InterAnalysis
Sussex Innovation Centre
University of Sussex
Brighton BN1 9SB
East Sussex UK

T +44 (0) 1273 234641
E info@tradesift.com

www.tradesift.com

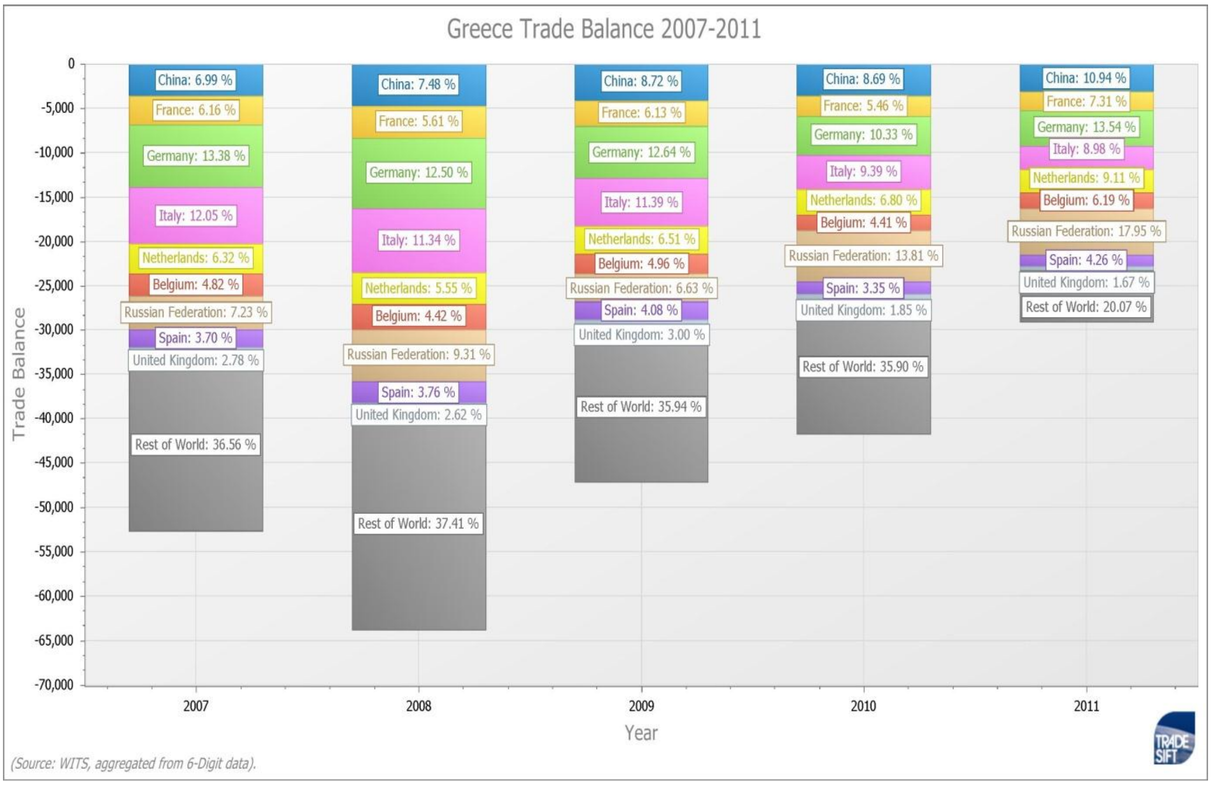
GREEK TRADE BALANCE IMPROVES BUT OVERWHELMINGLY DUE TO THE RECESSION

Javier Lopez Gonzalez, Peter Holmes, Michael Gasiorek at the University of Sussex, UK
Contact: pholmes@traddesift.com

It is becoming increasingly clear that the Eurozone crisis is one of competitiveness and trade imbalances, temporarily masked but not permanently financed by the use of a common currency. The current policies assume that a combination of demand austerity and structural reforms will restore competeviness. In this note we look at the Greek situation and argue that there is no evidence for this, and that though the trade balance has improved it is not due to improved competitiveness.

Between 2007 and 2011 the Greek trade balance improved from -$52,595bn to -$29,121bn. This appears to be a sign of healthy rebalancing.

Figure 1: Greece's Trade Balance (Millions of USD)



Most of the improvement comes from the balance with the rest of the world. We would argue however that it shows little more than the impact of the recession. Austerity is not making Greece more competitive.

Of the total improvement of $23bn, $15bn comes from falling imports. There is very little sign of improved export performance into the rest of the Eurozone. Most strikingly, exports to Germany *actually fell* (Table 1).

Table1: Change in Exports, Imports and Trade Balance by Country (2007-2011) $m

Partner	Δ Exports	Δ Imports	Δ Trade Balance
Italy	431.48	-3,294.77	3,726.25
Turkey	1,635.27	-683.40	2,318.67
Germany	-260.41	-3,354.50	3,094.09
Cyprus	379.06	85.75	293.31
Bunkers	1,301.13	0.00	1,301.13
Bulgaria	202.94	428.54	-225.60
USA	734.71	-581.37	1,316.08
UK	-38.69	-1,013.92	975.23
France	-75.82	-1,188.09	1,112.27
World	8,206.91	-15,267.10	23,474.01

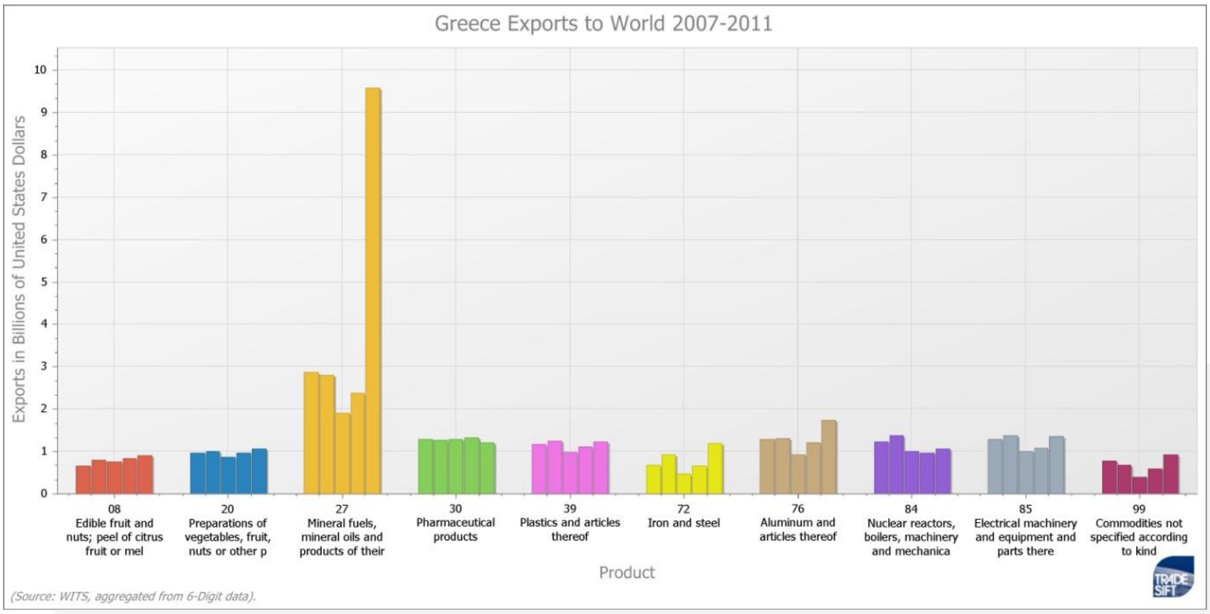
Source: WITS/Comtrade

We first look at absolute changes here because, if we look in percentage growth terms the story is very misleading. Greek exports rose by 35% in 2007-2011 while imports fell by 20%, but since goods imports are nearly twice the size of exports the change in the net balance is dominated by changes in imports.

The rise in exports to 'bunkers' gives us an indication of what is happening[1]. We graph, in Figure 2, the levels and changes in Greece's top 10 exports at the 2 digit product level. We see that the one category to experience a major rise in exports is "Mineral fuels, oils, distillation products, etc" (HS27) . There was a rise in both imports and exports here but the value of exports rose more. But this is hardly a sign of long term improvement in long run competitiveness.

[1] 'Bunkers' is a special code for a trading 'partner' which captures shipments to stores in ships and aircrafts. It mainly involves petroleum products and foodstuff.

Figure 2: Evolution of Greece's top 10 export sectors 2007-2011

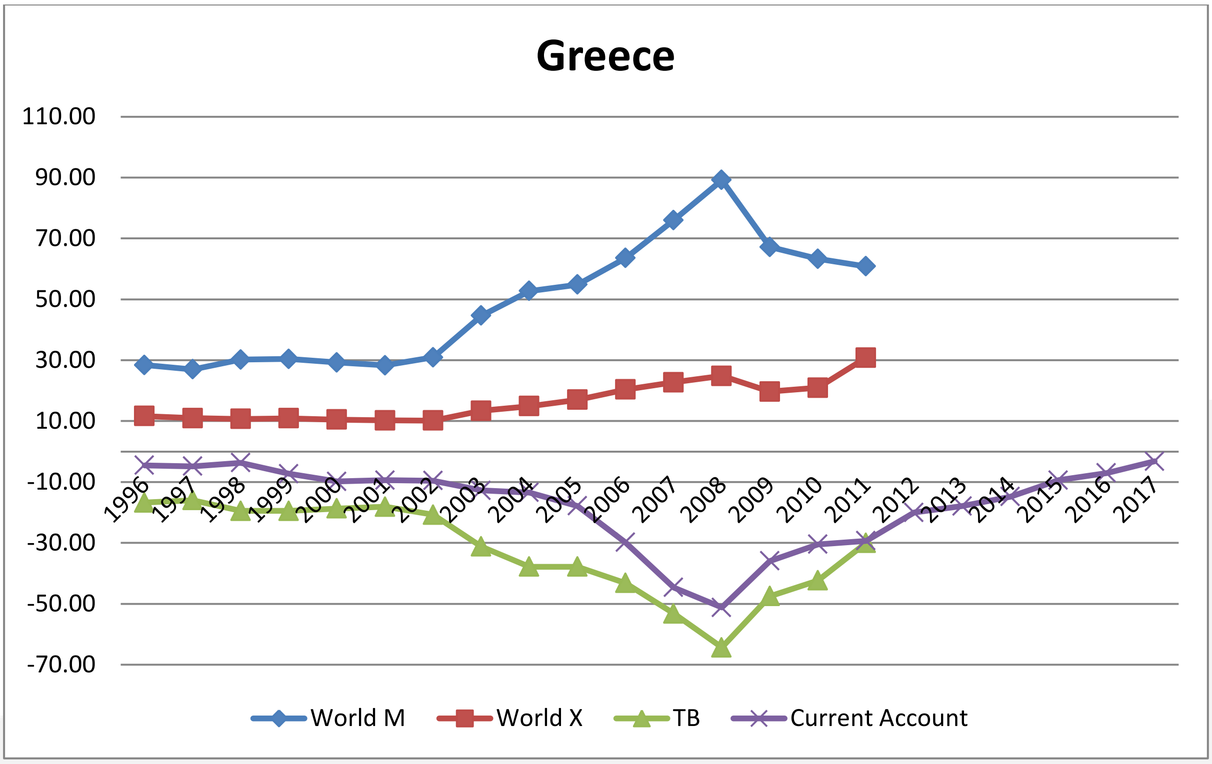


On the import side the largest falls are for Motor Vehicles (HS 87) and Machinery and Equipment (HS84 – which includes some electrical domestic appliances) which are likely to be cyclical.

As the initial chart suggests, the markets where Greece has increased exports are mostly outside the EU, notably Turkey (and 'bunkers'). The looming recession in the Eurozone bodes ill for Greek export prospects there.

Clearly this analysis focuses only on trade in goods. But the picture is not much more encouraging when we include services. According to OECD data the services balance in 2011 was worse than 2008 and roughly at 2005 levels. This can be seen by the closing gap between the Trade Balance (TB) and the Current Account line in figure 3 below).

Figure 3: Greece's imports, exports, trade balance and Current account (1996-2011) $m



Source: WITS/Comtrade and IMF

There are those who say that austerity works to cure imbalances because Ireland and Latvia have been able to sharply improve their trade positions with no exchange rate changes. We argue that this cannot be generalised. The improvements in the Greek trade and current account balances is due to the recession, not due to a competitiveness gain: exports have not risen significantly. It turns out the situation is even more stark in Spain where exports as well as imports have fallen[2].

June 19th 2012
Using TradeSift software[3]

[2] Forthcoming note.
[3] www.tradesift.com