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GREECE MACRO MONITOR

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Focus notes: Greece

Latest macro & market developments

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- Real GDP growth is now expected to contact by -5.5% in 2011 and -2.5% -of-GDP in 2012; positive GDP growth expected from 2013 onwards
- 2011 budget plan: updated deficit target for 2011 at -8.5% of GDP; 2012 deficit target remains at -6.8% of GDP
- Additional measures of € 7.1 bn for the achievement of the 2011 and 2012 budget deficit targets; required bills expected to pass from Parliament by end-of-October
- Acceleration of structural reforms in view of the conclusion of the 5th Review of the EC/ECB/IMF adjustment programme

2011 budget plan: updated deficit target for 2011 at -8.5% of GDP; 2012 deficit target at -6.8% of GDP

The Greek government unveiled early this week the 2012 budget plan as well as the updated 2011 budget. The new budget targets a reduction in the general government deficit (ESA 1995 definition) to -6.8%-of-GDP in 2012, from a deficit forecast of -8.5%-of-GDP in 2011. The 2011 deficit target was revised upwards because of the larger than expected economic recession as well as the inability of the government to deliver proper results in a series of revenue increasing and cost cutting measures included in the Medium Term Fiscal Plan for 2011-2015 (MTFS). Note that the MTFS budget deficit target was -7.3%-of-GDP.

The government expects that the Greek economy will revert to positive GDP growth from 2013 onwards. However, details on the 2013-14 budgets are not available yet. According to press reports, agreement for the new Medium Term Fiscal Strategy for 2012-2014 has not been reached yet since measures of ca 2.1 bn per year for 2013-14 have not been finalized yet. The agreement on the new MTFS for 2012-2014 is considered as a prerequisite for the successful completion of the 5th Review of the EC/ECB/IMF adjustment programme.

The 2012 budget has been approved already by the cabinet and submitted to the Parliament. The Parliament is expected to vote for the 2012 budget in early November 2011, earlier than the previous years. Passing the final bill in Parliament requires absolute majority. We expect no major problems in a parliamentary vote as the leading party controls 154 out of a total of 300 seats.

Table 1: Greek Economy: Basic Indicators (% annual changes, constant prices)

	2010	2011	2012
GDP growth	-4.5	-5.5	-2.5
Private consumption	-4.5	-6.2	-3.8
Public Consumption	-6.5	-8.0	-7.5
Investment	-16.5	-12.9	-4.0
Exports of G&S	3.8	3.9	6.4
Imports of G&S	-4.8	-6.3	-2.8
Harmonised CPI	4.7	2.8	0.6
GDP deflator	2.5	1.4	0.4
Employment	-2.1	-5.3	-1.1
Unemployment	11.9	15.2	16.4

Source: Ministry of Finance

	2011		2012		Change 2011/2012
	MTFS 2011-15	Realization forecasts	MTFS 2011-15	Realization forecasts	
1 Net Revenues	54.04	51.58	56.23	54.20	5.10
a. Ordinary Revenues	55.59	54.36	57.67	55.89	2.80
1 **Direct taxes**	20.55	20.68	21.71	23.64	14.30
2 Indirect taxes	30.22	29.14	31.24	29.09	-0.20
3 Transfers from EU	0.19	0.19	0.15	0.15	-21.50
4 Non-tax revenues	4.63	4.35	4.57	3.02	-30.60
b. Non-recurrent revenues	2.25	1.93	2.26	2.11	9.80
c. Tax refunds	3.80	4.70	3.70	3.80	-19.10
2 Expenditure	71.47	71.17	71.07	70.41	-1.10
a. Primary expenditure	52.05	51.84	50.67	49.19	-5.10
1 Wages	15.38	15.23	14.38	13.42	-11.90
2 EOPYY expenditure				0.48	
3 Pensions	6.26	6.50	6.47	6.58	1.20
4 Insurance and Healthcare	17.41	17.48	15.17	15.91	-9.00
5 Operating and other expenditure	7.26	7.30	7.51	7.34	0.60
6 Other undistributed expenditures	5.16	5.06	5.62	4.46	-11.80
7 Reserve	0.58	0.27	1.52	1.00	
b. Guarantees forfeiture	1.47	1.48	1.65	1.62	9.40
1 Guarantees of PEs reclassified to GG	1.25	1.26	1.52	1.48	17.80
2 Guarantees of PEs remaining outside GG	0.22	0.22	0.13	0.14	-38.10
c. Interest Expenditure	16.00	16.30	16.90	17.90	9.80
d. Transfers to hospitals for past debts	0.45	0.45	0.35	0.40	-11.10
e. Payments for military procurements	1.50	1.10	1.50	1.30	18.20
3 Deficit	-17.43	-19.59	-14.84	-16.20	-17.30
4 PIB balance	-3.63	-4.23	-3.09	-2.84	-32.80
a. Revenues	3.93	3.32	4.62	4.86	46.30
b. Expenditure	7.55	7.55	7.70	7.70	2.00
5 Central Government budget balance	-21.06	-23.82	-17.93	-19.04	-20.00
6 ESA95 adjustments for central government	0.71	1.48	-1.37	0.03	-98.20
7 ESA95 Central Government budget balance	-20.35	-22.34	-19.30	-19.02	-14.90
8 Public Entities Balance	1.24	0.94	1.15	0.97	3.20
9 Reclassified Public Corporations Balance	1.25	1.43	1.82	1.98	38.80
10 ESA95 Local Government Balance	-0.15	0.04	0.57	0.13	280.00
11 ESA95 Social Security Funds Balance	1.65	1.24	2.89	1.27	2.30
12 ESA95 General Government Balance	-16.36	-18.69	-12.87	-14.66	-21.60
% GDP	-7.3	-8.5	-5.6	-6.8	
13 ESA95 Primary Balance	-0.36	-2.39	4.03	3.24	-235.60
% GDP	-0.2	-1.1	1.8	1.5	
GDP	225.40	220.32	228.40	215.31	

The new budget is framed on an adverse domestic macro environment with a larger than previously expected recession in 2011, and a continuation of the economic recession in 2012 instead of positive growth forecasted earlier. Specifically, real GDP growth is now expected to contact by -5.5% and -2.5% -of-GDP in 2011 and 2012 respectively. Note that the MTFS for 2011-2015 forecasted a decline of -3.8% of GDP in 2011 and positive growth of 0.8% for 2012. Unemployment rate is forecasted to climb further, reaching 15.2% of the labor force in 2011 and 16.4% in 2012, from 11.9% in 2010. On the other hand, domestic inflation is expected at 2.8% in 2011 and 0.6% in 2012. Note that 2010 inflation was 4.7%.

In addition, general government gross debt is expected to reach 161.8%-of-GDP in 2011 and 172.7%-of-GDP in 2012. The respective 2010 figure was 142.8% of GDP.

Table 2, presents the main targets and expected realization of the new budget in nominal and ppt-of-GDP terms. In nominal terms, the overall fiscal deficit is expected to decline to ca €14.66 bn in 2012, from €18.69 bn in 2011. Note that the respective 2010 figure was €24.91 bn. To attain the 2011 and 2012 deficit targets, the new budget incorporates a number of additional austerity measures (see bellow) i.e., beyond these already included in the Medium Term Fiscal Plan for 2011-2012 that passed from the Greek Parliament in late June 2011.

Observe that the updated figure for 2011 ordinary budget revenues is €51.58 bn while the year-to-August 2011 budget execution revenues figure is €30.69 bn. In other words, the government has to cover a gap of €20.89 bn or €5.22 bn per month for the remaining four months of 2011. Even though the revenue target is ambitious, the new measures introduced recently (see below) as well as the updated budget deficit target will contribute significantly to its achievement.

The updated figure for 2011 total expenditure is €71.17 bn and primary expenditure is €51.84 bn. From the year-to-August 2011 budget execution total expenditure is €47.40 bn and primary expenditure is €34.05 bn. The government's total budget expenditure threshold is €23.77 bn or €5.94 bn per month for the remaining four months of 2011. The respective threshold for primary expenditure is €17.79 bn or €4.45 bn per month.

Additional measures of € 7.1 bn for the achievement of the 2011 and 2012 budget deficit targets

The 2012 budget plan that the government released earlier this week included a series of measures aiming to contribute to the achievement of a 2011 budget deficit target of -8.5%-of-GDP and the respective target of -6.8%-of-GDP for 2012.

The additional measures needed for the achievement of the 2011 and 2012 amount to €7.1 bn in total. This amount breaks down in €2.11 bn or 0.9pp-of-GDP for 2011 and €5.01 bn or 2.3 pp-of-GDP for 2012. Note that the total nominal impact of the austerity measures in 2011 is expected at 10.8pp-of-GDP (=0.9pp-of- GDP +3.0pp-of-GDP from the MTFS 2011-15 +6.9pp-of-GDP measures for 2011 and carry over from 2010, incorporated in the MoU).

Table 3 presents the new austerity measures. Observe that revenue increasing measures amount to €1.70 bn for 2011 and €3.28 bn for 2012. Expenditure cuts amount to €0.41 bn for 2011 and €1.73 bn for 2012.

Table 3: New Austerity Measures for 2011-12 (€ bn)		
Measures	**2011**	**2012**
Abolishment of various tax exemptions from income tax	**0.00**	**1.95**
Postponement of a special bonus to the judicial system employees	**0.00**	**0.28**
Special real estate levy imposed via the electricity bills	**1.70**	**0.10**
New common remuneration system for the public sector employees	**0.15**	**0.95**
Cuts in public sector personnel via involuntary redundancies and reductions in contract employment	**0.00**	**0.20**
Cuts in main and auxiliary pensions, reform of welfare funds	**0.26**	**0.48**
Increase of the EU participation in projects financed by EU cohesion funds	**0.00**	**0.80**
Upwards adjustment of the heating oil excise tax with the respective fuel oil tax	**0.00**	**0.25**
Total	**2.11**	**5.01**
%GDP	0.96	2.33
GDP	220.32	215.31

Source: Ministry of Finance

According with the FinMin, the government will pass by the end of October 2011 the necessary bills for the implementation of the above measures.

The bill on the common remuneration system for public sector employees (to be submitted to the Parliament by October 6th 2011) includes: **a)** cuts of up to 50% to specific categories of public sector employees, **b)** lower wage threshold in the public sector of €780 and higher threshold of €2,700, **c)** abolishment of the various bonuses from public sector wages and **d)** creation of only two bonuses for executives and for increased productivity. In addition, the bill is expected to include also cuts in the number of public sector's employees as well as the pension cuts mentioned in Table 3 above.

The new tax bill is expected to be submitted to the Parliament in the immediate period and voted together with the 2012 budget bill. The tax bill will include a codification of the various tax laws that currently exist as well as the new tax measures (abolishment of tax exemptions from income tax, etc.) included in the 2012 budget.

Acceleration of reforms in view of the conclusion of the 5th Review of the EC/ECB/IMF adjustment programme

A positive conclusion of the 5th Review of the EC/ECB/IMF adjustment programme requires also the accomplishment of a number of pending structural reforms from the 4th Review of the programme. These include **a)** the liberalization of the taxis, **b)** liberalization of freight transportation, **c)** liberalization of tourist transportation and **d)** the reform of the judicial sector.

The government seems determined to continue with the full liberalization of the taxi and the tourist transportation sectors. Bills covering the liberalizations of both sectors are currently under discussion. This is the main reason for the recent taxi owners' strikes. There are rumors that a number of government MPs will vote against the liberalization of taxis etc but this behavior is common among government MPs when a crucial and unpopular vote takes place.

Liberalization of the freight transports is well under way. The respective bill passed from the parliament last year. It included a three year transition period for current owners of truck licenses. The government announced early this week the full liberalization of the freight transportation and the abolishment of the transition period from January 1st 2012.

At the same time the Ministry of Health continues the process of the liberalization of the pharmacies. According with the most recent information the working hours of pharmacies will follow the retail shops working hours, a major step towards the liberalization of the specific sector.

Reforms in the judicial sector move at a slower pace. The EC/ECB/IMF officials observed delays in the progress of speeding up the courts; decisions especially in cases of tax disputes.

Concluding Remarks

The period ahead remains crucial for the Greek economy. The disbursement of the 6th tranche of the EC/ECB/IMF loan is postponed for mid-November 2011 conditional on the positive conclusion of the 6th Review of the EC/ECB/IMF programme. At the same time, the implementation of the PSI agreed on July 21st 2011 has stalled and discussions for an alternative PSI agreement are under way (see the next *Special Focus Report on Greece* for a discussion on these issues).

We expect that the EC/ECB/IMF officials will delay the release of the 5th Review until the completion of the following items: **a)** the agreement on the new measures for 2013-14 in the new 2012-2014 MTFS, **b)** the Parliament's voting in favor of the 2012 budget and of the bills that include the new austerity measures, **c)** the full implementation of the structural reforms including the liberalization of taxis, freight transports and tourist transports, the liberalization of the pharmacies and the reform of the judicial system.

A positive conclusion of the 5th Review is likely. We expect that the 2012 budget and the austerity measures bills will pass in Parliament by the end-of-October 2011 despite opposition from public sector employees. At the same time, the government accelerates on the implementation of the structural reforms.

Table 4: Greece-Key Indicators	Last	ytd	2010	2009
Macroeconomic indicators				
GDP growth (%YoY)*	-7.3 (Q2 11)	-2.8	-3.5	-3.2
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)	-5.2 (Q2 11)	-11.7	-4.2	3.6
Economic Sentiment (index level-period average)	70.6 (Sept. 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)	-3.33 (July 11)	-25.5	-23.7	-0.7
New private passenger car registrations (% YoY- cumulative ytd)	1.8 (August 11)	-38.2	-61.9	22.0
Consumer confidence (index level - period average)	-73.6 (Sept. 11)	-71.2	-63.4	-45.7
Retail trade expectations (index level - period average)	-40.5 (Sept 11)	-35.2	-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 rate)	67.4(July 11)	-17.0	68.6	70.5
Industrial confidence (index level - period average)	-23.9 (Sept 11)	-19.5	-22.5	-28.4
Manufacturing PMI (index level - period average)	43.2 (Sept 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)	-61.2 (Sept 11)	-68.6	-55.4	-39.5
Balance-of-Payments statistics *(€-terms)*				
Tourism revenues (% YoY-cumulative ytd)	16.7 (July 11)	14.2	21.0	-10.2
Transportation revenues (% YoY-cumulative ytd)	-16.2 (July 11)	-11.8	-7.7	-7.9
Customs-based statistics *(€ - terms)*				
Goods exports (% YoY)	44.1 (July 11)	4.0	43.8	-3.2
Goods exports to EU (% YoY)	14.0 (July 11)	1.6	17.1	4.2
Goods exports to non-EU countries (% YoY)	98.7 (July 11)	8.4	89.8	-14.4
Goods imports (% YoY)	-15.1 (July 11)	-21.3	-6.7	1.0
Goods imports from EU (% YoY)	-5.8 (July 11)	-7.8	-15.7	-7.8
Goods imports from non-EU countries (% YoY)	-25.6 (July 11)	-22.8	8.0	1.1
Domestic MFI credit to domestic enterprises & households *(oustanding 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 enterprices & 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 (October 6, 2011). Growth rates for 2009-10 include the recent ELSTAT's revision.*

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

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