

The impact of financial crisis upon the economy (update)¹

According to all available evidence, the global financial crisis is starting to have an impact on the domestic economy. <http://www.software995.com/>

Greece's gross domestic product (GDP) expanded by between 3.0 and 3.1 percent in the third quarter of the year. On an annual basis, the National Statistical Service (ESYE) estimates that the economy expanded by about 3.2 percent for 2008, versus the Finance Ministry's 3.4 percent target rate, as projected in the 2009 draft budget. With respect to 2009, the European Commission sees Greece's economy expanding by 2.5 percent, at a slower pace than the government's 2.7 percent forecast. The slowdown shows that the global financial crisis is starting to have an effect on the economy.

Greece's unemployment rate rose to 7.4 percent in September from 7.1 percent in the previous month, according to a recent press announcement by ESYE. The latest figures showed there were about 363,869 people officially unemployed in September, but many analysts predict that Greece's jobless figure will increase by the end of the year as the economy slows due to the downturn in global economic conditions. Meanwhile, according to a recent survey Greek employers anticipate a decrease in hiring in the first quarter of next year, with the manufacturing and tourism industries offering the gloomiest forecasts. The survey, prepared by Manpower, found that 13 percent of the 751 employers questioned are preparing to lay off staff. Hiring projections weakened for eight of the nine sectors surveyed, the most optimistic forecast reported in the public sector. On the other hand, employers in manufacturing and the restaurant and hotel sectors report gloomy outlooks, added the survey.

Private construction activity, measured by the number of new building permits, fell 15.5 percent in September (ESYE figures), adding to the drag on the economy. The slump in building activity in September is a further sign that Greece's economy is slowing down after growing faster than the Eurozone in recent years. Industrial production also fell in September, slipping 3.3 percent in a retreat for the fifth straight month.

In the area of small businesses and retailers, the number of checks that bounced in the first 11 months of 2008 went up by 30 percent on a year-to-year base, indicating deteriorating economic conditions and cash shortages. Data from Tiresias, a non-profit agency jointly owned by Greek banks that provides credit profiles and other payment

¹ This note draws heavily on articles published in newspapers 'Kathimerini' and 'To Vima'.

Comments prepared by Dimitris Karantinos, SYSDEM Correspondent for Greece

information, showed that bad checks in the 11-month period amounted to 1.12 billion euros versus 859.7 million in the same period a year earlier. Experts believe the rise in checks bouncing reflects the slowing economy and credit crunch reaching businesses. Lenders have turned off the tap to small businesses, leaving traders having to scramble for cash as economic conditions deteriorate.

In short there is now sufficient evidence that the Greek economy is slowing down. It should be stressed that Greece does not need to go into a recession in order for its economy to suffer a shock. Even an estimated growth rate of around 1.5 percent for 2009 will have significant consequences on an economy accustomed to growth rates more than twice that in the last few years. The greatest worries are being expressed for tourism companies, shipping, the construction sector, commerce and the thousands of freelancers who will be directly affected by the crisis. Managing the effects of the financial crisis on households and businesses is the big challenge facing the government in 2009.

Responding to the financial crisis, the government introduced a 28bn euro scheme, to encourage credit institutions to lend more generously to households and firms than they have done in the last few months and discourage them from hoarding cash (see previous quarterly report). The government's scheme provides capital injections via the sale of preferred shares to the state, guarantees on debt issuance by banks and liquidity support via special government bonds. Under the plan, Greece will spend up to 5.0 billion euros to boost banks' capital ratios via the purchase of preferred shares, which will pay a 10 percent dividend. The government will guarantee up to 15 billion euros of new bank debt and issue up to 8 billion euros in special bonds to be handed to banks to boost their liquidity. Authorities expect banks to make use of all three facilities in the liquidity support scheme. According to media sources, the plan is being implemented smoothly after getting the green light from the European Commission and passing a vote in parliament. To date, 2.01 billion euros worth of state bonds have been allocated to two Greek lenders as part of a 28 billion bank support package.

The government has also announced a series of measures, aimed at strengthening households' budgets. These include:

- A lump-sum 'extraordinary social cohesion subsidy', targeting those under OGA (the farmers' fund) minimum pension (thought to be approximately 850000), those entitled to EKAS (380000) and the approximately 300000 registered unemployed. Those entitled will receive 100-200 Euros, depending on area of

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residence. The highest subsidy (€ 200) will be paid to those living in the rural areas, and the lowest (€ 100) to those in urban areas.

- A lump-sum housing loan subsidy. This subsidy will amount to € 500 and will be allocated to those servicing housing loans, provided that they are entitled to EKAS, or are unemployed currently receiving unemployment benefits.
- The ‘Christmas bonus’ is to be doubled, but only for the unemployed currently receiving benefits. The Christmas bonus roughly equals one month’s unemployment benefit (typically €430, 50).
- 60000 unemployed currently receiving unemployment benefits will be able from now on to convert their benefits into employment subsidies and secure a work post. Starting from 2009, firms recruiting eligible unemployed workers will be able to collect the unemployment benefits for a period ranging from 18 to 36 months (depending on the size of the enterprise, with micro firms entitled to 36 month subsidization).

In addition, the government has announced new schemes for in-service training for the personnel of small and medium enterprises, as well as employment subsidies for certain groups such as new scientists and early school leavers. The government has also made it clear that more measures, worth of up to 740 million Euros, are in the pipeline and that funding for these new measures is secured thanks to the proceeds of the privatization programme. In this frame, the finance minister announced that Greece will earmark at least half the 431 million euros it got from selling a stake in telecom operator OTE for the social cohesion fund to support the poor.

The trade unions dismissed the measures as grossly inadequate and staged a 24-hour general strike on October 21, which has brought the country to a halt. . The general strike was called over several issues including the 2009 draft budget, privatizations, limits on pay, changes to the pension system and opposition to the recently proposed bailout for Greece's main banks.

More recently, the government has announced additional measures, including:

- A scheme to strengthen tourism. Tourism, which accounts for about 20 percent of the economy, is seen as playing a crucial role in determining Greece’s performance during the global slowdown. The plan comprise of 14 steps, aimed at promoting Greece abroad (funds spent on promoting Greece abroad are to be

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increased by 50 percent), helping tourism companies cut costs and pumping liquidity into the sector (through the introduction of tax breaks applicable on properties and loans). The plan was well received by representatives of the industry.

- Interventions aimed at tackling the crisis through the strengthening of SMEs. In this respect, on November 4, the Development Minister announced a separate plan to provide small businesses with access to cheap loans. The plan includes state-backed guarantees on 80 percent of all loans up to 350,000 euros for a period of three years at an interest rate determined by the government.
- A decision was also taken to delay implementing a fuel surcharge clause at energy utility Public Power Corp. (PPC) for at least a year, in a move aimed to ease the burden on household budgets. State-controlled PPC has long sought to link the tariffs it charges customers to global oil prices. Earlier this year, when oil prices spiked to record highs, PPC was given permission to apply the surcharge as of Jan 1 2009. The development ministry, which oversees PPC, backtracked on the measure, citing falling oil prices, the global economic crisis and citizen concerns at making ends meet.
- The defense budget for 2009 is to be cut by 15%, in a bid to save money. Although exact figures are not available, estimates put Greece's military spending between 6 and 10bn euros, or 3-4 percent of GDP per year. In effect, Greece could save up to 1 billion euros. It is expected that a part of these savings will be used to finance social cohesion measures.

Finally, the European Investment Bank (EIB) has announced the doubling of funds provided to small- and medium-size businesses in Greece to 1.2 billion euros in the coming year to boost funding for cash-thirsty small firms in the wake of the global credit crunch. EIB has already pumped a large chunk of a 700-million-euro program earmarked for Greece into smaller enterprises that are struggling to meet financing needs as banks tighten credit conditions, fearing an increase in bad debts.

In addition to the financial crisis, last month's riots in Athens and other cities around the country over the killing of a young teenager by the police have resulted in a sharp drop in turnover as consumers stayed away from shopping districts. The country's largest chamber of commerce, EBEA, stated that stores in central Athens – where most of the capital's riots took place – have reported a 90 percent drop in sales.

Greece

EEO Ad hoc request, January 2009

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Following the riots, the government announced steps aimed at providing financial relief to those who suffered damage from protesters. In this frame, the Prime Minister presented an aid plan that offers a 10,000-euro lump sum payment for small businesses, compensation for 50 percent of costs incurred and subsidized loans, among other steps. Measures announced met with a mixed response. The National Confederation of Greek Commerce (ESEE) said the aid package will help cover the immediate needs of its members while adding that the government acted swiftly. Other store owners, mainly of large retail outlets, complained that the steps miss the mark and that more needs to be done.