

Focus - Greece

Provisional data for Q2 2010 point to a GDP contraction in line with EU/ECB/IMF estimate.

Key points

- **Provisional data for the 2010 Q2 GDP show a contraction of -1.8%/-3.7% of GDP QoQ/YoY that point to a deepening of the domestic recession.**
- **The contraction is in line with the -4.0% GDP growth forecast of the updated EU/ECB/IMF adjustment programme and the Greek Government.**
- **The external trade deficit decreased by 28.1% YoY but exports decreased by 5.0% YoY.**

The provisional data for the 2010 Q2 GDP show a contraction of -1.8%/-3.7% of GDP QoQ/YoY that point to a deepening of the domestic recession. This development was even worse than what was predicted in the respective mid-August flash forecast (-1.5%/-3.5% YoY/QoQ) but is in line with the -4.0% GDP growth forecast of the updated EU/ECB/IMF adjustment programme and the Greek Government.

According to the data provided by the Hellenic Statistical Authority, Gross Fixed Capital Formation (GFCF) decreased by 18.6% YoY again in line with the previous quarters and the downward trend of the Greek Economy. In more detail, GFCF in dwellings decreased by 19.3%, GFCF in machinery and equipment decreased by 10.6% YoY, GFCF in other construction decreased by 27.0% YoY and GFCF in transport equipment decreased by 20.9% YoY.

Moreover, final consumption expenditure recorded a decrease of 5.1% YoY which translates in a -8.4% YoY decrease in general government consumption and -4.2% YoY in private consumption. This decrease is a result of the contractionary budget cuts in public sector's wages and pensions that the Government implemented from January 2010 onwards, the second increase of the VAT rate (from 21% to 23% for the highest VAT tranche and respective increases for the two lower tranches), the increase in excise taxes in fuel, alcohol and tobacco, as well as other (non wage/pension) cuts in public spending in an effort to reduce the budget deficit from 13.6% of GDP in 2009 to 8.1% of GDP in 2010.

On a more positive note, external trade deficit decreased by 28.1% continuing the positive contribution of the external sector of the economy that was observed in previous quarters. Imports decreased by 13.5% YoY; in particular, goods' imports decreased by 21.1% while services' imports decreased by 11.4%. On the other hand, exports decreased by 5.0% YoY, comprising a 2.3% decrease in goods exports and a 7.0% in services exports. However, the latter to a great extent reflects tourism's price competitiveness adjustment. According to reports arrivals of non residents were at the same levels with 2009 so the tourist receipts decrease comes from a downwards adjustment in prices.

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