



# Economic Fact Book Greece

Following the 2009 general elections it became clear that the statistics on Greek government debt and deficit were flawed (as was also the case when Greece joined the euro area) and the financial markets started to lose confidence in Greece. In early-May 2010 Greece received a EUR110bn rescue package from the EU and the IMF. However, the situation has not improved sufficiently and euro area leaders have endorsed a second bailout. Nevertheless the sixth aid transfer for Greece is currently being delayed, which makes the EU able to keep high reform pressure on Greece, but it also implies continued uncertainty about Greece's fiscal sustainability. Another contributor to uncertainty is a revision of the private sector involvement (PSI) agreement reached in July.

Greece is not able to meet its fiscal targets and the government deficit is expected to be 8.5% of GDP in 2011. This implies that a difficult restructuring of government debt is a *risk in the shorter term* and seems *likely in the longer term*.

Greece has a **significant amount of reform potential**. In the World Bank's business report, it is ranked 109<sup>th</sup> of 183 countries in terms of how easy it is to do business. This is 100 places below Ireland. Greece scores poorly on the ease of starting a business, registering property and protecting investors. Corruption is another area where there is room for improvement. Transparency International's Corruption Perception Index ranks Greece 78<sup>th</sup> out of 178 countries, putting it on a level with Colombia, Peru and China.

The **tax collection system is inefficient** and has caused all kinds of anecdotes about tax evasion and a large scale black economy. Similarly the social benefit system is flawed.

**Strikes and protests are common** in Greece. Recently protests reflecting disagreement with the harsh but necessary austerity measures have drawn much media attention. Anger is partly directed toward the EU and the IMF, but even more so there is dissatisfaction with the distributional consequences of both implemented and planned measures.

Prior to the debt crisis wages grew notably more than productivity and as a result the **economy became increasingly uncompetitive**. An expanding public sector added to the problem. As a result the trade deficit widened to as much as 20% of GDP in 2008. Exports only amount to a small share of the economy and Greece consequently benefits less from the global recovery than, for example, the very export-oriented Irish economy.

## Key facts

- Population: 10.8m (2010).
- GDP per capita: EUR20,575  
12<sup>th</sup> highest in euro area (2010).
- Government type: Parliamentary Republic.
- President: Karolos Papoulias.
- Majority coalition led by PASOK.
- Prime Minister: Giorgos (George) A. Papandreou.
- Next general elections: 2013.
- Central Bank Governor: Georgios Provopoulos.

## Economic characteristics

- Unsustainable fiscal situation.
- Large trade and current account deficits.
- Uncompetitive economy with much red tape and many protected professions.
- Fiscal tightening causing the economy to shrink.
- Inefficient tax collection system.

### Outlook for key economic variables

Greece	GDP (1)		CPI (1)		Unemployment (2)		Govt. Budget (3)		Govt. Debt (3)	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
IMF	-5.0	-2.0	2.9	1.0	16.5	18.5	-8.0	-6.9	165.6	189.1
OECD	-2.9	0.6	2.9	0.7	16.0	16.4	-7.5	-6.5	157.1	159.3
EU (Commission)	-3.5	1.1	2.4	0.5	15.2	15.3	-9.5	-9.3	n.a.	n.a.

1) % y/y. 2) % of labour force. 3) % of GDP.

Sources: OECD, IMF, European Commission, Danske Markets.

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Important disclosures and certifications are contained from page 7 of this report.

## Key macroeconomic indicators

### Structural indicators

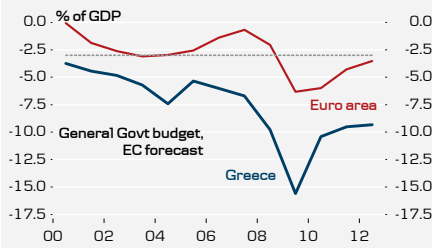
Greece versus the euro area (EMU)									
	When	Greece	EMU		When	Greece	EMU	Sovereign ratings	
GDP(1)	Q2-11	0.2	0.2	GDP per capita (5)	2010	20,575	27,799	S&P	CC
Public sector (2)	2010	49.8	50.9	Economic size in EMU (4)		2.9%	-	Moody's	Ca
Private cons (2)	Q2-11	77.4	57.7	Inflation - HICP (8)	Aug-11	1.4	2.5	Fitch	CCC
Investments (2)	Q2-11	12.5	19.9	Public budget (2) EC fcst	2011	-9.5	-4.3		
Exports (2)	Q2-11	24.5	43.7	Public debt (2) EC fcst	2011	157.7	87.9	<b>Sovereign bond spreads</b>	
C/A (2) - 12M av.	Q2-11	-10.4	-0.4	Long-term interest rates	Aug-11	15.9	4.2	2Y spread (6)	4442.8
Unemployment (3)	Jun-11	16.3	10.0	Manufacturing sector (2,7)	Q2-11	n.a.	18.9	10Y spread (6)	1582.24
Household loans (2)	2010	60.0	65.0						

1: % q/q, 2: Pct of GDP, 3: % of labour force, 4: based on ECB capital key ratios, 5: EUR per capita, 6: sov spread vs.Germany, bp, 3M av, 7: Weighted average of Germany France, Italy and Spain, 8: % y/y

Sources: Reuters EcoWin and Danske Markets

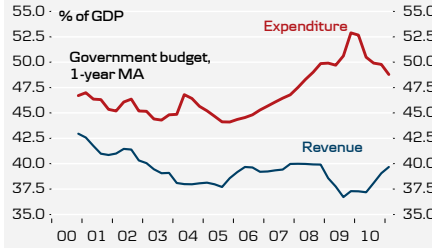
### Public finances

#### Budget deficit remains elevated



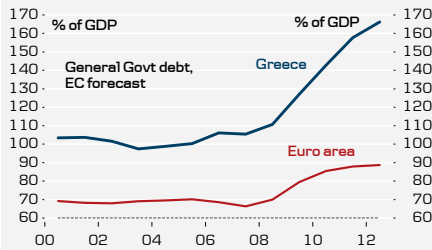
Sources: Reuters EcoWin and Danske Markets

#### Budget gap



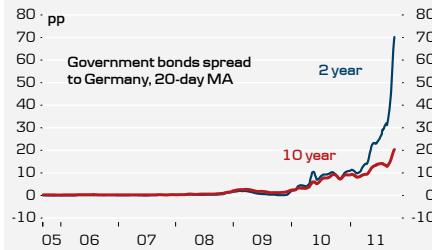
Sources: Reuters EcoWin and Danske Markets

#### Sharply increasing government debt



Sources: Reuters EcoWin and Danske Markets

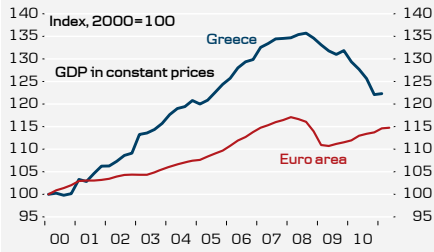
#### Government bond spreads



Sources: Reuters EcoWin and Danske Markets

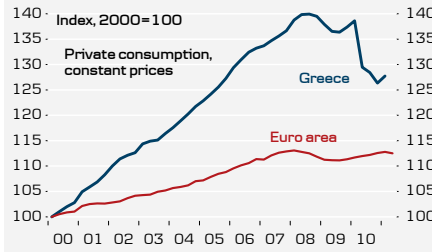
## National Account

### The economy shrinks



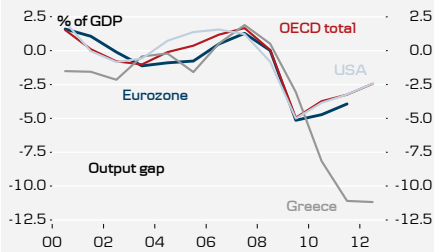
Sources: Reuters EcoWin and Danske Markets

### A large drop in consumption



Sources: Reuters EcoWin and Danske Markets

### A large output gap



Sources: Reuters EcoWin and Danske Markets

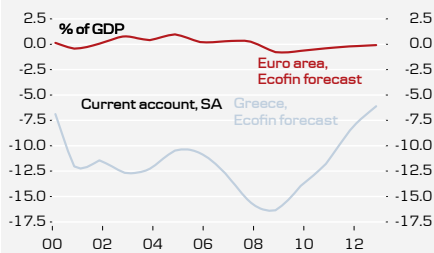
### Declining investments



Sources: Reuters EcoWin and Danske Markets

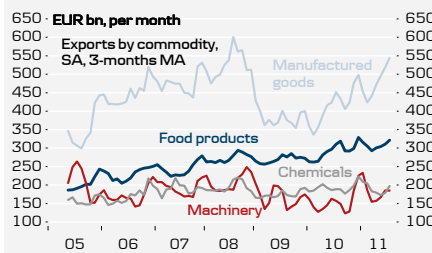
## Export and trade

### Current account deficit



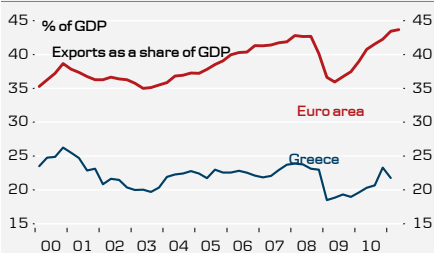
Sources: Reuters EcoWin and Danske Markets

### Exports by commodity



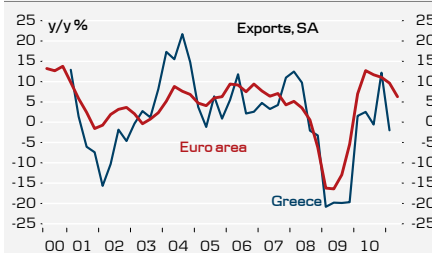
Sources: Reuters EcoWin and Danske Markets

### Not a very export-oriented economy



Sources: Reuters EcoWin and Danske Markets

### Export growth



Sources: Reuters EcoWin and Danske Markets

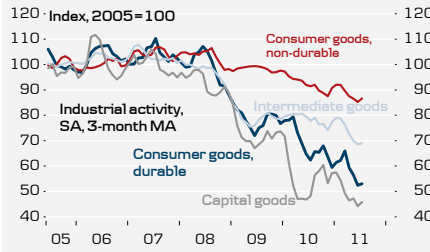
Industry

Industrial production and orders



Sources: Reuters EcoWin and Danske Markets

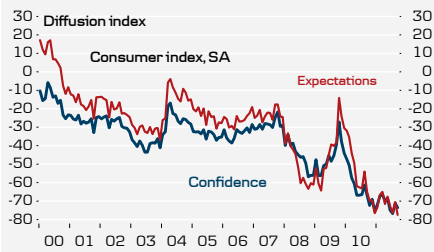
Capital goods looking particularly weak



Sources: Reuters EcoWin and Danske Markets

Leading indicators

Consumers remain pessimistic



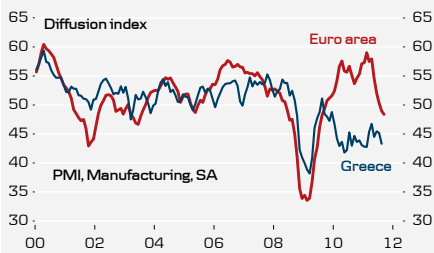
Sources: Reuters EcoWin and Danske Markets

Low capacity utilisation



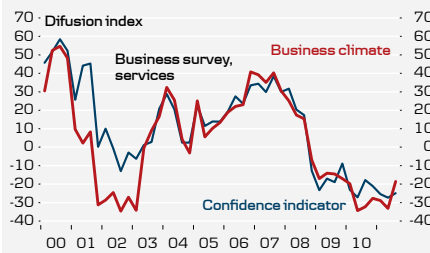
Sources: OECD

Low manufacturing sector confidence



Sources: Reuters EcoWin and Danske Markets

Low service sector confidence



Sources: Reuters EcoWin and Danske Markets

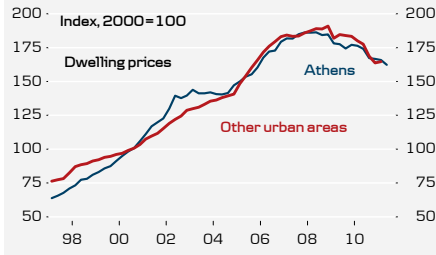
### Construction and the housing market

Construction sector has adjusted



Sources: Reuters EcoWin and Danske Markets

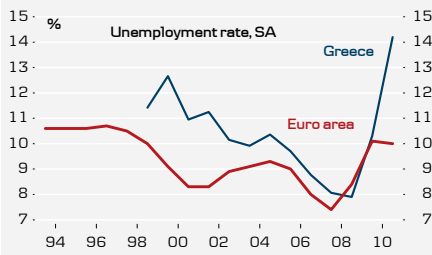
House prices decline



Sources: Reuters EcoWin and Danske Markets

Labour market and demographics

Unemployment has tripled



Sources: Reuters EcoWin and Danske Markets

Employment is declining



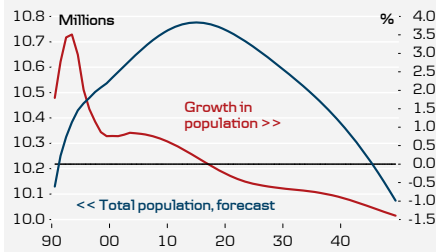
Sources: Reuters EcoWin and Danske Markets

Unit labour cost is declining



Sources: Reuters EcoWin and Danske Markets

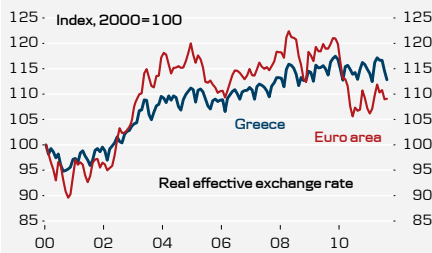
Population growth



Sources: Reuters EcoWin and Danske Markets

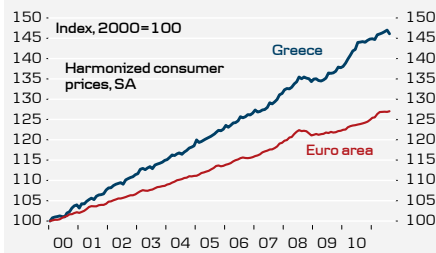
Other competitiveness indicators

Real effective exchange rate



Sources: Reuters EcoWin and Danske Markets

Price developments



Sources: Reuters EcoWin and Danske Markets

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