

# Greece Business Forecast Report Q4 2013

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## Abstracts

### Core Views

We expect a return to positive economic growth in 2014 following six years of depression.

The prospect of further spending cuts and tax hikes will ensure that demonstrations and national strikes remain a key feature of the political landscape over the medium term.

The current account deficit has collapsed faster than we had expected, raising the prospect of a return to surplus over the medium term. This is symbolic of Greece's transition towards a more balanced and sustainable economic growth model.

### Major Forecast Changes

There are no major forecast changes this quarter.

### Key Risk To Outlook

Upside Risks To Deficit Forecasts: The severity of the fiscal consolidation programme and the public backlash mean that the scope for slippage will remain pronounced.

Downside Risks To Economic Growth Forecasts: Should Greece decide to leave the eurozone, the recession would deepen in the short-to-medium term as the banking system would implode and the cost of energy and food imports would rocket.

## Contents

### EXECUTIVE SUMMARY

### CORE VIEWS

### MAJOR FORECAST CHANGES

### KEY RISK TO OUTLOOK

## CHAPTER 1: POLITICAL OUTLOOK

### SWOT Analysis

### BMI Political Risk Ratings

### Domestic Politics

### Bailout Number Three On The Horizon

The Greek government will likely seek to negotiate a third financial bailout once the current programme expires in 2014. Although this may be relatively straightforward to secure, especially given the progress made thus far on structural reforms and the recent emergence of a primary fiscal deficit, convincing Greece's creditors to allow further debt restructuring in the future will meet with stiff resistance. We still believe that further writedowns will be necessary, but stress that the economic and financial market fallout will be more limited than in 2012.

### TABLE: POLITICAL OVERVIEW

### Long-Term Political Outlook

### A Decade Of Austerity And Instability

Greece's political landscape is likely to become more tumultuous in the coming years. The legacy of fiscal profligacy and economic distortions will leave an indelible mark on the Greek economy and society, with political voices potentially becoming more fragmented. We therefore expect a prolonged bout of austerity and instability in the decade ahead.

## CHAPTER 2: ECONOMIC OUTLOOK

### SWOT Analysis

### BMI Economic Risk Ratings

### Economic Activity

### Economy On The Mend, But Labour Market Still Impaired

Greek national account data and evidence from confidence surveys strengthen the

argument that there are finally green shoots of recovery. For the time being, this has yet to be fully reflected in leading indicator data, although we expect to see an improvement on this front in the coming quarters. We maintain our projection for a return to positive economic growth in 2014, though continue to caution that without a marked and sustainable recovery in exports and investment, the growth profile will remain subdued.

#### TABLE: ECONOMIC ACTIVITY

##### Balance Of Payments

##### Current Account Getting Closer To Surplus

Trade rebalancing in Greece has happened so quickly in recent quarters that a 12-month current account surplus could be on the cards for end-2013 or early 2014. However, we continue to argue that this rebalancing is suboptimal as it reflects demand-driven import contraction, rather than a significant improvement in export competitiveness. This suggests that external debt can be stabilised, but that longer-term growth will suffer.

#### TABLE: CURRENT ACCOUNT

##### Monetary Policy

##### Consumer Price Deflation Underway

Greek consumer prices are now firmly in deflationary territory, confirming our long-held view that inflation would follow the path set by Ireland where deep fiscal austerity smothered demand side price pressures. We expect this dynamic to continue playing out in 2014, but believe that the rate of deflation will be fairly modest given that the worst of the economic downturn has already passed.

#### TABLE: MONETARY POLICY

##### Debt Policy

##### The Options On The Table: Shotgun Default Or Long-Term Quarantine

In light of growing speculation that Greece will need further financial support after the current bailout programme expires in 2014, we reiterate our view that additional debt restructuring will be required in the coming years. To nuance our argument further, we use a Monte Carlo-type framework to run a series of simulations for the sovereign debt trajectory to get a sense of the possible debt distributions by 2020.

#### GREECE Q4 2013

##### Banking Sector

##### Banking Sector: Consolidation Phase

We expect financial pressures for Greek banks to continue subsiding as the domestic economy stabilises and shifts gradually further along the road to recovery. However, the industry will still face significant challenges in terms of deleveraging and attracting deposits, with the longer term growth trajectory consequently subdued.

## CHAPTER 3: 10-YEAR FORECAST

## The Greek Economy to 2022

### Lower Growth Path To Emerge Over The Long Term

With international credit conditions unlikely to return to pre-2008 levels over the foreseeable future, we expect both consumer and investment spending to be more subdued over the longer term, anchoring the Greek economy onto a lower growth path than that seen leading up to the global credit crisis. Although Greece will continue to post real convergence gains with the EU, we stress that a significant degree of integration has already occurred, with income per capita settling at a level similar to Spain. Moreover, we believe that broad political and economic stability will remain in place, which will continue to accentuate Greece's attractive investment climate.

#### TABLE: LONG-TERM MACROECONOMIC FORECASTS

## CHAPTER 4: BUSINESS ENVIRONMENT

### SWOT Analysis

### BMI Business Environment Risk Ratings

### Business Environment Outlook

### Institutions

#### TABLE: BMI BUSINESS AND OPERATION RISK RATINGS

### Infrastructure

#### TABLE: BMI LEGAL FRAMEWORK RATING

#### TABLE: LABOUR FORCE QUALITY

#### TABLE: ANNUAL FDI INFLOWS

### Market Orientation

#### TABLE: TRADE AND INVESTMENT RATINGS

### Operational Risk

## CHAPTER 5: KEY SECTORS

### Pharmaceuticals

### Telecommunications

### Other Key Sectors

#### TABLE: FOOD & DRINK SECTOR KEY INDICATORS

#### TABLE: OIL & GAS SECTOR KEY INDICATORS

#### TABLE: GREECE DEFENCE & SECURITY SECTOR KEY INDICATORS

#### TABLE: AUTOS SECTOR KEY INDICATORS

#### TABLE: FREIGHT KEY INDICATORS

## **CHAPTER 6: BMI GLOBAL ASSUMPTIONS**

Global Outlook

Lowering EM Growth Forecasts

TABLE: GLOBAL ASSUMPTIONS

TABLE: DEVELOPED STATES, REAL GDP GROWTH, %

TABLE: BMI VERSUS BLOOMBERG CONSENSUS REAL GDP GROWTH  
FORECASTS, %

TABLE: EMERGING MARKETS, REAL GDP GROWTH, %

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