Appendix G.

Greece: The Greek tragedy continues

The situation of Greece in 2012 seems insoluble. Bogged down in a recessionary spiral and chafing under successive austerity plans, the country has not found a top-down means of emerging from the crisis: after a 6.2% drop in GDP in 2011, we anticipate a comparable recession in 2012, with an especially dismal first half of the year (GDP was down an annualized 6.4% in the first six months of 2012). Against this backdrop, fiscal austerity is proving ineffective: the recession has resulted in falling tax revenues, making it difficult to eliminate the deficit by spending cuts alone. The economic crisis is now coupled with a social and political crisis (with a rise in extremist parties).

Domestic demand is continuing to collapse (by a projected 9% in 2012). Only foreign trade is having a positive impact on growth, as import levels fall. The ongoing decline in imported goods and services (down 14% in the first half of the year, following a 14% drop in 2011) is helping to improve the current account deficit, which nonetheless remains quite poor (we anticipate it will reach 7.3% of GDP in 2012). The jobless rate is climbing to worrisome levels: 23.5% of the population in the second quarter of 2012—double the 2010 figure.

Inflation has slowed, with negative core inflation since May 2012 (on a year-on-year basis), as a result of falling food prices and severe wage restraints that became more pronounced in the wake of the February 2012 plan (a 22% cut in the minimum wage, to 586 euros per month; a freeze on public-sector wages; cuts in certain pension benefits). The energy component of inflation, by contrast, is vigorous and likely to remain so through the end of 2012 owing to a year-end hike in the fuel tax. We are projecting year-on-year inflation of about 1.4% for 2012 and 2013. Nonetheless, the economy will remain implicitly deflationary, insofar as core inflation is expected to stay consistently negative (-0.2%).

Continued austerity policies in 2012 and 2013 at a time of cutbacks across Europe are not likely to resolve the situation: Greek GDP is expected to contract by a further 3.2% in 2013 as a result of the cost-cutting measures passed in February 2012 and the austerity budget adopted for 2013 (which contains budget cuts totalling 7.5 billion euros).

With regard to the budget, in February 2012 Greece passed new austerity measures representing 1.5% of GDP, which exclusively target public spending. These measures include cuts in healthcare spending (0.5% of GDP), an average 12% wage reduction for workers in sectors with special pension schemes, the replacement of only one out of 10 departing civil servants, new cuts in retirement pensions (pensions in excess of 1,300 euros per month have seen a 12% to 20% reduction in the amount over 1,300) and reduced military spending. Concurrent with these measures, the timetable for privatization is likely to be accelerated since, as the IMF has emphasized, Greece is far behind its implementation schedule. On the other hand, the budget deficit for the first eight months of 2012 has come in below target levels (12.5 billion euros instead of 15.2 billion), primarily as a result of more drastic government spending cuts than anticipated (by 5 billion euros). Collection of tax revenue, by contrast, has been less impressive than was hoped. Consequently, it is not clear whether Greece will meet its end-of-year budget deficit commitments: the recession is likely to prove deeper than expected (a 6.2% decline in our forecast for 2012, compared to a 4.7% drop envisioned by the Commission).

If the government hopes to meet its deficit objective in 2013 (-4.6% of GDP), savings totalling 8.4 billion euros will be needed. With that in mind, the Greek government is on the verge of adopting a new cost-reduction plan for 2013-2014 totalling 13.5 billion euros, which relies primarily on reduced spending (by 11.5 billion) plus a projected 7.8 billion in budget cuts in 2013 (*i.e.* a fiscal stimulus of -3.9% in 2013). Specifically, the plan calls for the elimination of 15,000 additional civil service jobs by 2014 and new cuts in government salaries, certain pensions and social services. In return, Greece expects to receive a new round of loans worth 31.5 billion euros.

In addition, the country hopes to obtain a two-year extension (from 2014 to 2016) on its goal of achieving a balanced budget[16]. Under these conditions, Greece would need to find an additional 13-15 billion euros in funding over and above the projected 178.7 billion. The first option will be to obtain a new aid package from the IMF and/or its European partners; the second would involve a rescheduling, or rollover, of Greek debt held by the ECB, a move the Bank currently opposes.

Table G. OFCE, ECLM, IMK macroeconomic forecasts

Greece

%	2010	2011	2012	2013
GDP	-4.4	-6.2	-6.2	-3.7
Private consumption	-4.6	-4.7	-7.7	-2.7
Investment	-8.7	-26.9	-17.2	-1.3
Public consumption	-8.3	-5.3	-4.7	-10.4
Exports	3.8	1.2	-3.3	-1.0
Imports	-4.8	-14.9	-10.8	-0.3
Contribution to growth				
Internal demand	-6.7	-9.1	-9.0	-4.2
External trade	2.3	5.0	2.3	-0.2
Inventories	0.0	-2.1	0.5	0.6
Unemployment rate	12.6	17.7	23.8	26.3
Inflation	4.7	3.1	1.4	1.4
Public deficit % GDP	-10.3	-9.1	-6.7	-4.8
Fiscal impulse % GDP	-8.0	-5.3	-5.0	-3.9
Public debt % GDP	141.0	170.6	176.7	187.6
Current account % GDP	—	—	—	—
Unit labour costs	—	—	-8.6	-4.7

Source: National accounts, Eurostat, OFCE, ECLM, IMK.

16. The stability and growth programme for 2012 calls for a primary surplus of 4.5% in 2014.