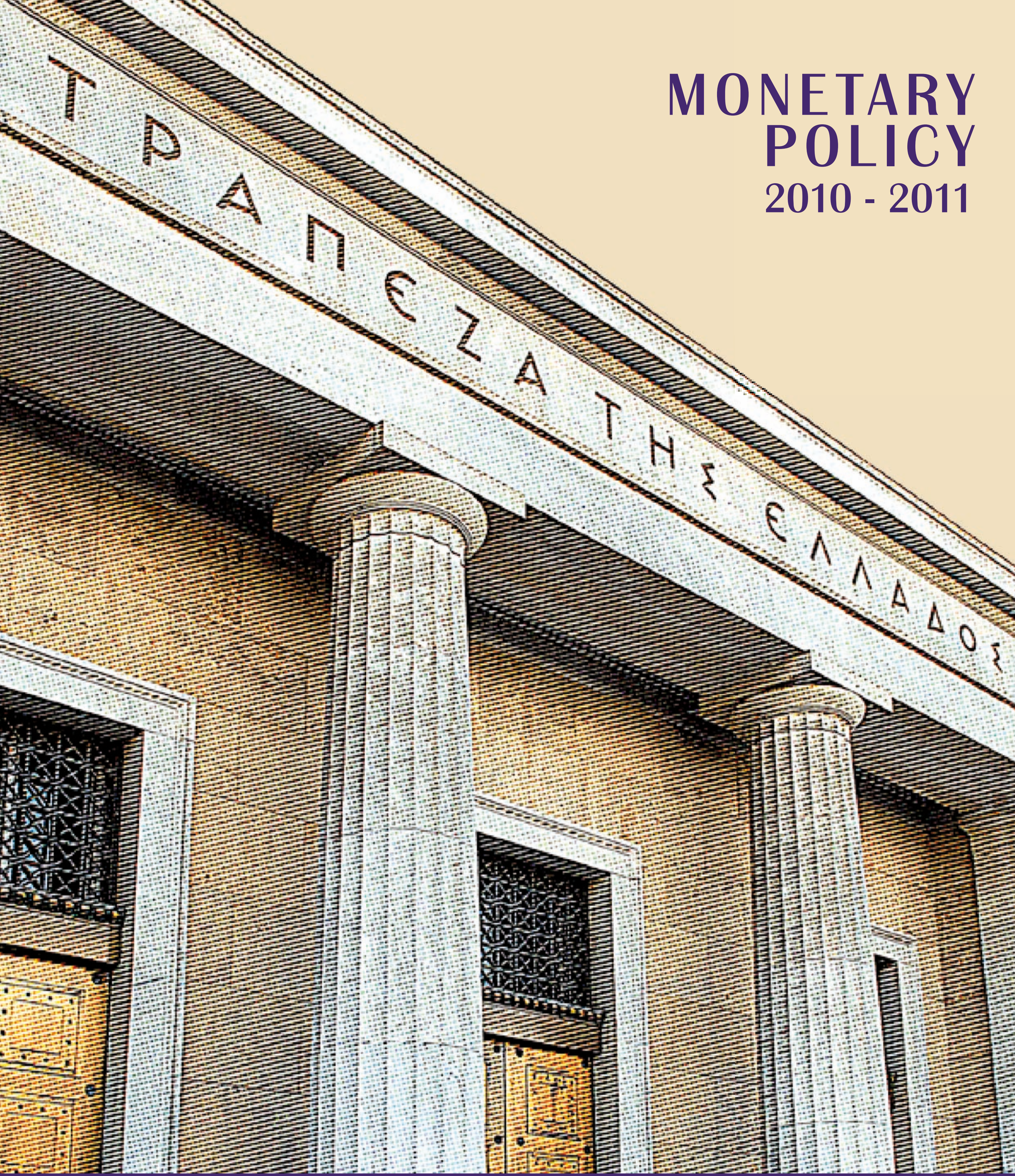

MONETARY POLICY 2010 - 2011

FEBRUARY
2011

BANK OF GREECE
EUROSYSTEM

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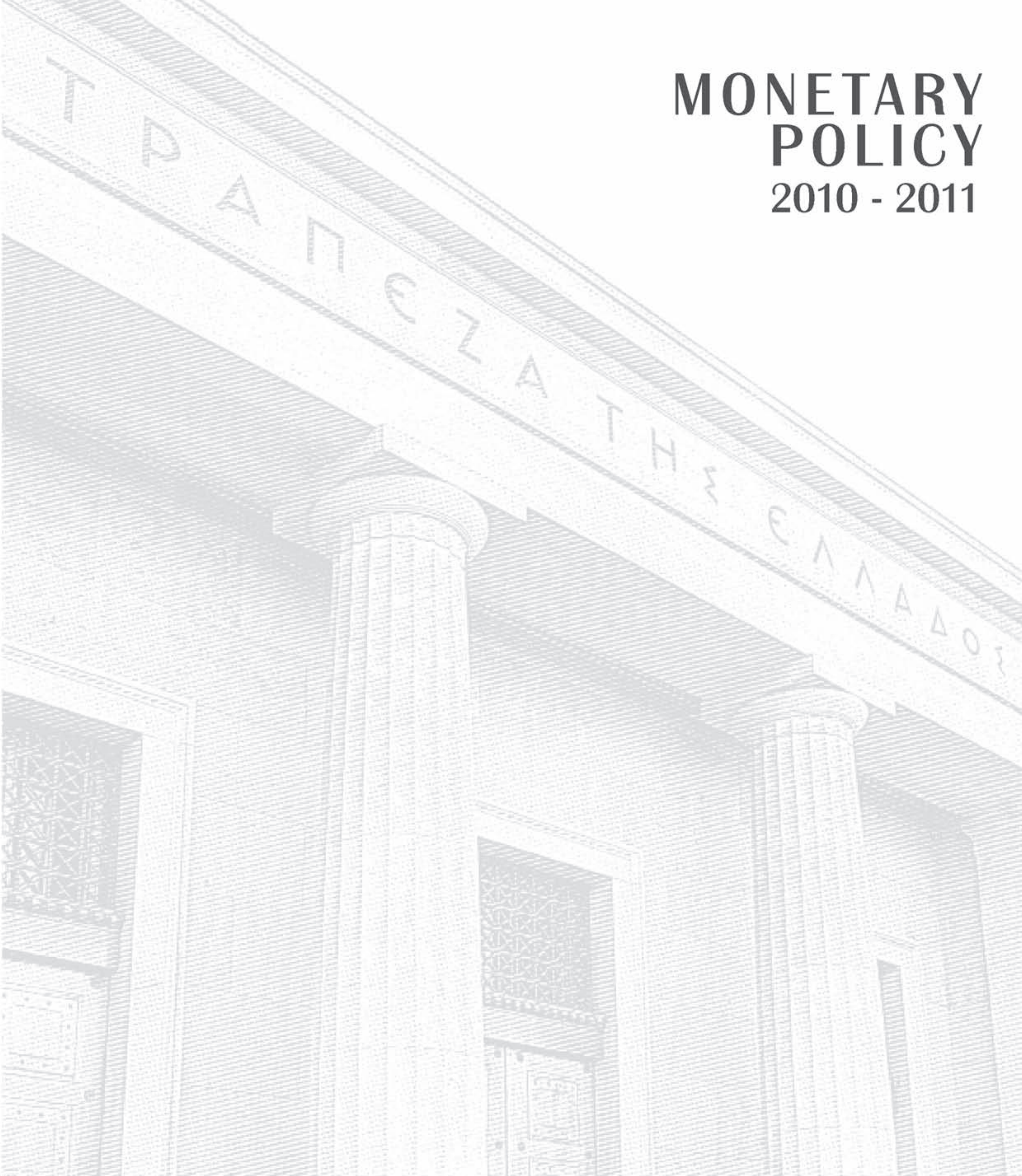

MONETARY POLICY
2010 - 2011

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2011

BANK OF GREECE
EUROSYSTEM

To the Greek Parliament
and the Cabinet

In accordance with its Statute, the Bank of Greece hereby submits its Report on Monetary Policy 2010-2011 to the Greek Parliament and the Cabinet.

In two and a half months, a year will have gone by since the initiation of the Economic Adjustment Programme which was agreed upon by the Greek government and the EU, the ECB and the IMF in the context of the agreement for the financial support of the Greek economy. The agreement and the ensuing Economic Adjustment Programme averted the collapse of the Greek economy by securing the necessary funding, when the cost of market financing had become prohibitive; furthermore, it sped up a number of major improvements which had been delayed for decades. This proves that the financial support agreement did not only act as rescue in the present difficult circumstances, but has also been a strong driving force towards changing obsolete structures. Additionally, a very important contribution at this critical juncture came from ECB, with its provision of liquidity to Greek banks, its bond purchases and its acceptance of Greek government securities as collateral, regardless of their rating.

What has been accomplished is indeed considerable: First, developments that could have spun out of control, causing explosive problems for the economy and society and entailing costs many times higher than what we are called upon to pay today, have been averted. Second, Greece has remained an active member of the euro area and participates with its own proposals to critical discussions which will lead to new forms of operation and economic governance of Europe. Third, the country has recovered credibility in the international arena. Fourth, the first steps have been taken in the long but necessary effort to put the Greek economy on a sound and healthy track.

This great effort will undoubtedly entail costs, reflecting the price of past inaction. Back then, when conditions were much more favourable, the necessary changes could have been made gradually and at a far smaller cost. Today, we have to pay this price under adverse circumstances and within tight time limits.

* * *

GDP is estimated to have declined by slightly more than 4% in 2010 (for second consecutive year, after contracting by 2.3% in 2009), while international organisations and assessment reports project that recession will continue into 2011, albeit at a weaker pace. It is projected that GDP will fall by approximately 3% in 2011, although a slightly larger decline is also possible. The recession is hitting consumption and, much more strongly, investment. Factors such as uncertainty, the increased tax burden, a slump in demand and tight credit have caused investment to fall at a rate likely to have exceeded 18% in 2010. Considering that investment had declined significantly in 2009 as well, it becomes clear that *the productive capacity of the economy —i.e. its potential growth rate— has shrunk significantly.*

The recession has had a direct and strong impact on employment and unemployment. Employment fell by an estimated 2.5% in 2010, which translates into 100,000 lost jobs. Job losses contributed significantly to the increased number of unemployed. The rate of unemployment is estimated to have exceeded 12.5% of the workforce in 2010 and is expected to remain on an upward path in 2011.

Incomes have also declined. Real average earnings of employees in the total economy are estimated to have fallen by 9% in 2010 and are projected to decline further, by almost 5% in 2011, although they might stabilise in 2012. The fall in real income in 2010 also reflected a rise in inflation to 4.7%, mainly due to the increase in indirect taxes and the surge in oil prices. In 2011, the average annual rate of headline inflation is expected to drop markedly to around 2.2%, while the average level of core inflation should fall below 1%.

The current account deficit (based on Bank of Greece data), as a percentage of GDP, after declining appreciably in 2009 on account of the recession, is estimated to have shown an only marginal decrease in 2010. By contrast, positive developments were the recovery of exports of goods in the second half of 2010, the significant drop in imports of goods and the big rise in shipping receipts. The rebound of exports of goods reflected mainly the recovery of global demand and, secondarily, the improvement of Greece's cost competitiveness in 2010, which is expected to continue this year. In 2011, the current account deficit as a percentage of GDP is expected to decrease further.

* * *

In the critical area of fiscal consolidation, there has been visible progress. The state budget deficit was reduced to 8.4% of GDP, from 13.1% in 2009 (based on Ministry of Finance data). This achievement was certainly important, but it was just the beginning. Deficit reduction was mainly achieved through across-the-board measures, such as wage and pension cuts and tax increases, without any improvement of substance as far as the size and the inefficient operation of the public sector are concerned, i.e. the areas where deficits are initially generated and then swell to huge proportions. The necessary interventions in this field must be radical, far-reaching and persistent, in order to produce lasting beneficial effects on expenditure, which must continue to decrease steadily. Decreasing the deficits and creating sufficient primary surpluses are, after all, the first step required in order to effectively deal with the high debt-to-GDP ratio. The second and equally decisive precondition for reducing the debt-to GDP ratio and mitigating the effects of the crisis is the recovery of the economy and, once this is under way, fast-paced growth.

* * *

The above also outline the main objectives of the economic policy in the coming years.

1. To continue fiscal adjustment, focusing on the radical overhaul of the state and the materialisation of structural reforms in the public sector, so that expenditure decrease on a permanent basis and considerable primary surpluses are created.

2. To create the conditions that will allow the return to positive GDP growth rates as quickly as possible and, subsequently, growth at rates faster than the euro area average.

* * *

Perseverance in the fiscal consolidation policy in the years ahead is also warranted in view of upcoming developments in the international environment, and particularly, the initiatives taken both in the EU and in the euro area to improve economic governance and draw up a comprehensive European solution. The EU is currently seeking to deal with the situation through a comprehensive response, in part by introducing new, stricter regulation that will effectively prevent fiscal and macroeconomic crises in the future. The environment that is being shaped by these initiatives and in which the Greek economy will be expected to function, will require all countries to step up efforts to restore conditions of economic stability. This new institutional environment will support countries that adhere consistently to a course of economic adjustment, but will make the situation more difficult for the countries that lag behind. As far as Greece is concerned, the developments underway in the EU and the euro area are a clear message that the country needs to step up the effort it has begun. If this is accomplished, the EU will continue to provide essential help. If, however, the comprehensive European solution is misinterpreted as leaving room for complacency and relaxation of efforts, the Greek economy will come up against additional difficulties. Generally, it can be safely projected that the Greek case is gradually being incorporated into the new operational framework of the EU and the euro area, which will apply to all member countries. This prospect includes also the anticipated decision to extend the duration of the repayment of the loan granted to Greece by euro area countries and the IMF, as well as any other changes deemed appropriate. Therefore, the extension, which would definitely be a favourable development, is only part of a general European plan that requires us to proceed to the road of fiscal and structural adjustment with utmost consistency and at a faster pace.

* * *

After the first year of implementation of the Economic Adjustment Programme, economic policy must now turn to a fundamental overhauling of the state, so as to reduce spending and increase the efficiency of the public sector. Such a task is obviously much harder to achieve than the one-off, across-the board measures already taken, since it is likely to meet strong resistance from lobbies, which will attempt to keep their vested privileges intact. It must, however, be convincingly illustrated and broadly understood that these privileges are at present in conflict with common good. The reforms that will lead to a new state must put an end to practices of the past, when changes were initially properly targeted, their implementation, however, was hampered by postponements, exclusions and exemptions.

Today, structural reforms in the state must be carried forward with resolve and lean on the broad consensus of society, which understands that the "old regime" can no longer continue.

The government has already committed to present, by March 2011, its comprehensive action plan and an implementation timetable for the reforms needed in order to reduce the deficit in the medium term. The plan will identify additional fiscal measures (of a structural nature), equivalent to over 5% of GDP, that will bring the general government deficit down to 2.6% of GDP by 2014. It would be particularly welcome, if the fiscal consolidation process could be expedited in the coming years and if the reduction of the deficit by 2014 could be larger than the one currently envisaged. Such an outcome is feasible, if the deficit reduction plan focuses on the following:

- Cutting down on the expenses of general government entities and agencies, by means of organisational and structural changes, e.g. reform of loss-making public enterprises, eliminating unnecessary public sector entities and merging others, reforming public administration by rationalising the pay system and human resources management of general government agencies, examining possible further cuts in defense expenditure.

- Upgrading the operation of and improving fiscal institutions, with emphasis on more effective expenditure control, greater transparency and enhanced budgeting. In this context, the adoption of numerical fiscal rules concerning the level and the rate of change of key budgetary aggregates would be of particular importance.

- Speeding up privatisation, which would be facilitated by a reliable recording of real property that belongs to the state, and increasing revenues from its better use.

- Curbing tax evasion, through the effective enforcement of the law. This would require comprehensive computerisation, in conjunction with a simplification of the tax system.

* * *

Growth is now the main desideratum for the Greek economy. The exit from the recession and the rapid return to positive GDP growth rates would mitigate the negative impact on employment and incomes, while also making things easier for the strategy of reducing the debt-to-GDP ratio. Growth, however, will come as the end result of a number of factors acting in synergy to improve productivity and competitiveness and to create a business-friendly environment. Accordingly, growth policy will have to positively influence all these factors in order to be effective. At present, the necessary preconditions for growth include:

• A faster reduction of deficits, not only for fiscal/budgetary but also for growth purposes.

• Targeted growth-enhancing policies on the basis of a binding, comprehensive Action Plan for Growth, as the Bank of Greece has proposed.

• Sweeping structural reforms that would do away with obsolete structures and improve competitive conditions in the economy. These reforms include measures aimed at enhancing labour market flexibility and increasing job opportunities, upgrading the education system, simplifying licensing procedures, opening up closed professions, fostering competitive conditions in the markets, removing the obstacles to a business-friendly environment. The more quickly and efficiently these structural reforms are pushed forward, the sooner growth will come.

• Active policies to boost investment, based on the new laws on investment incentives and on the Hellenic Fund for Entrepreneurship and Growth (ETEAN), on faster absorption of EU funds available through the National Strategic Reference Framework and on encouraging saving via an appropriate taxation policy.

* * *

The banking system, as with other sectors of the Greek economy, has come under a lot of pressure on account of the overall economic and fiscal conditions in the country. The profitability and efficiency of Greek banks and banking groups decreased further, the quality of banks' business and household loan portfolios deteriorated, and bank funding essentially relied on refinancing from the Eurosystem. An encouraging development, of course, was the fact that capital adequacy remained relatively high. The difficulties facing the banks did not originate from any wrong choices of their own; rather, they were the result of the major fiscal crisis that brought about the downgrades of the credit rating of Greek sovereign debt, leading to corresponding downgrades of Greek banks. Therefore, in order to eliminate the problems faced by banks, the factors that caused them in the first place must cease to exist. This, of course, does not relieve banks from their responsibility to take concrete steps to mitigate the impact that the fiscal crisis has had on them, especially considering that 2011 will be a year of major and complex challenges. This year, banks will have to deal with the expected further deterioration in the quality of their portfolios of loans to households and enterprises, the need to gradually reduce their reliance on the Eurosystem for funding, the rationalisation of their business models and operating costs, and their gradual adaptation to the requirements of the new international regulatory framework.

Credit to the domestic private sector, based on existing data, is expected to register zero or negative growth in 2011. The weakening financial condition of businesses and households continues to constrain their access to borrowing and reduces their willingness to take up debt. On the other hand, the recent extension of the liquidity support plan is expected to have a positive effect on private sector financing. The rate of credit expansion this year will depend on the access of Greek banks to money and capital markets and on the enhancement of depositor confidence.

* * *

To summarise, the overview of developments in the Greek economy, the changes in the international environment and the looming prospects analysed in the report lead to the following estimations:

First, fiscal adjustment has made a good start, coming close to the targets set for 2010. More specifically, the targets for the state budget cash deficit were met, whereas the initial target for the general government deficit was not, due to a reclassification of certain public enterprises and because of shortfalls in revenue. Fiscal adjustment must now be stepped up, in order to overshoot the projections and achieve large and sustainable primary surpluses as soon as possible. The key to success lies in the radical reform of the public sector with changes that will slash its operating costs, increase its efficiency and generate a business-friendly, growth-fostering environment.

Second, so far changes have been carried out that would have been unthinkable just a few months ago. This goes to show that a radical overhaul of the Greek economy is *feasible* and that this effort *can produce results*. On the other hand, several of the reforms are coming up against rigidities and reactions that undermine the overall effort. The Annual Report of the Bank of Greece released in April 2010 pointed out that the Greek crisis was, amongst other factors, due to the prevalence —for decades— of attitudes and practices that eventually led to an impasse. The Report also noted: “We can no longer rely on recipes of the past, i.e. a selective and at will compliance with laws and regulations, a shifting of responsibility onto others, refusal to make the slightest efforts towards consensus-building, dogmatic misinterpretations of reality, efforts to perpetuate our vested interests at the expense of the society at large”.

Much of the above survives to this day in a part of society, triggering negative attitudes, a stubborn insistence on defending self-interests, as well as the delusion that the previous situation could have gone on indefinitely, without any change. At the same time, the impression is given that the measures announced and implemented are dictated by the Memorandum of Understanding and not by the objective situation of the economy.

In such an environment, Greek citizens cannot comprehend the reasons that have led us where we are, are anxious for the future and in several cases inert, or even seem to be in denial. This climate needs to change and to give way to active support of the effort to create a modern Greece with positive prospects. A prerequisite for this is to give an accurate portrayal of the situation, without embellishments and omissions, and to present the real facts, the reasons that brought us to the brink of bankruptcy, the necessity of reforms, the multi-year nature of the effort already underway and, of course, the expected result – i.e. the benefits compared to the costs.

It is also necessary:

- to realise that it is impossible for us to continue to operate as we did in the past. Quite the opposite: today, mistakes made over many decades must be corrected within a few years. This comes at a serious price, which certainly must be distributed equitably across society. Changes that will improve conditions for the *society as a whole*, instead of maintaining the privileges of the few, must be urgently and effectively implemented. To this end, *inter alia*, economic policy must be properly planned and social policy must become more efficient;

- to make clear that the changes are not imposed by the “Memorandum of Understanding”, but form part of a long-term effort to overhaul the Greek economy. The road will be long and today we are still at the beginning. A successful outcome will require *resolve, vigilance in the management of changes, long-term targeting and perseverance in the pursuit of the objectives that have been set;*

- to deal effectively with the phenomenon of negative attitudes, which creates a rift in the rule of law and, if allowed to spread further, could undermine social cohesion and economic progress;

- to stress, as clearly as possible, that the ultimate goal is growth and a prospering society in a modern European environment.

Athens, February 2011

George Provopoulos

Governor

MONETARY POLICY COUNCIL OF THE BANK OF GREECE

CHAIRMAN

George A. Provopoulos

MEMBERS

Helen Dendrinou-Louri

Ioannis M. Papadakis

George D. Demopoulos

Georgios E. Oikonomou

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One year of economic adjustment

In two and a half months, a year will have gone by since the initiation of the Economic Adjustment Programme, which was agreed upon by the Greek government and the EU, the ECB and the IMF in the context of the agreement for the financial support of the Greek economy. The agreement and the ensuing Economic Adjustment Programme averted the collapse of the Greek economy by securing the necessary funding, when the cost of market financing had become prohibitive; furthermore, it sped up a number of major improvements that had been delayed for decades. This proves that the financial support agreement did not only act as rescue in the present difficult circumstances, but has also been a strong driving force towards changing obsolete structures. Additionally, a very important contribution at this critical juncture came from ECB, with its provision of liquidity to Greek banks, its bond purchases and its acceptance of Greek government securities as collateral, regardless of their rating.

What has been accomplished is indeed considerable: First, developments that could have spun out of control, causing explosive problems for the economy and society and entailing costs many times higher than what we are called upon to pay today, have been averted. Second, Greece has remained an active member of the euro area and participates with its own proposals to critical discussions which will lead to new forms of operation and economic governance of Europe. Third, the country has recovered credibility in the international arena. Fourth, the first steps have been taken in the long but necessary effort to put the Greek economy on a sound and healthy track.

This great effort will undoubtedly entail costs, reflecting the price of past inaction. Back then, when conditions were much more favourable, the necessary changes could have been made gradually and at a far smaller cost. Today, we have to pay this price under adverse circumstances and within tight time limits.

2 DEVELOPMENTS AND PROSPECTS OF KEY ECONOMIC AGGREGATES

The price of past inaction and the cost of the current adjustment effort are reflected in the course of GDP, employment and income. GDP is estimated to have decreased by slightly more than 4% in 2010 (for the second year in a row, after declining by 2.3% in 2009), while all international organisations and assessment reports forecast that recession will continue in 2011, at a rather milder rate. According to estimates, GDP is expected to decrease by about 3% in 2011, but larger declines cannot be ruled out. Recession affects consumption and, all the more so, investment. Uncertainty, the higher tax burden, reduced demand and financing constraints led to declines in investment that may have exceeded 18% in 2010. Considering that investment had declined significantly also in 2009, it is clear that the *production potential of the economy has been markedly reduced*: according to rough estimates, the potential growth rate, which averaged almost 3.5% between 2000 and 2008, fell below 1.5% in 2009 and now stands at 0.5% or less. The growth rate is certainly expected to accelerate in the future, as structural reforms yield results and the country's credibility is boosted – contributing, *inter alia*, to foreign investment inflows.

Recession has directly and strongly affected employment and unemployment. Employment is estimated to have declined by about 2.5% in 2010, which means that 100,000 jobs were lost, due to the reduction in both dependent employment (by about 3%) and the number of self-employed. This has contributed significantly to increasing the number of the unemployed. Unemployment is estimated to have exceeded 12.5% of the workforce in 2010, reaching 13.5% in October, and is expected to follow a clear upward trend for 2011.

Incomes have also decreased. *Real* average earnings in total economy fell by 9% in 2010 and are projected to decline further by almost 5% in 2011, possibly stabilising in 2012.

The decline in real earnings in 2010 also reflects the rise in inflation, which reached 4.7% in 2010, from 1.3% in 2009, mainly due to the large increases in indirect taxes and the surge in oil prices. However, the effects of indirect tax increases on the annual growth rate of prices are estimated to attenuate gradually in the course of 2011, while a strongly anti-inflationary effect will be exerted by the continuing decrease both in demand and unit labour costs, especially in the business sector. The same effect is expected to emerge by boosting competition in goods and services markets, as structural reforms continue to be implemented. Thus, the average HICP growth rate is expected to decline substantially to 2.2%, while the average level of core inflation is expected to drop below 1% (from 3% in 2010).

The current account deficit as a percentage of GDP, following its large decrease –because of recession– to 11.1% in 2009 from its record levels in 2008 (14.8%), is expected to have declined only marginally in 2010. The clearly positive aspects of the evolution of the current account in 2010 include the recovery of exports of goods in the second half of the year, the significant decrease in the imports of goods, which is attributed to lower consumption and investment demand but is estimated to also imply gradual adjustments in the consumption pattern, and the large increase in shipping receipts. The recovery of imports of goods reflects both the recovered demand by Greece's trade partners and the *improved cost competitiveness in 2010, which is expected to continue in 2011*, because of lower relative unit labour costs. In 2011 export prospects may also benefit from other factors (in addition to relative costs or prices) that affect the international competitiveness of Greek products, including: (i) potential foreign direct investment, which also implies technology transfers and, therefore, improved productivity, (ii) more effective organisation of production and labour, provided that recent changes in the legal framework of the labour market are put in good use and reforms in the products market are implemented on time, and (iii) the implementation of the measures envisaged in the exports promotion strategy announced by the government in December. If, at the same time, imports of consumer goods continue to decline and tourism receipts recover, it is estimated that the current account deficit as a percentage of GDP will decline further in 2011, despite the expected rise in oil prices and interest payments.

3 THE EUROPEAN ENVIRONMENT

Upcoming changes in the European environment dictate vigilance and intensified efforts

The conditions prevailing in the world economy, especially in the EU and the euro area, affect developments in the Greek economy decisively and dictate continuous reassessment, revision and supplementation of objectives and resources. The EU and the euro area have recently undertaken very important initiatives to improve economic governance and provide a comprehensive European response to the causes and consequences of the recent crisis.

The environment shaped by these initiatives, within which the Greek economy too will be required to function, will contribute to addressing problems at a coordinated European level and will require all countries to intensify their efforts to restore economic stability. This new environment will be supportive to the economies that consistently follow an economic adjustment path, but will make conditions difficult for those that lag behind. Developments emerging in the European Union and the euro area give a clear message to Greece that it must intensify its effort. If that happens, the EU will remain an essential aid. If, however, there prevails the false impression that the integrated European solution allows for relaxation of efforts, the Greek economy will face additional difficulties.

Changes in the European environment already under way include the EU's response to the crisis, which impacted significantly on all countries, especially those with acute problems. These changes comprise objectives that have different timelines and complement each other.

The first imminent objective is to address the fiscal crisis more effectively, through the economic support to Greece and, more recently, to Ireland, and the implementation of a fiscal adjustment programme and of structural reforms, both by these two Member States and by other countries whose fiscal performance and prospects are seen by financial markets with mistrust.

Over the medium term, but with immediate effects on shaping market expectations and responses, the EU has already started creating a permanent support mechanism, which will replace the current ones.

Finally, the EU seeks to adopt and implement improved rules on surveillance and coordination of economic and fiscal policies in the EU, especially in the euro area, in the context of the new EU strategy on employment and growth, known as "Europe 2020".

As regards the imminent measures to address the crisis, the fiscal and banking crisis in Ireland led to the decision in November 2010 (after a relevant request by Ireland) to provide economic support of €85 billion from euro area countries and the IMF, as well as through bilateral loans, from the UK, Denmark and Sweden. In the same meeting, finance ministers announced that the Eurogroup will examine whether it is necessary to align Greece's loan repayment deadlines with Ireland's.

More recently, on 4 February, the euro area Heads of State or Government agreed —on the basis of specific Eurogroup proposals— on the need to reinforce the European Financial Stability Fund so as to boost its efficiency, in the context of a broader set of measures that will bolster up stability in the euro area, which will be taken in March 2011.

Starting point of the changes that mainly relate to economic governance is the "European Semester" process, launched in January 2011; other reforms of the new EU economic governance are being discussed by the relevant bodies and are expected to be adopted towards mid-2011. The main objective of the "European Semester" is the overall assessment of both fiscal and structural policies by the Council, so that Member States can take its recommendations into consideration when *drafting* their budget and prepare their overall economic policy.

More generally, the main objective is to create a functional monitoring system that will ensure consistent compliance with the terms of the Stability and Growth Pact, strict fiscal adjustment, labour market reforms and measures to boost competitiveness and growth.

While processing the terms of the new economic governance, the EU decided to create the European Stability Mechanism (ESM) for the euro area as a whole. The Mechanism, expected to be established by March 2011, will incorporate the following:

First, the ESM will be able to provide financial support to euro area countries under strict conditions and according to the rules of the current European Financial Stability Fund.

Second, the rules will be adjusted to provide for the conditional involvement of private creditors, fully in line with IMF policies. Any private sector involvement will not come into force before mid-2013.

Third, any assistance provided to euro area countries will be based on a strict economic and fiscal adjustment programme and on a detailed analysis of debt sustainability, implemented by the European Commission and the IMF, in collaboration with the ECB.

Fourth, the European Stability Mechanism will complement the new framework of enhanced economic governance, which will ensure effective and strict economic surveillance and will focus on prevention, thereby reducing the risk of new crises.

The procedures under way, as summarised above, show that the Greek case is being gradually incorporated in the new operational framework of EU and the euro area, which will apply to all Member States. This prospect also involves the anticipated decision to extend the period of repayment of the loan as well as any other changes deemed appropriate. Therefore, the extension, which would definitely be a positive development, is only part of a general European plan that requires us to proceed to the road of fiscal and structural adjustment with utmost consistency and at a faster pace.

4 THE SINGLE MONETARY POLICY AND EUROSYSTEM INTERVENTIONS

The Eurosystem played an important role in safeguarding financial stability in the euro area and supporting the Greek credit system

During 2010 and up to early February 2011, Eurosystem key interest rates remained unchanged. The Governing Council of the ECB has repeatedly underlined that their level is appropriate for achieving the primary objective, namely price stability in the euro area over the medium term. This is also confirmed by inflationary expectations, according to which, inflation will stand below but close to 2% over the medium term. During the same period, the Eurosystem used *non-standard monetary policy measures*, which helped to create more favourable financing conditions and to reinforce capital flows from credit institutions to the economy, more than what would have been achieved solely by reducing key interest rates. As financial market conditions had substantially improved since late 2009, some of these measures could be phased out. However, in the course of 2010, concerns increased further about the fiscal situation in certain countries (especially Greece), thereby causing tensions to resurface in financial markets. This impaired the proper functioning of the monetary policy transmission mechanism to such an extent that the achievement of the primary objective of the single monetary policy was at risk. This is why, in early May 2010, the Governing Council of the ECB reintroduced certain non-standard monetary policy measures that had been withdrawn earlier and adopted the "Securities Markets Programme", aimed at ensuring sufficient depth and reinforcing liquidity in those market segments which are dysfunctional.

Eurosystem interventions in the interbank and securities markets and the measures adopted in early May 2010 by the Ecofin Council and the Member States to safeguard financial stability in Europe have contributed in containing tensions somewhat. This was also assisted by the decision taken by the Eurosystem (which was very important for Greece) to finance credit institutions against marketable debt instruments issued or guaranteed by the Greek government *irrespective of their credit rating*. However, strong tensions emerged in the financial markets later in 2010 as well, especially in the last quarter.

5 DEBT DYNAMICS AND POLICY CHALLENGES FOR GREECE

A strategy for addressing debt dynamics: faster fiscal adjustment – speeding up growth

The first year of the Economic Adjustment Programme gave positive outcomes mainly in the area of fiscal consolidation. The budget deficit was reduced to 8.4% of GDP, from 13.1% in 2009, based on fiscal data (as regards the *general government* deficit, no final estimates are available yet). This achievement was certainly important, but it was just the beginning. The end objective of this great effort underway is to reconstruct the Greek economy, to achieve growth, to increase incomes without turning to borrowing and to achieve real convergence with other euro area countries. Among the most significant obstacles hindering this process are the level, the dynamics and the sustainability of the debt in the years ahead. Reducing the deficits is, after all, the first step towards effectively dealing with the high debt-to-GDP ratio.

Taking into account what has been accomplished so far, together with the evolution of fiscal aggregates, the forecast level of debt, and the overall climate in the EU and the euro area, what is warranted is a strategy for reducing the debt-to-GDP ratio within a reasonable time frame. This dictates the priorities and the objectives of the required policy which, in order to be effective, must focus on both legs: the level of debt and GDP. Hence it should aim at the following:

First, reduce the numerator, i.e. the level of debt, faster by creating fiscal conditions that will steadily generate sufficient primary surpluses for a number of years.

Second, increase the denominator, i.e. the GDP, which first of all presupposes the recovery of the economy and, once this is underway, fast-paced growth.

What has been accomplished up to now is indeed considerable and had to be undertaken so as to avert even more adverse developments. However, it does not constitute a comprehensive action plan which will lead the economy to self-propelled growth and fast debt reduction. Therefore, what is needed is coordinated, persistent and far-reaching action in all sectors, with two clear and complementary targets: faster fiscal consolidation and immediate improvement of the overall context for accelerating growth.

5.1 FASTER FISCAL ADJUSTMENT

A fiscal adjustment programme has been underway since early 2010 and has, up to now, brought positive results. Based on fiscal data, the state budget deficit for 2010 was reduced to 8.4% of GDP, from 13.1% in 2009. This reduction is a major achievement, as it was also validated in the assessment reports published by the European Commission and the IMF. However, it should be stressed that it was mainly achieved through across-the-board measures, such as wage and pension cuts and tax increases, without any substantial improvement as far as the size and the inefficient operation of the public sector are concerned, i.e. the areas where deficits are initially generated and then swell to huge proportions.

Given that fiscal adjustment must continue at a fast pace in order to create sufficient primary surpluses to effectively reduce debt, it is clear that economic policies must turn to a fundamental overhauling of the state, so as to reduce spending and increase the efficiency of the public sector on a lasting basis, which is obviously a rather harder task to achieve.

The government has already committed to present, by March 2011, its comprehensive action plan and an implementation timetable for the reforms needed to reduce the deficit in the medium term. The plan will identify additional fiscal measures (of a structural nature), equivalent to over 5% of GDP, that will bring the general government deficit down to 2.6% of GDP by 2014. A faster fiscal consolidation and a larger deficit reduction by 2014 would be more than welcome. Such an outcome is feasible, if the deficit reduction plan focuses on the following:

First, reducing the expenditure of general government entities and agencies, by means of **organisational and structural changes**, i.e.:

- restructuring loss-making public enterprises. *Inter alia*, this means implementing the provisions of the law on the restructuring of the Hellenic Railways (OSE Group and TrainOSE S.A.) and the draft law to be enacted concerning the “consolidation, restructuring and development of Attica urban transportation”;

• eliminating unnecessary public sector entities and merging others;

• improving tax administration. The related draft law has already been published;

• reforming public administration on the basis of, among other things, the information that will arise from the OECD assessment. This issue is critical both for accomplishing fiscal consolidation targets and for speeding up growth (see below). It is obvious that upgrading public administration is also associated with the fight against corruption, as has repeatedly been stressed in previous Reports;

• rationalising the pay system and the human resources management of general government agencies, and

• examining the possibility of further cuts in defence expenditure.

In its Interim Report on Monetary Policy published in October 2010, the Bank of Greece set forth general directions for the further reduction of primary public expenditure in the above sectors and estimated that this reduction is feasible and will have positive effects on the economy. The Report included, among other things, specific proposals, while it was stressed that in Greece there is ample margin for cuts in primary expenditure. Nevertheless, huge efforts, a change in mentality, continuity and consistency are of essence. Curtailing expenditure is a multi-faceted task that is extended over time and requires continuous interventions, both at the legislative and the administrative level. These interventions should also take into account that different, case-specific approaches might be needed.

Second, upgrading fiscal institutions and improving their operation. As regards the reform of public finances, emphasis must be placed on enhancing (i) control of public expenditure (e.g. through the appointment of financial inspectors for all public entities and through an effective control of the management of social resources both in terms of efficiency and lawfulness), (ii) transparency (through the —already initiated— release of general government data on a monthly basis) and (iii) the effectiveness of public expenditure (which will also be underpinned by programme budgets).

In general, improved budgeting and fiscal policy (through the envisaged adoption of a comprehensive medium-term fiscal strategy for the years 2012-14, which will specify the targets of general government and its individual entities) must be governed by *continuity* and *consistency*. It should be reminded that since 1999 the Bank of Greece has repeatedly and strongly recommended[1] the introduction of numerical fiscal rules,[2] so that fiscal deficits and the accumulation of public debt can be averted and *fiscal sustainability can be ensured*. Today, Greece is one of the three EU countries that have not yet adopted such fiscal rules.[3] These rules impose permanent constraints on the level or the annual rate of change of key budgetary aggregates, such as primary expenditure, the level of annual borrowing, deficit or public debt. Under certain circumstances, these rules may be particularly effective.[4] According to surveys conducted by the European Commission,[5] the application of such rules led to the narrowing of budgetary deficits and debt[6] and national fiscal rules proved to be more effective when established by law, all the more so if relevant provisions

1 See: (i) *Bank of Greece Annual Report for the year 1999*, p. 31; (ii) *Bank of Greece Annual Report for the year 2001*, p. 52; (iii) *Bank of Greece Annual Report for the year 2003*, pp. 70-71; (iv) *Bank of Greece Annual Report for the year 2004*, p. 65; (v) *Bank of Greece Annual Report for the year 2006*, pp. 213-216; (vi) *Bank of Greece Monetary Policy Interim Report 2008*, pp. 23-24; (vii) *Bank of Greece Monetary Policy Report 2008-2009*; and (viii) *Bank of Greece Monetary Policy Report 2009-2010.*

2 Referring to rules which will complement and apply in parallel to the respective rules contained in the Maastricht Treaty with respect to deficit and debt.

3 Those three countries were (in 2008) Greece, Malta and Cyprus. See *Public Finances in EMU 2009*, p. 88.

4 See Bank of Greece, Monetary Policy Interim Report 2010, October 2010.

5 *Public Finances in EMU 2006*, Part II, pp. 137-167; *Public Finances in EMU 2009*, pp. 87-93; and *Public Finances in EMU 2010*, pp. 99-103.

6 It is a well-known fact that the recent rise in public debt observed in several EU countries is the result of liquidity provision and bank rescue efforts. By contrast, in the case of Greece the problem was clearly of a fiscal nature.

are included in the Constitution.[7] In fact, in some countries (Austria, Germany, Switzerland, Italy, Poland) there are *constitutional* provisions setting constraints on the level of key fiscal variables.

In the case of Greece, establishing a constellation of permanent constraints on key fiscal variables, as well as creating mechanisms that will ensure effective implementation of such provisions would be highly useful. It should be stressed that constraints on the level of primary expenditure are fundamental to successful fiscal management, for which the Netherlands, Denmark, Sweden, and Finland stand out among EU countries.[8]

The specifications of such arrangements and their implementation mechanism must be established by law. It should be reminded that the Bank of Greece had suggested in the past the conclusion of an "Internal Stability Pact" between central government and local authorities concerning the observance of fiscal rules and constraints.

The introduction of numerical fiscal rules, coupled with the adoption of a long-term fiscal policy framework, will send a clear message to markets as regards Greece's commitment to do whatever is necessary to reduce debt and put its public finances on a sustainable track.

Third, speeding up privatisation. According to the updated "Memorandum of Understanding" of November 2010, revenue from privatisations for 2011-2013 is expected to be €7 billion, while revenue for 2011 alone is envisaged to reach €1 billion. These amounts can increase significantly, if there takes place a reliable recording of real property belonging to the state and its better use at central level. Increased revenue from privatisation and public property development will directly contribute, during this period, to a faster reduction of the debt as a percentage of GDP.

Fourth, increasing public revenue by curbing tax evasion. In the last two years extraordinary contributions, coupled with a hike in indirect and direct taxes, have exhausted the taxpaying ability of citizens *who have already paid taxes*. Besides, the recession which is hitting the Greek economy has limited the possibility of revenue generation through further tax increases. Therefore, all efforts to increase revenue should focus on imposing taxes on evading taxpayers. The phenomenon of tax evasion is actually inherent in the Greek economy and several governments have so far failed to eradicate it, but, nowadays, the time is ripe to effectively tackle the problem. The draft law includes many positive elements which endeavour to address the most serious shortcomings of the tax system, i.e. inadequate tax-collecting mechanisms and almost zero likelihood of tax evasion cases being detected and punished. This draft law contains several proposals made by the Bank of Greece in its October 2010 Report. Certainly, the effective implementation of the law remains central. Moreover, the cornerstone of a modern, efficient tax system is the optimal use of the possibilities offered by technology. This would require precise, comprehensive computerisation in conjunction with a simplification of the tax system. Efforts to reform the tax system must now be targeted towards this end.

5.2 SPEEDING UP GROWTH

Growth is what the Greek economy needs now. Exit from the recession and a rapid return to positive GDP rates would mitigate the negative impact on employment and incomes, while also facilitating the strategy for reducing the debt-to-GDP ratio. Growth, however, will be the end result of a number of measures acting in synergy to improve productivity and competitiveness and to create a business-friendly environment. Accordingly, the growth policy will have to positively influence all these factors in order to be effective. At the present juncture, what is necessary for growth is:

7 See *Public Finances in EMU 2006*, p. 138.
8 *Public Finances in EMU 2010*, p. 102.

i) Faster reduction of deficits, not only for fiscal but also for growth purposes.

As international experience has shown, economies with large public deficits and debts cannot achieve sustainable growth because:

- First, deficits induce higher borrowing rates – and in some cases, even borrowing crises, as in the case of Greece.

- Second, the continuous swelling of an inefficient public sector "crowds out" entrepreneurship and innovation, which are main elements of sustainable development.

- Third, deficit funding deprives an economy of resources that could be channelled towards productive activity.

In other words, fiscal deficit reduction is the first and necessary step for the Greek economy to return to an upward path: *stabilisation is a growth policy.*

ii) Targeted growth-enhancing policies on the basis of a binding, comprehensive Action Plan for Growth.

As the Bank of Greece has proposed, the Action Plan will set growth objectives and shared aspirations as to what we wish to accomplish in the years ahead (in brief: improving productivity and enhancing competitiveness, accelerating potential growth on the basis of a new production model, reducing disparities and unemployment), as well as the paths selected to lead us there.

iii) Sweeping structural reforms that would do away with obsolete structures and improve competitive conditions in the economy.

During the first year of implementation of the Economic Adjustment Programme, economic policy focused on across-the-board measures which could yield quick results. These measures were absolutely necessary. However, emphasis should now be placed on dealing with lasting structural rigidities that pose a serious impediment to growth. Economic policy must now be geared towards the remedy of such structural weaknesses. *The sooner these structural reforms are pushed forward, the sooner growth will come.*

These reforms, some of which have already been implemented while others are just being introduced, include measures aimed at the following:

- Enhancing **labour market flexibility and increasing job opportunities**. Law 3899/2010 introduces the institution of "company-specific collective labour agreements", abolishes asymmetries between employees and employers in cases of recourse to arbitration and allows for more flexible arrangements as far as new entrants in the labour market are concerned. If this law is enforced consistently and used constructively by the social partners, it will have direct positive effects on employment, productivity and, subsequently, growth. Nevertheless, experience so far has shown that the implementation of the law is likely to meet with strong resistance, entailing the risk of compromising the effectiveness of its stipulations. *Increasing job opportunities* is of critical importance in order to, among other things, halt the brain drain, especially among young people.

- **Upgrading the education system**. Discussions about reforming post-secondary education have already started, which is a positive development, while it is of equal – if not greater – importance to promote, the soonest possible, changes that will enhance both the quality and the efficiency of primary and secondary education. This is a significant precondition for increasing **productivity**, which in turn will help the Greek economy to rapidly restore its international **competitiveness**.

- **Improving the business environment**, giving special emphasis on the following:

  ○ *Simplifying licensing procedures for manufacturing firms.* This is envisaged in a draft law that was released for public consultation. Its objective is to reduce the time and cost required for a business firm to obtain a license to operate – in particular to obtain environmental, land use and urban planning permits (which usually delay the whole procedure). The draft law also provides for the development of "business parks".

○ *Opening up closed professions.* The relevant draft law has already been submitted to the Greek Parliament and mainly aims to abolish minimum fee requirements for lawyers, engineers, architects and chartered accountants. It also abolishes geographical limitations for exercising the profession of lawyer. As regards notaries, it changes the way in which their fees are calculated. According to a draft law by the Ministry of Health and Social Solidarity, licensing criteria for pharmacies are relaxed and changes in their opening hours are introduced.

○ *Fostering competitive conditions in the markets.* This is crucial to underpinning the expected decline in inflation for 2011, which could contribute to a slighter drop in this year's real wages compared with 2010. In this respect, the efficient functioning of the Competition Committee (which is scheduled to be restructured soon) might, among other things, prove to be useful under two strict conditions: first, the Committee shall maintain its independent status, and second, it shall treat on equal terms both public and private enterprises. The draft law which is still under discussion remains vague and needs to be clarified further as regards two vital issues: the responsibilities of the Minister for Regional Development and Competitiveness, and the cooperation of the Competition Committee with other regulatory authorities for industries in which the public sector has a strong presence.

Reforms for enhancing competitiveness in the markets are —to a great extent— in the process of regulation. So far, progress has been remarkable. However, given the setbacks associated with the enactment of a law and the issuance of presidential decrees for its implementation, procedures must be sped up.

Moreover, special emphasis should be placed on actions required for drawing-up and implementing an **action plan aiming at creating a business-friendly environment**. This can be accomplished, for instance, through the rapid enactment of proposed regulations that will simplify the licensing procedure of manufacturing firms, develop "business parks", reduce the tax cost for mergers or business transfers, etc. The Hellenic Federation of Enterprises (SEV) has recorded and shed light to such obstacles, which affect 30 fields and thus require immediate intervention. It should be noted that in some cases obstacles are not removed, even if there exists relevant legislation, suggesting that the implementation of the law is not effective.

Improving the business environment is undoubtedly an arduous and complex task, as it calls for the synergy of several ministries, as well as a number of agencies. It is thus imperative to expedite the introduction of **electronic governance** (relevant issues are currently open for public consultation).

iv) Active policies to boost investment.

An investment-boosting policy relies on the creation of the appropriate environment, i.e. of a business "ecosystem" that will favour domestic investment initiatives and attract foreign funds. Such an environment must be characterised by:

○ a positive long-term economic outlook;

○ stable rules on the functioning of markets and taxation;

○ well-defined and swift procedures relating to land use and licensing of business start-ups;

○ adequate funds for the financing of investment.

It is clear that all economic policies must aim at creating this environment. Stable rules on the functioning of markets and taxation, as well as the establishment of well-defined and swift procedures relating to land use and licensing for business start-ups, form part of the above mentioned structural reforms.

As regards the *financing of investment*, appropriate incentives constitute only one of the growth policy instruments. The recent investment law 3908/2011 is a positive development as it introduces (a) criteria ensuring that the selected investments pursue an overall outward-looking growth strategy, and (b) tax exemptions, coupled with subsidies. In the past, subsidies facilitated dubious practices or favoured very short-term business decisions. By contrast, tax exemption promotes long-term investment and corporate profitability while providing a significant incentive for tax compliance. Furthermore, tax exemptions do not require large disbursements and cover a longer time frame than subsidies. Therefore, they are much more recommended at the present juncture of fiscal adjustment and limited resources. Overall, the new development law is considered to be a step to the right direction. Its implementation is expected to play a central role, together with the ministerial decisions, which will largely clarify growth priorities.

At the same time, the operation of the new Hellenic Fund for Entrepreneurship and Development (ETEAN), which will be the successor of the Guarantee Fund for Small and Very Small Enterprises (TEMPME) but will have a broader scope (under a law enacted on 8 February), may contribute to the financing of SME and export firms.

Against this backdrop, however, achieving an economic recovery without direct fiscal costs, requires **increasing the absorption of EU funds through the National Strategic Reference Framework, by making full use of the Structural Funds Management Rules** which were adopted by the EU in June 2010, with a view to speeding up the channelling of funds towards Member States that face budgetary problems. Actually, this would offer the possibility of raising the community co-financing of investment programmes and *temporarily* ending the obligation for national co-financing.

Moreover, it is crucial to **increase national saving** from the extremely low level of past years. Given the trend towards adjusting-correcting the (over)consumption pattern observed in the past decade, this target is feasible through an appropriate tax policy.

6 CHALLENGES FOR THE BANKING SYSTEM

The banking system is expected to play a decisive role in exiting from the crisis in an orderly manner and embarking on growth. Today, the banking system has come under a lot of pressure on account of the major fiscal crisis that brought about the downgrades of the credit rating of Greek sovereign debt. This also led to corresponding downgrades for Greek banks, which were thus virtually shut out of international money and capital markets. During the same period, liquidity suffered additional strains because of a gradual outflow of deposits, which continued through to late 2010. These strains were counterpoised by the liquidity support measures for the Greek economy and the provision of liquidity by the Eurosystem. However, it should be noted that these two funding sources provide only a temporary solution to banks' liquidity problems and impact severely on their fundamentals. At the same time, the profitability and efficiency of Greek commercial banks and banking groups declined further, the quality of banks' business and household loan portfolios deteriorated, and bank funding essentially relied on refinancing from the Eurosystem. An encouraging development, of course, was the fact that capital adequacy remained relatively high.

The factors that have influenced the Greek banking system are expected to continue to have a similar effect during the first two months of 2011. Overall, 2011 will be a year of major and complex challenges. Banks will have to deal with the expected further deterioration in the quality of their loan portfolios to households and enterprises, the need to gradually reduce their reliance on Eurosystem funding, the rationalisation of their business models and operating costs, and their gradual adaptation to the requirements of the new international regulatory framework. Therefore, the medium-term prospects for the profitability, the quality of loan portfolios and the liquidity of banks and banking groups continue to be surrounded by high uncertainty.

In order to eliminate the problems faced by the banking system, the factors that caused them in the first place, i.e. fiscal derailment and the downgrades of Greece's debt rating, must cease to exist.

Banks must remain constantly vigilant, swiftly readjust their operational strategy, cut down on their operating costs and seek for alternative funding sources, besides those which are temporarily provided by the Greek government and the Eurosystem. Towards this end, account should be taken of the new liquidity conditions that will arise from the phasing out of non-standard support measures adopted by the ECB, the impact on the value of available collateral from the imminent further downgrades of Greek sovereign debt, as well as from the increased competition between governments, banks and firms for financing. Within this context, a restructuring of the banking system is warranted and inevitable.

In terms of the *economy as a whole*, the outlook of bank lending to the private sector is of particular importance. Financing to the domestic private sector, based on existing data, is expected to register zero or negative growth rates in 2011. The weakening financial condition of enterprises and households, due to rising unemployment, decreasing average wages and falling corporate profits, continues to impede their access to borrowing and reduces their willingness to take up debt. On the other hand, the recent extension of the liquidity support (introduced in 2008) until end-June 2011, coupled with the expansion of state guarantees by an additional €25 billion, is expected to have a positive effect on private sector financing. The rate of credit expansion this year will depend on the access of Greek banks to money and capital markets and on the enhancement of depositor confidence.

7 CONCLUSIONS

The overview of developments in the Greek economy, the changes in the international environment and the looming perspectives lead to the following estimations:

1) Fiscal adjustment has made a good start, coming close to the targets set for 2010. The targets for the state budget cash deficit were met, whereas the initial target for the general government deficit was not, due to a reclassification of certain public enterprises and because of shortfalls in revenue (see Chapter V). Fiscal adjustment must now be stepped up, in order to overshoot the projections and achieve large and sustainable primary surpluses as soon as possible. The key to success lies in the radical reform of the public sector, with changes that will slash its operating costs, increase its efficiency and generate a business-friendly, growth-fostering environment.

2) So far, changes have been carried out that would have been unthinkable just a few months ago. This goes to show that a radical restructuring of the Greek economy is feasible and that this effort *can produce results*. On the other hand, several reforms are coming up against rigidities and reactions that undermine the overall effort. The Annual Report of the Bank of Greece released in April 2010 pointed out that the Greek crisis was, amongst other factors, due to the prevalence —for decades— of attitudes and practices that eventually led to an impasse. That Report also noted: *"We can no longer rely on recipes of the past, i.e. a selective and at will compliance with laws and regulations, a shifting of responsibility onto others, refusal to make the slightest effort towards consensus-building, dogmatic misin-*

terpretations of reality, efforts to perpetuate our vested interests at the expense of the society at large."

Much of the above survives to this day in a part of society, triggering negative attitudes, a stubborn insistence on defending self-interests, as well as the delusion that the previous situation could have gone on indefinitely, without any change, if it weren't for the Memorandum. Such attitudes and their accompanying practices are quite often applauded and magnified by factions that keep highlighting the consequences of recession, not mentioning the inescapable fatal effects of idleness and the desirable end objective. At the same time, the impression is given that the measures announced and implemented are dictated by the Memorandum of Understanding and not by the objective situation of the economy.

In such an environment, Greek citizens cannot comprehend the reasons that have led us where we are, are anxious for the future and in several cases inert, or even seem to be in denial. This climate needs to change and to give way to active support of the effort to create a modern Greece with positive prospects.

To do this, we first need to give an accurate portrayal of the situation, without embellishments and omissions, and to present the real facts, the reasons that brought us to the brink of bankruptcy, the necessity of reforms, the multi-year nature of the effort already underway and, of course, the expected result – i.e. the benefits compared to the costs.

It is also necessary:

- to realise that it is impossible for us to continue to operate as we did in the past. Quite the opposite: today, mistakes made over many decades must be corrected within a few years. This comes at a serious price, which must be distributed equitably across society. For an equitable distribution of the cost and the benefits, what is needed is a timely and effective implementation of changes that will improve conditions for all and not maintain the privileges to the few, as was the case in the past. An appropriate planning of economic policies and a significant improvement of the effectiveness of social policies are warranted *inter alia* towards this end. This is completely relevant, especially if account is taken of the fact that, based on the latest available data, the total rate of poverty has remained remarkably stable in the ten years to 2008, but in the last years of this period, poverty seems to have shifted from the group of the elderly to the group of younger couples with children, as well as young employed persons and especially children up to 15 years old. It is also estimated that *after 2008* a considerable rise in unemployment, particularly among young people, and repeated hikes in indirect taxation on mass consumption goods further weakened the purchasing power of the poorest households (see Chapter IV);

- to make clear that the changes are not imposed by the Memorandum of Understanding, but form part of a long-term effort to overhaul the Greek economy. The road will be long and we are still at the beginning. A successful outcome will require: *resolve, vigilance in the management of changes, long-term targeting and perseverance in the pursuit of the objectives that have been set;*

- to deal effectively with the phenomenon of negative attitudes, disobedience and lawlessness, which creates a rift in the rule of law and, if allowed to spread further, could undermine social cohesion and economic progress;

- to stress, as clearly as possible, that the ultimate goal is growth and a prospering society in a modern European environment.

II THE EXTERNAL ENVIRONMENT OF THE GREEK ECONOMY

1 INTERNATIONAL AND EURO AREA ECONOMIC DEVELOPMENTS AND POLICY INTERVENTIONS[1]

1.1 DEVELOPMENTS AND PROSPECTS

In *2010* world economic recovery from the 2007-2009 global crisis turned out stronger than expected, although it weakened in the second half. Recovery dynamics varied significantly across advanced economies, while the rate of growth in emerging economies, which had remained strong during the crisis, took on renewed momentum. The continuing beneficial effect of the expansionary fiscal and monetary policy (see Chart II.1) and the strong recovery of world trade have more than offset the impact of uncertainty caused by high unemployment rates and by intensifying global market concerns about the credit risk in sovereign debt markets, especially in Greece and some other euro area countries.

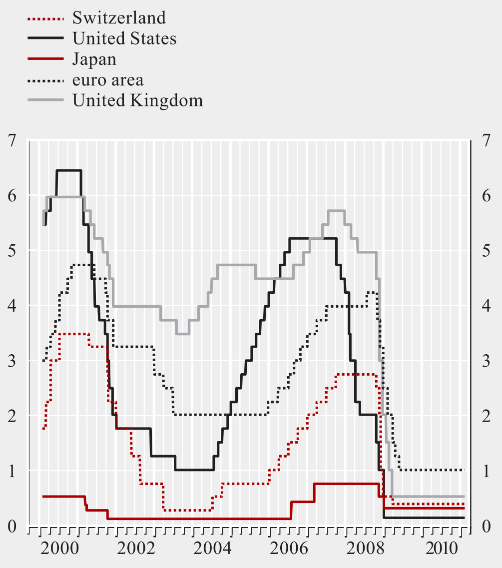
Global GDP, having declined by 0.6% in 2009 for the first time since 1946, grew by 5.0% in 2010 (see Table II.1). Particularly in *advanced economies*, which were affected by the crisis the most, recovery has been stronger (+3.0%, against -3.4% in 2009) and, to a significant extent, synchronised. In the United States, where recovery was based on domestic demand and increased inventories, GDP grew by 2.9% in 2010 (2009: -2.6%). In Japan, where recovery was based on external demand, GDP is estimated to have grown by 4.3% in 2010 (2009: -6.3%). In the euro area, GDP is estimated to have grown by 1.8% (2009: -4.1%). In *emerging and developing economies*, the GDP growth rate rose to 7.1%, from 2.6% in 2009. In China, where, unlike most advanced economies, monetary policy is becoming tighter because of high inflation but fiscal policy remains expansionary, the GDP growth rate came to 10.3%, from 9.2% in 2009.

Inflation in *advanced economies* increased in 2010 (to 1.5%, from 0.1% in 2009), mainly because of the increase in international commodity prices, but remained overall low, due to the underemployment of production factors despite the recorded recovery; in 2011, it is projected to increase marginally to 1.6%. In *emerging and developing economies*, strong economic activity and the rise in food prices resulted in renewed inflationary pressures (2010: 6.3%, 2009: 5.2%), leading India and China to successive increases in their key interest rates, especially in the second half of 2010. In these economies, inflation is projected to remain high this year (6.0%).

World trade, which has been having more fluctuations than economic activity in the past few years, was severely hit in 2009, as it was one of

Chart II.1 Central bank policy rates (January 2000 - January 2011)

(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.

1 The analysis that follows below is based on the macroeconomic developments up until the end of January and has taken into consideration the latest forecasts by the IMF (*World Economic Outlook Update*, 25 January 2011, and *Fiscal Monitor Update*, 27 January 2011), the European Commission (*Autumn Forecasts*, November 2010) and the OECD (*Economic Outlook*, November 2010), the Eurosystem staff macroeconomic projections of 2 December 2010, as well as a number of other analyses carried out by the IMF, the Bank of International Settlements (BIS) and the European Commission.

Table II.1 GDP at constant prices: latest available estimates and projections by the IMF, the European Commission, the OECD, Consensus Economics and Eurosystem staff

(annual percentage changes)

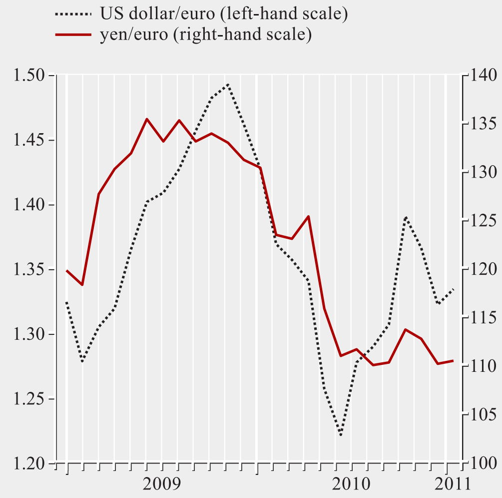
	2010 (estimates)					2011 (forecasts)				
	IMF 25.1.2011	EU 29.11.2010	OECD 7.12.2010	Consensus 10.1.2011	Eurosystem staff 2.12.2010	IMF 25.1.2011	EU 29.11.2010	OECD 7.12.2010	Consensus 10.1.2011	Eurosystem staff 2.12.2010
World economy*	5.0	4.5	...	4.0	...	4.4	3.9	...	3.4	...
United States	2.8	2.7	2.7	2.9	...	3.0	2.1	2.2	3.2	...
Japan	4.3	3.5	3.7	4.3	...	1.6	1.3	1.7	1.2	...
China	10.3	10.5	10.5	...	...	9.6	9.2	9.7	...	...
United Kingdom	1.7	1.8	1.8	1.7	...	2.0	2.2	1.7	2.1	...
Euro area	1.8	1.7	1.7	1.7	1.6 - 1.8	1.5	1.5	1.7	1.5	0.7 - 2.1

Sources: IMF, *World Economic Outlook Update*, 25 January 2011.
European Commission, *Economic Forecasts, Autumn 2010*, November 2010.
OECD, *Economic Outlook*, No 88, November 2010.
Consensus Economics, *Consensus Forecasts*, January 2011.
ECB, *Monthly Bulletin*, December 2010.

* Calculations based on GDP purchasing power parities-ppp for 2009; for Consensus Economics: based on GDP and average exchange rates for 2009.

Chart II.2 Exchange rate of the euro against the US dollar and the Japanese yen (January 2009-January 2011)

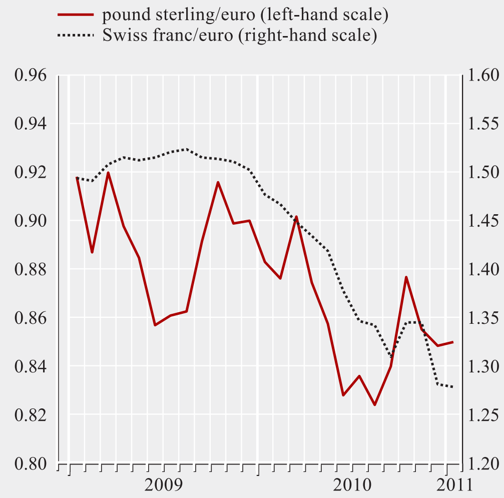
(monthly data)



Sources: ECB and Bank of Greece.

Chart II.3 Exchange rate of the euro against the pound sterling and the Swiss franc (January 2008 - January 2011)

(monthly data)



Sources: ECB and Bank of Greece.

the main mechanisms for the transmission and geographic spread of the recession, but made an impressive recovery in 2010. The volume of world trade in goods and services reached its pre-crisis levels in 2010, increasing by 12.0%, compared with a 10.7% drop in 2009; in 2011 it is projected to increase by 7.1%.

International commodity prices, having steeply declined in the second half of 2008, resumed their upward course in 2009-2010. Their rise is mainly the result of increased demand for oil by the energy-consuming emerging economies of Asia, disruptions in the supply of certain commodities and the devaluation of the dollar (see Chart II.2). The average international price of crude oil (three-type average) in dollars increased by 27.8% in 2010, while the IMF projects a further rise of 13.4% in 2011. The international non-oil commodity prices (also in US dollars) rose by 23.0% in 2010 and are projected to increase further by 11.0% in 2011. The strongest rise was recorded in minerals and metals, for which China increased its demand. At the same time, international food prices reached record levels in December 2010, even higher than those observed in June 2008, when international food prices had risen to historically high levels.

Despite GDP recovery, the fiscal positions of advanced economies recorded only limited improvement in 2010. General government fiscal deficits remained high (as a percentage of GDP) in 2010 in the United States (10.6%), Japan (9.4%) and the euro area (6.4%). The outcome of programmes for curtailing fiscal deficits, being implemented in an increasing number of advanced economies, will become visible in 2011. These programmes, although dampening economic activity in the short term, will put economies back on the track of sustainable growth in the medium to long term, decisively contributing to a drop in uncertainty and in the extremely high credit risk levels in international bond markets, thereby smoothing out financing conditions in international markets.

In *2011* the recovery of global economy will continue, albeit at a slower pace. In advanced economies, the risk of a double-dip recession or stagflation has subsided, especially taking into account the generally encouraging data on economic activity that were published in the last two months of 2010, as well as the announcements (in November) of the central banks of Japan and the United States about the adoption (by the former) and the expansion (by the latter) of bond purchase programmes totalling 5 trillion yen and 600 billion dollars respectively. The growth rate of world GDP is projected to decelerate to 4.4% and stand at 2.5% in advanced economies and at 6.5% in emerging economies. The risks surrounding the projections for 2011 are mainly associated with a renewed expansion of global macroeconomic imbalances, the fragility of real estate and labour markets in several advanced economies and the uncertainty over the evolution of the fiscal crisis in the euro area.

Euro area developments

The prominent feature of euro area economic developments in 2010 has been the recovery of economic activity, driven by exports and the growth of private consumption and investment, although differences in economic performance among individual euro area countries have also widened. In more detail, Germany recorded a high GDP growth rate (3.6%), most euro area economies recorded moderate rates and economies in the epicentre of the fiscal crisis (Greece, Ireland, Spain) faced stagnation or negative growth rates, whereas in Portugal economic activity maintained a positive growth rate, as the impact of fiscal adjustment will become evident in 2011.

According to the latest IMF forecasts, euro area economy will continue to grow in 2011, at a slightly lower rate than in 2010 (1.5%, against 1.8%) and the unemployment rate will remain broadly unchanged, at around 10% of the workforce. The pace of GDP growth will continue to vary across the euro area in 2011, but the differences will be smaller. The German economy is estimated to return to more "normal" rates (2.2%), Greece will continue in recession, followed by Portugal, while Ireland and Spain are estimated to record positive, albeit moderate, growth rates.

The general government deficit, as a percentage of GDP, in the euro area as a whole is estimated to decline to 4.6% in 2011, from 6.4% in 2010 (remaining unchanged compared with 2009), as most euro area countries will resume their fiscal adjustment plans, in parallel with economic recovery. However, the IMF estimates that public debt will increase to 87.1% of GDP, from 84.3% in 2010.

Euro area inflation increased to 1.6% in 2010, from 0.3% in 2009, and will stand between 1.3% and 2.3% in 2011 according to Eurosystem staff macroeconomic projections, mainly because of the anticipated rise in commodity prices. As regards the financing of the euro area economy, a positive development has been increased credit to the private sector, on an annual basis, by 2.0% in November and 1.9% in December (reflecting a positive annual rate of credit expansion to households and a near-zero rate of credit expansion to enterprises).

1.2 EUROPEAN COUNCIL DECISIONS

The European Council agreed on 16-17 December 2010 on the text of a limited Treaty amendment[2] concerning the establishment of a future permanent mechanism to safeguard the financial stability of the euro area as a whole. This mechanism (European Stability Mechanism (ESM) will replace the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM), which will remain in force until June 2013.[3]

Work on the establishment of the future mechanism is expected to be concluded by

2 The amendment consists in adding the following paragraph to Article 136 of the Treaty on the functioning of the EU: *"3. The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality".*

3 It should be noted that, through the above two current mechanisms and with the contribution of the IMF and certain bilateral loans, financial support of €85 billion will be given to Ireland, as unanimously decided by the Eurogroup and the ECOFIN on 28 November 2010, at the request of Ireland. During that same conference it was announced that the Eurogroup will rapidly examine the necessity of aligning the maturities of the financing for Greece to that of Ireland.

March 2011 and will integrate the general features set out in the Eurogroup statement of 28 November 2010, which the European Council endorsed. These general features will include, *inter alia*:

- The future European Stability Mechanism will be capable of providing financial assistance packages to euro area Member States under strict conditionality functioning according to the rules of the current EFSF.

- Rules will be adapted to provide for a case by case participation of private sector creditors, fully consistent with IMF policies. In all cases, in order to protect taxpayers' money, and to send a clear signal to private creditors that their claims are subordinated to those of the official sector, an ESM loan will enjoy preferred creditor status, junior only to the IMF loan. Any private sector involvement will not be effective before mid-2013.

- Assistance provided to a euro area Member State will be based on a stringent programme of economic and fiscal adjustment and on a rigorous debt sustainability analysis conducted by the European Commission and the IMF, in liaison with the ECB.

- The European Stability Mechanism will complement the new framework of reinforced economic governance, aiming at an effective and rigorous economic surveillance, which will focus on prevention and will substantially reduce the probability of a crisis arising in the future.

2 SOUTH-EASTERN EUROPEAN ECONOMIES[4]

2010 was the year when most South-Eastern European economies came out of the crisis. However, according to the latest data, the timing and the rate of recovery vary significantly among countries. Turkey recorded the highest growth rate (8.2%), followed by Albania (3%). In that same year it is estimated that Serbia, Bulgaria, FYROM, Bosnia and Herzegovina and Montenegro recorded much lower positive rates, while Romania and Croatia continued to record negative rates of GDP growth for the second year in a row (see Table II.2.A).

In most countries, recovery is the result of mainly increased exports, due to the upswing world trade after the second half of 2009, and of increased reserves. By contrast, domestic demand remains weak in all countries except Turkey, where recovery is spectacular. Finally, although unemployment remains at high levels in most countries, labour market conditions seem to be on the path to gradual stabilisation.

In 2011, recovery is anticipated to spread to all countries, boosted further by the gradual strengthening of domestic demand. On the other hand, however, the presence of significant uncertainty must not be overlooked. More specifically, the positive contribution of exports may be dampened due to a possible weakening of external demand, mainly by EU countries. Moreover, the countries' continuing efforts at fiscal consolidation limit the participation of public expenditure in the growth process. Finally, to the extent that unemployment remains high and deleveraging of the private sector continues, it is possible that the pace of the anticipated recovery in domestic demand will be low.

Following the significant disinflation observed during the crisis, which was even accompanied by negative inflation rates in some cases, inflation pressures resurfaced, albeit partly, in 2010 (see Table II.2.A). This is mainly associated with the rise in food commodity prices, increases in indirect taxes and administered prices, as well as the devaluation trends of some currencies (mainly the Serbian dinar). Inflation pressures are projected to intensify in 2011, as growth rates in the countries of the region will continue their upward trend.

4 Analysis on South-Eastern European economies refers to Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro, Former Yugoslav Republic of Macedonia (FYROM), Romania, Serbia and Turkey.

Table II.2 Key macroeconomic indicators of South-Eastern European countries[1]

A. GDP and inflation
(annual percentage changes)

Country	GDP					Inflation				
	2007	2008	2009	2010 (estimate)	2011 (forecast)	2007	2008	2009	2010 (estimate)	2011 (forecast)
Albania	5.9	7.7	3.3	3.0	2.2	2.9	3.4	2.3	3.0	2.9
Bosnia-Herzegovina	6.2	5.7	-2.9	0.5	2.2	1.5	7.4	-0.4	2.4	2.4
Bulgaria	6.2	6.0	-4.9	0.9	3.5	7.6	12.0	2.5	3.1	2.8
Croatia	5.5	2.4	-5.8	-1.8	1.5	2.9	6.1	2.4	1.1	1.8
FYROM	6.1	5.0	-0.9	1.3	2.2	2.3	8.3	-0.8	1.6	2.3
Montenegro	10.7	6.9	-5.7	0.3	3.0	4.3	7.4	3.4	0.6	0.6
Romania	6.3	7.3	-7.1	-1.9	1.5	4.8	7.8	5.6	5.9	6.1
Serbia	6.9	5.5	-3.1	1.5	3.0	6.5	12.4	8.1	6.2	9.4
Turkey	4.7	0.7	-4.7	8.2	4.5	8.4	10.1	6.5	6.4	6.5

B. Current account and fiscal balance
(as percentage of GDP)

Country	Current account					Fiscal balance				
	2007	2008	2009	2010 (estimate)	2011 (forecast)	2007	2008	2009	2010 (estimate)	2011 (forecast)
Albania	-10.6	-15.4	-15.1	-11.0	-11.3	-3.5	-5.5	-6.8	-5.2	-5.0
Bosnia-Herzegovina	-10.7	-14.4	-6.8	-5.5	-5.5	1.2	-2.2	-4.4	-4.1	-4.0
Bulgaria	-20.1	-20.6	-10.3	-3.1	-2.8	0.1	1.8	-3.9	-2.0	-0.7
Croatia	-7.6	-9.3	-5.5	-2.8	-3.7	-2.5	-1.4	-4.1	-5.7	-6.1
FYROM	-7.1	-12.8	-6.7	-3.3	-4.1	0.6	-1.0	-2.7	-2.5	-2.6
Montenegro	-37.8	-50.7	-30.1	-17.0	-17.0	6.4	-0.4	-4.4	-2.9	-7.0
Romania	-13.4	-11.6	-4.2	-5.5	-5.6	-2.5	-4.8	-7.4	-6.8	-4.4
Serbia	-15.9	-17.6	-6.9	-9.3	-8.6	-1.9	-2.6	-4.3	-4.9	-4.1
Turkey	-5.9	-5.7	-2.3	-6.3	-7.0	-1.0	-2.2	-5.7	-3.7	-2.8

Sources: *EU candidate and pre-accession countries economic quarterly* (Q4 2010), national central banks, IMF and European Bank for Reconstruction and Development (EBRD).
1 Estimates for 2010 and forecasts for 2011 are expected to be revised.

Fiscal consolidation is the main priority of macroeconomic policy in the countries of the region. Most of them managed to contain their fiscal deficits in 2010 and the consolidation effort is estimated to continue in 2011 (see Table II.2.B). The gradual improvement of economic conditions is expected to be particularly helpful in this direction.

Current account deficits in most SE European countries remained at high levels in 2010. It even increased significantly in a number of them (especially Turkey, Romania and Serbia; see Table II.2.B), with the exception of Bulgaria, whose external deficit improved substantially. Inflows of funds for direct investment remained at low levels, while increased inflows into Turkey are mainly attributable to portfolio investment. In 2011, the countries' external sector outlook may deteriorate further, because of the expected gradual recovery in the demand for imports and the uncertainty surrounding the debt crisis, mainly in the countries of the euro area's periphery.

The monetary policy implemented by the countries of the region in 2010 took into consideration the different degree of economic recovery in the individual countries and the limited gradual increase in inflation. With the exception of Turkey, real interest rates in these countries were lower in 2010 than in 2009, a fact that favoured maintaining the current accommodative monetary policy, which is geared towards boosting domestic demand. Only in Serbia monetary authorities considered it necessary to proceed with significant increases in the key interest rate, because of the domestic currency's continuing devaluation trends and the emergence of inflationary pressures, despite the low rate of economic growth. Therefore, it is possible that, overall, monetary policy in the countries of the region will continue —at least in the first half of 2011— to be along the line of keeping interest rates at low levels.

Improved economic activity in almost all countries of the region was accompanied by increases in the positive rates of credit expansion, which, however, remained at very low levels. In the financial sector, deleveraging continued throughout 2010, while higher doubtful debt ratios[5] were absorbed through write-offs from the very high capital bases of the region's financial systems. With the exception of Turkey, where doubtful debts decreased significantly[6] and a high rate of credit expansion is already being recorded, the creation of a framework for sustainable growth in the other countries will largely depend on the stabilisation of this sector and on the impact of the euro area debt crisis on the economies of the region. However, it should be noted that, to a large extent, ensuring financial system liquidity must be based on the new economic growth model that is being built, which gives priority to and emphasis on domestic savings and internal capital flows.

3 RECENT DEVELOPMENTS IN GLOBAL CLIMATE CHANGE POLICY

The latest United Nations Climate Change Conference was held in Cancun, Mexico, from 29 November to 10 December 2010. The main goal of the conference was renegotiation with countries that had strongly disagreed in the corresponding Copenhagen conference in December 2009 and the achievement of international agreement to continue the Kyoto Protocol.[7] The agreement that was reached comprises two decisions: the first relates to the Kyoto Protocol and the second to the preparation of a more general agreement that might result in a second protocol, which will include the United States and (mainly) political commitments by other large countries such as China, India and Brazil.

The decision on the Kyoto Protocol provides for: (i) an extension of the use of flexible mechanisms beyond end-2012, until an agreement on the second commitment period is reached; (ii) an agreement to continue negotiations; and (iii) the approval of a text on the rules of estimation, inventory, certification and absorption of carbon dioxide emissions from actions related to land-use change and forestry after the first period (2008-2012) expires. Similarly, the second decision aims at limiting the average global temperature rise to less than 2 °C and at reaching an agreement on a temperature reduction target for 2050. It also provides for: (i) the establishment of national inventory systems, (ii) annual inventory reports and biennial progress reports on reduction actions, (iii) the improvement of inventory rules and control mechanisms, (iv) the establishment of reg-

5 The ratio exceeded 10% in Albania and Serbia and even 14% in Bulgaria. Turkey is an exception, with a ratio below 4%.
6 The ratio was 3.9% in 2010, from 5.3% in 2009.
7 The difficulties identified in the Conference mainly related to the refusal of certain countries to accept a second period of commitment to the Kyoto Protocol, as well as to the different views on the legal form of the new agreement.

istries that will record mitigation actions in developing countries and the submission of progress reports every four years, (v) incentives for addressing deforestation and forest degradation in developing countries, (vi) a recording of the economic consequences in developing countries, (vii) the establishment of a new "Green Climate Fund", (viii) the set-up of a technology transfer mechanism, and (ix) actions to enhance infrastructures in developing countries with a view to tackling climate change.

As regards the Greek side,[8] interest focused on the promotion of collaboration between Mediterranean countries in respect to tackling climate change, as a follow-up to the Mediterranean Climate Change Conference, during which a relevant Joint Declaration was signed (on 22 October 2010).[9]

In any event, apart from initiatives taken at state and international organisation level, it becomes clear that the business community plays an important role in the adoption of "green" practices, especially in periods of strong economic challenges. A recent OECD study[10] reviews the progress made to date, especially by large enterprises,[11] in the transition to a low-carbon economy and analyses government and business initiatives that may contribute to this end. Reference is made, among other things, to the reliability and enhancement of the methodology used in the relevant statistics on enterprises, to the support of market and other incentives in order to take advantage of all the business opportunities to reduce carbon emissions, as well as to the commitment of enterprises to influence their supplier network towards adopting environmentally responsible practices.

8 Press release of the Ministry of the Environment, Energy and Climate Change, 3 December 2010.
9 The Joint Declaration was signed by the participating countries (Greece, Turkey, Malta, Libya, Palestine, Israel, France, Egypt, Syria, Italy and Cyprus) and aims at reducing carbon emissions and managing resources effectively, at adopting measures and implementing interstate projects for the protection of the Mediterranean from the consequences of climate change and at promoting collaboration between Mediterranean countries.
10 Transition to a Low-carbon Economy: Public Goals and Corporate Practices, OECD 2010.
11 By way of example, 80% of the 500 largest enterprises record and report their carbon emissions, while 60% of the 800 largest enterprises carry out environmental performance controls at Board or senior management levels.

III THE SINGLE MONETARY POLICY[1] AND EUROSYSTEM INTERVENTIONS

In 2010 and up to early February 2011 the key interest rates of the Eurosystem remained unchanged (see Table III.1). During this period, the Eurosystem continued to use non-standard monetary policy measures.[2]

Financial market conditions had improved substantially in 2009 and therefore, the ECB discontinued some of the non-standard monetary policy measures at the beginning of 2010. However, concerns about the sustainability of public finances in a number of euro area countries (especially Greece) that had started emerging since late 2009 intensified tensions in financial markets and led them to a peak in the beginning of May 2010. Against this background, the Governing Council of the ECB ceased the phasing-out of non-standard monetary policy

1 Based on the introductory statements of the President of the ECB at the press conferences following the first Governing Council meeting of each month —in which monetary policy is formulated— in 2010 and the first two months of 2011. Other ECB publications and announcements of the Governing Council, as well as reports of other international organisations concerning developments in the euro area, have also been taken into account.
2 These measures are considered non-standard because they involve significant changes in the operational framework —i.e. Eurosystem instruments and procedures— for the implementation of monetary policy. These measures make financing conditions more favourable and enhance the flow of credit from the financial system —in the euro area, mainly banks— to the economy, more than could possibly be achieved through cuts on key interest rates alone.

Table III.1 Changes in key ECB interest rates

(percentages per annum)

With effect from:[1]		Deposit facility	Main refinancing operations		Marginal lending facility
			Fixed rate tenders (fixed rate)	Variable rate tenders (minimum bid rate)	
2000	6 October	3.75	-	4.75	5.75
2001	11 May	3.50	-	4.50	5.50
	31 August	3.25	-	4.25	5.25
	18 September	2.75	-	3.75	4.75
	9 November	2.25	-	3.25	4.25
2002	6 December	1.75	-	2.75	3.75
2003	7 March	1.50	-	2.50	3.50
	6 June	1.00	-	2.00	3.00
2005	6 December	1.25	-	2.25	3.25
2006	8 March	1.50	-	2.50	3.50
	15 June	1.75	-	2.75	3.75
	9 August	2.00	-	3.00	4.00
	11 October	2.25	-	3.25	4.25
	13 December	2.50	-	3.50	4.50
2007	14 March	2.75	-	3.75	4.75
	13 June	3.00	-	4.00	5.00
2008	9 July	3.25	-	4.25	5.25
	8 October	2.75	-	-	4.75
	9 October	3.25	-	-	4.25
	15 October	3.25	3.75	-	4.25
	12 November	2.75	3.25	-	3.75
	10 December	2.00	2.50	-	3.00
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

Source: ECB.
1 From 10 March 2004 onwards, with the exception of the interest rate changes of 8 and 9 October 2008, 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.

measures and established the Securities Markets Programme.[3] Eurosystem interventions in the interbank and securities markets, as well as institutional reforms at EU level[4] contributed to the mitigation of the aforementioned tensions in financial markets. However, severe tensions were observed anew in the last quarter of 2010, when the activation of the new EU institutions was warranted for the provision of financial support to Ireland.[5]

The Governing Council of the ECB formulates monetary policy with a view to achieving the primary objective of the Eurosystem, which is price stability in the euro area over the medium term.[6] In 2010 and up to early February 2011, the Governing Council repeatedly stressed that the level of the Eurosystem key interest rates is in line with this primary objective. The adoption of non-standard monetary policy measures —which are temporary by nature— does not compromise the primary objective of Eurosystem monetary policy. This is also supported by expectations suggesting that inflation will stand below but close to 2% over the medium term.

In order to formulate the single monetary policy, the Governing Council of the ECB combines the results of the economic and monetary analyses. In 2010 and up to early February 2011, in the context of the economic analysis, it was made clear that the recovery of economic activity in the euro area was under way. Economic growth is expected to be supported by rising exports amid global recovery and a rebound of domestic demand. The rise in demand is underpinned by the accommodative monetary policy stance of the Eurosystem, the measures adopted by the governments of Member States with the guidance of EU authorities, which are aimed to restore the smooth functioning of the financial system,[7] and the maintenance of relatively high business expectations in the euro area. However, it should be noted that the balance sheet adjustment (deleveraging) observed in a number of economic sectors proves to be a constraint on economic recovery.

Furthermore, the Governing Council of the ECB concluded that inflation picked up in the course of 2010 (to 2.2% in December, up from 0.9% in December 2009). This pick-up stems from developments in energy and food prices, increases in indirect taxation and administered prices in a number of Member States, as well as the depreciation of the effective exchange rate of the euro in 2010.[8] In fact, the Governing Council estimates that inflation may increase further in the months ahead. Thus, inflation is expected to remain slightly above 2% throughout most of the year (in January 2011 it stood at 2.4%, according to Eurostat flash estimates), but it will decline at the end of the year or the beginning of 2012. Inflationary pressures, which are associated with developments in energy and other commodity prices (already affecting the early stages of production), although estimated to be short-lived, call for a close monitoring of the evolution of inflation.

In the context of monetary analysis,[9] in 2010 and up to early February 2011 the result of eco-

3 As will be detailed below, under this programme, the Eurosystem makes interventions in the (euro-denominated) securities markets in order to address financial market dysfunctionality, which is hampering the smooth functioning of the monetary policy transmission mechanism.

4 The Ecofin Council and the Member States adopted a set of measures on 9 May 2010 with a view to safeguarding financial stability in Europe, including the establishment of a (temporary) European Financial Stabilisation Mechanism.

5 Market concerns may had intensified by proposals to impose haircuts on sovereign bonds, as a means to face financial crises, in the context of the envisaged (permanent) European Stability Mechanism (see BIS, Quarterly Review, December 2010, pp. 11-12).

6 According to the definition in the monetary policy strategy of the Eurosystem, price stability is achieved when inflation is below but close to 2%.

7 The latest OECD report on the euro area (OECD Economic Surveys: Euro Area, December 2010) classifies these measures in the following general categories (p. 36-37): (i) enhanced protection of depositors through deposit guarantee schemes; (ii) state guarantees of bank liabilities other than retail deposits (e.g. debt securities); (iii) strengthening of credit institutions' capital base; (iv) set-up of "bad bank"-type arrangements.

8 See ECB, Monthly Bulletin, November 2010, Box 5.

9 According to the monetary policy strategy adopted by the Eurosystem, the ECB Governing Council conducts monetary analysis in conjunction with economic analysis and examines whether its results are in line with those of economic analysis. The latest OECD survey on the euro area (see footnote 7) notes (p. 13) that monetary analysis enables the Governing Council of the ECB to detect general risks for the economic system, apart from inflationary ones. These risks are associated with asset prices and balance-sheet growth, which are affected by monetary and credit expansion (the latter falling within the scope of monetary analysis).

nomic analysis (that inflationary pressures in the euro area will remain limited over the medium term) was confirmed, as the rates of monetary and credit expansion remained low.[10]

As regards credit institutions in the euro area, their total assets remained unchanged over most of 2010, while asset items that refer to credit extended to the private sector increased gradually. However, banks are faced with the challenge of maintaining an adequate level of credit, as demand for loans will increase more. In order to deal with this challenge, euro area credit institutions have to limit the amount of profits distributed to shareholders (and thus increase retained earnings), turn to market financing or make use of the capital enhancement measures introduced by the governments of Member States.

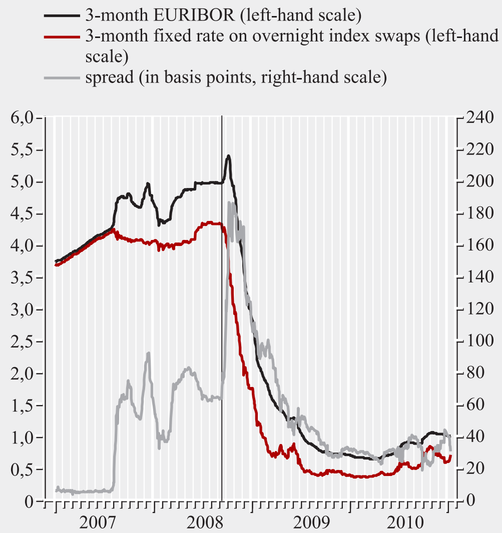
Moreover, the Governing Council of the ECB stressed that a reform of the banking system is necessary in certain Member States, in order for it to be able to support the structural reforms required. The reform of the banking sector should involve balance sheet adjustments, effective risk management systems and sound and transparent business operating models. This will increase banks' resilience to shocks and ensure their uninterrupted refinancing.

The transmission mechanism of monetary policy was affected by the above mentioned tensions to an extent that compromised the achievement of the primary objective of single monetary policy. For this reason, on 9 May 2010 the Governing Council of the ECB took up again some non-standard monetary policy measures,[11] the phasing out of which had begun in the previous months. It also introduced, on a strictly temporary basis, the Securities Markets Programme with a view to ensuring adequate depth and enhancing liquidity in those market segments that are dysfunctional (see Table III.2).

In April, May and July 2010 the Governing Council of the ECB took important decisions

Chart III.1 Spread between the 3-month Euribor and the 3-month fixed rate on overnight index swaps (January 2007-January 2011)

(percentages per annum and basis points; daily data)



Sources: ECB and European Banking Federation.
* The vertical line marks the date of the Lehman Brothers bankruptcy (15 September 2008).

as regards the assets that credit institutions may use as collateral in Eurosystem credit operations. These decisions are included in the section "Monetary policy measures of the Eurosystem" at the end of this report.

What is of particular importance for Greece is the decision (of May 2010) that the Eurosystem will finance credit institutions against marketable debt instruments issued or guaranteed by the Greek government, irrespective of their credit rating.

The downward path of the three-month Euribor[12] since the beginning of the fourth quarter of 2008 was reversed at the beginning of the second quarter of 2010. Between April and Octo-

10 Rate of change in M3: December 2010: 1.7%, December 2009: -0.3%; growth rate of bank loans to the private sector: December 2010: 1.9%, December 2009: -0.2%.
11 I.e. three-month and six-month longer-term refinancing operations conducted as fixed-rate tender procedures with full allotment, as well as US dollar liquidity-providing operations (of 7 and 84 days).
12 The three-month Euribor rate is a representative index of euro area interbank rates on loans with longer than overnight maturities.

Table III.2 Eurosystem's open market operations in 2010 and early 2011

1. Regular operations:	
1.1 Main refinancing operations (MROs): liquidity-providing, with a maturity of one week	**Frequency:** Once a week. **Procedure:** At least until 12.4.2011, fixed rate tender with full allotment.
1.2 Longer-term refinancing operations (LTROs):	
1.2.1 Liquidity-providing, with a maturity of one maintenance period	**Frequency:** Once at the beginning of each maintenance period. These operations will continue to be carried out at least until the end of 2011 Q1. **Procedure:** Fixed rate tender (at a rate equal to the MRO rate) with full allotment.
1.2.2 Liquidity-providing, with a maturity of three months	**Frequency:** Once a month. **Procedure:** Fixed rate tender (at a rate equal to the MRO rate) with full allotment, from January to September 2010, with the exception of the operation allotted on 28 April, which was conducted as a variable rate tender. In the period between October 2010-January 2011, such operations continued to provide liquidity with full allotment, but the interest rate was/will be set *ex post* to equal the average value of the fixed rate in the MROs conducted over the life of the respective three-month operations. This procedure will also be used in the operations to be conducted in the course of the two months from February to March 2011.
1.2.3 Liquidity-providing, with a maturity of six months	**Frequency:** One operation was conducted on 31 March and one on 12 May 2010. **Procedure:** Fixed rate tender with full allotment, the interest rate being fixed ex post at the average value of the fixed rate in the MROs over the life of the respective LTRO.
2. Operations introduced solely in view of the financial crisis:	
2.1 Covered Bond Purchase Programme	The Programme lasted from July 2009 to June 2010. The Eurosystem purchased bonds of a total nominal value of €60 billion.*
2.2 Securities Markets Programme	The Programme was introduced on 9 May 2010. By end-January 2011, the Eurosystem had purchased securities of a total value of €76.5 billion. It should be noted that the level of weekly securities purchases declined gradually from the start of the Programme till mid-August and then fluctuated, remaining at low levels until end-September 2010. Weekly purchases rose again significantly —without reaching the May-June levels— since the last quarter of 2010.
3. Fine-tuning operations:	
3.1 Absorption of liquidity on the last day of each maintenance period	**Procedure:** Collection of overnight deposits from credit institutions through variable rate tenders with a maximum bid rate of 1%.
3.2 Absorption of liquidity 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. **Procedure:** Collection of one-week deposits from credit institutions through variable rate tenders at a maximum bid rate of 1%.
3.3 Provision of liquidity for 6 or 13 days to mitigate the effect of maturing 12-month and 6-month LTROs on the overall liquidity of the banking system	Operations with a maturity of six days were conducted on 1 July, 30 September and 11 November 2010. An operation with a maturity of 13 days was conducted on 23 December 2010 to ensure that the additional liquidity would remain available to credit institutions in the period around the year-end. **Procedure:** Fixed rate tender (at a rate equal to the MRO rate) with full allotment.
4. US dollar liquidity-providing operations:	
	These operations were discontinued after 27 January 2010, but were resumed as of 11 May 2010 and will continue in 2011. They provide liquidity in US dollars against Eurosystem-eligible collateral and have a maturity of 7 days. One 84-day US dollar liquidity-providing operation was conducted on 18 May 2010 and one 14-day operation on 22 December 2010. **Procedure:** Fixed rate tender with full allotment.
5. Swiss franc liquidity-providing operations:	
These operations were discontinued after 25 January 2010. They took the form of weekly EUR/CHF foreign exchange swaps with a seven-day maturity, whereby the Eurosystem provided Swiss franc liquidity against euro.	

* Given that the market value of securities was not the same as their nominal value, Eurosystem's purchases contributed in creating liquidity of €61,118 million.

ber 2010 the three-month Euribor recorded an almost continuous rise but resumed its decline from early November and up until the end of 2010, before rising again in January 2011 (see Chart III.1). The evolution of the Euribor partly reflects developments in excess liquidity in the interbank market. Excess liquidity increased in the first half of 2010, but started to decline from July onwards as —among other longer-term refinancing operations— three 12-month operations matured (at the beginning of July, at the end of September and late December respectively). Credit institutions covered only part of the loss of their liquid assets through the main and longer-term refinancing operations that were conducted by the Eurosystem in the second half of 2010 and in January 2011. Furthermore, interbank rates were influenced by credit institutions' estimates about counterparty risk in the interbank market.[13] It can be concluded that during certain periods of 2010[14] counterparty risk estimates were increasing, as concerns about the public finances of certain Member States were mounting.

Despite the reduction in funds obtained through the Eurosystem in the second half of 2010 (and in January 2011), it appears that, due to the relatively increased counterparty risk, channelling liquid assets from credit institutions in liquidity surplus towards credit institutions in liquidity deficit, mainly through interbank loans of relatively longer than overnight maturities, continued to be hampered. Especially in countries with precarious fiscal sustainability in the perception of the markets,[15] credit institutions with liquidity needs seemed to be facing difficulties in attracting unsecured interbank deposits or even secured interbank deposits, when domestic government bonds were offered as collateral. As a result, they had to rely almost exclusively on the Eurosystem for raising the funds they needed. Nevertheless, the volume of transactions in the interbank overnight deposit segment —for which statistical data are available— rebounded in the second half compared with the first half of 2010.[16]

The balance of credit institutions' deposits in the deposit facility of the Eurosystem followed an upward course in the first half of 2010, but a downward one in the second half of the year.[17] The increased use of this facility throughout 2010 compared with the years before 2008 (and also with 2009) reflects the fact that several credit institutions tended to avoid the interbank market, as it was perceived to entail a relatively high risk, and preferred to deposit any liquidity surplus with the Eurosystem, making use of the deposit facility.

13 The risk that the debtor might default on an interbank loan. The risk involved in interbank market operations can be calculated as the spread between the Euribor and (a) the fixed rate paid on overnight index swaps with a maturity comparable with that of the interbank loan or (b) the rate on collateralised interbank loans with a comparable maturity (EUREPO). See Bank of Greece, Annual Report 2008, p. 49, footnote 6.
14 For instance, between end-October and end-December 2010.
15 BIS data give an indication on the extent of this: foreign claims (European, US, Japanese, etc.) on banks headquartered in Greece, Ireland, Spain and Portugal have recorded a 7.6% reduction (all claims are assumed to be denominated in euro) at the end of the second quarter, compared with the first quarter of 2010; see BIS, Quarterly Review, December 2010, p. 18.
16 Moreover, the relative importance of collateralised interbank loans has increased, while the relative importance of uncollateralised interbank loans has decreased. See ECB, Euro Money Market Survey 2010, for a comparison between the second quarter of 2010 and the corresponding quarter of 2009.
17 However, during the last maintenance period (8 December 2010-January 2011), the average balance of credit institutions' deposits in the standing facility increased compared with the previous maintenance period. It should be noted that the balance of credit institutions' deposits in the deposit facility fluctuates within a maintenance period. Therefore, the evolution of this balance over time becomes more evident if its average in consecutive maintenance periods is compared.

IV MACROECONOMIC DEVELOPMENTS IN 2010 AND PROSPECTS FOR 2011 IN GREECE

1.A ECONOMIC ACTIVITY: DEVELOPMENTS AND PROSPECTS

The uncertainty prevailing since end-2009, which built up after the first five months of 2010, remains pervasive (see the economic sentiment indicator in Chart IV.1B); this, in conjunction with fiscal consolidation efforts, has had a bearing on economic activity, resulting in lower private and public consumption and investment. Short-term economic activity indicators for the fourth quarter of 2010 as well as industrial confidence indicators suggest that economic activity will probably deteriorate further in 2011.

Inadequate domestic demand and the difficulties that enterprises are facing with their financing, as well as certain strikes, brought about a decline in economic activity during 2010. The quarter-on-quarter *decrease* in GDP in the third quarter of 2010 (at constant prices, based on seasonally adjusted data) was 1.3%, i.e. about the same as the first two quarters' average. The *average annual* decline in GDP in January-September 2010 was 3.8% (see Table IV.1),[1] but the average annual decline in gross value added (which measures output based on the prices of the factors of production) was greater (5.3%). Due to the developments from 2008 onwards, GDP in the third quarter of 2010, at constant prices, was 7.2% lower than in the second quarter of 2008, when the highest level observed since the beginning of the crisis was recorded. Over the same period, value added at constant prices fell by 8.2%. For 2010 *as a whole*, the average annual rate of *decline* in GDP is projected to slightly exceed 4%.

In 2009 business activity in **construction** and **manufacturing** declined, but in 2010 this decline spread out to **trade** and **other services**,[2] which make up a significant share of total value added in the Greek economy. The only sector that in 2010 witnessed an increase in its output was the **primary** sector, in which employment increased (see Section 2.A in this Chapter).[3]

During January-September 2010, the drop in demand was also attributable by 3.4 and 2.3 percentage points, respectively, to a substantial decrease in investment (by 17.6%) and private consumption (by 3.0%), which grew gradually in the course of the year.

Lower **investment** was mainly the result of a substantial decline in expenditure for machinery and transport equipment and, to a lesser extent, a decrease in residential investment (see also Table IV.2). Enterprises attribute lower investment activity in 2010 to the negative effect of economic policy, higher taxes on profits, lacking funds and the increased cost of financing.[4] A significant slowdown in the annual rate of credit expansion to enterprises (see Chapter VI.3 for more details) corroborates to the lack of funds.

The decline in **private consumption** is attributed to the substantial fall in consumers' disposable income (see Section 3 of this Chapter for more details on wage income), combined with their concerns about future developments and reduced bank lending (see Table IV.3 and Chart IV.2). According to national accounts data, dependent labour income (in nominal terms) decreased by 6.1% during January-September 2010. Given that the private consumption deflator rose by 4.8%, the loss of income (in nominal terms) reached 10.4%. Lower income reflects both the loss of jobs and reduced wages.

1 Factors contributing to the negative rate of change are: domestic demand by -7.9 percentage points (gross fixed capital formation by -3.4 percentage points, private consumption by -2.3 percentage points, public consumption by -1.5 percentage point) and external demand by +4 percentage points (exports by -0.2 percentage point and imports by -4.2 percentage points).

2 For detailed data on the turnover of the services sector see Table IV.5. The industrial confidence indicator in services (excluding retail trade and banks) in 2010 remained unchanged at historically low levels and stood at 64 points on average (6 points below its 2009 level).

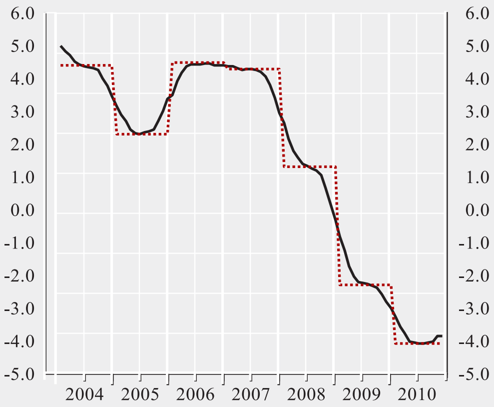
3 The annual change by -5.3% in value added in the first nine months of 2010 is attributable to: *trade, hotels and restaurants, transport and communications* (-2.8 percentage points), *construction* (-1.2 percentage points), non-market services (-0.9 percentage point), *manufacturing* (-0.7 percentage point) and *financial activities, real estate activities, rentals and business activities* (-0.1 percentage point). There was also a positive contribution of 0.2 percentage point from the *primary sector*.

4 See IOBE's *results of the industry investment survey*, 2nd survey 2010, 15 December 2010.

Chart IV.1 Economic activity indicators

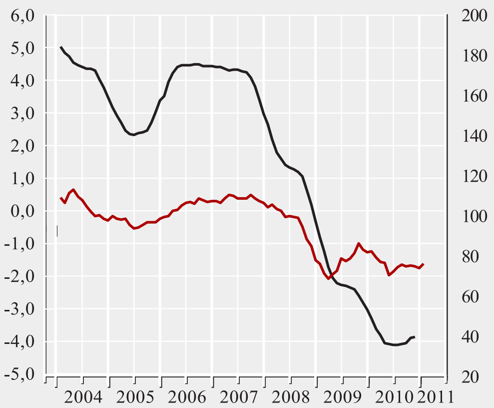
A. The coincident indicator of economic activity compiled by the Bank of Greece
(January 2004 - November 2010)

coincident indicator[1]
GDP [2]



B. The coincident indicator of economic activity compiled by the Bank of Greece and European Commission's economic sentiment indicator for Greece
(January 2004 - January 2011)

coincident indicator (left-hand scale)[1]
economic sentiment indicator (right-hand scale)[3]

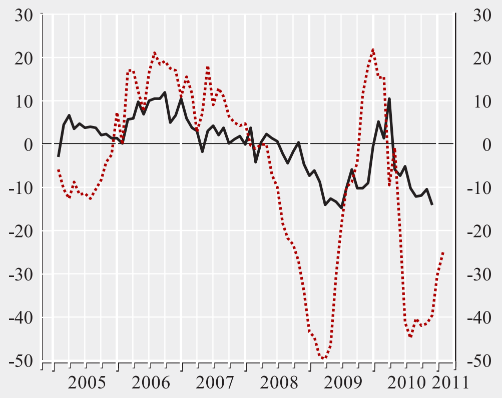


Sources: Bank of Greece (coincident indicator and 2010 GDP), ELSTAT (GDP for 2004-2009) and European Commission (economic sentiment indicator).
1 Annualised monthly percentage changes.
2 Annual rate.
3 Monthly data.

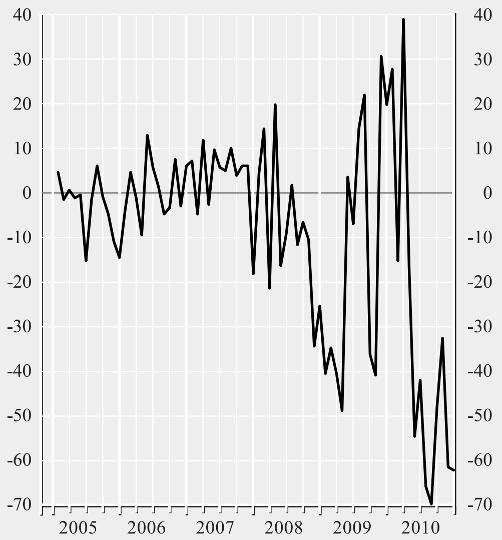
Chart IV.2 Consumer demand indicators

A. Sales volume and business expectations in retail trade[1]
(January 2005 - January 2011)

retail sales volume - total (2005=100)
business expectations in retail trade (1996-2006=100)



B. New passenger car registrations[1]
(January 2005 - December 2010)



Sources: ELSTAT (retail trade and cars) and IOBE (expectations). The index of business expectations is based on firms' estimates of sales and stocks as well as on their forecasts of business activity over the next quarter.
1 Percentage changes over same month of previous year.

Lower consumption led to a decline in **imports of goods and services**, which in the first nine months of 2010 were by 13.1% lower year-on-year. This decline was the exclusive result of lower imports of goods (-18.2%), as imports of services increased (10.5%).[5] In the first nine months of 2010, imports of goods made up

5 The increase in the imports of services chiefly reflects a rise in payments for shipping services, associated with a rise in the respective receipts.

Table IV.1 Demand and gross domestic product: 2008-2010

(constant market prices of 2000; annual percentage changes)

	2008	2009	2010 (Jan.-Sept.)
Private consumption	3.2	-1.8	-3.0
Public consumption	1.0	7.6	-8.2
Gross fixed capital formation:	-7.6	-11.4	-17.6
Housing	-29.1	-25.1	-19.7
Other construction	2.1	5.5	-20.4
Equipment	6.2	-12.2	-16.4
Other investment	-10.8	16.0	-5.7
Final domestic demand	**0.7**	**-2.1**	**-6.4**
Change in inventories and statistical discrepancy (% of GDP)	1.9	-0.5	-0.9
Domestic demand	**1.4**	**-4.2**	**-7.1**
Exports of goods and services	4.0	-20.1	-1.2
Exports of goods	3.8	-18.0	0.7
Exports of services	4.1	-21.5	-2.6
Imports of goods and services	4.0	-18.6	-13.1
Imports of goods	2.1	-18.5	-18.2
Imports of services	13.7	-19.0	10.5
Gross domestic product at market prices	**1.3**	**-2.3**	**-3.8**

Source: ELSTAT, 9 December 2010, revised data for 2008 and 2009. Provisional data for January-September 2010.
For Bank of Greece estimates for 2010, see main text.

Table IV.2 Indicators of investment demand (2009-2011)

(annual percentage changes[1])

	2009	2010	2011 (available period)
Capital goods output	-22.5	-25.6 (Jan.-Nov.)	
Capacity utilisation rate in the capital goods industry	(73.4)	(66.1)	68.2 (Jan.)
Bank credit to domestic enterprises[2]	5.1 (Dec.)	1.0 (Dec.)	
Disbursements under the Public Investment Programme	-2.8	-11.3	
Production index in construction (at constant prices)	-20.4	-30.4 (Jan.-Sept.)	
Volume of new buildings and extensions on the basis of permits issued	-26.5	-24.7 (Jan.-Oct.)	
Cement production	-21.4	-13.8 (Jan.-Nov.)	
Construction business expectations index	-31.4	-27.4	-54.6 (Jan.)
Outstanding balance of total bank credit to housing[3]	3.7 (Dec.)	-0.4 (Dec.)	

Sources: ELSTAT (capital goods production, volume of private construction activity, cement production, construction production), IOBE (capacity utilisation rate, business expectations index), Bank of Greece (loans to non-financial corporations, disbursements under the Public Investment Programme, housing loans).
1 Except for the capacity utilisation rate in the capital goods industry, which is measured in percentages.
2 Including loans and corporate bonds, securitised loans and securitised corporate bonds, but excluding (as of June 2010) loans to sole proprietors. The rates of change are adjusted for loan write-offs/write-downs, 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 credit company in 2009.
3 Including loans and securitised loans and taking into account loan write-offs/write-downs, foreign exchange valuation differences and a transfer of loans to a subsidiary domestic credit company in 2009.

Tables IV.3 Indicators of consumer demand (2009-2011)

(annual percentage changes)

	2009	2010	2011 (available period)
Volume of retail sales (excluding fuel and lubricants)	-9.3	-5.3 (Jan.-Nov.)	...
Food-beverages-tobacco[1]	-6.1	-4.2 (» »)	...
Clothing-footwear	1.4	-9.9 (» »)	...
Furniture-electrical appliances-household equipment	-15.3	-10.3 (» »)	...
Books-stationery-other	-24.0	-2.4 (» »)	...
Revenue from VAT (constant prices)	-10.2	0.1	...
Retail trade business expectations index	-21.4	-26.4	-23.6 (Jan.)
New passenger car registrations	-17.4	-37.2	-60.7 (Jan.)
Tax revenue from mobile telephony[2]	13.2	37.1	...
Outstanding balance of consumer credit[3]	2.0 (Dec.)	-4.2 (Dec.)	...

Sources: ELSTAT (retail sales, cars), Ministry of Finance (VAT revenue, tax revenue from mobile telephony), IOBE (expectations), Bank of Greece (consumer credit).
1 Including big food stores and specialised food-beverages-tobacco stores.
2 Monthly service fee per connection until July 2009. A new tiered fee on mobile subscriptions and a fee on prepaid phone cards have been levied as of August 2009.
3 Including bank loans and securitised loans. The rates of change are adjusted for loan write-offs/write downs, foreign exchange valuation differences and a transfer of loans by one bank to a subsidiary domestic credit company in 2009.

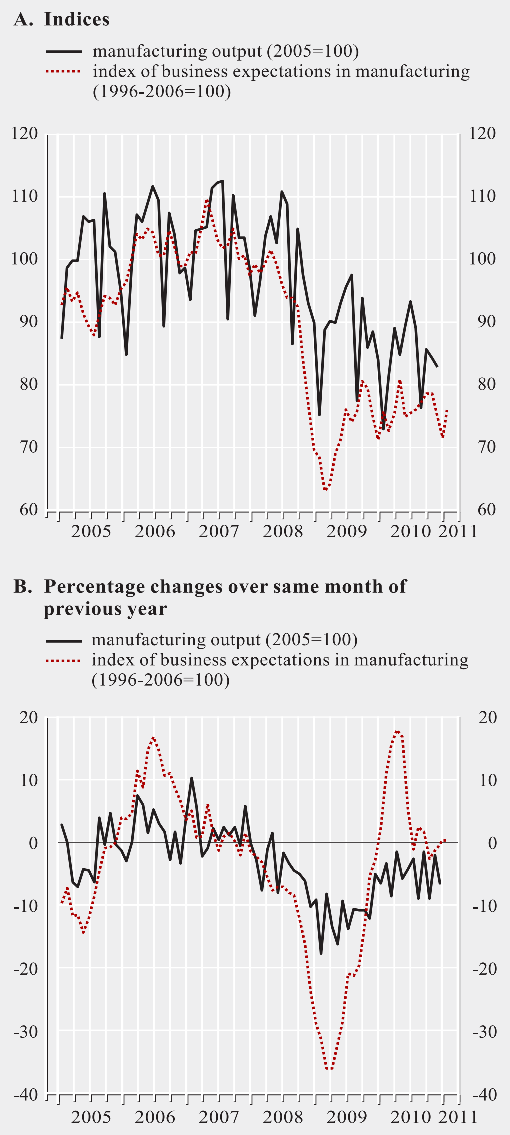
Table IV.4 Indicators of industrial activity (2009-2011)

(annual percentage changes)

	2009	2010	2011 (available period)
1. Industrial production index (overall)	**-9.4**	**-5.7 (Jan.-Nov.)**	
Manufacturing	-11.2	-4.9 (» »)	
Mining-quarrying	-11.8	-6.3 (» »)	
Electricity	-4.2	-9.3 (» »)	
Main industrial groupings			
Energy	-2.9	-5.0 (» »)	
Indermediate goods	-18.4	-0.3 (» »)	
Capital goods	-22.5	-25.6 (» »)	
Consumer durables	-20.7	-12.4 (» »)	
Consumer non-durables	-4.1	-6.6 (» »)	
2. Industrial turnover index[1]	**-23.1**	**5.6 (Jan.-Nov.)**	
Domestic market	-22.1	-2.7 (» »)	
External market	-25.6	27.7 (» »)	
3. Industrial new orders index[2]	**-27.7**	**4.6 (» »)**	
Domestic market	-23.0	-11.4 (» »)	
External market	-34.4	30.3 (» »)	
4. Index of business expectations in industry	**-21.5**	**5.1**	**1.2 (Jan.)**
5. Industrial capacity utilisation rate	**70.5**	**68.5**	**68.7 (Jan.)**
6. Purchasing Managers' Index (PMI)[3]	**45.3**	**43.8**	**42.8 (Jan.)**

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 of manufacturing activity.

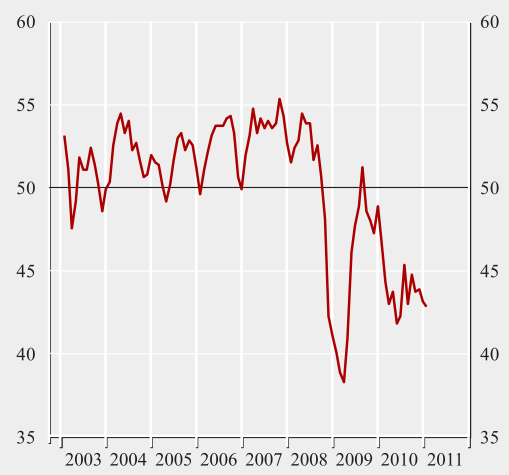
Chart IV.3 Output and business expectations in manufacturing (January 2005 - January 2011)



Sources: ELSTAT (output) and IOBE (expectations). The index of business expectations is based on business firms' estimates of total demand and stocks and on output forecasts for the next 3-4 months.

Chart IV.4 Purchasing Managers' Index (PMI) for manufacturing (January 2003 - January 2011)

(seasonally adjusted index; values over 50 indicate growth)



Sources: Markit Economics and Hellenic Purchasing Institute.

29.7% of private consumption, against 39.9% in 2000-2008.[6]

During the same period, **exports of goods** rose marginally (0.7%). The results are worse than expected based on data for the first half of 2010 (when the exports of goods had increased by 2.3%), due to the negative impact of the strike of public-use truck owners. During January-September 2010, exports of services fell by 2.6%, on account of the significant decline they experienced in the second quarter of the year. Owing to the changes in imports and exports of goods and services, **the contribution of the external sector** to the change in GDP in January-September 2010 was positive.[7]

For 2011, the latest reports of the European Commission, the IMF and most international organisations (e.g. OECD) on the Greek economy agree that the GDP will decline by around 3%, mostly due to a further drop in private consumption and investment, as well as lower public consumption. However, according to the latest short-term indicators, a slightly larger decline cannot be ruled out.

6 The ratio of imported goods to private consumption is only indicative, given that a good part of imported goods represents investment (e.g. machinery, transport equipment) rather than consumption. Nevertheless, in January-September 2010 the ratio of imported goods to the sum total of private consumption and business investment also fell significantly to 24.6%, from 30.8% in 2000-2008.

7 While the rate of decline in imports was stronger than that of exports, the value (at current prices) of imports of goods and services exceeded the corresponding value of exports by 43.1% in January-September 2010 (56.9% in 2009 and 54.8% in 2008).

Consumers' purchase intention over the next twelve months, as recorded in IOBE surveys, points to a decline in private consumption. Residential investment is expected to drop further in 2011, given the strong decrease in the number of building permits issued in 2010 and the volume they relate to, combined with the available stock of unsold houses. As regards business investment, the IOBE industrial investment survey conducted in November 2010 showed that firms estimate lower levels of investment (by around 10%) in 2011. However, this estimate takes no account of possible favourable effects from the new development law (Law 3908/2011), the expected rise in the rate of absorption of funds from the National Strategic Reference Framework (NSRF), as well as synergies between domestic and foreign enterprises, provided that strategic foreign investment is attracted following implementation of Law 3894/2010.

In 2011, the contribution of the external sector to the change in GDP is expected to remain positive, as both exports of services — with the support of measures to promote tourism[8] — and exports of goods are expected to rise, as suggested *inter alia* by increased new orders from the external market.[9]

1.B DEVELOPMENTS IN THE REAL ESTATE MARKET

According to available data, in the last two years the **Greek real estate market** is characterised by a certain amount of caution on the

8 For instance, see Law 3872/2010 on the liberalisation of the cruise market, as well as the reduction of the VAT rate on tourist accommodation services (Law 3899/2010) to 6.5%.
9 In January-November 2010, the industrial new orders index rose at an average annual rate of 4.6%, on account of a 30.3% increase in new orders from the external market, which more than offset the 11.4% decrease in new orders from the domestic market.

Table IV.5 Activity indicators in the services sector (2009-2011)

(annual percentage changes)

	2009	2010	2011 (available period)
Services turnover indicators			
Motor trades	-15.7	-33.9 (Jan.-Sept.)	...
Wholesale trade	-8.9	-5.1 (» »)	...
Telecommunications	-8.9	-7.5 (» »)	...
Land transport	-31.5	-12.0 (» »)	...
Sea transport	-22.8	-8.5 (» »)	...
Air transport	-12.6	-3.2 (» »)	...
Storage and transport supporting activities	-33.3	-9.5 (» »)	...
Travel agencies and related activities	-15.8	-15.9 (» »)	...
Tourism (hotels and restaurants)	-9.1	-6.6 (» »)	...
Legal, accounting and management consulting services	-12.4	-5.4 (» »)	...
Architectural and engineering services	-18.6	-24.7 (» »)	...
Advertising and market research	-18.4	-17.6 (» »)	...
Passenger traffic			
Athens International Airport	-1.5	-4.3 (Jan.-Nov.)	...
Aegean Airlines[1]	9.9	-3.0 (Jan.-Sept.)	...
Piraeus port (OLP)	-3.8	-6.1 (» »)	...
Business expectations index in the services sector	**-28.3**	**-9.3**	**-10.7 (Jan.)**

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

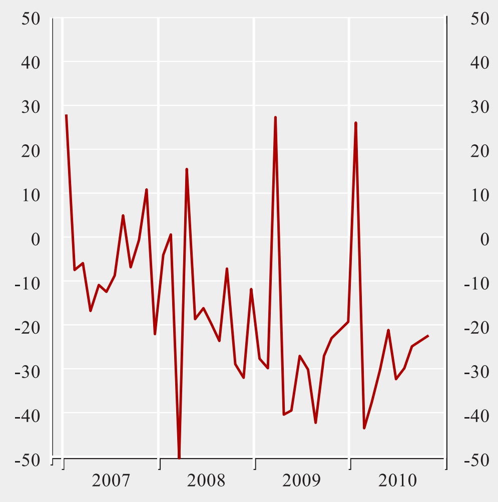
Table IV.6 Summary table of key short-term indicators for the real estate market

Indicators	Average annual percentage changes						
	2004	2005	2006	2007	2008	2009	2010
1. Indices of prices of dwellings (BoG) and rents (ELSTAT)							
1.1 Indices of apartment prices by age and geographical area **(New series)**							
a. All apartments (Greece)				5.9	1.7	-3.7	-4.0
a1. By age							
a. New (up to 5 years old)				7.2	2.3	-2.0	-4.4
b. Old (5 years old and above)				5.2	1.3	-4.8	-3.8
a2. By geographical area: Total							
a. Athens				6.2	0.9	-4.6	-2.8
b. Thessaloniki				7.0	1.5	-6.0	-6.9
c. Other cities				6.3	1.8	-2.7	-4.5
d. Other areas				4.6	3.3	-1.9	-4.8
a2.1 By geographical area: New (up to 5 years old)							
a. Athens				9.6	0.0	-3.5	-2.9
b. Thessaloniki				3.7	3.5	-5.3	-7.1
c. Other cities				7.8	2.4	-2.1	-4.4
d. Other areas				4.1	5.4	1.0	-5.7
a2.2 By geographical area: Old (5 years old and above)							
a. Athens				4.5	1.4	-5.2	-2.8
b. Thessaloniki				8.4	0.6	-6.3	-6.8
c. Other cities				5.3	1.4	-3.2	-4.6
d. Other areas				5.0	1.4	-4.4	-4.0
1.2 Indices of prices of dwellings **(Historical series)**							
a. Urban areas	2.3	10.9	12.4	5.1	1.7	-4.3	-3.9
a1. Athens	0.3	8.6	11.7	6.2	0.9	-4.6	-2.8
a2. Other urban areas[1]	4.7	13.4	13.0	3.8	2.6	-2.9	-8.3 (Q3)
1.3 Price index of rents	5.3	4.2	4.4	4.5	3.9	3.6	2.4
1.4 Price-to-rent ratio (2007=100)[2]	85.5	90.9	98.7	100.0	97.9	91.0	85.2
2. Indices of residential property transactions							
2.1 Indices of residential property transactions with MFI intermediation (BoG)[3]							
a. Number of transactions				36.8	-21.7	-35.7	-1.0
b. Volume of transactions (in square metres)				36.6	-23.5	-38.9	-0.8
c. Value of transactions				41.1	-20.0	-40.0	-6.9
2.2 Indices of contracts of real estate transactions with representation of lawyer: Athens (DSA)							
a. Number of contracts			-22.3	1.4	-10.0	-18.0	8.4 (5 months)
b. Value of contracts			-2.9	12.5	-2.3	-28.3	6.1 (5 months)
2.3 Indices of deeds of real estate[4] transactions (ELSTAT)							
a. Greece, total	10.9	29.6	-19.6	-3.0	-5.8		
b. Athens	10.4	49.5	-22.0	-8.2	0.0		
2.4 Number of real estate[4] transactions (Hellenic National Cadastre)							
a. Greece, total						-16.3	-1.3 (9 months)
b. Athens						-15.2	-6.1 (9 months)
2.5 Number of real estate[4] transfers (Hellenic National Cadastre)							
a. Greece, total						-14.0	-6.2 (9 months)
b. Athens						-8.0	-15.4 (9 months)

Sources: Bank of Greece (BoG), Hellenic Statistical Authority (ELSTAT), Athens Bar Association (DSA), Hellenic National Cadastre.
1 Data collected by Bank of Greece branches, mainly from real estate agencies.
2 In absolute terms.
3 The indices of residential property transactions are based on appraisal reports by banks' engineers regarding the value and qualitative characteristics of the residential properties underlying loan agreements. It cannot be excluded that part of such appraisals are not connected with transactions in residential property, but concern a renegotiation of existing loans, registration of a mortgage to back non-housing loans, debt transfers from one bank to another, etc.
4 Including all real estate categories of residential and commercial properties (dwellings, general stores, offices, building plots, rural plots, etc.)

Chart IV.5 Volume of new buildings and extensions on the basis of permits issued (January 2007-October 2010)

(percentage change over same month of previous year)



Source: ELSTAT.

demand side, excessive supply combined with a large stock of unsold residential property, and tight bank credit.[10] The decline in the volume of private construction activity continued at a fast pace in 2009 (-26.5%) and 2010 (-24.7% in the first ten months – see Chart IV.5), while residential investment followed a similar course (a decline of 25.1% in 2009 and of 19.7% in the first nine months of 2010). Besides, based on data collected from credit institutions, apartment prices fell by 3.7% in 2009 and 4.0% in 2010 (-1.8%, -4.7%, -4.1% and -5.7% in the first, second, third and fourth quarter, respectively; see Table IV.6). Downward pressures on prices are expected to continue in the months ahead. Recovery of the real estate market is directly linked to households' and enterprises' expectations, bank credit, as well as the economic policy followed and the general outlook for the economic recovery of Greece.

I.C RECENT GREEN POLICIES IN GREECE

"Green" investment and the energy sector are critical to the revival of the economy and the transition to a new production model. Latest policy interventions in this direction are detailed below.

Geared towards energy saving, the Ministry of Environment, Energy and Climate Change[11] presented in early November 2009 the "Building the future" programme, projected for launch in the first months of 2011 and to last until 2020. Within this decade, 3,100,000 energy-efficiency interventions on buildings are expected to take place and the benefit from energy saving is estimated to reach €9 billion.[12] More specifically, the actions included in the programme for 2011-2012 are grouped in three categories: first, actions that integrate advanced and mature technologies;[13] second, pilot actions involving high energy- and environmental efficiency products and technologies;[14] and, third, actions based on coordinated industrial and scientific research.[15] Additionally, in the context of upgrading the energy performance of buildings and further to the estab-

10 Higher uncertainty, mostly about employment and future incomes, but also about economic prospects in general and the fiscal problems of the country made households cautious towards the housing market. Moreover, increased expectations of a further future decline in residential property prices led households to postpone all purchase decisions. On the other hand, banks' cautious and selective stance when granting new housing loans, which is reflected in the particularly low flow of housing loans, is estimated to have also contributed to the decrease in household demand for houses. Indeed, the annual growth rate of outstanding bank loans to households for home purchase fell to 0.3% in November and turned negative (-0.4%) in December 2010, from 3.7% at end-2009, 11.5% at end-2008 and 21.9% at end-2007. On the supply side, the build-up of a surplus stock of houses over the past few years is being gradually absorbed, as the drop in private building activity was stronger than the corresponding fall in the number of real estate transactions (see Bank of Greece, *Annual Report 2009*, Chapter V, Section 3, April 2010).

11 Ministry of Environment, Energy and Climate Change, Press Release, 4 November 2010.

12 It should be noted that, according to calculations of the Ministry of Environment, Energy and Climate Change, the energy consumption of buildings in Greece accounts for 40% of total consumption.

13 These actions involve both residential and commercial buildings and will be based on voluntary agreements between the public and the construction sector and trade firms, which are expected to reduce the cost of these interventions considerably.

14 Actions currently in the design and implementation stage include eight major energy-efficiency pilot programmes ("green neighbourhoods", "energy service companies", "40 green schools", "100 green roofs", "energy-efficient manufacturing and commercial buildings", "green mountain-area village", "green island", "green army camp"). These will receive financing of around €80 million, which will be based on co-financed schemes and voluntary agreements with the private sector.

15 Aimed at developing innovative, highly energy-efficient and environment-friendly industrial products, with the purpose of channelling them to domestic and international markets.

lishment of the "Save energy at home" fund (July 2010), the household energy-saving programme was launched in January 2011, enabling citizens to access bank lending on favourable terms in order to make energy-efficiency interventions in their homes.

Given the problems arising from delays in the environmental licensing of projects and actions in Greece, an initiative is under way which will simplify and accelerate licensing procedures.[16] In more detail, this initiative seeks among other things: to bring the duration of the environmental licensing process closer to the EU average, to reduce by 50% the workload of services involved in environmental licensing, to speed up the review and approval of environmental terms and conditions.

Regarding the renewable energy development programme,[17] the Development Programme for Photovoltaic Systems was amended by virtue of a Ministerial Decision, in order to allow for the installation of PV stations with a total capacity of 150 kWp on interconnected islands. It is estimated that this measure will make good use of the possibilities from the installation of photovoltaic units on islands, by creating small stations near energy consumption points, with significant benefits for the network and for consumers (e.g. limited works for connections, little power losses etc.).[18] However, in order to rationalise relevant decisions, speed up approval processes and save on resources for other purposes, it is critical that the Public Power Corporation (DEH) completes the national grid capacity assessment.[19]

Finally, the draft law recently submitted to Parliament establishing, among other things, a national system of protected areas (areas of great biodiversity and areas at risk) is critical for the regulation of biodiversity issues. However, the many different views expressed publicly on the projected tightening of protection (focusing on Article 9 of the draft law and the larger minimum land surface required for a building permission within Natura areas) show how difficult it is to adopt and implement long-term environmental protection measures in the current juncture, as both economic agents and production activities (in this case land owners and construction activity) are hit by the financial crisis directly.

Lastly, an important step in supporting business activity and raising environmental awareness among businessmen is the "Green Tourism" programme amounting to €30 million, which will be funded by the operational programme "Competitiveness and Entrepreneurship – OPCE II".[20] Under this programme it will be possible to finance investment projects that aim to improve the energy efficiency of buildings in the tourism sector, utilise RES, develop water conservation and management systems, manage the waste, and integrate environmental models and environment-friendly technologies. Participation in the programme will allow tourism enterprises to benefit from lower operating costs, improved environmental profile and better services offered.[21]

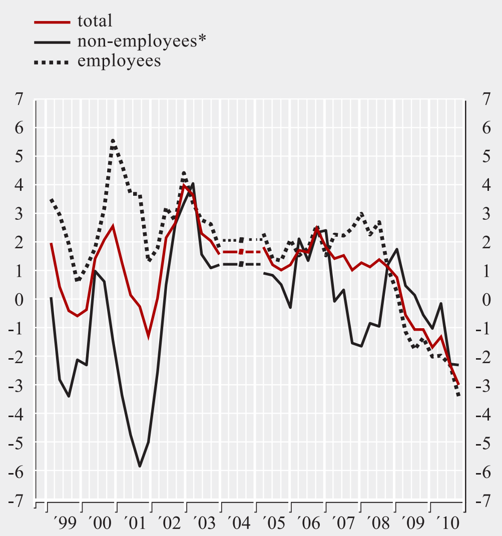
2.A EMPLOYMENT AND UNEMPLOYMENT: DEVELOPMENTS AND PROSPECTS

The economic downturn resulted in a decline in the number of the employed due to job losses and a dramatic fall in job creation. Moreover, the number of people wishing to work increased. As a result, the unemployment rate rose substantially.

16 Ministry of Environment, Energy and Climate Change, Press Release, 21 December 2010.
17 The relevant investment (including networks) is expected to amount to €1.9 billion (see speech of the Minister of Environment, Energy and Climate Change before the Parliament on 21 December 2010).
18 Ministry of Environment, Energy and Climate Change, Press Release, 27 December 2010.
19 For instance, farmers' applications for photovoltaic (about 6,000 throughout Greece) engage land and resources over long periods of time; however, it is doubtful that all applications will be satisfied, due to local grid restrictions.
20 All hotels, camping sites, rented rooms and apartments operating before 1 August 2009 have the right to participate in this programme. The budget for each investment project varies from €15 thousand to €400 thousand, with state financing reaching 40% of the project, with an additional 5% for islands with less than 3,100 residents.
21 Hellenic Ministry of Culture and Tourism, Press Release, 23 December 2010.

Chart IV.6 Employment (1999-2010)

(percentage changes over corresponding quarter of previous year)



Source: ELSTAT, Labour Force Surveys (LFS). New revised data for 1999-2003, released in January 2005. No changes are shown for 2004, as data are not fully comparable due to a change in the survey sample.
* Non-employees = self-employed with staff (employers) + self-employed without staff + family workers.

The average number of employed in the first nine months of 2010, according to ELSTAT Labour Force Survey (LFS) data, recorded an annual decrease of 101 thousand (-2.2%). The rate of decrease picked up in the course of the year (first quarter: 60.2 thousand or -1.3%, second quarter: 104.9 thousand or -2.3%, third quarter: 137.2 thousand or 3.0%), particularly from August onwards, reflecting the prolonged decline in economic activity. Provisional data for October show a 3.0% annual rate of decrease for this month.

Compared with the third quarter of 2008, when economic activity started to decline, the average number of employed persons in the third quarter of 2010 was 4.1% lower, reversing the progress made from 2006 onwards.

Contrary to the situation in 2009, negative developments in employment over the January-September 2010 period involved all workers. While in the first nine months of 2009 only the number of employees had decreased, in the corresponding period of 2010 the decrease involved both employees (-2.6%) and self-employed, due to the lower number of self-employed who are employers (-7.4%). The total number of self-employed decreased, despite a rise in the number of self-employed who are not employers (+1.7%).

Sectoral developments in employment are generally in line with developments in economic activity (Section 1.A above). The number of persons employed in **agriculture** rose by 4.4% (23.5 thousand) in the January-September period (first quarter: 42.4 thousand, second quarter: 22.1 thousand, third quarter: 5.9 thousand), continuing the upward trend observed since 2008. A significant increase was also recorded in **human health and social work activities** (7.4%). By contrast, the number of employees in **manufacturing** fell (-8.3%), continuing the downward course it started in 1998, which grew steeper from end-2007 onwards.[22] As regards **construction**, the downward trend observed since end-2008 continued at a stronger pace; as a result, 79 thousand jobs were lost between the third quarter of 2008 and the third quarter of 2010. Employment in construction in 2010 (January-September: 329.9 thousand) remained around end-2002 levels. In respect to trade (wholesale and retail), after its strong upward course for several years, it recorded a fall in the number of employed persons from the beginning of 2009 onwards, particularly the self-employed, who make up a significant percentage (around 40%) of total employed persons in this sector.[23] However, the most notable decrease was observed in the first half of the year (-4.7%), but it was moderated in the third quarter (-0.8%). A significant decline was also recorded in respect to **professional, scientific and technical activities** (-6.1%, contribution to

22 Intertemporal analyses at sectoral level should be treated with caution, as there have been changes in the statistical classification of different sectors (from STAKOD-93 to STAKOD-08). However, the level of sectoral detail applied here does not affect key trends.

23 According to data from ELSTAT's retail trade survey (excluding fuel), the number of employees recorded an annual decline of 0.8% in the first nine months of the year.

the change in total employment: -0.32 percentage point).

In January 2011, business estimates on the **short-term outlook** for employment, as reflected in IOBE business surveys (see Chart IV.7) were negative for all branches, particularly construction. The fact that there is ample room for increase in the capacity utilisation rate (in terms of both capital and human resources), before businesses proceed with recruiting additional personnel, will also affect the outlook for employment.

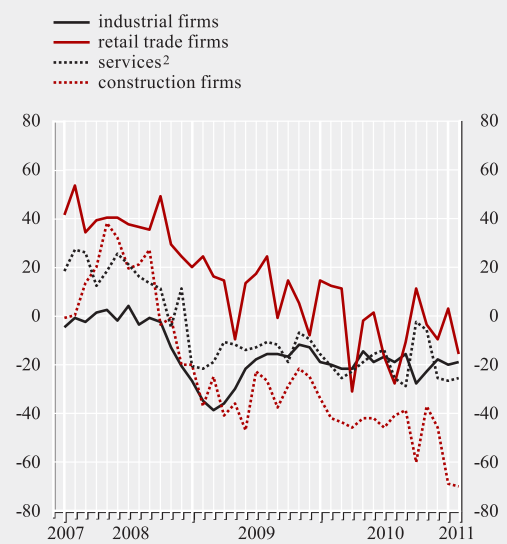
The **number of the unemployed** increased substantially in the first nine months of 2010, owing both to lower employment levels and the increased number of persons seeking jobs for the first time – either because they just finished their studies or in order to contribute to the family budget. Indeed, while employment fell by 101 thousand persons, as mentioned above, the number of the unemployed rose by 144 thousand persons. In the January-September 2010 period, the **unemployment rate** stood at 12.0%, up from 9.2% in the corresponding 2009 period (see also Chart IV.8). The unemployment rate gathered pace in the course of the year, from 2.4 percentage points in the first quarter of 2010 to 3.1 percentage points in the third quarter and 3.7 percentage points in October (reaching 13.5%).

The unemployment rate of January-September 2010 is the highest recorded in the Greek economy over the same periods of the past 20 years (the second highest was recorded in January-September 1999: 11.9%).[24] Although the difference from the unemployment rate of 1999 as a whole is not significant, unemployment rates for individual groups (by gender, nationality, age and educational level) *vary considerably between these two years.*[25]

In addition to the number of unemployed persons (according to the ILO definition), there are also people who would like to work but are not looking for a job, either because they believe they will not find one or for other reasons, as well as people who work part-time because they cannot find a full-time job. Taking into account all of the above, the **underemployment rate** in the third quarter of 2010 reached 16.9%, from 12.4% in the third quarter of 2009.[26]

Chart IV.7 Business expectations[1] for employment (December 2007-January 2011)

(percentage balances)



Source: IOBE, Business Surveys.
1 Firms are asked to assess the prospect of an increase in the number of their employees over the coming period.
2 Excluding banks and retail trade firms.

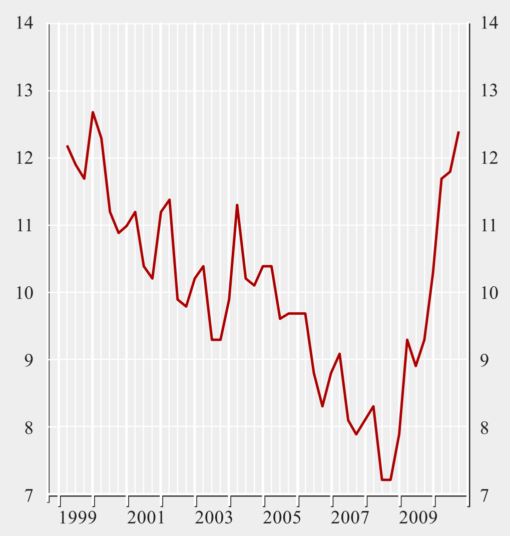
24 The comparison is made between nine-month periods, due to the high seasonality of unemployment. However, in the fourth quarter of 1999 the unemployment rate reached 12.7%, while in the January-December 1999 period it stood at 12.1%.

25 In more detail, the male unemployment rate in the third quarter of 2010 (9.7%) was by 2 percentage points higher than in 1999, while the female unemployment rate (16.1%) was by 1.7 percentage points lower. The increase in the male unemployment rate is attributable both to the higher unemployment rate of Greek nationals and to the significant increase in the unemployment rate of immigrants, as well as of their participation rate in the labour force. (In the third quarter of 1999, Greek male citizens accounted for 96.5% of the male labour force, while in the third quarter of 2010 their percentage fell below 90%. The corresponding female percentages were 96.5% and 91.1%, respectively.) Though in the third quarter of 1999, the male immigrant unemployment rate was 9.8%, in the third quarter of 2010 it rose to 14%. The corresponding percentages for Greek male citizens are 7.7% (third quarter of 1999) and 9.2% (third quarter of 2010). The total female unemployment rate fell between 1999 and 2010, both for Greek nationals (from 17.8% to 16.3%) and for foreign citizens (from 19.9% to 14.0%). Lastly, in the third quarter of 2010, the unemployment rate of persons aged 30-44 was 2.5 percentage points higher than in 1999; this was partly offset by the lower unemployment rate of persons aged 15-19.

26 In the third quarter of 2009, the differential between the two indices was similar (unemployment rate: 9.3%, underemployment rate in its wider definition: 13.6%).

Chart IV.8 Total unemployment rate (1999-2010)

(percentage of labour force)



Source: ELSTAT, Labour Force Surveys.

As a result of the above developments, **the number of persons aged 18-59 and living in households where no-one is working** increased significantly, from 8.5% in the third quarter of 2009 to 10.3% in the third quarter of 2010.

Moreover, **the increased share of the long-term unemployed**, i.e. people who remain jobless for more than a year, in the total number of unemployed persons (January-September 2009 and 2010: 42.6% and 46.9%, respectively) is also alarming, because the probability of finding a job decreases as unemployment lengthens. This is especially true for the Greek labour market, which has low probability of transition (i) from unemployment to work and (ii) from non-participation in the labour force to participation in it.[27]

2.B INCOME INEQUALITY, POVERTY AND KEY LIVING CONDITION INDICATORS IN GREECE

According to the latest Statistics on Income and Living Conditions 2009 (EU-SILC) announced by ELSTAT and published by Eurostat,[28] 19.7% of Greece's population or 840,000 households and their members (totalling 2,147,108 persons) live below the poverty threshold (based on monetary incomes for 2008).[29] This "at-risk-of-poverty" indicator for Greece has shown an impressive degree of stability over the last ten years or more, fluctuating between 20% and 21% (rounded percentages), and it is considerably higher than in most EU countries (EU-27, EU-SILC 2009: 16.3%). Lately, however, poverty in Greece seems to shift from the group of the elderly to the groups of younger couples with children and young workers.[30] More specifically, the rate of children aged 15 or less living below the relative poverty threshold rose to 23.4% in 2009 (EU-27: 19.6%), from 19.3% in 2005. By contrast, the poverty rate of the elderly (aged 65 or over) recorded an impressive reduction: the rate stood at 21.4% in 2009 (EU-27: 17.8%) from 27.9% in 2005 (see Table IV.7).[31]

As to the extent of poverty within individual population groups in Greece, it is important that below the poverty line live: 30.6% of the elderly (aged 65 or over), who live alone,

27 See *inter alia* Boeri and Garibaldi (2009), "Beyond Eurosclerosis", *Economic Policy*, p. 409-461, and ELSTAT, "Survey on the entrance of young people into the labour market", press release, 31 January 2011; it appears that 30% of the young people find their first significant job 4 or more years after the end of their formal education.

28 See ELSTAT, press release, 9 December 2010. The Income and Living Conditions Survey is the main source of comparative statistics on the allocation of income, poverty risk and social exclusion in EU countries. Data for individual countries are published by Eurostat (Statistics Database).

29 In the context of relative poverty, people are considered poor when their income cannot ensure them a living standard that is consistent with the lifestyle and standards of the society in which they live. According to the relative approach, the at-risk-of-poverty line shifts as the population's average living standards change, whereas, according to the absolute approach, it remains constant in terms of real purchasing power over time. The 2009 survey showed that the relative poverty threshold was €6,897 for a single-member household and €14,484 for a four-member household (comprising two parents and two children).

30 After the return to democracy in 1974, there took place a similar shift of poverty from rural to urban areas and from the less educated (e.g. people who have not completed primary school) to those with medium and higher education (e.g. secondary school graduates). However, research for Greece has concluded that the probability of poverty is dramatically reduced as the educational level of the household's head rises, while policies aimed at reducing educational inequalities are bound to limit economic inequalities and poverty in the long run. See Bank of Greece, *Annual Report 2008*, Box VI.I.

31 Similar results are also obtained from the relative "at-risk-of-poverty" gap, which measures the distance between the income of the poor and the poverty line as a percentage of the latter (see Table IV.7).

Table IV.7 Selected indicators of social cohesion

Indicator	Greece 2005	2006	2007	2008	2009	EU-15[1]	EU-27[1]
I. Risk of poverty							
1. At-risk-of-poverty rate							
1.1 Total population	*19.6*	*20.5*	*20.3*	*20.1*	*19.7*	*16.1*	*16.3*
a. People aged 65+	27.9	25.6	22.9	22.3	21.4	17.8	17.8
b. Children aged 0-15	19.3	21.5	22.8	22.7	23.4	18.7	19.6
c. Single-parent households	43.5	29.6	34.2	27.1	32.1	33.9	34.0
d. Two adults with 3 or more children	32.7	38.0	29.7	27.2	28.6	23.1	25.9
1.2 In-work poverty	*12.8*	*13.8*	*14.2*	*14.2*	*13.7*	*7.9*	*8.3*
a. Part-time employment	24.1	26.1	27.2	26.0	26.9	11.1	12.6
b. Temporary employment	17.3	18.1	18.9	16.0	15.1	13.4	12.8
1.3 Unemployed	*32.6*	*33.3*	*35.9*	*37.0*	*37.9*	*45.1*	*45.4*
2. At-risk-of-poverty gap							
Total population	23.9	25.8	26.0	24.7	24.1	21.7	22.4
a. People aged 65+	23.7	24.4	24.2	20.8	14.7	16.5	16.9
b. Children aged 0-15	22.5	25.7	30.0	26.5	26.4	21.9	23.4
3. At-risk-of-poverty line (in euro)							
a. Single-member households	5,650	5,910	6,120	6,480	6,897	...	...
b. Two adults with two children	11,866	12,411	12,852	13,608	14,484	...	...
II. Inequality							
1. Gini coefficient	*33.2*	*34.3*	*34.3*	*33.4*	*33.1*	*30.3*	*30.4*
2. S80/S20 ratio [2]	*5.8*	*6.1*	*6.0*	*5.9*	*5.8*	*4.9*	*4.9*
III. Social welfare							
1. Social expenditure, % of GDP							
Total	23.9	23.9	23.8	25.1	...	25.9	25.2
a. Pensions	12.1	12.1	12.2	12.6	...	11.9	11.6
b. Social transfers	11.8	11.8	11.6	12.5	...	14.3	13.3
2. Reduction in the at-risk-of-poverty rate:							
Social expenditure (total)	19.6	20.0	21.6	21.4	22.3	26.0	26.0
a. Pensions	16.6	17.1	18.2	18.2	19.3	16.9	17.2
b. Social transfers	3.0	2.9	3.4	3.2	3.0	9.1	8.8

Source: Eurostat.
1 Data for the EU-15 and the EU-27 refer to the latest available year (2009 data referring to the earnings of 2008).
2 Share ratio, defined as the ratio of the total income received by the 20% of the population with the highest income (highest quantile) to that received by the 20% of the population with the lowest income (lowest quantile).

32.1% of single-parent families with children, 37.9% of the unemployed (40.1% of unemployed women), 26.9% of part-time workers, 28.6% of households with families comprising parents and three or more dependent children, 43.3% of households with dependent children and no employed members, 25.1% of households in rented houses and 23.0% of young people aged 16 to 24.[32]

As per the same data, Greece ranks third now in terms of inequality (Gini coefficient: 33.1)

32 See ELSTAT, press release, 9 December 2010.

among all EU countries, after Portugal (Gini: 35.4) and Latvia (Gini: 37.4), against an average of 30.4% for EU-27. Furthermore, the richest 20% of households in Greece holds a 5.8 times larger share of income than the poorest 20% (S80/S20 ratio), and the corresponding ratio for the EU-27 as a whole is 4.9. It should also be noted that the pay for male employees in Greece is 12.7% higher than the corresponding pay for women (7% in the public sector and 19.6% in the private sector).[33]

The distributional effect of social benefits in the piecemeal Greek welfare state is limited compared with other EU countries. Total social expenditure in Greece reduce poverty by just 22.3 percentage points (19.3 due to pensions and 3.0 due to social transfers) compared with an EU average of 26.0 percentage points (17.2 due to pensions and 8.8 due to social transfers). This efficiency ratio improved considerably by almost 3 percentage points in Greece, from 16.6 in 2005 to 19.3 in 2009, though it is noted that the improvement stemmed almost exclusively from a decline in the "at-risk-of-poverty" rate, which is attributed to pensions (see Table IV.7) and, more specifically, to substantial increases in low pensions and the Social Solidarity Pension Supplement (EKAS).

Finally, certain developments after 2008 and during the current fiscal crisis and recession most probably were not in the direction of reducing poverty and economic inequalities. Such developments were the significant increase in the unemployment rate, particularly in respect to youth unemployment, the rise in VAT and the Special Consumption Tax on alcohol, tobacco and heating oil, which caused the purchasing power of poorer households that consume a larger share of their income on such products to erode further. On the other hand, the extraordinary levy on high income (personal income of over €60 thousand) imposed on large, profitable firms (with pre-tax profits of over €5 million in 2008) and on high-value real-estate owners (of over €400 thousand) was certainly progressive in nature, in the sense that it targeted higher income brackets relatively more than lower ones. Measures such as implementing a more progressive tax scale, abolishing independent taxation on certain incomes and other special tax regulations and tax exemptions, broadening the tax base and curtailing tax evasion are expected to yield similar results. Furthermore, the decision to abolish or reduce Easter, Christmas and holiday bonuses as well as other benefits in the broader public sector and the introduction of a special progressive contribution, like the Solidarity Account of Social Security Organisations (LAFKA), to higher pensions (of over €1,400) is estimated to have targeted mainly middle income brackets, with doubtful distributional effects as a whole.[34] Finally, the distributional effect of the minimum wage "freeze" in 2010 and up until mid-2011 cannot be assessed *a priori*, same as of the potential (under Law 3863/2010) to recruit young persons at subminimum wage. As long as these measures help to *halt or reverse the decline* in employment or even bring about an *increase* (particularly among the young and the *unskilled*), as envisaged, they might work progressively in the long run.

3 INFLATION: DEVELOPMENTS AND PROSPECTS

3.1 REVIEW OF DEVELOPMENTS IN 2010 AND THE OUTLOOK FOR 2011

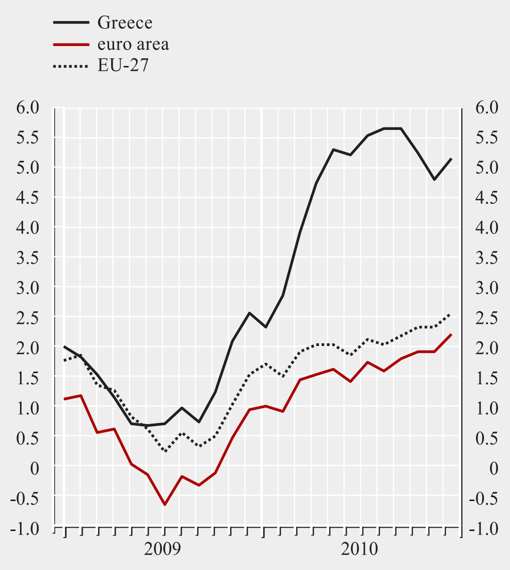
In 2010, inflation picked up temporarily, despite lower demand and reduced unit labour costs, mainly due to the strong rise in indirect taxation and the rapid increase in oil prices. The annual Harmonised Index of Consumer Prices (HICP) picked up considerably from 2.3% in January to 5.7% in September 2010 (see Chart IV.9), reaching its highest level

33 The gender pay gap is the difference between the average gross hourly male and female earnings from salaried work, expressed as a percentage of the gross hourly male earnings. This indicator takes account of employees aged 16-64, who work more than 15 hours/week.

34 Accordingly, the reduction of Easter, Christmas and holiday bonuses to pensioners is estimated to have worked counter-progressively, as pensioners in their majority are at the lowest income quintiles. At the same time, however, the protection of those who receive very low pensions has definitely mitigated this negative result.

Chart IV.9 Harmonised index of consumer prices in Greece, the euro area and the European Union (January 2009 - December 2010)

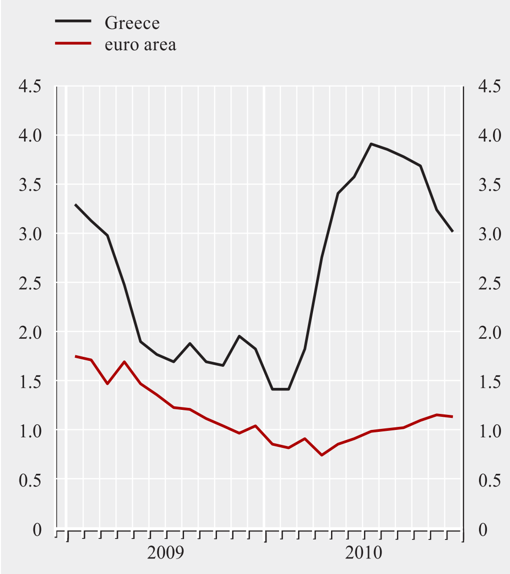
(percentage changes over same month of previous year)



Sources: ELSTAT and Eurostat.

Chart IV.10 Core inflation in Greece and the euro area on the basis of the HICP excluding energy and unprocessed food (January 2009 - December 2010)

(percentage changes over same month of previous year)



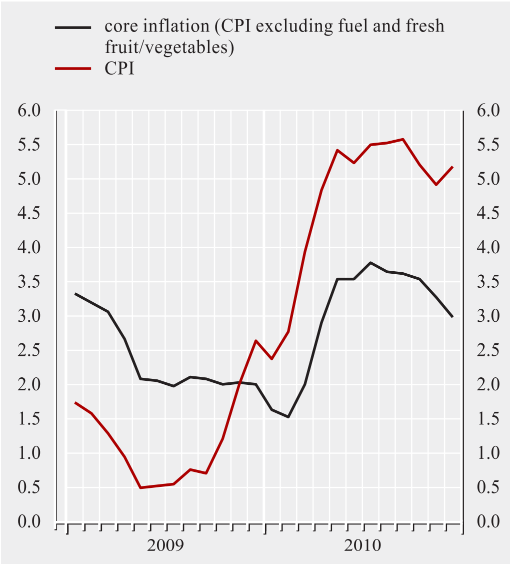
Sources: ELSTAT and Eurostat.

since August 1997 and falling slightly to 5.2% in December. Core inflation (excluding energy and unprocessed food prices) also rose substantially, from 1.4% in January 2010 to 3.9% in August, and then receded to 3.0% in December (see Chart IV.10). For *2010 as a whole*, average annual HICP inflation reached 4.7%, from 1.3% in 2009, and average core inflation came to 3.0%, from 2.2% in 2009.

During 2011, the impact of higher indirect taxes on the annual rate of increase in prices is expected to wane gradually, whereas the continuing drop in both demand and unit labour costs will exert a strong anti-inflationary effect, particularly in the business sector. Stronger competition in the goods and services markets —brought about by the implementation of structural reforms— should have a similar impact. Thus, HICP annual inflation is expected to drop considerably and stand at about 2.2%, while average core inflation should fall below 1% (to 0.8%, approximately).

Chart IV.11 Consumer Price Index and core inflation in Greece (January 2009 - December 2010)

(percentage changes over same month of previous year)



Source: Calculations based on ELSTAT data.

Table IV.8 Harmonised index of consumer prices: Greece and the EU (2009-2010)

(annual percentage changes)

Country	2009 (year average)	December 2009	2010 (year average)	December 2010
Austria	0.4	1.1	1.7	2.2
Belgium	0.0	0.3	2.3	3.4
Bulgaria	2.5	1.6	3.0	4.4
Cyprus	0.2	1.6	2.6	1.9
Czech Republic	0.6	0.5	1.2	2.3
Denmark	1.1	1.2	2.2	2.8
Estonia	0.2	-1.9	2.7	5.4
Finland	1.6	1.8	1.7	2.8
France	0.1	1.0	1.7	2.0
Germany	0.2	0.8	1.2	1.9
Greece	**1.3**	**2.6**	**4.7**	**5.2**
Hungary	4.0	5.4	4.7	4.6
Ireland	-1.7	-2.6	-1.6	-0.2
Italy	0.8	1.1	1.6	2.1
Latvia	3.3	-1.4	-1.2	2.4
Lithuania	4.2	1.2	1.2	3.6
Luxembourg	0.0	2.5	2.8	3.1
Malta	1.8	-0.4	2.0	4.0
Netherlands	1.0	0.7	0.9	1.8
Poland	4.0	3.8	2.7	2.9
Portugal	-0.9	-0.1	1.4	2.4
Romania	5.6	4.7	6.1	7.9
Slovakia	0.9	0.0	0.7	1.3
Slovenia	0.9	2.1	2.1	2.2
Spain	-0.3	0.9	1.8	2.9
Sweden	1.9	2.8	1.9	2.1
United Kingdom	2.2	2.9	3.3	3.7
European Union - 27	1.0	1.5	2.1	2.6
Euro area	**0.3**	**0.9**	**1.6**	**2.2**

Source: Eurostat.

Table IV.9 Contributions to the inflation differential between Greece and the euro area (2005-2010)

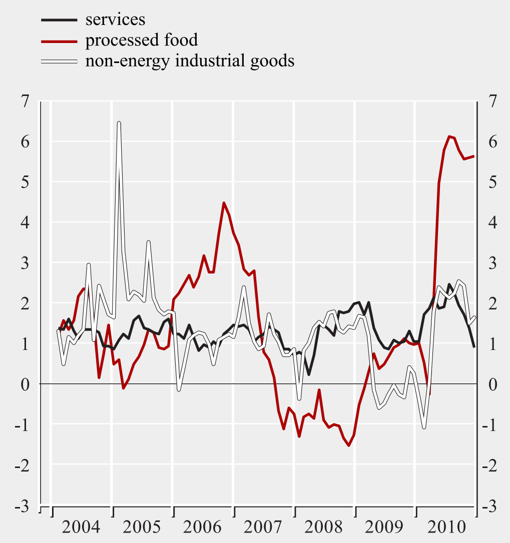
(percentage points)

	2005	2006	2007	2008	2009	2010
Differential of average annual rates of HICP change	**1.3**	**1.1**	**0.9**	**1.0**	**1.1**	**3.1**
Contributions:						
Core inflation	1.40	1.15	1.00	0.77	0.91	1.60
of which						
Services	0.51	0.43	0.50	0.56	0.64	0.71
Processed food	0.10	0.44	0.13	-0.14	0.14	0.52
Non-energy industrial goods	0.79	0.28	0.35	0.35	0.13	0.37
Unprocessed food	-0.30	-0.12	-0.06	0.03	0.39	-0.12
Energy	0.20	0.11	-0.03	0.24	-0.25	1.66

Source: Calculations based on Eurostat and ECB data.

Chart IV.12 Annual inflation differentials between Greece and the euro area (2004 - 2010)

(selected indices; differentials in percentage points)



Source: Calculations based on Eurostat and ECB data.

It should be recalled that the average annual inflation rate in the euro area rose to 1.6% in 2010 (from 0.3% in 2009) and is expected to reach 1.3%-2.3% in 2011, according to ECB staff projections (see Tables IV.8 and IV.9, and Chart IV.12). As a result, the **inflation differential** between Greece and the euro area, following its temporary widening in 2010, is expected in 2011 to shrink significantly below the 2001-2009 average. Besides, core inflation in the euro area stood at 1.0% on average in 2010, down from 1.3% in 2009 (see Chapter II.1.1).

3.2 MAIN DETERMINANTS

The strong **rise in indirect taxation** was one of the key determinants of the spike in inflation in **2010**, although it was not fully passed on to consumer prices, as firms absorbed part of the increase by narrowing their profit margins in an attempt to counterbalance lower demand. According to revised data, the pass-through rate of VAT increases rose gradually from around 50% in March 2010 to around 90% in December, and it is estimated to average 64% for 2010 as a whole.[35] This rate would have been lower, in the backdrop of curbed demand following the economic crisis, if competition in the domestic market functioned satisfactorily. The contribution of increased indirect taxation in HICP annual inflation peaked in August 2010 (4.4 percentage points on total headline inflation of 5.6%). For 2010 as a whole, its average annual contribution amounted to 3.2 percentage points (on total headline inflation of 4.7%). If the contribution of increased *administered prices* is also taken into account, *total* contribution averages 3.6 percentage points in 2010 (i.e. 76% of inflation). Turning to *core* inflation, the average annual contribution of increased indirect taxation was 2.2 percentage points (on an average core inflation of 3.0%), whereas if the contribution of increased *administered prices* is taken into consideration too, *total* average annual contribution reaches 2.6 percentage points (or 87% of core inflation). It is estimated that in 2011 the contribution of higher indirect taxation in the annual inflation rate will decline sharply and, according to some initial calculations, it will shrink to 0.7 percentage point and the contribution of increased administered prices to 0.2 percentage point.

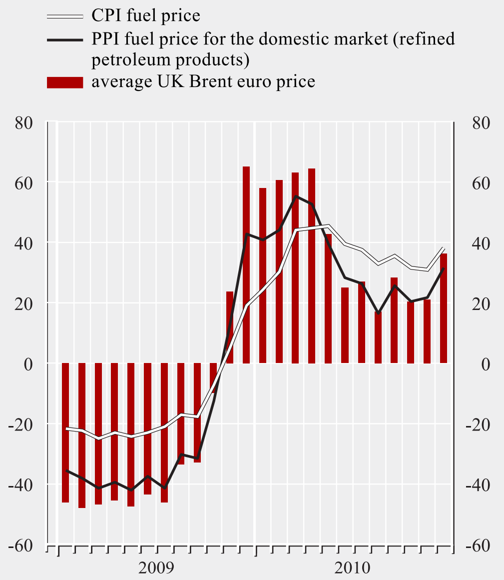
The **rise in crude oil prices** in the world market, which in **2010** reached an average annual level of 35.9% in euro terms, compared with a fall of 32.3% in 2009 (Brent crude oil – see Charts IV.13 and IV.14), is expected to continue in **2011**, albeit at a *slower pace*. According to the latest IMF forecasts, the average annual price in US dollars (average of three types of crude oil) should increase by 13.4% this year while, based on the latest prices of oil futures, the average annual price increase in US dollars could be in the area of 20%.[36] At the same time, the pick-up in inflation in 2010 was also due, albeit to a more limited extent, to the **recovery of non-energy import prices** (see Chart

35 In respect to fuel, the increase in the special consumption tax and the VAT was passed through almost in full and, in respect to public utility rates, the increase in the VAT was fully passed through.

36 See (i) ECB, *Monthly Bulletin*, January 2011, (ii) IMF, *World Economic Outlook Update*, 25 January 2011, (iii) Reuters (for the prices of futures).

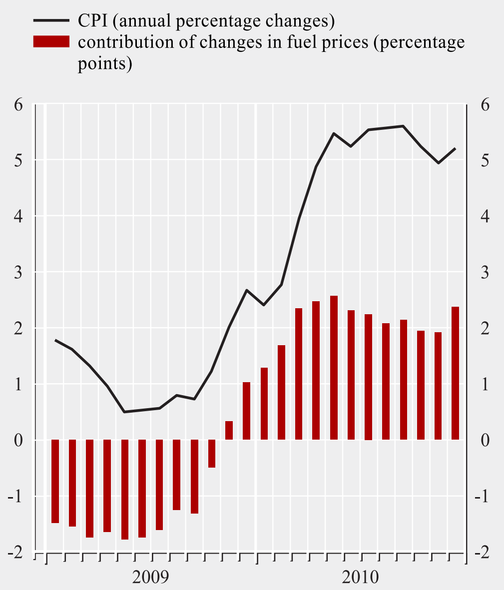
Chart IV.13 Evolution of CPI/PPI fuel prices and of the euro price of Brent crude oil (January 2009 - December 2010)

(percentage changes over same month of previous year)



Sources: Calculations based on ELSTAT data and, for crude oil (UK brent) prices, on ECB data.

Chart IV.14 Inflationary contribution of changes in fuel prices (January 2009 - December 2010)



Source: Calculations based on ELSTAT data.

IV.15),[37] which keep their upward trend in 2011 too. The rise in these prices was also underpinned by a 2.9% drop, in 2010, in the average annual **exchange rate of the euro**, weighted on the basis of Greece's external trade.

By contrast, **lower demand**, which is also reflected in reduced profit margins, played a dampening role in the shaping of inflation in 2010. Indeed, profit margins were reduced as, according to available data for the 9-month period January-September 2010 on the financial results of 207 non-financial enterprises listed in the Athens Exchange,[38] gross profits decreased by 12.0% year-on-year and pre-tax net profits declined by 38.4%.

At the same time, nominal sales rose by 6.2%, but that was exclusively due to the increased sales (by about 29%) of the two oil refineries. Excluding these oil refineries from the sample, the sales of the remaining 205 enterprises decreased by 2.8% and profits dropped even further (gross profits by 12.7% and net pre-tax profits by 41.1%), leading to a narrowing of gross profit margins by about 2 percentage points.

A dampening role in respect to inflation was also played by the *decline* in **unit labour costs** in 2010, by 3.0% for total economy (after a 5.6% rise in 2009) and by 1.7% in the business sector (2009: +3.7%). For total economy, this development reflects a 4.7% *decline* in average nominal pre-tax earnings, compared with a 4.6% increase in 2009. Compensation per employee[39] decreased by 4.2% and productivity (GDP per employee) is estimated to have dropped by 1.2%. For 2011, it is expected that unit labour costs will continue to decline, at a slightly slower pace (about 2%) for total economy and at a swifter one (about 2.5%) for the business sector. Average nominal pre-tax

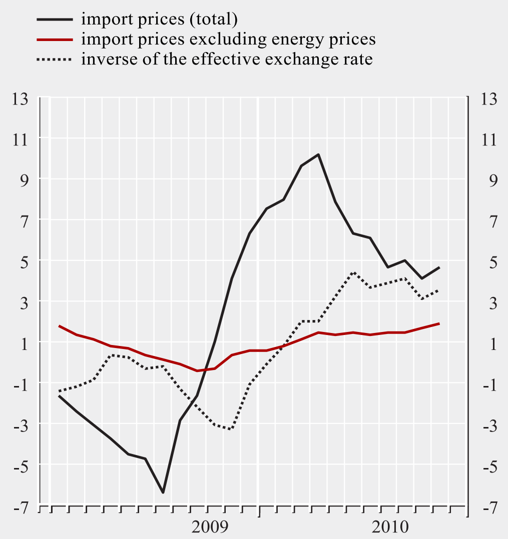
37 Non-energy import prices for manufacturing increased at an annual rate of 1.9% in November 2010, up from 0.2% in November 2009.

38 The Public Power Corporation (DEH) and the Hellenic Telecommunications Organisation (OTE) are not included in the sample.

39 Including employers' social security contributions and public sector's personnel outlays.

Chart IV.15 Import price index in industry and the inverse of the effective exchange rate of the euro, weighted on the basis of Greece's external trade (January 2009 - November 2010)

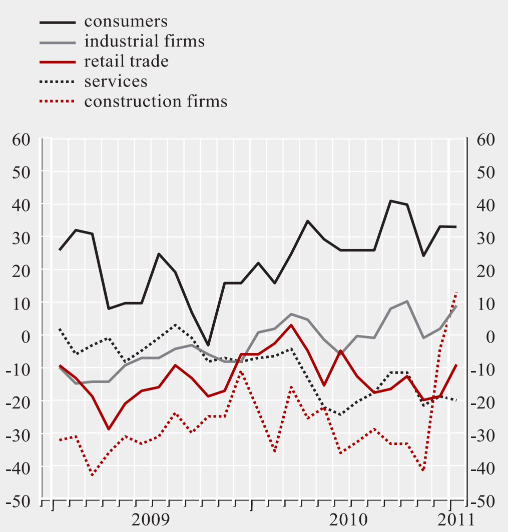
(percentage changes over same month of previous year)



Sources: ELSTAT and Bank of Greece.

Chart IV.16 Inflation expectations[1] of consumers and business firms (January 2009-January 2011)

(percentage balances)



Sources: IOBE and European Commission, *Business and consumer survey results.*

1 The responses of business firms concern the prospect of price increases in the goods they produce over the next 3-4 months, while consumers' responses concern the prospect of a faster increase in consumer prices over the next 12 months. Seasonally adjusted data for consumers.

earnings in total economy are estimated to decline by 2.7% in 2011 (see Table IV.10). It should be noted that unit labour costs decreased in the euro area by 0.5% in 2010, but they are expected to increase by 0.6% in 2011 (see Table IV.11) This means that the *relative* unit labour costs are declining, whereas *competitiveness*, which is measured on the basis of unit labour costs, is improving (see Table IV.12).

The above estimates on unit labour costs take into account the following: (i) the provisions of Law 3833/2010 and Law 3845/2010 on the freezing of staff costs and cuts on the benefits of civil servants in the broader public sector; (ii) the provisions of Law 3847/2010 on the pensions of civil servants; (iii) the three-year national general collective labour agreement signed on 15 July 2010, as well as article 51 of Law 3871/2010;[40] (iv) the provisions of article 74 of Law 3863/2010;[41] and (v) the provisions of Law 3899/2010.[42] These measures are estimated to have led to a drop in average pre-tax earnings for civil servants by 9.5%, in average pensions of the public sector by 7.3% and in the wages of public utilities' employees by 5.5% in 2010. In the same year, the reduction of gross (pre-tax) earnings in *real terms* was 13.5% for civil servants and 9.0% for total economy. Thus, it is estimated that the purchasing power of wages was lower for civil servants than in 2003, whereas for total economy it was lower, on average, than in 2006.

40 According to the national general collective labour agreement, minimum wages should remain unchanged in 2010, but increase in the next two years, i.e. as from 1 July 2011 in line with an average annual inflation of 1.6% in the euro area for 2010, and as from 1 July 2012 in line with the average annual inflation (forecast: around 1.8%) in the euro area for 2011. This translates into a 1.7% average annual increase in minimum wages in 2010 (exclusively the result of a carry-over effect from 2009), 0.9% in 2011 and about 1.7% in 2012. Moreover, according to article 51 of Law 3871/2010, the arbitration decisions issued and the collective agreements signed *after a proposal of the Organisation for Mediation and Arbitration (OMED)*, up until the end of 2012, cannot deviate from the percentage increases foreseen in the national general collective labour agreement.

41 In respect to the reduction in dismissal compensation, the recruitment of new employees at subminimum wages and lower overtime pay.

42 In respect to pay cuts in public utilities and the ATEbank in 2011 and the introduction of new rules on mediation, arbitration and enhanced flexibility in collective negotiations, including inter alia the institutionalisation of "special firm-level collective agreements".

Table IV.10 Earnings and labour costs (2004-2011)

(annual percentage changes)

	2004	2005	2006	2007	2008	2009	2010 (estimate)	2011 (forecast)
Greece								
Average gross earnings (nominal):								
– total economy	7.2	4.4	5.7	5.2	6.2	4.6	-4.7	-2.7
– central government[1]	9.7	2.3	3.1	3.8	7.1	5.2	-9.5	-3.0
– public utilities	9.9	7.6	7.0	7.1	8.2	7.7	-5.5	-6.2
– banks	8.0	1.5[2]	10.8	8.9	0.0	3.7	2.8	-3.3
– non-bank private sector	5.8	5.6	6.8	6.1	6.5	2.8	-2.9	-1.7
Minimum earnings	**4.8**	**4.9**	**6.2**	**5.4**	**6.2**	**5.7**	**1.7**	**0.9**
Average gross earnings (real)	**4.2**	**0.9**	**2.4**	**2.2**	**1.9**	**3.3**	**-9.0**	**-4.8**
Total compensation of employees	**8.9**	**5.8**	**7.8**	**8.2**	**8.5**	**3.2**	**-7.0**	**-5.1**
Compensation per employee	**7.6**	**3.9**	**5.9**	**5.6**	**6.8**	**4.9**	**-4.2**	**-2.2**
Unit labour costs:[3]								
– total economy	4.3	3.4	3.2	3.8	7.1	5.6	-3.0	-2.0
– business sector[4]	3.0	3.8	3.8	4.5	6.3	3.7	-1.7	-2.7

Sources: ELSTAT (for the 2004-2009 GDP), Bank of Greece estimates-forecasts (for the 2010-2011 GDP and the other annual aggregates over 2004-2011).
1 Average compensation per employee.
2 The relatively low growth rate of bank employees' average earnings mainly reflects changes in staff structure.
3 Calculations based on revised GDP data, October 2010.
4 The business sector includes private and public enterprises and banks.

Table IV.11 Average earnings and unit labour costs in total economy: Greece and the euro area (2001-2011)

(annual percentage changes)

	Average earnings		Unit labour costs	
Year	**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	3.2	1.1
2007	5.2	2.6	3.8	1.5
2008	6.2	3.3	7.1	3.6
2009	4.6	1.8	5.6	4.0
2010 (estimate)	-4.7	1.8	-3.0	-0.6
2011 (forecast)	-2.7	1.8	-2.0	0.6

Sources: For Greece: Bank of Greece estimates. For the euro area: European Commission, *Economic Forecasts*, Autumn 2010.

Table IV.12 Greece: revised nominal and real effective exchange rate (EER) indices[1]

(annual percentage changes in year averages)

	Nominal EER	Real EER	
		On the basis of relative consumer prices	On the basis of relative unit labour costs in total economy
2001	1.9	1.1	0.5
2002	2.3	2.6	4.1
2003	5.0	5.4	3.8
2004	1.7	1.9	4.1
2005	-1.0	-0.1	0.4
2006	0.1	0.8	1.7
2007	1.3	1.6	2.4
2008	2.5	2.6	5.2
2009	1.2	1.5	2.6
2010*	-2.9	-0.5	-6.2
Cumulative percentage change between 2001 and 2010	12.4	18.2	19.9

Sources: Exchange rates: ECB, euro reference exchange rates. CPI: ECB, Harmonised Index of Consumer Prices where available. Unit labour costs in total economy: Bank of Greece estimates for Greece, ECB for the other countries.
* Provisional data and estimates.
1 Revised (on 1 January 2010) indices (compiled by the Bank of Greece) comprise Greece's 28 main trading partners. The weights used reflect the share of each partner country in Greece's manufacturing trade (SITC 5-8) during 2004-2006 and take into account competition in third markets.

4 BALANCE OF PAYMENTS AND COMPETITIVENESS: DEVELOPMENTS AND PROSPECTS

4.1 CURRENT ACCOUNT

After 2008, when the current account deficit as a percentage of GDP peaked at 14.8%, there was considerable improvement, mainly attributable to cyclical factors. In 2009, this percentage dropped markedly to 11.1%, whereas for 2010 as a whole, its further decline was only marginal.

In the January-November 2010 period (for which there is available data), the current account deficit was reduced by €0.6 billion or 2.6% (see Table 6 in the Statistical Appendix). The downward path of the trade deficit is attributed exclusively to the recession, which resulted in a significant drop in the import bill for all types of products excluding oil and ships, limiting the trade deficit excluding oil and ships by €3.2 billion. The decline in imports was mainly due to lower consumption and investment spending against the backdrop of Greece's Economic Adjustment Programme. In more detail, the import bill excluding oil and ships, which was roughly triple the export receipts, decreased by 11.7%,[43] while export receipts excluding oil and ships fell by a mere 1.4%.[44] This improvement was partly offset, however, by the €1.6 billion increase in the net oil import bill and the €0.4 billion increase in net payments for ships.[45]

43 This drop, according to Bank of Greece detailed data, is broadly based across all product types, with the exception of metallurgical products.
44 Exports of metallurgical products recorded an increase, which is attributable – at least in part – to the rise in raw material prices in international markets.
45 According to ELSTAT provisional data available for January-November 2010, the value of non-oil exports increased by 6.9% and the value of imports (excluding ships) decreased by 11.1%. Let it be recalled that any differences in trade statistics between the Bank of Greece and ELSTAT largely stem from the fact that the Bank of Greece draws its data from the payments and receipts effected through the domestic banking system, whereas ELSTAT draws its own from the customs (as regards transactions with non-EU countries) and from INTRASTAT (as regards transactions with EU countries).

During January-November 2010, the services surplus rose by 4.6% year-on-year. Net travel receipts continued to decline, albeit less than in 2009. Gross travel receipts, i.e. travel spending by non-residents, declined by 7.3%, while gross travel payments abroad, i.e. residents' travel spending abroad, fell by 8.5%, resulting in a €559 million drop in net travel receipts. The drop in gross tourism receipts is primarily due to lower spending per night and secondarily to shorter (average) duration of stay, while arrivals increased slightly by 1.1%. In any event, the prospects for 2011 are rather favourable as the recovery of the world economy is ongoing and VAT rates on hotel services have been lowered, with the aim of boosting competitiveness.[46]

Net transport receipts, which are more connected to world trade developments, registered a marked year-on-year increase of 13.9% in the period under review, reflecting both a recovery in world trade and an average annual rise in freight rates by 30% approximately.[47] Despite the positive prospects of world economy and trade for 2011,[48] the high number of new ships expected to be delivered in the course of the year should keep freight rates —mainly for dry (bulk) cargo vessels— at 2010 levels.

The income account deficit in 2010 appears to have stabilised around 2009 levels, whereas the current account surplus declined considerably.

More specifically, net income payments (which mainly reflect interest payments) in the period under review increased slightly by 1.7% year-on-year. Nevertheless, in 2011, the expected increase in interest payments on government bonds and Treasury bills will contribute to a further deterioration of the income account.[49]

The current transfers surplus decreased by €1 billion year-on-year. This decrease stemmed from the fact that "other sectors" (emigrants' remittances, etc.) recorded net transfer payments of €62 million against net transfer receipts of €423 million in the corresponding period of 2009. Furthermore, the net current receipts of the general government (mainly from the EU) declined by €521 million, which is attributable to lower receipts (by two thirds) and higher payments (by one third).[50]

The combined effect of all these developments suggests a further decline in the current account deficit in 2010 (and its marginal decline as a percentage of GDP), as mentioned earlier. In 2011, it is estimated that the deficit as a percentage of GDP will continue to fall, despite the expected further rise in international crude oil prices and interest payments, if the necessary structural reforms for boosting competitiveness are implemented and start to bear fruit. It is already estimated that competitiveness on the basis of relative unit labour costs has improved in 2010 (see also section 3 of this Chapter), and this trend is expected to continue into 2011.

4.2 CAPITAL TRANSFERS BALANCE

In the January-November 2010 period, the capital transfers surplus dropped to €0.9 billion, from €2.0 billion in the corresponding period of 2009.[51] However, in 2010, disbursements for

46 The World Tourism Organisation (WTO) forecasts that international arrivals will increase by 4% in 2011, while the lowering of the VAT rate on hotel services from 11% to 6.5% is expected to bolster Greek tourist enterprises' price competitiveness.

47 Despite favourable conditions in freight markets for the two main branches of Greek merchant shipping (dry/bulk cargo vessels and oil tankers), annual rates of change in freights varied considerably. More particularly, the Baltic Dry Index (BDI) rose at an annual rate of 5.7% in 2010 and the Baltic Dirty Tanker Index (BDTI) by 54.2%.

48 For more details on the forecast growth rate of the world economy and of the volume of world trade (goods and services), see Chapter II.1.1. Furthermore, the consumption of crude oil in 2011 is expected to increase at an average annual rate of 1.6% (*Oil Market Report*, IEA, December 2010).

49 According to the Ministry of Finance (November 2010), interest payments on central government debt —both to residents and non-residents— are estimated to €15.9 billion in 2011, by 20% higher than the estimate for 2010 (see Table 8.9, Introductory Report on the 2011 Budget, Ministry of Finance, November 2010).

50 Current transfers from the EU mainly include direct aid and subsidies under the Common Agricultural Policy (CAP), as well as receipts from the European Social Fund, while current transfers to the EU include Greece's contributions (payments) to the Community budget. According to provisional data, net current transfers from the EU were reduced to €359 million in 2010 against €848 million in 2009, as a result of other payments to the EU, such as a €258 million contribution to the Joint European Support for Sustainable Investment in City Areas (JESSICA).

51 Capital transfers from the EU mainly include receipts from the Structural Funds —with the exception of the European Social Fund— and the Cohesion Fund, under the Community Support Framework.

projects and programmes under the National Strategic Reference Framework 2007-2013, which had been reduced in the first three years, rose considerably[52] and, by end-2010, 18.2% of the envisaged community resources was disbursed, a rate expected to exceed 35% by end-2011.[53]

Furthermore, until 2013 direct aid and subsidies under the Common Agricultural Policy were generally kept at the same levels, i.e. around €2.5 billion annually. Considering the above, total net EU transfers (current and capital transfers minus payments to the Community Budget) are estimated to exceed €4.0 billion in 2011, against €2.6 billion in 2010.

With respect to the outlook of transfers after 2013, the European Commission will review all expenditure under the Community Budget, including the CAP,[54] in the negotiations on the "Financial Perspectives 2014-2020" in the context of the EU strategy "Europe 2020".[55]

4.3 FINANCIAL ACCOUNT

The financial account during January-November 2010 recorded a net inflow of €21.9 billion, compared with an inflow of €21.6 billion in the corresponding 2009 period. In particular, net inflows were recorded under direct investment (€0.7 billion) and "other" investment (€45.1 billion), while a net outflow (of €24.1 billion) was recorded under portfolio investment.

The low level of foreign direct investment in Greece is a result of the economy's structural problems and particularly of product and labour market rigidities, weaknesses in infrastructures, complex and time-consuming bureaucratic procedures.[56] Net inflows as a result of direct investment by non-residents amounted to €1.6 billion (compared with €1.7 billion in the corresponding period of 2009),[57] while net outflows by Greek residents for direct investment abroad (in the Balkan countries and Poland, in particular) amounted to €0.8 billion against €1.1 billion in 2009.

Under portfolio investment, a net outflow of €24.1 billion was recorded over the same period (compared with an inflow of €32.5 billion in the corresponding 2009 period), due to a drop in non-residents' holdings of Greek government bonds and Treasury bills. This outflow was partly offset by an inflow of €12.1 billion, which was the result of a fall in resident credit institutions and institutional investors' holdings of foreign bonds and Treasury bills.

Under "other" investment, a net inflow of €45.1 billion (compared with a net outflow of €11.5 billion in the corresponding period of 2009) was recorded, attributable to (i) net general government borrowing of €27.5 billion under the financial support mechanism, and (ii) a €16.0 billion increase in non-residents' holdings of deposits and repos in Greece (inflow).

Finally, at end-November 2010 Greece's reserve assets stood at €4.4 billion.

52 Provisional data on the balance of payments by the Bank of Greece.
53 Statement of the Minister of Regional Development, Competitiveness and Shipping dated 2 January 2011.
54 New CAP implementation measures, which will determine the size, structure and disbursement of the relevant funds, will apply from 2013 onwards. See *Communication from the Commission, The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future*, COM (2010)672/5.
55 See Communication from the Commission, Europe 2020 *A Strategy for smart, sustainable and inclusive growth*, COM(2010)2020 final, 3 March 2010.
56 These problems have been repeatedly pointed out. See, for example, Bank of Greece, *Annual Report* 2009; *Entrepreneurship survey* (IOBE, 2010), *Global Corruption Barometer* (Transparency International, 2010); and *Doing Business* (World Bank, 2010).
57 The most important transaction involved a €939 million inflow for the participation of Crédit Agricole in the share capital increase of Emporiki Bank.

V FISCAL DEVELOPMENTS AND PROSPECTS

1 SUMMARY OF KEY DEVELOPMENTS AND PROSPECTS

The strict fiscal adjustment programme implemented in 2010 included cuts in wages and pensions, a freeze in public sector hiring, the slashing of operating costs and grants in the broader public sector, increases in indirect taxes, a tax overhaul and the introduction of new extraordinary levies on businesses and individuals. Despite the slowdown in economic activity, this programme led to substantial outcomes, leading —according to administrative data— to a reduction of the state budget deficit by 4.7 percentage points of GDP, to 8.4% in 2010, from 13.1% in 2009. However, these positive outcomes were undermined by an upward revision of the general government deficit and debt figures for the years 2006-2009, validated by Eurostat in November 2010. Specifically, for 2009, the general government deficit (on a national accounts basis) was revised from 13.6% of GDP to 15.4% of GDP, jeopardising achievement of the deficit target for 2010 (8.1% of GDP) that was originally set in the Economic Adjustment Programme.[1]

Fiscal adjustment is already under way, yielding tangible results. This has received the positive evaluation of the European Commission and the IMF in their individual progress reports published after the second review of the Greek economy under the Economic Adjustment Programme, which took place in November 2010 based on January-September 2010 data. According to these reports, Greece made a strong start on fiscal adjustment[2] and structural reforms (especially in respect to the social security system and the labour market). However, both reports point out that the months ahead will be crucial for the achievement of the Programme's targets.

Taking into account the revised deficit data for 2009 and their estimated impact on the 2010 deficit, the 2011 budget foresees a general government deficit (on a national accounts basis) of €21,900 million or 9.4% of GDP for 2010. However, the above two progress reports expect that the general government deficit will reach 9.6% of GDP in 2010 against the initial target of 8.1% of GDP set in the Memorandum of Understanding. One third of this deficit slippage is attributable to the upward revision of administrative data for 2009 and the remainder to a shortfall in revenue in the period of 2010 reviewed in these reports.

The target set in the Introductory Report on the 2011 Budget is to cut general government deficit (on a national accounts basis) to €16,833 million in 2011. This substantial €5.1 billion reduction in the deficit will be achieved through a €14,330 million (6.4% of GDP) fiscal adjustment package including revenue-increasing and expenditure-cutting measures (€7,830 million or 3.5% of GDP and €6,500 million or 2.9% of GDP, respectively). Also, a reduction of 1.2% of GDP will come from the carry-over effect of measures implemented in 2010 and a reduction of 2.5% of GDP from measures for 2011 specified in the Economic Adjustment Programme. Apart from these, additional deficit-reducing measures are also being introduced for 2011, amounting in total to 2.7% of GDP (1% of GDP on the revenue side and 1.7% on the expenditure side), mainly related to cuts in the expenditure of general government entities (public enterprises, hospitals, social security organisations, local government) with significant expenditure overruns in the past as a result of squandering and mismanagement of pubic funds. The anticipated total effect of the planned measures will exceed the size of the fiscal adjustment required to provide against risks related to the depth of the recession and the efficiency of the reforms – risks that could lead to deviations from the set targets in the execution of the 2011 budget.

1 For more details, see Section 4 of this Chapter.
2 According to the European Commission (European Economy Occasional Papers 72, December 2010, p. 10), the adjusted primary cash deficit as at September 2010 came to €3.6 billion, compared with a performance criterion of €4 billion, while the state budget primary expenditure reached €43 billion, against a performance criterion of €50 billion. The central government debt came to €328 billion, against a ceiling of €342 billion and new guarantees reached €1.1 billion, against a ceiling of €2 billion.

The IMF and European Commission reports welcome these ambitious targets and the new measures introduced in the 2011 budget,[3] and point out that, in the context of the planned medium-term adjustment for 2012-2014, emphasis should henceforth be placed on reforming public administration, redesigning existing social welfare programmes, effectively controlling general government expenditure (especially of public enterprises and entities, local government and hospitals), closing down redundant government agencies, further constraining personnel outlays, simplifying the tax system and improving tax administration so as to combat tax evasion and deliver tax and social justice.

Strict observance of the 2011 budget and successful implementation of the actions taken to combat tax evasion, reduce health and local government expenditure and restructure public enterprises are necessary preconditions for a further reduction of the general government deficit.

2 FISCAL DEVELOPMENTS IN 2010 (BASED ON ADMINISTRATIVE DATA)

According to administrative data released on 20 January 2011, in the twelve-month period January-December 2010, the general government deficit fell by 37.0%, to 8.4% of GDP or €19,454 million, compared with a respective deficit of 13.1% of GDP in 2009 and a deficit estimate of 8.9% of GDP or €20,623 million in the 2011 Budget (see Table V.1). This larger —by roughly €1 billion— reduction (compared with the estimate of the Introductory Report on the 2011 Budget) was the exclusive result of a sharper curtailment of primary expenditure.

According to data for the twelve-month period under review, ordinary budget revenue (before tax refunds) increased by 5.1% (€56.1 billion) against a rise of 5.7% (€56.5 billion) estimated in the Introductory Report on the 2011 Budget, showing in other words a shortfall of €341 million. This shortfall in revenue relative to the revised targets was limited to some extent by higher VAT receipts, especially from August 2010 onwards. Other significant contributions to this limitation were the arrangements for the settlement of tax arrears (resulting in proceeds of around €1 billion in the last two months of the year) and the fact that road duties for the year 2011 were almost fully paid within 2010, as there was no significant extension of the payment deadline (in contrast to what had been the case in previous years).

In the twelve months of 2010, ordinary budget expenditure (which does not include tax refunds) dropped by 9.1%, compared with a decline of 7.5% projected in the Introductory Report on the 2011 Budget. This was mainly achieved through a curtailment of primary expenditure, especially consumer expenditure and expenditure for wages and grants. Under the ordinary budget, primary expenditure shrank by 10.9%, against a projected decline of 9.0%, whereas interest payments increased by 7.3%, against a targeted increase of 7.6%.

In 2010 the deficit of the public investment budget came to €5,375 million or 2.3% of GDP, compared with an estimated 2.4% of GDP in the Introductory Report on the 2011 Budget and a deficit of 3.2% of GDP in 2009. This reduction reflects a rebound in revenue, which rose by 50.6% after falling by 59.3% in

3 In accordance with the updated Memorandum of Understanding (MoU) of November 2010, a set of new quantitative performance criteria has been established for March and June 2011, along with some indicative targets for September and December 2011. These are: (i) the floor on the adjusted primary fiscal balance of the general government: -€2.0 billion (March 2011), -€4.3 billion (June 2011), -€3.7 billion (September 2011), and -€3.2 billion (December 2011); (ii) the ceiling on state budget primary spending: €15 billion (March 2011) and €30 billion (June 2011) – indicative targets: €45 billion (September 2011) and €63 billion (December 2011); (iii) the ceiling on the stock of central government debt for 2011: €394 billion; (iv) the ceiling for 2011 on new central government guarantees: €1 billion; and (v) zero accumulation of new external (and domestic, as an indicative target) payments arrears, applying on a continuous basis from 1 January 2010 onwards. The scope of the new performance criteria was expanded to include payments arrears of public hospitals and other legal entities in public law, while from September onwards —as statistical data collection and assessment improves— targets will also refer to the financial results of the 16 public enterprises recently classified under general government.

Table V.1 State budget balance

(million euro)

	Annual data							Percentage changes				
				2010			2011			2010/2009		2011/10
	2007	2008	2009	Economic Adjustment Programme	Estimates	Execution	Budget	2008/07	2009/08	Estimates	Execution	Budget/ Execution
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8=2:1)	(9=3:2)	(10=5:3)	(11=6:3)	(12=7:6)
I. Revenue[1]	**54,024**	**56,698**	**50,531**	**58,382**	**54,280**	**54,240**	**59,442**	**4.9**	**-10.9**	**7.4**	**7.3**	**9.6**
1. Ordinary budget	49,152	51,680	48,491	55,124	51,388	51,168	55,520	5.1	-6.2	6.0	5.5	8.5
Revenue before tax refunds	51,775	55,334	53,443	60,224	56,488	56,147	59,320	6.9	-3.4	5.7	5.1	5.7
Tax refunds	2,623	3,654	4,952	5,100	5,100	4,979	3,800	39.3	35.5	3.0	0.5	-23.7
2. Public investment budget	4,872	5,018	2,040	3,258	2,892	3,072	3,922	3.0	-59.3	41.8	50.6	27.7
– Own revenue	...	350	183	149	250	271	200	...	-47.7	36.6	48.1	-26.2
– Revenue from the EU	...	4,668	1,857	3,109	2,642	2,801	3,722	...	-60.2	42.3	50.8	32.9
II. Expenditure[1]	**64,545**	**71,266**	**81,403**	**77,073**	**74,903**	**73,694**	**77,503**	**10.4**	**14.2**	**-8.0**	**-9.5**	**5.2**
State budget primary expenditure	54,754	60,059	69,078	64,056	61,643	60,471	61,583	9.7	15.0	-10.8	-12.5	1.8
1. Ordinary budget	55,742	61,642	71,815	67,873	66,403	65,247	69,003	10.6	16.5	-7.5	-9.1	5.8
– Interest payments	9,791	11,207	12,325	13,017	13,260	13,223	15,920	14.5	10.0	7.6	7.3	20.4
– Ordinary budget primary expenditure	45,951	50,435	57,992	54,611	52,798	51,679	52,633	9.8	15.0	-9.0	-10.9	1.8
– Grants for the repayment of public hospitals' arrears			1,498	245	345	345	450					
2. Public investment budget	8,803	9,624	9,588	9,200	8,500	8,447	8,500	9.3	-0.4	-11.3	-11.9	0.6
III. State budget balance	**-10,521**	**-14,568**	**-30,872**	**-18,691**	**-20,623**	**-19,454**	**-18,061**	**38.5**	**111.9**	**-33.2**	**-37.0**	**-7.2**
% of GDP	-4.6	-6.1	-13.1	-8.1	-8.9	-8.4	-7.9					
1. Ordinary budget	-6,590	-9,962	-23,324	-12,749	-15,015	-14,079	-13,483					
2. Public investment budget	-3,931	-4,606	-7,548	-5,942	-5,608	-5,375	-4,578					
IV. State budget primary surplus	**-730**	**-3,361**	**-18,547**	**-5,674**	**-7,363**	**-6,231**	**-2,141**					
% of GDP	-0.3	-1.4	-7.9	-2.5	-3.2	-2.7	-0.9					
V. General government deficit												
% of GDP (on a national accounts basis)	-6.4	-9.4	-15.4		-9.4		-7.4					
Amortisation payments	22,544	26,246	29,135	22,375	19,550	19,549	28,130	16.4	11.0	-32.9	-32.9	43.9
Procurement of defence equipment	2,129	2,597	2,175	1,800	1,500	1,017	1,600	22.0	-16.2	-31.0	-53.2	57.3
GDP (at current prices)	227,134	236,936	235,035	231,000	231,888	231,888	228,408	4.3	-0.8	-1.3	-0.8	-1.5

Source: State General Accounting Office.
* Provisional data.
1 For comparability purposes, tax refunds are not included in expenditure and have been deducted from revenue, a practice followed by the Ministry of Finance in the past few years.

2009, and a further 11.9% decrease in investment outlays after a 0.4% drop in 2009.

3 FISCAL DEVELOPMENTS IN 2010 (BASED ON CASH DATA)

According to available cash data, in 2010 the central government deficit excluding movements in the OPEKEPE account[4] dropped by 28.3%, to €23,396 million or 10.1% of GDP, from 13.9% of GDP in 2009 (see Table V.2 and Chart V.1). It should be noted that had GDP in 2010 remained unchanged at its 2009 level, the deficit drop would have been even sharper – about 0.1% of GDP more. Underlying this development was an increase in state budget revenue coupled with a decrease in expenditure. For the year as a whole, the growth rate of state budget revenue (on a cash basis) was 9.7%, after a drop of 11.2% in 2009. Ordinary budget receipts rose by 7.7%, while public investment budget revenue increased by 57.8%. In December 2010, state budget revenue grew by 47.1%, compared with a decline of 7.3% in December 2009. This positive development was the result of a 27.2% increase in ordinary budget revenue and a 294.8% surge in public investment budget revenue. A particularly pronounced improvement was the decline observed in ordinary budget primary expenditure, which fell by 11.3% in 2010, after increasing by 16.9% in 2009. Public investment

4 The OPEKEPE account has recorded a large deficit in 2010, as the aid to farmers under the income support scheme ("single payment scheme") for 2010 (roughly €2 billion) was paid in the last two months of that year, but the respective EU funds are to be received in early 2011.

Table V.2 Net borrowing requirement of central government on a cash basis[1]

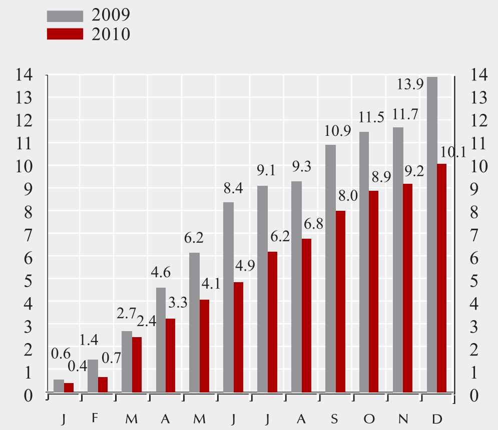
(million euro)

	January-December		
	2008	2009	2010*
1. State budget	**17,361**	**32,622**	**23,396**
Percentage of GDP	7.3	13.9	10.1
– Ordinary budget[2]	12,585[4]	25,318[5]	18,333[6]
– Public investment budget	4,776	7,304	5,063
2. ELEGEP – OPEKEPE[3]	**-254**	**-1,778**	**2,382**
3. Central government (1+2)	**17,107**	**30,844**	**25,778**
Percentage of GDP	7.2	13.1	11.1

Source: Bank of Greece.
* Provisional data.
1 As shown by the respective accounts with the Bank of Greece and other credit institutions.
2 Including movements in public debt management accounts.
3 Payment and Control Agency for Guidance and Guarantee Community Aid. It replaced DIDAGEP (Agricultural Markets Management Service) as from 3 September 2001.
4 Including proceeds of €430.8 million from the sale of OTE shares, as well as expenditure for a grant of €570.8 million to OGA, but excluding the payment of Greek government debt to IKA by the issuance of bonds (€1,172 million). During the strike of the Bank of Greece personnel in March 2008, public debt service payments of €1,537 million were effected through commercial banks, of which €359 million were interest payments not reflected in the cash data of the Bank of Greece. If the latter amount is included in interest payments, the net borrowing requirement of the State budget rises from 7.3% to 7.5% of GDP and the net borrowing requirement of central government from 7.2% to 7.4% of GDP.
5 Excluding expenditure of €3,769 million for the acquisition of preference shares of Greek banks pursuant to Law 3723/2008 providing for banks' capital support and of €1,500 million for the issuance of bonds to cover the capital increase of the Guarantee Fund for Small and Very Small Enterprises (TEMPME), but including proceeds of €673.6 million from the sale of OTE shares, of €72.3 million from the privatisation of Olympic Airlines, as well as the payment of Greek government debt to OGA by the issuance of bonds of €531 million.
6 Including expenditure of: (i) €297.9 million (bond issue reopening) for the payment of past government debt to IKA; and (ii) €714.7 million (bond issuance) for the payment of past government debt to the Hellenic Petroleum SA (ELPE), EGNATIA MOTORWAY SA and the Agricultural Bank of Greece, but excluding expenditure of: (i) €849.2 million (bond issue reopening) for the repayment of public hospitals' arrears pursuant to Article 27 of Law 3867/2010, which burdens the 2010 debt; and (ii) €424.3 million (bond issuance) for the settlement of financial obligations of the Hellenic Agricultural Insurance Organisation (ELGA), a replacement of previous loan with the same terms. Also excluding expenditure of €1,500 million for payment of capital of the Hellenic Financial Stability Fund.

Chart V.1 Net borrowing requirement of central government on a cash basis (January 2009 - December 2010)

(percentage of GDP)



Source: Bank of Greece.
"Monthly" data refer to the cumulative sum for the period from the beginning of the year up to the reference month.

budget expenditure also fell by 11.3% in 2010, having declined by 2.8% in 2009. Interest payments grew by 7.7%, against an increase of 13.5% in 2009.

4 MAIN FACTORS FOR THE REVISION OF DATA (2009) AND ESTIMATES (2010) ON DEFICIT AND DEBT

According to Eurostat information note on Greek fiscal data (15 November 2010), the 2006-2009 general government deficit and debt —on a national accounts basis— were revised upwards. In particular, the general government deficit for 2009 was revised from 13.6% to 15.4% of GDP and the public debt for 2009 was revised from 115.1% of GDP or €273,407 million to 126.8% of GDP or €298,032 million.

The revision of the 2009 *deficit* is mainly attributed to the reclassification of public corporations from the broader public sector to the general government sector (0.8% of GDP), the widening of the deficit of both social security organisations (0.8% of GDP) and local governments (0.1% of GDP), and the downward revision of 2009 GDP at current prices (0.2% of GDP).

The reclassification of public corporations was what impacted most on the increase in 2009 *public debt* (7.7% of GDP). Otherwise, the 2009 public debt increased by 2.3% of GDP on account of the recording of swaps, by 1.3% of GDP because of the downward revision of 2009 GDP at current prices, by 0.4% of GDP due to other adjustments, and by 0.04% of GDP by reason of the recording of the municipalities' foreign debt.

It is worth mentioning that, for its larger part, the increase in 2009 debt is not a result of new government liabilities created in 2009 or 2010, but comes from outstanding state-guaranteed loans to public enterprises. As a number of public corporations were reclassified under the general government sector, state-guaranteed loans to these corporations automatically added to public debt, reducing at the same time the level of state-guaranteed loans.

According to the Introductory Report on the 2011 Budget, public debt for 2010 is estimated to €330,400 million, or 142.5% of GDP. This amount does not include the third instalment of the euro area Member States pooled bilateral loan to Greece (€6,500 million), received in January 2011; it does, however, include the third instalment of the IMF loan to Greece (€2,500 million). The increase in the debt-to-GDP ratio from 126.8% in 2009 to 142.5% of GDP in 2010 was mainly a result of the following: (i) the estimated 2010 deficit (9.4% of GDP on a national accounts basis); (ii) the taking up of hospitals' loans[5] (2.3% of GDP); (iii) the financing of the Hellenic Financial Stability Fund (1.1% of GDP);[6] (iv) the lower

5 While in October 2009 the liabilities of hospitals were recorded under 2005-2009 *deficits*, they were not included in the corresponding years' *debts*, as issuance of the relevant bonds started in December 2010. By end-2010, bonds issued for paying up hospital liabilities amounted in total to €849.2 million (corresponding to 0.4% of GDP), out of the projected €5.34 billion that correspond to 2.3% of GDP. Therefore, only this amount added to 2010 debt; the balance will add to 2011 debt.

6 However, out of the projected €2.5 billion (or 1.1% of GDP), only €1.5 billion (or 0.6% of GDP) were paid up within 2010.

GDP levels (1.9% of GDP); and (v) a cash balance estimated at 1.1% of GDP on 31 December 2010.

5 KEY FISCAL ADJUSTMENT MEASURES AND INSTITUTIONAL FISCAL REFORMS IN 2011

Without doubt, 2011 is a crucial year for the achievement of the Economic Adjustment Programme's targets. The path of the Greek economy this year will determine to a large extent its ability to successfully materialise the fiscal adjustment programme in its entirety by 2014. The Introductory Report on the 2011 Budget provides for the implementation of actions already undertaken and the introduction of new structural reforms in key branches of the general government sector, such as healthcare, transport and local governments. Successful implementation of these reforms is imperative.

As already mentioned, the anticipated new fiscal interventions for 2011 amount to 2.7% of GDP in total (1% on the side of revenue and 1.7% of expenditure) and mainly relate to expenditure cuts in certain general government branches (public utilities, hospitals, social security organisations, local governments).[7]

In particular, *reforms in the healthcare sector* are expected to bring in savings of 0.5% of GDP for 2011. These reforms mainly involve the reduction of expenditure for medicine and of hospitals' net overhead costs, as well as administrative reforms.[8] Significant interventions for the rationalisation of healthcare expenditure, such as the merger of hospitals, are under discussion, while notable cost-cutting interventions are envisaged in the draft law on structural changes in the healthcare sector, which was published in early December 2010 and submitted to Parliament on 20 January 2011.[9]

The projected *reforms in the public enterprises* sector are expected to save 0.3% of GDP. They aim to improve balance sheets through reassignments of the redundant personnel, to further reduce overhead and labour costs through a better use of the enterprises' real estate, and to improve the cost-to-income ratio of public transportation by increasing fares. Implementation of the plan for restructuring the Hellenic Railways Organisation (OSE) and TrainOSE and adoption of the plan for restructuring the Athens Urban Transport Organisation (OASA) are also envisaged.[10] At the same time, implementation of all public enterprises'

7 Law 3899/2010, passed on 14 December 2010, includes urgent measures for the implementation of the financial support programme for Greece, including: (i) measures for the execution of the 2011 Budget; (ii) administrative arrangements; and (iii) arrangements for the functioning of the labour market and the framework for the negotiation of collective labour agreements. Fiscal and tax measures for the execution of the 2011 Budget and administrative measures fall under five distinct categories: (i) tax measures; (ii) policy and ceilings for public sector recruitments; (iii) measures on the function of public organisations and enterprises; (iv) other administrative measures; and (v) arrangements for the Agricultural Bank of Greece. Moreover, with respect to the reconstruction of the latter, it was decided that personnel outlays will be reduced by 10% (for those with total earnings of more than €1,800/month) and that the allowance for serving customers will be abolished, whereas the amount for the support of low-wage workers will continue to be paid. In addition to these, the hiring of the 700 persons selected after the examination held by the Agricultural Bank of Greece is cancelled: vacancies are eliminated and the persons that passed the examination will be appointed to the Social Insurance Institute (IKA).

8 In more detail, the updated Memorandum of November 2010 provides for: (i) improved governance, as regards the agreements between social security funds and healthcare providers and the joint purchase of healthcare services and goods with a view to reducing healthcare expenditure; (ii) electronic prescribing; (iii) computerisation of hospitals and improved monitoring of transactions with the introduction of a double-entry accounting system and a single procurement system; (iv) increased use of generic medicines; (v) lower medicine prices; (vi) appointment of internal auditors; and (vii) publication of monthly data on major social security funds' healthcare expenditure.

9 It provides, inter alia, for the establishment of a National Organisation for the Provision of Healthcare Services, which will include: all National Health System hospitals, the health insurance branches of the Social Insurance Institute (IKA), the Agricultural Insurance Fund (OGA) and the Self-Employed Workers' Insurance Organisation (OAEE), the Civil Servants' Sickness Insurance Fund (OPAD), and the Seamen's Home. According to this draft law, Social Insurance Institute hospitals will be incorporated in the National Health System.

10 Within the scope of urban transports restructuring, the draft law on "Reform, restructure and development of urban transportation of the Periphery of Attica and other provisions" was presented to the Council of Ministers on 12 January and was then submitted to Parliament on 27 January 2011. It proposes the following main interventions: (i) take-over by the central government of the accumulated liabilities of OASA group, totalling €3.8 billion; (ii) transformation of OASA into a metropolitan bus service; (iii) merger of all transport services operators into only two organisations: one for track-based transport and one for road transport; (iv) compilation of business plans and constant monitoring of management; (v) reassignment of redundant personnel; (vi) wage cuts; (vii) improved revenue from transportation; (viii) abolition of all collective labour agreements currently in effect and launch of fresh negotiations for the conclusion of new ones; (ix) reduction of government subsidies to 40% of the annual overhead costs of OASA group (down from today's roughly 70%).

and organisations' business plans will be monitored and controlled.[11]

Moreover, *the cut of non-productive and non-targeted* spending is expected to save 0.3% of GDP in 2011.

Better management and use of public property and more effective collection of tax liabilities by rationalising the processes for resolving tax disputes and judicial appeals are expected to contribute in a 0.7% of GDP income increase in 2011.[12]

Certain planned interventions are already being implemented (such as the increase in the reduced and low VAT rates). In addition, the *1:5 rule for recruitments* will apply across the board in the general government sector,[13] while *transfers to the local government will be reduced*, in order to ensure the saving of resources provided for under the "Kallikratis" Programme.

As is stated in the Update of the Memorandum (November 2010), the government should present by March 2011 *an action plan with a binding implementation timetable for the necessary reforms that will reduce the deficit in the medium term.* The plan will identify additional fiscal measures of a structural nature, amounting to over 5% of GDP, which should be materialised within 2012-2014, in order to bring the general government deficit down to 2.6% of GDP. The plan should mainly involve: restructuring all loss-making public enterprises; eliminating unnecessary public sector entities; improving tax administration; reforming public administration based on the operating evaluation to be conducted by the OECD; rationalising the public sector's pay and human resources management systems; and moderating defence expenditure.

Considerable efforts will be made to *improve fiscal institutions.* Regarding tax revenue, emphasis will be placed on implementing a plan to combat tax evasion, removing the obstacles to effective tax collection (e.g. resolving tax disputes, etc.), and planning medium-term reforms. As regards *expenditure*, the focus will be on a more effective control (e.g. by appointing financial auditors in all public entities), greater transparency (by publishing general government data on a monthly basis), and improved budgeting (by adopting a comprehensive medium-term fiscal strategy for 2012-2014 and setting specific goals for the general government and its individual entities). Lastly, the *pension system reform* is expected to be completed in 2011, after the impact assessment conducted by the National Actuarial Authority, so as to ensure the sustainability of both the main and the auxiliary pension funds.

11 Law 3899/2010 enhances the framework for the financial supervision of public enterprises and organisations (DEKOs) and includes measures aimed at reducing their wage bill. As regards its scope, "public enterprises" now include – without exceptions any more – all those sociétés anonymes (SA) on which the Greek state has a direct or indirect strong influence, owing to share capital participation or other form of financial involvement, or because of the specific rules governing their operation, as well as all legal entities in private law in which the Greek state has a majority interest and performs their administration and management. Henceforth, DEKOs will be under the supervision of the Ministry of Finance and will be also required to report both monthly cash data (in accordance with Law 3871/2010) and audited quarterly financial statements. Furthermore, sanctions (even suspension of financing) shall be imposed in the event of non-compliance. Significant interventions are also provided for as regards the income policies implemented by DEKOs. A 10% reduction in employees' earnings is decided, applicable to total monthly earnings of over €1,800. Marital status and occupational hazard benefits are exempted. A maximum spending rate of 10% on the total wage bill is provided for all extra expenses or allowances paid (overtime, per diem, travel, overwork, detached duty, rest-day compensations, etc.). A maximum of €4,000 is set for gross monthly earnings (on a twelve-month basis), excluding chairmen, governors and directors. The maximum possible reduction in an employee's total earnings may be up to 25%. Additionally, any increase in the earnings of public servants is prohibited for 2011.

12 The tax measures included in Law 3899/2010 are: (i) an increase in the low VAT rate from 11% to 13% and in the extra-low VAT rate from 5.5% to 6.5%; (ii) a reduction in the VAT rate on medicines and on accommodation services, from the currently applicable 11% to the new extra-low rate of 6.5%; (iii) simplification of the heating oil distribution system, through the abolition of the increased excise duties on fuel during the customs clearing process that is mandatory for heating oil suppliers; (iv) a reduction in excise duties on tobacco from 67% to 65% and an increase in the fixed rate from 10% to 15%; (v) tax relief and exemption measures for excise duties on electric energy; (vi) suspension of the "source of wealth" measure for first-time buyers of properties with an objective value of up to €200,000; (vii) initiatives to replace old automobiles by discounts on car registration fees; (viii) revaluation of luxury tax on cars in the medium factory price range.

13 Law 3899/2010 establishes implementation of the "one recruitment for every five retirements or dismissals" rule in the entire public sector. Under the 1:5 rule, recruitment also refers to any transfer of personnel from the broader public sector to the general government sector. Furthermore, in 2011 the number of fixed-term contracts or project contracts is reduced by 15% compared with 2010.

VI MONEY, CREDIT AND CAPITAL MARKETS

1 MONETARY AGGREGATES

M3[1] (excluding currency in circulation) declined in 2010 at a gradually accelerating pace, which came to -12.5% in December (2009 Q4: 4.8%, see Table VI.1). M3 growth weakened in Greece during the period under review. This is connected with a strong deterioration of the macroeconomic environment, as well as with increased uncertainty on the part of savers. At the same time, the weakening was intensified by the reduced liquidity of enterprises, as a result of the slower pace of credit expansion and of the change in their transactional behaviour.[2] Let it be noted that the annual rate of change of M3 in Greece has been standing at levels lower than that of euro area M3 since February. The difference between the two rates widened significantly in the first half of the year, mainly reflecting different cyclical positions between Greece and the other euro area countries.

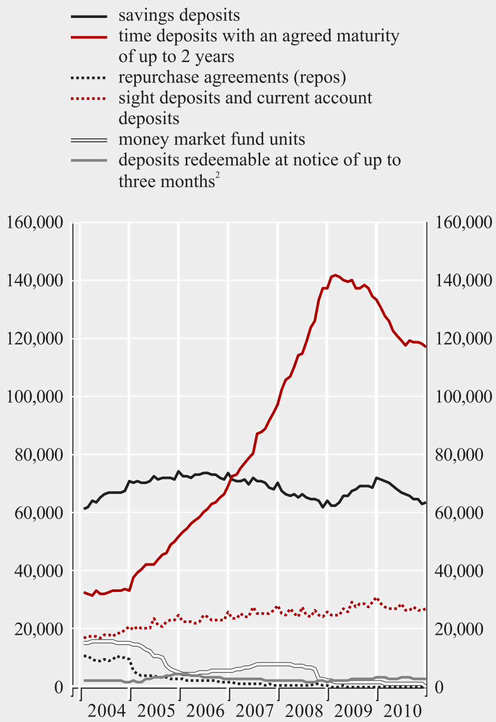
Total deposits included in M3 were reduced in the period under review, reflecting declines in individual categories. In more detail, the factors mentioned above contributed to a flow out of time deposits[3] and as a result their average annual rate of change reached highly negative levels (see Table VI.1). Similarly, overnight deposits also declined,[4] at a rate that picked up gradually in the course of the year (see Table VI.1). The difference between this rate and the generally higher and positive euro area one widened significantly from the second quarter of 2010 onwards. Of the remaining M3 components, repos and money market fund shares declined further in the period under review (see Table VI.1 and Chart VI.1).

2 INTEREST RATES ON DEPOSITS

Interest rates on most types of new deposits and repos in Greece generally increased in 2010, contrary to 2009, resulting in an average deposit rate of 2.17% in December 2010, from 1.32% in December 2009. The largest increase was recorded in both households' and non-financial corporations' deposits with a maturity of up to one year (see Table VI.2A and Chart VI.2). The rise in the time deposit rate

Chart VI.1 Deposits, repurchase agreements and money market fund units in Greece[1] (January 2004 - December 2010)

(end-of-period balances; million euro)



Source: Bank of Greece.
1 These aggregates are included in M3 according to the ECB definition and therefore constitute the Greek contribution to the corresponding euro area aggregates.
2 Including savings deposits in currencies other than the euro.

1 This aggregate, which represents the Greek contribution to the corresponding euro area aggregate, includes overnight deposits, deposits with a maturity of up to two years and deposits redeemable at notice of up to three months, repurchase agreements, money market fund shares and securities with a maturity of up to two years. It should be recalled that Greek M3 does not include currency in circulation (M0). As from January 2002 when euro banknotes were put in circulation and replaced the national ones, currency in circulation is calculated only for the euro area as a whole and not for each country separately.
2 This year enterprises reduced their credit transactions and increased their cash holdings, which are not included in the calculation of the Greek M3 (see footnote 1).
3 The balance of this type of deposits was reduced in 2010 by €16.4 billion (amount not adjusted for foreign exchange valuation differences). Its contribution to M3 (excluding currency in circulation), however, remained unchanged (55.4%) in December compared to end-2009.
4 By €12.3 billion. Thus, their contribution to M3 (excluding currency in circulation) rose slightly (December 2010: 42.7%, December 2009: 42.6%).

Table VI.1 Greek contribution to the main monetary aggregates of the euro area

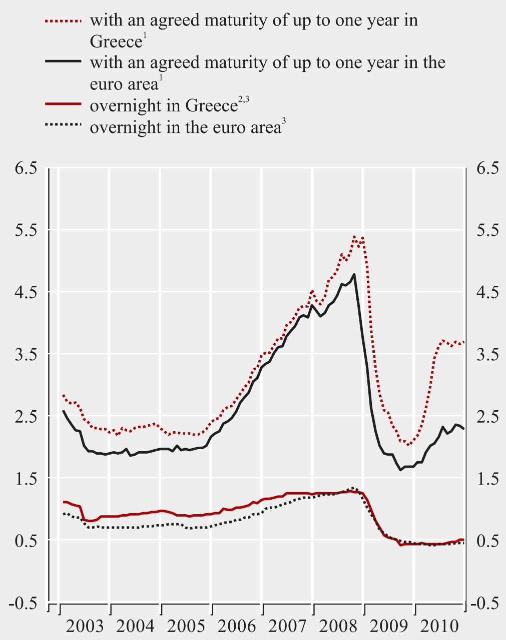
(non-seasonally adjusted data)

	Outstanding balances on 31.12.2010 (million euro)	Annual percentage changes[1]										
		2005	2006	2007	2008	2009		2010				
		Q4[2]	Q4[2]	Q4[2]	Q4[2]	Q4[2]	Dec.[3]	Q1[2]	Q2[2]	Q3[2]	Q4[2]	Dec.[3]
1. Overnight deposits	90,831	9.3	0.7	-0.9	-7.0	11.4	13.9	13.4	4.2	-4.1	-8.0	-11.9
1.1 Sight deposits and current account deposits	26,977	20.2	1.8	10.3	-3.6	15.7	19.8	14.4	3.7	-4.7	-7.6	-13.1
1.2 Savings deposits	63,854	6.3	0.2	-4.6	-7.9	9.5	11.5	12.8	4.5	-3.7	-8.1	-11.4
2. Time deposits with an agreed maturity of up to 2 years	117,624	45.2	37.5	42.2	39.1	2.7	-2.4	-7.3	-13.6	-15.0	-13.8	-12.8
3. Deposits redeemable at notice of up to 3 months[4]	3,015	105.2	-24.4	-20.3	-24.1	64.2	69.9	56.9	14.9	5.3	-7.0	-9.6
4. Total deposits (1+2+3)	211,470	20.7	12.1	15.9	15.3	6.6	4.6	1.2	-6.3	-10.3	-11.3	-12.4
5. Repurchase agreements	87	-72.8	-35.7	-54.3	-11.4	-67.1	-50.0	-39.6	-51.4	-50.1	-48.9	-54.3
6. Money market fund shares/units	935	-51.8	-2.5	40.5	-58.8	-44.8	-32.1	-27.7	-33.8	-46.3	-45.8	-39.2
7. Debt securities issued with a maturity of up to 2 years[5]	6	-42.2	24.2	-	-	-	-	-	-	-	-	-
8. M3 excluding currency in circulation (4+5+6+7)	212,498	6.9	10.6	14.7	14.4	4.8	3.2	0.1	-7.3	-11.1	-11.8	-12.5

Sources: Bank of Greece and ECB.
1 Annual rates of change in the corresponding index, which is compiled on the basis of outstanding stocks for December 2001 and cumulative monthly flows, adjusted for exchange rate variations, reclassifications, etc.
2 The quarterly average is derived from monthly averages (which are calculated as arithmetic means of two successive end-of-month figures) and is not the three-month average of end-of-month annual growth rates (see the Technical notes in the "Euro area statistics" section of the ECB *Monthly Bulletin*).
3 Based on end-of-month levels.
4 Including savings deposits in currencies other than the euro.
5 This aggregate is calculated on a consolidated basis with the other euro area countries and thus does not include domestic MFIs' holdings of debt securities with a maturity of up to two years issued by euro area MFIs.

Chart VI.2 Bank interest rates on new deposits by households in Greece and the euro area (January 2003 - December 2010)

(percentages per annum)



Sources: Bank of Greece and ECB.
1 Monthly average rate.
2 Interest rate on savings deposits (these deposits represent the bulk of overnight deposits and their interest rate is almost identical to the overnight rate).
3 End-of-month rate.

reflected liquidity pressures on Greek banks[5] and the credit institutions' efforts to maintain or expand their deposit base by offering attractive terms.

Unlike nominal rates, average real interest rates[6] on deposits, which remained negative throughout 2010, followed a downward course from January to May, then stabilised for four months and increased in the fourth quarter of 2010. On average, the real interest rate on households' overnight deposits fell to -4.26% in 2010, from -0.12% one year before, while the rate on deposits with a maturity of up to one year fell to -1.44% (2009: 1.52%).[7]

In the period under review, euro area interest rates on most types of deposits picked up, albeit less markedly than the corresponding Greek ones, and thus the difference between the two widened (see Tables VI.2A and VI.2B). In fact, in the most significant type of deposits, i.e. deposits with an agreed maturity of up to 1 year by households, this difference more than tripled (December 2010: 141 basis points, December 2009: 43 basis points).

3 FINANCING OF THE ECONOMY

The annual growth of total credit[8] by domestic MFIs slowed to 5.5% in December 2010, from 6.6% at end-2009, having recorded fluctuations in the course of the year (see Chart VI.3 and Table VI.3). This development reflects (i) a significant decline in the annual rate of change of financing to the domestic private sector, which entered negative territory (-0.2%) in December 2010 (December 2009: +4.1%) for the first time, and (ii) increased credit expansion to the general government, especially after June 2010.[9] The slower rate of change of financing to the domestic private sector is the result of a decelerated rate of change of financing both to

5 This pressure stems from limited available funding sources, on account of the continuous fall in bank deposits and the lack of access to international money and capital markets. For more details on the liquidity of Greek banks see Section 7 of the present chapter.

6 A period's average real interest rate is derived by deducting the average inflation rate of a period from the average nominal interest rate of the same period.

7 In December 2010 the real interest rate on overnight deposits was -4.67% (December 2009: -2.21%) and the interest rate on deposits with an agreed maturity of up to one year -1.49% (December 2009: -0.54%).

8 The outstanding amount of credit to general government and the domestic private sector is calculated as the total outstanding amount of loans, Greek government securities and corporate bonds held by domestic MFIs plus the outstanding amounts of securitised loans and corporate bonds. Credit growth rates are derived from the differences of outstanding amounts of credit between the beginning and the end of the reference period. Loan write-offs during the reference period are then added to this difference to calculate the net flow of total credit, which is also corrected for revaluations of Greek government bonds (included in the stock of credit to general government), as well as for exchange rate valuation differences (adding valuation gains from an appreciation of the euro towards foreign currencies and subtracting valuation losses from a depreciation of the euro towards foreign currencies) on foreign currency-denominated loans which are expressed in euro. Moreover, the calculation of credit expansion does not include MFIs' net transfers to subsidiaries or branches abroad. These transactions, although leading to a change in the outstanding amount of credit, are not included in the net flows or the annual growth rates, as they do not affect the flow of credit to the domestic private sector.

9 The faster growth of financing to the general government is the result of a corresponding acceleration of the rate of change in the value of the government bond portfolio held by other monetary financial institutions (MFIs excluding the Bank of Greece) to 33.3% in December 2010. The value of this portfolio was €44.8 billion in December 2010, recording an annual increase of €11.2 billion.

Table VI.2A Bank interest rates on new deposits by households in the euro area and Greece

(percentages per annum)

	December 2009	December 2010	Change Dec. 2009/ Dec. 2010 (percentage points)
Overnight[1]			
Weighted average interest rate in the euro area	0.45	0.44	-0.01
Maximum interest rate	1.21	1.12	-0.09
Minimum interest rate	0.05	0.07	0.02
Interest rate in Greece	0.43	0.50	0.07
Interest rate differential between Greece and the euro area	-0.02	0.06	0.08
With an agreed maturity of up to one year[2]			
Weighted average interest rate in the euro area	1.67	2.27	0.60
Maximum interest rate	4.13	3.98	-0.15
Minimum interest rate	0.50	0.75	0.25
Interest rate in Greece	2.10	3.68	1.58
Interest rate differential between Greece and the euro area	0.43	1.41	0.98

Sources: ECB and euro area NCBs.
1 End-of-month rate.
2 Monthly average rate.

Table VI.2B Bank interest rates on new deposits by households in euro area countries[1]

(percentages per annum)

	Overnight[2]		With an agreed maturity of up to 1 year[3]	
	December 2009	December 2010	December 2009	December 2010
Austria	0.64	0.57	1.21	1.22
Belgium	0.37	0.34	0.73	0.75
Cyprus	1.21	1.12	4.13	3.98
Finland	0.39	0.43	1.32	1.68
France	0.11	0.08	1.43	1.87
Germany	0.75	0.75	0.87	1.06
Greece	**0.43**	**0.50**	**2.10**	**3.68**
Ireland	0.64	0.62	1.62[4]	1.75[4]
Italy	0.26	0.28	1.01	1.40
Luxembourg	0.85	0.71	0.50	0.80
Malta	0.30	0.28	1.97	1.41
Netherlands	0.44	0.43	2.51	2.49
Portugal	0.05	0.07	1.52	2.56
Slovakia	0.34	0.37	1.88	1.97
Slovenia	0.23	0.20	2.00	1.95
Spain	0.36	0.27	2.15	2.68

Sources: ECB and euro area NCBs.
1 Despite the efforts to harmonise statistical methodologies across the euro area, considerable heterogeneity remains in the classification of banking products, which is partly due to differences in national conventions and practices as well as in regulatory and fiscal arrangements.
2 End-of-month rate.
3 Monthly average rate.
4 The interest rate applies to all time deposits irrespective of maturity. The latest available data refer to November 2010.

Table VI.3 Total credit[1] to the economy by domestic MFIs

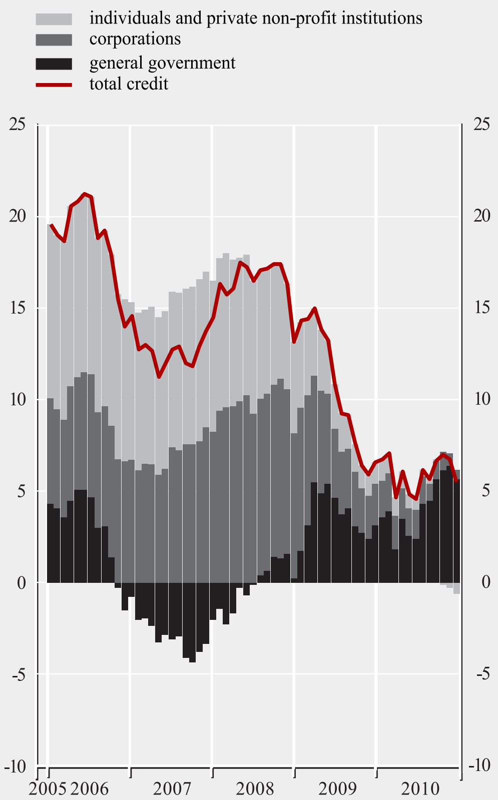
(annual percentage changes, non-seasonally adjusted data)

	2007	2008	2009		2010					
	Q4[2]	Q4[2]	Q4[2]	December[3]	Q1[2]	Q2[2]	Q3[2]	Q4[2]	November[3]	December[3]
1. Total credit by MFIs	13.3	16.3	6.5	6.6	6.5	5.2	5.8	6.6	6.8	5.5
2. Credit to general government	-14.6	7.3	17.2	19.4	19.8	13.9	22.5	33.2	35.2	30.2
3. Credit to the private sector	21.7	18.3	4.4	4.1	3.8	3.0	1.9	0.7	0.4	-0.2
3.1 Enterprises[4]	20.1	21.8	5.5	5.1	4.7	3.8	2.9	1.8	1.6	1.0
3.2 Sole proprietors[4]	-	-	-	-	-	-	2.0	-0.2	-1.0	-0.8
3.3 Individuals and private non-profit institutions	23.6	14.8	3.3	3.1	2.8	2.2	0.8	-0.5	-0.6	-1.4
of which:										
3.3.1 Housing loans	23.3	13.4	3.9	3.7	3.6	3.1	1.7	0.4	0.3	-0.4
3.3.2 Consumer loans	22.6	18.4	2.4	2.0	1.4	0.3	-1.2	-2.9	-3.1	-4.2

Source: Bank of Greece.
1 Including MFI holdings of bank loans, corporate bonds and government securities, as well as securitised bank loans and corporate bonds. The rates of change take into account loan write-offs/write-downs and foreign exchange valuation differences in respect of loans denominated in foreign currencies. It should be noted that the rates of change in financing to enterprises take into account loans and corporate bonds transferred by MFIs to subsidiaries abroad and to one domestic finance company in 2009. In February and March 2010, however, one bank repurchased part of these bonds (€686 million) and although this transaction led to an increase in the outstanding amount of credit, it was not included in the net flow of credit and its annual rate of change.
2 The quarterly average is derived from monthly averages (which are calculated as arithmetic means of two successive end-of-month figures) and is not the three-month average of end-of-month annual growth rates (see the Technical notes in the "Euro area statistics" section of the ECB Monthly Bulletin).
3 Based on end-of-month levels.
4 Since June 2010, loans to sole proprietors are presented separately and are no longer included in credit to enterprises. The change is purely statistical and does not influence credit expansion rates.

Chart VI.3 Total credit to the economy by domestic MFIs and its sectoral breakdown (December 2005 - December 2010)

(annual percentage changes; shares in percentage points)



Source: Bank of Greece.
Note: Comprising outstanding MFI loans to the domestic private sector and general government, MFI holdings of government securities and corporate bonds and outstanding securitised loans and securitised corporate bonds. The rates of change are adjusted for exchange rate variations and write-offs carried out by banks during the reference period.

enterprises[10] and to individuals and private non-profit institutions.

In more detail, the cumulative net flow of **financing to the domestic private sector** was €-0.5 billion in 2010 (against a positive flow of €10.3 billion in 2009, see Chart VI.4). This is due to the corresponding negative flow of financing to individuals and private non-profit institutions; the cumulative net flow to enterprises, however, was positive. Let it be noted that negative flows of financing to individuals and private non-profit institutions was first seen in April 2010 and to enterprises in October 2010 (although a positive flow was recorded in December). These trends seem to reflect the time lag of changes in financing to enterprises in Greece both in relation to the decline in economic activity and to the change in household financing.[11]

According to financial accounts data (see Chart VI.5), private sector indebtedness increased overall in September 2010 compared to December 2009, as the debt-to-GDP ratio of the household sector (comprising individuals and private non-profit institutions, farmers-sole proprietors and unincorporated businesses) rose to 59.8% (December 2009: 52.8%), more than offsetting the fall in the corresponding ratio of non-financial corporations, to 60.7% (December 2009: 66.4%).

The observed deterioration of the private sector's financing conditions in 2010 was driven by both demand and supply of credit, which worsened on account of the continuing decline in economic activity. The quarterly Bank Lending Surveys record an overall drop in the demand for loans from households and corporations alike in 2010, while banks also tightened their credit standards.[12] According to these surveys, negative demand factors became more important in 2010 than in 2009, due to the decline in economic activity. It is estimated that, in the current juncture, factors that lead to the reduction of supply, particularly the continuing increase in doubtful loans and the limitations on the external financing of banks, have more

10 Since June 2010, loans to farmers, sole proprietors and unincorporated businesses constitute a separate category and are no longer included in lending to enterprises.

11 Moreover, these trends have begun to be confirmed as regards credit in the euro area as a whole, which has entered an upward phase of the business and credit cycles.

12 The Bank Lending Survey is conducted by the Bank of Greece every three months, in the context of the corresponding Eurosystem survey. According to its findings, in the last two quarters of 2010, demand for credit by enterprises remained almost unchanged on account of the inflationary effect from their loan restructuring, in contrast to the first two quarters of the year, during which it declined. Regarding households, demand for loans decreased in the fourth quarter, as was also the case in the previous three quarters. At the same time, banks tightened their corporate credit standards in the last quarter of 2010, same as in the previous three quarters. In connection to households, banks tightened their credit standards somewhat in the fourth quarter, having tightened them more in the previous three quarters.

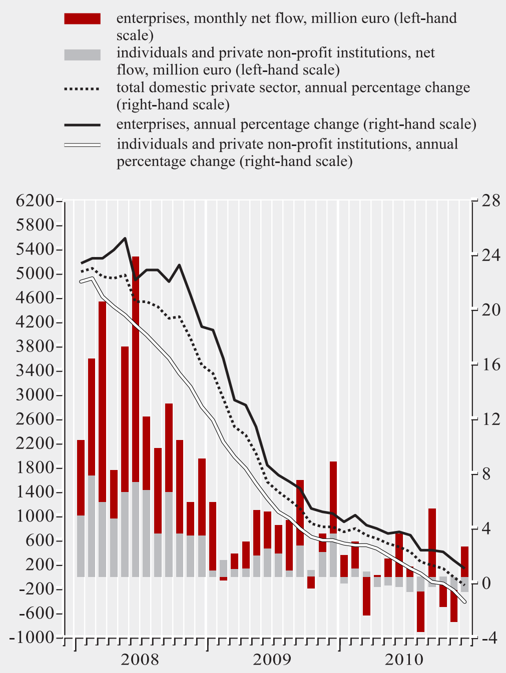
of a bearing.[13] Moreover, the observed rise in the interest rates on the main types of loans in 2010[14] may be an indication of a relatively larger decline on the part of supply.[15]

Lending to enterprises (see Table VI.4) continued to record positive annual rates of change in 2010, as well as positive net flows, except in the October-November period, when flows turned negative (see Chart VI.4). This development was common to most economic activity branches. Specifically, financing to industry recorded negative rates of change in 2010, financing to trade entered negative territory after March, while credit expansion to tourism and to construction decelerated. Finally, the annual growth rate of the financing of shipping remained unchanged in December 2010 compared to December 2009. In November and December, **financing to farmers-sole proprietors-unincorporated businesses** recorded negative annual rates of change for the first time. The rate of change in the **financing of individuals and private non-profit institutions**, after decelerating, turned negative for the first time in October, as the rate of change in outstanding consumer loans was particularly negative while the corresponding rate in outstanding housing loans turned negative in December.

Apart from the abovementioned factors from the supply side, the evolution of financing to individual sectors in the period under review was affected by second-round effects of the recession, risks that the value of collateral might decrease, and unfavourable prospects for enterprises and the sectors they belong to.[16] At the same time, low business investment activity continues to exert a negative impact, while the drop in households' demand for consumer and housing loans reflects their expectations regarding employment and income levels. Additional factors that dampen demand for loans are higher interest rates and the "wait-and-see" approach on account of expectations of further price decreases in the real estate market, as recorded in the Bank Lending Surveys for 2010.

Chart VI.4 Credit[1] to the domestic private sector by domestic MFIs (January 2008-December 2010)

(monthly flows[2]; annual percentage changes)



Source: Bank of Greece.
1 Comprising outstanding MFI loans, MFI holdings of corporate bonds and the outstanding amounts of securitised loans and securitised corporate bonds. The annual rates of change are adjusted for loan write-offs and valuation differences arising when loans denominated in foreign currency are valued in euro.
2 Net montlhy flows of credit are calculated as month-on-month changes in stocks of credit, adding loan write-offs and adjusting for exchange rate variations.

The rates of change in financing to the domestic private sector are expected to be zero or even negative in 2011. On the downside, the weakened financial situation of enterprises and households (because of rising unemploy-

13 Indicatively, the ratio of loans to deposits of the domestic private sector with MFIs rose significantly to 123.1% in December 2010, from 106.5% in December 2009, mainly because of the decrease in outstanding deposits.
14 See Section 4 below.
15 It should be recalled that, generally, when the demand curve remains fixed, a shift of the supply curve to the left leads to a rise in the interest rate and a decrease in the number of loans. When the supply curve remains fixed, a shift of the demand curve leads to a fall in both the interest rate and the number of loans. Therefore, an increase in lending rates and a simultaneous decrease in credit may suggest comparatively smaller supply. See Venetia Bell and Garry Young, "Understanding the weakness of bank lending", Bank of England, *Quarterly Bulletin*, 2010 4th Quarter.
16 The last two Bank Lending Surveys (October 2010, January 2011) also mention these factors.

Table VI.4 Credit[1] to the domestic private sector by domestic MFIs

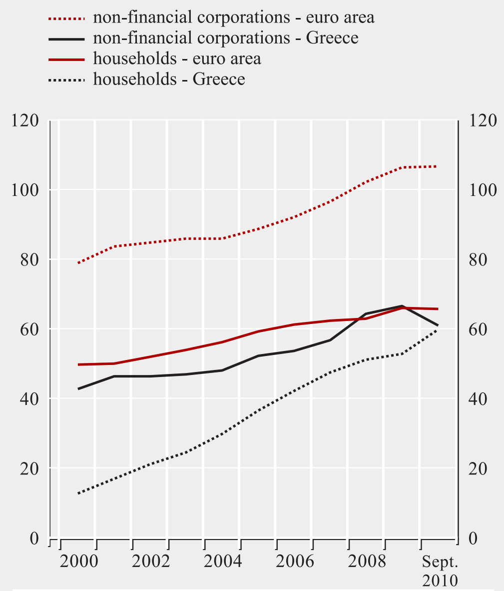
(annual percentage changes, non-seasonally adjusted data)

	Outstanding balances on 31.12.10 (million euro)	2007	2008	2009		2010					
		Q4[2]	Q4[2]	Q4[2]	December[3]	Q1[2]	Q2[2]	Q3[2]	Q4[2]	November[3]	December[3]
A. Enterprises [4,5]	**123,072**	**20.1**	**21.8**	**5.5**	**5.1**	**4.7**	**3.8**	**2.9**	**1.8**	**1.6**	**1.0**
1. Trade	25,356	17.9	22.2	5.0	4.2	2.4	-0.8	-1.2	-2.1	-1.5	-3.5
2. Industry[6]	24,269	11.0	17.4	-2.8	-3.5	-2.7	-1.4	-1.6	-1.6	-1.6	-2.9
3. Shipping	17,489	25.7	24.6	3.9	4.1	2.5	2.9	6.2	6.8	7.0	4.1
4. Contruction	11,327	28.6	37.4	2.2	2.7	3.3	2.9	2.0	2.2	1.4	1.9
5. Tourism	7,355	21.1	24.4	6.4	7.8	8.0	6.6	4.3	3.9	3.8	2.9
6. Other financial institutions (non-MFI)	6,604	14.6	-2.4	7.2	5.4	10.1	10.1	3.1	2.5	-1.1	7.9
7. Electricity - gas - water supply	5,155	40.2	36.5	14.8	14.7	20.1	23.3	26.8	22.8	20.9	21.6
8. Agriculture	2,060	10.8	20.5	3.7	3.8	5.0	2.5	1.2	0.6	-0.3	1.1
9. Transport - excluding shipping	1,935	39.6	35.7	19.6	25.5	27.4	26.4	8.5	-1.2	-1.4	-2.7
10. Other sectors	21,524	27.4	23.8	12.3	10.3	7.7	6.4	6.9	4.7	4.4	4.2
B. Sole proprietors [5]	**16,233**	**-**	**-**	**-**	**-**	**-**	**-**	**2.0**	**-0.2**	**-1.0**	**-0.8**
C. Individuals and private non-profit institutions	**117,823**	**23.6**	**14.8**	**3.3**	**3.1**	**2.8**	**2.2**	**0.8**	**-0.5**	**-0.6**	**-1.4**
1. Housing loans	80,429	23.3	13.4	3.9	3.7	3.6	3.1	1.7	0.4	0.3	-0.4
2. Consumer loans	35,068	22.6	18.4	2.4	2.0	1.4	0.3	-1.2	-2.9	-3.1	-4.2
- Credit cards	8,402	6.3	12.4	-0.4	-0.6	-1.4	-2.0	-2.4	-4.6	-5.0	-5.4
- Other consumer loans[7]	26,667	30.9	20.9	3.5	3.1	2.5	1.2	-0.8	-2.2	-2.4	-3.8
3. Other loans	2,325	42.2	7.5	-2.3	-1.1	0.0	2.2	1.6	3.6	3.8	3.9
TOTAL	**257,127**	**21.7**	**18.3**	**4.4**	**4.1**	**3.8**	**3.0**	**1.9**	**0.7**	**0.4**	**-0.2**

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 rates of change are adjusted for loan write-offs/write-downs and exchange rate variations in respect of loans denominated in foreign currency. The rate of change in credit to enterprises is also adjusted for loans and corporate bonds transferred in 2009 by domestic MFIs to subsidiaries abroad and to a domestic finance company. In February and March 2010, one bank repurchased bonds amounting to €686 million and, although this transaction led to an increase in the outstanding stock of credit, it does not represent a flow of new credit to the private sector in February and thus was not taken into account in the annual rate of change for that month.
2 The quarterly average is derived from monthly averages (which are calculated as the arithmetic means of two successive end-of-month figures) and is not the three-month average of end-of-month annual growth rates (see the Technical notes in the "Euro area statistics" section of the ECB *Monthly Bulletin*).
3 Based on end-of-month levels.
4 Sectors are listed in descending order of their share in total credit, with the exception of "other sectors". Growth rates are adjusted for loan write-offs/write-downs.
5 As of June 2010, loans to sole proprietors are presented separately and are no longer included in "credit to enterprises". This change, of a purely statistical nature, does not affect the rates of credit expansion.
6 Comprising manufacturing and mining/quarrying.
7 Comprising personal loans and loans against supporting documents.

Chart VI.5 Debt of households[1] and non-financial corporations[2] in the euro area and Greece (2000-September 2010)

(percentages of GDP)



Sources: Bank of Greece and ECB (outstanding debt), Eurostat and ELSTAT (GDP). GDP figures for 2010 are calculated as the sum of four quarters up to Q3 2010.

1 Household debt comprises the overall stock of household loans and securitised loans. Debt data are derived from the financial accounts of the household sector, which record the sector's total financial assets and liabilities.

2 The debt of non-financial corporations comprises loans, debt securities issued and pension fund reserves. The figures refer to outstanding debt, as recorded on the liabilities side of the financial accounts of non-financial corporations, rather than to net outstanding debt, i.e. the difference between liabilities and corresponding assets in the sector's financial accounts.

ment, reduced average wages and a drop in corporate profits) continues to exert a moderating effect on the ability of businesses and households to access financing and their willingness to undertake debt.[17] On the upside, financing to the private sector is expected to increase on account of the recent extension (until end-June 2011) of the liquidity support plan (established by Law 3723/2008) with the provision of additional government guarantees amounting to €25 billion.[18] Likewise, the expected further improvement in the absorption of Community funds (through co-financed programmes in the context of the National Strategic Reference Framework – NSRF) will have a favourable, albeit small, impact on corporate financing.[19] Finally, whether credit expansion will recover or not will depend on the Greek banks' ability to access money and capital markets and on the improvement of public confidence.

4 BANK LENDING RATES, INTEREST RATE SPREAD AND SPREAD DIFFERENTIAL BETWEEN GREECE AND THE EURO AREA

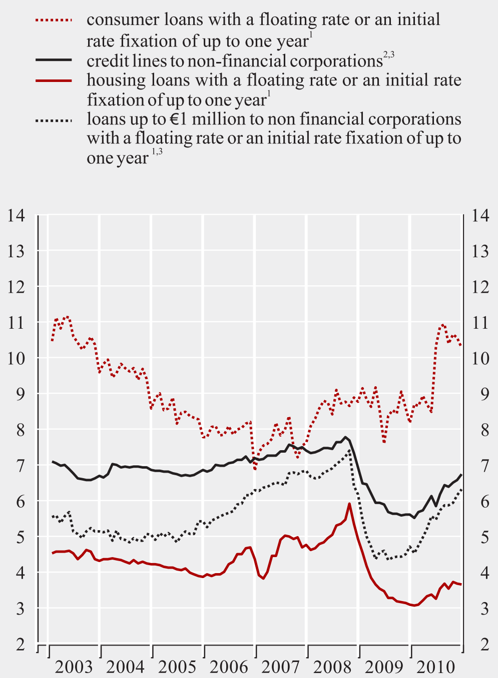
Interest rates on most types of new bank loans rose in 2010, contrary to 2009 which saw a decline in the interest rates on all types of loans (see Table VI.5A and Chart VI.6). This development was partly the result of tight liquidity conditions, which put upward pressure on Greek banks' cost of financing. The rise in lending rates is also due to the higher credit risk that credit institutions face[20] on account of the deteriorated financial situation of enterprises and households, as well as to the unfavourable expectations regarding this risk. Among the individual categories of new bank loans, the largest increase of interest rates was recorded in corporate loans of up to €1 million and in consumer loans, either with a floating rate or an initial rate fixation of up to one year. In the euro area, interest rates on the main types of loans decreased (or increased less) compared to the corresponding Greek ones, thus in most cases their differential from the generally higher Greek rates widened (see Chart VI.7).

In more detail, the average rate on housing loans in Greece was 3.79% in December 2010, i.e. 38 basis points higher than at end-2009, while the average rate on consumer loans of a specific amount and with a fixed maturity rose to 9.68% (December 2009: 8.94%). However,

17 See Chapter IV.
18 Ministerial Decision No. 59181/B.2585, Government Gazette B 2015/2010.
19 The new development Law 3908/2011 and the creation of a new National Hellenic Fund of Entrepreneurship and Development (ETEAN) constitute two significant developments towards this direction. The Fund is expected to utilise NSRF and bank resources (with favourable terms and interest rates) in order to finance enterprises investing in green growth, culture and the supply chain.
20 Indicatively, in the first nine months of 2010 the percentage of non-performing loans increased across all loan categories (see Section 7 of this chapter).

Chart VI.6 Bank interest rates on new loans in Greece (January 2003 - December 2010)

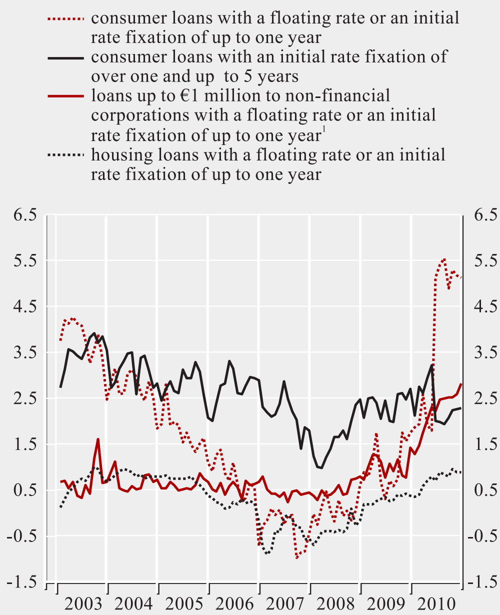
(percentages per annum)



Source: Bank of Greece.
1 Monthly average rate.
2 End-of-month rate.
3 See footnote 2 in Table VI.5A.

Chart VI.7 Bank interest rates on new loans: differentials between Greece and the euro area (January 2003 - December 2010)

(percentage points)



Sources: Bank of Greece and ECB.
1 See footnote 2 in Table VI.5A.

as already mentioned, the largest interest rate increases were recorded in corporate loans. Thus, the average interest rate on loans to non-financial corporations came to 5.73%, 174 basis points higher than at end-2009.[21] Higher borrowing costs still involve loans through credit cards (December 2010: 16.33%) and credit lines (December 2010: 12.34%).[22]

In the period under review, interest rates on new bank loans to both households and corporations in Greece were among the highest in the euro area (see Table VI.5B), while —as already mentioned— the differential between Greek and the average euro area rates has widened in most cases. The largest differential and greatest widening was seen in consumer loans with an agreed maturity and a floating rate or an initial rate fixation of up to one year (see Table VI.5A).

The interest rate spread in Greece has been following an upward trend since mid-2010 (with the exception of December), interrupting the downward course of the twelve preceding months (December 2010: 3.9%, see Table VI.6 and Chart VI.8). However, it remained at a level lower than the corresponding average of the past eight years. As the euro area interest rate spread declined slightly, its differential from the corresponding Greek one widened (by 17 basis points) compared to end-2009, standing at 165 basis points in December.

21 It is noted that, as from June 2010, loans to farmers-sole proprietors-unincorporated businesses constitute a separate category and are no longer included in corporate loans. Changes in the interest rate of this type of loans are calculated after a relevant adjustment.

22 It should be recalled that, apart from funding costs, interest rates on bank loans are also connected to the collateral supplied, and thus to the level of risks credit institutions assume throughout the lending period. Generally, interest rates are higher on consumer and corporate loans and lower on housing loans.

Table VI.5A Bank interest rates on new loans in the euro area and Greece

(percentages per annum)

	December 2009	December 2010	Change Dec. 2009/ Dec. 2010 (percentage points)
A. Loans with a floating rate or an initial rate fixation of up to one year[1]			
A.1. Loans up to €1 million to non-financial corporations			
Weighted average interest rate in the euro area	3.28	3.50	0.22
Maximum interest rate	6.00	6.64	0.64
Minimum interest rate	2.42	2.54	0.12
Interest rate in Greece[2]	4.70	6.32	2.05
Interest rate differential between Greece and the euro area	1.42	2.82	1.40
A.2. Loans of more than €1 million to non-financial corporations			
Weighted average interest rate in the euro area	2.19	2.59	0.40
Maximum interest rate	5.47	6.18	0.71
Minimum interest rate	1.63	1.95	0.32
Interest rate in Greece	3.24	4.95	1.71
Interest rate differential between Greece and the euro area	1.05	2.36	1.31
A.3. Housing loans			
Weighted average interest rate in the euro area	2.71	2.78	0.07
Maximum interest rate	5.26	5.16	-0.10
Minimum interest rate	1.92	2.08	0.16
Interest rate in Greece	3.08	3.65	0.57
Interest rate differential between Greece and the euro area	0.37	0.87	0.50
A.4. Consumer loans			
Weighted average interest rate in the euro area	6.43	5.15	-1.28
Maximum interest rate	9.85	10.27	0.42
Minimum interest rate	3.04	3.16	0.12
Interest rate in Greece	8.18	10.27	2.09
Interest rate differential between Greece and the euro area	1.75	5.12	3.37
B. Loans with an initial rate fixation of over one and up to 5 years[1]			
B.1. Housing loans			
Weighted average interest rate in the euro area	3.96	3.54	-0.42
Maximum interest rate	5.57	5.46	-0.11
Minimum interest rate	2.94	2.38	-0.56
Interest rate in Greece	4.60	3.95	-0.65
Interest rate differential between Greece and the euro area	0.64	0.41	-0.23
B.1. Consumer loans			
Weighted average interest rate in the euro area	6.26	5.94	-0.32
Maximum interest rate	15.47	15.13	-0.34
Minimum interest rate	4.44	4.67	0.23
Interest rate in Greece	8.95	8.21	-0.74
Interest rate differential between Greece and the euro area	2.69	2.27	-0.42

Sources: ECB and euro area national central banks.
1 Monthly average rates.
2 As of June 2010, loans to sole proprietors are presented separately and are no longer included in credit to enterprises. Changes in interest rates on credit to enterprises are calculated after a relevant adjustment.

Table VI.5B Bank interest rates on new loans in euro area countries[1]

(percentages per annum)

	New loans with a floating rate or an initial rate fixation of up to one year[2]								New loans with an initial rate fixation of over one and up to five years[2]	
	To non-financial corporations				Housing loans		Consumer loans		Consumer loans	
	Loans up to €1 million		Loans over €1 million							
	Dec. 2009	Dec. 2010	Dec. 2009	Dec. 2010	Dec. 2009	Dec. 2010	Dec. 2009	Dec. 2010	Dec. 2009	Dec. 2010
Austria	2.48	2.54	2.04	2.20	2.91	2.75	4.28	4.90	4.44	4.88
Belgium	2.42	2.63	1.63	1.95	2.92	3.12	5.27	5.27	6.50	5.90
Cyprus	6.00	6.64	5.47	6.18	5.01	5.16	7.00	6.80	-[3]	-[3]
Finland	2.53	2.96	2.08	2.48	1.92	2.08	3.04	3.39	4.76	4.67
France	2.71	2.65	1.94	2.19	3.38	3.06	6.91	6.40	6.15	5.67
Germany	3.36	3.76	2.57	2.78	3.36	3.38	4.04	3.16	4.83	5.26
Greece	**4.70**	**6.32**	**3.24**	**4.95**	**3.08**	**3.65**	**8.18**	**10.27**	**8.95**	**8.21**
Ireland	3.32	3.87	2.50	3.12	2.61	3.01	3.63	4.76	-[3]	-[3]
Italy	2.95	3.18	1.78	2.56	2.24	2.52	9.85	6.63	8.28	6.65
Luxembourg	2.42	2.69	2.03	2.52	2.03	1.88	-[3]	-[3]	5.17	4.56
Malta	5.29	4.87	4.19	4.41	3.48	3.42	-[3]	-[3]	-[3]	-[3]
Netherlands	3.18	3.47	1.96	2.29	3.84	3.58	8.76	n.p.[4]	-[3]	-[3]
Portugal	4.95	5.92	3.27	4.44	2.22	2.97	5.53	6.67	12.17	10.13
Slovakia	3.70	4.02	2.57	3.30	5.26	4.74	7.11	7.56	15.47	15.13
Slovenia	5.65	5.59	4.63	5.03	3.36	3.34	4.99	4.68	7.35	6.74
Spain	3.63	3.78	2.16	2.57	2.45	2.52	9.72	5.06	8.08	8.07

Sources: ECB and euro area national central banks.
1 Despite the efforts to harmonise statistical methodologies across the euro area, considerable heterogeneity remains in terms of instrument characteristics and relative weights; this partly reflects differences in national conventions and practices, as well as in regulatory and fiscal arrangements.
2 Monthly average rate.
3 These countries do not publish data on the respective interest rates.
4 Not published for reasons of confidentiality.

Table VI.6 Interest rate spread in Greece and the euro area

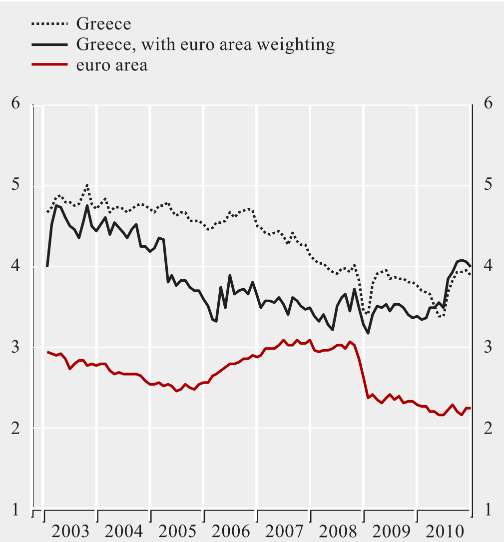
(percentage points)

	Average interest rate on new loans in Greece[1] (percentages per annum)	Average interest rate on new deposits in Greece[1] (percentages per annum)	Interest rate spread in Greece	Interest rate spread in Greece with euro area weighting	Interest rate spread in the euro area
Dec. 1998	16.21	8.12	8.09	...	...
Dec. 1999	14.02	6.98	7.04	...	...
Dec. 2000	9.68	4.00	5.68	...	...
Dec. 2001	7.26	1.96	5.30	...	...
Dec. 2002	6.29	1.67	4.62	...	...
Dec. 2003	5.92	1.20	4.72	4.45	2.77
Dec. 2004	5.94	1.22	4.72	4.18	2.53
Dec. 2005	5.79	1.27	4.52	3.59	2.56
Dec. 2006	6.38	1.87	4.51	3.63	2.89
Dec. 2007	6.67	2.53	4.14	3.48	3.09
Dec. 2008	6.72	3.27	3.45	3.27	2.63
Dec. 2009	5.09	1.32	3.77	3.39	2.29
Dec. 2010	6.07	2.17	3.90	3.99	2.25

Sources: Bank of Greece and ECB.
1 The average interest rate depends on the level of interest rates of individual categories of deposits/loans as well as on the weight of each type of deposit/loan in the corresponding total. Therefore, changes in the average interest rate reflect changes in the actual interest rates and/or changes in the weights of the instrument categories concerned. In order to smooth out the impact of abrupt changes in weights, the calculation of the average interest rate is based on the average of the weights over the past twelve months.

Chart VI.8 Average interest rate spread between new loans and new deposits in Greece and the euro area (January 2003 - December 2010)

(percentage points)



Sources: Bank of Greece and ECB.

5 THE GOVERNMENT BOND MARKET

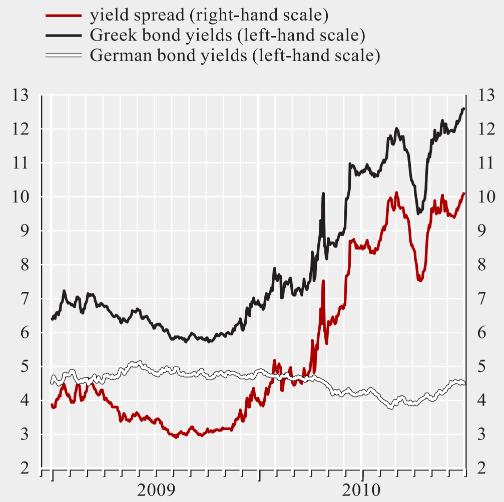
The main characteristic of the Greek government bond market in 2010 was a surge in secondary market yields, particularly from May onwards. This development stemmed from investors' heightened uncertainty concerning the prospects of fiscal aggregates and economic activity in Greece, also implied by the country's successive downgrading by international credit rating agencies.[23,24] Against this backdrop, borrowing costs reached particularly high levels and, as a result, in the second half of 2010 new issues were limited to Greek Treasury bills, mostly with a maturity of 3 and 6 months.

23 Greece's credit rating was downgraded by Fitch Ratings from BBB+ to BBB- on 9.4.2010, by Moody's from A2 to A3 on 22.4.2010, and by Standard & Poor's from BBB+ to BB+ on 27.4.2010. Finally, a further downgrade from A3 to Ba1 was announced by Moody's on 14.6.2010.

24 The volatility of Greek bond yields mounted considerably during April-May and in the last two weeks of June 2010, i.e. when the above-mentioned downgrades were announced.

Chart VI.9 Yields on the 10-year Greek and German government bonds (January 2009 - December 2010)

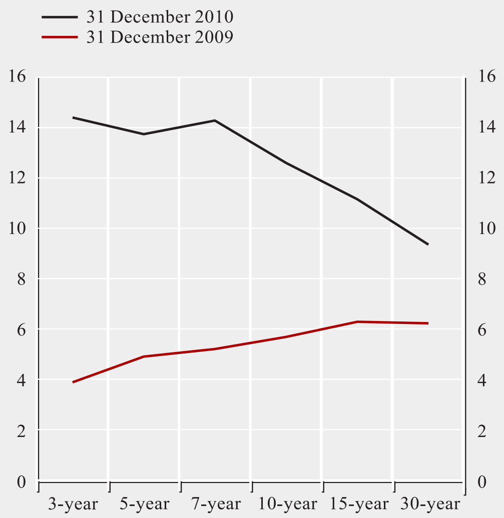
(daily data; yields in percentages per annum; yield spread in percentage points)



Source: Bank of Greece.

Chart VI.10 Greek government paper yield curves

(yields in percentages per annum)

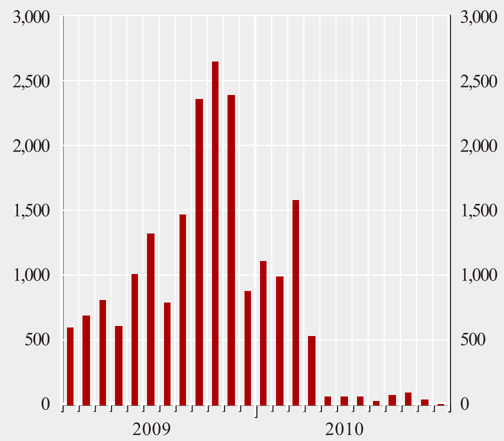


Source: Bank of Greece.

In more detail, Greek government bond yields across maturities increased considerably in 2010 compared with end-2009, while also displaying high volatility. The country's recourse to the financial support mechanism (jointly

Chart VI.11 Average daily value of transactions in the Electronic Secondary Securities Market (HDAT) (January 2009 - December 2010)

(million euro)



Source:Bank of Greece.

established by EU countries and the IMF) led to a temporary decline in yields, which was fully reversed after the further downgrading of Greek sovereign debt in June. Yields plummeted only briefly[25] between September and mid-October 2010, as the debt crisis and fiscal imbalances observed in the last two months of the year also in other European countries exerted downward pressures on Greek bond yields, mainly for short- or medium-term maturities. For instance, the yield spread between the 10-year Greek government bond and the corresponding German bond (see Chart VI.9) widened significantly to 9.60% at end-December 2010, i.e. 731 basis points higher than at end-December 2009. Then, as a result of partly eased pressures on Greek bonds in January 2011, this spread narrowed to 8.27% at the end of the month.

On account of the above developments affecting Greek government bond yields, the yield curve shifted upwards in the course of 2010. The slope of the curve, i.e. the yield differen-

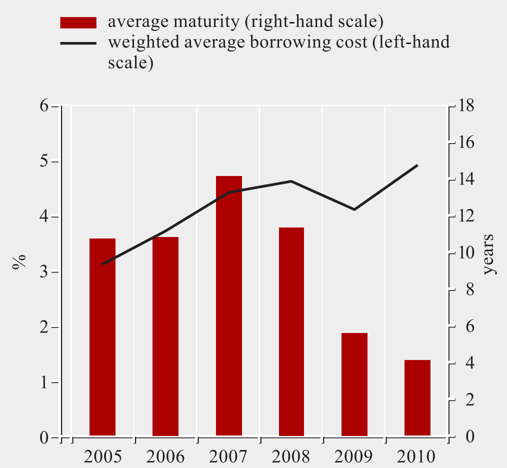
25 More specifically, the spread between Greek and German 10-year sovereign bonds narrowed from 960 basis points on 9.8.2010 to 654 basis points on 18.10.2010.

tial between 10-year and 3-year bonds, turned negative from mid-April 2010 onwards (see Chart VI.10).[26] In fact, in December the slope exceeded its previous maximum (of -172 basis points) observed in late April, and reached -209 basis points, while on 31.12.2010 it stood at -178 basis points.

Transaction activity in Greek government securities subsided markedly in 2010. The average daily value of transactions in the Book-Entry Securities Clearing System of the Bank of Greece was €13,704 million, against €25,533 million in 2009, while the corresponding activity in the Electronic Secondary Securities Market (HDAT) came to only €390 million, i.e. it declined by 70% compared with one year earlier (see Chart VI.11). This was due to the limited transaction activity observed after the first quarter of 2010.

As a result of adverse developments in the secondary market, the Greek government issued bonds only in the first quarter of 2010. In April-December 2010, new issues by the Greek State concerned only Treasury bills with maturities of 13, 26 and 52 weeks, while their interest rates surged to reach the high levels that had been observed during the intensification of the global financial turmoil in 2008 (see Chart VI.12). Taking also into account – in addition to the cost of Treasury bills – the cost of borrowing through bonds issued by the Greek State in the first quarter of 2010, the weighted average cost for total issues exceeds that of 2009 (see Chart VI.13). Finally, the aforementioned issue of Treasury bills in 2010 led to a considerable decline in the average maturity of debt (see Chart VI.12).

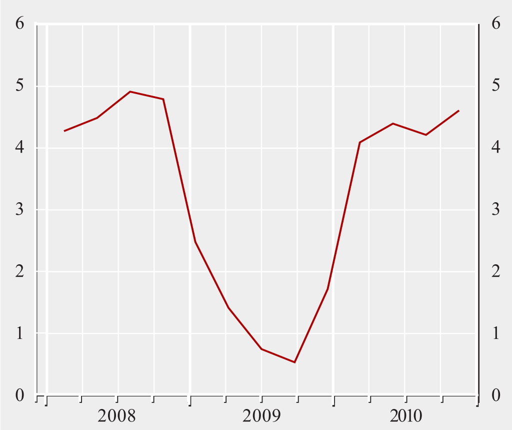
Chart VI.12 Greek government securities: characteristics of new issues (per year)



Sources: Public Debt Management Agency and Bank of Greece.

Chart VI.13 Weighted average interest rate on Greek Treasury bills

(percentages per annum; daily data)



Sources: Public Debt Management Agency and Bank of Greece.

6 STOCK MARKET DEVELOPMENTS

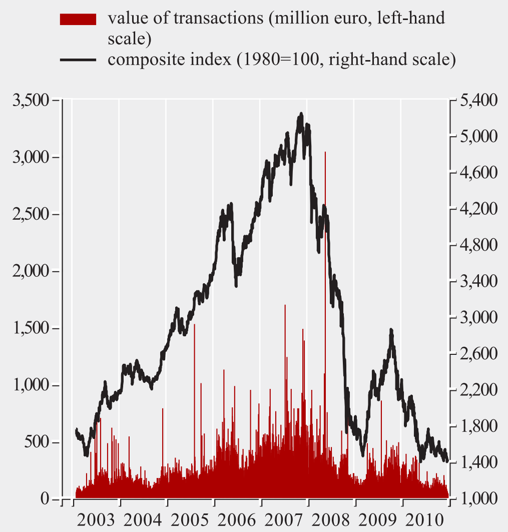
The Athens Exchange (Athex) share price index declined sharply in 2010, in contrast with the relatively slight average drop observed in euro area share prices. Inevitably, transaction activity subsided significantly (see Chart VI.14), while raising of funds through the stock market also declined (see Table VI.7).

In more detail, between end-2009 and end-2010 the Athex composite share price index recorded a decline of 35.6%,[27] a development directly linked with investors' uncertainty about the evolution of fiscal aggregates in

26 The activation of the support mechanism for the Greek economy also contributed to this development.
27 In average annual terms, the decline was 22.2% compared with the average level of share prices in 2009.

Chart VI.14 Athens Exchange: composite share price index and value of transactions (January 2003 - December 2010)

(daily data)



Source: Athens Exchange.

Greece and the economic outlook.[28] The decline in the Athex composite index in 2010 was sharper than that of the Dow Jones EURO STOXX index (-0.01%). This was reversed in January 2011 when the Athex composite index rose by 12.6% while the Dow Jones EURO STOXX increased by 4.3%.

As regards the remaining Athex key aggregates, the daily average value of transactions in 2010 was €140 million, i.e. down by approximately 32% compared with 2009. Total funds raised in the stock market also declined, and stood at €3,472 million against €4,253 million in 2009 (see Table VI.7). As in 2009, the bulk of funds raised concerned financial corporations.

Finally, the rate of decrease in bank share prices in the period under review (-52.4%) was higher than that of the Athex composite share price index and double that of the banking sector sub-index for the euro area (-26.8%). This negative development is due to the liquidity strains of Greek banks,[29] as well as to the impact of the domestic economic downturn on their profitability and loan portfolio quality, which is estimated to continue.

7 DEVELOPMENTS IN THE BANKING SECTOR BETWEEN JANUARY AND SEPTEMBER 2010

Between January and September 2010, Greek commercial banks and banking groups witnessed a renewed decrease in their prof-

28 Because of these developments, 2010 saw an outflow of funds (totalling €1.1 billion) by non-residents.
29 For further details on developments in the banking sector, see next section.

Table VI.7 Funds raised through the Athens Exchange

Categories of firms and sectors	Number of firms		Funds raised (million euro)[1]	
	January-December		January-December	
	2009	2010*	2009	2010*
Listed firms	18	12	4,253.1	3,472.2
Newly listed firms	3	-	2.1	0.0
Total	**21**	**12**	**4,255.2**	**3,472.2**
Financial sector – Banks	6	4	3,823.6	3,192.5
Non-financial sector	15	8	431.6	279.7

Sources: Athens Exchange and Bank of Greece.
* Provisional data.
1 Capital increases through public offerings and private placements. Subscriptions to the capital increase are entered on the last day of the public offering period.

Table VI.8 Financial results of Greek commercial banks and banking groups with shares listed on the Athens Exchange (first nine months of 2009 – first nine months of 2010)

(million euro)

	Banks			Banking groups		
	First 9 months of 2009	First 9 months of 2010	Change (%)	First 9 months of 2009	First 9 months of 2010	Change (%)
Operating income	**8,255**	**6,851**	**-17.0**	**11,982**	**10,675**	**-10.9**
Net interest income	5,935	6,435	8.4	8,500	9,178	8.0
– Interest income	14,999	13,219	-11.9	18,616	16,800	-9.8
– Interest expenses	9,063	6,783	-25.2	10,116	7,622	-24.6
Net non-interest income	2,319	416	-82.1	3,482	1,497	-57.0
– Net fee income	978	913	-6.7	1,613	1,513	-6.2
– Income from financial operations	1,038	-631	-	1,397	-340	-
– Other income	303	134	-56.0	472	324	-31.4
Operating costs	**4,385**	**4,375**	**-0.2**	**6,264**	**6,237**	**-0.4**
Staff costs	2,596	2,618	0.8	3,536	3,589	1.5
Administrative costs	1,482	1,477	-0.3	2,177	2,124	-2.4
Depreciation	289	273	-5.7	498	500	0.3
Other costs	18	8	-55.1	52	24	-53.9
Net income (operating income less costs)	**3,870**	**2,475**	**-36.0**	**5,737**	**4,425**	**-22.9**
Provisions for credit risk	2,746	4,042	47.2	3,603	4,876	35.3
Pre-tax profits	**1,124**	**-1,567**	**-**	**2,133**	**-451**	**-**
Taxes	357	174	-51.4	573	446	-22.3
After tax profits	**767**	**-1,741**	**-**	**1,560**	**-897**	**-**

Source: Financial statements of Greek commercial banks and banking groups.

itability and efficiency, a further deterioration in the quality of their portfolio of loans to firms and households, and a considerable tightening of their liquidity sources. Conversely, their capital adequacy remained at a relatively high level, albeit slightly lower compared with end-2009.

In the period under review, operating income at bank level and at group level declined by 17.0% and 10.6% respectively, compared with the corresponding period of 2009 (see Table VI.8). As regards the breakdown of income, net interest income increased (by 8.4% for banks and 8.3% for banking groups), against a sizeable decrease in non-interest net income (82.1% and 59.6% respectively). This development is essentially due to losses from financial operations in the first half of the year. Operating costs remained practically unchanged between January and September 2010 compared with one year earlier. As a result of the above, net income decreased considerably (by -36% and -23% respectively) in relation to the corresponding period of 2009, while a worsening in the profitability indicators (ROE and ROA) and the cost-to-income ratio was observed both for banks and banking groups (see Table VI.9).

The considerable deterioration of the financial situation of non-financial corporations and households —due to the adverse macroeconomic environment— has inevitably affected the quality of banks' loan portfolios. The ratio of non-performing loans to total loans (NPL ratio)[30] rose (September 2010: 10%, December

30 Total loans refer to loans less impairment provisions.

Table VI.9 Key vulnerability and shock-absorption capacity indicators of Greek commercial banks and banking groups

(percentages)

	Banks		Banking groups	
	December 2009	September 2010	December 2009	September 2010
Asset quality[1]				
Non-performing loans (NPLs) - total	7.7	10.0		
– Housing loans	7.4	9.7		
– Consumer loans	13.4	18.4		
– Business loans	6.7	8.5		
Accumulated provisions over NPLs	41.5	43.2		
Net-of-provisions NPLs to regulatory own funds	38.2	49.9		
Liquidity				
Loan-to-deposit ratio	106.6	114.4	113.5	119.9
Liquid asset ratio	24.2	23.1		
Asset/liability maturity mismatch ratio	-4.2	-9.5		
Capital adequacy				
Capital adequacy ratio	13.2	12.8	11.7	11.4
Tier I ratio	12.0	11.2	10.6	10.1
	Jan.-Sept. 2009	Jan.-Sept. 2010	Jan.-Sept. 2009	Jan.-Sept. 2010
Profitability[2]				
Net interest margin	1.9	2.0	2.6	2.7
Cost-to-income ratio	53.1	63.9	52.2	58.4
Return on assets - ROA (after tax)	0.2	-0.5	0.5	-0.3
Return on equity - ROE (after tax)	4.2	-8.4	7.2	-3.8

Sources: Bank of Greece and financial statements of commercial banks and banking groups.
1 NPL data on international activities are not comparable and therefore the NPL ratio on a consolidated basis is not reported.

2009: 7.7%, see Table VI.9), and in fact at an accelerating rate compared with the end of the first half of 2010.[31] A positive development was the (albeit slight) rise in the coverage ratio (September 2010: 43.2%, December 2009: 41.5%), stemming from a considerable increase in the stock of provisions for credit risk in the first nine months of 2010. However, the coverage ratio needs to be further increased, taking into account the sizeable rise (i.e. deterioration) in the ratio of net NPLs (i.e. NPLs less accumulated provisions for credit risk) to total regulatory capital, as well as a possible further worsening in the economic environment and the financial situation of households and non-financial corporations in Greece. In light of the above, it is imperative for banks to further increase the stock of provisions for credit risk.

Liquidity came under considerable strains, as international money and capital markets virtually closed for Greek banks during the period under review. This development was brought about by the downgrades of the credit rating of Greek sovereign debt, which inevitably led to corresponding downgrades for Greek banks. In the same period, liquidity suffered additional strains because of a gradual outflow of deposits, which continued through to late 2010.

31 An upward effect on the NPL ratio is also exerted by a continuous decline in credit expansion, as the denominator of the ratio increases at a lower rate compared with previous years and relative to the numerator.

The above strains were counterpoised by the liquidity support measures taken for the Greek economy[32] and the provision of liquidity by the Eurosystem. However, it should be noted that these two funding sources provide only a temporary solution to the liquidity problems banks face, and therefore, it is absolutely necessary for banks to seek alternative funding sources. Small positive signs to this end came from two banks that raised funds in the international markets after September 2010, as well as from the intention of other banks to proceed accordingly in the first months of 2011.

The capital adequacy of Greek banks and banking groups remains satisfactory, recording a slight improvement against the first half of 2010 and only a marginal decline compared with end-2009 (see Table VI.9). At end-September 2010, the capital adequacy ratio (CAR) and the Tier 1 ratio stood at 12.8% and 11.2% respectively for banks and at 11.4% and 10.1% respectively for banking groups. However, despite these satisfactory figures, at the current juncture banks should be extremely cautious in formulating their medium-term strategies with regard to their capital planning and use of funds, and take also into account the adverse macroeconomic environment in Greece, as well as imminent changes in the international regulatory framework.

The factors that affected the Greek banking system in the first nine months of 2010 are expected to persist with a similar effect in the first months of 2011 at least. Therefore, the medium-term prospects for profitability, the quality of loan portfolios and liquidity of banks and banking groups continue to be surrounded by high uncertainty. For this reason, banks must constantly remain vigilant, swiftly readjust their operational strategy, limit their operating costs and seek alternative funding sources, besides those temporarily provided by the Greek government and the Eurosystem. Against this background, a restructuring of the banking system is deemed warranted and inevitable.

32 The bank bond guarantee scheme was expanded by €15 billion (in addition to the €15 billion initially provided for by Law 3723/2008) by virtue of Article 4 of Law 3845/2010, and by an additional €25 billion under Article 7 of Law 3872/2010.

MONETARY POLICY MEASURES OF THE EUROSYSTEM

14 JANUARY 2010

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

18 JANUARY 2010

The Governing Council of the ECB decided, in agreement with the Swiss National Bank, to stop conducting Swiss franc liquidity-providing operations after 31 January 2010.

27 JANUARY 2010

The Governing Council of the ECB decided, in agreement with the Federal Reserve, the Bank of England, the Bank of Japan and the Swiss National Bank, to stop conducting US dollar liquidity-providing operations after 31 January 2010.

4 FEBRUARY 2010

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

4 MARCH 2010

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

The Governing Council also decided to continue conducting its main refinancing operations (MROs) and special-term refinancing operations with a maturity of one maintenance period as fixed rate tender procedures with full allotment for as long as necessary, and at least until 12 October 2010. Furthermore, the Governing Council decided to fix the rate in the last 6-month LTRO to be allotted on 31 March 2010 at the average minimum bid rate of the MROs over the life of this operation. The Governing Council also decided to return to variable rate tender procedures in the regular 3-month longer-term refinancing operations (LTROs), starting with the operation to be allotted on 28 April 2010. Allotment amounts in these operations will be set with the aim of ensuring smooth conditions in money markets.

Finally, in order to smooth out the liquidity effect of the 12-month LTRO conducted in 2009 and maturing on 1 July 2010, the Governing Council decided to carry out on that same date an additional six-day fine-tuning operation, as a fixed rate tender procedure with full allotment (the fixed rate being the same as the prevailing MRO rate).

8 APRIL 2010

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

The Governing Council also decided to keep beyond the end of 2010 the minimum credit rating threshold for marketable and non-marketable assets in the Eurosystem collateral framework at the level in force since October 2008, i.e. lowered from A- to BBB- on the basis of Fitch and Standard & Poor's rating scale, or equivalently to Baa3 on the basis of Moody's rating scale.

Furthermore, it was decided that the following instruments, fist included in the Eurosystem collateral framework in October 2008, will no longer be eligible as collateral after the end of 2010: (1) marketable debt instruments denominated in currencies other than the euro, i.e. the US dollar, the pound sterling and the Japanese yen, and issued in the euro area; (2)

certificates of deposit and other debt instruments issued by credit institutions, which are traded on the accepted non-regulated markets; and (3) marketable subordinated debt instruments when they are protected by an acceptable guarantee.

Finally, the Governing Council announced that in July 2010 a schedule of graduated valuation haircuts will be determined in relation to the assets rated in the BBB+ to BBB- range (or equivalent), excluding government debt instruments. The haircut for government debt instruments and possible debt instruments issued by central banks rated in the above range will be calculated as a 5% add-on over the haircut that would apply to similar assets with a higher credit quality (in the AAA to A- range).

3 MAY 2010

The Governing Council of the ECB decided to suspend the application of the minimum credit rating threshold (BBB-) in the collateral eligibility requirements for the purposes of the Eurosystem's credit operations in the case of marketable debt instruments issued or guaranteed by the Greek government. The Eurosystem will provide financing against these instruments regardless of their rating, given that the economic and financial adjustment programme for the Greek economy has been assessed by the Governing Council and found to be appropriate, and the Greek government has strongly committed to fully implement it.

6 MAY 2010

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

10 MAY 2010

The Governing Council of the ECB decided to conduct interventions in the euro area public and private debt securities markets (Securities Markets Programme) to ensure depth and liquidity in those market segments which are dysfunctional on account of concerns on the fiscal condition of some euro area Member States. In order to sterilise the impact of the above interventions, specific operations will be conducted to re-absorb the liquidity injected through the Securities Markets Programme. This will ensure that the monetary policy stance will not be affected.

In order to address recent severe tensions in the financial markets, the Governing Council of the ECB also decided:

(i) To conduct a 6-month LTRO with full allotment on 12 May 2010, at a rate which will be fixed at the average minimum bid rate of the main refinancing operations (MROs) over the life of this operation.

(ii) To adopt a fixed-rate tender procedure with full allotment in the regular 3-month longer-term refinancing operations (LTROs) to be allotted at end-May and end-June 2010.

(iii) To reactivate, in coordination with other central banks, the temporary liquidity swap lines with the Federal Reserve, and resume US dollar liquidity-providing operations at terms of 7 and 84 days. These operations will take the form of repurchase operations against Eurosystem-eligible collateral and will be carried out as fixed rate tenders with full allotment.

10 JUNE 2010

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

The Governing Council of the ECB also decided to adopt a fixed rate tender procedure with full allotment in the regular 3-month longer-term refinancing operations to be allotted at end-July, end-August and end-September 2010.

8 JULY 2010

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

28 JULY 2010

The Governing Council of the ECB determined a new haircut schedule, which will enter into force on 1 January 2011, for marketable assets eligible for use as collateral rated in the BBB+ to BBB- range, excluding government debt instruments.

5 AUGUST 2010

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

2 SEPTEMBER 2010

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

Furthermore, the Governing Council decided to conduct the 3-month longer-term refinancing operations (LTROs) to be settled at end-October, end-November and end-December 2010 as fixed rate tender procedures with full allotment. The rates in these 3-month operations will be fixed at the average rate of the MROs over the life of the respective LTRO.

The Governing Council 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 18 January 2011. The fixed rate tender procedure with full allotment will also remain in use for the 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 2010.

Finally, the Governing Council decided to carry out three additional fine-tuning operations when the remaining 6-month and 12-month refinancing operations mature: one six-day operation with announcement, allotment and settlement on 30 September 2010; one six-day operation with announcement, allotment and settlement on 11 November 2010; and one 13-day operation with announcement, allotment and settlement on 23 December 2010. The fixed rate tender procedure with full allotment will also be used in these three operations, the rate being the same as the MRO rate prevailing at that time.

7 OCTOBER 2010

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

4 NOVEMBER 2010

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

2 DECEMBER 2010

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

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 12 April 2011. 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 first quarter of 2011. The fixed rate in these special-term refinancing operations will be the same as the MRO rate prevailing at the time.

21 DECEMBER 2010

The Governing Council decided, in coordination with other central banks, to extend the liquidity swap arrangements with the Federal Reserve up to 1 August 2011, so as to continue conducting US dollar liquidity-providing operations, with a maturity of seven days. These Eurosystem operations will continue to take the form of repurchase operations against eligible collateral and will be carried out as fixed rate tenders with full allotment. The next US dollar liquidity-providing operation will be carried out on 22 December 2010, with settlement on 23 December; by way of exception, however, it will be conducted as a 14-day operation to cover the year-end.

13 JANUARY 2011

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

3 FEBRUARY 2011

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 1.00%, 1.75% and 0.25% respectively.

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	
		(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year
2007		106.2	2.9	105.9	2.5	106.5	3.5	105.7	2.9	105.5	3.0
2008		110.6	4.2	110.5	4.3	110.7	3.9	109.3	3.4	108.6	3.0
2009		111.9	1.2	109.9	–0.5	114.7	3.6	111.9	2.4	111.5	2.6
2010		117.2	4.7	116.1	5.6	118.8	3.6	115.3	3.0	115.3	3.4
2009	I	110.5	1.5	108.4	–0.5	113.5	4.3	110.7	3.2	110.0	3.3
	II	112.1	0.7	110.7	–1.5	114.1	3.7	112.0	2.3	111.6	2.5
	III	111.5	0.7	109.0	–1.2	114.9	3.3	111.4	2.1	110.9	2.3
	IV	113.6	2.0	111.7	1.0	116.3	3.2	113.4	2.0	113.3	2.4
2010	I	113.9	3.0	111.4	2.8	117.3	3.3	112.6	1.7	112.3	2.1
	II	117.9	5.2	117.5	6.2	118.5	3.8	115.7	3.3	115.9	3.8
	III	117.7	5.5	116.3	6.7	119.5	4.0	115.5	3.7	115.5	4.1
	IV	119.4	5.1	119.0	6.6	119.9	3.1	117.1	3.3	117.4	3.6
2008	Jan.	108.6	3.9	108.4	4.3	108.8	3.4	107.2	2.6	106.5	2.0
	Feb.	107.7	4.4	107.1	5.3	108.6	3.3	106.1	3.0	105.1	2.4
	March	110.2	4.4	111.2	5.3	108.9	3.2	108.6	3.1	107.9	2.5
	Apr.	110.9	4.4	111.9	5.4	109.5	3.2	109.0	3.2	108.3	2.6
	May	111.7	4.9	112.7	5.6	110.3	3.9	109.7	3.8	109.1	3.1
	June	111.6	4.9	112.3	5.7	110.5	3.9	109.8	3.6	109.2	3.1
	July	110.7	4.9	110.5	5.4	111.0	4.1	109.0	3.7	108.3	3.2
	Aug.	109.7	4.7	108.6	5.2	111.1	4.0	108.1	3.6	107.2	3.2
	Sept.	111.8	4.6	111.9	4.8	111.7	4.4	110.4	3.7	109.9	3.4
	Oct.	111.8	3.9	111.6	3.5	112.0	4.4	110.8	3.5	110.3	3.4
	Nov.	111.5	2.9	110.8	1.7	112.4	4.5	111.1	3.5	110.6	3.5
	Dec.	111.0	2.0	109.2	0.0	113.4	4.6	111.6	3.4	111.2	3.5
2009	Jan.	110.5	1.8	108.1	–0.3	113.7	4.5	110.8	3.3	110.1	3.4
	Feb.	109.4	1.6	106.6	–0.4	113.3	4.3	109.5	3.2	108.5	3.3
	March	111.6	1.3	110.3	–0.8	113.5	4.2	111.9	3.1	111.4	3.2
	Apr.	112.0	1.0	110.5	–1.3	114.0	4.2	111.9	2.7	111.5	2.9
	May	112.2	0.5	110.8	–1.6	114.1	3.5	112.0	2.1	111.7	2.4
	June	112.2	0.5	110.7	–1.5	114.2	3.3	112.0	2.1	111.7	2.3
	July	111.3	0.6	109.0	–1.3	114.5	3.1	111.2	2.0	110.7	2.2
	Aug.	110.5	0.8	107.4	–1.1	114.8	3.3	110.4	2.1	109.7	2.3
	Sept.	112.6	0.7	110.5	–1.2	115.4	3.3	112.7	2.1	112.4	2.3
	Oct.	113.2	1.2	111.2	–0.4	115.8	3.4	113.0	2.0	112.8	2.3
	Nov.	113.7	2.0	112.0	1.1	116.1	3.2	113.4	2.0	113.3	2.4
	Dec.	113.9	2.6	111.7	2.3	117.0	3.1	113.9	2.0	113.8	2.4
2010	Jan.	113.1	2.4	110.2	2.0	117.0	2.9	112.6	1.6	112.2	1.9
	Feb.	112.5	2.8	109.2	2.4	117.0	3.3	111.2	1.5	110.6	1.9
	March	116.0	3.9	114.7	4.0	117.8	3.8	114.2	2.0	114.2	2.5
	Apr.	117.4	4.8	116.7	5.7	118.3	3.7	115.2	2.9	115.2	3.4
	May	118.3	5.4	118.2	6.6	118.5	3.8	116.0	3.6	116.2	4.1
	June	118.0	5.2	117.6	6.2	118.6	3.9	116.0	3.6	116.2	4.1
	July	117.4	5.5	116.1	6.4	119.4	4.3	115.4	3.8	115.5	4.3
	Aug.	116.6	5.5	114.6	6.7	119.5	4.0	114.4	3.6	114.2	4.1
	Sept.	118.9	5.6	118.3	7.0	119.7	3.6	116.8	3.6	117.0	4.0
	Oct.	119.1	5.2	118.5	6.6	119.8	3.4	117.0	3.5	117.3	4.0
	Nov.	119.3	4.9	118.9	6.1	119.9	3.3	117.1	3.3	117.4	3.7
	Dec.	119.8	5.2	119.7	7.1	120.0	2.6	117.3	3.0	117.5	3.3

Source: Calculations based on ELSTAT data.

Table 2 Harmonised index of consumer prices: general index and basic sub-indices

Period		General index		Unprocessed food		Processed food		Non–energy industrial goods	
		(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year
2007		106.4	3.0	104.2	2.2	109.1	3.7	103.8	2.2
2008		110.9	4.2	108.3	4.0	114.6	5.0	105.9	2.0
2009		112.4	1.3	112.5	3.9	116.5	1.6	106.7	0.8
2010		117.7	4.7	112.7	0.2	122.3	5.0	108.7	1.9
2009	I	110.9	1.8	114.6	5.8	115.8	2.0	105.4	2.1
	II	112.6	0.8	115.3	5.9	117.0	1.6	107.8	0.3
	III	111.9	0.8	109.8	4.9	116.5	1.5	104.7	0.3
	IV	114.1	2.0	110.5	–0.8	116.8	1.5	109.1	0.4
2010	I	114.3	3.0	112.7	–1.7	116.9	1.0	105.0	–0.3
	II	118.4	5.1	113.3	–1.8	122.9	5.0	110.4	2.4
	III	118.2	5.6	112.0	2.0	124.6	6.9	107.6	2.8
	IV	119.9	5.1	113.0	2.3	124.8	6.9	111.9	2.6
2008	Jan.	108.9	3.9	108.8	3.8	112.7	4.5	103.3	0.3
	Feb.	107.8	4.5	108.2	4.8	113.6	5.7	99.6	1.6
	March	110.3	4.4	108.0	3.7	114.3	6.0	106.8	1.9
	Apr.	111.2	4.4	111.0	5.2	114.9	6.1	107.0	2.2
	May	112.0	4.9	109.7	4.5	115.6	6.7	107.6	2.3
	June	111.9	4.9	105.8	3.7	115.0	6.1	107.7	2.2
	July	111.1	4.9	103.8	2.4	115.0	6.1	104.6	2.2
	Aug.	109.8	4.8	104.3	1.3	114.8	5.8	100.8	2.5
	Sept.	112.2	4.7	106.0	1.2	114.8	5.1	107.7	2.2
	Oct.	112.2	4.0	109.8	3.9	114.9	3.7	108.5	2.2
	Nov.	112.0	3.0	112.8	7.5	115.1	2.6	108.6	2.3
	Dec.	111.6	2.2	111.7	5.6	114.9	2.3	108.7	2.2
2009	Jan.	111.0	2.0	114.6	5.4	115.2	2.2	105.5	2.1
	Feb.	109.8	1.8	114.1	5.5	115.7	1.8	101.9	2.3
	March	112.0	1.5	114.9	6.4	116.5	1.9	108.9	2.0
	Apr.	112.5	1.1	116.1	4.6	117.1	1.9	107.7	0.7
	May	112.8	0.7	116.7	6.4	117.2	1.4	107.8	0.2
	June	112.7	0.7	113.0	6.8	116.8	1.5	107.8	0.2
	July	111.8	0.7	110.9	6.9	116.7	1.5	104.9	0.2
	Aug.	110.9	1.0	108.3	3.9	116.5	1.5	101.3	0.5
	Sept.	113.0	0.7	110.2	3.9	116.4	1.4	107.9	0.2
	Oct.	113.6	1.2	110.4	0.5	116.6	1.4	108.4	0.0
	Nov.	114.3	2.1	111.3	–1.3	116.9	1.5	109.4	0.7
	Dec.	114.5	2.6	110.0	–1.5	116.8	1.6	109.4	0.7
2010	Jan.	113.6	2.3	110.9	–3.2	117.0	1.6	105.2	–0.3
	Feb.	112.9	2.9	113.1	–0.9	117.0	1.1	100.9	–1.0
	March	116.4	3.9	114.0	–0.8	116.7	0.2	109.0	0.2
	Apr.	117.8	4.7	115.1	–0.9	120.3	2.7	109.9	2.0
	May	118.7	5.3	113.9	–2.4	124.0	5.8	110.7	2.7
	June	118.5	5.2	110.8	–2.0	124.5	6.6	110.7	2.6
	July	118.0	5.5	110.0	–0.7	124.8	7.0	107.6	2.6
	Aug.	117.2	5.6	112.2	3.6	124.7	7.0	104.0	2.6
	Sept.	119.4	5.7	113.7	3.1	124.3	6.8	111.3	3.1
	Oct.	119.5	5.2	112.9	2.3	124.4	6.8	111.9	3.1
	Nov.	119.8	4.8	113.1	1.7	125.0	6.9	111.9	2.3
	Dec.	120.4	5.2	113.1	2.8	125.1	7.1	112.0	2.3

Source: Calculations based on ELSTAT data.

Table 2 Harmonised index of consumer prices: general index and basic sub-indices *(continued)*

Period		Energy		Services		HICP excluding unprocessed food and energy	
		(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year
2007		111.8	2.1	106.9	3.7	106.2	3.2
2008		127.2	13.8	111.0	3.8	109.8	3.4
2009		111.8	–12.1	114.6	3.2	112.2	2.2
2010		145.7	30.4	118.1	3.1	115.6	3.0
2009	I	103.1	–17.8	113.4	4.1	111.1	3.1
	II	109.4	–18.2	114.1	3.3	112.5	2.0
	III	115.3	–15.1	114.7	2.8	111.6	1.7
	IV	119.2	4.7	116.0	2.8	113.8	1.8
2010	I	130.9	27.0	116.8	3.0	112.8	1.5
	II	148.5	35.8	117.8	3.2	116.1	3.2
	III	150.2	30.2	118.8	3.6	115.9	3.9
	IV	153.1	28.4	119.1	2.6	117.5	3.3
2008	Jan.	123.1	21.4	109.1	3.3	107.7	2.5
	Feb.	124.8	21.6	108.7	3.2	106.4	3.1
	March	128.2	20.7	109.0	3.0	109.1	3.1
	Apr.	130.1	17.9	109.9	3.0	109.7	3.2
	May	134.3	18.7	110.7	3.9	110.4	3.8
	June	137.0	20.9	111.0	4.0	110.5	3.7
	July	138.0	22.2	111.3	3.9	109.6	3.7
	Aug.	135.2	21.1	111.4	3.9	108.4	3.8
	Sept.	134.3	19.9	112.0	4.4	111.0	3.8
	Oct.	124.9	9.2	112.3	4.4	111.4	3.6
	Nov.	114.0	–6.5	112.6	4.4	111.6	3.4
	Dec.	102.7	–15.6	113.8	4.5	112.2	3.4
2009	Jan.	102.6	–16.7	113.9	4.4	111.2	3.3
	Feb.	103.5	–17.0	113.1	4.1	109.7	3.1
	March	103.2	–19.5	113.3	3.9	112.3	3.0
	Apr.	106.9	–17.8	114.1	3.8	112.4	2.5
	May	109.0	–18.8	114.2	3.2	112.5	1.9
	June	112.3	–18.0	114.2	2.8	112.5	1.8
	July	114.3	–17.2	114.4	2.7	111.5	1.7
	Aug.	116.8	–13.6	114.6	2.9	110.4	1.9
	Sept.	114.9	–14.4	115.1	2.7	112.9	1.7
	Oct.	118.5	–5.1	115.4	2.8	113.2	1.7
	Nov.	120.3	5.5	115.8	2.9	113.8	2.0
	Dec.	118.9	15.7	116.8	2.6	114.3	1.8
2010	Jan.	123.0	20.0	116.7	2.5	112.8	1.4
	Feb.	129.3	24.9	116.6	3.0	111.3	1.4
	March	140.3	36.0	117.2	3.5	114.3	1.8
	Apr.	145.7	36.3	117.8	3.3	115.5	2.7
	May	150.4	38.0	117.7	3.1	116.3	3.4
	June	149.5	33.1	117.9	3.2	116.5	3.6
	July	150.6	31.8	118.7	3.8	115.9	3.9
	Aug.	150.1	28.5	118.8	3.6	114.6	3.9
	Sept.	150.0	30.5	118.9	3.3	117.1	3.8
	Oct.	150.0	26.5	118.9	3.1	117.4	3.7
	Nov.	151.8	26.2	119.0	2.7	117.5	3.2
	Dec.	157.6	32.6	119.3	2.2	117.7	3.0

Source: Calculations based on ELSTAT data.

Table 3 Industrial producer price index (PPI) for the domestic market: general index and basic sub-indices

Period		PPI – domestic market (General index)		Energy (total)		Fuel		General index excl. energy	
		(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year
2007		111.7	4.1	115.4	6.3	117.0	2.7	109.4	2.7
2008		123.0	10.0	135.2	17.1	145.8	24.7	116.4	6.4
2009		115.8	–5.8	115.0	–15.0	104.2	–28.6	116.3	–0.1
2010		122.9	6.1	133.1	15.8	137.8	32.3	117.4	0.9
2009	I	113.4	–5.2	109.1	–15.6	87.3	–38.0	115.7	1.1
	II	114.7	–8.8	112.9	–21.0	102.3	–39.3	115.7	–0.7
	III	116.9	–9.1	117.3	–21.0	111.1	–34.3	116.7	–1.0
	IV	118.4	0.4	120.6	0.4	116.1	10.5	117.2	0.4
2010	I	120.7	6.4	127.5	16.9	128.0	46.6	117.0	1.1
	II	123.3	7.5	135.2	19.7	142.5	39.3	117.0	1.1
	III	122.6	4.9	132.5	12.9	136.2	22.7	117.4	0.6
	IV	125.0	5.6	137.3	13.8	144.6	24.6	118.4	1.0
2008	Jan.	118.0	11.0	127.2	22.2	136.0	47.7	113.1	5.9
	Feb.	119.6	11.7	128.8	21.3	140.1	43.3	114.6	7.3
	March	121.1	11.9	131.6	20.9	146.2	40.1	115.5	7.5
	Apr.	122.8	11.3	135.9	20.4	153.4	36.5	115.8	6.6
	May	126.2	13.8	144.3	26.3	171.3	46.8	116.4	7.0
	June	128.3	15.5	148.9	29.4	180.9	52.9	117.3	7.9
	July	130.5	16.7	154.1	32.6	182.1	51.4	117.8	7.9
	Aug.	128.3	14.3	147.4	26.9	166.8	42.9	118.0	7.5
	Sept.	126.9	11.8	143.8	22.0	158.1	30.2	117.8	6.3
	Oct.	122.7	6.7	132.2	9.8	129.8	2.7	117.5	5.2
	Nov.	117.5	0.5	119.5	–5.2	103.3	–26.6	116.5	3.8
	Dec.	113.6	–3.2	108.7	–14.4	82.0	–40.0	116.2	3.5
2009	Jan.	114.0	–3.4	110.1	–13.4	88.4	–35.0	116.1	2.6
	Feb.	113.3	–5.3	108.9	–15.4	87.1	–37.9	115.6	0.8
	March	112.9	–6.8	108.2	–17.8	86.5	–40.9	115.3	–0.1
	Apr.	113.2	–7.9	108.8	–19.9	93.3	–39.2	115.5	–0.3
	May	114.3	–9.4	111.9	–22.5	100.4	–41.4	115.7	–0.6
	June	116.7	–9.1	118.1	–20.6	113.3	–37.4	115.9	–1.2
	July	116.0	–11.1	115.6	–25.0	107.4	–41.0	116.2	–1.3
	Aug.	117.8	–8.1	120.2	–18.5	117.2	–29.7	116.6	–1.2
	Sept.	116.9	–7.9	116.2	–19.2	108.6	–31.4	117.3	–0.5
	Oct.	118.0	–3.8	119.6	–9.6	114.0	–12.2	117.1	–0.4
	Nov.	118.4	0.8	121.0	1.3	117.2	13.5	117.1	0.5
	Dec.	118.7	4.5	121.2	11.4	116.9	42.6	117.4	1.0
2010	Jan.	120.0	5.2	125.8	14.2	124.5	40.9	116.8	0.6
	Feb.	120.2	6.2	126.2	15.9	125.3	43.9	117.0	1.2
	March	121.8	7.9	130.6	20.7	134.2	55.2	117.1	1.5
	Apr.	123.5	9.1	135.1	24.1	142.6	52.7	117.2	1.5
	May	122.7	7.3	133.8	19.6	140.0	39.4	116.8	1.0
	June	123.8	6.1	136.7	15.7	145.1	28.0	116.8	0.8
	July	122.3	5.5	132.2	14.4	135.9	26.5	117.0	0.7
	Aug.	122.6	4.0	132.3	10.1	136.5	16.4	117.3	0.7
	Sept.	123.0	5.3	132.9	14.4	136.3	25.6	117.7	0.4
	Oct.	123.2	4.4	132.8	11.0	137.0	20.2	118.0	0.7
	Nov.	124.8	5.4	137.1	13.3	142.5	21.6	118.2	1.0
	Dec.	126.9	6.9	141.9	17.2	154.2	31.9	118.8	1.2

Source: Calculations based on ELSTAT data.

Table 4 Industrial producer price index (PPI) for the external market and import price index in industry

Period		PPI – external market				Import price index		Import price index excl. energy	
		General index		General index excl. energy					
		(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year	(2005=100)	Percentage change over previous year
2007		108.0	3.0	105.6	2.5	106.9	2.6	105.8	3.0
2008		114.9	6.4	108.9	3.2	114.5	7.1	108.4	2.5
2009		108.0	–6.0	109.4	0.5	112.5	–1.8	108.9	0.5
2010		117.5	8.8	113.9	4.0				
2009	I	104.4	–7.8	108.4	0.4	108.8	–2.4	108.7	1.4
	II	107.0	–9.5	108.7	–0.1	111.7	–4.4	108.7	0.5
	III	109.5	–8.2	109.9	0.2	114.2	–3.7	108.9	–0.2
	IV	111.0	2.0	110.7	1.5	115.4	3.7	109.1	0.1
2010	I	114.2	9.4	112.3	3.6	117.8	8.3	109.6	0.8
	II	117.9	10.2	113.5	4.5	120.7	8.0	110.2	1.4
	III	117.7	7.5	114.2	3.9	120.1	5.2	110.5	1.4
	IV	120.2	8.3	115.5	4.3				
2008	Jan.	112.1	8.6	107.3	3.3	110.6	8.6	106.9	2.4
	Feb.	113.2	8.4	108.2	3.8	111.6	8.3	107.4	2.7
	March	114.4	8.5	108.6	3.6	112.2	7.6	107.6	2.4
	Apr.	115.4	7.6	108.5	2.9	114.0	8.0	107.8	2.3
	May	118.4	10.3	108.7	3.3	116.9	10.1	108.1	2.3
	June	120.9	12.2	109.3	3.7	119.6	12.2	108.6	2.4
	July	121.1	11.6	109.5	3.6	121.0	12.4	108.8	2.5
	Aug.	118.7	10.0	109.5	3.6	118.6	10.6	109.1	2.8
	Sept.	117.8	7.9	110.1	3.6	116.0	7.2	109.5	3.0
	Oct.	113.3	2.6	109.7	2.8	114.0	3.8	109.5	2.8
	Nov.	108.9	–3.0	109.2	2.5	111.2	–0.5	108.8	2.2
	Dec.	104.3	–6.9	108.4	1.5	108.7	–2.0	108.6	1.9
2009	Jan.	105.0	–6.3	108.6	1.2	108.8	–1.7	108.7	1.7
	Feb.	104.5	–7.7	108.6	0.4	108.8	–2.5	108.8	1.3
	March	103.8	–9.2	108.0	–0.5	108.7	–3.1	108.7	1.1
	Apr.	105.0	–9.0	108.1	–0.4	109.7	–3.7	108.5	0.7
	May	106.6	–10.0	108.7	0.0	111.6	–4.5	108.7	0.6
	June	109.4	–9.5	109.3	0.0	113.9	–4.8	108.9	0.3
	July	108.2	–10.7	109.2	–0.2	113.3	–6.4	108.9	0.1
	Aug.	110.7	–6.8	110.0	0.4	115.2	–2.9	109.0	–0.1
	Sept.	109.6	–7.0	110.5	0.4	114.0	–1.7	109.0	–0.5
	Oct.	110.6	–2.4	110.7	0.9	115.0	0.9	109.1	–0.3
	Nov.	111.1	2.0	110.5	1.2	115.7	4.0	109.1	0.2
	Dec.	111.3	6.6	111.0	2.4	115.5	6.3	109.1	0.5
2010	Jan.	113.1	7.8	111.8	2.9	116.9	7.4	109.3	0.6
	Feb.	113.6	8.7	112.1	3.2	117.4	7.9	109.6	0.8
	March	115.9	11.6	112.9	4.6	119.1	9.6	109.9	1.1
	Apr.	117.9	12.3	113.3	4.8	120.9	10.1	110.0	1.4
	May	117.5	10.2	113.5	4.5	120.3	7.8	110.1	1.3
	June	118.2	8.1	113.8	4.1	121.0	6.2	110.4	1.4
	July	117.2	8.4	113.6	4.0	120.1	6.0	110.3	1.3
	Aug.	117.8	6.4	114.2	3.9	120.6	4.6	110.5	1.4
	Sept.	118.1	7.8	114.6	3.8	119.7	4.9	110.5	1.4
	Oct.	118.4	7.0	114.7	3.6	119.6	4.0	110.9	1.7
	Nov.	119.8	7.8	115.5	4.5	121.0	4.6	111.1	1.9
	Dec.	122.4	10.0	116.3	4.7				

Source: Calculations based on ELSTAT data.

Table 5 Employed persons of 15 years and over, by branch of economic activity

(thousands)

	Q3 2010	
	Total employed persons	Salaried employees
Total	**4,402.9**	**2,829.7**
Agriculture, forestry and fishing	551.3	54.5
Mining and quarrying	13.5	12.4
Manufacturing	465.2	343.4
Electricity, gas, steam and air conditioning supply	25.6	24.8
Water supply, sewerage, waste management and remediation activities	35.1	34.2
Construction	319.4	206.3
Wholesale and retail trade; repair of motor vehicles and motorcycles	800.2	450.8
Transportation and storage	207.9	147.1
Accommodation and food service activities	333.4	203.7
Information and communication	83.3	75.0
Financial and insurance activities	116.0	104.8
Real estate activities	6.0	0.7
Professional, scientific and technical activities	209.8	84.4
Administrative and support service activities	76.8	59.6
Public administration and defence; compulsory social security	370.1	370.1
Education	310.0	285.1
Human health and social work activities	244.8	205.6
Arts, entertainment and recreation	51.5	34.8
Other service activities	90.9	44.9
Activities of households as employers	90.5	85.7
Activities of extraterritorial organisations and bodies	1.6	1.6

Source: ELSTAT, Labour Force Survey.

Table 6 Balance of payments

(million euro)

		January-November			November		
		2008	2009	2010	2008	2009	2010
I	CURRENT ACCOUNT BALANCE (I.A+I.B+I.C+I.D)	–31,664.8	–22,744.6	–22,157.0	–3,437.8	–2,724.4	–2,571.7
I.A	TRADE BALANCE (I.A.1–I.A.2)	–40,991.4	–27,987.7	–26,822.7	–3,061.5	–2,412.0	–2,341.8
	Oil trade balance	–11,584.4	–6,975.5	–8,616.4	–824.9	–565.0	–799.3
	Non–oil trade balance	–29,407.0	–21,012.2	–18,206.3	–2,236.6	–1,847.0	–1,542.5
	Ship balance	–4,438.4	–3,023.0	–3,378.9	–392.2	–297.5	–341.6
	Trade balance excl. oil and ships	–24,968.7	–17,989.2	–14,827.4	–1,844.5	–1,549.5	–1,200.9
	I.A.1 Exports of goods	18,356.2	13,848.8	15,212.5	1,451.4	1,215.4	1,512.9
	Oil	3,987.2	2,693.2	4,257.1	265.0	183.6	467.6
	Ships (receipts)	1,496.3	760.7	708.6	53.7	80.4	29.7
	Other goods	12,872.7	10,394.9	10,246.8	1,132.7	951.4	1,015.6
	I.A.2 Imports of goods	59,347.5	41,836.5	42,035.1	4,512.9	3,627.4	3,854.8
	Oil	15,571.5	9,668.8	12,873.5	1,089.8	748.6	1,266.9
	Ships (payments)	5,934.6	3,783.7	4,087.5	445.8	377.9	371.3
	Other goods	37,841.4	28,384.1	25,074.2	2,977.2	2,500.9	2,216.6
I.B	SERVICES BALANCE (I.B.1–I.B.2)	16,630.5	12,191.6	12,756.6	548.2	327.7	498.5
	I.B.1 Receipts	32,166.9	25,186.3	26,740.4	1,800.7	1,497.7	1,721.2
	Travel	11,428.9	10,214.4	9,466.1	252.2	219.9	216.3
	Transport	17,822.9	12,294.2	14,183.6	1,282.5	1,025.4	1,172.2
	Other services	2,915.2	2,677.7	3,090.7	266.0	252.4	332.7
	I.B.2 Payments	15,536.4	12,994.7	13,983.8	1,252.5	1,170.0	1,222.8
	Travel	2,394.6	2,213.7	2,024.8	221.6	196.1	171.4
	Transport	8,662.1	6,415.5	7,485.7	665.9	596.7	669.4
	Other services	4,479.6	4,365.5	4,473.3	365.1	377.2	382.0
I.C	INCOME BALANCE (I.C.1–I.C.2)	–9,752.5	–8,151.7	–8,288.0	–837.2	–575.4	–655.1
	I.C.1 Receipts	5,087.1	3,950.0	3,476.0	469.3	309.7	291.0
	Wages, salaries	316.5	270.5	183.1	23.2	20.8	14.9
	Interest, dividends, profits	4,770.7	3,679.4	3,292.9	446.2	288.9	276.0
	I.C.2 Payments	14,839.6	12,101.7	11,763.9	1,306.5	885.1	946.1
	Wages, salaries	365.0	370.8	341.0	40.5	33.1	32.4
	Interest, dividends, profits	14,474.6	11,730.9	11,423.0	1,266.1	852.0	913.7
I.D	CURRENT TRANSFERS BALANCE (I.D.1–I.D.2)	2,448.5	1,203.2	197.0	–87.3	–64.7	–73.2
	I.D.1 Receipts	6,119.3	5,051.2	4,359.0	241.7	268.2	157.9
	General government (mainly transfers from the EU)	4,070.9	3,337.2	2,998.9	102.0	151.6	37.1
	Other sectors (emigrants' remittances etc.)	2,048.4	1,713.9	1,360.0	139.7	116.5	120.8
	I.D.2 Payments	3,670.8	3,847.9	4,162.0	329.0	332.9	231.1
	General government (mainly payments to the EU)	2,366.8	2,557.3	2,739.8	211.6	231.2	113.1
	Other sectors	1,304.0	1,290.6	1,422.2	117.4	101.7	117.9
II	CAPITAL TRANSFERS BALANCE (II.1– II.2)	3,947.7	1,963.8	880.6	923.2	428.7	129.9
	II.1 Receipts	4,452.3	2,243.7	1,139.8	950.3	454.0	151.6
	General government (mainly transfers from the EU)	4,067.7	2,067.6	1,033.6	794.5	441.1	145.5
	Other sectors	384.5	176.1	106.2	155.8	12.9	6.1
	II.2 Payments	504.6	279.9	259.2	27.1	25.3	21.7
	General government (mainly payments to the EU)	190.5	12.9	15.1	2.2	1.4	0.9
	Other sectors	314.0	267.0	244.1	24.9	23.9	20.8
III	CURRENT ACCOUNT AND CAPITAL TRANSFERS BALANCE (I+II)	–27,717.1	–20,780.8	–21,276.4	–2,514.6	–2,295.7	–2,441.8
IV	FINANCIAL ACCOUNT BALANCE (IV.A+IV.B+IV.C+IV.D)	27,159.3	21,587.0	21,942.1	2,223.9	2,613.8	2,242.6
	IV.A DIRECT INVESTMENT [1]	1,065.9	586.4	709.2	373.3	–101.3	255.2
	By residents abroad	–1,885.9	–1,148.2	–844.0	–120.1	–63.0	–75.5
	By non–residents in Greece	2,951.9	1,734.6	1,553.2	493.5	–38.3	330.8
	IV.B PORTFOLIO INVESTMENT [1]	15,768.7	32,511.0	–24,081.6	–1,259.1	8,180.8	–3,508.9
	Assets	–4,861.9	–3,442.3	11,283.8	–4,094.7	4,786.1	–1,546.3
	Liabilities	20,630.7	35,953.3	–35,365.4	2,835.6	3,394.7	–1,962.6
	IV.C OTHER INVESTMENT [1]	10,327.6	–11,456.3	45,147.5	3,172.7	–5,445.7	5,475.3
	Assets	–22,331.4	–24,146.0	552.5	552.8	–2,942.4	2,045.8
	Liabilities	32,659.0	12,689.7	44,595.0	2,619.9	–2,503.3	3,429.4
	(General government loans)	–494.7	–2,201.8	27,548.0	–28.6	–3.9	–4.1
	IV.D CHANGE IN RESERVE ASSETS [2]	–3.0	–54.0	167.0	–63.0	–20.0	21.0
V	ERRORS AND OMISSIONS	557.8	–806.3	–665.7	290.6	–318.1	199.2
	RESERVE ASSETS [3]				2,350.0	3,509.0	4,372.0

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 7 Monetary aggregates of the euro area[1,2]

(outstanding balances in billion euro, seasonally adjusted)

End of period		Currency in circulation (1)	Overnight deposits (2)	M1 (3)=(1)+(2)	Deposits with agreed maturity up to two years (4)	Deposits redeemable at notice up to three months (5)	M2 (6)=(3)+(4)+(5)	Repurchase agreements (7)	Money market fund shares/units (8)	Debt securities up to two years (9)	M3[3] (10)=(6)+(7)+(8)+(9)
2006		578.4	3,107.1	3,685.5	1,404.9	1,554.1	6,644.5	267.4	636.2	196.0	7,744.1
2007		625.6	3,202.4	3,827.9	1,969.3	1,540.5	7,337.8	307.6	685.9	312.2	8,643.4
2008		710.4	3,270.2	3,980.6	2,472.2	1,568.6	8,021.4	350.2	755.5	266.1	9,392.9
2009		755.1	3,737.2	4,492.3	1,890.6	1,805.4	8,188.3	340.2	674.1	131.9	9,334.2
2010		790.0	3,911.7	4,701.7	1,775.1	1,909.1	8,385.9	442.0	576.9	120.5	9,525.1
2008	Jan.	629.1	3,220.5	3,849.7	2,053.3	1,539.4	7,442.4	309.0	744.0	292.2	8,787.4
	Feb.	633.6	3,210.0	3,843.6	2,119.1	1,536.6	7,499.3	313.5	748.3	270.8	8,831.7
	March	636.7	3,216.6	3,853.4	2,147.3	1,539.6	7,540.3	314.3	740.6	276.1	8,871.1
	Apr.	642.8	3,201.3	3,844.1	2,239.2	1,540.0	7,623.3	324.4	741.0	267.2	8,955.6
	May	644.7	3,215.7	3,860.4	2,274.0	1,535.9	7,670.3	320.3	740.0	283.4	9,013.8
	June	649.5	3,203.3	3,852.8	2,305.8	1,537.2	7,695.8	329.3	733.9	280.3	9,039.0
	July	650.9	3,180.6	3,831.4	2,391.7	1,532.9	7,756.1	342.5	732.2	284.8	9,115.2
	Aug.	654.7	3,186.4	3,841.0	2,430.2	1,532.8	7,804.1	341.3	746.8	276.0	9,167.9
	Sept.	662.3	3,223.2	3,885.5	2,452.7	1,531.8	7,870.0	339.2	737.2	285.4	9,231.4
	Oct.	699.9	3,283.8	3,983.7	2,495.0	1,535.5	8,014.2	350.0	736.2	275.2	9,375.3
	Nov.	704.5	3,253.6	3,958.1	2,523.7	1,543.6	8,025.4	333.5	746.1	273.5	9,378.2
	Dec.	710.4	3,270.2	3,980.6	2,472.2	1,568.6	8,021.4	350.2	755.5	266.1	9,392.9
2009	Jan.	716.4	3,375.1	4,091.5	2,389.8	1,600.7	8,082.0	324.7	767.8	216.2	9,390.3
	Feb.	721.4	3,409.4	4,130.8	2,353.9	1,623.4	8,108.1	327.7	778.3	214.3	9,428.2
	March	726.1	3,411.2	4,137.3	2,317.0	1,642.4	8,096.7	338.6	777.9	193.8	9,406.7
	Apr.	728.9	3,470.0	4,198.9	2,294.2	1,665.5	8,158.6	334.9	770.7	205.2	9,469.1
	May	730.4	3,471.9	4,202.3	2,250.9	1,681.2	8,134.4	325.9	755.2	197.7	9,412.8
	June	734.2	3,515.2	4,249.4	2,202.4	1,698.0	8,149.8	344.1	742.9	181.2	9,417.9
	July	733.9	3,586.2	4,320.2	2,138.9	1,721.9	8,180.9	330.7	747.2	170.4	9,428.9
	Aug.	742.3	3,635.2	4,377.5	2,089.7	1,742.2	8,209.4	312.4	748.4	155.8	9,425.8
	Sept.	746.4	3,654.5	4,400.9	2,031.6	1,760.1	8,192.6	327.7	747.1	147.8	9,415.0
	Oct.	747.0	3,712.1	4,459.1	1,966.7	1,781.5	8,207.4	308.1	742.0	138.4	9,395.6
	Nov.	753.4	3,706.9	4,460.3	1,925.0	1,792.1	8,177.4	313.0	728.0	133.5	9,351.6
	Dec.	755.1	3,737.2	4,492.3	1,890.6	1,805.4	8,188.3	340.2	674.1	131.9	9,334.2
2010	Jan.	760.7	3,777.4	4,538.1	1,851.9	1,820.5	8,210.6	308.6	658.8	131.8	9,309.8
	Feb.	764.7	3,796.6	4,561.3	1,837.5	1,829.5	8,228.2	323.5	642.0	125.3	9,319.0
	March	775.3	3,792.2	4,567.5	1,824.6	1,836.6	8,228.7	341.6	625.5	134.2	9,330.0
	Apr.	769.1	3,879.7	4,648.7	1,781.0	1,844.1	8,273.8	359.2	624.7	135.5	9,393.0
	May	780.2	3,866.1	4,646.3	1,791.7	1,845.8	8,283.8	358.2	616.4	129.0	9,387.2
	June	785.0	3,874.4	4,659.4	1,796.9	1,844.9	8,301.2	401.8	606.5	122.8	9,432.0
	July	782.2	3,907.3	4,689.5	1,784.0	1,857.7	8,331.2	390.2	588.1	126.6	9,435.8
	Aug.	791.7	3,945.5	4,737.2	1,794.9	1,876.9	8,409.1	387.8	598.8	126.3	9,521.8
	Sept.	791.2	3,893.5	4,684.7	1,804.5	1,891.3	8,380.5	397.6	594.6	128.1	9,500.8
	Oct.	790.4	3,896.4	4,686.8	1,811.3	1,903.7	8,401.8	382.9	579.5	121.9	9,486.1
	Nov.	796.0	3,887.8	4,683.8	1,803.4	1,914.8	8,402.1	432.9	591.1	119.4	9,545.6
	Dec.*	790.0	3,911.7	4,701.7	1,775.1	1,909.1	8,385.9	442.0	576.9	120.5	9,525.1

Source: ECB.
* Provisional data.
1 Figures refer to the changing euro area composition.
2 Monetary aggregates comprise monetary liabilities of MFIs and central government (Post Office, Treasury) vis-à-vis non-MFI euro area residents excluding central government.
3 M3 and its components exclude non-residents' holdings of money market fund shares/units and debt securities of up to two years.

Table 8 The Greek contribution to the main monetary aggregates of the euro area

(outstanding amounts in million euro, not seasonally adjusted)

End of period		Overnight deposits (1)	Sight deposits and current accounts (1.1)	Savings deposits (1.2)	Deposits with an agreed maturity up to two years (2)	Deposits redeemable at notice up to three months[1] (3)	Repurchase agreements (repos) (4)	Money market fund shares/units (5)	Debt securities up to two years[2] (6)	Total[3] (M3 excluding currency in circulation) (7)=(1)+(2)+ +(3)+(4)+ +(5)+(6)	Memo item: Currency in circulation[4]
2006		100,108	26,030	74,078	69,301	2,965	1,568	5,808	490	180,240	13,377
2007		98,837	28,290	70,547	97,548	2,261	703	7,918	–1,587	205,680	14,247
2008		90,599	25,916	64,683	137,828	1,882	378	2,266	2,126	235,079	16,318
2009		103,165	31,057	72,109	134,003	3,141	189	1,539	–69	241,968	19,122
2010		90,831	26,977	63,854	117,624	3,015	87	935	6	212,498	20,383
2008	Jan.	93,741	25,675	68,066	102,918	2,104	652	7,716	–1,066	206,065	14,188
	Feb.	91,122	24,690	66,432	106,332	2,166	589	7,812	–456	207,565	14,518
	March	93,345	27,160	66,185	107,143	2,133	593	7,807	183	211,204	14,336
	Apr.	92,232	25,439	66,793	110,558	2,125	545	7,623	371	213,454	14,116
	May	90,245	24,444	65,801	114,883	2,030	637	7,432	623	215,850	14,601
	June	93,981	27,435	66,546	115,582	1,999	634	7,280	1,380	220,856	14,619
	July	90,584	24,764	65,820	119,237	1,904	498	6,869	1,867	220,959	15,001
	Aug.	89,530	24,373	65,157	124,158	1,927	477	6,775	2,219	225,086	14,835
	Sept.	91,518	26,500	65,018	126,391	1,950	941	6,276	2,467	229,543	14,929
	Oct.	89,051	24,845	64,206	133,716	2,036	1,082	2,993	2,182	231,060	15,941
	Nov.	86,959	24,516	62,443	138,182	1,982	455	2,549	2,173	232,300	16,007
	Dec.	90,599	25,916	64,683	137,828	1,882	378	2,266	2,126	235,079	16,318
2009	Jan.	87,801	24,904	62,897	141,972	2,085	268	2,052	1,796	235,974	17,735
	Feb.	87,691	24,776	62,916	142,315	2,119	277	1,852	1,635	235,889	17,848
	March	88,511	24,615	63,896	141,971	2,128	225	1,486	1,533	235,854	17,945
	Apr.	93,160	26,919	66,241	140,820	2,438	327	1,512	1,966	240,223	18,194
	May	92,007	25,748	66,259	140,258	2,543	265	1,530	1,887	238,490	18,322
	June	96,990	29,163	67,827	140,655	2,709	251	1,596	1,500	243,701	18,251
	July	96,415	27,771	68,644	137,865	2,889	265	1,682	1,263	240,379	18,557
	Aug.	97,942	28,580	69,362	138,050	2,967	236	1,706	1,239	242,140	18,385
	Sept.	98,853	29,093	69,760	138,804	2,930	232	1,724	1,013	243,556	18,498
	Oct.	97,506	27,964	69,542	137,766	3,080	226	1,656	891	241,125	18,595
	Nov.	98,626	29,498	69,128	135,157	3,087	184	1,599	325	238,978	18,706
	Dec.	103,165	31,057	72,109	134,003	3,141	189	1,539	–69	241,968	19,122
2010	Jan.	100,503	28,653	71,850	130,888	3,214	174	1,500	–75	236,204	18,859
	Feb.	99,125	27,983	71,142	128,365	3,138	149	1,306	–73	232,010	19,022
	March	98,051	27,253	70,798	126,867	2,918	169	1,167	–75	229,097	19,111
	Apr.	96,950	27,364	69,586	123,047	2,800	136	1,031	–48	223,916	19,254
	May	95,559	26,934	68,625	121,702	2,872	123	966	–17	221,205	19,376
	June	96,130	28,877	67,253	119,749	3,531	105	894	–7	220,402	19,640
	July	93,401	26,700	66,701	118,021	3,290	138	894	2	215,746	19,839
	Aug.	92,649	26,362	66,287	119,596	3,267	128	899	1	216,540	19,732
	Sept.	92,831	27,906	64,925	119,522	3,031	110	935	2	216,431	19,719
	Oct.	91,462	26,499	64,963	119,480	3,015	113	856	–2	214,924	19,768
	Nov.	89,981	26,837	63,144	118,568	3,104	106	853	1	212,613	19,927
	Dec.	90,831	26,977	63,854	117,624	3,015	87	935	6	212,498	20,383

Source: Bank of Greece.
1 Including savings deposits in currencies other than the euro.
2 This aggregate is calculated on a consolidated basis with the other euro area countries and thus does not include domestic MFIs' holdings of debt securities up to two years issued by euro area MFIs.
3 As in all other euro area countries, Greece's M3 can no longer be calculated accurately, since part of the quantity of euro banknotes and coins in circulation in each country is held by residents of other euro area countries (as well as non-euro area residents). Owing to these technical problems, the compilation of the Greek M0, M1, M2 and M3 was discontinued in January 2003.
4 Since January 2002, banknotes in circulation are calculated on the basis of Greece's key for subscription to the ECB's capital, excluding the percentage (8%) of issued banknotes assigned to the ECB.

Table 9 Greece: deposits of domestic firms and households with OMFIs,[1] by currency and type

(outstanding balances in million euro, not seasonally adjusted)

End of period		Total deposits[2]	Breakdown by currency		Breakdown by type		
			In euro[3]	In other currencies	Sight deposits[3]	Savings deposits	Time deposits
2006		173,373	151,324	22,049	23,528	77,858	71,987
2007		197,238	173,498	23,740	25,018	73,562	98,658
2008		227,253	200,638	26,615	21,826	67,328	138,099
2009		237,798	217,658	20,140	26,329	75,811	135,658
2010		208,781	191,248	17,533	22,864	66,705	119,211
2008	Jan.	196,034	171,476	24,558	21,735	70,740	103,558
	Feb.	197,408	172,638	24,769	21,125	69,153	107,129
	March	200,454	176,408	24,047	23,644	68,860	107,951
	Apr.	202,575	177,765	24,804	22,186	69,470	110,920
	May	204,890	179,223	25,666	21,500	68,386	115,003
	June	209,085	183,412	25,673	23,998	69,113	115,973
	July	209,795	182,932	26,863	21,785	68,267	119,743
	Aug.	213,386	184,003	29,383	21,093	67,628	124,665
	Sept.	217,315	187,760	29,555	22,871	67,506	126,938
	Oct.	222,022	191,250	30,772	21,226	66,785	134,011
	Nov.	223,579	192,424	31,155	20,116	64,962	138,501
	Dec.	227,253	200,638	26,615	21,826	67,328	138,099
2009	Jan.	228,582	200,337	28,245	20,684	65,526	142,372
	Feb.	229,142	201,130	28,011	20,837	65,570	142,734
	March	230,084	205,507	24,577	20,752	66,557	142,775
	Apr.	233,789	209,555	24,234	22,930	69,222	141,637
	May	232,040	208,329	23,712	21,710	69,329	141,001
	June	237,268	214,268	23,000	24,861	71,094	141,313
	July	234,288	211,621	22,667	23,699	72,080	138,509
	Aug.	236,163	212,690	23,473	24,548	72,881	138,733
	Sept.	237,592	214,976	22,616	24,684	73,232	139,675
	Oct.	235,273	213,536	21,737	24,100	73,104	138,069
	Nov.	234,261	213,057	21,204	25,349	72,720	136,193
	Dec.	237,798	217,658	20,140	26,329	75,811	135,658
2010	Jan.	232,651	212,307	20,344	24,357	75,628	132,665
	Feb.	229,372	209,754	19,618	23,915	74,853	130,605
	March	227,210	208,697	18,513	23,576	74,292	129,342
	Apr.	221,989	204,312	17,676	23,406	72,943	125,639
	May	219,730	201,018	18,712	23,200	72,069	124,461
	June	216,331	196,789	19,542	24,492	70,595	121,245
	July	211,822	193,522	18,300	22,654	69,797	119,372
	Aug.	212,543	193,529	19,013	22,333	69,371	120,839
	Sept.	212,435	194,639	17,795	23,732	67,785	120,918
	Oct.	210,998	193,421	17,577	22,491	67,813	120,693
	Nov.	208,755	190,141	18,614	22,677	66,082	119,997
	Dec.[2]	208,781	191,248	17,533	22,864	66,705	119,211

Source: Bank of Greece.
1 Other Monetary Financial Institutions (OMFIs) comprise credit institutions (other than the Bank of Greece) and money market funds.
2 December 2010 deposits are affected by reclassification of deposits of certain public enterprises and organisations (DECO), which were transferred to the general government under a relevant decision by ELSTAT (15 November 2010).
3 Electronic money included.

Table 10 Money market interest rates

(percentages per annum, period averages)

Period		Overnight deposits[1]	1–month deposits[2]	3–month deposits[2]	6–month deposits[2]	9–month deposits[2]	12–month deposits[2]
2006		2.83	2.94	3.08	3.23	3.35	3.44
2007		3.87	4.08	4.28	4.35	4.41	4.45
2008		3.87	4.28	4.64	4.73	4.76	4.83
2009		0.71	0.89	1.22	1.43	1.54	1.61
2010		0.44	0.57	0.81	1.08	1.22	1.35
2008	Jan.	4.02	4.20	4.48	4.50	4.50	4.50
	Feb.	4.03	4.18	4.36	4.36	4.35	4.35
	March	4.09	4.30	4.60	4.59	4.59	4.59
	Apr.	3.99	4.37	4.78	4.80	4.81	4.82
	May	4.01	4.39	4.86	4.90	4.94	4.99
	June	4.01	4.47	4.94	5.09	5.23	5.36
	July	4.19	4.47	4.96	5.15	5.25	5.39
	Aug.	4.30	4.49	4.97	5.16	5.23	5.32
	Sept.	4.27	4.66	5.02	5.22	5.29	5.38
	Oct.	3.82	4.83	5.11	5.18	5.21	5.25
	Nov.	3.15	3.84	4.24	4.29	4.33	4.35
	Dec.	2.49	2.99	3.29	3.37	3.42	3.45
2009	Jan.	1.81	2.14	2.46	2.54	2.59	2.62
	Feb.	1.26	1.63	1.94	2.03	2.09	2.14
	March	1.06	1.27	1.64	1.77	1.84	1.91
	Apr.	0.84	1.01	1.42	1.61	1.69	1.77
	May	0.78	0.88	1.28	1.48	1.57	1.64
	June	0.70	0.91	1.23	1.44	1.54	1.61
	July	0.36	0.61	0.97	1.21	1.33	1.41
	Aug.	0.35	0.51	0.86	1.12	1.24	1.33
	Sept.	0.36	0.46	0.77	1.04	1.16	1.26
	Oct.	0.36	0.43	0.74	1.02	1.14	1.24
	Nov.	0.36	0.44	0.72	0.99	1.12	1.23
	Dec.	0.35	0.48	0.71	1.00	1.12	1.24
2010	Jan.	0.34	0.44	0.68	0.98	1.11	1.23
	Feb.	0.34	0.42	0.66	0.96	1.10	1.23
	March	0.35	0.41	0.64	0.95	1.09	1.22
	Apr.	0.35	0.40	0.64	0.96	1.10	1.23
	May	0.34	0.42	0.69	0.98	1.12	1.25
	June	0.35	0.45	0.73	1.01	1.15	1.28
	July	0.48	0.58	0.85	1.10	1.25	1.37
	Aug.	0.43	0.64	0.90	1.15	1.29	1.42
	Sept.	0.45	0.62	0.88	1.14	1.29	1.42
	Oct.	0.70	0.78	1.00	1.22	1.36	1.50
	Nov.	0.59	0.83	1.04	1.27	1.41	1.54
	Dec.	0.50	0.81	1.02	1.25	1.39	1.53
2011	Jan.	0.66	0.79	1.02	1.25	1.41	1.55

Source: Bloomberg.
1 Euro area overnight index average (EONIA).
2 Euro area interbank offered rates (EURIBOR).

Table 11 Greek government bond yields

(percentages per annum, period averages)

Period		3-year	5-year	7-year	10-year	15-year	20-year[1]	30-year
2006		3.58	3.72	3.87	4.07	4.16	4.23	4.42
2007		4.21	4.30	4.34	4.50	4.67	–	4.81
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
2008	Jan.	3.88	4.02	4.17	4.40	4.76	–	4.95
	Feb.	3.68	3.83	4.09	4.36	4.79	–	4.99
	March	3.92	4.10	4.24	4.42	4.95	–	5.16
	Apr.	4.15	4.31	4.32	4.54	5.05	–	5.20
	May	4.35	4.46	4.46	4.74	5.08	–	5.21
	June	4.97	5.08	4.96	5.17	5.37	–	5.40
	July	4.94	5.04	4.98	5.15	5.38	–	5.44
	Aug.	4.53	4.64	4.63	4.87	5.15	–	5.25
	Sept.	4.42	4.65	4.65	4.88	5.26	–	5.36
	Oct.	3.97	4.48	4.53	4.93	5.22	–	5.26
	Nov.	4.12	4.65	4.70	5.09	5.49	–	5.52
	Dec.	4.28	4.89	4.76	5.08	5.67	–	5.82
2009	Jan.	3.93	5.22	5.26	5.59	6.21	–	6.46
	Feb.	3.91	5.19	5.25	5.70	6.13	–	6.26
	March	4.05	5.08	5.16	5.87	6.11	–	6.28
	Apr.	3.63	4.72	4.71	5.50	5.78	–	5.86
	May	3.10	4.14	4.53	5.22	5.54	–	5.71
	June	3.05	4.20	4.55	5.33	5.73	–	5.93
	July	2.57	3.62	3.99	4.89	5.40	–	5.70
	Aug.	2.52	3.41	3.77	4.52	4.93	–	5.26
	Sept.	2.26	3.36	3.77	4.56	4.91	–	5.31
	Oct.	2.26	3.37	3.78	4.57	4.97	–	5.39
	Nov.	2.45	3.63	4.06	4.84	5.51	–	5.65
	Dec.	3.72	4.67	5.01	5.49	6.10	–	6.11
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

Source: Bank of Greece.
1 As of May 2007, there is no bond in the market with a residual maturity close to 20 years.

Table 12 Domestic MFI loans to the domestic private sector by branch of economic activity[1,2]

(balances in million euro)

End of period		Grand total	Firms						Sole pro-prietors	Individuals and private non–profit institutions			
			Total	Agricul–ture	Industry[3]	Trade	Tourism	Other[3]		Total	Housing	Consumer credit	Other
2006		179,452	93,576	3,098	19,515	23,712	4,800	42,451	–	85,877	57,145	26,597	2,135
2007		215,405	111,289	3,304	21,488	27,672	5,883	52,942	–	104,116	69,363	31,942	2,811
2008		249,661	132,458	3,856	24,873	32,985	7,032	63,713	–	117,203	77,700	36,435	3,068
2009		253,379	133,745	3,962	23,685	33,519	7,358	65,220	–	119,635	80,559	36,044	3,032
2010		257,127	123,072	2,060	24,269	25,356	7,355	64,033	16,233	117,823	80,429	35,068	2,325
2008	Jan.	217,682	112,572	3,396	21,628	27,826	5,950	53,773	–	105,109	70,032	32,311	2,767
	Feb.	221,161	114,445	3,552	22,122	28,101	6,208	54,462	–	106,716	70,834	33,070	2,812
	March	225,312	117,396	3,585	22,455	28,955	6,308	56,094	–	107,916	71,661	33,367	2,888
	Apr.	226,983	118,261	3,708	22,485	29,280	6,499	56,290	–	108,722	72,271	33,678	2,774
	May	230,680	120,639	3,776	23,263	30,045	6,595	56,959	–	110,042	73,007	34,196	2,839
	June	235,808	124,189	3,842	23,778	30,938	6,771	58,861	–	111,619	74,064	34,606	2,948
	July	238,349	125,440	3,858	24,134	31,227	6,817	59,404	–	112,909	74,830	35,133	2,947
	Aug.	240,860	127,250	3,901	24,320	31,558	6,888	60,583	–	113,609	75,204	35,483	2,922
	Sept.	244,062	128,963	3,915	24,490	32,045	7,037	61,476	–	115,098	76,055	36,037	3,006
	Oct.	247,990	131,808	3,967	24,774	32,314	7,024	63,729	–	116,182	76,854	36,282	3,046
	Nov.	248,676	132,136	4,019	25,168	32,953	6,948	63,048	–	116,540	77,003	36,492	3,044
	Dec.	249,661	132,458	3,856	24,873	32,985	7,032	63,713	–	117,203	77,700	36,435	3,068
2009	Jan.	250,266	132,994	3,879	24,944	33,245	7,081	63,846	–	117,272	77,813	36,449	3,010
	Feb.	250,438	132,951	3,933	25,001	33,454	7,148	63,415	–	117,487	78,003	36,513	2,971
	March	249,960	132,575	3,827	24,491	33,708	7,154	63,395	–	117,384	78,066	36,369	2,949
	Apr.	250,464	133,056	3,940	24,530	34,057	7,197	63,332	–	117,408	78,235	36,245	2,928
	May	250,865	133,182	3,974	24,640	34,176	7,312	63,080	–	117,683	78,396	36,318	2,970
	June	249,676	131,690	3,989	24,380	33,745	7,406	62,170	–	117,986	78,734	36,281	2,971
	July	250,473	132,140	4,011	24,363	33,773	7,380	62,612	–	118,334	79,042	36,384	2,908
	Aug.	250,707	132,234	3,913	24,232	33,322	7,196	63,572	–	118,472	79,145	36,445	2,883
	Sept.	251,820	132,924	3,970	24,042	33,775	7,192	63,944	–	118,896	79,560	36,392	2,944
	Oct.	251,528	132,583	3,987	23,886	33,454	7,172	64,084	–	118,945	79,670	36,329	2,946
	Nov.	251,848	132,746	4,028	23,892	33,207	7,249	64,370	–	119,103	79,958	36,166	2,978
	Dec.	253,379	133,745	3,962	23,685	33,519	7,358	65,220	–	119,635	80,559	36,044	3,032
2010	Jan.	253,882	134,326	4,076	23,859	33,408	7,428	65,556	–	119,556	80,704	35,875	2,977
	Feb.	254,887	135,235	4,063	23,926	33,183	7,512	66,551		119,652	80,878	35,791	2,984
	March	254,773	135,105	3,987	23,934	33,203	7,639	66,341	–	119,669	81,173	35,489	3,007
	Apr.	254,683	135,229	4,014	23,881	33,104	7,665	66,565	–	119,453	81,125	35,327	3,002
	May	255,765	136,412	4,012	23,938	33,088	7,640	67,734	–	119,353	81,110	35,193	3,050
	June	249,937	130,159	2,200	26,289	26,724	7,376	67,570	13,855	119,778	81,355	36,279	2,144
	July	248,564	129,214	2,189	25,858	26,716	7,345	67,105	13,898	119,349	81,258	35,947	2,143
	Aug.	262,235	129,118	2,191	25,530	26,632	7,348	67,416	13,754	119,363	81,374	35,886	2,103
	Sept.	261,747	127,147	2,155	25,332	25,873	7,272	66,515	15,491	119,108	81,125	35,822	2,161
	Oct.	260,992	126,988	2,051	25,542	25,663	7,237	66,495	16,196	117,808	79,957	35,609	2,242
	Nov.	261,660	127,588	2,052	25,383	25,595	7,292	67,266	16,152	117,919	80,226	35,431	2,263
	Dec.[3]	257,127	123,072	2,060	24,269	25,356	7,355	64,033	16,233	117,823	80,429	35,068	2,325

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 are presented separately and are no longer included in credit to enterprises. Also, in June 2010, both outstanding loans (total credit) and loans to certain branches (shipping, other business sectors, consumer credit and other loans to households) are affected by reclassifications of loans between sectors and branches due to changes in the reporting of data by banks.
3 In December 2010, the outstanding balances of financing to certain sactors (industry and other sectors) are affected by reclassifications of loans to certain public enterprises and organisations (DECO), which were transferred to the general government under a relevant decision by ELSTAT (15 November 2010).

Table 13 Greece: bank rates on new euro-denominated deposits of euro area residents

(percentages per annum, period averages unless otherwise noted)

Period		Deposits by households			Deposits by non–financial corporations		
		Overnight deposits[1,2]	Savings deposits[2]	Deposits with agreed maturity up to one year	Overnight deposits[2]	Deposits with agreed maturity up to one year	Repurchase agreements (repos)
2006		1.02	0.98	2.86	0.79	2.81	2.67
2007		1.22	1.14	3.95	1.03	3.94	3.70
2008		1.26	1.17	4.87	1.09	4.48	3.93
2009		0.63	0.56	2.74	0.50	1.65	0.68
2010		0.45	0.40	3.26	0.35	2.53	n.p.
2008	Jan.	1.24	1.16	4.35	1.09	4.13	3.87
	Feb.	1.25	1.16	4.30	1.12	4.19	3.88
	March	1.25	1.17	4.42	1.06	4.44	4.01
	Apr.	1.25	1.17	4.68	1.06	4.41	3.98
	May	1.24	1.16	4.73	1.07	4.39	3.99
	June	1.25	1.17	4.85	1.06	4.51	4.44
	July	1.26	1.17	5.09	1.15	4.59	4.20
	Aug.	1.26	1.18	4.99	1.13	4.69	4.22
	Sept.	1.28	1.19	5.11	1.09	4.80	4.76
	Oct.	1.27	1.20	5.37	1.18	4.71	4.26
	Nov.	1.27	1.19	5.22	1.05	4.51	3.08
	Dec.	1.24	1.16	5.36	0.96	4.36	2.52
2009	Jan.	1.15	1.05	4.89	0.92	3.53	1.65
	Feb.	0.98	0.88	3.87	0.73	2.36	1.33
	March	0.79	0.74	3.25	0.58	2.03	1.11
	Apr.	0.69	0.62	2.84	0.51	1.85	0.79
	May	0.58	0.50	2.58	0.48	1.67	0.71
	June	0.53	0.45	2.55	0.44	1.45	0.58
	July	0.52	0.46	2.34	0.46	1.25	0.43
	Aug.	0.50	0.45	2.24	0.40	1.12	0.34
	Sept.	0.48	0.43	2.08	0.38	1.14	0.30
	Oct.	0.43	0.37	2.08	0.37	1.16	0.27
	Nov.	0.43	0.37	2.01	0.41	1.08	0.32
	Dec.	0.43	0.37	2.10	0.35	1.18	0.34
2010	Jan.	0.43	0.37	2.18	0.37	1.21	0.30
	Feb.	0.44	0.38	2.35	0.36	1.29	0.37
	March	0.43	0.38	2.61	0.38	1.61	0.42
	Apr.	0.43	0.37	2.98	0.36	1.71	0.47
	May	0.42	0.37	3.42	0.38	2.06	0.56
	June	0.43	0.38	3.61	0.32	3.37	n.p.
	July	0.43	0.38	3.71	0.31	3.40	n.p.
	Aug.	0.44	0.39	3.66	0.32	3.14	n.p.
	Sept.	0.46	0.41	3.61	0.33	2.98	n.p.
	Oct.	0.47	0.42	3.68	0.34	2.98	n.p.
	Nov.	0.49	0.44	3.65	0.35	3.27	n.p.
	Dec.	0.50	0.45	3.68	0.36	3.29	1.92

Source: Bank of Greece.
n.p.: not published for reasons of confidentiality.
1 Weighted average of the current account rate and the savings deposit rate.
2 End-of-month interest rate.

Table 14 Greece: bank rates on new euro-denominated loans to euro area residents

(percentages per annum, period averages unless otherwise noted)

Period		Loans to individuals and private non–profit institutions[1]					Loans to sole proprietors[1]		Loans to non–financial corporations[1,5]		
			Consumer loans		Housing loans					With a floating rate or an initial rate fixation of up to one year	
		Loans without an agreed maturity[2,3]	With a floating rate or an initial rate fixation of up to one year	Average rate on total consumer loans	With a floating rate or an initial rate fixation of up to one year	Average rate on total housing loans	Loans without defined maturity[3,4]	Defined-maturity loans with floating rate or an initial rate fixation of up to one year	Loans without an agreed maturity[3,4]	Up to €1 million	Over €1 million
2006		13.45	7.89	8.57	4.24	4.30			7.18	5.76	4.37
2007		14.09	7.70	8.46	4.57	4.46			7.54	6.57	5.32
2008		14.80	8.65	8.96	5.10	4.81			7.61	6.82	5.71
2009		14.39	8.59	9.33	3.52	3.94			6.07	4.62	3.52
2010		14.18	9.79	9.53	3.42	3.67			6.25	5.53	4.27
2008	Jan.	14.48	8.09	8.49	4.61	4.39			7.50	6.66	5.48
	Feb.	14.48	8.28	8.60	4.67	4.40			7.50	6.62	5.32
	March	14.46	8.57	8.59	4.77	4.47			7.55	6.65	5.68
	Apr.	14.52	8.79	8.72	4.83	4.50			7.62	6.79	5.66
	May	14.48	8.73	8.88	4.94	4.57			7.62	6.83	5.64
	June	14.49	8.41	8.78	5.05	4.68			7.59	6.91	5.82
	July	14.98	9.10	9.01	5.30	4.83			7.79	7.03	6.05
	Aug.	15.16	8.73	8.99	5.34	4.98			7.78	7.11	5.82
	Sept.	15.15	8.77	9.08	5.45	5.03			7.94	7.24	6.04
	Oct.	15.28	8.64	9.38	5.92	5.35			7.81	7.40	6.31
	Nov.	15.24	8.88	9.50	5.35	5.30			7.49	6.41	5.59
	Dec.	14.83	8.76	9.46	4.92	5.21			7.13	6.18	5.07
2009	Jan.	14.81	9.15	9.82	4.55	4.97			6.66	5.45	4.24
	Feb.	14.72	8.84	9.81	4.16	4.65			6.63	4.99	4.12
	March	14.46	8.62	9.71	3.83	4.32			6.38	4.71	4.10
	Apr.	14.44	9.17	9.72	3.64	4.11			6.11	4.36	3.79
	May	14.31	8.54	9.14	3.52	3.97			6.10	4.56	3.59
	June	14.32	7.59	8.93	3.46	3.86			6.06	4.59	3.33
	July	14.44	8.36	9.09	3.27	3.68			5.87	4.33	3.44
	Aug.	14.33	8.54	8.99	3.27	3.72			5.83	4.41	3.22
	Sept.	14.31	8.43	9.25	3.19	3.57			5.82	4.44	3.23
	Oct.	14.20	9.06	9.46	3.15	3.56			5.79	4.43	2.96
	Nov.	14.22	8.59	9.13	3.14	3.49			5.80	4.49	2.99
	Dec.	14.08	8.18	8.94	3.08	3.41			5.81	4.70	3.24
2010	Jan.	14.05	8.69	8.96	3.05	3.44			5.72	4.52	3.23
	Feb.	14.14	8.65	9.36	3.08	3.42			5.87	4.72	3.37
	March	13.84	8.94	9.27	3.21	3.53			5.93	4.98	3.71
	Apr.	13.94	8.69	9.30	3.32	3.62			6.13	5.21	3.55
	May	13.92	8.48	9.30	3.36	3.63			6.29	5.56	3.77
	June	14.28	10.31	9.45	3.26	3.50	9.07	7.43	5.94	5.47	3.89
	July	14.29	10.88	9.79	3.54	3.78	9.19	6.84	6.25	5.74	4.73
	Aug.	14.31	10.92	9.86	3.67	3.89	9.23	7.87	6.48	5.87	4.51
	Sept.	14.33	10.40	9.75	3.54	3.74	9.21	7.63	6.45	5.86	5.28
	Oct.	14.29	10.65	9.87	3.72	3.92	9.43	8.07	6.56	5.94	5.32
	Nov.	14.41	10.57	9.82	3.67	3.83	9.47	7.99	6.62	6.14	4.91
	Dec.	14.40	10.27	9.68	3.65	3.79	9.57	7.83	6.79	6.32	4.95

Source: Bank of Greece.
1 Associated costs are not included. As of June 2010, loans to sole proprietors are presented separately and are no longer included in credit to enterprises.
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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