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IOBE

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

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FOREWORD

This is the second report that IOBE is publishing for 2013 as part of its periodic series on the Greek economy. The publication takes place in the immediate aftermath of a political turmoil episode in Greece, triggered by the effort to implement structural changes in the public sector, which led to a change in the political support of the government, one year after the last elections. As all IOBE quarterly bulletins, the report contains **four sections** and an **appendix** with key structural indicators. It starts with an **introductory text on the significance of the structural reforms and the prerequisites for their successful implementation.** 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 2013**, based on the latest reports of the European Commission, and data from 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 **execution of the State Budget** in the first five months of 2013 and the **General Government budget** from January to April of this year.

Section three focuses on the performance of the Greek economy in early 2013. It includes an analysis of: the current **macroeconomic environment** and its medium-term outlook; the **developments** in **key production sectors** in the three or four months of 2013, depending on data availability; the **export performance** of the Greek economy from January to April; the developments in the **labour market** in the first quarter; the course of **inflation** from January to May; and, finally, the course of the **balance of payments** from January to April.

Section four presents a **special study of IOBE** on the economic impact of the construction and operation of the Trans Adriatic Pipeline on the Greek economy.

The report refers to and is supported by data, which were available up to 28/06/2013. IOBE's next quarterly report on the Greek economy will be published in October 2013.

THE KEY CHOICE: RECESSION AND UNEMPLOYMENT OR REFORMS AND GROWTH

Once more, the Greek economy is at a **crossroads.** The consolidation that was accomplished since the beginning of the crisis is notable. It was achieved despite the fact that many political and economic commentators had initially considered it impossible. The positive developments in the public deficit, the external balance and competitiveness are undeniable, keeping back the risk of a "sudden death". However, this positive adjustment came about mainly with an increase of the tax burden, especially on the diligent tax payers, and a horizontal reduction of public expenditure. In contrast, with the collective responsibility of the Greek political system and the "troika" that represents the country's partners and lenders, the structural reforms were not implemented with the needed consistency and emphasis. In particular:

The overall state of the economy remains mixed, with the general balance most likely leaning on the positive side. The uninterrupted course of equilibrium restoration from the "twin deficit" that for years was reflecting the structural weaknesses of the Greek economy contributes to this in a decisive way. The fiscal deficit is being systematically reduced and the achievement of primary surpluses is no longer a remote possibility, while the external deficit is falling drastically. Meanwhile, a clear deflation trend is discernible in many significant sectors. There are also several positive developments, current or imminent, including deals on major projects (on the occasion of the recent positive outcome for TAP, we include in this bulletin the key findings from a relevant study), recovery of the general investment interest, initiation of the privatisation process (with the case of DESFA) and recovery of tourism. These particular positive developments are largely based on consolidation of the stabilisation process at fiscal and political level.

On the negative side, the dominating factor is the continuous for six years recession, which is expected to be deeper in the current year than initially anticipated. This development is due in part to particular shocks, economic and political, that have kept rekindling the uncertainty about the successful completion of the consolidation programme (also with a view of the periodic negotiations with the troika) and about the long-term public debt sustainability. The growth prospects of Greece are also burdened by the observed economic slowdown at global level, especially in the country's key trading partners. The continuous rise of unemployment, albeit at a weaker rate, is a natural consequence of this. In any case, the continuous recession reflects mainly the persistent reduction of private consumption - albeit at a slower pace - due to the escalating reduction of disposable income, rising unemployment, public spending cuts and sluggish investment.

With a view all of the above, it should not be surprising that the growth forecast deviates from the initial estimates and should be reduced, with the contraction rate for 2013 anticipated at around 5%. The particular reasons that combined lead to this conclusion are described in detail in the report (see Section 3.1).

Anyhow, we should stress that structural reforms momentum, strong enough to undoubtedly signify a new phase of growth, has not yet materialised. The fiscal consolidation and the improvement of the competitiveness have not been accompanied with successful implementation of a structural reforms programme. In contrast, there are delays, ambivalence or even inability to implement substantive changes, even in key sectors. Any constituent positive development has come late and fragmented and thus at a very high cost. In certain cases, the pressure from interest groups has proven to be a strong constraint, in others the political and economic events dominate (the "next tranche" strategy), leaving no room and energy for a medium-term planning. Of course, no one can expected that an economy will fully transform itself within three or four years – this essentially requires at least a decade - more decisive steps in this direction though should have been taken, in order to clearly signify the economy's future direction. In contrast, one gets the impression that the external partners and large sections of the Greek economy and society easier accept the solution of adjustment through deep recession than active policies that will remove the key weaknesses of the economy.

However, without substantive breakthroughs, the Greek economy will continue its transformation at a very slow pace, while the risk of having a period when the economy is sliding sideways, recording exceptionally low growth rates, is also lurking in the background. Under these conditions, the equilibrium that still is in place might prove fragile and the significant adjustment that the Greek economy has achieved can topple, proving to be stillborn.

The present statement on shortcomings and delays does not deviate from previous observations of IOBE on the subject. The restructuring of the public sector has made a minimal progress, while the relationship of the public administration with the general public and the business sector, a major weakness in the past, has not been put on new foundations. The downsizing of the public sector through horizontal cuts of wages and jobs certainly provides a fiscal respite, however it is not sufficient in order to improve its efficiency. Moreover, the tax system has not yet become more simple, stable and transparent, (as per long-standing request on the grounds of economic reason and social justice). Likewise, the restructuring of the mechanism for tax collection and audit has not made much progress, at least to an extent to become notable. The full computerisation and linking of the information systems of the public institutions has not been completed. The liberalisation of the labour market was not accompanied with an intervention of a similar extent for the liberalisation of the markets for products and services, despite individual positive breakthroughs. Red tape, overregulation and ambiguous and uncertain legislative framework still create an unbearable burden on the households and the enterprises, while the justice system has not improved significantly. In the critical sectors of health and education the waste has been reduced, yet the necessary interventions to ensure access of the public to services of adequate quality at reasonable cost were not implemented.

Regarding the **medium-term outlook**, the relatively weaker than planned growth figures for 2013 will affect the prospects for the next year. However, there is still enough time for economic policies that could boost growth. At this point it would be useful to note that in the economy the forecasts on the future course are safer when there are no structural changes. In contrast, in conditions of intense uncertainty, the makers of consumption and most importantly investment decisions can overreact to clearly positive (or negative) news. Hence how fast the economy can return to growth within 2014 depends largely on the policies that will be implemented until then.

The fact that the current recession is relatively deeper than anticipated affects also the forecasts for other linked variables. Regarding the review of the implementation of the Greek adjustment programme, however, any deviations should be addressed with focus and perseverance on more reform initiatives, so that the Greek economy returns to growth sooner. Otherwise, the blind adherence to the achievement of fiscal indicators, especially by applying horizontal cuts and tax hikes, will have negative consequences and should be avoided. In particular, already in the previous quarterly report of IOBE we wrote that "the implementation of the reforms could become a negotiation card against speculations, voiced by the lenders, for lack of implementation of the economic support programme, perhaps preventing or delaying, fully or in part, the levy of new fiscal measures, in case of deviation from the implementation of the budget's targets".

Regarding the future prospects, and particularly in the next quarter, four particular observations could be important.

First, it is critical that the reform programme is implemented faster than the agreed framework for fiscal consolidation and a wide social cohesion is achieved through a new "social contract" between the government, the enterprises and the employees.

Second, the illusion that the threat of economic collapse has irreversibly passed and thus parts of the economic and political system can continue to behave as they did before the crisis, without any side effects, should be avoided. A Greek economy that has not changed structurally will sooner or later suffer again from the same symptoms.

Third, the restoration of liquidity, both in the banking sector and with pending funds from abroad, should take place as soon as possible. We should stress that liquidity cannot resolve on its own the growth problem, but it should complement the reforms.

Fourth, as the reforms programme gets under way, it is important to make our partners and lenders aware of the need for a clear, even if unspoken, agreement for the gradual significant relief from the public debt burden, at a rate that depends on the implementation of reforms and growth measures, and not only on successful short-term fiscal consolidation.

Lastly, we ought to make a short reference to the IOBE study on a new growth model that is commissioned by the Ministry of Finance, as part of a wider effort for growth planning by the government. This work is related with all the aforementioned concerns, and especially with the fact that fiscal consolidation itself, at least as implemented thus far, does not secure growth conditions. The reform and growth policies should be made more particular and the interventions should be prioritised so that the developments in the key sectors support the growth of the macro-economy. Undoubtedly, acceptance of the stance that many of the interventions are not only beneficial but essential is building up, albeit slowly, however the real challenge is their implementation. The role of IOBE can only be to study and consult, hoping that the necessary willingness and resolve to implement will materialise at political level.

1. BRIEF OVERVIEW – MAIN CONCLUSIONS

No significant year-on-year change in the world economy growth rate in 2013

The world economy slowed down its pace in early 2013 year-on-year. This development was due mostly to weaker growth, or in quite a few cases decline of production activity, in the developed economies. Indicatively, three out of the seven most developed economies were in a recession in the first quarter of the year (Italy -2.4%, France -0.4%, Germany -0.3%), compared with only Italy a year ago. On average in the OECD countries, the growth rate fell to 0.7% from 1.6% in the first quarter of 2012.

The largest developing economies experienced mixed trends, as in some the growth has consolidated, while in others it has weakened. As a result, on the one hand the economy of China grew by 7.7% (from 7.8% in 2012 overall), while on the other in Russia the growth rate did not exceed 1.1% (from 3.4% in the previous year). As in 2012, the fiscal consolidation efforts, mostly in the Euro area countries and in the US, put pressures on income and thus on consumption demand. The diminished purchasing power in certain economic regions also lowers the ability to absorb exports from the developing economies. The economic policy programmes that the developing economies follow have various impact, depending on their objectives and the utilised policy instruments. Then again, the construction of dwellings and the housing market in the US have recovered significantly. In the Euro area and the EU overall the growth of exports (2.0% in both regions) prevented a deeper GDP contraction, offsetting in part the contraction of internal demand.

The developing economies, mainly in South-East Asia and secondarily in Latin America, and the countries of the ex-USSR, will continue to fuel the growth of the world economy for the remainder of the year. Meanwhile, the impact from the fiscal consolidation programmes on demand and economic activity in the developed economies, mainly in the Euro area, is expected to strengthen with time in 2013. Besides, their implementation in the Euro area is a constant source of political turmoil (Italy, Greece, Portugal), which intensifies the uncertainty on the Eurozone's outlook. Subsequently, the recession in the Euro area and the EU will deepen in 2013, surpassing the recent modest estimates of the European Commission (-0.4% and -0.1% respectively).

In the US the fiscal impact is expected to strengthen during the preparation of the 2014 budget, which is anticipated to include further cuts in social spending, additional taxes and a restart of the negotiations in Congress on the debt ceiling. As a result, the US economy is expected to slow down slightly from 2.2% in 2012. In contrast, in the developing economies the nexus of adopted economic polices and structural changes will gradually boost their economic activity. **Given the**

aforementioned trends in the global economic regions, the growth rate of the world economy, as in the previous quarterly bulletin of IOBE, is expected to remain near 3.0% in the current year as well, with some downside risk.

The recession in Greece remained strong in the first quarter of 2013

GDP, according to the preliminary National Accounts data of ELSTAT, fell by 5.6% in the first quarter of 2012, similar to the contraction experienced in the last quarter of 2012 (-5.7%) and weaker year-on-year (-6.7%). The perseverance of the recession of the Greek economy was largely caused by the drop by 8.7% of the consumption spending of the private sector, from -9.5% in the first quarter of 2012, a development that reflects the pressure exerted by the new cuts of wages in the public sector and pensions, the broader implementation of structural changes in the labour market and further increase of unemployment on the income of the households and thus on their purchasing power. The efforts of fiscal consolidation through reduction of public expenditure led to cuts in public consumption by 7.0%, compared with marginal growth in early 2012 (+1.4%). Investment grew for a second quarter (+5.1%), in contrast with their vertical drop in early 2012 (-31.1%). However, their increase was due – as in the last quarter of the previous year – to a significant year-on-year variation of the formation of inventories, as fixed capital formation continued to contract (-11.4%). Regarding the trends in the external sector of the Greek economy, exports fell by 2.6% (compared with growth by 4.1% in the same period of 2012), due exclusively to contraction of the exports of services (-12.4%), as the exports of goods increased (+4.9%). Nevertheless, the stronger contraction of imports (-7.8%, from 14.9% a year before), allowed the deficit to fall further by 20.5% to reach only €2.8 billion.

Strong recession of the Greek economy in 2013, with an outlook of mild weakening in the second half

Further impact of the fiscal measures on income, particularly of the employees of the public sector and pensioners, broader implementation of the structural reforms in the labour market, extensive unemployment growth and acceleration of the fiscal consolidation effort are expected to put further pressure on domestic demand and GDP in the remaining quarters of 2013. The particularly weak demand within the country, together with the relative constancy of the international demand for Greek products and services, will put a break on investment from domestic firms, which continue to face acute difficulties in finding funds to implement their investment plans. On the other hand, the much stronger than in 2012 tourist arrivals are expected to boost significantly economic activity in the sectors linked to tourism during the summer months, stimulating the exports of services and curbing to some extent the GDP contraction. Together with the negative impact mostly from lower income on the demand for imports, this will limit further the deficit of the external sector of the Greek economy, restraining the recession in the third quarter.

In more detail, the already sharp contraction of **household consumption demand** is expected to deepen further with the completion of the implementation of the fiscal measures that affect income directly, mainly of public sector employees and pensioners (scrapping of the summer, Easter and Christmas benefits), and with the full implementation of the structural changes in the labour market, which since mid May includes end of the three-month extension of the national collective bargaining agreement. The significant increase of unemployment is also limiting the consumption set of the households domestically. **Hence, the private consumption contraction is likely to intensify during the current year to reach around -9.0%.**

The implementation of the guidelines, included in the Medium Term Fiscal Strategy 2013-2016, which put an emphasis on reducing public expenditure in order to achieve fiscal consolidation, does not leave room for easing of the cuts in the **public sector consumption spending** that took place in the first quarter of the year. Their contraction is expected to weaken for technical reasons in the third quarter, due to their relatively low level in the corresponding period of 2012. Despite all this, **the reduction of public consumption is expected to reach around 6.0% in 2013.**

The sharply falling domestic consumption has dampened significantly the investment incentives, as the capacity utilisation rate of the companies has remained low (below 65% in Industry in the second quarter). Furthermore, despite the fact that foreign demand, mainly for services, is anticipated to improve in the coming months, it is expected to stand close to or slightly above its past year levels. Therefore, the prerequisites that would allow expansion of **investment activity** by the domestic enterprises in the coming years are not present. Besides, the completion of the recapitalisation of the banks in the third quarter and the stress test scheduled towards the end of the year will not dislodge the liquidity supply from the low level it has been throughout 2013.

On the other hand, the **foreign interest for direct investment** in Greece is recovering, as evident from the announcement of specific investment plans. However, their stimulating impact on investment activity is expected to transpire in late 2013 and mainly in 2014. The course of privatisation and concession projects is also a barometer of the international investment interest. The results so far are clearly below expectations, however we should not ignore that globally the conditions are worse than previously anticipated. Therefore, the steps that were taken in this field constitute positive and substantive developments.

The process of establishing a banking union is also a factor that will have an impact on the investment environment in the EU and hence in Greece. The institutionalisation at EU level of the recovery instruments used for the financial institutions in Cyprus, based on the decision made at the ECOFIN council meeting of 26 June, affects significantly the risk assessment of investment placements in Europe, both in financial products and in production activities. Until the European and national mechanisms to support the recovery of the financial institutions are established and the ability of the banks to have credible recovery plans is ascertained, as envisaged in the 26th June decision, the robustness of the banking system in the EU will be continuously under review. In the long term, of course, the banking union is expected to limit drastically the risk of financial institution bankruptcy.

Regarding the **investment activity of the public sector,** the under-execution of the Public Investment Programme for a fourth year in a row, with only €1.1 billion expenditure from January to May, against a target of €6.85 billion for 2013 overall, signals a limited contribution of the public investment in investment activity in 2013. **Given the above outlook in the constituent elements of investment activity and assuming that the positive impact from the accumulation of inventory on gross capital formation will weaken and gradually change sign in the coming quarters, the fall of investment is expected to reach about 10% in 2013.**

Regarding the **external sector of the economy,** the aforementioned factors that limit the purchasing power will lead to further weakening of the demand for **imports**. The sluggish investment activity will keep low the imports of machinery and equipment. The stronger presence of Greek products in new markets (e.g. Latin America) and in Turkey will boost **exports**, while the significant drop of the exports of services in the first quarter will be moderated by the stronger tourist arrivals from abroad. **These trends in the exports and the significantly lower demand for imports will lead to further reduction of the deficit of the external sector in 2013.**

Taking into account the above trends in key components of GDP, the contraction of the Greek economy is expected to reach about 4.8-5.0%, slightly deeper than anticipated in late 2012 and early 2013 (-4.6%).

Significant reduction of the State Budget deficit in the first five months of 2013 due to lower payment of interest and deep expenditure cuts

The deficit of the State Budget fell in the period from January to May of the current year to €3.8 billion, from €10.8 billion in the corresponding period of 2012, lower also than the target set in the State Budget (€4.1 billion). The reduction of the deficit by €7 billion came mostly from decrease of interest payment (-€5.7 billion), due to the PSI, together with a reduction in primary expenditure by €1.7 billion (from 20.7 billion to 19 billion), which resulted in a contraction of the primary deficit to €970 million, from €2.35 billion in the same period of the previous year. The reduction of revenue by €500 million, to a larger extent than anticipated in the recital to the State Budget (-2.5%, compared with a target of -0.9%), prevented a larger drop of the primary deficit. Compared with the target for the first five months of the current year, however, revenue is higher by €555 million.

In more detail regarding the course of revenue, tax revenue was down year-on-year by 9.6% in the first five months. The intensity of the contraction in direct and indirect taxation was similar (-9.0% and -10% respectively). It should be noted that the revenue target was achieved by withholding returns of €555 million, while the absorption of PIP is higher by €228 million than planned. Overall, it will be hard to achieve the revenue targets for 2013 if the collection of property taxes is not restored, while the stronger tourist arrivals could contribute positively, provided that more audits on tax certification are performed and the revenue collection apparatus takes the necessary steps to ensure the collection of VAT.

Significant deterioration of unemployment for a fifth consecutive year in 2013, albeit to a lesser extent than in 2012

The deep recession of the Greek economy in the last quarter of 2012 and in early 2013 inevitably put further pressure on employment, despite the extensive adoption of last year's structural reforms in the labour market. Besides, the growth of **unemployment** to 27.4% in the first quarter, from 22.6% in the corresponding period of 2012, came exclusively from reduction of employment by 6.3% and not from growth of the labour force, which marginally declined (-0.1%). On the other hand, unemployment had grown clearly faster in the first quarter of 2012, by 6.7 percentage points, with the fall of unemployment during that period reaching 8.5%. The perseverance of a deep, on average, contraction for the rest of 2013, with likely easing in the third quarter, will bring further **unemployment** growth, most probably, however, at a slower pace than in the first quarter. The higher seasonal employment in the tourist enterprises, due to year-on-year boost of tourist arrivals from abroad, will most probably contain the unemployment growth during the summer months and may even lead to a decline of unemployment. In addition, some unemployed will return to the labour market, temporarily at least, with the implementation of targeted programmes by the Manpower Employment Organisation. **Taking into account the above trends in the labour market, unemployment is expected to increase to 27.8% of the labour force in 2013, marginally higher than anticipated in previous reports.**

The very weak demand sustains deflation

As a result of the extensive contraction of household and public consumption, the Consumer Price Index (CPI) has been falling since March. As a result, the average change of the indicator in the first five months of 2013 is negative (-0.2%), which implies that for the first time in 45 years a marginal deflation was recorded in Greece, compared with 2.0% inflation during the same period of 2012. The contracting domestic demand, due to the heightened pressures on income and the further hike of unemployment, will continue to push prices down throughout the current year. The inflationary pressures will also weaken from the «freeze» by PPC of the tariffs of low-voltage electricity (for households, professionals and businesses), together with the discounts on medium and high voltage tariffs that were recently announced. Counteracting forces can also materialize, however. The more numerous, year-on-year, arrivals of foreign tourists is expected to boost demand in the tourist areas, limiting the fall of prices during the summer months, while the relatively low level of CPI during July and August of last year could make marginal inflationary pressures transpire during this period. The aforementioned factors are expected to lead to an **average change of CPI of -0.4% in 2013, compared with price stability anticipated earlier.**

Special IOBE study: «The economic impact from the construction and operation of the Trans Adriatic Pipeline in Greece»

IOBE conducted a study on the potential impact on the Greek economy from the construction and operation of the Trans Adriatic Pipeline (TAP). The study's results show that the construction and operation of TAP (2015-2068) is expected to generate total output between €33 - 36 billion in the Greek economy, depending on whether the pipes for the project will be supplied by domestic manufacturers or not. However, at least 70% of the impact will come from capitalisation of the acquired experience by TAP's suppliers and the introduction of natural gas in Western Macedonia. Regarding employment, TAP is expected to create 4.300-4.800 jobs per annum for residents of Greece for at least 54 years. During the pipeline's construction, the impact on employment could reach 8-10 thousand jobs.

Of course, the geostrategic benefits from this project, which could not be quantified, are expected to be particularly significant. It should be noted, however, that these benefits, together with those estimated in the study, will not materialise automatically, but require mobilisation both at the level of negotiations with the pipeline company and at the level of the domestic business sector, so that it can integrate with the construction and the operation of the project. The extent and effectiveness of the strategic moves will determine the impact of the induced impact and the overall benefit for Greece.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the World Economy

The Global Economic Environment

The world economy is expected to exhibit signs of stabilisation in 2013, with its growth reaching 3.1% from 3.0% in 2012, according to the latest forecast from the European Commission. Still, this estimate on world growth is lower, compared with the previous forecast from late 2012 (3.3%). On the other hand, the prospect for economic activity at global level in 2014 are notably brighter, for the time being, with the growth rate expected to accelerate to 3.8%. Of course, this forecast is also fraught with uncertainty. In particular, the growth rates diverge significantly across countries, even within the same economic regions, which reflects differentiated impact of the recent global economic slowdown on each economy and different economic policy choices and structural characteristics in each country. Consequently, the cross-country differences of the economic outlook are significant. The course of the Euro area, under the influence of the adopted programmes of fiscal consolidation, with their impact at socio-political level, will be a key driver of the world economy in the next year as well.

Regarding the current developments, the developing economies, mainly those in Asia, remain the growth engine of the world economy. Still, the recent data on China indicate that its growth performance has been more modest, compared with the second half of the previous decade. In addition, the developing economies with tight links with the European Union, such as the Commonwealth of Independent States, slowed down significantly in 2012, due to the impact from the recession in the EU countries. The developments in the Middle East and North Africa, where clashes and political upheavals have intensified anew (new uprising in Egypt, new government in Iran, etc.), once more constitutes a destabilising factor of high volatility. Among the developed economies, the US economy has maintained a growth momentum in early 2013, slightly slowing down year-on-year. The key growth driver in the US was the housing sector recovery and the gradual strengthening of domestic demand, which had a positive impact on the creation of new jobs. More generally, the fluctuation of the composite global index PMI in the first five months of 2013, which remained above 50, with a mild growth trend, has left open the possibility of a slight expansion of global production, coming both from manufacturing and services.

In Europe, despite the prolonged political instability in Italy and the unexpected restructuring of the banking system in Cyprus in March, with non-conventional means (participation of shareholders-bondholders-depositors, sell-off of activities in other countries), as part of the entry of the country in the bailout mechanism financed by the EU and the IMF, the financial markets have remained undisturbed, as evident from the subsequent course of the spreads of the sovereign bond yields. One possible reason for this was the relatively limited exposure of the European banks to the banking system of Cyprus and its products. In addition, the ongoing processes for the establishment of a banking union in the EU, which is expected to limit drastically the risks from a bankruptcy of a banking institution in the future, with the provisions taken to deal with banking crises (each bank having a certified recovery plan, deposit guarantee scheme in each country, etc.) and the break of the connection of their coverage with public debt, is also thought to have had a stabilising impact. The single banking supervision by the European Central Bank, the joint resolution framework for banking institutions and the common framework for guaranteeing bank deposits constitute the key structural characteristics of the banking union. On the other hand, the generalisation of the recapitalisation instruments that were used in the case of Cyprus, will have an impact on the risk assessment of investments in financial products and in production activities in Europe in the medium term, until the completion of the banking union process.

In more detail regarding the major world economies in early 2013 and their outlook for the year as a whole:

The GDP of the **US** economy increased by 1.8% year-on-year in the first quarter of 2013, while quarter-on-quarter it increased by 0.6%. For 2012 overall, the US economy grew by 2.2%. The European Commission in its spring forecasts anticipated a slight slowdown of the growth rate to 1.9% in 2013. Private consumption remained, in general, at satisfactory levels in January and February, despite the tax hike that was implemented after the "fiscal cliff" deal, which had a significant negative impact on the disposable income of the households. The recovery of the housing sector has continued, with the prices of dwellings in January of 2013 growing for a twelve month in a row, while their annualised growth rate (8.1%) was the highest since mid 2006. As a result, the economic activity in the construction of dwellings has come close to its 2008 levels. The slight slowdown of growth in the first quarter was mainly due to contraction of retail trade. Monetary policy has remained loose, supporting the growth of the US economy, despite the recognition of the increasing risks that it bears.

Regarding the labour market, job creation accelerated in the last quarter of 2012 (with 201,000 new jobs on average per month), a trend that was maintained in the first two months of the current year as well (208,000 new jobs on average per month). The unemployment rate fell to 7.6% in March, its lowest level since December 2008. Nevertheless, most of the improvement of the unemployment indicator came from further contraction of the labour force. In addition, the US fiscal policy has kept creating uncertainty, constituting the major possible source of economic turmoil within the country, particularly as the public discourse on the 2014 budget is intensifying and the new negotiations in congress on the debt ceiling are approaching. The key axis of the government's budget proposals are cuts in expenditure on certain social programmes and the levy of additional taxes.

The GDP of **Japan** remained unchanged year-on-year in the first quarter of 2013, while quarter-on-quarter it increased by 0.9%. For 2013 overall, the Japanese economy is expected to grow by 1.4%, slowing down slightly compared with 2012, when its GDP increased by 2.0%. Still, the latest forecasts on the growth of the Japanese economy have improved notably since early 2013, when the GDP growth was expected to slow down to 1.0%. Expansionary fiscal policy, with a significant increase of public expenditure, facilitation of borrowing terms (low cost of lending), and an anticipated improvement of the export performance is expected to support further the growth of Japan in the second half of the current year.

Despite this, the deflation issue has persevered, with the central bank of Japan reassuring that it will resort to all the necessary measures that will help the Japanese economy escape from it, indicating that if needed it will even adopt an aggressive monetary policy. The goal of 2% inflation will depend on an increase of the consumption tax which will take place in the coming year, an increase of import prices and a reversal of the fall of nominal wages. In general, the key risk that haunts the Japanese economy is that its monetary policy is not sufficiently backed by needed fiscal consolidation and structural reforms. In addition, despite the low short-term borrowing cost, increasing public debt, as a percentage of GDP, has remained a potential high-risk factor for the stability of the country's economy. Therefore, it has become pressing to address immediately the growing debt, for example, by establishing a strong and credible fiscal consolidation plan. Understandably, the inadequate structural reforms in the economy could also jeopardise Japan's growth prospects and the sustainability of its public debt.

In **China,** the growth rate in the first quarter of 2013 reached 7.7%, slowing down marginally compared with the last quarter of 2012, when it had reached 7.9%. However, the 2013 growth rate is anticipated to reach 8%. Consumption (private and public) is expected to drive China's growth in 2013, due to: a) fast wage growth that will increase the income of the households; b) positive real interest rate, which will increase the likelihood of growth of the returns that the households have from deposits; c) measures of direct state support for boosting "green" consumption. Maintaining consumption high, together with supporting and expanding investment activity, remains a challenge to secure China's rapid growth in the coming years.

Russia recovered rapidly from the GDP drop in 2009, however its growth momentum has weakened recently, due to the slowdown of world economic activity and hence the consumption of energy, which constitutes one of the country's key exports, but also due to the structural weaknesses that characterise the Russian economy. Overall in 2013, Russia is expected to grow by 3.3%. However, due to the weak growth in the first quarter of 2013, the realisation of this forecast presupposes that the economic activity will accelerate in the rest of 2013. Private consumption remained the key growth driver of the economy throughout 2012, while investment slowed down and public consumption remained constant. The available monthly data for the first two months of 2013 confirm the continuation of this trend, while investment and public consumption seem to show signs of recovery in March. In the near term, growth rates of 3-3.5% are expected to persist, yet in the medium term changes in the business environment and modernisation of the economy are needed to maintain the growth trend of the economy.

The assessment of a marginal acceleration of the world economy in the current year is reflected in the leading indicator on the world economic sentiment that is published on a quarterly basis by the German institute IFO.

In particular, according to the IFO estimates, the economic climate indicator for the world economy continued to improve, albeit at a milder rate. The indicator improved by 2.7 units quarter-on-quarter, in the aftermath of a sharp increase by about 11 units in the first quarter of the same year (see Table 2.2).

Table 2.1

International Environment – European Commission (real annual % change)

	2012	2013	2014
GDP			
U.S.A.	2.2	1.9	2.6
Japan	2.0	1.4	1.6
Asia (excluding Japan)	5.8	6.5	6.8
Of which China	7.8	8.0	8.1
India	4.1	5.7	6.6
Eurozone	-0.6	-0.4	1.2
EU-27	-0.3	-0.1	1.4
EU Candidate countries	1.7	2.9	3.7
Commonwealth of Independent States (CIS)	3.3	3.3	4.0
Of which Russia	3.4	3.3	3.8
MENA (Middle East & North Africa)	4.4	3.0	3.9
Latin America	3.1	3.1	3.5
Of which Brazil	0.9	3.0	3.6
Sub-Saharan Africa	5.1	5.4	5.5
World Economy	3.0	3.1	3.8
World Trade			
World Imports	2.3	3.2	5.8
Exports excl. EU-27	0.8	2.0	5.3

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: European Economic Forecast, Spring 2013, European Commission, May 2013

As a result of its slight increase to 96.8, the indicator exceeded its long-term average for the period 1997-2012 (96.0). The rise was due to improvement of both the assessment of the current economic situation and the expectations about the economic outlook in the coming six months. Therefore, despite the fact that the growth momentum of the world economy is weak, there are increasing indications that it will not shrink further.

On the other hand, the economic outlook varies across the major economy regions (Table 2.3). In particular, the economic climate indicator marginally improved in **North America** to reach 87.0, from 86.2 in the preceding quarter. Nevertheless, it remained below its long-term average for the last 15 years (91.6). The modest increase of the indicator by 0.8 in North America came mainly from more positive assessment of the current economic situation. In contrast, the economic outlook for the next six months was less optimistic than in the first quarter of 2013. Despite the marginal improvement of the indicator, the assessment of the current economic situation in the US has not yet reached a satisfactory level, as according to the experts that took part in the survey, the major economic problem that the US is facing, unemployment, has not been sufficiently dealt with. High fiscal deficits came next in terms of importance.

In **Western Europe** the economic climate indicator increased somewhat, in the aftermath of the sharp increase in the first quarter of 2013, to reach 96.3. Nevertheless, the indicator has remained below its long-term average (104.7). Its mild increase was due to more positive outlook for the coming six months, while the assessment of the current economic situation remained unfavourable. While optimism has not prevailed in the Eurozone, some improvement of the economic climate is expected over the next six months. Overall, the economic climate indicator in the Euro area remained unchanged at 95.1, stuck well below its long term average of 108.0 from the period 1997-2012.

In contrast with the modest improvement recorded in Western Europe and North America, the growth of the economic climate indicator in **Asia** was strong, by 8.7 points. The significant increase came both from more positive assessment of the current economic situation and more optimistic expectations over the coming six months. It is worth noting that the indicator reached its highest level since late 2010, which is indicative of the current optimism about economic activity in Asia.

The Economies of the EU and the Euro area

The recession in the Euro area carried over to the first quarter of 2013, according to Eurostat data, with GDP contracting by 1.1% year-on-year and 0.2% quarter-on-quarter. Similar trends were dominant in EU-27 as well, where GDP contracted by 0.7% year-on-year and by 0.1% quarter-on-quarter.[1]

[1] Eurostat, news release 86/2013

Table 2.2

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

Quarter/Year	II/11	III/11	IV/11	I/12	II/12	III/12	IV/12	I/13	II/13
Economic Climate	107.7	97.7	78.7	82.4	95.0	85.1	82.4	94.1	96.8
Current Situation	108.4	99.1	86.0	84.1	87.9	78.5	76.6	80.4	84.1
Expectations	107.0	96.5	71.9	80.7	101.8	91.2	87.7	107.0	108.8

Source: IFO, World Economic Survey, WES Vol.12, No. 02/ May 2013

Table 2.3

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

Quarter/Year	II/11	III/11	IV/11	I/12	II/12	III/12	IV/12	I/13	II/13
North America	98.7	81.2	69.5	87.9	95.4	81.2	80.3	86.2	87.0
Western Europe	115.1	105.2	81.4	82.4	99.3	89.3	83.4	94.3	96.3
Asia	101.8	94.7	77.2	74.6	90.4	83.3	81.6	97.4	106.1

Source: IFO, World Economic Survey, WES Vol.12, No. 02/ May 2013

The majority (14 countries) of the 24 EU member-states with available data in the examined period experienced a year-on-year contraction. The countries with the largest GDP contraction were Greece (-5.6%), Cyprus (-4.1%), Portugal (-4.0%) and Slovenia (-3.3%). In contrast, the countries that achieved the strongest growth rates were Latvia (5.6%), Lithuania (4.1%) and Romania (2.2%).

Regarding the latest politico-economic developments, the attempted banking union, as already mentioned in the previous subsection, is considered the major current development. The banking union process has already commenced. In March the European Parliament, the Council of Europe and the European Commission reached an agreement on the legal framework for a single supervisory mechanism for the banks in the European Union.[2] At the ECOFIN council meeting of 26 June the EU finance ministers reached a political agreement on pre-emptive measures to resolve financial institutions at national level, on the procedure of recovery / restructuring of troubled banks, including the instruments that were used for the recovery of the financial system of Cyprus, and on deposit coverage by the EU member-states. The Eurogroup decision from 20 June, regarding the funds that ESM could conditionally provide for the recapitalisation of banks, can also be seen as part of the effort to strengthen the banks in the Euro area.

[2] The agreement has not been ratified officially by the EU member-states and the European Parliament.

Of course, as already mentioned, the institutionalisation of the recovery instruments used for the financial institutions in Cyprus at EU level, together with the fact that the EU banks, state and community institutions should take a series of required measures and actions to implement the banking union, affects significantly the risk assessment of investment placements in Europe, at least until the completion of the banking union process. Nevertheless, the banking union is expected to limit drastically the risk of financial institution bankruptcy in the future.

The fiscal consolidation programmes adopted in a number of Eurozone countries has kept spawning internal political and institutional developments. The recent political events in Portugal and Greece revealed once more the danger of short-lived or sustained turmoil during the fiscal consolidation process. Apart from the developments and the upheaval caused in the internal political system, such events also affect the confidence regarding the Eurozone's outlook.

Focusing on the trends and prospects of the economic activity in the EU and the Euro area for the rest of 2013, the latest available estimates of the European Commission point to a recession of about 0.4% in the Euro area in the current year.[3] Correspondingly, marginal contraction by 0.1% for 2013 is envisaged for EU-27 in total. Given the growth rate from the first quarter, both forecasts can be seen as optimistic. At the level of member-states in 2013, the largest contraction of GDP is expected in Cyprus (-8.7%), Greece (-4.2%), Portugal (-2.3%) and Slovenia (-2.0%). In contrast, mostly countries in transition, such as Latvia (3.8%), Lithuania (3.1%) and Estonia (3.0%) are anticipated to experience relatively high growth rates.

Useful information about the momentum of the economic activity in the EU can be extracted by analysing the trends in the key GDP components (Table 2.4).

In particular, net exports are expected to constitute the key driver of the European economy in 2013 as well. Regarding **exports**, the European economy is expected to benefit from the anticipated mild strengthening of global demand and trade flows. The exports of goods and services are expected to grow by 2.2% in the Euro area and by 2.0% in EU-27. However, due to the weak acceleration of the world economy in the last quarter of 2012 and the appreciation of the euro in early 2013, these forecasts are less optimistic than in early 2013.

On the other side of the external balance, the weak consumption demand has remained the key contraction factor for the **imports** of goods and services. In contrast with 2012, imports in 2013 are expected to marginally increase, by 0.5% in the Euro area and by 0.8% in EU-27.

Hence, given that the growth of exports exceeds significantly that of imports in the current year at least, the net external

[3] European Economic Forecast, Spring 2013, European Commission, May 2013

demand will continue to have a positive contribution to GDP growth.

Private consumption will marginally contract in 2013, according to the latest forecasts by the European Commission, by 0.9% in the Euro area and by 0.4% in EU-27. This negative development is primarily due to the fall of real disposable income. Besides, despite some improvement, consumer confidence has remained lower that its long-term average.

Public consumption is expected to remain unchanged in 2013 in the Euro area, reflecting the impact of the adopted contractionary fiscal policy in many of its member-states, while weak growth, by 0.2%, is expected in EU-27.

The contraction of **investment** in the first quarter of this year is expected to carry over to the rest the year, reaching 2.6% in EA-17 and 1.7% in EU-27. However, the contraction is expected to be weaker than in 2012 (-4.1% and -2.8% accordingly). The key factors that contribute to the contraction of investment are linked to reduced demand for goods and services, heightened uncertainty and credit scarcity faced by non-financial institutions in certain member-states. Gradual recovery of investment is expected to commence in the second half of 2013, driven mainly by investment in equipment, while investment in construction will remain subdued.

The persistence of recession in Europe without a doubt continues to have a negative impact on the labour market. The **unemployment** rate deteriorated significantly in the past two years, due to the continuously shrinking economic activity and the sequence of structural reforms in the labour market, implemented in a number of Eurozone member-states. Unemployment reached a new historic record in March, both in the Euro area (12.1%) and in the European Union (10.9%). Subsequently, the unemployment rate in the Euro area is expected to increase to 12.2% in 2013, from 11.4% in the previous year. Correspondingly, unemployment in EU-27, which stood at 10.5% in the previous year, is expected to reach 11.1% in 2013. In conclusion, the unfavourable conditions in the EU labour market are unlikely to change significantly in the near future.

The weakening of consumption demand that was described previously is exerting contractionary pressures on **inflation.** The disinflation trend that had started in the last quarter of 2012 carried over to early 2013. Weaker than expected inflationary pressure from the energy prices constituted the key reason why inflation fell below the 2.0% limit in the Euro area already from the first quarter of 2013, putting an end to a period of 9 quarters when inflation was higher than the level which the European Central Bank has set as a price stability limit. In June the inflation rate stood at 1.6%, from 1.4% in the preceding months, confirming the trend of inflation consolidating below the 2.0% in the Euro area. A similar trend was observed in EU-27, where inflation has fallen below 2% since March, while the disinflation trend was confirmed in the subsequent months for which there is available data (1.3% in April and 1.4% in May). According to the spring forecasts of the European Commission, inflation is expected to ease further in 2013 to 1.8% in EU-27 and to 1.6% in the Euro area. Nevertheless, core inflation is expected to remain unchanged, as the hikes of indirect taxation, observed in quite a few member-states, offset the sluggish domestic demand.

Regarding the **fiscal performance**, the extensive contractionary fiscal policy in quite a few Eurozone countries has started to show up in significant reduction of the budget deficits. In 2013 the General Government deficit in EA-17 is expected to fall marginally below 3% of GDP (from 3.7% in 2012). A similar trend is anticipated in EU-27, where the General Government deficit is expected to fall to 3.4% in 2013, from 4.0% in 2012. In contrast, the prolonged recession, mainly in the European periphery, combined with increased interest payments, are expected to lead to an increase of the General Government debt, as percentage of GDP, in EA-17 to 95.5% in the current year (from 92.7% in 2012). Similarly, the debt-to-GDP ratio in the European Union is expected to reach 89.8% in 2013, when in 2012 it did not exceed 86.9%.

Table 2.4

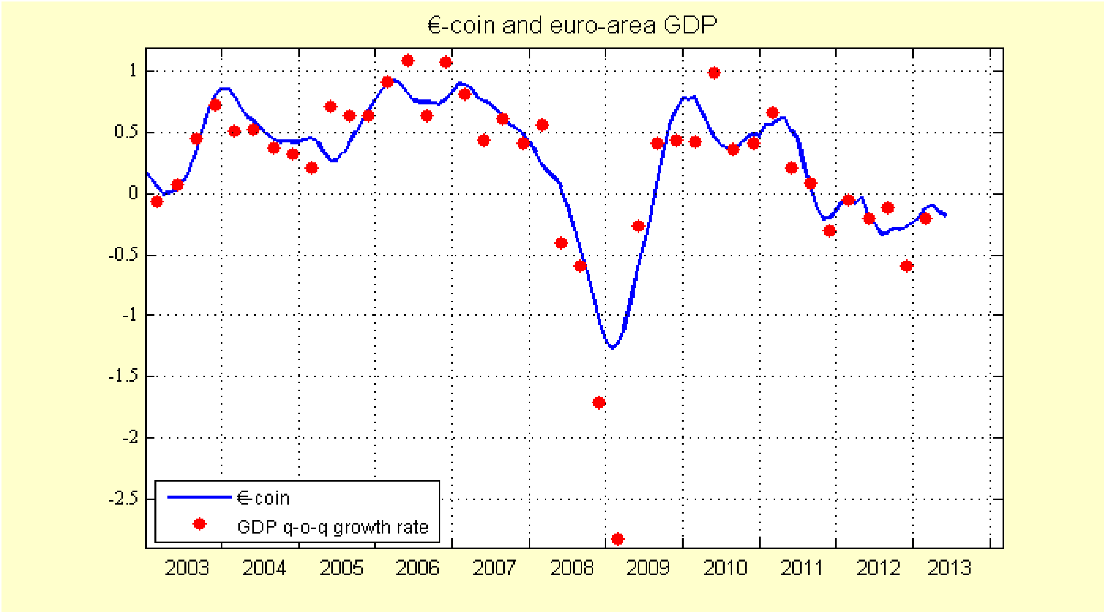
Main Macroeconomic Figures, EU-27, Euro area (annual % changes)

	EU-27			**Euro Area**		
	2012	2013	2014	2012	2013	2014
GDP	-0.3	-0.1	1.4	-0.6	-0.4	1.2
Private Consumption	-0.7	-0.4	1.0	-1.3	-0.9	0.7
Public Consumption	0.1	0.2	0.4	-0.4	0.0	0.5
Investment	-2.8	-1.7	2.6	-4.1	-2.6	2.3
Employment	-0.3	-0.4	0.4	-0.9	-0.7	0.3
Unemployment (% of labor force)	10.5	11.1	11.1	11.4	12.2	12.1
Inflation	2.6	1.8	1.7	2.5	1.6	1.5
Goods and Services Exports	2.3	2.0	4.9	2.7	2.2	4.9
Goods and Services Imports	-0.3	0.8	4.5	-0.9	0.5	4.7
General Govern. Balance (% of GDP)	-4.0	-3.4	-3.2	-3.7	-2.9	-2.8
General Govern. Debt (% of GDP)	86.9	89.8	90.6	92.7	95.5	96.0
Current Account Balance (% of GDP)	0.9	1.6	1.9	1.8	2.5	2.7

Source: European Economic Forecast, Spring 2013, European Commission, May 2013

Figure 2.1

€-COIN Index (CEPR)



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

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

Month	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	90.9	91.5	91.5	89.7	90.8	92.6						
Euro-area	89.7	90.4	90.1	88.6	89.5	91.3						

* 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), June 2013

The persistence of the recession in the Eurozone on one hand and the improvement of the sentiment of consumers and businesses, which are reflected in the course of the leading indicators, such as the indicator of economic activity €-COIN[4] and the economic sentiment indicator of the European Commission (DG ECFIN), on the other, draw a mixed picture on the expected course of the European economy in the coming period.

In particular, as shown in Figure 2.1, the economic activity indicator €-COIN for the Euro area deteriorated slightly in June, for

[4] The Center of Economic Policy Research (CEPR) in co-operation 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.

a second month in a row, to -0.18%, from -0.15% in May. This deterioration was mainly due to pressures exerted on the financial markets, which were partly offset by improvement in industrial production in April and the expectations of the households and businesses in the corresponding surveys. It should be noted here that this leading indicator has remained negative since November 2011.

Lastly, the economic sentiment indicator of the European Commission (DG ECFIN) improved in June 2013, in the aftermath of an increase in the preceding month. In particular, the economic sentiment indicator increased significantly month-on-month by 1.8 points in June in both economic regions, to reach 91.3 in the Euro area and 92.6 in the European Union. The growth of the indicator in both regions came equally from improvement of the sentiment of the consumers and the businesses in all sectors (except Services in the Euro area, where expectations remained almost unchanged). The Consumer Confidence indicator improved significantly in the Euro area (+3.1%) for a seventh month in a row. Correspondingly, the indicator improved by 2.7 points month-on-month in EU-27. The consumers were considerably less pessimistic regarding the future economic situation. In addition, their expectations regarding unemployment, their savings over the next 12 months and the economic situation of their households over the next 12 months were less unfavourable.

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 second quarter of 2013, the dominant trend in the economic sentiment signified an improvement, despite the interruption of the indicator's growth in June due to the domestic political turmoil. The recovery of the indicator comes from all the sectors, including consumer confidence. The positive development in the economic sentiment indicator signifies easing of the intense pessimism that dominated in the previous years, rather than the emergence of optimistic sentiment. Factors, such as easing of the uncertainty regarding the continuation of the funding by the troika and the ability to achieve fiscal consolidation, increased tourist arrivals, the undergoing recapitalisation of banks, restart of the works on the large road projects, good outlook on the privatisation front and a change of the rhetoric from abroad, contributed to this development. On the other hand, it is still true that we are in the midst of a deep recession, with an exceptionally dismal cumulative impact on income, unemployment and domestic demand. For this reason, most individuals and businesses continue to report quite negative expectations on the economic developments. It is nevertheless obvious that more favourable conditions are gradually formed in the domestic environment, having a direct impact on the business climate and the consumers. As long as these are maintained and consolidated we can hope that the expectations will finally reflect on the real economy and lead to a reduction of unemployment. The positive messages maintain an environment of weaker pessimism in the expectations of both the individuals and the enterprises.

In this context, the **Economic Sentiment Indicator in Greece increased by about 5 points quarter-on-quarter in the second quarter of 2013, and by 13 points year-on-year**, to reach 92.2, its highest level in three years. **The economic sentiment remained almost unchanged quarter-on-quarter, both in the Euro area and in the EU. The indicator reached 91.0 and 89.8 in the Euro area and the EU respectively,** albeit lower than in the same period of the previous year (when it stood at 93.4 in both regions).

The business sentiment in Greece improved in the quarter under investigation, compared with the preceding quarter, in all sectors, with the largest improvement recorded in Construction (19 points) and the lowest in Industry (6 points). The indicator improved significantly, by about 10 points, in Retail Trade and Services, while Consumer Confidence also strengthened on average in the quarter under examination, improving notably in May.

Year-on-year, the average indicators strengthened in all sectors. The indicator increased by 13 points in Industry, by 17 points in Retail Trade, by 26 points in Construction and by 15 points in Services. In more detail:

The **Consumer Confidence Indicator** in Greece improved slightly quarter-on-quarter in the second quarter to reach -67.2 on average (from -71.5 in the corresponding quarter of the previous year), up also on its level from the same period of the previous year (-75). The confidence of the consumers had shown signs of stabilisation already since the end of the previous year, with the indicator growing notably in May, but losing some of its recovery in June. The Greek consumers have steadily remained the most pessimistic in Europe in the past 3 years. The corresponding average of the European indicators improved by 2 points quarter-on-quarter in the EU and by almost 3 points in the Euro area, to reach -19.4 and -21.0 respectively, remaining close to their level from the previous year.

Most constituent indicators improved in general 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 slightly eased, while improvement was also observed in the indicator tracing the unemployment expectations, which however remained pessimistic. On the other hand, the intension to save indicator remained quarter-on-quarter at the same, exceptionally low levels.

In greater detail, the share of the consumers who were pessimistic about the financial outlook of their household has varied between 72% and 73% since the beginning of the year, with 16% in the second quarter expecting their finances to remain unchanged in the coming months (from 14%). Also, about 75% of the consumers in Greece were expressing once more negative expectations regarding the economic situation in the country, with 13% expecting it to remain unchanged (from 9%). In contrast, the intention to save indicator remained unchanged at -78 on average, with 9/10 of the households 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 dismal, despite the improvement of the indicator by 9 points to +71. The unemployment expectations in the same period of 2012 had been clearly more pessimistic, with the indicator standing at +83 on average. The percentage of consumers in Greece expecting unemployment to increase in the coming period slightly fell to 84% (from 89%). Meanwhile, the percentage of consumers reporting that they were "in debt" fell to 16% on average (from 22% in the preceding quarter), with 8% of the respondents declaring that they were saving small or very small amounts. Lastly, the share of consumers reporting that they were "just making ends meet" increased on average to 59% (from 55%), while the percentage of those declaring that they were "dipping into their savings" increased slightly to 17% (from 15%).

The Business Climate Indicator in **Industry** increased quarter-on-quarter in the second quarter to reach 90.6 (from 85.1), up on its past year performance as well (77.6). Regarding the key activity indicators, the short-term expectations on production levels improved significantly, with the indicator reaching +14 on average (from +5). The assessment of order-book levels and demand was slightly less pessimistic (at -35 from -39). Meanwhile, the assessment of the stocks of finished products slightly declined, with the indicator reaching +2, signifying a somewhat more intense propensity to liquidate stocks. Among the remaining activity indicators, the trends in the export variables were mixed: the assessment of the export order-book levels slightly deteriorated, while the expectations on their future course remained unchanged (+19 on average) and the foreign demand and orders became slightly less negative (-24 from -26). The negative balance of employment expectations improved in the quarter under investigation, to reach -12 on average (from -20), slightly higher year-on-year (-17). The utilisation rate of the production factors did not change in the period under investigation, remaining at 64.5%, the same level as in the corresponding period of the previous year. Lastly, the number of months of assured production reached 4.2 on average (from 4 months both in the previous quarter and the same quarter of the previous year).

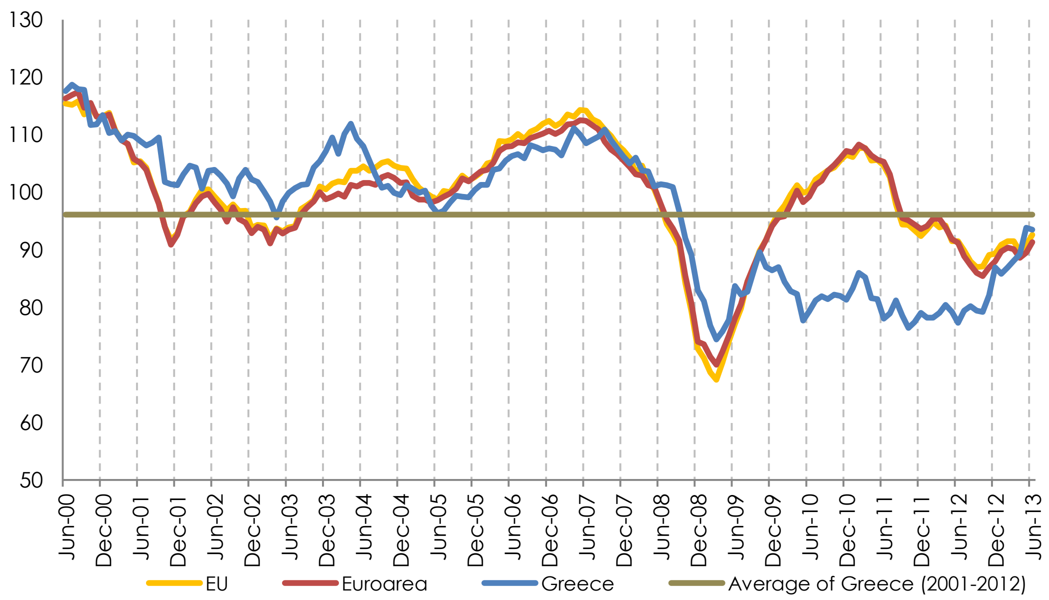
The Confidence Indicator in **Retail Trade** reached 72.9 on average in the quarter under examination, from 62.4 in the preceding quarter and 56.3 in the same period of 2012. This increase came from an improvement of the exceptionally low assessment of their current sales and expectations on future sales from early 2013. In particular, the assessment of the enterprises on their current sales increased quarter-on-quarter by 12 points to reach -43, while the negative expectations of the enterprises on their short-term sales eased significantly to reach -24 on average (from -52 in the first quarter). About 43% (from 60%) of the enterprises were expecting their sales to fall in the coming period, while 20% (from 8%) were expecting them to increase. The negative inventories indicator slightly improved to -8 on average (from -13), significantly down year-on-year (from +2), implying a stronger tendency of inventory liquidation. The negative expectations on orders to suppliers eased to -35 from -55, while the employment expectations in the sector reached -14, increasing significantly both quarter-on-quarter (from -40) and year-on-year (from -30). Lastly, deflationary expectations have steadily dominated in the sector, remaining almost unchanged quarter-on-quarter, to represent 28% of the enterprises (from 33%), compared with 3% of the enterprises that were expecting prices to increase (from 5%). A quarter-on-quarter growth was observed in all constituent branches, except Household Appliances, where the indicator deteriorated significantly.

The business expectations in **Construction** gained ground quarter-on-quarter, with the indicator increasing to +65.6 from +46.9, notably up also on their past year level (39.1). This increase came mostly the expected restart of the works on the large road projects. The intensely negative expectations on the level of planned activities eased to reach -65 (from -78 in the previous quarter and -80 in the same quarter of the previous year). The negative employment expectations indicator reached -10 (from -33), with 36% of the enterprises expecting further job losses (from 51%) and 26% expecting employment to increase (from 18%). The assessment of the enterprises of their current activity level slightly improved, remaining low however, as the indicator changed from -23 to -18 (-55 in the same period of the previous year). Despite the improvement of the activity planning indicators, the months of activity ensured by current backlog fell to 10.7 (from 18), while the price expectations fell sharply to -27 (from +4 on average in the first quarter). Lastly, 9% (from 2%) of the enterprises were reporting that they were not facing any obstacles to their construction activities. Among the remaining enterprises, 32% stated as the main obstacle insufficient funding, 34% low demand and 23% 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 at a milder rate in Private Construction (40.4 from 35.2) and more significantly in Public Works, where the indicator reached 77.6 (from 51.4), its highest level in the past four years.

In **Services**, the business climate indicator increased quarter-on-quarter by 10 points to reach 70.1, up also on its past year performance (55.5). The increase came from an improvement in all key constituents of the indicator. In particular, the assessment of the enterprises of the current demand and the expectations on near-term demand in the sector gained on average 11 and 12 points, to reach -13 and -3 respectively. A similar development was observed in the assessment of the enterprises of their current activity, where the indicator increased by 15 points to reach -21. Among the remaining indicators, the employment expectations improved, with the indicator gaining 6 points to reach -17 on average. The price expectations remained strongly deflationary, unchanged quarter-on-quarter, with 24% of the enterprises expecting prices to fall and the vast majority of the respondents (75%) expecting prices to remain unchanged. Lastly, the share of enterprises reporting that their business activity was being conducted without obstacles slightly increased to 12%, with 38% of the respondents indicating as main obstacle insufficient demand, 29% reporting lack of working capital and further 17% 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. The indicator improved in the second quarter in all constituent branches. The increase was much higher in Hotels-Restaurants – Travel Agencies (to 83.4 from 62.8) and Land Transport (to 83.7 from 69.7).

Figure 2.2

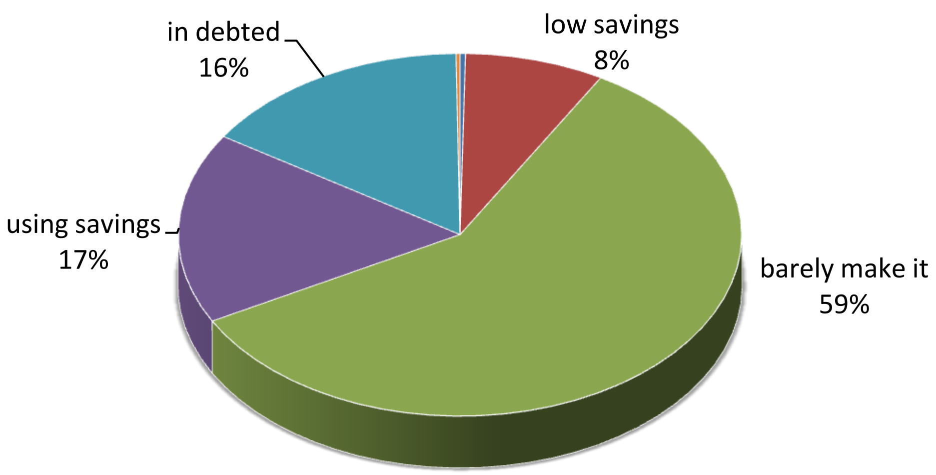
Economic Sentiment Indicators: EU27, Euro Area and Greece
(1990-2011=100, seasonally adjusted data)



Source: European Commission, DG ECFIN

Figure 2.3

Consumers' Survey data on their household's financial situation
(April-June 2013 average)



Source: IOBE

Table 2.6

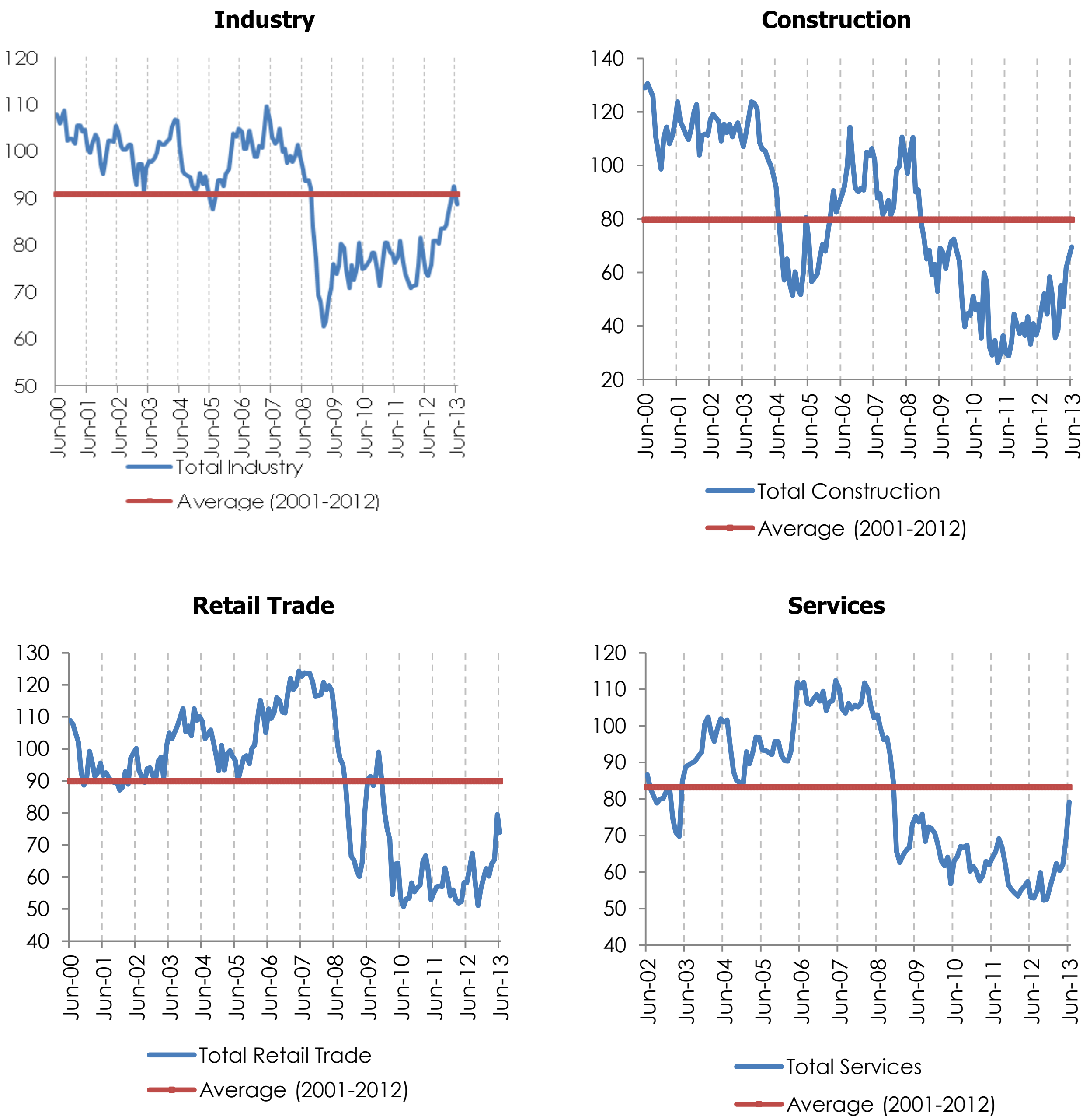
Economic Sentiment Short-Term Indices

Month/ Year	Economic Sentiment Indicator[1]		Business Confidence Indicators[2] (Greece)				Consumer Confidence Indicator[1] (Greece)
	E.U-27	Greece	Industry	Construction	Retail Trade	Services	
2002	97.3	102.0	101.2	114.0	93.3	82.8	-27.5
2003	95.4	100.1	97.9	115.0	102.0	85.5	-39.4
2004	103.3	104.8	99.1	81.5	104.8	94.6	-25.8
2005	100.8	98.1	92.6	63.0	96.8	93.6	-33.8
2006	108.3	104.9	101.5	91.1	110.8	103.7	-33.3
2007	111.0	108.4	102.8	92.5	120.8	106.6	-28.5
2008	93.3	97.4	91.9	95.2	102.5	97.8	-46.0
2009	79.3	79.7	72.1	65.5	80.4	70.1	-45.7
2010	101.2	79.3	76.2	45.2	59.5	62.9	-63.4
2011	100.3	77.6	76.9	34.2	58.9	61.7	-74.1
2012	90.9	80.0	77.2	43.2	57.1	54.8	-74.8
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
Apr-13	89.7	89.2	90.3	61.5	65.4	61.9	-71.8
Mai-13	90.8	93.8	92.6	65.7	79.5	69.3	-63.4
Jun-13	92.6	93.5	88.8	69.5	73.9	79.2	-66.5

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 *(January-May 2013)*

The State Budget in the first five months of the current year had a deficit of €3,843 million, compared with a deficit of €10,786 million in the corresponding period of 2012. This improvement, by €7 billion, came largely (€5,653 million) from a reduction of interest payments, due to the PSI, but also from a significant reduction of the primary deficit by €1,380 million, from €2,350 to €970 million. It should be noted that the indicative targets[5] for net and primary deficit for this period were €8.2 billion and €4.1 billion respectively and hence the results are much better than anticipated.

Expenditure

The primary expenditure of the Ordinary Budget fell by €1,723 million (Table 2.7). This reduction was due mainly to the following changes:

a) The expenditure for salaries and pensions fell by €652 million. This reduction corresponds to a rate of -7.8%, which is short of the annual target rate.

b) Reduction of the social security grants by €1,749 million. This reduction was much larger than the rate 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 €455 million (+16.2% against an annual target of stabilisation). This increase is due to a special grant of €165 million to local government authorities.

d) Increase of transfers to local government authorities by €222 million, or 17.2%, almost twice the annual target rate.

Meanwhile, the Public Investment Budget expenditure fell by €157 million (-12.1%). Overall, the primary expenditure of the Ordinary Budget was down year-on-year by €1,880 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 during the rest of the year. The government has already pointed out the risk of high overrun of the expenditure of the National Organization for Health Care (EOPYY) and for this reason interventions are expected in the second half of the year.

[5] As evident from the recital to the 2013 State Budget, p. 08.

Table 2.7

State Budget's expenditure – January-May

(mil. €)	2012	2013	Change 2013/12	2013/12	Budget target
STATE BUDGET TOTAL EXPENDITURE	**30,541**	**23,009**	**-7,533**	**-24.7%**	**-7.4%**
INTEREST EXPENDITURE	**8,526**	**2,873**	**-5,653**	**-66.3%**	**-27.2%**
STATE BUDGET PRIMARY EXPENDITURE	**22,016**	**20,136**	**-1,880**	**-8.5%**	**-3.1%**
ORDINARY BUDGET PRIMARY EXPENDITURE	***20,717***	***18,995***	***-1,723***	***-8.3%***	***-3.5%***
SALARIES & PENSIONS	**8,343**	**7,692**	**-652**	**-7.8%**	**-9.8%**
Wages	5,447	4,974	-473	-8.7%	-9.1%
Other allowances	225	295	70	31.1%	5.3%
Pensions	2,671	2,422	-249	-9.3%	-12.2%
SOC. SECUR., MEDIC., SOC. PROT.	**8,277**	**6,528**	**-1,749**	**-21.1%**	**-6.7%**
Grants to Social Security Funds	7,123	5,468	-1,655	-23.2%	-13.1%
Social Protection	279	237	-42	-15.1%	-5.8%
Grants to OAED	275	100	-175	-5.9%	38.1%
Other Healthcare Expenses	600	723	123		
OPERATIONAL-OTHER EXPENDITURE	**2,803**	**3,258**	**455**	**16.2%**	**0.0%**
Transfers to other entities	594	735	141	23.7%	-0.2%
Consumption Expenditure	432	345	-87	-20.0%	-8.4%
Conditional Expenditure	1,545	1,356	-189	-12.2%	3.0%
Other Expenditure*	232	822	590	254.3%	6.0%
EARMARKED EXPENDITURE	**1,294**	**1,517**	**222**	**17.2%**	**8.7%**
PUBLIC INVESTMENT PROGRAMME	***1,298***	***1,141***	***-157***	***-12.1%***	***0.0%***

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

Source: State Budget Execution Bulletin - May 2013, MinFin, June 2013

Revenue

As evident from the provisional data of the General Accounting Office, the State Budget revenue during the first five months of the year fell by €500 million year-on-year, or by 2.5%, compared with an annual target of contraction by 0.9%. Relative to the target for the first five months, however, the revenue is higher by €555 million. This prima facie good performance is due mostly to non-payment of tax refunds (€555 million) and excessive collection of PIB revenue (€228 million). The revenue of the Ordinary Budget before tax refunds was short of target by €399 million, which is quite significant and is likely to remain or even expand until the end of the year, in case that the rate of verification and payment of taxes, and especially VAT, the tax on electrified surfaces and the immovable property tax, does not pick up.

In particular, tax revenue fell by 9.6%, against an annual target of 6.1% reduction (Table 2.8), which is due to a significant reduction of both direct (except taxes from past financial years) and indirect taxation (again except taxes from past financial years). Overall, it seems that it would be hard to meet the revenue targets for 2013, even though the expected strong tourist arrivals could contribute to this, in particular if more audits on the verification of taxes and actions on

VAT collection are performed. The restoration of the property tax collection rate is also a prerequisite, while it seems that after the restructuring of the excise duty on tobacco products, the collection of this tax is gradually picking up, after the artificial slump in the first few months, and most probably will reach the forecast levels, at least.

General Government fiscal results *(January-April)*

As evident from the General Government results for the first four months, the net deficit reached €2,729 million, against €6,648 million in the corresponding period of 2012.

This improvement was exclusively due to a reduction of interest payments, while the primary balance deteriorated (from a surplus of €915 million to a deficit of €461 million).

Table 2.8

State Budget's Revenues – January-May

(mil €.)	2012	2013	Change 2012/11	% 5months 2013/12	% Budget Target*
TOTAL STATE BUDGET REVENUE	**19,665**	**19,165**	**-500**	**-2.5%**	**-0.9%**
ORDINARY BUDGET NET REVENUE	**18,171**	**17,444**	**-727**	**-4.0%**	**-4.1%**
TAX REFUNDS	**1,231**	**483**	**-748**	**-60.8%**	**-8.5%**
O.B. REVENUE BEFORE TAX REFUNDS	**19,402**	**17,926**	**-1,476**	**-7.6%**	**-4.4%**
TAX REVENUE	***17,928***	***16,205***	***-1,723***	***-9.6%***	***-6.1%***
DIRECT TAXES	7,323	6,663	-659	-9.0%	-5.8%
Income Taxes	*3,855*	*3,406*	*-449*	*-11.7%*	*-17.0%*
Property Taxes	*1,633*	*1,158*	*-475*	*-29.1%*	*11.2%*
Direct Tax Arrears	*1,019*	*1,386*	*367*	*36.0%*	*82.5%*
Other Direct Taxes	*816*	*714*	*-102*	*-12.5%*	*-24.5%*
INDIRECT TAXES	10,605	9,542	-1,063	-10.0%	-6.3%
Transaction Taxes	*6,730*	*5,975*	*-756*	*-11.2%*	*-8.4%*
Consumption Taxes	*3,492*	*3,122*	*-370*	*-10.6%*	*-3.0%*
Indirect Tax Arrears	*246*	*306*	*60*	*24.4%*	*-3.7%*
Other Indirect Taxes	*137*	*139*	*2*	*1.5%*	*-8.4%*
NON TAX REVENUE	***1,474***	***1,721***	***247***	***16.7%***	***13.9%***
DRAWINGS FROM EU	22	35	13	57.5%	-3.9%
NON-RECURRING REVENUE	470	755	285	60.6%	33.3%
LICENSING & PUBLIC RIGHTS	0	62	62		473.3%
OTHER	982	869	-113	-11.5%	-3.2%
PUBLIC INVESTMENT PROGRAMME	**1,494**	**1,722**	**228**	**15.2%**	**42.6%**

* According to the most recent data for 2012

Source: State Budget Execution Bulletin - May 2013, MinFin, June 2013

It should be stressed, however, that the deterioration came from cash flow adjustments and in particular from the payment of €2.7 billion arrears by the Greek state, which were long anticipated by the market (this expenditure will increase further during the year). Hence, in national accounting terms, the primary balance is expected to improve clearly.

The primary balance without the cash flow adjustment improved significantly, from a deficit of €141 million in 2012, to a surplus of €1.847 million in 2013 (Table 2.9). The extensive improvement took place exclusively on the expenditure side, as revenues fell overall by €2.3 billion, with the largest reduction observed in social security funds (before state subsidies). Primary expenditure (without the payment of arrears) fell by €4.3 billion, despite an increase in local government authorities by €136 million.

Table 2.9

General Government Primary Balance –Jan-Apr 2013

(mil. €.)

2012	REVENUE	EXPENDITURE	GRANTS	**PRIMARY BALANCE**
STATE BUDGET	16,146	10,497	7,376	**-1,727**
ENTITIES	1,090	1,265	-516	**341**
L.A.O.	1,073	1,920	-1,078	**231**
S.S.F.	8,638	13,406	-5,782	**1,014**
TOTAL	**26,947**	**27,088**	**0**	**-141**
ESA adjustments	**0**	**115**	**-1,171**	**-1,056**
TOTAL	**26,947**	**27,203**	**-1,171**	**915**

2013	REVENUE	EXPENDITURE	GRANTS	**PRIMARY BALANCE**
STATE BUDGET	15,743	7,112	8,936	**-305**
ENTITIES	786	971	-885	**700**
L.A.O.	1,106	2,056	-1,364	**414**
S.S.F.	7,009	12,658	-6,687	**1,038**
TOTAL	**24,644**	**22,797**	**0**	**1,847**
ESA adjustments	**0**	**3,003**	**-695**	**3,999**
TOTAL	**24,644**	**25,800**	**-695**	**-461**

2013/12	REVENUE	EXPENDITURE	GRANTS	**PRIMARY BALANCE**
STATE BUDGET	-403	-3,385	1,560	**1,422**
ENTITIES	-304	-294	-369	**359**
L.A.O.	33	136	-286	**183**
S.S.F.	-1,629	-748	-905	**24**
TOTAL	**-2,303**	**-4,291**	**0**	**1,988**
ESA adjustments	**0**	**145**	**-1,171**	**2,554**
TOTAL	**-2,303**	**-4,146**	**-1,171**	**3,014**

Source: General Government Bulletin- April 2013, MinFin, May 2013

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic developments

Developments in the first quarter of 2013

According to the latest national accounting data on GDP for the first quarter of 2013, **the recession perseveres in Greece for a sixth consecutive year** at a high rate. In particular, **GDP fell in the first quarter by 5.6% year-on-year**, compared with a slightly faster rate a year before (-6.7%), while **the contraction had the same depth with that observed in the last quarter of 2012 (-5.7%).** The major socioeconomic developments that influenced the course of GDP and the key macroeconomic indicators during that period included: implementation of the fiscal measures agreed with the review of the second economic adjustment programme in early November (further pension curs, reduction of special category wages, scrapping of benefits, etc.); negotiations with the troika to receive the next tranche from the loan; and entry of Cyprus in the support mechanism of EU and IMF after turbulent negotiations that were accompanied with unprecedented in the history of the Eurozone deep restructuring of the island's financial institutions (deposit haircut, obligatory involvement of the bondholders in the recapitalisation, splitting of a banking institution, sale of activities outside Cyprus). At global level, the higher than anticipated recession in the EU and the weakening of demand from the Balkan countries had a negative impact on Greek exports.

Regarding the performance of the key GDP components in the first quarter of 2013, no significant year-on-year differences in the trend were observed, except for the fact that investment increased. **The further reduction of household consumption remained the key GDP contraction driver in the first quarter.** The public consumption cuts deepened. Investment increased for a second consecutive quarter, which however was due, as in the last quarter of 2012, to expansion of inventories, as fixed capital formation continued to decline. In the external sector of the economy, the falling demand for imports for a fifth continuous year led to further reduction of its deficits, while exports declined as well.

In greater detail, **total domestic consumption was lower year-on-year by 8.3% in the first quarter of 2013, while in the corresponding period of 2012 it was falling at a slightly lower rate (7.5%).** The acceleration of the fall came from public consumption cuts by 7.0%, compared with 1.4% growth in the first quarter of 2012. This development was anticipated in the past two quarterly bulletins of IOBE, given the emphasis of the Medium Term Fiscal Strategy 2013-2016 on cutting public expenditure to achieve fiscal consolidation. Household consumption demand weakened significantly, at a rate similar to that experienced in 2010, reflecting the impact of the new fiscal measures, which reduced the individuals' income, and of rising unemployment, which however grew less than in the same period of 2012 (-9.5%). **Cumulatively since the first quarter of 2010, the last before the start of the fiscal consolidation effort, private consumption has fallen by 27.5%, public consumption by 13.3% and total domestic consumption by 24.8%.**

Regarding investment, the trend was set by inventory accumulation for a second consecutive quarter, albeit its rate was weaker quarter-on-quarter. Gross fixed capital formation, which constitutes the key component of investment, **contracted by 11.4% in the first quarter, notably weaker than in the corresponding period of 2012 (-22.8%).** However, while in the first quarter of 2012 inventories were falling by €813 million, strengthening the contraction of investment, in the first quarter of the current year they grew by €94 million, despite their rise by €2.5 billion in the last quarter of 2012. Given that the enterprises are very conservative when ordering raw materials or planning their production activity, due to the extensive contraction, the continuous inventory formation cannot be explained. Regardless of the impact of inventories on the investment trend, the ambiguity surrounding property taxation has affected housing construction, a development that was the key driver of the fall of fixed capital formation, as evident further below in the outline of the trends in its constituent categories. **The fall of fixed capital investment for a sixth year in a row has resulted in a contraction by 64.5% compared with their first-quarter all-time peak observed in 2007.**

Regarding the trends in the basic fixed capital categories, **the deep contraction of Housing Construction carried over from 2012, keeping this category on top of the contraction ranking. It is noted that in only two years, since the first quarter of 2011, Housing Construction has fallen by half (-54.9%), in the aftermath of an unprecedented contraction by 64.7% that had already taken place in the sector in 2008-2011, a development that reflected the impact from the levy of the electrified surfaces tax.** Investment in Transport Equipment comes next – just as in 2012 – albeit with a much weaker contraction (-6.1%). Stabilisation trends dominated in the remaining categories (Metal Products – Machinery with -0.2%, Agricultural Equipment with 0%, Other Products with +0.6% and Other Construction with +0.7%).

The balance of the external sector of the economy improved further in the first quarter, exclusively due to further weakening of the demand for imports, as exports fell as well. Nevertheless, the contraction of imports was weaker than in the same period of 2012, 7.8% against 14.9%. In contrast with the previous year, however, the imports of services contracted stronger than the imports of goods (-17.8% and -5.3% respectively). **The fall of imports for a fifth year resulted in a cumulative contraction relative to the first quarter of 2008 by 43.6%, coming mostly from lower imports of goods (-45.6%) than the contraction in the imports of services (-34.5%).**

Regarding exports, the increase of the exports of goods by 4.9% in the first quarter was not enough to offset the significant fall of the imports of services by 12.4%. **As a result, total exports fell by 2.6% in the first quarter, compared with an increase by 4.1% a year before.** The contraction of exports brought them back to €8.3-8.4 billion, a level where they had fluctuated in the first quarter of 2009-2011. In fact, compared with the same period of 2008, exports were lower in the current year by 17.1%, exclusively due to the much lower exports of services (-35.4%, with the exports of goods at +1.1%). Despite all this, the contraction of imports in early 2013 brought the **deficit of the external sector in national accounting terms down to €2.8 billion, 20.5% lower year-on-year.**

In production terms, **domestic gross value added fell by 4.7% in the first quarter, at a weaker rate than in the corresponding period of 2012 (-6.5%).** The deference compared with the larger contraction of GDP is due to the much larger reduction of taxes on products, which are added to the added value in order to estimate GDP (while subsidies are subtracted). **The further vertical drop in housing investment is reflected in the activity of the Construction sector, which – as in 2012 – fell most among the key sectors of the Greek economy, by 17.1%,** slightly weaker than a year before (-18.8%). Following the current year contraction as well, ¾ of the Construction output has evaporated since early 2007. A significant weakening of the production activity is also observed in Information – Communications (-12.5%), followed by Financial – Insurance Activities (-10.9%), with both sectors going through their fourth year of contraction. The reduction of output in Wholesale-Retail Trade, Repair of Motor Vehicles – Motorcycles and Accommodation – Food Services (-10.6%) was similar, lower by 40% than the level from the first quarter of 2008. The primary sector continued to decline, albeit at a slow pace, by 2.9%, compared with 3.4% in the same period of 2012. In contrast, the contraction in Industry has almost come to a halt, not exceeding 0.6%, from 6.8% in early 2012. Output consolidated in Real Estate Activities (+0.2%), the only sector with increasing output in 2011-2012, while activity slightly strengthened in Art – Entertainment – Recreation Activities (+1.4%).

The carryover of the high contraction rate of the Greek economy from the last quarter of 2012 to early 2013, which affected sectors with significant share of employment (Wholesale-Retail Trade, Construction, Accommodation – Food Services) prevented an improvement of the conditions in the labour market. Employment was lower year-on-year by 6.3% in the first quarter, a similar contraction with that experienced in the preceding quarter (6.4%), albeit lower than in the first quarter of 2012 (-8.5%). Perhaps the new significant contraction of employment came in part from the adjustment of the severance pay and the minimum warning time period for layoffs, depending on length of experience, that were included in the update of the second economic adjustment programme in November 2012. **As a result, unemployment reached 27.4% in the first quarter of 2013, 4.8 percentage points up year-on-year.**

The further extensive weakening of domestic consumption demand in the first quarter curbed the inflationary pressures from the hike in electricity tariffs in January. In fact, the annualised change of the Consumer Price Index was negative in March, for the first time since March 1968. As a result, **CPI remained unchanged in the first quarter of the current year (0.0% inflation), while in the same period of 2012 the inflation rate stood at 2.0%.**

In summary, for one more quarter the implementation of fiscal measures – and to lesser extent than in late 2012 – the uncertainty regarding the outcome of the negotiations with the troika largely determined the domestic socioeconomic environment in early 2013. Nevertheless, in contrast with the past, the significance of the global developments for the domestic economic activity strengthened, coming first from the stronger than anticipated recession in the EU and second from the impact, immediate and potential, of the unexpected events in Cyprus. As the impact of both these factors will carry over to the coming quarters, with their strengthening not deemed unlikely, we should not underestimate their significance for the outlook of the Greek economy.

Medium-term outlook

The completion of the negotiations to receive the last instalment of the loan's third tranche in early May, in a relatively short time frame and without particularly strained negotiations, as critical issues, such as the specification of fiscal measures for 2013 and interventions for the sustainability of public debt had already been agreed upon in the past autumn negotiations, did not cause – as the reviews in the past years – intense uncertainty on the ability to continue the fiscal consolidation programme.

As a result, the conditions and the prerequisites were set to pass through and implement the agreed measures and reforms included in the Medium Term Fiscal Strategy 2013-2016. From this process, together with the subsequent political developments surrounding the reduction of employment in the public sector and the current negotiations for the next tranche, it became clear that the structural changes in the operation of the public sector and the Greek economy in general, perhaps more important than the full achievement of the fiscal targets, something already noted in the previous reports of IOBE, are of paramount importance.

Table 3.1

Main Macroeconomic Figures - 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. €		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%	10328	15.1%	14932	-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%**
a' 2013	37,701	-5.6%	35,301	-8.3%	5,198	5.1%	8,402	-2.6%	11,204	-7.8%

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

The limited attention that was given to structural changes and their planning in the past years, as the interest of the troika was focused largely on the fiscal consolidation effort led to significant escalation of government activities in these areas and attempts to implement numerous reforms at the same time, together with political and social developments stemming from them. In conjunction with the Greek side's tendency to procrastinate, the number of unrealised or semi-complete structural reforms accumulated. This creates major obstacles for the planning and implementation of the needed reforms, however it cannot be used as an excuse for their withdrawal or further delay.

Understandably, the sooner implementation of certain important political decisions in this direction during the three years of fiscal consolidation, despite the fact that it would not have had an impressive impact on the Greek economy, as the time for the benefits from structural reforms to mature lasts for several years and depends on the clarity of the macroeconomic outlook, could have moderated the contractionary impact of the fiscal consolidation process and the rise of unemployment. In any case, more reform initiatives in the recent past would have made it possible to shift the centre of gravity of the review of the Greek programme away from achievement of the fiscal targets and would have contributed to the sooner return of the Greek economy to growth or subsequently to stronger recovery.

Apart from the above inhibiting factors to the restructuring of the state apparatus and the Greek economy overall, coming directly from the policy makers in Greece and from past omissions and neglect, some more are gradually being exogenously formed, coming from the global economic conditions in the current period and the political events that took place in the past months, primarily in the Euro area. In particular, the persistence of the recession in the EU and the Euro area for a second year, contracting stronger in the first quarter than anticipated in early 2013, is inhibiting investment activities. This particular development does not benefit the efforts to accelerate the concessions / sales of assets and activities of the public sector to the private sector, a process that is crucial for the restructuring of an economy. The potential interest is low and hence the competition is weaker. As a result, there are obstacles associated with the international economic environment in meeting the targets set in the Medium Term Fiscal Strategy. In light of this, the making within the current year of certain steps in the area of concessions and privatisation constitutes a positive and substantive development, despite the fact that the results thus far are clearly below the targets set in late 2012.

In general, in periods when the world economy slows down or certain major economic regions contract, such as the current period, the flows of foreign direct investment fall, one more factor that is critical for economic restructuring. The announced so far investment initiatives by multinational companies in Greece, despite the unfavourable economic conditions in the EU, reflect the existence of domestic investment opportunities, whose utilisation could expand significantly when the European economy returns to a period of mild, yet stable growth and the world economy strengthens.

However, the unification of the European Union banking system is a major current development, which causes radical changes in the decisions of the investors. Single supervisory mechanism, single resolution mechanism and common framework of bank deposit guarantee are the constituting elements of the banking union. The whole process is still at an early stage. The European Parliament, the Council of Europe and the European Commission agreed upon the legal framework for the single supervisory mechanism for the EU banks, which for the time being has not been officially approved by the EU member-states and the European Parliament. In the ECOFIN council meeting in 26 June the finance ministers of the EU agreed to take preventive measures on national level and signed off the process of resolution / restructuring of troubled banking institutions and the guarantee of deposits by the EU member states. The decision incorporates the instruments that were used for the consolidation of the financial system of Cyprus (imposition of losses on shareholders, bondholders and in general unsecured creditors of the banks). This particular agreement will form the basis for further negotiations between the European Commission and the European Parliament, while the national governments in cooperation with the European Parliament will have to establish deposit guarantee systems. The decision of the Eurogroup from 20th June, regarding the funds that the ESM can provide for the recapitalisation of banks, under conditions related to the bank's situation and the fiscal position of the country in which it has its headquarters and provided that the private capital funds are insufficient to cover the capital shortfall, can also be included in the framework of banking system consolidation, particularly for the countries in the Euro area.

On the other hand, the roadmap for instituting at EU level the resolution instruments that were used for the banks in Cyprus, changes radically the risk assessment of investment placements in Europe, not only in financial products, but also in production activities as well. Besides, as part of the preventive measures, all banks will have to draw recovery plans, whose adequacy will be assessed annually by the supervisory authorities. Understandably, the robustness of the banking system in EU as a whole has been put to under review until the completion of the relevant processes, affecting the region's attractiveness as an investment destination. Subsequently, the interest to invest in Greece is also weakening. Of course, the banking union is expected to limit drastically the risks from the bankruptcy of a financial institution in the future.

The process of fiscal adjustment and banking system consolidation in Cyprus is an exogenous factor for the Greek economy that emerged recently and which affects the fiscal consolidation in Greece. The impact from the restructuring of the two largest banks on the businesses and the households in Greece is considered small, as their placements in branches situated in Cyprus were relatively limited. The acquisition of the activities of the three Cypriot banks with presence in Greece by one of the largest domestic banking groups (Piraeus Bank) almost at the same time with the agreement on Cyprus joining the EU and IMF support mechanism, was a measure of critical importance to protect the domestic economic agents from the impact of the implementation of non-conventional measures in the restructuring process, based on the until then applied policies in similar cases in the EU and internationally.

Nevertheless, as noted in the previous IOBE report on the Greek economy, precisely due to the separation of the Cypriot banks' subsidiaries in Greece, the subsidiaries could no longer play the crucial role that they had played in the transactions related to the bilateral trade between the two countries. The banking transactions related to trade activities have also been hindered by the imposition of controls since end of March on all banking transactions of the clients of the two banks in Cyprus, which are being gradually lifted.

The most important impact on the Greek economy from the entry of Cyprus in the EU-IMF support mechanism is expected to come from the weakening of the demand for products and services from Greece (e.g. tourism), due to the reduction of income from the fiscal consolidation process and real wealth from the use of part of the deposits for the consolidation of the banks.

Focusing on the impact on the Greek economy that is expected to come internally in 2013, the key sources of impact are expected to be the complete implementation of the fiscal measures set for the current year and the completion of the recapitalisation of the Greek banks during the third quarter and their preparation for the stress test scheduled for the end of the current year, which will determine the ability of the banking sector to supply liquidity. The payment of arrears by the State to the private sector could also contribute to boosting the exceptionally low liquidity in the Greek economy. In the first half of the current year €3.4 billion arrears were paid, while the funding of request for €4.6 billion more has been completed.[6] In light of this, the goal of the economic support programme for the payment of €3.5 billion arrears out of the instalments that were disbursed in 2012 and the plan for additional expenditure of €3.5 billion to settle obligations of General Government agencies, which is included in the recital for the 2013 budget, is being implemented satisfactorily. On the other hand, the state continues to generate arrears at a relatively high rate and as a result they reached €6.9 billion in May,[7] from €6.4 billion in the corresponding month of 2012.

[6] Announcement on the arrears payment process, MinFin, 03/07/2013
[7] General Government Data, May 2013, MinFin, July 2013

The assessment of the implementation of the second economic adjustment programme in early autumn will be crucial for the domestic economic environment and the trust globally in the ability of Greece to come out of the fiscal crisis. It will include finalisation of the fiscal interventions for 2014-2015, together with the very likely sustainability review of the Greek public debt, based on the data formed until then on the macroeconomic outlook of the Greek economy and the privatisation progress. In this regard, the granting of a new loan by the EU is quite likely, as the financing from the current loan ends in the first half of 2014. The tourist arrivals from abroad and their impact on the tourist enterprises are also among the most important factors that will determine the depth of the recession and the height of unemployment in the second half of the year.

Two distinct trends can be discerned in the most recent available data on key parts of economic activity and major macroeconomic indicators: continuous strong pressures on sectors and indicators that mostly depend on domestic demand, which in some cases are intensifying, and halting of the last year decline in activities, where the share of foreign demand is significant. In particular, the contraction of industrial production in the first quarter of the current year, after the stabilisation observed in the last quarter of 2012, weakened further in April, with the contraction not exceeding 1.8%. The weakening of the contraction came mostly from manufacturing, where production remained almost unchanged year-on-year (-0.6%) and secondarily from the increase in output of Water Collection, Treatment and Supply (+3.1%). The data on new industry orders, which increased slightly in February and April, but not in March, point to stabilisation of output in Manufacturing and perhaps a small increase in the coming months. The increase is mainly due to higher demand in the international markets, with domestic orders increasing year-on-year only in April. A significant trend inception was observed in the arrivals of foreign tourists in the largest airports of the country in May, with their year-on-year increase reaching 18.5%, outweighing the lower arrivals in the first four months of the current year (+6.0% in the period from January to May). In contrast, the sharp drop of construction activity – an indicator that drives fixed capital formation – in early 2013 as well, strengthened further in March, exceeding 60%, based on the number of issued licences, the surface and the volume of new buildings.

Regarding indicators that reflect closer the trends on the demand side of the economy, the volume index of retail trade (except fuel and lubricants) fell by 13.4%, a similar contraction as that observed in the same month of the previous year (-13.9%). In general, the contraction of Retail Trade since early 2013 has varied at similar rates with the previous year, to reach 12.5% in the first four months, essentially the same as in the corresponding period of 2012 (-12.6%). The strong reduction of retail trade volume for a third year in a row is considered to reflect the weakening purchasing power of the households in the current year as well, due to the implementation of the new fiscal measures and the continuous rise of unemployment. The exports of goods and services (except fuel) fell in the first four months of 2013 (-4.9%), according to data from the Bank of Greece, due to the contraction of the global demand for services (transport, tourism, etc.). The slightly larger weakening of imports (-5.9%), due to lower income and sluggish investment activity, has brought further reduction of the external deficit (-15.1%). In April the contraction of exports weakened notably (-0.9%), however imports increased by 10%, resulting in a sharp increase of the deficit year-on-year (from €14.6 million to €319.2 million). The data for May will be particularly important for the course of the external balance in 2013, as they will reflect the impact from the stronger arrivals of foreign tourists.

The contractionary pressures of lower income and rapidly rising unemployment on consumption demand is reflected mainly in the variation of the Consumer Price Index. The index has fallen steadily from March to May, with a tendency of gradually strengthening deflation, despite the increase of the price of electricity in January and the preceding increase of the excise duty of heating oil for residential use. In May CPI fell by 0.4% year-on-year, marginally less than in April (-0.6%), a slowdown due to stronger purchases during Easter in early May, in contrast with the previous year when this had happened in mid April.

The contractionary impact of the reduction of income and the rise of unemployment on **household consumption expenditure** will continue and perhaps intensify in the coming quarters of 2013. The average reduction of gross remuneration by 10.1% in Industry, Construction and most branches of Services (except Public Administration, Education and Health), against a contraction by 7.8% in the same period of 2012,[8] is expected to strengthen after the end of the three-month extension of the collective bargaining agreement that expired in mid February. The scrapping of the summer vacation, Christmas and Easter benefits for the public sector employees and the pensioners will affect their purchasing power. Therefore, **private consumption is expected to fall stronger during the rest of 2013 than in the first quarter (-8.7%), with the average contraction reaching 9.0%.**

The anticipated, based on the Medium Term Fiscal Strategy 2013-2016, emphasis on public expenditure cuts to achieve fiscal consolidation, reflected in the significant reduction of **public consumption** in the first quarter of this year, will also continue throughout

[8] Wages and Salaries Index in basic sectors of the economy, 2006 - Q1 2013, EL.STAT., 28/06/2013

2013. The relatively low level of consumption expenditure of the public sector in the third quarter of 2012 is expected to bring a technical inception of their reduction in the corresponding period of the current year. Despite all this, **the reduction of public consumption in 2013 will be weaker than in 2012, expected to reach around 6.0%.**

Regarding the trend in the coming months for the implementation of **investments**, positive outlook is not observed in any of the constituent categories of fixed capital. As already analysed in previous IOBE quarterly bulletins, extensive weakening of domestic demand in 2013, together with relative stability of exports overall in the year will not favour the strengthening of the **domestic private sector's inclination to invest**. The intense contraction of construction activity in the first quarter, also due to retractions on the taxation of real estate, will be limited after the finalisation of the tax, without preventing its overall contraction in the current year as well. The very limited supply of liquidity continues to be a hurdle in the implementation of investment plans by the enterprises. The completion of the process of recapitalisation of the Greek banks in the third quarter and the stress test scheduled for the end of the year, together with the significant delay in the payment of arrears by the public sector, prevent the improvement of this particular crucial factor for undertaking investment initiatives. Besides, according to the latest review of the Greek programme by IMF, the banking institutions used the funds that had been disbursed to them until late May, as part of their recapitalisation, in order to cover their ECB exposure.[9]

On the other hand, **the foreign interest for direct investment** in Greece is recovering, which has already reflected in the announcement of specific investment plans, despite the unfavourable global environment, as analysed above. However, their stimulating impact on investment activity is expected to transpire towards the end of 2013 and mainly from 2014 onwards. The progress of privatisation / concessions is also a barometer of the international investment interest. The results until now clearly are below expectations, however we should not ignore the less favourable than anticipated global conditions. In addition, the few cases for which the deals have been completed (Kassiopi Corfu, IBC, four properties abroad) or where the contracts are being drawn (Hellenic Football Prognostic Organisation, DESFA) will have mostly revenue-raising benefit for the public sector in the current year, with any investment activity expected from the coming year onwards. Overall, as according to the activity plan of the Hellenic Republic Asset Development Fund in the 2013 Budget, the fund's activities will accelerate in the last quarter of the year, investment is not expected to re-

[9] Greece, Third Review Under the Extended Arrangement Under the Extended Facility, IMF, June 2013

ceive a boost in the current year, but in 2014.

Regarding the **investment activity of the public sector**, the under-execution of the Public Investment Programme for a fourth consecutive year, resulting in expenditure in the first five months (€1.1 billion) lower than the already very low level in the corresponding period of 2012, signifies the limited contribution of the public sector in investment activity in 2013 as well. In light of this, the execution of the PIP will depend, as in the period from 2010 to 2012, on the deviation of the remaining elements of the State Budget and the aim the overall expenditure in the current year to be lower than in 2012 (€6.1 billion). It is noted, however, that the low rate of PIP execution is due in part to the inability of the enterprises to draw liquidity to cover their own participation or to provide the required letters of guarantee.

Taking into account the outlook of the investment environment factors presented above and given that the inflating impact from the accumulation of inventory on gross capital formation, which was strong in the last quarter of 2012 and in early 2013, will weaken or even revert to contraction in the coming months, investment is expected to decline by about 10% in 2013.

Regarding the **external sector** of the economy, the trends forecasted in the previous IOBE quarterly bulletins are being confirmed. The demand for imports continues to contract in 2013, albeit at a lower rate than in the previous year. Its weakening drives a further improvement of the external balance, in national accounting terms, as the total exports of domestically produced goods and services are falling as well. The fall of income due to the fiscal measures, the structural changes in the labour market and the rampant unemployment will further weaken the **imports** of consumption services (e.g. outbound tourism) and goods. The imports of machinery and equipment will fall due to the shrinking investment activity. Therefore, **imports are expected to decline by slightly more than 10% in the current year.**

Regarding **exports**, lower demand from "traditional" destinations for the export of products, such as the EU countries, and particularly Cyprus and the Balkans, was outweighed by their stronger penetration in new markets (Latin America, the Commonwealth of Independent Nations, etc.) and Turkey. The extensive contraction of the supply of services abroad in early 2013 most probably will ease significantly in the summer months, due to the strong tourist arrivals from abroad, and in fact growth during that period cannot be ruled out. Therefore, **exports will come close to their 2012 level in the current year or could slightly increase. The export trends, together with the significantly lower demand for imports, will bring about further re-**

duction of the balance of the external sector during the current year.

Summarising the forecasts on the trends in the key GDP components in 2013, the private sector consumption will contract stronger, as completion of the fiscal measures in the current year, wider implementation of the structural reforms in the labour market and a further rise of unemployment will exert pressures on income and the purchasing power of the households. The reduction of the consumption expenditure of the public sector will be weaker than in the first quarter, yet it will be stronger than in the previous year.

Regarding investment, the sluggish domestic demand and the stagnation of exports do not encourage the undertaking of investment initiatives by the enterprises in Greece. Besides, the ability to draw liquidity from the banking system will remain limited in 2013. The international interest for direct investment, as reflected in the announcement of specific investment plans, will have an impact on domestic investment activity from 2014. The investment utilisation of privatisations / concessions that are carried out by HRADF in the current year have the same time horizon. The negative influence on the investment climate in the EU from the banking union process, due to the uncertainties raised about the sustainability of the banking sector until its completion, should also be noted. The above trends in the factors affecting investment, together with the end of the inflationary impact of inventories accumulation, will drive their fall in the current year as well, for a sixth year in a row. Regarding the external sector of the economy, contraction of imports will bring about further improvement of its balance, which could be backed by a slight increase of exports, even though the most likely outcome is that exports will remain close to their 2012 level. **Taking into account the anticipated trends in the GDP components in 2013, IOBE predicts that the recession of the Greek economy in the current year will reach 4.8-5.0%**, slightly higher than anticipated in late 2012 and early 2013. This particular estimate of the recession is slightly more unfavourable than the latest forecasts by international and domestic institutions (EC-IMF: -4.2%, OECD: -4.8%, Table 3.3).

The deep recession in the coming quarters of 2013 will bring about further rise of unemployment, perhaps at a slower pace than in the first quarter of this year. The increased seasonal employment in tourist enterprises due to the stronger tourist arrivals from abroad will moderate and perhaps halt the rise of unemployment in the summer months. The populous programmes of the Manpower Employment Organisation will lead to a temporary return of some of the unemployed to the labour market. The restart of the construction of the five large road projects will create jobs with longer duration, albeit significantly fewer in number. On the other hand, the job cuts in the public sector, envisaged in the Medium Term Fiscal Strategy 2013-2016, will have a negative impact on employment in the current year. **As a result, unemployment will reach 27.8% of the labour force in 2013, higher than forecasted in previous IOBE reports.**

The exceptionally low domestic demand due to the aforementioned factors will continue to have a contractionary impact on **prices**, strengthening the deflationary momentum that was observed from March to May. Nevertheless, the larger year-on-year arrivals of foreign tourists will boost demand in the tourist areas, limiting the price fall during the summer months. In addition, the relatively low level of the Consumer Price Index in July and August of 2012 will make possible the materialisation of marginal inflation during the same period of the current year.

On the other hand, the likely hike of the prices of public transport tickets in the autumn is not expected to overturn the contraction of prices, which is anticipated to strengthen towards the end of 2013, as the seasonal demand will be much lower than in the previous years, due to the abolishment of the Christmas benefits in the public sector and for the pensioners.

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	-4.2	0.6
Private Consumption	-7.7	-9.1	-6.9	-1.6
Public Consumption	-5.2	-4.2	-4.0	-6.2
Gross Fixed Capital Formation	-19.6	-19.2	-4.0	8.4
Exports of Goods and Services	0.3	-2.4	3.1	4.6
Imports of goods and services	-7.3	-13.8	-6.5	-1.9
Employment	-5.6	-8.3	-3.5	0.6
Compensation of employees / head	-3.4	-4.2	-7.0	-1.5
Real Unit Cost of Labour	-1.8	-5.5	-5.3	-1.2
Harmonized Index of Consumer Prices	3.1	1.0	-0.8	-0.4
Contribution to real GDP change				
Domestic Demand	-10.1	-10.4	-6.1	-1.1
Net Exports	2.4	4.0	0.4	1.8
House Inventories	0.6	0.1	2.7	-0.0
GDP percentage				
General Government Balance	-9.5	-10.0	-3.8	-2.6
Current Account Balance	-11.7	-5.3	-2.8	-1.7
General Government Debt	170.3	156.9	175.2	175.0
Percentage				
Unemployment (% of civilian labour force)	17.7	24.3	27.0	26.0

Source: European Economic Forecast, Spring 2013, European Commission, May 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	-4.2	0.6	-6.4	-4.8	-1.2	-6.4	-4.2	0.6
Final Demand	:	:	:	-8.2	-3.8	0.1	:	:	:	:	:	:
Private Consumption	-7.7	-7.0	-1.6	-9.1	-6.9	-1.6	-9.1	-7.0	-4.5	-9.1	-6.9	-1.6
Harmonised Index of Consumer Prices (%)	1.1	-0.8	-0.4	1.0	-0.8	-0.4	1.0	-0.7	-1.7	1.0	:	:
Gross Fixed Capital Formation	:	:	:	-19.2	-4.0	8.4	-19.2	-7.7	-2.5	-19.2	-4.0	8.4
Unemployment (%)	22.4	22.8	21.4	24.3	27.0	26.0	24.2	27.8	28.4	24.2	27.0	26.0
General Government Balance (% GDP)	-6.6	-5.2	-3.8	-10.0	-3.8	-2.6	-10.0	-4.1	-3.5	-6.3	-4.1	-3.2
Current Account Balance (% of GDP)	:	:	:	-5.3	-2.8	-1.7	-3.4	-1.1	0.9	-3.4	-0.8	-0.2
Gross Public Debt (% of GDP)	175.6	189.1	191.6	156.9	175.2	175.0	157.0	175.1	180.6	156.9	175.8	174.2

Source: Medium Term Fiscal Strategy Framework 2013-2016 & 2013 Budget, Ministry of Finance, November 2012 — European Economic Forecast, Spring 2013, European Commission, May 2013 - OECD Economic Outlook No. 93, May 2013 – Greece, Third Review Under the Extended Arrangement Under the Extended Facility, IMF, June 2013

The "freeze" of the low voltage electricity tariffs (for households, professionals and businesses) by PPC, together with the reduction of the medium-voltage industry tariffs by 15% and their easing in the high voltage segment will ease any inflationary pressures. The aforementioned factors are expected to lead to **an average change of CPI by -0.4% in 2013, compared with price stability anticipated earlier during the year. Hence, deflation is expected to occur in Greece in the current year.**

In summary, as noted in the previous IOBE quarterly bulletin, the perseverance of a deep recession for a fifth consecutive year highlights even more that the Greek government should carry out specific actions and undertake initiatives for the recovery of investment activity. In this regard, the initiatives to promote the characteristics and the prospects of Greece that turn it into an investment destination with specific advantages, the realisation of privatisations and the implementation of structural changes should intensify. The privatisation progress hitherto achieved, despite the shortfall from the targets, shows that their gradual implementation in an unfavourable environment is feasible. Under the current, less favourable than anticipated, conditions, the privatisation schedule should perhaps be reassessed, without changing the final revenue target and thus the extent of the debt burden relief.

Regarding the structural changes, the previous quarterly bulletin stressed clearly that in the current year emphasis should be placed primarily on their implementation, and particularly on those related to the structure and the operation of the

Greek economy and the Greek state. The need to avoid a new cycle of delays and procrastination, as in the previous years, with a negative impact on the Greek economy, should be stressed again. Besides, as long as the structure of the domestic economy and the Greek state do not change radically, the source of creation of excessive public expenditure in the past perseveres, while in parallel new sources of public revenue are not being formed (e.g. from liberalised or emerging activities), undermining the immense fiscal consolidation effort that is being exerted.

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 industrial production index contracted again in the first quarter of 2013, by 2.8%, following its stabilisation in the last quarter of 2012. Its contraction was clearly weaker, however, than in the same quarter of 2012 (-6.7%).

On the other hand, in the Eurozone the industrial production index fell year-on-year by 1.9% in the same period, however this contraction was slightly weaker than in the corresponding period of 2012, when the index was falling by 2.1%.

At sector level in the Greek industry, the largest contraction of production in the first four months of 2013 was observed in Mining-Quarrying, by 8.9% (compared with 1.9% contraction in 2012), followed by Electricity (-8.5%, from -5.1% in the same period of the previous year) and Manufacturing (-0.7%, from -8% in 2012). Water Supply fell marginally by 0.6%, in the aftermath of its marginal increase by 0.4% in the first four months of 2012. The significant contraction of Mining-Quarrying and Electricity in the first four months of 2013, together with the marginal contraction of Manufacturing and Water Supply resulted in a slowdown of the contraction of the Industrial Production Index (-2.8% in 2013, compared with a contraction by 6.7% in 2012).

Among the constituent branches of Mining-Quarrying, growth of output was observed in branches contracting in the same period of the previous year. Other Mining-Quarrying increased by 2%, compared with a deep contraction by 23.9% in the same period of 2012, while Mining of Metal Ores increased by 7.2%, compared with 9.5% contraction in 2012. The opposite was observed in Mining of Coal & Lignite, which contracted significantly, by 13.9%, in the current year, compared with a 7.3% contraction in the same period of 2012. Output in Extraction of Crude Oil and Natural Gas stabilised (-0.1%), in the aftermath of a contraction by 16.3% in 2012.

The weaker demand lowered production in 17 of the 24 Manufacturing branches. However, the reduction of output weakened in most branches, as in 14 the contraction eased year-on-year (food, textiles, clothing, leather-footwear, printing and reproduction of recorded media, chemical products, rubber and plastic products, basic metals, electrical equipment, machinery and equipment, furniture, other manufacturing activities, repair and installation of machinery and equipment), while in only two the contraction strengthened (wood and cork, metal products). In one branch while the output was increasing in the first quarter of 2012, it contracted in the same period of 2013 (motor vehicles, trailers and semi-trailers) and in 7 branches production increased (beverages, tobacco, paper and paper products, coke and refined petroleum products, basic pharmaceutical products and preparations, non-metallic minerals, computers, electronic and optical products).

In general, among the manufacturing branches with increased weight for the Greek economy, the production of Basic metals fell in the first four months of 2013 by 6.6% (in the aftermath of 8.8% contraction in the same period of the previous year), while in Pharmaceuticals the index increased by 9.4%, compared with a contraction by 5.6% in the first four months of 2012. Lastly, the output of Food fell by 1.9%, less intense than in 2012 (-9.3%).

In greater detail, the largest contraction among the Manufacturing branches in the first four months of 2013 was observed in Other Transport Equipment (-28.8% from -33.2% in the previous year), followed by Furniture (-28.6% in the current year, -33.1% in 2012) and Wood-Cork (-24.9%, following a significant reduction by 20.5% in the corresponding period of 2012). The lowest contraction was observed in Clothing (-0.1% in the aftermath of a significant contraction by 15.9% in 2012), Food (-1.9%, against a reduction of 9.3% in the corresponding period of 2012) and Chemical products (-2.3% from a significant reduction by 16.4% a year before).

Among the manufacturing branches with increase of output, the largest growth was observed in Non-metallic minerals, where output increased by 10.5% in the first four months of 2013, compared with an extensive drop by 33.1% in the same period of 2012, followed by Electronic equipment (+10.3%, from -15.9% in 2012). Lastly, the weakest output growth, not exceeding 2.8%, was observed in Paper, in the aftermath, however of a notable contraction by 14.7% in 2012.

In general, the sectors connected with capital and durable consumer goods contracted anew by 17.3% (from a similar contraction by 15.2% in the previous year) and 14.5% (compared with 19.8% contraction in the previous year) respectively, reflecting the significant, for one more year, reduction of fixed capital investment and the difficulties of the households to make major purchases (electric equipment, furniture). Contraction was also observed in energy production (-3.7%) against an increase by 4.1% in 2012. Lastly, the production of intermediary foods fell by 2%, in the aftermath of significant losses by 16% in the first four months of 2012.

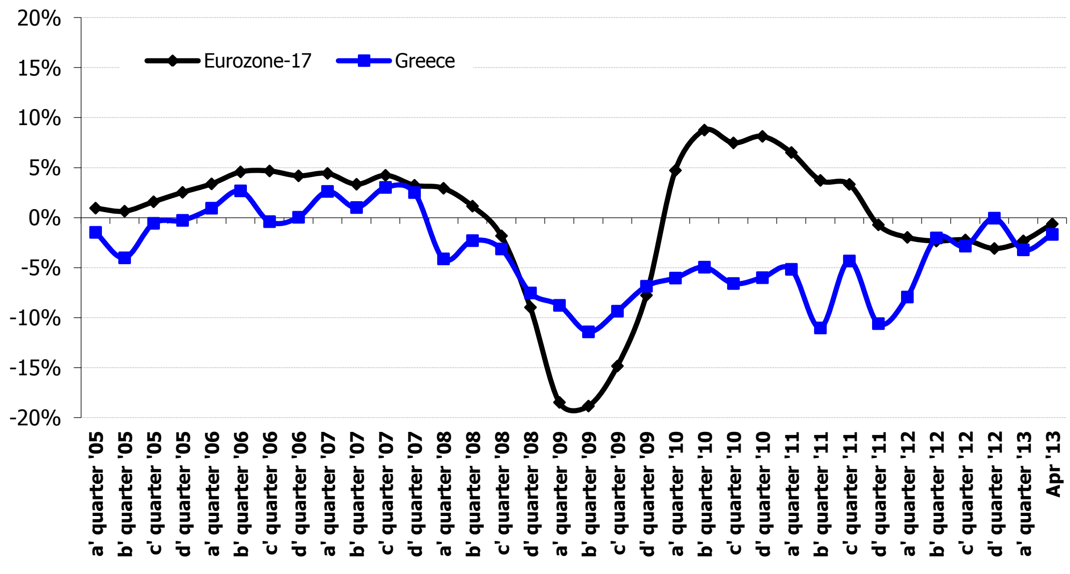
Construction

The production index in Construction decreased further in the first quarter of 2013, for a fifth year in a row. It fell by 30.2% year-on-year, compared with a contraction by 11% in the same period of 2012. As a result of its sustained contraction, the index fell in the first quarter of 2013 to its lowest level at least since 2006.

Regarding the sector's constituent indicators, the number of building permits fell by 44.4% in the first quarter of 2013 (against an increase by 6.5% in 2012). It is indicative that the indicator did not increase in any of the regions: the largest reduction was recorded in East Macedonia – Thrace and Epirus (-57.3% in both regions), followed by the Ionian Islands (-53%), Attica and Western Greece with similar contraction rates (-49.5% and -49.4% respectively) and West Macedonia (-47.2%). Relatively weaker, albeit still very strong, contraction was observed in Thessaly (-32.6%) and Crete (-24.7%).

Figure 3.1

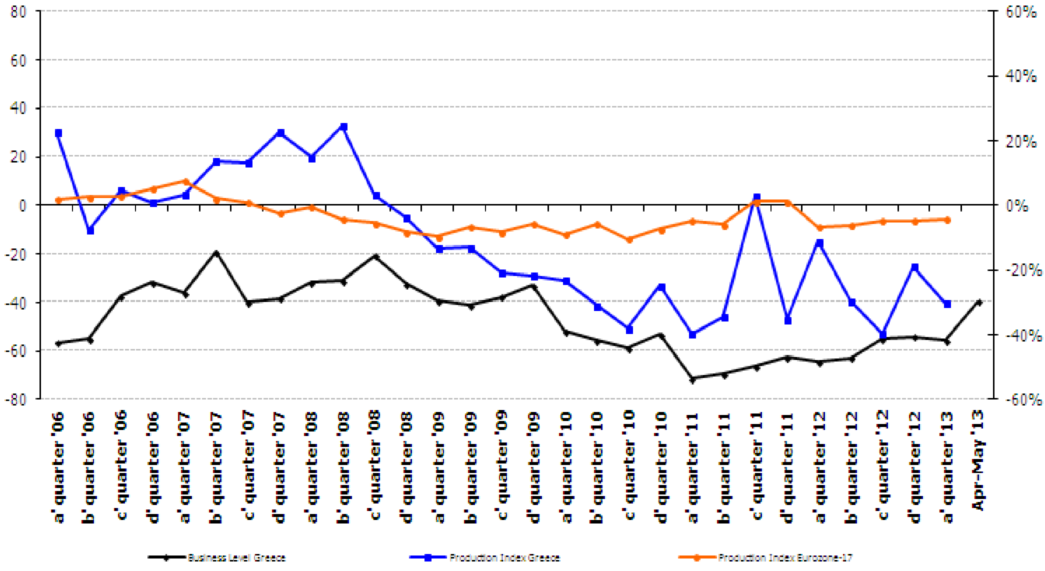
Production Index in Manufacturing, Greece and Euro Area-17,
% change w.r.t. the same quarter of the previous year (2005=100)



Sources: ELSTAT/Eurostat

Figure 3.2

Construction Production Index (annual % change) in Greece and the Euro area-17 & Business Level Index in Greece (1996-2006=100, Euro Area-17: 2010=100)



Sources: ELSTAT/Eurostat/IOBE

A similar trend was observed in both the Building Volume and the Surface of New-Built Property indicators in the first quarter of 2013, which fell by 44.9% and 45.1% respectively. Regarding the financing of building activities, according to the latest data published by the Bank of Greece (April 2013), the interest rates of mortgage loans with duration of more than 5 years reached 3.18%, falling marginally since February and March (3.21% and 3.19% respectively). The year-on-year contraction of the index of residential property appraisals-transactions with MFI intermediation weakened in the first quarter, albeit remaining exceptionally strong (-24.5% from -48.5%). Despite the above unfavourable developments, the IOBE Business Surveys for the first six months of 2013 indicate that the pessimism in the sector, as measured by the business sentiment indicator, eased year-on-year, with the indicator standing at -46.4 from -63.4. Nevertheless, this development was due to expectations that the large public works will recommence.

Retail Trade

The continuous adoption and implementation of fiscal measures that reduce the disposable income of the households and the further significant increase of unemployment are reflected in the course of the Retail Trade indicators. In particular, the Volume Index in Retail Trade fell by 12.9% in the first four months of 2013, slightly weaker than in the corresponding period of 2012 (13.2%). Indicative of the sector's dismal state is the fact that turnover decreased significantly in all its constituent branches, without a single exception.

In greater detail, the largest reduction in the first four months of 2013 was observed in Pharmaceuticals – Cosmetics (-15.5% in the aftermath of 8.7% contraction in the first four months of 2012), followed by Automotive Fuels & Lubricants (-14% against 16.8 contraction in 2012). A significant reduction of demand was also recorded in Supermarkets, by 13%, in the wake of a weaker contraction in the first four months of 2012 by 8.7%. The contraction in Clothing-Footwear eased to 11.5%, less than the 22.7% observed in 2012. The contraction was also milder in Furniture-Household Appliances (-11.1%), compared with the corresponding period of 2012 (-16.5%). The mildest contraction was observed in Food-Beverages-Tobacco (-9.6% against -19.5% in 2012), Books-Stationary-Gifts (-6.6% from -13% in the previous year) and Department Stores (-3.7% from -14.1% in 2012).

In contrast with the Volume Index of Retail Trade, **the business sentiment indicator of the sector, which is estimated in the Business Surveys compiled by IOBE**, **has kept improving since the beginning of the current year**, most probably indicating that the enterprises expect positive developments in the coming period. In particular, the business sentiment indicator increased by 23.3% in the first half of this year, in contrast with a reduction by 8.2% in the corresponding period of the previous year.

In particular in the constituent categories of Retail Trade, the pessimism in Food and Beverages strengthened (-15.4% in the first half of 2013, compared with a marginal growth by +0.3% in the same period of 2012). In Department Stores, the expectations improved by 11.6%, in contrast with their sharp decline in the previous year (-20.4%), signifying a sharp reversal of the trend. Similar development was observed in Clothing-Footwear, where the indicator increased by 39.3%, in contrast with the intense pessimism that dominated in the same period of 2012 (-19.7%). The expectations in Household Appliances have kept improving in the last two years (+12.6% in 2013, in the aftermath of 21.1% growth in the previous year).

Lastly, the expectations in Motor Vehicles – Spare Parts increased sharply in the first half of 2013 (+39.1%), after the relatively small deterioration observed in the same period of 2012 (-9.1%). The indicator approached 93, from 77 in April. On average for the first half of the current year the index stood at 75.4, from 54.2 in the corresponding period of 2012, which is indicative of the relative recovery observed lately in the sector. The improvement of the negative balance of the assessment of the present business situation to -48 (on average) in the first half of 2013, from -76 in 2012, and of the expectations on orders and the future business situation to -7 and -6 respectively in the first half of 2013, from -50 in both categories in 2012, drove the growth of the overall indicator. A similar improvement was also observed in the employment expectations indicator, as it seems that the market has bottomed and now the companies in the sector are anticipating a relative stabilisation after the painful restructuring process.

Regarding the official sales data, the strong contraction experienced in the recent years is weakening, as the sale of passenger cars in the first half of 2013 fell by only 6.4% year-on-year, compared with a 41.3% drop in the same period of 2012 and similar 43% contraction in 2011. These results, together with the business sentiment data, support the assessment that the market is shifting from a trough to a new equilibrium, with a conditional recovery achieved over time.

Wholesale Trade

The contraction in retail trade has had a negative impact on the Turnover Index for Wholesale Trade as well, which has continuously being falling since the last quarter of 2009 (except in Q4 of 2010, Q2 and Q4 of 2012). Despite the fact that the contraction weakened in the first quarter of 2013 (-14.5% from -17.4%), the average of the turnover index has reached its lowest level since 2005.

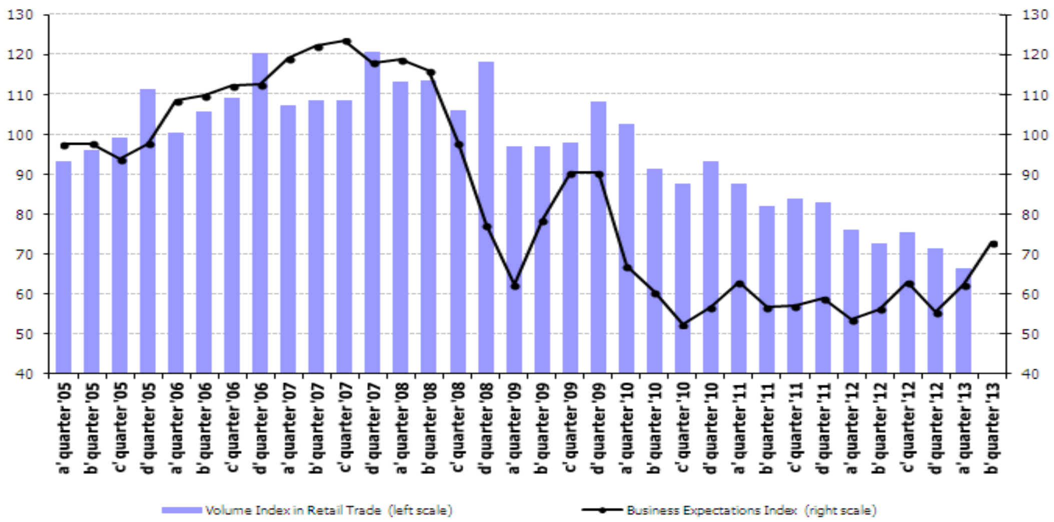
Services

Economic activity contracted in the first quarter of 2013 in the Services sector as well. However, in certain branches of the sector the contraction eased year-on-year.

In particular, the largest contraction in this period was observed in Other Professional, Scientific and Technical Activities (branch 74), where the index fell by 42.6% year-on-year, after a contraction by 23.9% in the corresponding period of 2012 as well. The sharp fall of construction activity lead to a significant contraction in Architectural and Engineering Activities as well (-30.6% in the first quarter of 2013, compared with a much smaller decrease, by 6.7%, in the same period of the previous year).

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)				
	Jan-Apr 2011	**Jan-Apr 2012**	**Jan-Apr 2013**	**P.C.% '13/'12**	**P.C.% '13/'12**
Overall Index	87.5	76.0	66.1	-13.0%	-13.1%
Overall Index (excluding car fuels and lubricants)	86.4	75.6	66.0	-12.7%	-12.5%
Store Subcategories					
Large Food Stores	98.8	90.2	78.5	-13.0%	-8.7%
Multi Stores	96.1	82.5	79.4	-3.8%	-14.2%
Car Fuels and Lubricants	74.5	62.1	53.4	-14.0%	-16.6%
Food-Drink-Tobacco	80.8	65.3	59.0	-9.6%	-19.2%
Medicare-Cosmetics	101.1	92.3	77.9	-15.6%	-8.7%
Clothing-Footwear	79.2	60.9	53.9	-11.5%	-23.1%
Furniture – Electric household appliances - Household Goods	71.5	59.7	53.0	-11.2%	-16.5%
Books - Stationery- Other gift items	78.4	68.2	63.7	-6.6%	-13.0%

Source: ELSTAT

Table 3.5

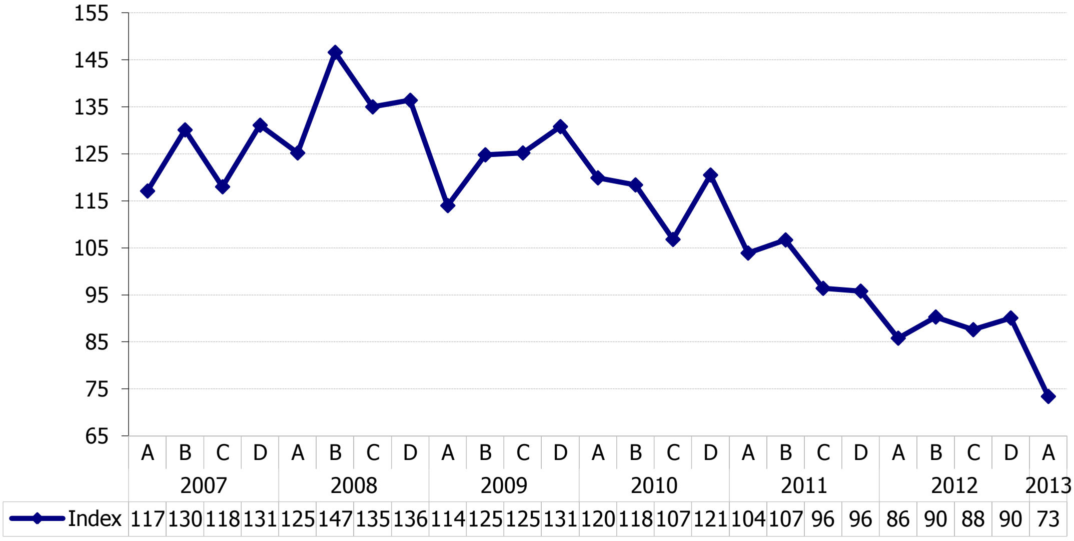
Business Expectation Indexes in Retail Trade (1996-2006=100)

	Jan-Jun 2011	**Jan-Jun 2012**	**Jan-Jun 2013**	**P.C.% Jan-Jun '13/'12**	**P.C.% Jan-Jun '12/'11**
Food – Drinks - Tobacco	77.1	77.3	65.4	-15.4%	0.3%
Textile-Clothing - Footwear	63.8	51.2	71.3	39.3%	-19.7%
Household Equipment	46.5	56.3	63.4	12.6%	21.1%
Vehicles – Spare Parts	59.6	54.2	75.4	39.1%	-9.1%
Multi stores	65.2	51.9	57.9	11.6%	-20.4%
Retail Trade Total	**59.8**	**54.9**	**67.7**	**23.3%**	**-8.2%**

Source: IOBE

Figure 3.4

Turnover Index in Wholesale Trade (2005=100)



Source: ELSTAT

Meanwhile, the contraction persevered in Advertising and Market Research (branch 73), by 25.7%, in the aftermath of extensive losses in 2012 (-22.3%). A deterioration was also observed in Computer Programming, Consultancy and Related Activities (branch 62), by 21.7%, much larger than in the same period of 2012 (-10.3%).

The turnover in Tourism (Hotels and Restaurants), a major sector for the Greek economy, was also on a downward trend. The first quarter of the current year was the worst in the sector at least since 2006, as the turnover fell further by 16.9%, compared with a year before, when it was also falling, by 24%.

The turnover in Office administrative, office support and other business support activities (branch 82) was lower by 15.7% year-on-year, in contrast with the same period of 2012 when it grew by 6.6%. In Telecommunications (branch 61) the turnover fell by 15%, much stronger than in 2012 (-4.4%). Cleaning Activities (branch 81.2) was also one of the branches with double-digit contraction, as the turnover in this branch fell for a second year by nearly 12%. Employment Activities (branch 78) was the branch with the weakest contraction, where turnover fell only marginally in the first quarter of 2013, by 0.4%, after a small decline in the first quarter of 2012 as well, by 1.4%.

In Transport turnover fell in all constituent activities, however the contraction was weaker year-on-year in Water and Air Transport, Warehousing and Support Activities for Transportation and Travel Agencies.Turnover in Land Transport – Transport via Pipelines fell by 4.8% in the first quarter of 2013, compared with a growth of 1.2% in the corresponding period of 2012.

In contrast with the preceding branches, where turnover contracted in the first quarter of 2013, Legal-Accounting-Management Consultancy Activities experienced turnover growth by 4.3%, after a 5.9% contraction in the first quarter of 2012.

Still, the **expectations in Services, as reflected in the Business Surveys of IOBE, are clearly less pessimistic than in the previous year**, an indication that the enterprises are anticipating positive developments in the coming months. In particular, business expectations in Services overall improved significantly in the first half of 2013 (+18.9%), compared with a reduction by 9.9% in the previous year.

In Hotels-Restaurants the indicator increased by 17.3%, compared with a reduction by 14.7% in 2012. Likewise, in Support Activities to Transportation - Travel Agencies the sentiment improved by 37.9%, in contrast with a reduction by 16.5% in 2012. Similar trends were observed in Financial Intermediaries and IT Services. In Financial Intermediaries the expectations improved by 36.7% in the first half of 2013, compared with a strong contraction by 22.8% in the same period of 2012, while the sentiment in IT Services improved strongly, by 49.6%, compared with a 13.6% fall in the first half of 2012. Lastly, in Various Business Activities the expectations improved by 1.8% in the first half of 2013, compared with 2.7% increase in the same period of 2012.

Table 3.6

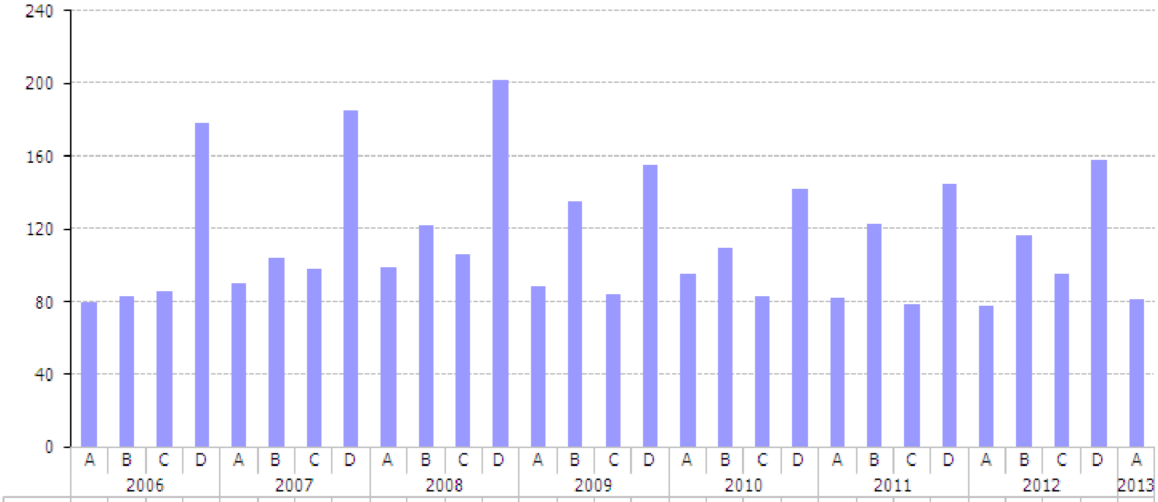
Sectoral Indices of Business Expectations in Services (1996-2006=100)

	Jan.-Mar. 2011	**Jan.-Mar. 2012**	**Jan.-Mar. 2013**	**P.C.% '12/'11**	**P.C. % '13/'12**
Automobiles retail trade	41.4	26.5	23.3	**-36.0%**	**-12.1%**
Land transport and transport via pipeline	74.5	75.4	71.8	**+1.2%**	**-4.8%**
Water Transport	58.9	50.8	45.6	**-13.8%**	**-10.2%**
Air Transport	69.0	65.1	64.4	**-5.7%**	**-1.1%**
Warehousing and support activities for Transportation	60.1	50.1	49.1	**-16.6%**	**-2.0%**
Travel agency, tour operator reservation services and related activities	31.2	19.4	18.6	**-37.8%**	**-4.1%**
Postal and courier activities	108.9	91.2	85.2	**-16.3%**	**-6.6%**
Publishing activities	52.5	40.9	37.5	**-22.1%**	**-8.3%**
Telecommunications	79.0	75.5	64.2	**-4.4%**	**-15.0%**
Computer programming and consultancy	62.2	55.8	43.7	**-10.3%**	**-21.7%**
Information service activities	171.9	151.2	143.3	**-12.0%**	**-5.2%**
Legal, accounting and management consultancy	82.5	77.6	80.9	**-5.9%**	**+4.3%**
Architectural and engineering activities	54.0	50.4	35.0	**-6.7%**	**-30.6%**
Advertising and market research	48.0	37.3	27.7	**-22.3%**	**-25.7%**
Office administrative and office support activities	75.3	80.3	67.7	**+6.6%**	**-15.7%**
Tourism	48.3	36.7	30.5	**-24.0%**	**-16.9%**

Source: ELSTAT

Figure 3.5

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

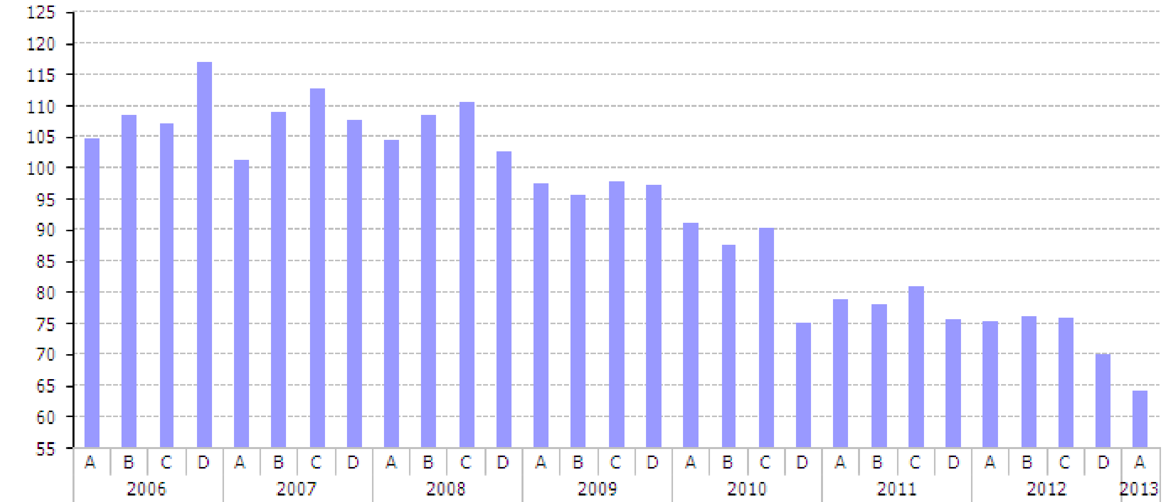


	2006				2007				2008				2009				2010				2011				2012				2013
	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A
Index	80	84	86	178	90	104	98	186	99	122	106	202	89	135	84	156	95	109	84	142	83	123	79	145	78	117	96	158	81

Source: ELSTAT

Figure 3.6

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

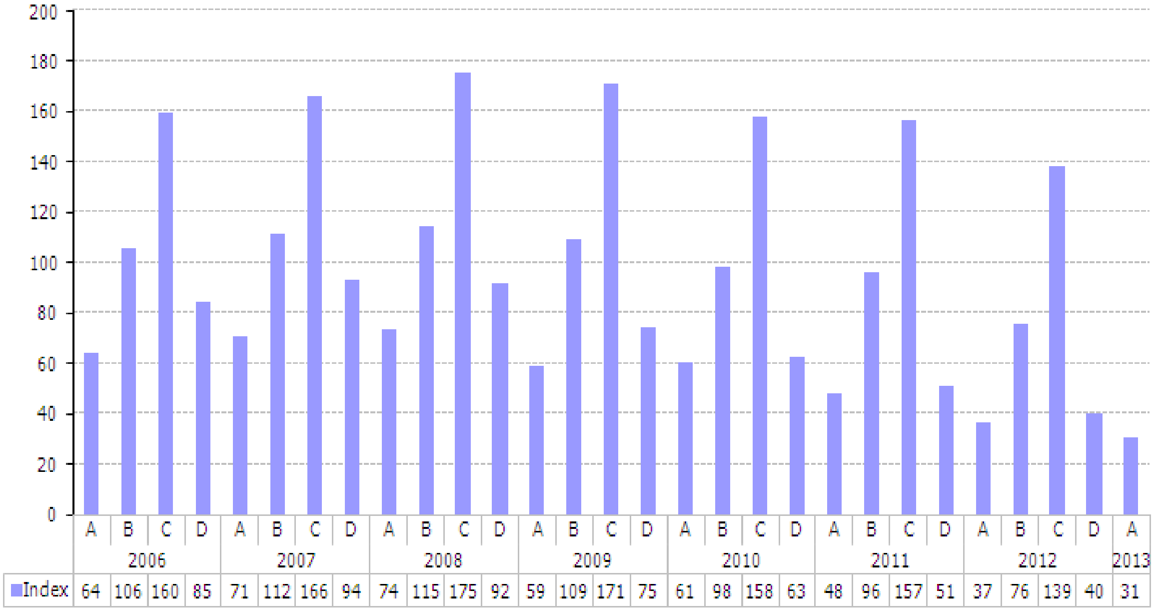


	2006				2007				2008				2009				2010				2011				2012				2013
	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A
Index	105	109	107	117	101	109	113	108	105	109	111	103	98	96	98	97	91	88	90	75	79	78	81	76	76	76	76	70	64

Source: ELSTAT

Figure 3.7

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



Source: ELSTAT

Table 3.7

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

	Jan.-June 2011	**Jan.-June 2012**	**Jan.-June 2013**	**P.C.% '12-'11**	**P.C.% '13-'12**
Hotels - Restaurants	72.3	61.7	72.4	-14.7%	17.3%
Travel agencies and tour operator. tourist assistance activities	69.8	58.3	80.4	-16.5%	37.9%
Other Services to Businesses	54.8	56.3	57.3	2.7%	1.8%
Intermediate Financial Organizations	68.1	52.6	71.9	-22.8%	36.7%
Informatics	46.9	40.5	60.6	-13.6%	49.6%
Total Services	**60.9**	**54.9**	**65.3**	**-9.9%**	**18.9%**

Source: IOBE

3.3 Export Performance of the Greek Economy

The exports of Greece in the first four months of 2012 exceeded €8.9 billion, increasing year-on-year by 8%. Meanwhile, imports remained unchanged, with their value standing at €15.4 billion. As a result, the trade deficit fell by €1.8 billion. Hence, the value of Greek exports reached 58% of the value of imports in the first four months of the current year. In April, in particular, exports increased by 15% month-on-month, reaching €2.5 billion, while imports fell by €67 million, with their value reaching €3.9 billion.

The increase in the value of exports in the first four months of 2013 came mainly from growth in Agriculture Products (+14.3%), with value exceeding €1.6 billion. A significant growth was also observed in Fuels (+21.8%), the value of which approached €3.6 billion, with a share reaching 2/5 of Greek exports (Table 3.7).

In greater detail, the exports of Food-Live Animals, which is the main category of exportable agriculture products, increased year-on-year by 4.4% (+€48 million). Much larger growth was observed in the exports of vegetable and animal oil and fats, which more than doubled (+175%). In contrast, the exports of Beverages-Tobacco stood at €181 million, falling by €50 million year-on-year (-21.7%).

The exports of Industrial Products fell by 2.5%, yet their share in the Greek exports of goods remained relatively high (~37%). Among its constituent categories, the largest reduction (-9% or €64 million) was recorded in Vehicles – Transport Equipment, whose share reached 38% of total industrial products. Meanwhile, the exports of 'Industrial goods classified by raw material' fell by 3.8% to reach €1.2 billion. Various Industrial Products increased marginally, with their value standing at €515 million, while the exports of 'Products and transactions not classified elsewhere' declined by 6.4% to reach €182 million.

Regarding destination, the exports of Greek products to the remaining European Union countries followed an upward trend (+5.4%) to reach €3.9 billion, while the exports to the remaining Eurozone member-states – which absorb 30% of Greek exports – also increased, by €354 million (+15.1%). In contrast, the largest reduction was observed in the exports to Cyprus (-27.4% or €124 million). As a result, its place in the ranking of Greece's major trading partners fell from 5th to 7th. The exports to Germany, which has steadily remained the fourth largest trading partner of Greece, marginally increased (+2.4% or €13.6 million), to reach €587 million. In Italy, the second largest trading partner of Greece, the exports increased notably year-on-year, by 37.4%, and as a result their value reached €883 million. A significant growth was also observed in the exports to Spain, by 27.2%, with their value reaching €207 million.

In the countries outside the Euro area, the exports to Turkey, the major trading partner of Greece, provided a major boost to Greek external trade, as their value increased in the first four months of 2013 by 31%, to exceed €1 billion. The exports to the United Kingdom also increased, by 6.2%, with the total export value approaching €267 million. In contrast, the value of exports to the US market fell by 4.9% to €344 million.

The exports to the Balkan countries contracted by 10%, largely explained by the significant fall of the exports to Bulgaria (-8.7%), which absorbs the largest share of the Greek exports in the region, to reach €418 million. A significant drop was also recorded in the exports to Albania and Bosnia-Herzegovina (-28% and -10.2% respectively), whose value reached €102 million and €25.7 million accordingly. Contraction was also recorded in the exports to Serbia and FYROM (-23.2% and -14%), which however absorb a small share of the Greek exports.

In contrast, the exports to Croatia increased by 19.1% year-on-year in the first four months, yet their value still did not exceed €14 million. Meanwhile, the value of exports remained unchanged in Romania (€180.7 million) and Montenegro (€42.4 million).

In non-US North America, the exports increased in Mexico (+30.3%) and Canada (+19.2%), with their value reaching €39.6 million and €29.6 million respectively. A significant growth was also recorded in the exports of Greek products to North Africa and the Middle East, with their value reaching €1.3 billion in the first four months of 2013, up by 7% year-on-year. Libya emerged as a major trading partner of Greece in the area, with the value of exports there reaching €222 million, up by 23.6%. Meanwhile, the exports to Egypt, a long-standing major trading partner of Greece, nearly doubled (+97%), with their value approaching €231 million. The exports to Algeria also received a strong boost (+32.2%) to surpass €166 million, while the exports to Morocco approached €113.3 million, almost nine times up year-on-year. The exports to Lebanon also increased (+7.5%) to exceed €171 million.

The exports to the countries of the Commonwealth of Independent States declined by €20.8 million (-10%), which is explained by a fall of the exports to Russia (-€8 million) and Ukraine (-€13.5 million). In contrast, the exports of Greek products to Georgia followed an upward trend, by 3 percentage points, marginally surpassing €32 million. The total value of exports to the region reached €517 million.

The penetration of Greek products in the Latin American countries was received a significant boost (+355%, to €76.1 million), which came mainly from a sharp increase of the exports of goods to Brazil, where the value of exports was up by almost ten times year-on-year, reaching €68 million.

Table 3.8

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

	January-April				
	Value (mil. €)		P.C. (%)	Structure (%)	
	2013	**2012**	**'13/'12**	**2013**	**2012**
Agricultural Products	**1,638.5**	**1.433,3**	**14.3%**	**18.3%**	**17.3%**
Food and live animals	1,131.1	1.083,2	4.4%	12.7%	13.1%
Beverages & Tobacco	181.2	231,4	-21.7%	2.0%	2.8%
Animal, Vegetable oils and fats	326.2	118,7	174.8%	3.7%	1.4%
Raw Materials	**332.2**	**419,7**	**-20.8%**	**3.7%**	**5.1%**
Crude materials inedible, except fuels	332.2	419,7	-20.8%	3.7%	5.1%
Fuels	**3,561.6**	**2.923,5**	**21.8%**	**39.9%**	**35.3%**
Minerals, fuels, lubricants, etc.	3,561.6	2.923,5	21.8%	39.9%	35.3%
Industrial products	**3,218.7**	**3.301,1**	**-2.5%**	**36.0%**	**39.9%**
Chemicals and related products	801.4	775,7	3.3%	9.0%	9.4%
Manufactured goods classified chiefly by raw material	1,245.0	1.293,6	-3.8%	13.9%	15.6%
Machinery and transport equipment	657.6	721.6	-8.9%	7.4%	8.7%
Miscellaneous manufactured articles	514.8	510.2	0.9%	5.8%	6.2%
Other	**182.1**	**194.6**	**-6.4%**	**2.0%**	**2.4%**
Commodities and transactions not classified by category	182.1	194.6	-6.4%	2.0%	2.4%
Total Exports	**8,933.1**	**8,272.2**	**8.0%**	**100.0%**	**100.0%**

* Provisional Data
Sources: PEA-ERC-ELSTAT

In contrast, the exports to S.E. Asia declined by €97 million year-on-year to reach €270 million, while contraction of Greek exports was also recorded in China (-7.2%), with their value standing at €129 million.

In summary, the year-on-year growth of the exports of Greek products in the first four months of 2013, despite the slowdown of the world economy and the recession in the EU, reflects the gradual boost of the competitiveness of the Greek products, with much room for improvement still remaining.

Despite the fact that in the past two years the Greek products have experienced significant destination diversification, reducing the dependence of Greek exports on "traditional" destinations, such as the EU countries and the Balkans, the relative stagnation and the fall of demand from these regions is anticipated to prevent exports from growing in 2013 overall.

The fall of exports to Cyprus by €124 million (-27.4%) should also be counted as a significant break on Greek export growth in the current year. Under the influence of the above forces, the exports of products are expected to reach €17.9 billion in the current year, from €17.0 billion in 2012

Table 3.9

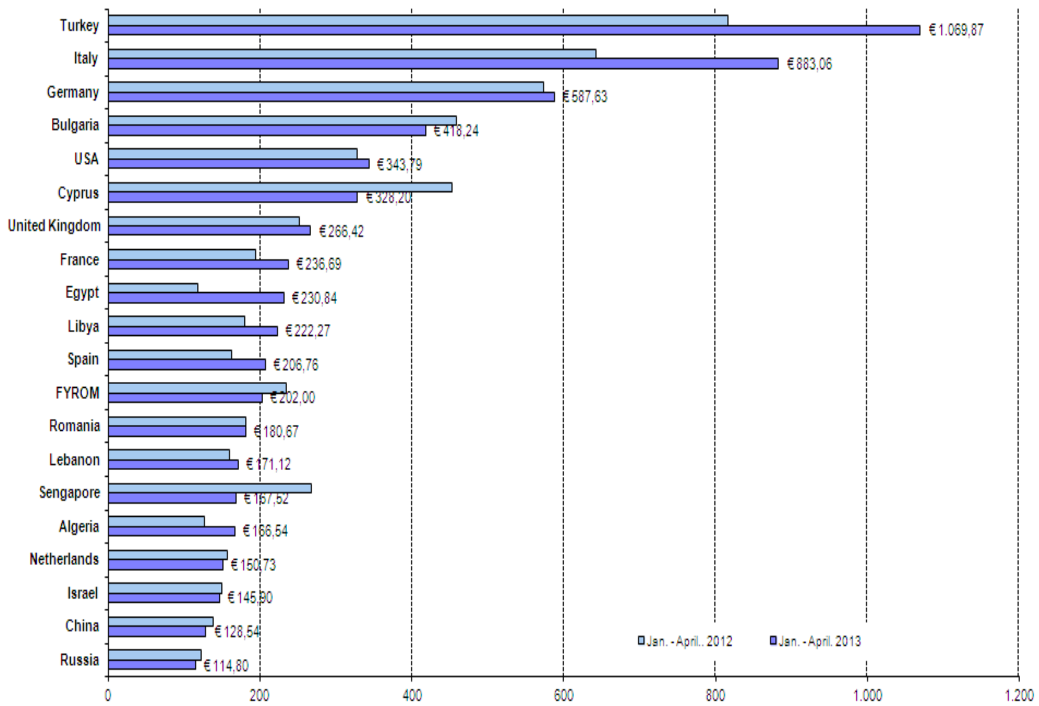
Exports per destination, January-April 2013 και 2012

	Value (mil. €)			Structure	
	2013*	**2012***	**P.C. (%) '13/'12**	**2013**	**2012**
OECD (29 countries)	4,518.8	3,853.8	17.3%	50.6%	46.6%
EU-27	3,903.6	3,703.8	5.4%	43.7%	44.8%
Euro Area-15	2,698.7	2,344.8	15.1%	30.2%	28.3%
North America	413.0	382.9	7.9%	4.6%	4.6%
Other developed countries	61.1	56.3	8.5%	0.7%	0.7%
Rest OECD (excl. S. Korea)	1,112.3	877.6	26.7%	12.5%	10.6%
Balkans	1,084.1	1,212.6	-10.6%	12.1%	14.7%
Commonwealth of Independent States (CIS)	187.3	208.0	-10.0%	2.1%	2.5%
Middle East and N. Africa	1,290.9	1,206.1	7.0%	14.5%	14.6%
African Countries (excl. S. Africa)	37.8	71.4	-47.1%	0.4%	0.9%
S.E. Asia	270.3	367.1	-26.4%	3.0%	4.4%
Latin America	76.1	16.7	355.7%	0.9%	0.2%
Rest Countries	1,095.5	808.6	35.5%	12.3%	9.8%
Total	**8,933,1**	**8,272.2**	**8.0%**	**100.0%**	**100.0%**

* Provisional Data
Source: ELSTAT-ERC

Figure 3.9

Countries with the biggest share on Greek exports (mil. €), January- April 2013 and 2012



Source: PEA **Data Processing:** IOBE

3.4 Employment - Unemployment

The hitherto unfavourable conditions in the labour market deteriorated further in the first quarter of 2013. According to data from ELSTAT's Labour Force Survey, the unemployment rate during this period reached 27.6%, increasing by 4.8 percentage points year-on-year and by 1.4 percentage points quarter-on-quarter. As a result, **the number of unemployed reached 1,355.2 thousand people**, higher by 235.1 thousand (or +21%) year-on-year and by 59.7 thousand (or +4.6%) quarter-on-quarter.

The unemployment rate in Greece in the first quarter of 2013 was the largest in the Euro area, where it increased on average to 12.1%, from 11.5% one year before. Spain was next in the ranking with similarly high unemployment (27.3%), followed by Portugal (18.5%). The lowest unemployment rate in the Euro area in the first quarter was recorded in Austria (5.4%), Luxembourg (5.5%) and Germany (5.9%) while in Ireland and Cyprus, countries that have also entered the support mechanism, unemployment reached 13.9% and 16.1% respectively.

The growth of unemployment came exclusively from a sharp fall of employment, as the labour force marginally contracted (-0.1%). The number of employed in Greece fell in the first quarter by 6.3% year-on-year (or -242 thousand) and by 2.3% (or -86 thousand) quarter-on-quarter. It should be noted that the total number of employed did not exceed 3,595.9 thousand, which is the lowest level of employment in the specific quarter since at least 1998.

Regarding the characteristics of the labour force, **unemployment among women** reached 31% in the first quarter, from 26.5% in the same period of 2012. **Unemployment among men** reached 24.7%, against 19.7% in the corresponding quarter of 2011.

Regarding **age**, 60% of those aged 15-24 that were willing to work could not find a job, up year-on-year from 52.8%. In the age group of 25-29 years old, the unemployment rate reached 41.2%, from 35.7% in the first quarter of 2012. The impact of the recession on employment is also felt by those belonging to the productive age of 30-44, where the unemployment rate reached 26.1% in the first quarter of 2013, from 21.3% in the corresponding period of 2012. The unemployment rate was relatively lower among those aged 45-64, compared with the previous categories (19.7% in 2013, from 15.1% in 2012).

Indicative of the trends in the age composition of unemployment is the fact that about 70% of all unemployed in the country in the first quarter of 2013 were aged 30 or more, from 66.3% in 2012. 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 family or household obligations.

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 65.6% in the first quarter of 2013, higher year-on-year by 10 percentage points (from 56.5%). In contrast, the rate of newly unemployed slightly fell, from 24% in the first and the fourth quarter of 2012 to 22.8% in the first quarter of 2013.

The unemployment rate among **foreign nationals** exceeded significantly the national average (40.2%), increasing by almost 10 percentage points in a year (30.6% in the first quarter of 2012). As in the previous quarters, the growth among Greek nationals was weaker, from 21.9% to 26.2%.

Unemployment is particularly acute among individuals with average or lower **educational attainment level**. The highest unemployment in the first quarter of 2013 was recorded amongst individuals that have not attended school at all (42.9% from 34.5% in early 2012), followed by individuals that have completed lower secondary education (ISCED 2) with unemployment rate at 33.4% (from 25.2% in the first quarter of 2012). Next came those who have not completed primary education (32.1% from 33.1% in the previous year) and graduates of technical / professional education (ISCED 5B, 29.9% from 25%). More than 1/3 of the unemployed in the country have completed upper secondary education (ISCED 3), with the unemployment in this category reaching 29.8% in the first quarter of 2013 (from 24.7% in the first quarter of 2012). Lower unemployment than the country average – albeit higher year-on-year – was recorded among university graduates (ISCED 5A – 17.6% from 15.7%) and holders of postgraduate and doctorate degrees (ISCED 6 – 15.3% from 12%).

Indicative of the acuteness of the problem is that the unemployment rate exceeded 20% in all **regions** without an exception. The highest unemployment rate was observed in Macedonia and in particular in West Macedonia (32.2% from 28.5% in the corresponding quarter of 2012) and in Central Macedonia (29.6% from 24.7%). The region of Attica followed next, where the unemployment rate increased from 22.9% in the first quarter of 2012 to 28.2% in the same period of 2013. In Central Greece unemployment grew to 28% from 24.5%, which inter alia was due to the contraction in the manufacturing sector, as the region of Boeotia hosts a large industrial zone.

The unemployment rate in these regions was higher than the national average (27.4%), while close to the national average was the unemployment rate in Epirus (27.2% from 20.6%) and Western Greece (27% from 23.1%). On the other hand, the lowest unemployment rate was observed in Peloponnese (21.1% from 19%), the Ionian Islands (23.2% from 16%) and the South Aegean (23.5% from 19.5%).

The largest percentage growth of the number of unemployed was observed in North Aegean, where unemployment increased by 76.7% (from 18 thousand in the first quarter of 2012 to 31.8 thousand to the first quarter of 2013). The second largest percentage growth took place in the Ionian Islands, by 44.2% (from 16.5 thousand to 23.8 thousand), followed by Epirus with 31.8% (from 31.8 thousand to 41.9 thousand) and Thessaly with 25.4% (from 64.9 thousand to 81.4 thousand). Crete and West Macedonia experienced the lowest growth of unemployment by 11% or 7.1 thousand and 12.2% or 4.2 thousand respectively.

Regarding the **main economic sectors**, the largest percentage drop of employment, 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 by 11.8%, in the aftermath of a 15.1% contraction in the first quarter of 2012. In particular, the number of employed fell by 77.5 thousand to reach 577.1 thousand, from 654.6 thousand. In the tertiary sector, the most populous sector of the Greek economy, taking up 70% of Greek employment, the employment continued to contract in the first quarter of 2013, by 6% against 7.2% in the corresponding period of 2012, with the number of employed falling to 2,531.5 thousand from 2,694.4 thousand. Lastly, only in the primary sector employment showed signs of stabilisation in the first quarter of 2013 (-0.3%), staying close to 487.4 thousand people.

Regarding the **branches of economic activity**, employment increased year-on-year in the first quarter in Electricity, Gas, Steam and Air Conditioning Supply (+16.5% or +4,200 employees), Information and Communication (+6.8% or +5,000), Arts, Entertainment and Recreation (+3.5% or +1,500). Among the remaining branches, the largest employment contraction was recorded in Construction, where employment declined by 18.9% or 41,300 employees, in the aftermath of a 18.1% fall in the first quarter of 2012 (-48,300 employees). Employment in Administrative and Support Service Activities declined by 16.7% or 11,900 employees (compared with a 9.9% reduction in the first quarter of 2012).

In Wholesale-Retail Trade, one of the most populous sectors of the Greek economy, employment fell further, albeit at a slower pace than in the first quarter of 2012. Employment contracted by 6.2% (-43,200 employees), compared with a 11.3% contraction in the same period of 2012.

A similar trend was observed in another major sector of the Greek economy – Manufacturing – where employment contracted by 9.6% (-36.2 thousand employees) compared with 14.8% in the previous year.

Lastly, in the third most populous sector of the Greek economy – Public Administration, Defence and Compulsory Social Security – employment fell only marginally in the first quarter of 2013, by 0.6% or 2,000 employees, a much weaker contraction than a year before (-9.2%). The opposite happened in Education, where the marginal fall in the first quarter of 2012 (-0.2% or -0.5 thousand employees) was followed by an extensive contraction, by 10.5% (-32.5 thousand) in the same period of the current year.

Medium-term Outlook

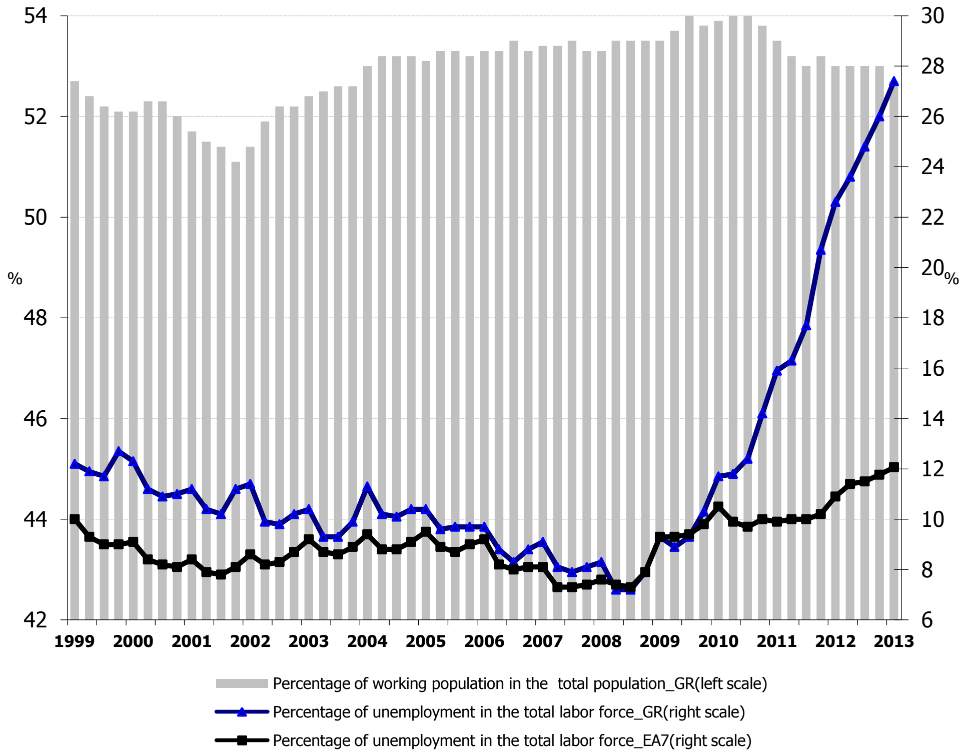
As expected, the course of unemployment in Greece in the past few years is tightly linked with the duration and the depth of the domestic economic recession.

The significant contraction of GDP in the current year as well, which in the first quarter reached 5.6%, was the key driver behind a further significant drop of employment, by 6.3%, and therefore the large increase of unemployment to 27.4% of the labour force, as already mentioned.

The persistence of the contraction of economic activity in the remaining quarters of 2013, perhaps at a weaker rate in the second half, is expected to lead to a further rise of unemployment, but at a slower pace than in the first quarter of the current year.

Figure 3.9

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



Sources: ELSTAT-Labour Force Survey, Eurostat

Despite the upward trend during the rest of 2013, seasonal employment is very likely to limit or even interrupt the rise of unemployment during the summer months, due to the stronger year-on-year tourist arrivals. This impact, however, is expected to expire by the start of the fourth quarter. The numerous employment programmes of the Manpower Employment Organisation are expected to curb the increase of unemployment during the autumn. Jobs of longer duration, but clearly of a smaller number, will also be created with the recommencement of the major road projects.

Nevertheless, the recapitalisation of the banks until August at least and the stress test scheduled in late 2013 limit the supply of liquidity. This, together with the sluggish domestic demand and the recession in the Euro area and the EU overall, will discourage investment and job creation, pushing many enterprises to the brink of ceasing operation. The outlays in the public sector in the current year, as per the schedule of the Medium-Term Fiscal Strategy 2013-2016, will also have a negative impact on employment.

Under the influence of the above, diverse and counteracting, forces on the labour market, unemployment is expected to reach 27.8% in 2013 overall.

The expectations on the short-term employment prospects in the economy's sectors **improved, from the very low levels observed in the first quarter of 2013,** as evident in the data from the Business Surveys conducted by IOBE. In particular:

The short-term employment expectations improved quarter-on-quarter in all sectors, with larger gains recorded in Retail Trade and Construction. The expectations improved in all sectors year-on-year as well, but to a lesser degree in Industry, where the indicator remained less negative than in the other sectors. In more detail:

In Industry the negative balance of employment expectations gained ground in the second quarter to reach -12 (from -20 in the preceding quarter). This performance was also less adverse, compared with the corresponding period of the previous year, when they stood at -17. The share of enterprises in manufacturing that were expecting an increase of employment in the coming months grew to 10% (from 3% in Q1), while in contrast the percentage of enterprises expecting further job losses in their sector in the short term remained stable at 22-23%. The large majority of the respondents (67% from 74%) were expecting no change in employment in the short term.

Figure 3.10

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	9,355	4,958.7	53.0%	3,932.8	79.3%	1,025.9	20.7%
2011	**9,344.9**	**4,967.6**	**53.2%**	**4,090.7**	**82.4%**	**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**	**24.3%**
a' quart. 2013	9,391.8	4,951.2	52.7%	3,595.9	72.6%	1,355.2	27.4%

Source: ELSTAT, Labor Force Survey

In Construction, the expectations also improved quarter-on-quarter in the second quarter of 2013. In particular, the indicator increased notably, reaching -10 (from -33), higher also by 35 points year-on-year. This increase can be largely explained with the anticipated restart of the work on the large road projects in the country. The percentage of enterprises expecting fewer jobs in the sector fell to 36% (from 51%), while the share of those expecting employment growth slightly increased to 26% (from 18% in the first quarter of 2013 and 12% in the second quarter of 2012). The quarter-on-quarter growth of the indicator in Public Works (+1 from -29) was significantly larger than in Private Building Activity (-35 from -43).

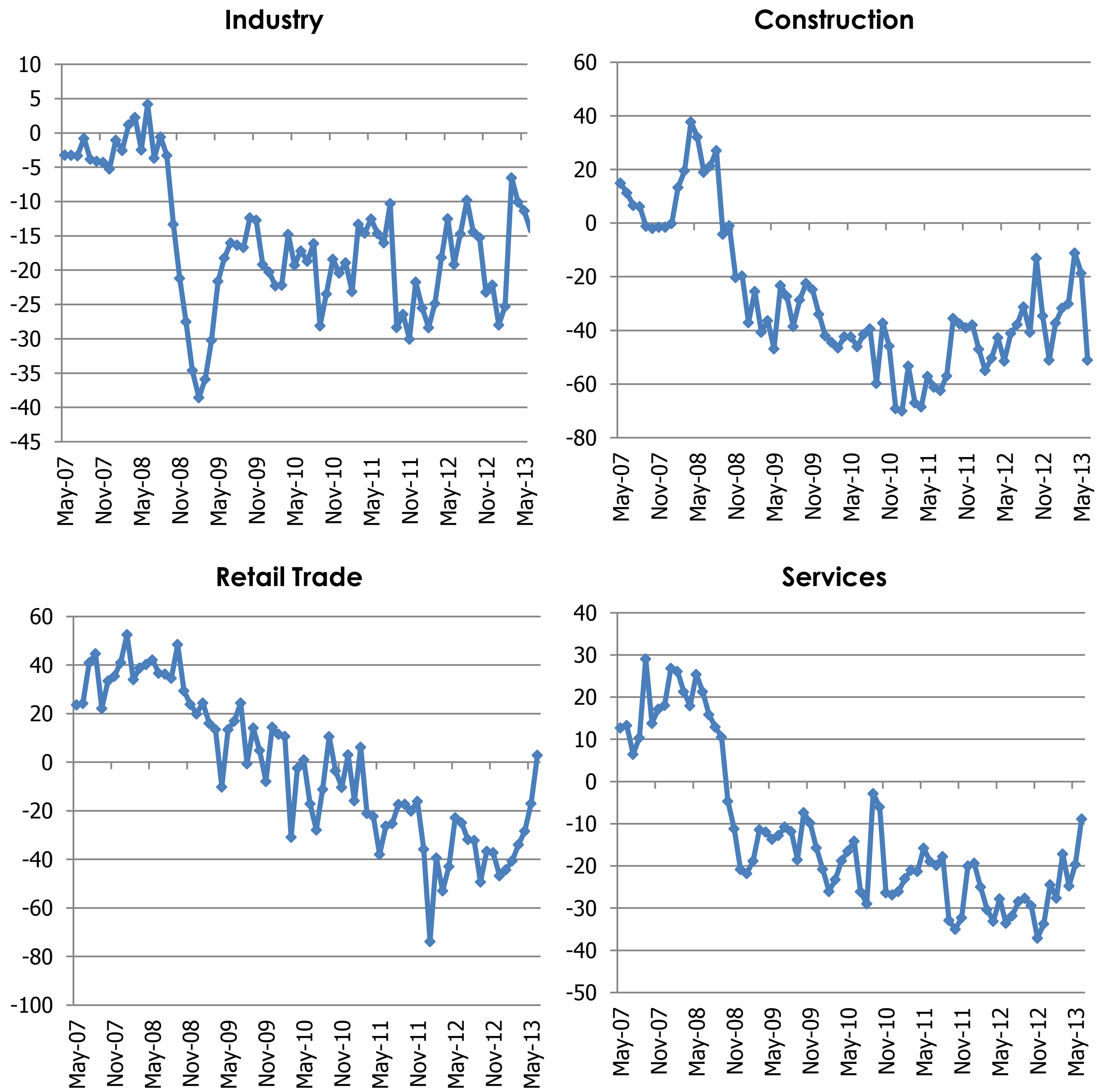
In Services, the negative employment expectations improved in the second quarter of 2013 both quarter-on-quarter and year-on-year. As a result, the indicator reached -18 (from -23 in the first quarter of 2013 and -31 in the second quarter of 2012). Among the enterprises in the sector, 26% were anticipating a further drop in employment in the coming months (from 30%), while the share of enterprises expecting employment growth stood at 7-8% (from 4% in the previous year). Among the constituent branches, the employment expectations improved notably in Hotels – Restaurants

– Travel Agencies, while weaker gains were observed in Various Business Activities.

The employment expectations in Retail Trade improved notably as well. The negative balance of expectations increased by 36 points quarter-on-quarter to -14, up also by 26 points year-on-year. About 23% (from 2/5) of the enterprises in the sector were anticipating employment contraction, while the percentage of enterprises expecting an increase in the near term grew to 9% (from 1%). Among the constituent branches, the employment expectations improved significantly in Food – Beverages – Tobacco, Household Appliances and Vehicles – Spare Parts, while in Department Stores the indicator even reached positive levels on average.

Figure 3.10

Employment Expectations (% difference between positive – negative answers)



Source: IOBE

3.5 Consumer Prices

Recent Developments

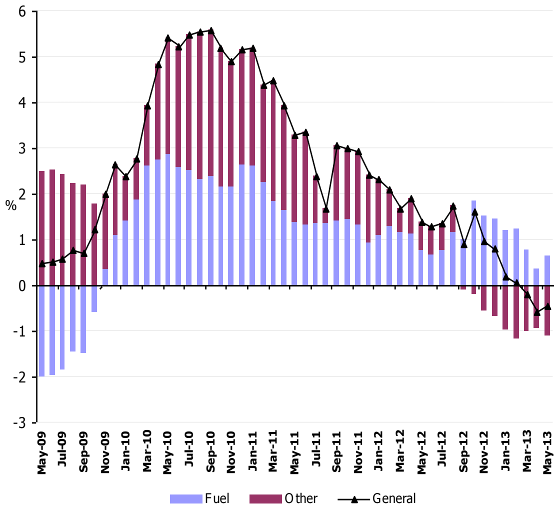
The rate of change of the Consumer Price Index remained negative from March to May, with the deflationary trend strengthening within this period. The emergence of deflation in Greece, for the first time after about 45 years, mostly reflects the impact from the recent fiscal measures (wage cuts in special categories of public servants, pension cuts, abolishment of benefits, public consumption cuts), and the structural changes in the labour market, on the contracting household income and purchasing power. The higher unemployment in the first quarter of 2013 reduced further income and consumer demand, exerting additional downward pressure on prices. Under these conditions, the change of the consumer price index in Greece in May was negative (-0.4%), from positive in the same month of 2012 (+1.4%). Overall in the first five months of the current year, the price index fell by 0.2%, compared with 1.9% inflation in the same period of 2012.

The price stabilisation and subsequently deflation in the first five months of 2013 can be explained with the negative impact exerted on CPI by developments in the prices of certain categories of services. In general, the prices of goods experienced stronger downward rigidity than the prices of services during this period.

In particular, inflationary pressures continued to come from Fuels, with this indicator increasing by 8.1% from 11.6% in the same period of 2012, and from Energy, where the indicator increased by 8.9% from 12% in the previous year.

Figure 3.11

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



Source: ELSTAT **Data Processing**: IOBE

This was due to higher excise duty on heating oil and an increase of the electricity tariffs in early 2013. The rate of price increase in Fruits – Vegetables was higher than in the first five months of 2012 (3.5% from 1.3%). The price index for consumer goods overall increased by 1.0%, from 2.4% in the same period of 2012.

In contrast, the prices of services fell by 1.7%, while in the same period of the previous year the index was increasing by 1.2%. Deflation was recorded in the prices of Telecommunications, where the index fell by 5.1%, compared with 1.1% deflation in the previous year. Meanwhile, the prices of Health Services and Education fell by 4%, compared with a 1% deflation in the previous year. A weaker deflation was observed in Hotels-Restaurants, with the index falling by 1.4%, compared with a 2.6% inflation in the same period of 2012. More pronounced was the change of the prices of Durables, where the index fell by 3.5%, compared with a -1.3% decline in the previous year.

In the remaining categories of goods and services, significant inflation was observed in Housing, for a fourth consecutive year, which accelerated year-on-year (8% from 7.1%). The inflationary pressures in Food and Non-alcoholic Beverages were relatively weaker, with the average inflation reaching 3.2%, from 1.9% in the corresponding period of the previous year, while in Clothing – Footwear the index increased by 1.7%, having remained unchanged in the previous year.

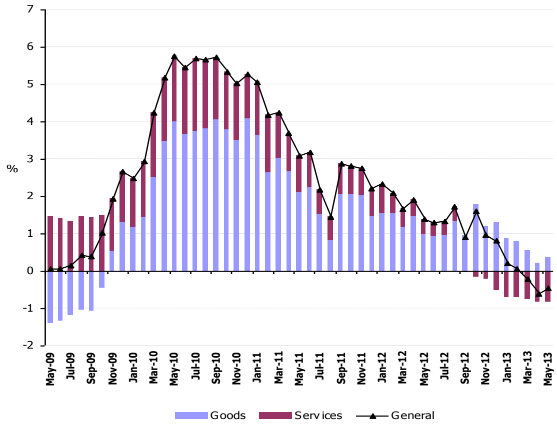
The deflation of the prices of services, and the disinflation in the prices of goods (except fruits-vegetables and fuels) was reflected in the course of the core price index, which has been falling since September 2012 (-0.3%) to reach its strongest contraction in May (-1.4%). In the period from January to May, the core price index fell by 1.3% from 0.9% core inflation in the same period of 2012.

Accordingly, the rate of change of the harmonised index (HICP) in Greece reached -0.3% in May and -0.2% in the first five months of 2013, lower by 1.7 percentage points year-on-year.

As a result of this development, Greece was the only country in the Euro area with deflation. The average inflation in the Euro area reached 1.6%, 1 percentage point lower year-on-year.

Figure 3.12

Headline Inflation and main components (annual % change)



Source: ELSTAT **Data Processing**: IOBE

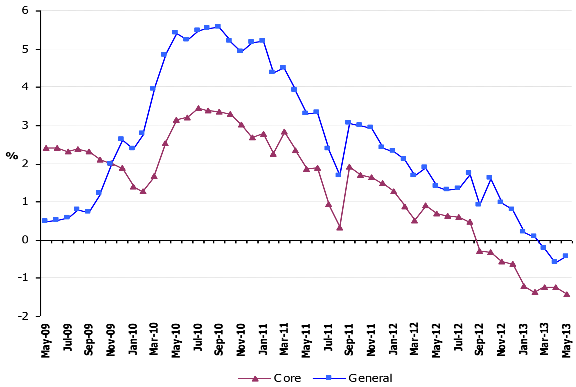
Lower than the EA-17 average inflation rate was observed in the first five months of 2013 in Portugal (0.5%), Ireland (0.8%), France, Belgium and Cyprus (1.1% in all three countries). In contrast, the highest inflation rate in the EU was observed in Romania (4.6%) and Estonia (3.7%), with the EU-27 average reaching 1.8% from 2.8% in the same period of 2012.

The cost of production indicator in Greece declined by 0.7% in the first four months of the current year, compared with an increase by 6.6% in the corresponding period of 2012.

As a result, Greece experienced the largest decline in the Euro area (+1% on average), while in Cyprus the growth of the production cost slowed down significantly (+1.8% from +8.7% in the previous year). The branches that experienced the largest reduction in Greece were Coke – Refinery Products (-7.3%), Energy except Electricity (-7%) and Tobacco (-6%).

Figure 3.13

Core and Headline Inflation
(annual % change)

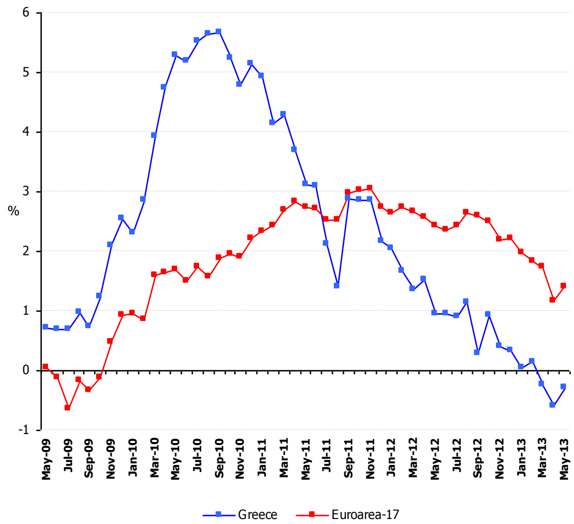


Source: ELSTAT **Data Processing**: IOBE

A milder reduction was observed in Coal-Lignite (-4.7%), while in both Electrical Equipment and Basic Metals the indicator fell by 3%. In contrast, the cost continued to increase in Electricity (6.7%) and Minerals (5.4%), while a milder growth was recorded in Chemical Products and Basic Pharmaceutical Products (2.5% and 2.1% respectively).

Figure 3.14

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



Source: ELSTAT **Data Processing**: IOBE

The fall of prices of imported raw materials was faster than the decline of the total production cost, with the indicator falling by 3.3% in the first four months of 2013. The contraction was significantly stronger in Greece than in the Euro area (-1.2%, compared with 3.4% in 2012). Evidently, the course of the production cost and imported material prices are favourable for the production process in the Euro area.

Medium-term Outlook

As already mentioned, the marginal deflation during the first five months of 2013 came mostly from the strong contractionary pressures on domestic disposable income, and hence on the purchasing power of the households, from the fiscal measures and the rapid growth of unemployment. The hike of the excise duty on heating oil and the increase of electricity tariffs did not manage to prevent the observed deflation. The above factors will continue to drive the course of the consumer price index in the remaining months of 2013. Meanwhile, the stronger year-on-year arrivals of foreign tourists will boost demand in the tourist areas, which will limit the price fall during the summer months. In fact, a marginal inflation could also be expected in July and August due to the relatively low level of the Consumer Price Index during these months in 2012. On the other hand, the likely hike of the prices of public transport tickets in the autumn is not expected to overturn the contraction of prices, which is anticipated to strengthen towards the end of 2013, as seasonal demand will be much lower than in the previous years, due to the abolishment of the Christmas benefits in the public sector and for the pensioners. In addition, the recently announced "freeze" of the low voltage electricity tariffs, together with the reduction of the industry tariffs will exert deflationary pressures. Taking into account the influence of the above factors on prices until the end of 2013, **the forecast for the average change of CPI is revised down to -0.4%, implying that deflation will be recorded in Greece in the current year.**

In the Euro area, the marginal GDP contraction and the rise of unemployment to unprecedented levels will slow down inflation, with the rate reaching 1.3%, from 2.5% in the previous year.

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 in the second quarter, as in almost every quarter in the past three years, in all sectors. **The deflationary expectations strengthened quarter-on-quarter in Industry and eased in Private Construction and Retail Trade, remaining unchanged in Services.** Year-on-year, the deflationary expectations remained unchanged in Industry and in Private Construction and eased in Retail Trade and Services. In greater detail:

Deflationary expectations emerged once more in Industry in the second quarter, while in the preceding quarter the price expectations indicator had balanced out. As a result, the indicator fell by 6 points, coming close to its year-on-year level. Among the enterprises in the sector, 12% (from 9%) were expecting prices to decline, with the remaining 4/5 of the enterprises expecting prices to remain stable and 6% (from 10%) to increase over the near term.

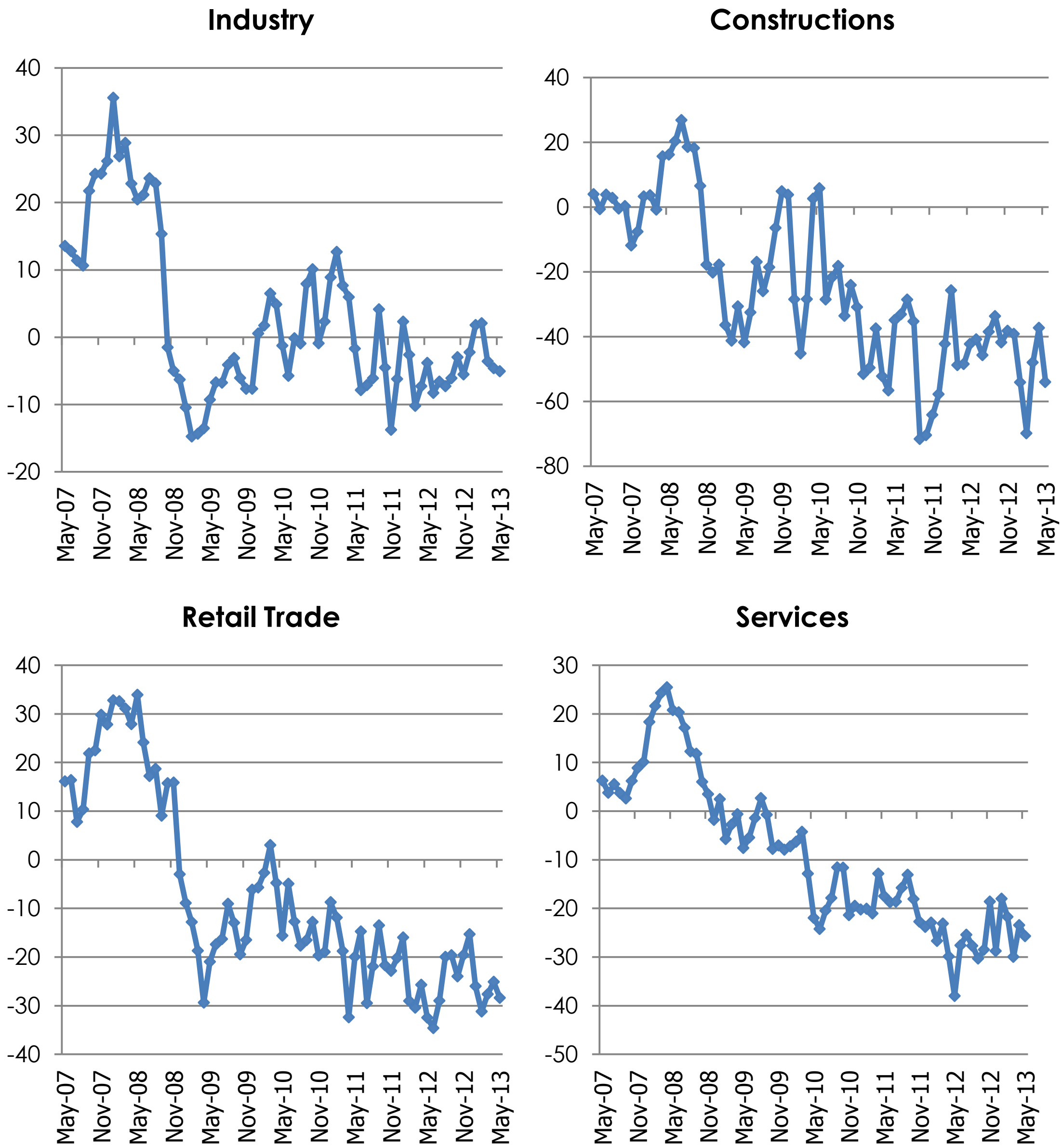
In Retail Trade, the deflationary expectations eased slightly in the second quarter, with the negative balance of expectations reaching -25 on average from -28 in the previous quarter (and -31 in the same period of 2012). About 28% (from 1/3) of the enterprises were expecting prices to fall in the next 3 months, with only 3% (from 5%) holding inflationary expectations and 7 out of 10 enterprises expecting prices to remain stable (from 61%). The deflationary expectations remained unchanged quarter-on-quarter in most of the constituent branches in the sector, easing significantly in Department Stores and to a lesser degree in Textiles–Clothing-Footwear.

The price expectations indicator remained unchanged quarter-on-quarter in Services in the period under examination, at -23 on average, however it was higher by 10 points year-on-year. About 24% (from 28%) of the sector's enterprises held expectations that prices would fall in the near term, while only 1% of the enterprises were anticipating prices to increase (from 5%). Regarding the constituent branches, the negative balance of price expectations weakened in Hotels – Restaurants – Travel Agencies and IT Services. In contrast, the indicator fell significantly in Land Transport, with the remaining branches experiencing relative quarter-on-quarter stability.

Lastly, the sharply negative balance of price expectations in Private Construction from the preceding quarter increased in the period under examination, to reach -45 on average (from -57), at similar levels with those observed in the same quarter of 2012. In the period under examination, 46% of the enterprises in the sector (from 57%) were expecting prices to fall further in the near term, while only 1% (from none) were expecting prices to increase and slightly more than half of the enterprises were expecting prices to remain stable in the near-term.

Figure 3.15

Price Expectations (% difference between positive – negative answers)



Source: IOBE

3.6 Balance of Payments

Current Account

The **current account deficit** contracted by 38.6% (almost €2.2 billion) in the first four months of 2013, mostly from an improvement of the trade balance and the income account. In particular, the current account deficit reached €3.53 billion in the period from January to April, from €5.76 billion in the same period of 2012, at about ¼ of its 2008 level (Figure 3.17). Apart from the contraction of the trade deficit by €1.26 billion, the income account deficit also declined, by €756.3 million, while the surplus of current transfers strengthened by €346.3 million.

Hence, setting aside the fall of the services surplus by €145.2 million, all the remaining constituent elements contributed to the contraction of the current account deficit.

The **trade deficit** contracted by 17.3% (€1.3 billion)[10] in the first four months of 2013, in the aftermath of a contraction by 25.8% in the same period of 2012, as the imports contraction eased. As a result the balance reached about 40% of its 2008 level (Figure 3.16).

Regarding the pure trade element of the account, i.e. the **trade account of goods excluding fuels and ships**, the deficit fell by 12.4% (€382 million), as the exports of goods strengthened by 7.2% (€311.2 million), compared with 6.6% growth in 2012. The imports of goods fell only by 1% (€70.6 million), compared with a strong contraction by €1.2 billion in the previous year.

The fuel account deficit contracted deeply, by 24.4% (€933.7 million), coming both from a boost of fuel exports by 22.1% (€479.5 million) and fall of imports by 7.6% (€454.2 million). As a result, the fuel exports-imports ratio has gradually increased from 21% in 2007 to 47% in 2013 for the first four months of each year.

The services surplus fell in the first four months of the year by 6.4% (€145.2 million), following a large increase by 42.5% in 2012. The surplus contraction came from the relatively large reduction of receipts by €749.8 million, compared with a reduction of payments by €604.6 million.

In greater detail, tourist receipts fell by 7.9% (€58.2 million), while the receipts from transport fell by 13.6% (€605.7 million) and from other services by 7%. Regarding payments, the payments for tourist services declined by 18% (€99.9 million), while the payments for transport services contracted by 10.8% (€230.9 million) and the payments for other services fell by 18.6% (€273.9 million).

The **income account deficit** fell significantly, by 38.6% (€756.3 million), to reach €1.2 billion. The contraction was mostly due to a fall in the outgoing payments for wages, salaries, interest and dividends by 25% (€756.8 million), while receipts remained unchanged.

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

Figure 3.16

Imports-Exports 2001-2013 (January-April)

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

The surplus of **current transfers** improved further in the first four months of 2013, for a third consecutive year since 2010, to reach €1.6 billion. Both total receipts increased by 5.8% (€161 million) and total payments fell by 12.2% (€185 million). General Government receipts increased, to €2.4 billion, and immigration transfers increased by about €128 million.

Capital Account

The surplus of **capital transfers** reached €1.13 billion, increased by 5% year-on-year. Receipts[11] increased to €1.26 billion, while payments grew to €133.2 million.

Lastly, the **Current and Capital Account** deficit, which to some extent reflects the economy's external borrowing requirements, shrank by half its level year-on-year in the first four months, to reach €2.4 billion from €4.7 billion, its lowest level since 2003.

Financial Account

The **financial account deficit** fell radically in the first four months of the year, by 65.3%, to reach €1.8 billion, from €5.2 billion in the same period of 2012.

At the level of specific accounts, **direct investment** experienced net inflow of €1.86 billion. Foreign direct investment to Greece changed from outflow to inflow of €971.6 million, while the residents' direct investment abroad had a net inflow of €892.5 million. According to the Bank of Greece, the most significant transactions that took place in April were as follows:

a) Inflow of €200 million from the sale of 51% of the shares of Hellenic Duty Free Shops by Folli-Follie to the Swiss company Dufry International AG.

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

b) Inflow of €200 million for participation of Crystal Almond (Luxembourg) in the increase of the equity capital of its subsidiary Wind Hellas.

c) Inflow of €208 million from the sale (divestment) of Hellas SAT (Cyprus), subsidiary of OTE, to Arab SAT (Saudi Arabia).

Portfolio investment experienced net inflow of €664.4 million, compared with €64 billion net outflow in 2012. Receivables reached €1.9 billion, as the holdings of resident institutions in bonds and shares issued abroad fell by €2.1 billion and €335 million respectively, while the holdings of residents in foreign treasury bills and derivatives increased by €323 million and €235 million respectively. Meanwhile, payables recorded a net outflow of €1.2 billion, as the holdings by non-residents of bonds and treasury bills issued by Greek residents fell by €1.4 billion and €177 million, respectively. The growth of foreign holdings of domestic shares and derivatives by €254 million and €144 million respectively did not offset this contraction.

In **other investment**, the net inflow increased significantly in the first four months of 2013, to reach €15.5 billion, from €11.6 billion in 2012, while the gross borrowing of the General Government stood at €7.9 billion. Lastly, the country's **reserve assets** stood at €5.0 billion in the first four months of 2013, from €5.4 billion in 2012.

Assessment

The trade balance, and exports in particular, is the only GDP component that is determined more by the course of global trade and the world economy than by domestic factors.

In this regard, the momentum of Greek exports cannot be analysed in isolation from the developments in the world economy. Examining the first quarter trends since 2010, when the Greek economy entered a deep recession, until 2013, global trade[12] has grown cumulatively by 13.7%. This development has allowed the Greek products to find a fertile ground and to recover significantly, by 11% in 2010 and 22% in 2011. The slowdown of the world economy in 2011 and 2012, however, which also caused a slowdown of global trade that grew by 10.3% and 2.1% respectively (in the first quarter, compared with 13.7% in 2010), influenced to an extent the momentum of Greek exports, which also slowed down, albeit not as much as in most of the remaining EU economies.

As a result, Greek exports from 19th place in 2010 in terms of their year-on-year growth rate, took 17th place in 2011, second place in 2012 and fourth place in 2013, growing by 11%, 22%, 16% and 5% respectively.

Besides, according to data shown in Figure 3.19[13] the Greek exports of goods in

[12] The Netherlands Bureau for Economic Policy Analysis (CPB), CPB World Trade Monitor

[13] The first quadrant contains countries with exports that grew both in 2012 and 2013, the second quadrant depicts countries with exports contraction in 2012 and exports

the first quarter of the past two years have maintained a positive growth rate, which has partly covered the exports contraction taking place in the country before the outbreak of the crisis.

The same quadrant of Figure 3.19 (growth in both 2012 and 2013) also includes Lithuania and Latvia, with strong growth in both years, while 15 countries experienced contraction of exports in 2013, out of which 13 had experienced growth in 2012 (4th quadrant).

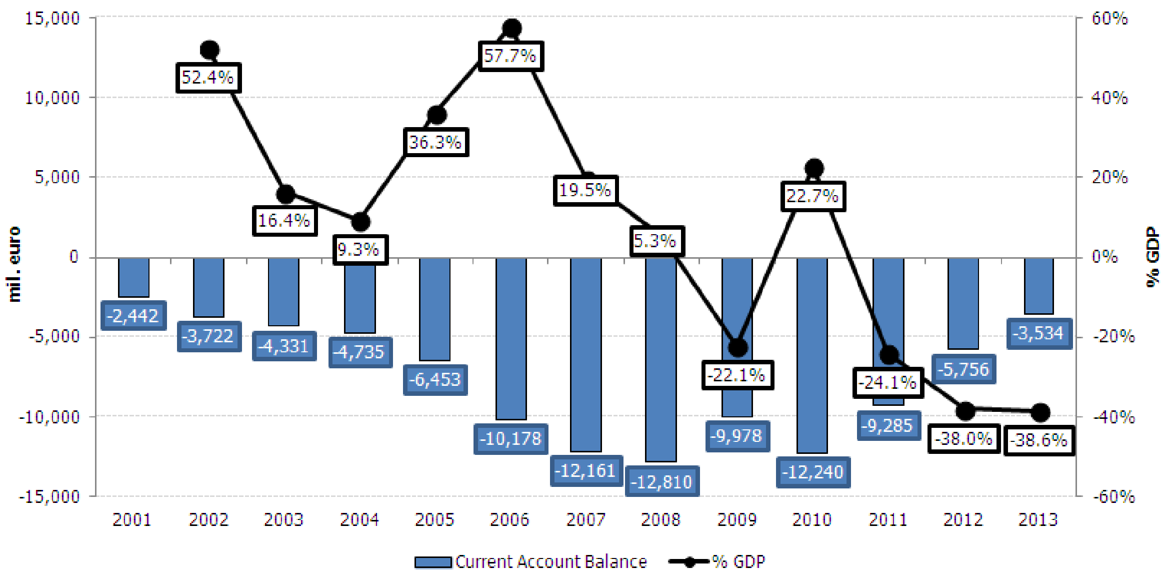
This development reflects the rising importance that exports have acquired for the Greek economy. Despite the significant domestic difficulties, the Greek enterprises have revealed capabilities to adapt quickly to the global developments and the escalating competitiveness.

Nevertheless, in a constantly changing environment, the achievement of a continuous, stable improvement in the external sector is historically proven to come from addressing long-standing distortions to entrepreneurship and mainly from investment in education, research and innovation, which are capable of transforming gradually the production model of an economy, boosting its ability to generate high-added-value, and not only low-cost, products.

growth in 2013, the third quarter shows countries that contracted in both 2012 and 2013 and the fourth quadrant includes countries that grew in 2012 and contracted in 2013.

Figure 3.17

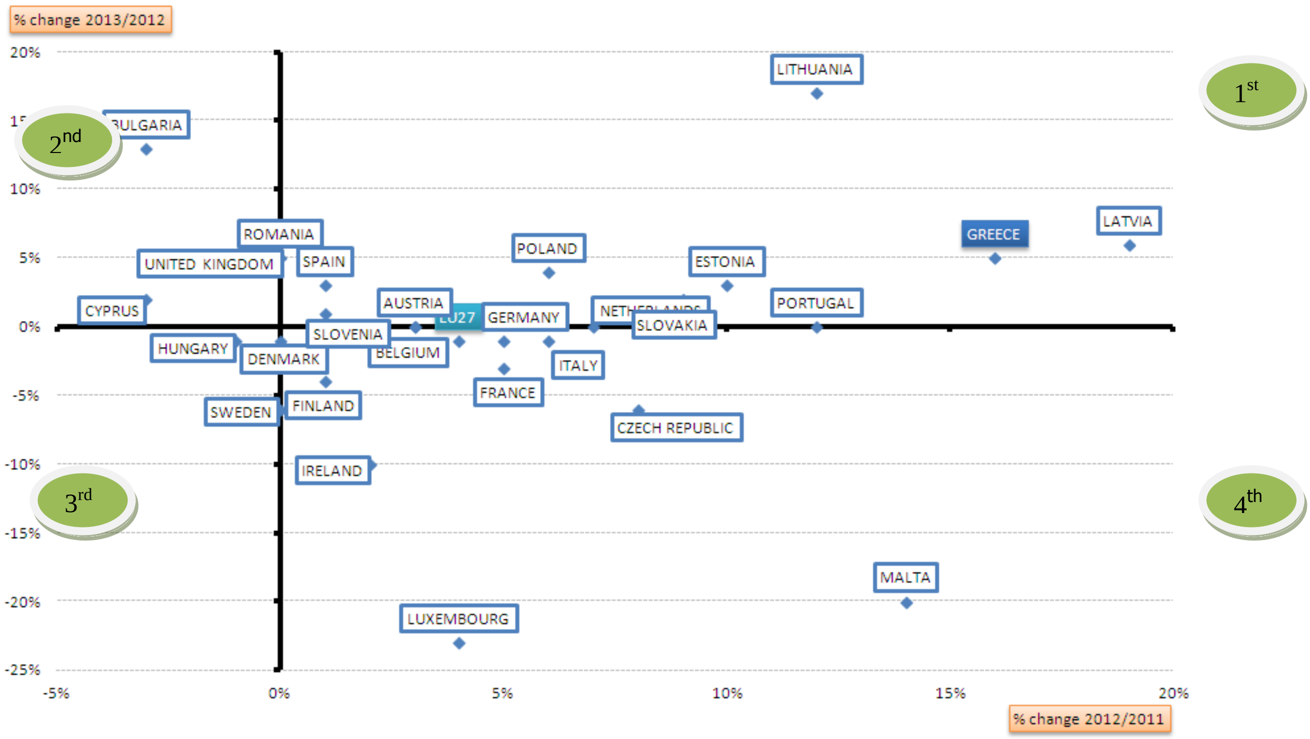
Current Account Balance 2001-2013 (January-April)



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

Figure 3.18

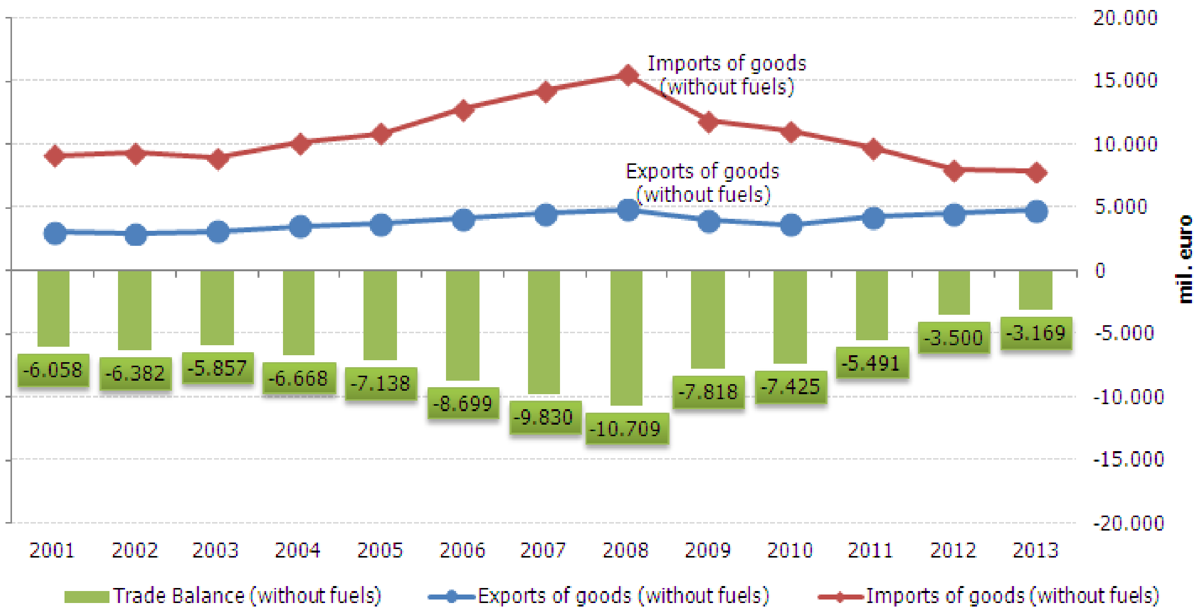
% Change of export goods Jan-Mar 2013, 2012 per EU country



Source: Eurostat – **Data processing**: IOBE

Figure 3.19

Imports-Exports (**excl. fuels**) 2001-2013 (January-April)



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

Figure 3.11

Provisional Balance of External Payments (Jan.-Apr.) in mil. €

		January-April			April		
		2011	2012	2013	2011	2012	2013
I	**CURRENT ACCOUNT BALANCE (I.A+I.B+I.C+I.D)**	**-9,284.60**	**-5,755.80**	**-3,533.60**	**-2,185.60**	**-944.9**	**-1,186.70**
I.A	**GOODS (I.A.1 - I.A.2)**	**-9,871.60**	**-7,326.90**	**-6,062.10**	**-2,262.10**	**-1,454.70**	**-1,539.70**
	Oil Balance	-4,380.80	-3,826.60	-2,892.90	-1,049.30	-683.7	-593.8
	Trade Balance excluding oil	-5,490.80	-3,500.30	-3,169.30	-1,212.80	-771	-945.9
	Ship's Balance	-958.9	-417.4	-468.2	-225.8	-60.6	-168.2
	Trade Balance excluding oil and ships	-4,531.90	-3,083.00	-2,701.00	-987	-710.4	-777.7
I.A.1	**Exports**	**5,936.10**	**6,716.20**	**7,409.90**	**1,606.80**	**1,785.20**	**1,963.30**
	Oil	1,662.90	2,169.10	2,648.70	528.2	698.4	728.1
	Ships	245.4	252.1	155	62.6	74.1	45.6
	Other goods	4,027.80	4,295.00	4,606.20	1,016.00	1,012.80	1,189.60
I.A.2	**Imports**	**15,807.70**	**14,043.10**	**13,472.00**	**3,869.00**	**3,240.00**	**3,503.00**
	Oil	6,043.70	5,995.70	5,541.50	1,577.50	1,382.00	1,321.90
	Ships	1,204.30	669.5	623.2	288.4	134.7	213.8
	Other goods	8,559.70	7,377.90	7,307.30	2,003.10	1,723.20	1,967.40
I.B	**SERVICES (I.B.1 - I.B.2)**	**1,594.70**	**2,272.10**	**2,126.90**	**598.5**	**756.4**	**626.7**
I.B.1	**Receipts**	**6,391.80**	**6,434.80**	**5,685.00**	**1,756.50**	**1,722.30**	**1,548.40**
	Travel	819.5	740.8	682.6	352.8	333.4	290.4
	Transportation	4,461.00	4,458.90	3,853.20	1,120.10	1,091.20	970.1
	Other services	1,111.30	1,235.20	1,149.20	283.6	297.7	288
I.B.2	**Payments**	**4,797.00**	**4,162.70**	**3,558.10**	**1,158.00**	**965.9**	**921.7**
	Travel	724.4	555.3	455.4	193.9	140.9	129.2
	Transportation	2,477.50	2,137.40	1,906.50	616.6	497.6	500.7
	Other services	1,595.00	1,470.10	1,196.20	347.5	327.4	291.8
I.C	**INCOME (I.C.1 - I.C.2)**	**-2,202.90**	**-1,958.50**	**-1,202.20**	**-505.4**	**-125.1**	**-174.7**
I.C.1	**Receipts**	**1,037.00**	**1,074.10**	**1,073.60**	**249.4**	**247.5**	**255.8**
	Compensation of employees	60.7	64.1	71.9	15.7	15.1	17.7
	Investment Income	976.3	1,010.00	1,001.80	233.7	232.3	238
I.C.2	**Payments**	**3,239.90**	**3,032.60**	**2,275.80**	**754.8**	**372.6**	**430.4**
	Compensation of employees	140	156.8	155.1	37.6	37.1	47.4
	Investment Income	3,099.80	2,875.80	2,120.70	717.2	335.5	383.1
I.D	**CURRENT TRANSFERS (I.D.1 - I.D.2)**	**1,195.10**	**1,257.50**	**1,603.80**	**-16.6**	**-121.5**	**-99.1**
I.D.1	**Receipts**	**2,744.50**	**2,782.50**	**2,943.50**	**235.8**	**151.3**	**164.8**
	General Government (mainly transfers from EU)	2,360.20	2,412.20	2,444.80	137.4	55.8	68.1
	Other sectors	384.3	370.3	498.7	98.5	95.5	96.7
I.D.2	**Payments**	**1,549.40**	**1,525.00**	**1,339.70**	**252.4**	**272.8**	**263.8**
	General Government (mainly transfers to EU)	1,032.00	1,127.10	1,107.60	122.8	200.4	189.7
	Other sectors	517.4	397.9	232.1	129.6	72.4	74.1
II	**CAPITAL TRANSFERS (II.1-II.2)**	**305.2**	**1,078.90**	**1,133.00**	**-6.9**	**25.5**	**40.6**
II.1	**Receipts**	**379**	**1,154.70**	**1,266.20**	**8.3**	**36.1**	**71.7**
	General Government (mainly transfers from EU)	352.5	1,130.10	1,238.20	0.7	28.6	65.2
	Other sectors	26.5	24.7	28	7.6	7.5	6.5
II.2	**Payments**	**73.8**	**75.8**	**133.2**	**15.2**	**10.6**	**31.1**
	General Government (mainly transfers to EU)	3.5	2.6	1.3	1	0.6	0.5
	Other sectors	70.3	73.3	131.8	14.1	10	30.7
III	**CURRENT ACCOUNT & CAPITAL TRANSFERS(I + II)**	**-8,979.50**	**-4,676.90**	**-2,400.60**	**-2,192.50**	**-919.4**	**-1,146.10**
IV	**FINANCIAL ACCOUNT (IVA+IVB+IVC+IVD)**	**8,759.30**	**5,200.00**	**1,804.80**	**2,378.60**	**241.8**	**1,671.70**
IV.A	**DIRECT INVESTMENT***	**-860.4**	**-80.6**	**1,864.20**	**-160.3**	**437.7**	**570.7**
	Abroad	-285	345.1	892.5	-26.6	451.7	207.4
	Home	-575.5	-425.7	971.6	-133.7	-14	363.3
IV.B	**PORTFOLIO INVESTMENT***	**-5,422.80**	**-64,835.50**	**664.4**	**632.5**	**-27,801.80**	**121.7**
	Assets	2,559.90	-37,320.00	1,886.30	1,439.20	-25,512.60	161
	Liabilities	-7,982.70	-27,515.40	-1,221.90	-806.7	-2,289.20	-39.2
IV.C	**OTHER INVESTMENT***	**15,051.50**	**70,114.10**	**-706.8**	**1,958.40**	**27,583.90**	**1,004.20**
	Assets	3,845.80	11,565.40	15,486.20	-1,039.60	1,317.60	-296.2
	Liabilities	11,205.80	58,548.60	-16,193.10	2,998.00	26,266.30	1,300.40
	(Loans of General Government)	21,136.80	70,325.40	7,937.90	-0.1	31,594.30	-2.9
IV.D	**CHANGE IN RESERVE ASSETS****	**-9**	**2**	**-17**	**-52**	**22**	**-25**
V	**BALANCE ITEM**	**220.2**	**-523.1**	**595.8**	**-186.1**	**677.6**	**-525.5**
	RESERVE ASSETS (STOCK) (end period)***				**4,609**	**5,422**	**5,026**

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. ECONOMIC IMPACT FROM THE CONSTRUCTION AND OPERATION OF THE TRANS ADRIATIC PIPELINE ON GREEK TERRITORY[14]

4.1 Introduction - Scope of study

The prolonged and deep contraction of the Greek economy for a sixth year in a row and the competitive pressures exerted on Greece and the European Union in general from new, developing economies (e.g. China, India), which grow at a very fast pace, make the improvement of the competitiveness of the Greek economy a cornerstone in the effort to achieve a quick start of the recovery and thereafter for steady growth rates. In this regard, reforms in virtually the whole range of economic activities and the public administration are necessary in order to boost investment activity, particularly by attracting foreign direct investment. Significant benefits can be gained from the construction of infrastructure that facilitates domestic and foreign economic activities in Greece and from the participation of the country in cross-border infrastructure projects.

In this regard, the construction and operation of the Trans Adriatic Pipeline (TAP), i.e. the pipeline that aims to transport natural gas from the Caspian Sea to the Italian market through Turkey, Greece and Albania, is a project that could generate substantial benefits for Greece, and in particular in regions hit disproportionately by the recession. Apart from the direct contribution to growth and employment during the construction and operation of the pipeline, significant benefits to the Greek economy are expected also to be generated along the project's supply chain (procurement of materials, spare parts and services). Moreover, the additional income that accrues to workers employed by TAP and across the wider supply chain translates into consumer purchases, resulting in further rounds of economic activity. Furthermore, benefits in terms of a competitiveness boost and exports growth can also come from two further channels: a) anticipated reduction of the production cost of Greek enterprises, in case of gained access to natural gas in regions of the country not covered by the existing network, and b) upgrade of the production activity of companies that participate in the construction of TAP, with the acquisition of know-how that could be utilised in similar projects abroad.

IOBE recently conducted a study, whose purpose was to quantify the impacts from the construction and operation of TAP on the Greek economy. The study investigated the direct and the broader effects on output, gross value added and jobs across all the sectors of the Greek economy from the construction and operation of TAP. The study focused on the benefits that accrue in each of the regions in Northern Greece that host sections of TAP (East Macedonia and Thrace, Central Macedonia, West Macedonia). It covered both the 3-year construction phase (mid 2015 to late 2018) and the 50-year operations phase (2019-2068).

[14] The study was completed in January 2013 (S. Danchev, N. Paratsiokas, A. Tsakanikas). It is available at: http://www.iobe.gr/index.asp?a_id=359&news_id=1202.

4.2 Methodology

The quantification was based on the national input-output table published by Eurostat, which was broken down to regional level, applying the Cross-Industry Location Quotient (CILQ) method with employment data. In order to capture the interregional dependencies, we used the Leontief-Strout Gravity Model (LSGM). For the extension of the input-output analysis over the lifespan of the pipeline, we projected the input-output tables using Eurostat's Euro method, which utilises assumptions on the future structure of the Greek economy reflecting expected trends in technology and trade. Lastly, the benefits from TAP in the regions through which it will pass were estimated by applying the vector of the pipeline's investment expenditure as a shock to the inverse of the multi-regional, multi-period, input-output matrix.

4.3 Estimates of the long-term economic impact of the project (2015-2068)

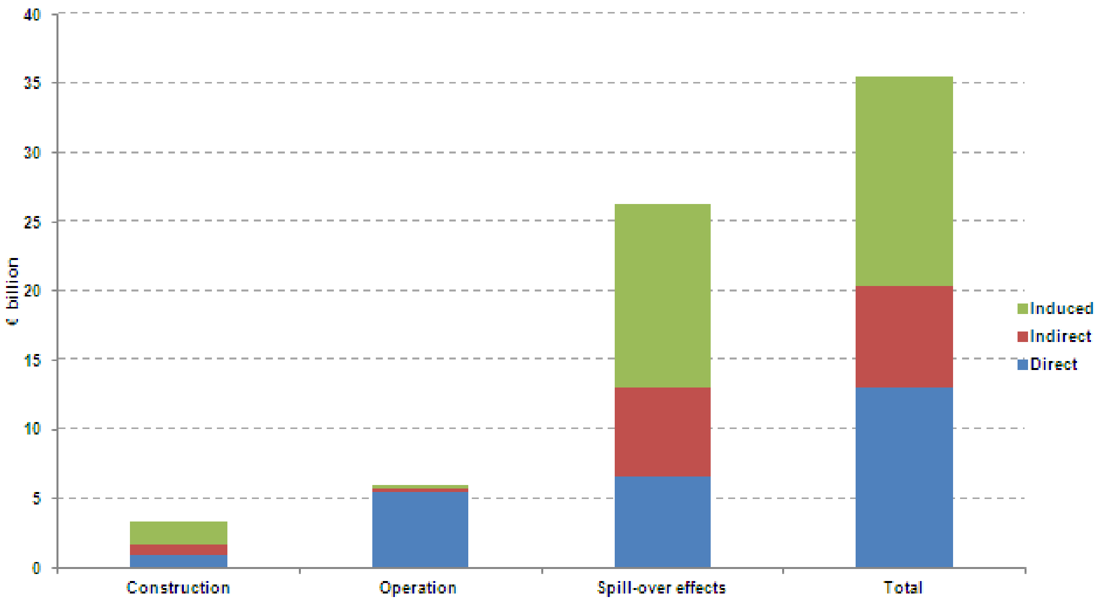
The long-term economic impact of TAP comes from:

- Construction and operation of the pipeline
- Capitalisation of the acquired expertise by the suppliers to the pipeline's construction
- Introduction of natural gas in the fuel mix of West Macedonia

According to the quantification estimates, the construction and operation of TAP over the period from 2015 to 2068 is expected to generate total output between €33 - 36 billion in the Greek economy, depending on whether the supply of the pipes will come from Greece or abroad. However, it should be noted that more than 70% of the impact on output comes from the so-called catalytic effects, that is from the capitalisation of the acquired expertise by TAP's suppliers and by the introduction of natural gas to West Macedonia (Figures 4.1 and 4.2).

Figure 4.1

Greece - Impact on Output (Local Pipes Scenario)



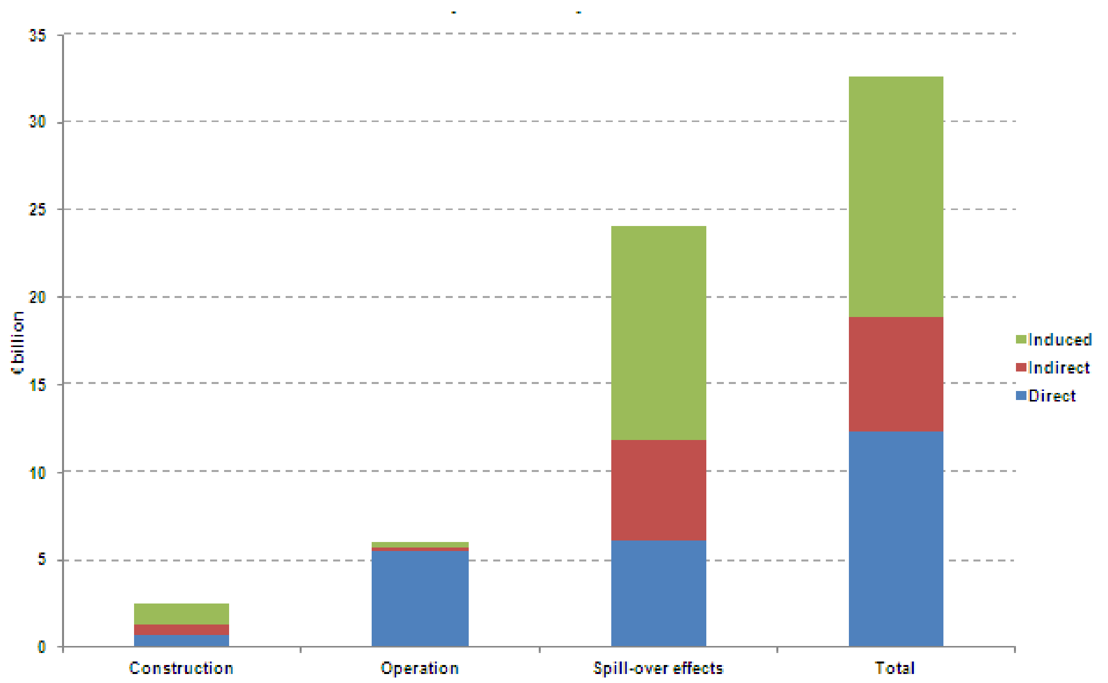
Sources: IOBE Input-output model; Eurostat IO tables

In terms of gross value added (wages, gross operating surplus and taxes on production), the impact from the investment is estimated at €18 billion in the case of domestic pipe production (€17 billion under the imported pipes scenario). Out of this estimate, more than €5 billion correspond to value added generated through the operation of the project itself (e.g. taxes, depression and amortisation, net operating surplus, etc.). On an annual basis, on average €315-€402 million of value is added to the Greek GDP due to TAP (Figure 4.3).

With respect to employment, TAP is expected to generate between 235 and 260 thousand job-years across the economy. In annual terms, this corresponds to 4,300 to 4,800 jobs per year on average for about 54 years. The operation of the project itself would have a relatively small impact on employment, as already mentioned. Therefore, the jobs during the operation phase would mostly come from spill-over effects. The annual impact on jobs is more pronounced during the construction phase (Table 3.1), when we could expect about 8,000 to 10,000 jobs per year.

Figure 4.2

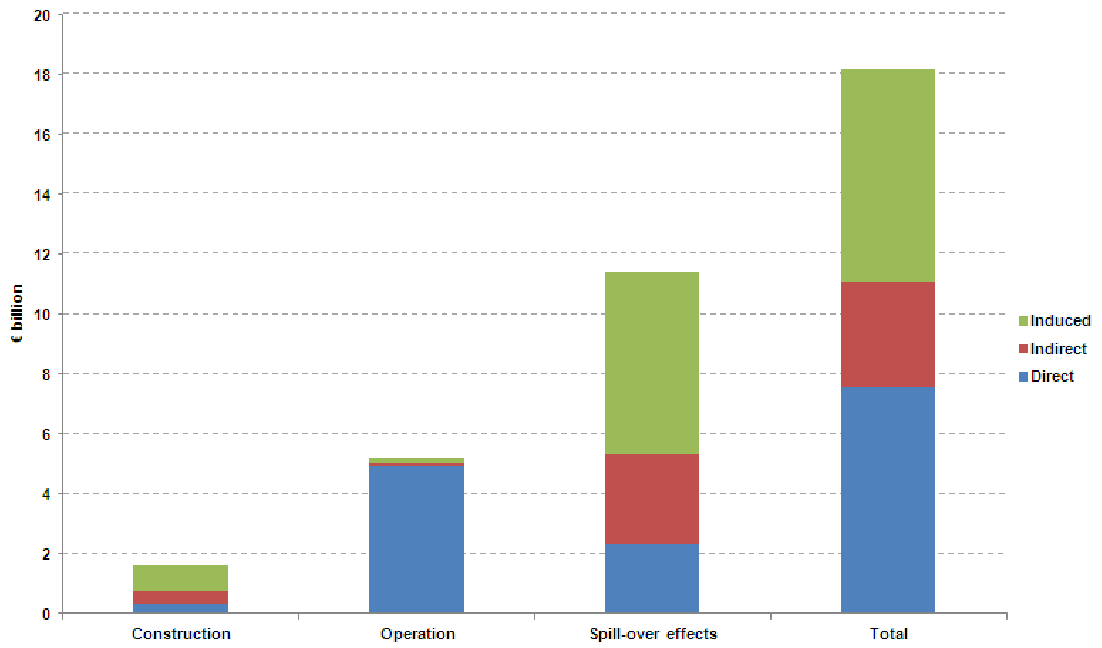
Greece - Impact on Output (Imported Pipes Scenario)



Sources: IOBE Input-output model; Eurostat IO tables

Figure 4.3

Greece - Impact on GVA (Local Pipes Scenario)



Sources: IOBE Input-output model; Eurostat IO tables

4.4 Estimates of the long-term economic impact of the pipeline in Northern Greece and in its administrative regions

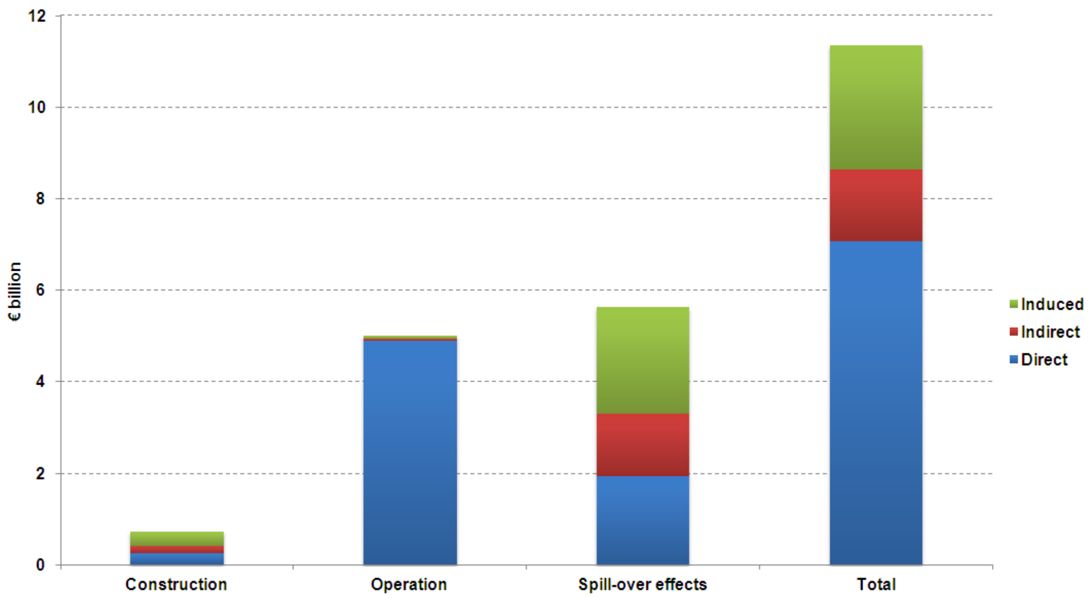
4.4.1 Impact on the economy of Northern Greece

The Trans Adriatic Pipeline is routed to pass through Northern Greece and in particular through the administrative regions of East Macedonia-Thrace, Central Macedonia and West Macedonia. The construction of TAP is expected to generate a total of €20 billion of output over the lifespan of the project in this group of administrative regions. This represents almost 3/5 of the investment's total impact on the Greek economy, with the remaining 2/5 of the impact occurring in the remaining Greek regions that would supply Northern Greece with the required goods and services.

In terms of gross value added, the impact in Northern Greece is estimated at €11.4 billion, with almost half of this (€5 billion) coming directly from the operation of the pipeline. On an annual basis in Northern Greece, the investment would generate €180 million value added on average during the construction phase and €210 million value added during the pipeline's operation (Figure 4.4).

Figure 4.4

Northern Greece - Impact on GVA 2015-2068



Sources: IOBE Input-output model; Eurostat IO tables

In employment terms, the investment is expected to support more than 120 thousand job-years during the entire period. This implies that on average more than 2,200 people would be employed in Northern Greece each year for over more than five decades as a result of TAP. In particular during the construction phase, the pipeline is expected to generate about 4,800 jobs in Northern Greece.

As the operation of the pipeline itself is expected to employ relatively few people, most jobs in Northern Greece will be generated and supported in branches such as Machinery-Equipment, Agriculture, Accommodation - Food Services, Food Manufacturing and Construction.

4.4.2 Impact on the economy of East Macedonia – Thrace

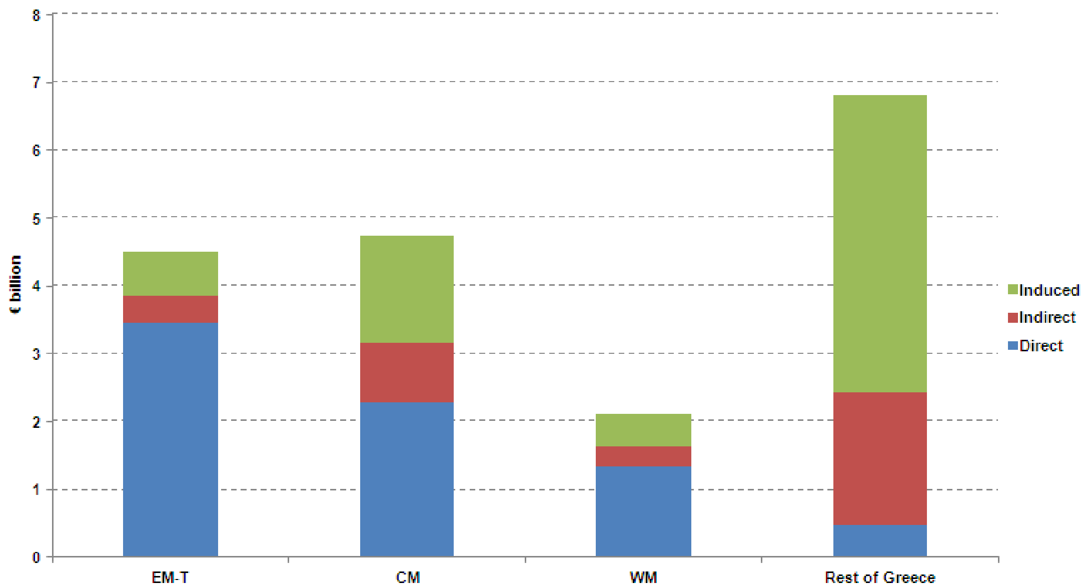
In East Macedonia-Thrace, TAP is estimated to boost the total value of production by almost €7 billion (Figure 4.5). This corresponds to about a third of the overall impact on Greek territory. It should be noted that the impact in the region is boosted significantly by the fact that it would host a compressing station near Komotini.

In terms of gross value added, the total impact over the lifetime of the project is estimated at €4.5 billion, of which €2.8 billion (or more than 60%) comes directly from the operation of the project. Annually, TAP would lead to an increase of GVA by about €65 million during the construction period and about €85 million during operation.

In employment terms, more than 33 thousand job-years will be created in the region over the entire lifetime of the investment. This implies that on average 600 people will be employed each year in the region as a result of TAP for more than five decades (more than 1,800 jobs in the regions during the construction phase).

Διάγραμμα 4.5

Greece - Impact on GVA (Local Pipes Scenario)



Sources: IOBE Input-output model; Eurostat IO tables

4.4.3 Impact on the economy of Central Macedonia

In Central Macedonia the construction of TAP is expected to expand output, through the entire life of the investment, by more than €9 billion, almost half of the investment's total impact in Northern Greece.

In terms of Gross Value Added this translates to more than €4.7 billion, of which almost 30% (or €1.4 billion) comes from TAP's operation itself. These estimates imply that on an annual basis TAP would generate more than €80 million GVA in the region during the construction phase and almost €90 million during the operation phase.

The pipeline project will boost employment in the region by 65 thousand job-years, representing almost half of the investment's total impact on employment in Northern Greece. On average each year, approximately 1,200 people will be employed in the region (more than 2,200 jobs during the construction phase).

4.4.4 Impact on the economy of West Macedonia

In West Macedonia the construction of TAP is expected to generate more than €4 billion of output, representing 1/5 of the investment's total impact in Northern Greece. It should be noted that more than 1.1 billion euro of total economic output would come from the eventual introduction of natural gas to the fuel mix in the region. For this to happen, further actions, such as an establishment of a gas distribution company, construction of a low pressure grid and negotiation of a gas supply contract with gas producers, are also required to enable the penetration of natural gas in the region's economy.

Further economic benefits for the region could be expected in the future, in case an additional compressor station is constructed near the border with Albania, in order to double the capacity of the pipeline as more gas becomes available upstream.

In terms of gross value added, the impact for the local economy exceeds €2 billion with about 40% of it coming directly from the operation of the pipeline. On an annual basis, the investment is expected to generate more than €30 million of value added during the construction phase and about €40 million during operation.

In addition, the investment creates significant economic benefits in terms of employment in the region, with the estimated impact exceeding 26,000 job-years through the entire life of the project, most of which (85%) resulting from spill-over effects. On average, the employment in the region will be boosted every year by about 500 jobs as a result of TAP (about 800 jobs during construction).

Lastly, we should note that the results of the IOBE analysis are comparable with the study conducted in 2011 by IENE, which estimated that the construction of TAP would generate €371 million GVA p.a. in Greece. Respectively, the IOBE study estimated €402 million value added in the domestic pipe scenario and €315 million valued added in the imported pipe scenario during the construction phase (Figure 4.6).

Figure 4.6

Impact on Direct Gross Value Added per year from the construction of TAP

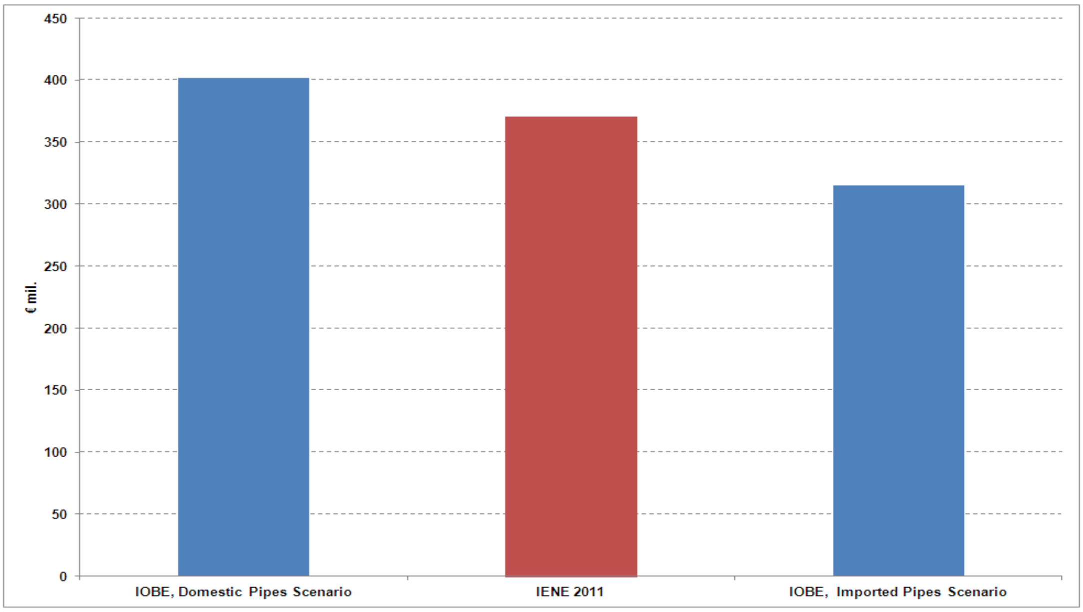
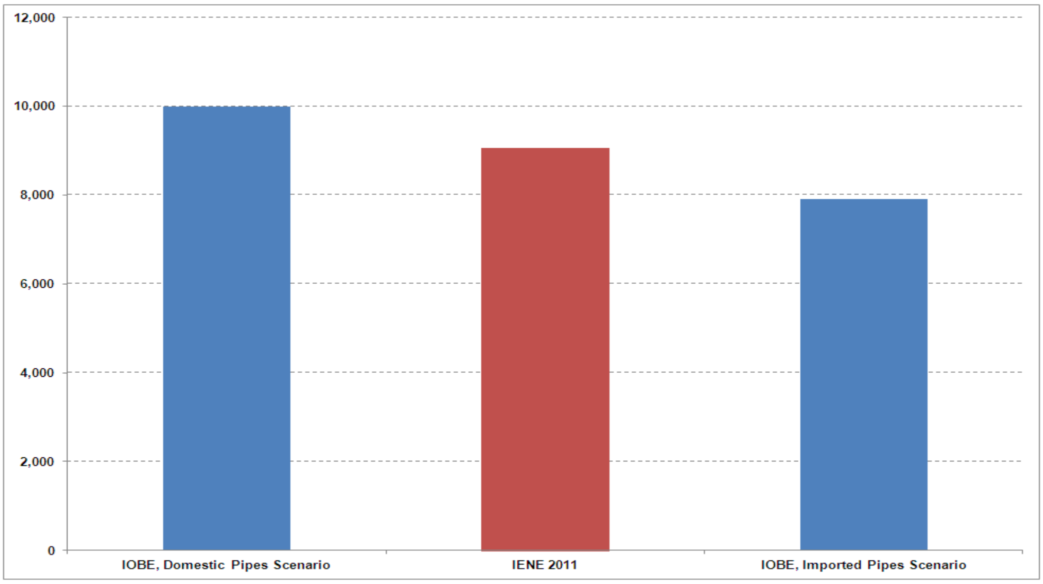


Figure 4.7

Impact on employment from the construction of TAP



Sources 4.6-4.7: **a)** IOBE (2012) Input-output model, **b)** IENE (2011) Europe's Natural Gas Supply Prospects, the South Corridor and the Role of Greece,.

Similarly, the study of IENE estimated that 9,054 people will be employed for the construction of the pipeline, compared with 9,992 in our estimations for the domestic pipe scenario and 7,909 for the imported pipes scenario (Figure 4.7). Moreover, given that our study includes the section of the pipeline between Komotini and Kipi that was only recently added to the project, our impact estimates can be seen as conservative, for the construction phase at least.

4.5 Conclusions

Without a doubt, the selection of TAP is a positive development for the Greek economy. The geostrategic benefits from this project, which could not be quantified, are expected to be particularly significant. The quantitative results are also impressive, despite the unavoidable weaknesses of any model to capture all possible factors that influence an economy. It should be noted, however, that these benefits, together with those estimated in the study, will not materialise automatically, but require mobilisation both at the level of negotiations with the pipeline company and at the level of the domestic business sector, so that it can integrate with the construction and the operation of the project. The extent and effectiveness of the relevant strategic moves will determine the impact of the induced impact and the overall benefit for Greece.

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	0.6(f)	1.8(f)
Belgium	2.7	2.9	1.0	-2.8	2.4	1.8	-0.3	0(f)	1.2(f)
Bulgaria	6.5	6.4	6.2	-5.5	0.4	1.8	0.8	0.9(f)	1.7(f)
Croatia	4.9	5.1	2.1	-6.9	-2.3	0(p)	-2.0(p)	-1.0(f)	0.2(f)
Cyprus	4.1	5.1	3.6	-1.9	1.3	0.5	-2.4	-8.7(f)	-3.9(f)
Czech Republic	7.0	5.7	3.1	-4.5	2.5	1.9	-1.3	-0.4(f)	1.6(f)
Denmark	3.4	1.6	-0.8	-5.7	1.6	1.1	-0.4	0.7(f)	1.7(f)
Estonia	10.1	7.5	-4.2	-14.1	3.3	8.3	3.2	3.0(f)	4.0(f)
EU (27 countries)	3.3	3.2	0.3	-4.3	2.1	1.6	-0.3	-0.1(f)	1.4(f)
Euro area (17 countries)	3.2	3.0	0.4	-4.4	2.0	1.5	-0.6	-0.4(f)	1.2(f)
Finland	4.4	5.3	0.3	-8.5	3.3	2.8	-0.2	0.3(f)	1.0(f)
France	2.5	2.3	-0.1	-3.1	1.7	2.0	0	-0.1(f)	1.1(f)
Germany	3.7	3.3	1.1	-5.1	4.2	3.0	0.7	0.4(f)	1.8(f)
Greece	5.5	3.5	-0.2(p)	-3.1(p)	-4.9(p)	-7.1(p)	-6.4(p)	-4.2(p)	0.6(p)
Hungary	3.9	0.1	0.9	-6.8	1.3	1.6	-1.7	0.2(f)	1.4
Ireland	5.4	5.4	-2.1	-5.5	-0.8	1.4	0.9	1.1(f)	2.2(f)
Italy	2.2	1.7	-1.2	-5.5	1.7	0.4	-2.4	-1.3(f)	0.7(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	3.7	3.1(f)	3.6(f)
Luxembourg	4.9	6.6	-0.7	-4.1	2.9	1.7	0.3	0.8(f)	1.6(f)
Malta	2.6	4.1	3.9	-2.8	3.2	1.8	1.0	1.4(f)	1.8(f)
Netherlands	3.4	3.9	1.8	-3.7	1.6	1.0	-1.0	-0.8(f)	0.9(f)
Poland	6.2	6.8	5.1	1.6	3.9	4.5	1.9	1.1(f)	2.2(f)
Portugal	1.4	2.4	0	-2.9	1.9	-1.6	-3.2	-2.3(f)	0.6(f)
Romania	7.9	6.3	7.3	-6.6	-1.1	2.2	0.7	1.6(f)	2.2(f)
Slovakia	8.3	10.5	5.8	-4.9	4.4	3.2	2.0	1.0(f)	2.8(f)
Slovenia	5.8	7.0	3.4	-7.8	1.2	0.6	-2.3	-2.0(f)	-0.1(f)
Spain	4.1	3.5	0.9	-3.7	-0.3	0.4	-1.4	-1.5(f)	0.9(f)
Sweden	4.3	3.3	-0.6	-5.0	6.6	3.7	0.7	1.5(f)	2.5(f)
United Kingdom	2.8	3.4	-0.8	-5.2	1.7	1.1	0.2	0.6(f)	1.7(f)

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

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	72.0	72.5	73.4
Belgium	94.0	92.0	88.0	84.0	89.2	95.7	95.6	97.7	99.6
Bulgaria	37.0	27.5	21.6	17.2	13.7	14.6	16.2	16.3	18.5
Croatia	:	:	:	:	:	:	:	:	:
Cyprus	70.9	69.4	64.7	58.8	48.9	58.5	61.3	71.1	85.8
Czech Republic	28.9	28.4	28.3	27.9	28.7	34.2	37.9	40.8	45.8
Denmark	45.1	37.8	32.1	27.1	33.4	40.7	42.7	46.4	45.8
Estonia	5.0	4.6	4.4	3.7	4.5	7.2	6.7	6.2	10.1
EU (27 countries)	61.9	62.9	61.7	59.0	62.2	74.6	80.2	83.1	86.9
Euro area (17 countries)	69.6	70.3	68.7	66.4	70.2	80	85.6	88.0	92.7
Finland	44.4	41.7	39.6	35.2	33.9	43.5	48.6	49.0	53.0
France	65.0	66.7	64.0	64.2	68.2	79.2	82.4	85.8	90.2
Germany	66.2	68.5	68.0	65.2	66.8	74.5	82.5	80.4	81.9
Greece	98.9	101.2	107.5	107.2	112.9	129.7	148.3	170.3	156.9
Hungary	59.5	61.7	65.9	67.0	73.0	79.8	81.8	81.4	79.2
Ireland	29.5	27.3	24.6	25.1	44.5	64.9	92.2	106.4	117.6
Italy	103.4	105.7	106.3	103.3	106.1	116.4	119.3	120.8	127.0
Latvia	15.0	12.5	10.7	9.0	19.8	36.7	44.5	40.7	43.2
Lithuania	19.3	18.3	17.9	16.8	15.5	29.3	37.9	38.5	40.7
Luxembourg	6.3	6.1	6.7	6.7	14.4	15.3	19.2	18.3	:
Malta	69.8	68.0	62.5	60.7	60.9	66.5	67.3	70.3	72.1
Netherlands	52.4	51.8	47.4	45.3	58.5	60.8	63.1	65.5	71.2
Poland	45.7	47.1	47.7	45.0	47.1	50.9	54.8	56.2	55.6
Portugal	61.9	67.7	69.4	68.4	71.7	83.2	93.4	108	123.6
Romania	18.7	15.8	12.4	12.8	13.4	23.6	30.5	34.7	37.8
Slovakia	41.5	34.2	30.5	29.6	27.9	35.6	41.0	43.3	52.1
Slovenia	27.3	26.7	26.4	23.1	22.0	35.0	38.6	46.9	54.1
Spain	46.3	43.2	39.7	36.3	40.2	53.9	61.5	69.3	84.2
Sweden	50.3	50.4	45.3	40.2	38.8	42.6	39.5	38.4	38.2
United Kingdom	40.5	41.8	42.8	43.7	51.5	67.1	78.4	85.5	90.0

Table 3: General government balance (% of GDP)

	Annual data (%)								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Austria	-4.4	-1.7	-1.5	-0.9	-0.9	-4.1	-4.5	-2.5	-2.5
Belgium	-0.1	-2.5	0.4	-0.1	-1.0	-5.6	-3.8	-3.7	-3.9
Bulgaria	1.9	1.0	1.9	1.2	1.7	-4.3	-3.1	-2	-0.8
Croatia	-4.3	-4.0	-3.0	-2.5	-1.4	-4.1	:	:	:
Cyprus	-4.1	-2.4	-1.2	3.5	0.9	-6.1	-5.3	-6.3	-6.3
Czech Republic	-2.8	-3.2	-2.4	-0.7	-2.2	-5.8	-4.8	-3.3	-4.4
Denmark	2.1	5.2	5.2	4.8	3.2	-2.7	-2.5	-1.8	-4.0
Estonia	1.6	1.6	2.5	2.4	-2.9	-2.0	0.2	1.2	-0.3
EU (27 countries)	-2.9	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-4.0
Euro area (17 countries)	-2.9	-2.5	-1.3	-0.7	-2.1	-6.4	-6.2	-4.2	-3.7
Finland	2.5	2.9	4.2	5.3	4.4	-2.5	-2.5	-0.8	-1.9
France	-3.6	-2.9	-2.3	-2.7	-3.3	-7.5	-7.1	-5.3	-4.8
Germany	-3.8	-3.3	-1.6	0.2	-0.1	-3.1	-4.1	-0.8	0.2
Greece	-7.5	-5.2	-5.7	-6.5	-9.8	-15.6	-10.7	-9.5	-10.0
Hungary	-6.5	-7.9	-9.4	-5.1	-3.7	-4.6	-4.3	4.3	-1.9
Ireland	1.4	1.7	2.9	0.1	-7.4	-13.9	-30.8	-13.4	-7.6
Italy	-3.5	-4.4	-3.4	-1.6	-2.7	-5.5	-4.5	-3.8	-3.0
Latvia	-1.0	-0.4	-0.5	-0.4	-4.2	-9.8	-8.1	-3.6	-1.2
Lithuania	-1.5	-0.5	-0.4	-1.0	-3.3	-9.4	-7.2	-5.5	-3.2
Luxembourg	-1.1	0	1.4	3.7	3.2	-0.8	-0.9	-0.2	-0.8
Malta	-4.6	-2.9	-2.7	-2.3	-4.6	-3.7	-3.6	-2.8	-3.3
Netherlands	-1.7	-0.3	0.5	0.2	0.5	-5.6	-5.1	-4.5	-4.1
Poland	-5.4	-4.1	-3.6	-1.9	-3.7	-7.4	-7.9	-5.0	-3.9
Portugal	-4.0	-6.5	-4.6	-3.1	-3.6	-10.2	-9.8	-4.4	-6.4
Romania	-1.2	-1.2	-2.2	-2.9	-5.7	-9.0	-6.8	-5.6	-2.9
Slovakia	-2.4	-2.8	-3.2	-1.8	-2.1	-8.0	-7.7	-5.1	-4.3
Slovenia	-2.3	-1.5	-1.4	0	-1.9	-6.2	-5.9	-6.4	-4.0
Spain	-0.1	1.3	2.4	1.9	-4.5	-11.2	-9.7	-9.4	-10.6
Sweden	0.6	2.2	2.3	3.6	2.2	-0.7	0.3	0.2	-0.5
United Kingdom	-3.5	-3.4	-2.7	-2.8	-5.1	-11.5	-10.2	-7.8	-6.3

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(b)	46.2	49.2	49.1	:
Croatia	:	:	:	:	:	:	31.3	32.7	:
Cyprus	:	25.3	25.4	25.2	23.3(b)	23.5	23.5	23.7(b)	:
Czech Republic	:	19.6	18.0	15.8	15.3	14.0	14.4	15.3	:
Denmark	16.5	17.2	16.7	16.8	16.3	17.6	18.3	18.9	:
Estonia	26.3	25.9	22.0	22.0	21.8	23.4	21.7	23.1	:
EU (27 countries)	:	25.6	25.2	24.4	23.6	23.1	23.5	24.2	:
Euro area (17 countries)	:	:	:	:	:	:	:	:	:
Finland	17.2	17.2	17.1	17.4	17.4	16.9	16.9	17.9	17.2
France	19.8	18.9	18.8	19	18.6(b)	18.5	19.2	19.3	:
Germany	:	18.4	20.2	20.6	20.1	20	19.7	19.9	:
Greece	30.9	29.4	29.3	28.3	28.1	27.6	27.7	31.0	:
Hungary	:	32.1	31.4	29.4	28.2	29.6	29.9	31.0	:
Ireland	24.8	25.0	23.3	23.1	23.7	25.7	29.9	29.4	:
Italy	26.4	25.0	25.9	26	25.3	24.7	24.5	28.2	:
Latvia	:	45.8	41.4	36	33.8(b)	37.4	38.1	40.4	36.6
Lithuania	:	41.0	35.9	28.7	27.6	29.5	33.4	33.4	:
Luxembourg	16.1	17.3	16.5	15.9	15.5	17.8	17.1	16.8	:
Malta	:	20.2	19.1	19.4	19.6	20.2	20.3	21.4	:
Netherlands	:	16.7	16.0	15.7	14.9	15.1	15.1	15.7	:
Poland	:	45.3	39.5	34.4	30.5(b)	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	:	32.0	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	24.4	23.4	23.3	23.1	22.9	23.4	25.5	27.0	:
Sweden	16.9	14.4	16.3	13.9	14.9	15.9	15.0	16.1	:
United Kingdom	:	24.8	23.7	22.6	23.2	22	23.2	22.7	:

(*) population percentage with disposable income below 60% of median equivalised income
b=break in time series, p=provisional, f=forecast

Table 5: Inflation

	Annual data (%)				January-May (%)			Change (%)	
	2009	2010	2011	2012	2011	2012	2013	2012/11	2013/12
Austria	0.4	1.7	3.6	2.6	7.9	2.4	4.6	-5.5	2.3
Belgium	0	2.3	3.5	2.6	5.3	4.4	3.7	-0.9	-0.7
Bulgaria	2.5	3	3.4	2.4	2.1	2.7	3.1	0.5	0.4
Croatia	0.4	1.7	3.6	2.6	7.9	2.4	4.6	-5.5	2.3
Cyprus	0.2	2.6	3.5	3.1	2.3	2.3	1.6	0	-0.7
Czech Republic	0.6	1.2	2.1	3.5	4.3	3.2	0	-1.0	-3.2
Denmark	1.1	2.2	2.7	2.4	3.7	1.9	2.3	-1.8	0.4
Estonia	0.2	2.7	5.1	4.2	3.8	3.0	1.9	-0.8	-1.1
EU (27 countries)	0.3	1.6	2.7	2.5	2.2	2.6	2.2	0.3	-0.3
Euro area (17 countries)	1.0	2.1	3.1	2.6	4.2	5.6	2.3	1.4	-3.3
Finland	1.6	1.7	3.3	3.2	4.0	1.5	-0.2	-2.5	-1.7
France	0.1	1.7	2.3	2.2	3.4	3.0	2.5	-0.4	-0.5
Germany	0.2	1.2	2.5	2.1	3.3	2.6	2.5	-0.7	-0.1
Greece	1.4	4.7	3.1	1	3.7	3.8	2.0	0.1	-1.8
Hungary	4.0	4.7	3.9	5.7	2.1	2.5	1.1	0.4	-1.4
Ireland	-1.7	-1.6	1.2	1.9	3.1	2.8	1.8	-0.3	-1.0
Italy	0.8	1.6	2.9	3.3	4.1	1.9	1.7	-2.2	-0.2
Latvia	3.4	-1.2	4.2	2.3	2.6	2.6	1.6	0	-1.0
Lithuania	4.2	1.2	4.1	3.2	1.9	3.9	1.6	2	-2.3
Luxembourg	0	2.8	3.7	2.9	2.7	2.8	1.5	0.1	-1.3
Malta	1.9	2.0	2.4	3.3	3.4	3.0	1.1	-0.4	-1.9
Netherlands	1.0	0.9	2.5	2.8	3.4	3.4	1.1	0	-2.3
Poland	4.0	2.7	3.9	3.7	3.8	4.0	1.0	0.2	-3.0
Portugal	-0.9	1.4	3.6	2.8	1.0	1.8	0.8	0.8	-0.9
Romania	5.6	6.1	5.9	3.4	2.7	2.5	0.7	-0.2	-1.8
Slovakia	0.9	0.7	4.1	3.7	3.7	3.1	0.5	-0.6	-2.6
Slovenia	0.9	2.1	2.1	2.8	1.5	0.9	0.4	-0.6	-0.5
Spain	-0.3	1.8	3.3	2.4	2.5	3.6	1.7	1.0	-1.8
Sweden	1.9	1.9	1.4	0.9	4.1	3.0	0.1	-1.1	-2.9
United Kingdom	2.2	3.3	4.5	2.8	3.8	3.3	1.9	-0.4	-1.4

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

	Annual data (%)								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Austria	128	125(b)	126	124	124	125	127	129	131
Belgium	121	120(b)	118	116	116	118	119	119	119
Bulgaria	35	37(b)	38	40	43	44	44	46	47
Croatia	56	57(b)	58	61	63	62	58	61	61
Cyprus	91	93(b)	93	94	99	100	97	94	91
Czech Republic	78	79(b)	80	83	81	83	80	80	79
Denmark	126	123(b)	124	122	124	123	128	125	125
Estonia	57	61(b)	66	70	69	63	63	67	68
EU (27 countries)	100	100(b)	100	100	100	100	100	100	100
Euro area (17 countries)	109	109(b)	109	109	109	109	108	108	108
Finland	116	114(b)	114	117	119	114	113	115	115
France	110	110(b)	108	108	107	109	108	109	108
Germany	115	116(b)	115	115	116	115	119	121	121
Greece	94	91(bp)	92(p)	90(p)	92(p)	94(p)	87(p)	79(p)	75(p)
Hungary	63	63(b)	63	61	64	65	65	66	66
Ireland	143	144(b)	145	145	131	128	127	129	129
Italy	107	105(b)	104	104	104	104	101	100	98
Latvia	47	50(b)	53	57	58	54	54	58	62
Lithuania	52	55(b)	58	62	65	58	61	66	70
Luxembourg	252	254(b)	270	274	263	255	267	271	271
Malta	80	80(b)	78	78	81	84	86	86	86
Netherlands	129	131(b)	131	132	134	132	131	131	128
Poland	51	51(b)	52	54	56	61	63	64	66
Portugal	77	79(b)	79	79	78	80	80	78	75
Romania	34	35(b)	38	41	47	47	47	47	49
Slovakia	57	60(b)	63	68	73	73	73	73	75
Slovenia	87	87(b)	87	88	91	87	84	84	82
Spain	101	102(b)	104	105	104	103	99	98	97
Sweden	126	122(b)	123	125	124	120	124	127	128
United Kingdom	123	123(b)	121	117	113	111	111	109	110

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

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

	Annual data (%)								
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Austria	120.8	118.3	118.9	116.9	116.4	116.1	116.3	116.5	117.0
Belgium	132.4	130.3(b)	129.0	127.5	126.8	127.7	128.4	127.5	127.4
Bulgaria	34.7	35.8	36.4	37.4	39.6	39.9	41.2	43.9	46.4
Croatia	73.4	74.5	73.5	75.6	78.2	76.1	75.1	77.4	80.2
Cyprus	82.3	82.8	84.0	85.4	90.9	92.2	90.9	90.8	92.8
Czech Republic	72.9	72.9(b)	73.9	76.2	74.0	75.8	73.5	73.8	72.0
Denmark	109.1	107.1(f)	106.8	104.6	105.7	106.7	113.0	111.5	111.4
Estonia	57.6	60.7(b)	62.3	66.6	65.6	65.0	68.3	67.9	67.1
EU (27 countries)	100	100(b)	100	100	100	100	100	100	100
Euro area (17 countries)	108.8	108.8(b)	108.7	108.9	109.1	109.0	108.7	108.6	108.2
Finland	113.5	111.1	110.5	113.5	113.2	110.0	108.7	109.2	108.8
France	115.2	116.3	115.2	115.4	115.2	117.1	116.2	116.3	115.1
Germany	107.5	108.4(b)	108.6	108.2	107.8	104.1	105.9	106.4	105.3
Greece	101.1	95.8	97.0	95.3(p)	97.5(p)	98.1(p)	92.3(p)	89.2(p)	91.7(p)
Hungary	66.9	67.6	67.7	66.5	70.6	72.3	70.8	71.0	70.4
Ireland	136.7	135.5	135.5	135.6	125.9	132.0	136.1	139.5	142.4
Italy	113.1	111.9	110.9	111.4	112.8	112.4	109.9	108.7	107.0
Latvia	45.8	47.8	48.8	51.3	51.5	52.8	53.7	62.3(b)	63.4(f)
Lithuania	53.8	54.9	56.7	59.5	61.9	57.9	62.4	64.7	71.8
Luxembourg	170.3	170	179.2	179.7	168.2	161.0	166.8	168.7	167.8
Malta	94.3	94.5	93.0	92.2	94.3	97.0	97.2	95.1	92.5
Netherlands	112.7	114.4	114.2	114.3	115.3	112.5	112.0	111.4	109.1
Poland	61.8	61.6	61.0	62.2	62.3	65.4	67.3	68.9	72.2(b)
Portugal	69.8	72.8	73.0	73.9	73.4	76.0	76.9	75.4	75.2
Romania	34.6	36.1	39.7	43.3	49.1	49.3	48.4	49.3	50.1
Slovakia	65.7	68.7	71.6	76.3	79.7	79.9	81.1	80.0	81.1
Slovenia	81.5	83.1	83.2	83.0	83.6	80.3	79.2	80.4	79.4
Spain	102.2	101.3	102.6	103.0	104.2	109.4	107.7	108.3	111.2
Sweden	115.4	111.9	112.9	114.7	114.1	112.0	114.3	115.5	116.0
United Kingdom	115.3	114.9	114.3	111.7	108.8	106.9	107.1	105.3	104.8

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

Table 8: Employment Rate in persons aged 20-64 (*)

	Annual data (%)				a' quarter (%)			Change (%)	
	2009	**2010**	**2011**	**2012**	**2011**	**2012**	**2013**	**12/11**	**13/12**
Austria	74,7	74,9	75,2	75,6	74,2	74,6	74,4	0,3	-0,2
Belgium	67,1	67,6	67,3	67,2	66,6	67,0	66,7	0,3	-0,2
Bulgaria	68,8	65,4	63,9	63,0	61,7	61,1	61,7	-0,5	0,6
Croatia	61,7	58,7	57,0	55,4	57,0	54,4	52,3	-2,6	-2,1
Cyprus	75,7	75,4	73,4	70,2	74,3	70,3	67,4	-3,9	-2,9
Czech Republic	70,9	70,4	70,9	71,5	70,2	70,6	71,6	0,3	1,1
Denmark	77,5	75,8	75,7	75,4	75,0	75,3	75,0	0,2	-0,2
Estonia	69,9	66,7	70,4	72,1	68,4	71,0	72,1	2,6	1,1
EU (15 countries)	68,8	68,4	68,5	69,4	69,3	69,0	:	-0,3	:
EU (28 countries)	69,0	68,6	68,6	68,4	68,1	67,8	:	-0,2	:
Finland	73,5	73,0	73,8	74,0	72,3	73,1	72,3	0,7	-0,8
France	69,4	69,2	69,2	69,3	68,9	68,7	:	-0,1	:
Germany	74,2	74,9	76,3	76,7	75,2	75,9	76,4	0,8	0,5
Greece	65,8	64,0	59,9	55,3	61,3	56,4	53,0	-4,9	-3,4
Hungary	60,5	60,4	60,7	62,1	59,5	60,6	61,3	1,1	0,7
Ireland	67,1	65,0	63,8	63,7	63,4	63,2	64,3	-0,2	1,1
Italy	61,7	61,1	61,2	61,0	60,9	60,7	59,7	-0,3	-1,0
Latvia	67,1	65,0	66,3	68,2	64,6	66,2	68,9	1,6	2,7
Lithuania	67,2	64,4	67,2	68,7	65,5	67,2	68,5	1,7	1,4
Luxembourg	70,4	70,7	70,1	71,4	71,1	70,3	70,7	-0,7	0,4
Malta	58,8	60,1	61,5	63,1	61,8	62,8	64,1	1,0	1,2
Netherlands	78,8	76,8	77,0	77,2	76,7	77,2	76,5	0,4	-0,7
Poland	64,9	64,6	64,8	64,7	64,1	63,9	63,6	-0,2	-0,3
Portugal	71,2	70,5	69,1	66,5	69,5	67,0	64,3	-2,5	-2,7
Romania	63,5	63,3	62,8	63,8	62,5	62,3	62,3	-0,2	0,0
Slovakia	66,4	64,6	65,1	65,1	64,6	64,9	64,9	0,4	0,0
Slovenia	71,9	70,3	68,4	68,3	67,8	68,3	66,4	0,4	-1,8
Spain	63,7	62,5	61,6	59,3	61,7	59,6	57,6	-2,1	-2,0
Sweden	78,3	78,7	80,0	79,4	78,2	78,4	78,7	0,2	0,3
United Kingdom	73,9	73,6	73,6	74,2	73,6	73,5	74,3	-0,1	0,8

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

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

	Annual data (%)				a' quarter (%)			Change (%)	
	2009	2010	2011	2012	2011	2012	2013	12/11	13/12
Austria	41,1	42,4	41,5	43,1	41,0	41,3	42,9	0,3	1,5
Belgium	35,3	37,3	38,7	39,5	37,1	38,5	40,5	1,4	2,1
Bulgaria	46,1	43,5	43,9	45,7	44,2	43,9	45,5	-0,3	1,6
Croatia	38,5	37,6	37,1	36,7	37,4	35,6	36,0	-1,8	0,4
Cyprus	56,0	56,8	54,8	50,7	55,6	49,7	50,4	-5,9	0,6
Czech Republic	46,8	46,5	47,6	49,3	47,3	47,5	50,3	0,2	2,8
Denmark	58,2	58,4	59,5	60,8	58,6	60,4	60,4	1,8	0,1
Estonia	60,4	53,8	57,2	60,6	55,8	60,4	62,9	4,6	2,5
EU (15 countries)	45,1	45,8	47,1	50,9	48,8	50,0	:	1,2	:
EU (28 countries)	46,0	46,3	47,4	48,8	46,6	47,7	:	1,0	:
Finland	55,5	56,2	57,0	58,2	55,9	57,5	57,6	1,5	0,1
France	39,0	39,8	41,5	44,5	40,1	43,1	:	3,0	:
Germany	56,1	57,7	59,9	61,5	58,6	60,5	62,2	1,9	1,7
Greece	42,2	42,3	39,4	36,4	40,9	36,9	35,3	-4,0	-1,6
Hungary	32,8	34,4	35,8	36,9	35,2	35,4	37,2	0,2	1,7
Ireland	51,3	50,2	50,0	49,3	50,0	48,9	50,2	-1,1	1,3
Italy	35,7	36,6	37,9	40,4	37,4	39,0	41,0	1,6	2,0
Latvia	53,2	48,2	50,5	52,8	48,6	50,9	52,9	2,3	2,0
Lithuania	51,6	48,6	50,5	51,8	49,8	50,7	52,4	0,9	1,7
Luxembourg	38,2	39,6	39,3	41,0	38,5	41,2	40,4	2,7	-0,7
Malta	27,8	30,2	31,7	33,6	32,1	32,0	35,2	-0,1	3,2
Netherlands	55,1	53,7	56,1	58,6	54,8	57,6	59,2	2,8	1,6
Poland	32,3	34,0	36,9	38,7	35,5	36,9	39,0	1,4	2,1
Portugal	49,7	49,2	47,9	46,5	48,9	46,9	45,4	-2,0	-1,5
Romania	42,6	41,1	40,0	41,4	40,0	39,3	39,8	-0,7	0,5
Slovakia	39,5	40,5	41,4	43,1	40,2	42,1	44,3	1,9	2,2
Slovenia	35,6	35,0	31,2	32,9	30,0	31,3	32,0	1,2	0,7
Spain	44,1	43,6	44,5	43,9	44,1	43,7	42,7	-0,4	-1,0
Sweden	70,0	70,5	72,3	73,0	71,2	72,1	72,7	0,9	0,6
United Kingdom	57,5	57,1	56,7	58,1	57,0	57,2	58,7	0,2	1,6

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

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

	Annual data (%)						a' quarter (%)		
	2007	2008	2009	2010	2011	2012	2011/10	2012/11	2013/12
Austria	1.8	2.0	-0.7	0.8	1.7	1.0	1.2	1.2	-0.3
Belgium	1.7	1.8	-0.2	0.7	1.4	0.3	-0.4	1.1	-0.3
Bulgaria	3.2	2.6	-2.6	-4.7	-4.2	-1.1	-3.5	-1.8	0.1
Croatia	:	:	:	:	:	-3.1	-5.6	-5.6	-3.6
Cyprus	3.2	2.1	-0.5	0.1	0.5	-2.4	3.4	-3.4	-2.8
Czech Republic	2.1	2.3	-1.2	-1.7	0.2	-0.3	0.7	-0.6	1.0
Denmark	2.8	1.7	-2.4	-2.3	-0.4	-0.5	-0.5	-0.2	-0.4
Estonia	0.7	0.2	-9.9	-4.8	7.0	2.5	6.8	3.9	1.4
EU (15 countries)	1.8	0.8	-1.8	-0.5	0.2	-0.3	0.5	-0.4	:
EU (28 countries)	1.8	1.0	-1.8	-0.5	0.3	-0.5	0.5	-0.6	:
Finland	2.2	2.6	-2.6	-0.1	1.1	0.4	0.8	1.0	-1.0
France	1.4	0.5	-1.3	-0.1	0.5	0.1	0.3	0.1	:
Germany	1.7	1.2	0.1	0.6	1.4	0.8	1.9	1.2	0.9
Greece	1.6	0.8	-0.2	-1.9	-6.7	-8.0	-5.2	-8.5	-6.3
Hungary	0	-1.4	-2.8	0.3	0.3	1.7	0.4	1.6	0.7
Ireland	3.6	-1.1	-8.1	-4.2	-2.1	-0.6	-2.6	-0.9	1.1
Italy	1.3	0.3	-1.6	-0.7	0.3	-0.3	0.5	-0.4	-1.8
Latvia	3.6	0.9	-13.2	-4.8	-8.1	2.8	-8.8	2.6	4.7
Lithuania	2.8	-0.7	-6.8	-5.1	2.0	1.8	-7.0	1.3	1.2
Luxembourg	:	:	:	:	:	5.0	3.8	2.0	3.4
Malta	3.2	2.6	-0.3	2.4	2.5	2.4	3.6	1.9	1.7
Netherlands	2.5	1.5	-0.7	-0.4	0.7	0.7	0.0	0.7	-0.3
Poland	4.5	3.9	0.4	0.5	1.0	-3.3	1.9	-3.0	-0.7
Portugal	0	0.5	-2.6	-1.5	-1.5	-4.2	-2.8	-4.2	-4.9
Romania	:	:	-2.0	-1.4	0.4	1.4	1.5	-0.6	-0.2
Slovakia	2.1	3.2	-2.0	-1.5	1.8	-1.0	2.1	-0.3	0.1
Slovenia	3.3	2.6	-1.8	-2.2	-1.6	-1.3	-3.8	-0.2	-4.2
Spain	3	-0.1	-6.5	-2.5	-1.5	-4.5	-1.3	-4.0	-4.6
Sweden	2.3	0.9	-2.4	1.2	2.2	0.7	2.7	0.8	0.8
United Kingdom	0.7	0.3	-1.7	-0.7	0.5	1.2	1.4	0.1	1.5

Table 11: Total Unemployment Rate

	Annual data (%)				a' quarter (%)			Change (%)	
	2009	**2010**	**2011**	**2012**	**2011**	**2012**	**2013**	**2012/11**	**2013/12**
Austria	4.8	4.4	4.2	4.3	4.6	4.3	5.4	-0.3	1.1
Belgium	7.9	8.3	7.2	7.6	7.2	7.2	8.5	0	1.3
Bulgaria	6.8	10.2	11.2	12.3	12.2	12.9	13.8	0.7	0.9
Croatia	9.1	11.8	13.5	15.9	14.3	16.5	18.1	2.2	1.6
Cyprus	5.3	6.2	7.9	11.9	7.5	11.1	15.9	3.6	4.8
Czech Republic	6.7	7.3	6.7	7.0	7.2	7.1	7.4	-0.1	0.3
Denmark	6.0	7.5	7.6	7.5	8.1	8.1	7.7	0	-0.4
Estonia	13.8	16.9	12.5	10.2	14.4	11.5	10.2	-2.9	-1.3
EU (15 countries)	9.5	10.0	10.1	0	9.8	10.7	:	0.9	:
EU (28 countries)	8.9	9.6	9.6	10.5	9.9	10.6	:	0.7	:
Finland	8.2	8.4	7.8	7.7	8.6	8.0	8.8	-0.6	0.8
France	9.1	9.3	9.2	10.3	9.5	9.9	:	0.4	:
Germany	7.8	7.1	5.9	5.5	6.7	5.9	5.9	-0.8	0
Greece	9.5	12.6	17.7	24.3	15.9	22.6	27.4	6.7	4.8
Hungary	10.0	11.2	10.9	10.9	11.6	11.7	11.8	0.1	0.1
Ireland	11.9	13.7	14.7	14.7	14.4	15.0	13.7	0.6	-1.3
Italy	7.8	8.4	8.4	10.7	8.6	11.0	12.8	2.4	1.8
Latvia	17.1	18.7	16.2	14.9	17.6	16.3	12.8	-1.3	-3.5
Lithuania	13.7	17.8	15.4	13.3	17.0	14.5	13.1	-2.5	-1.4
Luxembourg	5.1	4.4	4.9	5.1	5.2	5.9	5.4	0.7	-0.5
Malta	6.9	6.9	6.5	6.4	6.5	6.1	6.1	-0.4	0
Netherlands	3.4	4.5	4.4	5.3	4.6	5.3	6.5	0.7	1.2
Poland	8.2	9.6	9.7	10.1	10.1	10.5	11.3	0.4	0.8
Portugal	9.6	11.0	12.9	15.9	12.6	15.2	17.9	2.6	2.7
Romania	6.9	7.3	7.4	7.0	7.6	7.6	7.5	0	-0.1
Slovakia	12.0	14.4	13.5	14.0	13.9	14.1	14.5	0.2	0.4
Slovenia	5.9	7.3	8.2	8.9	8.5	8.6	11.1	0.1	2.5
Spain	18.0	20.1	21.7	25.0	21.3	24.5	27.2	3.2	2.7
Sweden	8.4	8.4	7.5	8.0	8.3	8.2	8.6	-0.1	0.4
United Kingdom	7.6	7.8	8.0	7.9	7.7	8.2	7.8	0.5	-0.4

Table 12: Men's Unemployment Rate

	Annual data (%)				a' quarter (%)			Change (%)	
	2009	**2010**	**2011**	**2012**	**2011**	**2012**	**2013**	**2012/11**	**2013/12**
Austria	5.0	4.6	4.0	4.4	4.7	4.0	5.6	-0.7	1.6
Belgium	7.8	8.1	7.1	7.7	7.4	7.2	8.8	-0.2	1.6
Bulgaria	7.0	10.9	12.3	13.5	13.2	14.5	15.2	1.3	0.7
Croatia	8.0	11.4	13.8	16.2	15	17.1	18.4	2.1	1.3
Cyprus	14.8	16.9	17.8	12.6	7.5	12.3	16.3	4.8	4.0
Czech Republic	8.7	8.5	7.6	6.0	6.4	6.3	6.6	-0.1	0.3
Denmark	6.6	8.4	7.7	7.5	8.5	8.2	7.7	-0.3	-0.5
Estonia	8.9	9.1	8.4	11.0	15.4	12.9	11.1	-2.5	-1.8
EU (15 countries)	9.3	9.9	9.9	0	9.7	10.7	:	1.0	:
EU (28 countries)	16.9	19.5	13.1	10.4	9.9	10.7	:	0.8	:
Finland	8.6	8.6	8.7	8.3	9.3	8.8	9.7	-0.5	0.9
France	5.2	6.0	8.1	10.1	9.0	10.0	:	1.0	:
Germany	5.9	6.4	5.8	5.7	7.2	6.4	6.4	-0.8	0
Greece	9.0	9.6	9.5	21.4	13.3	19.7	24.7	6.4	5.0
Hungary	3.4	4.4	4.5	11.2	12.0	12.0	12.4	0	0.4
Ireland	8.1	7.5	6.2	17.7	17.7	18.2	15.9	0.5	-2.3
Italy	10.3	11.6	11.0	9.9	7.9	10.1	12.0	2.2	1.9
Latvia	6.8	7.6	7.6	16.0	20.2	17.6	14.4	-2.6	-3.2
Lithuania	20.3	21.7	18.6	15.1	20.3	16.6	14.9	-3.7	-1.7
Luxembourg	17.1	21.2	17.8	4.5	3.3	5.8	5.5	2.5	-0.3
Malta	4.4	3.8	3.8	5.9	5.9	5.6	6.3	-0.3	0.7
Netherlands	6.6	6.8	6.1	5.3	4.6	5.3	6.9	0.7	1.6
Poland	7.8	9.3	9.0	9.4	10.0	10.2	10.8	0.2	0.6
Portugal	9.0	10.0	12.7	16.0	12.3	15.1	18.2	2.8	3.1
Romania	7.7	7.9	7.9	7.6	8.2	8.4	8.2	0.2	-0.2
Slovakia	11.4	14.2	13.5	13.5	13.9	13.8	14.1	-0.1	0.3
Slovenia	5.9	7.5	8.2	8.4	8.6	8.4	10.7	-0.2	2.3
Spain	6.9	9.9	15.0	24.7	20.8	24.1	26.8	3.3	2.7
Sweden	17.7	19.7	21.2	8.2	8.3	8.5	8.8	0.2	0.3
United Kingdom	8.9	9.0	8.8	8.3	8.4	8.8	8.3	0.4	-0.5

Table 13: Women's Unemployment Rate

	Annual data (%)				a' quarter (%)			Change (%)	
	2009	**2010**	**2011**	**2012**	**2011**	**2012**	**2013**	**2012/11**	**2013/12**
Austria	4.6	4.2	4.3	4.3	4.4	4.6	5.1	0.2	0.5
Belgium	8.1	8.5	7.2	7.4	6.9	7.2	8.1	0.3	0.9
Bulgaria	6.6	9.5	10.0	10.8	11	11.1	12.2	0.1	1.1
Croatia	10.3	12.3	13.2	15.6	13.6	15.7	17.8	2.1	2.1
Cyprus	5.5	6.4	7.7	11.1	7.6	9.9	15.4	2.3	5.5
Czech Republic	7.7	8.5	7.9	8.2	8.2	8.1	8.5	-0.1	0.4
Denmark	5.3	6.5	7.5	7.5	7.6	7.9	7.7	0.3	-0.2
Estonia	10.6	14.3	11.8	9.3	13.3	10	9.3	-3.3	-0.7
EU (15 countries)	9.7	10.2	10.4	0	9.8	10.6	:	0.8	:
EU (28 countries)	8.9	9.6	9.7	10.6	9.8	10.6	:	0.8	:
Finland	7.6	7.6	7.1	7.1	7.9	7.1	7.8	-0.8	0.7
France	9.4	9.7	9.7	10.5	10.1	9.9	:	-0.2	:
Germany	7.3	6.6	5.6	5.2	6.2	5.4	5.3	-0.8	-0.1
Greece	13.2	16.2	21.4	28.1	19.5	26.5	31.0	7.0	4.5
Hungary	9.7	10.7	10.9	10.6	11.1	11.4	11.0	0.3	-0.4
Ireland	8.0	9.7	10.8	11	10.2	11.1	11.0	0.9	-0.1
Italy	9.3	9.7	9.6	11.9	9.6	12.2	13.9	2.6	1.7
Latvia	13.9	15.7	13.8	13.9	15.1	15.0	11.2	-0.1	-3.8
Lithuania	10.4	14.5	13.0	11.5	13.8	12.4	11.4	-1.4	-1
Luxembourg	6.1	5.1	6.3	5.8	7.7	5.9	5.4	-1.8	-0.5
Malta	7.6	7.1	7.1	7.3	7.4	6.8	5.7	-0.6	-1.1
Netherlands	3.5	4.5	4.4	5.2	4.5	5.3	6.1	0.8	0.8
Poland	8.7	10.0	10.5	10.9	10.2	11	11.9	0.8	0.9
Portugal	10.3	12.1	13.2	15.8	13.0	15.3	17.7	2.3	2.4
Romania	5.8	6.5	6.8	6.4	6.8	6.6	6.6	-0.2	0
Slovakia	12.8	14.6	13.6	14.5	13.8	14.5	15.0	0.7	0.5
Slovenia	5.8	7.1	8.2	9.4	8.4	8.8	11.7	0.4	2.9
Spain	18.4	20.5	22.2	25.4	22	24.9	27.6	2.9	2.7
Sweden	8.0	8.3	7.5	7.7	8.4	7.8	8.4	-0.6	0.6
United Kingdom	6.4	6.8	7.3	7.4	6.9	7.5	7.2	0.6	-0.3

Table 14: Long term unemployment rate (*)

	Annual data (%)				a' quarter (%)			Change (%)	
	2009	**2010**	**2011**	**2012**	**2011**	**2012**	**2013**	**2012/11**	**2013/12**
Austria	33.1	39.9	42.9	24.8	25.6	23.4	21.0	-2.2	-2.4
Belgium	35.6	42.5	45.2	44.7	48.3	44.5	45.5	-3.8	1.0
Bulgaria	44.2	48.8	48.4	55.2	52.2	53.8	54.9	1.6	1.1
Croatia	56.1	56.9	63.9	64.6	62.2	63.2	61.7	1.0	-1.5
Cyprus	26.7	45.1	54.5	30.1	17.2	24.5	34.7	7.3	10.2
Czech Republic	13.2	17.8	18.6	43.4	40.0	43.1	43.3	3.1	0.2
Denmark	9.5	20.2	24.4	28	22.9	27.3	24.7	4.4	-2.6
Estonia	40.8	45.0	49.6	54.1	56.6	58.7	46.4	2.1	-12.3
EU (17 countries)	27.4	45.3	56.8	44.0	41.6	42.1	:	0.5	:
EU (27 countries)	45.5	47.4	48.0	44.6	42.2	42.8	:	0.6	:
Finland	24.5	32.6	33.4	21.4	21.2	22.4	20.6	1.2	-1.8
France	43.1	46.4	56.1	40.3	40.5	39.7	:	-0.8	:
Germany	30.1	41.0	40.6	45.5	47.3	45.0	42.7	-2.3	-2.3
Greece	29.2	49.3	59.3	59.3	44.8	54.7	64.0	9.9	9.3
Hungary	21.3	25.2	25.9	45.0	48.1	42.6	42.9	-5.5	0.3
Ireland	35.2	40.2	41.5	61.7	58.1	64.0	62.4	5.9	-1.6
Italy	10.3	20.3	20.8	53.0	50.0	48.9	55.2	-1.1	6.3
Latvia	23.2	41.4	51.9	51.9	57.4	51.9	53.8	-5.5	1.9
Lithuania	23.2	29.3	28.6	49.0	51.0	50.4	45.3	-0.6	-5.1
Luxembourg	41.6	49.3	47.9	30.3	22.5	33.1	34.8	10.6	1.7
Malta	43.5	46.3	46.2	47.4	49.8	49.6	48.5	-0.2	-1.1
Netherlands	24.2	27.5	33.5	34.0	32.1	34.0	33.3	1.9	-0.7
Poland	30.3	31.1	37.2	40.3	34.3	38.9	39.8	4.6	0.9
Portugal	44.2	52.3	48.1	48.7	48.4	45.3	52.8	-3.1	7.5
Romania	31.6	34.9	41.9	45.3	39.8	42.9	44.7	3.1	1.8
Slovakia	30.1	43.3	44.2	67.3	68.7	66.5	67.8	-2.2	1.3
Slovenia	54.0	64.0	67.8	47.9	44.3	44.5	46.9	0.2	2.4
Spain	44.4	48.4	51.9	44.5	40.5	42.1	47.1	1.6	5.0
Sweden	16.7	24.0	22.2	18.9	20.4	19.5	18.7	-0.9	-0.8
United Kingdom	23.7	36.6	41.6	34.8	34.9	34.0	36.2	-0.9	2.2

(*) % 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 (%)				a' quarter (%)			Change (%)	
	2009	**2010**	**2011**	**2012**	**2011**	**2012**	**2013**	**2012/11**	**2013/12**
Austria	10.0	8.8	8.3	8.7	8.8	8.9	9.3	0.1	0.4
Belgium	21.9	22.4	18.7	19.8	18.7	18.8	23.3	0.1	4.5
Bulgaria	16.2	23.2	26.6	28.1	27.2	31.4	29.5	4.2	-1.9
Croatia	25.1	32.6	36.1	43.0	40.3	45.1	59.0	4.8	13.9
Cyprus	13.8	16.7	22.4	27.8	20.7	26.7	37.5	6.0	10.8
Czech Republic	16.6	18.3	18.0	19.5	17.3	19.4	19.2	2.1	-0.2
Denmark	11.8	14.0	14.2	14.1	14.1	15.5	13.5	1.4	-2.0
Estonia	27.5	32.9	22.3	20.9	20.8	22.7	23.1	1.9	0.4
EU (15 countries)	19.8	20.6	20.7	22.3	20.6	22.2	:	1.6	:
EU (28 countries)	19.9	20.9	21.3	23.0	21.5	23.0	:	1.5	:
Finland	21.5	21.4	20.1	19.0	22.8	21.7	22.4	-1.1	0.7
France	23.2	22.8	22.0	24.6	23.2	23.0	:	-0.2	:
Germany	11.2	9.9	8.6	8.1	9.3	8.0	7.8	-1.3	-0.2
Greece	25.8	32.9	44.4	55.3	39.6	52.7	60.0	13.1	7.3
Hungary	26.5	26.6	26.1	28.1	26.8	27.8	30.5	1.0	2.7
Ireland	24.3	27.8	29.1	30.4	27.4	29.7	26.7	2.3	-3.0
Italy	25.4	27.8	29.1	35.3	29.6	35.9	41.9	6.3	6.0
Latvia	33.6	34.5	31.0	28.4	32.1	29.7	22.2	-2.4	-7.5
Lithuania	29.2	35.1	32.9	26.4	33.7	28.2	22.7	-5.5	-5.5
Luxembourg	17.2	14.2	16.8	18	14.8	22.7	19.6	7.9	-3.1
Malta	14.4	13.0	13.7	14.2	14.1	13.1	12.2	-1.0	-0.9
Netherlands	6.6	8.7	7.6	9.5	8.1	9.9	11.1	1.8	1.2
Poland	20.6	23.7	25.8	26.5	26.7	27.7	29.2	1.0	1.5
Portugal	20.0	22.4	30.1	37.7	27.8	36.2	42.1	8.4	5.9
Romania	20.8	22.1	23.7	22.7	23.6	23.9	23.8	0.3	-0.1
Slovakia	27.3	33.6	33.2	34.0	33.1	33.7	34.4	0.6	0.7
Slovenia	13.6	14.7	15.7	20.6	18.6	18.9	23.3	0.3	4.4
Spain	37.8	41.6	46.4	53.2	45.4	52.0	57.2	6.6	5.2
Sweden	25.0	25.2	22.9	23.7	24.9	24.8	26.6	-0.1	1.8
United Kingdom	19.1	19.6	21.1	21.0	19.5	21.4	20.1	1.9	-1.3