MONETARY POLICY

INTERIM REPORT 2013

DECEMBER 2013

BANK OF GREECE

EUROSYSTEM

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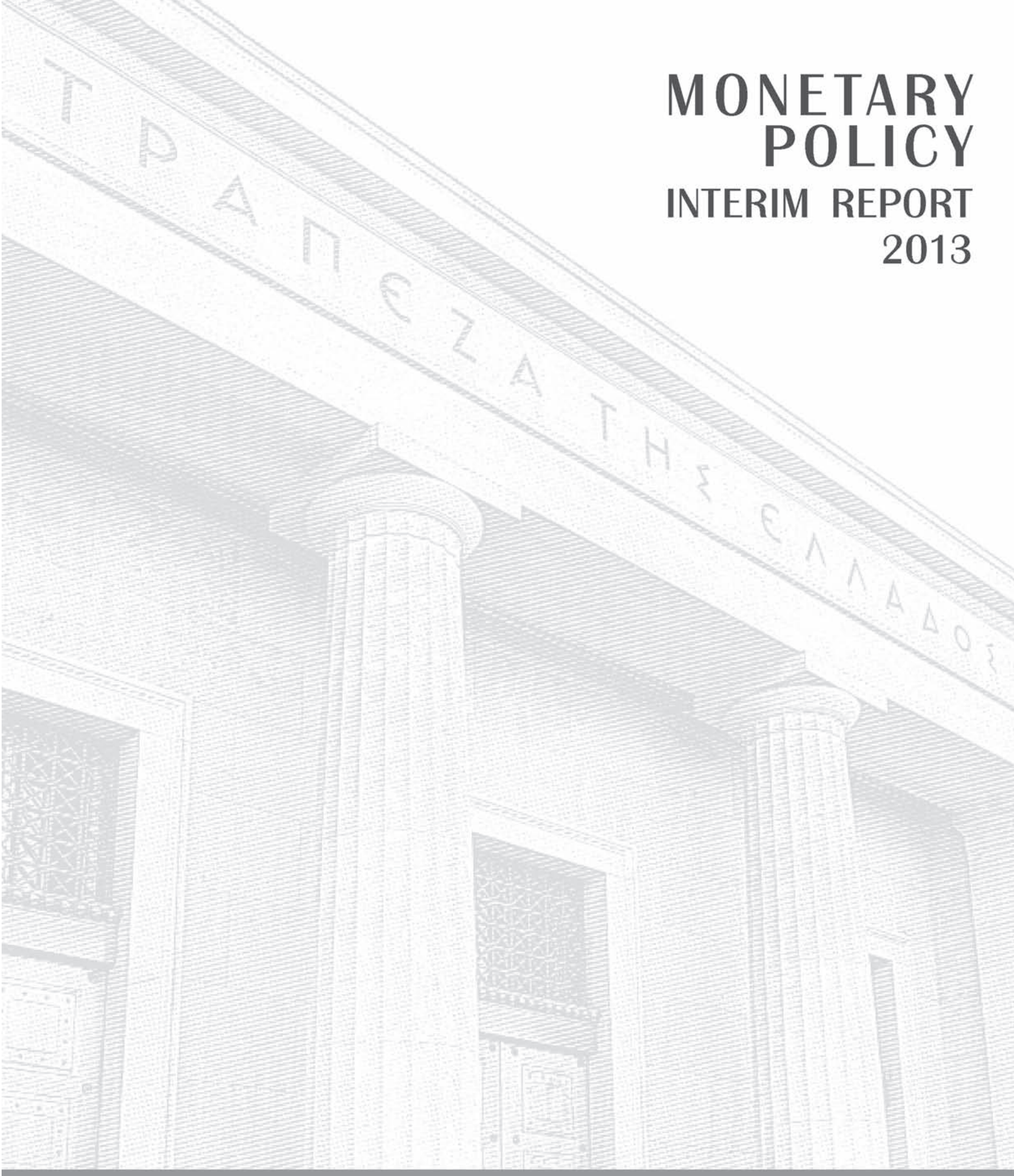

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BANK OF GREECE
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To the Greek Parliament
and the Cabinet

In its previous Report on Monetary Policy in May 2013, the Bank of Greece, based on indications existing at the time, had assessed that the Greek economy was on a stabilization track.

Today, these indications have become stronger and it is now reasonable to forecast that 2014 will see the end of the recession and the start of recovery.

This more favourable outlook is supported by the following developments:

– Fiscal consolidation, now in its fourth year, has made remarkable headway, and a **primary surplus** is expected for 2013 after a protracted period of large deficits.

– The **pace of recession in 2013 is expected to moderate** (to roughly 4%) relative to 2012 and to the rate projected early this year. Broadly similar assessments are currently given by most international organisations.

– Domestic and foreign expectations have improved, and **confidence is gradually taking hold**. The favourable developments have begun to feed into the real economy. Manufacturing output is stabilising while, in the labour market, the pace of hiring is picking up, leading to an improvement in net job creation. Meanwhile, the yield spreads between Greek and German government bonds have narrowed to 2010 levels.

– **For the first time, the current account balance will show a surplus in 2013**. This development is largely due to a decline in imports, but buoyant tourism receipts and higher exports of goods have also played a significant role.

– The **privatisation programme** is making progress after significant delays in previous years.

– Prices have started to respond to weak demand and lower labour costs, a development conducive to an improvement in real disposable income.

– **Restructuring on the supply side of the economy** has been slow. However, it is encouraging that developments in relative prices provide an incentive for a shift of resources from non-tradables to tradables, where productivity is much higher. This trend, if it continues and intensifies, will lead in the medium term to higher total productivity, improved competitiveness and job creation, in other words to sustainable growth.

– The recapitalisation of credit institutions has been completed and the **structure of the banking sector** has changed radically, with the creation of fewer banks that are more resilient and better positioned to exploit economies of scale. **The restructuring and consolidation of the banking system was smooth, without a single depositor having incurred a loss on their savings, in other words without any disruption to financial stability**.

The above factors lead to the forecast that 2014 will be the first year of positive growth, after six consecutive years of recession. Recovery will be underpinned by:

(a) slower decline in consumption, as real disposable income is expected to stop falling;

(b) positive contribution from foreign demand, bolstered by the exports of goods and tourism services;

(c) small increase in non-residential construction, as shown by a relative improvement in investment demand indicators;

(d) faster utilisation of EU funds and resources available from the European Investment Bank for the financing of infrastructure investment and small- and medium-sized enterprises; and

(e) stepping-up of privatisations.

The recovery will have a favourable impact on employment, and the average annual unemployment rate in 2014 is expected to decline.

Developments in the global and particularly in the European economy, as recorded in late 2013, are shaping an environment that could be supportive to the recovery of the Greek economy. The euro area economy, after six quarters of falling output, is now posting positive growth rates for the second and third quarters of 2013, with GDP growth projected to be 1% in 2014, compared with -0.4% in 2013, and inflation expected to remain at low levels.

At an institutional level, important steps were taken in 2013 towards the establishment of a banking union in the euro area, including:

– The adoption of legislation on the establishment of the Single Supervisory Mechanism, which will have become fully operational by November 2014. The launch of the mechanism means that from late 2014, the ECB will assume its banking supervision responsibilities.

– The final agreement, expected by end-2013, on the proposal for a directive establishing a framework for the recovery and resolution of credit institutions and investment firms, as well as the consultations on a Single Resolution Mechanism.

Finally, a positive impact is also expected from monetary policy, which, after the recent lowering of key ECB interest rates, has become even more accommodative.

However, whether the above-mentioned favourable prospects for 2014 will actually materialise and how the future course of the economy will play out are still subject to considerable uncertainty.

In this respect, a major factor of uncertainty is the **political climate**, often marked by polarisation and open confrontation, at a time when what is needed is the exact opposite: **the coming together of social and political forces for a national policy for exiting the crisis and returning to growth**. There is, therefore, some cause for concern that in 2014, an election year, political confrontation could be aggravated and polarisation could peak, making compromise, a prerequisite for a national policy, even more difficult to achieve. Such an outcome would lead to heightened uncertainty and once again undermine the elements currently underpinning the favourable forecasts for 2014. Against this background, it is crucial, at the current phase, that **economic policy remains focused on the implementation of structural reforms**, the long-term benefits of which far outweigh the limited and short-term costs.

Moreover, the ability to consolidate confidence and give impetus to recovery will also hinge upon the successful completion of the upcoming negotiations with our partners on the issue of Greece's public debt in line with the Eurogroup decision of 26-27 November 2012.

As discussed in the present Report, the objective conditions for an end to the protracted recession and a return to positive GDP growth are in place. However, in order for the positive expectations to materialise, economic policy must first seize these opportunities to foster recovery in 2014 and then lay the groundwork for stronger and sustainable growth in the period ahead.

For this to happen, economic policy must:

– **rigorously pursue the fiscal adjustment programme**, meet the targets set without deviation and ensure sustained and rising primary surpluses;

– **speed up the restructuring of the Greek economy through structural reforms** that will support a shift of resources and employment to the tradables sector, i.e. a change of the growth model.

2013 marks a milestone for fiscal adjustment, as a primary surplus at the general government level appears to be within reach for the first time since 2002. Taking into account the effect of the ongoing, albeit gradually easing, recession, the Bank of Greece estimates that the structural primary balance will have improved by 18.6 percentage points over the period 2010-2013, yielding a surplus of around 4% of potential GDP by end-2013. This improvement is not only a major achievement, but is also one of the biggest fiscal consolidations ever achieved at the global level.

It should, however, be noted that the fiscal consolidation effort has relied disproportionately on tax increases, thereby putting a considerable burden on taxpayers and squeezing disposable income. From the outset, the Bank of Greece had argued that the fiscal consolidation effort should focus primarily on cutting expenditure and on increasing revenue by expanding the tax base and curbing tax evasion.

The fiscal consolidation effort will have to be pursued with the same determination in 2014. This will boost confidence in the prospects of the Greek economy and help stabilise and then gradually reduce the debt-to-GDP ratio. Meanwhile, the economic recovery is expected to help in achieving the primary surpluses and, more generally, to facilitate sustainable fiscal adjustment.

Meeting the fiscal targets crucially hinges upon further expanding the tax base. However, this must be achieved by curbing tax evasion **rather than by imposing new taxes or by continuously increasing the tax burden on those who already pay taxes.** Improving the efficiency of the tax administration and the tax collection mechanism, through the establishment and empowerment of an independent General Secretariat for Revenue, will prove key to curbing tax evasion and fostering a climate of social equity, where everyone contributes to the fiscal consolidation effort according to their tax-paying capacity. **Progress in this direction would make it possible to ease the tax burden on those who already pay taxes, as this burden has increased substantially in the last few years.**

Progress has been made in streamlining the public sector, but has been far slower than the pace of fiscal adjustment, and major reforms regarding the functioning of the state are still pending. Therefore, **efforts must now be stepped up to restructure and consolidate the public sector**, giving priority to:

– **Eliminating or merging public organisations and enterprises** and speeding up the administrative reform that will deliver expenditure savings and better services.

– **Tightening the control of expenditures of the National Organisation for Health Care (EOPYY) and social security funds** with the goal of ensuring the viability of the social security system.

– **Reforming and modernising the judicial system** to ensure speedier delivery of justice.

– **Upgrading the tax administration and the tax collection mechanism** in an effort to curb tax and contribution evasion and to foster a climate of social equity.

Finally, particular emphasis must be placed on **speeding up the privatisation process**, so as to make up for the shortfalls from target of 2013 and strengthen the business environment, thereby helping to attract foreign investment.

The past few months have seen important developments in the banking system. Recapitalisation and restructuring in the sector have shaped a new banking landscape in Greece, which now comprises fewer but stronger banks with a greater capacity to supply credit to the economy in the medium term. This occurred despite the fact that the Cypriot banking crisis in early 2013 rekindled concerns and uncertainties about Greece's banking system and overall economy. The truly great risks were successfully avoided thanks to the swift, coordinated and effective response of the government and the Bank of Greece.

In the short term, new lending remains limited, as banks' lending capacity continues to be constrained by several factors. One of the more important constraints is the **accumulation of**

non-performing loans, which makes banks more reluctant to extend new loans and deprives them of income from principal and interest payments that could otherwise have been recycled into new loans. Non-performing loans also pose the risk of a potential impairment of the capital base of banks, thereby forcing them to tie up more capital for loan-loss provisions.

Meanwhile, credit demand remains weak as investment activity has declined, households' demand for credit has been dampened by high unemployment, wage cuts and the downward trend in real estate prices, while borrowing costs remain high.

The ongoing improvement in macroeconomic conditions and in the microeconomic business environment, together with growing confidence in Greece and its banking system, are expected to lead to a normalisation of credit expansion in the medium term, as they will: enable Greek banks to gradually regain access to the international interbank market; encourage the flow of retail deposits back to banks; generate demand for credit; and help reduce credit risk.

Credit supply conditions would also benefit from **improved management of non-performing loans and from proactive measures to prevent further non-performing loans from being accumulated. There is considerable room for improvement in bank policies in this regard.** Indicatively, actions in this direction could include:

- Preventative procedures, allowing the early detection of potential loan servicing problems (pre-arrears) and the taking of pre-emptive action.

- Prioritisation in the management of non-performing loans and the development of appropriate response techniques.

- A thorough assessment of the financial condition and repayment capacity of distressed borrowers, with a view to working out viable restructuring options. Such options would need to be carefully designed so as to minimise moral hazard, which would put an additional burden on banks in the medium term and reduce their ability to supply credit to the economy.

- Adoption of recovery strategies (including out-of-court schemes) for borrowers with a proven weak repayment capacity.

- Better coordination with other lenders on the joint restructuring of loans extended to the same borrower.

In order to ensure the effective management of their loan portfolios, banks have submitted their strategies for troubled asset management to the Bank of Greece. This way, the Bank of Greece and the banks will be able to work out together alternative ways of handling the troubled assets and find the most viable long-term solution. In fact banks, in some cases thanks to the recent consolidation in the sector, have already begun to adopt a more centralised management approach to their problem loans. As for the problem loans of banks under liquidation, an independent special committee has been set up and has already started functioning, to ensure the coordinated and consistent management of these loans as well.

The forecast recovery of the economy will need to be driven by business investment focused on export-oriented sectors of activity. However, for as long as the household savings rate remains negative, by putting pressure on the banking system's deposit base, the capacity of banks to finance such investments will, at least in the short term, remain limited, despite the aforementioned anticipated upturn. Thus, in order to support economic recovery, the flow of bank credit to the real economy will have to be complemented in the short term by alternative sources of financing, such as the following:

First, debt financing from **corporate bond markets**. The revision of the legal framework governing corporate bond issues in Greece could foster the development of a domestic corporate bond market for smaller businesses with limited access to international markets.

Second, **equity financing**. As investor confidence in the prospects of the Greek economy grows, domestic companies will increasingly gain access to markets for financing.

Third, resources available from the **EU Structural Funds**. Over the period 2000-2008, Greek businesses absorbed funds equal to around 1.6% of GDP per year to finance investment. In 2013, resources from the EU Structural Funds are estimated at €4.2 billion (2.3% of GDP).

Fourth, resources available from the **European Investment Bank (EIB)**. In 2013-14, the EIB is expected, via domestic partner banks, to co-finance loans to small- and medium-sized enterprises (SMEs) amounting to €1.4 billion. According to estimates from the domestic partner banks, SME loans totalling €635 million will have been extended by end-2013, with the remaining €805 million expected for 2014.

In total, resources from EU Structural Funds, bond markets, the stock exchange and the EIB can cover a significant part of the economy's financing gap. Part of this financing (National Strategic Reference Framework and EIB support) will be channelled through banks and will underpin bank lending, especially to small- and medium-sized enterprises. Foreign direct investment will serve as an additional source of financing.

As a next crucial step, the Greek banking system will have to develop a sustainable business model. It is clear that each bank has a different starting point. However, the key elements of the model will need to be the same for all banks and focus on: the rationalisation of operating costs and, more generally, higher internal capital generation via operating profits; shedding non-core business; redesigning foreign business; active management of troubled assets; and sound pricing policies for banking services.

Action along the lines described above will enable the banking system to play an enhanced role in establishing and supporting the **new growth model of the economy**. This calls for a new pattern of credit supply and risk management, in order to avoid the distortions of the previous decade, when credit was largely used for residential investment and consumption. Instead, new **credit should be allocated to dynamic and export-oriented enterprises with strong growth potential** (e.g. in the sectors of infrastructure, food, energy, technology, health and tourism). In the same vein, a strengthening of businesses through mergers and acquisitions should be encouraged, where possible with support from the banks involved. Finally, credit should be allocated according to the prospects of each project, rather than in response to working capital needs.

In compliance with the obligations and commitments arising from the Memorandum of Understanding, and following a tender procedure, the Bank of Greece engaged BlackRock Solutions in July 2013 to conduct a diagnostic assessment of the loan portfolios of Greek commercial banks. The results of the assessment, together with the restructuring plans already submitted by the banks, will be taken into account during the current stress test exercise, expected to be completed by the end of 2013. It should be recalled that, if the stress test results identify a need for capital increases, the Hellenic Financial Stability Fund has a buffer of over €8 billion. Meanwhile, the banks have been requested to submit quarterly funding plans, to be evaluated by the Bank of Greece. These plans detail the actions to be taken by banks to diversify their funding sources and thereby gradually reduce their reliance on Eurosystem financing.

2013 marks the fourth year of the effort to avert a full-blown crisis in the Greek economy and to establish the conditions for a return to growth. During these four years, the recession has been deep and the price that Greek citizens have had to pay has been high. This downward course can now be halted since, in spite of delays and shortfalls in meeting targets, there have been significant achievements: the twin deficits –fiscal and external– have been eliminated, the losses in cost competitiveness recouped, the major inefficiencies in the social security system addressed, the banking system restructured and confidence restored.

The effort, however, has yet to be completed and the emerging stabilisation of the economy is still fragile. It is imperative to safeguard all that has been accomplished at such tremendous cost, to prevent any backsliding and to cover the remaining distance in order to consolidate the country's growth prospects.

Athens, December 2013

George Provopoulos
Governor

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CONTENTS

I AN EASING OF THE RECESSION IN 2013 – THE ECONOMY ON TRACK FOR STABILISATION

Seven months after the Bank of Greece produced its *last Report on Monetary Policy*, the indications existing at the time that the economy was on track for stabilisation have become stronger. It is now reasonable to forecast that 2013 will have been a better year than 2012 and that the conditions are in place for the recession to end and the recovery to get under way in 2014. And this despite the fact that the Cyprus crisis in early 2013 rekindled concerns and uncertainties about Greece's banking system and overall economy. The truly great risks were successfully averted thanks to the swift, coordinated and effective response of the government and the Bank of Greece.

Underlying these more favourable conditions in late 2013 are the following facts:

• Fiscal consolidation, now in its fourth year, has made remarkable headway, and a **primary surplus** is expected for 2013 after a protracted period of large deficits.

• The **pace of recession in 2013 is expected to moderate** (to roughly 4%) relative to 2012 and to the rate projected early this year. Broadly similar assessments are currently given by most international organisations.

• Domestic and foreign expectations have improved, and **confidence is gradually taking hold**. The economic climate indicator, which had fallen to a low in July 2012, has since been on a continuous rise. The favourable developments have begun to feed into the real economy. Manufacturing output is stabilising, industrial new orders are gradually recovering, driven mainly by external demand, while, in the labour market, the pace of hiring is picking up, leading to an improvement in net job creation. Meanwhile, the yield spreads between Greek and German government bonds have narrowed to 2010 levels.

• **For the first time, the current account balance will show a surplus** in 2013. This development is largely due to a decline in imports, but buoyant tourism receipts and higher exports of goods have also played a significant role.

• The **privatisation programme is making progress** after significant delays in previous years. Even though the target for privatisation was revised downwards, 2013 did see the conclusion of significant privatisation deals (concerning the state-controlled gaming operator OPAP, the state gas network operator DESFA, etc.) which attracted foreign capital. An encouraging development was the decision on the Trans Adriatic Pipeline for the transfer of natural gas from Azerbaijan through Greece to Italy and the rest of Western Europe. Finally, it is worth noting that several multinationals have expressed interest in doing business in Greece, taking advantage of the country's position as a transit hub.

• For the first time in over 45 years, the **inflation rate has turned negative**. This suggests that prices have started to respond to weak demand and lower labour costs, thereby supporting real disposable income. A continuation at the same pace of this deflationary trend is, however, not desirable, as it would heighten uncertainty in the economy and in business expectations and worsen the public debt dynamics.

• **Restructuring on the supply side of the economy** has been slow. However, it is encouraging that developments in relative prices provide an incentive for a shift of resources from the non-tradables sector to the tradables sector, where productivity is much higher. This trend, if it continues and intensifies, will lead in the medium term to higher total productivity, improved competitiveness and job creation, in other words to sustainable growth.

• The recapitalisation of credit institutions has been completed and the **structure of the banking sector has changed radically**, with the creation of fewer banks that are more resilient and better positioned to exploit economies of scale. The restructuring and consolidation of the banking system was smooth, without a single depositor having incurred a loss on their savings, in other words without any disruption to financial stability.

ECONOMIC RECOVERY EXPECTED IN 2014

The macroeconomic data support the forecast of a recovery

The above factors lead to the forecast that 2014 will be the first year of positive growth, after six consecutive years of recession. Recovery will be underpinned by:

(a) a slower decline in consumption, as real disposable income is expected to stop falling;

(b) a positive contribution from foreign demand, bolstered by the exports of goods and tourism services;

(c) a small increase in non-residential construction, as shown by a relative improvement in investment demand indicators;

(d) a faster utilisation of EU funds and resources available from the European Investment Bank, for the financing of infrastructure investment and small- and medium-sized enterprises; and

(e) a stepping-up of privatisations.

The recovery will have a favourable impact on employment, and the average annual unemployment rate in 2014 is expected to decline.

International conditions are also more favourable

Developments in the global and particularly in the European economy, as recorded in late 2013, are shaping an environment that could be supportive to the recovery of the Greek economy. The euro area economy, after six quarters of falling output, is now posting positive growth rates for the second and third quarters of 2013, with GDP growth projected to be 1% in 2014, compared with -0.4% in 2013, and inflation expected to remain at low levels.

At an institutional level, important steps were taken in 2013 towards the establishment of a banking union in the euro area, including:

– The adoption of legislation on the establishment of the Single Supervisory Mechanism, which will have become fully operational by November 2014. The launch of the mechanism means that from late 2014, the ECB will assume its banking supervision responsibilities.

– The final agreement, expected by end-2013, on the proposal for a directive establishing a framework for the recovery and resolution of credit institutions and investment firms, as well as the consultations on a Single Resolution Mechanism.

Finally, a positive impact is also expected from monetary policy, which, after the ECB's recent lowering of its key interest rates, has become even more accommodative.

UNCERTAINTIES AND RISKS

However, whether the above-mentioned favourable prospects for 2014 will actually materialise and how the future course of the economy will play out are still subject to considerable uncertainty.

In this respect, a major factor of uncertainty is the political climate, often marked by polarisation and open confrontation, at a time when what is needed is the exact opposite: **the coming together of social and political forces for a national policy for exiting the crisis and returning to growth**. There is, therefore, some cause for concern that in 2014, an election year, political confrontation could be aggravated and polarisation could peak, making compromise, a prerequisite for a national policy, even more difficult to achieve. Such an outcome would lead to heightened uncertainty and undermine the elements currently underpinning the favourable forecasts for 2014 and the country's future in the euro area. Against this background, it is crucial, at the current phase, for economic policy to remain focused on the implementation of structural reforms, the long-term benefits of which far outweigh the limited and short-term costs.

Moreover, the ability to consolidate confidence and give impetus to recovery will also hinge upon the successful completion of the upcoming negotiations with our partners on the issue of Greece's public debt in line with the Eurogroup decision of 26-27 November 2012.

ECONOMIC POLICY OBJECTIVES

As discussed in the present Report, the objective conditions for an end to the protracted recession and a return to positive GDP growth are in place. However, in order for the positive expectations to materialise, economic policy must seize these opportunities in the first instance to foster recovery in 2014 and then to lay the groundwork for stronger and sustainable growth in the period ahead.

For this to happen, economic policy must:

- rigorously pursue the fiscal adjustment programme, meet the targets set without deviation and ensure sustained and rising primary surpluses;

- speed up the restructuring of the economy through structural reforms that will support a shift of resources and employment to the tradables sector, i.e. a change of the growth model.

Fiscal consolidation must continue

2013 marks a milestone for fiscal adjustment, as a primary surplus at the general government level appears to be within reach for the first time since 2002.

The data available for the period January-October 2013 concerning State budget execution and General Government cash data suggest that the achievement of a primary surplus in accordance with the criteria laid out in the economic adjustment programme for Greece is within reach for 2013. According to the Eurogroup decisions of 27 November and 13 December 2012, the achievement of a primary surplus in 2013 is a prerequisite for further measures that will ensure the sustainability of Greek government debt.

Taking into account the effect of the ongoing, albeit gradually easing, recession of the Greek economy, the Bank of Greece estimates that the structural primary balance will have improved by 19 percentage points of potential GDP over the period 2010-2013, yielding a surplus of around 4.4% of potential GDP by end-2013.

This improvement is not only a major achievement, but is also one of the biggest fiscal consolidations ever achieved at the global level. It should, however, be noted that the fiscal consolidation effort has relied disproportionately on tax increases, thereby putting a considerable burden on taxpayers and squeezing disposable income. From the outset, the Bank of Greece had argued that the fiscal consolidation effort should focus primarily on cutting expenditure and on increasing revenue by expanding the tax base and curbing tax evasion.

Progress in this direction was made in 2013 with the adoption of measures aimed at increasing tax revenue, such as the reform of the tax system incorporated into the new Income Tax Code or the Unified Property Tax which is expected to be approved by Parliament by year-end and to enter into force in 2014.

In addition, to ensure better expenditure control, a number of measures have been taken, including the strengthening of fiscal rules and mechanisms for monitoring the proper execution of the approved budgets across all levels of general government (including public organisations and enterprises) and a broader entity coverage and strict implementation of Commitment Registers by all components of general government, as well as the speedier clearance of government arrears.

The fiscal consolidation effort will have to be pursued with the same determination in 2014. This will boost confidence in the prospects of the Greek economy and help stabilise and then gradually reduce the debt-to-GDP ratio.

Meanwhile, the economic recovery is expected to help in achieving primary surpluses and, more generally, to facilitate sustainable fiscal adjustment.

Meeting the fiscal targets crucially hinges upon further expanding the tax base. However, this must be achieved by curbing tax evasion rather than by imposing new taxes or by continuously increasing the tax burden on those who already pay taxes. Improving the efficiency of the tax administration and the tax collection mechanism, through the establishment and empowerment of an independent General Secretariat for Revenue, will prove key to curbing tax evasion and fostering a climate of social equity, where everyone contributes to the fiscal consolidation effort according to their tax-paying capacity. Progress in this direction would make it possible to ease the tax burden on those who already pay taxes, as this burden has increased substantially in the last few years.

Rationalisation of the public sector

Efforts to restructure public organisations and enterprises – such as the Hellenic Broadcasting Corporation (ERT), the Hellenic Vehicle Industry (ELVO), Hellenic Defense Systems (EAS), the Mining and Metallurgical Company (LARCO) – are currently in progress. There have been considerable delays, however, in implementing the actions for reforming central government as required by the Economic Adjustment Programme. These actions concern, for instance, the preparation of updated organisation charts in public administration, the placing of employees in a labour reserve/mobility scheme and an assessment of staff qualifications and performance.

Efforts will need to be stepped up in 2014 to restructure and consolidate the public sector. This will require merging or eliminating public enterprises and organisations, stamping out corruption, as well as restaffing public services with a new qualified workforce in replacement of employees exiting or retiring. A more effective and efficient public administration would help to speed up the implementation of structural reforms. Key priority should be given to the following:

- Eliminating or merging public organisations and enterprises and **speeding up the administrative reform** that will deliver expenditure savings and a better level of services.

- Tightening the control of expenditures of the National Organisation for Provision of Health Services (EOPYY) and social security funds with the goal of **ensuring the viability of the social security system**.

- **Reforming and modernising the judicial system** to ensure speedier delivery of justice (including out-of-court settlement mechanisms).

- Upgrading the tax administration and the tax collection mechanism in an effort to **curb tax and contribution evasion** and to foster a climate of social equity.

The forecast pick-up in economic activity and the overhaul of the tax collection mechanism are expected in the years ahead to help expand the tax base, increase tax and contribution revenue and further underpin fiscal consolidation.

Finally, particular emphasis must be placed on speeding up the **privatisation process**, so as to make up for the shortfalls from targets of 2013 and strengthen the business environment, thereby helping to attract foreign investment.

RESTRUCTURING OF THE BANKING SYSTEM

Recapitalisation and restructuring in the sector have shaped a new banking landscape in Greece, comprising fewer but stronger banks with a greater capacity to supply credit to the economy in the medium term. In the short term, however, new lending remains limited, as banks' lending capacity continues to be constrained by several factors. One of the more important constraints is the accumulation of non-performing loans (NPLs), which makes banks more reluctant to extend new loans and deprives them of income from principal and interest payments that could otherwise have been recycled into new loans. NPLs also pose the risk of a potential impairment of the capital base of banks, thereby forcing them to tie up more capital for loan-loss provisions.

Meanwhile, credit demand remains weak, as investment activity has declined, households' demand for credit has been dampened by high unemployment, wage cuts and the downward trend in real estate prices, and borrowing costs remain high.

Normalisation of credit expansion

The ongoing improvements in macroeconomic conditions and in the microeconomic business environment, together with growing confidence in Greece and its banking system, are expected to lead to a normalisation of credit expansion in the medium term, as they will:

– enable Greek banks to gradually regain access to the international interbank market;

– encourage the flow of retail deposits back to banks;

– generate demand for credit; and

– help reduce credit risk, broadening the scope for financing viable business projects.

Credit supply conditions would also benefit from improved management of NPLs and from proactive measures to prevent further NPLs from being accumulated. There is considerable room for improvement in bank policies in this regard. Indicatively, actions in this direction could include:

• Preventative procedures, allowing the early detection of potential loan servicing problems and the taking of pre-emptive action.

• Prioritisation in the management of NPLs (for instance, loans long past due) and the development of appropriate response techniques.

• A thorough assessment of the financial condition and repayment capacity of distressed borrowers, with a view to working out viable forbearance options. Such options would need to be carefully designed so as to minimise moral hazard, which would put an additional burden on banks in the medium term and reduce their ability to supply credit to the economy.

• Adoption of recovery strategies (including out-of-court schemes) for borrowers with a proven weak repayment capacity.

• Better coordination with other lenders on the joint restructuring of loans extended to the same borrower.

• A redesign of organisational structures to ensure more efficient cooperation across all relevant units and functions.

• Qualitative but also quantitative upgrading of NPL management units.

In order to ensure the effective management of their loan portfolios, banks have submitted their strategies for troubled asset management to the Bank of Greece. In this way, the Bank of Greece and the banks will be able to work out together alternative ways of handling the troubled assets and the most viable long-term solution. In fact banks, in some cases thanks to the recent consolidation in the sector, have already begun to adopt a more centralised management approach to their problem loans. As for the problem loans of banks under liquidation, an independent special committee has been set up and has already started functioning, to ensure the coordinated and consistent management of these loans as well.

Financing and economic recovery

The forecast recovery of the economy will need to be driven by business investment focused on export-oriented sectors of activity. However, for as long as the household saving rate remains negative, putting pressure on the banking system's deposit base, banks' capacity to finance such investments will, at least in the short term, remain limited, despite the aforementioned anticipated upturn. Thus, in order to support economic recovery, the flow of bank credit to the real economy will have to be complemented in the short term with alternative sources of financing, such as the following:

First, debt financing from the **corporate bond markets**. In the first eleven months of 2013, major Greek businesses with access to international markets raised €3.7 billion (2% of GDP) on the corporate bond market. The revision of the legal framework governing corporate bond issues in Greece could foster the development of a domestic corporate bond market for smaller businesses with limited access to international markets.

Second, **equity financing**. Over the period 2000-2007, domestic businesses raised on average an annual 2.9% of GDP on the stock exchange and mainly from private placements. As investor confidence in the prospects of the Greek economy grows, domestic companies will increasingly gain access to markets for financing.

Third, resources available from the **EU Structural Funds**. Over the period 2000-2008, Greek businesses absorbed funds equal to around 1.6% of GDP per year to finance investment. In 2013, resources from the EU Structural Funds are estimated at €4.2 billion (2.3% of GDP).

Fourth, resources available from the **European Investment Bank (EIB)**. In 2013-14 the EIB is expected, via domestic partner banks, to co-finance loans to small- and medium-sized enterprises (SMEs) amounting to €1.4 billion. According to estimates from the domestic partner banks, SME loans totalling €635 million will have been extended by end-2013, with the remaining €805 million expected for 2014. Furthermore, in June 2013, the EIB signed an agreement with Greece on the 'Trade Finance' facility, providing guarantees to commercial banks for trade financing to exporting and importing SMEs (letters of credit and other trade finance instruments) to support a volume of transactions up to €1.5 billion per year.

It is also worth noting that the European Council has taken significant initiatives ahead of the 2014-2020 programming period, in order to establish, at the EU level, new financing instruments to support SME investment projects. These instruments will be jointly financed by the EU Structural Funds and the EIB, and are expected to cover a wide range of facilities, from guarantees for commercial bank loans to SMEs to securitisation of SME loans.

In total, resources from EU Structural Funds, bond markets, the stock exchange and the EIB can cover a significant part of the economy's financing gap. Part of this financing (National Strategic Reference Framework and EIB support) will be channelled through banks and will underpin bank lending, especially to SMEs. Foreign direct investment will serve as an additional source of financing.

Tomorrow's banking system and its role in the restructuring of the economy

As a next crucial step, the Greek banking system will have to develop a sustainable business model. It is clear that each bank has a different starting point and will therefore have to design its business model according to its specific features and needs in line with an efficient and rational risk/return profile. However, the key elements of the model will need to be the same for all banks and focus on:

(a) the rationalisation of operating costs and, more generally, higher internal capital generation via operating profits;

(b) shedding non-core business;

(c) redesigning foreign business;

(d) the active management of troubled assets; and

(e) sound pricing policies for banking services.

Action along the lines described above will enable the banking system to play an enhanced role in establishing and supporting the **new growth model of the economy**. This calls for a new pattern of credit supply and risk management, in order to avoid the distortions of the previous decade, when credit was largely used for residential investment and consumption. Instead, new credit should be allocated to dynamic and export-oriented enterprises with strong growth potential (e.g. in the sectors of infrastructure, food, energy, technology, health and tourism). In the same vein, the strengthening of businesses through mergers and acquisitions should be encouraged, where possible with support from the banks involved. Collaboration between the banking and the private business sector could include the provision of capital support to businesses involved in mergers and acquisitions, which together with a requirement that they reduce their operating costs, would serve to improve their viability prospects. Apart from the obvious benefits for the economy, this would also have a beneficial impact on banks, by increasing the likelihood of repayment of such financing. Finally, credit should be allocated according to the prospects of each project, rather than in response to working capital needs.

The Bank of Greece gears its action to safeguarding the stability of the banking system, protecting deposits and creating viable and well-capitalised credit institutions that can help to restore a normal flow of credit to the real economy. In this context and in compliance with the obligations and commitments arising from the Memorandum of Understanding, and following a tender procedure, the Bank of Greece engaged BlackRock Solutions in July 2013 to conduct a diagnostic assessment of the loan portfolios of a select group of Greek commercial banks. The results of the assessment, together with the restructuring plans already submitted by the banks, will be taken into account during the current stress test exercise, expected to be completed by the end of 2013. It should be recalled that, if the stress test results identify a need for capital increases, the Hellenic Financial Stability Fund has a buffer of over €8 billion. Meanwhile, the banks have been requested to submit quarterly funding plans, to be evaluated by the Bank of Greece. These plans detail the actions to be taken by banks to diversify their funding sources and thereby gradually reduce their reliance on Eurosystem financing.

THE RECOVERY WILL REQUIRE CONTINUED AND STRONGER EFFORTS

2013 marks the fourth year of the effort to avert a full-blown crisis in the Greek economy and to establish the conditions for a return to growth. During these four years, the recession has been deep and the price that Greek citizens have had to pay has been high. This downward course can now be halted, since, in spite of delays and shortfalls in meeting targets, there have been significant achievements: the twin deficits —fiscal and external— have been eliminated, the losses in cost competitiveness recouped, the major inefficiencies in the social security system addressed, the banking system restructured and confidence restored.

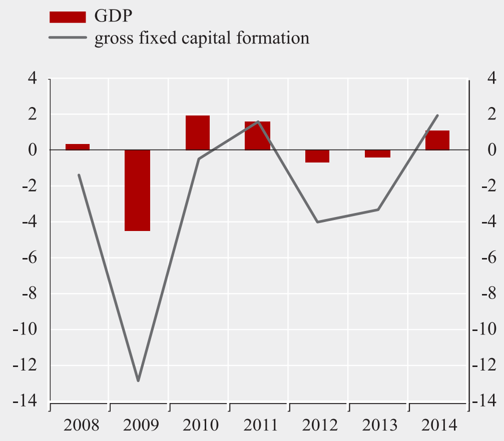
The effort, however, has yet to be completed and the emerging stabilisation of the economy is still fragile. It is imperative to safeguard all that has been accomplished at such tremendous cost, to prevent any backsliding and to cover the remaining distance in order to consolidate the country's growth prospects.

II THE EXTERNAL ENVIRONMENT OF THE GREEK ECONOMY AND THE EUROSYSTEM'S SINGLE MONETARY POLICY

In 2013 the world economy continued to grow at a rate of 2.9%, the lowest of the past four years, as the strong GDP growth in emerging and developing economies slowed down, while there are indications that the Chinese economy will grow at weaker rates in the medium term. For 2014, the growth rate of the world economy is projected to pick up to 3.6%, in line with an increase in the growth rate of world trade volumes. Growth in the ***euro area*** *entered positive territory in the second quarter of 2013, after six consecutive quarters of contraction, on the back of an improving economic climate and a stabilisation of activity in the most strained economies. In 2014 the growth rate is projected to reach 1.1%, from -0.4% in 2013 (see Chart II.1), and inflation should remain at low levels, while economic performance differences across member countries are expected to decline. However, despite the decisive action taken for addressing the debt crisis and the accommodative monetary policy stance which contributed to the stabilisation and the gradual recovery of the euro area as a whole, the credit squeeze experienced by several member countries remains a major obstacle to sustainable growth. An important institutional boost to reducing uncertainty in the euro area was provided by the agreement on the legal framework that will govern the single supervisory mechanism on the way towards the* ***Banking Union****.*

Chart II.1 GDP and fixed investment in the euro area

(percentage change in real GDP)



Source: European Commission.
Note: For 2013, estimates; for 2014, forecasts.

1 ECONOMIC DEVELOPMENTS AND PROSPECTS IN THE WORLD AND THE EURO AREA AND POLICY RESPONSES

1.1 THE WORLD ECONOMY

The growth rate of the **world economy** slowed down further to 2.9% in 2013 (from 3.2% in 2012 and 3.9% in 2011), reflecting weaker activity both in advanced and in emerging economies, while the projection for 2014 growth has been revised downwards to 3.6% relative to the rate projected in the 2013 spring forecast (4.0%). However, there are considerable differences across the major economies (see Table II.1), while new risks for global recovery have emerged. In advanced economies, risks from the ongoing increase in public debt levels point to the need for continued fiscal adjustment in order to ensure fiscal sustainability in the medium term. In emerging economies, additional risks have appeared, associated with signs of a moderation of high growth rates in the medium term and with the higher volatility in exchange rates and capital outflows, triggered by concerns about the reversal of quantitative easing in the United States. These developments point to a need for economic policy adjustments in these countries.

In **advanced economies**, GDP growth decelerated further in 2013, to 1.2% from 1.5% in the previous year, mainly due to weaker domestic demand as a result of the stepping-up of fiscal consolidation programmes, as well as the effects of the ongoing deleveraging of the private sector in several advanced economies on consumer and investment expenditure.

Inflation in advanced economies continued to decline, reflecting a high and growing output gap (3.2% of potential GDP, up from 3.0% in 2012), the weaker rise in unit labour costs and

Table II.1 Key macroeconomic aggregates of the world economy

	Share in GDP[1] (%)	Output (annual percentage changes in real GDP)			Inflation[2] (annual percentage changes)			Fiscal balance (% of GDP)			Gross government debt (% of GDP)			Current account balance (% of GDP)		
		2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
World total	**100.0**	**3.2**	**2.9**	**3.6**				**-4.3**	**-3.7**	**-3.0**	**80.8**	**79.7**	**79.6**			
1. Advanced economies	*50.4*	*1.5*	*1.2*	*2.0*	*2.0*	*1.4*	*1.8*	*-5.9*	*-4.5*	*-3.6*	*108.7*	*108.5*	*109.2*	*-0.1*	*0.1*	*0.2*
United States	19.5	2.8	1.6	2.6	2.1	1.4	1.5	-8.3	-5.8	-4.6	102.7	106.0	107.3	-2.7	-2.7	-2.8
Japan	5.5	2.0	2.0	1.2	0.0	0.0	2.9	-10.1	-9.5	-6.8	238.0	243.5	242.3	1.0	1.2	1.7
United Kingdom	2.8	0.1	1.3	2.2	2.8	2.6	2.3	-6.1	-6.4	-5.3	88.7	94.3	96.9	-3.6	-4.1	-4.2
Euro area	13.5	-0.7	-0.4	1.1	2.5	1.5	1.5	-3.7	-3.1	-2.5	92.6	95.5	95.9	1.9	2.9	3.0
2. Emerging and developing economies	*49.6*	*4.9*	*4.5*	*5.1*	*6.1*	*6.2*	*6.2*	*-2.1*	*-2.7*	*-2.5*	*36.5*	*35.3*	*34.1*	*1.4*	*0.8*	*0.8*
China	14.7	7.7	7.6	7.3	2.7	2.7	3.0	-2.2	-2.5	-2.1	26.1	22.9	20.9	2.3	2.5	2.7
Russia	3.0	3.4	1.5	3.0	5.1	6.7	5.7	0.4	-0.7	-0.3	12.5	14.1	14.6	3.7	2.9	2.3

Sources: IMF, *World Economic Outlook*, October 2013, *Fiscal Monitor*, October 2013, and European Commission, *European Economic Forecasts-Autumn 2013*, November 2013.
Notes: 2013: estimates, 2014: forecasts.
1 Percentage share in world GDP in 2012, on the basis of purchasing power parities.
2 HICP for the euro area and the United Kingdom, CPI for the other countries. Year averages.

a small decline of the international prices of crude oil and other commodities in 2013. Low inflation allowed the continuation of **strongly expansionary monetary policies** in advanced economies (see Chart II.2), supporting a recovery of economies from deep recession and improvements in the financial position of the private and the public sector, with inflation and inflation expectations held at bay. However, inflation developments seem to diverge across emerging economies, depending on the growth dynamics and risks in each one of them.

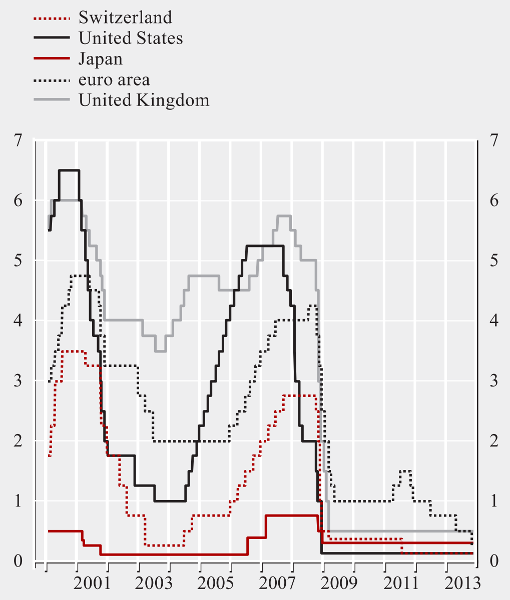
In the **United States**, given the fiscal constraints and the very high public debt, the maintenance of key interest rates at almost zero levels until unemployment falls below 6.5%, as well as the continuation of quantitative easing are estimated to continue to support growth – although gradually less. In spite of a further decline in the rate of unemployment in 2013, to 7.6% from 8.1% in 2012, the US Federal Reserve decided to delay its tapering of quantitative easing, initially expected in September 2013, and to keep the volume of monthly asset purchases at $85 billion. The ongoing improvement in the real estate market and the milder fiscal adjustment are expected to lead to an acceleration of the growth rate to 2.6% in 2014 from 1.6% in 2013.

In **Japan**, the decision of the Bank of Japan to pursue a new inflation target of 2% by doubling the monetary base, while remaining vigilant for any asset price bubbles, has contributed to improvements in the economic climate, as well as in the trade balance, on the back of the significant weakening of the yen from August 2012 onwards. The decision to continue fiscal expansion[1] did not allow a significant decline in the general government

1 See Box 1.4 "Abenomics: Risks after Early Success?", IMF, *World Economic Outlook*, October 2013.

Chart II.2 Central bank policy rates (January 2000-30 November 2013)

(percentages per annum, daily data)



Sources: Euro area: European Central Bank (ECB), interest rate on main refinancing operations; United States: Federal Reserve, federal funds target rate; Japan: Bank of Japan, official discount rate; United Kingdom: Bank of England, repo rate; Switzerland: Swiss National Bank, operational target range for the three-month Libor.

deficit, which is projected to turn out at 9.5% of GDP in 2013, from 10.1% in 2012. As a result, Japan's gross government debt is expected to grow further to 243.5% of GDP from 238% in 2012, while the considerably lower net public debt should also increase by about 6 percentage points, to 139.9% of GDP in 2013. According to the IMF, the anticipated fiscal restraint for 2014 is expected to lead to a slowdown in the GDP growth rate to 1.2% from 2.0% in 2013. According to more recent OECD forecasts, weaker domestic demand will only partly be offset by an improvement in net exports. Thus GDP growth is projected to moderate to 1.5% in 2014 from 1.8% in 2013.

In **emerging and developing economies**, GDP growth declined further to 4.5% in 2013 from 4.9% in 2012, reflecting a stabilisation or drop in international prices of commodities exported by many of these economies, monetary policy tightening and weaker credit expansion. For 2014, growth in emerging and developing economies is forecast to pick up slightly to 5.1%. In China, GDP growth is projected to fall to 7.3% from 7.6% in 2013,[2] while in India it is forecast to accelerate to 5.1% from 3.8% in 2013. Robust growth rates are expected in 2014 for regions outside the EU which are important destinations for Greek exports, such as countries of the Central and Eastern Europe and the Balkans and the countries of Middle East and Northern Africa.

The growth rate of the volume of **world trade in goods and services**, accelerated slightly to 2.9% in 2013, from 2.7% in 2012, but remained low, due to the economic slowdown observed in emerging economies and low demand from industrial economies. As a consequence, international prices of commodities fell, contributing to reducing global external imbalances through improvements in the trade balances of advanced economies.[3] The average international price of crude oil is estimated to have dropped slightly in 2013 (in dollar terms: -1.5%, in euro terms: -3.5%). The international prices of other commodities dropped further (in dollar terms: -1.5%, in euro terms: -4.4%), while the price of metals fell even more strongly. For 2014, the growth rate of the world trade in goods and services is forecast to increase considerably to 4.9%, still remaining lower than its average historical levels (5.6% in the period 1980-2012).

1.2 THE EURO AREA

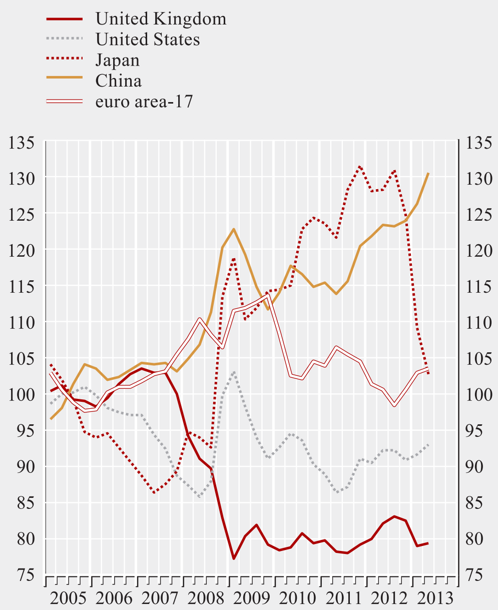
The euro area economy recovered in the second quarter of 2013 after six consecutive quarters of GDP contraction, as the economic climate is improving and economic activity is stabilising in the most distressed economies, while inflation has declined further in the past months. Specifically, GDP grew by 0.3% in the

2 According to more recent OECD estimates, the observed strengthening in domestic demand leads to an upward revision of GDP growth to 7.7% in 2013, as well as a projected acceleration to 8.2% in 2014.

3 IMF, *World Economic Outlook*, October 2013, Special Feature: Commodity Market Review, pp.25-28.

Chart II.3 Nominal effective exchange rates (NEER)

(broad NEER-42, 2005=100, quarterly averages)



Source: European Commission, Price and Cost Competitiveness Report.

second quarter over the first quarter, reflecting positive growth in domestic demand and net exports, while HICP inflation stood at 0.9% in November, according to provisional data, compared with 0.7% in October and 1.1% in September. More recent data indicate a decline in GDP growth to 0.1% in the third quarter relative to the previous quarter.

Initiatives to address the debt crisis (such as the establishment of a permanent crisis management mechanism, the European Stability Mechanism, the ECB announcement of the possibility to conduct Outright Monetary Transactions in secondary government bond markets, and the establishment of the single supervisory mechanism) and reduce macroeconomic imbalances,[4] the promotion of structural reforms and the exceptionally accommodative monetary policy all contributed to stabilisation and gradual recovery. Nevertheless, credit conditions still remain a constraint on economic activity in several member countries, complicating the path towards sustainable growth. A gradual improvement in credit conditions in the euro area is expected in 2014.

In almost all euro area economies, policies continued to be focused on **reducing fiscal deficits** with an aim to eliminate risks from public finances and break the vicious circle between fiscal positions, the real economy and the financial sector. The cyclically adjusted fiscal deficit in the euro area as a whole is estimated to have declined markedly in 2013 and is expected to decline to 1.3% in 2014. On account of the recession, the general government deficit is estimated to have declined less, to 3.1% of GDP in 2013 from 3.7% in 2012, while a further decline is forecast for 2014. Gross public debt increased by almost 3 percentage points to 95.5% of GDP in 2013 and is expected to record a smaller further rise in 2014.

In 2014, GDP growth is projected at 1.1%, compared with -0.4% in 2013 and -0.7% in 2012. Economic performance differences across countries are expected to decline, still remaining very large, in particular in terms of unemployment rates, with the unemployment rate in the euro area as a whole projected to fall only marginally to 12.2% of active population, from 12.3% in 2013. Net exports and growth in investment and private consumption – supported by the anticipated milder fiscal consolidation and rising disposable income – should be the key drivers of growth. Inflation is expected to remain low at 1.1% according to the latest Eurosystem staff projections.

The **main risks to** the growth outlook of the euro area are associated with the still relatively fragile financial institutions and with credit constraints, as well as with potential delays in

4 The reduction in external imbalances within the euro area regards mainly the countries that previously recorded high current account deficits, such as Greece, Ireland, Spain and Portugal – which in certain cases, as in Ireland and Spain, have already turned into surpluses – rather than countries with current account surpluses, such as Germany and others. Accordingly, the current account balance of the euro area as a whole has shown increasing surpluses as a percentage of GDP in the past years (see also the recent *World Economic Outlook* of the IMF, Box 1.3 "External Rebalancing in the Euro Area", October 2013).

implementing the necessary reforms in economic governance, particularly in relation to legislative initiatives aimed at completing the banking union, but also structural reforms in individual member countries. Among purely economic developments, the appreciation of the euro vis-à-vis the US dollar and in nominal effective terms in the course of this year (see Chart II.3), while it is certainly an indication of confidence in the single currency and the prospects of the euro area, at the same time highlights a stronger need to enhance competitiveness by increasing productivity and improving the overall functioning of the euro area economies.

1.3 EU AND THE EURO AREA: POLICY RESPONSES

Developments in the economic adjustment programmes for Greece and other euro area countries

On 13 May and 8 July 2013, the Eurogroup verified the outcome of the second and the third reviews of the **second economic adjustment programme for Greece**, noting that the progress with the implementation of the fiscal and structural reforms under the programme was satisfactory, and took the political decision to approve the disbursement of the next two EFSF tranches of €7.5 billion (of which, €4.2 billion were disbursed in May and the remainder in June) and €3 billion (€2.5 of which were disbursed in July). By the end of this year, conditional on the achievement of the milestones agreed under the MoU, another €1 billion is expected, consisting of the remaining amount of the tranche and €500 million from the transfer of euro area central banks' income on their SMP holdings on Greek government securities.

On 15 October 2013 the Eurogroup discussed anew progress with the Greek programme and recognised that the Greek authorities' efforts to improve the business climate and competitiveness were beginning to work. Yet, as it noted, the road ahead remained challenging and significant public sector reforms were still required, while debt levels remained high. The need for Greece to implement the prior actions required by the Greek programme was confirmed also by the President of the Eurogroup in his press remarks following the Eurogroup meeting on 14 November.

On 20 June 2013 the EU Council of Economy and Finance Ministers (ECOFIN), following an agreement reached at an informal ECOFIN meeting on 12 April, adopted decisions extending by seven years the maturities of loans to Ireland and Portugal from the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM). The aim was to smoothen the two countries' debt redemption profiles with a view to supporting their efforts to regain full access to market financing.

Subsequently, on 15 October 2013, when the Eurogroup reviewed again progress with the economic adjustment programmes of euro area member countries, it was agreed that **exit strategies** for Ireland and Spain – the Spanish programme is focused on the banking sector – would be discussed in November, while the discussion on Portugal's exit from the programme is expected in early 2014.

Indeed, a month later, at its meeting on 14 November, the Eurogroup confirmed **Ireland's** exit from the economic adjustment programme, once the final review of the Irish programme is completed. Ireland exits the programme without needing successor financial assistance, having achieved a normalisation of interest rates on Irish sovereign bonds and a drastic improvement in the overall health of its banking sector.

On 14 November it was also announced that **Spain** would exit the financial sector support programme following the completion of the fifth review in January 2014. According to the Eurogroup statement, the situation of the Spanish banking sector had singificantly improved, as confirmed by the encouraging results of the evaluation of the solvency of

Spanish banks by the Banco de España. The announcement also noted that Spain was making significant advances in its structural reform agenda and that the Spanish economy had returned to positive growth.

In the context of the discussion on the economic adjustment programmes that took place at the Eurogroup meeting of 14 November, its president J. Dijsselbloem noted that the programme for **Cyprus** was well on track in terms of the achievement of the fiscal targets and recapitalisation and consolidation of the financial sector.

Decisions of EU institutions and bodies on the completion of the banking union

Following the political agreement reached in March 2013 on the institutional framework that will govern the **single supervisory mechanism** (SSM), its legal set-up was completed on 15 October with the adoption of two regulations by the ECOFIN Council. The SSM will enter into effect by end-2014, and its activation will allow the conditional **direct recapitalisation of banks** by the European Stability Mechanism (ESM). Earlier, on 20 June 2013, the Eurogroup had reached an agreement on the main features of the operational framework that would enable the ESM to recapitalise banks directly. Accordingly, the direct recapitalisation instrument will be subject to an ex-ante limit of €60 billion; its use will always be linked to appropriate conditionality and will be decided in circumstances necessitating ESM involvement to preserve financial stability in the euro area; the Member State requesting recapitalisation will contribute national resources, allowing burden-sharing between the Member State and the ESM.

Furthermore, in the context of the initiatives in preparation for the banking union, on 27 June 2013 the ECOFIN Council agreed on a draft directive establishing a framework for the recovery and resolution of credit institutions, and negotiations with the European Parliament are expected to be completed by the end of 2013, so that the directive can be officially adopted by the European Parliament in early 2014. The draft directive envisages a set of measures for addressing potential bank crises in three stages: prevention, timely intervention and resolution, and represents a first step towards the single resolution mechanism, which will be officially established once agreement is reached on the European Commission's proposal for a Regulation, published in July 2013 (see Box II.1).

Box II.1

ON THE WAY TO BANKING UNION

In 2013, considerable progress was achieved towards the creation of a Banking Union in the euro area. The establishment of a Banking Union would (a) avoid financial market fragmentation and the resulting failure of the single monetary policy to be transmitted evenly across Member States; (b) promote the protection of depositors and strengthen confidence in the European banking system, by enhancing the quality of prudential supervision; and (c) allow further benefits to be reaped from the Single Market for Financial Services, by eliminating differences in banking regulation across Member States.

Following the adoption by the European Parliament of the proposed Regulation establishing a Single Supervisory Mechanism in the euro area (September 2013), this legal act, having also been formally approved by the ECOFIN Council, was published in the Official Journal of the European Union and thus entered into force. This means that the ECB will assume its banking supervision tasks as of November 2014.

In preparation for assuming its supervisory role, the ECB, working closely with the national authorities currently responsible for the prudential supervision of the banking system, recently launched a comprehensive assessment of the significant euro area credit institutions. The exercise involves an assessment of the risks to which these banks are exposed, a review of their asset portfolios, as well as a stress test. The objective is to promote transparency, enabling the identification of weaknesses that require corrective action in order to shield confidence in the banking system of the euro area.

Defining in advance procedures for the recovery and resolution of distressed or non-viable credit institutions will help to further reduce uncertainty, strengthen market discipline over credit institutions' business decisions and restore confidence in the banking system and its ability to finance the real economy. In this respect, two important legislative proposals have been prepared and are in the process of approval by the relevant European institutions.

The proposal for a Directive establishing a framework for the recovery and resolution of credit institutions and investment firms was initially approved by the European Council, then agreed at the ECOFIN Council (June 2013), and is currently under discussion with the European Parliament in the context of "trilogues". The proposed Directive aims to ensure that the relevant authorities possess all necessary instruments to intervene effectively before the accumulation of problems in credit institutions but also in the event that problems escalate necessitating the implementation of resolution measures. Even when the financial situation of a bank deteriorates to the point that its financial soundness cannot be restored, the Directive will ensure the continuity of the bank's critical functions. The proposed Directive aims to ensure that the cost of the resolution of a failing institution will be borne primarily by the institution's shareholders and creditors, rather than by taxpayers. In this respect, one of the resolution instruments envisaged by the proposed Directive is the bail-in tool, to be used initially in an environment where each Member State retains its own national resolution authority and a relevant fund. The enforcement of this tool is foreseen to provide depositors that are natural persons or small and medium-sized enterprises with preferential treatment over the other creditors and shareholders of the bank. By all means, deposits up to €100,000 will be fully guaranteed, as any loss they would have to suffer in the context of the resolution procedure will be absorbed by national deposit guarantee schemes.

Finally, in July 2013 the European Commission presented a legislative proposal for a Single Resolution Mechanism in the euro area. This will complement the Single Supervisory Mechanism, by ensuring that if, despite stricter supervision, a bank faces serious difficulties, its resolution can be managed efficiently and at minimum costs to taxpayers. Decisions on the adoption of resolution measures for failing banks or their liquidation will be taken swiftly and centrally at European level – something that is particularly necessary in the case of cross-border banking groups.

The resolution will be financed (e.g. guarantees to prospective purchasers of a credit institution under resolution, exceptional coverage of losses, capital injections) by the Single Bank Resolution Fund, which will be funded by ex ante contributions (paid in advance, i.e. not only after the collapse of a bank) by credit institutions, thus securing relatively adequate resources. Should these resources prove insufficient, the draft Regulation provides for the possibility of extraordinary ex post contributions by credit institutions or even borrowing of the Single Resolution Fund from third parties (such as national governments, financial institutions, etc.). It should be noted that, in line with the bail-in principle, no funds will be mobilised by the Resolution Fund, including any public funds that it can raise (therefore, taxpayers will not be burdened, not even temporarily), to cover losses entailed by the failure of a credit institution, before the imposition of losses on, first, the credit institution's shareholders, second, unsecured and other selected creditors, etc. Besides, in October 2013, the European Council confirmed that there will be a possibility of direct bank recapitalisation by the European Stability Mechanism (ESM). The European Commission's legislative proposal is currently being discussed in the European Parliament. It is expected that by the end of 2013 the Ministers of Finance will have reached a political agreement in this respect.

In November 2013, the ECB issued a legal opinion, fully supporting the establishment of a Single Resolution Mechanism and its activation by 1 January 2015. The ECB's legal opinion argues in favour of implementing the bail-in tool earlier than 2018 (i.e. before the date envisaged by the above-mentioned draft Directive). In addition, the ECB supports the necessity of introducing an explicit provision regarding the possibility of lending to the Single Resolution Fund, primarily from public funds, through a financial scheme at European level.

Establishing effective resolution procedures will help to break the vicious circle, which triggered in the first place or intensified the crisis in Europe, whereby state support to distressed banks weighed heavily on public finances, leading to the impairment of government debt securities in banks' portfolios, feeding back into further losses to many credit institutions.

Finally, it should be noted that the Banking Union will only be completed once a common deposit guarantee scheme is established,[1] which will ensure that bank deposits in different Member States enjoy the same degree of safety.

The Banking Union is expected to strengthen the confidence of international markets in the Greek banking system and contribute to enhancing the funding conditions of domestic credit institutions. The access of Greek banks to international money and capital markets will improve, translating into higher availability and lower cost of financing for enterprises and households in Greece.

1 This view was recently recalled by B. Cœuré, Member of the Executive Board of the ECB, on 23 May 2013, in his speech entitled "The Single Resolution Mechanism: Why it is needed." The ECB's *Financial Stability Review* of November 2013 sees the ongoing trilogue negotiations for the revision of the Deposit Guarantee Scheme Directive as a first step towards achieving the medium-term objective of establishing a common deposit guarantee fund in Europe.

On 15 November 2013 the ECOFIN Council discussed the proposal by the European Commission on a Single Resolution Mechanism and a Single Bank Resolution Fund, with an aim to achieving an agreement at the Council by the end of 2013. The single resolution mechanism will cover all banks in the euro area and in those EU Member States that decide to join the Banking Union, and is expected to become operative as from January 2015.

With regard to banking issues, on 14 and 15 November 2013 the Eurogroup and the ECOFIN Council discussed the possibility of national backstops ahead of the ECB stress tests to be conducted in 2014. According to the ECOFIN decision, in the eventuality that the stress tests reveal a capital shortfall, the possibility of raising capital from private sources should be explored first. If market financing proves insufficient, banks will be recapitalised using public recapitalisation instruments in full respect of EU state aid rules. In the second instance, if national backstops prove insufficient, instruments at the euro area/EU level will be available, as appropriate. Specifically, for euro area member countries, the European Stability Mechanism will be available, which, once the single supervisory mechanism becomes operative, will be able to directly recapitalise banks.

Decisions of EU institutions and bodies regarding other European policies

On 27-28 June 2013 the European Council agreed on a comprehensive approach to **combat youth unemployment**, building on concrete measures aimed to create jobs and increase youth mobility. Furthermore, the European Council discussed ways to boost investment and launched a new Investment Plan to support **small and medium-sized enterprises** and boost the financing of the economy through the European Investment Bank. Subsequently, on 25 October, the European Council stated that the new instruments to support small and medium-sized enterprises should begin operating in January 2014. The European Council of 27-28 June 2013 concluded the **European Semester** by endorsing the country-specific recommendations regarding the Member States' stability and convergence programmes and national reform programmes.

At its meeting on 24-25 October 2013 the European Council confirmed that **the fight against youth unemployment** remains a key objective of the EU strategy to foster growth, competitiveness and jobs. It recalled the need for the Youth Employment Initiative to be fully operational by January 2014, which would allow the first disbursements to beneficiaries to be made, and called on Member States to mobilise all efforts necessary to this end. Moreover, the European Council discussed the need to establish a single digital market by 2015. To tap the full potential of the digital economy, to boost productivity and create new economic activity, Europe needs investment and the right regulatory framework. The European Council stressed the importance of digital services also in modernising public administration and the need for citizens and enterprises to develop digital skills, as well as the need to improve the framework conditions for innovation at the European level.

On 1 July the European Union was enlarged with the accession of Croatia and now comprises 28 Member States.

On 9 July the ECOFIN Council adopted a decision allowing **Latvia to join the euro** as from 1 January 2014.

Finally, on 19 November 2013 the European Parliament voted in favour of the **EU's multiannual financial framework 2014-2020**. According to the framework, about €1 trillion will be channelled to investment, with a priority to growth and jobs in line with the strategy "Europe 2020". For the period 2014-2020, Greece is expected to receive €16.3 billion from the structural funds,[5] as well as €18 billion (current prices) for agricultural subsidies and rural development.

2 THE ECONOMIES OF SOUTH-EASTERN (SE) EUROPE[6]

In contrast with 2012, the economies of SE European countries recorded positive growth rates in the first half of 2013. GDP growth rates strengthened, particularly in the second quarter, mainly in FYROM, Montenegro and Turkey. The main factors behind this turnaround vary across the region. In Serbia and Montenegro economic growth is export-led, while in Albania growth is driven by public expenditure and in Turkey by private consumption. With the possible exception of Serbia, where the rate of unemployment rose to 24.1% in March 2013 (against 22.4% in December 2012), signs of improvement or at least stabilisation in job opportunities are visible in all other countries of the region.[7]

5 Another €2 billion are expected to be added to this amount in 2016 following a review of the allocation of funds on the basis of more recent GDP data.

6 The SE European economies that are discussed in this section include: Albania, Bosnia and Herzegovina, Bulgaria, Former Yugoslav Republic of Macedonia (FYROM), Montenegro, Romania, Serbia, and Turkey.

7 Since employment lags output, labour market conditions in the Balkans, with the exception of Turkey, continue to dampen private consumption.

Table II.2 Key macroeconomic and banking indicators in South-Eastern European countries

	GDP (annual percentage changes)				Inflation (averages, annual percentage changes)				Current account balance (% of GDP)				CAR (%)		Loans/ deposits (%)		NPL ratio (%)	
Country	2012	Q2 2013	2013	2014	2012	Aug. 2013	2013	2014	2012	Q2 2013	2013	2014	2012	June 2013	2012	Aug. 2013	2012	June 2013
Albania[1]	1.6	1.1	1.8	2.5	2.0	1.2	2.2	2.7	-10.8	-10.4	-9.4	-9.0	16.2	17.0	58.3	55.6	21.7	24.4
Bosnia-Herzegovina[1]	-0.9	-	0.5	2.0	2.1	0.0	1.8	1.8	-9.2	-7.5	-8.7	-7.9	14.1	14.9	119.6	116.5	12.7	14.3
Bulgaria	0.8	-0.2	0.5	1.5	2.4	-0.7	0.5	1.4	-1.3	0.6	0.3	0.0	16.6	17.0	97.7	89.8	16.6	16.6
FYROM	-0.4	3.9	2.1	2.5	3.3	2.8	3.0	2.7	-3.0	-3.4	-4.5	-5.3	17.1	20.1	89.4	89.2	10.1	12.3
Montenegro	-2.5	3.4	1.9	2.3	4.1	2.2	2.0	2.1	-18.6	-16.1	-16.9	-16.3	14.7	13.4	118.2	118.3	17.6	18.8
Romania	0.7	0.5	2.2	2.1	3.4	3.7	3.3	2.5	-4.0	-	-1.2	-1.5	14.6	14.7	114.5	109.1	18.2	20.3
Serbia	-1.7	0.2	1.7	1.5	7.3	7.3	8.2	4.9	-10.2	-6.8	-4.9	-4.7	19.9	20.4	129.0	122.7	18.6	19.9
Turkey	2.2	4.4	3.5	3.0	9.0	8.2	7.7	7.2	-5.8	-6.6	-7.0	-6.6	17.9	16.3	103.0	109.6	3.2	3.3

Sources: European Commission, *European Economic Forecast-Autumn 2013, EU Candidate and Pre-accession Countries Economic Quarterly* and national central banks.
1 2013-2014 forecasts for Albania and Bosnia-Herzegovina are derived from the IMF, *World Economic Outlook* (WEO), April 2013.

Price indices in most countries follow a downward path, mainly on account of subdued domestic demand and lower international prices of oil and raw materials.

In the candidate countries for EU accession (except for Turkey), current account deficits have narrowed since the first quarter of 2013 on the back of weak domestic consumption, which has driven down imports, coupled with a relative pick-up in external demand, which led to an improvement in their export performance. This trend continued through the second quarter of 2012, mostly in Bosnia and Herzegovina, Montenegro and Serbia.[8] Conversely, in Turkey the current account deficit appears to widen again after its sizeable reduction in the previous year (see Table II.2).

In the fiscal front, developments are not so encouraging. Large deviations from annual targets have led to a revision of annual budgets in several cases. In FYROM, a revision (from 3.6% to 3.9% of GDP) was deemed necessary after the target for the annual fiscal deficit had been overshot (by over 80%) by August. In Albania, the initial state budget had been overshot by 11% in August, as a result of increased government expenditure compounded by reduced revenue (a typical pre-election year). In Serbia and Montenegro, public deficits were off track very early, leading to upward revisions. A different picture emerges in Turkey and in Bosnia and Herzegovina, where, especially in the latter, the budget was in surplus (by 0.4% of GDP) in the first half of 2013.

The slowdown in credit growth persisted in the second quarter of the year, with the exception of Turkey. This trend is due to factors which are associated with both loan supply and demand. The sluggishness of recovery considerably dampens demand for new credit, while high NPL ratios (see Table II.2), coupled with a trend for withdrawal of funds

8 The lasting character of such adjustments could prove quite fragile, to the extent that they are driven by subdued domestic demand, although the role of some improvement in cost competitiveness – mainly as a result of lower unit labour costs – should not be disregarded.

by strong Western European banking groups from the region,[9] hamper banks' credit growth. This deleveraging phenomenon seems to be under control, as the latest data[10] show that on the one hand capital outflows continue, but at a milder pace and on the other hand domestic banks are gradually shifting towards local funding sources, such as domestic deposits.

According to the European Commission and the IMF, the economic recovery of the region is projected to continue into 2014. Naturally, a key determinant of developments will be the degree and the speed of normalisation in external markets and in the euro area in particular, which is the main trading partner of these countries. Besides, a continued trend of low inflationary pressures and shrinking external deficits (with the exception of Turkey) appears to be the predominant scenario for 2014 as well (see Table II.2). Weak credit growth, compounded by high NPL ratios (with the exception of Turkey), are expected to pose major challenges, thereby dampening the growth dynamics of the region and leaving more room for monetary easing.

3 THE EUROSYSTEM'S SINGLE MONETARY POLICY

During 2013, the Governing Council of the ECB lowered the interest rate on the main refinancing operations of the Eurosystem and the interest rate on the marginal lending facility (see Table II.3), based on its assessment that inflationary pressures were easing, given the weakness of economic activity and subdued monetary dynamics. In November 2013, the Governing Council of the ECB confirmed the forward guidance it had provided earlier, when it had announced that key rates would remain at present or lower levels (as it actually happened). Against this backdrop, the Governing Council of the ECB assured that interest rates

9 According to the CESEE Deleveraging Monitor (November 2012), the cumulative withdrawal of funds (since mid-2011) from the greater region of Central, Eastern and SE Europe (excluding Turkey and Russia) is estimated to have exceeded 4% of GDP. Actually, in some cases, e.g. in Bulgaria and in Serbia, outflows were well above 7%.

10 Withdrawals of funds seem to be continuing, albeit at a very slow pace and in a rather selective way, as Western European groups follow different strategies across countries. Recent surveys confirm these groups' commitment to continue to be active in the region and to even strengthen their presence in certain countries ("Monitoring Deleveraging and Credit in CESEEE", Klingen, C. (IMF) & Revoltela, D. (EIB), Vienna Initiative II Forum, October 2013).

Table II.3 Changes in key ECB interest rates

(percentages per annum)

With effect from:[1]		Deposit facility	Main refinancing operations (fixed rate tenders)	Marginal lending facility
2009	21 January	1.00	2.00	3.00
	11 March	0.50	1.50	2.50
	8 April	0.25	1.25	2.25
	13 May	0.25	1.00	1.75
2011	13 April	0.50	1.25	2.00
	13 July	0.75	1.50	2.25
	9 November	0.50	1.25	2.00
	14 December	0.25	1.00	1.75
2012	11 July	0.00	0.75	1.50
2013	8 May	0.00	0.50	1.00
	13 November	0.00	0.25	0.75

Source: ECB.
1 Changes in all three key ECB interest rates are effective from the first main refinancing operation following the Governing Council decision, not the date of the Governing Council meeting on which this decision is made.

Table II.4 Eurosystem's open market operations in 2013*

1. Main and longer-term refinancing operations:	
1.1 Main refinancing operations (MRO): provision of liquidity with a maturity of one week	**Frequency:** Once a week. **Procedure:** At least until 7 July 2015, fixed-rate tender with full allotment.
1.2 Longer-term refinancing operations (LTRO):	
1.2.1 Provision of liquidity with a maturity of one maintenance period	**Frequency:** Once at the beginning of each maintenance period. These operations will continue to be conducted for as long as needed, and at least until the end of the second quarter of 2015. **Procedure:** Fixed-rate tender (at a rate equal to the MRO rate) with full allotment.
1.2.2 Provision of liquidity with a maturity of three months	**Frequency:** Once a month (usually at end-month). **Procedure:** At least until June 2015, fixed-rate tender with full allotment and an interest rate set ex post equal to the average value of the fixed rate of the MROs conducted during the life of the respective longer-term refinancing operations.
2. Fine-tuning operations:	
2.1 Liquidity absorption on a weekly basis to sterilise the effect, on the overall liquidity of the banking system, of purchases made under the Securities Markets Programme	**Frequency:** Every week, starting on 18 May 2010. The absorption of liquidity continues even after the discontinuation of the Programme (following which new purchases are no longer possible). **Procedure:** Collection of weekly deposits from credit institutions through variable-rate tenders with a maximum bid rate equal to the MRO fixed rate.
3. US dollar liquidity-providing operations:	
3.1 Operations with a maturity of one week	**Procedure:** Fixed-rate tender with full allotment against collateral eligible for the Eurosystem's credit operations in euro.
3.2 Operations with a maturity of three months	

* The table was compiled on the basis of data and information available until early December 2013.

will remain at very low levels for an extended period of time, given the adverse macroeconomic conditions. By keeping interest rates at very low levels and providing ample liquidity to the banking system, the monetary policy of the Eurosystem will assist the gradual economic recovery in the euro area.

As regards the outlook for euro area inflation, the Governing Council of the ECB expects inflation rates to remain moderate over the medium term, as aggregate demand is subdued and economic activity recovers at a slow pace. More specifically, it was noted that the euro area may experience a prolonged period of very low inflation, to be followed by an upward movement towards inflation rates below but close to 2% later on. The December 2013 Eurosystem staff macroeconomic projections foresee annual inflation at 1.1% in 2014 and 1.3% in 2015.

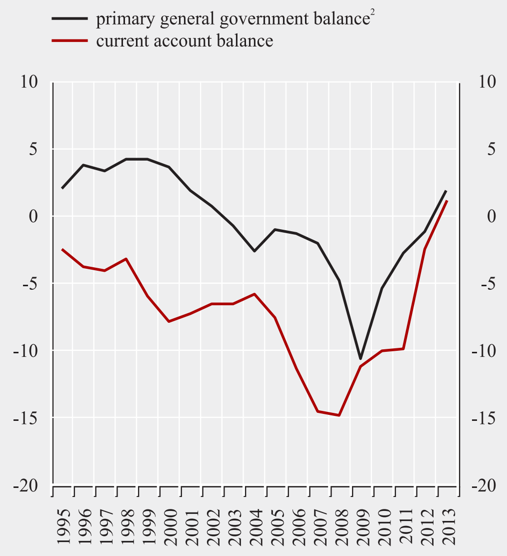
Lastly, the Governing Council stressed the substantial progress that has been made since the summer of 2012 (i.e. the period preceding the introduction of Outright Monetary Transactions) in improving the funding situation of banks and, in particular, in strengthening the domestic deposit base in a number of stressed countries amidst the debt crisis. In order for monetary policy to be smoothly transmitted to the financing conditions in euro area countries, it is essential that the fragmentation of euro area credit markets is further reduced and that the resilience of banks is strengthened where needed. The establishment of a banking union will contribute considerably to this end (see Box II.1).

With regard to developments in the single money market, the January-November 2013 period saw occasional mild upward pressures on interbank interest rates (EONIA, Euribor), as well as on the respective future interest rates. This was due, on the one hand, to a decline in excess liquidity, mainly after the early repayment of a significant part of funds that had been raised by banks through three-year open market operations and, on the other hand, to the expectations that the US Federal Reserve would start to taper its monthly asset purchases. These upward pressures eased with the Eurosystem's forward guidance provided as from July 2013, as already mentioned. With regard to money market conditions and their potential impact on the monetary policy stance, the Governing Council has recently confirmed that it is monitoring developments closely and is ready to consider all available monetary policy tools (see Table II.4).

III MACROECONOMIC DEVELOPMENTS AND PROSPECTS IN GREECE

The year 2013 was marked by the closing of the twin deficits that had affected the Greek economy for several decades (see Chart III.1). For the first time since 2002, the general government will record a primary surplus, while the current account balance will also turn into a surplus. These outcomes should continue to have a positive effect on business climate, which has been steadily improving since mid-2012. However, the lack of financing continues to restrict the scope for an expansion of economic activity and a modernisation of the production process. Structural reforms in product markets have also made headway, although at a slow pace, while the shortcomings of public administration, the tax system and the judicial system should promptly be dealt with. In 2014, GDP is expected to grow by 0.5%, unemployment should start falling, the general government should record another primary surplus, and the current account should be in surplus again.

Chart III.1 Primary general government balance and current account balance as percentages of GDP[1]



Sources: ELSTAT, Bank of Greece and Ministry of Finance.
1 Data on the primary general government balance for 2013 are estimates of the Ministry of Finance (see Table 3.2 of the Introductory Report on the 2014 Budget, in Greek) and on the current account balance for 2013 are estimates of the Bank of Greece.
2 Data for the years 2009-2013 do not include the net impact of capital support to credit institutions on the general government deficit.

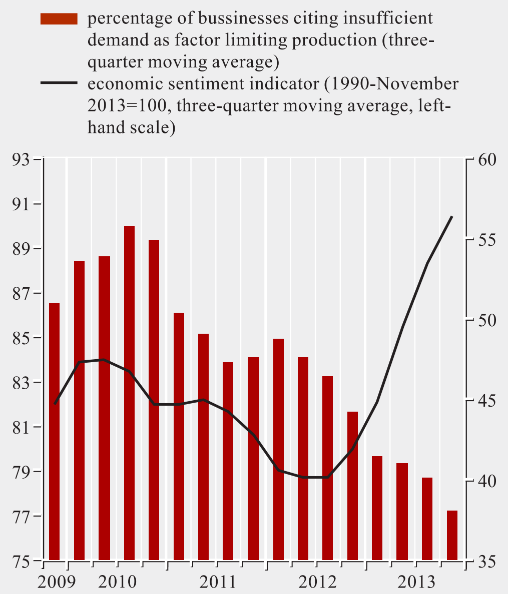
In 2013, the improvement in **business climate**, which started in mid-2012, began to feed into the real economy, where the constraints from domestic and foreign demand seem to be relaxing (see Chart III.2). The **decline in GDP** in 2013 is expected to be in the order of 4%, well below the rate anticipated earlier this year.

The target of the Second Economic Adjustment Programme for a reduction of 15% in unit labour costs in 2012-2014 is expected to be overshot by a wide margin, as the cumulative decline during this three-year period is projected to 21.7%.

An improvement in business climate is recorded most notably in the services sector (see Chart III.3), reflecting buoyant tourism receipts which, together with higher receipts from exports of goods and lower imports, led to a **surplus in the current account**. Within 2013, large multinational firms showed interest in expanding their business activities to Greece, taking advantage of the country's geographic position as a major transit hub.

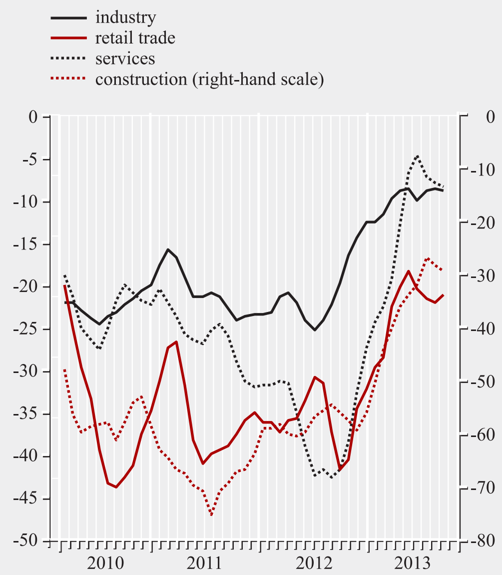
In 2013, progress was also made with the **privatisation programme**. Even though the initial target for privatisation revenue was revised downward, 2103 did see the conclusion of significant privatisation deals (concerning the state-controlled gaming operator OPAP, the state gas network operator DESFA, etc.), which attracted foreign capital. An encouraging development was the decision on the **Trans-Adriatic Pipeline** (TAP) for the transfer of natural gas from Azerbaijan through Greece to Italy and the rest of Western Europe. This project is very important not only because of the investment to be carried out in Greece for the construction of the pipeline, but also because it is expected to bring about a decline in energy costs, which weigh heavily on domestic industry. Foreign direct investment (FDI) is expected to involve a transfer of know-how and productivity gains, which would have a long-term beneficial effect on growth.

Chart III.2 Economic sentiment indicator and percentage of industrial firms citing insufficient demand as a factor limiting their production



Source: Foundation for Economic and Industrial Research (IOBE)/European Commission, Business and Consumer Survey Results.

Chart III.3 Industrial confidence indicator[1] in individual sectors (March 2010 - November 2013)



Source: Foundation for Economic and Industrial Research (IOBE)/European Commission, Business and Consumer Survey Results.
1 Three-month moving average.

For the first time in more than 45 years, negative **inflation** rates were seen in 2013. A fall in prices in response to subdued demand, which was to be expected in the context of the deep recession, is dampening the decline in real disposable income; however, a prolonged deflationary trend would not be desirable, as it would add uncertainty to the economy and business expectations and deteriorate the debt dynamics.

2014 is expected to mark a return to **positive growth rates** after several years of contraction. Growth should be driven by business investment and exports, and should occur despite the projected continued decline in consumption. The fall in earnings is expected to be milder compared with the past two years, employment in the private sector should pick up slightly and unemployment should begin to decline.

The outlook for 2014 is subject to a number of uncertainties, concerning (i) the continuing efforts for structural reforms; (ii) the gradual restoration of credit flows in the economy; and (iii) the materialisation of the intentions of large multinational corporations to undertake productive investment in Greece.

1.1 ECONOMIC ACTIVITY: DEVELOPMENTS AND PROSPECTS

In the first nine months of 2013, GDP at constant prices fell by 4% year-on-year, i.e. at a significantly weaker rate relative to 2012 (-6.4%).

GDP at current prices fell more markedly, by 6.15%, as the rate of change in the GDP deflator was strongly negative, particularly in the third quarter.

GDP developments in 2013 continued to be driven by the large negative contributions of private consumption and investment, while a positive contribution came from net exports of

Table III.1 Demand and GDP

(annual percentage changes and contributions to total, at constant market prices of 2005)

	2008	2009	2010	2011	2012	2013 Jan.-Sept.
Private consumption	4.3 (2.9)	-1.6 (-1.2)	-6.2 (-4.4)	-7.7 (-5.6)	-9.1 (-6.5)	-7.7 (-5.5)
Public consumption	-2.6 (-0.5)	4.9 (0.9)	-8.7 (-1.7)	-5.2 (-0.9)	-4.2 (-0.8)	-5.2 (-1.0)
Gross fixed capital formation	-14.3 (-3.9)	-13.7 (-3.2)	-15.0 (-3.0)	-19.6 (-3.6)	-19.2 (-3.0)	-11.6 (-1.5)
Residential investment	*-33.60 (-4.2)*	*-20.70 (-1.7)*	*-21.60 (-1.5)*	*-18.00 (-1.0)*	*-32.90 (-1.6)*	*-36.77 (-1.3)*
Final domestic demand[1]	-1.2 (-1.4)	-3.0 (-3.5)	-8.3 (-9.1)	-9.3 (-10.2)	-9.8 (-10.4)	-7.8 (-8.1)
Inventories and statistical discrepancy (% of GDP)	1.1	-1.8	-0.3	0.4	0.8	1.1
Domestic demand	-0.2 (-0.3)	-5.4 (-6.2)	-7.1 (-7.8)	-8.7 (-9.5)	-9.4 (-10.1)	-5.9 (-6.1)
Exports of goods and services	1.7 (0.4)	-19.4 (-4.7)	5.2 (1.0)	0.3 (0.1)	-2.4 (-0.6)	2.0 (0.5)
Imports of goods and services	0.9 (-0.3)	-20.2 (7.7)	-6.2 (1.9)	-7.3 (2.3)	-13.8 (4.2)	-5.5 (1.6)
External demand	... (0.1)	... (3.1)	... (2.9)	... (2.4)	... (3.7)	... (2.1)
Gross domestic product at market prices	-0.2	-3.1	-4.9	-7.1	-6.4	-4.0

Source: ELSTAT, National accounts, December 2013.
Note: Contributions (in percentage points) are given in parentheses.
1 Excluding inventories and statistical discrepancy.

goods and services, reflecting a continued decline in imports and —most importantly— rising exports of goods and services (see Table III.1).

In 2013, the negative contribution of private consumption to GDP growth was weaker than in 2012, as the rate of decline in private consumption has started to stabilise (see Tables III.1 and III.2), responding, among other things, to falling prices across several categories of goods. Retail sales, which account for around 40% of private consumption, fell by 10.1% at constant prices in the first nine months of 2013 year-on-year, while retail turnover declined by 10.3%, as price decreases in most categories of goods were offset by higher food prices. The remaining 60% of private consumption is mainly accounted for by transport spending (car purchase, transport services, etc.), healthcare, education, and network services (electricity, water, telecommunications) expenditures. Healthcare and education spending has proved more resilient to the crisis.

Encouraging signs for a further weakening in the decline of consumption are provided by a gradual restoration of consumer confidence —the consumer confidence indicator in the first nine months of 2013 stood at -69.9, from -75 in the respective period of 2012— and a small increase in the share of consumer durables (predominantly cars) in total consumption expenditure.

The **decline in private consumption** is attributable to the decrease in the disposable income of households and uncertainty regarding future incomes. Disposable income developments in turn reflected a decline in labour compensation and a considerable fall in headcount employment (labour income fell by 12.1% year-on-year by in the first nine months of 2013, according to ELSTAT national accounts data), a fall in real estate income, an increase in the tax burden and lower consumer credit (see Table III.2 and Chapter V). As a result, households are drawing down wealth accumulated in past years,

Table III.2 Indicators of consumer demand (2009-2013)

(annual percentage changes)

	2009	2010	2011	2012	2013 (available period)
Volume of retail trade (total)	-11.4	-6.2	-10.2	-12.2	-10.1 (Jan.-Sept.)
Volume of retail trade (excluding fuel and lubricants)	-9.3	-6.9	-8.7	-11.8	-10.3 (Jan.-Sept.)
Food-beverages-tobacco[1]	-6.1	-5.5	-6.0	-8.9	-10.6 (Jan.-Sept.)
Clothing-footwear	1.4	-11.4	-18.8	-20.4	-6.6 (Jan.-Sept.)
Furniture-electrical appliances-household equipment	-15.3	-12.7	-15.7	-16.3	-8.9 (Jan.-Sept.)
Books-stationery-other	-24.0	-4.3	-5.2	-12.0	-1.5 (Jan.-Sept.)
Revenue from VAT (at constant prices)	-10.2	0.1	-5.9	-12.8	-8.3 (Jan.-Oct.)
Retail trade business expectations index	-21.4	-26.4	-0.5	-3.1	22.5 (Jan.-Nov.)
New private passenger car registrations	-17.4	-37.2	-29.8	-41.7	2.2 (Jan.-Nov.)
Tax revenue from mobile telephony[2]	13.2	37.1	-16.8	-7.9	-12.9 (Jan.-Oct.)
Outstanding balance of consumer credit[3]	1.8 (Dec.)	-4.2 (Dec.)	-6.4 (Dec.)	-5.1 (Dec.)	-4.7 (Oct.)

Sources: ELSTAT (retail trade, cars), Ministry of Finance (VAT revenue, tax revenue from mobile telephony), IOBE (expectations), Bank of Greece (consumer credit).
1 Comprising big food stores and specialised food-beverages-tobacco stores.
2 Monthly service fee per subscription until July 2009. As of August 2009, new progressive rates apply to mobile telephony contracts and different fees to prepaid mobile telephony.
3 Comprising bank loans and securitised loans. The rates of change are yearly averages, adjusted for loan write-offs, foreign exchange valuation differences and a transfer of loans by one bank to a domestic subsidiary finance company in 2009.

Table III.3 Indicators of investment demand (2011-2013)

(annual percentage changes[1])

	2011	2012	2013 (available period)
Capital goods output	-9.7	-16.4	-12.8 (Jan.-Sept.)
Capacity utilisation rate in the capital goods industry	62.7	58.2	60.4 (Jan.-Nov.)
Bank credit to domestic enterprises[2]	-2.0 (Dec.)	-4.4 (Dec.)	-4.8 (Oct.)
Disbursements under the Public Investment Programme[3]	...	-10.5	-1.4 (Jan.-Oct.)
Production index in construction (at constant prices)	-28.1	-26.1	-5.9 (Jan.-June)
Volume of private construction activity (on the basis of permits issued)	-37.7	-30.6	-31.9 (Jan.-Aug.)
Cement production	-37.8	-12.8	4.0 (Jan.-Sept.)
Business expectations index in construction	-27.8	26.1	50.0 (Jan.-Nov.)
Outstanding balance of total bank credit to housing[4]	-2.9 (Dec.)	-3.4 (Dec.)	-3.1 (Oct.)

Sources: ELSTAT (capital goods output, cement production, production in construction), IOBE (capacity utilisation rate, business expectations index), Bank of Greece (bank credit to domestic enterprises and housing, disbursements under the Public Investment Programme).
1 Except for the capacity utilisation rate in the capital goods industry, which is measured in percentages.
2 Comprising loans and corporate bonds, securitised loans and securitised corporate bonds but excluding (as of June 2010) loans to sole proprietors and unincorporated partnerships. The rates of change are adjusted for loan write-offs, foreign exchange valuation differences, as well as loans and corporate bonds transferred by domestic MFIs to their subsidiaries operating abroad and to one domestic subsidiary finance company in 2009.
3 As of January 2012 actual cash payments and not appropriations under the Public Investment Budget.
4 Comprising loans and securitised loans. The rates of change are yearly averages, adjusted for loan write-offs, foreign exchange valuation differences and the transfer of loans by one bank to a domestic subsidiary finance company in 2009.

and their saving rate remains strongly negative (see Chart III.4).

Private consumption is projected to decline further in 2014, as incomes are not expected to increase, and households are likely to shift to more saving. However, as also indicated by the gradual improvement of retail confidence, the decline in private consumption in 2014 should be very weak.

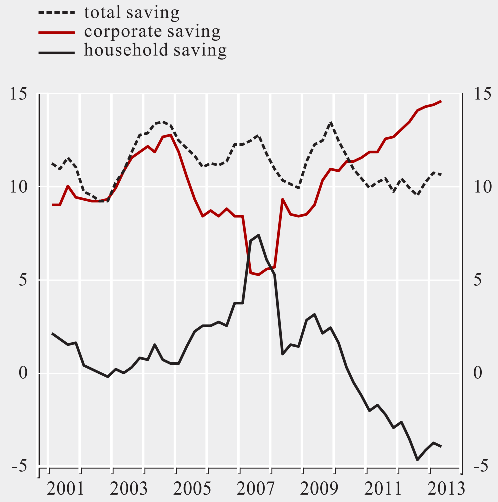
Residential investment continued to contract, at an even stronger pace than in the previous years (see Table III.1). In fact, two thirds of the collapse in investment in the past five years came from the housing market (see Special Feature III.1). Weak residential investment accounts for about 30% of the decline in GDP since the beginning of the crisis. For 2014, a recovery in residential investment seems unlikely (see Section III.1.2), consistent with the data on the number of building permits issued until August 2013 (see Table III.3).

According to ELSTAT accounts of institutional sectors, **business investment** was 35% lower (at current prices) in the first half of 2013 than in the first half of 2008, but has started to stabilise and is projected to recover in 2014. Capacity utilisation in industry, at 67.3% in November, seems to hover at low levels, but then it has never exceeded 80% in Greece, unlike what is the case elsewhere in the euro area. Moreover, business investment intentions as reflected in the IOBE investment survey (November 2013) suggest that technological advances call for the replacement of fixed assets that become obsolete.

A recovery in business investment in 2014 is expected to be supported by the implementation of the provisions of the recent development law (4146/2013) and by the utilisation of resources available from the National Strategic Reference Framework (NSRF) and the European Investment Bank (EIB). Specifically, for 2014, co-financing through resources from the NSRF (2007-2013) and the EU Budget in

Chart III.4 Household and corporate saving as a percentage of GDP

(Q1 2001-Q2 2013)



Source: ELSTAT, National Accounts.
1 Four-quarter moving average.

line with the Multiannual Financial Framework (2014-2020) is expected, which should reach a total of €7.5 billion, against €4 billion in 2013. As regards the financing of investment expenditure, an encouraging fact is that although household savings are negative, business savings are, overall, positive and have increased (see Chart III.4 and Special Feature III.1). Moreover, according to Bank of Greece estimates, the positive effects of fiscal adjustment should feed into real GDP, by boosting investor confidence in the economy.

In 2013, **other construction** – mostly investment in infrastructure – recovered (growing by 4.8% year-on-year in the first nine months of 2013, having contracted by 7.9% in 2012), as local governments started to implement small public redevelopment projects.[1] These projects, which are expected to continue in 2014, but mainly the recent restart of the four large motorway projects – Olympia Odos, E65, Ionia Odos, Aegean Motorway – should lead to a recovery in infrastructure investment in 2014.

1 231 projects are currently in progress (redevelopments, small-scale roadworks, cultural interventions), reaching a total budget of €452 million.

Table III.4 Gross value added at basic prices and gross domestic product at market prices (2008-2012 and January-September 2013)

(annual percentage changes and sectoral contributions, at constant prices of 2005)

	2008	2009	2010	2011	2012	2013 Jan.-Sept.
Agriculture, forestry and fishing	2.0 (0.1)	5.2 (0.2)	5.5 (0.2)	-5.4 (-0.2)	-3.2 (-0.1)	-2.9 (-0.1)
Secondary sector	-10.2 (-2.1)	-8.5 (-1.5)	-9.9 (-1.7)	-12.6 (-2.0)	-4.5 (-0.7)	-3.9 (-0.6)
Industry including energy	-9.7 (-1.2)	2.0 (0.2)	0.9 (0.1)	-7.4 (-0.9)	-1.7 (-0.2)	-1.7 (-0.2)
Construction	-11.0 (-0.9)	-24.6 (-1.8)	-32.3 (-1.8)	-28.4 (-1.1)	-15.6 (-0.5)	-13.8 (-0.4)
Tertiary sector	2.8 (2.1)	-1.2 (-1.0)	-4.9 (-3.7)	-5.7 (-4.6)	-6.8 (-5.4)	-4.1 (-3.3)
Trade, hotels and restaurants, transport and communications	-1.5 (-0.4)	-9.2 (-2.5)	-3.8 (-0.9)	-10.9 (-2.8)	-13.3 (-3.2)	-7.8 (-1.8)
Information and communication	17.2 (0.7)	7.6 (0.4)	-10.3 (-0.6)	-8.1 (-0.4)	-5.7 (-0.3)	-10.3 (-0.5)
Financial and insurance activities	11.6 (0.6)	-2.5 (-0.1)	-1.0 (-0.1)	-8.0 (-0.5)	-9.4 (-0.5)	-7.9 (-0.5)
Real estate activities	7.8 (0.9)	2.3 (0.3)	-8.1 (-1.1)	2.4 (0.3)	0.3 (0)	0.1 (0.0)
Professional, scientific and technical activities	-3.6 (-0.2)	7.4 (0.4)	-14.1 (-0.9)	-18.1 (-1.0)	-4.0 (-0.2)	-6.9 (-0.3)
Public administration and defence	3.8 (0.7)	1.1 (0.2)	-1.5 (-0.3)	-0.8 (-0.2)	-3.2 (-0.7)	-0.6 (-0.1)
Arts, entertainment and recreation	-4.1 (-0.2)	8.8 (0.3)	-0.7 (0)	-0.2 (0)	-11.4 (-0.5)	-0.9 (0.0)
Gross value added at basic prices	0.0	-2.2	-5.2	-6.6	-6.2	-3.9

Source: ELSTAT, Quarterly National Accounts, December 2013, non-seasonally adjusted data.
Note: Contributions (in percentage points) are given in parentheses.

In 2013, progress was also made with the **privatisation programme**. Even though the initial target for privatisation revenue was revised downward, 2103 did see the conclusion of significant privatisation deals (concerning the state-controlled gaming operator OPAP, the state gas network operator DESFA, etc.), which attracted foreign capital. An encouraging development was the decision on the **Trans-Adriatic Pipeline** (TAP) for the transfer of natural gas from Azerbaijan through Greece to Italy and the rest of Western Europe. This project is very important not only because of the investment to be carried out in Greece for the construction of the pipeline, but also because it is expected to bring about a decline in energy costs, which weigh heavily on domestic industry.

In 2014, on the basis of tenders currently underway[2] and the interest of foreign investors in the privatisation of major assets, such as Public Gas Corporation S.A. (DEPA), Hellenic Petroleum S.A. (ELPE), the Piraeus Port Authority (OLP), the Thessaloniki Port Authority, the Athens International Airport, and the Hellinikon site, it is estimated that the privatisation programme can be stepped up (see also next section). The implementation of the programme would also boost investment, as the privatisation/concession agreements envisage conservation and expansion projects.

The execution of the **Public Investment Programme** in 2013 has so far been broadly according to schedule (payments in the first ten months of the year are 1.4% lower than in 2012), although the closing months of 2013 will be critical for the full-year outcome, given the

2 Including tenders for the privatisation of regional airports, four marinas, Astir Palace Vouliagmeni S.A., and the train operating company (TRAINOSE S.A.)/Maintenance of Rolling Stock & Railroad Equipment Company (ROSCO S.A.).

Table III.5 Indicators of industrial activity (2009-2013)

(annual percentage changes)

	2009	2010	2011	2012	2013 (available period)
1. Industrial production index (overall)	**-9.4**	**-5.9**	**-7.8**	**-3.4**	**-3.6 (Jan.-Sept.)**
Manufacturing	-11.2	-5.1	-8.5	-4.2	-1.2 (Jan.-Sept.)
Mining-quarrying	-11.8	-6.5	0.6	0.7	-8.8 (Jan.-Sept.)
Electricity	-4.2	-9.2	-8.8	-3.0	-9.5 (Jan.-Sept.)
Main industrial groupings					
Energy	-2.9	-4.9	-8.4	5.3	-3.3 (Jan.-Sept.)
Indermediate goods	-18.4	-0.9	-8.8	-10.6	-3.4 (Jan.-Sept.)
Capital goods	-22.5	-22.1	-9.7	-16.4	-12.8 (Jan.-Sept.)
Consumer durables	-20.7	-13.4	-15.6	-18.4	-15.4 (Jan.-Sept.)
Consumer non-durables	-4.1	-7.2	-4.8	-6.0	-2.1 (Jan.-Sept.)
2. Industrial turnover index[1]	**-23.2**	**6.0**	**7.1**	**3.0**	**-4.4 (Jan.-Sept.)**
Domestic market	-22.2	-0.7	-2.3	-6.4	-12.0 (Jan.-Sept.)
External market	-25.6	29.3	21.6	20.2	6.9 (Jan.-Sept.)
3. Industrial new orders index[2]	**-28.1**	**4.2**	**1.8**	**-8.1**	**-4.0 (Jan.-Sept.)**
Domestic market	-23.4	-3.4	-23.7	-11.9	-5.9 (Jan.-Sept.)
External market	-34.7	28.2	22.3	-4.6	-3.3 (Jan.-Sept.)
4. Index of business expectations in industry	**-21.5**	**5.1**	**1.4**	**0.4**	**15.1 (Jan.-Nov.)**
5. Capacity utilisation in industry	**70.5**	**68.5**	**67.6**	**64.4**	**65.7 (Jan.-Nov.)**
6. Manufacturing Purchasing Managers' Index (PMI)[3]	**45.3**	**43.8**	**43.6**	**41.2**	**49.2 (Nov.)**

Sources: ELSTAT (industrial production index, industrial turnover and new orders), IOBE (expectations, industrial capacity utilisation rate), Markit Economics and Hellenic Purchasing Institute (PMI).
1 The index refers to the sales of industrial goods and services in value terms.
2 The index reflects developments in demand for industrial goods in value terms.
3 Seasonally adjusted index; values above 50 indicate expansion.

programme's typical backloaded pattern over the year. For 2014, the Introductory Report on the Budget projects a small increase of 2.3% in the target, to €6.8 billion.

Lower consumption and investment resulted in a decline in **imports of goods and services** (-5.5% on a national accounts basis in the first nine months of 2013). **Exports of goods**, after increasing by 4.0% in 2011 and 1.8% in 2012, rose by 3.4% in the first nine months of 2013 year-on-year. **Exports of services**, after falling in 2012 (-6.7%), grew in the first nine months of 2013 (+0.6%). Together, exports of goods and services (on a national accounts basis and at constant prices) rose by 2% in January-September 2013. For 2014, imports of goods and services are forecast to decline further, while exports of goods and services are expected to increase.

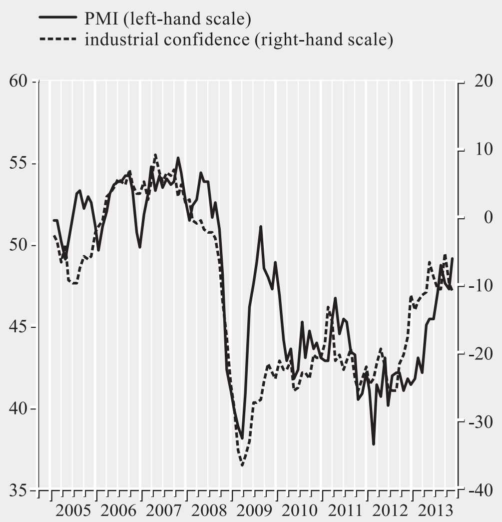
Developments on the supply side

Between January and September 2013, **gross value added** in the domestic economy at constant prices fell by 3.9%[3] year-on-year, and the **gross operating surplus** of enterprises (including gross income) at constant prices fell by 3.1%. The slump in activity was steeper in construction and the tertiary sector and milder in the primary sector and in industry (for January-September data, see Table III.4).

In the first nine months of 2013, **industrial production** fell by 3.6% year-on-year. This development mostly reflected a decline in electric-

3 If the real estate management sector (for which value added seems to have increased in the first nine months of 2013, after rising also in 2011 and 2012) is not included, the decline is larger (-4.55%).

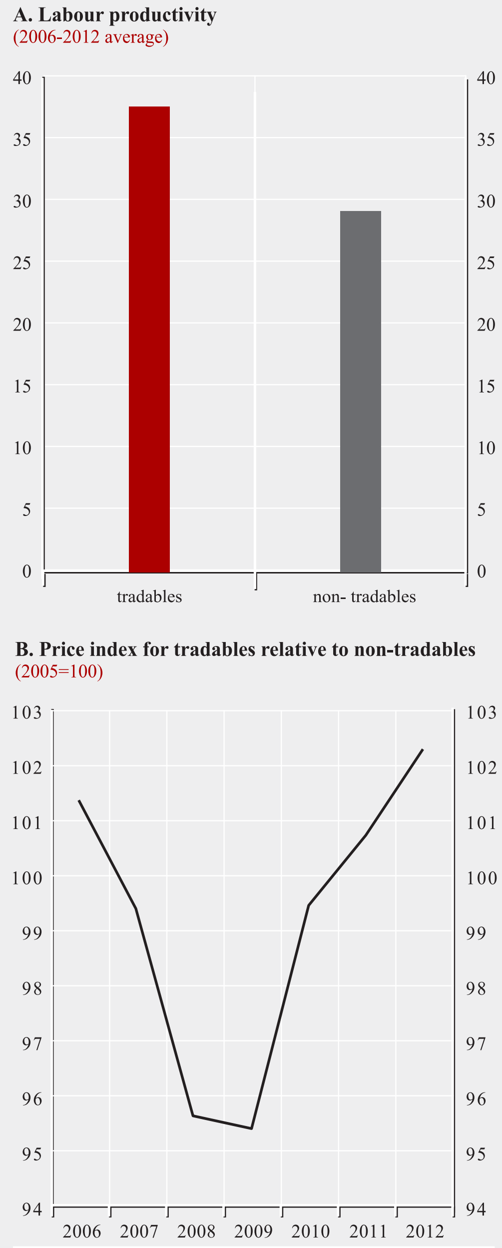
Chart III.5 Purchasing Managers' Index[1] (PMI) and industrial confidence (January 2005-November 2013)[2]



Sources: PMI: Markit Economics and Hellenic Purchasing Institute. Industrial confidence: IOBE (business expectations in industry) and European Commission.
1 Seasonally adjusted index; values over 50 indicate expansion.
2 Seasonally adjusted series; percentage balances.

ity production (-9.5%), due to a considerable drop in demand by residential consumers. On the other hand, manufacturing output decreased by a mere 1.2%, as output grew not only in oil refineries, but also in other industries, mostly in the sub-sector of consumer non-durables (paper, pharmaceuticals, textiles, clothing, as well as machinery and equipment – see Table III.5). The industrial confidence indicator and the Purchasing Managers' Index (PMI) for January-November 2013 appear to have improved relative to 2012, although they remain marginally below the growth/contraction threshold. Actually, the November 2013 value of the PMI was the highest observed since August 2009 (see Chart III.5). On a positive note, the industrial turnover index for the external market continued to increase in the first nine months of 2013, after a double-digit growth rate in 2012, thus partly offsetting the decline in domestic demand (see Table III.5). Indeed, according to the OECD's leading indicator of economic activity, industry is expected to recover in the following months.

Chart III.6 Average labour productivity for tradeables and non-traables and developments in their relative prices[1]



Sources: Eurostat and Bank of Greece calculations.
1 The non-tradables sector comprises retail and wholesale trade, construction, public administration services (including education and health services), as well as entertainment, arts and recreation activities.
Labour productivity is defined as gross value added (GVA) (output volume in thousands of euro, at constant prices of 2005) per person employed.
The price index is the implicit GVA deflator. Data on prices and productivity in trade and tourism for the year 2012 are based on estimates.

Table III.6 Activity indicators in the services sector (2009-2013)

(annual percentage changes)

	2009	2010	2011	2012	2013 (available period)
A. Services turnover indicators					
1. Trade					
Wholesale trade	-8.9	-5.9	-13.5	-12.2	-11.8 (Jan.-June)
Retail trade	-10.2	-1.1	-7.2	-11.0	-10.3 (Jan.-Sept.)
Motor trade	-15.7	-36.5	-26.5	-29.3	-6.2 (Jan.-June)
2. Transport					
Land transport	-31.5	-18.1	-1.7	-3.3	-9.3 (Jan.-June)
Sea transport	-22.8	-8.5	-2.7	-15.3	-8.6 (Jan.-June)
Air transport	-11.7	-7.0	-0.9	-1.1	5.1 (Jan.-June)
Storage and supporting transport activities	-32.2	-10.8	-7.9	-4.8	-6.4 (Jan.-June)
3. Hotels and restaurants					
Accommodation and food service activities	-9.1	-8.2	-7.4	-17.2	-2.0 (Jan.-June)
4. Information and communication					
Telecommunications	-8.9	-11.3	-8.9	-5.1	-13.7 (Jan.-June)
Film, video and TV programme production, recordings and music products	1.4	-6.6	-28.4	-4.9	-15.9 (Jan.-June)
Programming and broadcasting activities	-6.7	-2.1	-27.1	-16.3	-14.3 (Jan.-June)
5. Professional-scientific-technical activities					
Legal, accounting and management consulting services	-12.4	-7.3	-0.3	4.5	13.1 (Jan.-June)
Architectural and engineering services	-18.6	-20.4	-19.6	-12.3	-13.7 (Jan.-June)
Advertising and market research	-18.4	-23.8	-21.2	-16.7	-21.4 (Jan.-June)
Travel agencies and related activities	-9.9	-24.5	-35.3	-26.9	-2.8 (Jan.-June)
B. Passenger traffic					
Athens International Airport	-1.5	-5.0	-6.3	-10.4	-4.0 (Jan.-Oct.)
Aegean Airlines[1]	9.9	-5.1	4.2	-5.8	9.0 (Jan.-Sept.)
Piraeus Port (OLP)	-3.8	-6.0	-0.8	-17.5	-0.6 (Jan.-June)
C. Business expectations index in the services sector	-28.3	-9.3	-2.9	-11.2	28.2 (Jan.-Nov.)

Sources: ELSTAT (services turnover), Athens International Airport, Aegean Airlines, Piraeus Port Authority (OLP) and IOBE (expectations).
1 Including charter flights.

Business expectations in **construction** in January-November 2013 were negative, though substantially better than in 2012 (see Table III.3 and Chart III.3). The outlook for this industry will inevitably depend on whether the restart of infrastructure projects can offset the continued decline in residential construction.

The year-on-year decline of 4.1% in value added in the **services sector** in January-September 2013 contributed by 3.3 percentage points to the change in total gross value added in the same period (see Table III.4 and Table III.6 for a comprehensive presentation of developments by subsector in the tertiary sector in the first half of the year). The fall was stronger in the first quarter, while the second quarter benefited from higher tourist traffic (see also Section III.5).

Tourist arrivals in September, on the basis of the Bank of Greece border survey, rose by

17.5%, with a significant increase in arrivals from non-EU-28 countries. Travel receipts (at constant prices), excluding cruise receipts, rose by 23.3%, as average expenditure per trip grew by 5% (from €591 per trip in September 2012 to €620 in September 2013). In January-September, tourist arrivals rose by 15.2% and travel receipts (at constant prices) by 17.7%. The increase in tourist receipts in 2013 is estimated to have added between 0.8% and 1.0% to GDP.

Restructuring on the supply side of the economy has been slow; however, it is encouraging that price developments (see Chart III.6B) provide an incentive for a shift of resources from the non-tradables to the tradables sector, where productivity is much higher (see Chart III.6A).

1.2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

Pressures on market values, prices and rents of **residential and commercial property** continued in January-September 2013. The real estate market still suffers from excessive supply and a substantial decline in demand, which is mainly attributable to the dramatic rise in unemployment and the decrease in household disposable income, the hikes in property taxes and the instability of the tax framework, as well as liquidity shortages, given tighter credit standards (see Chapter V).

The drop in prices in the **residential market** continued unabated in January-September 2013. On the basis of data collected from credit institutions, apartment prices in nominal terms fell at an average annual rate of 11.6%, 11.8% and 9.2% in the first, second and third quarter of 2013, respectively, against 11.7% for 2012 as a whole. Since the onset of the current crisis, the cumulative decline in apartment prices reached 32.0% (or 37.6% in real terms), while data from major real estate agencies suggest an even larger decline. The fall in house prices was stronger in the two major urban centres (Athens: -32.7%; Thessaloniki: -38.0%), as well as for larger properties in the relatively more expensive locations of the country.

The average offer period is estimated to have reached almost one year in the third quarter of 2013 (against 5 months in early 2009), while the discount on the asked price averaged 21.5% (against 12.6% in early 2009).

In the third quarter of 2013, barely 16.0% of transactions was financed by bank lending (against 82.1% in early 2009), with the average loan-to-value ratio reaching around 28% (against 70% in early 2009).[4]

As regards **commercial property**, both rents and purchase values shrank further in January-September 2013 (average year-on-year change: -18.6% and -18.2%, respectively). Some dim signs of stabilisation are recorded in the retail store property market, which has come under the strongest pressure since the onset of this crisis.

As regards the **development of public property**, the pace of implementation remains slow and cash revenue is meagre. The most important deals so far include the privatisation of the International Broadcasting Centre (IBC) at the Municipality of Amaroussion; the property at Kassiopi, Corfu; the sale of five buildings abroad (in London, Brussels, Tashkent, Belgrade and Nicosia); the forthcoming agreement on the privatisation of the buildings at Paliouri, Chalkidiki; and, most importantly, the recent agreement on the sale and development of the Astir Palace Vouliagmeni property, as well as the sale & lease back of 28 public buildings, from which the Hellenic Republic Asset Development Fund (HRADF) expects to gain €261 million by end-2013.

Real estate tenders in progress include the Afandou property on the island of Rhodes and, most importantly, the grounds of the former Hellinikon international airport.

4 See the results of the survey among real estate agencies on the Bank of Greece website: http://www.bankofgreece.gr/Pages/el/Statistics/realestate/publications.aspx.

The outlook for tourism and leisure real estate is benign. An indication of mobilisation of foreign investment funds is their participation in the share capital of Greek Real Estate Investment Companies (REICs). This development is also attributable to the new institutional framework (Law 4141/2013), which introduced significant improvements and provided additional incentives. These incentives are expected to further boost REICs and attract investment, and may also lead to the creation of new schemes. Moreover, some possible stabilisation or improvement in market conditions is reflected in available data from the quarterly survey conducted by the Real Estate Market Analysis Section of the Bank of Greece among real estate agencies and consultants, as well as indices released by IOBE (business expectations in construction and months of secured production in construction).

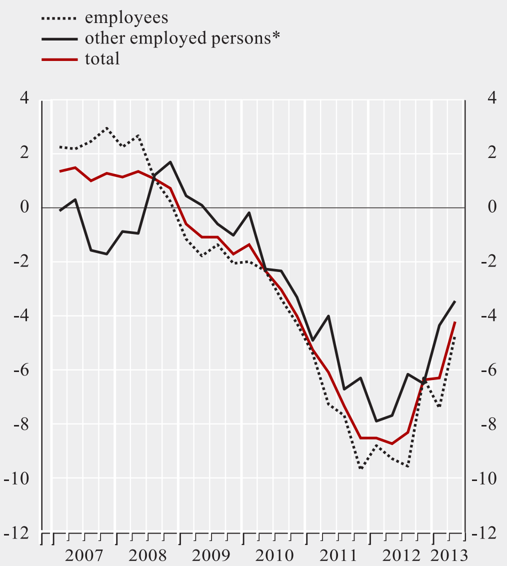
However, there remain certain important factors that inhibit the medium-term recovery of activity in the Greek real estate market, cause potential investors to defer direct investment in real estate, and keep demand depressed. Issues that have yet to be resolved, such as the finalisation of the unified property tax, the reduction in the transfer tax, the adjustment of objective values to real market levels, the liberalisation of commercial property leases, as well as continued concerns about possible additional measures to cover a possible fiscal gap, compounded by investor expectations of a further decline in prices and financing constraints, all discourage decisions to undertake major new investment initiatives.

2 EMPLOYMENT AND UNEMPLOYMENT: DEVELOPMENTS AND PROSPECTS

The ELSTAT Labour Force Survey (LFS) data, as well as data from the IT application ERGANI of the Ministry of Labour, Social Security and Welfare, show that the **annual rate of decline in the number of employees** decelerated substantially in 2013 (see Chart III.7). In the first half of 2013, the number of employees in the private sector was 7.8% lower year-on-year, while in 2012 the rate of decline was around 9.6%. In July-September 2013, ERGANI data show —on a monthly basis— significant positive employment flows, and the cumulative balance of jobs for the 10-month period is clearly positive (130.7 thousand persons), after being negative in the corresponding period of 2012 (-16.8 thousand persons). This could be the most important sign of a turning point for the economy. Moreover, the past few months saw a marked improvement in businesses' short-term outlook for employment, as reflected in IOBE/European Commission business surveys, and the ALBA and Manpower surveys.

Chart III.7 Employment

(year-on-year percentage changes)

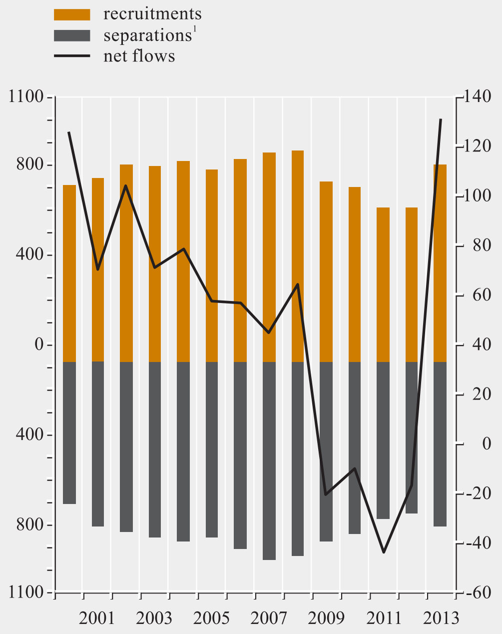


Source: ELSTAT, Labour Force Surveys.
* Other employed persons = self-employed with employees (employers) + self-employed without employees + unpaid family workers.

In 2013, the bulk of job losses were recorded in **large enterprises**, in contrast with previous years, when large enterprises had suffered significantly less losses than small ones. Actually, hirings in the first half of 2013 were mostly recorded in small enterprises. Despite this recent development, the structure of employ-

Chart III.8 Salaried employment flows in the private sector

(thousand persons, January-October of each year)



Sources: Manpower Employment Organisation (OAED) and ERGANI System.
1 Including voluntary quits, as well as employment contract terminations and expirations.

Chart III.9 Probability[1] of remaining in employment/unemployment for two consecutive years

Source: ELSTAT, Labour Force Surveys.
1 Probabilities calculated based on responses to questions no. 79 and 91 of the Labour Force Survey.

ment by company size has changed compared with the situation before the onset of the crisis, and the share of the employed in large enterprises has increased substantially.

Recent developments in private sector employment mostly reflect the increase in the hiring ratio and, secondarily, lower layoffs (see Chart III.8). This is confirmed by the fact that in the second quarter of 2013 the probability of remaining in unemployment for two consecutive years declined marginally, but still more than the increase in the probability of remaining in employment for two consecutive years (see Chart III.9). These developments may reflect the impact of cutbacks in wages and institutional reforms in the labour market. Stronger increases in net hiring are recorded in the primary sector and in certain subsectors associated with tourism (accommodation, food service activities, travel agencies, etc.). By contrast, in the secondary sector (manufacturing and construction), separations (due to layoffs, expiration of fixed-term contracts, retirement) exceed hirings. The probability to be hired is higher for the young educated than for the older or less educated, while the probability to be fired is higher for young and less educated persons.

2013 also saw a deceleration in the annual rate of decline in the number of the **self-employed** (from -7.8% in the first half of 2012 to -3.9% in the first half of 2013, see Chart III.7), particularly the self-employed without personnel.

The share of **part-time employment** is now higher than in the past, both among those hired in the past few years and among long-established employees. Thus, in the first half of 2008, among private sector employees already employed for at least two years, 4.6% were part-time workers. The corresponding percentage in 2013 was 11.6%, while for those hired after 2011 it is 21.8%. Moreover, according to the electronic reporting of all enterprises through the ERGANI system (5.12.2013), workers on part-time employment or job rotation account for 20.2% of total employees on a private law contract. The employees' **average weekly hours worked** in the private sector (in the first and the second job) are around 4.5% less in the first half of 2013 against the corresponding period of 2008.

Since many of those who have lost their jobs were employed on **fixed-term contracts**, the share of employees on fixed-term contracts has not risen among those with a longer tenure nor among the recently hired.

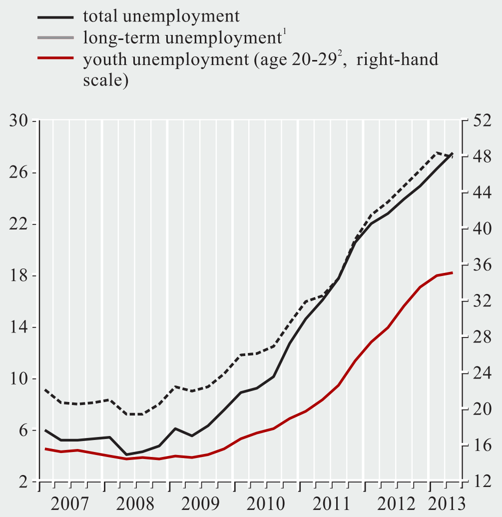
From the first half of 2008 up to and including the first half of 2013, the number of the employed fell by around 933 thousand. Of this decrease, 54% is attributable to private sector employees, 18% to the broader public sector, and 28% to the self-employed. Of those that have stopped working since 2008, 31.4% are pensioners and do not seek employment, 12.1% are not seeking a job, and the remaining 56.5% are job-seekers. The increase of one million in the number of the unemployed during the same period is attributable to the fact that new job-seekers were added to those who stopped working and are looking for a job.

Together with the deceleration in the rate of decline in employment, both the LFS and the OAED data reveal a slowdown in the increase in the **number of the unemployed**. However, unemployment is still extremely high, standing at 26.9% in August 2013 (see Chart III.10). A very high share of the unemployed has remained in this condition for 12 months or more: the long-term unemployment rate (i.e. those who remain jobless for 12 months or more to the labour force) is 18% (see Chart III.10) and the very long-term unemployment rate (i.e. 24 months or more) is 11.9%.

In 2014, the average unemployment rate is expected to decline by around one percentage point against the average rate of 2013. During 2014, both the number of the employed in the private sector and the number of the self-employed are expected to increase slightly. In this respect, a substantial contribution is expected from employment and training pro-

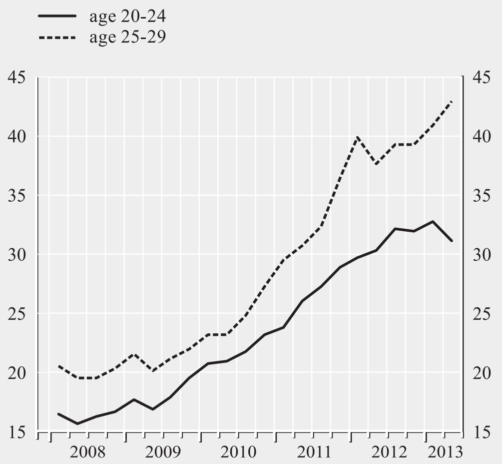
Chart III.10 Unemployment rates (2007 - Q2 2013)

(percentage of labour force)



Source: ELSTAT, Labour Force Surveys.
1 Defined as having been unemployed for over 12 months.
2 As a percentage of the labour force of the same age group.

Chart III.11 Persons not in education, employment or training as a percentage of same age population



Source: ELSTAT, Labour Force Surveys.

Table III.7 Contributions to the inflation differential between Greece and the euro area (2008-2013)

(percentage points)

	2008	2009	2010	2011	2012	2013 (Jan.-Oct.)
Average annual HICP inflation differentials	**1.0**	**1.1**	**3.1**	**0.4**	**-1.5**	**-2.0**
Contributions:						
Core inflation	0.77	0.91	1.60	-0.04	-1.64	-2.44
of which						
Services	0.56	0.64	0.71	0.01	-0.86	-1.77
Processed food	-0.14	0.14	0.52	0.21	-0.29	-0.21
Non-energy industrial goods	0.35	0.13	0.37	-0.26	-0.49	-0.46
Unprocessed food	0.03	0.39	-0.12	0.08	-0.16	-0.19
Energy	0.24	-0.25	1.66	0.40	0.35	0.62

Source: Calculations based on Eurostat and ECB data.

grammes of OAED, which are necessary in the current economic conjuncture, as their purpose is to prevent the skills of the unemployed from becoming obsolete, rather than to substitute for private initiative.

3 INFLATION, LABOUR COSTS AND PROFITS: DEVELOPMENTS AND PROSPECTS

3.1 INFLATION

In January-November 2013, the average annual rate of change in the Harmonised Index of Consumer Prices (HICP) stood at -0.8% (2012: +1.0%). The rate of decline in prices accelerated over this eleven-month period, reaching -2.9% in November 2013. The effect of indirect taxes on average inflation dropped to 0.24 percentage point in January-November 2013, from 0.91 percentage point in 2012. Core inflation (excluding changes in energy and unprocessed food prices) stood at -1.8% in January-November 2013 (2012: -0.1%).

The course of HICP is mainly attributable to the continued decline in labour costs, the moderate (compared with 2012) increase in international oil prices, the decrease in the carry-over effect from previous indirect tax increases and the recent reduction in the VAT rate on food services. These factors are expected to linger until the end of 2013 and in the first half of 2014. Therefore, HICP inflation is expected to stand at -0.8% on average in 2013, while core inflation is expected to reach -1.8%. Over the medium term, high unemployment and weak demand in the economy will contribute to keeping inflation on negative territory.

Negative inflation is expected to have a positive effect on real income and the purchasing power of consumers, as well as on the price competitiveness of the economy, especially in exports and tourism. However, the risk it entails is that, if it persists for a prolonged period of time, it may anchor expectations that harm investment and the real economy in general, since they squeeze business profit margins and raise the real cost of borrowing.

3.2 LABOUR COSTS

The large decrease in average earnings in total economy continued also in 2013. According to Bank of Greece estimates, in 2013, average earnings fell by 7.4%[5] (2012: -6.6%). This devel-

5 According to ELSTAT, compensation per employee (on a national accounts basis) decreased at an annual rate of 7.4% in January-September 2013, while the index of wages in the total economy (excluding the primary sector and household activities – non-seasonally adjusted data) fell at an annual rate of 9.7% in the first half of the same year.

Table III.8 Earnings and labour costs (2007-2014)

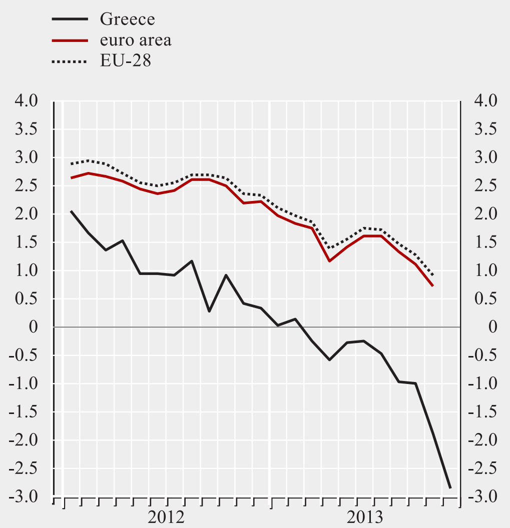
(annual percentage changes)

	2007	2008	2009	2010	2011	2012	2013 (estimate)	2014 (forecast)
Greece								
Average gross earnings (nominal):								
– total economy	*5.2*	*6.2*	*4.6*	*-4.6*	*-1.7*	*-6.6*	*-7.4*	*-1.5*
– central government[1]	3.8	7.1	5.2	-7.7	-0.5	-3.8	-4.8	0.0
– public utilities	7.1	8.2	7.7	-5.5	-7.9	-9.5	-10.0	0.0
– banks	8.9	0.0	3.7	-1.8	0.1	-7.5	-10.0	-6.3
– non-bank private sector	6.1	6.5	2.8	-2.9	-1.7	-9.3	-8.0	-1.4
Minimum earnings	**5.4**	**6.2**	**5.7**	**1.7**	**0.9**	**-19,6[3]**	**-2.9[3]**	**0.0**
Average gross earnings (real)	**2.2**	**1.9**	**3.3**	**-8.9**	**-4.7**	**-7.6**	**-6.7**	**...**
Total compensation of employees	**8.2**	**8.5**	**3.2**	**-6.9**	**-8.1**	**-14.0**	**-11.5**	**-1.2**
Compensation per employee	**5.6**	**6.8**	**4.9**	**-4.0**	**-0.7**	**-6.0**	**-7.5**	**-0.8**
Unit labour costs:								
– total economy	4.5	8.7	6.4	-2.1	-1.1	-8.1	-7.8	-1.7
– business sector[2]	5.3	7.9	4.4	-1.1	-3.5	-12.3	-8.7	-2.2

Sources: ELSTAT (GDP for 2007-2012), Bank of Greece estimates/forecasts (for GDP in 2013-2014 and the other annual aggregates in 2007-2014).
1 Average compensation per employee.
2 The business sector includes private and public enterprises and banks.
3 Average annual change, based on the cut of minimum earnings by a percentage between 22% (for persons aged 25+) and 32% (for persons under 25), as of 15 February 2012.

Chart III.12 Harmonised index of consumer prices

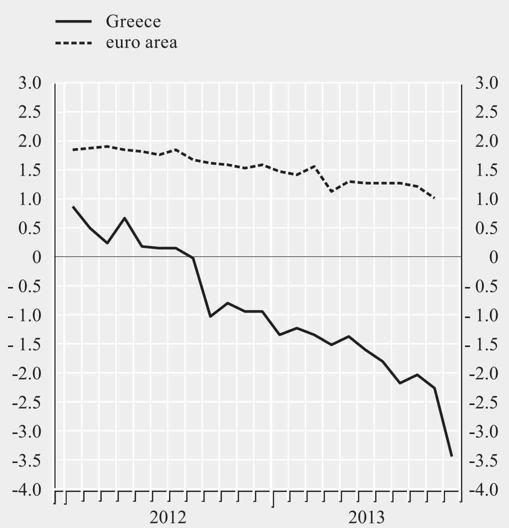
(year-on-year percentage changes)



Sources: Eurostat and ELSTAT.

Chart III.13 HICP core inflation (excluding energy and unprocessed food)

(year-on-year percentage changes)



Sources: Eurostat and calculations based on ELSTAT data.

opment is attributable to (a) the institutional arrangements adopted in October 2011 and February 2012 to enhance flexibility in the labour market, (b) the on-going fiscal consoli-

Table III.9 Average earnings and unit labour costs in total economy: Greece and the euro area (2001-2014)

(annual percentage changes)

Year	Average earnings		Unit labour costs	
	Greece	Euro area	Greece	Euro area
2001	4.7	2.8	3.9	2.4
2002	6.6	2.7	5.5	2.5
2003	5.6	2.9	2.3	2.2
2004	7.2	2.6	4.3	1.0
2005	4.4	2.2	3.4	1.3
2006	5.7	2.5	2.2	1.1
2007	5.2	2.5	4.5	1.4
2008	6.2	3.4	8.7	3.8
2009	4.6	1.8	6.4	4.3
2010	-4.6	2.0	-2.1	-0.6
2011	-1.7	2.2	-1.1	0.8
2012	-6.6	1.8	-8.1	1.9
2013 (estimate)	-7.4	1.8	-7.8	1.1
2014 (forecast)	-1.5	1.8	-1.7	0.7

Sources: For Greece, Bank of Greece estimates; for the euro area: European Commission, *European Economic Forecast, Spring 2013*.

dation and (c) the economic recession that is affecting wage bargaining.

In 2013, businesses continued to resort to the conclusion of individual labour contracts and collective enterprise-level agreements to a larger extent than before 2012. From the beginning of 2013 to early December 2013, 385 enterprise-level agreements were signed, while since the end of October 2011 (when the relevant legislative framework was amended by Law 4021) their total number has exceeded 1,397. Over the last three years, these contracts typically provide for a wage "freeze" or a downward adjustment of earnings by 10%-40%, while in the period of January-October 2013 the average decrease was 5.9% (according to ERGANI). It is estimated that, since the end of 2011, wage reductions through enterprise-level and individual labour contracts have affected at least 28.7% of employees in the business sector, while reductions through sectoral and occupational collective agreements have affected 27.5% of employees, and reductions through the conversion of full-time labour contracts to part-time or short-time contracts have affected 7.8% of employees.

In 2013, unit labour costs continued to decline for the fourth consecutive year (-7.8% in the total economy, -8.7% in the business sector), reflecting a considerable decrease in average earnings, as mentioned above, and a slight increase in productivity (for detailed Bank of Greece estimates, see Tables III.8 and III.9).

It is expected that in 2014 the average decrease in earnings will be very limited compared with the last two years, both in the public and the private sector. For some categories of employees, actually, the level of wages will remain stable, while average working hours in the private sector, after having followed a downward course since 2008, are likely to register a gradual increase. Thus, in 2014 unit labour costs are expected to decline by 1.7% in the total economy and 2.2% in the business sector, also reflecting a slightly faster rise in productivity as the economy starts to recover.

All the above imply that the target set in the 2nd Economic Adjustment Programme (Law 4046/February 2012) for cutting back unit labour costs by 15% in the period 2012-2014 will be overshot by a wide margin, as the cumulative reduction over these years will reach 21.7%.

3.3 BUSINESS PROFITS

On the basis of the profits-to-turnover ratio of non-financial corporations listed on the Athens Exchange (Athex), both gross and net profit margins continued narrowing in the January-September 2013 period. In particular, according to the published financial statements of 164 Athex-listed non-financial corporations,[6] sales dropped by 7.5%, gross profits by 11.0% and net profits before tax by 52.2%. Therefore, the gross profit margin decreased by 0.6 percentage point (to 14.1%, from 14.7% in January-September 2012) and the net profit margin by 1.8 percentage points (to 1.9%, from 3.7%). Moreover, return on equity (ROE) and return on assets (ROA) fell (to 1.5%, from 3.2%, and to 0.7%, from 1.3%, respectively). The non-financial accounts of institutional sectors published by ELSTAT also indicate a considerable decline in the profits of non-financial corporations, showing that, in the first half of 2013, the net operating surplus of non-financial corporations decreased at an annual rate of 17.4%.

Nevertheless, a different picture of the evolution of profit margins in the economy emerges when the change in unit labour costs in the total economy (annual estimate: -7.8%) is compared with the change in the GDP deflator (-2.2% in January-September 2013). This comparison indicates in principle that profit margins in total economy have widened.[7] However, it takes into account only labour costs, ignoring other input costs (raw materials and intermediate products, energy consumption), financial costs and the tax burden on businesses.

4 COST COMPETITIVENESS AND STRUCTURAL COMPETITIVENESS

As a result of the substantial decrease in unit labour costs in recent years, the cost competitiveness lost between 2001 and 2009 has been fully recouped (see Table III.10). However, in terms of Greece's real effective exchange rate based on consumer prices, the competitiveness losses have not yet been fully recouped. This reflects the fact that prices have fallen less than unit labour costs, due to the impact on businesses of rising energy costs and indirect tax increases, and to distortions in domestic product markets.

6 This figure does not include the two refineries.
7 The ratio of GDP deflator to unit labour costs is often used as an indicator of profit margins in the economy.

Table III.10 Nominal and real effective exchange rate (EER) indices[1] (2000=100)

	Nominal EER	Real EER*			
		Broad EER-28		EER-euro area	
		CPI-deflated	ULCT-deflated	CPI-deflated	ULCT-deflated
2000	100.0	100.0	100.0	100.0	100.0
2009	115.5	118.7	131.9	109.2	121.6
2010	112.2	118.1	125.2	112.6	119.8
2011	112.7	118.6	122.3	113.0	117.4
2012	110.5	114.2	107.4	111.3	105.7
2013**	112.7	113.5	99.3	108.9	95.7

Sources: For Greece, Bank of Greece (unit labour costs in the total economy); for competitor countries: ECB (exchange rates, CPI, unit labour costs).
* The index is subject to regular revisions.
** Estimates.
1 Nominal and real EER indices are computed against: a) the broad group of Greece's 28 main trading partners (broad EER-28); and b) the rest of the euro area (EER-euro area). Weights are calculated on the basis of imports and exports of manufacturing goods (SITC 5-8).

In terms of structural competitiveness, which is perhaps of greater significance, Greece continues to occupy one of the lowest positions among the developed economies, according to global rankings.[8] However, recent progress has been considerable, as Greece recently received the highest score on responsiveness to OECD reform recommendations.[9] Greece also improved its ranking considerably in the World Bank's "ease of doing business index", moving up 6 places to the 72nd position, after simplifying procedures for starting a business and especially after eliminating the paid-in minimum capital requirement for a new type of private company (IKE). Quite impressively, Greece improved its global position on the ease of starting a business by 110 spots, climbing from 146th in 2012 to 36th in 2013.

5 BALANCE OF PAYMENTS: DEVELOPMENTS AND PROSPECTS

The current account balance posted a surplus of €2.6 billion in the first nine months of 2013, against a deficit of €2.8 billion in the corresponding period of 2012 (see Chart III.14). This improvement reflected a decline of €2.8 billion in the trade deficit and increased surpluses (up €2.1 billion and €1.3 billion, respectively) in current transfers and services. By contrast, the income account deficit grew by €796 million (see Table III.11). As a result of the above developments, the current account surplus is expected to come close to 1% of GDP this year and around 2% in 2014. The extent to which these forecasts will materialise will depend on the effectiness with which conjunctural problems are addressed, namely exporters' difficult access to financing and the ability to attract tourists from "new" markets such as Japan and China, which still account for a small number of visitors to Greece. Looking forward, the path of the current account balance in the years ahead will depend mainly on import substitution and on

8 According to the World Economic Forum's Global Competitiveness Index (September 2013), Greece ranks 91st among the 148 countries studied (up from 96th in 2012). Among the 60 economies covered by the World Competitiveness Scoreboard (May 2013), Greece ranks 54th, up from 58th in 2012.

9 OECD, *Economic Outlook*, 94, November 2013 and Lisbon Council (2013), *Euro Plus Monitor* 3.12.13.

Table III.11 Key components of the balance of payments

(million euro)

	January-December			January-September		
	2010	2011	2012	2011	2012	2013
I CURRENT ACCOUNT BALANCE	**-22,506.0**	**-20,633.5**	**-4,615.0**	**-14,738.0**	**-2,806.1**	**2,553.7**
Trade balance	-28,279.6	-27,229.1	-19,619.0	-20,991.2	-15,651.8	-12,893.0
Services balance	13,248.5	14,629.6	15,138.9	12,031.4	12,920.6	14,219.4
Income balance	-7,673.8	-8,594.8	-1,566.4	-6,431.0	-1,637.8	-2,434.3
Current transfers balance	198.9	560.8	1,431.5	652.8	1,562.9	3,661.5
II CAPITAL TRANSFERS BALANCE	**2,071.5**	**2,671.8**	**2,327.6**	**1,152.1**	**1,582.7**	**2,782.3**
III CURRENT ACCOUNT AND CAPITAL TRANSFERS BALANCE (I+II)	**-20,434.5**	**-17,961.7**	**-2,287.4**	**-13,585.9**	**-1,223.4**	**5,336.0**
IV FINANCIAL ACCOUNT BALANCE	**20,853.9**	**17,838.1**	**2,658.2**	**14,777.4**	**2,561.2**	**-4,316.5**
Direct investment[1]	-927.0	-452.6	827.1	-1,962.1	897.5	943.1
Portfolio investment[1]	-20,855.0	-19,778.3	-99,903.9	-16,944.5	-75,584.1	-7,497.7
Other investment[1]	42,538.8	38,050.0	101,744.1	33,778.0	77,262.8	2,296.1
RESERVE ASSETS	4,777.0	5,332.0	5,500.0	4,409.0	5,941.0	4,559.0

Source: Bank of Greece.
1 (+) net inflow, (-) net outflow.

the sustainability of rising exports. The latter will in turn hinge upon success in addressing long-standing weaknesses, such as the low technology content of exports and the absence of a national strategy for promoting country branding.

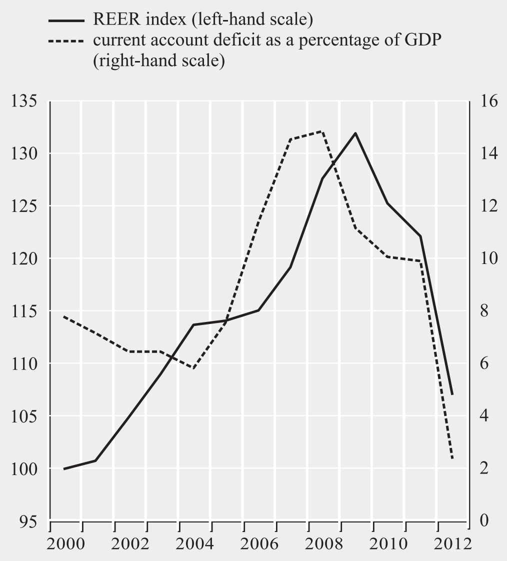
The marked decline in the trade deficit (see Table III.11) was for the most part due to a significant drop in the net oil import bill, as a result of higher exports in parallel with lower imports. Weak foreign demand and the liquidity constraints faced by Greek businesses dampened export receipt growth, with the sectors of fuels and food-beverages being the main drivers of export receipts (see Chart III.15). Turning to the geographic breakdown of goods exports, it appears that the shift towards non-EU markets in 2012 that had underpinned the positive growth of export receipts did not continue in 2013, with the share of Greek goods exports to the euro area markets increasing more than than those to non-euro area countries (see Chart III.16). In any case, Greece's global export market share for goods has risen by 25% in the past three years (2010-2012), reaching a post-2000 high in the first quarter of 2013 (see Chart III.17).

Total imports of goods continued to fall, due to further declines in disposable income and activity, albeit at a slower pace than in 2012. Expressed in real terms, the decrease in imports is estimated to have been smaller, reflecting lower import prices.

The services balance surplus rose by €1.3 billion in January-September 2013, mainly due to higher net travel receipts which more than offset lower net transport receipts.

More specifically, during the first nine months of 2013, tourist arrivals rose by 15.2% and travel receipts by 14.4%. According to estimates from the Association of Greek Tourism Enterprises (SETE) for all of 2013, total arrivals will increase by roughly 13% to 17.5 million, which should be mirrored in a similar increase in travel receipts. This optimistic outlook stems largely

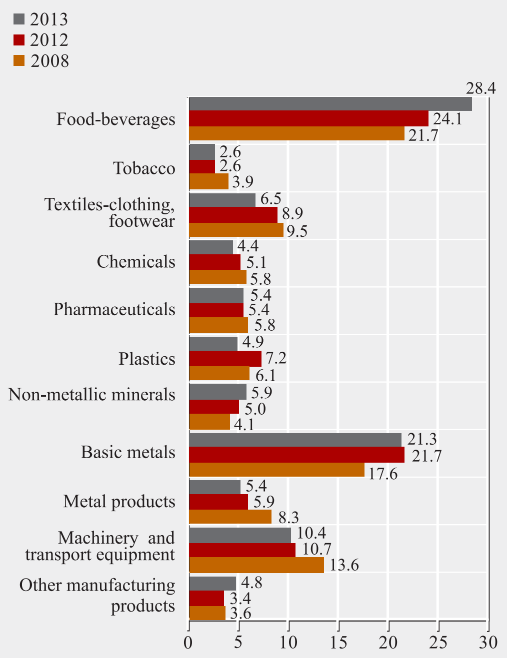
Chart III.14 Current account balance and real effective exchange rate (REER)[1]



Sources: Bank of Greece and ELSTAT.
1 Based on unit labour costs in the total economy (ULCT). 2000=100.

Chart III.15 Sectoral breakdown of Greek exports of goods

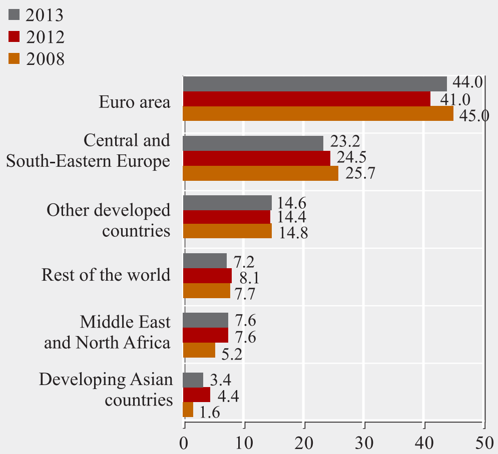
(percentage of total export receipts excluding fuel and ships*)



Source: Bank of Greece, Balance of payments statistics.
*Includes only those receipts that are classifiable, i.e. receipts above the threshold for reporting the product code.

Chart III.16 Greek exports of goods, by destination

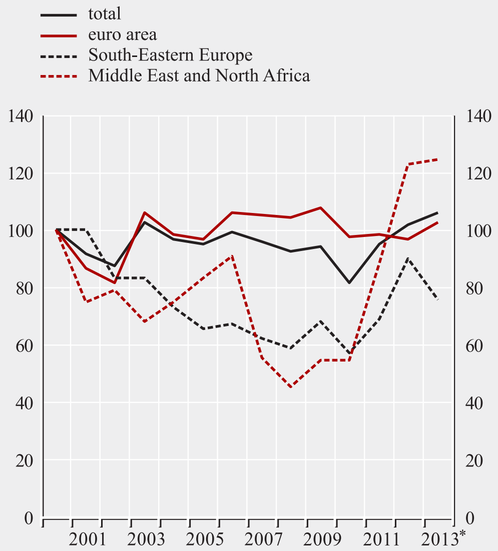
(percentage of total value of non-fuel exports)



Source: Eurostat, COMEXT database.

Chart III.17 Market share of Greek exports of goods

(value of Greek exports as a percentage of world exports, by region, index: 2000=100)



Source: IMF, Direction of Trade Statistics.
*Q1 data.

from the ongoing geopolitical tensions in competitor destinations in North Africa and the Eastern Mediterranean, as well as from developments in the cruise market once cabotage restrictions were lifted. According to provisional data from the Bank of Greece Border Survey for the first half of 2013, cruise receipts increased by 9.5% year-on-year.[10] For this trend to continue, however, the necessary structural reforms will have to be speeded up, namely the construction of cruise-related infrastructures so that the benefits of cabotage liberalisation can be reaped; the enhancement of yachting infrastructure; and the effective implementation of Law 4179/2013 on the simplification of procedures for fostering tourism entrepreneurship.[11]

In the area of **transports**, net receipts in the first nine months of 2013 decreased year-on-year, due to lower international freight rates. Net shipping receipts have declined by around 30% overall since 2008, as a result of excess global supply. For 2013, shipping capacity is expected to see a net increase of about 5%, while freight transport demand should rise by about 4%.[12] According to Moody's latest report on the shipping industry,[13] recovery is expected by the second half of 2014, with roughly half of the expected increase in freight rates translating into higher receipts from shipping services.[14]

Despite a sharp decline in net interest payments on Greek government securities held by non-residents following the PSI, as well as the lower interest payments on loans under the support mechanism due to a reduction in interest rates, the income account deficit widened by €796 million in January-September 2013 relative to the corresponding period of 2012. This widening reflected a decline in inflows from non-residents made in previous years to make up for the losses of foreign banks operating in Greece, as well as an increase in net interest payments on deposits and loans in Sep-

10 2012 saw an estimated total of 1.7 million cruise visitors, only 9% of whom embarked at a Greek home-port.
11 According to the World Economic Forum's Travel and Tourism Competitiveness Index for 2013, Greece ranks 32nd among 140 countries, down from the 29th position in 2011.
12 Estimates by G. Moundreas & Co SA. The prospect of an alignment of the growth rate of supply with that of demand is encouraging, as it will serve to halt the downward trend in freight rates. Indeed, sea freight rates (as measured by the BDI) in 2013 were low until July, but have been trending upward since August.
13 Moody's (2013), Global Shipping Industry, June.
14 See Bragoudakis, Z. and S. Panagiotou (2010). "Determinants of the receipts from shipping services: The case of Greece", Bank of Greece, *Economic Bulletin*, 34.

tember. Government interest payments to non-residents are expected to be higher in 2013 than in 2012, while interest payments on loans under the support mechanism are expected to remain roughly at 2012 levels.

During the nine-month period under review, the **current transfers balance** showed a surplus of €3.8 billion, up by €2.1 billion over the same period in 2012, mainly due to higher net transfers to general government (received mainly from the EU). According to provisional estimates from the Bank of Greece, net current transfers from the EU are expected to come to €3.2 billion in 2013 and €2.0 billion in 2014.[15] In the nine months under review, the capital transfers balance showed a surplus of €2.8 billion, compared with a surplus of €1.6 billion during the same period of 2012, mainly thanks to higher absorption of EU funds. According to provisional estimates from the Bank of Greece, net capital transfers from the EU are expected to reach €4.2 billion in 2013 and €3.8 billion in 2014.

During the first nine months of 2013, the **financial account balance** showed a net outflow of €4.3 billion (against a net inflow of €2.6 billion in the corresponding period of 2012). This was mainly due to a net outflow of €7.5 billion under portfolio investment (compared with an outflow of €75.6 billion one year earlier), mostly divestment of Greek government bonds and Treasury bills by non-residents. This outflow was offset by higher net inflows under "other" investment, mainly €30.6 billion in loans to general government (compared with €75.1 billion in the corresponding period of 2012) and an inflow resulting from a €16.1 billion decrease in residents' deposit and repo holdings abroad (compared with a €13.7 billion decrease in the first nine months of 2012). Meanwhile, there was an outflow of €40.9 million as a result of decreased deposits and repo hodlings by non-residents, including the TARGET account, against an outflow of €11.9 billion one year earlier.

Direct investment in the first nine months of 2013 remained broadly unchanged from 2012. The level of direct investment in 2014 will depend on the realisation of investment plans by large multinational enterprises.

15 Current transfers from the EU mainly include direct aid under the Common Agricultural Policy (CAP) and transfers from the European Social Fund. For the period January-August 2013, current transfer inflows include ANFA and SMP profit transfers of 330 million and 1.5 billion, respectively.

Special Feature III.1

SOURCES OF FINANCING AND INVESTMENT OF THE DOMESTIC PRIVATE SECTOR

The aim of this special feature is to review the Greek private sector's financing sources and investment since 2000, assess the current state as far as financing of the economy is concerned and look at the prospects for financing the economic recovery. The private sector is defined to comprise households, sole proprietors and non-financial corporations. The focus is on the private sector as a whole, as the large number of small-sized (family) enterprises in Greece renders it difficult to make a distinction between enterprises and households in terms of saving and investment. The analysis combines, for the first time, national accounts data on the private sector's real investment and savings (internal financing) with financial data on the sector's financial investment and external financing from banks, bond markets, the stock exchange and private placements.[1,2] In the current

1 This analysis uses the statistical series on Greece's national and financial accounts, as available on the European Central Bank's Quarterly Integrated Euro Area Accounts database. The primary data sources are ELSTAT and the Bank of Greece, although some of the ECB data are somewhat different from the primary data due to differences in methodology. The ECB regularly publishes comprehensive information on the income, expenditure, saving, financing and financial investment of the euro area's institutional sectors (households, non-financial corporations, general government, financial corporations), as well as of the external sector – see e.g. ECB, *Monthly Bulletin*, February, May, August and November. Detailed data on the euro area as a whole, as well as individual euro area countries, can be found on the ECB's website at http://sdw.ecb.europa.eu/browse.do?node=2019181.
2 In the context of this analysis, the term "external financing" should not be confused with foreign financing.

circumstances, understanding the big picture of the private sector's financing sources is of particular relevance. This analysis is a first attempt in this direction and it is naturally not without flaws.

Bank credit and private savings used to be the two main pillars of financing for the private sector in the past. Table A summarises the financing sources and investment of the domestic private sector, as percentages of GDP, over the 2000-2013 period. The table includes averages for the 2000-2008 period as a basis for comparison and, on the other hand, for the 2009-2013 period following the global financial crisis, as well as for selected years (2000, 2008 and 2012) and for the first half of 2013 (latest available data).

Private sector financing: the 2000-2008 period

Over the 2000-2008 period, the total flow of financing to the domestic private sector corresponded, on average, to 29.4% of annual GDP. This percentage is broken down as follows:

- 13% of GDP from debt financing, mainly bank lending (11.7% of GDP) and, to a lesser extent, corporate bond issues (1.3% of GDP);[3,4]
- 11.5% of GDP from private sector savings – chiefly retained corporate earnings (9.4% of GDP);
- 1.6% of GDP from net capital transfers (mainly from the EU); and
- 2.7% of GDP from equity financing and (mainly) private placements.

It is worth noting that bank lending accounts for almost 40% of total financing to the private sector (both internal and external).

Of total financing, 19.6% of annual GDP was used for gross capital formation (real investment) and 13.8% for financial investment. The total investment of the private sector (33.4% of annual GDP) exceeded total private sector financing (29.4% of GDP) by 3.7% of GDP per annum. This discrepancy is attributable to statistical errors, differences in methodology between national accounts data and cash flow data and probably also, to some extent, tax evasion, since undeclared incomes do not appear in the national accounts but are captured as bank deposits and financial investment by the private sector in the financial accounts.

Given that non-residential gross capital formation by non-financial corporations amounted to 9.9% of GDP on average in 2000-2008, a substantial proportion of total private sector financing (about two thirds) was used for residential construction, private consumption and financial investment, mainly in the form of household deposits and to a lesser extent stock and bond holdings.

Private sector financing: the 2009-2013 period

The global financial crisis of 2008 resulted in a financing gap, as the total financing of the domestic private sector dropped below the level of gross capital formation (see Chart A).[5] It is worth pointing out that the financing gap emerged in the first quarter of 2010 (before the MoU was signed), following the collapse of the global money and capital markets and the drying-up of inter-

3 Borrowing through corporate bond issues was chiefly bank lending, since credit institutions were often the only bondholder.

4 ECB examines data from Greece's national accounts concerning total credit extended by domestic and foreign Monetary Financial Institutions (MFIs). Bank of Greece examines credit developments by looking at data on a sub-category of this total credit, i.e. credit extended by domestic MFIs only.

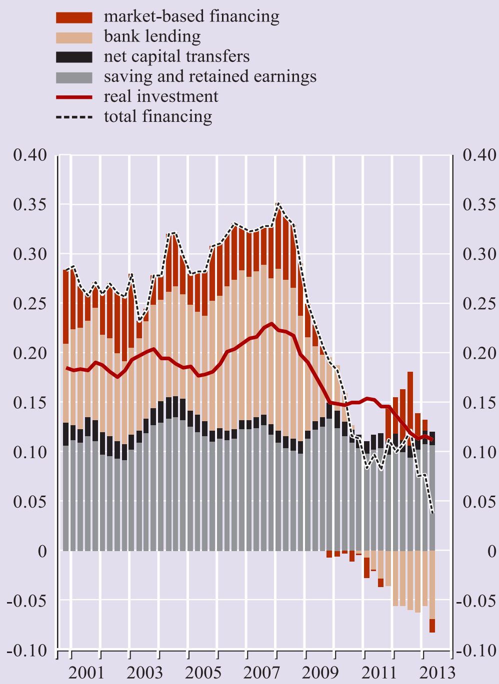
5 The term "financing gap" refers to the difference between the private sector's total financing and gross capital formation. If this difference is negative, the private sector finances gross capital formation by reducing its financial wealth (deposits, holdings of shares, bonds, etc.).

bank funding. The decline in external financing initially stemmed from the collapse of stock and corporate bond markets with the onset of the crisis in 2008 and was later intensified by the squeeze in bank lending in 2009-2010.

Overall, the annual external financing of the private sector fell from 16.4% of GDP on average in the pre-crisis period to 2.6% of GDP on an average annual basis in 2009-2013.[6] The strongest decline was recorded in bank lending, which dropped from 11.7% of GDP in the 2000-2008 period to 0.9% of GDP in 2009-2013 and -6.8% of GDP in the first half of 2013.[7] By contrast, the internal financing of the private sector remained at relatively high levels as a percentage of GDP, as unit labour costs in the private sector declined considerably and companies cut back on dividend payments and postponed their investment plans. Net capital transfers to non-financial corporations remained broadly unchanged, although they represented rather small amounts (1.3% of GDP in 2012-2013).

Chart A Financing sources of the private sector

(as a percentage of GDP)



Source: Bank of Greece.

The financing gap mainly affected financial and residential investment and, to a lesser extent, gross fixed capital formation by non-financial corporations. As a result of the financial crisis initially and the sovereign debt crisis later on, the financial investment of the private sector declined substantially, from 13.8% of annual GDP in 2000-2008 to 1.3% in 2009-2013 and -5.5% of GDP in the first half of 2013. Over the same period, residential construction investment dropped from 10% to 5% of GDP annually (and to less than 3% in 2012 in the first half of 2013).

The structure and historical evolution of fixed capital formation

Residential investment in Greece was the predominant type of household investment in the 1960-1980 period, when it was more than double (19% of GDP) the size of gross business fixed investment in plant, machinery and equipment (9% of GDP, see Chart B). From the mid-1970s to the late 1990s, residential investment followed a strong downward trend, as household savings gradually fell and interest rates on mortgage loans rose to prohibitive levels. This trend came to a halt following Greece's entry into the euro area in 2001, as bank financing increased considerably and mortgage rates declined, but was resumed more strongly following the global financial crisis in 2008 and the ensuing sharp fall in bank lending.

Between 2008 and 2012, as a result of the lack of external financing and the deep recession in the economy, private investment fell dramatically, from 20% of GDP in 2008 to 11.4% of GDP in 2012.

6 External financing is defined as the sum of funds raised through bank loans, corporate bonds, equity financing and capital transfers, see Table A.
7 The ECB data point to a stronger decline in bank lending than the corresponding data of the Bank of Greece, as they refer to total credit extended to the private sector by domestic and foreign MFIs. In the first half of 2013, the net flow of credit to households and non-financial corporations by domestic MFIs was -4.4% of GDP.

Table A Financing and investment of the domestic private sector[1]

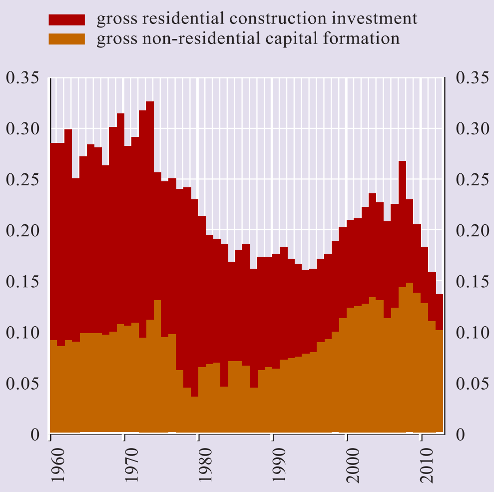
(as a percentage of GDP)

	2001-2008	2009-Q2 2013	2000	2008	2012	Q2 2013[2]
Financing						
Bank credit[3]	11.7%	0.9%	8.1%	12.7%	-6.3%	-6.8%
Corporate bond issues[4]	1.3%	0.4%	2.7%	3.8%	-0.5%	-0.9%
Equity financing[5]	2.7%	0.8%	4.7%	0.2%	1.0%	-0.1%
Other financing	0.7%	0.5%	0.0%	1.3%	1.8%	-0.4%
Saving and internal financing[6]	11.5%	10.9%	10.7%	9.9%	10.2%	10.7%
Net capital transfers[7]	1.6%	1.3%	2.2%	1.2%	1.3%	1.3%
Total financing	**29.4%**	**14.8%**	**28.4%**	**29.0%**	**7.6%**	**3.8%**
Investment						
Real investment[8]	19.6%	15.1%	18.5%	19.9%	11.4%	11.2%
Financial investment	13.8%	1.3%	9.7%	16.4%	-7.8%	-5.5%
Deposits, banknotes, bonds	10.0%	-0.6%	9.3%	13.5%	-6.7%	-3.2%
Shares	3.7%	2.9%	0.7%	4.2%	-1.6%	-2.5%
"Other" investment[9]	0.1%	-0.9%	-0.4%	-1.3%	0.6%	0.2%

Source: European Central Bank (Quarterly Integrated Euro Area Accounts).
1 Comprising households and non-financial corporations.
2 To ensure comparability with data for previous years, this column shows the averages of the past four quarters (Q3 2012-Q2 2013).
3 ECB data on bank credit concern credit extended by domestic and foreign MFIs, whereas Bank of Greece data concern credit extended by domestic MFIs only.
4 Excluding corporate bonds issued on international markets via foreign subsidiaries.
5 Financing in the form of secondary offering, private placement and derivatives.
6 Total gross household saving (before depreciation and after taxes) and non-financial corporations' gross disposable income (before depreciation and after taxes).
7 Most notably including resources from EU Structural Funds.
8 Gross capital formation. Including investment in residential construction and land acquisition.
9 Investment in social insurance funds and derivatives.

Chart B Gross fixed capital formation

(as a percentage of GDP)



Source: ELSTAT.

However, it should be noted that **two thirds of the collapse of private investment concerned residential investment** (see Chart B), which as a percentage of annual GDP fell from 12% in 2007 to 3% in 2012-2013.

In contrast to the collapse in residential construction investment, private business investment in fixed assets and machinery, despite a significant contraction in absolute terms, showed a much weaker decline, from 9.7% of GDP, on average, in 2000-2008 to 8.2% of GDP in 2012-2013. This suggests that, even amidst the crisis, non-financial corporations continued to invest in new capital equipment, although net investment (when calculated net of depreciation) has become negative in the past two years. The latter is due to a surge in depreciation of fixed capital, which, according

Table B Private sector[1] financing and investment

(as a percentage of GDP)

	2000-2008		2009-2013		2000-2013	
	Greece	Euro area	Greece	Euro area	Greece	Euro area
Borrowing	13.0%	10.1%	1.3%	4.1%	9.0%	7.7%
Bank credit	*11.7%*	*9.5%*	*0.9%*	*3.4%*	*8.0%*	*7.0%*
Bond issues	*1.3%*	*0.5%*	*0.4%*	*0.7%*	*1.0%*	*0.6%*
Equity financing	2.7%	3.8%	0.8%	2.7%	2.0%	3.3%
Other financing	0.7%	1.7%	0.5%	0.5%	0.6%	1.2%
Saving and internal financing	11.5%	18.9%	10.9%	18.8%	11.3%	18.8%
Net capital transfers	1.6%	1.0%	1.3%	0.9%	1.5%	0.9%
Real investment	19.6%	18.6%	15.1%	17.0%	18.1%	18.0%
Financial investment	13.8%	17.0%	1.3%	10.0%	9.5%	14.1%
Deposits, banknotes, bonds	10.0%	4.9%	-0.6%	3.5%	6.2%	4.3%
Shares	3.7%	4.0%	2.9%	3.4%	3.6%	3.7%
"Other" investment	0.1%	8.1%	-0.9%	3.0%	-0.3%	6.1%

Source: European Central Bank (Quarterly Integrated Euro Area Accounts).
1 Comprising households and non-financial corporations.

to national accounts data, rose from 10% of GDP in 2000-2008 to 19.5% of GDP in 2012-2013, probably reflecting the wave of corporate insolvencies in the private sector.[8]

Investment and sources of financing in Greece and the euro area

Table B outlines the differences between Greece and the euro area in terms of the structure of the private sector's financing sources and investment. Between 2000 and 2008, bank financing of the private sector in Greece corresponded to 11.7% of annual GDP, compared with 9.5% of GDP in the euro area.[9] The stronger reliance of the domestic private sector on bank credit is largely explained by institutional factors that determine financial structure, but also partly reflects the low saving rate in Greece (11.5% of GDP, compared with 18.9% of GDP in the euro area). It should be noted, however, that the latter is mainly due to the low saving rate of households, rather than low profits of enterprises. In fact, household saving has been negative over the past two years. Yet, even before the crisis, Greek household saving was low (2000-2008: 2.1% of GDP, compared with 9.4% of GDP in the euro area), while household investment (mainly residential construction) was high (12% of GDP, compared with 6.9% of GDP in the euro area), on the back of rapid credit expansion over that period.

As regards investment, differences between Greece and the euro area mostly refer to the level and structure of financial investment. The private sector's financial investment as a percentage of GDP has always been lower in Greece relative to the euro area (13.8% in 2000-2008, compared with 17% in the euro area) and was mainly focused on deposits and bonds before the crisis. From 2008 onwards, total financial investment fell sharply. In the euro area, private sector financial investment is focused on "other investment", predominantly investment in pension funds (2000-2008: 8.1% of GDP in the euro area, compared with 0.1% of GDP in Greece).

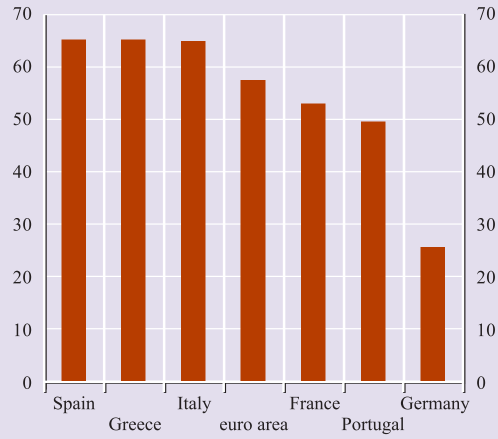
8 The doubling of depreciation costs as a percentage of GDP during the crisis is not consistent with the fact that the collapse of investment concerns, by two thirds, residential construction investment, given that depreciation rates are significantly lower for houses than for machinery equipment. In general, depreciation in national accounts data is difficult to estimate in times of crisis and presents methodological problems across the world.

9 The 2.2 GDP percentage point differential against the euro area is greater (3.5% of GDP), if corporate bond issues are also included in bank lending.

Bank credit is the main source of external financing for the private sector in both Greece and the euro area. By contrast, in other advanced economies such as the United States, private sector financing is, for the most part, market-based. The Greek economy actually appears to be more bank-based than the euro area economy: in 2000-2008, bank credit accounted for 65% of the private sector's average annual external financing in Greece, compared with 57% in the euro area (see Chart C). The role of banks in the external financing of the private sector is important also in other countries of the European South, such as Spain and Italy. The structure of a country's financial system is associated with institutional aspects such as its legal system and investor protection. Countries with a common law tradition typically provide stronger protection to minority shareholders and bondholders against actions of the management and larger shareholders. This has enabled financial markets to develop more rapidly in these countries, as opposed to countries with a civil law tradition, which tend to exhibit high levels of bank intermediation.[10]

Chart C Bank financing of the private sector

(as a percentage share of total external financing, 2000-2008)



Source: European Central Bank (Quarterly Integrated Euro Area Accounts).

Current state of play and future outlook

The private sector is currently facing a severe shortage of external financing, particularly due to the squeeze in bank credit. The forecast recovery of the economy will need to be driven by business investment focused on export-oriented sectors of activity. However, as long as the household saving rate remains negative, putting pressure on the banking system's deposit base, banks' capacity to finance such investments will, at least in the short term, remain limited. Thus, in order to support recovery, alternative sources of financing investment and economic recovery will need to be found.

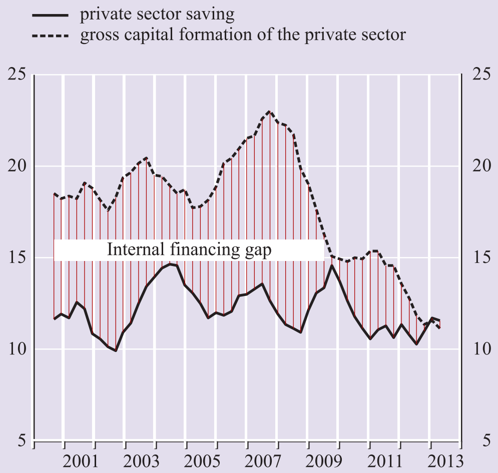
Currently, private non-financial investment corresponds to 11.2% of GDP.[11] This is very low both by historical standards and relative to other countries (euro area: 18.6% of GDP in 2000-2008, 16% of GDP in 2013) and needs to be raised gradually to 16%-18% of GDP, in order to bring the economy back on a path of sustainable growth. If the focus of such investment is on export-oriented sectors with high productivity and growth prospects, the economy will make permanent gains in terms of job creation, productivity and competitiveness.

In 2013, Greece managed to eliminate its twin deficits, i.e. the primary fiscal deficit and the current account deficit. This also implies an elimination of the internal financing gap of the private sector. This gap is illustrated in Chart D as the difference between real investment and savings (as percentages of GDP) of the private non-financial sector (households and non-financial corporations). As seen in the chart, the closing of the internal financing gap is attributed to the collapse in private investment rather than a rise in savings, which remain low as a percentage of Greek GDP compared with other countries (2013: 10.7% in Greece, compared with 18.2% in the euro area). However, as internal financing

10 See Demirgüç-Kunt, A. and R. Levine (2001), *Financial structures and economic growth: A cross-country comparison of banks and development*, MIT Press, Cambridge, and De Jong, A., R. Kabir and T. Nguyen (2008), "Capital structure around the world: the roles of firm- and country-specific determinants", *Journal of Banking and Finance*, Vol. 32, No. 9, pp. 1954-1969.
11 Calculated as the average of the past four quarters (Q3 2012-Q2 2013).

Chart D Internal financing gap

(as a percentage of GDP)



Source: European Central Bank (Quarterly Integrated Euro Area Accounts).
Note: Private sector saving: saving of households and non-financial corporations. Including net capital transfers to households.

grows in importance in times of high uncertainty and increased business risk, the fact that private-sector (mainly company) savings now form a basis for a stabilisation of investment at its current low levels is no doubt a positive factor.

Tax policy is expected to play a decisive role in the performance of investment in the next few years, because any additional tax burden on households and on retained corporate profits would deprive the private sector of valuable financing resources, thereby slowing down the recovery of investment and overall activity. It should also be noted that, in a market economy, the availability of sufficient funds in the private sector to finance a recovery of investment does not necessarily mean that these funds will actually be used. Investors make choices based on expected return and risk. Thus, the proportion of savings that will be channelled into the real economy depends on the future return and business risk of real investment, as perceived by an average investor, compared with the corresponding return and risk of financial investments.

In light of the above, it is clear that, in order for investment to recover and be able to effectively support the rebalancing process of the economy towards a new model of export-led and sustainable growth, additional financing from other sources will be needed.

Which could be such alternative sources of financing that would complement the flow of bank credit to the economy?

First, debt financing from the **corporate bond markets**. In the first ten months of 2013, major Greek businesses with access to international markets raised €3.7 billion (2% of GDP) on the corporate bond market.[12] The revision of the legal framework governing corporate bond issues in Greece could foster the development of a domestic corporate bond market for smaller businesses with limited access to international markets. In this vein, it is important to strengthen the protection of bondholders' rights vis-à-vis company management and shareholders.

Second, **equity financing**. Over the period 2000-2007, net funds raised from existing and new shareholders corresponded, on average, to 2.9% of GDP per year. For the most part, these funds concerned non-listed corporations. As investor confidence in the prospects of the Greek economy gradually grows, participation in the capital of domestic companies will increasingly become more attractive for prospective investors.

Third, resources available from the **EU Structural Funds**. Over the period 2000-2008, Greek businesses absorbed funds equal to around 1.6% of GDP per year to finance investment. In 2013, total resources from the EU Structural Funds are estimated at €4.2 billion (2.3% of GDP).

12 This financing is not reflected in the corporate bond issues data reported on Table A and Chart A, because it was raised on foreign markets with the intermediation of foreign banks.

Fourth, resources available from **the European Investment Bank (EIB)**. In 2013-14, the EIB is expected, via domestic partner banks, to co-finance loans to small- and medium-sized enterprises (SMEs) amounting to €1.4 billion. According to estimates from the domestic partner banks, SME loans totalling €635 million will have been extended by end-2013, with the remaining €805 million expected for 2014. Furthermore, in June 2013, the EIB signed an agreement with Greece on the 'Trade Finance' facility, providing guarantees to commercial banks for trade financing to exporting and importing SMEs (letters of credit and other trade finance instruments) to support a volume of transactions up to €1.5 billion per year.

It is also worth noting that the European Council has taken significant initiatives ahead of the 2014-2020 programming period, in order to establish, at the EU level, new financing instruments to support SME investment projects. These instruments will be jointly financed by the EU Structural Funds and the EIB, and are expected to cover a wide range of facilities, from guarantees for commercial bank loans to SMEs to securitisation of SME loans.

Foreign direct investment (FDI) will serve as an additional source of financing, benefiting from the speeding up of privatisations that will serve to attract foreign capital. Over the past ten years, FDI in Greece has remained low at 0.8% of GDP on an average annual basis, compared with 2.6% of GDP in the euro area as a whole, 2.1% in Ireland, 2.3% in Portugal, 5.4% in Romania and 14% in Bulgaria.

Conclusions

The rapid decline in credit growth following the 2008 global financial crisis resulted in a financing gap for investment. This financing gap mainly affected the private sector's financial and residential investment and, to a lesser extent, domestic companies' gross fixed capital formation. Apart from bank credit, alternative sources to finance private investment should be explored in two directions:

First, tapping capital markets, in particular markets for corporate bonds, equity and private placements. The access of domestic companies to market-based financing will improve, as confidence in the economy's outlook strengthens. Having said that, it is necessary to implement significant institutional reforms that will foster the development of financial markets in Greece, as well as to speed up privatisations for attracting foreign funds.

Second, bolstering official programmes of loan co-financing and guarantees with resources from the EU Structural Funds and the European Investment Bank, and developing new initiatives on SME credit support at the European level.

Overall, resources from EU Structural Funds, bond markets, the stock exchange and the EIB can cover a significant part of the economy's financing gap. Part of this financing (National Strategic Reference Framework and EIB support) will be channelled through banks and will underpin bank lending, especially to small- and medium-sized enterprises.

Over the medium term, the improved macroeconomic environment and the effective management of banks' troubled assets will gradually help to restore conditions of normal credit provision in the economy, thus underpinning growth. In the long run, it is essential that the economy's shift towards a new growth model is accompanied by a shift to a new model of financing healthy business activity with a greater emphasis on capital markets and private savings.

Special Feature III.2

CREDITLESS RECOVERY? LESSONS FROM INTERNATIONAL EXPERIENCE

The recapitalisation of the banking system and the stabilisation of the deposit base have undoubtedly strengthened Greek banks' ability to finance the economy. Nevertheless, so long as there is a lack of new deposits and the NPL ratio continues to be high, banks' ability to extend new loans shall remain limited. Still, the contraction in credit growth does not necessarily hamper economic recovery. One of the main conclusions in the international literature is that one in four economic recoveries overall and half of economic recoveries after a banking crisis occur without credit growth.

The notion of a "creditless recovery"

The notion of a "creditless recovery", which was first introduced by Calvo et al. (2006), has been gaining increasing attention in academic research on the global financial crisis. In the recent literature, this term refers to an economy's return to positive growth rates without a concurrent pick-up in bank lending.

Recent empirical studies show that 25% of recoveries are creditless (see Abiad et al. 2011 and Bijsterbosch and Dahlhaus 2011). Furthermore, it is estimated that the frequency of creditless recoveries doubles after a banking crisis and tends to increase even further if the recession and the banking crisis are preceded by a credit boom (Takats and Upper 2013).

This Special Feature provides an overview of academic findings and international evidence with regard to creditless recoveries. More specifically, it attempts to explore the conditions which render such a recovery more likely, examines alternative mechanisms through which economic activity may be financed in the absence of credit and briefly presents selected cases of creditless recoveries undergone by other economies.

Conditions which render a creditless recovery more likely

Although the "creditless recovery" literature is fairly recent, there seems to be a consensus on some preliminary conclusions concerning the conditions that increase the probability of such an economic rebound. The findings of the literature suggest that creditless recoveries are more probable when:

1. the recession is deep, given that there is unused production capacity in the economy (high unemployment and low capacity utilisation), which can readily be used to propel growth even during a liquidity crunch.

2. considerable gains in competitiveness were recorded during the recession, as a rebound in exports is thus facilitated, regardless of liquidity conditions.

3. a sharp improvement in the current account balance took place during the recession, reflecting an extensive restructuring of the economy towards tradable and exportable products.

4. the economy's export-orientation was already high prior to the crisis, as in this case the recovery may be export-led.

5. there are no capital controls, given that the free movement of capital enables and consequently increases the probability of abrupt capital outflows having taken place since the onset of the crisis, thereby exacerbating the ensuing liquidity shortage.

6. the recession is accompanied by a banking or financial crisis, given that the availability of more funding for the private sector is hindered against this background.[1]

7. an easing in the fiscal policy is observed during the recession, as a widening of the cyclically-adjusted fiscal deficit as a percentage of GDP effectively boosts demand and can to a certain extent substitute for the lack of bank liquidity.

Alternative sources of financing to support economic growth

It is particularly important to grasp the alternative channels through which it has been established that the recovery of economic activity may be financed in the absence of credit growth. Despite the prevailing view that bank credit constitutes the only source of liquidity, the international literature suggests that, in fact, there exist several other alternative sources. The main sources are summarised below.

A key point on which academic studies converge is that the rebound of economic growth in the absence of bank credit mainly rests upon the utilisation of the spare production capacity which accumulated during the recession. Therefore, in the short run, an increase in bank credit is not considered a prerequisite for economic recovery and improving investment climate (Calvo et al. 2006 and Sugawara and Zalduendo 2013).

With the first signs of an imminent recovery, sound businesses tend to finance their expansion either by tapping into own funds and net savings or through retained profits, i.e. by paying out lower dividends to shareholders (Claessens et al. 2009). Listed companies can also take advantage of their ability to raise new funds on capital markets via capital increases. Larger companies often opt for raising liquidity in the form of borrowed funds through the issuance of corporate bonds in international money markets. Lastly, export-oriented firms with long-established and steady trade partnerships typically resort to trade credit from their trading partners abroad, thereby offsetting to a certain extent the lack of bank credit (Claessens et al. 2009). Therefore, it is evidenced that sound and productive business units have several alternative sources of financing at hand which they can draw on to finance an expansion of their business activities once the economy begins to exit from the recession, and which appear to have been tapped into in past cases of creditless recovery.

In the context of the present discussion, special emphasis should be placed on attracting foreign direct investment (FDI), given that it constitutes a highly effective way of financing new economic activity.[2] It has been observed that a rise in FDI contributes considerably to the restart and speeding up of economic recovery, as well as to higher productivity in the economy, as it generally leads to the inflow of up-to-date know-how and, as a rule, is directed towards highly dynamic economic sectors.[3]

The introduction of carefully targeted tax cuts for selected economic sectors, e.g. export-oriented industries, may also underpin a restructuring of the economy and help attract FDI, since they bring about an improvement in liquidity conditions, enabling an expansion of these sectors' economic

1 It should be noted that the empirical results on this point are not entirely unanimous, since Sugawara and Zalduendo (2013) have found that this variable is not statistically significant if other macroeconomic variables are taken into account.
2 Alfaro et al. (2010) have found that foreign direct investment has a positive effect on economic growth, particularly in advanced economies.
3 During economic recessions which are coupled with a financial crisis, total investment tends to drop abruptly and rebound with a time lag, partly reflecting the collapse of the real estate market (Claessens et al. 2010 and Jorda et al. 2011). Therefore, the role of FDI (often through the capital market) in boosting economic activity becomes all the more important (Jovanovic 2012). Conversely, there is evidence that low FDI is associated with a high probability of a double-dip recession (Jovanovic 2013).

activity despite the limited access to bank credit (Aghion et al. 2009). In this way, economic activity is boosted while, at the same time, the foundations for steady medium-term growth are laid.

In general, it is both probable and desirable that a recession leads to a reallocation of available financial resources towards sectors that deliver internationally competitive and tradable goods and services. As a result of the recession, a gradual shift of bank credit into such sectors may also occur, as banks tighten their credit standards for the approval of new loans. Thus, in their core function as intermediaries, financial institutions continue to finance both the restructuring and the recovery itself of the economy, even while bank credit as a whole seems to remain stagnant.

Selected examples of creditless recoveries

The international literature has explored numerous instances of creditless recoveries.[4] The bulk of such recoveries refers to emerging market economies, as the occurrence of this phenomenon is clearly more frequent among them. Some illustrative examples are the cases of Argentina in 2002, of Mexico in 1995 and of Uruguay in 1985, which actually recorded fast growth rates. However, the study of all recorded creditless recoveries shows that the average GDP growth rate is about 30% slower, compared with recoveries during which growth is backed by a pick-up in credit.

The cases of Ireland, Latvia and Iceland following the recent global financial crisis are the most frequently cited contemporary examples of creditless recovery in advanced economies. Especially in the case of Latvia, this phenomenon has been pronounced, as over the past three years rapid real GDP growth (of about 5% year-on-year) has been recorded, with a concurrent decline in total bank credit to the private sector. The high export-orientation of these countries appears to have played a decisive role. Both in Ireland and in Latvia, it is considered that the recovery was primarily driven by a sharp increase in their exports, which reached 108% and 61% of GDP, respectively, in 2012. For Latvia in particular, the low level of public debt additionally allowed for the pursuit of a less restrictive fiscal policy, thereby mitigating to a certain degree the decline in domestic demand and normalising liquidity conditions. Turning to the Icelandic recovery, in addition to the country's export orientation,[5] a drastic depreciation of the local currency acted as a catalyst in boosting export activity. The latest example of a creditless recovery seems to be provided by the euro area itself, which has recently rebounded from the recession with a concurrent drop in bank credit to the private sector.

Conclusion

Creditless recoveries are far from rare events at the international level and are increasingly observed among advanced economies during their gradual exit from the recent global recession. Empirical evidence from around the world suggests that the rate of economic recovery in such instances is usually slower, thus making a creditless recovery less attractive than a rebound with credit expansion. This finding is consistent with the empirically documented view that an increase in liquidity has a positive short-term effect on real economic activity. Nevertheless, it has been observed that there are alternative sources of financing growth, which are used by firms in the absence of bank credit and which can support economic recovery during its early stages. Furthermore, it is clear that these alternative sources of financing as well as the inherent tendency of the financial sector towards a more targeted extension of credit following a recession encourage a gradual shift in the economy's structure of production towards more productive sectors. Therefore, even in the event of a creditless recovery, the role of the banking system remains pivotal.

4 See Sugawara and Zalduendo (2013) for a recent detailed recording.
5 Iceland's exports came to 59% of GDP in 2012, as reported by the World Bank.

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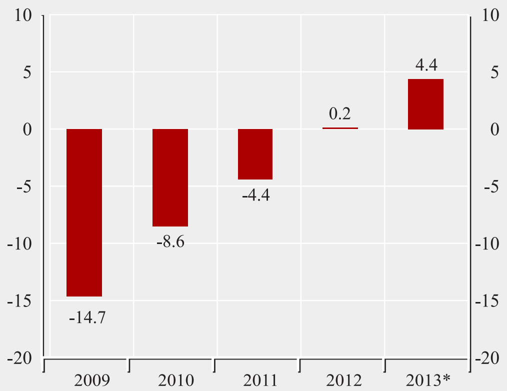
IV FISCAL DEVELOPMENTS AND PROSPECTS

2013 marks a milestone for fiscal adjustment, as a primary surplus at the general government level appears to be within reach for the first time since 2002, while it is expected that the fiscal targets under the adjustment programme will be met for the second consecutive year. The structural primary balance of general government is anticipated to turn out as a surplus of about 4.4% of potential GDP at the end of 2013, bringing the overall improvement for the 2010-2013 period to an estimated 19 percentage points of potential GDP. The fiscal consolidation effort will have to be pursued with the same determination in 2014, as this will boost confidence in the economic prospects and help stabilise and then gradually reduce the debt-to-GDP ratio. Economic recovery is expected to significantly contribute to achieving primary surpluses and a sustainable fiscal adjustment.

Chart IV.1 Structural primary balance of general government

(percentage of potential GDP)



Source: Bank of Greece.
* Forecast.
Note: The structural primary balance of general government is calculated according to the Eurosystem methodology.

1 OVERVIEW OF DEVELOPMENTS AND PROSPECTS[1]

According to national accounts data, as announced by the Hellenic Statistical Authority (ELSTAT) and Eurostat in October 2013, the general government deficit stood at 9.0% of GDP in 2012, compared with 10.0% of GDP in the EDP notification of April 2013. This downward revision is explained by the fact that government support to financial institutions actually had a smaller impact on the general government deficit. Net of this impact, the general government deficit for 2012 would stand at 6.2% of GDP (see Table IV.1).

Fiscal consolidation is continuing for the fourth consecutive year with remarkable results – albeit at a high cost – rendering feasible the target for a primary surplus in 2013 at the general government level, according to the Economic Adjustment Programme (EAP) methodology. Based on 2014 Budget estimates, in 2013 a primary surplus of €812 million or 0.4% of GDP will be achieved at the general government level, according to the EAP methodology, against an EAP target for a balanced primary position.[2] This will be the second year in a row when the general government balance is expected to be in line with the fiscal targets of the 2nd EAP.[3] Available data for January-October regarding the execution of the state budget and the general government cash balance suggest that a primary surplus on a national accounts basis, according to the EAP methodology, is within reach in 2013. This implies that the fiscal adjustment effort will have to be pursued in the remainder of the year, in order to achieve the critical target for a primary surplus in 2013. In accordance with Eurogroup decisions of 27 November and 13 December 2012, the achievement of a primary surplus in 2013 is a prerequisite for additional measures by euro area Member States aimed

1 This chapter takes into account data available up to 3 December 2013.
2 The EAP methodology differs from the European System of Accounts methodology (ESA 95) in that the general government balance, particularly for 2013, does not include (a) the effect of government support to financial institutions; (b) ANFA returns, i.e. revenue passed on to Greece accruing to euro area NCBs from Greek government bonds held in their investment portfolio (not included in the PSI); (c) SMP income, i.e. revenue passed on to Greece accruing to euro area NCBs from Greek government bonds held for monetary purposes in the context of the Eurosystem's Securities Markets Programme (SMP) portfolio; and (d) a retrospective lending rate cut under the first Greek Loan Facility (GLF).
3 In 2012, the primary deficit stood at 1.5% of GDP in line with EAP targets (excluding ANFA returns, as well as payments under the programme of government support to financial institutions).

Table IV.1 General government and state budget deficits

(percentages of GDP)

	2008	2009	2010	2011	2012*
General government deficit[1] *(national accounts data - convergence criterion)*	**-9.8**	**-15.7**	**-10.7**	**-9.5**	**-9.0**
– Central government	-9.9	-15.4	-11.8	-9.0	-8.2
– Social security funds, local government, legal entities in public law	0.1	-0.3	1.1	-0.5	-0.8
General government deficit adjusted for net state support to financial institutions		-15.8	-11.1	-9.8	-6.2
State budget deficit					
Administrative data[2]	**-6.2**	**-14.6**	**-10.0**	**-10.9**	**-8.1**
Cash data[3]	**-7.4**	**-14.1**	**-10.5**	**-11.1**	**-5.5[4]**

Sources: Bank of Greece, Ministry of Finance and ELSTAT.
* Provisional data.
1 ELSTAT data, as notified to the European Commission (Excessive Deficit Procedure). Figures may not add up due to rounding.
2 State General Accounting Office data, as shown in the state budget.
3 Bank of Greece data for the state budget deficit (on a cash basis) excluding movements in the OPEKEPE account.
4 Excluding accrued interest of €4,751 million, paid in the form of EFSF notes, on PSI bonds, as well as interest payments of €519 million due to the debt buyback through EFSF notes.

to ensure a reduction in Greece's public debt to 124% of GDP by 2020 and well below 110% of GDP by 2022.

Taking into account the effect of the ongoing, albeit gradually easing, Greek economic recession, the Bank of Greece estimates that the structural primary balance will have improved by 19 percentage points of potential GDP over the period 2010-2013, yielding a surplus of around 4.4% of potential GDP by end-2013 (see Chart IV.1).[4]

2013 saw the adoption of important measures aimed at increasing tax revenue in a sustainable manner, such as the reform to the tax system incorporated into the new Income Tax Code or the new Unified Property Tax which is expected to be passed by Parliament by year-end and enter into force in 2014. The success of the fiscal adjustment programmes crucially hinges upon further broadening of the tax base, which must be achieved by curbing tax evasion rather than imposing new taxes or by continuously increasing the tax burden on those who already pay taxes. The empowerment of an independent General Secretariat for Revenue and the tax administration reform are expected to contribute to curbing tax evasion. Tangible progress in this direction would make it possible to ease the tax burden on those who already pay taxes, as this burden has increased substantially in the last few years.

In addition, to ensure better expenditure control, a number of measures have been taken, including the strengthening of fiscal rules and mechanisms for monitoring the proper execution of the approved budgets across all levels of general government (including public organisations and enterprises) and a broader entity coverage and strict implementation of Commitment Registers by all components of general government, as well as the speedier clearance of government arrears.

Efforts to restructure public organisations and enterprises —such as the Hellenic Broadcasting Corporation (ERT), the Hellenic Vehicle Industry (ELVO), the Hellenic Defense Systems (EAS), the Mining and Metallurgical Company (LARCO)— are currently in progress. There have been considerable delays, however, in implementing the prior actions for

4 IMF estimates are similar, as a recent study (IMF, *Fiscal Monitor*, October 2013) forecasts a cyclically adjusted primary surplus of 4.2% of potential GDP in 2013, i.e. an improvement by 17.8 percentage points of potential GDP against 2009.

reforming central government under the Economic Adjustment Programme. These actions include the preparation of updated organisation charts in public administration and the implementation of mandatory exit/mobility schemes.

Efforts to consolidate Greece's fiscal position and streamline the public sector must be continued over the coming years, as envisaged by the 2014 Budget and the 2013-2016 Medium-Term Fiscal Strategy framework (MTFS), in order to place the debt-to-GDP ratio on a downward path and speed up Greece's return to markets for financing. It is worth noting that for nine consecutive years from 1994 to 2002, Greece achieved primary surpluses, averaging 3.2% of GDP. Of course, during the 1994-2002 period the macroeconomic environment was much more favourable; nonetheless, there have been significant structural improvements in several components of the budget, making fiscal consolidation viable. Undoubtedly, an improved macroeconomic environment is a necessary condition for attaining the medium-term objectives of the fiscal adjustment effort.

The 2014 Budget targets a primary surplus of 1.6% of GDP, which is marginally higher than the EAP target for 2014 (1.5% of GDP). Efforts to achieve this target should focus on restructuring the public sector rather than increasing the tax burden. It is worth noting that, according to a recent OECD study for the year 2012, citizen satisfaction with and confidence in core public services (judicial, healthcare and education systems) are much lower in Greece than the OECD average.[5]

Consequently, the Greek State will need to focus mainly on improving the services provided, with a view to ensuring a more effective implementation of legislation, cutting red tape and reducing the administrative burden for citizens and firms, speeding up the administration of justice, introducing a simple, codified, transparent and growth-oriented tax framework and a more effective and efficient public administration that will be able to support the faster implementation of structural reforms.

Tightening the control of expenditures of the National Organisation for the Provision of Health Services (EOPYY) and social security funds, and curbing contribution evasion through cross-checks and enhanced control mechanisms, and, more generally, ensuring the viability of the social security system are still major priorities.

Improved public administration procedures through a more extensive use of e-government applications for better communication within public administration and faster service provision to citizens and firms, along with a reformed and modernised judicial system aiming at the speedy administration of justice, will be beneficial to the public and private sector in terms of productivity.[6]

Further improvement in tax administration and the tax collection mechanism are of crucial importance for combating tax evasion and fostering a climate of social justice, where everyone contributes to the fiscal consolidation effort according to their tax-paying capacity. According to the Economic Adjustment Programme, the targeted gains from improved revenue administration should reach 0.4% of GDP in 2014 and 1.5% of GDP by 2016.[7]

The forecast pick-up in economic activity, coupled with stepped-up anti-tax evasion action (e.g. tax audits and collection of tax arrears) are expected in the years ahead to help expand the tax base, increase tax revenue and further underpin fiscal consolidation.

Particular emphasis must be placed on speeding up the privatisation process, so as to make up for the shortfalls from the 2013 targets and strengthen the business environment, thereby helping to attract foreign investment.

5 The rate of satisfaction with, and confidence in, the judicial system in Greece is 38% (against an OECD average of 51%), while the corresponding rates for the healthcare and education systems are 29% and 46% (against OECD averages of 71% and 66%, respectively). See OECD, *Government at a Glance*, 2013.

6 See European Commission, *European Competitiveness Report, 2013.*

7 See IMF, *Fourth review under the extended arrangement under the extended fund facility, and request for waivers of applicability and modification of performance criterion*, July 2013.

2 CURRENT FISCAL DEVELOPMENTS (JANUARY-OCTOBER 2013)

General government (State General Accounting Office data)

According to general government data compiled by the State General Accounting Office, the general government balance in January-October 2013 was in deficit of 2.4% of GDP, compared with a deficit of 4.6% of GDP in the corresponding period of 2012. The general government primary balance in the same period was in surplus of 0.8% of GDP, compared with a deficit of 1.3% of GDP in the corresponding period of 2012. The improved balance in comparison with 2012 stemmed chiefly from lower interest payments and outlays for salaries and pensions and, to a lesser extent, SMP revenue; the payment of government arrears had a negative contribution, but will not affect the 2013 balance on a national accounts basis as these arrears concern previous fiscal years.

Government arrears to suppliers and tax refund arrears declined in October 2013 to €6,570 million, from €8,971 million in December 2012. According to the Ministry of Finance, arrears of €5.3 billion had been paid by November. However, new arrears have accumulated in the January-October period, amounting to €2.6 billion (of which €0.5 billion concern tax refunds).

According to the 2014 Budget, arrears of €6.6 billion will be paid to suppliers by the end of the year, against a target of €8.0 billion in the updated MTFS 2013-2016. The €1.4 billion shortfall is accounted for by the health sectors of the social security funds merged into the National Organisation for the Provision of Health Services (EOPYY) and by local authorities and is associated with legal and procedural obstacles or objections by the entities involved regarding arrears verification. In any event, these budgetary appropriations must be used for the payment of new arrears, in order to alleviate liquidity constraints in the economy.

State budget (administrative data)

The state budget recorded a deficit of 1.6% of GDP (€2,958 million) in January-October 2013, compared with a deficit of 6.3% of GDP in the corresponding period of 2012 (€12,258 million, see Table IV.2). The primary balance was in surplus of 1.4% of GDP, against a deficit of 0.6% of GDP in the corresponding period of 2012.[8]

The primary balance of the state budget overshot by about €5.6 billion the targets for the 10-month period[9] set by the Ministry of Finance, because of: (i) greater containment of primary expenditure under the ordinary budget and the Public Investment Budget (PIB); (ii) improved performance of PIB revenue; (iii) a moderation of tax refunds; and (iv) SMP revenue of €1.5 billion. Net of SMP income, the primary balance remains in surplus of 0.6% of GDP.

Ordinary budget revenue before tax refunds recorded a negative rate of change (-2.5%, against an updated annual target in the State Budget of -1.1%), albeit in line with the targets for the 10-month period. During this period, revenue was bolstered by the clearance of 2013 individual income tax returns, the collection of the property tax through electricity bills (EETHDE) and the payment of the Real Estate Tax (FAP) for fiscal years 2011, 2012 and 2013.

The shortfall in ordinary budget revenue before tax refunds against the annual target is mainly due to a decline in indirect tax receipts. This development is attributable to a delayed clearance of individual income tax returns and lower-than-expected collection of revenue from direct tax arrears and other direct taxes, while the collection of property taxes was better than expected, thanks to the EETHDE.

8 Excluding payments of government arrears, which are recorded in the cash balance, but including SMP revenue, not recorded in the cash balance.

9 The targets for the January-October 2013 period do not take into account SMP revenue. See State Budget Execution Monthly Bulletin, October 2013.

Table IV.2 State budget balance

(million euro)

	January-October			Percentage changes		Annual data					Percentage changes			
	2011	2012	2013*	2012/11	2013*/12	2011	2012*	2013		2014	2012*/11	2013/12*		2014/13
								MTFS forecasts 2013-2016	2014 Budget estimates	2014 Budget forecasts				
	(1)	(2)	(3)	(4=2:1)	(5=3:2)	(6)	(7)	(8)	(9)	(10)	(11=7:6)	(12=8:7)	(13=9:7)	(14=10:9)
I. Revenue	**41,159**	**41,779**	**42,950**	**1.5**	**2.8**	**53,932**	**51,926**	**53,654**	**53,241**	**54,695**	**-3.7**	**3.3**	**2.5**	**2.7**
1. Ordinary budget (net)[1]	39,271	39,133	38,937	-0.4	-0.5	50,159	48,325	48,518	48,106	49,693	-3.7	0.4	-0.5	3.3
Revenue before tax refunds	*43,506*	*41,919*	*40,882*	*-3.6*	*-2.5*	*54,285*	*51,482*	*51,333*	*50,921*	*52,252*	*-5.2*	*-0.3*	*-1.1*	*2.6*
Special revenue from licensing and consession fees	*0*	*0*	*102*			*1,157*	*15*	*86*	*86*	*230*				
Tax refunds[1]	*4,235*	*2,786*	*2,048*	*-34.2*	*-26.5*	*5,283*	*3,172*	*2,901*	*2,901*	*2,789*	*-40.0*	*-8.5*	*-8.5*	*-3.9*
2. Public Investment Budget	1,888	2,646	4,013	40.1	51.7	3,773	3,601	5,136	5,136	5,002	-4.6	42.6	42.6	-2.6
– Own revenue	105	149	61	41.9	-59.1	147	166	200	200	200	12.9	20.5	20.5	0.0
– Receipts from the EU	1,783	2,497	3,951	40.0	58.2	3,626	3,434	4,936	4,936	4,802	-5.3	43.7	43.7	-2.7
II. Expenditure	**62,245**	**54,037**	**45,908**	**-13.2**	**-15.0**	**76,705**	**67,614**	**60,307**	**59,327**	**56,248**	**-11.9**	**-10.8**	**-12.3**	**-5.2**
(State budget primary expenditure)	47,019	42,918	40,360	-8.7	-6.0	60,357	55,391	53,907	53,227	50,098	-8.2	-2.7	-3.9	-5.9
1. Ordinary budget	58,459	50,759	42,584	-13.2	-16.1	70,146	61,499	53,457	52,677	49,448	-12.3	-13.1	-14.3	-6.1
– Interest payments	15,226	11,119	5,548	-27.0	-50.1	16,348	12,223	6,400	6,100	6,150	-25.2	-47.6	-50.1	0.8
– Ordinary budget primary expenditure	42,008	38,424	35,835	-8.5	-6.7	51,996	47,529	45,150	44,831	41,946	-8.6	-5.0	-5.7	-6.4
– Procurement of defence equipment	200	260	237	30.0	-8.8	360	410	750	650	583	13.9	82.9	58.5	-10.3
– Call-in of guarantees from entities *of which*	1,025	586	839	-42.8	43.2	1,442	796	1,027	956	699	-44.8	29.0	20.1	-26.9
from within the general government	993	516	497			1,249	679	558	522	466				
from outside the general government	32	70	342			193	117	469	434	233				
– Fee for disbursement of EFSF loans	0	370	124			0	541	130	140	70				
2. Public Investment Budget	3,786	3,277	3,324	-13.4	1.4	6,559	6,114	6,850	6,650	6,800	-6.8	12.0	8.8	2.3
III. State budget balance	**-21,086**	**-12,258**	**-2,958**	**-41.9**	**-75.9**	**-22,773**	**-15,688**	**-6,653**	**-6,085**	**-1,553**	**-31.1**	**-57.6**	**-61.2**	**-74.5**
% of GDP	-10.1	-6.3	-1.6			-10.9	-8.1	-3.6	-3.3	-0.8				
1. Ordinary budget	-19,188	-11,626	-3,647			-19,987	-13,174	-4,939	-4,571	245				
2. Public investment budget	-1,898	-631	689			-2,786	-2,513	-1,714	-1,514	-1,798				
IV. State budget primary balance	**-5,860**	**-1,139**	**2,590**			**-6,425**	**-3,465**	**-253**	**15**	**4,597**				
% of GDP	**-2.8**	**-0.6**	**1.4**			**-3.1**	**-1.8**	**-0.1**	**0.0**	**2.5**				
Amortisation payments	25,902	12,534	11,667	-51.6	-6.9	28,843	23,905	12,845	12,755	24,930	-17.1	-46.3	-46.6	95.5
GDP (at current prices)	208,532	193,749	182,911	-7.1	-5.6	208,532	193,749	183,049	182,911	183,089	-7.1	-5.5	-5.6	0.1

Source: Ministry of Finance.
* Provisional data.
1 Annual data for the years 2012 and 2013 differ from data published in the Introductory Report on the Budget, as they do not include tax refunds via the special appropriation, in order to ensure comparability with data for this period.

Indirect taxes fell slightly short of the targets set for the period. This is mainly due to excise taxes, in particular the excise tax on energy. By contrast, the performance of transaction taxes was better than expected, thanks to VAT receipts on non-oil goods and revenue from capital accumulation taxes levied on Greek banks' recapitalisation funds.

An important risk to the smooth execution of the budget until the end of the year is posed by the high concentration of tax payments (of roughly €5 billion) over the last four months of 2013 (income tax for 2012, Real Estate Tax for 2011, 2012 and 2013, property tax collected through electricity bills, annual road tax, and luxury goods tax), as low tax compliance would mean that revenue targets are likely to be missed. Furthermore, an increased tax burden may give rise to liquidity problems for taxpayers, thus resulting in lower-than-expected private expenditure.

Total expenditure under the state budget in January-October 2013 was by 15.0% lower year-on-year (against an updated annual target of the Budget for a 12.3% reduction), owing to larger-than-expected cuts in primary expenditure under the ordinary budget and the PIB. Primary expenditure under the ordinary budget in the first ten months of 2013 is reduced by 6.7%, against an updated annual target for a 5.7% cutback, being lower by €1,476 million than the State General Accounting Office's target for the same period. This cost saving is mainly attributable to outlays for salaries and pensions, as well as social security and healthcare expenditures. There is, however, an overrun in grants to certain social security funds (the insurance fund for the personnel of the Hellenic Telecommunications Organization – TAPOTE, the wage-earners' insurance fund (Social Insurance Institute – IKA), the farmers' insurance fund (Agricultural Insurance Fund – OGA), the Seamen's Pension Fund – NAT, and the Self-Employed Insurance Organisation – OAEE), as the percentage disbursed is higher than initially budgeted. Another important risk to the smooth execution of the state budget stems from the continued accumulation of social security fund arrears.

PIB expenditure in the first ten months of 2013 amounted to €3,324 million, by €1,576 million lower than the target for this period. According to the 2014 budget, the annual target for 2013 was revised downwards by €200 million, to €6,650 million, in comparison with the initial estimates of the MTFS.

Finally, interest payments fell by 50.1% (in line with the updated annual target of the State Budget) in January-October 2013 compared with the same period in 2012, as a result of the Eurogroup's favourable decisions in November-December 2012 and of the PSI in 2012.

State budget (cash data)

In January-October 2013, the cash deficit of the state budget[10] rose to 5.0% of GDP, compared with a deficit of 3.5% of GDP in 2012 (see Table IV.3). Furthermore, the cash primary balance of the state budget was in deficit of 1.9% of GDP, compared with a deficit of 0.2% of GDP in the corresponding period of 2012. This is due to the fact that primary expenditure has been affected by payments of government arrears of roughly €5.3 billion (2.9% of GDP) (not taken into account in the administrative data published by the State General Accounting Office). In addition, ordinary budget revenue does not include the income on the Securities Markets Programme (SMP) portfolio accruing to the ECB payable to Greece, amounting to €1.5 billion (which is

10 Bank of Greece cash balance data record, as an established practice, only transactions concerning cash flows in the central government accounts held with the Bank of Greece during the reference period. As a result, there are discrepancies between cash (Bank of Greece) and administrative (State General Accounting Office) data. More specifically, these discrepancies are attributable to both the time of recording of transactions and the fact that certain transactions, though not included in the deficit on an administrative basis, are included in the borrowing requirement and vice versa (coverage). An indicative example which largely explains such discrepancies is spending for the payment of arrears, which is recorded in cash data when actually paid, but does not affect the national accounts-based result of general government, given that such obligations are already recorded in the result corresponding to the periods of accrual.

Table IV.3 State budget deficit on a cash basis[1]

(million euro)

	Year		January-October		
	2011	2012	2011	2012	2013*
State budget	**-23,144**	**-10,697**	**-19,781**	**-6,775**	**-9,079**
% of GDP	-11.1	-5.5	-9.5	-3.5	-5.0
– Ordinary budget[2]	-20,462 [3]	-8,503 [4]	-17,920 [5]	-6,161 [6]	-9,801 [7]
– Public Investment Budget	-2,682	-2,194	-1,861	-614	723

Source: Bank of Greece.
* Provisional data.
1 As shown by the respective accounts with the Bank of Greece and other credit institutions, excluding the OPEKEPE (Payment and Control Agency for Guidance and Guarantee Community Aid) account.
2 Including movements in public debt management accounts.
3 Not including revenue of: a) €675 million from the sale of preference shares of the Agricultural Bank of Greece by the Greek State; and b) €250 million from the Deposits & Loans Fund due to the reduction of its reserves. By contrast, including privatisation proceeds of €1,536 million, but excluding expenditure of: a) €4,011 million (bond issue reopening) for the payment of public hospitals' arrears pursuant to Article 27 of Law 3867/2010, which burdens the 2011 debt; b) €350 million (bond issuance) for the settlement of financial obligations of the Hellenic Agricultural Insurance Organisation (ELGA), a replacement of a previous loan with the same terms; and c) €140.2 million (bond issuance) for covering the State's debt to the former employees of Olympic Airlines who were laid off. Also, not including expenditure of €1,551.8 million for the participation of the Greek State in capital increases, of which €1,434.5 million relate to the capital increase of the Agricultural Bank of Greece as well as to the proceeds from a bond issue reopening (€1,380 million) paid for the purchase by the Greek State of preference shares of the National Bank of Greece and Piraeus Bank.
4 Including revenue of: a) €303 million relating to ANFA returns; and b) €10.6 million from privatisation proceeds, but excluding expenditure of: a) €4,751 million for accrued interest on PSI bonds paid in the form of EFSF notes, as well as interest payments of €519 million due to the debt buyback through EFSF notes; b) €9.9 million (bond issuance) for covering the State's debt to the Jewish Community of Thessaloniki; and c) €73 million for the participation of the Greek State in capital increases (Horse Racing Organisation of Greece (ODIE), Hellenic Vehicle Industry (ELVO), Hellenic Defence Systems SA, etc.). Including expenditure of: a) €901.3 million relating to Greece's participation in the European Stability Mechanism (ESM); and b) roughly €618 million for the payment of arrears.
5 Not including expenditure of: a) €4,000.4 million (bond issue reopening) for the payment of public hospitals' arrears pursuant to Article 27 of Law 3867/2010, which burdens the 2011 debt; b) €350 million (bond issuance) for the settlement of financial obligations to the Hellenic Agricultural Insurance Organisation (ELGA), a replacement of a previous loan with the same terms; and c) €139.4 million (bond issuance) for covering the State's debt to the former employees of Olympic Airlines who were laid off.
6 Not including expenditure of: a) €4,751 million for accrued interest on PSI bonds paid in the form of EFSF notes as well as interest payments of €519 million due to the debt buyback through EFSF notes; b) €9.9 million (bond issuance) for covering the State's debt to the Jewish Community of Thessaloniki.
7 Including revenue of: a) €682 million relating to ANFA returns; and b) €910.5 million from privatisation proceeds (sale of IBC premises, etc.), but excluding revenue of €1.5 billion regarding Securities Markets Programme (SMP) income transfers from Eurosystem central banks. Also excluding expenditure of: €32.6 million for the participation of the Greek State in capital increases (Hellenic Defence Systems SA, etc.), but including expenditure of about €5,287 million for the payment of arrears.

included in the administrative data published by the State General Accounting Office). Net of payments of government arrears and including SMP income, the primary cash balance was in surplus of 1.8% of GDP, against a deficit of 0.2% of GDP in 2012, and is comparable to the corresponding primary surplus of the state budget calculated on an administrative basis for the January-October 2013 period.

3 PUBLIC DEBT

According to national accounts data, as announced by the Hellenic Statistical Authority (ELSTAT) and Eurostat, the general government debt fell by €51.2 billion to 156.9% of GDP in 2012, from 170.3% of GDP in 2011. The 2012 fall in the public debt is attributable to the PSI (€106 billion) and the debt buyback operation (€31.9 billion), although it is largely offset by (i) the recapitalisation of Greek banks through new debt issues (€41 billion); (ii) new borrowing of €11.3 billion for the buyback of sovereign debt; (iii) a haircut on sovereign bonds held by Greek social security funds (€16.2 billion), which did not reduce public debt because it concerned intra-government debt; and (iv) a new borrowing requirement (of €17.4 billion) to cover the 2012 deficit (including the payment of accrued interest in February).

According to the 2014 Budget, public debt should come to €321 billion or 175.5% of GDP in 2013, from €303.9 billion or 156.9% of GDP in 2012, and is expected to reach €320 billion or 174.8% of GDP in 2014. The rise in public debt in 2013 is mainly due to the cost of banks' recapitalisation by the Hellenic Financial Stability Fund and additional borrowing for the payment of government arrears; concurrently, the effect of the relationship between interest rate and economic growth rate remains particularly adverse (despite exceptionally low interest rates). The projected slight decline in the public debt in 2014 can be explained by the expected attainment of a primary surplus and the implementation of the privatisation programme, while the relationship between interest rate and economic growth rate continues to have a negative effect (albeit to a lesser extent).

4 FISCAL POLICY MEASURES AND INSTITUTIONAL FISCAL REFORMS – 2014 BUDGET

The 2014 State Budget forecasts a primary surplus, according to the EAP methodology, of €2,956 million or 1.6% of GDP for 2014, slightly overshooting the target of the EAP (€2,751 million or 1.5% of GDP), while the general government deficit, according to ESA 95, is projected to come to €4,266 million or 2.3% of GDP.

Fiscal improvement will mainly come from central administration and is attributable to increased net revenue under the state budget (by 4.9%) and contained primary expenditure under the ordinary budget (by 6.4%). These projections reflect measures that have already been passed by Parliament, i.e. a new programme of structural actions on combating contribution evasion, with annual targeted gains of €600 million; the improved macroeconomic conditions; increased tax compliance; and the curbing of tax evasion.

Furthermore, the 2014 State Budget includes measures that have already been passed by Parliament and concern interventions under the MTFS 2013-2016, with projected gains of €3.4 billion.[11]

In greater detail, the 2014 State Budget relies on significant changes enacted in 2013 (Law 4110/2013 and Law 4111/2013) and expected to contribute to increased revenues in 2014, namely: (i) a new individual income tax scale, which includes fewer tax brackets and abolishes the tax-free threshold of €5,000; (ii) the abolition of tax allowances (for rent payments, tuition fees, mortgage interest payments, etc.);[12] (iii) the continued application of the current presumptive taxation system;[13] and (iv) higher taxation on non-wage-earners (partnerships, self-employed professionals).[14]

In addition, the State Budget forecasts also take into account the following changes:

(1) Higher taxes on the profits of general partnerships and limited partnerships.

(2) As regards *sociétés anonymes* and limited liability companies, the taxation of retained profits at a rate of 26%, up from 20%. Also, a reduced rate on distributed profits (10%, down from 25%). However, against a background of bank financing constraints, this particular measure is likely to hamper growth in the current juncture, as it encourages companies to distribute their profits instead of retaining them as an internal source for financing investment.

(3) A capital gains tax on equity, partnership shares, sovereign and corporate bonds as well as financial derivatives at a rate of 15% (Law 4172/2013). The date of entry into force of the capital gains tax has been pushed back to January 2014, owing to the so-far reduced transaction activity on the Athens Exchange.[15]

11 Excluding the implementation of a new wage grid for the armed forces and law enforcement officers, and the imposition of a levy on firms' turnover, payable to OAEE.
12 With the exception of medical expenses (only partly), donations to the Greek state and public entities, as well as child support and alimony payments for divorcees.
13 Their role had been expanded and strengthened under Laws 3986/2011 and 4024/2011.
14 Income up to €50,000 will be taxed at a rate of 26% and any income above that will be taxed at a rate of 33%.
15 According to the 2014 State Budget, a special tax on private pleasure boats entering Greek territorial waters, a capital gains tax under the new Income Tax Code, a tax on reserves not previously taxed and cost saving from the pre-completion of tax return forms for pensioners are expected to deliver tax receipts of €271 million.

The ongoing efforts to reform tax administration and modernise tax procedures are expected to have a positive contribution. However, the results delivered so far are not particularly encouraging, because audits on self-employed professionals and high-wealth taxpayers, albeit intensified, still fall short of the revised targets, and the rate of collection of assessed amounts undershoot the annual target. Although the tax collection mechanism shows signs of substantial upgrading, there is still considerable room for improvement. Indicatively, the EAP's semi-annual and annual targets for tax audits have been revised downwards. Actions to bolster audit mechanisms and cross-checks are also required in order to combat contribution evasion in the social security system.

As regards interventions on the public expenditure side, the 2014 State Budget takes into account the following changes: (i) the limited number of beneficiaries of the Social Solidarity Pension Supplement (EKAS),[16] and (ii) cutbacks on operational expenses and defence spending. It also takes into account the expected gains from new actions and audits that will contribute to an improvement of about €65 million in the corporate tax take.

The improved fiscal framework under Law 4111/2013 —which provides for an obligation to submit monthly schedules and set quarterly caps on payments by central administration authorities, stricter controls and sanctions on all general government entities in order to limit deviations from the targets, as well as an obligation to take corrective action— will be decisive for the better planning and implementation of the State Budget. Closing down and merging public enterprises and organisations and speeding up public administration reform will help in cost saving and substantially improving the services provided.

The re-opening of the Hellenic Parliament's State Budget Office and the enactment of fiscal rules dictated by our country's EU membership (a fiscal position close to balance or in surplus in cyclically adjusted terms, as required by the Fiscal Compact) will help ensure transparency and prudent fiscal management in the post-MoU era. The Hellenic Parliament's State Budget Office or some other entity should also assume the role of independent fiscal council, to verify in future that the policies pursued are in line with fiscal rule requirements.

In 2014, all real estate, with certain exceptions such as real estate owned by central government, will be subject to a new Unified Property Tax (ENFA), with targeted revenue of €2.65 billion. The ENFA is moving in the right direction, since Greece was among the EU Member States with the lowest tax burden on real estate ownership up to and including 2011. According to an OECD study,[17] property taxes, in comparison with other taxes, cause the least economic distortions and do not hamper economic growth, thereby being the tax collection instrument of preference. Furthermore, it is probable that hikes in real estate taxation would shift some funds towards more productive uses. However, in order for this tax to be applied correctly, there is a need for a national cadastre with full coverage of Greek territory and a drastic cut in any other tax burden on real estate, such as property transfer tax, which has been reduced by about 75% in order to galvanise the real estate market. In addition, although an increase in real estate taxation is legitimate, it should go hand-in-hand with corresponding cutbacks on individual and corporate income tax, in order to boost economic activity.

Turning to the privatisation programme, despite the completion of the privatisation of the the Greek gaming company (OPAP), the State Lotteries and the Hellenic Gas Trans-

16 Pursuant to Law 3996/2011, as from 1 January 2014 pensioners must be aged over 65 years and also pass the means tests in order to qualify for the Social Solidarity Pension Supplement (EKAS), irrespective of the nature of their pension (old age —disability—survivor's pension).

17 Jens Arnold, Bert Brys, Christopher Heady, Åsa Johansson, Cyrille Schwellnus, & Laura Vartia (2011), "Tax Policy For Economic Recovery and Growth", *Economic Journal*, 121, pp. F59-F80.

mission System Operator SA (DESFA), the unsuccessful outcome of the privatisation process for the Public Gas Corporation SA (DEPA) led to a downward revision of targeted proceeds for 2013 (€1,230 million, against an original estimate of €2.6 billion). Having said that, the Hellenic Republic Asset Development Fund (HRADF) continues to prepare various assets for privatisation (for instance, small ports and marinas, the Piraeus Port Authority SA (OLP), the Thessaloniki Port Authority SA (OLTH), regional airports, the Train Operating Company (TRAINOSE SA), Hellinikon SA, DEPA), and the plan for the securitisation of asset-related cash streams. Furthermore, the Council of Ministers approved the restructuring and privatisation of the Public Power Corporation (DEH) in three stages in 2016, along with the restructuring of Hellenic Defence Systems SA (EAS), the Hellenic Aerospace Industry (EAB), and the General Mining and Metallurgical Company (LARKO), in order for their privatisation to be completed within 2014. As a result, efforts need to be stepped up in 2014 and procedures expedited within the Hellenic Court of Audit, the Legal State Council and the Hellenic Competition Commission, so as to shorten the time of asset preparation for privatisation; this will speed up the privatisation programme with a view to attaining the €3,560 million revenue target under the 2014 Budget and improving Greece's economic prospects.

Box IV.1

WHICH FACTORS INFLUENCE THE EFFECTS OF FISCAL ADJUSTMENT?

Measuring the effects of fiscal policy on economic activity is subject to significant uncertainty and available estimates of fiscal multipliers cover a wide range of values.[1] The divergence of available estimates has led to a convergence of opinions in that multipliers depend on a number of factors, which can vary across (a) countries, (b) time and (c) policy episodes.

A. External factors

1. The current conjuncture of **record low interest rates** justifies higher fiscal multipliers. To the extent that monetary authorities are constrained by the zero-lower-bound, monetary policy is forced to accommodate negative fiscal impulses, thus aggravating the effects on economic activity. In the context of a dynamic stochastic general equilibrium (DSGE) model, Christiano, Eichenbaum and Rebelo[2] report multipliers in excess of 2. Nevertheless, extensive resort to non-standard liquidity measures —such as the longer-term refinancing operations (LTROs) by the ECB— suggests that, the zero-lower-bound may understate the room for manoeuvre available to monetary authorities. Ramey[3] reports evidence for the United States doubting that the zero-lower-bound has an increasing effect on the fiscal multiplier.

2. Global **liquidity shortage**. Monetary policy constraints, as well as the deleveraging that followed the financial crisis tend to limit access to finance, which hampers consumption smoothing. This increases the marginal propensity to consume out of current income, thereby resulting in higher fiscal multipliers. In the context of a DSGE model, Gali, Lopez-Salido and Valles[4] show that

1 For a literature review, see Ramey, V.A. (2011), "Can Government Purchases Stimulate the Economy?", *Journal of Economic Literature*, 49:3, 673-785.
2 Christiano, L.J, M. Eichenbaum and S. Rebelo (2011), "When Is the Government Spending Multiplier Large?", *Journal of Political Economy*, 119(1), 78-121.
3 Ramey, V.A. (2011), "Identifying Government Spending Shocks: It's All in the Timing", *Quarterly Journal of Economics*, 126(1), 1-50.
4 Gali, J., J.D. Lopez-Salido and J. Valles (2007), "Understanding the Effects of Government Spending on Consumption", *Journal of the European Economic Association*, 5(1), 227-70.

fiscal multipliers rise —and may well exceed unity— as the share of liquidity-constrained households increases. The effects are even more pronounced in the presence of labour market rigidities.

3. The **systemic weaknesses of EMU**. Fiscal adjustment in the euro area has been pursued in the context of an incomplete monetary union, which —up until the announcement of Outright Monetary Transactions (OMT)— did not possess any reliable backstop against the banking crisis. Insofar as the single monetary authority does not credibly act as the lender of last resort, and in the absence of fiscal union, a monetary union is vulnerable against self-fulfilling expectations, which undermine the credibility and the effectiveness of the fiscal strategy. De Grauwe and Ji[5] argue that a significant part of the surge in the 10-year government bond spreads of peripheral euro area countries during 2010-2011 is associated with negative self-fulfilling market sentiments that peaked at the end of 2010.

B. General features of the economy

1. The **degree of openness**. The bigger the share of domestic demand in economic activity, the stronger the impact of a fiscal shock. Conversely, the fiscal multiplier tends to be lower in open economies, as part of the fiscal effects spills over to trading partners. DSGE simulations by Coenen et al.[6] show that, in the EU as a whole, a decrease of 50% in the degree of openness increases the government consumption multiplier from 0.94 to 1.11. By the same token, however, as the degree of openness increases, so does the economy's own exposure to its partners' policies. Auerbach and Gorodnichenko report statistically significant cross-country fiscal spillovers between OECD countries, which are found to increase in times of recession.[7]

2. Product and labour **market rigidities** generally amplify fiscal effects. To the extent that price and wage adjustments are incomplete (or involve time lags), a given shift in public demand has a greater effect on output (at least in the short term). Leeper, Traum and Walker[8] find that, regardless of parameter calibration, the likelihood of the fiscal multiplier exceeding unity in a neoclassical DSGE model increases after the introduction of nominal rigidities, from a mere 1% to 35%.

C. Fiscal policy mix

1. Economic research has yet to reach a final verdict on the optimal fiscal policy mix. Nevertheless, a significant body of empirical studies shows that frontloaded adjustments with **emphasis on less productive government expenditure** tend to restore credibility faster and fuel positive expectations, thereby mitigating the negative effects on economic activity, especially in high-debt countries.[9] A more extreme empirical observation is that spending-based fiscal adjustments may even have a positive, non-Keynesian effect on economic activity, as was first reported by Giavazzi and Pagano.[10] The existence of non-Keynesian effects has been contested on the basis

5 De Grauwe, P. and J. Ji (2013), "Self-Fulfilling Crises in the Eurozone: An Empirical Test", *Journal of International Money and Finance*, 34, 15-36.
6 Coenen, G., C.J. Erceg, C. Freedman, D. Furceri, M. Kumhof, R. Lalonde, D. Laxton, J. Lindé, A. Mourougane, D. Muir, S. Mursula, C. de Resende, J. Roberts, W. Roeger, S. Snudden, M. Trabandt, and J. in't Veld (2012), "Effects of Fiscal Stimulus in Structural Models", *American Economic Journal: Macroeconomics*, 4(1), 22-68.
7 Auerbach, A. and Y. Gorodnichenko (2012), "Output Spillovers from Fiscal Policy", *NBER Working Paper Series*, Working Paper 18578.
8 Leeper, E.M., N. Traum and T.B. Walker (2011), "Clearing up the fiscal multiplier morass", *NBER Working Paper Series*, Working Paper 17444.
9 A brief presentation and critical overview of the related literature is included in Chapter 3 of the IMF publication *World Economic Outlook*, October 2010.
10 Giavazzi, F. and M. Pagano (1990), "Can Severe Fiscal Contractions Be Expansionary? Tales of Two Small European Countries", *NBER Macroeconomics Annual*, Vol. 5.

of two main arguments: their empirical observation may be partly due to (a) flaws of conventional measures of fiscal stimuli and (b) the influence of monetary policy and the exchange rate regime.[11] Guajardo, Leigh and Pescatori[12] find that identifying fiscal shocks according to the narrative approach eliminates non-Keynesian effects, while still confirming that spending-based adjustments have a more muted impact. More specifically, the government spending multiplier is estimated at 0.43 after two years, while the revenue multiplier is estimated at 1.29.[13] Recently, Alesina and Ardagna[14] as well as Alesina, Favero and Giavazzi[15] find that, even after applying the narrative approach by Guajardo, Leigh and Pescatori, expenditure-based adjustments have no statistically significant impact on economic activity, regardless of monetary policy.

2. **General transfers** to high-income households with low marginal propensity to consume tend to make a limited contribution to economic activity. In contrast with investment or consumer expenditure which directly affect domestic demand, transfers affect economic activity indirectly, through their effect on disposable income. To the extent that the marginal propensity to consume decreases with income,[16] transfers that are not targetted to low-income households tend to have a lower multiplier. According to Coenen et al.,[17] cutting back on general transfers in the EU as a whole has a much smaller impact than other spending categories, as well as indirect and labour taxation. In Greece, transfers have historically had a very limited effect on relative poverty, which suggests that they are not well-targeted.

3. **Tax evasion** may aggravate the negative effects of taxation, to the extent that it shifts the tax burden to lower income groups with high marginal propensity to consume. According to Artavanis, Morse and Tsoutsoura,[18] tax evasion in Greece is more pronounced among the self-employed with high incomes and easier access to credit. To the extent that tax evasion is not tackled, a fiscal adjustment on the revenue side affects disproportionately the disposable income of individuals with high marginal propensity to consume, thereby aggravating the effects on economic activity.

D. Additional factors

1. Fiscal multipliers are higher **in recessions**. As economic activity falls below potential, production factors become inactive. This tends to enhance the effectiveness of fiscal policy, as it reduces the probability of crowding out private activity. Empirical studies using a Threshold VAR model by Auerbach and Gorodnichenko,[19] Batini, Callegari and Melina[20] and Baum, Poplawski-Ribeiro and Weber[21] find considerably higher multipliers in times of recession, with a stronger impact

11 Perotti, R. (2011), "The Austerity Myth: Gain without Pain?", NBER Working Paper 17571.
12 Guajardo, J., D. Leigh and A. Pescatori (2011), "Expansionary Austerity: New International Evidence", IMF Working Paper WP/11/158.
13 Romer and Romer estimate even higher revenue multipliers, above 3 over a three-year horizon. However, the analysis is limited only to the United States and the narrative approach is applied only to revenue. The validity of this finding has been disputed and recently Perotti reported values which are similar to those estimated by Guajardo, Leigh and Pescatori. See Romer, C.D. and D.H. Romer (2010), "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks", *American Economic Review*, 100(3), 764-801, and Perotti, R. (2012), "The Effects of Tax Shocks on Output: Not So Large, But Not Small Either", *American Economic Journal: Economic Policy*, 4(21), 214-37.
14 Alesina, A.F. and S. Ardagna (2012), "The design of fiscal adjustments", *NBER Working Paper Series*, Working Paper 18423.
15 Alesina, A.F., C. Favero and F. Giavazzi (2012), "The Output Effect of Fiscal Consolidations", *NBER Working Paper Series*, Working Paper 18336.
16 Dynan, K.E., J. Skinner and S.P. Zeldes (2004), "Do the Rich Save More?", *Journal of Political Economy*, Vol. 112, No. 21, 397-444.
17 See footnote 6.
18 Artavanis, N., A. Morse and M. Tsoutsoura (2012), "Tax evasion across industries: Soft credit evidence from Greece", Chicago Booth Paper 12/25.
19 Auerbach, A. and Y. Gorodnichenko (2012), "Measuring the Output Responses to Fiscal Policy", *American Economic Journal: Economic Policy*, 4(2): 1-27.
20 Batini, N., G. Callegari and G. Melina (2012), "Successful Austerity in the United States, Europe and Japan", IMF Working Paper 12/190.
21 Baum, A., M. Poplawski-Ribeiro and A. Weber (2012), "Fiscal Multipliers and the State of the Economy", IMF Working Paper 12/286.

on government spending net of social transfers.[22] For instance, Batini, Callegari and Melina estimate that in the euro area the multiplier on government spending less social transfers amounts to 2.5 over a horizon of two years during downturns, compared with 0.1 during periods of positive growth.

2. Estimates of the impact of fiscal policy on economic activity are subject to significant **uncertainties** regarding the business cycle and the structural fiscal stimuli. Auerbach and Gorodnichenko, for example, explicitly note the uncertainties surrounding the reported revenue effects in the context of SVAR models, as they are based on the assumption of a constant tax elasticity, which does not hold in the case of Greece. According to Bi, Qu and Roaf,[23] the underestimation of the Greek recession may have been more due to over-optimism in estimates of potential growth, rather than underestimation of fiscal multipliers.

22 In line with the usual practice in SVAR models, government spending in all three papers does not include social transfers, which are treated as negative revenue, in order to facilitate the identification of structural shocks. As a result, multipliers are not directly comparable with those contained in papers using a broader definition of spending.

23 Bi, R., H. Qu and J. Roaf (2013), "Assessing the impact and phasing of multi-year fiscal adjustment: A general framework", IMF Working Paper 13/182.

V MONEY, CREDIT, FINANCIAL MARKETS, BANKS AND INSURANCE COMPANIES

The year 2013 saw a radical restructuring of the banking sector with significant benefits. The consolidation of the banking system was smooth, without a single depositor having incurred a loss on their savings. Nevertheless, resuscitating credit expansion can only be achieved gradually, as the problem of non-performing loans must first be tackled, credit institutions must diversify their funding sources and credit risk must be reduced. Improving macroeconomic and microeconomic conditions in Greece should help in this direction, as already reflected in the declining government bond yields and the upward path of share prices. At this point, the banking system will have to develop a far-reaching restructuring programme that will focus on shedding non-core business, improving the management of troubled assets, rationalising cost structures and reducing reliance on central bank financing. At the same time, competition in the sector must be safeguarded. Finally, a new diagnostic assessment of Greek banks' loan books is soon to be completed, and its results will be used to update the previous (2012) estimates of expected losses on banks' loan portfolios.

In 2013, the recapitalisation of credit institutions was completed and the banking sector underwent a radical restructuring. Unlike previous years, no mass and protracted deposit outflows were observed, as confidence in the country's economic prospects is finally taking hold. In addition, credit institutions were able to regain access to the international interbank market against adequate collateral. To date, banks seek to further diversify their funding sources and thereby reduce gradually their reliance on Eurosystem open market operations and on emergency liquidity assistance (ELA) from the Bank of Greece.

The return of deposits to the Greek banking system has allowed banks to cut deposit rates. Furthermore, the cost of refinancing by the Bank of Greece decreased – mainly due to the fact that from late 2012 onwards Greek debt securities (issued or guaranteed by the Greek government) were readmitted as eligible collateral in the Eurosystem's monetary policy operations. These developments allowed for the lowering of interest rates both on rescheduled old loans and on new loans. However, real interest rates remain relatively high, contributing to persistently negative credit growth rates.

This is also attributable to the continued recession, heightened credit risk and high NPL ratios (although their growth has started to slow down). The impact of factors that discourage banks from extending new credit is expected to wane as the macroeconomic and microeconomic environment in Greece improves. On the back of growing confidence, credit institutions will gradually enjoy increased access to the international interbank market, and more retail deposits that had flown out of the Greek banking system during the crisis are expected to return to banks. Over the medium term, this should lead to an appreciable increase in credit expansion, which will in turn contribute to a pick-up in GDP growth and will finance the restructuring of the economy's productive base.

In any event, the structure of the banking sector has changed radically: it now features fewer banks that are more resilient and better positioned to exploit synergies and economies of scale. The Bank of Greece will take all necessary action to ensure that competition in the credit system remains strong, with a view to protecting consumers of financial services. The recapitalisation process has led to the restoration of capital adequacy and Core Tier 1 ratios. Credit institutions should now shed non-core business, engage in active management of troubled assets and redesign their foreign business. At the same time, the diagnostic assessment of Greek banks' loan portfolios is soon to be completed. Its object is to evaluate banks' procedures for the granting and monitoring of loans and for the management of troubled assets, as well as their foreign lending activity, and to estimate expected losses from existing loan portfolios (on the basis of alternative macroeconomic scenarios).

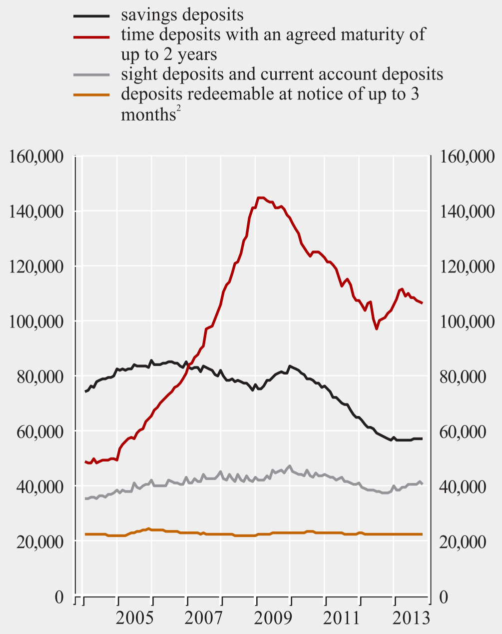
As regards securities markets, improving macroeconomic conditions and the favourable outlook for continued adjustment of the Greek economy have underpinned a further decline in government bond yields and a rise in Athex share prices. The successful completion of banks' recapitalisation with private sector participation, immediate improvements in banks' financial results and, generally, the positive prospects created by the restructuring of the credit system have contributed to a surge in the banking sub-index during the second half of 2013. Greek government bond yields will keep falling and share prices will continue rising so long as macroeconomic imbalances unwind and the implementation of structural reforms progresses in Greece.

1 MONETARY AGGREGATES

Over the January-October 2013 period, the annual rate of change in M3 (excluding coins and banknotes in circulation) turned from negative to increasingly positive overall (December 2012: -6.2%, October 2013: 5.1%). This development reflects the return of deposits to the Greek banking system in the second half of 2012, mainly in the form of flows of hoarded banknotes into term deposit accounts, despite the decreasing spread between term and overnight rates. In the ten-month period under review, time deposits with an agreed maturity of up to 2 years increased by 1.4% (mainly due to a rise in household deposits), while overnight deposits (including savings deposits, sight deposits and current accounts) remained virtually unchanged (-0.1% – see Chart V.1).[1] Meanwhile, deposits by central government increased by 46% (as the Greek government received new funds from its international creditors under the second loan agreement), whereas deposits by non-euro area residents (which account for a relatively small share in total deposits with the Greek banking system) decreased by 26%.

Chart V.1 Deposits in Greece[1] (January 2004-October 2013)

(end-of-period balances; million euro)



Source: Bank of Greece.
1 These aggregates are included in M3 together with repurchase agreements (repos), money market fund shares/units, and debt securities with a maturity of up to two years issued by domestic MFIs (minus domestic MFI holdings of debt securities issued by MFIs of other euro area countries) according to the ECB definition.
2 Including savings deposits in currencies other than the euro.

2 FACTORS EXPLAINING DEVELOPMENTS IN DEPOSITS BY NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS

Deposits by non-financial corporations and households have been decreasing since early 2013 (see Table V.1). Deposit outflows observed in March and April were due to the uncertainty caused by the crisis in Cyprus, but were partly reversed in May. However, part of the decrease in deposits during those two months and the net outflows recorded in the months that followed actually reflect a decline

1 Including, in addition to deposits by non-financial corporations and households (a more detailed overview is provided in Section 2), deposits by insurance companies and other financial institutions, social security funds and local government. Chart V.1 illustrates this wide-ranging aggregate.

Table V.1 Deposits of non-MFIs with MFIs in Greece (excluding the Bank of Greece)

(million euro; non-seasonally adjusted data)

	Net flow[1,2] of deposits to the Greek banking system Jan.-Oct. 2013
Total deposits (1+2+3)[2]	**-22**
1. Residents	***4,447***
1.1. General government	*4,957*
1.1.1 Central government	3,274
1.1.2 Social security funds and local government	1,683
1.2. Private sector	*-510*
1.2.1 Enterprises	*-339*
1.2.1.1 Non-financial corporations	-1,640
1.2.1.2 Insurance companies	566
1.2.1.3 Other financial institutions (non-MFIs)	736
1.2.2 Households	*-171*
2. Other euro area residents	***-260***
3. Non-euro area residents[2]	***-4,209***

Source: Bank of Greece.
1 The net flow of deposits is defined as the difference in the outstanding amount of deposits between the beginning and the end of a given period, adjusted for exchange rate variations in respect of deposits denominated in foreign currency and reclassifications.
2 Although banks' securitisation liabilities (October 2013: €22,231 million) are included (from June 2010) in the outstanding amounts of deposits of non-euro area residents and total deposits (not shown here), the net flow of deposits does not include the effects of securitisation.

in demand for broad money in the Greek economy, as a result of the downward trend of nominal GDP and lower average nominal deposit rates. Similarly, given that bank deposits are the main wealth-holding instrument, their decrease mirrors negative household saving. Lastly, it should be noted that the withdrawals of deposits recorded in July and August are in line with the (pre-2010) seasonal pattern.

Except for the Cypriot banking crisis, no other episodes of intensified uncertainty were recorded that could plausibly explain retail deposit outflows. Besides, if uncertainty had had an impact, this would have led to expatriation of deposits (which was recorded only in April). By contrast, a repatriation of deposits was observed (during the first nine months of 2013, according to available data), along with a cumulative inflow of banknotes into the domestic banking system.

Seen from a different perspective, the fall in deposits could be attributed to lower bank credit: When a bank grants a new loan, a deposit account is typically opened to the borrower, to be credited with the loan proceeds. Conversely, in loan repayments (which in recent years have outnumbered new loan disbursements in Greece) the outstanding amount of deposits decreases.

As economic activity rebounds, deposit demand will rise, and, as discussed in Section V.5, the necessary conditions for an increase in the volume of new loans will gradually be created. Confidence in the prospects of the Greek economy will be restored, which should have a further favourable effect on demand for deposits with the domestic credit institutions and expedite the re-deposit of hoarded banknotes into bank accounts.

3 BANK DEPOSIT RATES

Interest rates on new deposits have followed a downward path (see Table V.2), with the largest decrease (1.7 percentage points) observed in the interest rate on time deposits by households (52% of total private sector deposits), which stood at 3.0% in October 2013 – the highest in the euro area. Interest rates on overnight deposits remained less volatile, as usual, and declined to 0.4%.

The downward course of interest rates is consistent with the fact that the recent months have not witnessed any sizeable deposit outflows after the protracted mass return of deposits to the Greek banking system.

Table V.2 Bank interest rates on new deposits and loans in Greece

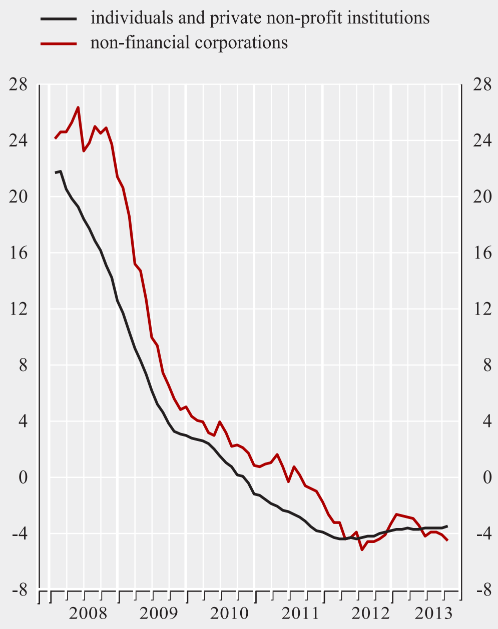
(percentages per annum)

	December 2011	December 2012	October 2013	Change Dec. 2012-October 2013 (percentage points)
Deposits with an agreed maturity of up to one year by households and non-financial corporations[1]				
by households	4.88	4.70	2.97	-1.73
by non-financial corporations	3.76	4.15	2.83	-1.32
Loans to households and non-financial corporations[1]				
with a floating rate or an initial rate fixation of up to one year:				
– housing loans	4.18	3.04	2.85	-0.19
– consumer loans	8.49	7.60	7.51	-0.09
– loans of up to €1 million to non-financial corporations	7.26	6.46	6.40	-0.06
– loans of more than €1 million to non-financial corporations	6.64	6.07	6.14	0.07
loans without a defined maturity to non-financial corporations	7.90	7.52	7.19	-0.33

Source: Bank of Greece.
1 Monthly averages.

Chart V.2 Credit[1] to the domestic private sector by domestic MFIs (January 2008-October 2013)

(annual percentage changes)



Source: Bank of Greece.
1 Including MFI loans and holdings of corporate bonds, as well as the outstanding amounts of securitised loans and securitised corporate bonds. The annual rates of change are adjusted for loan write-offs, reclassifications and foreign exchange valuation differences on loans denominated in foreign currency.

4 CREDIT AGGREGATES

The annual rate of decline in the financing of general government by domestic MFIs[2] strengthened (December 2012: -7.9%; October 2013: -28.6%). Conversely, the annual rate of decline in credit to households stabilised at around -3.7%, whereas the corresponding rate for non-financial corporations picked up overall, albeit with some fluctuations (December 2012: -3.3%; October 2013: -4.5% – see Chart V.2).

5 DETERMINANTS OF DEVELOPMENTS IN LOANS

The recapitalisation and consolidation of the banking system, regained access to the international interbank market, the enhancement of the deposit base, and the ensuing progress in reducing the reliance of credit institutions on the Bank of Greece for financing have undoubtedly increased banks' ability to provide credit to the economy.

However, several factors continue to constrain new lending, which still remains very limited.

2 MFIs: Monetary financial institutions, i.e. banks, including the Bank of Greece, and money market funds.

First of all, the accumulation of NPLs is a tangible proof of heightened credit risk, which makes banks reluctant to extend new loans – those loans extended for financing new expenditure carry high interest rates and tight non-interest rate terms. Second, when a loan is not performing, the bank is deprived of income from principal and interest payments that it could have otherwise recycled into new loans. Third, NPLs entail a risk of erosion of banks' capital base in the case of write-offs/write-downs, currently forcing them to tie up more capital for loan-loss provisions. Uncertainty among counterparty banks in the interbank market and other investors increases and, to this extent, credit institutions' ability to raise funds at relatively low cost becomes more limited.

Meanwhile, credit demand remains weak. The fall in production has reduced working capital needs, although some enterprises resort to bank lending in order to deal with cash shortages. Demand for longer-term financing has also plummeted, given the decline in fixed capital formation. High unemployment, wage cuts and the downward trend in real estate prices discourage households from applying for loans. Real interest rates have risen significantly, another development that dampens demand for bank loans.

Once the improvements in macroeconomic conditions and in the microeconomic business environment take hold in the Greek economy, the rate of credit expansion is expected to pick up over the medium term as (a) demand for productive credit rises, (b) credit risk decreases in line with increased opportunities for viable business plans that banks will be able to finance without incurring any losses, and (c) the generation of new bad loans will decline and the management of existing NPLs will improve.

Streamlining the management of problem loans (see Section V.9) will dampen the impact of these assets on banks' lending capacity. If this leads to an increase in banks' profitability, thereby improving their capital position, coupled with an increase in cash flows, the right conditions will be in place for the supply of a higher volume of credit, which will in turn support economic activity.

Furthermore, it is necessary for domestic banks to increase the funds raised from international financial markets and to achieve full return of retail deposits. This process will be supported by the fact that, with the performance and prospects of the Greek economy improving, confidence in the country and its banking system will gradually grow.

Finally, it should not be overlooked that the lending capacity of Greek banks is (and will continue to be) supported through loan co-financing or credit guarantee schemes by the Hellenic Fund for Entrepreneurship and Development (ETEAN) and the European Investment Bank (EIB). In fact, the European Commission and the EIB are developing new initiatives to make lending to small and medium-sized enterprises (throughout the euro area) more attractive for banks (see Box V.1).

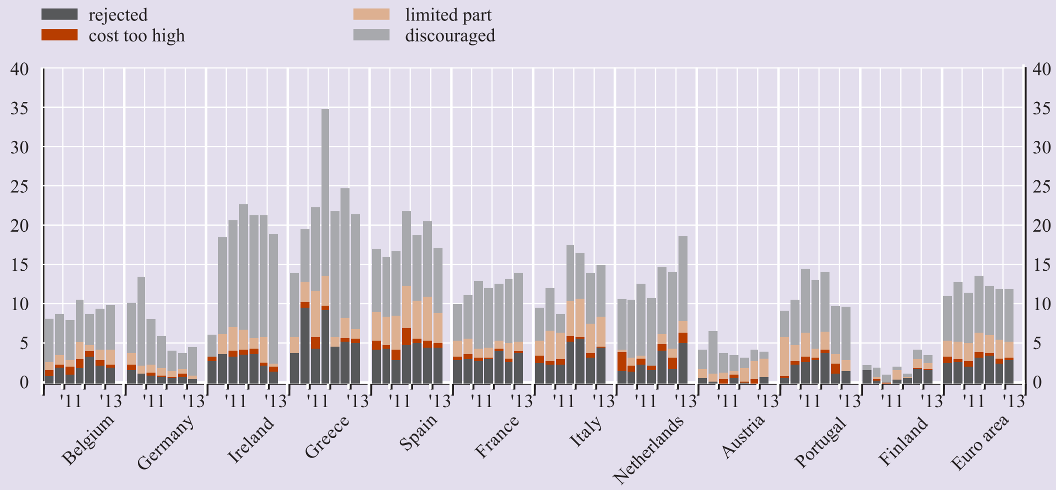
Box V.1

WAYS TO IMPROVE SME FINANCING

The Survey on the access to finance of small and medium-sized enterprises (SMEs) in the euro area, conducted jointly by the Eurosystem and the European Commission twice a year, indicates that Greek firms are facing strong constraints in terms of the availability of bank credit. In the six months to September 2013, Greece's composite indicator that shows financing obstacles of SMEs for receiving a bank loan (see the chart below) was 21%, the highest in the euro area, as has also been the case in previous waves of the Survey since 2010. Nevertheless, according to this indicator, the obstacles were less severe in April-September 2013 than in the previous four six-month periods, suggesting an improvement in the availability of bank credit in Greece compared with the recent past.

Financing obstacles of SMEs for receiving a bank loan across euro area countries

(over the preceding six months; percentage of respondents)



Source: EC/ECB, Survey on the access to finance of Small and Medium-sized enterprises in the euro area (SAFE).
Base: All SMEs in the survey.
Note: Financing obstacles are defined here as the sum of the percentages of SMEs reporting: (a) loan applications which have been rejected, (b) loan applications for which only a limited amount was granted, (c) loan applications which were granted but not used by the SMEs because the borrowing costs were too high, and (d) percentage of SMEs that did not apply for a loan for fear of rejection (i.e. discouraged borrowers).

In order to support bank lending to SMEs, the following initiatives have been taken (see the table below):

The European Investment Bank (EIB) grants loans to SMEs (€1.4 billion in the 2013-2015 period) via domestic partner banks. Part of these loans (€1 billion) will be backed by the EIB's Guarantee Fund for Greek SMEs. If these loans are not properly serviced and the EIB guarantees are called in (to compensate commercial banks), the EIB will in turn be compensated from unabsorbed Structural Fund resources allocated to Greece. SME loans of up to €440 million to be channeled through three Greek commercial banks will be backed by Greek government guarantees in favour of the EIB (EIB "Global Loans" Scheme). In the context of the monthly targets recently set by the Greek Ministry of Development, banks committed to sign agreements with SMEs for loans backed either by the Greek government or by the Guarantee Fund, totalling €635 million up to December 2013.

SMEs engaging in foreign trade can benefit from support under a new pilot tool of the EIB, first implemented in Greece (and recently replicated in Cyprus). In this respect, in June 2013 the EIB signed trade finance agreements with three domestic banks and three foreign banks. The EIB will provide foreign banks with guarantees in favour of the Greek banks, for up to 85% of the value of letters of credit and other trade finance instruments they issue, to support the cross-border trade operations of Greek SMEs.[1] The total amount of EIB funds available for such guarantees will reach €500 million and, as they can be recycled during the year, they would support a lending volume of up to €1.5 billion per annum.

1 For example, a Greek company that wishes to order raw materials from a foreign supplier may ask a domestic commercial bank (participating in the EIB's programme) to issue a letter of credit, which the domestic bank will then transfer to the supplier's bank abroad, of whom the supplier – the beneficiary of the claim – is a client. In the event that the domestic company fails to pay the supplier when due, then the domestic bank will pay 15% and the EIB will pay 85% to the foreign bank, which will in turn transfer this amount to the beneficiary.

SME financing programmes

(million euro)

	EU funds	Participation of the Greek State (guarantees)	Bank participation	EIB loans/guarantees	Total available loans/trade finance	Outstanding balances of bank-SME signatures, Sept. 2013	Banks' targets on SME signatures up to Dec. 2013, cumulative outstanding balance since the start of the programme
EIB - Trade finance guarantees			)[1]	500**	**1,500****	-	-
EIB - Loans guaranteed by the Guarantee Fund for Greek SMEs	500*		)[2]	1,000.0	**1,000.0**	12.0	250.0
EIB - Loans guaranteed by the Greek State		440.0	)[2]	440.0	**440.0**	177.2	385.0
EIF - Loans financed with resources from JEREMIE	180**		180.0		**360.0**	43.8	83.5
EIB - Loans financed with resources from JESSICA[3]	258**		)[2]		**258.0**	-	95.1
National Fund of Entrepreneurship and Development (ETEAN)[4]							
Entrepreneurship Fund (TEPIX)	538.0		608.0		**1,096.0**	131.7	937.5
Fund for Innovative Entrepreneurship	275.0		275.0		**550.0**	45.5	661.0
Fund for Targeted Actions (Extroversion, Thematic Tourism, Green Infrastructure, etc.)	133.0		183.0		**316.0**	85.9	176.0
Guarantee Fund	50.0*		150.0		**150.0**	0.0	46.0
Fund for Island Entrepreneurship	80.0				**80.0**	0.3	54.5
Guarantee scheme		45.0	90.0		**90.0**	-	-
Total of funds[5]	**1,476.0**	**485.0**	**878.0**	**1,940.0**	**4,744.0**	**364.6**	1,751.1

Sources: Ministry of Development and Competitiveness and EIB press releases.
* Guarantee funds.
** Revolving funds.
1 Trade finance risk will be shared between banks (15%) and the EIB (85%). The amount of €500 million may be used on a revolving basis up to three times per annum, as it concerns trade credit, i.e. short-term financing, and may come to a total of up to €1,500 million per annum.
2 Credit lines are channelled to SMEs with bank intermediation.
3 The JESSICA initiative does not only concern SMEs.
4 The above-mentioned programmes under the National Fund of Entrepreneurship and Development (ETEAN) do not include the "Energy Saving at Home" programme, which mostly concerns households.
5 Total funds include, other than loans, amounts relating to guarantees and trade finance.

The European Investment Fund (EIF), a subsidiary of the EIB, provides funding for commercial bank loans to SMEs, using EU funds from the JEREMIE initiative. Through its "risk-sharing instrument", the EIF will lend €180 million to partner banks, and the latter will in turn top up these funds with an equal amount of their own resources and channel them to new SME loans.[2] Also, the EIF provides, through its participation in four venture capital funds, €49 million of JEREMIE funding in support of early-stage SMEs in innovative technology sectors.

SMEs may also benefit from Structural Fund resources of €258 million available under the JESSICA initiative, provided by the EIB in the form of commercial bank loans in support of urban

2 The EIF assumes 50% of the total credit risk, and resources from the EIF's share of SME loan repayments will be returned to the JEREMIE Fund so that they can be reused in new projects.

development projects (and participation in Public-Private Partnerships – PPPs) involving SMEs.[3] After the repayment of the loans out of the returns/receipts generated from these investments, the funds will be reinvested in new projects.

The National Fund of Entrepreneurship and Development (ETEAN) provides guarantees for Greek bank loans aimed to finance working capital and investment of SMEs. Also, together with commercial banks, ETEAN co-funds SME loans, which carry comparatively very low interest rates reflecting the zero remuneration of ETEAN funding. The above-mentioned guarantees and co-funding draw resources from Structural Funds and from ETEAN's initial capital, which has been paid in by the Greek State. Currently, ETEAN is managing around €540 million of EU funds, while using own resources of €45 million to cover €90 million of letters of guarantee issued by contracting banks to support lending to SMEs. ETEAN covers up to 50% of the value of the letter of guarantee for a low fee of 0.5%, while the SME is expected to provide additional collateral to the lending bank.

The "Institution for Growth in Greece" (IfG) will be activated in 2014. It will be established with funds from the Greek government, the German state investment bank KFW and other banks and non-banks. It will finance: (a) SMEs, in the form of equity financing, loans, guarantees and other financial instruments; (b) infrastructure projects, in the form of equity financing, loans, guarantees and other financial instruments; (c) private equity funds and venture capital funds, in the form of equity participation. SME financing will be intermediated by domestic credit institutions.

At the European level, a number of options are being explored to facilitate securitisation of bank loans to SMEs.[4] The resulting SME loan-backed securities could be guaranteed by the EIB, the capital of which has been increased recently. Alternatively, if the underlying loans default, security investors could be compensated with resources from European Structural and Investment Funds (2014-2020).

Securitisation, backed by guarantee schemes, would help to improve banks' capital ratios, thereby enhancing their ability to extend new SME loans at favourable interest rates. Moreover, the sale of the resulting securities to investors —which would preferably include European institutions such as the EIB or the EIF— would directly boost the liquidity of originator banks. These securities could alternatively be rediscounted at the Eurosystem.

Among other initiatives to foster SME financing, promoting securitisation was agreed upon by the European Council on 27-28 June 2013, while the European Council of 24-25 October 2013 highlighted the need to speed up the relevant preparations.

Promoting securitisation is certainly a difficult task, since markets for securitised loans are experiencing serious problems such as a decline in trading volumes and the high risk premia incorporated in yields. Indeed, this is where the 2007 international financial crisis first broke out. On the other hand, European initiatives will create a large volume of securitised loans to European SMEs, and security sales will be targeted at a broad spectrum of investors.[5] At present, however, in countries in which securitisation is widespread, such as Italy and Spain, the securities are usu-

3 Unlike what is the case with the other programmes, SME involvement is not a precondition for JESSICA funding.
4 For details of proposals for the promotion of securitisation and other initiatives, see in the Joint Commission/EIB report ("Increasing lending to the economy: implementing the EIB capital increase and joint Commission-EIB initiatives") to the European Council, 27-28 June 2013. Available at: http://ec.europa.eu/europe2020/pdf/eib_en.pdf.
5 The European initiatives under development aim to mobilise private sector investment, in particular from international institutional investors.

ally retained by the originator banks, a practice that seems to be followed by Greek banks as well.[6] Thus, although the loans are securitised, risks are not derecognised from banks' balance sheets, hence the originator bank's capital adequacy does not improve to give it scope to extend new SME loans. Still, even when this is the case, banks' liquidity can be increased to the extent that such securities can be used as collateral for refinancing by the Eurosystem.

While SME support constitutes a top priority, the most important criterion for the granting of financing should undoubtedly be the viability of the business plan. It should not be overlooked that, as taught by the experience of Japan during 1993-2002, there is a risk that any scheme of government support to financing could encourage a recycling of credit in support of non-viable firms, which would have probably gone out of business without this continuous bank credit lifeline. Japanese banks used to maintain credit lines to non-viable firms in an effort to avoid the capital adequacy implications of NPLs or write-offs, a practice which caused a misallocation of resources towards less productive industries and businesses and, ultimately, prolonged the recession.[7]

Finally, as regards the promotion of alternative sources of SME financing, practices such as the establishment of funds, schemes or incentives to attract investors (private equity funds and venture capital funds) to SMEs are becoming increasingly common internationally. In this connection, Greece could reinforce the activities and capital of the New Economy Development Fund S.A (TANEO), which operates with government funds (€140 million) and private investor funds (€140 million) and participates in venture capital funds investing in innovative SMEs.

6 Indicatively, in the second quarter of 2013, the stock of securitised SME loans in the Greek market remained at €7.3 billion. Source: AFME/ESF Securitisation Data Report (Q2: 2013), p. 9.
7 See e.g. Zsolt Darvas, "Banking system soundness is the key to more SME financing", Bruegel Policy Contribution, Issue 2013/10, July 2013.

6 BANK LENDING RATES

Interest rates in most loan categories continued to decline (see Table V.2). The decline in the weighted average interest rate was relatively stronger for loans to households (19 basis points) and more moderate for loans to non-financial corporations (10 basis points). Especially as regards housing and consumer loans, the decline in interest rates probably reflects forbearance measures applied to existing loans, rather than loans for financing new expenditure. As regards loans to non-financial corporations, apart from the fact that banks announced reductions in interest rates, it is well known that, in many cases, when a loan is renewed, customers are offered more favourable rates. The reduction of nominal lending rates was made possible thanks to (a) banks' lower cost of refinancing by the Bank of Greece and (b) the lower average deposit rate.

In real terms,[3] interest rates on new loans broadly increased, as inflation continued to decelerate. The average real bank lending rate stood at 7.5% in October 2013 (the highest level observed since Greece adopted the euro).

Various factors can drive interest rate developments. Lower credit risk, which will be achieved through the recovery of economic activity, will contribute to a decline in bank lending rates. Likewise, the increase in the supply of loans by credit institutions over the medium term (or even by non-bank lenders) will be combined with a decline in bank lending rates. On the other hand, insofar as the economic upturn is accompanied by a rebound in demand for loans, interest rates will be subject to upward pressures. Upward pressures will also be exerted in the case of sizeable

3 The real interest rate in a given month is that month's nominal rate minus the year-on-year inflation rate of the same month.

recurring outflows of deposits due to renewed uncertainty. Turning to the constellation of bank rates, the pursued reduction in banks' operating costs (see Section V.9) will contribute to narrowing the spread between bank lending and deposit rates (i.e. the intermediation margin), so that e.g. decreases in lending rates go hand in hand with higher or stable deposit rates.

7 THE BOND MARKET

In 2013, the risks facing the Greek economy eased[4] and the fluctuations of Greek government bond yields reflected primarily the impact of factors affecting yields in the other euro area Member States with a high public or private debt (see Box V.2). As a result, the conditions that were closely linked with the country's exclusion from international financial markets gradually dissipated. In the same vein, the path of share prices on the Athens Exchange (Athex) reflected —to a great extent now— the effect of external developments.

Ten-year Greek government bond yields stood at 8.8%[5] on 4 December 2013, against 11.5% at the end of 2012 (see Chart V.3). This decrease (of 270 basis points) exceeded the decline in the yields of Italian and Portuguese government bonds (35-60 basis points). Besides, the yield spread between the Greek and the German 10-year government bond narrowed (end-December 2012: 1,017 basis points, 4 December 2013: 697 basis points).

The yield curve of Greek bonds has levelled out since July 2013 for maturities up to 15 years. This means that investors no longer consider that credit risk is disproportionately concentrated in the relatively nearest future, although the yield spread of the 30-year bond against the 10-year bond remains slightly negative. The average daily value of transactions on the Dematerialised Securities System (the Electronic Secondary Securities Market) halved (more than doubled) over the first 11 months of 2013 year-on-year. Compared with January-November 2012, the amount raised through Treasury bill issues was lower by almost 10%, while the weighted average interest rate declined by 40 basis points to 4.11% between January and November 2013.

Chart V.3 10-year Greek government bond yield (January 2009-4 December 2013)

(daily data, in percentage points)

Source: Electronic Secondary Securities Market (HDAT), Bank of Greece.

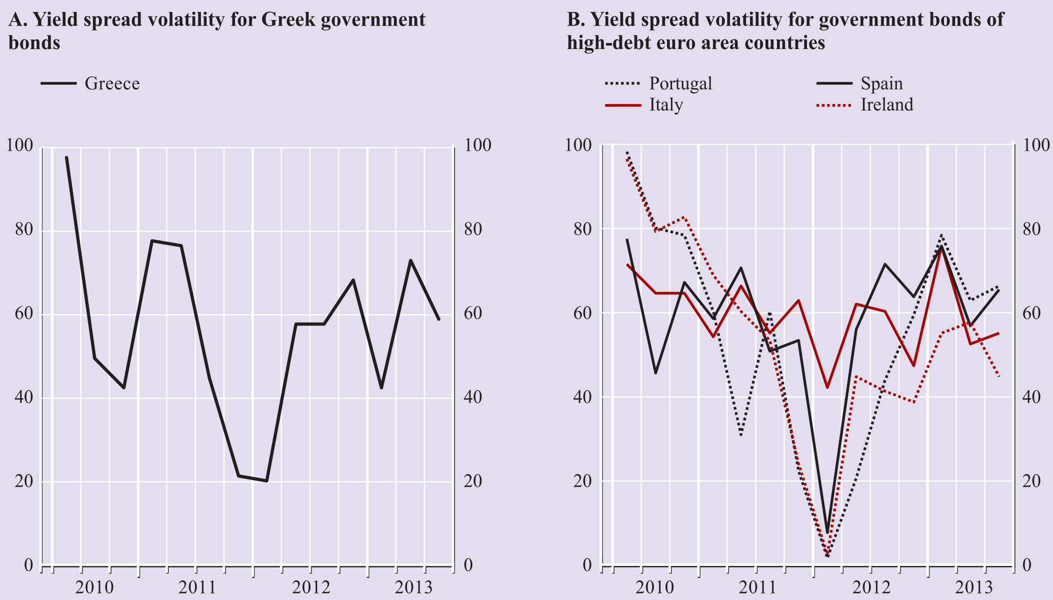
4 From the beginning of 2013 to early December, the credit rating of the Greek economy was upgraded by two major rating agencies.
5 Based on Reuters data.

Box V.2

THE EFFECT OF SYSTEMIC FACTORS ON THE PRICING OF GREEK SOVEREIGN BONDS

A central feature of the Greek debt crisis was the decoupling of the Greek government bonds' pricing process from the comparable processes at work relevant to the government bonds of the other euro area countries. This decoupling became evident by the rapid widening of the yield

Proportion of bond yield spread volatility explained by systemic factors



Source: Econometric estimates, Bank of Greece.

spread between Greek and German bonds. This box attempts to assess the degree to which the Greek government 10-year bond is priced based on factors that affect the pricing process of euro area bonds in general ("systemic" factors) as opposed to country-specific developments ("idiosyncratic" factors).

To this end, econometric analysis has been undertaken to test the interactions among the pricing processes of the government bonds issued by high-debt euro area countries (Greece, Ireland, Spain, Italy and Portugal). As a first step, a standard autoregressive model, recursively estimated with a quarterly re-estimation period on daily data,[1] is used to investigate the causal relationships among the yield spreads of the 10-year bonds issued by these countries over the comparable German bond, in the period from 10 May 2010 to 30 September 2013. According to the results, up to the end of 2012 the Greek bond's yield spreads over the German bond have not been significantly affected by developments driving the bond yield spreads of the other high-debt countries. Thereafter, however, the findings of the analysis indicate a strengthening impact from systemic factors. Therefore, it seems that, although from May 2010 to the end of 2012 Greek government bond yields reflected almost exclusively idiosyncratic risk factors, in 2013 broader factors also came into play. The stronger systemic effects on Greek government bond prices represent a normalisation of Greek economy conditions, insofar as they have resulted from a decline in idiosyncratic risks.

1 In addition to the first lag of the spread, the model includes a constant coefficient and a linear time trend. Also, the common movements of the spreads of other high-debt euro area countries are reflected by the inclusion of the first principal component of their spreads, so as to capture the impact of systemic factors in the spreads. The coefficients are estimated recursively for each quarter of the period from May 2010 to September 2013, using daily data.

As a next step, a generalised autoregressive conditional heteroskedasticity (GARCH) model is used to examine the spillover effects of Greek bond yield volatility,[2] to and from the bond yields of the other high-debt countries. As can be seen at the left-hand panel of the chart, the finding of an initial weakening of the Greek bond's correlation with the bonds of the other peripheral euro area countries is also confirmed with respect to volatility, up to the second quarter of 2012. Specifically, the impact of idiosyncratic factors on the volatility of Greek bond yields increased considerably over that period: such factors explain 80% of the volatility in the second quarter of 2012 compared with just 5% in the pre-crisis period. Thereafter, the idiosyncratic/systemic balance has been reversed, with systemic factors now explaining nearly 60% of Greek bond yield volatility. In fact, the prevalence of systemic factors seems to have become set since the fourth quarter of 2012, with the exception of a temporary reversal observed during the crisis in Cyprus. Finally, the right-hand panel of the chart illustrates that the import of idiosyncratic factors on the pricing process increased significantly over the first two quarters of 2012 for the other high-debt countries as well, which can be attributed to contagion of worsening investor sentiment caused by the heightened volatility of Greek bond yields in that period.

The findings of the analysis suggest that the unfolding of the debt crisis in Greece has exerted a systemic effect on the bond markets of the other high-debt countries, via volatility spillover effects. Therefore, developments in the Greek economy have an impact on the financial system of the euro area as a whole, not exclusively due to the exposure of international banks and other non-Greek economic agents to Greek government securities. Following the restructuring of the Greek sovereign debt in March 2012, government bond market movements in the weak euro area economies have gradually been normalised, with the relevant pricings reflecting systemic factors to a percentage ranging between 45% and 65%. Still, the fact that idiosyncratic factors continue to account for a significant part of the bonds' volatility across all weak economies of the euro area relative to the pre-2010 period suggests that the debt crisis has not been definitively resolved.

2 The model also includes the standard deviation of the spread, from its autoregressive model, the autoregressive effects of the standard deviation, and the first principal component of the movements of the standard deviations of the yields of the other peripheral euro area bonds. Its estimation period is the same as in the first model (May 2010 to September 2013), with a quarterly re-estimation period and a daily data frequency.

Finally, growing investor confidence facilitated the continuation of corporate bond issuance by export-oriented Greek enterprises. Overall, the funds raised since the end of 2012 through the issuance of corporate bonds abroad reached €3.7 billion[6] (by contrast, the net flow of bank credit to non-financial corporations in the January-October period, for which data are available, was negative: -€4.6 billion). It should be noted that the yields to maturity on such debt securities followed the same downward course as the yields on the corporate bond markets of the other euro area countries (where new issuance activity is also buoyant).

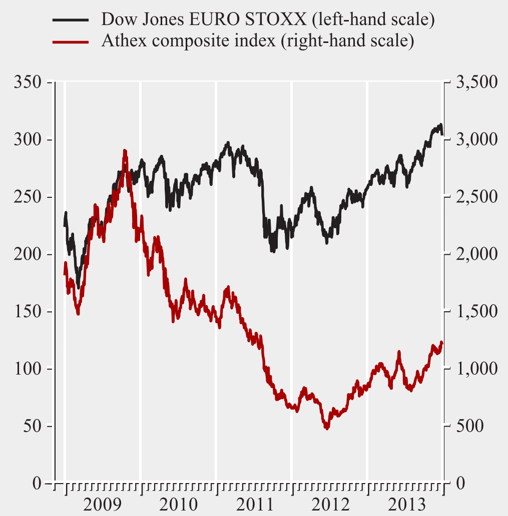
8 THE STOCK MARKET

Between end-2012 and 4 December 2013, the Athex composite index rose by 33% (see Chart V.4), outperforming the Dow Jones EURO STOXX and S&P 500 indices.[7] This development reflects a positive assessment of the gradual improvement in the Greek economy's macroeconomic aggregates and prospects, given the progress with fiscal con-

6 This amount includes the issue of corporate bonds by Coca Cola HBC, which transferred its business activities abroad.
7 By contrast, the MSCI Emerging Markets Index – under which the Athens Exchange has been classified by a major international agency since November 2013 – declined.

Chart V.4 Athens Exchange composite share price index and Dow Jones EURO STOXX (January 2009-4 December 2013)

(daily data)



Source:Thomson Reuters-Datastream.

solidation and structural reforms, including the restructuring of the banking system. The Athex benefited from the fact that Greece belied the overpessimistic forecasts of some investment firms.

From the beginning of 2013 to early December, the average daily value of transactions was by some 65% higher year-on-year. The net inflow of foreign investors' funds reached €2.2 billion in the first eleven months of 2013, after three years of outflows. However, excluding banks' capital increases in the context of the recapitalisation process, fundraising through the stock market was subdued.

Unlike the Athex composite index, the banking sub-index fell by 17%. Nevertheless, since July 2013 bank share prices have risen sharply, following the successful raising of the private funds required for recapitalisation, as well as improved financial results. Besides, the restructuring of the banking system has given rise to positive expectations as to banks' future profitability.

9 DEVELOPMENTS IN THE BANKING SECTOR

A new banking landscape has emerged in Greece, with fewer and stronger banks. Considerable challenges remain, but an improvement in key banking sector aggregates is in the offing.

The four core banks —after the resolution of FBB and Probank, and the sale of the two bridge credit institutions by the Hellenic Financial Stability Fund[8]— together control more than 90% of the banking system's total assets, compared with 63% in 2008. This rationalisation is expected to eliminate excess capacity and help banks exploit synergies and economies of scale. The Bank of Greece, as banking supervisor, had repeatedly expressed the view that the Greek economy's size and the current economic juncture call for fewer banks, more resilient to financial shocks. In order to protect the consumers of financial services, the Bank of Greece will make sure that increased concentration will not harm competition: margins on banking products should not be excessive, while credit institutions must keep supplying a wide range of banking products, improving them over time through the introduction of financial innovations.

Mergers and acquisitions played a decisive role in banks' results in the first half of 2013. For the first time after three years, the Athex-listed commercial banks (and banking groups) posted after-tax profits of €5.7 (and €6.5) billion (see Table V.3).

This development was mainly due to the following two one-off events:

- the recording, in line with internationally recognised practices, of negative goodwill[9] (amounting to €6.0 billion for banks and €6.4 billion for banking groups) from the acquisi-

8 New TT Hellenic Postbank and New Proton Bank were acquired by Eurobank in July 2013 following a tender procedure.
9 Negative goodwill arises during a bank's acquisition when its financial assets are acquired at a price lower than their book value, resulting in a positive effect on the buyer's results.

Table V.3 Financial results of Greek commercial banks and banking groups with shares listed on the Athens Exchange (first half of 2013)

(million euro)

	Banks	Banking groups
Operating income	**2,401**	**4,855**
Net interest income	2,034	3,667
– Interest income	5,278	8,076
– Interest expenses	3,243	4,409
Net non-interest income	366	1,188
– Net fee income	236	686
– Income from financial operations	149	383
– Other income	-20	120
Operating costs	**-1,784**	**-3,119**
Staff costs	-1,020	-1,680
Administrative costs	-631	-1,102
Depreciation	-130	-278
Other costs	-4	-60
Net income (operating income less costs)	**617**	**1,736**
Provisions for credit risk	-2,980	-3,540
Other provisions[1]	-173	-192
Negative goodwill[2]	6,032	6,441
Share of profit (loss) of associates		-15
Pre-tax profits	**3,495**	**4,430**
Taxes	2,169	2,087
After tax profits	**5,665**	**6,517**

Source: Financial statements of Alpha Bank, Attika Bank, Geniki Bank, National Bank of Greece, Eurobank and Piraeus Bank. The financial results of Piraeus Bank also include the financial results of the branches of Cypriot banks for the period 16.3.2013-30.6.2013 and of Millennium Bank SA for the period 20.6.2013-30.6.2013.
1 Impaiment of securities as well as of tangible and intangible assets.
2 Positive effect from the acquisition of Emporiki Bank by Alpha Bank, as well as of ATEBank, of the branches of Cypriot banks (Hellenic Bank, Bank of Cyprus and Cyprus Popular Bank) and of Millenium Bank SA by Piraeus Bank.

tion of foreign banks' subsidiaries and branches in Greece by two core banks, and

- the positive effect, via deferred tax assets, from the increase of the corporate income tax rate to 26% for 2013, from 20% in 2012.[10]

With respect to operating results, income was higher than costs, a trend which is expected to take hold given the continued fall in banks' financing costs and their intensified efforts to cut operating costs. Net income, however, was insufficient to cover provisions for credit risk.

Loan portfolio quality deteriorated further, although the rate of increase in NPLs slowed down. The NPL ratio rose to 29.3% at end-June 2013, from 24.5% at end-December 2012: corporate loans (December 2012: 23.4%, June 2013: 29.2%), housing loans (December 2012: 21.4%, June 2013: 24%), consumer loans (December 2012: 38.8%, June 2013: 43.8%). The coverage ratio (accumulated provisions to NPLs) fell to 48.3% in June 2013, from 49.1% in December 2012, suggesting that banks need to keep establishing high provisions for credit risk.

With the completion of the recapitalisation and restructuring process, the banking system's capital base was restored. In June 2013 the Capital Adequacy Ratio of Greek commercial banks stood at 12.7%, and of banking groups at 11.3%, while the respective Core Tier 1 ratios were 11.9% and 10.7%.

The Bank of Greece will remain engaged, with a view to preserving the stability of the banking system, protecting depositors and ensuring viable, well-capitalised credit institutions and sound competitive conditions. The new, strong credit institutions will gradually help restore smooth financing conditions in the real economy and allocate credit to sectors with a strong potential for reorganisation, comparatively higher productivity, and rapid growth.

The banking system's new business model should rest on the following pillars: (i) rationalisation of operating costs and, more generally, higher internal capital generation via operating profits; (ii) shedding of non-core banking business; (iii) redesigning of foreign business; (iv) active management of troubled assets (i.e. NPLs and forborne loans); and (v) supply of a full range of banking services under sound pricing policies.

10 According to International Accounting Standard 12, tax rate hikes increase deferred tax assets and have a positive effect on financial results.

In this context, in July 2013 the Bank of Greece commissioned the internationally reputed consulting firm BlackRock Solutions to conduct a diagnostic assessment of Greek banks' loan portfolios, on the basis of data as of 30 June 2013. This project includes the following workstreams:

• Asset Quality Review: aimed at assessing banks' lending and loan monitoring policies and procedures. The review will be based on interviews with bank officials and on a thorough analysis of samples of loan files. Moreover, for a sample of large corporate borrowers, a credit loss projection will be estimated for each individual loan.

• Troubled Assets Review: aimed at assessing the adequacy and efficiency of core banks' policies and procedures for the management of troubled assets, developing monitoring tools, and submitting proposals for the improvement of such policies.

• Credit Loss Projections: aimed at estimating potential losses from banks' loan portfolios, both on a 3-year and a lifetime horizon, under two macroeconomic scenarios, a baseline and an adverse one.[11] This projection is based on the analysis of raw data at individual loan level using tailor-made econometric models for each loan portfolio and takes into account the findings of the "Asset Quality Review" workstream.

• Foreign Loan Book: it includes assessing on the one hand the lending policies and procedures of Greek banks' major foreign subsidiaries and on the other hand the conservatism of the risk parameters (e.g. the default rate) by loan category. In addition, it will identify any loans to subsidiaries and branches abroad that carry Greek risk and will estimate their expected losses based on the findings of the "Credit Loss Projections" workstream.

The overall results of this diagnostic assessment, together with the restructuring plans already submitted by banks, are currently taken into account during the stress testing exercise to be completed, in accordance with the Memorandum of Understanding, by end-2013.

At the same time, banks have been requested to submit quarterly funding plans, the adequacy of which will be assessed by the Bank of Greece. In these plans, banks detail their actions geared to diversify their sources of liquidity, thereby gradually reducing their reliance on central bank financing, and also record quantitative estimates of available funding sources. The first plans have already been submitted and are currently being evaluated.

Moreover, particular emphasis is placed on the management of banks' troubled assets. In this connection, banks have submitted their arrears and NPLs management strategies to the Bank of Greece, which will help them assess alternative ways of managing these assets and find the most viable long-term solution. It is encouraging that banks —in some cases thanks to the recent consolidation in the sector— have started to adopt a more centralised approach to the management of their troubled assets. At the same time, with respect to the management of troubled assets of banks under liquidation, an independent special committee has already been set up and has started functioning to ensure coordinated and uniform management of such loans as well. Finally, it is crucial to prevent the generation of new troubled assets in the form of new arrears on currently performing loans. To this end, banks should establish pre-arrears management procedures in line with the borrowers' financial condition.

10 THE PRIVATE INSURANCE MARKET

At end-September 2013, the Greek insurance market numbered seventy-two (72) insurance

11 The macroeconomic scenarios were developed by the EU/ECB/IMF in cooperation with the Bank of Greece. The assumptions of the baseline scenario are consistent with those of the Medium-Term Fiscal Adjustment Programme, whereas the adverse scenario takes into account discussions held at EU level in view of the upcoming stress testing exercise for European banks.

undertakings under the freedom of establishment, with total assets amounting to €14.9 billion. In gross written premium terms, the market share of Greek insurance companies was 51.8%, that of subsidiaries of EU-based groups 42.1%, and that of branches of non-EU and EU-based firms 6.1%. As regards market concentration in terms of gross written premiums, the 5 and 10 largest firms have market shares of 72.9% and 91.2% in the life insurance sector, respectively, and of 36.9% and 62.3% in the non-life insurance sector, respectively.

Between January and September 2013, the main developments in the insurance market were the reduction of gross written premiums for a second consecutive year and the continuation of share capital increases, which totalled €200 million in the period under review.

As regards other aggregates, income from all kinds of premiums fell by 9.5% year-on-year, to stand at €3.1 billion, 39.5% of which came from life insurance and 60.5% from non-life insurance. In more detail, the reduction of life insurance income was in the order of 15.0%, whereas that of non-life 5.5%. The total technical reserves of the insurance firms supervised by the Bank of Greece declined further and stood at €11.7 billion (January-September 2012: €12.0 billion). This development was driven by the life insurance sector, as a result of redemptions and a decline in new business.

Over the January-September 2013 period, the Bank of Greece stepped up its onsite inspections of insurance undertakings, carrying out more than 100 onsite inspections and imposing the envisaged supervisory measures in cases of deviation from the regulatory framework. The Bank also held regular meetings with firms' senior management, during which it called their attention to organisational and compliance matters, with an emphasis on the preparations for the gradual adjustment of market practices and firms' internal organisation to the requirements of the Solvency II Directive.

In the context of preparations for the adoption of the Solvency II Directive on 1 January 2016, the Bank of Greece continued in 2013 to participate in the planning and execution of quantitative impact exercises at EU level. More specifically, the Bank of Greece, in cooperation with the European Insurance and Occupational Pensions Authority (EIOPA), took part in the EU-wide exercise aimed at assessing the economic impact of a number of amendments in relation to products with long-term guarantees (LTG).

The eight working groups set up in 2012 on an initiative of the Bank of Greece to upgrade the quality of firms' statistics and develop suitable actuarial models for assessing specific insurance risks also continued their work. In cooperation with insurance companies, they designed and developed software programmes for compiling statistics and supporting the models at issue, and finalised the relevant reports.

In addition to the Solvency II interim implementation measures, the Bank of Greece's regulatory activity also extended to the insurance intermediation industry, through the issue of Executive Committee Acts nos. 30 and 31/30.9.2013 (Government Gazette B 2556). Under Act 30/2013 "*Organisation of insurance undertakings' management and accountancy, including marketing policy, insurance business acquisition and related distribution channels, monitoring of gross premiums written, of the collection of premiums and of the payment of commissions due, and rules of professional conduct*", insurance undertakings are required to adopt and implement, among other things, a marketing policy, rules of selling practice and a premiums management policy, the minimum contents of which are defined therein. Furthermore, this Act lays down the core principles that must govern insurance firms' transactions with insurance intermediaries, while it also introduces specific record-keeping and supervisory reporting requirements. Act 31/2013 "*Code of conduct for (re)insurance intermediaries*" describes the standards of information and professional conduct that insurance intermediaries must meet during the promotion of insurance products vis-à-vis both customers and other intermediaries and insurance firms. The Act includes an indicative list of illegitimate or misleading actions and practices and provides for the imposition of administrative sanctions on any insurance intermediaries that follow such practices. Furthermore, upon entering into force, this Act will repeal Presidential Decree 298/86 (Government Gazette A 133) "*Rights, obligations and code of professional conduct for insurance agents and consultants*", according to which insurance agents had the right to withhold for two months the premiums collected from customers; thenceforth the provision of Article 33 para. 2 of Legislative Decree 400/1970 will apply with respect to time limits for the transfer of premiums collected. Both Acts will come into effect on 1 January 2014.

Along with the reform of the regulatory framework for insurance intermediation, the Bank of Greece already carries out a first round of visits to high-turnover (re)insurance intermediation firms. These get-to-know meetings aim at fostering a constructive exchange of views and concerns with the industry's leaders, as well as promoting the sector's preparation for the stricter and more intensified inspections that will be conducted in the near future.

Moreover, with respect to the protection of policyholders-consumers, Executive Committee Act no. 3/8.1.2013 transposed to Greek law the EIOPA Guidelines on Complaints-Handling by Insurance Undertakings (EIOPA-BoS-12/069), published on 16 November 2012. This Act requires insurance undertakings to have in place a policy and a function, both endorsed by their Board of Directors, for the management of complaints made by policyholders and any other insurance compensation beneficiaries. The person in charge of this function (Head of Complaints Management) must meet certain minimum independence standards, so as to ensure fair and impartial investigation of the complaints. In addition, the Act provides for specific timeframes for responding to complainants, as well as for detailed record-keeping and supervisory reporting requirements. This Act aims at ensuring that insurance undertakings provide faster and more effective services to policyholders-consumers, and at the same time identify and effectively tackle the root causes (internal problems) of consumer complaints.

Finally in the context of the stress testing exercise carried out on credit institutions, the Bank of Greece also assesses the capital requirements of insurance companies that are bank subsidiaries.

CHRONOLOGY OF MAIN MONETARY POLICY MEASURES OF THE EUROSYSTEM

20 MARCH 2013

The Governing Council of the European Central Bank (ECB) adopted Guideline ECB/2013/4 (2013/170/EU) of 20 March 2013 which suspends the Eurosystem's minimum requirements for credit quality thresholds applicable to marketable debt instruments issued or fully guaranteed by the central governments of euro area Member States under a European Union/International Monetary Fund programme, unless the Governing Council decides that the respective Member State does not comply with the conditionality of the financial support and/or the macroeconomic programme. This Guideline lays down a haircut schedule applying to marketable debt instruments issued or fully guaranteed by the Hellenic Republic.

21 MARCH 2013

The Governing Council of the ECB decided to maintain the current level of Emergency Liquidity Assistance (ELA) to the central Bank of Cyprus until 25 March 2013. Thereafter, Emergency Liquidity Assistance (ELA) could only be considered if an EU/IMF programme is in place that would ensure the solvency of the concerned banks.

22 MARCH 2013

The Governing Council of the ECB decided to prevent, as of 1 March 2015, the use as collateral in Eurosystem monetary policy operations of uncovered government-guaranteed bank bonds that have been issued by the counterparty itself or an entity closely linked to that counterparty.

As of 1 March 2015, the Eurosystem will also no longer accept covered bonds issued by the counterparty where the asset pool contains uncovered government-guaranteed bank bonds also issued by that counterparty or an entity closely linked to that counterparty.

Until 28 February 2015, counterparties may submit as collateral uncovered government-guaranteed bank bonds that they themselves have issued, up to the nominal value of these bonds, as approved by the Governing Council on 3 July 2012.

2 MAY 2013

The Governing Council of the ECB decided to decrease the interest rate on the main refinancing operations by 25 basis points and the interest rate on the marginal lending facility by 50 basis points to 0.50% and 1.00%, respectively, as from 8 May 2013, while the interest rate on the deposit facility will remain unchanged at 0.00%.

It also decided to continue conducting its main refinancing operations (MROs) as fixed rate tender procedures with full allotment for as long as necessary, and at least until 8 July 2014. This procedure will also remain in use for the Eurosystem's special-term refinancing operations with a maturity of one maintenance period, which will continue to be conducted for as long as needed, and at least until the end of the second quarter of 2014. The fixed rate in these special-term refinancing operations will be the same as the MRO rate prevailing at the time. Furthermore, the Governing Council of the ECB has decided to conduct the three-month longer-term refinancing operations (LTROs) to be allotted on 31 July, 28 August, 25 September, 30 October, 27 November and 18 December 2013 and 29 January, 26 February, 26 March, 30 April, 28 May and 25 June 2014 as fixed rate tender procedures with full allotment. The rates in these three-month operations will be fixed at the average rate of the MROs over the life of the respective LTRO.

Finally, the Governing Council of the ECB has decided that marketable debt instruments issued or fully guaranteed by the Republic of Cyprus and fulfilling all other eligibility criteria shall again constitute eligible collateral for the purposes of Eurosystem credit operations, as from 9 May, subject to special haircuts. The application of the minimum credit rating threshold in the collateral eligibility requirements for the purposes of the Eurosystem's credit operations shall be suspended. In this decision, the Governing Council has taken into consideration the Memorandum of Understanding concluded between the Republic of Cyprus and the European Commission and endorsed by the Member States, reflecting the economic and financial adjustment programme for Cyprus.

18 JULY 2013

The Governing Council of the ECB decided to review its risk control framework, which lays down its collateral eligibility rules and haircuts applied when accepting collateral in Eurosystem monetary policy operations. The measures taken together have an overall neutral effect on the amount of collateral available. In the biennial review of its risk control framework, the Governing Council decided in particular to:

– update the haircuts for marketable and non-marketable instruments;

– adjust the risk control measures for retained covered bonds to take into account the additional risk which results from the use of such securities by the issuer itself;

– replace the current requirement of two "triple A" ratings with the requirement of two "single A" ratings for the six classes of asset-backed securities (ABS) subject to loan-level reporting requirements, reflecting their improved transparency and standardisation;

– reduce the haircuts applicable to ABS eligible under the permanent and temporary Eurosystem collateral framework.

In addition, the Governing Council decided to adjust the eligibility criteria and haircuts applied by National Central Banks (NCBs) to pools of credit claims and certain types of the additional credit claims (ACC) eligible under the temporary Eurosystem collateral framework that was implemented in December 2011.

9 SEPTEMBER 2013

The Governing Council of the ECB decided to enhance the loan-level reporting requirements for residential mortgage-backed securities (RMBSs) and ABSs backed by loans to small and medium-sized enterprises (SME ABSs) that are used as collateral in Eurosystem monetary policy operations. As of 16 October 2013, RMBS and SME ABSs for which the mandatory level of compliance with reporting requirements has not been attained and for which the data provider has neither given an explanation for that non-compliance nor provided action plan for achieving full compliance, will become ineligible for use as Eurosystem collateral.

16 SEPTEMBER 2013

The Governing Council of the ECB decided, in agreement with the Bank of England, to extend the liquidity swap arrangement with the Bank of England up to 30 September 2014. The swap facility has been established on 17 December 2010 as a precautionary measure.

19 SEPTEMBER 2013

The Governing Council of the ECB decided to introduce loan-level reporting requirements for asset-backed securities (ABSs) backed by credit-card receivables, when these are used as collateral in the Eurosystem's monetary policy operations.

10 OCTOBER 2013

The ECB and the People's Bank of China (PBC) agreed to establish a bilateral currency swap arrangement to purchase and subsequently repurchase Chinese yuan and euro from each other. The swap agreement, which will be valid for three years, will have a maximum size of 350 billion yuan when yuan are provided to the ECB and of €45 billion when euro are provided to the PBC. The swap arrangement has been established in the context of rapidly growing bilateral trade and investment between the euro area and China, as well as the need to ensure the stability of financial markets. From the perspective of the Eurosystem, the swap arrangement is intended to serve as a backstop liquidity facility and to reassure euro area banks of the continuous provision of Chinese yuan.

31 OCTOBER 2013

The Bank of Canada, the Bank of England, the Bank of Japan, the ECB, the Federal Reserve, and the Swiss National Bank decided to convert their existing temporary bilateral liquidity swap arrangements to standing arrangements, that is, arrangements that will remain in place until further notice. The standing arrangements will continue to serve as a prudent liquidity backstop. The existing temporary swap arrangements have helped to ease strains in financial markets and mitigate their effects on economic conditions.

7 NOVEMBER 2013

The Governing Council of the ECB decided to decrease the interest rate on the main refinancing operations and the interest rate on the marginal lending facility by 25 basis points to 0.25% and 0.75%, respectively, as from 13 November 2013, while the interest rate on the deposit facility will remain unchanged at 0.00%.

It also decided to continue conducting its main refinancing operations (MROs) as fixed rate tender procedures with full allotment for as long as necessary, and at least until 7 July 2015. This procedure will also remain in use for the Eurosystem's special-term refinancing operations with a maturity of one maintenance period, which will continue to be conducted for as long as needed, and at least until the end of the second quarter of 2015. The fixed rate in these special-term refinancing operations will be the same as the MRO rate prevailing at the time. Furthermore, the Governing Council of the ECB has decided to conduct the three-month longer-term refinancing operations (LTROs) to be allotted on 30 July, 27 August, 24 September, 29 October, 26 November and 17 December 2014 and 28 January, 25 February, 25 March, 29 April, 27 May and 24 June 2015 as fixed rate tender procedures with full allotment. The rates in these three-month operations will be fixed at the average rate of the MROs over the life of the respective LTRO.

22 NOVEMBER 2013

The Governing Council of the ECB decided to suspend repayments of the three-year longer-term refinancing operations (LTROs) during the year-end period.

Consequently, the last repayment of the year will be settled on 23 December 2013. Repayment operations will resume in 2014 with a settlement on 15 January. The repayments that were tentatively scheduled for settlement on 30 December 2013 and 8 January 2014 will not take place.

STATISTICAL APPENDIX

TABLES

Table 1 Consumer price index: general index and basic sub-indices

Period		General index		Goods		Services		CPI excluding fresh fruit/vegetables and fuel		CPI excluding food and fuel	
		(2009=100)	Percentage change over previous year	(2009=100)	Percentage change over previous year	(2009=100)	Percentage change over previous year	(2009=100)	Percentage change over previous year	(2009=100)	Percentage change over previous year
2009		100.0	1.2	100.0	-0.5	100.0	3.6	100.0	2.4	100.0	2.6
2010		104.7	4.7	105.6	5.6	103.6	3.6	103.0	3.0	103.4	3.4
2011		108.2	3.3	110.0	4.2	105.9	2.3	104.6	1.5	104.8	1.3
2012		109.8	1.5	112.5	2.2	106.5	0.5	105.0	0.3	104.9	0.1
2012	I	108.7	2.0	110.0	2.5	106.9	1.4	104.1	0.9	103.9	0.6
	II	110.7	1.5	113.9	2.0	106.7	0.9	106.0	0.7	106.2	0.5
	III	109.0	1.3	111.0	1.9	106.6	0.6	104.3	0.3	104.1	0.1
	IV	110.9	1.1	115.0	2.5	105.7	-0.7	105.5	-0.5	105.5	-0.7
2013	I	108.7	0.0	111.5	1.3	105.2	-1.6	102.7	-1.3	102.3	-1.5
	II	110.2	-0.5	114.7	0.7	104.5	-2.1	104.5	-1.5	104.4	-1.7
	III	107.9	-1.0	111.2	0.2	103.8	-2.6	102.2	-2.0	101.7	-2.3
2011	Jan.	106.3	5.2	107.1	6.8	105.3	3.2	103.3	2.7	103.4	2.7
	Feb.	104.9	4.4	104.4	5.1	105.5	3.5	101.5	2.1	101.3	2.1
	March	108.3	4.5	110.5	5.9	105.6	2.8	104.7	2.6	105.1	2.7
	Apr.	109.0	3.9	111.6	5.1	105.7	2.5	105.1	2.1	105.5	2.1
	May	109.2	3.3	111.9	4.1	105.7	2.3	105.3	1.5	105.7	1.4
	June	109.0	3.3	111.5	4.3	105.7	2.2	105.3	1.6	105.7	1.4
	July	107.4	2.4	108.8	3.0	105.8	1.7	103.8	0.6	103.7	0.2
	Aug.	105.9	1.7	106.1	1.7	105.8	1.6	102.2	0.0	101.9	-0.6
	Sept.	109.4	3.1	111.9	3.9	106.4	2.0	106.0	1.6	106.3	1.3
	Oct.	109.6	3.0	112.1	3.9	106.4	1.9	106.0	1.4	106.3	1.0
	Nov.	109.7	2.9	112.4	3.9	106.4	1.8	106.1	1.3	106.3	0.9
	Dec.	109.6	2.4	112.0	2.9	106.6	1.9	106.0	1.1	106.1	0.6
2012	Jan.	108.7	2.3	110.0	2.7	107.2	1.8	104.6	1.3	104.4	1.0
	Feb.	107.1	2.1	107.3	2.8	106.8	1.2	102.4	0.9	101.9	0.6
	March	110.1	1.7	112.8	2.1	106.8	1.1	105.2	0.5	105.3	0.2
	Apr.	111.1	1.9	114.5	2.6	106.7	1.0	106.1	0.9	106.3	0.7
	May	110.7	1.4	113.9	1.8	106.7	0.9	106.0	0.7	106.2	0.4
	June	110.4	1.3	113.3	1.6	106.7	0.9	106.0	0.6	106.2	0.4
	July	108.9	1.3	110.7	1.7	106.7	0.8	104.4	0.6	104.3	0.5
	Aug.	107.8	1.7	108.6	2.4	106.8	0.9	102.7	0.5	102.2	0.4
	Sept.	110.4	0.9	113.7	1.7	106.3	-0.1	105.7	-0.3	105.8	-0.5
	Oct.	111.3	1.6	115.6	3.1	106.0	-0.4	105.7	-0.3	105.7	-0.5
	Nov.	110.8	1.0	114.7	2.1	105.9	-0.5	105.5	-0.5	105.5	-0.7
	Dec.	110.5	0.8	114.6	2.3	105.4	-1.2	105.3	-0.6	105.3	-0.8
2013	Jan.	109.0	0.2	111.8	1.6	105.5	-1.6	103.3	-1.2	103.0	-1.4
	Feb.	107.2	0.1	108.8	1.4	105.1	-1.6	101.0	-1.4	100.2	-1.6
	March	109.9	-0.2	113.9	1.0	104.9	-1.7	103.9	-1.2	103.8	-1.4
	Apr.	110.4	-0.6	115.0	0.4	104.7	-1.9	104.7	-1.2	104.7	-1.4
	May	110.2	-0.4	114.7	0.7	104.6	-1.9	104.5	-1.4	104.4	-1.6
	June	109.9	-0.4	114.6	1.1	104.1	-2.4	104.1	-1.7	104.1	-1.9
	July	108.1	-0.7	111.4	0.7	104.0	-2.5	102.3	-2.0	101.9	-2.3
	Aug.	106.4	-1.3	108.4	-0.2	103.9	-2.7	100.5	-2.1	99.7	-2.5
	Sept.	109.2	-1.1	113.8	0.1	103.4	-2.8	103.7	-1.9	103.6	-2.1
	Oct.	109.1	-2.0	113.9	-1.5	103.2	-2.6	103.8	-1.8	103.7	-1.9
	Nov.	107.6	-2.9	111.3	-3.0	103.1	-2.7	102.5	-2.9	102.1	-3.3

Source: Calculations based on ELSTAT data.

Table 2 Balance of payments

(million euro)

		January-December			January-September		
		2010	2011	2012	2011	2012	2013
I	**CURRENT ACCOUNT BALANCE (I.A+I.B+I.C+I.D)**	**-22,506.0**	**-20,633.5**	**-4,615.0**	**-14,738.0**	**-2,806.1**	**2,553.7**
I.A	***TRADE BALANCE (I.A.1–I.A.2)***	***-28,279.6***	***-27,229.1***	***-19,619.0***	***-20,991.2***	***-15,651.8***	***-12,893.0***
	Oil trade balance	-8,627.2	-11,126.9	-10,220.0	-8,422.1	-8,165.0	-6,017.3
	Non-oil trade balance	-19,652.4	-16,102.1	-9,399.1	-12,569.1	-7,486.8	-6,875.7
	Ship balance	-3,621.2	-3,261.2	-1,042.6	-2,606.7	-829.4	-932.6
	Trade balance excl. oil and ships	-16,031.2	-12,840.9	-8,356.4	-9,962.4	-6,657.4	-5,943.0
	I.A.1 Exports of goods	*17,081.5*	*20,230.6*	*22,020.6*	*15,053.6*	*16,090.9*	*16,842.2*
	Oil	4,950.0	6,187.7	7,426.4	4,583.4	5,471.6	6,110.2
	Ships (receipts)	798.7	754.7	737.8	662.3	603.4	350.4
	Other goods	11,332.8	13,288.2	13,856.5	9,807.8	10,015.9	10,381.6
	I.A.2 Imports of goods	*45,361.0*	*47,459.6*	*41,639.7*	*36,044.8*	*31,742.7*	*29,735.1*
	Oil	13,577.1	17,314.6	17,646.3	13,005.5	13,636.6	12,127.5
	Ships (payments)	4,419.9	4,015.9	1,780.4	3,269.0	1,432.8	1,283.0
	Other goods	27,364.0	26,129.1	22,213.0	19,770.2	16,673.3	16,324.6
I.B	***SERVICES BALANCE (I.B.1–I.B.2)***	***13,248.5***	***14,629.6***	***15,138.9***	***12,031.4***	***12,920.6***	***14,219.4***
	I.B.1 Receipts	*28,477.8*	*28,609.2*	*27,526.4*	*22,749.7*	*22,281.9*	*22,478.3*
	Travel	9,611.3	10,504.7	10,442.5	9,333.7	9,359.8	10,704.3
	Transport	15,418.4	14,096.6	13,287.4	10,547.7	10,185.4	9,050.2
	Other services	3,448.1	4,007.9	3,796.5	2,868.3	2,736.7	2,723.7
	I.B.2 Payments	*15,229.4*	*13,979.6*	*12,387.4*	*10,718.2*	*9,361.3*	*8,258.8*
	Travel	2,156.0	2,266.5	1,843.9	1,790.2	1,450.1	1,393.3
	Transport	8,155.4	7,234.4	6,328.0	5,556.9	4,749.6	4,185.9
	Other services	4,917.9	4,478.7	4,215.5	3,371.1	3,161.5	2,679.7
I.C	***INCOME BALANCE (I.C.1–I.C.2)***	***-7,673.8***	***-8,594.8***	***-1,566.4***	***-6,431.0***	***-1,637.8***	***-2,434.3***
	I.C.1 Receipts	*4,009.3*	*3,322.1*	*3,832.2*	*2,426.1*	*2,861.2*	*2,671.3*
	Wages, salaries	199.7	188.0	200.8	138.1	145.8	155.4
	Interest, dividends, profits	3,809.6	3,134.1	3,631.4	2,288.0	2,715.4	2,515.9
	I.C.2 Payments	*11,683.1*	*11,916.9*	*5,398.6*	*8,857.1*	*4,499.1*	*5,105.6*
	Wages, salaries	377.6	470.0	468.0	340.2	350.4	344.8
	Interest, dividends, profits	11,305.5	11,447.0	4,930.7	8,516.8	4,148.7	4,760.8
I.D	***CURRENT TRANSFERS BALANCE (I.D.1–I.D.2)***	***198.9***	***560.8***	***1,431.5***	***652.8***	***1,562.9***	***3,661.5***
	I.D.1 Receipts	*4,654.3*	*4,435.0*	*5,125.6*	*3,705.5*	*4,503.0*	*6,323.9*
	General government (mainly transfers from the EU)	3,188.5	3,254.9	4,060.2	2,806.4	3,688.3	5,318.9
	Other sectors (emigrants' remittances etc.)	1,465.8	1,180.1	1,065.4	899.1	814.6	1,005.1
	I.D.2 Payments	*4,455.4*	*3,874.2*	*3,694.1*	*3,052.7*	*2,940.1*	*2,662.4*
	General government (mainly payments to the EU)	2,860.4	2,485.4	2,647.9	1,935.3	2,096.7	2,079.0
	Other sectors	1,595.0	1,388.8	1,046.2	1,117.4	843.4	583.4
II	**CAPITAL TRANSFERS BALANCE (II.1– II.2)**	**2,071.5**	**2,671.8**	**2,327.6**	**1,152.1**	**1,582.7**	**2,782.3**
	II.1 Receipts	*2,356.2*	*2,932.7*	*2,564.6*	*1,342.1*	*1,757.2*	*3,039.4*
	General government (mainly transfers from the EU)	2,239.3	2,798.5	2,486.0	1,238.4	1,698.8	2,977.8
	Other sectors	116.9	134.2	78.6	103.7	58.4	61.7
	II.2 Payments	*284.7*	*260.8*	*237.1*	*190.0*	*174.4*	*257.1*
	General government (mainly payments to the EU)	15.8	12.7	13.7	10.3	12.2	3.7
	Other sectors	268.9	248.1	223.3	179.7	162.3	253.4
III	**CURRENT ACCOUNT AND CAPITAL TRANSFERS BALANCE (I+II)**	**-20,434.5**	**-17,961.7**	**-2,287.5**	**-13,585.9**	**-1,223.4**	**5,336.0**
IV	**FINANCIAL ACCOUNT BALANCE (IV.A+IV.B+IV.C+IV.D)**	**20,853.9**	**17,838.1**	**2,658.2**	**14,777.4**	**2,561.2**	**-4,316.5**
	IV.A DIRECT INVESTMENT [1]	***-927.0***	***-452.6***	***827.1***	***-1,962.1***	***897.5***	***943.1***
	By residents abroad	-1,176.2	-1,274.9	-527.3	-1,234.8	-232.9	709.2
	By non-residents in Greece	249.2	822.3	1,354.3	-727.3	1,130.4	233.9
	IV.B PORTFOLIO INVESTMENT [1]	***-20,855.0***	***-19,778.3***	***-99,903.9***	***-16,944.5***	***-75,584.1***	***-7,497.7***
	Assets	13,278.7	4,139.0	-58,086.1	3,473.5	-39,225.8	1,156.0
	Liabilities	-34,133.6	-23,917.3	-41,817.8	-20,417.9	-36,358.2	-8,653.7
	IV.C OTHER INVESTMENT [1]	***42,538.8***	***38,050.0***	***101,744.1***	***33,778.0***	***77,262.8***	***2,296.1***
	Assets	7,658.7	7,638.7	13,863.4	146.8	13,190.9	15,626.4
	Liabilities	34,880.2	30,411.3	87,880.7	33,631.2	64,071.9	-13,330.3
	(General government loans)	*29,978.2*	*39,873.9*	*109,093.9*	*32,045.7*	*75,124.9*	*30,624.3*
	IV.D CHANGE IN RESERVE ASSETS [2]	***97.0***	***19.0***	***-9.0***	***-94.0***	***-15.0***	***-58.0***
V	**ERRORS AND OMISSIONS**	**-419.4**	**123.6**	**-370.8**	**-1,191.5**	**-1,337.9**	**-1,019.4**
	RESERVE ASSETS [3]	***4,777.0***	***5,332.0***	***5,500.0***	***4,409.0***	***5,941.0***	***4,559.0***

Source: Bank of Greece.
1 (+) net inflow, (-) net outflow.
2 (+) decrease, (-) increase.
3 Following Greece's entry into the euro area in January 2001, reserve assets, as defined by the European Central Bank, comprise monetary gold, the "reserve position" in the IMF, "Special Drawing Rights", and Bank of Greece's claims in foreign currency on non-euro area residents. Excluded are euro-denominated claims on non-euro area residents, claims (in foreign currency and in euro) on euro area residents, and the Bank of Greece share in the capital and reserves of the ECB.

Table 3 Greece: deposits of domestic firms and households with OMFIs,[1] by currency and type

(outstanding balances in euro; not seasonally adjusted)

End of period		Total deposits	Breakdown by currency: In euro[2]	Breakdown by currency: In other currencies	Breakdown by type: Sight deposits[2]	Breakdown by type: Savings deposits	Breakdown by type: Time deposits
2008		227,253	200,638	26,615	21,827	67,328	138,098
2009		237,341	217,257	20,084	26,140	75,811	135,390
2010		209,521	191,988	17,533	22,865	66,706	119,951
2011		174,137	160,789	13,348	19,601	53,439	101,097
2012		161,373	149,975	11,398	18,173	44,844	98,357
2010	Jan.	232,889	212,593	20,296	24,210	75,628	133,051
	Feb.	229,685	210,105	19,580	23,797	74,853	131,035
	March	227,649	209,164	18,485	23,494	74,292	129,863
	Apr.	222,577	204,905	17,672	23,353	72,943	126,280
	May	220,106	201,634	18,472	23,058	72,069	124,979
	June	216,766	197,432	19,334	24,374	70,595	121,797
	July	212,253	194,139	18,114	22,525	69,797	119,932
	Aug.	213,003	194,153	18,850	22,217	69,371	121,415
	Sept.	212,903	195,238	17,665	23,619	67,785	121,499
	Oct.	211,515	194,029	17,486	22,398	67,813	121,303
	Nov.	209,128	190,743	18,385	22,524	66,082	120,522
	Dec.	209,521	191,988	17,533	22,865	66,706	119,951
2011	Jan.	205,438	188,543	16,895	22,063	65,552	117,823
	Feb.	202,815	186,494	16,321	21,057	64,428	117,330
	March	199,086	183,277	15,809	20,829	62,102	116,156
	Apr.	196,678	181,243	15,435	20,098	62,080	114,499
	May	191,815	176,699	15,116	20,333	60,569	110,914
	June	188,108	174,095	14,013	21,071	59,446	107,592
	July	187,143	173,435	13,708	19,941	58,552	108,649
	Aug.	188,574	174,786	13,788	20,211	58,493	109,871
	Sept.	183,128	169,563	13,565	19,615	56,210	107,304
	Oct.	176,323	163,782	12,541	19,202	54,699	102,422
	Nov.	172,759	160,232	12,527	18,695	53,236	100,828
	Dec.	174,137	160,789	13,348	19,601	53,439	101,097
2012	Jan.	168,873	156,194	12,679	17,468	52,178	99,227
	Feb.	164,308	152,079	12,229	17,014	50,621	96,673
	March	165,283	152,988	12,295	16,593	49,077	99,613
	Apr.	165,877	153,387	12,490	17,230	49,317	99,330
	May	157,367	145,599	11,768	16,679	48,459	92,229
	June	150,513	139,435	11,078	15,982	46,543	87,988
	July	153,825	142,488	11,336	16,174	46,129	91,522
	Aug.	153,328	142,185	11,143	15,490	45,545	92,292
	Sept.	154,246	143,326	10,920	15,949	45,154	93,143
	Oct.	155,190	144,231	10,959	15,830	44,533	94,827
	Nov.	155,816	144,912	10,904	15,997	43,718	96,100
	Dec.	161,373	149,975	11,398	18,173	44,844	98,357
2013	Jan.	160,897	150,354	10,543	16,014	43,590	101,293
	Feb.	163,948	153,044	10,904	15,813	43,509	104,625
	March	163,954	153,252	10,703	16,155	43,417	104,382
	Apr.	162,177	152,438	9,739	16,789	43,492	101,896
	May	163,300	153,477	9,822	16,979	43,298	103,023
	June	162,563	152,854	9,709	17,455	43,533	101,575
	July	162,275	152,725	9,550	17,467	44,028	100,780
	Aug.	162,050	152,444	9,606	17,523	44,428	100,099
	Sept.	161,201	151,934	9,267	18,007	44,131	99,063
	Oct.	160,230	150,963	9,267	17,531	43,833	98,866

Source: Bank of Greece.
1 Other Monetary Financial Institutions (OMFIs) comprise credit institutions (other than the Bank of Greece) and money market funds.
2 Including electronic money.

Table 4 Greek government bond yields

(percentages per annum; period averages)

Period		3-year	5-year	7-year	10-year	15-year	20-year	30-year
2008		4.27	4.51	4.54	4.80	5.18		5.30
2009		3.12	4.22	4.49	5.17	5.61		5.83
2010		9.39	9.34	9.51	9.09	8.89		8.07
2011		26.18	22.88	18.97	15.75	12.97		10.72
2012					22.50	20.23	19.04	17.84
2010	Jan.	4.72	5.40	5.61	6.02	6.50		6.36
	Feb.	5.92	6.30	6.21	6.46	6.58		6.47
	March	5.51	5.84	5.83	6.24	6.45		6.47
	Apr.	7.91	7.87	7.87	7.83	7.46		7.08
	May	8.28	8.59	8.39	7.97	8.28		7.69
	June	9.41	9.50	9.57	9.10	9.68		9.11
	July	11.17	10.85	10.94	10.34	10.34		9.08
	Aug.	11.65	11.33	11.18	10.70	10.36		9.00
	Sept.	11.63	11.65	11.76	11.34	10.49		8.89
	Oct.	9.64	9.64	10.13	9.57	9.41		8.39
	Nov.	13.08	12.27	12.91	11.52	10.35		9.13
	Dec.	13.75	12.89	13.66	12.01	10.75		9.15
2011	Jan.	13.78	12.94	13.32	11.73	10.58		8.89
	Feb.	13.40	13.04	13.18	11.40	10.14		8.64
	March	15.33	15.49	14.37	12.44	10.57		8.87
	Apr.	19.11	18.04	16.30	13.86	11.27		9.40
	May	24.28	20.87	17.86	15.94	13.19		10.52
	June	26.48	22.83	19.04	16.69	13.97		11.54
	July	28.96	24.37	19.66	16.15	13.73		10.98
	Aug.	26.74	24.43	19.68	15.90	13.19		10.06
	Sept.	31.51	28.88	22.27	17.78	13.97		10.08
	Oct.	34.61	29.53	22.59	18.04	14.16		11.00
	Nov.	34.08	29.31	22.50	17.92	14.20		13.76
	Dec.	45.88	34.85	26.90	21.14	16.71		14.85
2012	Jan.	68.08	47.04	41.84	25.91	20.10		16.91
	Feb.	77.65	50.35	44.05	29.24	21.51		17.28
	March[1]				19.06	17.91	16.90	15.59
	Apr.				21.48	20.18	18.63	17.11
	May				26.90	24.50	22.59	21.37
	June				27.82	25.36	24.32	23.09
	July				25.82	24.58	23.39	22.26
	Aug.				24.34	22.73	21.10	20.33
	Sept.				20.91	20.30	18.96	18.54
	Oct.				17.96	17.34	16.79	15.98
	Nov.				17.20	15.85	15.62	14.50
	Dec.				13.33	12.37	12.13	11.18
2013	Jan.				11.10	10.66	10.28	9.51
	Feb.				10.95	10.63	10.39	9.42
	March				11.38	11.35	10.89	9.88
	Apr.				11.58	11.60	10.85	9.87
	May				9.07	9.48	9.03	8.42
	June				10.07	10.19	9.59	9.06
	July				10.53	11.06	10.37	9.44
	Aug.				10.01	10.47	10.13	9.25
	Sept.				10.15	10.53	10.11	9.21
	Oct.				8.74	9.16	9.03	8.43
	Nov.				8.41	8.90	8.89	8.38

Source: Bank of Greece.
1 On 12 March 2012, after the completion of the exchange of the Greek government bonds under the PSI, the new bonds were admitted to trading.

Table 5 Domestic MFI loans to the domestic private sector by branch of economic activity[1,2]

(balances in million euro; non-seasonally adjusted)

End of period		Grand total	Firms						Sole proprietors and unincorporated partnerships	Individuals and private non-profit insitutions			
				Non-financial corporations				Other financial institutions and insurance companies					
					of which								
			Total	Total	Industry	Trade	Shipping			Total	Housing	Consumer credit	Other
2008		249,661	132,458	124,132	24,873	32,985	10,228	8,326	-	117,203	77,700	36,435	3,068
2009		249,677	130,043	123,821	22,790	33,519	10,031	6,222	-	119,635	80,559	36,044	3,032
2010		257,846	123,244	116,514	24,269	25,355	17,498	6,730	16,483	118,119	80,507	35,081	2,532
2011		248,535	120,126	113,045	23,405	24,687	18,008	7,081	15,359	113,050	78,393	32,985	1,672
2012		227,655	107,335	100,758	22,162	22,168	12,442	6,577	13,790	106,530	74,634	30,236	1,660
2010	Jan.	250,167	130,610	124,477	22,964	33,407	10,350	6,133		119,557	80,704	35,876	2,977
	Feb.	251,173	131,520	124,916	23,031	33,182	10,618	6,604		119,653	80,878	35,792	2,984
	March	251,062	131,392	125,192	23,042	33,202	10,701	6,201		119,669	81,173	35,490	3,007
	Apr.	250,982	131,529	124,844	22,992	33,103	10,686	6,685		119,453	81,125	35,326	3,002
	May	252,072	132,718	126,164	23,060	33,087	11,729	6,554		119,355	81,110	35,194	3,050
	June	260,352	126,525	120,823	25,423	26,724	19,340	5,702	13,904	119,924	81,430	36,292	2,202
	July	258,943	125,529	119,080	24,991	26,718	18,339	6,449	13,929	119,485	81,334	35,960	2,192
	Aug.	258,777	125,452	119,229	24,662	26,633	18,708	6,224	13,812	119,512	81,450	35,898	2,163
	Sept.	258,476	123,543	116,978	24,471	25,873	17,798	6,564	15,618	119,316	81,201	35,834	2,281
	Oct.	257,256	122,772	116,233	24,687	25,663	17,141	6,539	16,429	118,055	80,033	35,621	2,401
	Nov.	258,023	123,361	117,005	24,540	25,607	18,108	6,356	16,444	118,217	80,302	35,443	2,472
	Dec.	257,846	123,244	116,514	24,269	25,355	17,498	6,730	16,483	118,119	80,507	35,081	2,532
2011	Jan.	256,852	122,894	116,347	24,658	25,125	17,485	6,548	16,465	117,493	80,128	34,884	2,480
	Feb.	256,737	122,999	116,484	24,698	25,134	17,356	6,516	16,450	117,288	80,028	34,702	2,558
	March	255,374	122,173	115,794	24,854	25,407	16,983	6,379	16,355	116,846	79,823	34,454	2,569
	Apr.	253,703	121,175	114,880	25,115	25,279	16,273	6,295	16,170	116,358	79,718	34,060	2,580
	May	253,193	120,934	114,935	24,918	25,266	16,944	6,000	16,032	116,227	79,794	33,811	2,622
	June	253,486	121,372	115,041	24,862	25,245	16,927	6,331	16,027	116,088	79,800	33,598	2,690
	July	254,242	122,287	116,026	25,526	25,149	17,254	6,262	16,004	115,951	79,936	33,241	2,773
	Aug.	252,484	121,352	114,641	25,096	24,661	17,140	6,711	15,846	115,286	79,575	33,885	1,826
	Sept.	252,947	122,680	115,758	23,907	25,678	18,306	6,922	15,713	114,554	79,170	33,680	1,704
	Oct.	251,106	121,670	113,926	23,884	25,153	17,600	7,744	15,529	113,907	78,869	33,385	1,654
	Nov.	249,996	121,244	113,564	23,764	24,954	17,710	7,680	15,363	113,389	78,506	33,194	1,689
	Dec.	248,535	120,126	113,045	23,405	24,687	18,008	7,081	15,359	113,050	78,393	32,985	1,672
2012	Jan.	249,087	121,138	111,836	23,325	24,342	17,238	9,302	15,259	112,690	78,104	32,778	1,808
	Feb.	246,841	119,455	110,418	23,138	24,146	16,182	9,037	15,149	112,237	77,857	32,568	1,811
	March	245,113	118,316	110,126	23,054	24,053	16,231	8,190	15,067	111,729	77,601	32,300	1,828
	Apr.	242,708	116,365	108,730	23,021	23,643	16,300	7,636	15,002	111,341	77,381	32,141	1,818
	May	242,040	116,193	108,594	22,802	23,495	16,837	7,599	14,975	110,872	77,124	31,911	1,837
	June	240,141	114,529	107,224	22,879	23,590	14,803	7,305	15,011	110,601	77,002	31,745	1,854
	July	234,334	112,050	104,863	22,036	22,810	14,994	7,186	13,879	108,406	75,747	30,858	1,801
	Aug.	233,035	111,011	104,016	21,976	22,674	14,530	6,995	13,954	108,070	75,482	30,776	1,811
	Sept.	231,818	110,320	103,419	22,011	22,641	14,190	6,902	13,957	107,541	75,098	30,634	1,809
	Oct.	230,674	109,599	102,850	22,142	22,351	14,097	6,749	13,854	107,221	74,897	30,509	1,815
	Nov.	229,787	109,241	102,599	22,046	22,243	14,081	6,642	13,843	106,702	74,683	30,381	1,637
	Dec.	227,655	107,335	100,758	22,162	22,168	12,442	6,577	13,790	106,530	74,634	30,236	1,660
2013	Jan.	225,506	106,485	100,010	22,445	21,785	12,124	6,475	13,650	105,371	73,864	29,898	1,609
	Feb.	224,990	106,393	99,736	22,088	21,653	12,373	6,658	13,619	104,977	73,662	29,684	1,630
	March	228,361	109,975	103,248	22,367	22,212	13,586	6,728	13,698	104,688	73,524	29,511	1,653
	Apr.	226,310	108,457	101,811	22,196	22,053	13,225	6,647	13,630	104,222	73,273	29,323	1,626
	May	224,164	107,019	100,539	21,734	21,714	13,072	6,481	13,650	103,494	72,721	29,145	1,629
	June	223,817	106,798	100,340	21,728	21,751	12,901	6,459	13,365	103,654	72,613	29,399	1,643
	July	222,457	105,899	99,495	21,630	21,482	12,691	6,405	13,440	103,117	72,252	29,233	1,632
	Aug.	221,790	105,519	99,195	21,409	21,307	12,746	6,324	13,392	102,879	72,042	29,192	1,645
	Sept.	220,993	105,033	98,742	21,303	21,239	12,481	6,291	13,391	102,570	71,899	29,042	1,628
	Oct.	219,649	104,364	98,063	21,325	21,065	12,486	6,301	13,510	101,775	71,701	28,606	1,468

Source: Bank of Greece.
1 Including loans, corporate bonds held by MFIs, securitised loans and securitised corporate bonds.
2 As of June 2010, loans to sole proprietors and unincorporated partnerships are recorded separately and are no longer included in credit to enterprises.

Table 6 Greece: bank rates on new euro-denominated deposits by euro area residents

(percentages per annum; period averages unless otherwise indicated)

Period		Deposits by households			Deposits by non-financial corporations		Average rate on total deposits
		Overnight deposits[1,2]		Deposits with an agreed maturity up to one year	Overnight deposits[1,2]	Deposits with an agreed maturity up to one year	
		Total	of which Savings deposits[2]				
2008		1.26	1.17	4.87	1.09	4.48	2.89
2009		0.63	0.56	2.74	0.50	1.65	1.71
2010		0.43	0.38	3.26	0.35	2.53	1.91
2011		0.47	0.40	4.18	0.41	3.55	2.44
2012		0.47	0.42	4.78	0.44	4.19	2.84
2010	Jan.	0.43	0.37	2.18	0.37	1.21	1.35
	Feb.	0.44	0.38	2.35	0.36	1.29	1.44
	March	0.43	0.38	2.61	0.38	1.61	1.58
	Apr.	0.43	0.37	2.98	0.36	1.71	1.75
	May	0.42	0.37	3.42	0.38	2.06	1.96
	June	0.43	0.38	3.61	0.32	3.37	2.11
	July	0.43	0.38	3.71	0.31	3.40	2.16
	Aug.	0.43	0.38	3.66	0.32	3.14	2.12
	Sept.	0.43	0.38	3.61	0.33	2.98	2.09
	Oct.	0.44	0.38	3.68	0.34	2.98	2.12
	Nov.	0.44	0.38	3.65	0.35	3.27	2.11
	Dec.	0.44	0.38	3.68	0.36	3.29	2.15
2011	Jan.	0.44	0.38	3.74	0.34	3.40	2.18
	Feb.	0.44	0.38	3.75	0.34	3.23	2.18
	March	0.45	0.39	3.76	0.41	3.39	2.21
	Apr.	0.46	0.39	3.88	0.38	3.56	2.29
	May	0.46	0.40	3.95	0.35	3.52	2.32
	June	0.47	0.41	4.10	0.42	3.38	2.39
	July	0.47	0.40	4.29	0.45	3.82	2.51
	Aug.	0.47	0.40	4.31	0.44	3.54	2.51
	Sept.	0.47	0.41	4.37	0.43	3.65	2.55
	Oct.	0.48	0.41	4.50	0.44	3.75	2.62
	Nov.	0.48	0.41	4.62	0.43	3.64	2.68
	Dec.	0.48	0.41	4.88	0.48	3.76	2.81
2012	Jan.	0.47	0.41	4.79	0.41	4.03	2.78
	Feb.	0.47	0.41	4.86	0.46	4.08	2.83
	March	0.47	0.41	4.94	0.53	4.43	2.89
	Apr.	0.47	0.41	4.96	0.47	4.37	2.92
	May	0.48	0.42	4.90	0.46	4.26	2.91
	June	0.48	0.42	5.01	0.46	4.17	2.94
	July	0.47	0.42	4.82	0.40	4.29	2.86
	Aug.	0.47	0.42	4.56	0.40	4.04	2.72
	Sept.	0.46	0.41	4.60	0.45	4.19	2.75
	Oct.	0.47	0.42	4.64	0.41	4.12	2.79
	Nov.	0.47	0.42	4.60	0.41	4.20	2.79
	Dec.	0.49	0.43	4.70	0.46	4.15	2.85
2013	Jan.	0.48	0.42	4.59	0.47	4.23	2.81
	Feb.	0.48	0.42	4.49	0.49	4.22	2.78
	March	0.49	0.42	4.36	0.44	3.95	2.71
	Apr.	0.49	0.42	4.22	0.44	3.72	2.60
	May	0.49	0.42	4.06	0.44	3.70	2.51
	June	0.41	0.33	3.89	0.49	3.24	2.40
	July	0.47	0.39	3.48	0.46	3.28	2.26
	Aug.	0.47	0.39	3.29	0.47	2.91	2.10
	Sept.	0.39	0.33	3.10	0.40	2.82	1.96
	Oct.	0.39	0.33	2.97	0.41	2.83	1.90

Source: Bank of Greece.
1 Weighted average of the current account rate and the savings deposit rate.
2 End-of-month interest rate.

Table 7 Greece: bank rates on new euro-denominated loans to euro area residents

(percentages per annum, period averages unless otherwise indicated)

Period		Loans to individuals and private non-profit institutions[1]					Loans to sole proprietors and unincorporated partnerships[1]		Loans to non-financial corporations[1]			Average rate on total loans
		Consumer loans without an agreed maturity[2,3]	Consumer loans with an agreed maturity: With a floating rate or an initial rate fixation of up to one year	Consumer loans with an agreed maturity: Average rate on total consumer loans with an agreed maturity	Housing loans: With a floating rate or an initial rate fixation of up to one year	Housing loans: Average rate on total housing loans	Loans without an agreed maturity[3,4]	Loans with an agreed maturity and a floating rate or an initial rate fixation of up to one year	Loans without an agreed maturity[3,4]	Loans with an agreed maturity and a floating rate or an initial rate fixation of up to one year: Up to €1 million	Loans with an agreed maturity and a floating rate or an initial rate fixation of up to one year: Over €1 million	
2008		14.80	8.65	8.96	5.10	4.81			7.61	6.82	5.71	6.82
2009		14.39	8.59	9.33	3.52	3.94			6.07	4.62	3.52	5.52
2010		14.18	9.79	9.53	3.42	3.67			6.25	5.53	4.27	5.64
2011		14.98	10.16	9.96	4.28	4.33	10.12	8.76	7.50	6.77	5.74	6.68
2012		14.95	8.19	8.40	3.32	3.26	10.21	7.68	7.66	6.87	5.92	6.09
2010	Jan.	14.05	8.69	8.96	3.05	3.44			5.72	4.52	3.23	5.09
	Feb.	14.14	8.65	9.36	3.08	3.42			5.87	4.72	3.37	5.16
	March	13.84	8.94	9.27	3.21	3.53			5.93	4.98	3.71	5.26
	Apr.	13.94	8.69	9.30	3.32	3.62			6.13	5.21	3.55	5.3
	May	13.92	8.48	9.30	3.36	3.63			6.29	5.56	3.77	5.36
	June	14.28	10.31	9.45	3.26	3.50	9.07	7.43	5.94	5.47	3.89	5.50
	July	14.29	10.88	9.79	3.54	3.78	9.19	6.84	6.25	5.74	4.73	5.85
	Aug.	14.31	10.92	9.86	3.67	3.89	9.23	7.87	6.48	5.87	4.51	5.95
	Sept.	14.33	10.40	9.75	3.54	3.74	9.21	7.63	6.45	5.86	5.28	6.02
	Oct.	14.29	10.65	9.87	3.72	3.92	9.43	8.07	6.56	5.94	5.32	6.07
	Nov.	14.41	10.57	9.82	3.67	3.83	9.47	7.99	6.62	6.14	4.94	6.07
	Dec.	14.40	10.27	9.68	3.65	3.79	9.57	7.83	6.79	6.34	4.98	6.07
2011	Jan.	14.59	10.73	9.84	3.93	4.05	9.58	8.27	6.81	6.14	4.89	6.17
	Feb.	14.64	10.44	9.88	3.91	4.04	9.72	8.40	6.90	6.23	5.37	6.41
	March	14.70	9.74	9.52	4.04	4.17	9.78	8.59	7.05	6.46	5.39	6.38
	Apr.	14.74	10.65	10.15	4.25	4.32	9.91	8.63	7.26	6.46	5.55	6.57
	May	14.89	10.48	10.22	4.26	4.33	9.98	8.86	7.34	6.59	5.48	6.62
	June	14.94	10.47	10.23	4.23	4.32	10.10	8.62	7.59	6.76	5.56	6.64
	July	15.06	11.03	10.45	4.44	4.52	10.19	8.74	7.65	6.85	5.76	6.79
	Aug.	15.24	10.77	10.55	4.54	4.57	10.35	9.14	7.76	6.92	5.88	6.89
	Sept.	15.26	9.70	9.95	4.49	4.51	10.44	8.93	7.91	7.12	6.04	6.94
	Oct.	15.24	10.07	10.22	4.65	4.56	10.43	8.97	7.92	7.27	6.20	7.02
	Nov.	15.23	9.30	9.57	4.48	4.40	10.50	8.97	7.93	7.18	6.13	6.90
	Dec.	15.22	8.49	8.92	4.18	4.14	10.46	8.94	7.90	7.26	6.64	6.82
2012	Jan.	15.18	8.76	9.17	3.98	3.97	10.37	9.19	7.90	7.20	6.10	6.63
	Feb.	15.14	8.80	9.09	3.77	3.75	10.34	8.58	7.86	7.02	5.81	6.46
	March	15.11	8.19	8.66	3.62	3.53	10.31	8.22	7.80	7.02	6.16	6.38
	Apr.	15.08	8.34	8.79	3.55	3.44	10.35	7.91	7.78	6.89	6.23	6.34
	May	15.01	8.27	8.69	3.54	3.40	10.32	7.89	7.69	7.05	5.84	6.21
	June	14.96	8.16	8.54	3.42	3.33	10.27	7.79	7.69	6.92	6.55	6.29
	July	14.91	7.88	8.10	3.13	3.07	10.21	7.33	7.61	6.87	5.71	5.92
	Aug.	14.83	8.32	8.40	2.99	2.94	10.14	6.82	7.57	6.71	5.82	5.88
	Sept.	14.79	7.75	7.89	3.01	2.95	10.08	7.31	7.54	6.79	5.46	5.77
	Oct.	14.80	8.04	8.01	2.88	2.84	10.08	7.17	7.49	6.75	5.70	5.76
	Nov.	14.80	8.11	7.93	2.94	2.88	10.05	7.03	7.49	6.75	5.62	5.63
	Dec.	14.79	7.60	7.47	3.04	2.98	10.03	6.96	7.52	6.46	6.07	5.76
2013	Jan.	14.77	7.91	7.64	2.99	2.91	10.03	7.03	7.46	6.67	6.40	5.88
	Feb.	14.77	8.10	7.69	3.04	2.96	10.02	7.82	7.52	6.66	5.84	5.79
	March	14.78	7.96	7.57	3.18	3.08	10.02	7.45	7.56	6.62	5.80	5.78
	Apr.	14.77	7.86	7.40	3.08	2.92	9.99	7.61	7.49	6.78	5.96	5.75
	May	14.73	7.70	7.60	2.84	2.76	9.96	7.61	7.45	6.52	5.37	5.53
	June	14.63	6.63	6.84	2.80	2.74	9.60	7.40	7.43	6.62	6.01	5.54
	July	14.64	7.50	7.28	2.85	2.72	9.53	8.05	7.42	6.47	5.72	5.55
	Aug.	14.68	8.41	8.33	2.89	2.74	9.54	7.34	7.36	6.49	5.49	5.54
	Sept.	14.66	7.40	7.47	2.93	2.76	9.37	7.14	7.20	6.63	5.93	5.56
	Oct.	14.86	7.51	7.62	2.85	2.77	9.36	6.95	7.19	6.40	6.14	5.61

Source: Bank of Greece.
1 Associated costs are not included.
2 Weighted average of the rates on loans to households through credit cards, on open account loans and on overdrafts from current accounts.
3 End-of-month interest rate.
4 Weighted average of the rates on corporate loans via credit lines and on overdrafts from sight deposit accounts.

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