

Greece

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Macroeconomic overview

The Greek economy grew at a healthy rate of 2.9% in 2008 and 0.3% (year-on-year) in Q1 2009, however negative GDP growth of -1.0% is expected in 2009, due to the expected decline in both consumption and investment as the recession in Europe and the world economy deepens. Economic activity in Greece has been slowing down since the beginning of 2008 on the back of rising oil prices and the deterioration of global financial conditions. Nevertheless, growth in Q3 and Q4 2008 has been a solid 2.7% and 2.4% respectively, compared with the 0.5% and -1.5% year-on-year GDP growth rates recorded in Q3 and Q4 2008 in the euro area. Inflation was at 0.5% in June 2009 and the average inflation for 2009 is expected to be 1.2%, significantly lower than the average annual level of 4.2% in 2008. Economic uncertainty and the substantial fall in international economic activity and trade in Q4 2008 and Q1 2009, has also rocked consumer and business confidence in the Greek economy, undermining economic activity especially in the housing, tourism, manufacturing and retail trade sectors. This has set the stage for a slowdown in consumption and a substantial fall in investment, exports and imports, and in GDP growth.

Housing and mortgage markets

The main characteristic of the housing market in Greece over the last three years has been the deceleration in prices (since the beginning of 2006), which nevertheless kept registering positive annual changes (in nominal terms) in 2008. According to Bank of Greece estimates, residential property prices in all urban areas increased by 2.6% in 2008 from 4.6% in 2007, 12.2% in 2006 and 10.9% in 2005. More specifically, residential property prices in Athens grew by 2.7% in year-on-year terms in 2008, as against 5.2% in 2007 and 11.3% in 2006, while growth in residential property prices for urban areas excluding Athens further decelerated to 2.6% in 2008, from 3.8% in 2007 and 13% in 2006. Following the deceleration in residential property prices in 2008, the annual growth rate in residential property prices is estimated to have turned negative in the first three months of 2009. On the basis of data aggregated by banks, it is estimated that residential property prices fell by 1.4% (in nominal terms) in the first quarter of 2009 on the same quarter of the previous year.

The supply of new houses remained at high levels in 2007 and 2008 (even if the volume of private building activity in terms of residential construction permits issued recorded a decline of 5.3% and a fall of 15.8% in 2007 and in 2008 respectively). On the other hand, the more cautious attitude of banks in granting new housing loans is estimated to have contributed to the falling demand. The fall in demand is also depicted in the continuous deceleration in the outstanding balances of housing loans as a percentage of total bank credit (11.5% at the end of 2008, from 21.9% in December 2007 and 25.8% in December 2006), still registering high growth rates despite the increase in the cost of financing up to October 2008 and the tighter lending criteria imposed by banks for housing loans. On the supply side, there is a substantial stock of new houses gradually being absorbed. The effect of these housing market developments on consumption as a wealth variable is estimated to be rather limited.

Funding

The unavailability of credit was more pronounced in Q1 2009, as Greek banks intensified their re-pricing of customer loans, following a period of negative term deposit spreads in a wider context of post-Lehman deterioration in global funding conditions. Within this framework, the Greek government, in line with prevailing international practice, adopted a 28-billion Euros programme of measures aiming to maintain liquidity and the proper functioning of the domestic financial system, including bank capital injections through the issue of preference shares of 5 billion Euros, guarantees for bank borrowing in the markets of 15 billion Euros, and direct liquidity injection through the issue of special government bonds amounting to 8 billion Euros, to be used with the ECB. This plan started to be gradually implemented in H1 2009 by all the main Greek banks.

	EU27, 2008	Greece, 2008	Greece, 2007
GDP growth	0.8%	2.9%	4.0%
Unemployment rate	7.0%	7.7%	8.3%
Inflation	3.7%	4.2%	3.0%
% owner occupied	66.8%	80.6%	80.1%
Residential Mortgage loans as % GDP	49.8%	32.0%	30.2%
Residential Mortgage loans per capita, € 000s	12.24	6.93	6.21
Total value of residential loans, € million	6,087,928	77,700	69,363
Annual % house price growth	0.3%	2.6%	4.6%
Typical mortgage rate (Euro area)	5.5%	5.3%	4.8%
Outstanding Covered Bonds as % of residential lending	21.2%	6.4%	n/a

Source: EMF, Eurostat, ECB, National Bank of Greece, National Statistical Service of Greece

Notes:

- Typical mortgage rate Euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Greece= 2008