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Greek economy to shrink 5%

By Dimitris Kontogiannis in Athens

Greece will have to cope with an even deeper recession than expected in 2012, according to the country's central bank. In a revision to its previous estimate a month ago, it suggests Athens will find it even harder to meet its fiscal targets, meaning yet more pain for the population.

The Bank of Greece forecast the economy will shrink by about 5 per cent this year – the fifth consecutive year of contraction – compared with its previous estimate of 4.5 per cent just a few weeks ago. But the outcome could be worse still if there are delays in implementing structural reforms, the bank said.

This year's contraction comes after a 6.9 per cent drop in 2011 and a cumulative shrinkage of more than 13 per cent since 2008. Latest estimates by the International Monetary Fund predicted contraction by 4.7 per cent in 2012, followed by zero growth next year.

The Bank of Greece said unemployment would rise to more than 19 per cent this year from 17.7 per cent in 2011. Others, such as the IOBE think-tank, estimate unemployment will surpass 20 per cent this year.

"A real GDP contraction of 5 per cent is a fair estimate but we are more pessimistic than the central bank on the unemployment rate," said economics professor Yannis Stournaras, director-general of IOBE.

In addition to rising unemployment, private sector employees face payment delays as an increasing number of companies strive to cope with a drop in sales and scarce liquidity. The central bank sees pay for employees in the private sector falling by a further 16.5 per cent this year and next.

Greece had one million companies in 2009, but 250,000 have since closed and 300,000 more do not pay their workers on time, according to Antonis Samaras, leader of the conservative New Democracy party.

George Provopoulos, Bank of Greece governor, was upbeat on Tuesday on the current account deficit, however, projecting it will fall to 7.5 per cent of GDP in 2012 from 9.8 per cent in 2011. But the new projection is still worse than last month's 7 per cent forecast by the central bank.

The reduction of the current account deficit will be due to an improvement in competitiveness because of an expected drop in unit labour costs, Mr Provopoulos said, helping to recover up to three-quarters of competitiveness lost between 2001 and 2009.

He was also optimistic on Greece achieving a primary budget surplus next year. “The sought attainment of primary surpluses from 2013 is now achievable,” Mr Provopoulos said.

However, he warned that Greece’s eurozone membership was at stake if it failed to follow through on its pledges, especially after national elections on May 6.

“If, following the election, doubts emerge about the new government and society’s will to implement the programme, the current favourable prospects will reverse,” he said.