

# GREECE MACRO MONITOR

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Focus notes: Greece

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## Latest macro & market developments

### Contents

- Q1-2012 non-seasonally adjusted real GDP declines by -6.5%YoY, following a -7.5%YoY contraction in the prior quarter
- May 2012 HCPI inflation at 0.9% YoY and unemployment rate at 21.9% in March 2009, both highlight the deflationary pressures on the Greek economy
- Real sector indicators point towards a continuation of the recession; diverging paths between the Greek economy and the rest of the euro area

### Q1-2012 non-seasonally adjusted real GDP declines by -6.5%YoY, following a -7.5%YoY contraction in the prior quarter

Greece's real GDP contracted by -6.5%YoY in Q1 2012, according to non-seasonally adjusted data released by ELSTAT last week. (The agency did not publish the corresponding seasonally-adjusted figures). This was the 14th negative reading since Q4 2008 with only a brief interval of an anemic positive reading of 0.4% of GDP in Q1 2010. Real GDP contracted by -8.0%YoY in Q1 2011, -7.3%YoY in Q2 2011, -5.0%YoY in Q3 2011 and -7.5% YoY in Q4 2011.

In more detail, final consumption contracted by -7.5%YoY in Q1 2012, remaining in a negative growth territory for the eighth consecutive quarter. Among other factors, this reflects the continuing erosion of disposable incomes as a result of the fiscal austerity program, higher unemployment and depressed consumer sentiment.

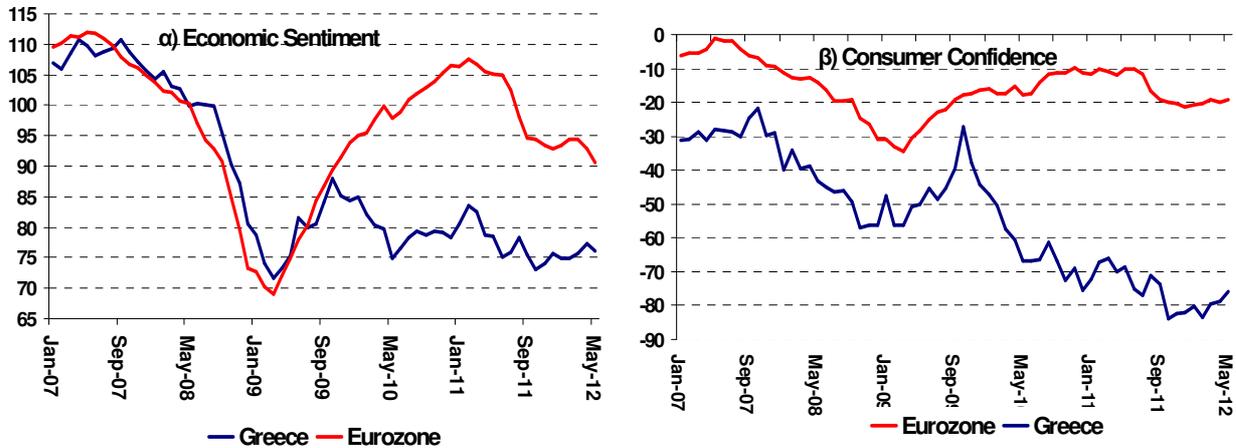
Gross fixed capital formation (GFCF) contracted by -21.3% YoY in Q1 2012, remaining in decay for the 18th consecutive quarter, a clear indication of the worsening investment environment in the Greek economy. Note that GFCF peaked in Q4 2006

at 23.2% YoY and remained in positive territory until Q3 2007. The level of GFCF in constant prices fell from 26.5% of GDP in Q1 2007 to 13.1% in Q1 2012.

Exports of goods and services increased by 1.4%YoY and imports declined by -16.6%YoY, with the trade balance providing a positive contributor to overall GDP in Q1 2012 (Table 1). Bank of Greece (BoG) data (Table 2) present a similar picture. Exports of goods and services for Q1 2012 including oil and ships increased by 7.5% YoY while exports of goods and services excluding oil and ships increased by 5.8% YoY. Services receipts for Q1 2012 increased by 1.4% YoY with travel receipts decreasing by -15.1% YoY, transportation receipts increasing by 0.8% YoY and receipts from other services increasing by 13.3% YoY. BoG data on imports show a decrease of -10.1% YoY. Note that ELSTAT custom based statistics on the most recent figures of imports and exports are subject to frequent revisions while this is not the case for the BoG data.

According to the 2<sup>nd</sup> Adjustment Programme for Greece (March 2012) real GDP growth was expected at -4.8% for 2012 with risks on the downside. The outlook for 2013 is that of a real GDP stagnation while positive growth

Figure 1: Economic Sentiment and Consumer Confidence



rates are expected from 2014. However, the OECD in its recent (May 2012) report points toward a GDP decline of -5.1% for 2012 with risks on the downside. Both projections did not account for the uncertainty created by the successive elections in Greece.

Table 1: GDP Breakdown						
Constant 2005 prices, non-Seasonally Adjusted, YoY, % of GDP						
	Q4-2010	Q1-2011	Q2-2011	Q3-2011	Q4-2011	Q1-2012
Final Consumption	-109	-89	-83	-49	-79	-75
Households	-89	-86	-74	-52	-70	-85
General Government	-175	-106	-118	-34	-105	-32
GFCF	-192	-242	-196	-164	-222	-213
Exports	131	-24	08	45	-61	14
Imports	-111	-98	-45	-38	-142	-166
<b>GDP</b>	<b>-86</b>	<b>-80</b>	<b>-73</b>	<b>-50</b>	<b>-75</b>	<b>-65</b>

Source: ELSTAT

Note: According to ELSTAT, the previously implemented method for the seasonal adjustment did not provide satisfactory results because of a) the relatively short time span of the available quarterly general government data in the period Q1:2009-Q1:2011 and b) the major changes reflected in economic indicators used in the estimations of quarterly GDP.

### May 2012 HCPI inflation at 0.9% YoY, March 2012 unemployment rate at 21.9%, both highlight the deflationary pressure on the Greek economy

According to ELSTAT, the HCPI rate of YoY change in May 2012 was at 0.9%. The respective May 2011 reading was 3.1%. The HCPI rate of change in May 2012 compared to April 2012 decreased by 0.3%. Note that the 2012 annual inflation rate is expected at -0.5% in the 2<sup>nd</sup> Adjustment Programme for Greece (March 2012). The deflationary pressure in 2012 is projected to be reinforced by the cut in the minimum wage and the reform of the legislation on sectoral contracts (both measures were prior actions for the 2<sup>nd</sup> Greek bailout).

Eurostat's HCPI at constant taxes, i.e. excluding hikes in VAT and excise taxes, increased by 0.3%YoY in March 2012 (see Table 2). Note that HCPI at constant taxes (ct) in March 2011 was 1.7%. This persistence of HCPI (ct) at positive territory despite the deep recession is related to the rigidities and oligopolistic features of the Greek domestic product & services market.

According to ELSTAT, the unemployment rate in Q1 2012 increased to 22.6%, the highest rate from 1998 onwards. The Unemployment rate was 20.7% in Q4 2011 and 15.9% in the respective 2011 period. The number of unemployed persons in Q1 2012 increased by 9.2% compared to the previous quarter and by 57.3% compared to the 1st Quarter of 2011. Unemployment rate in Q1 2012 is at 19.7% for males and 26.5% for females. Among age groups, the highest unemployment is recorded for the 15-24 age one, at 52.7%. In to the 2<sup>nd</sup> Adjustment Programme for Greece (March 2012), 2012 unemployment is expected at 19.1%, while the most recent European Economic Forecast reading is at 19.7%.

The combination of increasing unemployment and declining inflation is a clear sign of the deflationary environment that the Greek economy currently faces in order to improve its competitiveness.

### Real sector indicators point towards a continuation of the recession; diverging paths between the Greek economy and the rest of the euro area

Developments over the last few months point to a continuation of the diverging paths between the Greek economy and the rest of the euro area. This can be verified by the most recent readings in the respective economic sentiment indicators (Figure 1a). Sentiment on the Greek economy deteriorates from late 2010 onwards. The respective

May 2012 figure was 76.0 and the average for year-to-May 2012 was 75.8. The average rate for 2011 was 72.8 while the 2007 average rate was 94.9. The main reasons for this development relate to the uncertainty towards the political developments in the country after the upcoming elections, the chronic structural problems of the Greek economy (i.e., high levels of public deficit and debt, low competitiveness) and the sovereign debt crisis. On the other hand, economic sentiment in the euro area followed a strong recovery path since January 2009; 2009, 2010 and 2011 averages were 80.2, 100.5 and 101.0 respectively, with a deterioration starting to materialise during 2012 (year-to-May 2012 average at 93.2) after the realization that the debt crisis is not a temporary problem.

Meanwhile, a number of recent survey data and economic activity indicators suggest a continuation of the ongoing deterioration in domestic economic activity (Table 2). With respect to consumer-related indicators, the EC consumer confidence index for Greece was -75.8 in May 2012, higher than the record low of -83.8 reached in October 2011 (Figure 1β). In a similar vein, registration of new passenger vehicles fell by 49.2% YoY for the first five months of 2012, following a 31.0% fall on an annual basis in 2011. With regard to expectations of domestic retailers, the EC retail trade confidence indicator for Greece reached -34.9 in May 2012. This is higher than a ten-year low of -44.7 hit in September 2010 but reflects persisting weakness in the domestic retail market.

The PMI manufacturing index for Greece was at 43.1 in May 2012. In addition, the capacity utilization in industry stood at 64.8 in March 2012, consistent with the ongoing contraction in the manufacturing sector and despite the dramatic fall of investment. In the residential housing sector, the downward trend in construction activity continued throughout 2011 (-28.7% YoY, 2011Q4) and in Q1 2012 (-30.9% YoY). We expect that this downward trend will continue in 2012 despite the fact that private buildings permits (volume) increased by 11.6% YoY in January 2012. Private building permits decreased by 39.4% YoY on an annual basis in 2011. Moreover, the construction confidence index reached -61.3 in May 2012, higher than the 2011 period average of -68.3 for 2011 but still pointing towards contraction.

Finally the private sector's credit growth decreased to -4.7% YoY in April 2012 from -4.0% YoY in March 2012. The respective growth rate was -0.5% YoY in April 2011. Credit growth for 2011 on an annual basis was negative at -3.2% YoY.

In more detail, credit to enterprises decreased by -4.7% YoY in April 2012. Credit to individuals and other non-profit organizations decreased by -4.4% YoY with housing loans credit decreased by -3.4% YoY and consumer loans credit decreased by -6.6% YoY. Note that the 2<sup>nd</sup> Adjustment Programme for Greece (March 2012) expects credit growth to remain negative in 2012 at -4.0% YoY.

### Concluding Remarks

As an overall assessment, the above real sector developments describe the grim environment currently facing the Greek economy. (For the recent fiscal developments please refer to: <http://www.eurobank.gr/Uploads/Reports/GREECE%20MACRO%20FOCUS%20June%202013.pdf>) As far as public economics are concerned, the timely and strict implementation of the measures included in the 2012 budget and the 2012 Supplementary Budget could provide a temporary fix but only with regards to expenditure cuts. Concerns remain as to how both state revenues and expenditure will be affected by the prolonged pre-election laxity.

The successful implementation of the PSI alleviated the burden of a large public debt, previously deemed to be unsustainable, and reduced the uncertainty surrounding the Greek economy. However, this uncertainty increased again recently as a result of the successive elections and the doubts of the Euro-area authorities on the willingness and the commitment of the country with regards to the achievement of the fiscal and structural targets included in the 2<sup>nd</sup> Adjustment Programme for Greece. This endangers the GDP outlook for 2012 and beyond.

The Greek economy runs the danger of remaining trapped in a vicious circle of negative growth and new measures to correct fiscal slippages. A prerequisite for escaping this vicious circle is the resolution of political uncertainty by the formation of a stable government. However, the return of the economy to sustainable growth levels ultimately depends on the implementation of productivity-boosting structural reforms. The EC's 2<sup>nd</sup> Adjustment Programme for Greece provides a roadmap for necessary reforms. A comprehensive and widely accepted national stability and growth plan that would go beyond the country's commitments could increase the ownership of the reform agenda by both policy makers and citizens; this is key to implementation and chances of success.

Table 2: Greece-Key Indicators							
	Last	ytd	2011	2010	2009	2008	2007
<b>Macroeconomic indicators</b>							
GDP growth (%YoY, prov. estimate for last, forecast for 2011)*	-6.5 (Q1 12)	-	-6.9	-3.5	-3.2	-0.2	3.0
Budget deficit (% of GDP, 2012 forecast for last)	-7.3	-	-9.1	-10.8	-15.8	-9.9	-6.8
Gross public debt (% of GDP, 2012 forecast for last)	163.2	-	165.3	144.9	129.3	113.0	107.4
CPI (%YoY, cum. ytd)	1.8 (May 12)	4.5	3.3	4.7	1.2	4.2	2.9
CPI constant taxes (%YoY, cum. ytd)	0.3 (March 12)	0.6	1.3	1.4	1.1	4.2	2.9
Unemployment rate (%YoY, cum. ytd)	22.7 (Q1 12)	40.1	21.0	14.8	10.2	8.9	8.9
Economic Sentiment (index level, period average)	76.0 (May 12)	75.8	72.8	75.1	76.3	76.1	94.9
<b>Competitiveness Indicators</b>							
Real harmonised comp/ness indicator CPI deflated (%YoY, cum ytd)	-3.0 (March 12)	-2.3	0.3	3.1	1.0	0.9	0.9
Unit Labor Cost (%YoY, cum ytd)	-2.3 (Q4 11)	-2.9	-	-1.2	6.9	7.1	3.6
Labor Cost (%YoY)	-14.9 (Q4 11)	-14.9	-	-2.7	5.3	2.4	3.4
<b>Consumer indicators</b>							
Private consumption in constant prices (% YoY)	-7.5 (Q1 12)	-1.0	-	-3.6	-1.3	4.0	3.7
Retail sales excl. fuels & lubricants volume (% YoY)	-14.2 (March 12)	-15.9	-8.7	-6.9	-9.3	-1.4	2.3
New private passenger car registrations (% YoY, cum. ytd)	-47.3 (May 12)	-49.2	-31.0	-35.6	-17.8	-4.5	4.5
Consumer confidence (index level, period average)	-75.8 (May 12)	-79.5	-74.1	-63.4	-45.7	-46.0	-28.5
Retail trade expectations (index level, period average)	-34.9 (May 12)	-36.2	-35.4	-33.7	-15.4	14.2	34.2
<b>Industrial-activity indicators</b>							
Industrial production (% YoY)	-0.6 (April 12)	4.8	-11.4	-5.9	-6.8	-8.2	2.0
Capacity utilization in industry (index level, period average rate)	64.8 (March 12)	63.8	67.4	68.6	70.5	75.9	77.0
Industrial confidence (index level, period average)	-21.9 (May 12)	-22.2	-20.6	-22.5	-28.4	-5.9	5.2
Manufacturing PMI (index level, period average)	43.6 (May 12)	40.8	43.6	43.8	45.4	50.4	53.8
<b>Construction sector &amp; other investment-activity indicators</b>							
Cross fixed capital formation in constant prices (% YoY)	-21.3 (Q1 12)	-	-	-9.2	-23.1	-5.5	13.1
Housing investment in constant prices (% YoY)	-30.9 (Q1 12)	-	-	-18.4	-20.2	-25.8	-5.8
Other construction in constant prices (% YoY)	-10.0 (Q1 12)	-	-	-5.9	18.2	44.3	-5.5
Private building permits volume (% YoY, cum. ytd)	11.6 (Jan. 12)	11.6	-39.4	-24.1	-26.8	-17.3	-5.0
Construction confidence (index level, period average)	-61.3 (May 12)	-59.6	-68.3	-55.4	-39.5	-9.6	-9.2
<b>Balance-of-Payments statistics (€-terms)</b>							
Current Account (% YoY, cum.ytd)	-17.3 (March 12)	-34.5	-8.3	-11.0	-25.8	6.7	37.2
Tourism revenues (% YoY, cum. ytd)	-11.2 (March 12)	-15.1	9.5	-7.6	-10.6	2.8	-0.3
Transportation revenues (% YoY, cum. ytd)	1.6 (March 12)	0.8	-8.6	13.8	-29.4	13.3	18.3
Gross External Debt (% of GDP, cum ytd)	180.5 (Q4 11)	-1.3	-	177.6	178.4	155.7	138.5
<b>Customs-based statistics (€ - terms)**</b>							
Goods exports (% YoY, cum. ytd)	7.3 (March 12)	5.8	37.0	11.6	-18.1	4.5	3.8
Goods exports to EU (% YoY, cum. ytd)	-1.6 (March 12)	-6.7	8.1	10.4	-20.1	4.1	25.0
Goods exports to non-EU countries (% YoY, cum. ytd)	18.7 (March 12)	58.5	62.2	13.5	-14.6	3.5	-20.9
Goods imports (% YoY, cum. ytd)	-7.8 (March 12)	-14.0	-10.1	-3.3	-19.2	11.2	9.3
Goods imports from EU (% YoY, cum. ytd)	-14.9 (March 12)	-10.4	-7.3	-12.9	-17.4	5.4	16.4
Goods imports from non-EU countries (% YoY, cum. ytd)	0.9 (March 12)	-9.8	-32.7	16.6	-32.7	10.9	0.6
<b>Domestic MFI credit to domestic enterprises &amp; households (outstanding balances and net flows) &amp; NPLs</b>							
Private sector (% YoY)	-4.7 (April 12)	-4.3	-3.6	0.0	4.2	15.9	21.5
Enterprises (% YoY)	-4.7 (April 12)	-4.0	-2.5	1.1	5.2	18.9	20.8
Households (% YoY)	-4.4 (April 12)	-4.3	-4.3	-1.2	3.1	12.6	22.2
Housing loans (% YoY)	-3.4 (April 12)	-2.9	-2.6	-0.3	3.7	11.2	21.5
Consumer credit (% YoY)	-6.8 (April 12)	-6.6	-5.6	-4.2	2.00	16.0	22.4
Non Performing Loans (NPLs) (% of total gross loans)	14.7 (Q3 2011)	-	-	10.4	7.7	5.0	4.5
<b>Private-sector credit outstanding (% GDP) ***</b>							
Total domestic enterprises & households	119.1 (April 12)	-	-	113.4	107.8	107.2	96.7
Domestic households	54.7 (April 12)	-	-	52.0	51.7	50.3	46.7
<b>Stock Indices****</b>							
Athex General Index (level, %ytd, end of year level 2007-10)	499.6	-12.8	680.4	1413.9	2196.2	1786.5	5178.8
FTSE/ASE 20 Index (level, %ytd, end of year level 2007-10)	183.0	-12.4	264.9	663.1	1125.4	932.5	2752.5
Athex Banks Index (level, %ytd, end of year level 2007-10)	181.7	-6.5	262.9	1251.0	2661.7	1899.4	7296.4
Baltic Dry Index (level, %ytd, end of year level 2007-10)	902.0	-47.2	1738.0	1773.0	3005.0	774.0	9143.0
<b>Bond/CDS spreads ***** †</b>							
10yr Bond Spread over Bund (bp, %ytd, end of year level 2007-10)	2756.0	-	3313.4	950.9	238.7	227.4	32.2
5yr Bond Spread over Bund (bp, %ytd, end of year level 2007-10)	6060.1	-	5163.1	1163.1	254.2	264.3	21.2
2yr Bond Spread over Bund (bp, %ytd, end of level year 2007-10)	22499.0	-	13408.3	1134.4	211.9	240.1	26.8
5yr CDS Spread (bp, %ytd, end of year level 2007-10)	-	-	10231.4	1037.3	282.8	238.0	-
<b>T-Bills, Auction Rate</b>							
26-Weeks average rate (% last auction, last auction of year)	4.73 (12/06/2012)	-	4.95	4.82	0.35	5.09	4.18
13-Weeks average rate (% last auction, last auction of year)	4.34 (15/05/2012)	-	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. EFG forecast for 2011.

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

\*\*\*For 2012 the respective GDP forecast at market prices (€ 203.7 bn) from the IMF's 2nd Greek Bailout Report was used. For 2007-2011 the respective AMECO figures were used

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