
GREECE

An “IGETOR” Country report

Political and Economic Situation of the country and trends

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Previous reports

10/03/2005

30/11/2004

1. *Political Scene*
2. *Economy*
3. *Outlook*

1. *Political Scene*

Foreign:

-The Greek foreign policy priorities (Cyprus, Turkey and South Eastern Europe) seem to be in the international agenda of interest. Kosovo independence declaration and partial recognition add to the Balkan new difficulties. FYROM another pending issue in the area comes to critical point after the Greek veto for its acceptance in NATO. Same policy in prospect for its relation with E.U. at the end of this year. The very young state of FYROM completely dependent of USA, with an inexistent economy and young political staff in power has a strong inability to understand historical, cultural and ethical realities of the region as well as international institutions rules. E.U. and U.S.A. seem to express a special concern in the area and the new E.U. “Police and observation” force for Kosovo try to avoid the Serbian reactions. Russia also for the first time expresses a strong interest in the area. Despite the stereotypes for Kosovo and FYROM only minor internal tensions could be expected. Greek economic relations with Albania and FYROM continue in a very positive way.

- The pipelines issues for both “Burgas-Alexandroupoli” and “South Stream” have less impact than generally considered, but it is a source of frictions in the Greek-USA relations. The economical impact for the region and especially Greece is minimal.

-The U.N.’s plan for ending more than four decades of conflict and reuniting Cyprus has been reactivated. The new Cypriot President will try his chance, but not immediate evolution is in horizon. The Turkish-Cypriot northern part of the island will be unable to join the European Union but measures are taken to help their economy.

-The Greek-Turkish relationship issues even under E.U. perspective continue to evolve slowly. Turkish relationship with E.U. evolves rather to a special status than a full member. France and Germany do not prefer a full member status. The Turkish society remains prisoner of its retrogressive past and structure.

- Romania and Bulgaria with a very mature approach pay attention only to their development. Their entrance in the E.U. family gave them more stability and certainty for their economy and future. So they contribute to the construction of a prosperous, stable and attractive zone. It’s the first time that Greece has common frontiers with the rest of E.U.

Internal:

-Prime Minister Mr. C. Karamanlis is in front of a huge financial and economic problem of the country. No radical economic measures are taken up to now. Few months after the elections the Government looks disoriented, and weak for any major initiative in any domain. A certain reform on social security is under way but looks less important than needed. New taxes law has main purpose to collect money in order to cover the national debt needs.

-The major opposition party, PASOK, continues efforts for restructuring seeking a new identity and orientation, nevertheless some recovering elements are obvious.

-The Synaspismos party, with a new and young President is seeking eventually a new political direction which confuses more than helps.

-LAOS the new extreme right wing party of the parliament oblige the ND (New Democracy) ruling party to more cautious and conservative positions for all national matters.

2. Economy

-National economy which is no more placed under E.U. deficit supervision, risks to be placed again as the main difficulties of the Greek economy remain. Huge public debt, more than 252 billion euro in 2008 or close to 103 % of the GDP, and negative trade balance deficit at 16 % of GDP in 2008 and projected for 2009, reflecting a worsening of the Greek economy.

-The European Commission estimates that Greece's 2007 deficit may top 3.2 % of GDP, while the government estimates 2 %. As for the growth rate, Morgan Stanley has expressed fears that it will be below 3.1 % of GDP for 2008 and 1.8 % for 2009. Morgan Stanley also forecasts that Greece's inflation rate for 2008 would be 4.6 and 3.8 for 2009. The whole operation is extremely difficult seeking high rate of growth in G.D.P. and substantial cuttings in public spending. It is likely that the government will be asked to adopt extra deficit-cutting measures in addition to those in its 2007 budget. Greece has the highest public deficit in the euro zone. PASOK had carefully disguised the huge debts and mammoth deficits up to 2004, but the situation seems similar after 5 years (i.e. Public debt from 150 billion euro for 2004 is 252 billion euro for 2008). The Government has failed to boost productivity, hammer out a long-term growth strategy, promote a fair redistribution of wealth, or put the brakes on the growing number of people slipping under the poverty line. Radical measures are needed for the national economy.

-Hidden deficit is a serious danger for the Greek economy and has to do with the deficit of the state companies like Olympic Airways, Greek railways, Public transport, etc, amounting more than 12 billion euro. They are mainly loans with state guaranty but not served by the companies' income which constitutes also subsidies. E.U. will take measures on that in the very near future as Eurostat reexamines all data and E.U. deficit supervision seems unavoidable.

- Greek industry continues its decline close to a real recession.

- The Greek economy continues to suffer from lack of investment. It counts mainly on the European Union Fund plans for its investment, as private and foreign investment is weak. The year 2008 seems the worst since the 2nd world war as investment continues to decrease:

a) 6.8 % decrease in industrial investment for 2007 according "IOBE" (Foundation for Economic and Industrial Research), and

b) 67.4 % decrease in direct foreign investment for 2007 according the Central Bank of Greece.

"US Commercial Service" considers that Greece even in 2008 continues putting obstacles for foreign investment with administrative, legal and taxes instability and chaotic environment.

-Some characteristic figures estimated:

-The G.D.P. growth should increase this year (2008) by a 3 %.

-Unemployment will be close to 8 % end 2008 and close to 9 % end 2009.

-Deficit is estimated slightly more than 3 % of G.D.P. for the year 2008.

-A.S.E. (Athens Stock Exchange) is stabilized around 3000 of the A.S.E. index, despite odd macroeconomic figures.

-Inflation is estimated close to 5% end of 2008.

3. Outlook

-“Competitiveness and growth” could be the new name of the game. For a real growth, the economy's potential must get free, there must be investments and an outwards-looking attitude, EU investment subsidies must be fully utilized and, of course, the private sector has to respond accordingly.

-State companies and services have to restructured and reorganized seriously, with professional management and far from state or political influence. (i.e. Olympic Airways, Greek railways, Public transport, Hospitals, municipal authorities etc).

- An effort to Greek tourism could lead to recover a part of the lost market.
- Greece will remain the strongest and most stable country in South Eastern Europe in both political and economic terms.

Additional facts and data for the Greek economy (OECD & Eurostat):

	2006		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	214.4	100.0		2.8	4.6	3.8	4.2	4.0	3.4	3.3
Private consumption	152.0	70.9		2.8	4.7	4.2	4.2	3.4	3.1	3.0
Public consumption	34.2	16.0		2.7	2.7	1.4	-0.7	7.4	3.6	3.0
Gross fixed capital formation	55.2	25.7		5.3	6.0	0.7	14.8	5.9	5.8	5.5
of which : equipment	19.8	9.2		11.4	8.0	1.7	6.5	9.4	8.6	7.6
Exports (goods and services)	48.9	21.9		5.8	12.8	2.7	5.1	5.9	5.5	5.4
Final demand	288.1	134.4		3.5	6.1	3.0	5.4	4.8	4.1	4.0
Imports (goods and services)	73.8	34.4		6.1	10.7	0.5	8.7	7.0	6.1	5.7
GNI at constant prices (GDP deflator)	210.5	98.2		2.5	4.4	2.9	4.4	3.4	3.8	3.4
Contribution to GDP growth :										
Domestic demand				3.8	5.3	3.3	6.4	5.2	4.4	4.3
Stockbuilding				-0.1	0.3	0.1	-0.4	0.1	0.0	0.0
Foreign balance				-0.6	-1.0	0.4	-1.8	-1.3	-1.1	-1.0
Employment				1.0	0.9	1.5	2.5	1.2	1.1	1.1
Unemployment rate (a)				9.9	10.5	9.8	8.9	8.3	8.3	8.0
Compensation of employees/head				8.8	5.6	6.1	6.3	7.2	7.4	6.8
Real unit labour costs				-0.3	-1.6	0.5	1.1	1.2	1.5	0.9
Savings rate of households (b)				-	-	0.7	1.2	1.4	0.9	0.5
GDP deflator				7.3	3.4	3.3	3.4	3.1	3.5	3.6
Private consumption deflator				7.1	2.4	3.3	3.5	3.1	3.7	3.6
Harmonised index of consumer prices				-	3.0	3.5	3.3	3.0	3.7	3.6
Trade balance (c)				-14.7	-19.6	-18.3	-18.8	-19.0	-19.3	-19.5
Current account balance (c)				-5.1	-13.3	-13.4	-14.4	-16.2	-16.2	-16.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-11.7	-12.1	-12.3	-14.1	-14.3	-14.4
General government balance (c)				-6.7	-7.4	-5.1	-2.6	-2.8	-2.0	-2.0
Cyclically-adjusted budget balance (c)				-6.3	-8.0	-5.7	-3.2	-3.5	-2.5	-2.3
Structural budget balance (c)				-	-8.0	-5.7	-3.7	-3.3	-2.6	-2.3
General government gross debt (c)				99.4	98.6	98.0	95.3	94.5	92.4	90.2

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.