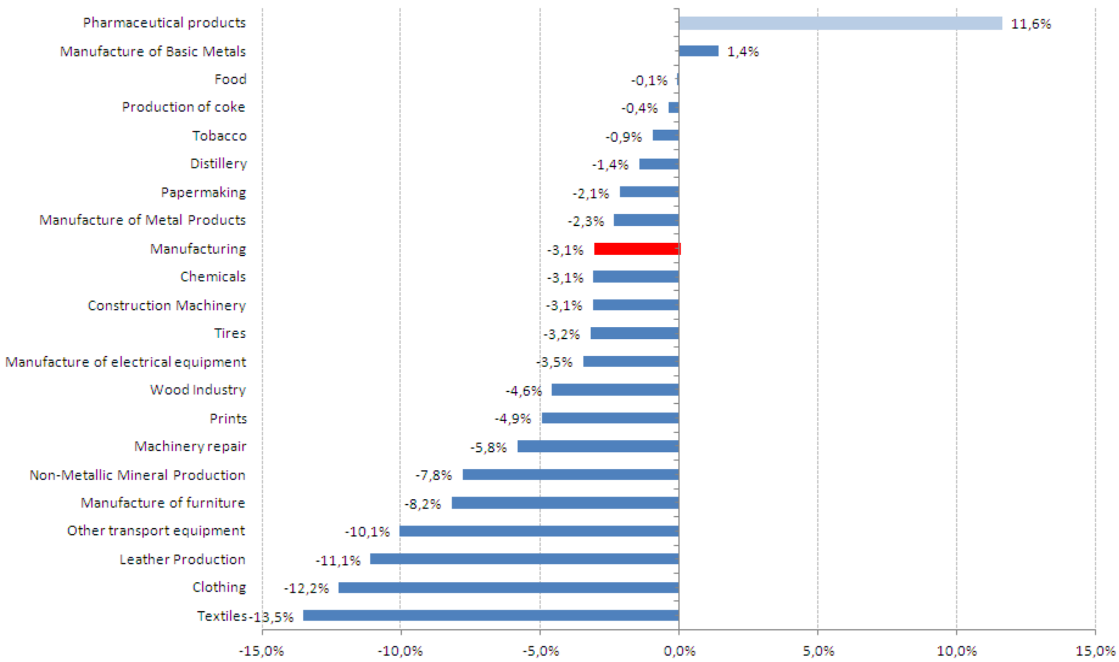
Share of the Pharmaceutical Products & Preparations industry to total Gross Value Added of the Manufacturing sector in EU countries (%,2010)



Source : Eurostat

Figure 4.3

Average Annual Change Rate of the Industrial Production Index of domestic manufacturing branches (2000-2011)



Source: ELSTAT

The significant role played by the manufacture of pharmaceuticals in the domestic economic activity can be summarised with the following points:

- The contribution of the domestic manufacturing activity increased in the last decade to reach about 10% of total manufacturing in 2010. This share is the third largest in the EU, after that in Slovenia and Denmark.
- Compared with the remaining branches of domestic manufacturing, the pharmaceuticals industry had the highest average annual growth rate in terms of Gross Value Added in the period from 2000 to 2010. This increase was the largest among the EU member countries for this particular industry in this particular time period.
- In the period from 2000 to 2011 the industry experienced the largest output growth in domestic Manufacturing. The growth of the Greek pharmaceutical manufacturing was also the largest among the EU countries in the period from 2000 to 2011.
- The industry has high competitiveness and openness: the exports of Pharmaceutical products have the fourth largest share of the total exports of Greek manufacturing.

4.4 Impact of the domestic manufacturing of pharmaceutical products on the Greek economy

The estimation of the impact (direct, indirect and induced) from the production activity of the domestic manufacturing of pharmaceuticals, and the sale of its products, on the Greek economy was estimated using the input-output model of Leontief, with data for 2010, considering the pharmaceutical expenditure as an exogenous shock to final demand.

The total impact on GDP from the industry's activity in 2010 is estimated at €2.8 billion, out of which €815 million corresponds to the direct impact of the sector's final demand on the gross product of the country. **<u>This estimate reveals that for each €1,000 that are spent for the purchase of pharmaceuticals produced in Greece, GDP increases by €3,420</u>**. Correspondingly, the indirect impact is estimated to stand at €578 million, while the induced impact reaches €1.4 billion.

The examination of the indirect impact, which reveals which sectors are benefiting from supplying the manufacture of pharmaceutical preparations with inputs, showed that the strongest positive effects were felt in Trade (€136 million), Legal – Accounting Activities (€106 million), Real Estate Activities (€45 million), the Banking sector (€40 million) and Manufacturing (Figure 4.5).

Figure 4.4

Leontief Model: Estimate of direct, indirect and induced impact

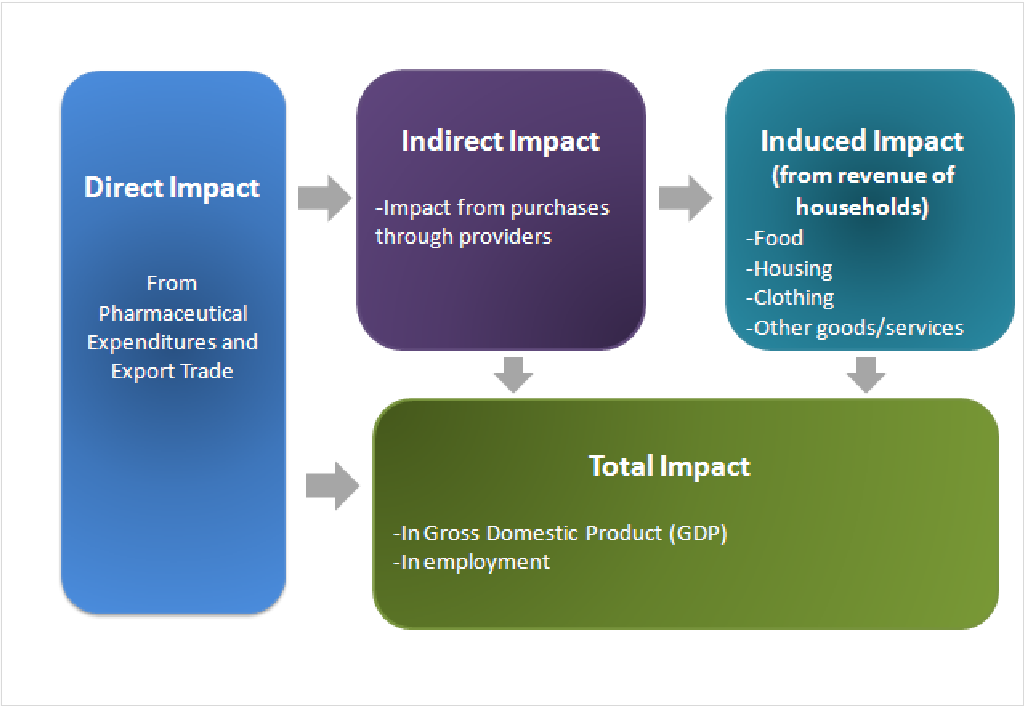
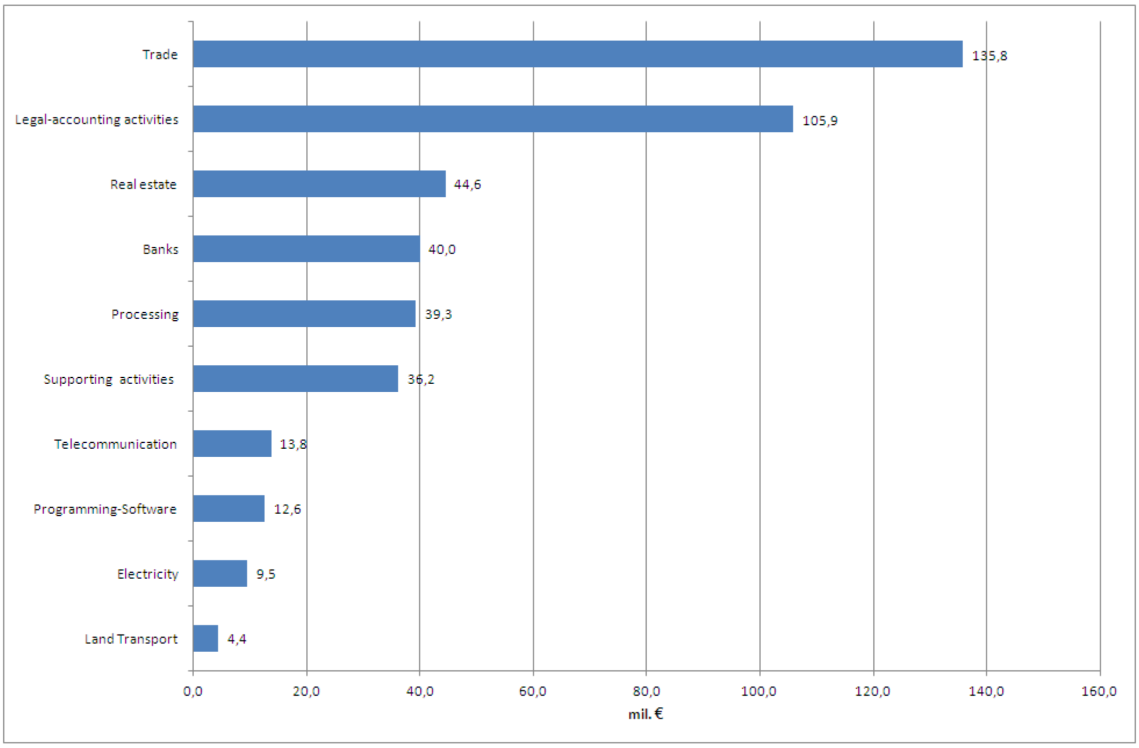


Figure 4.5

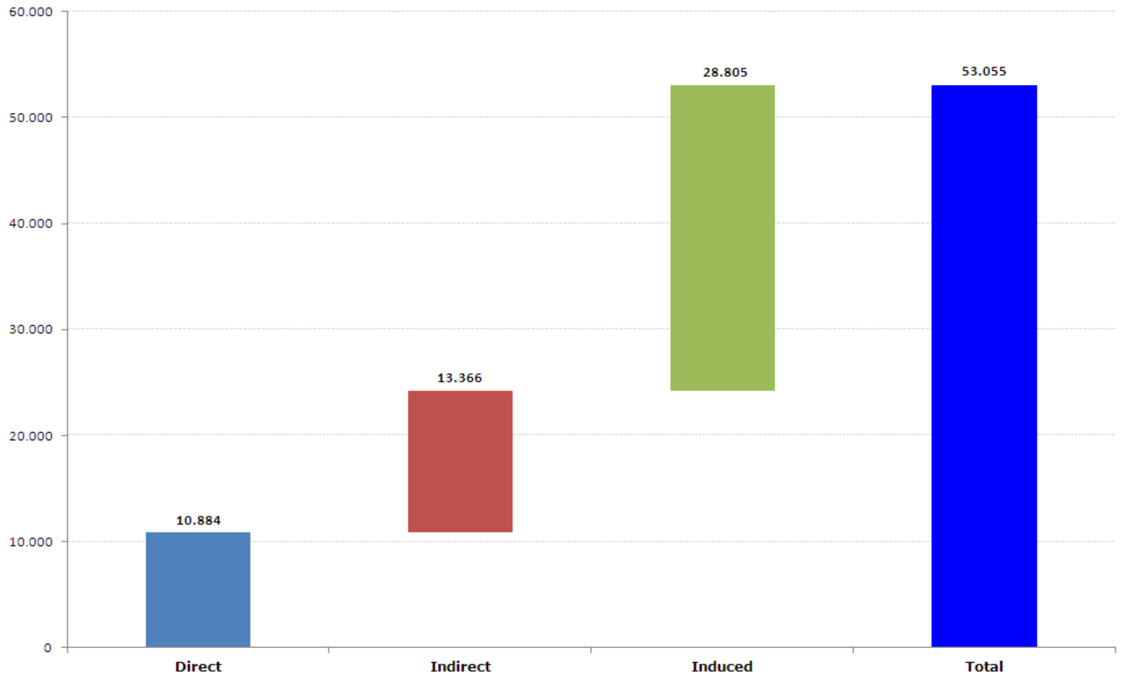
Sectors with the largest indirect impact from the operation of the Pharmaceutical Industry



Source: IOBE

Figure 4.6

Total impact of the domestic Pharmaceutical Production on employment



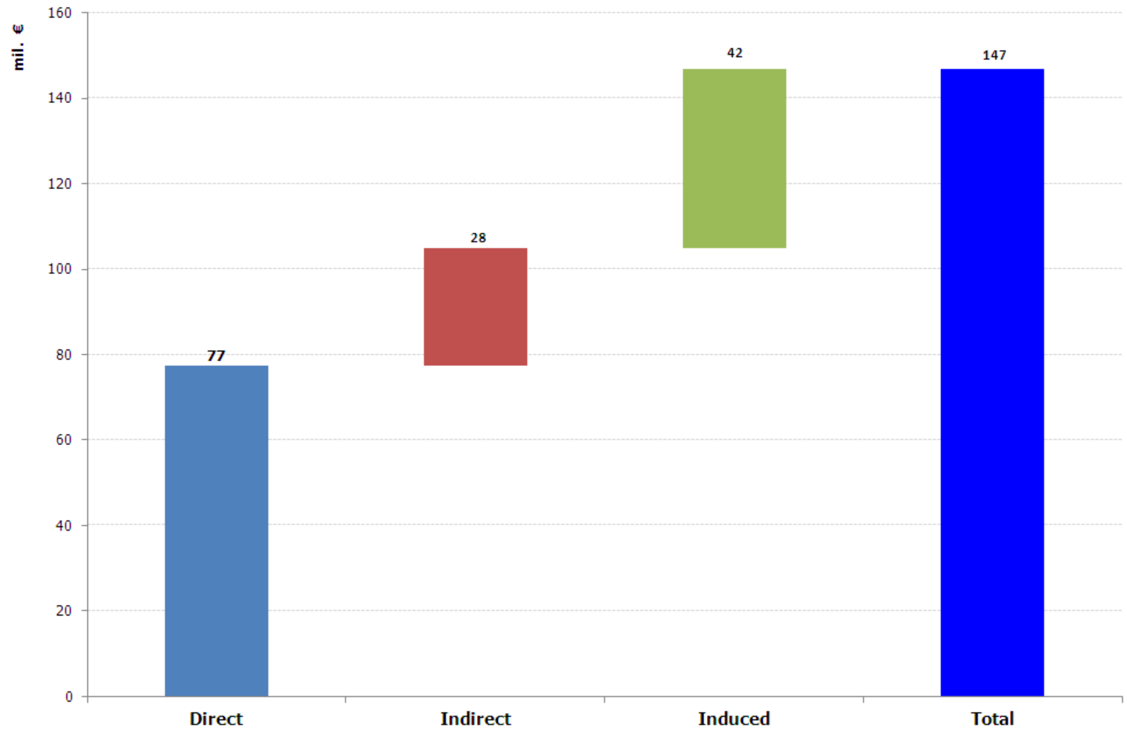
Source: IOBE

The manufacture of pharmaceutical preparations has a significant impact on employment as well. In more detail, direct employment (persons employed in one of the industry's companies, as a result of the final pharmaceutical expenditure) is estimated to stand at 10.8 thousand jobs in 2010 (Figure 4.6). The jobs that are supported by the activity of the pharmaceutical companies in Greece though indirect effects are estimated to stand at 13.4 thousand, while further 29 thousand jobs exist as a result of the increased consumption expenditure of households that receive income from employment along the pharmaceutical value chain. **As a result, the total impact of the Pharmaceutical industry on employment is estimated at 53.1 thousand jobs.**

Lastly, regarding the impact on taxation, **the estimated total tax revenue is estimated to stand at €147 million** (Figure 4.7). The collected taxes of €28 million coming from direct taxation correspond to revenue from VAT, taxes and duties on imported products, together with excise duties that the pharmaceutical manufacturers are paying for the purchase of goods and services that act as inputs in their production activity. The direct impact on tax revenue (taxation of corporate profit, labour income) amounts to €77 million, while on the side of private consumption, the impact is boosted by €42 million.

Figure 4.7

Impact of domestic Pharmaceutical Production on taxation



Source: IOBE

In summary, the impact of the pharmaceuticals industry on the Greek economy lies mainly in:

- Contribution to the GDP of the country by €2.8 billion. Based on the estimated multipliers, it is calculated that for each €1,000 that are spend for the purchase of pharmaceuticals that are manufactured in Greece, the country's GDP is boosted by €3,420.
- Direct contribution to employment with 10.8 thousand jobs. Still, further 13.4 thousand jobs are supported in branches supplying inputs to the manufacture of pharmaceutical products, while 29 thousand more jobs are present as a result of the consumption expenditure from the paid wages. Overall, the total impact on employment is estimated to stand at 53.1 thousand jobs.
- Boost of tax revenue in the fiscal consolidation effort of Greece by €147 million.

4.5 Sustainability challenges and policy priorities

The domestic environment is not conducive to strengthening the sustainability of the pharmaceuticals industry, creating a series of obstacles to its proper functioning and its growth prospects. The key challenges today for the industry are as follows:

a) Lack of liquidity
b) Turbulent process of rationalising the public pharmaceutical expenditure
c) Emphasis on increased use of the cheapest generic drugs by the state, in order to achieve savings
d) Holding of Greek sovereign bonds, that were allocated to the Greek pharmaceutical industries, in exchange of the accumulated arrears of the public hospitals and their inclusion in the Private Sector Involvement programme in March 2012
e) Inability to identify a simple, stable and transparent system of pricing, distribution and reimbursement of pharmaceuticals
f) Constant changes in the regulatory framework
g) Uncertainty regarding the business stability in the pharmaceuticals market

The European and global developments in the generics market perhaps open a window of opportunity to escape from the deadlock. The new macroeconomic environment and the need to maximise synergies with other healthcare sectors and new complementary industries, create opportunities that allow for business planning and the generation of investment initiatives in the effort to secure the viability of the Greek pharmaceutical industry. The most significant and necessary policy priorities in the pharmaceuticals sector are summarised as follows:

- **Policy priority 1:** Operational upgrade of the National Organisation for Medicines
- **Policy priority 2:** Formal, transparent recording of the pharmaceutical expenditure
- **Policy priority 3:** Settlement of the outstanding debt of the hospitals and the National Organisation for Health Care
- **Policy priority 4:** Boost of research for the systematic promotion of innovation
- **Policy priority 5:** Boost of the openness of the Greek pharmaceutical companies, through facilitation of the relevant procedures
- **Policy priority 6:** Promotion of clinical studies through simplification of the regulatory framework, so that the country can attract activities, such as the development of new molecules and the redesign of drugs, utilising the relevant know-how
- **Policy priority 7:** Reinforcement of electronic Government actions, completion of electronic prescription as a tool for volume rationalisation and quality assurance of the provided services and link with diagnostic and therapeutic protocols.

5. APPENDIX: KEY ECONOMIC INDICATORS

Table 1: Real GDP growth rate

	Annual data (%)								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Austria	3.7	3.7	1.4	-3.8	2.1	2.7	0.8	0.7(f)	1.9(f)
Belgium	2.7	2.9	1.0	-2.8	2.4	1.8	-0.2	0.2(f)	1.5(f)
Bulgaria	6.5	6.4	6.2	-5.5	0.4	1.8	0.8	1.4(f)	2.0(f)
France	2.5	2.3	-0.1	-3.1	1.7	1.7	0.0(f)	0.1(f)	1.2(f)
Germany	3.7	3.3	1.1	-5.1	4.2	3	0.7	0.5(f)	2.0(f)
Denmark	3.4	1.6	-0.8	-5.7	1.6	1.1	-0.6	1.1(f)	1.7(f)
EU-27	3.3	3.2	0.3	-4.3	2.1	1.5	-0.3	0.1(f)	1.6(f)
Euro Area - 17	3.2	3.0	0.4	-4.4	2.0	1.4	-0.6	-0.3(f)	1.4(f)
Greece	5.5	3.5	-0.2	-3.1	-4.9	-7.1	-6.4	-4.4(f)	0.6(f)
Estonia	10.1	7.5	-4.2	-14.1	3.3	8.3	3.2	3.0(f)	4.0(f)
United Kingdom	2.6	3.6	-1.0	-4	1.8	1	0.3	0.9(f)	1.9(f)
Ireland	5.4	5.4	-2.1	-5.5	-0.8	1.4	0.9	1.1(f)	2.2(f)
Spain	4.1	3.5	0.9	-3.7	-0.3	0.4	-1.4(f)	-1.4(f)	0.8(f)
Italy	2.2	1.7	-1.2	-5.5	1.7	0.4	-2.4	-1(f)	0.8(f)
Cyprus	4.1	5.1	3.6	-1.9	1.3	0.5	-2.4	-3.5(f)	-1.3(f)
Latvia	11.2	9.6	-3.3	-17.7	-0.9	5.5	5.6	3.8(f)	4.1(f)
Lithuania	7.8	9.8	2.9	-14.8	1.5	5.9	3.6	3.1(f)	3.6(f)
Luxembourg	4.9	6.6	-0.7	-4.1	2.9	1.7	0.2(f)	0.5(f)	1.6(f)
Malta	2.6	4.1	3.9	-2.6	2.9	1.7	0.8	1.5(f)	2.0(f)
Netherlands	3.4	3.9	1.8	-3.7	1.6	1	-0.9	0.6(f)	1.1(f)
Hungary	3.9	0.1	0.9	-6.8	1.3	1.6	-1.7	-0.1(f)	1.3(f)
Poland	6.2	6.8	5.1	1.6	3.9	4.3	2.0	1.2(f)	2.2(f)
Portugal	1.4	2.4	0.0	-2.9	1.9	-1.6	-3.2	-1.9(f)	0.8(f)
Romania	7.9	6.3	7.3	-6.6	-1.1	2.2	0.3	1.6(f)	2.5(f)
Slovakia	8.3	10.5	5.8	-4.9	4.4	3.2	2	1.1(f)	2.9(f)
Slovenia	5.8	7.0	3.4	-7.8	1.2	0.6	-2.3	-2.0(f)	0.7(f)
Sweden	4.3	3.3	-0.6	-5	6.6	3.7	0.8	1.3(f)	2.7(f)
Czech Republic	7.0	5.7	3.1	-4.5	2.5	1.9	-1.3	0.0(f)	1.9(f)
Finland	4.4	5.3	0.3	-8.5	3.3	2.8	-0.2	0.3(f)	1.2(f)
Croatia	4.9	5.1	2.1	-6.9	-2.3	0.0	-2.0	-0.4(f)	1.0(f)

Table 2: General government debt (% of GDP)

	Annual data (%)								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Austria	64.7	64.2	62.3	60.2	63.8	69.2	72	72.4	74.4
Belgium	94	92	88	84	89.2	95.7	95.5	97.8	100.3
Bulgaria	37	27.5	21.6	17.2	13.7	14.6	16.2	16.3	20
Cyprus	65	66.7	64	64.2	68.2	79.2	82.3	86	90
Czech Republic	66.2	68.5	68	65.2	66.8	74.5	82.5	80.5	82.4
Denmark	45.1	37.8	32.1	27.1	33.4	40.7	42.7	46.4	45.4
Estonia	61.9	62.3	62.8	61.6	59	62.2	74.6	80	82.5
EU-27	69.2	69.6	70.3	68.6	66.4	70.2	80	85.4	87.3
Euro area (17)	98.9	101.2	107.5	107.2	112.9	129.7	148.3	170.6	174.7
Finland	5	4.6	4.4	3.7	4.5	7.2	6.7	6.1	10.8
France	41	42.2	43.3	44.2	52.3	67.8	79.4	85.2	88.9
Germany	29.5	27.3	24.6	25.1	44.5	64.9	92.2	106.4	118.1
Greece	46.3	43.2	39.7	36.3	40.2	53.9	61.5	69.3	85.4
Hungary	103.4	105.7	106.3	103.3	106.1	116.4	119.2	120.7	126.2
Ireland	70.9	69.4	64.7	58.8	48.9	58.5	61.3	71.1	86.4
Italy	15	12.5	10.7	9	19.8	36.7	44.5	42.2	42
Latvia	19.3	18.3	17.9	16.8	15.5	29.3	37.9	38.5	41.3
Lithuania	6.3	6.1	6.7	6.7	14.4	15.3	19.2	18.3	21.5
Luxembourg	69.8	68	62.5	60.7	60.9	66.3	67.4	70.4	70.7
Malta	52.4	51.8	47.4	45.3	58.5	60.8	63.1	65.5	71.3
Netherlands	59.5	61.7	65.9	67	73	79.8	81.8	81.4	79
Poland	45.7	47.1	47.7	45	47.1	50.9	54.8	56.4	56.1
Portugal	61.9	67.7	69.4	68.4	71.7	83.2	93.5	108	119
Romania	18.7	15.8	12.4	12.8	13.4	23.6	30.5	34.7	35.9
Slovakia	41.5	34.2	30.5	29.6	27.9	35.6	41	43.3	52.2
Slovenia	27.3	26.7	26.4	23.1	22	35	38.6	46.9	53.7
Spain	50.3	50.4	45.3	40.2	38.8	42.6	39.5	38.4	37.9
Sweden	28.9	28.4	28.3	27.9	28.7	34.2	37.8	40.8	45.3
United Kingdom	44.4	41.7	39.6	35.2	33.9	43.5	48.6	49	53.5
Croatia	:	:	:	:	:	:	:	:	:

Table 3: General government balance (% of GDP)

	Annual data (%)								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	-1.5	-4.4	-1.7	-1.5	-0.9	-0.9	-4.1	-4.5	-2.5
Belgium	-0.1	-0.1	-2.5	0.4	-0.1	-1	-5.5	-3.8	-3.7
Bulgaria	-0.4	1.9	1	1.9	1.2	1.7	-4.3	-3.1	-2
Cyprus	-4.1	-3.6	-2.9	-2.3	-2.7	-3.3	-7.5	-7.1	-5.2
Czech Republic	-4.2	-3.8	-3.3	-1.6	0.2	-0.1	-3.1	-4.1	-0.8
Denmark	0.1	2.1	5.2	5.2	4.8	3.2	-2.7	-2.5	-1.8
Estonia	-3.2	-2.9	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4
EU-27	-3.1	-2.9	-2.5	-1.3	-0.7	-2.1	-6.3	-6.2	-4.1
Euro area (17)	-5.6	-7.5	-5.2	-5.7	-6.5	-9.8	-15.6	-10.7	-9.4
Finland	1.7	1.6	1.6	2.5	2.4	-2.9	-2	0.2	1.1
France	-3.4	-3.5	-3.4	-2.7	-2.8	-5.1	-11.5	-10.2	-7.8
Germany	0.4	1.4	1.7	2.9	0.1	-7.4	-13.9	-30.9	-13.4
Greece	-0.3	-0.1	1.3	2.4	1.9	-4.5	-11.2	-9.7	-9.4
Hungary	-3.6	-3.5	-4.4	-3.4	-1.6	-2.7	-5.4	-4.5	-3.9
Ireland	-6.6	-4.1	-2.4	-1.2	3.5	0.9	-6.1	-5.3	-6.3
Italy	-1.6	-1	-0.4	-0.5	-0.4	-4.2	-9.8	-8.1	-3.4
Latvia	-1.3	-1.5	-0.5	-0.4	-1	-3.3	-9.4	-7.2	-5.5
Lithuania	0.5	-1.1	0	1.4	3.7	3.2	-0.8	-0.8	-0.3
Luxembourg	-9.2	-4.7	-2.9	-2.8	-2.3	-4.6	-3.9	-3.6	-2.7
Malta	-3.1	-1.7	-0.3	0.5	0.2	0.5	-5.6	-5.1	-4.5
Netherlands	-7.3	-6.5	-7.9	-9.4	-5.1	-3.7	-4.6	-4.4	4.3
Poland	-6.2	-5.4	-4.1	-3.6	-1.9	-3.7	-7.4	-7.9	-5
Portugal	-3.7	-4	-6.5	-4.6	-3.1	-3.6	-10.2	-9.8	-4.4
Romania	-1.5	-1.2	-1.2	-2.2	-2.9	-5.7	-9	-6.8	-5.5
Slovakia	-2.8	-2.4	-2.8	-3.2	-1.8	-2.1	-8	-7.7	-4.9
Slovenia	-2.7	-2.3	-1.5	-1.4	0	-1.9	-6	-5.7	-6.4
Spain	-1	0.6	2.2	2.3	3.6	2.2	-0.7	0.3	0.4
Sweden	-6.7	-2.8	-3.2	-2.4	-0.7	-2.2	-5.8	-4.8	-3.3
United Kingdom	2.6	2.5	2.9	4.2	5.3	4.4	-2.5	-2.5	-0.6
Croatia	-4.5	-4.3	-4	-3	-2.5	-1.4	-4.1	:	:

Table 4: Population percentage at risk of poverty thresholds (*)

	Annual data (%)								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Austria	17.5	16.8	17.8	16.7	18.6	17.0	16.6	16.9	:
Belgium	21.6	22.6	21.5	21.6	20.8	20.2	20.8	21.0	:
Bulgaria	:	:	61.3	60.7	44.8	46.2	49.2	49.1	:
Cyprus	19.8	18.9	18.8	19.0	18.6	18.5	19.2	19.3	:
Czech Republic	:	18.4	20.2	20.6	20.1	20	19.7	19.9	:
Denmark	16.5	17.2	16.7	16.8	16.3	17.6	18.3	18.9	:
Estonia	:	25.6	25.2	24.4	23.6	23.1	23.6	24.2	:
EU-27	:	:	:	:	:	:	:	:	:
Euro area (17)	30.9	29.4	29.3	28.3	28.1	27.6	27.7	31.0	:
Finland	26.3	25.9	22.0	22.0	21.8	23.4	21.7	23.1	:
France	:	24.8	23.7	22.6	23.2	22.0	23.1	22.7	:
Germany	24.8	25.0	23.3	23.1	23.7	25.7	29.9	:	:
Greece	24.4	23.4	23.3	23.1	22.9	23.4	25.5	27.0	:
Hungary	26.4	25.0	25.9	26.0	25.3	24.7	24.5	28.2	:
Ireland	:	25.3	25.4	25.2	23.3	23.5	23.59	23.7	:
Italy	:	45.8	41.4	36.0	33.8	37.4	38.1	40.4	:
Latvia	:	41.0	35.9	28.7	27.6	29.5	33.4	33.4	:
Lithuania	16.1	17.3	16.5	15.9	15.5	17.8	17.1	16.8	:
Luxembourg	:	20.2	19.1	19.4	19.6	20.2	20.3	21.4	:
Malta	:	16.7	16.0	15.7	14.9	15.1	15.1	15.7	:
Netherlands	:	32.1	31.4	29.4	28.2	29.6	29.9	31.0	:
Poland	:	45.3	39.5	34.4	30.5	27.8	27.8	27.2	:
Portugal	27.5	26.1	25.0	25.0	26.0	24.9	25.3	24.4	:
Romania	:	:	:	45.9	44.2	43.1	41.4	40.3	:
Slovakia	:	32	26.7	21.3	20.6	19.6	20.6	20.6	:
Slovenia	:	18.5	17.1	17.1	18.5	17.1	18.3	19.3	:
Spain	16.9	14.4	16.3	13.9	14.9	15.9	15.0	16.1	:
Sweden	:	19.6	18.0	15.8	15.3	14.0	14.4	15.3	:
United Kingdom	17.2	17.2	17.1	17.4	17.4	16.9	16.9	17.9	:
Croatia	:	:	:	:	:	:	31.3	32.7	:

(*) population percentage with disposable income below 60% of median equivalised income

Table 5: Inflation

	Annual data (%)				January-February (%)			Change (%)	
	2009	2010	2011	2012	2011	2012	2013	2012/11	2013/12
Austria	0.4	1.7	3.6	2.6	2.8	2.8	2.7	-0.1	-0.1
Belgium	0.0	2.3	3.5	2.6	3.6	3.3	1.3	-0.3	-2.0
Bulgaria	2.5	3.0	3.4	2.4	4.5	1.9	2.4	-2.5	0.5
Cyprus	0.1	1.7	2.3	2.2	1.9	2.6	1.3	0.7	-1.3
Czech Republic	0.2	1.2	2.5	2.1	2.1	2.4	1.8	0.3	-0.6
Denmark	1.1	2.2	2.7	2.4	2.6	2.8	1.0	0.2	-1.8
Estonia	1.0	2.1	3.1	2.6	2.8	2.9	2.0	0.1	-0.9
EU-27	0.3	1.6	2.7	2.5	2.4	2.7	1.9	0.3	-0.8
Euro area (17)	1.4	4.7	3.1	1.0	4.5	1.9	0.1	-2.7	-1.8
Finland	0.2	2.7	5.1	4.2	5.3	4.6	3.9	-0.7	-0.7
France	2.2	3.3	4.5	2.8	4.2	3.5	2.7	-0.7	-0.8
Germany	-1.7	-1.6	1.2	1.9	0.5	1.5	1.4	0.9	-0.1
Greece	-0.3	1.8	3.3	2.4	2.8	1.9	2.9	-0.8	0.9
Hungary	0.8	1.6	2.9	3.3	2.0	3.4	2.2	1.4	-1.3
Ireland	0.2	2.6	3.5	3.1	3.1	3.1	1.9	0.0	-1.2
Italy	3.4	-1.2	4.2	2.3	3.7	3.3	0.5	-0.3	-2.9
Latvia	4.2	1.2	4.1	3.2	2.9	3.6	2.5	0.6	-1.1
Lithuania	0.0	2.8	3.7	2.9	3.7	3.2	2.3	-0.4	-1.0
Luxembourg	1.9	2.0	2.4	3.3	3.0	2.1	2.2	-0.9	0.1
Malta	1.0	0.9	2.5	2.8	2.0	2.8	3.2	0.8	0.5
Netherlands	4.0	4.7	3.9	5.7	4.1	5.7	2.8	1.6	-2.9
Poland	4.0	2.7	3.9	3.7	3.4	4.3	1.4	0.9	-2.9
Portugal	-0.9	1.4	3.6	2.8	3.5	3.5	0.3	-0.1	-3.1
Romania	5.6	6.1	5.9	3.4	7.3	2.7	5.0	-4.5	2.2
Slovakia	0.9	0.7	4.1	3.7	3.4	4.0	2.4	0.7	-1.6
Slovenia	0.9	2.1	2.1	2.8	2.2	2.5	2.9	0.4	0.4
Spain	1.9	1.9	1.4	0.9	1.3	0.9	0.6	-0.4	-0.3
Sweden	0.6	1.2	2.1	3.5	1.9	3.9	1.8	2.0	-2.1
United Kingdom	1.6	1.7	3.3	3.2	3.3	3.0	2.5	-0.3	-0.5
Croatia	0.4	1.7	3.6	2.6	2.8	2.8	2.7	-0.1	-0.1

Table 6: GDP per capita ΑΕΠ (in PPS - Purchasing Power Standard, EU-27=100)

	Annual data (%)								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	128	128	125	126	124	124	125	127	129
Belgium	124	121	120	118	116	116	118	119	119
Bulgaria	34	35	37	38	40	43	44	44	46
Cyprus	111	110	110	108	108	107	109	108	108
Czech Republic	116	115	116	115	115	116	115	119	121
Denmark	124	126	123	124	122	125	123	128	125
Estonia	100	100	100	100	100	100	100	100	100
EU-27	112	112	111	109	109	109	109	108	108
Euro area (17)	93	94	91	92	90	93	94	87	79
Finland	55	57	61	66	70	69	63	63	67
France	121	123	123	121	117	113	111	111	109
Germany	142	143	144	146	147	132	130	129	129
Greece	101	101	102	105	105	104	103	99	98
Hungary	111	107	105	104	104	104	104	101	100
Ireland	88	91	93	93	94	99	100	97	94
Italy	44	47	50	53	57	58	54	54	58
Latvia	49	51	53	55	59	61	55	57	66
Lithuania	247	252	254	270	274	263	255	267	271
Luxembourg	80	78	78	77	76	79	83	85	85
Malta	129	129	131	131	132	134	132	131	131
Netherlands	63	63	63	63	61	64	65	65	66
Poland	49	51	51	52	54	56	61	63	64
Portugal	79	77	79	79	79	78	80	80	77
Romania	31	34	35	38	41	47	47	47	49
Slovakia	55	57	60	63	68	73	73	73	73
Slovenia	84	87	87	87	88	91	87	84	84
Spain	124	126	122	123	125	124	120	124	127
Sweden	77	78	79	80	83	81	83	80	80
United Kingdom	113	116	114	114	117	119	114	113	114
Croatia	55	56	57	58	61	63	62	59	61

Table 7: Real labour productivity per person employed (EU-27=100)

	Annual data (%)								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	120.7	121	118.5	119.2	117.1	116.6	116.2	116.5	116.7
Belgium	135.6	132.6	130.5	129.3	127.7	127.1	127.9	128.6	127.6
Bulgaria	34.8	34.8	35.8	36.4	37.5	39.6	40	41.2	44.3
Cyprus	116.3	115.5	116.5	115.4	115.6	115.4	117.3	116.5	116.6
Czech Republic	107.9	107.7	108.6	108.8	108.4	108	104.3	106.1	106.6
Denmark	106.9	109.3	107.3	107.1	104.8	105.9	105.8	111.8	110.4
Estonia	100	100	100	100	100	100	100	100	100
EU-27	109.8	108.8	108.8	108.7	108.9	109.1	109	108.6	108.5
Euro area (17)	101.9	101.2	95.9	97.2	95.5	97.7	98.2	93.3	90.1
Finland	55	57.7	60.8	62.4	66.7	65.8	65.1	68.4	68
France	112.9	114.3	113.8	113.1	110.6	107.5	105.9	105.9	104.1
Germany	137.8	137	135.7	136.1	137.1	127.9	134.4	138.9	142.7
Greece	104.2	102.4	101.5	102.8	103.2	104.4	109.6	107.9	108.5
Hungary	116.8	113.3	112.1	111.2	111.6	113	112.6	110.1	109
Ireland	82.1	82.4	83	84.2	85.5	91.1	92.5	91	90.9
Italy	44.2	45.9	47.8	48.9	51.4	51.6	52.8	53.7	62.4
Latvia	52.6	53.9	55	56.8	59.6	62.1	58	62.5	64.8
Lithuania	168.2	170.6	170.3	179.6	180	168.6	161.2	167.1	169
Luxembourg	96.9	94.5	94.6	93.2	92.3	94.5	97.4	97.2	94.8
Malta	111.5	112.9	114.6	114.4	114.5	115.5	112.7	112.1	111.6
Netherlands	66	67.1	67.7	67.8	66.6	70.7	72.4	70.9	71.1
Poland	60.3	61.9	61.8	61.2	62.3	62.4	65.5	67.4	68.8
Portugal	71.2	69.9	72.9	73.2	74	73.6	76.1	77	75.5
Romania	31.3	34.6	36.1	39.7	43.4	49.2	49.4	48.5	49.2
Slovakia	63.7	65.8	68.8	71.7	76.5	79.8	80	81.2	80.1
Slovenia	78.9	81.6	83.3	83.4	83.2	83.8	80.5	79.3	80.6
Spain	112	115.6	112.1	113.1	114.9	114.4	112.2	114.2	115.5
Sweden	71.2	73	73.1	74	76.3	74.1	75.9	73.8	74.1
United Kingdom	110.1	113.7	111.3	110.7	113.7	113.4	110.2	108.9	109.3
Croatia	69.6	70.4	71.4	70.5	72.5	74.9	72.9	72.6	74.9

Table 8: Employment Rate in persons aged 20-64

	Annual Data (%)				4rd quarter (%)			Change (%)	
	2008	2009	2010	2011	2010	2011	2012	11/10	12/11
Austria	75.1	74.7	74.9	75.2	75.3	75.3	75.5	0.0	0.2
Belgium	68.0	67.1	67.6	67.3	68.3	67.6	67.2	-0.7	-0.4
Bulgaria	70.7	68.8	65.4	63.9	64.7	63.1	63.4	-1.6	0.3
Cyprus	70.4	69.4	69.2	69.2	68.9	69.0	69.3	0.0	0.3
Czech Republic	74.0	74.2	74.9	76.3	75.3	77.0	77.1	1.6	0.1
Denmark	79.7	77.5	75.8	75.7	75.7	75.8	75.3	0.1	-0.5
Estonia	70.3	69.0	68.6	68.6	68.6	68.6	:	0.0	:
EU-27	70.2	68.8	68.4	68.5	68.5	68.4	:	-0.1	:
Euro area (17)	66.5	65.8	64.0	59.9	62.7	57.6	54.1	-5.1	-3.5
Finland	77.0	69.9	66.7	70.4	69.5	71.2	72.1	1.8	0.9
France	75.2	73.9	73.6	73.6	73.7	73.5	:	-0.2	:
Germany	72.3	67.1	65.0	63.8	63.9	63.9	64.1	0.1	0.2
Greece	68.3	63.7	62.5	61.6	62.5	60.7	58.5	-1.7	-2.3
Hungary	63.0	61.7	61.1	61.2	61.2	61.1	60.8	-0.1	-0.3
Ireland	76.5	75.7	75.4	73.4	75.4	72.1	69.8	-3.3	-2.3
Italy	75.8	67.1	65.0	66.3	65.8	67.5	69.3	1.7	1.8
Latvia	72.0	67.2	64.4	67.2	65.9	67.9	68.8	2.0	0.8
Lithuania	68.8	70.4	70.7	70.1	70.7	69.7	71.7	-1.1	2.1
Luxembourg	59.1	58.8	60.1	61.5	60.5	61.3	63.9	0.9	2.6
Malta	78.9	78.8	76.8	77.0	77.1	77.5	:	0.3	:
Netherlands	61.9	60.5	60.4	60.7	60.7	61.4	:	0.7	:
Poland	65.0	64.9	64.6	64.8	64.8	64.9	65.0	0.1	0.0
Portugal	73.1	71.2	70.5	69.1	70.2	67.7	65.1	-2.5	-2.5
Romania	64.4	63.5	63.3	62.8	62.3	62.3	63.6	-0.1	1.4
Slovakia	68.8	66.4	64.6	65.1	65.1	65.1	64.6	-0.1	-0.5
Slovenia	73.0	71.9	70.3	68.4	69.9	68.5	68.5	-1.3	0.0
Spain	80.4	78.3	78.7	80.0	78.4	79.3	79.2	0.9	-0.1
Sweden	72.4	70.9	70.4	70.9	70.8	71.1	71.9	0.3	0.8
United Kingdom	75.8	73.5	73.0	73.8	72.8	73.8	:	1.0	:
Croatia	62.9	61.7	58.7	57.0	58.4	56.4	:	-2.1	:

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

Table 9: Employment Rate in persons aged 55-64

	Annual Data (%)				4rd quarter (%)			Change (%)	
	2008	2009	2010	2011	2010	2011	2012	11/10	12/11
Austria	41.0	41.1	42.4	41.5	42.2	41.4	43.7	-0.9	2.3
Belgium	34.5	35.3	37.3	38.7	37.9	38.9	39.0	1.0	0.1
Bulgaria	46.0	46.1	43.5	43.9	42.9	44.5	46.1	1.6	1.6
Cyprus	38.2	39.0	39.8	41.5	39.9	42.6	45.7	2.7	3.0
Czech Republic	53.7	56.1	57.7	59.9	58.0	60.8	62.2	2.8	1.5
Denmark	58.4	58.2	58.4	59.5	58.4	60.4	61.6	2.0	1.2
Estonia	45.6	46.0	46.3	47.4	46.5	47.8	:	1.3	:
EU-27	44.3	45.1	45.8	47.1	46.0	47.7	:	1.7	:
Euro area (17)	42.8	42.2	42.3	39.4	42.0	37.5	36.2	-4.6	-1.2
Finland	62.4	60.4	53.8	57.2	55.3	59.0	59.5	3.7	0.5
France	58.0	57.5	57.1	56.7	56.8	56.6	:	-0.1	:
Germany	53.7	51.3	50.2	50.0	49.3	49.7	49.8	0.4	0.0
Greece	45.6	44.1	43.6	44.5	43.8	44.2	43.5	0.4	-0.8
Hungary	34.4	35.7	36.6	37.9	37.0	39.0	41.1	2.0	2.2
Ireland	54.8	56.0	56.8	54.8	55.8	52.5	51.4	-3.4	-1.1
Italy	59.4	53.2	48.2	50.5	47.7	52.4	53.1	4.7	0.6
Latvia	53.1	51.6	48.6	50.5	50.3	50.6	51.3	0.4	0.7
Lithuania	34.1	38.2	39.6	39.3	39.6	37.9	40.4	-1.7	2.4
Luxembourg	29.2	27.8	30.2	31.7	30.4	31.8	35.8	1.4	4.0
Malta	53.0	55.1	53.7	56.1	54.4	57.4	:	3.0	:
Netherlands	31.4	32.8	34.4	35.8	35.2	36.2	:	1.0	:
Poland	31.6	32.3	34.0	36.9	35.3	37.6	39.8	2.3	2.1
Portugal	50.8	49.7	49.2	47.9	49.4	46.7	45.5	-2.7	-1.2
Romania	43.1	42.6	41.1	40.0	39.1	39.0	41.0	0.0	2.0
Slovakia	39.2	39.5	40.5	41.4	40.1	41.9	43.8	1.9	1.9
Slovenia	32.8	35.6	35.0	31.2	33.8	31.7	34.3	-2.1	2.6
Spain	70.1	70.0	70.5	72.3	71.0	72.6	73.5	1.6	1.0
Sweden	47.6	46.8	46.5	47.6	47.2	47.4	50.3	0.1	3.0
United Kingdom	56.5	55.5	56.2	57.0	56.6	57.2	:	0.6	:
Croatia	36.7	38.5	37.6	37.1	37.3	37.4	:	0.0	:

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

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

	Annual Data (%)						4rd quarter (%)		
	2006	2007	2008	2009	2010	2011	2010/09	2011/10	2012/11
Austria	1.7	1.8	2	-0.7	0.8	1.7	1.1	0.7	0.5
Belgium	1.1	1.7	1.8	-0.2	0.7	1.4	2.2	-0.1	-0.4
Bulgaria	3.3	3.2	2.6	-2.6	-4.7	-4.2	-4.7	-1.7	-0.7
Cyprus	1.1	1.4	0.5	-1.3	-0.1	0.5	0.6	0.3	0.2
Czech Republic	0.6	1.7	1.2	0.1	0.6	1.4	0.1	2.9	0.3
Denmark	2.1	2.8	1.7	-2.4	-2.3	-0.4	-0.6	-0.2	-0.1
Estonia	1.6	1.8	1	-1.8	-0.5	0.3	0.0	0.1	:
EU-27	1.6	1.8	0.8	-1.8	-0.5	0.2	-0.2	0.1	:
Euro area (17)	1.8	1.6	0.8	-0.2	-1.9	-6.7	-4.0	-8.5	-6.4
Finland	5.4	0.7	0.2	-9.9	-4.8	7	2.1	3.6	1.7
France	1.1	0.7	0.3	-1.7	-0.7	0.5	0.6	0.0	:
Germany	4.4	3.6	-1.1	-8.1	-4.2	-2.1	-1.6	-0.5	0.1
Greece	4	3	-0.1	-6.5	-2.5	-1.5	-1.	-3.3	-4.8
Hungary	2	1.3	0.3	-1.6	-0.7	0.3	0.1	0.1	-0.6
Ireland	1.8	3.2	2.1	-0.5	0.1	0.5	3.4	-1.6	-1.5
Italy	4.9	3.6	0.9	-13.2	-4.8	-8.1	2.0	-7.8	2.9
Latvia	1.8	2.8	-0.7	-6.8	-5.1	2	-1.2	-7.7	0.8
Lithuania	:	:	:	:	:	:	2.8	0.9	6.1
Luxembourg	1.3	3.2	2.6	-0.3	2.4	2.5	2.0	1.9	3.5
Malta	1.7	2.5	1.5	-0.7	-0.4	0.7	-1.9	0.3	:
Netherlands	0.4	0	-1.4	-2.8	0.3	0.3	0.6	1.2	:
Poland	3.2	4.5	3.9	0.4	0.5	1	1.2	0.8	-3.5
Portugal	0.5	0	0.5	-2.6	-1.5	-1.5	-1.5	-4.3	-4.3
Romania	:	:	:	-2	-1.4	0.4	0.3	-0.1	1.9
Slovakia	2.1	2.1	3.2	-2	-1.5	1.8	0.4	0.5	-1.6
Slovenia	1.5	3.3	2.6	-1.8	-2.2	-1.6	-1.9	-3.1	-1.2
Spain	1.7	2.3	0.9	-2.4	1.2	2.2	1.7	1.8	0.6
Sweden	1.3	2.1	2.3	-1.2	-1.7	0.2	-0.2	-0.1	0.0
United Kingdom	1.8	2.2	2.6	-2.6	-0.1	1.1	0.7	1.3	:
Croatia	:	:	:	:	:	:	1.1	0.7	0.5

Table 11: Total employment growth (age 15 years or over)

	Annual Data (%)				4rd quarter (%)			Change (%)	
	2008	**2009**	**2010**	**2011**	**2010**	**2011**	**2012**	**'2011/10**	**2012/11**
Austria	3.8	4.8	4.4	4.2	4.1	4.3	4.4	0.2	0.1
Belgium	7.0	7.9	8.3	7.2	7.9	7.1	8.3	-0.8	1.2
Bulgaria	5.6	6.8	10.2	11.2	11.2	11.4	12.4	0.2	1
Cyprus	7.4	9.1	9.3	9.2	9.5	9.6	10.5	0.1	0.9
Czech Republic	7.5	7.8	7.1	5.9	6.5	5.4	5.2	-1.1	-0.2
Denmark	3.4	6.0	7.5	7.6	7.3	7.4	6.9	0.1	-0.5
Estonia	7.0	8.9	9.6	9.6	9.5	9.9	:	0.4	:
EU-27	7.5	9.5	10.0	10.1	10	10.5	:	0.5	:
Euro area (17)	7.7	9.5	12.6	17.7	14.2	20.7	26.1	6.5	5.4
Finland	5.5	13.8	16.9	12.5	13.6	11.4	9.3	-2.2	-2.1
France	5.6	7.6	7.8	8.0	7.7	8.2	:	0.5	:
Germany	6.0	11.9	13.7	14.7	14.4	14.6	13.8	0.2	-0.8
Greece	11.3	18.0	20.1	21.7	20.3	22.9	26	2.6	3.1
Hungary	6.8	7.8	8.4	8.4	8.7	9.6	11.6	0.9	2
Ireland	3.7	5.3	6.2	7.9	5.5	9	12.8	3.5	3.8
Italy	7.5	17.1	18.7	16.2	16.9	15	13.8	-1.9	-1.2
Latvia	5.8	13.7	17.8	15.4	17.1	13.7	13	-3.4	-0.7
Lithuania	5.1	5.1	4.4	4.9	4.5	4.7	5	0.2	0.3
Luxembourg	6.0	6.9	6.9	6.5	6.9	6.6	6.5	-0.3	-0.1
Malta	2.8	3.4	4.5	4.4	4.2	4.8	:	0.6	:
Netherlands	7.8	10.0	11.2	10.9	10.8	10.7	:	-0.1	:
Poland	7.1	8.2	9.6	9.7	9.3	9.8	10.1	0.5	0.3
Portugal	7.7	9.6	11.0	12.9	11.3	14.2	17.2	2.9	3
Romania	5.8	6.9	7.3	7.4	7.3	7.7	6.9	0.4	-0.8
Slovakia	9.5	12.0	14.4	13.5	13.9	14	14.4	0.1	0.4
Slovenia	4.4	5.9	7.3	8.2	7.8	8.7	9.5	0.9	0.8
Spain	6.2	8.4	8.4	7.5	7.6	7.2	7.6	-0.4	0.4
Sweden	4.4	6.7	7.3	6.7	6.9	6.4	7.2	-0.5	0.8
United Kingdom	6.4	8.2	8.4	7.8	7.4	6.9	:	-0.5	:
Croatia	8.4	9.1	11.8	13.5	12.1	13.9	:	1.8	:

Table 12: Men's Unemployment Rate

	Annual Data (%)				4rd quarter (%)			Change (%)	
	2008	**2009**	**2010**	**2011**	**2010**	**2011**	**2012**	**'2011/10**	**2012/11**
Austria	3.6	5.0	4.6	4.0	3.9	3.8	4.6	-0.1	0.8
Belgium	6.5	7.8	8.1	7.1	7.7	7	8.9	-0.7	1.9
Bulgaria	5.5	7.0	10.9	12.3	12.1	12.7	13.2	0.6	0.5
Cyprus	3.2	5.2	6.0	8.1	8.8	9.4	10.4	0.6	1
Czech Republic	3.5	5.9	6.4	5.8	6.8	5.5	5.3	-1.3	-0.2
Denmark	3.2	6.6	8.4	7.7	7.5	7.3	6.7	-0.2	-0.6
Estonia	5.8	16.9	19.5	13.1	9.4	9.8	:	0.4	:
EU-27	6.8	9.3	9.9	9.9	9.7	10.3	:	0.6	:
Euro area (17)	6.6	9.0	9.6	9.5	11.6	17.9	23.3	6.3	5.4
Finland	6.1	8.9	9.1	8.4	14.2	12.4	10	-1.8	-2.4
France	6.9	8.9	9.0	8.8	8.3	8.8	:	0.5	:
Germany	7.4	8.1	7.5	6.2	17.6	17.7	16.6	0.1	-1.1
Greece	5.1	6.9	9.9	15.0	20	22.5	25.6	2.5	3.1
Hungary	7.6	10.3	11.6	11.0	7.8	8.7	10.7	0.9	2
Ireland	7.1	14.8	16.9	17.8	5.2	9.8	13.3	4.6	3.5
Italy	5.5	6.8	7.6	7.6	18.4	17.1	15.5	-1.3	-1.6
Latvia	8.0	20.3	21.7	18.6	19.2	15.4	14.1	-3.8	-1.3
Lithuania	6.1	17.1	21.2	17.8	3.7	4.2	4.3	0.5	0.1
Luxembourg	4.3	4.4	3.8	3.8	7.1	6.2	5.9	-0.9	-0.3
Malta	5.6	6.6	6.8	6.1	4.1	4.7	:	0.6	:
Netherlands	2.5	3.4	4.4	4.5	11	10.5	:	-0.5	:
Poland	6.4	7.8	9.3	9.0	8.9	8.9	9.4	0	0.5
Portugal	6.6	9.0	10.0	12.7	10.3	14.2	17.1	3.9	2.9
Romania	6.7	7.7	7.9	7.9	7.9	8.2	7.2	0.3	-1
Slovakia	8.4	11.4	14.2	13.5	13.8	13.7	14	-0.1	0.3
Slovenia	4.0	5.9	7.5	8.2	7.9	8.3	9.1	0.4	0.8
Spain	10.1	17.7	19.7	21.2	7.6	7.4	7.9	-0.2	0.5
Sweden	5.9	8.7	8.5	7.6	5.9	5.5	6.1	-0.4	0.6
United Kingdom	6.1	8.6	8.6	8.7	8	7.7	:	-0.3	:
Croatia	7.0	8.0	11.4	13.8	12.1	13.8	:	1.7	:

Table 13: Women's Unemployment Rate

	Annual Data (%)				4rd quarter (%)			Change (%)	
	2008	2009	2010	2011	2010	2011	2012	'2011/10	2012/11
Austria	4.1	4.6	4.2	4.3	4.3	4.9	4.2	0.6	-0.7
Belgium	7.6	8.1	8.5	7.2	8	7.1	7.5	-0.9	0.4
Bulgaria	5.8	6.6	9.5	10.0	10.3	10	11.4	-0.3	1.4
Cyprus	7.9	9.4	9.7	9.7	10.2	9.9	10.6	-0.3	0.7
Czech Republic	7.7	7.3	6.6	5.6	6.2	5.3	5.1	-0.9	-0.2
Denmark	3.7	5.3	6.5	7.5	7	7.6	7	0.6	-0.6
Estonia	7.5	8.9	9.6	9.7	9.6	10	:	0.4	:
EU-27	8.3	9.7	10.2	10.4	10.4	10.8	:	0.4	:
Euro area (17)	11.4	13.2	16.2	21.4	17.9	24.5	29.7	6.6	5.2
Finland	5.3	10.6	14.3	11.8	13	10.3	8.5	-2.7	-1.8
France	5.1	6.4	6.8	7.3	6.9	7.5	:	0.6	:
Germany	4.6	8.0	9.7	10.8	10.4	10.7	10.3	0.3	-0.4
Greece	13.0	18.4	20.5	22.2	20.8	23.3	26.6	2.5	3.3
Hungary	8.5	9.3	9.7	9.6	10	10.8	12.8	0.8	2
Ireland	4.3	5.5	6.4	7.7	5.8	8.1	12.2	2.3	4.1
Italy	6.9	13.9	15.7	13.8	15.4	12.9	12.1	-2.5	-0.8
Latvia	5.6	10.4	14.5	13.0	15.1	12.1	11.9	-3	-0.2
Lithuania	6.0	6.1	5.1	6.3	5.7	5.3	5.9	-0.4	0.6
Luxembourg	6.9	7.6	7.1	7.1	6.5	7.3	7.4	0.8	0.1
Malta	3.0	3.5	4.5	4.4	4.4	4.8	:	0.4	:
Netherlands	8.1	9.7	10.7	10.9	10.6	10.8	:	0.2	:
Poland	8.0	8.7	10.0	10.5	9.9	10.9	11.1	1	0.2
Portugal	9.0	10.3	12.1	13.2	12.5	14.3	17.3	1.8	3
Romania	4.7	5.8	6.5	6.8	6.5	7	6.5	0.5	-0.5
Slovakia	10.9	12.8	14.6	13.6	14	14.3	15	0.3	0.7
Slovenia	4.8	5.8	7.1	8.2	7.6	9.3	10.1	1.7	0.8
Spain	6.6	8.0	8.3	7.5	7.6	7	7.3	-0.6	0.3
Sweden	5.6	7.7	8.5	7.9	8.2	7.6	8.5	-0.6	0.9
United Kingdom	6.7	7.6	7.6	7.1	6.8	5.9	:	-0.9	:
Croatia	10.1	10.3	12.3	13.2	12.1	14	:	1.9	:

Table 14: Long term unemployment rate (*)

	Annual Data (%)				4rd quarter (%)			Change (%)	
	2008	2009	2010	2011	2010	2011	2012	'2011/10	2012/11
Austria	36.9	33.1	39.9	42.9	26.7	26.5	24.2	-0.2	-2.3
Belgium	39.3	35.6	42.5	45.2	49.4	48.1	46.3	-1.3	-1.8
Bulgaria	47.5	44.2	48.8	48.4	52.1	55.7	55.1	3.6	-0.6
Cyprus	51.6	43.1	46.4	56.1	39.8	41.3	39.5	1.5	-1.8
Czech Republic	49.3	30.1	41.0	40.6	48.9	47.5	43.9	-1.4	-3.6
Denmark	13.5	9.5	20.2	24.4	23.8	24.9	30.1	1.1	5.2
Estonia	52.5	45.5	47.4	48.0	42.1	43.5	:	1.4	:
EU-27	30.1	27.4	45.3	56.8	44.3	45.9	:	1.6	:
Euro area (17)	27.1	29.2	49.3	59.3	45.8	52.4	63.9	6.6	11.5
Finland	47.5	40.8	45.0	49.6	48.7	58.6	52	9.9	-6.6
France	17.8	23.7	36.6	41.6	34.1	32.8	:	-1.3	:
Germany	37.4	35.2	40.2	41.5	55.7	63.3	60.3	7.6	-3
Greece	45.6	44.4	48.4	51.9	40.1	43.2	47	3.1	3.8
Hungary	13.6	10.3	20.3	20.8	48.8	51.2	55.4	2.4	4.2
Ireland	25.7	26.7	45.1	54.5	25.7	24.6	34.4	-1.1	9.8
Italy	21.1	23.2	41.4	51.9	55.1	51.2	53.8	-3.9	2.6
Latvia	32.2	23.2	29.3	28.6	49.6	51.6	45.9	2	-5.7
Lithuania	46.5	41.6	49.3	47.9	34.8	26.7	37.4	-8.1	10.7
Luxembourg	42.2	43.5	46.3	46.2	47.7	47.2	42.8	-0.5	-4.4
Malta	34.4	24.2	27.5	33.5	31.4	34.3	:	2.9	:
Netherlands	24.2	21.3	25.2	25.9	52	45.8	:	-6.2	:
Poland	33.5	30.3	31.1	37.2	34.9	39	41.2	4.1	2.2
Portugal	47.4	44.2	52.3	48.1	52.5	47.1	51.2	-5.4	4.1
Romania	41.3	31.6	34.9	41.9	35.7	44.6	45.8	8.9	1.2
Slovakia	42.2	30.1	43.3	44.2	68.2	67.7	68.5	-0.5	0.8
Slovenia	69.5	54.0	64.0	67.8	46.2	45	49	-1.2	4
Spain	18.4	16.7	24.0	22.2	21.1	19.8	19.8	-1.3	0
Sweden	12.7	13.2	17.8	18.6	44.1	42.8	42.7	-1.3	-0.1
United Kingdom	24.1	24.5	32.6	33.4	29.1	25.6	:	-3.5	:
Croatia	63.1	56.1	56.9	63.9	58.8	63.5	:	4.7	:

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

Table 15: Youth Unemployment rate (15 to 24 years)

	Annual Data (%)				4[rd] quarter (%)			Change (%)	
	2008	2009	2010	2011	2010	2011	2012	'2011/10	2012/11
Austria	8.0	10.0	8.8	8.3	7.4	8.8	8.1	1.4	-0.7
Belgium	18.0	21.9	22.4	18.7	21.2	16.6	22	-4.6	5.4
Bulgaria	12.7	16.2	23.2	26.6	26.5	26.9	28.5	0.4	1.6
Cyprus	18.6	23.2	22.8	22.0	23.2	23.4	26.9	0.2	3.5
Czech Republic	10.6	11.2	9.9	8.6	8.4	7.4	7.4	-1	0
Denmark	8.0	11.8	14.0	14.2	13.9	13.7	12.8	-0.2	-0.9
Estonia	15.6	19.9	20.9	21.3	20.7	21.8	:	1.1	:
EU-27	15.6	19.8	20.6	20.7	20.3	21.2	:	0.9	:
Euro area (17)	22.1	25.8	32.9	44.4	36.9	49.9	57.8	13	7.9
Finland	12.0	27.5	32.9	22.3	23.4	22.7	16.9	-0.7	-5.8
France	15.0	19.1	19.6	21.1	19.9	21.8	:	1.9	:
Germany	12.7	24.3	27.8	29.1	28.8	29.1	27.7	0.3	-1.4
Greece	24.6	37.8	41.6	46.4	42.8	48.6	55.1	5.8	6.5
Hungary	21.3	25.4	27.8	29.1	29.8	32.6	39	2.8	6.4
Ireland	9.0	13.8	16.7	22.4	14.4	26	32	11.6	6
Italy	13.1	33.6	34.5	31.0	30.7	27.6	21.6	-3.1	-6
Latvia	13.4	29.2	35.1	32.9	32.4	30.5	25.4	-1.9	-5.1
Lithuania	17.9	17.2	14.2	16.8	12.7	18.4	19.7	5.7	1.3
Luxembourg	12.2	14.4	13.0	13.7	13.7	13.6	12.8	-0.1	-0.8
Malta	5.3	6.6	8.7	7.6	8.1	8.3	:	0.2	:
Netherlands	19.9	26.5	26.6	26.1	25.2	26.3	:	1.1	:
Poland	17.3	20.6	23.7	25.8	23.5	26.4	27.4	2.9	1
Portugal	16.4	20.0	22.4	30.1	23	35.4	40	12.4	4.6
Romania	18.6	20.8	22.1	23.7	22.8	25.4	22.7	2.6	-2.7
Slovakia	19.0	27.3	33.6	33.2	34.2	34.5	36.1	0.3	1.6
Slovenia	10.4	13.6	14.7	15.7	15.4	17.4	24.4	2	7
Spain	20.2	25.0	25.2	22.9	21.1	20.6	22.1	-0.5	1.5
Sweden	9.9	16.6	18.3	18.0	17.4	18.4	20	1	1.6
United Kingdom	16.5	21.5	21.4	20.1	18	16.2	:	-1.8	:
Croatia	21.9	25.1	32.6	36.1	37.2	37.3	:	0.1	: