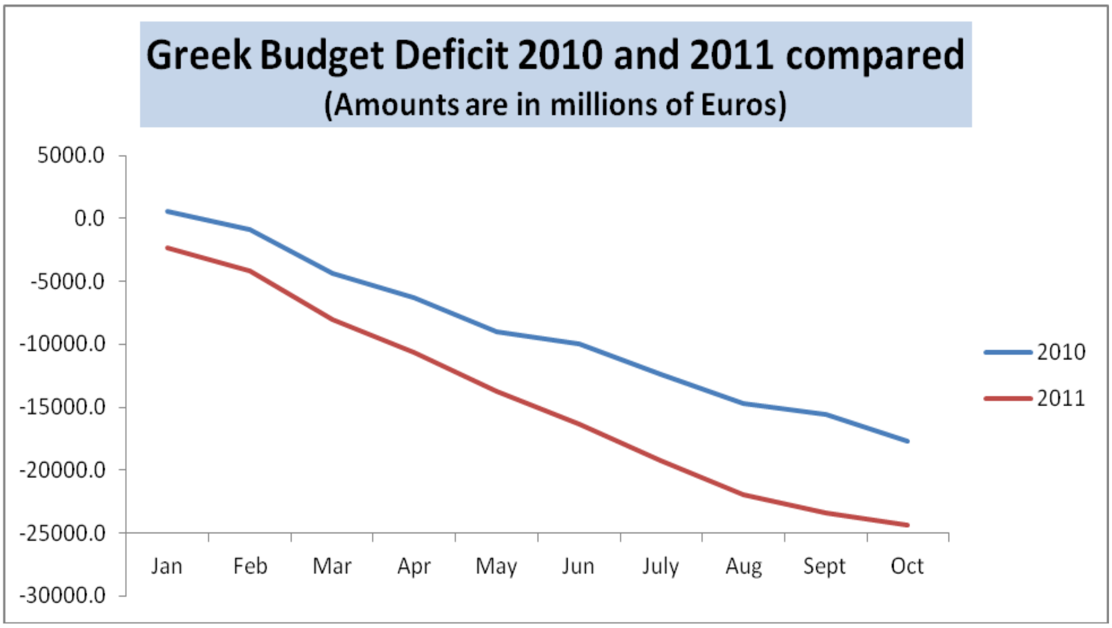
Greece is scraping the barrel

Ministry of Finance data point to 2011 deficit of over 15% of GDP

Eurozone finance ministers are due to sign off the sixth tranche of aid for Greece later today. Without this injection of €8b., Athens will default on 15th December, little more than a fortnight from now.

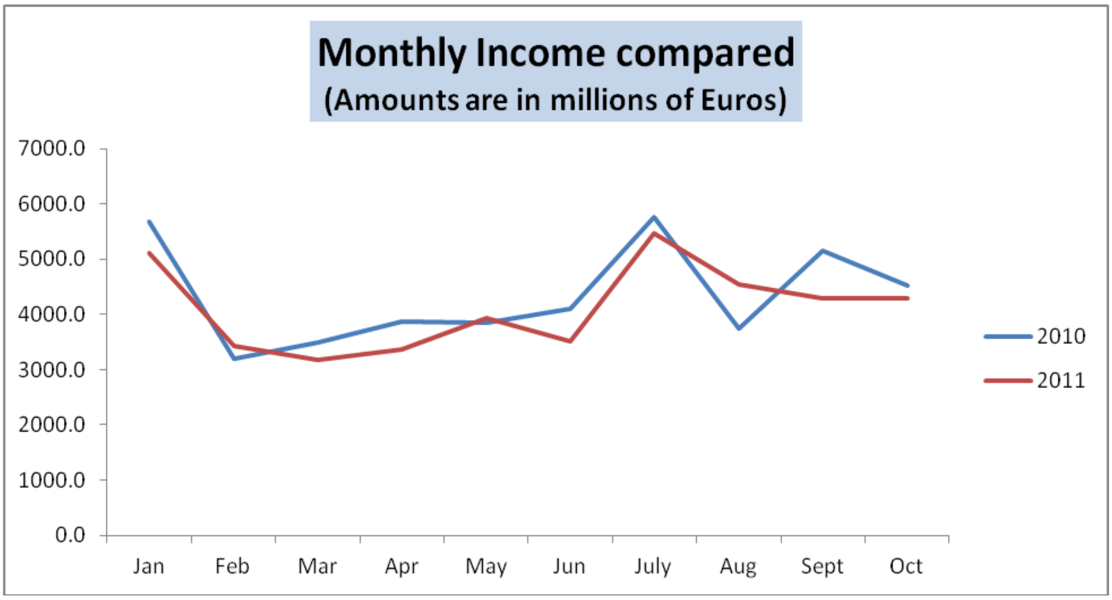
Since the last e-mail covering Greece's financial woes, there have been some significant changes in the Greek political landscape. Prime Minister Papandreou fell foul of Brussels, following his decision to allow the Greek people a referendum on the fiscal austerity package his government had agreed with the "troika" (i.e., the EU in the shape of the European Commission, the European Central Bank and the International Monetary Fund). He was forced to resign and has been succeeded by Lucas Papademos, former deputy head of the ECB. The leaders of both Papandreou's PASOK and the opposition New Democracy party have now sent signed letters to the EU pledging their support for a programme of further privatisation, tax rises and spending cuts.

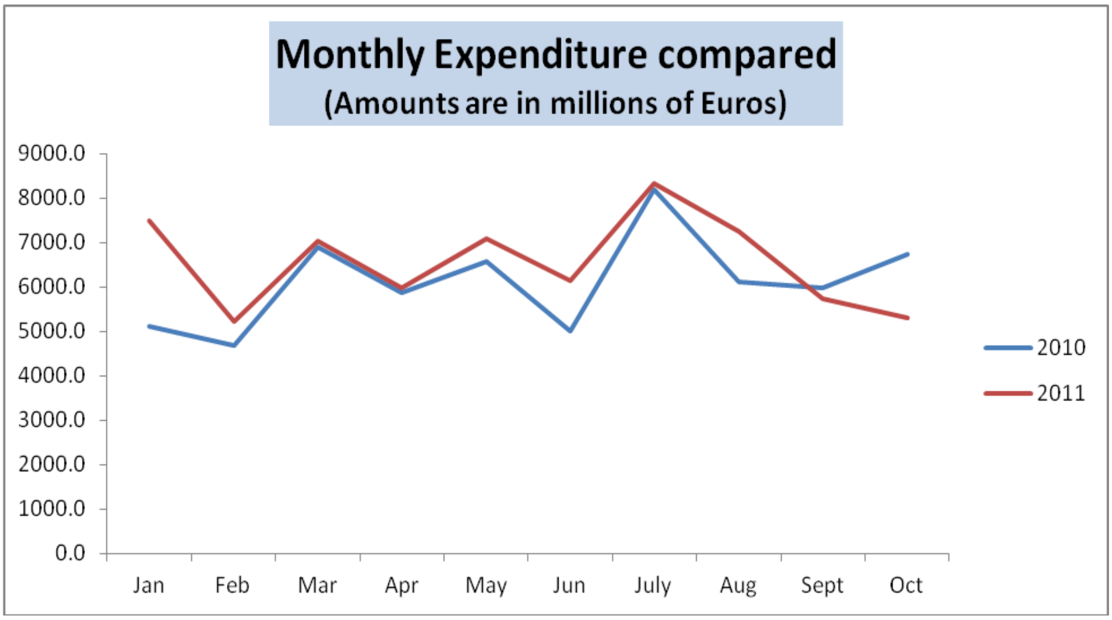
However, the Greek government's finances are not improving. By the end of October, the cumulative deficit for the year was nudging €25b., already significantly higher than the total 2010 deficit of €19.4b. Indeed, unless the closing two months see spectacular receipts from asset sales, the annual deficit looks set to approach €30b. (Note that the official expenditure figure for October has not yet been published by the Hellenic Republic Ministry of Finance. The figure used in the graphs in this e-mail is an estimate based on other data and is likely to be on the low side.)



After having recorded a budget deficit of 15.4% of GDP in 2009, Greece was able to reduce this figure to 10.5% in 2010. With two months to go, the 2011 deficit is already above 15% of GDP. A final figure of 18-19% looks plausible. (It is difficult to understand where the figures mentioned in newspaper stories, which are often under 10% of GDP, come from.)

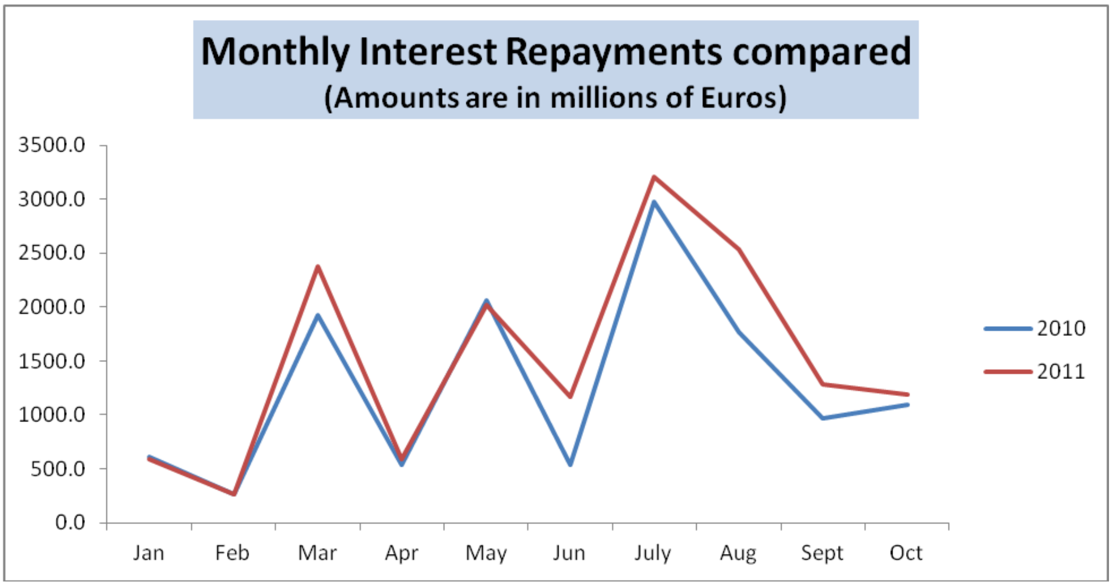
As yet, there has been no beneficial impact to Greek public finances from asset sales. So far only 4% of the proposed €50 billion of privatisation revenues has been raised. Without asset sale money, the figures from January to October show a reduction in government revenue in 2011 compared with 2010. Income is still being outstripped by expenditure, despite a slight reduction in expenditure in the most recent two months relative to 2010.





Costas Mitropoulos, head of the Hellenic Republic Asset Development Fund, has promised a major asset sale in the first three months of 2012, including a state-run gas company and 35 government buildings, with more to follow later in the year. He expressed hopes of raising over €12b. in total during 2012. However, even if this ambitious target was reached, it would not even plug 50% of the hole in the government's finances based on 2011 data.

There is little reason to expect relief from any other quarter in coming months. Interest repayments have been consistently higher in 2011 than in 2010. They account for no less than 37.0% of total income for the year to date, as opposed to 29.4% for the corresponding period last year. With yields on Greek government bonds now at ridiculous levels, upward pressures on debt interest payments in 2012 data could be worse still.



All this, of course, is assuming that Greece will not be in default by the New Year, and still a Eurozone member, both scenarios that are looking increasingly unlikely. The €8b. aid is little more than a short-term sticking plaster that cannot disguise the fact that Greece remains irrevocably bust, in spite of the positive spin in some sections of the media. It would be ironic if Mr Papademos, who was vice president of the ECB when Greece joined the Euro, and who is widely accused of complicity in fiddling the figures, could find himself forced to take his country out of the currency union that he – disastrously – was so keen to join.

John Petley

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