

Focus on: Greece

International Business Report 2011 – Economy focus series

The economy

Greece's economy slowed its steep slide in the third quarter but still contracted sharply from a year earlier as the economy continued to plummet in a recession that looks set to head into a fifth year. The unity government is grappling with huge wage and pension cuts, job losses, and tax hikes imposed under an international bailout aimed at stabilising Greece's crumbling public finances and saving the country from bankruptcy. The risk of financial collapse and an exit from the eurozone remain high.

The key indicators¹ are highlighted below:

- the economy contracted by 5.2% from 12 months earlier in the third quarter
- domestic demand remains sluggish, retail turnover declined 10.3% in the first eight months of the year compared with the same period in 2010
- consumer spending is expected to decline further as unemployment, which reached 18.4% in August, continues its upward trend
- production in the manufacturing industry fell by 4.8% in Q3, compared with a 12.2% contraction in Q2.

Impact on privately held businesses

The Grant Thornton International Business Report (IBR) 2011 surveyed over 11,500 business leaders in 39 economies around the world. This report focuses on the experiences of privately held businesses in Greece and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that businesses in Greece are overwhelmingly pessimistic about their economy over the next 12 months, even more so than in 2010. Business expectations for revenue are lower compared with those of last year and expectations for profitability are now negative. Bureaucracy and the cost finance remain a major constraint on potential expansion.



¹ Source: International Monetary Fund, The Economist and Experian.

The outlook

The outlook for the economy remains very gloomy with a contraction of 5.3% expected in 2011 as the harsh measures imposed by the IMF and EU bite. Further deterioration in both domestic and external demand, as unemployment rises and the eurozone slows, is likely to result in an even decline in output in 2012 of around 7.5%. The contraction is likely to flatten out in 2013 assuming a large write-down of existing debt and government commitment to both austerity and the single currency.

A full scale meltdown in the Eurozone represents a serious downside risk to this forecast. Were Greece to exit the euro, the redenomination of salaries and bank deposits in a depreciating currency would lead to an even more severe decline in living standards, with runs on the banks likely. The competitive advantage of cheaper exports would not feed through for several years.

The Greek government is hoping to cut its budget deficit to 1% of GDP by 2015. Under the terms of the bail-out Greece had promised to slash its deficit to 3% of GDP by 2014. By 2013 the bringing the government debt to GDP ratio is expected to be drop to around 100%. Medium-term measures will focus on spending cuts in areas such as healthcare spending and public admin as well as further reforms of the tax system.

Talk to us to find out how we can help you deal with the challenges your business is facing today.

Vassilis Kazas

T +30 210 72 80 000

E vassilis.kazas@gr.gt.com

W www.grant-thornton.gr

Figure 1: Key indicators for PHBs

Greece compared to the EU average	2009 Gre	2010 Gre	2011 Gre	2011 EU
Outlook for the economy over the next 12 months				
Net optimism	-34%	-23%	-52%	+0%
Change in employment levels				
Net hiring	-7%	+7%	-16%	+13%
Constraints on expansion				
Regulations/red tape	30%	57%	57%	29%
Cost of finance	45%	41%	50%	23%

Source: Grant Thornton IBR 2011



International Business Report results

The Grant Thornton IBR 2011 reveals that global business optimism dipped sharply in the third quarter. Businesses sentiment in Greece continued to be negative in Q3 with net -52% of businesses optimistic, down from net -41% in the previous quarter. Globally the quarter-on-quarter average declined from 31% to 3%.

Optimism dropped sharply in many markets across the globe including mainland China and India; net optimism fell by -29% in both markets. Optimism in North America as a whole fell by 40%, and by 35% in both the Eurozone and across the G7.

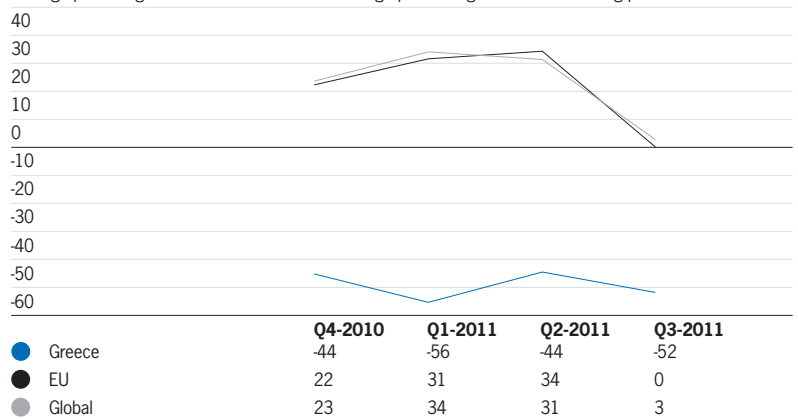
Year-on-year optimism amongst businesses has declined slightly from net 24% in 2010, to net 22% across 2011.

Optimism/pessimism

- businesses optimism in Greece declined further in the third quarter, dropping from -44% to -52%, ranking it the most pessimistic country in the EU
- optimism dropped by 34 percentage points in the European Union³ in Q3
- globally, business sentiment dropped by 28 percentage points in Q3 to stand at just 3%.

Figure 2: Outlook for the economy over the next 12 months: Q4-2010 to Q3-2011

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2011



² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

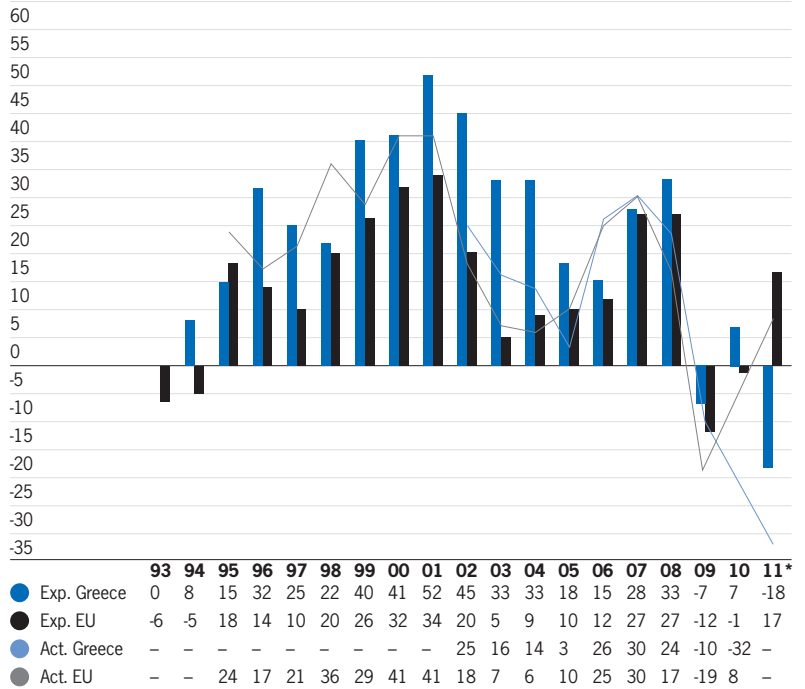
³ for the purposes of IBR, the term 'EU' refers to those EU countries covered by our survey – Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

Employment

- the majority of businesses in Greece expect to shed staff over the coming 12 months
- net -18% of businesses in Greece expect employment to grow in 2011, compared with 17% of businesses across the European Union
- actual employment growth reported by businesses in Greece for 2010 (-32%) was significantly lower than expected 12 months previously (+7%).

Figure 3: Employment history: 1993-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



*2011 data will be documented in IBR 2012

Please note that the expected values are represented by the bars and the actual values by the lines

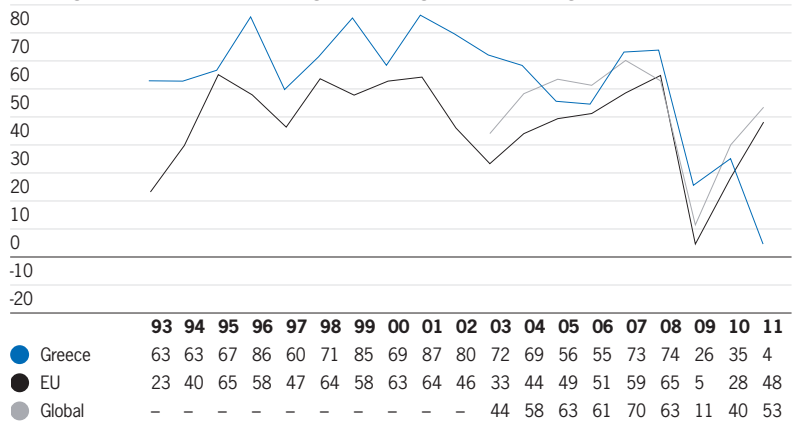
Source: Grant Thornton IBR 2011

Revenue expectations

- expectations for increasing revenues have dropped significantly from 12 months ago
- net 4% of business expect to see revenues increase this year compared with 35% last year
- the European Union business average on the other hand has risen by percentage points, from 28% last year to 48% this year
- globally, expectations have risen from 40% in 2010 to 55% in 2011.

Figure 4: Revenue expectations: 1993-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2011

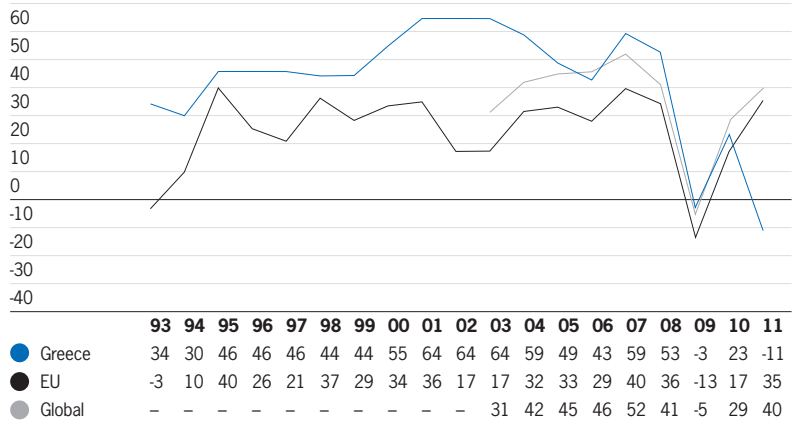


Profitability expectations

- the balance of businesses expecting to increase profits in Greece turned negative again following the improvement observed in 2010
- across 2011 net -11% of businesses in Greece expected their profits to fall over the year ahead, compared with 23% in 2010
- meanwhile, the European Union business average has risen by 18 percentage points while the global average has risen by 11 percentage points.

Figure 5: Profitability expectations: 1993-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



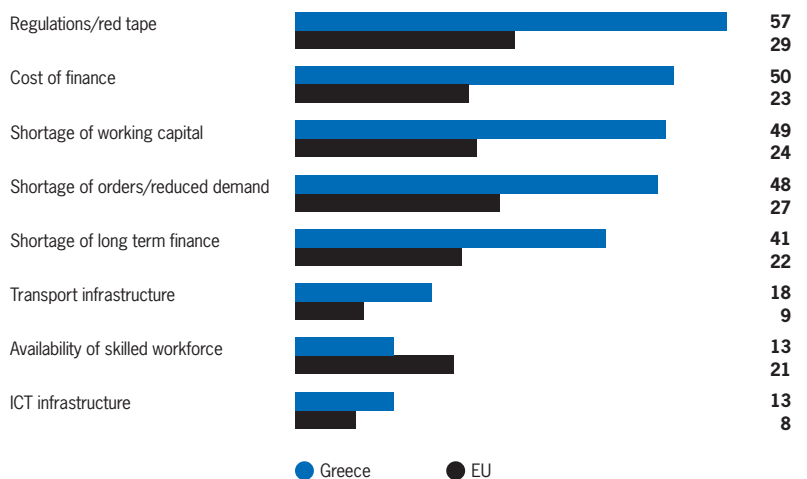
Source: Grant Thornton IBR 2011

Constraints

- regulations/red tape (57%) is cited as the most pressing constraint on expansion by businesses in Greece this year, significantly higher than the European Union business average (29%)
- the cost of finance and a shortage of working capital are also cited by around half of Greek businesses (50 and 49% respectively).

Figure 6: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



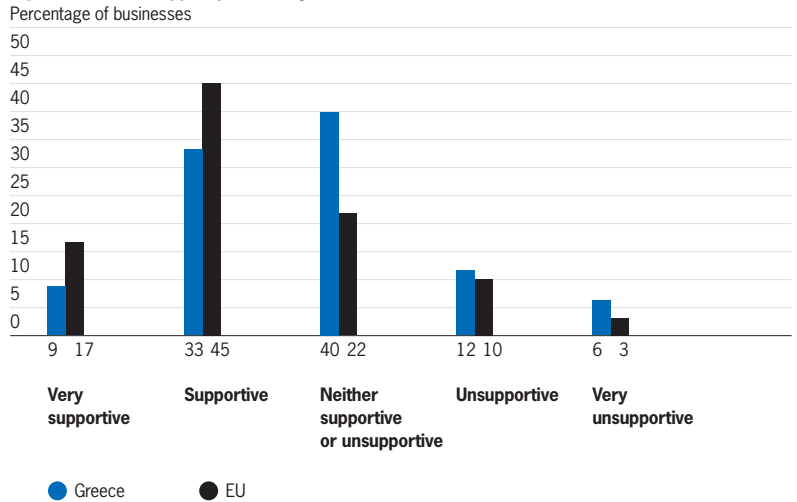
Source: Grant Thornton IBR 2011



Support of lender

- under half of businesses in Greece are happy with the level of support provided by lenders; 42% class lenders as supportive or very supportive towards their business
- this compares with 62% of businesses in the European Union
- eighteen% of businesses in Greece believe that lenders are unsupportive or very unsupportive of their business, higher than the average across the European Union.

Figure 7: Level of support provided by lenders

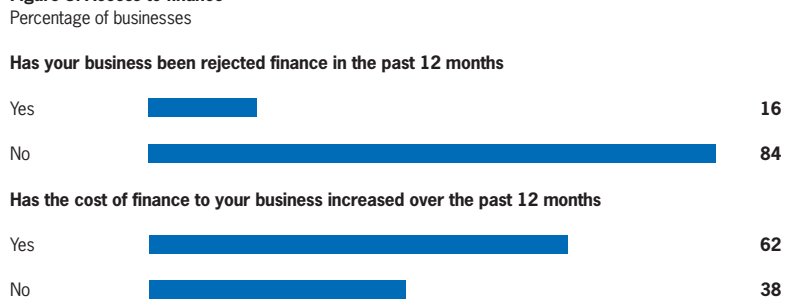


Source: Grant Thornton IBR 2011

Finance

- one in six Greek businesses have been rejected finance in the past 12 months whilst 62% of businesses have experienced an increase in the cost of finance to their business in the last year
- the majority of businesses (76%) indicate that the cost of finance has increased by 1 to 50 points over the past year while 14% believe it has increased by 51 to 150 points
- the majority of businesses in Greece indicate salary levels in real terms have not changed in the past year. 12% believe they have increased by 1-5% whilst 12% indicate they may have decreased by up to 10%.

Figure 8: Access to finance

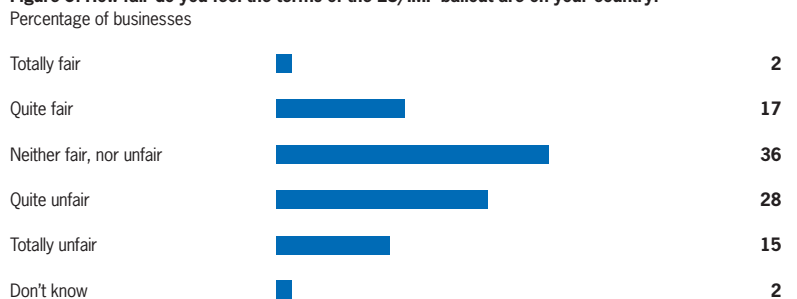


Source: Grant Thornton IBR 2011

Impact of bailout

- 43% of businesses in Greece believe the terms of the EU/IMF bailout have been unfair on their country
- a further 19% would describe the terms are at least fair
- the majority of Greek businesses feel the measures imposed by the bailout have had a negative impact on the demand for their products and services.

Figure 9: How fair do you feel the terms of the EU/IMF bailout are on your country?



Source: Grant Thornton IBR 2011

The Grant Thornton International Business Report (IBR) is a quarterly survey of around 3,000 senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 11,000 PHBs in 39 economies on an annual basis providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

In Greece 215 businesses were surveyed across all industry sectors. These businesses ranged from small to medium in size with total employment of between 100 and 499. Data for this report were drawn from interviews conducted between November 2010 and September 2011.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Malaysia
Armenia	Mexico
Australia	Netherlands
Belgium	New Zealand
Botswana	Philippines
Brazil	Poland
Canada	Russia
Chile	Singapore
Mainland China	South Africa
Denmark	Spain
Finland	Sweden
France	Switzerland
Georgia	Taiwan
Germany	Thailand
Greece	Turkey
Hong Kong	United Arab Emirates
India	United Kingdom
Ireland	United States
Italy	Vietnam
Japan	



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