

GREECE MACRO MONITOR

February 03, 2011

Focus notes: Greece

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Contents

- **Final budget execution data for year-to-December 2011 undershoot the 12-month target for 2011; upward risks remain due to general government developments**
- **Measures in order to close the gap between the actual 2011 deficit and the projected one in the 5th Review of the EC/ECB/IMF adjustment programme are estimated at ca. €2.2bn (~1.0%-of-GDP)**
- **CPI inflation came out at 2.4% in December 2011, slightly lower than November's reading of 2.9%; 2011 annual CPI reading at 3.3% inline with the headline inflation rate included in the 5th Review of the EC/ECB/IMF adjustment programme**
- **Harmonized CPI inflation at constant taxes was 1.5% in November 2011 while the Harmonized CPI inflation was 2.8%; the difference is attributed to the recent VAT and special consumption tax hikes.**

Final budget execution data for year-to-December 2011 undershoot the 12-month target for 2011; upward risks remain due to general government developments

According to the final data for the execution of the State budget (fiscal basis), last year's central government deficit rose by 1.3% YoY to ca €21.73 bn. This compares with a deficit forecast of ca €21.71 bn included in the voted Budget for 2012 and an upwardly-revised deficit target of ca €19.81bn, envisaged in the government's Medium Term Fiscal Strategy 2011-15 (MTFS), published in June 2011.

In more detail, net ordinary budget revenue in January-December 2011 declined by 1.7%YoY to ca €49.99bn. This compares with respective full-year increases of 6.3% YoY and 0.9% YoY envisaged in the MTFS and the 2012 Budget. The main reasons behind the poor performance in ordinary budget

revenue last year include: **a)** the deeper-than-previously expected domestic economic downturn; **b)** reduced withholding personal income tax receipts due to a more favorable tax treatment as a result of the new tax law and the reduction in taxable incomes; **c)** lingering inefficiencies in the tax collection mechanism and widespread tax evasion; **d)** the strike of employees in the Tax and Payment Offices on 29th & 30th of December 2011; **e)** the extension granted for the settlement of outstanding tax obligations until January 20, 2012; and **f)** higher-than-initially-projected tax refunds.

With regards to the latter, the government, in a move to reduce VAT tax evasion, had earlier introduced a scheme linking tax returns to the total volume of retail sales receipts submitted to the tax authorities. The measure, which was applied to the calculation of 2010 taxable income, led to a sharp rise in tax refunds in the first months of last year. This forced the government to modify it in the calculation of

taxable income earned in 2011. Last December, the Finance Ministry also implemented a general freeze in tax refunds. The latter move may increase tax returns in the following months, but at the same time endangering the attainability of the 2012 deficit target.

With regards to the efficiency of the tax collection mechanism, a report published recently by the Task Force for Greece – a European Commission sponsored technical assistance team on fiscal and structural issues - estimates that there are currently ca €60 bn in unpaid taxes, with around half of this amount being the subject of court cases, some of which have been running for over a decade. While the processing of the tax related disputes in the Greek courts remains a subject of particular concern, the Task Force currently estimates that some €7.0 bn of outstanding tax obligations could be collected in the immediate period.

VAT revenues for January-December 2011, decreased by €0.85 bn or -4.8% YoY despite the increase in the VAT rate applied to restaurants and catering implemented from September 1st onwards. This is clear evidence of the higher than previously projected recession in the Greek economy and the tax collection inefficiencies mentioned above. In more detail, VAT revenues from fuel and tobacco products increased by 7.3% YoY and 8.3% YoY, respectively; on the other hand, VAT revenues from other goods decreased by -5.4% YoY.

On the expenditure side, ordinary budget outlays in the 12-months to December 2011 rose by 2.9% YoY to ca €68.83bn. Over the same period, Interest payments increased by 23.6% YoY, while primary expenditure declined by 1.3% YoY, despite higher grants (by ca €1.95 bn or 12.8% YoY) to social insurance and health. In the public investment budget (PIB), full-year revenue grew by 22.7% YoY to €3.77bn, while expenditure was reduced by 21.8% YoY, reaching €6.61bn.

Note that the data on the execution of the State budget provided above are reported on a cash basis. However, in line with Eurostat methodology (ESA 95), total annual revenues are measured on a national account basis and also include receipts from the first two months of 2012. Equivalently, the calculation of total 2010 annual revenue on a national account basis included a share of revenues reported (on a cash basis) in the first two months of 2011. Data on the 2011 general government deficit will not be published before March 2012.

According to press reports, the 2011 deficit is likely to translate into ca 9.5% of GDP. This figure is higher than the revised target of 9.0% included in the 2012 Budget and the 7.4% of GDP projected in the MTF5 2011-15. However, the 9.5% of GDP

deficit constitutes a positive surprise since earlier estimates projected a deficit close to or even above 10.0% of GDP.

In any case there is a significant slippage from the 9.0% of GDP target which together with data on November's 2011 General Government arrears (*refer to Greece Macro Focus Report, January 15 2011*) signal the need for additional measures. The additional measures – as identified last week in the draft document the Prime Minister handed to his Ministers – are estimated at ca. €2.2bn (~1.0%-of-GDP) and include: **a)** closures and mergers of state enterprises;; **b)** cuts in defense spending and **c)** reduction in health expenditure (medicines, hospital operating expenses).

As a reminder, the 2012 budget targets a decline in the general government deficit to 5.4%-of-GDP, assuming full implementation of the PSI deal envisioned in the October 26-27 EU Statement.

Table1: January-to-December 2011 Budget execution					
Ordinary Budget	Jan-Dec. 2010 (€bn)	Jan-Dec. 2011 (€bn)	Jan-Dec. 2011 (%YoY)	2011 new target Jan-Dec. (€bn)	Annual target (%YoY)
1. Net Revenue (a-b-c)	50.86	49.99	-1.7	51.31	-2.6
a. Gross revenue	56.16	53.95	-3.9	55.21	-2.3
b. NATO revenue	0.02	0.03	9.2	0.04	-34.8
c. Special revenue from licensing public rights	0.00	1.16		1.06	9.6
c. Tax refunds	5.32	5.14	-3.4	5.00	2.9
2. Expenditure (α+β+γ+δ+ε+σ)	66.93	68.88	2.9	69.50	-0.9
α. Primary expenditure	52.15	51.53	-1.2	51.79	-0.5
β. Transfer to hospitals for the settlement of part of past debt	0.37	0.44	18.6	0.45	-3.3
γ. NATO expenditures	0.03	0.02	-51.5	0.04	-59.8
δ. Military procurement	1.02	0.36	-64.7	0.60	-40.2
ε. Forfeiture of Government Guarantees	0.15	0.19	32.1	0.24	-18.5
σ. Interest costs	13.22	16.35	23.6	16.38	-0.2
Public Investment Budget (PIB)					
3. Revenue	3.07	3.77	22.7	3.37	12.0
4. Expenditure	8.45	6.61	-21.8	6.89	-4.1
5. Budget deficit (-) or budget surplus (+) (1-2+3-4)	-21.46	-21.73	1.3	-21.71	0.1

Source: Ministry of Finance

CPI rate at 2.4% in December 2011, slightly lower than November's reading of 2.9%; 2011 annual CPI reading at 3.3% inline with the headline inflation rate included in the 5th Review of the EC/ECB/IMF adjustment programme

According to ELSTAT, the CPI rate of change in December 2011 was at 2.4% compared with November 2010. The respective December 2010 reading was 5.2%. The CPI rate of change in December 2011 compared with November 2011 decreased by 0.1%. In December 2010, the monthly rate of change of the CPI

was 0.4%.

For January to December 2011, the annual average rate of CPI inflation is 3.3%. The respective Harmonized Consumer Price Index (HCPI) inflation was 3.1%, in line with the headline inflation rate included in the 5th Review of the EC/ECB/IMF adjustment programme. The HCPI figure for January to December 2010 was 4.7%.

The increases in VAT rates and special consumption taxes introduced by the MTF5 2011-15 in early July and implemented after September 1st 2011 increased inflation. According to Eurostat, the Harmonized Consumer Price Index at constant taxes (see Table 2 below) increased 1.5% YoY in November 2011 while Harmonized Consumer Price inflation was 2.8% YoY. The difference of 1.3% is attributed to the recent VAT and special consumption tax hikes. Note that constant tax inflation excludes hikes in VAT and excise taxes.

Concluding Remarks

As an overall assessment, developments in the State budget deficit for year-to-November 2011 signal a deviation from the updated 2011 annual deficit target of -9.0% of GDP. However, the slippage is expected to remain close to 0.5% of GDP and the 2011 deficit is expected at ca. 9.5% of GDP.

The timely and strict implementation of the measures announced by the Government in September 11 2011 provides a temporary fix. Additional measures will be necessary in order to bridge the gap between the actual 2011 deficit and the projected one in the 5th Review of the EC/ECB/IMF adjustment programme. These additional measures are estimated at ca. €2.2bn (~1.0%-of-GDP) and include: **a)** closures and mergers of state enterprises;; **b)** cuts in defense spending and **c)** reduction in health expenditure (medicines, hospital operating expenses).

In the medium term however, the new Memorandum of Understanding with the EC/ECB/IMF (currently under preparation) should include **a)** the fight against tax evasion and **b)** the structural reduction of costs in the broader public sector among its main pillars for a sustainable improvement in public economics.

Greece-Key Indicators							
	Last	ytd	2011	2010	2009	2008	2007
Macroeconomic indicators							
GDP growth (%YoY)*	-5.0 (Q3 11)	-	-	-3.5	-3.2	-0.2	3.0
Budget deficit (% of GDP, forecast for last)	-9.8	-	-9.8	-10.8	-15.8	-9.9	-6.8
Gross public debt (% of GDP, forecast for last)	161.7	-	161.7	144.9	129.3	113.0	107.4
CPI (%YoY, cum. ytd)	2.4 (Dec. 11)	0.6	3.3	4.7	1.2	4.2	2.9
CPI constant taxes (%YoY, cum. ytd)	1.5 (Nov.11)	0.7	-	1.4	1.1	4.2	2.9
Unemployment rate (%YoY, cum. ytd)	18.2 (Oct. 11)	34.5	-	14.8	10.2	8.9	8.9
Economic Sentiment (index level, period average)	74.9 (Jan. 11)	74.9	72.8	75.1	76.3	76.1	94.9
Competitiveness Indicators							
Real harmonised comp/ness indicator CPI deflated (%YoY, cum ytd)	-0.3 (Nov. 11)	0.4	-	-0.9	1.5	2.5	1.6
Unit Labor Cost (%YoY, cum ytd)	-19.3 (Q3 11)	-3.4	-	-1.2	6.9	7.1	3.6
Labor Cost (%YoY)	-1.9 (Q3 11)	-12.7	-	-2.7	5.3	2.4	3.4
Consumer indicators							
Private consumption in constant prices (% YoY)	-5.5 (Q3 11)	-5.5	-	-3.6	-1.3	4.0	3.7
Retail sales excl. fuels & lubricants volume (% YoY)	-9.7 (Oct. 11)	-28.6	-	-6.9	-9.3	-1.4	2.3
New private passenger car registrations (% YoY, cum. ytd)	50.0 (Dec. 11)	-31.0	-31.0	-35.6	-17.8	-4.5	4.5
Consumer confidence (index level, period average)	-80.1 (Jan. 11)	-80.1	-74.1	-63.4	-45.7	-46.0	-28.5
Retail trade expectations (index level, period average)	-34.1 (Jan. 11)	-34.1	-35.4	-33.7	-15.4	14.2	34.2
Industrial-activity indicators							
Industrial production (% YoY)	-7.8 (Nov. 11)	-7.1	-	-5.2	-6.8	-8.2	2.0
Capacity utilization in industry (index level, period average rate)	66.0 (Nov. 11)	67.4	67.4	68.6	70.5	75.9	77.0
Industrial confidence (index level, period average)	-24.5 (Jan. 11)	-24.5	-20.6	-22.5	-28.4	-5.9	5.2
Manufacturing PMI (index level, period average)	41.0 (Jan. 11)	41.0	43.6	43.8	45.4	50.4	53.8
Construction sector & other investment-activity indicators							
Cross fixed capital formation in constant prices (% YoY)	-15.2 (Q3 11)	-	-	-9.2	-23.1	-5.5	13.1
Housing investment in constant prices (% YoY)	-23.5 (Q3 11)	-	-	-18.4	-20.2	-25.8	-5.8
Other construction in constant prices (% YoY)	-15.7 (Q3 11)	-	-	-5.9	18.2	44.3	-5.5
Private building permits volume (% YoY, cum. ytd)	-21.8 (Sep. 11)	-17.8	-	-24.1	-26.8	-17.3	-5.0
Construction confidence (index level, period average)	-61.2 (Jan. 11)	-61.2	-68.3	-55.4	-39.5	-9.6	-9.2
Balance-of-Payments statistics (€-terms)							
Current Account (% YoY, cum.ytd)	-7.3 (Nov. 11)	-10.7	-	-11.0	-25.8	6.7	37.2
Tourism revenues (% YoY, cum. ytd)	-12.5 (Nov. 11)	9.7	-	-7.6	-10.6	2.8	-0.3
Transportation revenues (% YoY, cum. ytd)	0.8 (Nov.11)	-9.2	-	13.8	-29.4	13.3	18.3
Gross External Debt (% of GDP, cum ytd)	183.0 (Q3 11)	-1.3	-	177.6	178.4	155.7	138.5
Customs-based statistics (€ - terms)**							
Goods exports (% YoY, cum. ytd)	11.1 (Nov. 11)	28.2	-	11.3	-19.5	4.5	3.8
Goods exports to EU (% YoY, cum. ytd)	7.5 (Nov. 11)	10.2	-	9.2	-21.5	4.1	25
Goods exports to non-EU countries (% YoY, cum. ytd)	-6.9 (Nov. 11)	35.0	-	12.9	-18.6	3.5	-20.9
Goods imports (% YoY, cum. ytd)	-29.1 (Nov. 11)	-12.0	-	-4.4	-21.8	11.2	9.3
Goods imports from EU (% YoY, cum. ytd)	-7.6 (Nov. 11)	-8.3	-	-13	-17.8	5.4	16.4
Goods imports from non-EU countries (% YoY, cum. ytd)	-52.7 (Nov. 11)	-21.3	-	-0.3	-35.6	10.9	0.6
Domestic MFI credit to domestic enterprises & households (outstanding balances and net flows)							
Private sector (% YoY)	-3.2 (Dec. 11)	-3.6	-3.6	0.0	4.2	15.9	21.5
Enterprises (% YoY)	-2.0 (Dec. 11)	-2.5	-2.5	1.1	5.2	18.9	20.8
Households (% YoY)	-3.9 (Dec. 11)	-4.3	-4.3	-1.2	3.1	12.6	22.2
Housing loans (% YoY)	-2.9 (Dec. 11)	-2.6	-2.6	-0.3	3.7	11.2	21.5
Consumer credit (% YoY)	-6.4 (Dec. 11)	-6.0	-6.0	-4.2	2.0	16.0	22.4
Private-sector credit outstanding (% GDP) ***							
Total domestic enterprises & households	114.1 (Dec. 11)	-	-	113.4	107.8	107.2	96.7
Domestic households	51.9 (Dec. 11)	-	-	52.0	51.7	50.3	46.7
Stock Indices****							
Athex General Index (level, %ytd, end of year level 2007-10)	792.4	-44.0	680.4	1413.9	2196.2	1786.5	5178.8
FTSE/ASE 20 Index (level, %ytd, end of year level 2007-10)	335.0	-49.5	264.9	663.1	1125.4	932.5	2752.5
Athex Banks Index (level, %ytd, end of year level 2007-10)	468.3	-62.6	262.9	1251.0	2661.7	1899.4	7296.4
Baltic Dry Index (level, %ytd, end of year level 2007-10)	651.0	-63.3	1738.0	1773.0	3005.0	774.0	9143.0
Bond/CDS spreads ****							
10yr Bond Spread over Bund (bp, %ytd, end of year level 2007-10)	3225.4	239.2	3313.4	950.9	238.7	227.4	32.2
5yr Bond Spread over Bund (bp, %ytd, end of year level 2007-10)	5151.8	342.9	5163.1	1163.1	254.2	264.3	21.2
2yr Bond Spread over Bund (bp, %ytd, end of level year 2007-10)	19016.5	1576.3	13408.3	1134.4	211.9	240.1	26.8
5yr CDS Spread (bp, %ytd, end of year level 2007-10)	7237.0	597.7	10231.4	1037.3	282.8	238.0	-
T-Bills, Auction Rate							
26-Weeks average rate (% , last auction, last auction of year)	4.90 (10/01/2012)	-	4.95	4.82	0.35	5.09	4.18
13-Weeks average rate (% , last auction, last auction of year)	4.64 (17/01/2012)	-	4.68	4.10	0.59	4.46	4.14

Source: Hellenic Statistical Authority, PDMA, Bank of Greece, ECOWIN, AMECO, Bloomberg, Eurobank EFG Research

* Non-seasonally adjusted GDP data were used for columns Last and ytd. Seasonally adjusted data not available. Growth rates for 2007-9 include the recent ELSTAT's revision.

**Note that custom based statistics (Source: ELSTAT) on imports and exports are subject to frequent revisions.

***For 2011 the respective GDP forecast at market prices (€ 217.8 bn) from the 2012 Budget was used. For 2007-2010 the respective AMECO figures were used

****Stocks, BDI, Bond spread and CDS spread as of 02/02/2012. Note that from mid-September 2011 Greek CDS spreads are priced on an upfront basis.

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