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Editorial Policy

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IOBE

The Foundation for Economic and Industrial Research 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 published by IOBE for 2008, in the framework of its periodic reviews of the Greek economy. Although it refers to and is supported by data which were available up to 13/06/2008, in many cases data that appeared since then have been incorporated in the rationale and validation of IOBE's positions. As with all IOBE reports, it is divided into **four sections** and – as always – is accompanied by an **Appendix** of structural indicators, used to track quantitative progress toward attainment of the Lisbon Strategy objectives. More specifically:

The **first section** contains a **summary overview** of the report, which presents the main points and positions of IOBE, as these are set out in detail in the main text. The **second section** focuses on the more general economic environment and includes: a) an analysis of the **global environment** based on the most recent reports of the European Commission (Spring forecasts), the OECD (OECD Economic Outlook No. 83) and the IMF, b) a presentation of the **economic climate** in Greece, as outlined by IOBE's business and consumer surveys and c) an analysis of developments in **economic and structural policy** in the recent period. In the present report, emphasis is placed on policies aimed at combating inflation, as well as developments relating to privatizations.

The **third section** focuses on the performance of the Greek economy. The **macroeconomic environment** and medium-term prospects are outlined, **developments in key sectors of the economy** are described, the **export performance** of the Greek economy is summarized, developments in terms of **employment** and **unemployment** are recorded and an analysis is presented of **inflation** and the factors which shape it. The section concludes with a presentation of the **balance of payments**. Lastly, the **fourth section** presents the findings of a survey on entrepreneurship in Greece in 2007, as these emerge from the surveys conducted by IOBE in the framework of its participation in the research consortium Global Entrepreneurship Monitor. The main structural characteristics and key indicators of entrepreneurship are presented for the year that passed, whilst Greece's performance is also analyzed as compared to that of the other countries participating in the GEM consortium.

IOBE's next quarterly report on the Greek economy is scheduled to be published in September 2008.

1. OVERVIEW – CONCLUSIONS

Global growth is slowing

The turbulence in the global financial system and the increase in oil and food prices have begun to affect the real economy: in 2008 the world economy will grow at a clearly slower rate than in 2007 (3.8% against 4.6%). In the USA especially, the deceleration of GDP growth in the last quarter of 2007 verged on stagnation (growth rate of 0.1%).

The outlook in EU-27 and the Eurozone is described by the European Commission as "unusually uncertain". Thus, it is now expected, with greater certainty than just a few months ago, that GDP growth will slow markedly in 2008, whilst the course of inflation is becoming a major issue, having doubled in both EU-27 and the Eurozone.

Clear signs of a slowdown in Greece too

Following the slight decrease in the rate of GDP growth to 4% in 2007, a further decline is now being projected for 2008, possibly to below 3.5%, as the factors which in recent years have contributed to the growth of domestic demand (consumption and investment) have begun to show signs of weakening. The uncertainty has increased in Greece too and the current projections may again be revised downward. This appears to be confirmed by all the business and consumer surveys conducted by IOBE, perhaps the most characteristic indication being the Consumer Confidence

Indicator, which in May 2008 approached its lowest level of recent years.

The question prompted by the recent data is to what extent these indications presage the end of a long course of growth that was underpinned almost exclusively by domestic demand and especially the rapid expansion of consumption. Already, as of the first quarter of 2008, private consumption has shown a significant deceleration with its rate of increase falling to 2.3%, which represents the lowest value since 2000.

If, therefore, the growth model of the Greek economy, which relied on the expansion of consumption, indeed can no longer be sustained, it is clear that new sources must be sought to fuel the growth process in the coming years.

Inflation a major problem for the Greek economy

The increases in oil and food prices internationally have again sparked a strong inflationary surge. In Greece however, the impacts appear to have multiplied, since they are magnified by distortions in the Greek economy. Thus, rises in fuel prices are very quickly incorporated in the prices of other goods and services, resulting in considerable cumulative increases.

At the present juncture, the most unfavorable of the past decade, the slight reduction in prices that is gradually expected, after the summer, will not offset the high

levels of the first months, which means that there will eventually be a significant acceleration of inflation to above 4.3% on an annual basis. This projection is far removed from the framework of estimates in the state budget and the Updated Stability and Growth Program, and is even higher than the revised forecast of the European Commission which sees inflation of 3.7% for 2008.

The fact remains that the economic environment is extremely unsettled and the uncertainties have grown. Oil price forecasts in the majority of cases prove to be wide of the mark and most projections by international organizations indicate that the price of oil in the coming period will be around \$140 per barrel. Given the lower basis of comparison relative to the summer of 2007, the impact will consequently remain equally strong throughout the summer of 2008, easing slightly only in the fall.

Economic policy in the new conditions

The new circumstances necessitate revisions to economic policy with greater emphasis on conjunctural problems. It is considered however that whatever measures are thought necessary in order to tackle these conjunctural problems must under no circumstances jeopardize the medium-term targets, but on the contrary facilitate their attainment. In any case, the more rapid advancement of reforms and fiscal adjustment provide an answer to the new problems of the economic conjuncture, such as inflation.

Fiscal policy

The constant revision of projections for GDP (downward) and inflation (upward) makes it more difficult to attain the economic policy targets, particularly with regard to public finances, without taking additional measures to curb expenditure and increase revenue. This need is made even more imperative by the fact that in the first four months of the year the Budget shows significant deviations relative to initial targets, with respect to both revenue and expenditure. It is difficult to remedy these deviations by means of usual practices such as the stepping up of tax audits and cuts in public sector consumption expenditure. Both of these methods, which have been extensively tried in the past, whenever there were problems with the execution of the Budget, are on the one hand narrow in scope and, on the other, yield only temporary results.

There can be no substantial and viable answers to the problem of fiscal adjustment unless measures of a permanent nature are taken to tackle the chronic structural weaknesses of both components of the fiscal system. More specifically:

The tax system, which despite certain improvements, remains complex and costly, frequently resorting either to tax amnesties, or to more stringent audits or even both, whilst the audit bodies retain their discretionary powers in the enforcement of regulations, which also fuels corruption.

In the area of expenditure, the chief problem continues to be the lack of effective control, of transparency, of accountability and the absence of any evaluation what-

soever as to the effectiveness of expenditures.

As long as the above issues are not dealt with in a radical and well planned way, the course of fiscal adjustment will be susceptible – as is the case today – to conjunctural variations, risking an overrun medium-term targets.

Combating inflation

In order to combat inflation, interventions are necessary in the links of the inflation chain, which have been forged as a result of the structural problems in the Greek economy. The most important of these is the deficient operation of competition in many sectors of the economy, which are directly or indirectly controlled by the State, or are protected by virtue of specific interventionist policies of the State.

Interventions and measures to improve economic policy in these sectors, namely the abolition of oligopolistic practices that are encouraged by the State and the opening up of closed markets to competition would yield, in the medium term, positive results in fight against inflation.

However, it appears that in the present phase of the inflationary upsurge, economic policy is more oriented toward measures having the nature of direct intervention, such as price policies and market checks. The effectiveness of these policies in reducing inflation remains to be proven, i.e. when the measures that have already been adopted begin to operate in practice. It should however be noted that the experience gained from the implementation of similar policies in the past, both

in Greece and in other EU countries, shows that price policies yield poor results which, moreover, quickly dissipate unless there are substantial changes in the factors that fuel inflation. Furthermore, these policies, in their effort to identify and punish transgressors, raise additional bureaucratic obstacles for all businesses, i.e. they have negative collateral impacts on the economy as a whole.

The reforms

In the recent period there has been some progress with the continuation of privatizations, though the key sector of the State and Public Administration is still dogged by delays.

Steps toward the continuation of the privatization program were taken in the cases of the Hellenic Telecommunications Organization (OTE) and Piraeus Port Authority (OLP). One positive aspect of the relevant agreements in the case of both organizations is that the decisions were based on long-term strategy choices, having as their criterion the maximization of benefit for the Greek economy as a whole rather than short-term considerations with a view to raising cash.

On the other hand however, reforms in some key areas – particularly the State and Public Administration – have been delayed. Thus, the operation of the State continues to have an inhibitory effect, creating serious administrative, regulatory and interventionist obstacles to business activity, as noted also in the reports of international organizations. Nevertheless, one should not overlook the fact that important steps have been taken toward im-

proving the institutional framework, though there have been delays in the implementation of specific measures that would bring direct, tangible results.

Early-stage entrepreneurial activity declines in Greece

According to the results of the Global Entrepreneurship Monitor (GEM) – in which IOBE participates – and the preliminary processing of national data, 5.7% of the population aged 18-64 in Greece in 2007 – approximately 388,000 persons – were in the early stages of entrepreneurial activity (including self-employment). These were individuals who in 2007 had either taken some preliminary steps toward setting up a business (nascent entrepreneurs) or have already been running a business for at least three months, but for less than 42 months (new entrepreneurs).

This performance marks a significant decline relative to 2006 (7.9%) and demotes Greece to 7th place in Europe (22 countries). However, the fact that established business ownership continues to grow confirms the assumption that entrepreneurship is also manifested in waves: a higher rate of early-stage entrepreneurs in one year gradually increases the rate of established business ownership in the country, though not in a continuous manner.

It should be noted however that the decrease in early-stage entrepreneurial activity is accompanied by a significant decline in necessity entrepreneurship, i.e. the undertaking of entrepreneurial activity not in an effort to take advantage of some opportunity recognized by the individual in

the economic environment, but due to the lack of any better options for work and/or dissatisfaction with current employment. Just 9.6% of early-stage entrepreneurs reported that their sole motivation was necessity (20% in 2006). Consequently, to some extent the reduction in entrepreneurial activity in 2007 is the result of the significant drop in necessity entrepreneurship, just as in 2006 the corresponding increase in entrepreneurial activity had been attributed to the considerable rise in necessity-driven entrepreneurship. Therefore, this type of entrepreneurial activity would appear to have a decisive effect on the course of this key indicator.

On the other hand, the main reason why Greek entrepreneurs motivated by opportunity went on to take advantage of the opportunity is more in order to increase/maintain their personal income, i.e. to improve their standard of living overall, rather than to achieve greater employment independence. In contrast, in the other European countries – on average – the main motivation appears to be the need for greater independence. So, in Greece, the recognition of business opportunities in the wider economic environment continues to be motivated more by the desire to commence entrepreneurial activity for the purpose of boosting personal income and less by the potential or prospects which its exploitation may have. This would appear to consolidate the view that the main factor in the manifestation of entrepreneurial activity in Greece is not only the number of opportunities that exist in the Greek economy and the degree to which these are recognized by an individual, but also the individual's actual desire

to become an entrepreneur and therefore to more carefully seek out the field in which he/she might engage in profitable business activity. In this respect he/she differs from the average European opportunity-driven entrepreneur, who primarily seeks greater employment independence, rather than being dissatisfied with the standard of living secured by current income.

Other key findings of GEM's report for 2007 include the following:

- One in three early-stage entrepreneurs are aged 25-34, three in five are high school graduates and three in ten are women.
 - 13.7% of the population aged 18-64 reported that they intended to start a business venture within the next three years (14.2% in 2006).
 - 1.8% of the population aged 18-64 reported that during 2007 they had discontinued the operation of a business which they had owned and participated in its management, or had ceased some form of self-employment. Although this figure represents a significant decrease relative to 2006 (2.7%), it continues to exceed the European average.
 - 29% of the population aged 18-64 (compared to 22% in 2006) believe that business opportunities exist in the area in which they live and could be profitably exploited. This figure, however, is still much lower than the European average (41%), which suggests that a large segment of the population does not believe Greece offers business opportunities or does not perceive them to be opportunities that can be exploited.
- 59% of Greeks (the highest percentage worldwide) continue to report that the fear of failure would prevent them from setting up a business (European average 35%). This therefore remains the strongest factor inhibiting new entrepreneurial activity in Greece.
 - Over half of new business ventures are undertaken in consumer-oriented activities, i.e. where the primary customer is a physical person (European average 35%). This again confirms the 'shallowness' of new entrepreneurial activity in Greece, i.e. the fact that new activities are not undertaken along the entire 'value chain' as far as the final product, but only at the level of the last link in the chain. However, in 2007 new business ventures involving the provision of services to enterprises showed a significant increase, accounting for 24% of total ventures compared to just 13% in 2005, but 30% on average in Europe.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects in the International Economy

The Global Economic Environment

Global economic growth is expected be around 3.8% in 2008, according to the Spring forecasts of the European Commission, which represents a decline of 0.8% percentage points relative to 2007 and is significantly lower than the figure forecast in September 2007 (4.7%). Although the turbulence in the financial system has moderated somewhat, its inhibitory effects on world economic growth remain. The contribution of the developing economies of Asia, the Middle East and Africa to global economic activity is crucial for the attainment of the projected growth rate. In addition, the development of these countries serves to mitigate the impacts of the financial crisis in the strong economies, from which an increasingly higher share of imports of the former originate. However, this much stronger demand for imports, particularly with regard to basic commodities and energy, has to a great degree also led to the sharp upsurge in their prices that has been observed.

More specifically, despite some moderation of the instability in financial markets which began with the housing loan market in the USA, the extent and duration of its repercussions cannot yet be determined. Uncertainty about the size and geographical distribution of credit losses is expected

to remain high until the end of this year. Moreover, given that the symptoms in the real economy always appear with a time lag, it is assumed that they have not yet been felt. Already, the OECD and the European Commission are projecting a rate of economic growth in the Eurozone of around 1.7% and 2.0% respectively, compared to almost 2.6% in 2007, whilst the forecasts for the US economy are even more pessimistic (1.2% or 0.9%, from 2.2%).

In the oil market, the weakening of demand from the OECD countries, especially in the last two years, mainly on account of its substitution with other forms of energy, is not sufficient to offset the massive surge in consumption in the developing countries. The increase in prices, not only of oil but also certain categories of commodities, to a large extent stems also from their use as alternative investment products at the current juncture of the financial crisis. The result of the above, bearing in mind also that the output of the OPEC countries has remained unchanged since November 2007, has been the increase in the price of Brent crude from \$97 per barrel at the beginning of 2008 to \$135 per barrel at the end of June. In the medium term, based on contracts in the futures markets, prices are not expected to decline but remain at the same levels (between \$133.0 and \$137.5 in 2008).

The increase in prices of cereals and dairy products, by more than 100% since mid-2006, has also fuelled inflation. The main factors responsible for triggering price increases in these particular categories of products, apart from higher demand in the emerging economies, are adverse weather conditions and the extensive use of agricultural raw materials for biofuels. Mineral and metal prices are also on the rise, though the trend has moderated considerably relative to previous years. In light of these developments, the European Commission made a significant upward revision of its forecasts for inflation in EU-27 and the Eurozone, of one percentage point and above, relative to the fall of 2007 (to 3.6% and 3.2% respectively, from the levels of 2.4% and 2.1% for 2007 as a whole¹). However, because of the gradual reduction in the dependence on oil and the growth of real income, on account of the improvement in exports, EU-27 stands much further than the USA from the risk of stagflation (inflation of 4.0% in the USA in March 2008).

It is now clear that the impacts from the turmoil in financial markets have also spilled over into labor markets. Unemployment in EU-27 continued on a downward trend in the first quarter of 2008, but the rate of decline is slower than the previous year. The European Commission estimates a marginal decrease in the unemployment rate in the Eurozone from 7.4% in 2007 to 7.2% in 2008 (8.2% in 2006), which coincides with the projection of the OECD for the first half of the year.

¹ Economic Forecast, European Commission, Spring 2008

In Japan, the OECD envisages little change in the unemployment rate in 2008, after a decade of successive reductions (4.1% in 2006, 3.9% in 2007), whilst in the United States, the rise from 4.6% to around 5% is seen as a natural consequence of the turbulence in the mortgage market and the resulting decline in economic activity.

The USA registered the greatest deceleration in the rate of economic growth among the seven most advanced economies of the world at the beginning of 2008, whilst there are signs that the country's growth rate will be negative also in the second quarter. In contrast, the corresponding indicator for the Eurozone rose by 3%, though this development is based on the impressive yet most probably temporary growth recorded above all in Germany (6%) and to a lesser extent, France.

The stagnation of economic growth in the **USA** in the fourth quarter of 2007 (growth of 0.1%) is being protracted by the fact that the construction of new homes continues to decline, while industrial output is also at lower levels than those at the end of the previous year. Thus, employment is declining and, in combination with high inflation, the deteriorating credit conditions and the negative impacts from falling house and stock prices, consumption is slowing.

In the opposite direction, the relaxation of monetary policy, fiscal interventions relating to income tax, the steady growth of exports and the sharp deceleration of imports due to the ongoing depreciation of the dollar against the euro, may

strengthen the prospects for the US economy. Despite this, the growth rate for 2008 is not expected to exceed 0.9%, according to the forecasts of the European Commission, and is projected even lower in 2009 (0.7%).

GDP growth appeared to be on an upward trend in **Japan** at the beginning of the year, on the back of a rebound in housing investment. However, the indications from business investment and exports, both engines of growth for the Japanese economy, are not particularly encouraging. Business investment fell in the first quarter of 2008 and the rate of growth of exports decelerated, developments which are expected to play the most important role in the evolution of the country's GDP (European Commission), eventually reducing its growth rate to 1.2% in 2008 (from 2% in 2007).

After successive years of increasing economic expansion, growth rates in **China** are expected to decline in 2008 and 2009, to 10% and 9.1% respectively (11.9% in 2007, 11.4% in 2006). The reasons should be sought: (a) in the restrictive monetary policy of the Chinese central bank, which has raised interest rates and increased reserve ratios for commercial banks, in response to the upsurge in inflation in 2007 (7%), and b) in the possible reduction in exports to the USA.

The picture is much the same regarding the course of economic activity in **India**, with GDP growth slowing from 8.4% in 2007 to 8% in 2008 and 2009. The strength of domestic consumption is being compromised by restrictive monetary measures and oil price hikes, in conjunction with a slackening of external demand, as the rupee appreciates against the US dollar.

The **Commonwealth of Independent States** (CIS) are, together with the region of the Middle East-North Africa, the only geographical areas for which economic growth estimates for 2008 were revised upward relative to the end of 2007. Now, the growth rate in the CIS is projected to reach 7.8% for the current year and 7.5% in 2009, though these figures represent a decrease compared to 2007 (8.5%). A similar course is expected for the economy of **Russia**, with growth of 7.3% in 2008 and 7% in 2009, against 8.1% in 2007. Domestic demand was strengthened by private consumption and investment, with a stronger labor market and rising wages underpinning consumption and revenues from oil exports in combination with net capital inflows supporting investment initiatives. These estimates of the global economy are further backed by data from the economic 'World Economic Survey' conducted by the Munich-based IFO Institute on a quarterly basis in 91 countries (Tables 2.2 and 2.3).

Table 2.1International Environment – European Commission (*real annual % change*)

	2007	2008	2009
GDP			
USA	2,2	0,9	0,7
Japan	2,0	1,2	1,1
Asia (other than Japan)	8,6	7,9	7,6
of which			
China	11,9	10,0	9,1
ASEAN4+Korea	5,6	5,4	5,4
Euro area	2,6	1,7	1,5
EU-27	2,8	2,0	1,8
Candidate countries (to the EU)	4,6	4,3	4,8
Commonwealth of Independent States (CIS)	8,5	7,8	7,5
of which			
Russia	8,1	7,3	7,0
MENA	5,2	6,2	6,1
Latin America	5,3	4,3	4,0
Sub-Saharan Africa	6,5	6,7	6,1
World	4,6	3,8	3,6
World (excl. EU-27)	5,1	4,4	4,2
World merchandise trade			
World import growth	6,8	6,2	5,8
World import growth (excl. EU-27)	7,8	6,8	6,4
Extra EU -27 export market growth	8,8	7,7	7,9

ASEAN4: Indonesia, Malaysia, Philippines Thailand

Candidate Countries: Croatia, Turkey, Former Yugoslav Republic of Macedonia

MENA (Middle East & North Africa): Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Omar, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen.

Asia: All countries except Japan and the Asia MENA countries

Sub-Saharan Africa: All countries except the African MENA countries

Source: European Commission, Economic Forecast, Spring 2008.

Table 2.2

IFO - Economic Climate Index for global economy (Index, 1995=100)

Quarter / Year	II/06	III/06	IV/06	I/07	II/07	III/07	IV/07	I/08	II/08
Economic Climate	111,0	105,6	104,7	106,5	106,5	113,6	99,3	90,4	81,4
Current Situation	113,2	115,1	120,5	122,4	120,5	127,9	118,7	109,6	96,8
Expectations	108,8	96,5	89,5	91,2	93,0	100,0	80,7	71,9	66,7

Source: IFO, World Economic Survey, WES 5/2008.

Table 2.3

IFO – Economic Climate Index in economic zones (Index, 1995=100)

Quarter / Year	II/06	III/06	IV/06	I/07	II/07	III/07	IV/07	I/08	II/08
North America	114,8	98,0	96,2	101,5	92,7	108,6	85,7	72,4	60,9
Western Europe	104,9	104,9	99,8	102,3	106,6	110,9	93,0	81,9	75,9
Asia	114,8	102,8	109,3	113,0	104,6	115,7	105,6	100,9	88,0

Source: IFO, World Economic Survey, WES 5/2008.

On the basis of the latest available data, the world economic climate indicator deteriorated for the third consecutive period, to its lowest level of the past six years (81.4). This negative record is mainly due to increasingly unfavorable expectations for the coming six months, even though the current economic situation is considered to be satisfactory. The spilling over of the instability in the US sub-prime credit market, not only to Western Europe but also to the most important Asian economies, weakened the economic climate indicator in all three geographical regions. According to IFO's assessments, the global economy is now approaching the lowest point of the economic cycle on account of the financial crisis, a situation that is further aggravated by rising inflation.

More specifically, in terms of geographical zones, the strongest decline was in the **USA**. All the countries of **Western Europe** without exception have revised downward their assessments of the economic juncture, particularly in Spain, Italy, Germany and France, pushing down the regional indicator to its lowest level since 2003. In **Asia**, the economic climate indicator fell below its long-term average, due to the particularly sharp decline of the index in Japan and South Korea. In China, however, the present economic situation was rated as satisfactory or even better, as also in several other countries of the region (Taiwan, Singapore, Indonesia, etc.).

Expectations for inflation in 2008, currently the most important economic prob-

lem according to the survey, differ considerably from estimates made at the beginning of the year. The level of anticipated inflation in the USA reached almost 3.5% (from 2.9%), in the Eurozone 2.9% (2.4%), while an even greater increase is expected in Asia (3.9% from 2.9%).

The Economies of the EU and Eurozone

The economies of EU-27 and the Eurozone have so far weathered the unfavorable developments in the global economy, the financial turbulence that began in the USA and the increasingly higher prices of commodities relatively well. Up to now, there have been no signs of a credit squeeze in the EU, although a lagged impact can be expected, particularly in economies with a large financial sector and stretched housing market. Dealing with the constantly rising oil prices is not as difficult as in the past, as accumulated profits enable companies – at least in the current phase – to absorb the higher energy cost.

However, the outlook is described as "unusually uncertain" by the European Commission. Investment, which served as an engine of GDP growth in EU-27 in 2006 and 2007, with annual growth of 6% and 5.4% respectively, is projected to continue increasing in the next two years, but at clearly more moderate rates (2.8% in 2008 and 2% next year). Moreover, the slowing of investment in construction – especially in the housing sector – which is already being observed, confirms the forecasts of tighter credit conditions for businesses and weaker overall demand, par-

ticularly from households. The second pillar of growth in the European Union, private consumption, which contributed 43% of GDP expansion in 2007, is expected to continue at a very slow pace, just 1.6% in 2008, in contrast with the previous two years when it was 'running' at a rate of 2.1%. These developments regarding private consumption fully reflect the course of disposable income, which is growing at roughly the same rates due to the increase in the share of savings in real income in 2007 as well as the slight rise of the latter.

As a result of the above, the GDP growth rate in EU-27 and the Eurozone is expected to decline in 2008 by more than was estimated in the Autumn forecasts of the European Commission (2007). Growth

is now expected to be around 2% in EU-27 and 1.7% in the Eurozone, rates which represent a significant deceleration relative to 2007 (2.8% and 2.6% respectively), as well as a considerable downward revision compared to initial forecasts (2.4% and 2.2%).

The dispersion of annual GDP growth across EU-27 has varied in the last two years, with divergences between countries, mainly due to the sizeable expansion of economic activity in recently acceded EU member states which are in a process of convergence. Of the older members, growth rates in Spain, Ireland, Finland, Portugal and Greece are above the Eurozone average, but below in Germany and Italy.

Table 2.4
Main Economic Index, EE27, Eurozone (*annual % changes*)

	EE-27			Eurozone		
	2007	2008	2009	2007	2008	2009
GDP	2,8	2,0	1,8	2,6	1,7	1,5
Private Consumption	2,1	1,6	1,6	1,5	1,4	1,5
Public Consumption	2,0	1,9	1,7	2,3	1,9	1,7
Final Demand	3,5	2,8	2,6	3,4	2,6	2,2
Investment	5,4	2,8	2,0	4,3	2,0	1,2
Employment	1,7	0,8	0,5	1,6	0,9	0,5
Unemployment	7,1	6,8	6,8	7,4	7,2	7,3
Inflation	2,4	3,6	2,4	2,1	3,2	2,2
Exports	5,1	4,9	4,7	6,1	4,4	4,0
Imports	4,9	4,8	4,5	5,2	4,3	3,9
General Govern. Balance (% of GDP)	-0,9	-1,2	-1,3	-0,6	-1,0	-1,1
General Govern. Dept (% of GDP)	58,7	58,9	58,4	66,4	65,2	64,3
Current account balance	-0,9	-0,9	-0,9	0,0	-0,1	-0,1

Source: European Commission, Economic Forecast, Spring 2008

Regarding the course of the other key macroeconomic variables, apart from investment and private consumption, the exports of EU-27 have not been particularly affected by the slowdown in the US economy or the impacts of the unfavorable economic environment (inflationary pressures – credit squeeze) on the GDP of its other main trading partners. However, the negative consequences of the euro's appreciation on the Eurozone's export activities are becoming more apparent. Thus, although the annual growth of world trade is projected to decrease by one percentage point in 2008 (from 7.8% to 6.8%), the corresponding change in Eurozone exports is expected to be greater, with a decline in the rate of growth from 6% in 2007 to 4.4% in 2008. Similar changes are anticipated also in imports, with the GDP growth of non-Eurozone member states not allowing a deceleration in their growth rate in EU-27 as a whole, which will eventually result in a deterioration of the current account balance.

Unemployment in EU-27 fell to 6.7% in February 2008, compared to an average of 7.1% in 2007. However, no further decline is expected until the end of 2009. The weaker growth does not facilitate a greater reduction of unemployment, something which is confirmed also by the halving of employment growth this year relative to 2007 (0.8% against 1.7%). The slackening of demand in the labor market in conditions of a moderate increase in economic activity and the rapid developments in the area of inflation allow for only a marginal increase in real wages, of 0.4% in 2008 and 0.9% in 2009, after a

decade of strong growth. Of course, increasing competitive pressure from the international environment is also contributing significantly to this development.

The issue of inflation in the European Union remains a major one. Between August 2007 and March 2008, inflation in both EU-27 and the Eurozone has doubled to reach the levels of 3.6% and 3.8% respectively. The correlation between this increase and the sharp rises in food and oil prices is very strong. The deceleration in the growth of productivity to 1.1% in 2007 from 1.3% in 2006, coupled with the higher growth of nominal compensation per employee in 2007 relative to 2006, has increased the unit labor cost and strengthened inflation. In view of the above, the upsurge of inflation to 3.6% in EU-27 in 2008 from 2.4% last year and to 3.2% in the Eurozone from 2.2% is only to be expected. However, the situation is partly rectified in 2009, with the rate of inflation reverting to 2.4% (EU-27) and 2.2% (Eurozone) on the assumptions that the prices of primary commodities, including oil, will decline.

On the public finances side, the reduction of the general government budget deficit for the fourth consecutive year in 2007 in the whole of EU-27 and the Eurozone is expected to be followed by an increase in 2008 before stabilizing at the new, higher levels in 2009. More specifically, the general government budget deficit last year was reduced to 0.6% of GDP in the Eurozone and to 0.9% in EU-27, levels from which it will increase by 0.4 and 0.3 percentage points respectively in 2008. The cyclically adjusted deficit in 2007 reached the historically lowest levels since 1970

(0.7% of GDP) while this year and next it will fluctuate in similar fashion to the non-adjusted deficit. Generally speaking, the course of the deficit is being undermined by slower GDP growth and tax cuts in some countries. As for the general government debt as a percentage of GDP, the performance of the Eurozone economies is expected to improve in the period 2007-2009, while remaining broadly unchanged in EU-27.

The indications that emerge from IFO's 'World Economic Survey in the Euro Area' are also pessimistic.

The latest report of the survey, which covers the second quarter of 2008, records a further deterioration of the economic climate, which takes the relevant index to its lowest level in the past five years. The appraisals of the current economic situation have also worsened, with Italy, France, Portugal and Spain assessing the juncture to be particularly negative and the other Eurozone countries considering it to be unchanged/satisfactory.

However, economic expectations for the coming six months are not more pessimistic than at the beginning of the year: according to the WES assessments, the slowing of economic activity will continue, to the degree estimated also in the previous report. As for inflation expectations, an average rate of 2.9% is estimated for 2008 (2.5% the forecast in the first quarter of the current year), which is higher

than the inflation target of the European Central Bank (2.5%). Nevertheless, due to the gradual abatement of the credit crisis, it is believed that key interest rates will from now on take a downward course, while the dollar will continue to weaken against the euro, though at slower rates.

2.2 The Economic Background in Greece

A) Economic sentiment

The Economic Sentiment Indicator for Greece in the first five months of 2008 stood at an average of 98.4, which is below its long-term average and significantly lower than the level in the corresponding period of 2007 (108.1). Indeed, in May, the indicator declined by 5.1 points to reach 92.3, which represents the lowest performance of the past 2.5 years and was almost 18 points below the level recorded in May 2007. Business expectations and consumer confidence both deteriorated, with a particularly sharp decline in the sectors of Industry and Retail Trade, although the indicator for the latter remains at a high level. The course of the indicator in recent months is proving to be an early warning signal for developments in the real economy, which are beginning to reflect the deterioration that had been forecast.

Table 2.5

IFO - Estimates for the Eurozone economy (Indices, 1995=100)

Quarter / Year	II/06	III/06	IV/06	I/07	II/07	III/07	IV/07	I/08	II/08
Economic Climate	103,4	101,7	97,5	100,0	106,8	111,9	90,7	81,4	76,3
Current Situation	97,2	108,4	152,2	129,0	130,8	138,3	123,4	112,1	100,9
Expectations	108,5	96,1	74,4	76,0	86,8	89,9	63,6	55,8	55,8

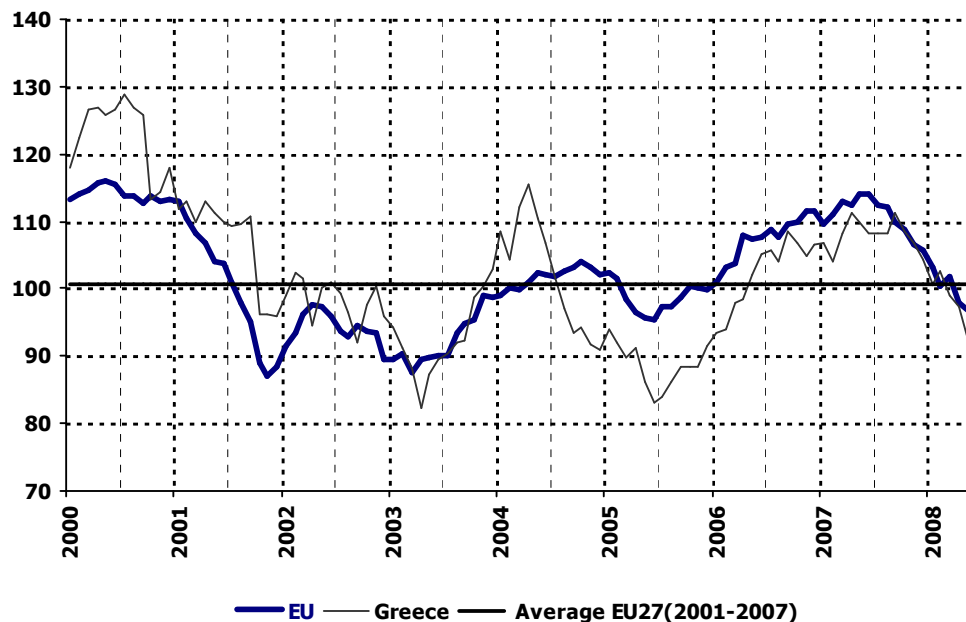
Source: IFO, World Economic Survey, WES 5/2008

The course of the **Consumer Confidence Index** records with characteristic accuracy the widespread pessimism among Greek consumers in the present period, albeit in the more general climate of a global deterioration of consumer confidence. The estimates of Greece for the course of the economic situation in the country, as well as that of their own households over the next 12 months, were extremely pessimistic in the first five

months of 2008 and continuously worsening. Against this background, average propensity to save steadily decreased, while consumers' assessments regarding the course of prices in the coming months registered a historical high in May, with over 60% - the highest percentage recorded in the past 15 years – reporting that they expect the same or even faster price increases in the Greek market in the coming period.

Figure 2.1

Indicator of Economic Climate, EU27 and Greece (seasonal adjusted data, 1990-2006=100)

**Source:** European Commission, DG Ecfm

In **Industry**, the Confidence Indicator in the first five months of 2008 was moving at lower levels than its long-term average (99.4), mainly due to the pessimistic estimates of businesses regarding levels of demand for their products. Generally speaking, in summer 2007 expectations in the sector began to deteriorate and this downward course has continued up to May 2008, with only slight variations. Indeed, the relevant indicator remains strongly negative, as the percentage of businesses projecting low levels of demand for the time of year exceeds the percentage of optimistic estimates by some 10 percentage points on average in the period January to May. On the other hand however, there appears to be some margin for a rebound in the medium-term, as the estimates of companies regarding the course of their key indicators (production, sales, exports) are not badly affected and remain positive. This means that businesses have for some months been expecting an improvement in their course which, although it has been delayed, appears to be maturing and auguring smoother production activity in the coming months. Moreover, the percentage of companies reporting no obstacles to their operation remains high (56%), with only about 26% assessing demand to be insufficient. Sentiment is also positive regarding exports, which are expected to rebound after the poor course of the previous year. In contrast, employment expectations continue to be negative on average in the first five months of 2008.

In **Construction**, business expectations are quite improved relative to 2007. That

is, the trend being shaped for 2008 clearly points to growth, since the decline in May is more a correction to the significant increase in April, rather than an actual deterioration of the index. The rise of the index is mainly due to high expectations regarding the course of employment, with the number of months of assured production stabilizing at 18. The estimates of businesses regarding their level of operations also show a marginal improvement, relative – that is – to the corresponding period of the previous year. The main factors negatively affecting construction activity are low demand and a lack of financing. It is quite characteristic, however, that despite the satisfactory course of operations only 15% of companies report no obstacles to their business activity.

In **Retail Trade**, in the first five months of 2008 there was a slight downward trend in assessments and projections for all key indicators in the sector, perhaps with the exception of inventories, which are estimated to be at a lower level relative to the end of 2007, signaling liquidation. In effect however, it is more a moderation of the strongly upward course in the sector during the past 18 months, as Retail Trade steadily remains the sector of the economy with the greatest improvement in sentiment in recent years. All the separate components that comprise the Confidence Indicator have weakened but still remain at high levels. More specifically, in the first five months of 2008 the index of sales projections stood at an average of 58.5, which means that the percentage of businesses expecting an increase in sales is higher – by so many

percentage points – than the percentage of companies anticipating a decline. The estimates of companies regarding the course of their sales in the current quarter are also markedly positive: 62% of businesses on average estimate an increase in sales relative to the previous quarter. The good climate in the sector is also reflected by the projections for employment, which

in the first five months of 2008 are much more positive compared to the previous year. On the other hand, the projections of Retail Trade companies regarding the course of prices in the coming months are also strongly upward: the relative index stands at an average of 12.2 points higher than the level for the period January-May 2007 (see also section 3.5).

Table 2.6
Short-Term Indices

	Economic Sentiment Indicator¹		Business Confidence Indicators² (Greece)				Consumer Confidence Indicator¹ (Greece)
	EU-27	Greece	Industry	Constructions	Retail Trade	Services	
2001	101,0	107,6	101,9	114,0	92,2	105,8	-26
2002	94,9	98,9	101,2	114,0	93,3	82,8	-28
2003	93,2	93,2	97,9	115,0	102,0	85,5	-39
2004	102,5	102,9	99,1	81,5	104,8	94,6	-26
2005	99,4	89,3	92,6	63,0	96,8	93,6	-34
2006	108,4	103,1	101,5	91,1	110,8	103,7	-33
Jan-07	109,7	106,9	101,3	91,4	117,1	109,5	-31
Feb-07	111,0	104,1	100,9	90,7	122,0	104,2	-30
Mar-07	112,9	108,3	105,1	104,9	118,5	106,5	-29
Apr-07	112,5	111,2	109,5	103,7	119,7	106,9	-32
May-07	114,1	109,9	106,6	106,2	124,3	112,4	-28
Jun-07	114,1	108,1	103,1	102,1	122,7	110,3	-28
Jul-07	112,3	108,2	101,6	87,7	123,8	104,6	-29
Aug-07	112,2	108,3	102,4	89,4	123,5	103,5	-30
Sept-07	109,8	111,2	104,9	81,5	123,6	106,2	-26
Oct-07	108,8	108,6	100,1	83,7	121,0	104,7	-22
Nov-07	106,6	106,8	100,5	86,9	116,5	105,6	-29
Dec-07	105,8	104,3	97,5	81,5	116,6	105,1	-29
Jan-08	103,3	100,6	99,2	84,2	117,0	106,4	-40
Feb-08	100,3	102,7	97,8	98,1	120,8	111,8	-34
Mar-08	101,9	98,9	99,4	99,7	118,5	110,0	-39
Apr-08	98,0	97,4	101,4	110,5	119,7	105,2	-39
May-08	96,7	92,3	99,2	105,4	118,1	102,2	-44

1. seasonal adjusted data

2. non seasonal adjusted data

Source: ¹. European Commission, DG Ecf; ². IOBE

Lastly, in **Services**, the Confidence Indicator showed a slight improvement on average in the first five months of 2008, a development attributed exclusively to expectations of an increase in demand for products and services. The relevant index stands approximately 12 points higher on average in the first five months of 2008 relative to 2007. However, as far as companies' assessments of their situation is concerned, there has been some pessimism in recent months, as the percentage of businesses projecting growth declined by approximately 10 percentage points between the beginning of the year and May. The results of the relevant business surveys suggest an increase in employment in the Services sector at the beginning of the year, while projections for its course during the rest of the year are also strongly optimistic. At the same time, there was a sharp increase in the percentage of enterprises in the sector expecting price rises: in May 26% of businesses price increases in the coming months and only 2% the opposite (see also section 3.5).

In conclusion, the developments regarding sentiment in the separate sectors and the relevant variations reflect also the different way in which consumers and businesses interpret the messages originating from the international deterioration:

The former, i.e. consumers, are directly affected by the prevailing atmosphere, as well as by the manifest price increases, whilst businesses to a large extent base their expectations on the course of their

key indicators, which at least for the present do not show a marked deterioration.

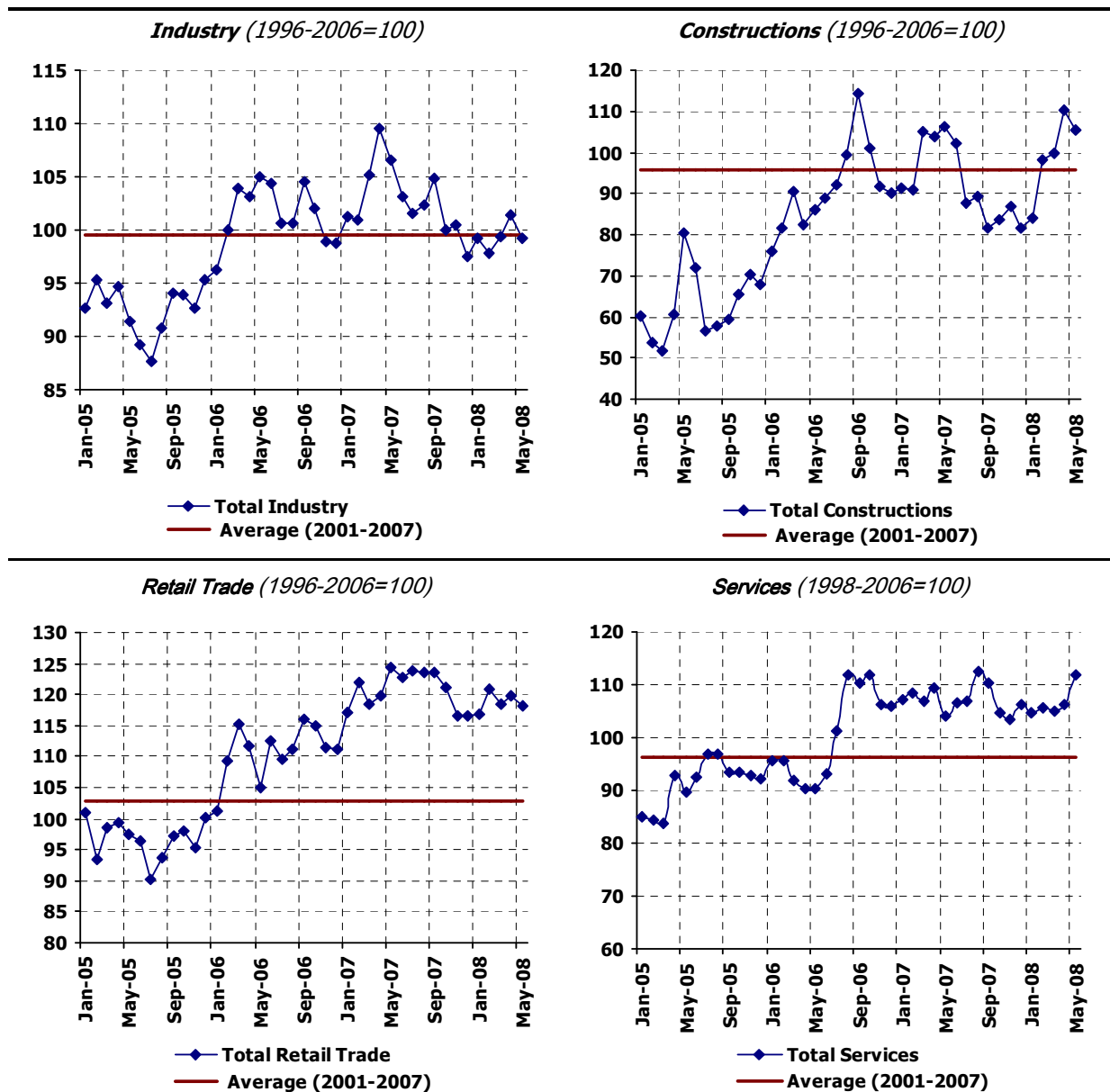
The former, i.e. consumers, are directly affected by the prevailing atmosphere, as well as by the manifest price increases, whilst businesses to a large extent base their expectations on the course of their key indicators, which at least for the present do not show a marked deterioration.

B) Economic policy

The uncertain international juncture, the deceleration of growth and above all the inflationary upsurge in recent months, necessitate economic policy revisions and adjustments. The emphasis which must be given to certain sectors will, of course, have to be incorporated in the more general directions of economic policy: fiscal adjustment and the reforms. In other words, whatever measures are considered necessary in order to tackle these conjunctural problems must under no circumstances jeopardize the medium-term targets, but on the contrary facilitate their attainment. In any case, the more rapid advancement of reforms and fiscal adjustment provide an answer to the new problems of the economic conjuncture, such as inflation.

Nevertheless, the fact should not be overlooked that the constant revision of projections for GDP (downward) and inflation (upward) makes it more difficult to attain the economic policy targets, particularly with regard to public finances, without taking additional measures to curb expenditure and increase revenue.

Figure 2.2
Business Confidence Indicators¹



1. In the calculation of Business Confidence Indicator a period - base is used henceforth, instead of the year- base. Thus the Confidence Indicator of Industry, Constructions and Retail Trade sectors are calculated under a common period - base (1996-2006=100) and the Indicator of the Services sector under the period – base (1998-2006=100) as there are no available data before 1998. This change allows a more precise imprinting of fluctuations of expectations in a long-term period, while at the same time it allows the construction of comparable sub – sector confidence Indexes. The series of Confidence Indexes were revised.

Source: IOBE

B1) Fiscal policy

As IOBE has repeatedly noted, fiscal adjustment has in the past two years been moving in the right direction and yielding positive results.

As stressed in the previous report, the 2008 Budget was prepared on the basis of assumptions about economic developments which have since been overturned by international developments and in particular by the increase in fuel and food prices. Forecasts for the evolution of GDP and inflation have already been revised.

The more unfavorable macroeconomic developments have made the attainment of the targets set in the Budget difficult if not impossible.

Data on the execution of the 2008 Budget currently available (Jan.-Apr. 2008) reveal significant deviations from the annual target in the first four months with respect to both revenue and the deficit. These developments vindicate the calls made at the time of the tabling of the 2008 Budget for the avoidance of overruns and a stepping up of efforts for structural changes in the public sector.

Table 2.7

National Budget 4/months Implementation 2007 – 2008
(provisional data –national account basis- mil. €)

	January-April 2008					
	2007	2008	4/months	2007	2008	Annual
	4/mon	4/mont	change	Annual	Budget	change
	ths	hs	08/07	realizations	target	08/07
	(1)	(2)	(3=2:1)	(4)	(5)	(6=5:4)
<i>Ordinary Budget</i>						
1. Net Revenue (a-b)	14.017	14.536	3,7%	49.152	55.520	13,0%
a. Revenues before taxes	14.879	15.807	6,2%	51.775	58.070	12,2%
b. Tax Returns	862	1.271	47,4%	2.623	2.550	-2,8%
2. Expenditures (a+b)	17.025	18.509	8,7%	54.634	59.058	8,1%
a. Primary Expenditure	14.030	15.739	12,2%	44.843	48.558	8,3%
b. Interest	2.995	2.771	-7,5%	9.791	10.500	7,2%
<i>Public Investment Program</i>						
3. Revenue	2.593	2.237	-13,7%	4.872	4.532	-7,0%
4. Expenditure	1.785	2.504	40,3%	8.803	9.300	5,6%
5. Deficit (Central Government Budget)(1-2+3-4)	2.200	4.241	92,8%	9.413	8.306	-11,8%

Source: General Accounting Office, Course of Implementation, Bulletin Nr. 4, April 2008

More specifically, in the first four months of 2008:

1. Net revenue rose by only 3.7%, against a budgeted annual rate of increase of 13.0%. If there are to be no significant deviations from targets, a number of measures will have to yield results in the coming months, including the single property tax, the equalization of the consumption tax rates on heating oil and diesel fuel and the provisions of the recent law aimed at combating and reducing tax evasion (Law 3610.2007). Revenue before tax rebates rose by 6.2% (against budgeted total annual growth of 12.2%), whilst only tax rebates are considerably higher (by 47.4%) on account of the implementation of the new trading system for heating oil.² And even if all these measures do yield the desired results, in order for the 2008 Budget target to be attained, there will have to be a very significant increase in revenue up to the end of the year, indeed of approximately 16%, which appears rather unlikely.

2. Moreover, in the first four months of 2008, ordinary budget expenditures were 8.7% higher relative to the same period of the previous year, a growth rate that is being fuelled by sharp rise in primary expenditures and which would be even higher were it not for a 7.5% reduction of interest payments. Primary expenditures, whose increase was budgeted at 8.3% in 2008, in the first four months of the year were already 12.2% higher relative to the corresponding period of 2007. In the main

categories of primary expenditure, spending on social security and healthcare rose by 20.5%, operating expenditures and various grants by 10.1%, contributions to the EU by 7.2%, whilst the outlay for wages and pensions increased by 9.4%, despite the fact that the government's incomes policy has not yet been implemented.

3. But in the Public Investment Program too, expenditures in the first quarter of 2008 were 40.3% higher relative to the same quarter of the previous year, when the budgeted increase for 2008 is just 5.6%. At the same time, revenue from the EU in the first four months of 2008 registered a significant shortfall (of 13.7%) relative to the previous year, against a budgeted decrease of 7.0% in 2008, though this means in effect that this category of revenue is reverting to normal levels, bearing in mind the inflow of extraordinary revenues in 2007. It should be noted however that with regard to the Public Investment Program, revenue and expenditure flows do not have the same regularity of revenue and expenditure of the ordinary budget and for this reason it is difficult to draw definite conclusions about the final shaping of the program's aggregates.

As a result of the above revenue shortfall and expenditure overrun, the Ordinary Budget deficit stood at € 4.2 billion in the first four months of 2008, which is approximately double the figure for the same period of 2007. Thus, the target set for the deficit not to exceed € 8.3 billion in 2008 would now appear to be unrealistic.

² For the first time in 2008, tax rebates include the refunding of the consumption tax on fuel which applies in the case of heating oil.

And its attainment becomes even more difficult when one considers that additional resources will be required for the implementation of measures already announced in support of persons on low wages and low pensions, who are particularly hit by the increase in prices of fuel and food. On the basis of these data, it is estimated that the General Government deficit will be markedly higher than budgeted (1.6% of GDP).

The revenue shortfall and expenditure overrun could be tackled through corresponding efforts to increase revenue by stepping up tax audits – or the imposition of additional taxes – and curtailing public sector consumption expenditure. On the one hand, budgets in Greece are usually prepared on the basis of optimistic assumptions about macroeconomic developments, which means that there is no room for maneuver in the event of adverse developments. While on the other, in periods of good performance, complacency sets in and there is little effort to introduce changes in the operation of fiscal mechanisms. There can be no substantial and viable answers to the problem of fiscal adjustment unless measures of a permanent nature are taken to tackle the chronic structural weaknesses of the fiscal system. More specifically:

The tax system, despite certain improvements, remains complex, obscure and costly, frequently resorting either to tax amnesties, or to more stringent audits or even both, whilst the audit bodies retain their discretionary powers in the interpre-

tation and enforcement of regulations, a fact which also fuels corruption.

In the area of expenditures, the chief problem continues to be the lack of effective control, of transparency, of accountability and no evaluations whatsoever of the effectiveness of expenditures. The government's recent measures to change the method of preparation and execution of the expenditure budget is in the right direction and their implementation must be expedited.

Similar points are made in the recommendations contained in the European Commission's report on Public Finances, which was published just a few days ago.³ As long as the above issues are not dealt with in a radical and well planned way, the course of fiscal adjustment will be susceptible – as is the case today – to conjunctural variations with the risk of overrunning medium-term targets.

B2) Combating inflation

The upsurge in inflation – which, as is now clear, does not appear to be transitory – raises new issues for economic policy, which is being called to reassess targets and priorities.

In the past, the main economic policy weapons used in the fight against inflation were fiscal and monetary policy. Following Greece's entry to EMU however, responsibility for monetary policy has passed to the European Central Bank. Thus, the main macroeconomic tool available to the

³ European Commission, Public Finances in EMU – 2008.

state is fiscal policy, with which it must tackle the macroeconomic imbalances that arise. But the serious rigidities which characterize the Greek economy create a risk of the policy being implemented not yielding the anticipated results, due to the asymmetry which external shocks may cause for an EMU economy.

In the present phase however, given that the inflationary surge affects the entire Eurozone, it is reasonable to expect European monetary policy to move in a more restrictive direction, thereby contributing to the gradual reduction of inflationary pressures in Greece also.

On the other hand, fiscal policy must continue to move in the direction of stabilization and the reduction of expenditures in order to avert a fuelling of the inflationary pressures already being exerted on the Greek economy.

It is clear from the above that the two 'traditional' economic policy weapons, at least, do not appear to be aggravating the inflationary process. Although nor do they appear capable of halting it.

This inability of traditional policies once again highlights the importance of structural changes, i.e. of interventions in the links of the inflation chain, which have been forged as a result of the structural problems in the Greek economy. The most important of these is the deficient operation of competition in many sectors of the economy, which are directly or indirectly controlled by the State, or are protected by virtue of specific interventionist policies of the State. Moreover, the regulatory role

of the State, in many cases, imposes cartel-like practices, operates as protection and makes the entry of new businesses impossible. There are of course also cases where the prices of services offered by an enterprise are burdened with the cost of social benefits which should be borne by the State.

Undoubtedly, oligopolistic phenomena are present also in other sectors of the economy. But these are subject to investigation by the Competition Commission, which has intervened in many cases. In contrast, those sectors which operate under the 'roof', guidance or protection of the State are not subject to any such investigations, with the result that they may act without any control.

Interventions and measures to improve economic policy in these sectors, namely the abolition of oligopolistic practices that are encouraged by the State and the opening up of closed markets to competition would yield, in the medium term, positive results in the effort to fight inflation. However, it appears that in the present phase of the inflationary upsurge, economic policy is more oriented toward measures having the nature of direct intervention, such as price policies and market checks.

This policy was announced in February this year and includes a package of measures relating to imports, manufacturing, consumption, the provision of information to consumers and institutional changes. In essence, it constitutes a comprehensive price policy that focuses on the stepping up of audits, more stringent regulations

concerning the costing and movement of goods and, lastly, the imposition of stricter penalties as a deterrent. As recently announced by the Ministry of Development (12/06/08), over 30 measures from the initial package have already been implemented, most of which in the form of bills tabled in Parliament.

The effectiveness of this policy in reducing inflation remains to be proven, when the measures that have already been adopted begin to operate in practice. It should however be noted that the experience gained from the implementation of similar policies in the past, both in Greece and in other EU countries, shows that price policies yield poor results which, moreover, quickly dissipate unless there are substantial changes in the factors that fuel inflation. Furthermore, these policies, in their effort to identify and punish transgressors, raise additional bureaucratic obstacles for all businesses, i.e. they have negative collateral impacts on the economy as a whole.

Therefore, the effectiveness of a price policy should be evaluated on the basis of the overall balance of cost-benefit, which in most cases has proven to be negative. That is: on the one hand insignificant and temporary successes in checking inflation and, on the other, additional major and permanent obstacles to business activity.

Despite the efforts being made to reduce inflation, economic policy in the current period is also charged with the additional duty of trying to mitigate the impacts of inflation on the economy. One of the most important is the so-called 'redistributive'

impact, i.e. the disproportionate burden placed on low-income groups, for whom the price increases of basic commodities (food, housing, energy, etc.) is a serious problem.

In this regard, an important role can be played by the National Fund for Social Cohesion, whose objective is to provide targeted income support for citizens below the poverty line. The unemployment benefit and social solidarity pension supplement (EKAS) increases granted in the last two years should also be enlisted to facilitate efforts in this direction.

The general goal of the above measures is to reduce poverty. However, with regard to inflation and its redistributive effects, additional measures must also be introduced that reflect the direct burden resulting from the price increases of goods which hit the budgets of lower income groups particularly hard. In order for this to be possible, the specific burdens must be calculated on the basis of a separate 'poverty index', which will differ from the average index to the degree that the consumer behavior of the lower income classes differs from the average. Similar adjustments have already been attempted e.g. in Spain.

B3) The reforms

The reform policy contained in the National Reform Program has progressed at a satisfactory rate in some sectors, while in others there have clearly been delays.

The biggest step forward achieved in recent months is the continuation of privati-

zation policy with respect to the Hellenic Telecommunications Organization (OTE) and Piraeus Port Authority (OLP).

As IOBE has stressed, privatization is not an end in itself. It is a means whereby resources can be used more effectively, productivity improved and competitiveness enhanced. For this reason precisely it cannot be assessed solely on the basis of the immediate cash benefits, but primarily the overall impact on the Greek economy. This would appear to be the rationale behind the strategic partnership between the Greek state and Deutsche Telekom regarding the sale of OTE shares to the latter, as well as the selection of the successful bidder for the concession of operations at the port of Piraeus.

In the former case, the solution of a strategic partner is aimed at strengthening OTE and effectively reinforcing the organization against international competition. According to the Economy and Finance Ministry, the anticipated benefits of this solution include the following:

- The provision of high quality products and services and expansion to new products.
- Increasing OTE's capacity to competitively price products and services.
- The strengthening and expansion of its position in the domestic and international markets.
- Administrative and organizational modernization.
- Safeguarding of the interests of Greek society as a whole.

According to the Ministry, "in a globalized telecommunications market, a strong strategic partner will give OTE the necessary magnitude, the critical mass to play a substantial role rather than remaining alone, lacking real strength, and gradually turning into a regional player facing survival problems".

The above benefits are indeed considerable, provided they are achieved. And the only reservation in this respect is in connection with the more general strategy of the partner in Europe as a whole: That is, the extent to which OTE will be considered and will operate as a strong pillar of the overall strategy, following its creative integration therein. At the present time, of course, this cannot be foreseen.

In the case of OLP, the uncertainty appears to be declining, since the intentions of the concessionaire clearly point to an increase in the port's capacity and a doubling of the work force. Furthermore, the significant increase in guaranteed revenues for OLP - as provided in the successful bid - will enable OLP to proceed with projects to upgrade the port services provided, improve infrastructure and strengthen coastal shipping. Overall in the coming years it is estimated that both the concessionaire and OLP itself, having profited from the concession, will realize a series of major investments in the wider area of Piraeus port.

In contrast with those instances of privatization where, as noted above, there has

been visible progress, reforms in other key areas – particularly the State and Public Administration – have been delayed. Thus, the operation of the State continues to have an inhibitory effect, creating serious administrative, regulatory and interventionist obstacles to business activity, as noted also in the reports of international organizations.

Areas in need of radical changes include:

- The operation of the fiscal system, which is complex and unpredictable.
- The restructuring of public enterprises that continue to accumulate losses.
- The restoration of competition in closed markets and occupations,

through the abolition of the cartel-like practices imposed with state intervention.

- The drastic reduction of bureaucratic complications relating to the commencement and operation of businesses.

In all these sectors steps have indeed been taken, especially toward improving the institutional framework. What has been delayed is the implementation of specific measures that would bring direct, visible results. Similar delays have also been observed in launching of major programs of the National Strategic Reference Framework (NSRF), which have been properly designed and whose implementation would open up new possibilities for economic activity.

3. PERFORMANCE AND PROSPECTS

3.1 Macroeconomic developments

Economic Activity in 2007

According to the latest data of the National Statistics Service of Greece (NSSG) on the growth of the Greek economy in the first quarter of 2008, GDP rose by 3.6%, compared to 4.4% in the corresponding quarter of 2007. This represents a significant deceleration which appears to confirm – although it is still too early – the forecasts of international organizations of annual GDP growth of 3.5-3.6% in 2008 (see Table 3.1), and is 0.4 percentage points below the rate projected by the Ministry of Economy and Finance in the Updated Stability and Growth Program 2007-2010 (December 2007).

One development which contributed decisively to this more moderate – relative to previous years – growth of the Greek economy in the first quarter of 2008 was the sharp deceleration of final consumption, which decreased to a growth rate of around 2.3%, i.e. almost half the rate recorded in the first quarter of 2007 (4.4%). The main reason for this development is the slowing of private consumption, which in any case accounts for 4/5 of final consumption in the economy. More specifically, private consumption grew at a rate of just 2.3%, when in the corresponding quarter of 2007 it was one percentage point higher at 3.3%. This rate of increase

is the lowest recorded in the Greek economy since 2000. The deceleration of private consumption, if it eventually continues in the coming months, signals the end of a period of rapid growth, which was fuelled also by the expansion of consumer credit. In addition, it suggests that a growth model based on strong domestic demand and higher consumption cannot sustain long-term growth prospects. Thus, when international conditions deteriorate, as at the present juncture, the growth of a – in other circumstances – rapidly expanding economy, is hit almost immediately.

Investment was also down in the first quarter of 2008, declining by 6.8%, compared to a growth rate of around 11.9% in the corresponding quarter of the previous year. This reduction of investment slowed by 1.4 percentage points the growth of final demand in the economy and deviates markedly from the Economy and Finance Ministry's projection of a 10.5% increase in investment in 2008. Moreover, exports rose at a rate of 4.1%, which is much lower relative to the increase recorded in the corresponding period of 2007 (7.9%). On the other hand, the growth of imports also decelerated – though at a more moderate rate than exports – decreasing by 7.8% in the first quarter of 2008, when in the corresponding quarter last year they were 'running' at a rate of +11.8%.

Table 3.1
Main Economic Indicators –Quarterly National Accounts
(provisional data, constant prices 2000)

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	mil. €	Quarter % change (v/v-4)	mil. €	Quarter% change (v/v-4)	mil. €	Quarter% change (v/v-4)	mil. €	Quarter% change (v/v-4)	mil. €	Quarter% change (v/v-4)
2001	142402	4,5%	127439	3,7%	31267	-1,6%	32965	-2,7%	49269	-5,8%
2002*	147961	3,9%	133530	4,8%	33252	6,3%	30434	-7,7%	49183	-0,2%
2003*	155412	5,0%	138552	3,8%	39289	18,2%	31184	2,5%	53442	8,7%
2004*	162526	4,6%	144563	4,3%	42061	7,1%	35123	12,6%	59167	10,7%
a' 2005	41566	3,9%	36977	3,9%	10424	1,1%	8901	6,7%	15114	5,4%
b' 2005	41987	3,9%	37269	3,6%	10346	-2,0%	9005	2,2%	14211	-3,3%
c' 2005	42386	3,8%	37607	3,4%	10759	2,4%	9046	0,7%	14859	-0,8%
d' 2005	42818	3,8%	37949	3,5%	10919	2,2%	9114	1,5%	15250	0,7%
2005*	168757	3,8%	149801	3,6%	42447	0,9%	36066	2,7%	59435	0,5%
a' 2006	43238	4,0%	38263	3,5%	11310	8,5%	9099	2,2%	15495	2,5%
b' 2006	43722	4,1%	38567	3,5%	12032	16,3%	9269	2,9%	16083	13,2%
c' 2006	44225	4,3%	38816	3,2%	12093	12,4%	9715	7,4%	16291	9,6%
d' 2006	44651	4,3%	39098	3,0%	12479	14,3%	9832	7,9%	16734	9,7%
2006*	175836	4,2%	154744	3,3%	47915	12,9%	37915	5,1%	64603	8,7%
a' 2007	45138	4,4%	39960	4,4%	12656	11,9%	9822	7,9%	17323	11,8%
b' 2007	45536	4,1%	40281	4,4%	12623	4,9%	9903	6,8%	17298	7,6%
c' 2007	45939	3,9%	40617	4,6%	12946	7,1%	9887	1,8%	17621	8,2%
d' 2007	46261	3,6%	40891	4,6%	11890	-4,7%	10531	7,1%	16854	0,7%
2007*	182874	4,0%	161749	4,5%	50115	4,6%	40143	5,9%	69096	7,0%
a' 2008	46776	3,6%	40895	2,3%	11797	-6,8%	10223	4,1%	15966	-7,8%

*provisional data

Source: National Statistical Service of Greece, revised GDP data

Lastly, in the labor market, unemployment fell to around 8.3% in the first quarter of 2008 (from 9.1% in the same period of 2007), while employment grew at a rate of 1.3%. On the other hand, inflation has surged to over 4% and now constitutes a basic problem which economic policy must tackle (see sections 3.5 and 2.2).

Medium-term Outlook

As pointed out in IOBE's previous reports, despite the international slowdown which began in mid-2007, the Greek economy – like the majority of Eurozone economies – retained its dynamism in 2007 with a high rate of growth. What made a decisive contribution to this was the relatively small impact of the international financial crisis

on the Greek financial sector, since Greek banks avoided the threat of excessive exposure to risky banking products. However, in terms of macroeconomic outcomes, the uncertainty is now greater, with all international organizations warning that the repercussions may be more seri-

ous than initially anticipated. Already, the first signs of a slowing of the rate of growth of the Greek economy signal the start of a difficult period for the economy, as all indicators – on both the supply and demand sides – show a deterioration.

Table 3.2

Domestic Expense & Gross Domestic Product – European Commission Forecasts
(constant market prices 1995)

	2006	2007	2008	2009
<i>Annual percentage changes</i>				
Gross Domestic Product	4,2	4,0	3,4	3,3
Private Consumption	4,2	3,4	3,1	3,0
Public Consumption	-0,7	7,4	3,6	3,3
Gross Fixed Capital Formation	14,8	5,9	5,8	5,5
Equipment	6,5	9,4	8,6	7,6
Final Demand	5,4	4,8	4,1	4,0
Exports	5,1	5,9	5,5	5,4
Imports	8,7	7,0	6,1	5,7
Gross Domestic Income	4,4	3,4	3,8	3,4
Employment	2,5	1,2	1,1	1,1
Compensation of employees / head	6,3	7,2	7,4	6,8
Real Unit Cost of Labor	1,1	1,2	1,5	0,9
GDP deflator	3,4	3,1	3,5	3,6
Private Consumption Deflator	3,5	3,1	3,7	3,6
Harmonized Index of Consumer Prices	3,3	3,0	3,7	3,6
<i>Contribution to real GDP changes</i>				
Domestic Demand	6,4	5,2	4,4	4,3
Net Exports	-1,8	-1,3	-1,1	-1,0
House inventories	-0,4	0,1	0,0	0,0
<i>GDP percentage</i>				
Trade Balance	-18,8	-19,0	-19,3	-19,5
General Government Balance	-2,6	-2,8	-2,0	-2,0
Current Account Balance	-14,4	-16,2	-16,2	-16,2
General Government Dept	95,3	94,5	92,4	90,2
<i>Percentage</i>				
Unemployment (% of civilian labor force)	8,9	8,3	8,3	8,0
Households Savings Rate (gross savings to gross disposable income)	1,2	1,4	0,9	0,5

Source: European Commission, Economic Forecasts, Spring 2008

Table 3.3

Comparison of forecasts on selected Economic Indexes for years 2007- 2009
(constant market prices 1995, annual % changes)

	MNEC			EE			OECD			IMF		
	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
GDP	4,1	4,0	4,0	4,0	3,4	3,3	4,0	3,5	3,4	4,0	3,7	3,5
Final Demand	:	:	:	4,8	4,1	4,0	4,4	3,5	3,4	4,9	4,4	3,9
Private Consumption	3,2	3,5	3,4	3,4	3,1	3,0	3,2	2,8	2,8	:	:	:
Gross Fixed Capital Investment	8,9	10,5	7,3	5,9	5,8	5,5	4,4	5,8	6,1	:	:	:
Unemployment (%)	7,6	6,8	6,3	8,3	8,3	8,0	8,0	7,7	7,7	7,8	7,0	6,7
GDP Deflator	3,0	2,8	2,8	3,1	3,5	3,6	2,9	4,0	3,1	3,0	4,2	3,2
General Government Balance (% GDP)	-2,7	-1,6	-0,8	-2,8	-2,0	-2,0	-3,1	-2,1	-2,1	:	:	:
Gross Public Debt (% GDP)	93,4	91,0	87,3	94,5	92,4	90,2	:	:	:	:	:	:

Source: Updated program of stability & growth 2007-2010, MNEC, December 2007, European Commission, Economic forecasts, Spring 2008, OECD Economic Outlook No 83 Preliminary edition, June 2008, IMF Country report 08/147 May 2008.

On the short-term horizon, these risks emanate from the weaker external environment and from the liquidity problems which banks may face. Tighter fiscal conditions and high inflation are expected to reduce domestic demand. Moreover, as noted also by the OECD, the deceleration of growth in neighboring countries (SE Europe) will also affect external demand, dealing a severe blow to the export activity of Greek companies. So, in the medium-term, the continuous erosion of competitiveness raises the possibility of a prolonged period of slow growth.

In view of the above and with the global economic environment constantly deteriorating, the attainment of a rate of real GDP growth of around 4% (as projected in the Updated Stability and Growth Program 2007-2010) would appear, in the present period, to be unrealistic. The growth rate

of the Greek economy will be adversely affected not only by the deceleration in the rate of growth of global demand, but also by the increase in international oil and food prices. Moreover, the first impacts have already begun to appear in the Economic Sentiment Indicator compiled by IOBE, where in the first half of the year the expectations reported by Greek businesses are moderate, whilst households appear extremely pessimistic about the course of the Greek economy, as well as of their own economic situation.

Against this background, international organizations have revised their latest forecasts downward, although all concur that the rate of growth of the Greek economy will continue to outperform the average growth of Eurozone economies. It is already apparent from the results of the first quarter of 2008 that the factors which

have in recent years contributed to the development of economic activity are weakening, though it is estimated that they will continue to have a positive effect on the growth of the Greek economy.

For 2008, IOBE forecasts a deceleration in the growth rate to a level below 3.5%, since a further slowing of private consumption is expected. However, the growth rate of domestic consumption will remain high and once again this year will serve as the main driver of economic growth. More specifically, it is estimated that the growth of private consumption will decline to below 3.0% (from 3.4% in 2007), underpinned chiefly by consumer credit, the expansion of which is decelerating.

Gross fixed capital formation is expected to decline significantly. IOBE's forecast that gross fixed capital formation will not exceed 5% is much more pessimistic than the estimates of international organizations, which project a rate of growth of around 5.8%, attributing this to mainly to an increase in public investment, higher residential investment and the maintenance of business investment at their high, year-before levels. The first indications, from the investment survey carried out by IOBE, appear to lend weight to such a development, although the reduction in investment recorded in the first quarter suggests that this prospect is somewhat uncertain⁴.

In 2008, in the external sector of the Greek economy both the European Commission and the OECD forecast a deceleration of export growth (from a rate of 5.9% in 2007 to 5.5% in 2008), which is connected with the anticipated slower rate of world trade growth and the ongoing decline in the price competitiveness of the Greek economy internationally. These estimates appear to be confirmed by IOBE's Export Expectations Index for Industry, which was moving downward up to March 2008⁵. However, IOBE forecasts that eventually in 2008 the decline of exports will be less than expected, given that the latest data point to an improvement in export sentiment and optimism among Greek exporting companies regarding the course not only of demand from abroad but also of their order book levels: The Export Expectations Index rose cumulatively by 7.9 points in the two-month period March-April to stand at 108.4, which represents the highest value since August 2007.

Meanwhile, on the import front, a greater deceleration is forecast relative to exports, an estimate supported also by the latest projections of international organizations. Indeed, for 2008 the OECD estimates that the growth rate of imports will fall to 3.5%, compared with 7.0% in 2007. The European Commission, on the other hand, sees a rate of growth of Greek imports of the order of 6.1% for 2008 (IMF: 6.4%), a rate which, at least on the basis of data to date, appears to be less realistic than the

⁴ Revised data on investment emerge from the results of the first investment survey for 2008, with projections made in the period April-May

2008, which are expected to be released by IOBE in the first fortnight of July.

⁵ This index is calculated by IOBE on behalf of the Export Promotion Organization (OPE).

OECD's estimate. Nevertheless, all estimates point to the fact that the external sector of the Greek economy will once again this year make a – albeit marginally – negative contribution to the change in GDP and that the current account deficit will not decline from the historically highest level of 2007 (14.1% of GDP).

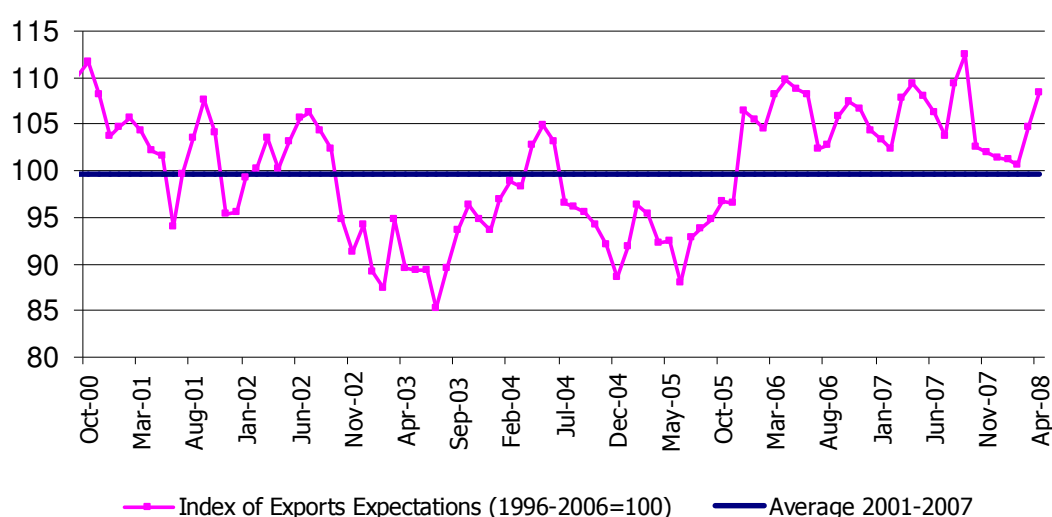
It is estimated that employment will grow at an average annual rate of 1.1% in the period 2008-2009, while unemployment, although it appears to be continuing on its downward course, is not expected to fall below 8%.

The inflationary pressures recorded in the first quarter of 2008 are projected to continue throughout the year, due to higher

labor costs, oil and food price hikes, as well as the uncertainty prevailing in international energy markets. The phenomenon is a general one and affects the entire Eurozone, which means the levels of inflation in Greece will remain quite higher than the average (see section 3.5).

In conclusion, the Greek economy in 2008 is entering a phase of growth deceleration for the first time in many years. It appears that the growth model which was based on strong domestic demand and higher private consumption is being battered and is unable to sustain long-term growth prospects.

Figure 3.1
Index of Exports Expectations



Note: The Index of Exports Expectations is calculated on the basis of a) business estimations of orders from abroad and b) business expectations of exports in the next months

Source: IOBE

3.2 Developments and prospects in key sectors of the economy

This section presents the quarterly indices of activity compiled by the National Statistics Service of Greece (NSSG), which track the turnover of businesses in the sectors of Construction, Trade and Services. At the same time, it presents the corresponding branch indices compiled by IOBE on the basis of the business surveys it has been conducting in Greece for over 20 years. The combination of these indices and the evaluation of the trends that emerge, help show the broader picture of the supply side of the economy and clearly reflect the strength of domestic demand.

Industry

In the first quarter of 2008, industrial production decreased by over 2% relative to the corresponding period of the previous year. The slight recovery of production in April (indeed to higher levels than in the same month of 2007 and 2006), simply moderated the decline in production to the level of 1.7% in the first four months of the year. Nevertheless, it may be noted that the slowing of the growth of industrial production had begun in the first quarter of 2007, whilst a drop in production had not been recorded since the second quarter of 2005.

The indices for the various sectors of industry reveal a similar picture, though with a marked difference regarding the magnitude of the decline: the Mining-Quarrying production index registered a double-digit decrease (-10.3%), followed by Manufac-

turing (-1.2%) and Electricity-Natural Gas-Water Supply (-1%).

But in **Manufacturing** too, developments were not uniform across all branches. Thus, the various branches can be divided into those that managed to increase production and those whose output fell. More specifically, the production index for Motor Vehicles rose by 29.6% relative to the period January-April 2007, the highest increase among all branches of manufacturing. At some distance from Motor Vehicles, the branches of Tobacco, Machinery & Equipment and Recycling registered production increases of 12.8%, 9% and 6.1% respectively. Production was down in the same period for the second successive year in Precision Instruments and Office Machines (-15.2% in both branches), whilst a reversal of the positive developments recorded in 2007 was observed in Textiles, with production falling 14.9%.

In the sector of **Electricity-Natural Gas-Water Supply**, the production and distribution of natural gas registered an increase of 11.3%, whilst the corresponding index for the collection, purification and distribution of water rose by 2.4%. However, the production index for electricity distribution fell by 3.1% and this had a decisive impact on the overall index for the sector.

In **Mining-Quarrying**, the decline in the relevant index is mainly due to the sharp drop in production of coal and lignite mining (-15.9%) and other mining and quarrying activities (-13.8%). The other sub-sectors registered a more moderate de-

cline in production, compared to an increase at the beginning of 2007.

Moreover, an examination of the course of production in the main industrial sectors by category of goods reveals that capital goods rose by 2.9% and consumer non-durables by 2.3%. The decline of the Intermediate Goods Production Index by 6.1%, compared to a growth rate of 4.9% in 2007, appears to be the main reason for the decrease of industrial production.

Construction

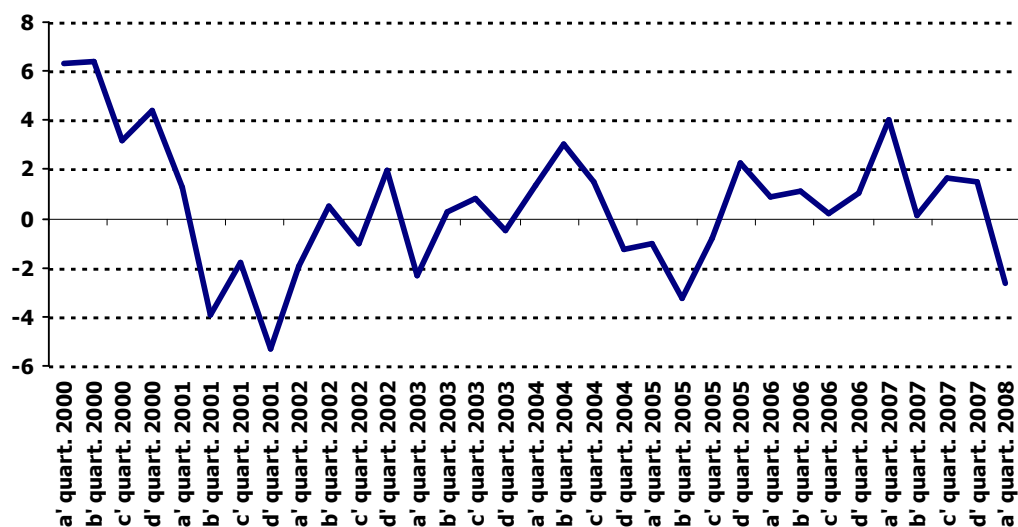
According to the latest NSSG data, the general index of production in Construction registered an increase of 2.8% in the

first quarter of 2008, which marks a considerable deceleration relative to the massive increase of 26.1% recorded in the corresponding period of 2007. This 'correction' is considered to be quite normal, given that such sharp increases as those recorded in 1007 cannot be repeated.

It may therefore be viewed as a positive development the fact that the sector maintained its production at levels to which they reverted in 2007. It is worth noting in this respect that the relevant index recorded its highest value in the last quarter of 2002, after which it embarked on a downward track, before rebounding again after the second quarter of 2005.

Figure 3.2

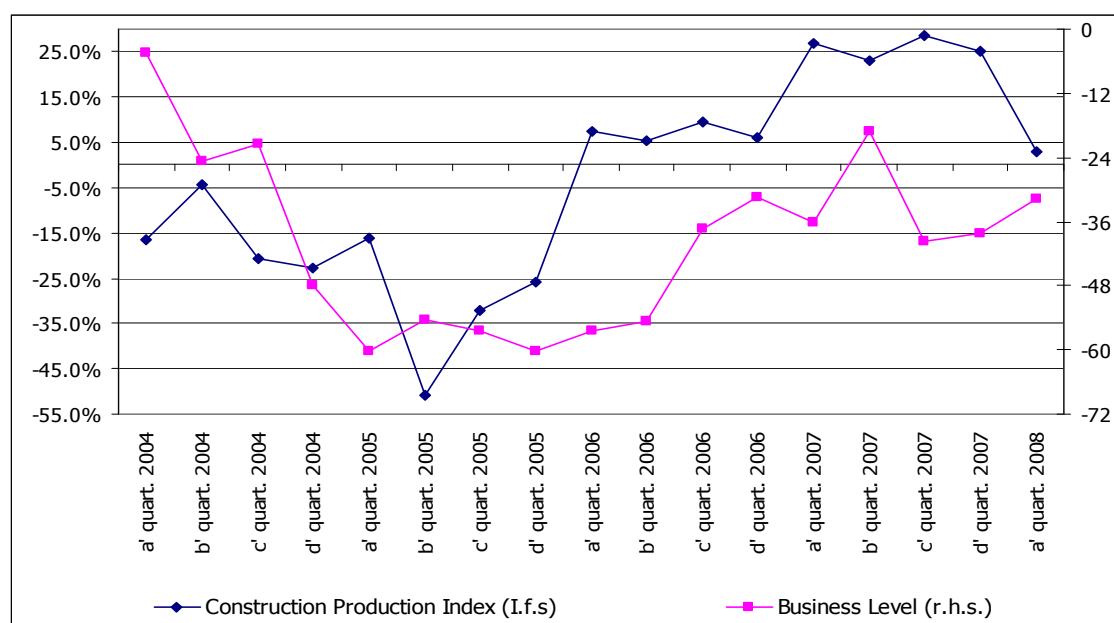
Production Index in Manufacturing
(2000=100, quarter % change)



Source: National Statistical Service of Greece

Figure 3.3

Construction Production Index (annual changes) and Business Level (higher/ lower differences)

**Source:** National Statistical Service of Greece – IOBE

Furthermore, developments in the production index for construction are in line with figures for the Index of Work Schedules in Construction, as compiled from IOBE's Business Surveys. Thus, the expectations of a decline in work levels recorded in the third quarter of 2007 are reflected in the course of the overall production in the following quarter, while the latest data from the business survey concerning the course of work levels, from the last quarter of 2007 and the first quarter of the current year, point to a recovery of production in the coming period.

Retail Trade

The upward movement of the Volume Index in Retail Trade (turnover at constant prices) in recent years was halted in the first quarter of 2008, as the index remained 0.3% below the corresponding

value recorded in 2007, while in the same period of 2007 the volume of turnover grew at a rate of 4.4%. This development is the result of the low turnover registered mainly in February (sales period), since in both January and March the index moved at higher than its year-before levels.

More specifically (Table 3.4), the marginal decrease in retail sales in the first quarter of 2008 is the resultant of the following opposing variations: the rise in the relevant index for department stores (of 2.5%) and supermarkets (2.0%) and its decline in the case of clothing-footwear stores (-5.2%), food-beverages-tobacco stores (-4.8%) and stores selling furniture-electrical goods-household equipment (-2.3%). On the other hand, the course of the Turnover Index for the Trade, Maintenance and Repair of Motor Vehicles and Motorcycles and the Retail Trade of Fuels

and Lubricants (NACE code 50) was positive in the first quarter of 2008, not only relative to the corresponding quarter of 2007 but also compared with the previous quarter (see Figure 3.4). Thus, the upward trend which began in the third quarter of the previous year has continued in 2008, with the index reaching its highest level of recent years at 122.7 (2005=100). The – albeit marginally – negative course of retail trade turnover in the first quarter of 2008 can also be seen in the Confidence

Indicator compiled for the sector by IOBE, which in the first five months of the year was moving at an average of 1.2% lower than its corresponding level one year ago. This decline is attributed to the more moderate expectations of businesses selling clothing-footwear-fabrics and household goods. The same trend is also apparent in the confidence indicator for food-beverages-tobacco stores, which fell by 0.7%.

Table 3.4

Annual Changes in the Index of Retail Trade Volume

Store Categories of Retail Trade	Volume Index (2000=100,0)				Annual Change (07/06)
	Jan.-Mar. 2008	Jan.-Mar. 2007	Jan.-Mar. 2006	Annual Change (08/07)	
General Index	127,7	128,1	122,7	-0,3%	4,4%
I. Store subcategories					
Large Food Stores	147,8	144,8	144,9	2,0%	-0,1%
Multiple Shops	137,7	134,3	131	2,5%	2,5%
Food – Drink - Tobacco	96,5	101,3	101,1	-4,8%	0,2%
Medicare-Cosmetics	141,1	140,1	140,5	0,7%	-0,3%
Clothing, Footwear	102,0	107,6	98,2	-5,2%	9,6%
Furniture – electric household appliances - Household Goods	133,9	137,1	115,6	-2,3%	18,6%
Books - Stationery- Other products	132,4	127,9	113,9	3,5%	12,3%

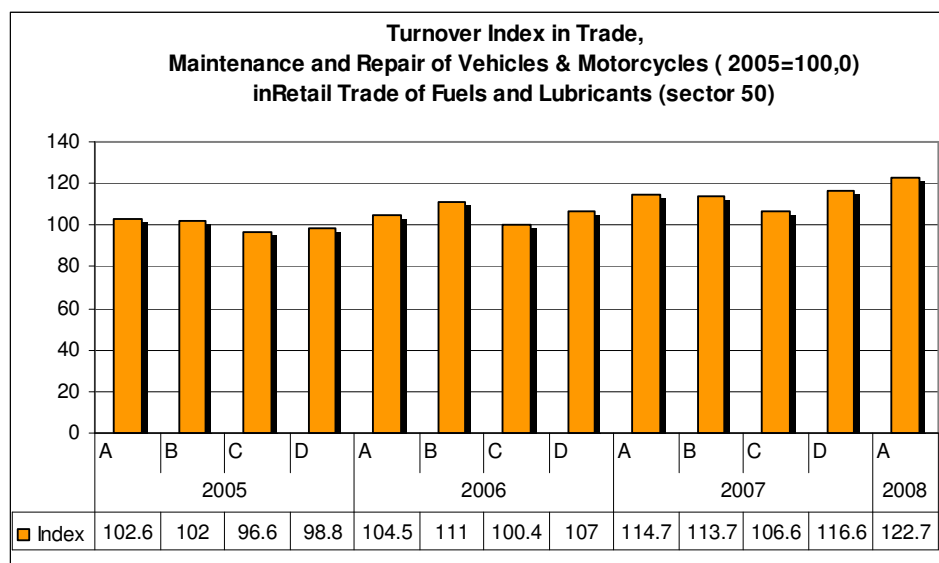
Source: National Statistical Service of Greece

Table 3.5

Sector Indices of Business Expectations in Retail Trade (1996-2006=100)

	Jan.- May 2007	Jan.- May 2008	Percentage change
<i>Food - Drink - Tobacco</i>	121,9	121,1	-0,7
<i>Textile – Clothing - Footwear</i>	137,3	123,2	-10,3
<i>Household goods</i>	127	121,0	-4,7
<i>Motor Vehicles (including parts)</i>	117,5	115,9	-1,4
<i>Multi stores</i>	114,8	122,1	6,4
Total in Retail Trade	120,3	118,8	-1,2

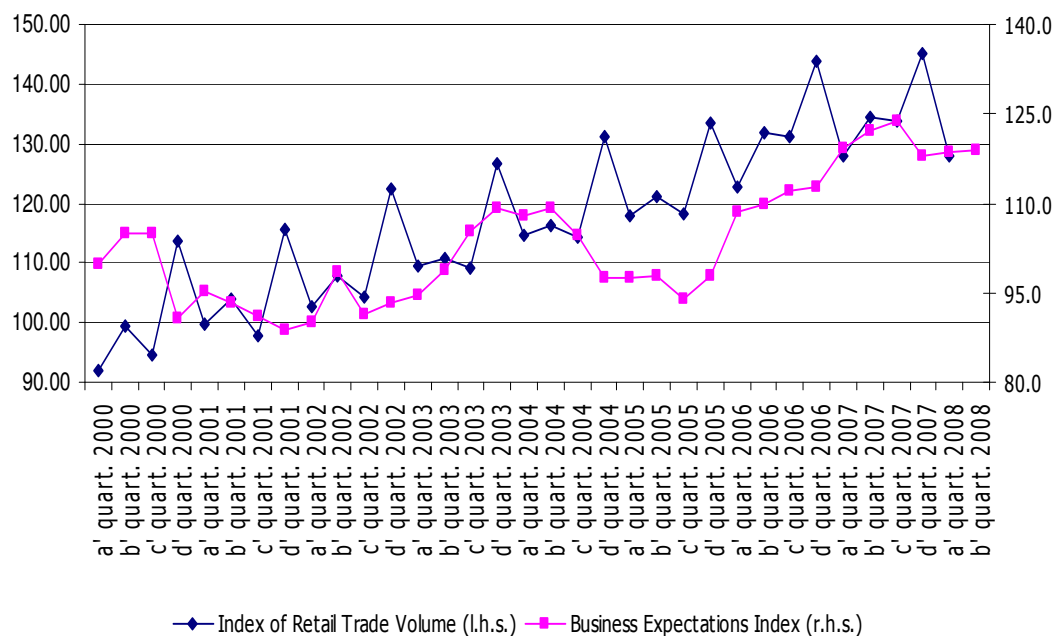
Source:IOBE

Figure 3.4

Source: National Statistical Service of Greece

Figure 3.5

Index of Retail Trade Volume (turnover in constant prices, 2000=100) and Business Expectations Index (1996-2006=100)



Source: National Statistical Service of Greece -IOBE

Wholesale Trade

In the first quarter of 2008, the turnover index for Wholesale Trade also showed a deceleration, growing at a rate of only 6.6% relative to the corresponding quarter of 2007 (against a corresponding rate of increase of 14.5% in 2007). In addition, relative to the last quarter of 2007 the index declined by 4.8% (the corresponding change last year was positive, +0.5%). Consequently, we are seeing a reversal in sentiment, a development to which the problems relating to imports may have contributed, due to the problems observed during that period in the operation of the country's ports.

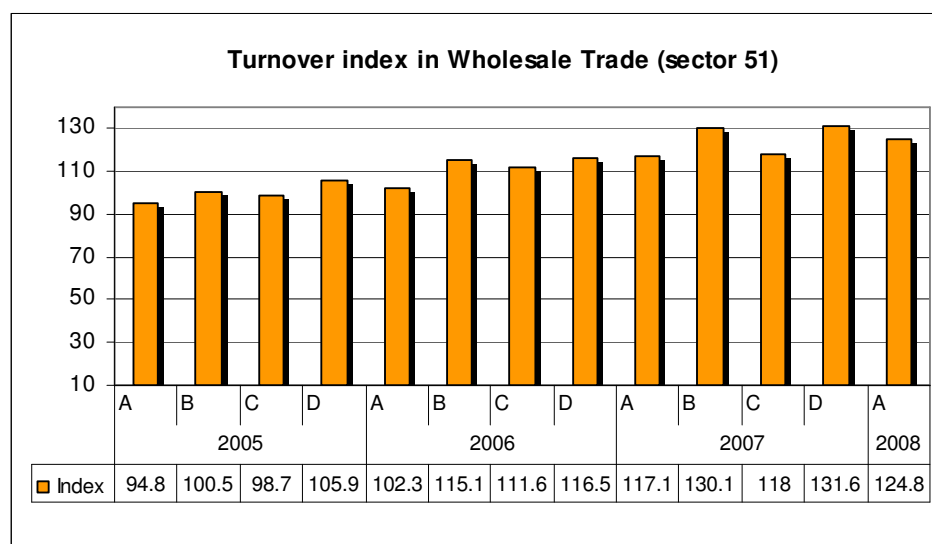
Services

The three indicators of activity (turnover) in selected branches of services, which IOBE has been compiling on a quarterly basis since 2005, also point to a decelerating trend as recorded in other sectors of the economy. More specifically, the evolu-

tion of these indicators in the first months of the current year was as follows:

The Turnover Index in Post & Telecommunications (reflecting developments in the economic activity under NACE code 64) registered a slight increase of 1.1% in the first quarter of 2008, compared to a rise of 2.0% in the same period last year. It should be noted that the driving force of this sector is telecommunications, a branch in which there have been rapid developments in the past two years. The ongoing process of replacing fixed telephony with mobile, but especially the proliferation of broadband services and new integrated connection packages offered by companies in the branch (double play, triple play, etc.) has had a decisive effect on the overall rise of the Post & Telecommunications index. At the same time, strong competition has resulted in price reductions, a development that is also reflected in the corresponding branch index of consumer prices (Communications).

Figure 3.6 (2005=100)

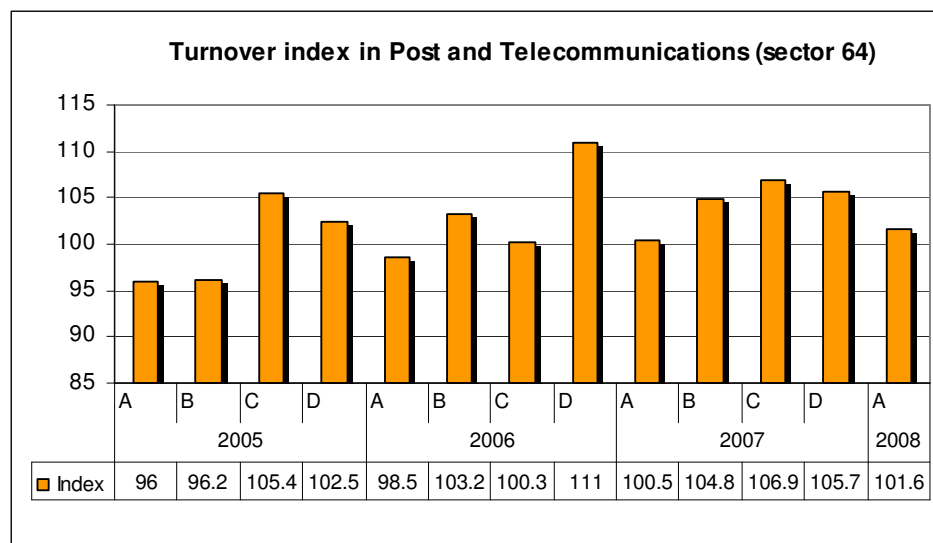


Source: National Statistical Service of Greece

Nevertheless, the fact that even this growing branch is showing signs of demand erosion is indicative of the adverse juncture in the present period. In Computer and Related Activities (NACE code 72), the Turnover Index in the first quarter of 2008 rose by 10.2% relative to the corresponding quarter of 2007, which is slightly lower

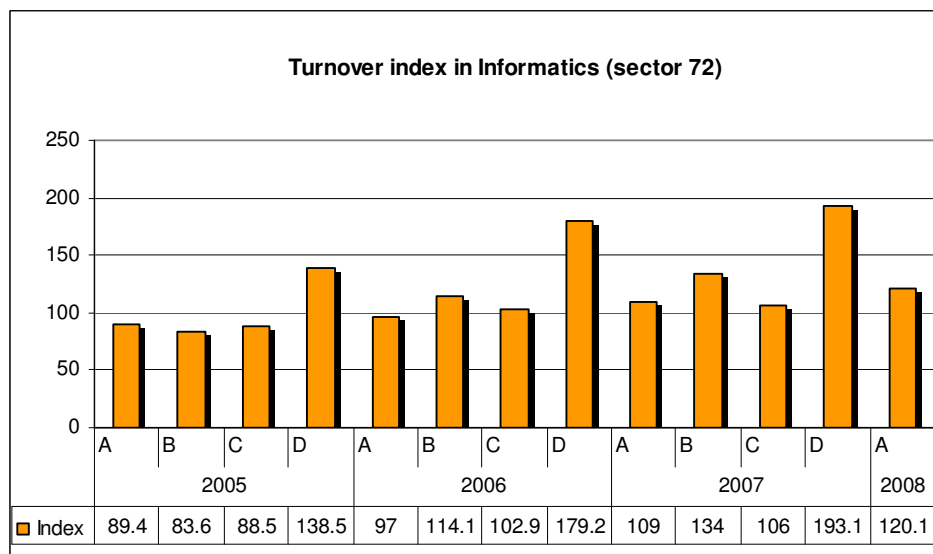
relative to the corresponding rate of increase last year (12.3%). It thus stood at 120.1 (2005=100), a level which is expected to peak in the last quarter of the year, as has happened in all previous years, with a particularly high performance having been recorded in the final quarter of 2007, when the index reached 193.1 (see Figure 3.8).

Figure 3.7 (2005 = 100)



Source: National Statistical Service of Greece

Figure 3.8 (2005 = 100)



Source: National Statistical Service of Greece

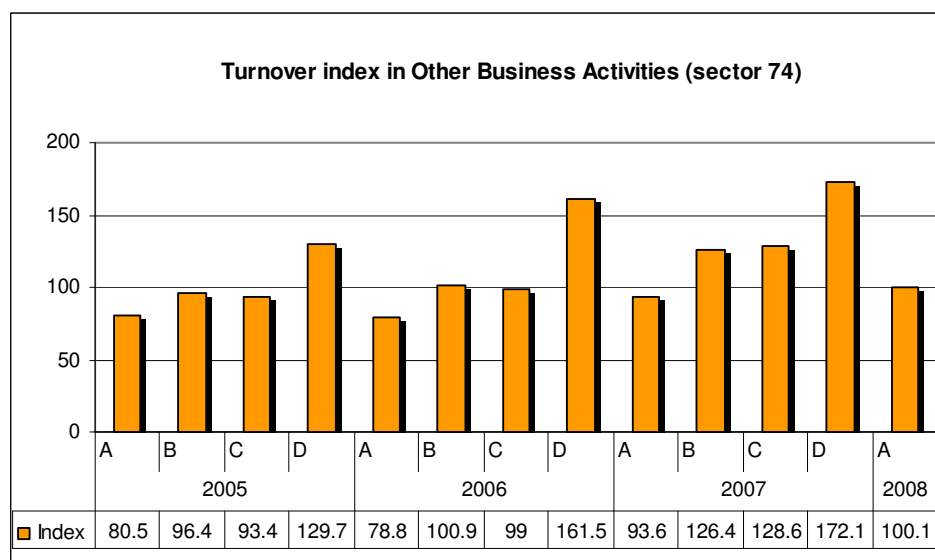
Lastly, the Turnover Index in Other Business Activities (NACE code 74) in the first quarter of 2008 relative to the first quarter of 2007 rose by 7.0%, compared to an increase of 18.8% recorded in the same period of 2007. This index too is therefore declining, converging toward the overall weakening of economic activity in the Services sector.

Moreover, the decline in activity in the Services sector is confirmed also by the branch results of the business surveys conducted by IOBE (Table 3.6). The confidence indicator in the period January-May 2008 stood at 107.1, against 107.9 in the corresponding period of 2007. The biggest decline was recorded in expectations in the *Financial Intermediaries* branch, while there was also a significant drop in the relevant indices for *Hotels-Restaurants*

and *Travel Agencies*. Lastly, the only branch that registered an increase was *Various Services to Businesses*, where assessments improved, without however offsetting the decline recorded in the other three branches.

In conclusion, all the branch indices point to a slowing of economic activity – in some cases faster and in others more moderate – in the first months of 2008, developments which have also been recorded on a national accounts basis, with the results for the rate of growth of the Greek economy in the first quarter of 2008. Indeed, as revealed by the leading indicators of IOBE's business surveys, this trend continues into the second quarter of 2008 and characterizes activity in this period accordingly.

Figure 3.9 (2005 = 100)



Source: National Statistical Service of Greece

Table 3.6

Sector Indices Of Business Expectations in Services (1998-2006=100)

	Jan.- May 2007	Jan.- May 2008	Percentage change
<i>Hotels - Restaurants</i>	112,0	100,1	-10,6
<i>Activities of travel agencies and tour</i>	110,3	95,0	-13,9
<i>Other service activities</i>	95,2	98,3	3,3
<i>Intermediate Financial Organizations</i>	113,7	93,0	-18,2
Total in Services	107,9	107,1	-0,7

Source: IOBE

3.3 The Export Performance of the Greek Economy

Exports rose in 2007, though there was a significant deceleration relative to 2006. More specifically, according to the most recent data (National Statistical Service of Greece, Panhellenic Exporters Association, Export Research Center), in 2007 the total value of exports rose by just 4%, compared to an increase of 18.5% in 2006. In the same period, imports grew at an even faster rate (9.4%). Thus, the trade deficit continued to widen at a rate of over 12.1%, exceeding € 55.5 billion for the year as a whole (approximately € 50 billion in 2006). Exports of goods thus represent 32% of expenditures for imports, compared to 33% in 2006. This trend does not appear to have been reversed in the first two months of 2008, as exports declined by 3% relative to the corresponding period of 2007, mainly due to the decline in exports of oil. More specifically:

Exports of agricultural products continued to rise and were in fact the only category of goods to register an increase (4.8% relative to the first two months of 2007). Thus they accounted for 21.2% of total Greek exports, compared to 19.6% in the

corresponding period of last year. This increase was solely due to exports of the largest category 'food and live animals', which rose by 15.8%, i.e. at a faster rate than any other category of goods, representing 15.8% of total Greek exports. In contrast, exports of 'animal and vegetable oils and fats' and 'beverages - tobacco' continued to drop sharply (-10.5% and -26.9% respectively).

Meanwhile, exports of industrial products remained at the same levels as in 2007 (marginal increase of 0.4%), which represents a significant deceleration relative to 2007 as a whole (7.1%). This allowed them to increase their share in total Greek exports to 63% (from 60.9% in the same two-month period of 2007). Exports of the subcategory 'various industrial products' registered much higher increases than the total (9.1%), thus offsetting exports of 'machinery and transport equipment' (-4.9%).

Exports of raw materials in the period January-February declined by 11.3%, while exports of oil registered an even greater decrease of 23.8%. This latter development meant that the corresponding share of oil exports in total exports in the

first two months of 2008 fell to 8.6%, compared to 12.2% on an annual basis in 2007. Lastly, a sharp reduction was registered by exports of the category 'products and transactions not classified elsewhere' (-28.6%), which now account for 2.7% of the total.

In terms of distribution, relative to the period January-February 2007 exports decreased to the geographical market of EU-25 (-4.8%) and the other OECD countries, as well as to the countries of Africa with the exception of North Africa (-50.8%). In contrast, there was an increase in exports to the Balkans (6.6%), SE Asia (8.0%) and Latin America (48.9%).

In greater detail, exports to developed countries (OECD) fell by 5.9%, representing 58.9% of the country's total exports. The decrease in exports to the countries of EU-25 (54.6% of the total) was higher in the case of the 15 oldest member states, exceeding -6%. This development was due to the decline in exports to key EU-15 partners, such as Italy (-3.5%), United Kingdom (-21.0%) and Spain (-11.2%), which was not offset by marginal increase in exports to Germany (0.4%) and France (0.8%). Italy is the most important export market for Greece, accounting for 12.1% of total exports, ahead of Germany and United Kingdom, which absorb 11.8% and 4.7% of total Greek exports respectively.

After a year of strong growth (21.4% in 2007), exports to the enlargement countries appear to be stabilizing, registering a marginal rise of around 0.6%. With the exception of Cyprus, Hungary and Malta, which increased their exports from Greece,

exports to the other countries declined. It appears that the Balkan market will again in 2008 constitute the most important destination for Greek products, with the corresponding increase in exports reaching 6.6%. Thus, its share in the country's total exports grew relative to the previous year and is estimated at 18.6% (up from 16.5%). Apart from Romania and Croatia, exports to which declined (by 5.1% and 20.1% respectively), exports to the other Balkan countries are rising, at rates of over 10% and as high as 23.5% (Former Yugoslav Republic of Macedonia).

In contrast, exports to N. America fell (-4.3%) relative to the corresponding period of 2007. Despite the fact that exports to the USA rose by 9.1%, this increase was more than offset by the sharp reduction in exports to Canada and Mexico (-6.4% and -81.5%). Lastly, there was an increase in exports to the other OECD countries, except S. Korea (+4.7%), which account for 4.9% of Greek exports.

Among the other notable developments in external trade, the most important is the further growth in demand for Greek products from the CIS countries (increase of 19.8% in 2007). A reversal in the export climate was observed in the countries of Sub Saharan Africa where, following export growth of 53.6% in 2007, a sharp decline of 50.8% was recorded in the first months of 2008. In contrast, after a year in which exports to Latin America fell (-11.8% in 2007), at the beginning of the current year an increase of 48.9% was recorded. As for the developed and developed countries of Asia, exports to Japan decreased by 68.2% after doubling in

2007. Exports to India fell by 44.2% but rebounded in the case of China at a rate of 3.9% (from a reduction of 10.9% in 2007).

The decline in exports, however, is accompanied by a faster decrease of imports

at a rate of around -7.6%. This was due to a reduction in imports of oil (-2.5%), industrial products (-4.0%) and 'products and transactions not classified elsewhere' (-91.5%). In contrast, increases were recorded in imports of agricultural products (+5.2%) and raw materials (+5.5%).

Table 3.7
Exports (mil. €), provisional data

Annual Data (2006-2007)						January - February		
<i>Value</i>			<i>change (%)</i>	<i>Structure (%)</i>		<i>Value</i>		
	2006	2007	07/06	2006	2007	2007	2008	08/07
Agricultural products	3.330,2	3.369,0	1,2	20,2	19,6	517,1	542,1	4,8%
Food and live animals	2.336,0	2.517,4	7,8	14,2	14,7	350,0	405,3	15,8%
Beverages and tobacco	508,7	500,9	-1,5	3,1	2,9	89,3	79,9	-10,5%
Animal and vegetable oils and fats	485,5	350,7	-27,8	2,9	2,0	77,7	56,8	-26,9%
Raw materials	865,3	770,3	-11,0	5,2	4,5	130,5	115,7	-11,3%
Crude materials inedible, except fuels	865,3	770,3	-11,0	5,2	4,5	130,5	115,7	-11,3%
Fuels	2.171,0	2.084,0	-4,0	13,2	12,2	287,4	219,0	-23,8%
Mineral fuels, lubricants, etc.	2.171,0	2.084,0	-4,0	13,2	12,2	287,4	219,0	-23,8%
Industrial products	9.668,2	10.350,7	7,1	58,6	60,4	1.605,2	1.611,7	0,4%
Chemicals and related products	2.180,1	2.363,2	8,4	13,2	13,8	358,1	358,3	0,1%
Manufactured goods classified chiefly by raw material	3.420,5	3.730,9	9,1	20,7	21,8	608,1	606,9	-0,2%
Machinery and transport equipment	2.093,3	2.315,0	10,6	12,7	13,5	362,9	345,1	-4,9%
Miscellaneous manufactured articles	1.974,3	1.941,6	-1,7	12,0	11,3	276,2	301,4	9,1%
Other	449,9	574,0	27,6	2,7	3,3	97,0	69,3	-28,6%
Commodities and transactions not classified by category	449,9	574,0	27,6	2,7	3,3	97,0	69,3	-28,6%
Total exports	16.484,7	17.148,0	4,0	100,0	100,0	2.637,2	2.557,8	-3,0%

Source: KEEM, calculations based on original NSSG

In terms of geographical regions and also taking into account their respective share, the biggest reductions in imports were from SE Asia (-51.2%), N. Africa and the Middle East (-24.9%) and the developed countries of the OECD except EU-25 and N. America (-59.1%). A sizeable decrease in imports was also recorded from South Korea, S. Arabia, Japan, India and China. In contrast, imports from EU-25 (+5.1%) and the Balkan (+45%) increased.

3.4 Employment – Unemployment

According to the data of the NSSG Labor Market Survey, the unemployment rate in the first quarter of 2008 dropped to 8.3%, compared to 9% in the corresponding period of 2007. In absolute figures, this development translates into a reduction of the number of unemployed by 32,406 relative to the corresponding quarter of 2007.

In greater detail, the number of employed in the first quarter of 2008 totaled 4.133 million persons, which represents an increase of 1.4% relative to the corresponding quarter of 2007. However, compared to the final quarter of 2007, there was a marginal decrease in the number of employed of 0.12%, i.e. 5,227 persons. Nevertheless, the labor force (employed and unemployed) as a percentage of the population aged 15 and over in the first quarter of 2008 reverts to 53.4%, thus remaining at more or less the same level as in recent years with only some slight variations. However, the number of employed has risen steadily between 2004 and 2008, at a rate of 2.7%, while correspondingly the unemployment rate fell by three per-

centage points relative to the same quarter of 2004.

Despite the decrease recorded in recent years, the structural problems of unemployment remain. Thus, the unemployment rate among females in the first quarter of 2008 continues to be more than double that of males (12.3% against 5.5%). However, compared to the same period of 2007, the unemployment rate among females fell by 1.6 percentage points, when the corresponding reduction of the unemployment rate among men was marginal (0.1 percentage points).

But also in the context of age groups, the highest rate of unemployment on average in the period January-March of the current year remains steadily among young people aged 15-24 (23.3%), though this figure has decreased by almost 2 percentage points relative to the corresponding period of 2007. Moreover, a significant reduction in the unemployment rate was also recorded in the quarter under review in the 35-45 age group (6.5% against 7.2% in the first quarter of 2007 and 2008 respectively).

As for educational level, the unemployment rate is higher than the total rate among those who have not attended school at all (12.2%), graduates of third-level technical education (10.5%), those who have completed the three-grade lower high school (9.2%) and secondary education (9.1%). The lowest unemployment rate is among holders of doctorates or post-graduate diplomas and university graduates (5.4%).

Table 3.8

Population (in thousands) of 15 years old and over by employment status
(2004-2008, Quarterly data)

Year Quarter	Grand Total	Labor Force					
		Total	% population	Employed	% labor force	Unem- ployed	% labor force
a' quart. 2004	9.044,8	4.792,9	53,0	4.249,1	88,7	543,8	11,3
b' quart. 2004	9.056,9	4.823,2	53,2	4.330,5	89,8	492,7	10,2
c' quart. 2004	9.069,9	4.827,5	53,2	4.341,6	89,9	485,9	10,1
d' quart. 2004	9.082,5	4.831,8	53,2	4.331,4	89,6	500,4	10,4
a' quart. 2005	9.094,0	4.827,3	53,1	4.324,8	89,6	502,6	10,4
b' quart. 2005	9.102,6	4.848,8	53,3	4.381,9	90,4	466,9	9,6
c' quart. 2005	9.112,9	4.855,3	53,3	4.385,6	90,3	469,8	9,7
d' quart. 2005	9.122,3	4.854,3	53,2	4.383,4	90,3	470,9	9,7
a' quart. 2006	9.136,0	4.873,1	53,3	4.400,0	90,3	473,1	9,7
b' quart. 2006	9.150,1	4.880,2	53,3	4.452,8	91,2	427,4	8,8
c' quart. 2006	9.164,2	4.902,5	53,5	4.494,2	91,7	408,3	8,3
d' quart. 2006	9.179,1	4.891,2	53,3	4.462,1	91,2	429,1	8,8
a' quart. 2007	9.195,4	4.906,9	53,4	4.461,2	90,9	445,7	9,1
b' quart. 2007	9.206,7	4.917,9	53,4	4.519,9	91,9	398,0	8,1
c' quart. 2007	9.211,3	4.926,8	53,5	4.539,3	92,1	387,5	7,9
d' quart. 2007	9.216,0	4.915,6	53,3	4.519,1	91,9	396,4	8,1
a' quart. 2008	9.222,7	4.922,8	53,4	4.513,8	91,7	408,9	8,3

Source: National Statistical Service of Greece , Labor Force Survey

Of the total unemployed, 86.7% are seeking full-time jobs, of whom 41.9% looking for full employment only, while 44.8% would prefer a full-time job but would be willing to work part-time. Furthermore, 11.8% of unemployed rejected some employment offer for a variety of reasons, mainly because the job location was not suitable (25.9%) and to a lesser extent because the remuneration was not satisfactory or the working hours did not suit (20.5% and 19.2% respectively). The level of part-time employment remains low at 5.8%. Of those engaged in part-time jobs, 40.7% were unable to find full-time employment, while 9.6% had to take care of young children or dependent adults.

In addition, the percentage of 'new unemployed', i.e. those entering the labor mar-

ket for the first time in search of a job, represent 33.4% of the total unemployed, while the long-term unemployed account for 47.6% of the total. The unemployment rate among foreign nationals is lower than the national average (7.4% against 8.3%), while the percentage of salary earners is estimated at 64.3%, and thus remains lower than the European Union average (80% of the total employed).

At a regional level, the highest rate of unemployment in the first quarter was in the Southern Aegean (16.1% from 15.8% in the corresponding period of 2007), followed by Western Macedonia (12.6% from 12.5%), the Ionian Islands (11.4% from 14.1%) and Western Greece (10% from 9.4% in the first quarter of 2007). The lowest unemployment rate was in the

Northern Aegean (5.4%) and Attica (6.6%).

Lastly, the unemployment rate fell in the primary sector relative to the corresponding quarter of 2007 (-1.9%), with a decline recorded in all sub-sectors, while unemployment rose in the secondary and tertiary sectors (1.7% and 1.5% respectively). Of the sub-sectors that make up the tertiary sector, the highest increases were recorded in real estate management, leasing and other business activities (7.4%) and transport, storage and communications (4.1%), while in the secondary sector, the highest increase was recorded in construction (8.4%).

Despite the positive developments of recent years, Greece continues to have a higher rate of unemployment than the EU-15 average, which means that the growth dynamic of the Greek economy is still characterized by a lower job creation capacity compared to other Eurozone countries. According to the Bank of Greece, this weakness is attributed to the ongoing restructuring of the Greek economy, the main aspect of which is the considerable contraction of the agricultural economy and therefore the loss of a large number of jobs in that sector, the rigidities in the domestic labor market, as well as a certain lack of correspondence between labor demand and supply.

Indeed the recommendations made by the European Commission⁶ are aimed at lowering these obstacles. Among the 'highest priority challenges' for Greece are the following:

a) the consolidation of active labor market policies, in line with an integrated flexicurity approach,

b) the protection of employment by modernizing the relevant legislation in order to cover all forms of contractual arrangements,

c) the further reduction of the tax burden on labor,

d) the tackling of high youth unemployment and the transformation of undeclared work into formal employment,

e) the acceleration of reforms on education and lifelong learning in order to improve the quality of graduates at all levels and their responsiveness to labor market needs, while also allowing for a smooth transition into employment, particularly for the young.

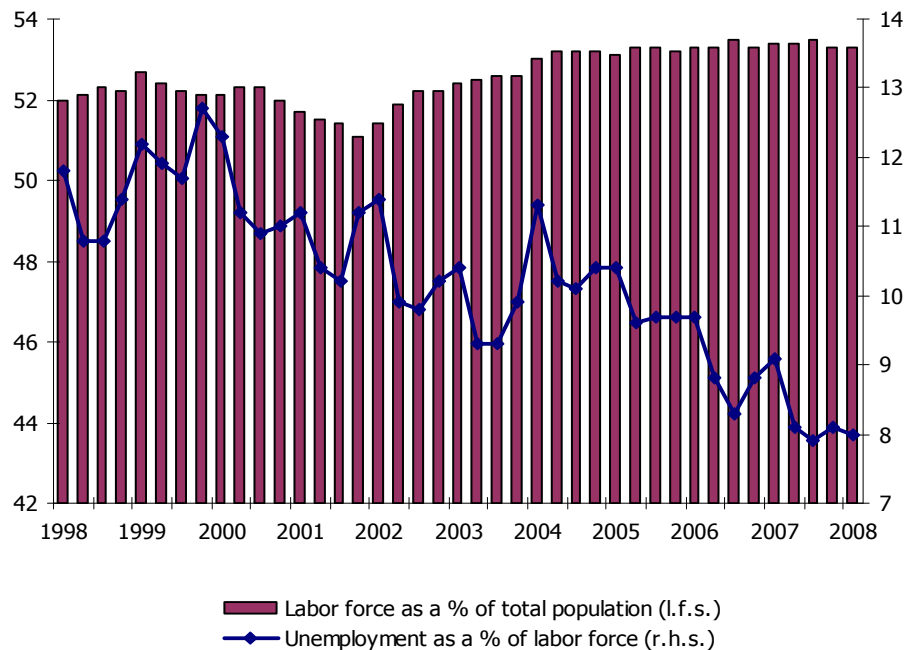
According to the Bank of Greece,⁷ efforts to increase employment rates will require policies that focus on (a) strengthening labor market flexibility by encouraging new forms of work organization and with a greater variety of contractual arrangements available to employees, (b) attracting to the labor market population groups with relatively low participation rates (women and youth) and (c) continually enhancing the skills of the labor force, by improving the systems of education and vocational training so that they respond to economic and technological changes. As the central bank characteristically states: *"economic growth in the long term will have to be based solely on strengthening labor productivity and increasing the employment rate, particularly of women, older persons and youth"*.

⁶ 'Country-Specific Integrated Recommendations, 2008', European Council (4.3.2008)

⁷ Governor's Annual Report for 2007, p. 44.

Figure 3.10

Labor force (proportion % as to the population of 15 years old and over) and unemployed (proportion % as to the labor force)



Source: National Statistical Service of Greece, Labor Force Survey

Additional data on the short-term outlook for employment are provided by the Business Surveys conducted by IOBE. These data point to a relative weakening of the positive assessments about employment in the period January-May 2008 in Industry compared to the corresponding period of last year, but a strengthening of employment in the other sectors, especially Retail Trade. More specifically:

In **Industry**, forecasts for employment were less optimistic in the first five months of 2008 relative to the corresponding period of 2007, but more favorable compared to the final quarter of 2007. Thus, on average in the period January-May, projections of employment in the sector turned less positive (-1) compared to the corresponding period of the previous year (+3). However, the relevant index appears

to show an upward trend which in the two-month period March-April 2008 even resulted in a positive balance, after many months of negative projections. But it remains to be seen whether the deterioration recorded in May signals a new downward trend or proves to be conjunctural.

On the other hand, in **Construction**, employment expectations improved in the first months of 2008, while remaining at less positive levels relative to the corresponding period of the previous year. Consequently, the messages regarding employment in the sector are positive in 2008, since in the two-month period April-May alone, expectations of an increase outweighed expectations of a decrease by 35 points (from +10 last year). Overall for the period January-May of the current year, forecasts for employment in the sec-

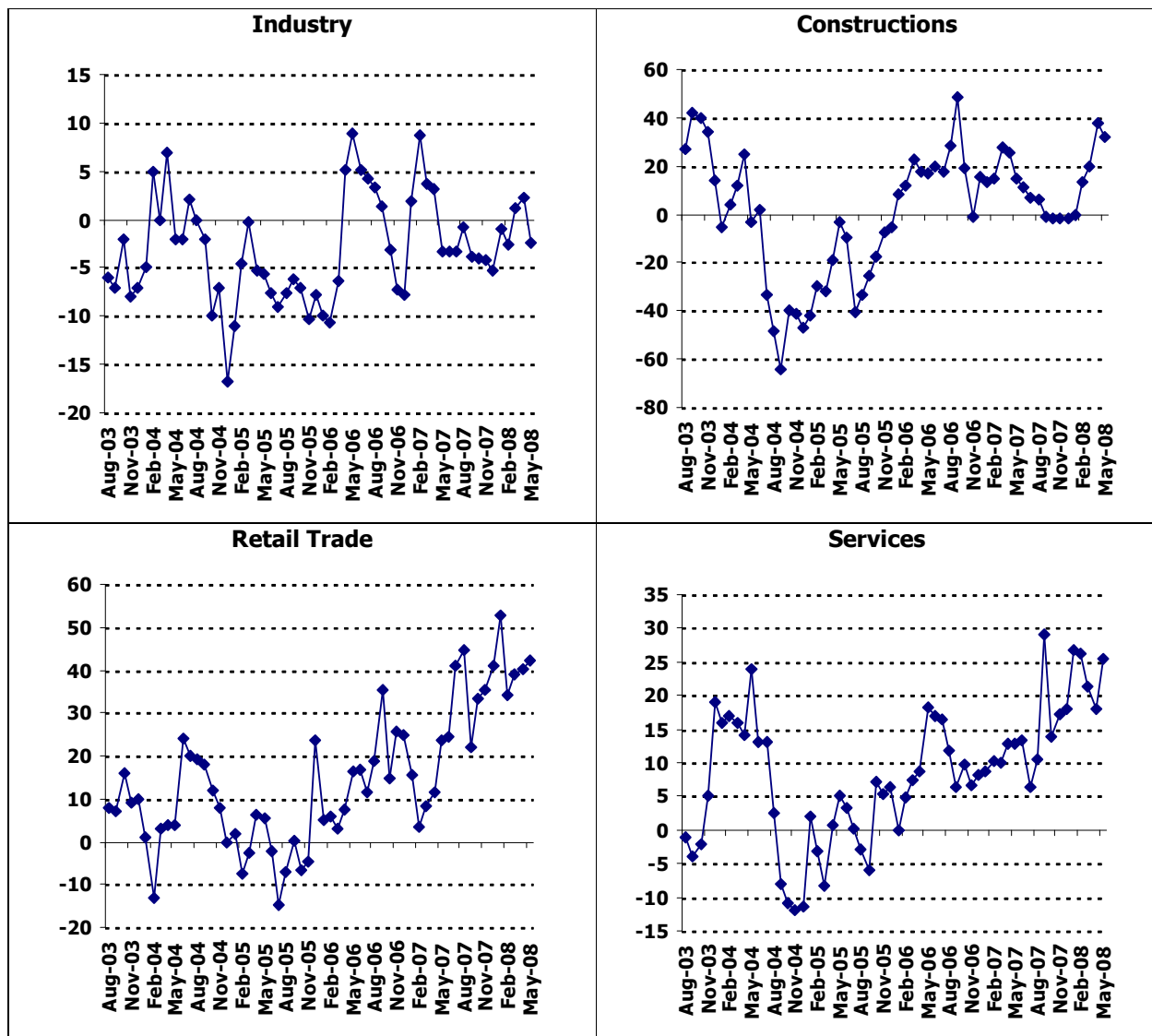
tor are slightly more optimistic (+21) relative to the corresponding period of 2007 (+19).

The trend in **Retail Trade** too is steadily upward, indeed much stronger relative to the corresponding period of 2007. Thus, for the period January-May, the balance of positive/negative responses with regard to forecasts for employment in the sector

reached +42, surpassing the corresponding level of the previous year by 30 points. It would therefore appear that the retail trade sector offers a steadily increasing number of jobs to the Greek economy throughout almost the entire first half of 2008 while indicating a continuation of employment growth in the coming period too.

Figure 3.11

Employment Expectations (% difference between positive – negative answers)



Source: IOBE

Developments were also positive regarding employment expectations in **Services**, with projections overall in the period January-May 2008 much improved relative to the corresponding period of the previous year. So this sector too, along with the others apart from Industry, appears – at least in the short term – to be making a positive contribution to the overall optimism concerning employment in the economy as a whole. Thus, in the five-month period January-May 2008, the relevant balance of positive/negative projections reached +25, which marks an increase of 15 points relative to the corresponding period of 2007.

3.5 Consumer Prices

Developments in 2008

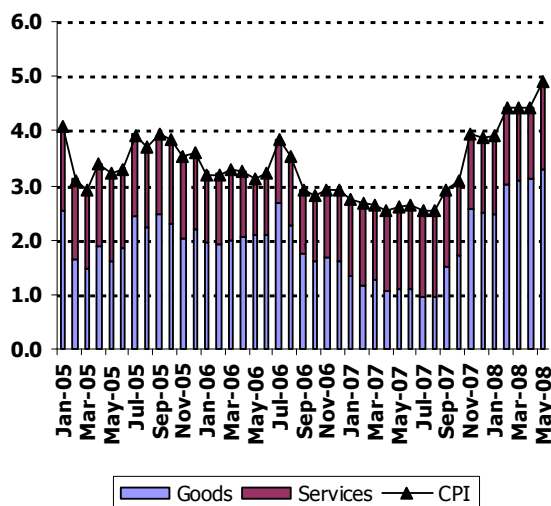
The first months of 2008 are characterized by a strong acceleration in the growth of prices, following on from the upward rates of the previous year. According to the general Consumer Price Index (CPI), inflation in the first five months of the year stood at **4.4%** on average, compared to 2.6% in 2007, which is the same level as the Harmonized Index. In May moreover, inflation surged to 4.9%, a level not recorded since the period leading up to EMU entry (July 1998). Taking into account also the last months of 2007, consumer prices in Greece in the seven-month period November 2007-May 2008 rose at a rate of 4.3%, i.e. almost at the same rate as in the seven-month period November 1997-May 1998. Inflation has thus become a major problem for the Greek economy, the severity of which has not been felt for almost a decade.

On the other hand, the course of core inflation (based on the Harmonized Index), i.e. without taking into account energy and fresh fruit and vegetables, is revealing of the causes of this adverse development. More specifically, in the first five months of 2008 the harmonized index was moving at a rate of 3.2%, which is lower than in the corresponding period of 2007 (3.5%). This means that prices of other goods and services (i.e. excluding the above-mentioned) were increasing at a slower rate this year relative to 2007, but significantly faster compared to the corresponding five-month period of 2005 (3.4%). It is therefore quite clear that the rapid increase is to a great extent connected with the prices of energy and fresh food, as the weight of these factors is decisive for the evolution of the overall index.

Indeed, the oil index registered an increase of 23% in the first five months of 2008, compared to a decrease of 3% in the corresponding period of the previous year, while the energy index rose by 19.6%, against a reduction of 1.7% in 2007. But also the fresh fruit and vegetables index was moving at 6.8%, a much faster rate relative to 2007 (3.7%). The knock-on effect of these high prices to goods has resulted in the relevant price index for goods reaching average levels of 5.2%, which is more than double the corresponding figure in 2007 (2.2%). However, the course of the services index has been more moderate at 3.4%, which marks a deceleration relative to 2007, as the impact of energy/fuel prices on services appears to be registered with a time lag of at least 2.5 months.

Moreover, compared to the other Eurozone countries, Greece outperforms only the new members (Slovenia, Cyprus, Malta) and Luxembourg, though the divergence from average inflation in the Eurozone has been kept at the level of one percentage point. In any case, the rapid increase in prices during 2008 is an international phenomenon and has taken average inflation in the Eurozone to levels above 3%.

Figure 3.12
Inflation (annual % change)

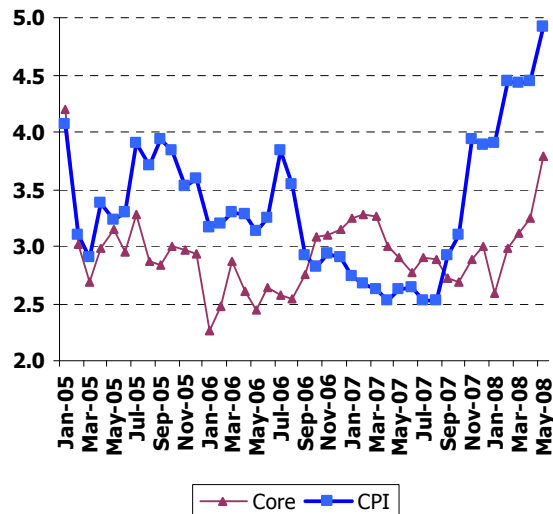


Source: Calculations based on original NSSG data

Soaring oil prices therefore constitute the primary cause behind the acceleration of prices in recent months, despite the counterbalancing – to some degree – appreciation of the euro. But apart from the direct impacts on the respective products, the price of oil has had knock-on effect on a range of goods and services included in the so-called 'consumer basket'. In Greece, these indirect impacts appear to be incorporated very rapidly in other goods and services and lead to substantial cumulative increases. Thus, according to

the NSSG, if fuel prices were at last year's levels, inflation in May 2008 would not exceed 3.6%.

Figure 3.13
Core Inflation
(annual % change)

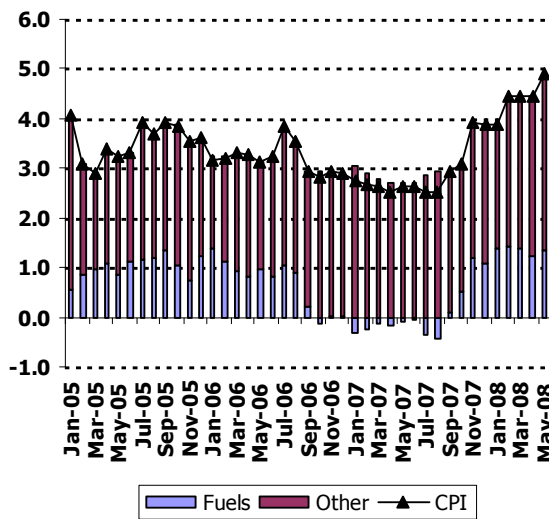


Source: Calculations based on original NSSG data

Not surprisingly, the rate of increase in the first five months of 2008 was faster relative to 2007 in nine of the 12 sub-indices of the CPI. Characteristic examples were the price increases in '*Housing*' (10.2% this year compared to 1.5% in 2007 at average levels), mainly due to home rents, expenditures for repair and maintenance, water/electricity supply, municipal taxes and of course heating oil, in *Transport* (4.8%, from 0.9%), in *Food and Non-Alcoholic Beverages* (6.3% from 2.5%), *Alcoholic Beverages & Tobacco* (6.3% compared to 5.7%), in *Hotels, Cafes and Restaurants* (4.7% from 3.4% in 2007) and in *Education* (4.6% compared to 3.9% in 2007). Only in *Communications* did prices decrease (by 3.1%), but this reduction was insignificant for the overall index.

Figure 3.14

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



Source: Calculations based on original NSSG data

Lastly, the pressures on the supply side, as reflected in the evolution of the producer price index (for the domestic market), which constitutes a leading indicator of inflation, go some way to explaining the rapid increase in prices in 2008 but also point to a continuation of the upward trends during the summer. In 2008 the index rose by 10.5% compared to a marginal increase of 0.9% in 2007, a fact which reflects the strengthening of these pressures this year, whilst the index without energy rose at a rate of 6.7% (compared to 1.7% last year). However, the acceleration of producer prices is not uniform across all sectors. Thus, intermediate goods – which include energy – registered the highest increase (10.1% against 7% in 2007), while prices of capital goods rose at a slower rate (3.4% compared to 5.4% in 2007). In addition, prices of consumer durables were increasing at a rate of 2.6%, which is faster than in the corresponding period of 2007 (4.5%), while prices of consumer non-durables were ris-

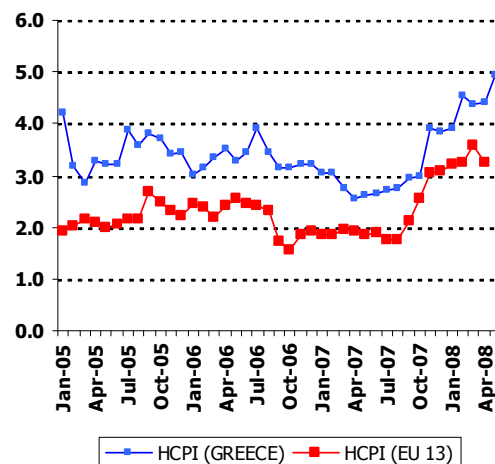
ing at a rate of 6.7%, compared to a decrease of 2.9% in 2007.

Medium-term outlook

The persistence of strong inflationary pressures, as presented in detail in other sections of this report, for over eight months and their gradual strengthening, clearly emanates from the adverse international juncture and oil price hikes, which have created greater uncertainty in energy markets. At the same time, the firming of demand for food in emerging economies has pushed up prices in basic categories of goods which – in turn – determine prices of a wide range of other goods and services. This extraneous factor is affecting all international markets and has strengthened inflation in most countries, not only in the Eurozone but also beyond. In Greece however, the impacts appear to have multiplied, since they are magnified by distortions in the Greek economy.

Figure 3.15

Harmonized Index of Consumer Prices –
Greece &
(annual % change)



Source: Eurostat & NSSG

On the basis of the current, most unfavorable juncture of the past decade, the slight reduction in prices that is gradually expected, after the summer, will not offset the high levels of the first months, which means that there will eventually be a significant acceleration of inflation to above **4.3%** on an annual basis. Clearly, such a projection is worlds apart from the framework of estimates made in the state budget and the Updated Stability and Growth Program, and is even higher than the revised forecast of the European Commission which sees inflation of 3.7% for 2008, before a marginal reduction in 2009. On the other hand, the most recent OECD report projects an inflation rate of around 4.2%, which appears to be a more realistic level given the data available to date.

The fact remains that the economic environment is extremely unsettled and the uncertainties have grown. Oil price forecasts in the majority of cases prove to be wide of the mark and most projections by international organizations indicate that the price of oil in the next six months will be around \$140 per barrel. Given the lower basis of comparison relative to the summer of 2007, the impact will consequently remain equally strong throughout the summer of 2008 and will ease slightly only in the fall.

The appreciation of the euro against the dollar continues – to some extent – to counterbalance imported inflation. In the first five months of 2008, the average euro/dollar exchange rate was \$ 1.53 compared to \$ 1.32 last year, which marks an increase of 15.5%. At the same time, the moment seems to be approaching

when the European Central Bank (ECB) will raise its interest rates (during the summer) in response to the price upsurge. Given the credit expansion among Greek households, monetary tools such as interest rate increases place additional pressures on consumers, but appear to be necessary in the present circumstances.

Meanwhile the signs of a deceleration of economic activity, which had been noted in IOBE's previous report, are now reflected in most indicators (see also sections 3.1 and 3.2 of this report) and illustrate the weakening of domestic demand and the decline of private consumption. However, this decline is probably smaller than expected, as demand appears to be characterized by low price elasticity of demand. Consequently, inflationary pressures on the demand side cannot be expected to moderate significantly in the short term. Lastly, the restrictive fiscal policy which is aimed at containing the deficit, along with imports of consumer goods from low-cost countries, remain at the same levels as in recent years and in this sense cannot make any meaningful contribution to the containment of prices.

These developments appear to be confirmed by the results of IOBE's monthly business surveys which vividly reflect the recent escalation of prices. At the same time, these results serve as leading indicators on the supply side regarding the course of prices in the near term. As noted in IOBE's previous report, "the forecasts continue to be unfavorable, but it is more than likely that prices will gradually subside from May onwards". Indeed, the projections of businesses which see an increase in prices 'follow' the course of infla-

tion, albeit with some variations across sectors. Nevertheless, in all cases expectations of price increases are much higher compared to those reported in the corresponding period of 2007, a fact that leaves little margin for any great optimism. More specifically:

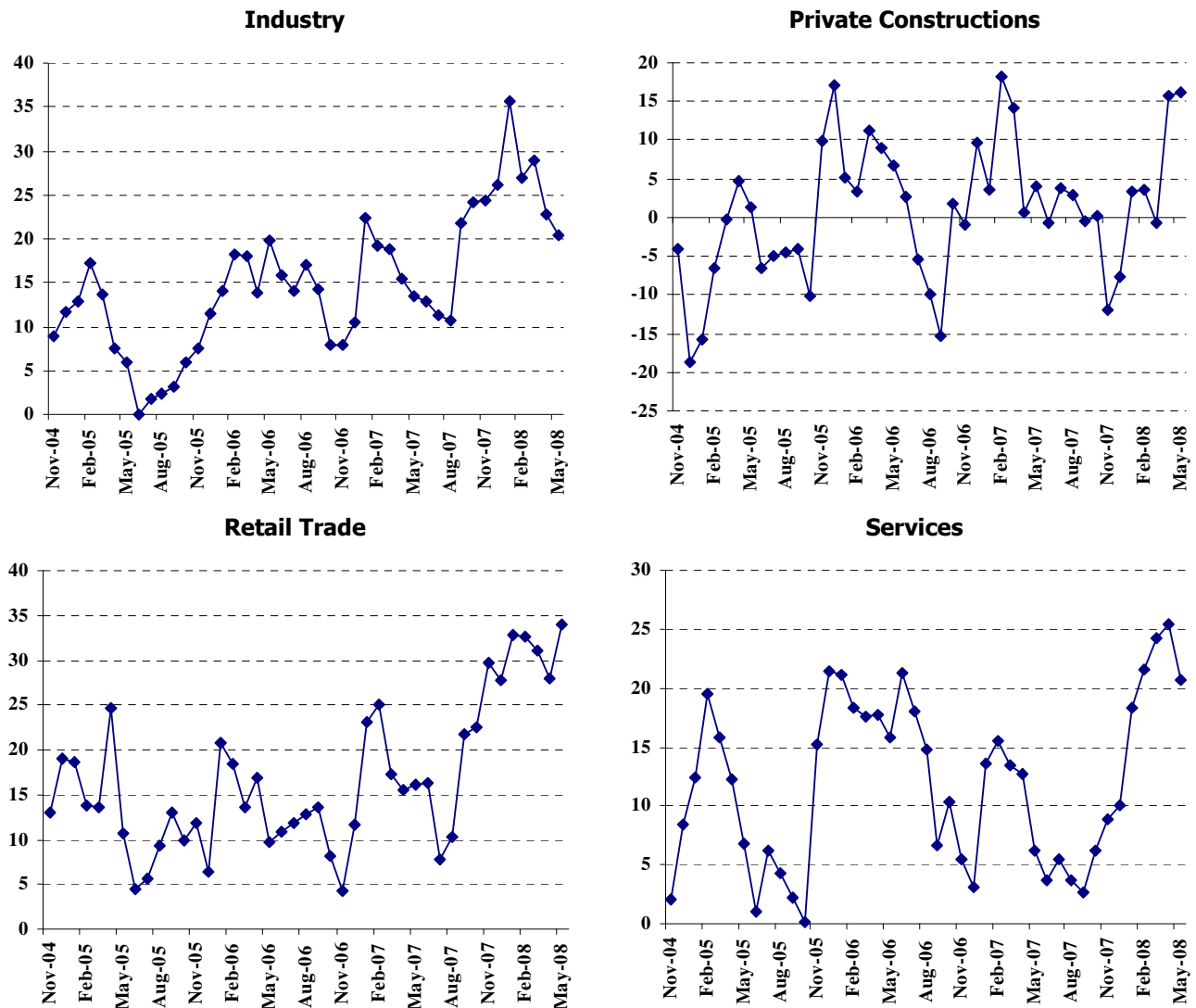
- In **Industry**, the relevant balance of businesses forecasting price increases/decreases in the near term in January reached its highest value of re-

cent years (+36) and the highest of all sectors. As of February, however, these projections steadily moderated, a development which augurs a possible deceleration in price increases of industrial products during the summer months.

- Projections also moved sharply upward in **Retail Trade**, with the relevant balance peaking in the two-month period January-February, before a slight correction subsequently.

Figure 3.16

Price Expectations (% difference between positive – negative answers)



Source: IOBE

However in May it reached the highest level of the past decade, which leaves little margin for projections of a deceleration in price increases in the near term. It should be noted, moreover, that this sector is very closely linked with the general CPI, since it shows the course of final prices of a very large number of goods.

- The picture is much the same also in **Services**, with a historical high being registered in April, when the relevant balance of businesses forecasting price increases/decreases surpassed +25. The correction that followed in May was quite substantial, but it remains to be seen whether this signals a downward trend and an easing of pressures from this sector of the economy.

- Lastly, in **Private Construction** too, although a sector with certain particularities, expectations of price increases became stronger only in the last two months and are moving at higher levels relative to the situation in the corresponding period of 2007. Price expectations in this sector appear to be following a cyclical course. The deceleration of prices was considerable in 2007, a trend which continued until November, when projections pointed to a reduction of prices. In the last two months, however, projections in this sector of the economy too have strengthened. Nevertheless, the relevant balance stands at the lowest level relative to the other sectors, which means that in the present period at least, Private Construction is not contributing decisively to the strengthening of inflationary pressures.

3.6 Balance of Payments

Current Account Balance

According to Bank of Greece data, in the first quarter of 2008 the current account deficit narrowed by € 667 million (reduction of around 7.4%) compared to the corresponding period of 2007, to total € 8.3 billion. This development is the result of the sharp increase in both the current transfers surplus (in February) and the services surplus, which more than offset the expansion of the trade deficit and the income account deficit.

Specifically, the widening of the total deficit of the **trade balance** by € 911 million (increase of 9.6%) was mainly due to the growth of the goods trade deficit excluding oil and ships by € 716 million as well as of net payments for oil imports by € 527 million. These developments more than offset the 16.3% decrease in net payments for the purchase of ships. As for the trade balance excluding ships and oil, export receipts rose by € 265 million, while payments for imports increased by € 981 million.

The **services surplus** rose substantially, by 47.2% or € 750 million, mainly on account of an increase in net receipts from transport services. Gross receipts from transport services (mainly from merchant shipping) rose by 32% and gross travel receipts by 5.7%. These developments thus more than offset the increased – though at a lower rate than in the corresponding period of 2007 – payments for interest, dividends and profits in the first quarter of 2008, as well as the small deficit (€ 17 million), compared to a surplus (€

23 million) in the same period of the previous year, in the balance of travel services.

In contrast, the **income account deficit** grew by 16.9% (€ 258 million), due to higher net payments for interest, dividends and profits, i.e. on account of an increase in the public debt holdings of non-residents.

Lastly, the sharp expansion of the **current transfers surplus** by € 1 billion was chiefly due to an increase in general government net receipts from the EU and a decrease in payments to the EU.

Capital Transfers Balance

In the first quarter of 2008, the capital transfers balance showed a surplus of € 1.6 billion, which marks an 18.5% decrease relative to the corresponding period of 2007, a development that reflects the decrease in capital transfers from the EU to general government. Thus, the overall balance of transfers (current and capital) showed a surplus of € 3 billion, compared to € 2.3 billion in 2007, which marks an overall increase of 31.8%.

Financial Account Balance

In the first quarter of 2008, the financial account surplus declined by 9.1%, as the net outflow for **direct investment** totaled € 340 million. More specifically, net inflows of non-residents' funds for direct investment amounted to only € 56 million, whilst net outflows of residents' funds for direct investment abroad totaled € 395 million. In the same period, a net inflow of approximately € 7 billion – which repre-

sents a decrease of around 37.1% - was recorded under **portfolio investment**, as inflows of non-residents' funds for investment in Greece (in Greek government bonds totaling € 11.6 billion) more than offset the outflows of residents' funds for investment in bonds and Treasury bills (totaling € 4.8 billion). In the category '**other**' **investment**, the small net outflow of € 544 million was due to the outflow of residents' funds for (a) investments in deposits and repos abroad and (b) the repayment of loans granted by non-residents to residents, which was offset to a significant degree by the inflow of non-residents' funds for deposits and repos in Greece. At the end of March 2008, the country's **reserve assets** stood at € 2.4 billion, which represents an increase of 29.2% relative to the corresponding period of 2007.

According to the Bank of Greece, it is the decline in the international competitiveness of the Greek economy which has in recent years contributed to the shaping of the high current account deficit.⁸ In this respect, the substantial shortfall of national savings compared to relatively high domestic investment expenditure has had a decisive impact. Part of the deterioration can also be attributed to the process of convergence of the Greek economy with its developed European counterparts, to the extent that the widening of the deficit reflects productive investments which reinforce the production capacity of the Greek economy. On the other hand, due to excess domestic demand, as highlighted by the growth of private consumption and the

⁸ Nevertheless, for 2007 as a whole, the rate of expansion of the deficit was lower relative to 2006 (60% against 36% in 2007).

increase in investment activity in recent years (in direct contrast with the evolution of these indicators in the other countries of the Eurozone), imports of goods and services are growing at fast rates. At the same time, the rate of growth of exports, due to the low structural competitiveness of the domestic economy but also the higher rate of inflation, is not fast enough to narrow the deficit. This results in the expansion of the external debt without any improvement in the capacity to service this debt by means of a greater promotion of internationally competitive goods and services.

Because of the above, the prospects for a reduction of the current account deficit in the coming years are not good, even though its narrowing in the first quarter of 2008 is encouraging. This means that a high proportion of GDP in the coming years will continue to be absorbed by net expenditures for servicing the financial obligations of the private and public sectors toward non-residents, with adverse consequences for investment, development prospects and the standard of living in the country. It is therefore quite clear that economic policy must, at the earliest, include efforts to tackle the extremely high current account deficit among its immediate priorities.

Table 3.9
Balance of External Payments (mil.€)

		January - March			March		
		2006	2007	2008	2006	2007	2008
I	CURRENT ACCOUNT (I.A+I.B+I.C+I.D)	-8.087,4	-9.021,5	-8.354,8	-3.310,7	-3.092,0	-3.515,4
I.A	GOODS (I.A.1-I.A.2)	-9.139,0	-9.469,4	-10.380,8	-3.740,0	-3.418,1	-3.427,6
I.A.1	OIL balance	-2.539,6	-2.162,5	-2.689,9	-1.046,2	-716,3	-961,1
	TRADE BALANCE excluding oil	-6.599,4	-7.306,9	-7.690,9	-2.693,8	-2.701,8	-2.466,5
	Ship's BALANCE	-572,4	-1.217,9	-885,8	-234,9	-593,1	-390,1
	TRADE BALANCE excluding oil and ships	-6.027,0	-6.089,0	-6.805,1	-2.458,9	-2.108,7	-2.076,4
	Exports	3.652,3	3.796,9	4.666,7	1.350,6	1.296,9	1.391,0
I.A.2	Oil	634,1	554,0	1.089,6	224,2	186,7	286,7
	Ships	284,8	396,1	465,6	118,8	85,3	169,2
	Other goods	2.733,4	2.846,8	3.111,5	1.007,6	1.024,9	935,1
	Imports	12.791,4	13.266,2	15.047,5	5.090,6	4.715,0	4.818,6
	Oil	3.173,7	2.716,5	3.779,5	1.270,4	903,0	1.247,8
	Ships	857,2	1.614,0	1.351,4	353,7	678,4	559,3
	Other goods	8.760,5	8.935,7	9.916,6	3.466,5	3.133,6	3.011,5
I.B	SERVICES (I.B.1-I.B.2)	1.554,8	1.589,3	2.339,0	617,3	613,3	659,7
I.B.1	Receipts	4.677,9	4.891,2	6.160,2	1.719,6	1.771,0	1.865,8
	Travel	519,4	544,0	575,0	212,0	238,7	225,0
	Transportation	3.548,0	3.659,4	4.829,3	1.275,8	1.308,1	1.417,1
	Other services	610,5	687,8	755,9	231,8	224,2	223,8
I.B.2	Payments	3.123,0	3.301,9	3.821,3	1.102,3	1.157,7	1.206,1
	Travel	526,5	520,6	592,0	156,9	158,3	182,0
	Transportation	1.697,3	1.772,1	2.139,1	601,1	625,0	710,7
	Other services	899,3	1.009,2	1.090,2	344,3	374,4	313,4
I.C	INCOME (I.C.1-I.C.2)	-1.382,0	-1.520,7	-1.778,4	-551,9	-521,3	-686,7
I.C.1	Receipts	764,7	1.132,0	1.273,9	284,5	427,6	477,3
	Compensation of employees	70,3	82,7	91,1	27,7	34,6	25,1
	Investment income	694,4	1.049,3	1.182,8	256,8	393,0	452,3
I.C.2	Payments	2.146,7	2.652,7	3.052,3	836,4	948,9	1.164,1
	Compensation of employees	65,7	82,0	82,3	22,5	31,4	26,4
	Investment income	2.080,9	2.570,7	2.969,9	813,9	917,5	1.137,6
I.D	CURRENT TRANSFERS (I.D.1-I.D.2)	878,8	379,3	1.465,4	363,9	234,1	-60,8
I.D.1	Receipts	1.921,8	1.724,3	2.587,0	573,8	456,9	196,8
	General Government (mainly transfers from EU)	1.351,6	1.218,2	2.057,6	374,9	279,2	39,7
	Other sectors	570,2	506,1	529,4	198,9	177,7	157,1
I.D.2	Payments	1.043,0	1.345,0	1.121,7	209,9	222,9	257,6
	General Government (mainly transfers to EU)	853,3	1.086,9	819,7	150,8	144,0	180,6
	Other sectors	189,7	258,1	302,0	59,1	78,9	77,0
II	CAPITAL TRANSFERS (II.1-II.2)	737,8	1.917,2	1.561,6	629,4	1.076,2	220,4
II.1	Receipts	805,7	1.992,2	1.655,2	652,1	1.102,2	245,2
	General Government (mainly transfers from EU)	758,3	1.937,4	1.402,2	636,1	1.080,9	214,0
	Other sectors	47,5	54,8	253,0	16,0	21,2	31,1
II.2	Payments	68,0	74,9	93,6	22,6	26,0	24,8
	General Government (mainly transfers to EU)	7,0	6,8	7,3	2,3	2,0	1,8
	Other sectors	60,9	68,1	86,3	20,3	24,0	22,9
III	CURRENT ACCOUNT AND CAPITAL TRANSFERS (I+II)	-7.349,6	-7.104,3	-6.793,1	-2.681,2	-2.015,8	-3.295,0
IV	FINANCIAL ACCOUNT (IV.A+IV.B+IV.C+IV.D)	7526,4	6882,8	6254,2	3120,0	2422,0	3069,9
IV.A	DIRECT INVESTMENT*	422,9	-2051,8	-339,5	59,0	-150,9	-144,8
	Abroad	-143,4	-2223,4	-395,4	-78,6	-345,8	-110,1
	Home	566,2	171,6	55,9	137,6	194,8	-34,6
IV.B	PORTFOLIO INVESTMENT*	1009,0	11051,9	6954,7	1672,2	4443,9	-4362,1
	Assets	-4930,5	-3638,7	-4230,7	-1420,7	-876,4	389,9
	Liabilities	5939,6	14690,6	11185,4	3092,9	5320,3	-4752,0
IV.C	OTHER INVESTMENT*	6336,5	-2049,3	-544,0	1683,8	-1765,0	7651,7
	Assets	-2241,2	-9709,3	-4653,3	1203,4	-2310,9	-262,7
	Liabilities	8577,7	7660,0	4109,3	480,4	545,9	7914,4
	(Loans of General Government)	-117,7	-1177,4	-39,4	41,0	-258,6	-6,3
IV.D	CHANGE IN RESERVE ASSETS**	-242,0	-68,0	183,0	-295,0	-106,0	-75,0
V	BALANCE ITEM (I+II+III+IV)	-176,7	221,4	538,9	-438,7	-406,1	225,1
	RESERVE ASSETS (STOCK) (end period)***				2187,0	2237,0	2386,0

* (+) 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. **Source:** Bank of Greece

4. ENTREPRENEURSHIP IN GREECE 2007-2008

In 2007, IOBE participated for the 5th successive year in the research consortium Global Entrepreneurship Monitor as GEM's national team partner in Greece. GEM is the only research program which provides a comparative evaluation (benchmarking) of the level of entrepreneurship over time in a large number of countries around the world, using harmonized measurement variables. In 2007, 42 countries participated in the program.⁹

According to the overall results, as well as the processing of the raw data by IOBE, **5.7%** of the population **aged 18-64** in Greece in 2007, i.e. approximately 388,000 persons, were in the early stages of entrepreneurial activity (including self-employment). These were individuals who in 2007 had either taken some preliminary steps toward setting up a business (nascent entrepreneurs) or have already been running a business and paying salaries for at least three months, but for less than 42 months (new entrepreneurs).

The results for 2007 show a sharp decline in new entrepreneurial activity (defined as 'early stage') relative to the previous year, halting the upward trend of recent years. As can be seen in the relevant table, the corresponding figure for 2006 was 7.9%, while in 2005 it was estimated at 6.5%. This decline applies to both nascent entre-

preneurs and new entrepreneurs. More specifically, in 2007 just 1.1% of the population aged 18-64 (approximately 75,000 individuals) owned or participated with others in the ownership of a new business (established for less than 3.5 years), compared to 2.3% in the previous year. This development, in conjunction with the fact that established business ownership continued to grow, confirms the assumption made in previous GEM reports, that entrepreneurship manifests itself also in waves: a higher rate of early-stage entrepreneurs in one year gradually increases the rate of established business ownership in the country, though not in a continuous manner.

This performance ranks Greece 26th (out of 42 countries), but 7th among the 22 European countries, which means the country slipped a number of places relative to 2006. Thus, for the first time, the index for Greece has fallen below the average index for early-stage entrepreneurial activity in Europe which is over 6%. Although GEM's first reports have shown that the relationship between the level of early-stage entrepreneurial activity and a country's economic growth is somewhat ambivalent (i.e. high rates of early-stage entrepreneurial activity are recorded in countries with varying levels of economic growth), the 2007 report reveals the persistence of a relative distinction that had been identified also in 2006, at least regarding both ends of the scale. Thus, in

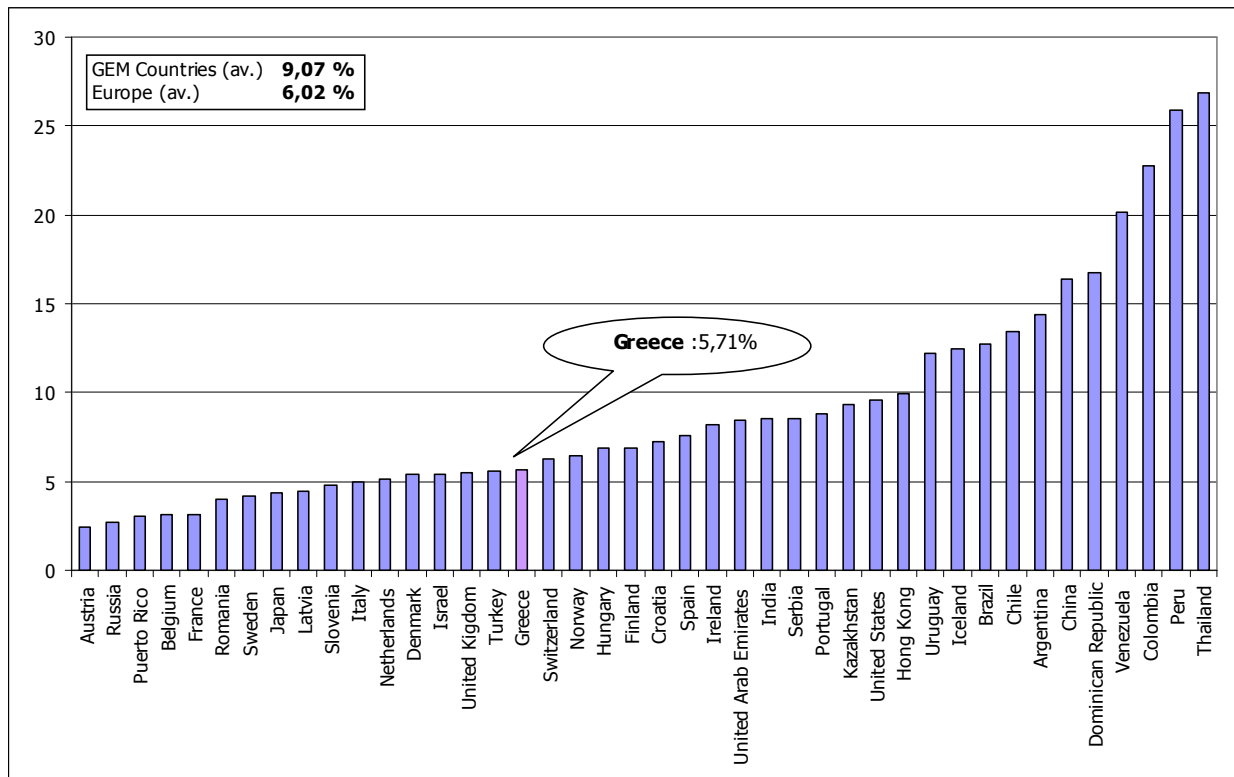
⁹ For more information about the GEM research results, as well as IOBE's Entrepreneurship Monitor reports, visit www.iobe.gr.

2007 the highest rates of early-stage entrepreneurial activity were recorded mainly in developing countries (Thailand, Peru,

Philippines), while the lowest rates were registered chiefly in developed countries (Belgium, Austria, France).

Figure 4.1

Overall Early Stage Entrepreneurial Activity (2007): % of people (ages 18–64) per country



Source: GEM, data processing IOBE

Table 4.1

Evolution Of basic Entrepreneurship Indices: % of population (ages 18-64)

	Early Stage Entrepreneurial Activity	Female Entrepreneurship	Nascent Entrepreneurs	Discontinuation of entrepreneurial activity	Informal investors
2003	6,8%	4,0%	13,6%	3,0%	2,3%
2004	5,8%	2,9%	13,4%	2,6%	2,6%
2005	6,5%	3,4%	15,4%	3,0%	2,6%
2006	7,9%	4,7%	14,1%	2,7%	3,0%
2007	5,7%	3,5%	13,7%	2,6%	2,6%
5-YEAR AVERAGE	6,5%	3,7%	14,1%	2,8%	2,6%

Source: GEM, data processing IOBE

Table 4.2

Prevalence rates of Entrepreneurial Activity and Business Owner-Managers (ages 18-64) across European Countries (2007)

	Nascent Entrepreneurial Activity	New Business Owner-Managers	Early Stage Entrepreneurial Activity*	Established Business Owner-Managers	Overall Entrepreneurial Activity
Austria	1,5%	1,0%	2,4%	6,0%	8,4%
Belgium	2,7%	0,4%	3,2%	1,4%	4,6%
France	2,3%	0,9%	3,2%	1,7%	4,8%
Denmark	2,3%	3,1%	5,4%	6,0%	11,1%
Switzerland	3,5%	2,9%	6,3%	6,6%	12,7%
Greece	4,6%	1,1%	5,7%	13,3%	18,7%
United Kingdom	2,9%	2,7%	5,5%	5,1%	10,5%
Ireland	4,2%	4,2%	8,2%	9,0%	16,8%
Island	8,5%	4,5%	12,5%	8,8%	19,8%
Spain	3,5%	4,3%	7,6%	6,4%	13,4%
Israel	3,6%	2,0%	5,4%	2,4%	7,4%
Italy	3,6%	1,5%	5,0%	5,6%	10,4%
Kazakhstan	4,3%	5,3%	9,4%	5,8%	14,8%
Croatia	5,3%	2,0%	7,3%	4,2%	11,1%
Latvia	2,2%	2,3%	4,5%	3,4%	7,7%
Norway	3,9%	2,8%	6,5%	5,9%	12,0%
Netherlands	2,7%	2,6%	5,2%	6,4%	11,3%
Hungary	3,8%	3,1%	6,9%	4,8%	11,7%
Portugal	4,8%	4,1%	8,8%	7,1%	15,4%
Romania	2,9%	1,3%	4,0%	2,5%	6,5%
Russia	1,3%	1,3%	2,7%	1,7%	4,3%
Serbia	4,8%	4,0%	8,6%	5,3%	13,7%
Slovenia	3,0%	1,8%	4,8%	4,6%	9,3%
Sweden	1,9%	2,4%	4,2%	4,7%	8,8%
Turkey	1,9%	3,7%	5,6%	5,5%	10,8%
Finland	4,4%	2,7%	6,9%	7,6%	14,0%
GEM Countries (av.)	4,9%	4,4%	9,1%	6,6%	15,3%
Europe (av.)	3,6%	2,9%	6,4%	5,6%	11,7%

People who are involved in two entrepreneurial activities and are both considered nascent entrepreneurs and owner-managers of a new business are counted only once in the summation. This is the reason why divergences are present.

Source: GEM, data processing IOBE

On the other hand however, the decline in early-stage entrepreneurial activity is accompanied by a significant decrease in **necessity entrepreneurship**. This category is defined as the undertaking of en-

trepreneurial activity, not in an effort to seize some business opportunity recognized by an individual in the economic environment in which s/he operates, but due to the lack of any better option for work or

even dissatisfaction with their current employment or the fear of possible dismissal in the near term. Just 9.6% of early-stage entrepreneurs identified by the survey in Greece reported that their sole motivation was necessity, compared to a figure of 20% in 2006. Therefore, to some degree, the decline in early-stage entrepreneurial activity recorded in 2007 is the result of a sharp decrease in necessity entrepreneurship. It is worth noting that in 2006 the growth of early-stage entrepreneurial activity had been partly attributed to the substantial increase in necessity-driven entrepreneurship.¹⁰ Consequently, it would appear that this category of entrepreneurship has a decisive effect on the course of the index. The highest rates of necessity entrepreneurship was recorded in Serbia (46%) and Croatia (40%), followed closely by France and Hungary.

Regarding opportunity entrepreneurship in Greece and the underlying reasons which drove these individuals to try and exploit a business opportunity, it is worth noting that the main reason cited is to increase/maintain their personal income, i.e. to improve their standard of living overall, rather than to achieve greater employment independence. In contrast, in the other European countries – on average – the main motivation appears to be the need for greater independence. So, in Greece, the recognition of business opportunities in the wider economic environment continues to be supported more by the desire to commence entrepreneurial

activity for the purpose of boosting personal income and less by the potential or prospects which its exploitation may have. As noted in previous reports of IOBE, this would appear to consolidate the view that a decisive factor in the manifestation of entrepreneurial activity in Greece is not only the number of opportunities that exist in the Greek economy and the degree to which these are recognized by an individual, but also the individual's actual desire to become an entrepreneur and therefore to seek out more carefully the field in which he/she might engage in profitable business activity. In this respect he/she differs from the average European opportunity-driven entrepreneur, who primarily seeks greater employment independence, rather than being dissatisfied with the standard of living secured by his/her current income.

As for **established business owners**, i.e. that percentage of the population aged 18-64 who own or participate in the ownership of a business that has been operating for at least 3.5 years, the level rate remained high in 2007. Greece continues to be ranked 1st in Europe, which is explained by the country's comparatively higher rates of self-employment. Overall therefore, and taking into account all categories of entrepreneurs, approximately 19% of the population aged 18-64 (almost 1.3 million persons) reported that in 2007 they were either in the early stages of commencing business activity or were participating in the ownership of a business or were self-employed, or were

¹⁰ Ioannidis S., Tsakanikas A., *Entrepreneurship in Greece 2006-2007*. IOBE, 2007

selling goods/services to third parties (European average: 11.7%).

The demographic characteristics of entrepreneurial activity in Greece have changed little. Over time, as emerges from all the GEM surveys (2003-2007), one in three early-stage entrepreneurs are in the 25-44 age group, while approximately three in five have completed or have attended some years of secondary education (high

school graduates). The decline in entrepreneurial activity in 2007 also had an impact on the index of female entrepreneurial activity. Thus, in 2007 just 3.5% of the female population aged 18-64 were in the early stages of entrepreneurial activity, compared to 4.7% in 2006. This performance ranks Greece 14th in Europe, dropping a number of places relative to 2006 (6th place).

Table 4.3

Prevalence Percentage Rates of Early-Stage Entrepreneurial Activity (ages 18-64) across European Countries by Gender

Countries	Male Entrepreneurship (2007)	Female Entrepreneurship (2007)
Austria	3,06	1,84
Belgium	4,3	1,98
France	4,14	2,21
Denmark	6,21	4,56
Switzerland	7,59	4,92
Greece	7,96	3,46
United Kingdom	7,41	3,6
Ireland	10,57	5,87
Iceland	17,4	7,44
Spain	9,75	5,48
Italy	6,69	3,3
Croatia	9,44	5,13
Latvia	7,7	1,41
Norway	8,59	4,28
Netherlands	6,64	3,7
Hungary	9,29	4,52
Portugal	11,7	5,92
Romania	4,95	3,09
Serbia	12,11	5,06
Slovenia	6,84	2,68
Sweden	5,78	2,47
Finland	8,96	4,81
GEM Countries (av.)	11,10	7,03
Europe (av.)	8,05	3,99

Source: IOBE, data processing GEM

Other key findings of GEM's report for 2007 include the following:

❖ 13.7% of the population aged 18-64 reported that they intended to start a business venture (including self-employment) within the next three years (14.2% in 2006). This percentage (5th in Europe) is higher than the European average (around 11.7%) and augurs at least the maintenance of a steady rate of new business development in the coming years.

❖ 1.8% of the population aged 18-64 reported that during 2007 they had closed or discontinued the operation of a business that they had owned or participated in its management, or had ceased some form of self-employment. Although this figure represents a significant decrease relative to 2006 (2.7%), it remains higher than the European average. However, it should be noted that financial reasons were cited for the 'closure' of almost two out of three business ventures. A further 11% cited personal reasons, while almost one in ten reported that they had found other employment (possibly salaried).

❖ There was a sharp increase in the percentage of the population aged 18-64 who believe that business opportunities exist in the area where they live and which could be profitably exploited. This percentage is estimated at 29% in 2007, compared to 22% in 2006, but is far below the European average (41%). Consequently, despite the improvement, a large segment of the population does not believe Greece offers business opportunities

or does not perceive them to be opportunities that can be exploited.

❖ There was also a decline to its long-term levels in the percentage of the Greek population characterized as 'informal investors'. According to GEM's methodology, these are individuals who state that in the past three years they have used their own money to fund someone else's start-up business, without those individuals holding a stake or having managerial duties in the new venture.¹¹ In Greece in 2007, 2.6% of the population (aged 18-64) reported that they had funded a new/nascent business venture started by someone else, compared to 3% in 2006. The highest percentage recorded in 2007 was in Iceland (7.5% of the population), followed by France (5.5%) and Switzerland (4.9%).

❖ At the same time, 59% of Greeks – the highest percentage worldwide – continue to report that the fear of failure would prevent them from setting up a business (European average 35%). This therefore remains the strongest factor inhibiting new entrepreneurial activity in Greece.

❖ Over half of new business ventures (51.3%) are undertaken in consumer-oriented activities, i.e. where the primary customer is a physical person (European average 35%). This again confirms the 'shallowness' of new entrepreneurial activity in Greece, i.e. the fact that new activities are not undertaken along the entire

¹¹ 'Informal investment' does not include actions such as the purchase of a company's stock or mutual fund units.

'value chain' as far as the final product, but only at the level of the last link in the chain. These activities are characteristic of countries with a low/medium level of development, although it remains the main category of activity (with lesser intensity) also in countries with a high level of development. Nevertheless, it should be noted that in 2007 new business ventures involving the provision of services to enterprises showed a significant increase, accounting for 24% of total ventures recorded in the survey, compared to just 13% in 2005, but 30% on average in Europe.

❖ The degree of innovativeness of this new entrepreneurial activity, in the sense of offering truly unique new products on the market or creating new markets (e.g. filling market niches), is extremely low and below that of other countries, a problem that is associated with the low quality of new venturing. Thus, just 12.8% of nascent and new entrepreneurs claim that

they (will) offer products and services which are entirely new for all the customers they (will) target, which is marginally below the corresponding European average (13%) and places Greece in the middle of the European ranking. At the same time, only 5.4% of these entrepreneurs report that they are entering a completely new market with no competitors. Cumulatively moreover, the percentage of new ventures producing/selling a product/service which appears new to all or some of their potential customers and at the same time is being launched in a market with few or no competitors is just 21.8%, a figure which ranks Greece 9th in Europe (22 countries) in 2007.

It should be noted that the annual report for Greece, containing a detailed analysis of national data in comparison with the other countries, is expected to be published by IOBE's research team later in 2008.

5. APPENDIX: STRUCTURAL INDICATORS

The following appendix is divided into two parts, so that beginning with the present IOBE report, it incorporates the model now being followed in the framework of the monitoring of the Lisbon Strategy:

A) Part A includes the performances of the EU-25 member states in the 14 structural indicators which comprise the short list of indicators now used by the European Commission to monitor implementation of the Lisbon objectives by each member state and the progress of structural changes in the respective economies. The composition of the short list will remain unchanged until 2007.

B) Part B presents a selection from the other indicators which were adopted by the European Commission in 2000 in an effort to provide national governments with a set of clear, distinct and easily measurable indicators which convey the degree of structural adjustment of each member state. These indicators thus comprise (together with the above 14 indicators) the long list of indicators which Eurostat systematically monitors and harmonizes for EU-25.

The main aim of the entire set of structural indicators is to record the progress that has been made in five key policy domains, which relate to employment, innovation and research, changes in the structure of the economy, social cohesion and the environment. At the same time, a number of main economic indicators are additionally monitored which present a picture of the general economic environment in which the structural changes are being made.

Each of the indicators presented below is represented graphically for all 27 countries (wherever data are available) whilst Greece's performance compared to the averages of EU-27, EU-25, EU-15 and the Eurozone (latest revision by Eurostat, August 2007) is presented in tabular form.

EU27	European Union (In January 2007 Bulgaria and Romania became EU- member)
EU25	European Union
EA13	Eurozone (In January 2007 Slovenia became Euroarea - member)
BE	Belgium
CZ	Czech republic
DK	Denmark
DE	Germany
EE	Estonia
EL	Greece
ES	Spain
FR	France
IE	Ireland
IT	Italy
CY	Cyprus
LV	Latvia
LT	Lithuania
LU	Luxembourg
HU	Hungary
MT	Malta
NL	Netherlands
AT	Austria
PL	Poland
PT	Portugal
SI	Slovenia
SK	Slovakia
FI	Finland
SE	Sweden
UK	United Kingdom

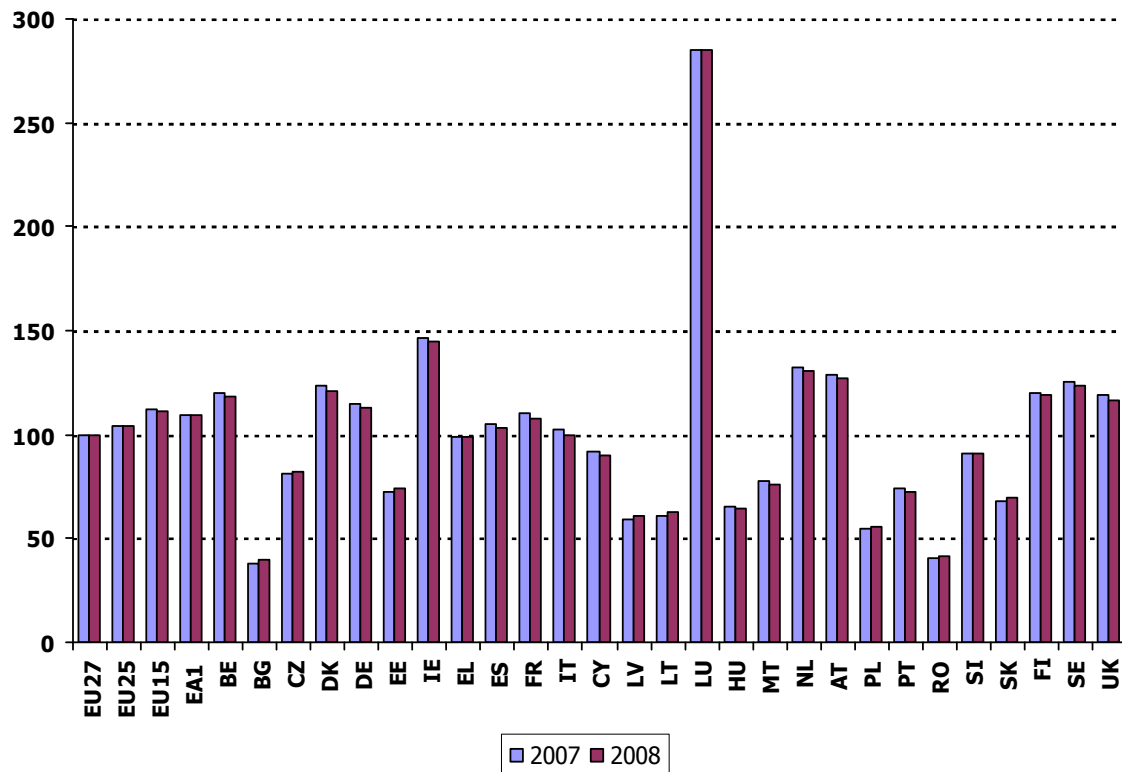
PART A
(SHORT - LIST)

I-A. GENERAL ECONOMIC BACKGROUND

I-1a. GDP per capita

(Purchasing Power Standards, PPS, EU-25=100)

Purchasing Power Standards (PPS) are indicators of the average price ratios between different countries. Use of them makes it possible to compare the volume of GDP per capita, of different countries



	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU27	100	100	100	100	100	100	100	100f	100f
EU25	105	104,8	104,6	104,4	104,2	104,1	103,9	103,8f	103,7f
EU15	115,2	114,8	114,2	113,7	113,1	112,7	112,1	111,5f	110,9f
EA13	113,9	113,6	112,7	111,9	110,7	110,8	110,3	109,5f	109,1f
EL	84,3	86,7	91	92,2	93,9	96,1	97,2	98,6f	98f

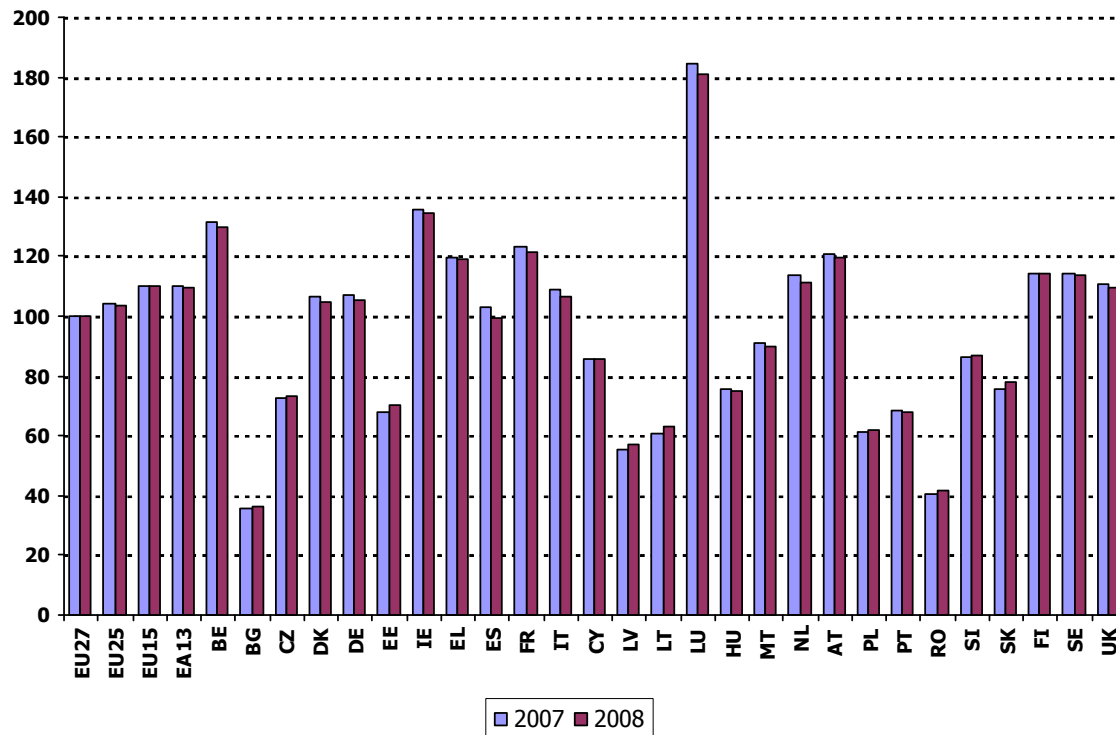
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Source: Eurostat

I-2a. Labour productivity per person employed

(GDP in PPS per person employed EU-25=100)

Persons employed cover employees and self employed. Employees include persons engaged by an employer under a contract of employment, civil servants, armed forces and owners of corporations. Persons temporarily not at work because of illness, injury, holidays or vacations, strike or training leave are also considered as employed. The definitions used are consistent with International Labour Organization (ILO) definitions



	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU27	100	100	100	100	100	100	100	100f	100f
EU25	104,8	104,6	104,5	104,4	104,2	104	103,8	103,8f	103,7f
EU15	113,1	112,5	111,8	111,4	110,9	110,7	110,4	110,1f	109,7f
EA13	113,8	113	112,1	111,4	110,4	110,6	110,3	109,8f	109,4f
EL	93,8	97,2	100,4	100,3	101,8	103,5	103,8	105,7f	104,9f

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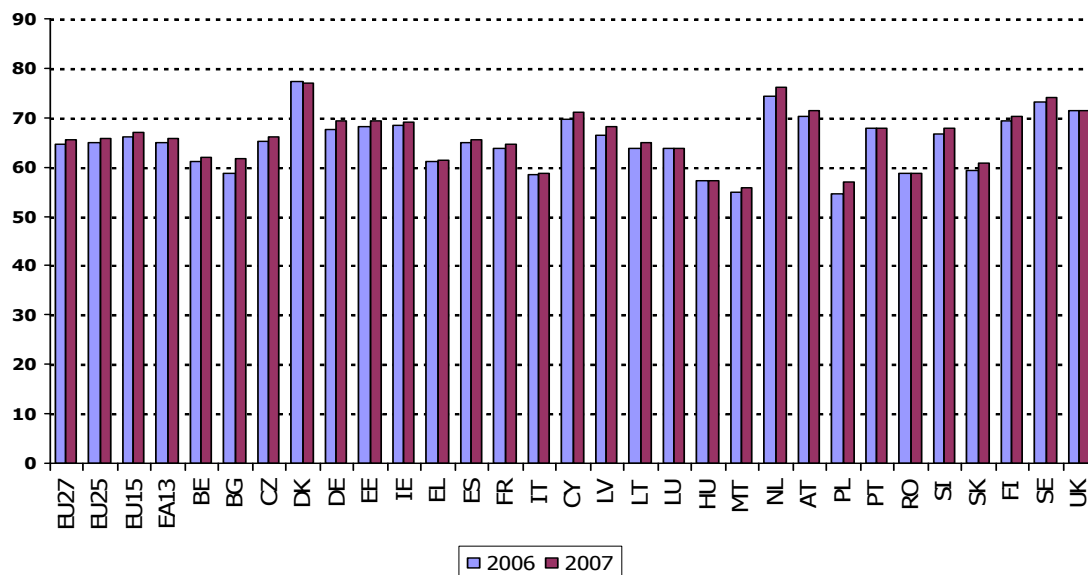
Source: Eurostat

II-A. EMPLOYMENT

II-1a. Total employment rate

(Employed persons aged 15-64 as a share of the total population of the same age group)

The employment population consists of those persons who during the reference week did any work for pay or profit for at least one hour or were not working but had jobs from which there were temporarily absent. The survey covers persons aged 15 years and over, living in private households. Persons living in collective households (halls of residence, medical care establishments, religious institutions, collective worker's accommodations, hostels e.t.c) and persons carrying out obligatory military service are no included.

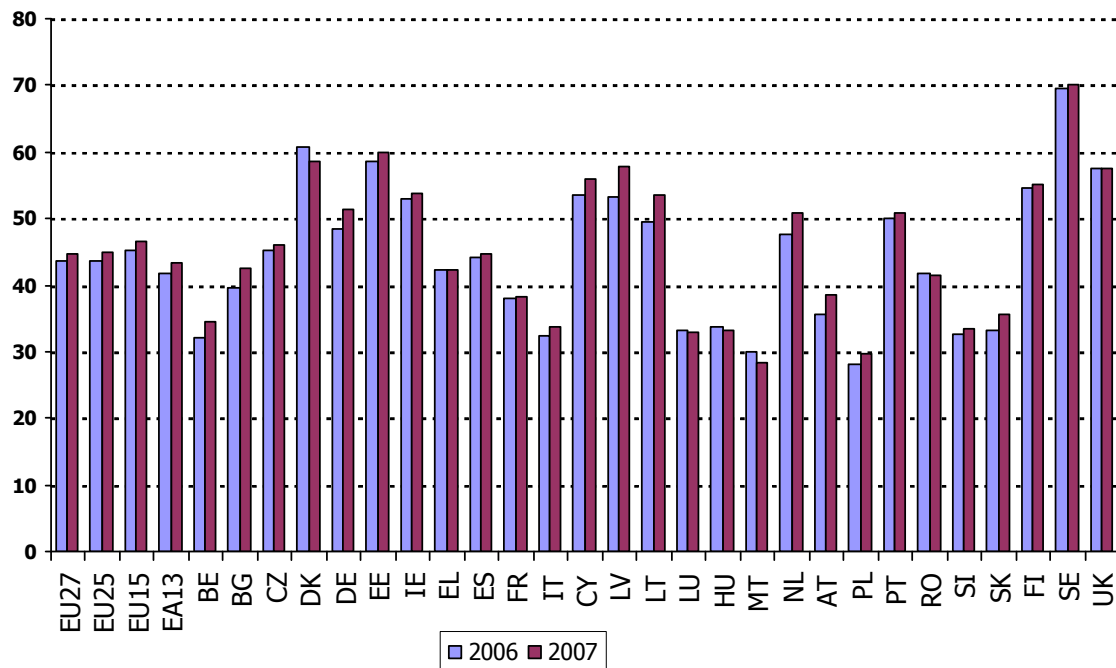


	2000	2001	2002	2003	2004	2005	2006	2007
EU27	62,2	62,5	62,3	62,6	62,9	63,5	64,5	65,4
EU25	62,4	62,8	62,8	63	63,3	64	64,8	65,8
EU15	63,4	64	64,2	64,4	64,8	65,4	66,2	66,9
EA13	61,5	62,2	62,4	62,7	63,2	63,8	64,8	65,7
EL	56,5	56,3	57,5	58,7	59,4	60,1	61	61,4
<i>Males</i>								
EU27	70,8	70,9	70,3	70,3	70,4	70,8	71,6	72,5
EU25	71,2	71,3	71	70,9	70,9	71,4	72,1	73
EU15	72,8	73,1	72,8	72,7	72,7	73	73,6	74,2
EA13	71,6	72	71,7	71,6	71,6	71,9	72,7	73,4
EL	71,5	71,4	72,2	73,4	73,7	74,2	74,6	74,9
<i>Females</i>								
EU27	53,7	54,3	54,4	54,9	55,5	56,3	57,3	58,3
EU25	53,6	54,3	54,7	55,2	55,8	56,6	57,6	58,6
EU15	54,1	55	55,6	56,2	56,9	57,8	58,7	59,7
EA13	51,4	52,4	53,1	53,8	54,7	55,7	56,9	58
EL	41,7	41,5	42,9	44,3	45,2	46,1	47,4	47,9

p: provisional data Source: Eurostat

II-2a. Total employment rate of older workers

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

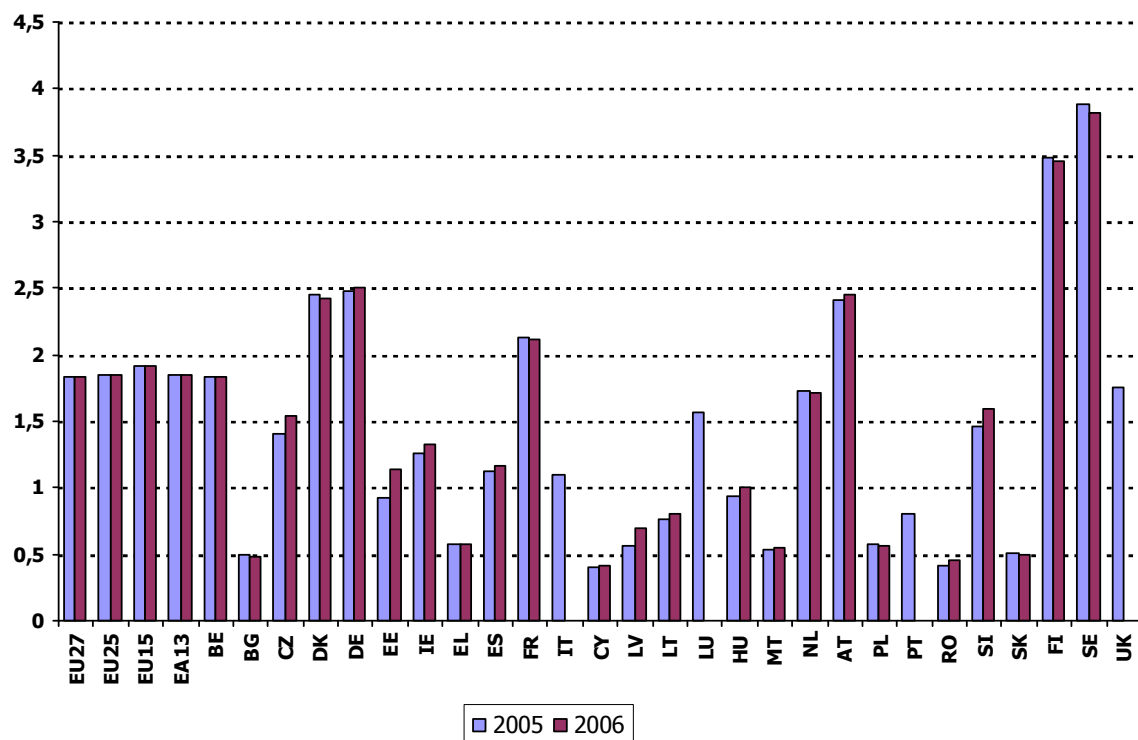


	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	36,5	36,9	37,7	38,5	40	40,7	42,4	43,5	44,7
EU25	36,2	36,6	37,5	38,7	40,3	41	42,6	43,7	44,9
EU15	37,1	37,8	38,8	40,2	41,7	42,5	44,2	45,3	46,6
EA13	33,8	34,3	35,1	36,4	37,8	38,6	40,5	41,8	43,3
EL	39,3	39	38,2	39,2	41,3	39,4	41,6	42,3	42,4
<i>Males</i>									
EU27	46,9	47,1	47,7	48,4	49,9	50,4	51,6	52,7	53,9
EU25	46,7	46,9	47,7	48,8	50,3	50,8	51,9	52,8	54,1
EU15	47,5	48	48,9	50,1	51,6	52,2	53,3	54,1	55,3
EA13	44,4	44,8	45,5	46,7	48	48,6	49,8	50,9	52,3
EL	55,7	55,2	55,3	55,9	58,7	56,4	58,8	59,2	59,1
<i>Females</i>									
EU27	26,7	27,4	28,2	29,1	30,7	31,6	33,6	34,9	36
EU25	26,3	26,9	27,8	29,2	30,8	31,7	33,8	35	36,1
EU15	27,1	28	29,1	30,7	32,2	33,2	35,5	36,9	38,1
EA13	23,7	24,3	25,1	26,6	28	29	31,6	33,1	34,7
EL	24,4	24,3	22,9	24	25,5	24	25,8	26,6	26,9

Source: Eurostat

III-A. INNOVATION & RESEARCH

III-1a. Gross domestic expenditure on R&D (as a percentage of GDP)



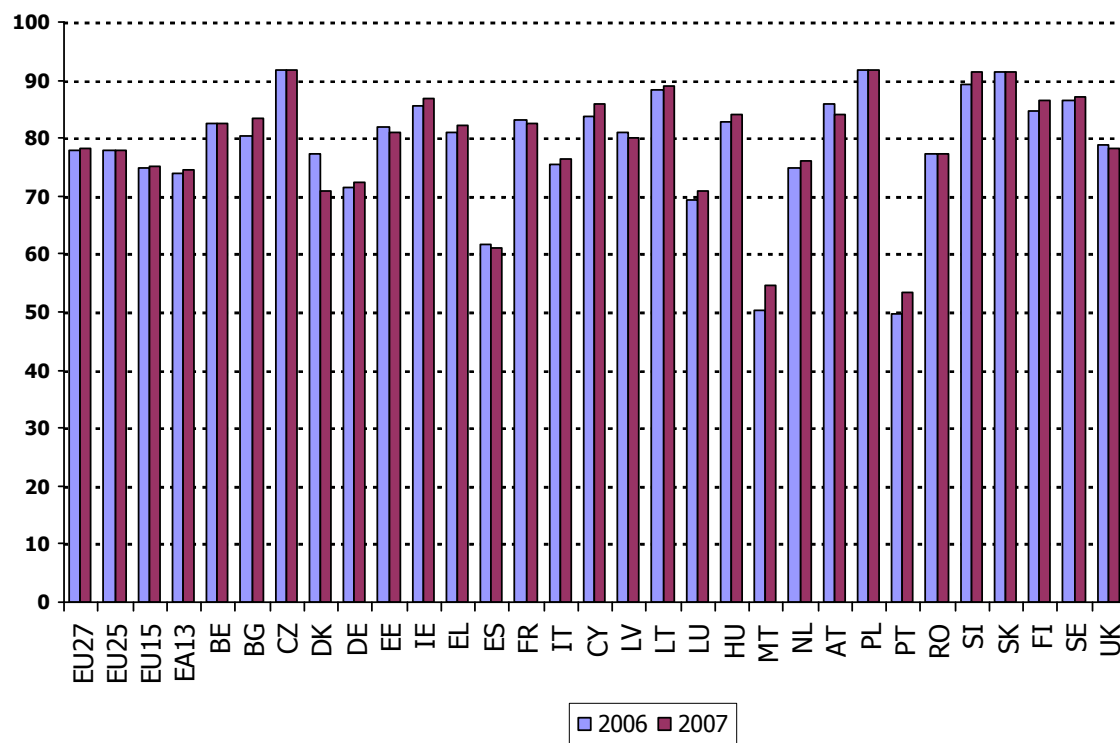
	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU27	:	:	1,86s	1,87s	1,88s	1,87s	1,83s	1,84s	1,84s
EU25	:	:	1,87s	1,88s	1,89s	1,88	1,84	1,85	1,85s
EU15	:	:	1,92s	1,93s	1,94s	1,93s	1,89s	1,9s	1,91s
EA13	:	:	1,84s	1,86s	1,87s	1,87	1,85	1,85	1,85s
EL	:	0,60	:	0,58	:	0,57	0,55e	0,58	0,57e

s: Eurostat estimation, e: estimation

Source: Eurostat

III-2a. Youth education attainment level

(% of the population aged 20 to 24 having completed at least upper secondary education)



	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	:	76,6	76,6	76,7	76,9	77,2	77,5	77,9	78,1
EU25	:	76,6	76,5	76,7	77	77,3	77,6	77,9	78
EU15	72,4	73,7	73,6	73,7	74	74,4	74,7	75	75,2
EA13	71,6	73,1	72,7	72,9	73	73,6	73,8	74	74,5
EL	78,6	79,2	80,2	81,1	81,7	83	84,1	81p	82,1
<i>Males</i>									
EU27	:	73,8	74	74	74,4	74,4	74,9	75	75,4
EU25	:	73,7	73,7	74	74,4	74,4	74,8	74,9	75,2
EU15	69,6	70,6	70,5	70,9	71,2	71,2	71,7	71,7	72,2
EA13	68,5	69,6	69,3	69,6	69,7	70	70,4	70,4	71,1
EL	74,3	73,6	75,3	76,1	76,6	79,2	79,7	75,5p	77,5
<i>Females</i>									
EU27	:	79,3	79,2	79,3	79,4	79,9	80,2	80,8	80,8
EU25	:	79,5	79,3	79,4	79,6	80,2	80,4	81	80,9
EU15	75	76,7	76,6	76,6	76,8	77,5	77,7	78,4	78,3
EA13	74,6	76,5	76	76,2	76,3	77,3	77,3	77,7	78
EL	82,8	84,6	84,8	86	86,8	86,8	88,5	86,6p	87

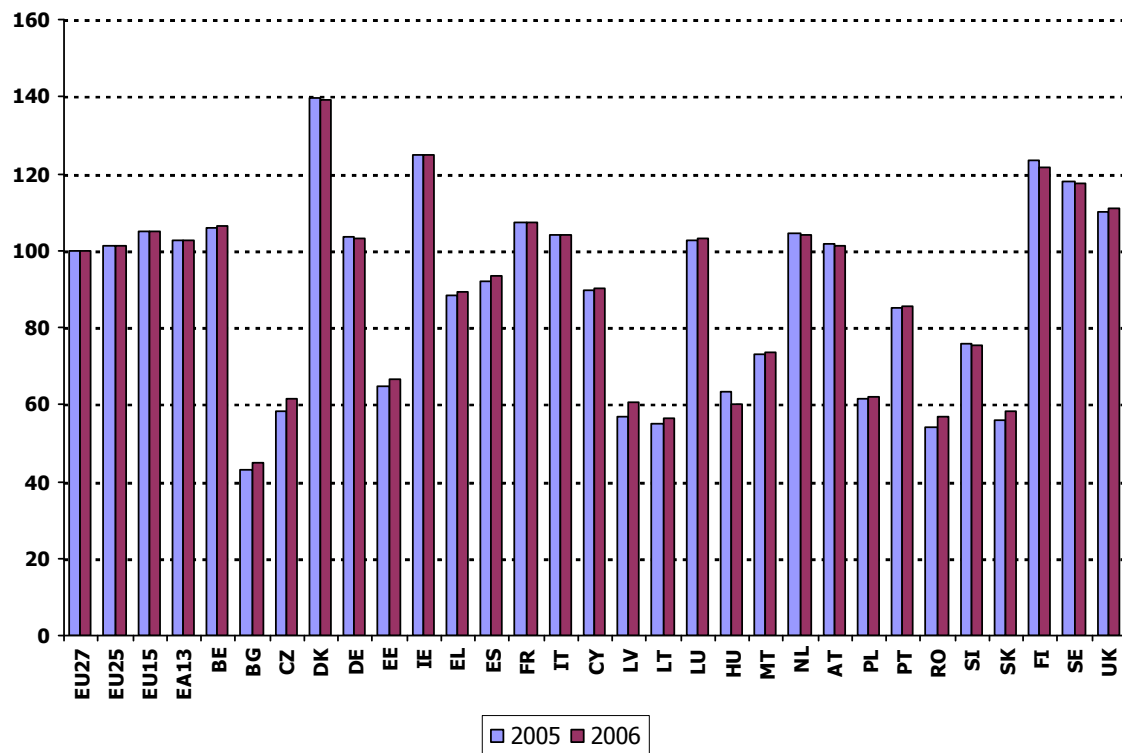
p: provisional data

Source: Eurostat

IV-A. ECONOMIC REFORM

IV-1a.Comparative price levels

(comparative price levels of final consumption by private households including indirect taxes, EU-25=100)

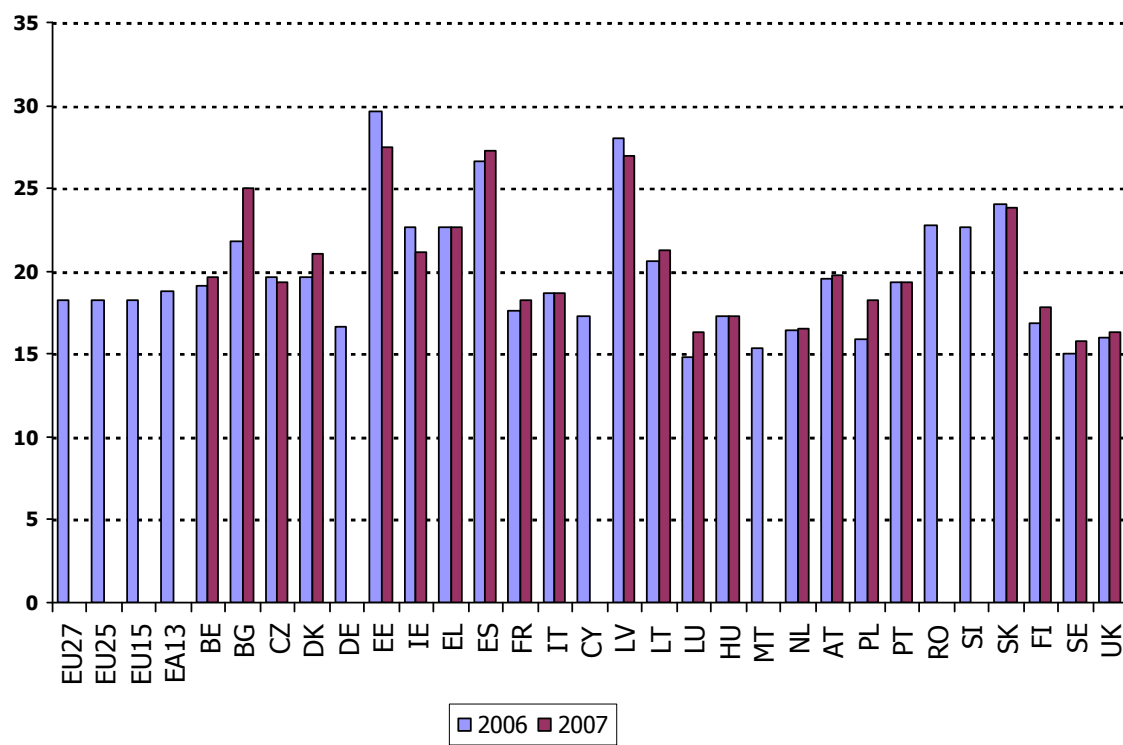


	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU27	100	100	100	100	100	100	100	100	100
EU25	101,1	101,1	101	101,1	101,1	101,1	101,2	101,1	101,1
EU15	105,3	105,5	104,9	104,7	104,9	105,2	105,4	104,8	104,9
EA13	102,8	102,2	100,5	101	101,1	103,5	103,6	102,5	102,5
EL	85,7	88,3	84,8	82,3	80,2	85,9	87,6	88,4	89,1

Source: Eurostat

IV-2a. Business investment

(Gross fixed capital formation by the private sector as a percentage of GDP)



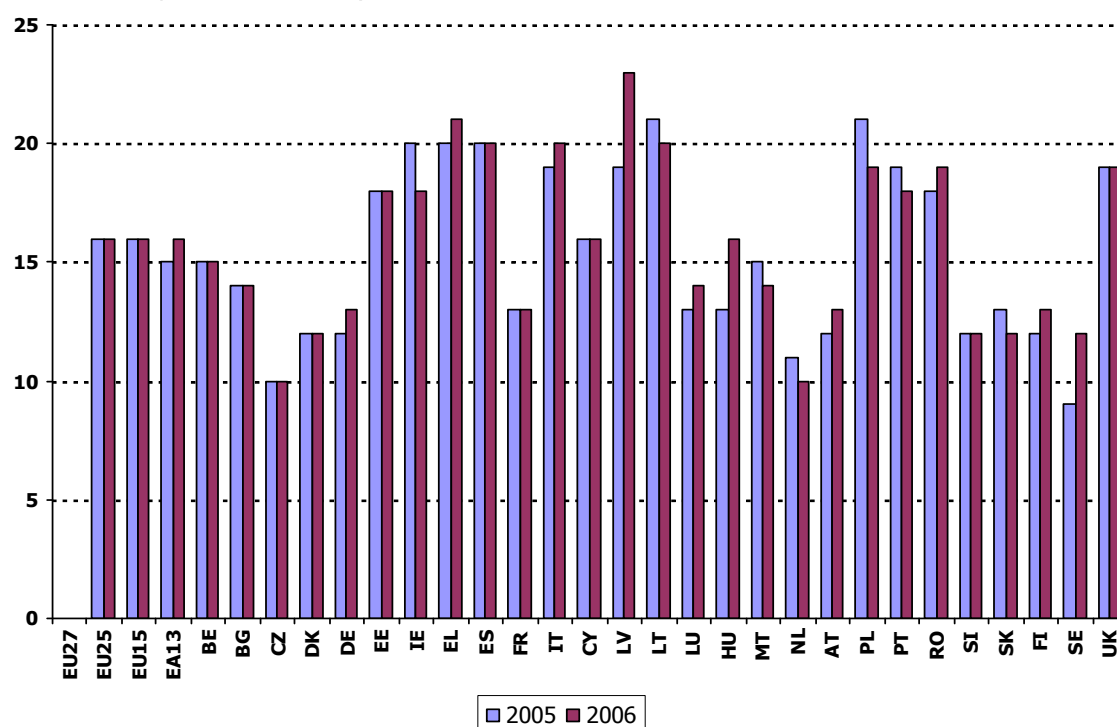
	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	18,1	18,4	17,9	17,3	17,1	17,3	17,8	18,3	:
EU25	18,1	18,4	17,9	17,3	17	17,3	17,8	18,2	:
EU15	17,9	18,3	17,8	17,3	17	17,2	17,8	18,2	:
EA13	18,5	18,9	18,4	17,8	17,6	17,8	18,2	18,8	:
EL	:	18	17,9	19,1	20,7	20,7	20,4	22,7	22,7

Source: Eurostat

V-A. SOCIAL COHESION

V-1a. At-risk-of-poverty rate

(share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income)



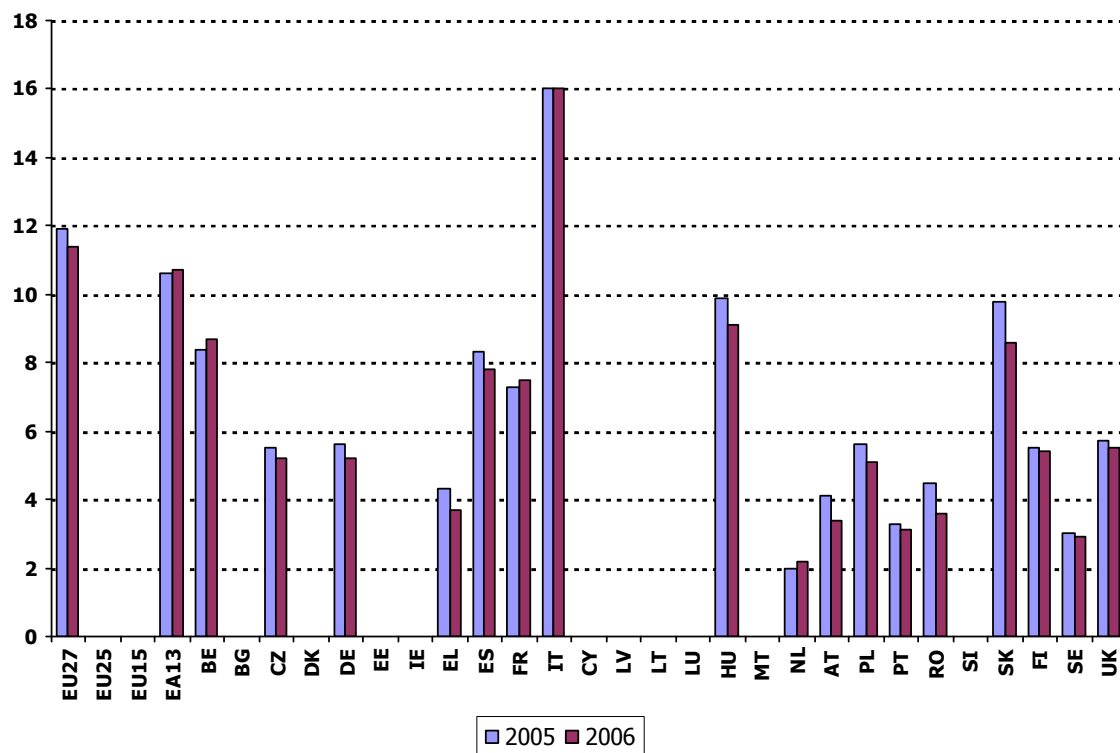
	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU27	:	:	:	:	:	:	:	:	:
EU25	15s	16s	16s	16s	:	15s	16s	16s	16s
EU15	15s	16s	15s	15s	:	15s	17s	16s	16s
EA13	:	:	:	:	:	:	:	15s	16s
EL	21	21	20	20	:	21	20	20	21
Males									
EU27	:	:	:	:	:	:	:	:	:
EU25	14s	15s	15s	15s	:	14s	15s	15s	15s
EU15	14s	15s	15s	:	:	14s	15s	15s	15s
EA13	:	:	:	:	:	:	:	14s	15s
EL	20	20	19	19	:	20	19	18	20
Females									
EU27	:	:	:	:	:	:	:	:	:
EU25	16s	17s	17s	17s	:	16s	17s	17s	17s
EU15	16s	17s	16s	:	:	17s	18s	17s	17s
EA13	:	:	:	:	:	:	:	16s	16s
EL	22	21	20	22	:	21	21	21	21

s: Eurostat estimation

Source: Eurostat

V-2a. Dispersion of regional employment rates

[Coefficient of variation of employment rates (of the age group 15-64)
across regions (NUTS 2 level) within countries]



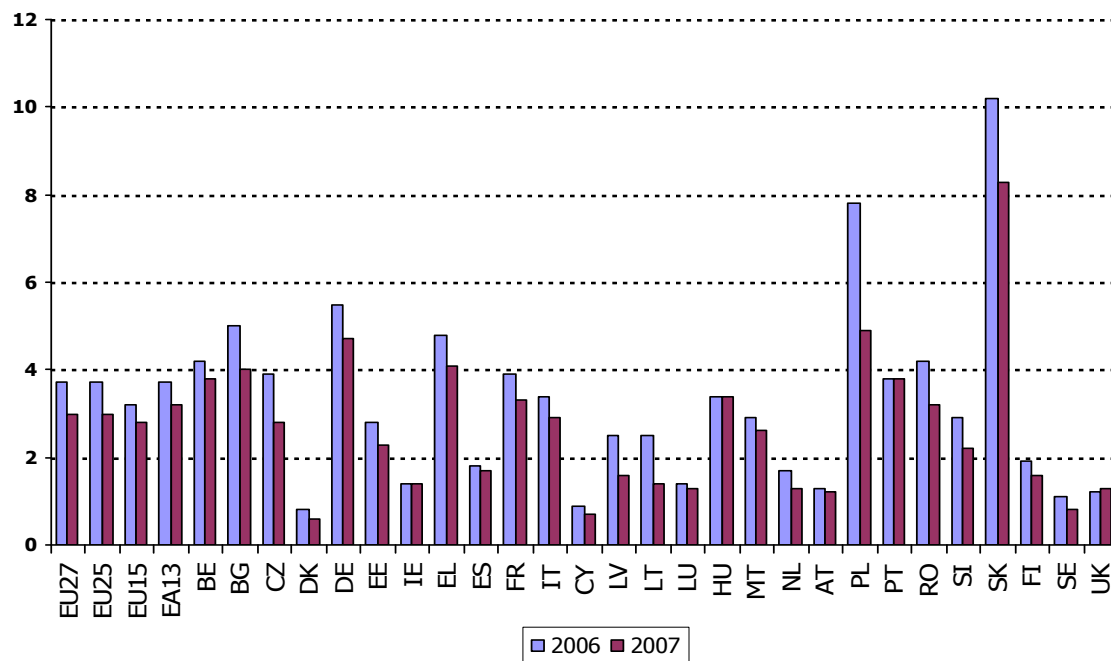
	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU27	:	12,9	13	13,2	13,2	12,8	12,1	11,9	11,4
EU25	:	:	:	:	:	:	:	:	:
EU15	:	:	:	:	:	:	:	:	:
EA13	:	13,3	13	12,7	12,1	11,5	10,5	10,6	10,7
EL	:	5,2	5,1	4,3	3,8	3,2	4,1	4,3	3,7

Source: Eurostat

V-3a Long-term unemployment rate

[Long-term unemployed (12 months and more) as a percentage of the total active population]

Unemployed persons are those aged at least 15 years old not living in collective households who are without work within the next two weeks or available to start work within the next two weeks and are seeking for a work. The duration of unemployed is defined as: the period of searching for a job (over 12 months).



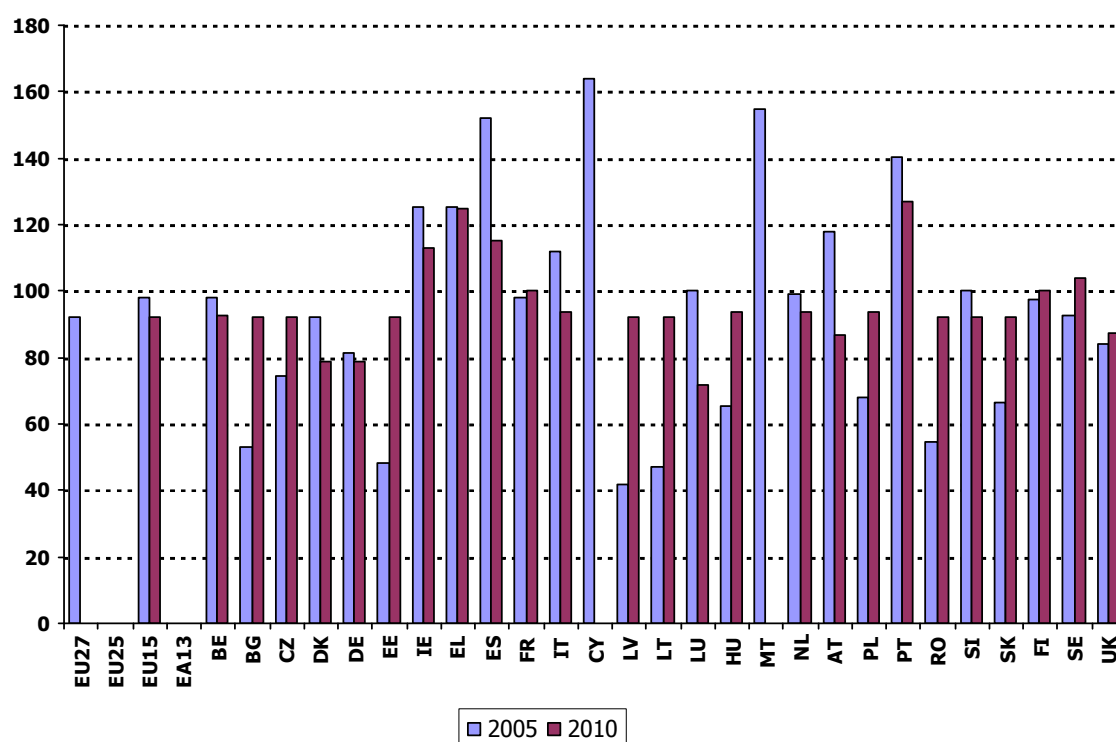
	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	:	4	3,9	4	4,1	4,2	4,1	3,7	3
EU25	4,1	3,9	3,8	3,9	4	4,1	4	3,7	3
EU15	3,9	3,4	3,1	3,1	3,3	3,4	3,4	3,2	2,8
EA13	4,5	4	3,6	3,6	3,9	4	3,9	3,7	3,2
EL	6,5	6,1	5,5	5,3	5,3	5,6	5,1	4,8	4,1
Males									
EU27	:	3,5	3,4	3,6	3,8	3,8	3,8	3,5	2,8
EU25	3,5	3,4	3,3	3,4	3,6	3,7	3,7	3,4	2,8
EU15	3,3	2,9	2,7	2,7	3	3,1	3,1	3	2,6
EA13	3,6	3,2	3	3	3,3	3,5	3,5	3,4	2,9
EL	3,7	3,5	3,2	3,1	3	3	2,6	2,6	2,2
Females									
EU27	:	4,6	4,4	4,5	4,5	4,5	4,4	4	3,3
EU25	4,9	4,6	4,4	4,4	4,5	4,5	4,5	4	3,3
EU15	4,6	4,1	3,6	3,5	3,7	3,8	3,7	3,5	3,1
EA13	5,5	4,9	4,4	4,3	4,5	4,6	4,5	4,2	3,7
EL	10,7	10,1	9	8,6	8,9	9,4	8,9	8	7

Source: Eurostat

VI-A. ENVIRONMENT

VI-1a.Total greenhouse gas emissions

(percentage change since base year and targets according to Kyoto Protocol/EU Council Decision for 2008-2012 - (in CO₂ equivalents) indexed on actual base year = 100)

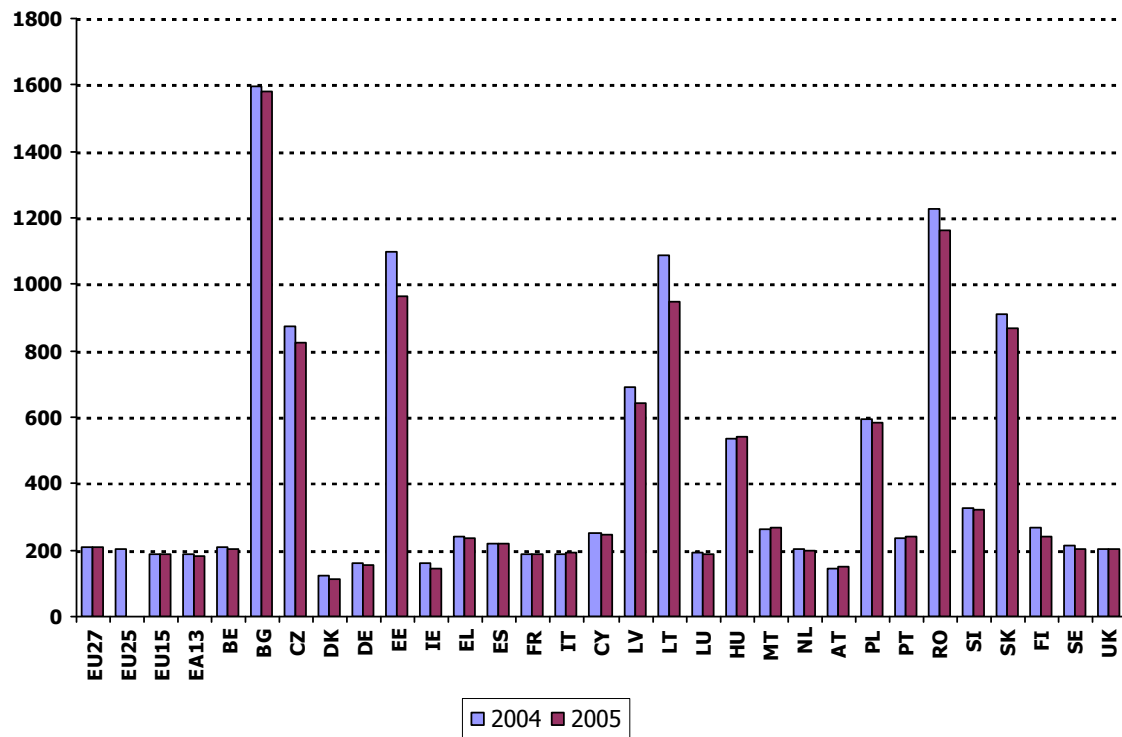


	1998	1999	2000	2001	2002	2003	2004	2005	2010
EU27	92,7	90,7	90,7	91,7	90,9	92,8	92,8	92,1	:
EU25	:	:	:	:	:	:	:	:	:
EU15	97,8	96,3	96,6	97,7	97,1	98,7	98,8	98	92,0
EA13	:	:	:	:	:	:	:	:	:
EL	114,2	114,1	118,6	120	119,8	123,6	123,9	125,4	125,0

Source: Eurostat

VI-2a. Energy intensity of the economy

[Gross inland consumption of energy divided by GDP (at constant prices, 1995=100) - kgoe (kilogram of oil equivalent) per 1000 Euro]

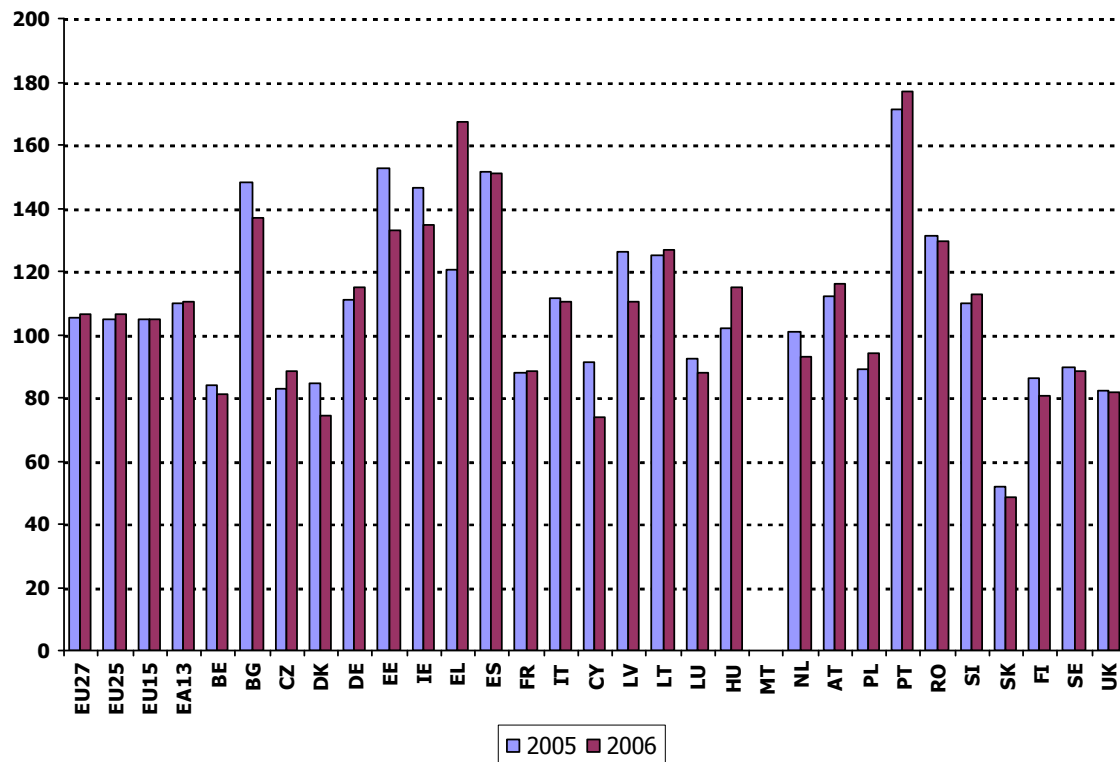


	1997	1998	1999	2000	2001	2002	2003	2004	2005
EU27	232	227,75	219,48	213,12	214,01	210,89	213,54	211,07	208,05
EU25	227,58	224,16	214,94	208,76	209,71	206,51	207,56	204,89	:
EU15	202,71	201,03	195,69	190,53	191,35	188,42	189,48	187,65	184,85
EA13	194,97	193,39	188,52	184,15	185,36	183,65	186,73	185,66	183,36
EL	268,31	272,67	262,52	263,63	260,63	257,97	247,77	240,64	236,54

Source: Eurostat

VI-3a. Volume of freight transport

[Index of inland freight transport volume relative to GDP; measured in tonne-km / GDP (in constant 1995 Euro), 1995=100]



	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU27	:	:	99,1s	98,2s	99,3s	98,7	104	105,4s	106,7s
EU25	101,4s	100,5s	100,1s	98,9s	99,7s	98,9	104	104,6s	106,2s
EU15	102,3s	102s	101,9s	101s	101,4	99,7	104,7	104,6s	105s
EA13	103,4s	103,9s	104,2s	103,9s	104,6	102,8	109,3	109,7s	110,5s
EL	141	141,7	:	:	:	108	:	120,8	167,1

s: Eurostat estimation

Source: Eurostat

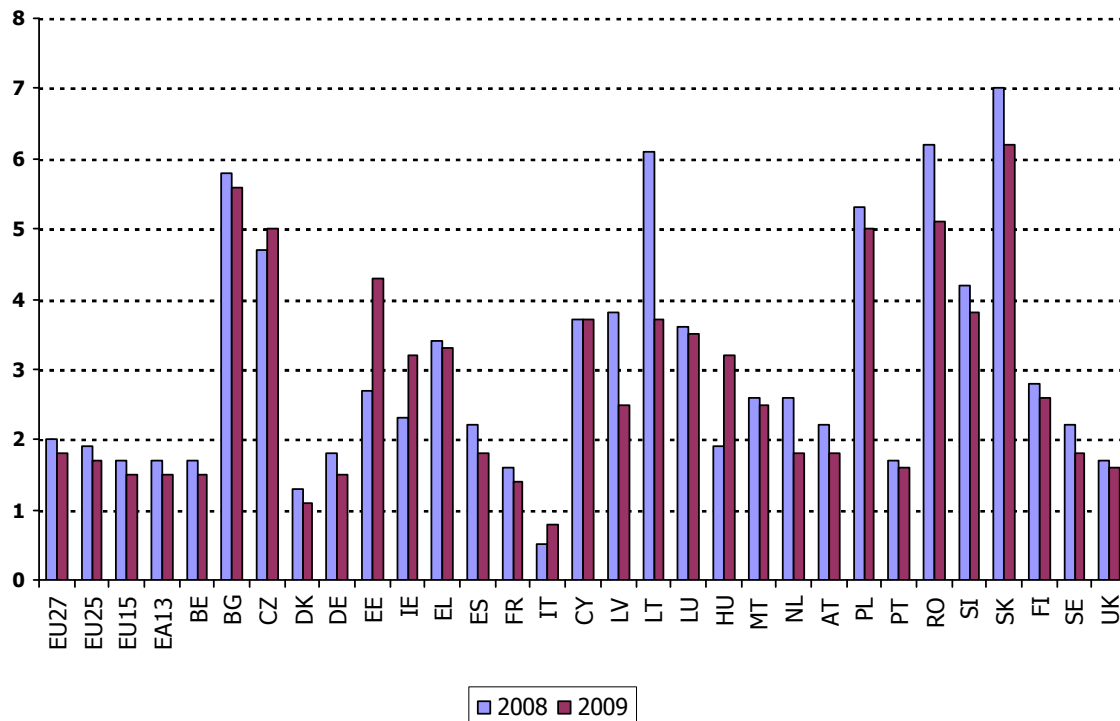
PART B
(OTHER STRUCTURAL INDICATORS)

I-B. GENERAL ECONOMIC BACKGROUND

I-1b. Real GDP growth rate

(constant prices 1995, percentage change on previous year)

GDP at constant prices (1995=100) is used to measure the volume growth of GDP. Changes in the price level (inflation) are illuminated.



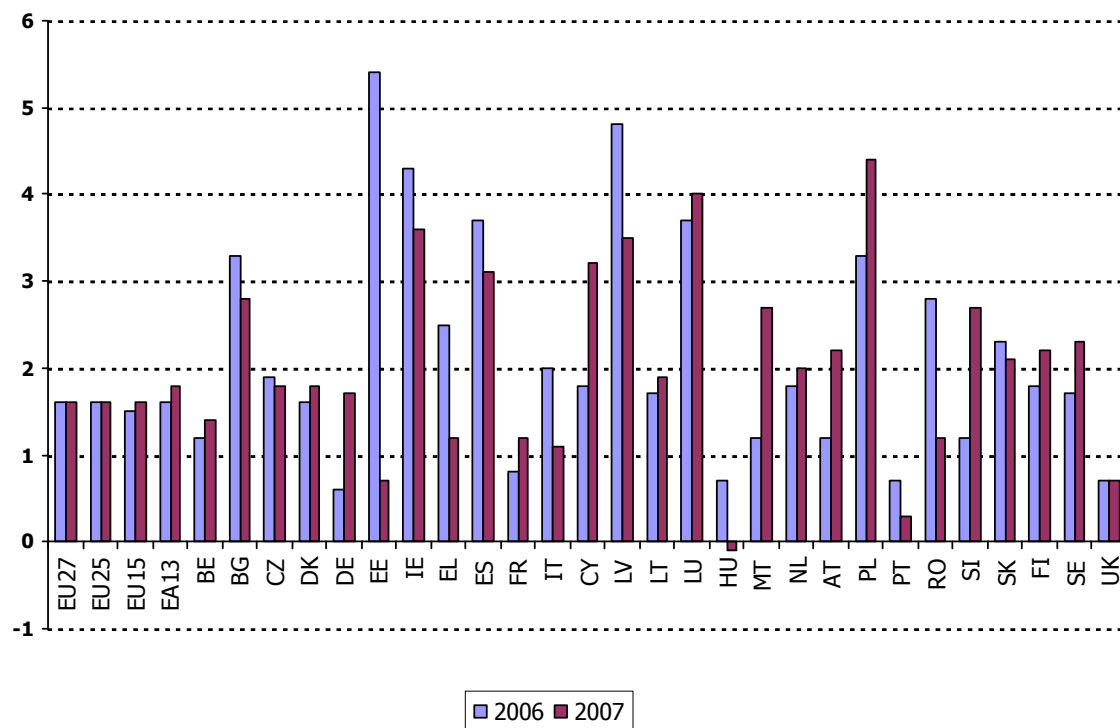
	2001	2002	2003	2004	2005	2006	2007	2008	2009
EU27	2	1,2	1,3	2,5	1,9	3,1	2,9	2f	1,8f
EU25	2	1,2	1,3	2,5	1,9	3	2,9	1,9f	1,7f
EU15	1,9	1,1	1,2	2,3	1,7	2,9	2,7	1,7f	1,5f
EA13	1,9	0,9	0,8	2,1	1,6	2,8	2,6	1,7f	1,5f
EL	4,5	3,9	5	4,6	3,8	4,2	4	3,4f	3,3f

f: forecast

Source: Eurostat

I-2b. Total employment growth

(annual percentage change in total employed population)



	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	1,1	1,7	1	0,4	0,4	0,6	0,9	1,6	1,6
EU25	1,1	1,7	1,1	0,4	0,4	0,7	1	1,6	1,6
EU15	1,8	2,2	1,4	0,7	0,5	0,7	0,9	1,5	1,6
EA13	1,9	2,4	1,5	0,7	0,5	0,7	0,9	1,6	1,8
EL	0,3e	0,5	0,2	2	1,9	0,9	1,5	2,5	1,2
Males									
EU27	0,5	1,1	0,6	0	0,1	0,2	0,6	1,3	1,4
EU25	0,6	1,1	0,7	-0,1	0	0,3	0,7	1,4	1,3
EU15	1,3	1,5	1	0,1	0,1	0,2	0,4	1,2	1,3
EA13	1,3	2	1	0	-0,1	0,1	0,3	1,2	1,3
EL	-0,4e	0,1	0,3	1,4	1,4	0,2	1,2	1,7	1,2
Females									
EU27	1,9	2,4	1,5	0,9	0,8	1,2	1,3	1,9	1,9
EU25	1,9	2,5	1,6	1,1	0,9	1,3	1,5	1,9	2
EU15	2,6	3,1	2	1,5	1	1,5	1,6	1,8	2
EA13	2,9	3,1	2,2	1,7	1,2	1,6	1,7	2	2,3
EL	1,5e	1,2	0,1	3	2,7	1,9	2	3,7	1,4

f: forecast, e: estimation

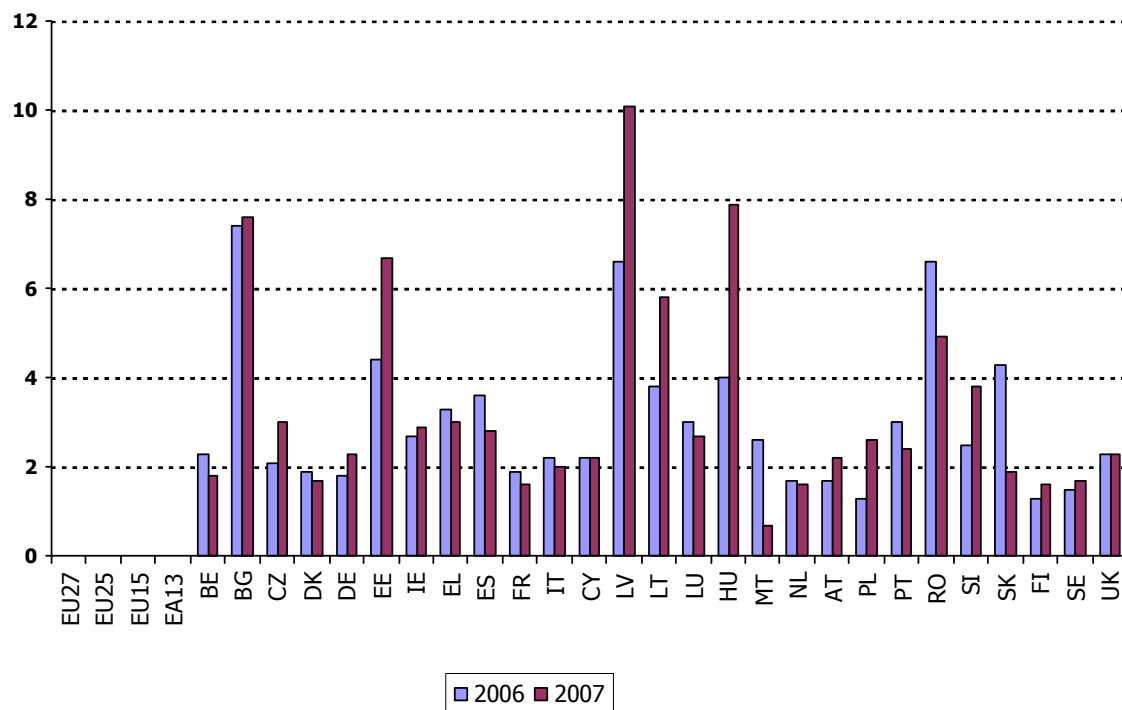
Source: Eurostat

I-3b. Inflation rate

[Annual average rate of change in Harmonized Indices of Consumer Prices (HICPs)]

Harmonized Consumer Price Index (HCPI) are designed for international comparisons of consumer price inflation.

Harmonized Consumer Price Index (HCPI) are used by European Central Bank (ECB) for monitoring of inflation in the EMU and the assessment of inflation convergence

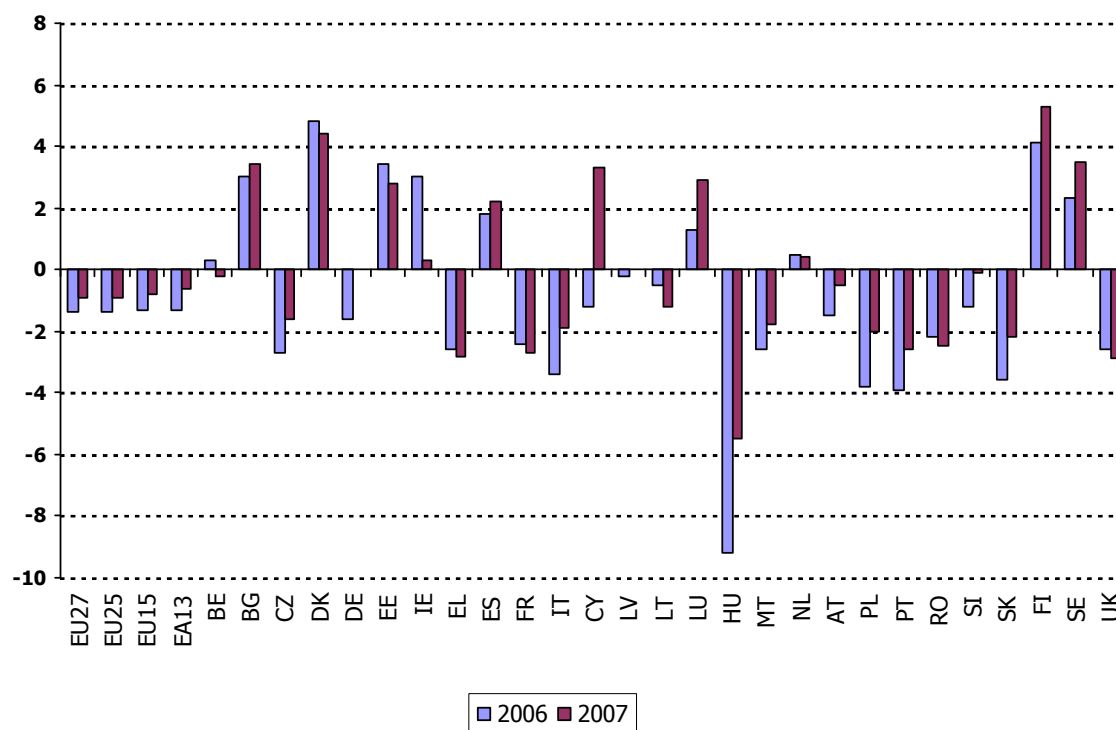


	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	3e	3,5	3,2	2,5	2,1	2,3	2,3	:	:
EU25	1,6e	2,4	2,5	2,1	1,9	2,1	2,2	:	:
EU15	1,2	1,9	2,2	2,1	2	2	2,1	:	:
EA13	1,1	2,1	2,4	2,3	2,1	2,1	2,2	:	:
EL	2,1	2,9	3,7	3,9	3,4	3	3,5	3,3	3

e: estimation

Source: Eurostat

I-4b. Public balance (% of GDP)

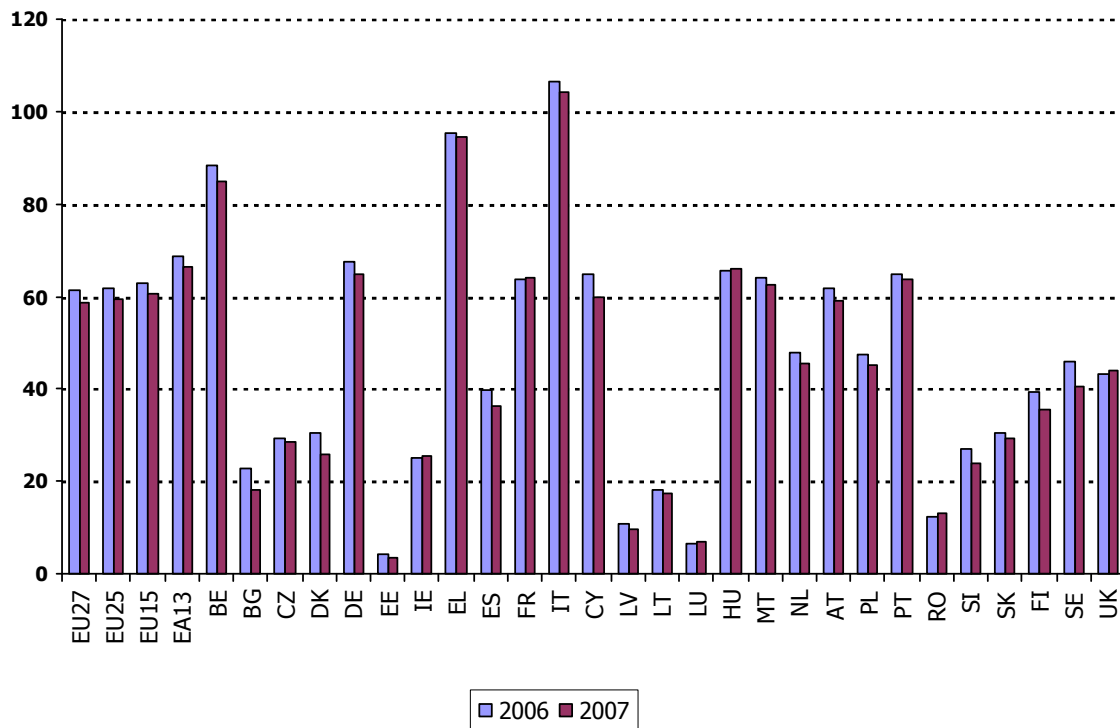


	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	-1	0,6	-1,4	-2,5	-3,1	-2,8	-2,5	-1,4	-0,9
EU25	-0,9	0,6	-1,4	-2,5	-3,1	-2,9	-2,5	-1,4	-0,9
EU15	-0,8	0,8	-1,2	-2,3	-3	-2,8	-2,4	-1,3	-0,8
EA13	-1,4	0	-1,8	-2,5	-3	-2,9	-2,5	-1,3	-0,6
EL	:	:	:	-4,7	-5,6	-7,4	-5,1	-2,6	-2,8

Source: Eurostat

I-5b. General government debt (% of GDP)

General Government debt is defined as the stock of gross debt at end-year nominal value.



	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	65,9	61,9	61	60,3	61,8	62,1	62,6	61,3	58,7
EU25	66,1	62,1	61,2	60,5	62	62,4	63	61,8	59,3
EU15	67,2	63,2	62,2	61,6	63	63,2	64,1	62,8	60,4
EA13	71,9	69,3	68,2	68	69,2	69,6	70,2	68,5	66,4
EL	105,2	103,2	103,6	100,6	97,9	98,6	98	95,3	94,5

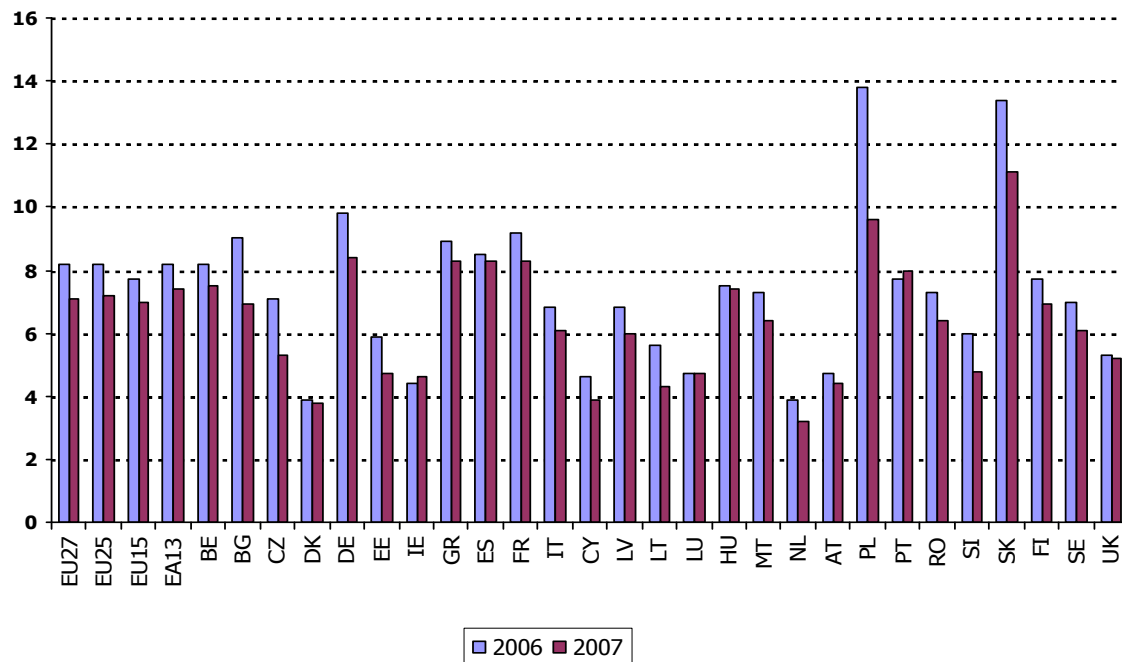
Source: Eurostat

II-B. EMPLOYMENT

II-1b. Total unemployment rate

(Unemployed persons as a share of the total active population)

Unemployed persons are those aged at least 15 years not living in collective households who are without work and available to start work within the next two weeks and are seeking for a work



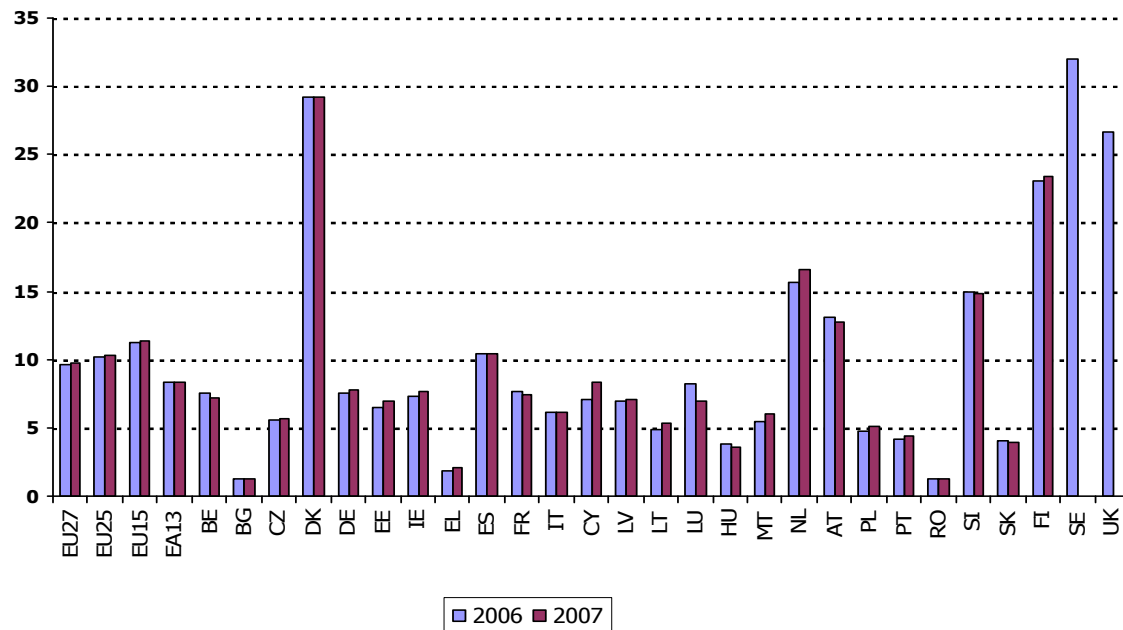
	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	:	8,6	8,5	8,9	8,9	9	8,9	8,2	7,1
EU25	9,1	8,6	8,4	8,7	9	9	8,9	8,2	7,2
EU15	8,5	7,7	7,2	7,6	7,9	8	8,1	7,7	7
EA13	9,2	8,3	7,8	8,2	8,6	8,8	8,9	8,2	7,4
EL	12	11,2	10,7	10,3	9,7	10,5	9,8	8,9	8,3
Males									
EU27	:	7,8	7,7	8,2	8,4	8,4	8,3	7,6	6,6
EU25	8	7,6	7,6	8	8,3	8,3	8,3	7,5	6,5
EU15	7,5	6,7	6,4	6,9	7,3	7,4	7,5	7,1	6,4
EA13	7,8	6,9	6,7	7,2	7,7	7,9	8	7,4	6,6
EL	7,9	7,4	7,1	6,8	6,2	6,6	6,1	5,6	5,2
Females									
EU27	:	9,8	9,4	9,6	9,7	9,8	9,6	8,9	7,8
EU25	10,4	9,8	9,4	9,6	9,8	9,9	9,7	9	7,9
EU15	9,9	8,9	8,3	8,5	8,7	8,9	8,9	8,5	7,8
EA13	11,1	10	9,3	9,5	9,8	10	9,9	9,3	8,4
EL	18,1	17,1	16,1	15,6	15	16,2	15,3	13,6	12,8

Source: Eurostat

II-2b. Life-long learning

(% of the population aged 25-64 participating in education and training over the four weeks prior to the survey)

The reference period is the last four weeks preceding the survey (except for France, the Netherlands and Portugal for which information is collected only if education or training is under way on the date of the survey). Education include initial education, further training, training within the company apprenticeship, on the job training, seminars, distance learning self learning e.t.c. as well as other courses for example language art/culture, data-processing, management e.t.c. Before 1998, education was related only to educational and vocational training, which was related for the current or possible future job of the respondent.



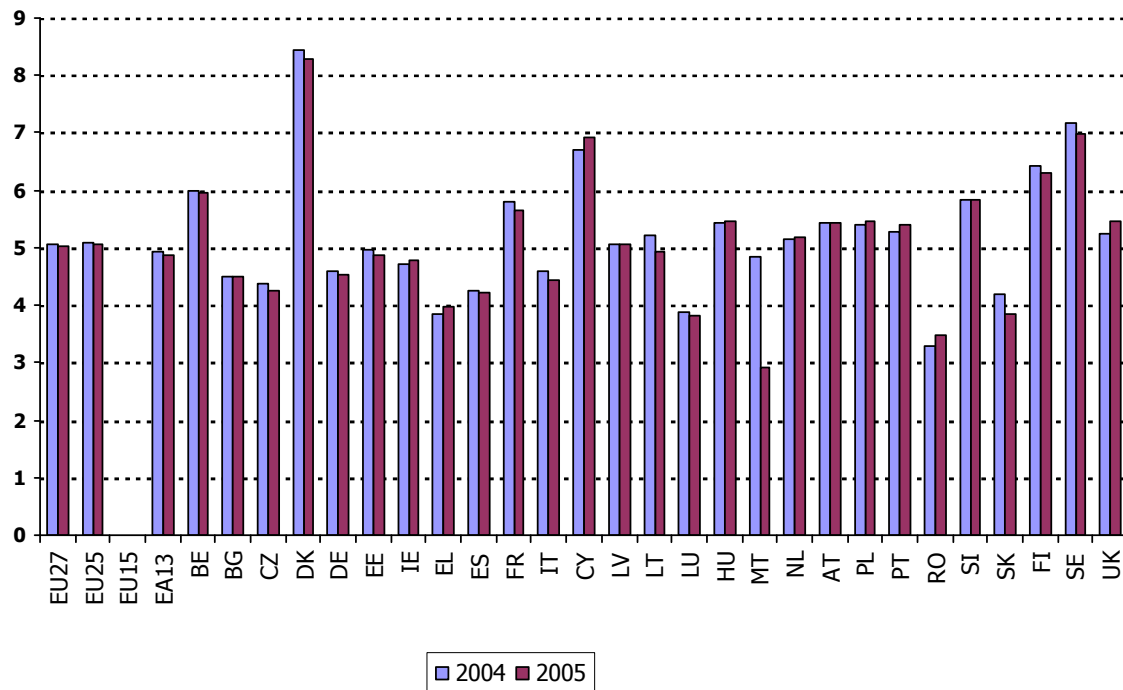
	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	:	7,1e	7,1e	7,2	8,5b	9,3	9,7	9,6	9,7p
EU25	:	7,5e	7,5e	7,6	9b	9,9	10,3	10,2	10,3p
EU15	8,2e	8e	8e	8,1	9,8b	10,7	11,3	11,2	11,3p
EA13	5,5e	5,2e	5,2e	5,3	6,5b	7,4	8,2	8,3	8,4
EL	1,3	1	1,2	1,1	2,6b	1,8	1,9	1,9	2,1
Males									
EU27	:	6,7e	6,6e	6,6	7,9b	8,6	9	8,7	8,8p
EU25	:	7,1e	6,9e	6,9	8,3b	9,1	9,4	9,2	9,3p
EU15	7,8e	7,6e	7,5e	7,5	9,1b	10	10,4	10,2	10,2p
EA13	5,7e	5,3e	5,2e	5,2	6,4b	7,2	8	7,9	8
EL	1,2	1	1,2	1,1	2,6b	1,8	1,9	2	2,2
Females									
EU27	:	7,5e	7,6e	7,7	9,1b	10	10,5	10,5	10,6p
EU25	:	8e	8e	8,2	9,7b	10,6	11,1	11,1	11,2p
EU15	8,5e	8,5e	8,5e	8,8	10,5b	11,5	12,1	12,2	12,4p
EA13	5,3e	5,2e	5,2e	5,4	6,6b	7,5	8,4	8,6	8,8
EL	1,3	1	1,1	1,1	2,7b	1,8	1,8	1,8	2,1

e: estimation, p: prediction

Source: Eurostat

III-B. INNOVATION & RESEARCH

III-1b. Public expenditure on education (% of GDP)



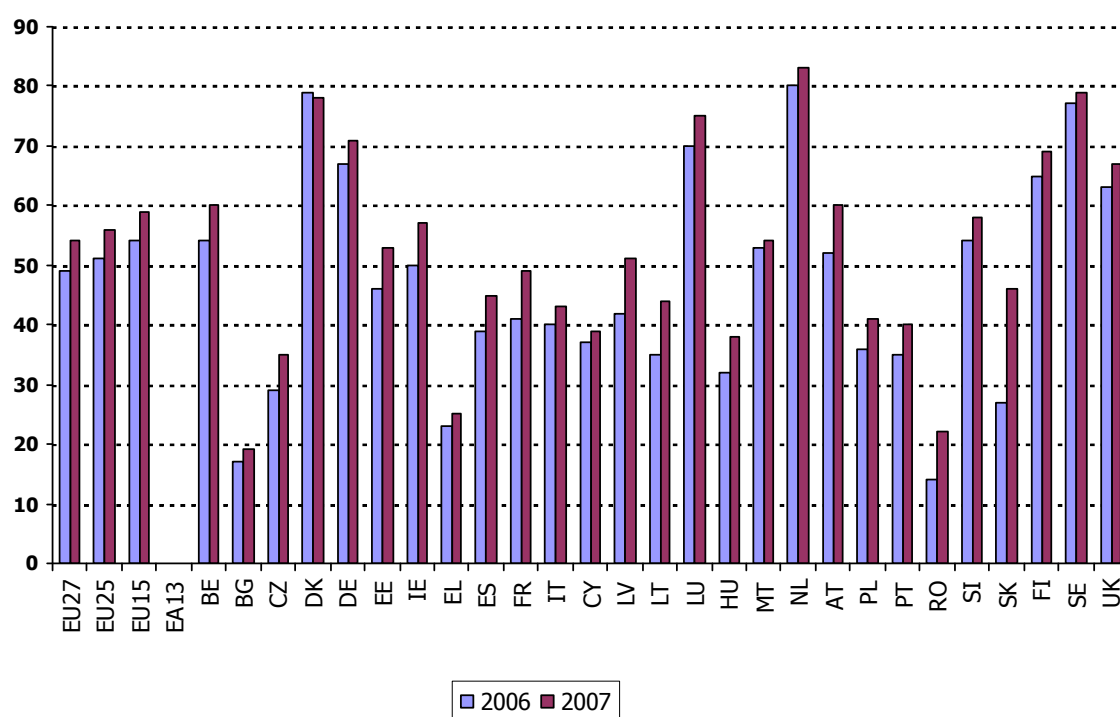
	1997	1998	1999	2000	2001	2002	2003	2004	2005
EU27	:	:	:	:	4,94s	5,06s	5,14s	5,07s	5,03s
EU25	4,79s	:	4,77s	4,71s	4,97s	5,08s	5,17s	5,1s	5,06s
EU15	4,86s	:	4,8s	4,73s	5,01s	5,13s	5,2	:	:
EA13	:	:	:	:	4,89s	4,91s	5s	4,93s	4,86s
EL	3,46	3,48	3,63	3,71i	3,47	3,55	3,58	3,84	3,98

s: Eurostat estimation

Source: Eurostat

III-2b. Level of Internet access

(% of households who have Internet access at home)

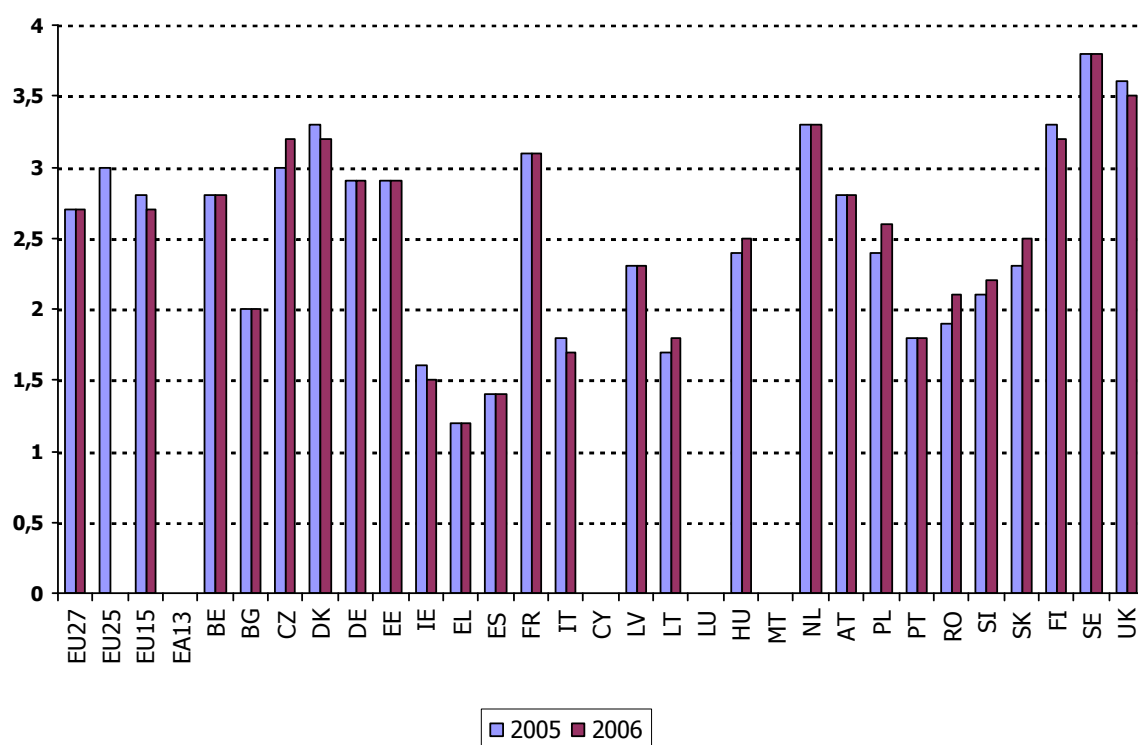


	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	:	:	:	:	:	40	48	49	54
EU25	:	:	:	:	:	42	48	51	56
EU15	:	:	:	39	43	45	53	54	59
EA13	:	:	:	:	:	:	:	:	:
EL	:	:	:	12	16	17	22	23	25

Source: Eurostat

III-3b. IT expenditure

(Expenditure on Information Technology as a percentage of GDP)



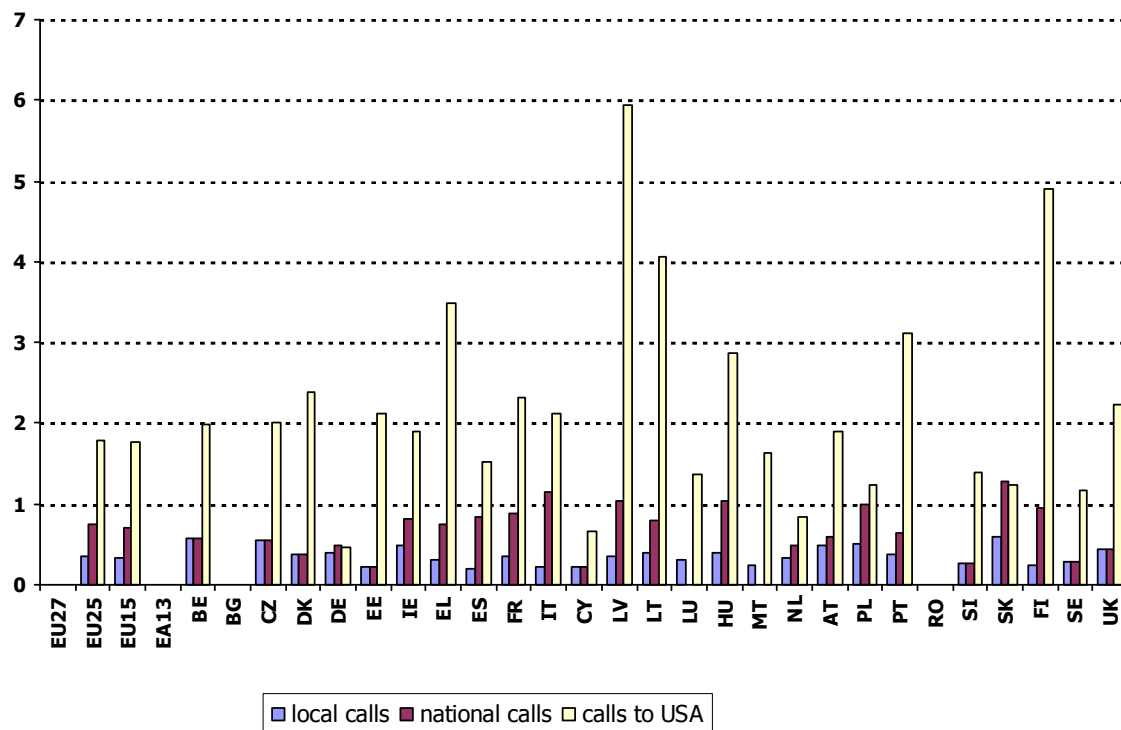
	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU27	:	:	:	:	:	:	2,7	2,7	2,7
EU25	:	:	:	:	:	3	3	3	:
EU15	:	:	:	:	3,2	3,1	2,7	2,8	2,7
EA13	:	:	:	:	:	:	:	:	:
EL	:	:	:	:	1,4	1,3	1,3	1,2	1,2

Source: Eurostat

IV-B. ECONOMIC REFORM

IV-1b. Price of telecommunications, 2006

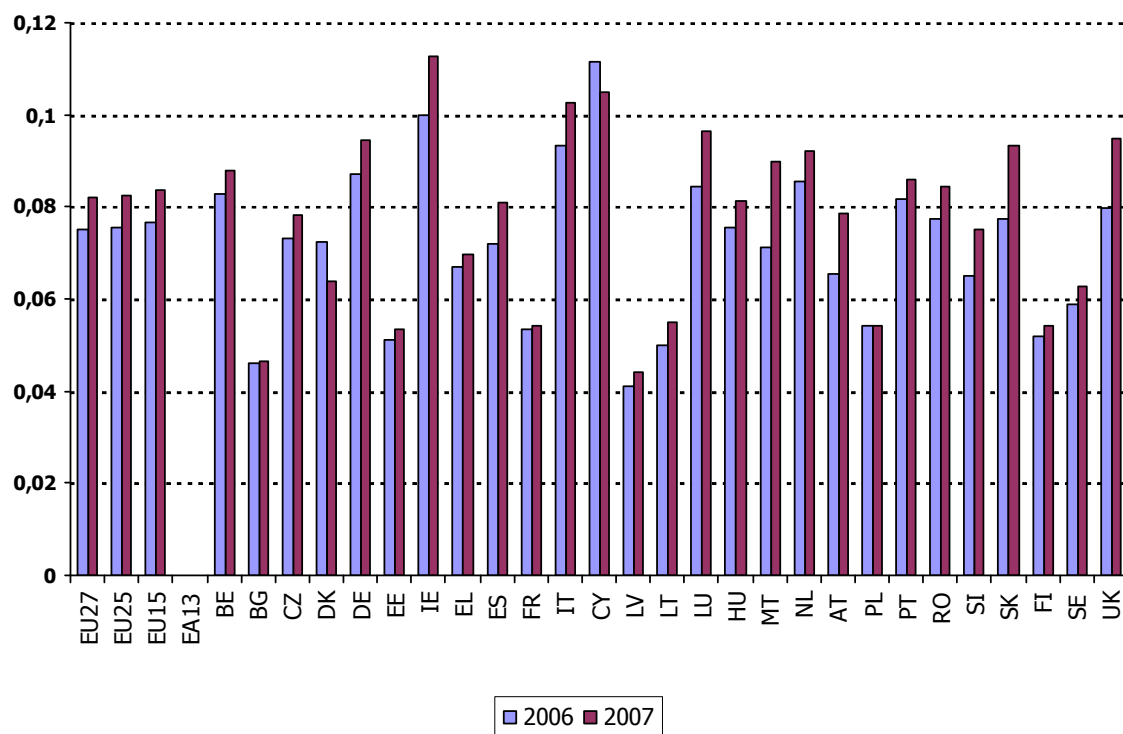
(Euro per 10 min call)



	1998	1999	2000	2001	2002	2003	2004	2005	2006
Local calls									
EU27	:	:	:	:	:	:	:	:	:
EU25	:	:	0,39	0,39	0,39	0,39	0,37	0,35	0,36
EU15	0,4	0,4	0,4	0,4	0,39	0,39	0,37	0,35	0,34
EA13	:	:	:	:	:	:	:	:	:
EL	0,18	0,21	0,31	0,36	0,31	0,31	0,31	0,31	0,31
National calls									
EU27	:	:	:	:	:	:	:	:	:
EU25	:	:	1,33	1,17	1,07	1,05	0,92	0,76	0,74
EU15	2,14	1,67	1,33	1,14	1,03	1,01	0,87	0,69	0,71
EA13	:	:	:	:	:	:	:	:	:
EL	3,15	2,78	1,4	0,98	0,77	0,77	0,73	0,74	0,74
Calls to USA									
EU27	:	:	:	:	:	:	:	:	:
EU25	:	:	:	:	3,08	2,98	2,13	2,11	1,79
EU15	4,51	3,5	3,11	2,65	2,24	2,15	1,88	1,88	1,77
EA13	:	:	:	:	:	:	:	:	:
EL	5,82	5,82	3,26	2,91	2,95	2,95	2,91	2,93	3,49

Source: Eurostat

IV-2b. Electricity prices - Industrial users (Euro per kWh)

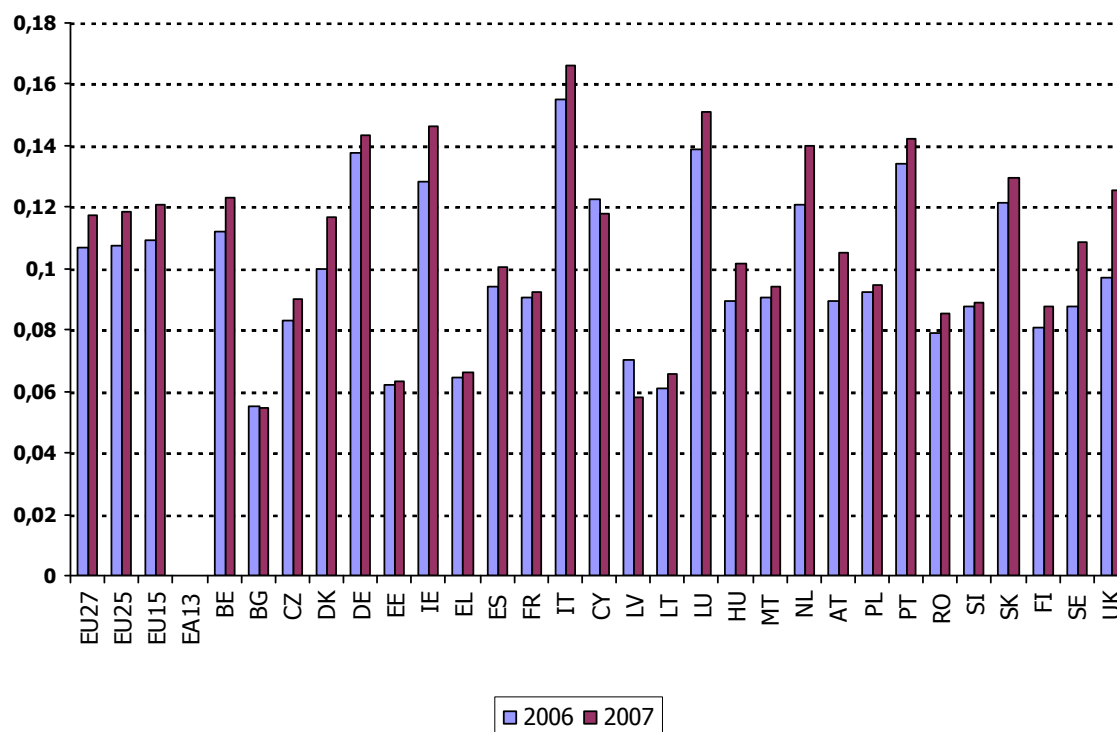


	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	:	:	:	:	:	:	0,0672	0,0752	0,082
EU25	:	:	:	:	:	0,0623	0,0672	0,0755	0,0825
EU15	0,0636	0,0625	0,0644	0,062	0,0648	0,0634	0,0682	0,0766	0,0837
EA13	:	:	:	:	:	:	:	:	:
EL	0,0583	0,0571	0,0571	0,059	0,0614	0,063	0,0645	0,0668	0,0698

Source: Eurostat

IV-3b. Electricity prices – Households

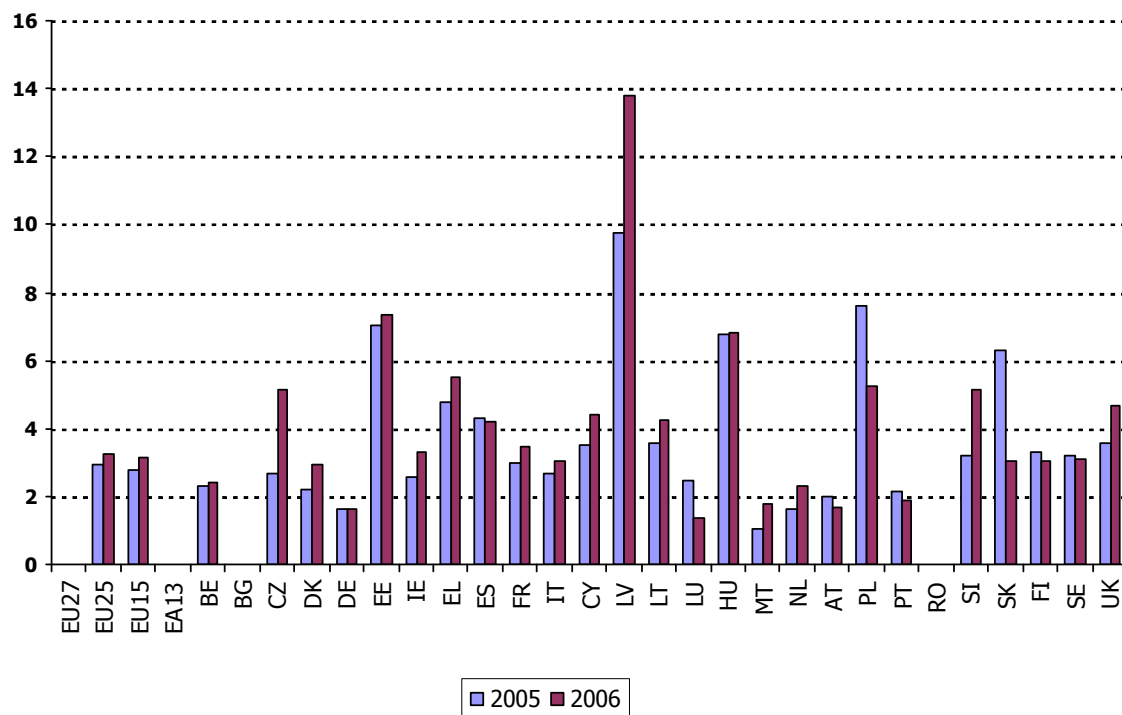
(Euro per kWh)



	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	:	:	:	:	:	:	0,1013	0,1068	0,1173
EU25	:	:	:	:	:	0,1002	0,1023	0,1077	0,1183
EU15	0,105	0,1031	0,1027	0,1032	0,1036	0,1027	0,1042	0,1094	0,1205
EA13	:	:	:	:	:	:	:	:	:
EL	0,0622	0,0564	0,0564	0,058	0,0606	0,0621	0,0637	0,0643	0,0661

Source: Eurostat

IV-4b. Value of public procurement which is openly advertised (% of GDP)

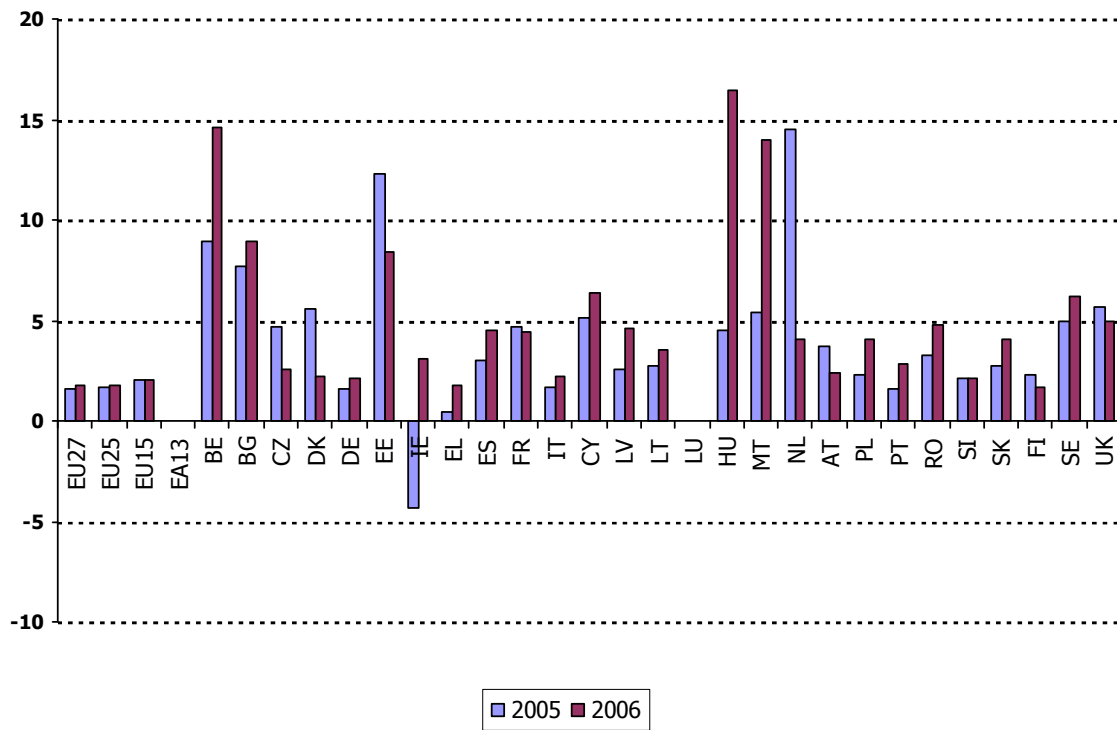


	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU27	:	:	:	:	:	:	:	:	:
EU25	:	:	:	:	:	:	2,65	2,93	3,27
EU15	1,76	1,78	2,35	2,43	2,61	3,49	2,69	2,76	3,15
EA13	:	:	:	:	:	:	:	:	:
EL	5,24	4,52	3,85	4,1	5,17	4,44	3,73	4,78	5,52

Source: Eurostat

IV-5b. Foreign Direct Investment intensity

(average value of inward and outward Foreign Direct Investment flows divided by GDP, multiplied by 100)



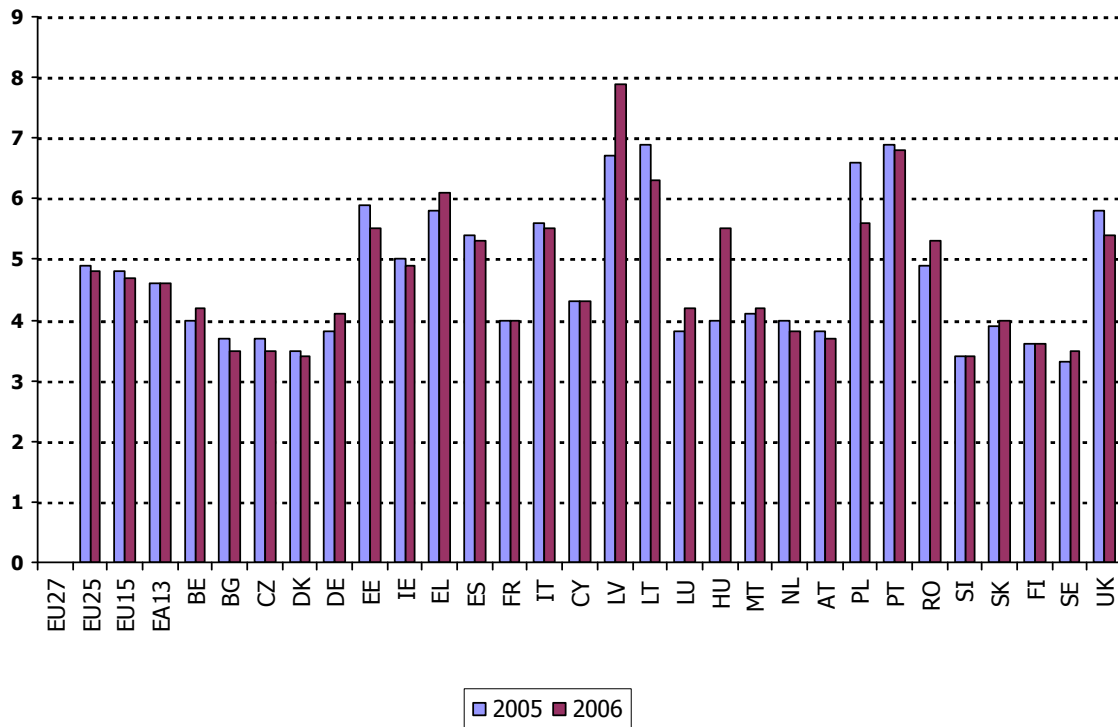
	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU27	⋮	⋮	⋮	⋮	⋮	⋮	0,9	1,6	1,8
EU25	⋮	⋮	⋮	2,4	1,3	1,3	1	1,7	1,8
EU15	2	2,8	3,6	2,6	1,4	1,4	1,1	2	2
EA13	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮
EL	⋮	⋮	1,3	0,8	⋮	⋮	0,7	0,4	1,8

Source: Eurostat

V-B. SOCIAL COHESION

V-1b. Inequality of income distribution

[The ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (lowest quintile)]



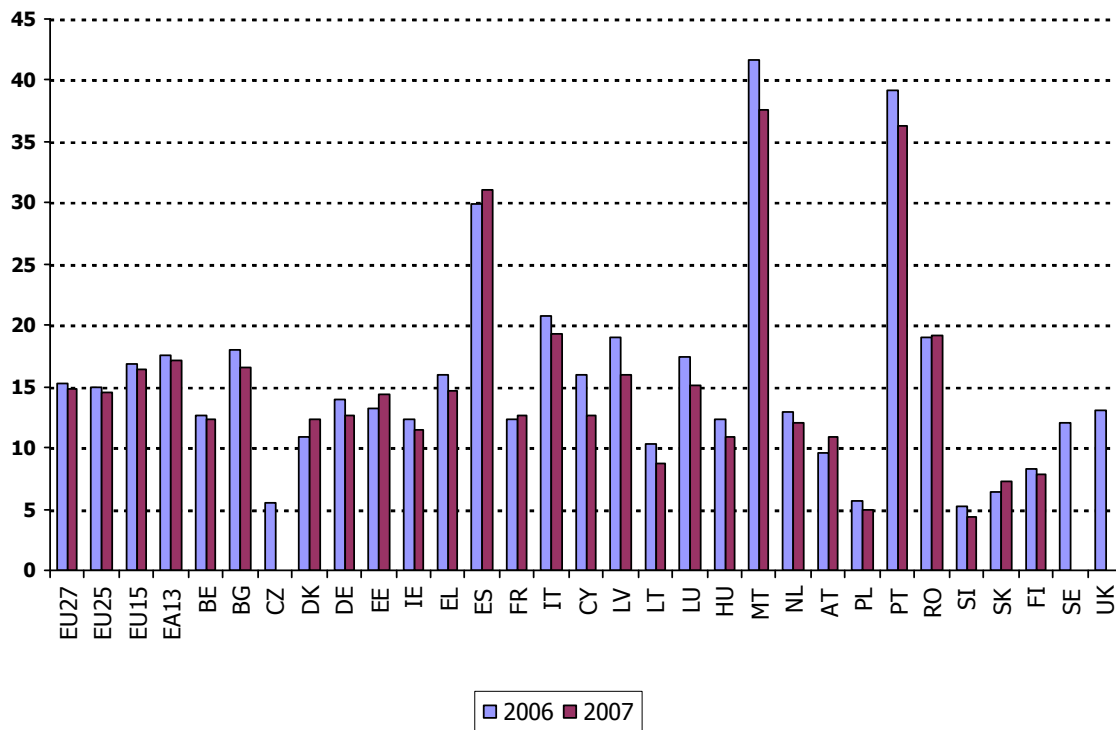
	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU27	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮
EU25	4,6s	4,6s	4,5s	4,5s	⋮	4,6s	4,8s	4,9s	4,8s
EU15	4,6s	4,6s	4,5s	4,5s	⋮	4,6s	4,8s	4,8s	4,7s
EA13	⋮	⋮	⋮	⋮	⋮	⋮	⋮	4,6s	4,6s
EL	6,5	6,2	5,8	5,7	⋮	6,4	5,9	5,8	6,1

s: Eurostat estimation

Source: Eurostat

V-2b. Early school-leavers

(% of the population aged 18-24 with at most lower secondary education and not in further education or training)



	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU27	:	17,6	17,3	17,1	16,6	15,9	15,5	15,2	14,8
EU25	:	17,3	17	16,6	16,1	15,4	15,1	15	14,5
EU15	20,5	19,5	19	18,7	18,3	17,5	17,1	16,9	16,4
EA13	21,2e	20e	19,5e	19,1	18,8b	18,1	17,8	17,6	17,1
EL	18,6	18,2	17,3	16,7	15,5b	14,9	13,3	15,9	14,7
Males									
EU27	:	19,7	19,4	19,3	18,6	18,3	17,5	17,3	16,9
EU25	:	19,5	19,2	18,9	18,1	17,9	17,2	17,2	16,7
EU15	22,6	21,8	21,4	21,1	20,5	20,1	19,4	19,3	18,8
EA13	23,6e	22,6e	22,2e	21,8	21,4b	21,1	20,4	20,2	19,6
EL	22,1	22,9	21,3	20,7	19,9b	18,3	17,5	20,7	18,6
Females									
EU27	:	15,6	15,2	14,9	14,7	13,6	13,5	13,1	12,7
EU25	:	15,2	14,8	14,4	14,1	12,9	13	12,7	12,3
EU15	18,5	17,2	16,6	16,2	16,1	14,8	14,8	14,4	14
EA13	18,8e	17,4e	16,9e	16,4	16,2b	15,1	15,2	15	14,5
EL	15,4	13,6	13,4	12,6	11b	11,6	9,2	11	10,7

e: estimation

Source: Eurostat