

GREECE MACRO MONITOR

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Focus notes: Greece

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Latest macro & market developments

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Greek GDP flash estimate: Non-seasonally adjusted real GDP contracted by -6.9%YoY in Q2:2011, higher than the Q1:2011 figure of -8.1%YoY; seasonally adjusted data and QoQ data not available yet

According with EL.STAT, the Greek Statistical Authority, the Greek economy contracted by 6.9%YoY in Q2 2011 compared with the respective 2010 period. The figure which was announced earlier today is based on available non-seasonally adjusted data. The agency didn't provide a seasonally-adjusted figure. According with press reports the publication of the seasonally adjusted figure was postponed because of delays in the process of collecting data on General Government entities and organizations. Note that the Q1 2011 seasonally unadjusted GDP figure was -8.1% of GDP and it remains unchanged in the Q2 2011 GDP flash estimate.

It needs to be noted that EL.STAT, has recently changed the methodology it uses to compile quarterly data for the general government transactions. Specifically,

quarterly estimates for the years 2009-2011 are now based on data mainly from direct sources, while for the period 2000-2008 estimates were made by allocating the annual results to the quarters. This affects the comparability of the 2008 and 2009 data, and EL.STAT warns that its quarterly GDP growth figures between these two years should be treated with caution. Furthermore, due to the relatively short time span of the available quarterly general government data in the period Q12:009-Q12:011, the previously implemented method for the seasonal adjustment did not provide satisfactory results. To address the problem, ELSTAT in consultation with Eurostat, has applied a new method of seasonal adjustment, which allows for seasonal breaks and is deemed to provide more reliable results. Nevertheless, data users should continue to use caution in using these results until a longer time series is established.

Preliminary budget execution data for year-to-July 2011 undershoot the new 2011 MTFS target

Preliminary data for the execution of Greece's State budget for year-to-July 2011 showed that the central government deficit rose by

24.6%YoY, reaching ca €15.51bn. This resulted into an undershooting of the respective Medium Term Fiscal Strategy (MTFS) target by €0.96bn.

Net revenues for year-to-July 2011 were at €26.85bn, a decline of 6.4%YoY compared with the respective 2010 period. Net revenues for the year-to-July are slightly lower by €0.03bn or 0.1% from the respective MTFS revenue target.

The main reasons driving revenues were: **a)** the larger than previously projected recession, **b)** the non repetition of an extension granted for the payment of prior year road duties, which inflated State receipts in January 2010 by an estimated €0.39bn, and **c)** reduced receipts from withholding personal income tax in 2011 due to a more favorable tax treatment of personal incomes as a result of the new tax law and the income reduction. Tax refunds amounted to €3.11bn for year-to-July 2011, a 15.8%YoY increase relative to the respective period a year earlier. Note here that the government in an effort to reduce VAT evasion introduced in 2010 a scheme linking 2010 tax refunds with the volume of retail receipts submitted by tax payers. Reportedly, this was the main reason behind the sharp rise in tax returns in the year-to-July 2011. The government already modified the tax refunds scheme in the calculation of taxable income in FY2011.

In addition to the aforementioned, it appears that persisting disfunctionalities in the revenue collection mechanism and widespread tax evasion continued to weigh on budget revenues over the first seven months of the year. According to a recent Bank of Greece report, tax evasion in the domestic economy amounts to as much as 4ppts-of-GDP per annum. Moreover, the 4th review of the EU/IMF adjustment programme for Greece places particular emphasis on the need to fight tax & social security contributions evasion in a more drastic and effective way. A new tax law is currently under discussion and the restructuring of the tax collection system already started.

For the current year as a whole, the State budget targets a 5.6%YoY increase in net ordinary revenue. To achieve the latter target, the government needs to generate additional revenue (mainly from taxation) of ca €27.20bn (or €5.44bn per month) for the remaining five months of 2011. This target seems overambitious but both the government and a number of EU/IMF officials argue lately that the revenue shortfall could be eliminated by the proper and timely implementation of the tax measures incorporated in the MTFS. The latter provides for additional austerity measures worth ca €28bn for the period 2011-2015, with some €6.4bn of these to be applied this year

(starting by early September 2011), so as to help bridge a 2.8ppts-of-GDP projected fiscal gap in the 2011 budget.

On the expenditure side, ordinary budget outlays totaled around €40.91bn year-to-July 2011, a ca 7.1% increase relative the same period a year earlier. This was mainly as a result of a 4.7%YoY increase in primary expenditure over the first six months of this year, chiefly because of **a)** higher transfers to social security funds by €1.69bn due to lower social security contributions, **b)** higher grant by €0.30bn to the Employment Agency for unemployment benefits and **c)** hospitals procurement by €0.78bn covering this years and past years hospitals expenditure. Interest payments for year-to-July 2011, increased by 14.6%YoY compared with the respective 2010 period. In the public investment budget (PIB), year-to-July 2011 revenue amounted to €1.17bn, a decrease of -8.1% relative to the same period a year earlier. On the other hand, PIB expenditure was down ca 37.6%YoY.

As an overall assessment, the developments in the State budget deficit for year-to-July 2011 signal an urgent need to fight tax avoidance and reduce costs in the broader public sector in a more effective way. Although the implementation of a number of new austerity measures included in the MTFS in the five remaining months of 2011 will likely improve budget execution, considerable uncertainty continue to surround the attainability of the 7.5%-of-GDP full year target for the 2011 general government deficit.

Table 1: January-to-July Budget execution

Ordinary Budget	Jan-July	Jan-July	Jan-July	2011 MTFS	Annual target (%YoY)
	2010 (€bn)	2011 (€bn)	2011 (%YoY)	target Jan-July (€bn)	
1. Net Revenue (a-b-c)	28.67	26.85	-6.4	26.88	5.6
a. Gross revenue	31.36	29.94	-4.5	29.86	2.9
b. NATO revenue	0.00	0.02		0.02	207.7
c. Tax refunds	2.69	3.11	15.8	3.01	-23.7
2. Expenditure (α+β+γ+δ+ε+σ)	38.20	40.91	7.1	41.24	5.7
α. Primary expenditure	28.78	30.13	4.7	30.16	0.7
β. Transfer to hospitals for the settlement of part of past debt	0.19	0.43	128.5	0.45	19.9
γ. NATO expenditures	0.00	0.00	-46.0	0.01	73.9
δ. Military procurement	0.22	0.10	-55.8	0.53	47.5
ε. Forfeiture of Government Guarantees	0.08	0.03	-69.4	0.05	54.5
σ. Interest costs	8.91	10.22	14.6	10.05	21.0
Public Investment Budget (PIB)					
3. Revenue	1.28	1.17	-8.1	1.23	27.8
4. Expenditure	4.20	2.62	-37.6	3.34	-10.6
5. Budget deficit (-) or budget surplus (+) (1-2+3-4)	-12.45	-15.51	24.6	-16.48	-3.9

Source: Ministry of Finance

Unemployment rate in May 2011 spiked to 16.6%, exceeding April's reading of 15.8%

According to ELSTAT, the Greek Statistical Authority, the May 2011 unemployment rate spiked to a record high level of 16.6%, exceeding April's reading of 15.8%. Note that the rate of unemployment was at 12% on May 2010. According to the 4th Review of the EC/ECB/IMF adjustment programme the 2011 unemployment is estimated at 15.8%.

Greece's 26-week T-bill auction was well received

Greece's Public Debt Management (PDMA) sold on Tuesday €812.5mn of 6-month T-bills, including €187.5mn in non-competitive bids. The average accepted yield was at 4.85%, below 4.90% a previous auction of similar maturity paper on July 16, while the bid-to-cover ratio stood at 3.06%. According to a Reuters report quoting PDMA chief Petros Christodoulou, foreign investors acquired 25% of the sale, slightly above a share of 22% in the prior tender.

Table 2: Greece-Key Indicators				
	Last	ytd	2010	2009
Macroeconomic indicators				
GDP growth (%YoY)*	-5.5 (Q1 11)	0.2	-7.4	-2.1
CPI	2.4 (July 11)	0.4	4.7	1.2
Unemployment rate	16.6 (May 11)	38.8	14.8	10.2
Labor Cost (%YoY)	-0.6 (Q1 11)	-19.1	-4.2	3.6
Economic Sentiment (index level-period average)	70.9 (July 11)	74.7	75.1	76.3
Consumer-vigor indicators				
Private consumption in constant prices (% YoY)	-7.8 (Q1 11)	1.1	-8.6	-2.2
Retail sales excl. fuels & lubricants volume (% YoY)	-10.5 (March 11)	-29.2	-23.7	-0.7
New private passenger car registrations (% YoY)	-13.9 (July 11)	169.3	-61.9	22.0
Consumer confidence (index level - period average)	-76.8 (July 11)	-70.6	-63.4	-45.7
Retail trade expectations (index level - period average)	-38.6 (July 11)	-33.8	-33.7	-15.4
Industrial-activity indicators				
Industrial production (% YoY)	-13.2 (June 11)	-0.9	-5.2	-6.8
Capacity utilization in industry (index level -period average)	67.7 (June 11)	68.2	68.6	70.5
Industrial confidence (index level - period average)	-21.0 (July 11)	-18.9	-22.5	-28.4
Manufacturing PMI (index level - period average)	45.2 (July 11)	44.2	43.8	45.4
Construction sector & other investment-activity indicators				
Gross fixed capital formation in constant prices (% YoY)	-21.8 (Q1 11)	-2.6	-7.6	-15.1
Housing investment in constant prices (% YoY)	-21.7 (Q1 11)	-5.1	-18.5	-24.8
Other construction in constant prices (% YoY)	-10.9 (Q1 11)	-2.8	-11.7	-4.7
Private building permits volume (% YoY)	-37.4 (Feb 11)	-67.8	-8.6	-22.6
Construction confidence (index level - period average)	-75.0 (July 11)	-68.5	-55.4	-39.5
Balance-of-Payments statistics (€-terms)				
Tourism revenues (% YoY)	9.8 (May 11)	483.6	21.0	-10.2
Transportation revenues (% YoY)	-10.1 (May 11)	-4.3	-7.7	-7.9
Customs-based statistics (€ - terms)				
Goods exports (% YoY)	35.8 (June 11)	6.4	43.8	-3.2
Goods exports to EU (% YoY)	-1.8 (June 11)	-4.6	17.1	4.2
Goods exports to non-EU countries (% YoY)	105.4 (June 11)	20.3	89.8	-14.4
Goods imports (% YoY)	-17.5 (June 11)	-16.5	-6.7	1.0
Goods imports from EU (% YoY)	-7.0 (June 11)	3.9	-15.7	-7.8
Goods imports from non-EU countries (% YoY)	-29.3 (June 11)	-25.3	8.0	1.1
Domestic MFI credit to domestic enterprises & households (outstanding balances)				
Private sector (% YoY)	0.6 (June 11)	-1.7	0.0	1.5
Enterprises (% YoY)	-8.5 (June 11)	-1.5	1.1	1.0
Households (% YoY)	-2.8 (June 11)	-1.7	-1.3	1.9
Housing loans (% YoY)	-1.6 (June 11)	-0.9	-0.4	3.7
Consumer credit (% YoY)	-4.5 (June 11)	-4.2	-4.2	-1.6
Private-sector credit outstanding (% GDP) **				
Total domestic enterprises & households	112.0 (June 11)	-	112.0	106.6
Domestic households	51.2 (June 11)	-	51.3	50.2

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

* According to ELSTAT, Non-seasonally adjusted GDP for Q2:2011 is -6.9%yoy. Seasonally adjusted data not available yet (August 12, 2011)

** 4th Review of the EC/ECB/IMF adjustment programme forecasts for 2010 (€ 230 bn) and 2011 (€ 226 bn) were used.

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