

GREECE MACRO MONITOR

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Focus notes: Greece

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Latest macro & market developments

Contents

- **Greek GDP provisional estimate: Non-seasonally adjusted real GDP contracted by -7.3%YoY in Q2:2011, higher than the Q1:2011 figure of -8.1%YoY**
- **Preliminary budget execution data for year-to-August 2011 undershoot the 8-month MTFs target for 2011**
- **General Government arrears for year-to-July 2011 at 6.53 bn or 2.8 of GDP; overshooting risk for the 2011 budget deficit target of 7.6% of GDP**
- **Unemployment rate in June 2011 at 16.0%, lower than March's reading of 16.6% due to seasonal factors**
- **CPI rate in August 2011 at 1.7%, lower than July's reading of 2.4%**
- **Greece in the 90th position of the World Economic Forum Competitiveness ranking**

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Greek GDP provisional estimate: Non-seasonally adjusted real GDP contracted by -7.3%YoY in Q2:2011, higher than the Q1:2011 figure of -8.1%YoY

According to ELSTAT, the Greek Statistical Authority, the Greek economy contracted by 7.3%YoY in Q2 2011 compared to the respective 2010 period. The figure is based on available non-seasonally adjusted data. The agency did not provide a seasonally-adjusted figure. The Q1 2011 seasonally unadjusted GDP figure was -8.1% of GDP and it remains unchanged in the Q2 2011 GDP flash estimate.

Table 1 below shows the provisional GDP break down for 2011. Final consumption continues its negative trend for a sixth consecutive quarter, contracting by -6.80% in Q2 2011 due to **a)** the ongoing recession, **b)** the fiscal drag of austerity measures, **c)** the rationalization effort in the general government expenses and **d)** bad consumer psychology, the consumer confidence index was at -71.2 for August 2011.

Table 1: GDP Breakdown (Non Seasonally Adjusted, YoY, % of GDP)			
	2010 Q4	2011 Q1	2011 Q2
Final	-10.10	-7.40	-6.80
Household	-8.80	-7.90	-6.10
General Government	-13.40	-6.90	-9.70
GFCF	-19.40	-20.90	-17.90
Exports	12.80	-2.60	-1.40
Imports	-3.20	-12.80	-7.60
GDP	-8.80	-8.10	-7.30

Source: ELSTAT

Gross fixed capital formation (GFCF) contracted by 17.90% of GDP in Q2 2011, the 15th consecutive quarter of negative GFCF. This is an indication of the gloomy prospects of the Greek economy.

Exports of goods and services declined by -1.40% of GDP in Q2 2011 while imports declined by -7.60% of GDP amid domestic recession and austerity measures and a gloomy world economic environment. Even though the trade balance contribution is positive, since imports

continued to decline more than exports, the developments in the exports of goods and services are of critical importance for the achievement of the 2011 GDP target.

At the end it needs to be noted that ELSTAT, 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 ELSTAT 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 Q1:2009-Q1:2011, the previously implemented method for the seasonal adjustment did not provide satisfactory results.

Note that according with the 4th Review of the EC/ECB/IMF adjustment programme, Greek GDP is expected to contract by -3.8% in 2011 and return to positive levels at 0.2% in 2012. However, more recently both the Government as well as a number of analysts estimate that 2011 GDP will decline by -5.3% of GDP in 2011 and remain at negative territory (but above -1% in 2012).

Preliminary budget execution data for year-to-August 2011 undershoot the 8-month MTF5 target for 2011

Preliminary data for the execution of Greece's State budget for year-to-August 2011 showed that the central government deficit rose by 22.2%YoY compared with August 2010, reaching ca €18.10bn. This resulted into an undershooting of the respective Medium Term Fiscal Strategy (MTFS) 8-month target by €0.87bn or -4.3%.

Net revenues for year-to-August 2011 were at €30.68bn, a decline of 5.3%YoY compared with the respective 2010 period. Net revenues for the year-to-August are slightly lower by €0.03bn or 0.1% from the respective MTF5 8-month 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, **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, and **d)** the increased tax refunds due to the clearing of 2010 obligations.

Tax refunds amounted to €3.41bn for year-to-August 2011, a 12.9%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-August 2011. The government already modified the tax refunds scheme in the calculation of the 2011 taxable income.

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, currently under discussion, is expected by the end of September. The restructuring of the tax collection system according with Law 3943/2011 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 €23.36bn (or €5.84bn per month) for the remaining four 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 MTF5 and the new measures announced on September 11 2011. Not that the MTF5 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).

On the expenditure side, ordinary budget outlays for the year-to-August 2011 totaled around €47.40bn, a ca 8.1% YoY increase compared with the respective 2010 period. This was mainly a result of a 4.5%YoY increase in primary expenditure over the first eight months of this year, chiefly due to **a)** higher transfers to social security funds by €1.70bn due to lower social security contributions, **b)** higher grant by €0.32bn to the Employment Agency for unemployment benefits and **c)** hospitals procurement expenses rising by €0.85bn covering this year's and past year's hospitals expenditure. Interest payments for year-to-August 2011, increased by 19.4%YoY compared to the respective 2010 period. In the public investment budget (PIB), year-to-August 2011 revenue amounted to €1.88bn, an increase of 43.4% YoY compared with the respective 2010 period. On the other hand, PIB expenditure was down by €3.26 bn or -37.6%YoY compared to the respective 2010 period.

As an overall assessment, the developments in the State budget deficit for year-to-August 2011 signal a deviation from the 2011 annual deficit target of -7.5% of GDP. The recent measures

announced by the Government in September 11th 2011 – if rightly and timely implemented – provide a temporary fix. In the medium term however, the fight against tax avoidance and the reduction of the costs in the broader public sector are the necessary prerequisites for a sustainable improvement in public economics.

Table 2: January-to-August Budget execution					
Ordinary Budget	Jan-August 2010 (€bn)	Jan-August 2011 (€bn)	Jan-August 2011 (%YoY)	2011 MTF5 target Jan-August (€bn)	Annual target (%YoY)
1. Net Revenue (a-b-c)	32.40	30.68	-5.3	30.70	5.6
a. Gross revenue	35.41	34.06	-3.8	33.87	2.9
b. NATO revenue	0.01	0.02		0.02	207.7
c. Tax refunds	3.02	3.41	12.9	3.19	-23.7
2. Expenditure (α+β+γ+δ+ε+σ)	43.85	47.40	8.1	47.51	5.7
α. Primary expenditure	32.60	34.05	4.5	33.79	0.7
β. Transfer to hospitals for the settlement of part of past debt	0.23	0.43	88.7	0.45	19.9
γ. NATO expenditures	0.01	0.01	-35.7	0.01	73.9
δ. Military procurement	0.23	0.14	-42.2	0.55	47.5
ε. Forfeiture of Government Guarantees	0.09	0.03	-72.2	0.05	54.5
σ. Interest costs	10.68	12.75	19.4	12.65	21.0
Public Investment Budget (PIB)					
3. Revenue	1.31	1.88	43.4	1.75	27.8
4. Expenditure	4.68	3.26	-30.3	3.91	-10.6
5. Budget deficit (-) or budget surplus (+) (1-2+3-4)	-14.81	-18.10	22.2	-18.97	-3.9

Source: Ministry of Finance

General Government arrears for year-to-July 2011 at 6.53 bn or 2.8 of GDP; overshooting risk for the 2011 budget deficit target of 7.6% of GDP

According to the most recent data published by the Ministry of Finance, total general government arrears for the year-to-July 2011 period amounted to €6.53bn or 2.8 % of GDP. The figure is lower from the respective June figure by €0.1 bn but its level causes concerns for the achievement of the 2011 budget target of 7.6% of GDP.

The accumulated arrears were among the major concerns of the 4th Review of the EC/ECB/IMF adjustment programme with regard to the achievement of the 2011 deficit target. Note that **a)** the full implementation of commitments registers for arrears (and their publication) to all line ministries and general government entities, and **b)** the detailed fiscal reports on general government are among the pending fiscal reforms of the 4th Review of the EC/ECB/IMF adjustment programme (to be completed by end-of-September 2011).

Unemployment rate in June 2011 at 16.0%, lower than March's reading of 16.6%

According to ELSTAT, the Greek Statistical Authority, unemployment in June 2011 reached 16.0%; lower than May's reading of 16.6% because of seasonal factors (increased activity in the tourism sector). Note that the rate of unemployment was at 11.6% in June 2010. According to the 4th Review of the EC/ECB/IMF adjustment programme the 2011 unemployment is forecasted at 15.8%.

CPI rate in August 2011 at 1.7%, lower than July's reading of 2.4%

According to ELSTAT, CPI in August 2011 was at 1.7%, compared to August 2010. The respective August 2010 reading was 5.7%. The CPI in August 2011 compared to July 2011 decreased by 1.4%. In August 2010, the monthly rate of change of the CPI was -0.7%. Note however that the increases in VAT rates and special consumption taxes introduced by the MTF5 in early July and implemented after September 1st 2011 are expected to increase inflation. The CPI target for 2011 is at 2.5% according to the 4th Review of the EC/ECB/IMF adjustment programme.

Greece in the 90th position of the World Economic Forum Competitiveness ranking

Greece was ranked in the 90th position (among 142 countries) in the 2011 World Economic Forum Competitiveness ranking (WEFCR). The comparison with the respective 2010 reading reveals a fall by seven places in the Greek competitiveness ranking despite the serious competitiveness reforms that the government completed in 2010 (business start ups, general commercial electronic registry, new investment law, "fast track" law for large investment projects etc). Note that Greece remains the lowest ranked country in the European Union.

This disappointing result was mainly due to the effect of the macroeconomic situation and the sovereign debt crisis in the Greek economy. In the Macroeconomic pillar of the WEFCR Greece was ranked at the 140th position; a clear indication of the seriousness of the ongoing sovereign debt crisis. Greece was ranked in the 110th position in the access to financial markets indicators for 2011 as a result of the low confidence on the part of investors. At the same time the country was ranked 89th with regards to its institutional efficiency (e.g., government efficiency, corruption, undue influence). It is not by chance that a survey included in the WEFCR ranks the government inefficiency as the first problematic area on the Greek competitiveness framework.

Greece was ranked 126th in the efficiency of the labor market indicator despite the labor reforms introduced in 2010. Note here that the improvement of the labor market efficiency and flexibility is among the main concerns of the EC/ECB/IMF adjustment programme.

Table 4: The most problematic factors for doing business in Greece (%)	
Inefficient government bureaucracy	22.10
Access to financing	13.80
Corruption	13.00
Tax regulations	11.80
Policy instability	10.60
Tax rates	8.50
Restrictive labor regulations	8.20
Inadequate supply of infrastructure	3.60
Poor work ethic in national labor force	3.20
Government instability/coups	2.50
Foreign currency regulations	1.00
Inadequately educated workforce	0.90
Inflation	0.70
Crime and theft	0.20
Poor public health	0.10

Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Source: WEF CR

Concluding Remarks

The Greek economy is expected to continue in a recessionary path in 2011 as the GDP breakdown data for Q2 2011 indicate. In addition, budget execution data, at the central and general government level, indicate a derailment from the budget deficit target of 7.6% of GDP. The WEF CR results highlighted the fact that the competitiveness of the Greek economy is seriously affected by the impact of the sovereign debt crisis but at the same time faces serious challenges in the areas of public sector efficiency and labor market flexibility.

As a result, we consider the austerity and structural measures that the Greek Government announced in the previous weeks as a prerequisite for the achievement of the 2011 deficit target. Furthermore, the full implementation of the public sector efficiency, competitiveness and labor market reforms included in the EC/ECB/IMF will significantly contribute to the improvement of the medium term growth prospect of the Greek economy.

Table 4: Greece-Key Indicators				
	Last	ytd	2010	2009
Macroeconomic indicators				
GDP growth (%YoY)*	-7.3 (Q2 11)	-2.8	-7.4	-2.1
CPI	1.7 (August 11)	-1.0	4.7	1.2
Unemployment rate	16.0 (June 11)	37.7	14.8	10.2
Labor Cost (% YoY)	-0.6 (Q1 11)	-19.1	-4.2	3.6
Economic Sentiment (index level-period average)	73.7 (August 11)	74.6	75.1	76.3
Consumer-vigor indicators				
Private consumption in constant prices (% YoY)	-6.1 (Q2 11)	1.1	-8.6	-2.2
Retail sales excl. fuels & lubricants volume (% YoY)	-13.1 (June 11)	-25.5	-23.7	-0.7
New private passenger car registrations (% YoY)	1.8 (August 11)	97.7	-61.9	22.0
Consumer confidence (index level - period average)	-71.2 (August 11)	-70.9	-63.4	-45.7
Retail trade expectations (index level - period average)	-39.6 (August 11)	-34.5	-33.7	-15.4
Industrial-activity indicators				
Industrial production (% YoY)	-2.8 (July 11)	11.6	-5.2	-6.8
Capacity utilization in industry (index level -period average r.	67.7(June 11)	68.2	68.6	70.5
Industrial confidence (index level - period average)	-19.3 (August 11)	19.0	-22.5	-28.4
Manufacturing PMI (index level - period average)	43.3 (August 11)	43.8	43.8	45.4
Construction sector & other investment-activity indicators				
Cross fixed capital formation in constant prices (% YoY)	-17.9 (Q2 11)	-22.2	-7.6	-15.1
Housing investment in constant prices (% YoY)	-21.9 (Q2 11)	-14.1	-18.5	-24.8
Other construction in constant prices (% YoY)	-16.6 (Q2 11)	-39.6	-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)	-77.4 (August 11)	-69.6	-55.4	-39.5
Balance-of-Payments statistics (€-terms)				
Tourism revenues (% YoY)	21.7 (June 11)	872.8	21.0	-10.2
Transportation revenues (% YoY)	-15.7 (June 11)	0.0	-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)	-1.2 (July 11)	-1.4	0.0	1.5
Enterprises (% YoY)	0.6 (July 11)	-0.8	1.1	1.0
Households (% YoY)	-2.7 (July 11)	-1.8	-1.2	1.9
Housing loans (% YoY)	-2.1 (July 11)	-0.7	-0.3	3.7
Consumer credit (% YoY)	-5.9 (July 11)	-5.2	-4.2	-1.6
Private-sector credit outstanding (% GDP) **				
Total domestic enterprises & households	112.5 (July 11)	-	112.1	106.6
Domestic households	51.3 (July 11)	-	51.4	50.2

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

* Non-seasonally adjusted GDP data were used for columns Last and ytd. Seasonally adjusted data not available yet (September 8, 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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