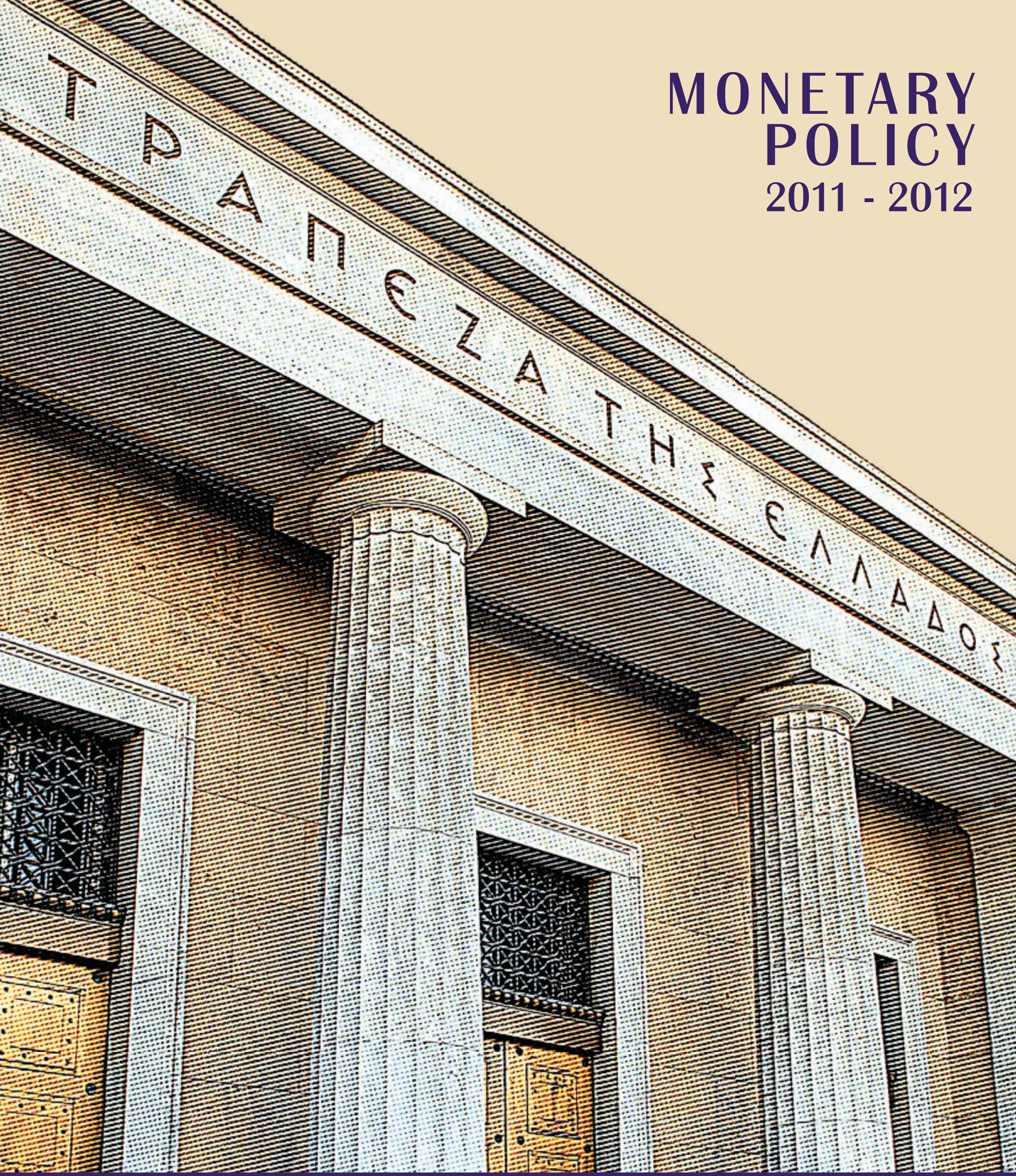
MONETARY POLICY
2011 - 2012



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Printed in Athens, Greece
at the Bank of Greece Printing Works

ISSN 1108 - 2690

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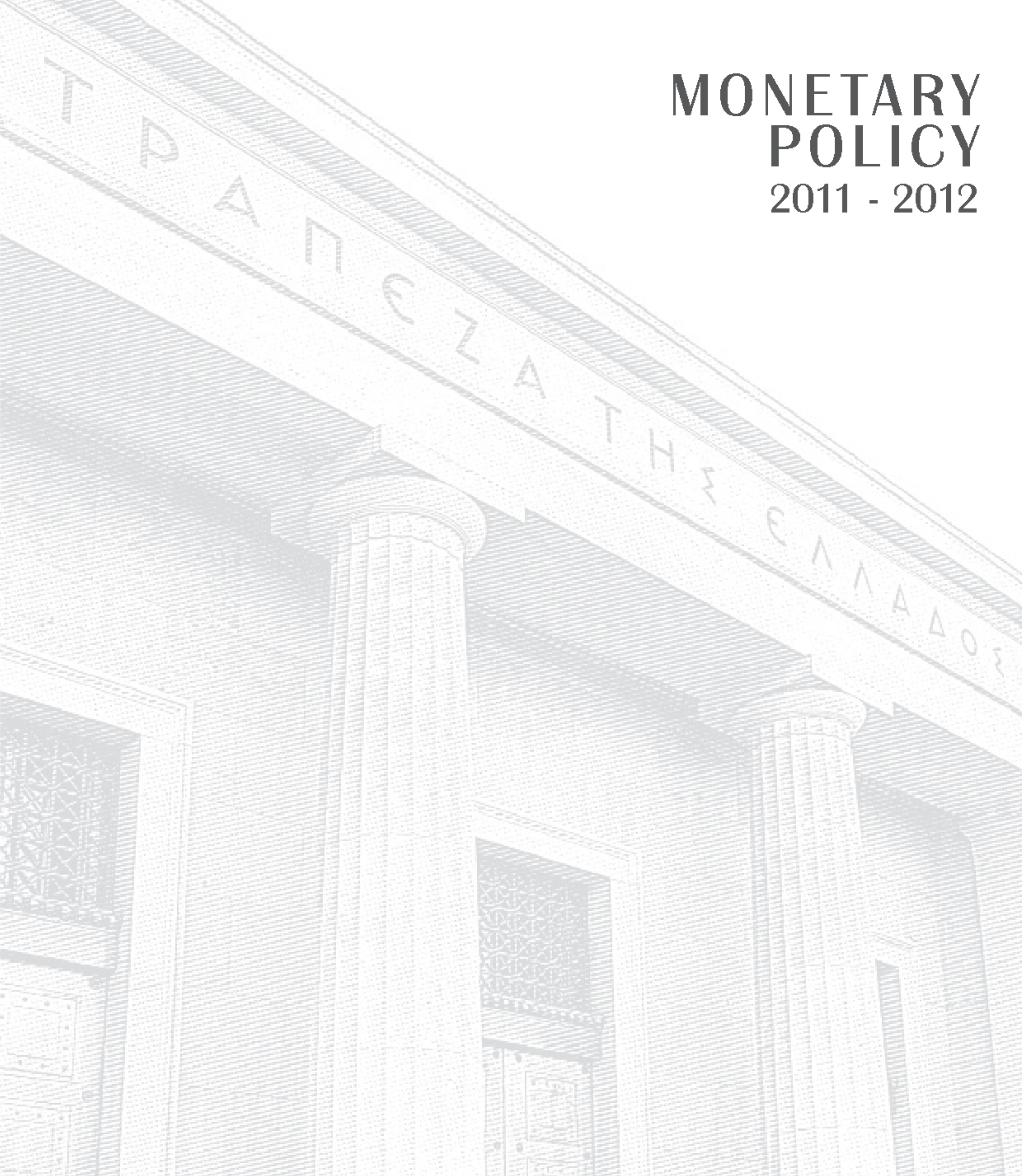

MARCH
2012

BANK OF GREECE
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To the Greek Parliament
and the Cabinet

In accordance with its Statute, the Bank of Greece submits its Report on Monetary Policy 2011-2012 to the Greek Parliament and the Cabinet.

The Eurogroup decision of 21 February 2012 was the latest and most important step in a series of actions taken by our European partners and the IMF to provide financial support to the Greek economy. These actions are tangible proof of our partners' determination to avert a Greek default, in light of the continuous deterioration of the country's public debt dynamics over the past two years in a context of deep recession. The agreement of 21 February confirms this determination and, in conjunction with the successful completion of the PSI, creates a new operating framework for the Greek economy in the years ahead. Its main elements are:

- A reduced loan burden as a result of the debt write-down, the maturity lengthening and the lowering of the interest rates on the loans extended to Greece after May 2010 and on the loans to be extended now.

- Ensured financial support, since the Greek economy has no access to the market.

- A consistent and detailed programme of fiscal consolidation, based on expenditure reduction and the broadening of the tax base, as well as a specific timetable for privatisation and structural reforms in the public sector and in product and labour markets.

- Our European partners' concrete assurance that they stand ready to provide the Greek government with technical assistance for the effective implementation of reforms.

The programme's primary and ultimate objective, as expressly formulated in the Memorandum of Economic and Financial Policies and in the Memorandum of Understanding on Specific Economic Policy Conditionality adopted by the Greek Parliament on 12 February 2012, is economic growth, with three intermediate goals: fiscal consolidation, the restoration of competitiveness and the strengthening of the financial sector.

The *goal of fiscal consolidation* is to achieve a return to a primary surplus by 2013, with the primary surplus reaching 4.5% of GDP by 2014, so that a gradual reduction in public debt can begin, supported by privatisation. Structural reforms in the public sector will help both to reduce the fiscal deficit and to foster economic growth.

The *goal of restoring competitiveness* is, via a series of structural reforms, to encourage investment and export activity, ultimately contributing to employment growth.

Finally, the *goal of strengthening the financial sector* is expected to help support credit expansion and the provision of liquidity to the economy, thus supporting economic activity.

This policy mix is intended to bring about the start of the recovery in the course of 2013 and to put in place the conditions for sustainable growth thereafter. A high degree of certainty about the sustainability of growth is perhaps the key factor for public debt also to be deemed sustainable.

* * *

Since the first Memorandum was signed in May 2010, there has been progress, as fiscal consolidation has made significant headway and structural reforms, which addressed long-standing weaknesses, have been implemented. However, performance in both areas —although not negligible— fell short of expectations. The policies pursued failed on the whole to convince that they would ultimately succeed, due to a lack of resolve to carry the reforms through and the absence of a clear determination to press forward in areas where we had faltered in the past. It was not adequately realised that new policy choices were absolutely necessary and would have to be made even without the Memorandum. As a result, reforms were perceived as dictated by our creditors, and not as necessary choices that could no longer be postponed without inviting dire consequences. This undermined the effectiveness of the policies that had begun to be implemented and fuelled uncertainty about whether the ambitious goals that needed to be pursued would be achieved. This amplified the negative effects of fiscal consolidation on domestic demand, exacerbated the recession and intensified the unemployment problem. The recession, in turn, made the deficit and debt targets more difficult to reach, thereby undermining confidence further.

As confirmed by recently released data:

- The recession in 2011 turned out to be deeper than initially forecast, with the annual decrease in GDP reaching 6.9%. The cumulative drop in GDP over the four years 2008-2011 was 13.2%, while the drop between the fourth quarter of 2007 and the fourth quarter of 2011 amounted to 17.2%.

- In 2011 the number of the unemployed has exceeded one million, total employment decreased by 6.8% and the average unemployment rate rose to 17.7%.

- The state budget deficit, in spite of the adoption of continuous fiscal measures and following a number of upward target revisions on account of the recession and delays, came to 10.6% of GDP, i.e. to a level slightly below (by €76 million) the latest revised target.

- The primary deficit of the ordinary budget was €18 million higher than in 2010.

- Budgetary slippages created the need for additional measures and necessitated the revision of fiscal targets for 2012.

- There had been strong early indications of almost all of the above outcomes, which worsened expectations and forecasts, as well as assessments of debt sustainability; thus, the possibility of default re-emerged with intensity.

- Heightened political uncertainty, right before the formation of the coalition government, worsened the situation further; this contributed to calling into question the decisions of the 26 October 2011 Summit. The issue of Greece's exit from the euro area and a disorderly default now featured in public debate.

The formation of a new government opened up a window of opportunity and was a determining factor in negotiations leading to the agreement of 21 February 2012; this agreement brought to a halt the ruinous course towards which the country had started to slide. This outcome was the most convincing proof of **how important consensus and political collaboration are in the light of the historically unprecedented challenges we are facing**.

Following the agreement of 21 February 2012 and provided that the conditions of the programme are met on an ongoing basis, euro area Member States (through the European Financial Stability Facility) and the IMF will provide an additional official support of up to €130 billion until 2014. In addition, all Member States have agreed to an additional retroactive lowering of interest rates on the Greek Loan Facility so that the margin amounts to 150 basis points. Furthermore, the Greek authorities have reached a common understanding with private sector creditors on the general terms of their participation in the restructuring of Greek debt. This common understanding provides for a write-down of 53.5% on the nominal value of holdings to be paid back to creditors. The private sector's response to Greece's debt exchange offer recorded on 8 March was overwhelmingly positive and it is now assessed that the contributions from both the private and the official sectors will help bring Greece's public debt ratio down to below 120.5% of GDP in 2020 and keep it on a sustained downward path thereafter. Even though the projected debt-to-GDP ratio remains high, what is important is that the new arrangements **arrest the adverse debt dynamics**, which under the present circumstances of deep recession would certainly have given rise to an extremely difficult situation.

The adoption with a strong majority of the loan agreement and the laws required for implementation by the Greek Parliament is the first positive development worthy of note. However, the success of the programme will hinge critically on its consistent implementation. Serious difficulties and problems obviously exist and need to be addressed. The bottom line, however, is that **the goals are feasible and the programme can succeed**.

Success, however, will hinge upon the following:

1st. **Continuity**, which must be ensured at all costs. Past programmes could have succeeded, if they had been thoroughly implemented rather than shelved or watered down because of political cost considerations. This is something we can no longer afford. The programme must be implemented rigorously without deviation throughout its duration, until 2015, and beyond. An element which can support the required continuity is broad consensus across the majority of the political spectrum on the objectives of the programme. This consensus must continue to be expressed through the strict observance of the programme's timetables. On a practical level, the decision to create a position of Secretary-General for Revenues in the Ministry of Finance with a five-year term is noteworthy. This will ensure a minimum of public administration continuity in a crucial area. The creation of similar positions will have to be considered in other key areas of public administration. The decision to enhance the capacity of the troika to provide technical assistance, as well as the presence of experts from the European Commission, can contribute to planning within a longer-term horizon.

2nd. **Administrative efficiency**. The success of policies depends almost exclusively on the capacity of the state and the public administration to carry them out. It is well known that, in this area, statist approaches and clientelism have led to distortions and rigidities; they have also nourished vested and corporatist interests, which today constitute the main obstacles to the implementation of the necessary policies. The implementation of the programme for the reconstruction of the Greek economy will fail if we don't overcome these obstacles now. As already mentioned, the enhanced presence of the European Commission's Task Force could contribute to making the state a more effective mechanism – a goal that will require a long and arduous effort. Such an effort must, however, begin immediately and the changes outlined in detail in the Memorandum must be accelerated.

3rd. **Restoring confidence**. There is only one way to restore the shattered confidence in the Greek economy, and that is to implement the commitments of the loan agreement to the letter, whilst strictly observing the deadlines. In fact, efforts must be made, wherever possible, to overperform – i.e. more than attain the quantitative targets and/or attain them sooner. The implementation of the programme must signal unquestionable resolve so as to convince the markets and the Greek people that the objectives will be met, that the exit from the crisis is possible and that the recovery will put the economy on a growth path based on sound foundations.

* * *

The key to ultimately attaining our objectives lies in bringing the economy back to positive growth rates. Recovery and creating the conditions for sustainable growth are indeed the road to a faster reduction in the debt and deficit and to an improvement in expectations. At the same time though, fiscal consolidation is a prerequisite for growth. As shown by international experience, no country with recurrent high deficits and cumulating large debt has ever achieved sustainable growth. Nor, of course, can there be growth with the threat of a default looming on the horizon. Therefore, restoring confidence in the Greek economy is also a prerequisite for growth. Insofar as the stabilisation programme proceeds smoothly and the necessary reforms are carried out, the country's growth prospects will improve.

That is, both the fiscal and the structural measures of the programme must be implemented *concurrently and effectively*, so as to avert any negative side-effects.

However, this will not be enough. A sustainable reduction in the deficit and the public debt calls for additional measures which should minimise —to the extent possible— the contractionary effects of fiscal adjustment on economic activity and support growth in the long run. Such measures concern the composition of fiscal adjustment regarding expenditure and revenue, as well as individual expenditure and revenue categories. Expenditure cuts tend to be much more effective than revenue increases (tax hikes); just as it is advisable, on the expenditure side, to refrain —as much as possible— from cutting back on investment expenditure and, on the revenue side, to refrain from imposing tax measures that discourage saving or negatively impact on supply.

At the same time, it is important to speed up the implementation of measures —at almost no budgetary cost— that can stimulate demand and economic activity. Such measures encompass "quick-yielding" structural reforms, such as the reduction of red tape and the administrative burden (which deter investment and obstruct exports), the opening-up of closed professions and the provision of consultancy and guidance to businesses (especially export-oriented ones), as well as other measures to strengthen public and private investment and to support the supply of credit to the private sector.

There is considerable potential at hand, which —if systematically tapped— would help accelerate the recovery. This potential includes:

• Increasing the absorption and efficient utilisation of funds available from the EU, especially for programmes directly aimed at boosting entrepreneurship and creating jobs for the unemployed. Decisions to this effect were recently announced by the Prime Minister after his meeting with the President of the European Commission on 29 February 2012. The use of funds from the National Strategic Reference Framework (NSRF), as well as the securing of funding from international organisations such as the European Investment Bank, involve the development of new financing tools; these tools could help to finance the reactivation of certain large public investment projects (e.g. motorways construction) as well as investments in the energy sector.

• The specific policy directions for growth and employment adopted by the European Council of 1-2 March 2012.

• The significant reduction in unit labour costs anticipated for 2012-13, which, in conjunction with projected price developments, leads to a major improvement in cost competitiveness, thereby contributing to an increase in exports and to import substitution.

• Improving the ability of banks to adequately finance the economy (after the implementation of the decision of 21 February 2012 and the recapitalisation and restructuring of banks).

• The realisation of the Helios Project for exporting solar energy to Germany and other Western European countries, which could lead to substantial investment and job creation. More generally, the faster implementation of policies for renewable energy utilisation and generation, and the exploration of possible underwater energy sources.

• Speeding up privatisation and the programme for the utilisation of public property; this would bolster both confidence and public revenue and create opportunities for foreign direct investment and the transfer of technology. The initial inflow of foreign capital as a result of privatisation could be followed by much larger second-round inflows —in total, perhaps even more than double the initial inflows— through a multiplier process arising from the additional investment needed to maximise the yield of the initial investment and potential positive externalities accruing to other businesses and sectors.

These factors not only enhance the economy's medium-term growth prospects, but also support the projection that recovery could start during 2013 (even if the annual average GDP growth rate will be slightly negative).

* * *

2012 is expected to be a critical year for shaping the banking system to face up to the new economic environment. Greek banks will be required to fully overhaul their business plans, so as to be able to meet the increased challenges posed by the recession, and to strengthen their capital bases considerably by the end of the third quarter of 2012.

Any additional capital requirements for banks will be determined following the completion of the diagnostic exercise being conducted by the Bank of Greece, in cooperation with the European Commission, ECB and IMF, and based on two macroeconomic scenarios (a baseline and an adverse one). The assessment of the minimum additional capital requirements will take into account: (a) the write-down in the face value of Greek government bonds held by banks, arising from Private Sector Involvement in the debt exchange offer following the European Council decision of 26 October 2011; (b) estimated losses anticipated for bank loan portfolios; (c) provisions already set aside to cover those losses; and (d) banks' estimated future profitability.

Recapitalisation requirements will also have to be sufficient so that banks achieve a Core Tier 1 ratio of at least 9% by the end of the third quarter of 2012 and of 10% by the end of the second quarter of 2013. These requirements also ensure that the Core Tier 1 ratio will be 7% in the three years 2012-2014 on the basis of the adverse scenario. In covering these additional capital requirements, priority should be given to attracting capital from private sector investors. Any additional capital needed may be drawn from the Hellenic Financial Stability Fund (HFSF).

Increased transparency (following the diagnostic exercise), together with recapitalisation and restructuring of the banking sector, are expected —especially if accompanied by a general improvement in sentiment— to lead, at first, to a stabilisation of deposits and, subsequently, to their gradual return. These measures are also a necessary condition for Greek banks to progressively regain access to the global money and capital markets. Once banks have strengthened their capital bases and improved their capacity to attract savings and obtain market funding, it is to be expected that the supply of bank credit will evolve more favourably. Generally speaking, improved economic activity and reduced fiscal risk will encourage banks to increase the supply of credit and will stimulate the private sector's demand for credit.

* * *

In the light of the Agreement of 21 February 2012, the new framework in which the Greek economy will operate in the years ahead could suffice to turn the climate and expectations around and, thereby, speed up the recovery process. However, distrust as to the ability and resolve of governments and society at large to carry the necessary reforms decisively forward remains widespread. This distrust is justified. Reform initiatives in the past had more than once come up against the illusion that a system which produced prosperity by running up deficits and debt could be maintained forever. There is no room for such illusions anymore. The truly harsh and painful losses that Greek citizens have had to endure cannot be recouped by returning to the ways of the past. Under the present circumstances, such a return would result in social cohesion disintegrating and incomes plummeting.

In order to improve expectations and confidence in the future of the Greek economy, what is needed is adjustment to the new situation, implementation to the letter of all that has been agreed and a correction of past imbalances, so as to lay the foundations for the way forward. Euro-area membership and the support of our partners provide Greece with the opportunity to move forward on this path in an orderly fashion, contain the losses and shorten the difficult period of deep recession. It is up to the country, however, to assume the historic responsibility of elaborating and, more importantly, implementing a new strategy which will convincingly show that the Greek economy can be reconstructed in a way that will bring it back onto a sustainable growth path.

Athens, March 2012

George Provopoulos

Governor

MONETARY POLICY COUNCIL OF THE BANK OF GREECE

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I THE GREEK ECONOMY TODAY AND TOMORROW

1 INTRODUCTION

A new economic programme focused on growth

The Eurogroup agreement of 21 February 2012 put in place a new operating framework for the Greek economy in the years ahead. Its main elements are:

- A reduced loan burden as a result of the debt write-down and the lowering of the interest rates on the loans extended to Greece after May 2010 and on the loans to be extended now.

- Ensured financial support, for as long as the Greek economy has no market access.

- A consistent and detailed programme of fiscal consolidation, based on expenditure reduction and the broadening of the tax base, as well as a specific timetable for privatisation and structural reforms in the public sector and in product and labour markets.

- Our European partners' concrete assurance that they stand ready to provide the Greek government with technical assistance for the effective implementation of reforms.

The programme's primary and ultimate objective, as expressly formulated in the Memorandum of Economic and Financial Policies and in the Memorandum of Understanding on Specific Economic Policy Conditionality adopted by the Greek Parliament on 12 February 2012, is economic growth, with three intermediate goals: fiscal consolidation, the restoration of competitiveness and the strengthening of the financial sector.

The *goal of fiscal consolidation* is to achieve a return to a primary surplus by 2013, with the primary surplus reaching 4.5% of GDP by 2014, so that a gradual reduction in public debt can begin, supported by privatisation. Structural reforms in the public sector will help both to reduce the fiscal deficit and to foster economic growth.

The *goal of restoring competitiveness* is, via a series of structural reforms, to encourage investment and export activity, ultimately contributing to employment growth.

Finally, *the goal of strengthening the financial sector* is expected to help support credit expansion and the provision of liquidity to the economy, thus supporting economic activity.

This policy mix is intended to bring about the start of the recovery in the course of 2013 and to put in place the conditions for sustainable growth thereafter. A high degree of certainty about the sustainability of growth is perhaps the key factor for public debt also to be deemed sustainable.

A long series of interventions by Greece's European partners and the IMF to prevent a possible default

The Eurogroup's decision of 21 February 2012 was the latest and most important step in a series of actions taken by Greece's European partners and the IMF to provide financial support to the Greek economy. These actions are tangible proof of our partners' determination to avert a Greek default, in light of the continuous deterioration of the country's public debt dynamics over the past two years in a context of deep recession.

In exchange for the financial commitments made by our partners since May 2010, the Greek government had to take coherent action geared towards two interrelated objectives:

1. fast reduction of the fiscal deficit and achievement of primary surplus in a short period of time; and

2. implementation of structural reforms that will improve competitiveness.

The performance of the Greek economy did not meet expectations, despite the significant progress made in some sectors

Progress towards achieving these objectives, although not negligible, fell short of expectations. As a result, the large confidence deficit persisted, as did the highly negative climate towards Greece and the equally negative economic sentiment within the country. This amplified the negative effects of fiscal consolidation on domestic demand, exacerbated the recession and intensified the unemployment problem. The recession, in turn, made the deficit and debt targets more difficult to reach, which undermined confidence further. The previous Report[1] stressed the role of the "confidence deficit" in the persisting vicious circle of recession-fiscal contraction-uncertainty. Notwithstanding that, recession is also the result of *deteriorating financial conditions*. The rate of credit expansion to the private sector, which has been falling significantly since mid-2008, moved into negative territory in 2011, reflecting both lower demand for loans on account of the recession and reduced loan supply due to the liquidity shortage of banks and reduced deposits. Therefore, also in this case another vicious circle was formed. The fiscal problem and the recession led to credit contraction, which exacerbated the recessionary effect of fiscal contraction.

As mentioned above, since the first Memorandum was signed in May 2010, there has been progress, as fiscal consolidation has made significant headway and structural reforms (e.g. changes in the social security system), which addressed long-standing weaknesses, have been implemented. As discussed in more detail below, (i) in 2010-2011, the cumulative reduction of the cyclically adjusted (structural) deficit and the primary deficit of the general government has been indeed large; (ii) in 2011, the current account deficit zeroed, *with the exception* of net payments for fuel and net interest payments in the general government sector; (iii) the period 2010-2011 saw the recovery of a significant part of the losses in cost competitiveness registered in the 2001-2009 period. Furthermore, as concluded in a recent OECD report,[2] Greece ranks *first* among OECD's 30 member countries in terms of increasing responsiveness to OECD recommendations on promoting structural reforms in the period 2008-2011.

However, the policies pursued failed on the whole to convince that they would ultimately succeed, because, on the one hand, it was not clear which measures were temporary in nature and which ones were structural, as well as what kind of long-term benefits were expected from the structural measures and, on the other hand, due to a lack of resolve to carry the reforms through. It was not adequately realised that new policy choices were absolutely necessary and would have to be made even without the Memorandum. As a result, reforms were perceived as dictated by our creditors, and not as necessary choices that could no longer be postponed without inviting dire consequences. This undermined the effectiveness of the policies that had begun to be implemented and fuelled uncertainty about whether the ambitious goals that needed to be pursued would be achieved.

What was at stake in late 2011 was Greece's stay in the euro area and in the EU

As confirmed by recently released data:

- The recession in 2011 turned out to be deeper than initially forecast, with the annual decrease in GDP reaching 6.9%. The cumulative drop in GDP over the four years 2008-2011 was 13.2%, while the drop between the fourth quarter of 2007 and the fourth quarter of 2011 amounted to 17.2%.

- The number of the unemployed has exceeded one million.

- The state budget deficit, in spite of the adoption of continuous fiscal measures and following a number of upward target revisions on account of the recession and delays, came to 10.6% of GDP, i.e. to a level slightly below (by €76 million) the latest revised target.

1 *Monetary Policy – Interim Report 2011*, November 2011, p. 17.
2 OECD, *Economic Policy Report 2012: Going for Growth*, 24 February 2012.

• The primary deficit of the ordinary budget was €18 million higher than in 2010.

• Budgetary slippages created the need for additional measures and necessitated the revision of fiscal targets for 2012.

• There had been strong early indications of almost all of the above outcomes, which worsened expectations and forecasts, as well as assessments of debt sustainability; thus, the possibility of default re-emerged with intensity.

• Heightened political uncertainty, right before the formation of the coalition government, worsened the situation further; this contributed to calling into question the decisions of the 26 October 2011 Summit. The issue of Greece's exit from the euro area and a disorderly default now featured in public debate.

The consensus of political forces opens up a new window of opportunity

The formation of a new government opened up a window of opportunity and gave fresh impetus to negotiations leading to the agreement of 21 February 2012; this agreement brought to a halt the ruinous course towards which the country had started to slide. This development was the most convincing proof of how important **consensus and political cooperation are in the light of the historically unprecedented challenges we are facing**, as the Bank of Greece stressed in November 2011.[3]

The agreement of 21 February 2012 halts dangerous debt dynamics

The principal objectives of the agreement of 21 February 2012 are to ensure sustainability of the Greek public debt and to restore competitiveness of the Greek economy. It is assessed that the contributions from both the private and the public (official) sectors will help bring Greece's public debt ratio down to below 120.5% of GDP in 2020. Even though the projected debt-to-GDP ratio remains high, what is important is that the new arrangements **arrest the adverse debt dynamics**, which under the present circumstances of deep recession would certainly have given rise to an extremely difficult situation.

The PSI and the new loan agreement secure financial support to Greece up to 2014

Against this background and provided that the conditions of the programme are met on an ongoing basis, the Eurogroup confirmed that the euro area countries stand ready to provide, through the EFSF and with the expectation that the IMF would make a significant contribution, additional official support of up to €130 billion until 2014. Furthermore, the Greek authorities have reached a common understanding with private sector creditors on the general terms of their participation in the restructuring of Greek debt. This common understanding provides for a write-down of 53.5% on the nominal value of holdings to be paid back to creditors. The private sector's response to Greece's debt exchange offer recorded on 8 March was overwhelmingly positive.

Finally, all Member States have agreed to an additional retroactive lowering of interest rates on the Greek loan facility, so that the margin amounts to 150 basis points over the entire period of the loans. This interest rate cut will be financed by the profits of ECB distributed to national central banks, and ultimately to Member States, on Greek government bonds held by the ECB in the context of the Securities Markets Programme. This arrangement would lower the Greek debt-to-GDP ratio by 2.8 percentage points by 2020 and the borrowing requirement by €1.4 billion.

In addition, the governments of the euro area Member States agreed to pass on to Greece an amount equal to any future income accruing to

3 See *Monetary Policy – Interim Report 2011*, November 2011, p. 19: "...In order to consolidate confidence in the prospects of the economy, the convergence of political forces reflected in the formation of the new government must become more substantive and last beyond the planned election".

their national central banks stemming from Greek government bonds until 2020. This is expected to contribute to a reduced debt ratio by 2020.

The smooth operation of the agreement is conditional on the implementation and fulfilment of its terms

The adoption with a strong majority of the loan agreement and the laws required for implementation by the Greek Parliament is the first positive development worthy of note. It is foreseen that disbursements for the PSI operation and the provision of guarantees for the second programme will proceed as planned, following the successful conclusion of the PSI agreement and the confirmation by the Eurogroup (on 9 March), based on the troika assessment, that the agreed "prior actions" have been legislated and implemented. The final approval of the euro area's financial contribution to the second Greek programme and the signing of the loan agreement will then follow, while the Eurogroup has stated that it looks forward to a significant contribution by the IMF.

The success of the programme is possible

However, the success of the programme will hinge critically on its consistent implementation. Serious difficulties and problems obviously exist and need to be addressed. The bottom line, however, is that **the goals are feasible and the programme can succeed**.

Success, however, will hinge upon the following:

1. Continuity, which must be ensured at all costs. Past programmes could have succeeded, if they had been thoroughly implemented rather than shelved or watered down because of political cost considerations. This is something we can no longer afford. The programme must be implemented rigorously without deviation throughout its duration, until 2015, and beyond. An element which can support the required continuity is broad consensus across the majority of the political spectrum on the objectives of the programme. This consensus must continue to be expressed through the strict observance of the programme's timetables. On a practical level, the decision to create a position of Secretary-General for Revenues in the Ministry of Finance with a five-year term is noteworthy, as it will ensure a minimum of public administration continuity in a crucial area. It would be useful to consider the expansion of this decision, starting with the creation of a permanent position of Secretary-General for Expenditure in the same Ministry. The decision to enhance the capacity of the troika to provide technical assistance, as well as the presence of experts from the European Commission are also significant. Close cooperation with our partners can contribute to planning within a longer-term horizon, which is less influenced by conjunctural factors.

2. Administrative efficiency. The success of policies depends almost exclusively on the capacity of the state and the public administration to carry them out. It is well known that in this area statist approaches and clientelism have led to distortions and rigidities; they have also nourished vested and corporatist interests, which today constitute the main obstacles to the implementation of the necessary policies. The implementation of the programme for the reconstruction of the Greek economy will fail if we don't overcome these obstacles now. There is a strong commitment to this end. In this regard, the Memorandum of Economic and Financial Policies states the following:

"We will [...] fundamentally reduce the footprint of government in the economy through bold structural fiscal reforms and by privatizing public assets. Greece's recovery must come from a vigorous private sector response and this cannot happen with the government controlling access to key assets."

"We will [...] strengthen the capacity of the government to implement policies, via a wide ranging administrative reform. We need to improve significantly the quality of public serv-

ices, the efficiency and effectiveness of the civil service [...] and its ability to manage economic policy"

As already mentioned, the enhanced presence of the European Commission's Task Force could contribute to making the state a more effective mechanism – a goal that will require a long and arduous effort. Such an effort must, however, begin immediately and the changes outlined in detail in the Memorandum must be accelerated.

3. Restoration of confidence. There is only one way to restore the shattered confidence in the Greek economy and that is to implement the commitments of the loan agreement to the letter, whilst strictly observing the deadlines. In fact, *efforts must be made, wherever possible, to overperform – i.e. more than attain the quantitative targets and/or attain them sooner.* The programme's implementation must signal unquestionable resolve so as to convince the markets and the Greek people that the objectives will be met, that the exit from the crisis is possible and that the recovery will put the economy on a growth path based on sound foundations.

Conditions for a faster recovery

The key to ultimately attaining our objectives lies in bringing the economy back to positive growth rates. Recovery and creating the conditions for sustainable growth are indeed the road to a faster reduction in the debt and deficit and to an improvement in expectations. At the same time though, fiscal consolidation is a prerequisite for growth. As shown by international experience, no country with recurrent high deficits and cumulating large debt has ever achieved sustainable growth. Nor, of course, can there be growth with the threat of a default looming on the horizon. Therefore, restoring confidence in the Greek economy is also a prerequisite for growth. Insofar as the stabilisation programme proceeds smoothly and the necessary reforms are carried out, the country's growth prospects will improve.

This general statement conveys a message that has been repeatedly stressed, namely that both the fiscal and the structural measures of the programme must be implemented concurrently and effectively, so as to avert any negative side-effects.

Yet, this is not sufficient either. In order to achieve a sustainable reduction of the deficit and the public debt, additional measures are required to minimise, as far as possible, the contractionary effects of fiscal consolidation on economic activity and to enhance growth in the long term. Such measures are related to the breakdown of consolidation into spending and revenue measures as well as their individual components. As explained in the past,[4] expenditure cuts tend to be much more effective than revenue increases (tax hikes); just as it is advisable, on the expenditure side, to refrain —as much as possible— from cutting back on investment expenditure and, on the revenue side, to refrain from imposing tax measures that discourage saving or negatively impact on supply.

At the same time, it is important to speed up the implementation of measures —at almost no budgetary cost— that can stimulate demand and economic activity. Such measures encompass "quick-yielding" structural reforms, such as the reduction of red tape and the administrative burden (which deter investment and obstruct exports), the opening-up of closed professions and the provision of consultancy and guidance to businesses (especially export-oriented ones), as well as other measures to strengthen public and private investment and to support the supply of credit to the private sector.

Tapping into the potential at hand to favour investment and exports and to support credit

Indeed, there is considerable potential at hand, which —if systematically tapped— would help accelerate the recovery. This potential includes:

4 *Monetary Policy – Interim Report 2011*, November 2011, p. 37-41.

- Increasing the absorption and efficient utilisation of funds available from the EU, especially for programmes directly aimed at boosting entrepreneurship and creating jobs for the unemployed. Decisions to this effect were recently announced by the Prime Minister after his meeting with the President of the European Commission on 29 February 2012. The use of funds from the National Strategic Reference Framework (NSRF), as well as the securing of funding from international organisations such as the European Investment Bank, involve the development of new financing tools. These tools could help to finance the reactivation of certain large public investment projects (e.g. motorway construction) as well as investments in the energy sector.

- The specific policy directions for growth and employment adopted by the European Council of 1-2 March 2012.

- The significant reduction in unit labour costs anticipated for 2012-13, which, in conjunction with projected price developments, leads to a major improvement in cost competitiveness, thereby contributing to an increase in exports and to import substitution.

- Improving the ability of banks to adequately finance the economy (after the implementation of the decision of 21 February 2012 and the recapitalisation and restructuring of banks).

- The realisation of the Helios Project for exporting solar energy to Germany and other Western European countries, which could lead to substantial investment and job creation. More generally, the faster implementation of policies for renewable energy utilisation and generation, and the exploration of possible underwater energy sources.

- Speeding up privatisation and the programme for the utilisation of public property; this would bolster both confidence and public revenue and create opportunities for foreign direct investment.

The above factors not only strengthen medium-term growth prospects, but also corroborate the projection that the recovery could start at some point in the course of 2013 (even if the average GDP rate is slightly negative).

2012 will be a critical year for the banking system

2012 is expected to be a critical year for shaping the banking system to face up to the new economic environment. Greek banks will be required to fully overhaul their business plans, so as to be able to meet the increased challenges posed by the recession, and to strengthen their capital bases considerably by the end of the third quarter of 2012.

Any additional capital requirements for banks will be determined following the completion of the diagnostic exercise being conducted by the Bank of Greece, in cooperation with the European Commission, ECB and IMF. The assessment of the minimum additional capital requirements will take into account: (i) the write-down in the face value of Greek government bonds held by banks, arising from Private Sector Involvement in the debt exchange offer following the Eurogroup decision of 21 February 2012; (ii) estimated losses anticipated for bank loan portfolios (portfolios carrying Greek risk have been assessed by BlackRock, while portfolios carrying non-Greek risk or Greek government guaranteed loan portfolios have been assessed by the Bank of Greece); (iii) provisions already set aside to cover those losses; and (iv) banks' estimated future profitability.

Recapitalisation requirements will also have to be sufficient so that banks achieve a Core Tier 1 ratio of at least 9% by the end of the third quarter of 2012 and of 10% by the end of the second quarter of 2013, as stipulated in Law 4046/2012. In covering these additional capital requirements, priority should be given to attracting capital from private sector investors. Any additional capital needed may be drawn from the Hellenic Financial Stability Fund (HFSF), according to Law 4051/2012.

Increased transparency (following the diagnostic exercise and the assessment of the additional capital requirements necessary to ensure consolidation), together with the recapitalisation and restructuring of the banking sector, are expected —especially if accompanied by a general improvement in sentiment— to lead, at first, to a stabilisation of deposits and, subsequently, to their gradual return, while also forming a necessary condition for Greek banks to progressively regain access to global money and capital markets. Once banks have strengthened their capital bases and improved their capacity to attract savings and obtain market funding, it is to be expected that the supply of bank credit will evolve more favourably. Generally speaking, improved economic activity and reduced fiscal risk will encourage banks to increase the supply of credit and will stimulate the private sector's demand for credit.

2 OVERVIEW OF DEVELOPMENTS IN 2011 AND PROSPECTS FOR 2012-2013

The international and European context

The global GDP growth rate is anticipated to decline in 2012 (down to 3.3% from 3.8% in 2011), mostly due to the impact of the continued debt crisis in the euro area and the increased uncertainty. The decline in the volume of global trade is expected to be more significant (down to 3.8% in 2012 from 6.9% in 2011). In the euro area, a slight recession is conjectured (a GDP decline of 0.5% according to the IMF or of 0.3% according to the European Commission, while ECB staff forecast a GDP growth rate of -0.5% to +0.3%). The growth rate in the other economic regions is expected to broadly slow down in 2012, with some important exceptions, which include the USA and Japan (among the developed economies) and the Middle East and Africa (among the emerging and developing economies).

The major risk for global economy in the future lies with a more pronounced negative interaction of the impacts of the crisis in the public and the financial sectors of the euro area. Another risk could arise from insufficient progress towards a medium-term fiscal consolidation plan in the USA and Japan.

In recent summits, euro area countries decided to expedite the implementation of the European Stability Mechanism and to adopt the Fiscal Compact, which provides for balanced budgets and the automatic correction mechanism in case of deviation. At the same time, on 30 January 2012 the European Council set the goal of strengthening growth and employment by focusing on "growth-friendly consolidation and job-friendly growth". The European Council of 1-2 March 2012 set priorities which refine this goal. These are to pursue differentiated, growth-friendly fiscal consolidation; restore normal lending to the economy; promote growth and competitiveness; tackle unemployment and the social consequences of the crisis; and modernise public administration. At the same time, it stressed that while pursuing consolidation, particular care must be given to prioritising expenditure that constitutes an investment in future growth, with a particular emphasis on education, research and innovation.

The role of the single monetary policy and the Eurosystem's interventions

As the fiscal crisis resurged in the summer of 2011 in the euro area, it became increasingly clear that financing conditions for businesses and households were adversely affected by the shocks in financial markets. This was taken into account by the Governing Council of the ECB, which considered it necessary to reduce the key interest rates in November and December 2011 by 25 basis points each time, as the economic activity in the euro area weakened and, hence, inflationary pressures eased.

In order to prevent tensions in the financial markets from impacting on the mechanism through which the effects of key interest rate changes are transmitted, which would impede the conduct of the single monetary policy, the Eurosystem re-launched or introduced many non-standard measures in the second half of 2011 (some of which entered into force in early 2012). The aim of these measures was to provide enhanced credit support to the economy of the euro area, mainly by improving and complementing the functioning of the single money market, the bank bond markets, as well as the international market for US dollar interbank loans. Moreover, some measures aim at compensating for the impact of financial market tensions on the availability of sufficient eligible collateral that credit institutions have to provide in order to access Eurosystem funding.

The non-standard measures that were re-activated or introduced in the second half of 2011 include, inter alia, the 6-month, 12-month and 36-month longer-term refinancing operations, the Securities Markets Programme, the expansion of the list of assets eligible as collateral to include bank loans or asset-backed securities, the reduction of the minimum reserve ratio to the half and of the cost of US dollar funding provided by the Eurosystem. Combined with the fixed-rate tenders with full allotment, these non-standard measures enabled credit institutions to significantly increase the liquidity they obtained from the Eurosystem, which, along with other factors, drove interbank interest rates down in the second half of 2011 and in early 2012.

Key economic aggregates of the Greek economy in 2011 and the outlook for 2012-2013

The economic recession that started in the second half of 2008 reached a peak in 2011, when the GDP fell by 6.9%, according to the analytical assessments of ELSTAT (9 March 2012), while total employment is estimated to have declined by 6.7% and the average annual unemployment rate hovered around 17.5%. The recession is projected to continue into 2012 and, according to provisional forecasts, the average annual GDP will fall by around 4.5%, total employment will shrink by some 3% and the average annual unemployment rate will exceed 19%. However, it is estimated that over the course of 2013 economic recovery could start (although the average annual GDP growth would be slightly negative, around -0.5%), while it is likely that both the decline in employment and the increase in the unemployment rate will come to a halt.

At the same time, the average annual inflation (based on HICP growth) came to 3.1% in 2011, down from 4.7% in 2010, while the average annual core inflation (which excludes energy and unprocessed food prices) stood at 1.7%, down from 3.0% in 2010. Indeed, *when the increases in indirect taxation are not taken into account*, average HICP inflation is just 1.1% in 2011 and average core inflation just 0.2%. Inflation continues its downward trend in 2012 and average HICP inflation is expected to land to 1% or even lower, while core inflation will probably be slightly negative (average annual level around -0.1%).[5] In 2013, according to assumptions, HICP inflation is expected to decline further, to around 0.5%, while core inflation will remain negative (around -0.2%).

The decline in inflation in 2011 mainly reflects a gradual weakening of the impact of indirect taxation, the larger (compared to 2010) decrease in unit labour costs in the business sector and the strong decrease in consumer demand. In 2012, changes in indirect taxation are not expected to have a notable impact. Unit labour costs in the business sector are expected to fall twice as much as in 2011 and consumer demand to continue to shrink, while the price of crude oil in the global markets is likely to increase, albeit less than in 2011.

Favourable and unfavourable factors concerning recovery prospects

Both favourable and unfavourable factors influence the prospects for economic activity and GDP growth in 2012.

5 Bank of Greece estimates. The European Commission has forecast (23 February 2012) an average annual HICP decline of 0.5% in 2012.

Unfavourable factors include:

– Continuously declining investment over 2008-2011, reduced employment and an increased rate of long-term unemployed. These developments strongly affect the potential growth rate, which fell significantly, from 1.75% in 2005-2008 to below zero in 2011.

– The possibility of larger than currently estimated contractionary effects from fiscal consolidation and wage cuts.

– The possibility of a higher than currently estimated negative impact on Greek exports from the developing mild recession in the euro area and from the slowdown in the growth of other regions.

Favourable factors, on the other hand, seem stronger:

– There are signs of some economic restructuring which is focused on industries with higher productivity and on increasing the share of larger enterprises in total employment. In the third quarter of 2011 the productivity of the economy (GDP per person employed) increased significantly at an annual rate of 2.7%, which seems to have continued in the fourth quarter (although at a lower annual rate of 0.6%-0.7%).

– The adoption of the draft loan agreement and the Memorandum of Understanding by Parliament on 12 February 2012, the decisions taken by the Eurogroup and the agreement reached on the restructuring of the Greek debt, the relevant legislation passed by Parliament subsequently, the successful completion of the Private Sector Involvement (PSI) and the anticipated final approval and signing of the new loan agreement are all factors that can markedly reduce uncertainty and mitigate the "confidence deficit" regarding the prospects of the Greek economy on the part of Greek businesses and households as well as foreign investors.

– Also, the conclusion of the PSI and the contribution of the official sector will lighten the burden of annual interest payments in the Budget.

– Furthermore, the implementation of the agreement of 21 February 2012, as well as the recapitalisation and restructuring of banks will improve the latter's capacity to provide sufficient credit to the economy.

– The significant reduction of unit labour costs anticipated for 2012-2013 and the projected price developments, in combination with the large improvement in cost competitiveness (see below) can more than offset the adverse effects on Greek exports from the anticipated developments in the economic activity of Greece's trade partners and contribute to import substitution.

– Recent legislation and the new Memorandum include measures to improve the business environment, encourage investment and facilitate exports.

– Investment will also be supported, as mentioned above, by the expected higher absorption rate and more efficient use of EU Funds, considering the increased share of the EU in co-financed projects and the technical assistance provided by the European Commission Task Force. Important decisions for a faster absorption of funds from the National Strategic Reference Framework (NSRF) were taken following the meeting of the Greek Prime Minister with the President of the European Commission on 29 February 2012.

– The realisation of the Helios Project for exporting solar energy to Germany and other Western European countries could lead to investments in the order of 9% of GDP and create 30,000-60,000 new jobs.

– Speeding up privatisation and the programme for the utilisation of public property would bolster both confidence and public revenue and create opportunities for foreign direct investment (e.g. in energy, port infrastructures, holiday residences) and the transfer of technology. The initial inflow of foreign capital as a result of privatisation could be followed by much larger second-round inflows —in total perhaps even more than double the initial inflows— through a multiplier process arising from the additional investment needed to maximise the yield of the initial investment and positive externalities accruing to other businesses and sectors.

As already pointed out, the above favourable factors exert a positive influence on the medium-term prospects for export growth (of both manufacturing products and agricultural/fishery products – fresh and processed) and the development of energy, tourism and cultural/recreational activities, transport (merchant shipping), construction and other industries (waste processing/management, IT systems), while the prospect of exploiting underwater energy sources has emerged as a new opportunity. If all this is taken into account, it seems plausible that recovery could begin in the course of 2013, even if average annual GDP growth is slightly negative.

Developments in employment

From the onset of the crisis in Q3 2008 and up until Q3 2011, the number of the employed decreased by 510,000 (or 630,000 up until Q4 2011). 70% of total job losses came from three branches of economic activity: construction (157,000), manufacturing (124,000) and trade (85,000). Job losses have a bearing on family income, social cohesion, total output, and the finances of social security funds.

In 2011, more people left the civil service, there were more layoffs from the private sector and more self-employed withdrew from the market. From January to September 2011 the number of employees in small- and medium-sized enterprises of the private sector fell more than in enterprises with over 50 workers, thus causing an increase in the share of the employed in large enterprises. While the short-term outlook for employment is undeniably negative, the crisis is expected to create opportunities for new business initiatives in the medium term and lead to a restructuring of the economy towards more efficient and vibrant sectors. In this sense, restructuring of employment that is already taking place with a shift towards larger firms could contribute to improving competitiveness.

It is quite alarming though that, if one takes into account the number of persons not seeking employment because they believe they will not find a job, those who would like to work but do not seek employment for any reason and those who work on a part-time basis because they cannot find a full-time job, the rate of unemployment-underemployment in Q3 2011 was slightly more than 22% (the rate of unemployment was 17.7%).

Concerns have also been raised about the increase in the long-term unemployment rate (i.e. the number of persons that remain unemployed for over a year as a percentage of the labour force) to 8.4% in January-September 2011, from 5.6% in the respective period of 2010. It should be noted that the probability to find a job decreases with the duration of the unemployment. Thus, unemployment becomes structural.

The evolution of unit labour costs and the outlook for fully recovering past losses in cost competitiveness

The level of wages and labour costs affect the evolution of inflation, domestic demand, competitiveness and external demand. In 2001, nominal average pre-tax earnings of employees in the total economy are estimated to have fallen by 3.0% and real earnings by 6.1%; unit labour cost is estimated to have declined by 2.0% in the total economy (2010: -3.8%) and by 3.9% in the business sector (2010: -2.7%). These figures are expected to decline much more in 2012 and 2013. For 2012 nominal average pre-tax earnings of employees in the total economy are expected to decrease by 8.4-9.2%

(9.3-10.1% in real terms), while it is calculated that unit labour costs will decline substantially (for the third consecutive year) by 5.8-6.7% in total economy and 7.7-8.9% in the business sector. Lastly, in 2013 average nominal wages may decrease by around 7% in total economy, causing a further decline in unit labour costs of 6-6.5% in total economy and around 8% in the business sector.

On the basis of these approximate and provisional calculations, the aggregate decline in unit labour costs in 2012-2013 will reach 11.8-12.6% in total economy and 15.2-16.3% in the business sector. The Memorandum adopted by the Parliament (Law 4046/2012) provides for a targeted decline of 15% in 2012-2014.

In order to examine how changes in labour costs affect competitiveness, the common approach is to assess changes in relative unit labour costs on a common currency basis, the so-called ULC-based real effective exchange rate for the total economy. According to Bank of Greece estimates, this index (calculated *against Greece's 28 major trading partners*, including euro area countries) rose by 31.9% in 2001-2009, suggesting an equal loss in cost competitiveness. Given that during the same period the nominal effective exchange rate of the euro rose by 15.5% —i.e. the euro *appreciated* against other currencies— the faster increase in labour costs in Greece compared to other countries accounted for almost half the loss in competitiveness. After 2009 the situation changed, as the ULC-based real effective exchange rate in total economy decreased by 7.0% in 2010 and by 3.5% in 2011, suggesting equal improvements in cost competitiveness against Greece's 28 trading partners. The 10.2% aggregate improvement in 2010-2011 reflects an 8.0% aggregate decrease in relative labour costs and a 2.4% aggregate depreciation of the euro. Thus, from 2001 to 2011, the loss in competitiveness narrowed to 18.4% (from 31.9% in 2001-2009).

In addition, the aggregate loss of competitiveness against Greece's trading partners in the euro area in terms of relative labour cost reached 22.7% in 2001-2009. It then improved by 3.2% in 2010 and 3.6% in 2011, bringing aggregate losses down to 14.5% in 2001-2011.

The abovementioned provisional forecasts on the evolution of unit labour cost in 2012 and 2013 show that competitiveness in terms of relative labour cost will improve considerably in 2012, by 7.4-8.3% against Greece's 28 trading partners, and by 7.1-7.9% against the euro area. The improvement will continue into 2013 (by 7.1% against the euro area, according to available estimates). *This suggests that by end-2012, 2/3 to 3/4 of the total loss of competitiveness in 2001-2009 will be recovered. Furthermore, 2013 will witness the recovery of probably all losses against the euro area, and the relevant indicators will then suggest an improvement against 2000 levels.*

A crucial question is whether the decline in labour cost is reflected on industrial product prices. This is not clear in the ELSTAT data on export prices, i.e. the Industrial Producer Price Index for the external market, though its growth rate decelerated noticeably in the past few months. However, from March 2011 up to and including February 2012, according to the PMI survey in manufacturing, there has been a continuous decrease in the prices of industrial final products and Greek enterprises have made substantial price cuts, due to reduced demand and in order to attract customers.

In addition, as also suggested in the past,[6] a sustainable improvement in competitiveness —after an inevitable initial period of "adjustment"— cannot rest entirely on reductions in nominal remuneration combined with a decline or stagnation in productivity, as the negative impact on domestic demand from a continuous cutback in wages would more than offset the positive impact on external demand. Therefore, it is necessary to improve cost competitiveness by boosting productivity. Structural reforms to the direction of a more effec-

6 *Monetary Policy – Interim Report 2011*, November 2011, page 22.

tive functioning of product and labour markets aim at achieving just that, and allow for both higher potential growth rates and improved structural competitiveness.

Current account balance trends and prospects

The current account deficit was 9.8% of GDP in 2011, from 10.1% in 2010 and 14.9% in 2008. However, it is important to note the following:

– *The current account deficit excluding net payments for fuel and general government interest payments was close to zero in 2011 (0.1% of GDP).* This deficit has been declining from 7.1% of GDP in 2007 to 6.0% in 2008, 4.0% in 2009 and 2.3% in 2010, while it is expected to turn into a surplus in 2012. Furthermore, *the balance of goods and services excluding fuel* and ships registered a surplus of €1.8 billion in 2011, for the first time since 2000, against a deficit of €2.8 billion in 2010, €7.2 billion in 2009, €10.1 billion in 2008 and €10.2 billion in 2007 (the highest since 2000).

– These developments are partly attributable to the fact that Greek products have started regaining losses in their international cost competitiveness observed in 2001-2009. There is still ample room for improvement, given that there still remain those structural weaknesses which led to the growing current account deficit. Therefore, a sustainable reduction of the deficit must be based on effectively dealing with these weaknesses, the most important of which are: (i) dysfunctional product and labour markets, which contributed to maintaining structural product and services competitiveness at low levels (these problems are currently being dealt with), (ii) the strong energy dependence of the economy, (iii) the high import content of exports and (iv) the inadequate substitution of imported goods with domestic ones. These weaknesses keep the trade deficit at persistently high levels, while in several cases they also affect the balance of services, as relevant items are —at any rate— sensitive to exogenous effects and, therefore, volatile. Additionally, the persistently low level of foreign direct investment in Greece is associated with inadequate infrastructure, time-consuming red tape, as well as the dysfunctions in product and labour markets. These weaknesses, coupled with delays in resolving judicial disputes and with the volatile tax system, have led direct investment by non-residents in 2011 in Greece to focus mainly on bank capital increases rather than investment in production units.

– Receipts from the export of goods excluding fuel and ships, after falling in 2009 due to the global recession, started recovering in mid-2010 and in 2011 they were only 4.9% short of the 2008 level, which they are expected to exceed in 2012. The negative evolution of some export indicators in the last quarter of 2011 reflects the development of Greece's economic activity in its trading partners and the financing and liquidity issues faced by export companies; however, other signs suggest that the upward trend of goods exports is probably not reversed.

– The aggregate decline in the import bill excluding fuel and ships *in 2009-2011* (-36.5%) was broadly based. The largest decreases were observed in payments for imports of consumer durables (-63.1%) and capital goods (-63.8%), with a smaller decline recorded in payments for imports of consumer non-durables (-34.8%), raw materials (excluding oil) and semi-finished products (-32.4%). These data suggest that: (a) the large decline in investment due to the recession reduced imports of capital goods drastically; (b) lower incomes affected household estimates of their "permanent" (i.e. long-term) income, contributing so far to a decline in the share of imported goods of relatively high value (i.e. mostly consumer durables) in total imported goods, however not in the *share* of consumer non-durables, which increased (given that the elasticity of demand of consumer non-durables relative to total revenue is less than 1); (c) the relatively high import content of Greek products led to a relatively limited decrease in the import bill for raw materials and semi-finished products (which actually fell substantially only in 2009, went on to increase in 2010 and 2011, and are expected to rise further) and to an increase of their share in the total.

As regards the trade balance in 2012, the increase in the exports of goods (as mentioned above) and the decrease in the respective imports are expected to continue. The *services balance* is expected to be supported by the complete deregulation of the cruise market, while a further rise in tourist arrivals from new markets, i.e. Russia, is expected. However, there is still ample room to increase arrivals in Greece, mostly by improving tourist infrastructure and price competitiveness. It is also necessary to ensure an environment that favours social tranquillity and is friendly to foreign visitors, particularly in Athens, the main gate into the country and, in itself, an independent tourist destination. The *income account* deficit is expected to fall substantially in the coming years, owing to the forthcoming private sector involvement in the Greek bond exchange programme, as well as the reduction in the interest rate on the loan granted by other euro area countries, which should help reduce interest payments. Lastly, *net EU transfers* in 2012 and 2013 (current transfers plus capital transfers minus payments to the Community budget) should stand at around €4.5 billion annually on a cash basis, against €3.6 billion in 2011.

Taking all these into account, the current account deficit is projected to decline further to around 7% of GDP in 2012, and the decline should continue in the years to come.

Fiscal realisations and the outlook for the future

Deficit developments. The state budget (SB) recorded a deficit of 10.6% of GDP in 2011, against 9.8% of GDP in 2010, i.e. slightly better than the revised target set in the 2012 budget. However, there is a substantial deviation from the initial target set in the Medium-Term Fiscal Strategy Framework, due to the deeper than expected recession, the inability to collect tax revenue and the inadequate implementation of a series of policy measures which had already been decided upon (such as the labour reserve scheme).

Despite the slight deterioration of the deficit compared with 2010, the SB primary deficit was reduced to 3.0% of GDP, from 4.0% of GDP in 2010 (against a revised target of 3.0% of GDP). This improvement is solely the result of a decline in the Public Investment Budget deficit.

To address the deviations observed in 2011 and to achieve the revised fiscal targets for 2012, it is estimated that additional measures of 1.5% of GDP are required. According to the 2012 revised budget, the new measures involve targeted spending cuts.

As regards the fiscal realisations of the past two years, it should be noted that despite the deterioration of economic activity, the cyclically adjusted (or structural) general government deficit on a national accounts basis improved by more than 10% of GDP in 2009-2011. Moreover, the primary deficit also improved by 8.4% of GDP in 2009-2011. Thus, the ongoing fiscal adjustment and the realisation of primary surpluses, combined with the successful completion of the "private sector involvement" —which reduces both debt and the interest payment burden— the acceleration of structural changes and the public property development programme, could reverse the negative climate and boost the medium- to long-term outlook for the Greek economy.

Shortfalls in tax revenue. The deteriorating economic activity caused shortfalls in direct and indirect taxes vis-à-vis the targets set. Taking into consideration tax revenue elasticities in relation to economic activity, as estimated by the OECD for Greece,[7] 2/3 of the deteriora-

7 See Girouard and André (2005), "Measuring cyclically-adjusted budget balances for OECD countries", OECD, Economics Department Working Paper No. 434. According to this study, corporate tax income elasticity is 1.08, personal tax income elasticity 1.80, and indirect tax elasticity 1.00.

tion of total direct tax revenue and personal and corporate income tax revenue against 2010 is attributable to the slowdown in economic activity. The remaining 1/3 is attributable to other factors, such as tax evasion, which is partly due to the limited liquidity of people and businesses, as well as to long-standing weaknesses of the tax collection mechanism. Therefore, a substantial share of the shortfalls in revenue, despite the tax interventions, cannot be attributed to deteriorating economic conditions, but rather to the above-mentioned negative factors that still persist in the second year of implementation of the Economic Adjustment Programme.

Indeed, according to the OECD,[8] the efficiency of VAT revenue collection lags considerably behind that of other OECD Member States. In particular, it stands at 0.51, while the (non-weighted) average in the other OECD countries is 0.71, based on 2008 data. This is the result of the ineffective tax collection and monitoring mechanism, and of extensive tax evasion, which results in substantial loss of revenue. Considering the increase in the standard VAT rate from 19% in 2009 to 21% in March 2010 and to 23% in July 2010, VAT revenue developments, and private consumption developments, it appears that the efficiency of VAT revenue collection was 0.45 in 2011, from 0.50 in 2009 and 0.48 in 2010. Hence, VAT revenue collection efficiency has deteriorated substantially throughout the implementation of the adjustment programme, due to the ineffective tax collection mechanism, extensive tax evasion and liquidity shortages in the market. To give an idea of the scale of this issue, if Greece could maintain the VAT revenue collection efficiency of 2008 in 2011, with the current VAT rates, the additional VAT revenue on an annual basis would be €2.3 billion or 1.1% of GDP (ceteris paribus). VAT revenue would be greatly increased, had Greece reached the average efficiency of the other OECD countries in 2011, as mentioned in the OECD report, i.e. 0.71.

Factors underlying expenditure developments. SB total expenditure rose by 0.7% compared with 2010, against a revised targeted annual increase of 1.9%. The SB primary expenditure fell by 4.1% against an annual target for a 2.8% decline.

Part of the containment of expenditure against the revised annual targets for 2011 set in the 2012 Budget is attributable to cuts in investment and defence expenditure after mid-November 2011; without these cuts, the SB deficit would have been higher than the revised targets. On the other hand, lower economic activity, reduced remuneration, falling employment, higher unemployment and probably increasing insurance contribution evasion had a bearing on the revenue of social security funds, necessitating additional state aid.[9]

The new Memorandum and the amended 2012 Budget. According to the Memorandum of Economic and Financial Policies and the Memorandum of Understanding on Specific Economic Policy Conditionality adopted by the Greek Parliament on 12 February (Law 4046/2012), the target for the general government primary balance in 2012 was adjusted to a deficit of 1.0% of GDP, against a surplus of at least 0.2% of GDP (5th revision, November 2011). Fiscal deviations in 2011, together with the revised target for a primary surplus in 2013 rather than in 2012 (since it is estimated that GDP will fall by 4-5% on aggregate in 2012-2013), also led to the downward revision of the measures necessary to cover the "fiscal gap", which is now estimated at 1.5% of GDP (against 2.75% of GDP according to the IMF report in the context of the 5th review of the Economic Adjustment Programme in November 2011).

8 OECD (2011), *OECD Economic Surveys: Greece.*

9 Taking into consideration public expenditure elasticities in relation to economic activity, as estimated and published by the OECD and the IMF for Greece, more than half of this deterioration – against 2010 – concerning social security, healthcare and social protection expenditure is due to weak economic activity and increased unemployment. The remaining share may be attributable to other factors, such as social security contribution evasion and bad management, the increase in the number of pensioners, etc. See also (a) Girouard and André (2005), "Measuring cyclically-adjusted budget balances for OECD countries", OECD Economics Department Working Paper, No. 434, and (b) Ivanova and Weber (2011), "Do fiscal spillovers matter?", IMF Working Paper, 11/2011.

The amended Budget (passed by Parliament on 28 February, article 2 of Law 4051/2012) provides for a general government deficit (on a national accounts basis) of 6.7% of GDP in 2012 (against 5.4% of GDP in the initial Budget). The general government primary deficit on a national accounts basis is estimated to stand in 2012 to around 0.2% of GDP (better than projected in the Memorandum), against a surplus of 1.1% of GDP projected in the initial Budget (which was higher than the minimum surplus projected in the 5th revision).

Directions for further fiscal adjustment. As noted in previous Bank of Greece reports, fiscal adjustment should mostly focus on expenditure.[10] Owing to the sharp fall in economic activity and the high income elasticity of tax revenue, further tax increases should preferably be avoided, and at least 2/3 of the fiscal effort should rather focus on expenditure cuts, in order to achieve sustainable results, as international experience and literature have shown.

Further efforts should focus on containing the wage bill, though this —as provided for in the Memorandum— should only concern "special pay-scales" that had been excluded from the unified pay-scale for the public sector and affect almost 1/3 of the public sector total wage bill. Mergers and abolitions of public entities have not given satisfactory results so far, therefore efforts should become harder. Harder efforts should also be put in for the restructuring of public enterprises and other public entities, as well as for the further containment of defence expenditure. Further work is required in relation to pharmaceutical expenditure and in improving the results of the healthcare sector.[11] Moreover, social expenditure should be rationalised and efforts should be made to further improve the results of local governments.

In addition, substantial further action should be taken regarding the containment of public expenditure (at the general government level), in order to deal with the accumulation of arrears. Emphasis should also be placed on the transparency and coverage of fiscal data, e.g. regarding state-owned enterprises and organisations. Additionally, performance-oriented budgeting in relation to programmes should be taken up, in order to understand the impact of each expenditure item or programme. Thus, it should be possible to evaluate expenditure in terms of effectiveness and efficiency, which should help to eliminate unnecessary expenditure and improve the use of scanty public resources, so as to achieve maximum growth-promoting results. Moreover, in order to improve transparency and supervision, an independent fiscal council must be established, as provided for in the proposal for a Regulation of the European Parliament and of the Council[12] on common provisions for monitoring and assessing draft budgetary plans.[13]

It is essential to continue with interventions that aim at dealing with tax and contribution evasion, to intensify monitoring and to further support and reorganise tax offices based on clear and measurable criteria.[14] At the same time, it would be advisable to avoid successive settlements of pending tax cases under favourable terms for tax evaders, as it is a disincentive for tax compliance. In the context of the national dialogue on the reform of the tax system, certain aspects should be taken into consideration as necessary guidelines, i.e. broadening the tax base, enhancing justice in taxation and abolishing disincentives that discourage employment (e.g. excess labour taxation has been characterised by the OECD[15] as a disincentive that has to be corrected in the medium term, so as to deliver a neutral budgetary impact).

10 See (i) *Monetary Policy – Interim Report 2011*, November 2011, pp. 35-41; (ii) *Monetary Policy – Interim Report 2010*, October 2010, pp. 143-149.
11 See *Monetary Policy – Interim Report 2010*, November 2010, pp. 149-167.
12 See COM(2011) 821 final.
13 See also *Monetary Policy – Annual Report 2009-2010*, March 2010, pp. 113-116.
14 See *Monetary Policy – Interim Report 2010*, October 2010, pp. 149-158.
15 See Barnes, S., Bouis, R., Briard, P., Dougherty, S., Eris, M. (2011), "The GDP impact of reform: A simple simulation framework", OECD Economics Department Working Papers, No. 834. Also: Bouis, R. and Duval, R. (2011), "Raising potential growth after the crisis: A quantitative assessment of the potential gains from various structural reforms in the OECD area and beyond", OECD Economics Department Working Papers No. 835.

Of particular importance is the technical assistance provided by the European Commission's Task Force and the IMF. Combined with appropriate legislative initiatives, it can help to improve management of public finances and promote the reform of the tax, judicial and administrative systems. Emphasis should be placed on the collection of outstanding taxes, which are often due to delays of the justice delivery system.

The successful completion of the PSI should reduce interest payments, contain public debt and improve the economic climate, thus boosting economic activity. Furthermore, speeding up privatisations may improve expectations and enhance growth. Similar results are expected from the expedited utilisation and absorption of EU funds through the NSRF, with the assistance of the European Commission's Task Force (also according to the decisions announced by the Prime Minister and the President of the European Commission on 29 February). All these, together with the reduced "tax wedge" on labour income, should have a positive effect, improving the economic climate and economic activity – which might in turn boost revenue further.

Financial developments and prospects

Reduced deposits. The substantial decline in deposits, which intensified in 2011 and continued into January 2012, is attributed to the economic recession and the increased tax obligations of depositors, i.e. factors with a negative impact on the demand for money, which lead among other things to a decrease in available income. The uncertainty surrounding the fiscal crisis is crucial in explaining lower deposits by households and non-financial corporations, as 2011 saw an extensive substitution of domestic deposits with investment in deposits or debt securities abroad, as well as a hoarding of euro banknotes of high nominal value, gold sovereigns, etc. However, it is estimated that the effects of uncertainty waned somewhat after the formation of the coalition government. This contributed to a small increase in deposits by domestic private non-financial corporations in December. Nevertheless, a further decrease in economic activity and real disposable income is expected to have a negative impact on deposits in 2012. On the other hand, enhanced confidence, after the establishment of the second financial support package to Greece and the private sector involvement in the exchange of Greek government bonds, will probably affect deposits favourably.

Bank credit to the private sector. Since end-2009 bank lending rates have been rising gradually, but in 2010 banks' credit standards kept tightening. In 2010-2011 as a whole, banks' collateral requirements from borrowers increased, while banks also reduced the periods and amounts of loans they granted and, in the case of housing loans, the percentage of the total value of mortgaged property that can be covered by the loan.

The economic downturn of the past few years, together with the increased lending rates, also contributed to the reduced demand for loans. On the other hand, surveys such as the December 2011 ECB survey referring to the access of small- and medium-size enterprises to external sources of financing show that in Greece, more than in other euro area Member States, investment plans or even the current output of firms has declined as a result of insufficient financing.

However, it is very likely that if Greek banks gained access to international money and capital markets anew and, at the same time, the extensive withdrawal of deposits stopped, credit supply would be enhanced substantially and a significant decrease in bank interest rates would be recorded. Generally speaking, improved economic activity together with reduced fiscal risk will encourage banks to increase the supply of credit and will stimulate the private sector's demand for credit. Additionally, developments in the supply of loans should be more favourable if efforts to replenish banks' own funds are successful, which is necessary in view of the impairment losses incurred in the context of the PSI and the exchange of Greek government bonds in compliance with the Eurogroup decisions of 21 February, as well as the re-adjusted banks' capital requirements. Lastly, it cannot be ignored that the flow of funds to Greek firms is also directly associated with NSRF implementation – thus any improvement in the absorption of the relevant funds would offset to some degree the reduced loan supply by the banking system.

Strains on the banking system intensified in 2011 and continued into the early months of 2012

Greek banks came under increasing pressure in 2011 and in the first months of 2012. Businesses and households continued to withdraw their deposits (the withdrawal in the year as a whole totalled €35 billion) and the collateral the banks could use for obtaining liquidity from the Eurosystem became either impaired or illegible following the downgrading, first, of the country's credit rating, and, then, their own. Support in the face of these pressures was provided not only through the monetary policy operations of the Eurosystem, but also through the emergency liquidity assistance from the Bank of Greece. A positive effect on liquidity, with the creation of eligible collateral, also stemmed from the broadening of the bank bond guarantee scheme under the package for supporting liquidity in the Greek economy (Law 3965/2011).

At the same time, as recession deepened, it became more difficult for businesses and households to service their debt obligations on time, worsening the quality of loans across all categories, particularly consumer loans. The ratio of NPLs to total loans at end-September 2011 rose to 14.7%, from 10.5% at end-December 2010. Additionally, the contraction of banking operations as a result of the economic downturn led to a further decline in banks' operating profits (i.e. net interest and fee income). A limited positive effect on the results came from the small —considering the magnitude of the challenges— cutback on costs. In the first nine months of 2011, operating expenses fell by 7.4% for banks and by 5.1% for banking groups, year-on-year. A further rationalisation of operating costs —given the new economic environment— is imperative.

Moreover, based on data published for the January-September 2011 period, the regulatory capital adequacy ratios stood at levels above the regulatory minimum, despite the fact that they fell compared with end-June 2011. At end-September 2011, the Capital Adequacy Ratio (CAR) and the Tier I ratio stood at 11.7% and 10.7%, respectively, for banks as a whole, and at 10.1% and 9.2%, respectively, for banking groups. Core Tier I ratio also declined, standing at 8.9% and 8.2% for banks and banking groups, respectively.

3 A HISTORICAL RESPONSIBILITY FOR GREECE

In the light of the Agreement of 21 February 2012, the new framework in which the Greek economy will operate in the years ahead could suffice to turn the climate and expectations around and, thereby, speed up the recovery process. However, distrust as to the ability and resolve of governments and society at large to carry the necessary reforms decisively forward remains widespread. This distrust is justified. Reform initiatives in the past had more than once come up against the illusion that a system which produced prosperity by running up deficits and debt could be maintained forever. There is no room for such illusions anymore. The truly harsh and painful losses that Greek citizens have had to endure cannot be recouped by returning to the ways of the past. Under present circumstances, such a return would result in social cohesion disintegrating and incomes plummeting.

In order to improve expectations and confidence in the future of the Greek economy, what is needed is adjustment to the new situation, implementation to the letter of all that has been agreed and a correction of past imbalances, so as to lay the foundations for the way forward. Euro-area membership and the support of our partners provide Greece with the opportunity to move forward on this path in an orderly fashion, contain the losses and shorten the difficult period of deep recession. It is up to the country, however, to assume the historic responsibility of elaborating and, more importantly, implementing a new strategy which will convincingly show that the Greek economy can be reconstructed in a way that will bring it back onto a sustainable growth path.

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

1 ECONOMIC DEVELOPMENTS AND PROSPECTS INSIDE AND OUTSIDE THE EURO AREA AND POLICY INTERVENTIONS

• World economic recovery was disrupted at end-2011, as the sovereign debt crisis in the euro area became deeper and uncertainty increased, affecting on the one hand weaknesses in the financial systems and public finances of many advanced economies and, on the other, capital movements in emerging economies. In 2012, the growth rate of **world GDP** is forecast to stand at 3.3% from 3.8% in 2011, while the growth rate in the euro area is expected to be slightly negative (see Table II.1).

• The growth rate in economic regions outside the euro area is expected to be generally lower in 2012 compared with 2011, with certain noticeable exceptions: the United States and Japan among advanced economies, the countries of Middle East and Africa among emerging and developing ones.

• In the **United States**, the GDP growth rate is expected to be 1.8% in 2012 (practically unchanged from 1.7% in 2011). During 2011 private individuals' propensity to save declined, giving new impetus to consumption, and fixed capital (non-residential) investment increased considerably (by 8.6% at constant prices). The unemployment rate continued to fall reaching 8.3% in January 2012, the lowest level of the last three years. In **Japan**, economic recovery following the most destructive earthquake in recent history was rapid and GDP is forecast to grow by 1.7% in 2012, against a drop by 0.9% in 2011.

• GDP growth is forecast to fall in **emerging and developing economies**, mainly due to weakened external demand, still remaining at the high level of 5.4%, though, from 6.2% in 2011, with China (8.2%) and India (7%) ranking first among large economies. Growth is expected to decline in **Latin America** as well, to 3.6%, from 4.6% in 2011.

• In **Eastern** and **Central European** countries, a large drop in GDP growth, to 1.1% from 5.1% in 2011, is expected, i.e. substantially higher compared to other economic regions, due to the close commercial and financial ties with the euro area. The acceleration of GDP growth has become noticeable and contrasts the general trend prevailing in **Sub-Saharan Africa** (5.5% against 4.9% in 2011) and to a smaller degree in **Middle East** and **North Africa** (3.2% against 3.1% in 2011).

• The growth rate of the **volume of world trade** is expected to decrease further in 2012, to 3.8%, from 6.9% in 2011. The growth rate of the external trade in advanced economies is estimated to reach 2%.

• Due to weakening foreign demand, **international commodity prices**, in dollars, are estimated by the IMF (24 January 2012) to fall in 2012 (crude oil prices by 4.9% and other commodities by 14%), although —according to the latest forward prices— crude oil prices in US dollars will probably record a rather limited increase.

• **Inflation**, after having increased in 2011 mainly as a result of the sharp rise in international commodity prices (a rise of 31.9% in crude oil and 17.7% in non-fuel commodity prices), is estimated that will decline anew in 2012, around the levels of 2010, i.e. to 1.6% in advanced economies and 6.2% in emerging economies.

• **Fiscal policy** became tighter in 2011 in all advanced economies except China and the fiscal deficit of advanced economies as a whole was reduced to 6.6% of GDP in 2011, from 7.6% in 2010. It is forecast that it will be further reduced in 2012, to 5.7% of GDP. Gross public debt, however, continued to increase in advanced economies, exceeding 100% of GDP for the first time in 2011 (it came to 103.5%) and is expected to reach 107.6% of GDP in 2012.

• **Monetary authorities** in advanced economies made important interventions in 2011. ECB, taking into account the rapidly deteriorating conditions in the euro area and low infla-

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

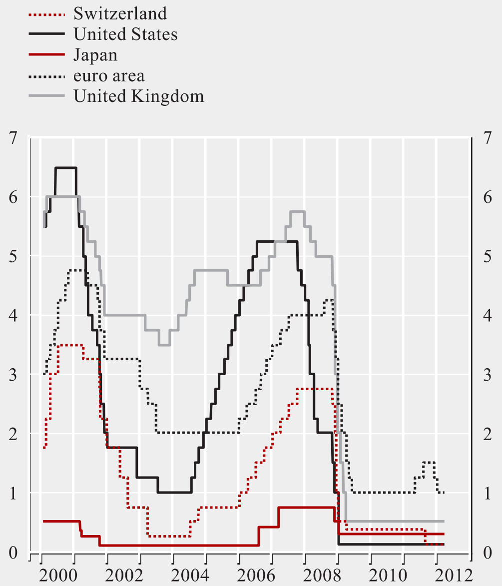
(annual percentage changes)

	2011 (estimates)					2012 (forecasts)				
	IMF 24.01.2012	EU 10.11.2011	OECD 28.11.2011	Consensus 13.02.2012	Eurosystem 2.12.2011	IMF 24.1.2012	EU 10.11.2011	OECD 28.11.2011	Consensus 13.02.2012	ECB 8.3.2012
World economy*	3.8	3.7	...	2.9	...	3.3	3.5	...	2.6	...
United States	1.8	1.6	1.7	1.7	...	1.8	1.5	2.0	2.2	...
Japan	-0.9	-0.4	-0.3	-0.9	...	1.7	1.8	2.0	1.8	...
China	9.2	9.2	9.3	...	...	8.2	8.6	8.5	...	...
United Kingdom	0.9	0.7	0.9	0.9	...	0.6	0.6	0.5	0.5	...
Euro area	1.6	1.5	1.6	1.5	1.5 to 1.7	-0.5	0.5	0.2	-0.3	-0.5 to 0.3

* Calculations based on GDP purchasing power parities-ppp for 2010; for Consensus Economics: based on GDP and average exchange rates for 2010.
Sources: IMF, *World Economic Outlook Update*, 24 January 2012.
European Commission, *Economic Forecasts, Autumn 2011*, November 2011.
OECD, *Economic Outlook*, No 90, November 2011.
Consensus Economics, *Consensus Forecasts*, February 2012.
ECB, *Monthly Bulletin*, December 2011 and March 2012.

Chart II.1 Central bank policy rates
(January 2000 - 1 March 2012)

(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.

tionary pressures, proceeded to two successive reductions in its key interest rate on 9 November and 14 December by 25 basis points each time, bringing it to 1%. The Federal Reserve and the Bank of Japan continued the policy of near-zero interest rates and the quantitative easing programmes (see Chart II.1). The Bank of England, too, decided to continue with its quantitative easing interventions (9 February 2012).

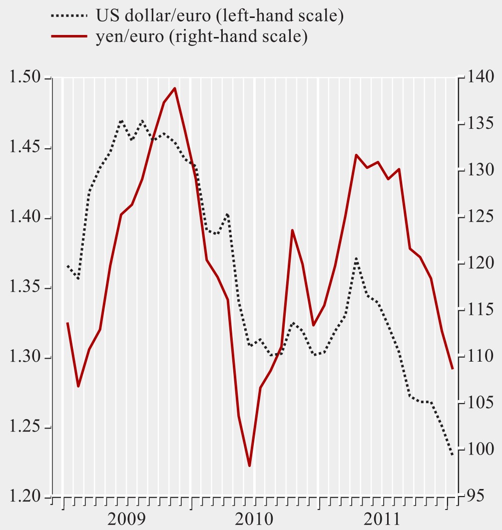
I.A THE EURO AREA: ECONOMIC DEVELOPMENTS AND POLICY INTERVENTIONS

- In 2012, the euro area is expected to witness a drop in economic activity and negative growth rates, given the continuing sovereign debt crisis, the ongoing deleveraging of financial institutions and credit contraction, tight fiscal policy and heightened uncertainty.

- According to the IMF, the GDP growth rate will drop to -0.5% from 1.6% in 2011, as both private consumption and investment will decline considerably; external demand, on the other hand, is also expected to be

Chart II.2 Exchange rate of the euro against the US dollar and the Japanese yen
(January 2009-January 2012)

(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 2009 - January 2012)

(monthly data)

Sources: ECB and Bank of Greece.

adversely affected by the deceleration of global GDP growth and international trade.

• In its recent interim forecasts, the European Commission predicts slightly lower recession (-0.3%) than the IMF and a gradual recovery from the second half of the year onwards. Moreover, it talks about signs of stabilisation in financial markets as well as consumer and investor confidence, although the situation remains fragile.

• Inflation is forecast to fluctuate between 2.1% and 2.7% according to ECB staff projections (8 March 2012).

• The fiscal deficit in the euro area was reduced considerably in 2011, to 4.3% of GDP from 6.3% in 2010, and is expected to be further reduced in 2012, to 3.4% of GDP, while public debt is forecast to increase to 91.1% of GDP from 87.4% at the end of the third quarter of 2011.

Decisions taken in the euro area summits of 9 December 2011 and 30 January 2012

• To step up the operation of the European Stability Mechanism, for July 2012 instead of July 2013 that had been initially planned.

• To adopt the Fiscal Pact, which provides for balanced budgets and automatic correction mechanisms in the event of derogation.

Eurogroup decisions of 21st February, 1st and 9th March 2012

The Finance Ministers of the Eurogroup approved of the new Greek economic programme, the main objectives of which are to ensure the sustainability of the Greek public debt and to restore the competitiveness of the Greek economy. The programme includes an additional economic contribution from private and public creditors, which is estimated to put the Greek public debt on a downward path, to 120.5% of GDP in 2020. Given this fact and provided that the economic policy commitments of the programme will be steadily fulfilled, the Eurogroup affirmed that the euro area Member States stand ready to provide, through the EFSF and with the expectation that the IMF will make a significant contribution, an additional official programme of up to €130 billion until 2014.

On 1 March 2012, Eurogroup Ministers welcomed the effort of Greece to "complete the agreed prior actions" and approved the activation of EFSF so that, inter alia, the procedures related to the PSI may be completed, the provision of liquidity to the Greek banking system be secured, same as the amounts required for the recapitalisation of Greek banks. On 9 March 2012 the Eurogroup welcomed the positive response to the PSI and the implementation of "all agreed prior actions" by Greece, while the final approval and the signing of the loan agreement are pending.

The heads of states and governments of the euro area, with a declaration dated 2 March 2012, expressed their satisfaction for the progress made regarding the new Greek programme and notably the agreement reached by the Eurogroup on the policy package and the offer made to private creditors, stressing that the objective of the programme is to put the Greek economy back on a sustainable footing, to ensure debt sustainability and restore competitiveness.

European Council Decisions of 30 January and 1-2 March 2012

Besides, the European Council of 30 January 2012 focused its attention on boosting growth and employment with the aim of moving "towards growth-friendly consolidation and job-friendly growth" with three individual priorities: (a) stimulate employment, especially for young people, (b) complete the Single Market, (c) boost the financing of the economy, in particular of small and medium sized enterprises (SMEs). The spring European Council would provide concrete directions on these issues.

Indeed, the spring European Council of 1-2 March 2012 discussed the implementation of the EU's economic strategy and stressed that this strategy pursues both continued fiscal consolidation and determined action to boost growth and jobs. Sustainable growth and jobs cannot be built on deficits and excessive debt levels. The measures taken to stabilise the situation in the euro area are bearing fruit.

The European Council endorsed the five priorities for 2012 set out in the European Commission's Annual Growth Survey for action to be taken at EU and national levels to:

- pursue differentiated, growth-friendly fiscal consolidation;

- restore normal lending to the economy;

- promote growth and competitiveness;

- tackle unemployment and the social consequences of the crisis; and

- modernise public administration.

The European Council conclusions stress that fiscal consolidation is an essential condition to return to higher growth and employment. It must be differentiated according to Member States' circumstances. Member States that are part of an assistance programme should stick to the targets and structural reforms agreed in the programme. Similarly, Member States under market pressure should meet agreed budgetary targets and stand ready to pursue further consolidation measures if needed. While pursuing consolidation efforts, particular care must be given to prioritising expenditures that constitutes an investment in future growth, with a particular emphasis on education, research and innovation.

2 THE ECONOMIES OF SOUTH-EASTERN EUROPE[1]

- In 2011 the economies of South-Eastern Europe recorded positive growth rates, in the order of 2.2%, which however, following the high performance of the first quarter, slowed down considerably. The Romanian economy was an exception, recording a noticeable acceleration in the third quarter, while Turkey's growth rate continued to move at particularly high levels, approaching 8% for the year as a whole (see Table II.2.A).

- The slowdown of economic activity is expected to continue in 2012 as well. This is primarily attributable to the continuing uncertainty surrounding debt crisis developments in the euro area countries, as well as to the prospect that their growth rate, after its limited slowdown in 2011, will turn negative (even marginally) in 2012.

- Inflation fluctuated at levels below 4% in most countries, except for Turkey, Serbia and Romania, where it stood at 6.5%, 7% and 5.8% respectively. The drop observed in comparison to the first half of 2011 is associated with the decline in commodity and energy prices, as well as with the weakening of domestic demand (see Table II.2.A).

- The current account deficit in several countries has been notably reduced, due to the improvement of the trade balance. Turkey is an exception, as its external deficit has widened to 10% of GDP, while that of Romania and Serbia showed signs of stabilisation and came to 4.5% and 7.5% respectively, without any substantial change from 2010 levels.

- The fiscal condition, despite consolidation difficulties, improved; at the same time, there was a parallel reduction of the structural deficit in several countries (see Table II.2.B).

- Monetary policy in the countries of the region was conducted in the context of the effort to enhance economic activity and for this reason expansionary policies were adopted in the sec-

1 The South-East European economies that are discussed in this section include: 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-East European countries[1]

A. GDP and inflation
(annual percentage changes)

	GDP					Inflation				
Country	2008	2009	2010	2011 (estimate)	2012 (forecast)	2008	2009	2010	2011 (estimate)	2012 (forecast)
Albania	7.5	3.6	3.6	1.8	1.2	3.4	2.3	3.6	3.5	4.1
Bosnia-Herzegovina	5.7	-2.8	0.7	1.8	0.5	7.4	-0.4	2.1	4.0	2.5
Bulgaria	6.2	-4.9	0.2	1.8	1.2	7.2	1.6	3.0	3.4	2.9
Croatia	2.2	-6.0	-1.2	0.3	1.0	5.8	2.2	1.1	2.1	2.4
FYROM	5.0	-1.0	1.8	3.1	1.8	8.3	-0.8	1.6	4.1	2.5
Montenegro	6.9	-5.7	2.5	2.0	1.9	7.4	3.4	0.5	3.1	2.6
Romania	7.3	-7.1	-1.3	2.5	0.8	7.8	5.6	6.1	5.8	4.3
Serbia	3.8	-3.5	1.0	1.9	1.1	8.6	6.6	10.3	7.0	11.2
Turkey	0.7	-4.8	9.0	8.0	2.5	10.4	6.3	8.6	6.5	7.2

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

	Current account					Fiscal balance				
Country	2008	2009	2010	2011 (estimate)	2012 (forecast)	2008	2009	2010	2011 (estimate)	2012 (forecast)
Albania	-15.5	-15.1	-11.7	-10.9	-9.8	-5.5	-7.0	-3.1	-3.7	-4.5
Bosnia-Herzegovina	-14.0	-6.3	-6.1	-6.2	-7.2	-2.2	-4.5	-2.5	-3.5	-
Bulgaria	-22.9	-8.8	-1.0	1.6	-0.8	2.9	-0.9	-4.2	-3.7	-2.5
Croatia	-9.1	-5.5	-1.4	-1.2	0.0	-1.4	-4.1	-4.9	-5.5	-
FYROM	-12.8	-6.7	-2.8	-5.5	-5.5	-1.0	-2.7	-2.7	-2.5	-2.2
Montenegro	-51.3	-30.1	-24.7	-21.5	-20.4	0.5	-4.4	-4.9	-3.2	-2.6
Romania	-11.6	-4.2	-4.3	-4.5	-4.5	-5.7	-7.3	-6.5	-4.4	-5.0
Serbia	-20.6	-7.4	-7.5	-7.7	-6.9	-2.6	-4.5	-4.9	-4.6	-4.6
Turkey	-5.6	-2.3	-6.4	-9.8	-8.8	-2.2	-5.7	-3.6	-2.4	-2.4

Sources: *European Commission, Economic and Financial Affairs, CCEO, January 2012 and EBRD,* January 2012.
1 Estimates for 2011 and forecasts for 2012 are expected to be revised.

ond half of 2011, bringing interest rates gradually down. This continued in the first months of 2012 too, with the aim to boost demand.

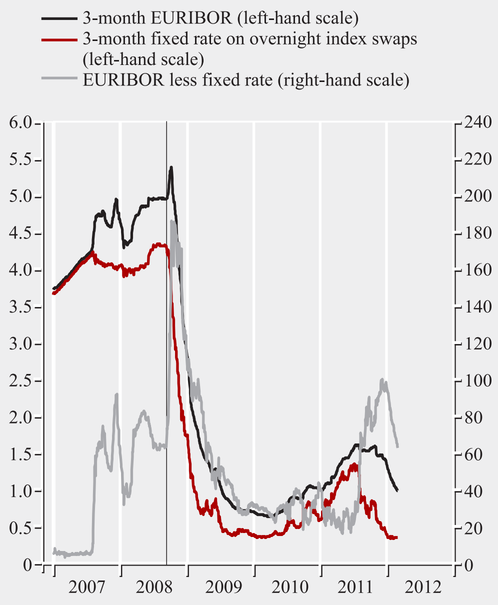
- The rate of credit expansion initially increased in the first few months of 2011, but after mid-2011 it started to gradually decelerate. This development was attributable to the deepening of the debt crisis in euro area countries in conjunction with the partial deleveraging effort of large banking groups operating in the region. Turkey is the only exception, where high demand for new credit is still being recorded, reflecting the growth rates of economic activity and leading total credit expansion to levels above 20% for the whole year.

2.A RISKS FOR THE GROWTH PROSPECTS OF SOUTH-EAST EUROPEAN COUNTRIES

The risks for the growth prospects of the countries in the region are primarily associated with the ongoing debt crisis in the countries of the euro area. The close economic ties between these countries make the economies of the region particularly vulnerable, increasing the degree of uncertainty in respect to short-term prospects. Specifically, the euro area crisis implies fewer exports for Southeast European countries, as well as fewer capital inflows, mainly for direct investment. The highest risk stems mainly from the financial system and particularly from the potential inability of European banking groups operating in the region to ensure unhindered supply of the necessary liquidity to their subsidiaries there. This could potentially lead to a reversal of the flow of bank lending in the region, resulting in a further drop of the already low rate of credit expansion, which would impact adversely on macroeconomic and financial stability. Finally, in the event of a generalised deleveraging effort on the part of European banking groups, there are some significant safety valves for Southeast European countries, which create a fairly strong safety net. Specifically, the adoption of arrangements of macroprudential supervision, such as the increase in capital adequacy ratios, the high level of domestic foreign exchange reserves, in conjunction with the actions taken under the Vienna initiative,[2] have to a large degree shielded the banking sector in the countries of the region. Greek banks' subsidiaries in the region, despite the difficulties facing parent banks, have high capital adequacy ratios, compatible with the requirements of local supervisory authorities.

Chart II.4 Interest rates and spreads in the euro area money market (January 2007-February 2012)

(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).

3 THE EUROSYSTEM'S SINGLE MONETARY POLICY AND INTERVENTIONS

In the period January-July 2011, the Governing Council of the ECB decided that the long upward course of commodity prices created inflationary pressures. Consequently, it increased its key interest rates by a total of 50 basis points (see Table II.3).

Since September 2011 it had started to become evident that shocks in financial markets, which were associated with the rekindling of the financial crisis in the summer of 2011, affected financing conditions for businesses and households in the euro area adversely. This contributed to the weakening of economic activity in the euro area, which had a disinflationary effect. Thus, the Governing Council of the ECB reduced its key interest rates in November and December 2011 by 25 basis points each time.

The three-month Euribor increased on the whole in 2011 (see Chart II.4); however, in August and during November-December 2011, same as during January-early March 2012, it moved downwards.

The aforementioned decline in interbank interest rates (in the second half of 2011 and at the

2 At the beginning of January 2012 a conference was held in Vienna with the purpose of forming a plan of action (the so-called "Vienna Initiative 2.0") in order to avert adverse consequences from the debt crisis in the euro area, which could lead to a generalised deleveraging from South-East European countries.

Table II.3 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
2011	13 April	0.50	1.25	-	2.00
	13 July	0.75	1.50	-	2.25
	9 November	0.50	1.25	-	2.00
	14 December	0.25	1.00	-	1.75

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.

beginning of 2012) was initially fed by expectations for reductions in the key interest rates, given the easing of inflationary pressures, which was attributable to the rekindling of tensions in financial markets. The realisation of these reductions in the last two months of the year and the considerably increased excess liquidity in the interbank market of the euro area also contributed to the downward pressures on interbank interest rates.

In 2011, in the framework of the non-standard monetary policy measures (see Table II.4), open market operations with a maturity of six and twelve months, aiming to provide liquidity in euro, were conducted anew, and a 36-month

Table II.4 Eurosystem's open market operations in 2011 and in the first months of 2012*

1. Main and longer-term refinancing operations:	
1.1 Main refinancing operations: provision of liquidity with a maturity of one week	**Frequency:** Once a week. **Procedure:** At least until 10 July 2012, fixed rate tender with full allotment.
1.2 Longer-term refinancing operations:	
1.2.1 Provision of liquidity with a maturity of one maintenance period	**Frequency:** Once at the beginning of each maintenance period. These operations will continue to be carried out until about mid-2012. **Procedure:** Fixed-rate tender (at a rate equal to the MRO rate) with full allotment.
1.2.2 Provision of liquidity with a maturity of three months	**Frequency:** Once a month. **Procedure:** Tender with full allotment and an interest rate set ex post equal to the average value of the fixed rate in the MROs conducted over the life of the respective three-month operations.
1.2.3 Provision of liquidity with a maturity of six months	One operation with a maturity of six months was settled on 11 August 2011. **Procedure:** Tender with full allotment and an interest rate set ex post equal to the average value of the fixed rate in the MROs conducted over the life of the respective six-month operation.
1.2.4 Provision of liquidity with a maturity of twelve months	One operation with a maturity of 371 days (i.e. approximately twelve months) was settled on 27 October 2011. **Procedure:** Tender with full allotment and an interest rate set ex post equal to the average value of the fixed rate in the MROs conducted over the life of each of the respective longer-term refinancing operations.
1.2.5 Provision of liquidity with a maturity of thirty-six months	Two operations with a maturity of 36 months were settled on 22 December 2011 and 1 March 2012, respectively. The longer-term refinancing operation with a maturity of 406 days scheduled to be conducted on 22 December 2011 (settlement date) was replaced by the 36-month operation conducted on that date. **Procedure:** Tender with full allotment and an interest rate set ex post equal to the average value of the fixed rate in the MROs conducted over the life of each of the respective longer-term refinancing operations. Credit institutions have the option to repay any part of the amounts they are allotted in the operations after one year.
2. Securities outright purchase operations:	
2.1 Securities Markets Programme	The Governing Council of the ECB decided on 9 May 2010 to conduct the Programme. By end-February 2012 the Eurosystem had purchased securities worth €219 billion in total.**
2.2 New Covered Bond Purchase Programme	The Programme will run from November 2011 to end-October 2012 and is expected to comprise purchases of bonds worth €40 billion. By end-February 2012, the Eurosystem had purchased covered bonds worth €7 billion under the new Programme.
3. Fine-tuning operations:	
3.1 Liquidity absorption on the last day of each maintenance period	These operations were discontinued as from 13 December 2011. **Procedure:** Pooling of overnight deposits from credit institutions through variable-rate tenders with a maximum bid rate equal to the fixed rate on main refinancing operations.
3.2 Liquidity absorption on a weekly basis to sterilise the effect, on the overall liquidity of the banking system, of purchases made under the Securities Markets Programme	**Frequency:** Every week, starting from 18 May 2010. **Procedure:** Pooling of one-week deposits from credit institutions through variable-rate tenders with a maximum bid rate equal to the fixed rate on main refinancing operations.
3.3 Liquidity provision with a maturity of one day on 21 December 2011 and 29 February 2012 (settlement dates), respectively	The purpose of these operations was to prevent liquidity fluctuations due to the fact that on 21 December 2011 and 29 February 2012 credit institutions should repay the amounts they are alloted in the main refinancing operation of the previous week, while new amounts could be obtained through longer-term refinancing operations with a maturity of 36 months only one day later.
4. US dollar liquidity-providing operations:	
4.1 Operations with a maturity of one week	**Procedure:** Fixed-rate tender for the provision of liquidity in US dollars with full allotment against collateral eligible for the Eurosystem's credit operations in euro.
4.2 Operations with a maturity of three months	

* The table was compiled on the basis of available data and information up to 1 March 2012.
** Excluding repayments.

liquidity-providing open market operation was conducted for the first time (a similar operation was also conducted in March 2012).

Besides, all main and longer-term refinancing operations, in 2011 and in January-early March 2012 were conducted as fixed-rate tender operations with full allotment. The Securities Markets Programme was implemented actively as from August 2011, while in November 2011 a new Covered Bond Purchase Programme was launched.

Additionally, it was decided to temporarily reduce the reserve ratio from 2% to 1% from mid-January 2012 onwards, in order to increase transactions in the money market and reduce credit institution requirements for Eurosystem funding and thus the possession of eligible collateral.

Another measure aimed at increasing transactions in the money market was the temporary discontinuation, as from mid-December 2011, of the liquidity-absorbing fine-tuning operations carried out on the last day of each maintenance period.

Moreover, the Governing Council also announced a temporary expansion of the list of eligible collateral with regard to securities. Specifically: First, the reduction of the rating threshold for asset-backed securities (ABS), the underlying assets of which comprise residential mortgages and loans to small and medium-sized enterprises. Second, the Governing Council of the ECB allowed national central banks, as a temporary solution, to accept as collateral, on their responsibility, additional performing bank loans in main and longer-term refinancing operations and in the marginal lending facility.

The ECB and other non-euro-area central banks reactivated the US dollar liquidity swap arrangements with a maturity of three months (starting from October 2011), while at end-November 2011 they agreed to lower the pricing on the US dollar liquidity arrangements, thus the relevant cost of credit institutions (outside the US).

3.A THE IMPORTANCE OF THE EUROSYSTEM'S POLICY OF LIQUIDITY PROVISION IN THE LAST PERIOD

Non-standard monetary policy measures provide enhanced credit support to the real economy of the euro area. They facilitate the granting of loans by banks to non-financial enterprises and households, through the completion and smooth function of the single money market and other international financial markets, in order to improve the reallocation of liquid assets among banks. Some of these measures increase the collateral available to credit institutions, as they reduce the amount of collateral that needs to be posted in order for funding from the Eurosystem to be accessed, in view of the fact that financial market tensions led to a decline in the value of many securities offered as collateral.

The implementation of non-standard measures allowed credit institutions a considerable increase in fund raising from the Eurosystem over the period from April 2011 until end-2011. In the period January-February 2012, funding from the Eurosystem followed a downward trend; it increased anew, however, at the beginning of March 2012.

Specifically, total fund raising in euro increased from €480 billion on average in April 2011 (i.e. 5.1% of the euro area GDP) to €787 billion in December 2011 (i.e. 8.4% of the euro area GDP). On average, in February 2012 funding appears further increased to €863 billion (9% of GDP as forecast by the European Commission for 2012). Accordingly, Eurosystem assets increased between April and December 2011 by 38% and by a further 6% in the two-month period January-February 2012.

Besides, the reduction of the reserve ratio implies a freeing up of liquid assets for euro area MFIs, amounting to €100 billion.[3]

As open market operations for the supply of liquidity with very long maturities were conducted, the importance of longer-term refinancing operations relative to that of the main refinancing operations increased, as well as that of the Covered Bond Purchase Programme as a means of liquidity supply. Indicatively, following the first 36-month operation, the share of total liquidity supplied to credit institutions by the Eurosystem

3 See ECB, *Monthly Bulletin*, February 2012, p. 29-30.

through longer-term refinancing operations increased from 62% on average in the first half of 2011 to 75% on average in the last ten days of December 2011 and to 77% in February 2012.

At the same time, as from June 2011 there became observable a rapid increase in the balance of credit institutions' deposits with the deposit facility of the Eurosystem. This increasing trend continued until the beginning of March 2012.

This increase in the liquidity provided by the Eurosystem was necessary, as due to the recent rekindling of the debt crisis the possibility of the interbank market to reallocate liquid assets among credit institutions with liquidity surplus and those with liquidity deficit was severely limited, a fact that has been observed since summer 2007 more or less. Difficulties in the operation of the interbank market are also implied by the increase in credit institutions' deposits in the relevant standard facility of the Eurosystem from 30 billion euro (1% of total MFI assets in the euro area) on average in the first half of 2011 to €323 billion (10% of total MFI assets in the euro area) on average in December 2011 and €481 billion in February 2012.

Credit institutions in the euro area also faced difficulties to raise funds in US dollars from their usual counterparties (many US-based) through the international market, due to concerns of these counterparties regarding the implications of the debt crisis on the robustness of euro area banks. Thus, the need was created to take, as already mentioned, measures to increase the availability and to reduce the cost of credit institutions' US-dollar funding from the Eurosystem.

Therefore, US-dollar funding in the euro area, which was zero in July 2011, came to $53 billion on average in December 2011 and reached $89 billion on average in February 2012. Comparatively, in the last quarter of 2008 (i.e. immediately after the collapse of Lehman Brothers) the amount of US-dollar liquidity provided by the Eurosystem was much larger – it amounted on average to $242 billion.

III MACROECONOMIC DEVELOPMENTS IN GREECE IN 2011 AND THE OUTLOOK FOR 2012

1.1 ECONOMIC ACTIVITY: DEVELOPMENTS AND PROSPECTS

• The **economic sentiment** indicator continued to decline in 2011, showing nonetheless short, temporary upturns. The European Council meetings in July, October and December had positive, albeit short-lived, effects on expectations. At end-2011, the economic climate sentiment was almost 5 percentage points lower than in January. The **coincident indicator of economic activity** compiled by the Bank of Greece (see Chart III.1) also illustrates the continued deterioration of the macroeconomic environment.

• Available national accounts data show that the decrease in GDP was decelerating up to the third quarter, but accelerated in the fourth. The average annual rate of change in GDP was -6.8% in 2011 (Q1: -8.0%; Q2: -7.3%; Q3: -5.0%; Q4: -7.0%),* against -3.5% in 2010 and -3.25% in 2009.[1]

Detailed data for January-September 2011 show that the decrease in GDP during this period had a strong impact of 5.3 percentage points on the decrease in private consumption (-7.0%) and 3.4 percentage points on the decline (-19.2%) in fixed capital formation (see Table III.1).

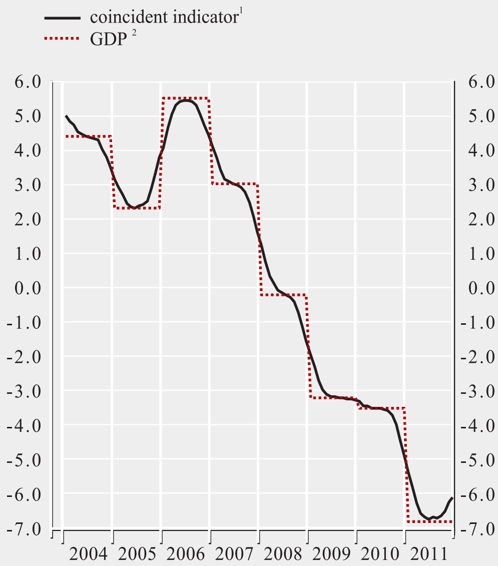
• The **decline in private consumption** during that period is attributable to lower household available income, due to a decrease in both remuneration (see Section 3 below) and the number of the employed (see Section 2 below), tighter bank credit to households for consumption purposes (see Section 3 below and Table III.2) and prevailing uncertainty. The **consumer confidence indicator** has been on a downward course since October 2009, coming to a historical low in October 2011.

* *As this Report was being printed, ELSTAT announced updated estimates, according to which GDP decreased at an annual 7.5% in Q4 and an average 6.9% in 2011.*

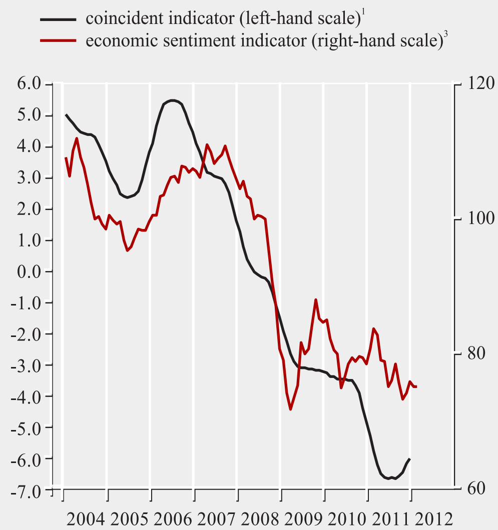
1 ELSTAT data without seasonal or number-of-working-days adjustment.

Chart III.1 Economic activity indicators

A. The coincident indicator of economic activity compiled by the Bank of Greece
(January 2004 - December 2011)



B. The coincident indicator of economic activity compiled by the Bank of Greece and European Commission's economic sentiment indicator for Greece
(January 2004 - February 2012)



Sources: Bank of Greece (coincident indicator and 2011 GDP), ELSTAT (GDP for 2004-2010) and European Commission (economic sentiment indicator).
1 Annualised monthly percentage changes.
2 Annual rate.
3 Monthly data.

Table III.1 Demand and gross domestic product: (2008-2010 and Q1 2010 – Q3 2011)

(2005 constant market prices)

	Annual percentage changes										
	2008	2009	2010	2010				2011			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jan.-Sept.
1. Private consumption	4.0	-1.3	-3.6	4.0	-2.5	-7.0	-8.9	-8.3	-7.2	-5.5	-7.0
2. Public consumption	-2.1	4.8	-7.2	2.7	-4.0	-7.4	-17.5	-13.7	-14.2	-3.9	-10.7
3. Gross fixed capital formation	-6.7	-15.2	-15.0	-7.8	-13.6	-19.2	-19.2	-23.4	-18.4	-15.2	-19.2
3.1 Housing	-28.2	-23.5	-18.0	-18.5	-17.9	-18.4	-17.4	-20.2	-22.0	-23.5	-21.8
3.2 Other construction	39.6	13.3	-5.5	-2.1	-4.3	-6.1	-8.2	-16.1	-16.7	-15.7	-16.2
3.3 Equipment	1.3	-24.0	-20.0	-3.1	-17.4	-30.6	-30.7	-30.2	-18.5	-9.5	-20.9
3.4 Other investment	-4.2	15.8	-7.1	0.3	-12.8	-6.1	-8.6	-11.1	-10.5	-5.7	-8.9
4. Final domestic demand[1]	**0.7**	**-3.1**	**-6.3**	**1.7**	**-4.8**	**-9.1**	**-12.4**	**-11.5**	**-10.2**	**-6.6**	**-9.5**
5. Change in inventories and statistical discrepancy (% of GDP)	**1.2**	**-1.7**	**-1.3**	**-4.1**	**-2.9**	**-0.4**	**2.1**	**-1.8**	**-0.5**	**-0.6**	**-0.9**
6. Domestic demand	**0.3**	**-5.5**	**-6.0**	**-0.4**	**-3.5**	**-6.8**	**-12.6**	**-9.8**	**-8.1**	**-6.9**	**-8.3**
7. Exports of goods and services	3.0	-19.5	4.2	2.1	1.9	1.3	13.1	-3.7	-0.5	3.2	0.2
7.1 Exports of goods	-0.4	-15.7	5.4	1.2	-2.8	0.0	25.3	2.1	6.4	9.3	6.3
7.2 Exports of services	5.9	-22.5	3.2	3.3	6.4	1.5	2.2	-9.3	-6.4	-0.4	-4.4
8. Imports of goods and services	3.3	-20.2	-7.2	-1.6	-8.7	-7.4	-11.1	-10.9	-4.9	-4.3	-6.8
8.1 Imports of goods	1.5	-21.0	-10.7	-4.0	-12.5	-10.6	-15.3	-12.1	-3.5	-2.3	-6.1
8.2 Imports of services	12.3	-16.5	7.0	9.8	6.6	5.8	6.2	-6.1	-9.8	-11.4	-9.2
Gross domestic product at market prices	**-0.2**	**-3.3**	**-3.5**	**0.4**	**-0.7**	**-4.6**	**-8.6**	**-8.3**	**-7.4**	**-5.0**	**-6.9**

Source: ELSTAT, National Accounts, 9 December 2011; revised data; base year=2005; non-seasonally adjusted.
1 Excluding inventories and statistical discrepancy.

Table III.1 Demand and gross domestic product: (2008-2010 and Q1 2010 – Q3 2011) *(continued)*

(2005 constant market prices)

	Contribution to the change in gross domestic product (percentage points)										
	2008	2009	2010	2010				2011			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Jan.-Sept.
1. Private consumption	2.80	-0.98	-2.52	3.14	-1.88	-5.04	-6.32	-6.70	-5.29	-3.87	-5.29
2. Public consumption	-0.39	0.85	-1.34	0.52	-0.76	-1.35	-3.77	-2.65	-2.63	-0.68	-1.99
3. Gross fixed capital formation	-1.64	-3.44	-2.94	-1.61	-2.84	-3.46	-3.86	-4.42	-3.34	-2.31	-3.36
3.1 Housing	-2.92	-1.75	-1.06	-1.25	-1.03	-0.97	-1.00	-1.11	-1.06	-1.06	-1.08
3.2 Other construction	1.21	0.57	-0.27	-0.08	-0.25	-0.27	-0.48	-0.61	-0.93	-0.70	-0.74
3.3 Equipment	0.12	-2.41	-1.53	-0.28	-1.42	-2.14	-2.29	-2.59	-1.26	-0.48	-1.44
3.4 Other investment	-0.04	0.15	-0.08	0.00	-0.15	-0.07	-0.09	-0.11	-0.11	-0.07	-0.10
4. Final domestic demand[1]	**0.80**	**-3.57**	**-6.84**	**1.96**	**-5.53**	**-9.89**	**-13.92**	**-13.66**	**-11.22**	**-6.84**	**-10.57**
5. Change in inventories and statistical discrepancy	**-0.38**	**-2.76**	**0.35**	**-2.48**	**1.70**	**2.71**	**-0.52**	**2.44**	**2.48**	**-0.22**	**1.57**
6. Domestic demand	**0.42**	**-6.33**	**-6.49**	**-0.52**	**-3.83**	**-7.18**	**-14.44**	**-11.22**	**-8.73**	**-7.07**	**-9.01**
7. Exports of goods and services	0.70	-4.70	0.84	0.37	0.39	0.31	2.28	-0.65	-0.10	0.84	0.03
7.1 Exports of goods	-0.06	-1.66	0.49	0.10	-0.28	0.00	2.15	0.18	0.63	0.97	0.59
7.2 Exports of services	0.77	-3.05	0.35	0.29	0.68	0.23	0.20	-0.86	-0.73	-0.06	-0.55
8. Imports of goods and services	1.27	-7.77	-2.26	-0.53	-2.69	-2.24	-3.56	-3.55	-1.41	-1.26	-2.07
8.1 Imports of goods	0.48	-6.59	-2.68	-1.10	-3.09	-2.58	-3.95	-3.16	-0.76	-0.53	-1.48
8.2 Imports of services	0.79	-1.17	0.43	0.59	0.41	0.35	0.40	-0.40	-0.65	-0.76	-0.60
9. Balance of goods and services	-0.57	3.07	3.09	0.90	3.08	2.55	5.84	2.89	1.30	2.10	2.10
Gross domestic product at market prices	**-0.2**	**-3.3**	**-3.5**	**0.4**	**-0.7**	**-4.6**	**-8.6**	**-8.3**	**-7.4**	**-5.0**	**-6.9**

Source: ELSTAT, National Accounts, 9 December 2011; revised data; base year=2005; non-seasonally adjusted.
1 Excluding inventories and statistical discrepancy.

Table III.2 Indicators of consumer demand (2009-2012)

(annual percentage changes)

	2009	2010	2011	2012 (available period)
Volume of retail trade (excluding fuel and lubricants)	-9.3	-6.9	-8.7	
Food-beverages-tobacco[1]	-6.1	-5.5	-6.0	
Clothing-footwear	1.4	-11.4	-18.8	
Furniture-electrical appliances-household equipment	-15.3	-12.7	-15.7	
Books-stationery-other	-24.0	-4.3	-5.1	
VAT revenue (constant prices)	-10.2	0.1	-5.9	-20.2 (Jan.)
Retail trade business expectations index	-21.4	-26.4	-0.5	-11.1 (Jan.-Feb.)
New passenger car registrations	-17.4	-37.2	-29.8	-33.3 (Jan.-Feb.)
Tax revenue from mobile telephony[2]	13.2	37.1	-16.8	
Consumer credit extended by banks[3]	2.0 (Dec.)	-4.2 (Dec.)	-6.4 (Dec.)	-6.6 (Jan.)

Sources: ELSTAT (retail trade, cars), Ministry of Finance (VAT revenue, tax revenue from mobile telephony), IOBE (expectations), Bank of Greece (consumer credit).
1 Including large food stores and specialised food-beverage-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.

According to national accounts data, the remuneration of employees (at current prices) decreased by 10.4% year-on-year in January-September 2011, reflecting a 4.0% decline in compensation per employee and —to a larger extent— a 6.6% decline in the number of employed persons. During that period, the **gross operating surplus** of the economy also decreased, by 2.8%.

The decrease in private consumption in January-September 2011 reflects the declining volume of **retail sales** (the volume of retail sales excluding fuel and lubricants fell by 8.7%, while the volume of retail sales including fuel and lubricants fell by 9.9%), and lower **new private passenger car registrations** (annual decrease of -34.4% during this period – see Chart III.2). The annual rate of consumer credit expansion was negative throughout the period.

Available short-term indicators on private consumption after the January-September period (retail sales volume, retail trade business expectations, consumer credit, consumer expectations, and new private passenger car registrations) remained strongly negative, suggesting that the annual rate of decline in consumption in Q4 was probably larger than in Q3 (despite the fact that in Q4 GDP had recorded a significant reduction against the respective quarter of 2009.) In **2012**, consumption is expected to keep on declining. This is also in accordance with consumers' intentions to make purchases in 2012 (IOBE-European Commission survey), which remain very low, though higher than at end-2011. Expectations in retail trade, despite improving slightly in January 2012 against December 2011 (probably because of an expected higher volume of sales on account of the winter sales season) deteriorated again in February.

• According to national accounts data, the decline in **gross fixed capital formation** recorded in 2010 (-15.0%) continued at a stronger pace (-19.2%) in January-September 2011 (Q1: -23.4%; Q2: -18.4%; Q3: -15.2%). This mostly reflects the continued strong decrease in investment in **transport equipment** (-39.5%) and **residential property** (-21.8%). However, the decrease in investment in metal products and machinery decelerated substantially (from -25.5% in 2010 to -4.2% in January-September 2011). Another negative effect comes from a further contraction of the Public Investment Programme (PIP), with disbursements declining by 28.3% in January-September 2011 (January-December 2011: -17.1%) against the respective period in 2010 (see Table III.3). The new development agenda for 2011 also includes investment of €1.5 billion, while a new relevant announcement inviting applications is expected in April 2012.

It is estimated that investment continued to decrease in the fourth quarter of 2011, as evidenced by disbursements under the Public Investment Programme and the decline in the long-term (over 5 years) balances of loans to enterprises in several economic sectors.

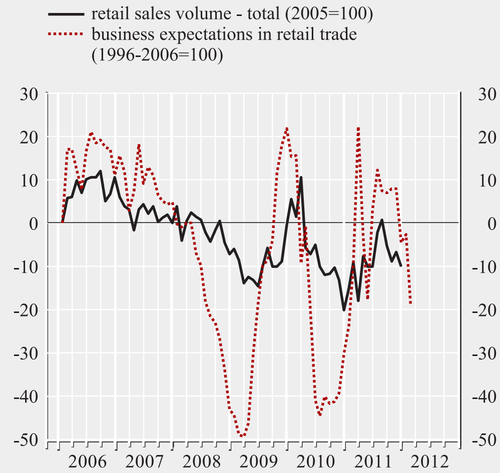
(In February 2012, it was decided that the Public Investment Programme would reach €7.3 billion, i.e. increased by 5.9% against the estimated realisations for 2011, while the Introductory Report on the 2012 Budget provided for €7.7 billion).

Additionally, evidence on residential construction is negative, due to the huge decline in the **volume of private construction** (on the basis of permits issued) at an annual -49.9% in October and -25.8% in November (see Chart III.5), as well as the continued **decrease in cement production** (January-October 2011: -35.5%, December 2011-December 2012: 53.1%). Moreover, the **business expectations index in construction** fell sharply (27.8%) in 2011. Although expectations in early 2012 improved against the January-February 2011 period, they still remain particularly low. An increasing tax burden on real estate, extremely slow rates of absorption of the housing stock and lower credit availability[2] weigh heavily on residential investment (see also section 1.2 below).

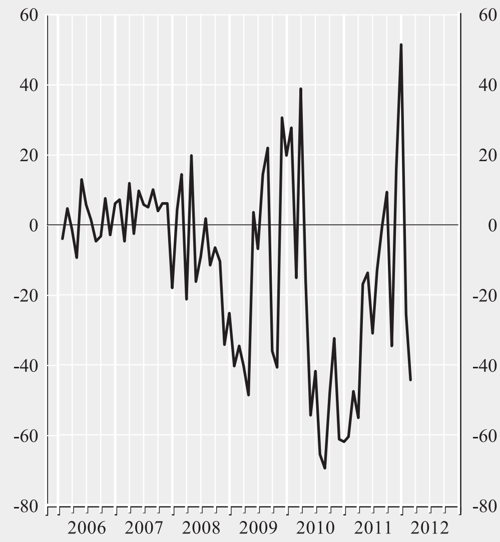
- Recent legal initiatives and the new Memorandum aim at improving the business environment: more investment projects are to be included under the fast track procedure, same as measures to remove red tape (e.g. abolish-

Chart III.2 Consumer demand indicators

A. Sales volume and business expectations in retail trade[1]
(January 2006 - February 2012)



B. New passenger car registrations[1]
(January 2006 - February 2012)



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.

2 The rate of change in outstanding housing loans was negative in 2011 (-2.9%, from -0.3% in 2010).

Table III.3 Indicators of investment demand (2009-2012)

(annual percentage changes)

	2009	2010	2011	2012 (available period)
Capital goods output	-22.5	-22.1	-10.0	
Capacity utilisation rate in the capital goods industry	(73.4)	(66.1)	(62.7)	(56.7) (Jan.-Feb.)
Bank credit to domestic enterprises[2]	5.1 (Dec.)	1.1 (Dec.)	-2.0 (Dec.)	-1.9 (Jan.)
Disbursements under the Public Investment Programme	-2.8	-11.3	-17.1	-55.4[4] (Jan.)
Production index in construction (constant prices)	-17.5	-31.6	-28.0 (Jan.-Sept.)	
Volume of new buildings and extensions on the basis of permits issued	-26.5	-23.7	-36.0 (Jan.-Nov.)	
Cement production	-21.4	-14.3	-37.8	
Construction business expectations index	-31.4	-27.4	-27.8	25.3 (Jan.-Feb.)
Outstanding balance of total bank credit to housing[3]	3.7 (Dec.)	-0.3 (Dec.)	-2.9 (Dec.)	-3.1 (Jan.)

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.
4 As from 2012 data relate to actual payments and not amounts credited to the public investment account.

ing the requirement to be listed on the exporters' registry). Moreover, after the implementation of the agreement of 21 February, the financing conditions for businesses are expected to improve.[3]

• In January-September 2011, because of the fiscal consolidation measures detailed in Chapter IV, **public consumption** dropped by 10.7% year-on-year (Q1: -13.7%; Q2: -14.2%; Q3: -3.9%).

• Lower consumption and investment resulted in a decline in imports of goods and services, which decreased by 6.8% in January-September 2011 (on a national accounts basis) against the respective period of 2010 (Q1: -10.9%; Q2: -4.9%; Q3: -4.3%). This came from a 6.1% decline in imports of goods (with a contribution of 4.8 percentage points to the total decline in imports), and a 9.2% decline in imports of services (with a contribution of 2.0 percentage points to the total decline in imports). Exports of goods (on a national accounts basis), after a 5.4% increase in 2010, rose further (by an average annual 6.3%) from January to September 2011 (Q1: 2.1%; Q2: 6.4%; Q3: 9.3%). However, exports of services in January-September 2011 decreased (-4.4%) against the respective period in 2010, on account of lower revenue from transport services (see section 4 below). Thus, exports of goods and services rose by only 0.2%. On account of the increase in exports of goods and services, albeit small, and the large decline in imports, the **external sector** made a positive contribution to the change in GDP in January-September 2011 (2.1 percentage points).[4]

The evolution of supply

• In January-September 2011, the **net value added** decreased by 6.7%. The decline was

3 The rate of change in the financing of domestic enterprises by domestic MFIs fell from 1.1% in 2010 to -2.0% in 2011.
4 The rate of decline in imports was stronger than that in exports but the value of imports of goods and services exceeded that of exports by 27.9% in January-September 2011.

Table III.4 Indicators of industrial activity (2009-2012)

(annual percentage changes)

	2009	2010	2011	2012 (available period)
1. Industrial production index (overall)	**-9.4**	**-5.9**	**-8.4**	**...**
Manufacturing	-11.2	-5.1	-9.5	...
Mining-quarrying	-11.8	-6.5	0.0	...
Electricity	-4.2	-9.2	-8.8	...
Main industrial groupings				
Energy	-2.9	-4.9	-8.4	...
Indermediate goods	-18.4	-0.9	-9.7	...
Capital goods	-22.5	-22.1	-10.0	...
Consumer durables	-20.7	-13.4	-15.9	...
Consumer non-durables	-4.1	-7.2	-6.4	...
2. Industrial turnover index[1]	**-23.1**	**5.9**	**6.9**	**...**
Domestic market	-22.1	-0.8	-2.6	...
External market	-25.6	29.3	21.6	...
3. Industrial new orders index[2]	**-27.7**	**3.7**	**1.2**	**...**
Domestic market	-23.0	-3.9	-24.3	...
External market	-34.4	27.6	21.9	...
4. Index of business expectations in industry	**-21.5**	**5.1**	**1.4**	**-9.0 (Jan.-Feb.)**
5. Industrial capacity utilisation rate	**70.5**	**68.5**	**67.6**	**63.9 (» »)**
6. Purchasing Managers' Index (PMI)[3]	**45.3**	**43.8**	**43.6**	**37.7 (Feb.)**

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.

stronger in construction, industry and "trade, hotels and restaurants, transport and communications". Due to the substantial share of the latter in total value added, its contribution to the decrease in GDP was much higher than the other two sectors.

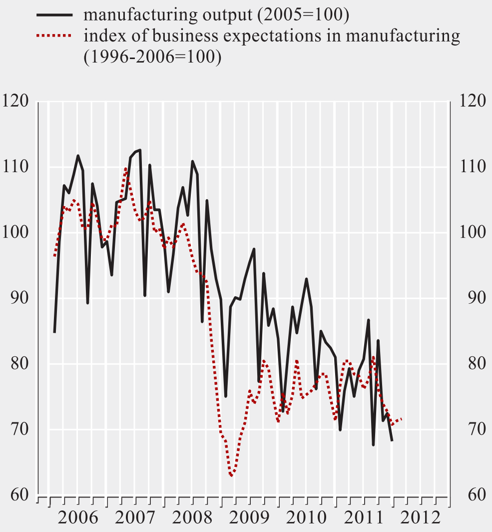
• Gross value added in industry, including energy, in January-September 2011, fell by 8.4% on average, against a decrease of 4.4% in the respective period of 2010. A similar decrease was recorded in the industrial production index in 2011, as production in total industry declined by 8.4% on average, while the decrease in manufacturing production was even stronger (-9.5%).[5] Lower industrial production in 2011 was broadly based across all categories of goods. However, the largest contribution came from energy (3.4 percentage points)[6] and intermediate goods (2.5 percent-

5 It should be noted that manufacturing production in 2008-2011 fell by a total of 30.4%. At a sectoral level, the decline in manufacturing production in 2011 was mostly attributable to the continued decrease in the production of non-metallic minerals, as well as the large drop in the production of oil and coal products, textiles, clothing-footwear and food-beverages. However, despite the sharp downturn in manufacturing, the production of basic metals and wood-cork products increased in 2011, while that of tobacco recovered substantially (+10.5%). Moreover, despite a decline in 2011 (-0.6%), the production of pharmaceuticals still remains high, increased by a cumulative 45% since 2005.

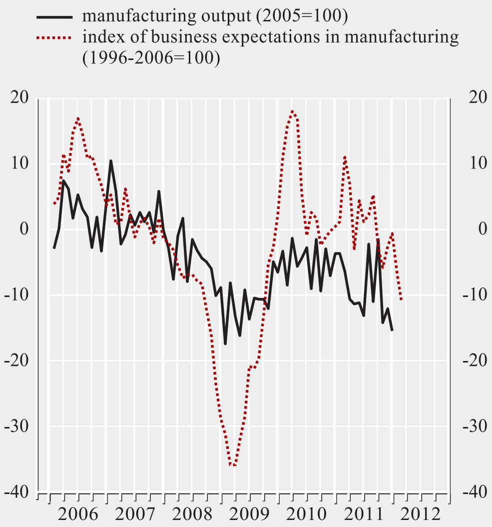
6 According to HTSO/DESMHE data, which only concern the country's grid (islands are excluded), total demand for electricity decreased by 0.94% in 2011 (2010: -0.87%), which is attributable to the decline in demand from households and small industrial and commercial firms by 2.06% (2010: -1.43%). By contrast, demand for electric energy by high-voltage-eligible customers (metallurgies and large industries) continued to increase (2011: +4.17%, 2010:+5.9%).

Chart III.3 Output and business expectations in manufacturing
(January 2006 - February 2012)

A. Indices



B. Percentage changes over same month of previous year

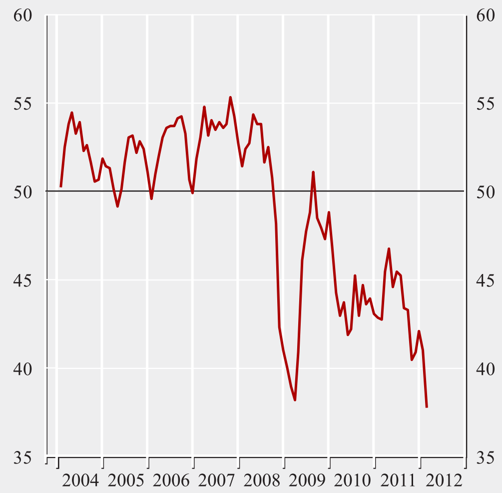


Sources: ELSTAT (output) and IOBE (expectations). The index of business expectations is based on business firms' estimates of total demand and stocks and on output forecasts for the next 3-4 months.

age points). In addition, a larger decline than in 2010 was also observed in the production of consumer durables, while the production of capital goods and consumer non-durables continued to decrease (see Table III.4).

Chart III.4 Purchasing Managers' Index (PMI) for manufacturing
(January 2004 - February 2012)

(seasonally adjusted index; values over 50 indicate growth)



Sources: Markit Economics and Hellenic Purchasing Institute.

The business expectations index in industry (IOBE – see Chart III.3) remained higher on average in the first eight months of 2011 (78.6) against the respective period in 2010 (76.4), but then started falling, came to 70.9 in December and improved marginally (71.5) in the first two months of 2012. In particular, the short-term export volume forecasts of enterprises, which had been positive from October 2009 to July 2011, turned negative in October 2011, and then positive again in January 2012. Additionally, capacity utilisation fell by one percentage point in 2011 to stand at 67.6%, against 68.5% in 2010, and dropped to a historically low 62.95% in February 2012.

The Purchasing Managers' Index (PMI), which in the first nine months of 2011 averaged more (44.4) than in the corresponding period of 2010 (43.8), fell sharply to 40.5 in October and —despite a slight recovery in November and December (40.9 and 42.0, respectively)— declined again to 41.0 and 37.7 in January and February 2012, respectively (a historical trough for the index), suggesting further contraction in production (see Chart III.4). In addition, the new exports orders index, the only individual

Table III.5 Activity indicators in the services sector (2009-2012)

(annual percentage changes)

	2009	2010	2011	2012 (available period)
Services turnover indicators				
Motor trades	-15.7	-36.5	-29.0 (Jan.-Sept.)	
Wholesale trade	-8.9	-5.9	-11.4 (» »)	
Telecommunications	-8.9	-11.4	-11.6 (» »)	
Land transport	-31.5	-18.1	-1.0 (» »)	
Sea transport	-22.8	-8.5	-1.7 (» »)	
Air transport	-11.7	-7.0	0.0 (» »)	
Logistics	-32.2	-10.8	-7.6 (» »)	
Travel agencies and related activities	-9.9	-24.5	-33.8 (» »)	
Tourism (hotels and restaurants)	-9.1	-8.2	-5.2 (» »)	
Legal. accounting and consulting services	-12.4	-7.3	-1.9 (» »)	
Architectural and engineering services	-18.6	-20.4	-16.4 (» »)	
Advertising and market research	-18.4	-23.8	-23.8 (» »)	
Passenger traffic				
Athens International Airport	-1.5	-5.0	-6.3	-11.1 (Jan.)
Aegean Airlines[1]	9.9	-5.1	5.7 (Jan.-Sept.)	
Piraeus port (OLP)	-3.8	-6.0	-0.8	
Business expectations index in the services sector	-28.3	-9.3	-2.9	-8.5 (Jan.-Feb.)

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

PMI index showing an upward movement (from 50.1 to 54.4) in May-August 2011, also started declining in September, to stand below the threshold of 50 that suggests an increase. In February 2012, the index fell to 43.6, i.e. its lowest since May 2010.

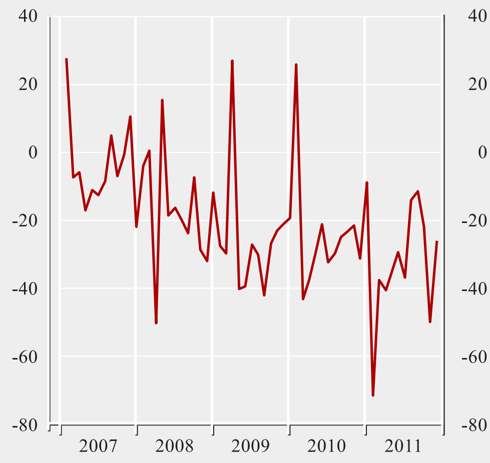
• **Developments in industrial production might have been even worse, had enterprises not focused on exports**, as is evident from the 21.6% increase in exports of goods and the higher turnover in the external market (at current prices) in 2011. However, the fact that this turnover declined in November and December 2011 is quite alarming. For the first time after 23 months of continuous increases, it dropped (at current prices) by 5.8% (November) and by 2.5% (December) on an annual basis. Of course, this decline may be conjunctural, as is also indicated by the fact that new industrial orders from the external markets ("leading" indicator) recorded an annual decline in October (-11.9%), which did not continue into November (+24.3%) and December (+5.1%).[7]

• Gross value added in services fell by 6.2% in January-September 2011, thus contributing by -4.9 percentage points to the change in total gross value added (-6.7%) in that period.

7 Regarding manufacturing sectors, it should be noted that during 2011, out of a total of 23 sectors, 12 recorded an increase in turnover in the external market, the most significant being: basic metals (+41.4%), oil and coal products (+26.9%), tobacco (+31.1%), metal products (+24.1%), chemicals (+12.7%), food (+11.9%), and machinery and equipment (+35.9%). As regards new orders from the external market, it should be noted that out of a total of 12 manufacturing sectors, 7 showed an increase, among which: basic metals (+33.5%), metal products (58.0%), machinery and equipment (+24.0%), and chemicals (+13.2%).

Chart III.5 Volume of new buildings and extensions on the basis of permits issued (January 2007-November 2011)

(percentage change over same month of previous year)



Source: ELSTAT.

Trade, hotels-restaurants and transport-communications also recorded a substantial decline (-7.8%), as did information and communication (-10.8%), and financial and insurance activities (-10.2%). A decline in turnover was also seen throughout the services sector (see Table III.5), with the exception of air transport, due to the increase in international passenger traffic (according to data from the Association of Greek Tourism Enterprises, international arrivals at 13 main airports of the country rose by 8.6% in 2011).

The business expectations index in construction (excluding retail trade and banks) dropped to historically low levels in 2011 (annual average: 61.7 points), and the decline continued into 2012.

- The decrease in investment in 2011 for the fourth consecutive year, the decline in employment and the increase in long-term unemployment contributed to a contraction in potential growth, from 1.75% in 2005-2008 to negative levels in 2011. However, there exist encouraging evidence of economic restructuring, with a shift to higher-productivity sectors (e.g. information and communication) and large enterprises (see section 2 below), as well as substantially higher total productivity, at an annual rate of 2.7% in the third quarter of 2011.[8]

1.2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

- The Greek real estate market continues to be characterised by excessive supply, coupled with a considerable stock of unsold properties and very low demand, without any signs of recovery, as medium-term expectations remain negative.[9]

- Despite excessive supply in the real estate market, house prices have displayed relative resilience.[10] On the basis of data collected from credit institutions, apartment prices fell by 3.7% in 2009, 4.7% in 2010 and 5.1% in 2011 (-5.4%, -4.9%, 4.3% and -5.9% in the first, second, third and fourth quarters of 2011, respectively; see Table III.6).

- Throughout the crisis, this fall in prices has been stronger for "old" apartments (over 5 years old: -4.8%, -5.0% and -5.6% in 2009, 2010 and 2011, respectively) than for "new" apartments (up to 5 years old: -2.0%, -4.2% and -4.4% in 2009, 2010 and 2011, respectively), which reflects the relatively stronger

8 It is estimated that the increase continued, although at lower rates, in the fourth quarter of 2011, since the decline in employment evidenced by provisional data of the Labour Force Survey (-8.1%) is higher than the decline in output in the fourth quarter (-7.5%).

9 Reduced demand in the Greek real estate market reflects household expectations for a further decline in house prices and, mainly, increased uncertainty about employment and future incomes. It is also associated with the overall prospect of addressing the fiscal and structural problems of the Greek economy. It is estimated that the more cautious and selective attitude of banks when granting new loans has also contributed to the decline in demand.

10 It is estimated that the relative resilience of house prices in the current crisis was supported by the high percentage of self-occupancy (over 80%), the large number of very small (family) businesses involved in house construction which, before the current crisis, had gained substantial profits that enabled them to keep clear of bank financing, as well as the low frequency of real estate resale. Price resilience is also associated with increased construction costs that complicate the replacement of the existing stock of houses, the high cost of transactions (transfer tax, notarial and lawyer fees etc.), the traditionally high confidence of households in real estate, as well as the social perceptions of Greek households, which do not see houses as investment assets but, on the contrary, transfer them from one generation to the next (parental donation or bequest from parents to children).

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

Indicators	2005	2006	2007	2008	2009	2010	2011
	Average annual percentage changes						
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	-4.7	-5.1
a1. By age							
a. New (up to 5 years old)	-	-	7.2	2.3	-2.0	-4.2	-4.4
b. Old (5 years old and above)	-	-	5.2	1.3	-4.8	-5.0	-5.6
a2. By geographical area: Total							
a. Athens	-	-	6.2	0.9	-4.6	-3.2	-6.3
b. Thessaloniki	-	-	7.0	1.5	-6.0	-7.4	-6.6
c. Other cities	-	-	6.3	1.8	-2.7	-5.3	-3.9
d. Other areas	-	-	4.6	3.3	-1.9	-5.8	-3.2
a2.1 By geographical area: New (up to 5 years old)							
a. Athens	-	-	9.6	0.0	-3.5	-2.7	-6.4
b. Thessaloniki	-	-	3.7	3.5	-5.3	-6.8	-7.3
c. Other cities	-	-	7.8	2.4	-2.1	-4.3	-2.9
d. Other areas	-	-	4.1	5.4	1.0	-5.7	-1.9
a2.2 By geographical area: Old (5 years old and above)							
a. Athens	-	-	4.5	1.4	-5.2	-3.5	-6.3
b. Thessaloniki	-	-	8.4	0.6	-6.3	-7.6	-6.3
c. Other cities	-	-	5.3	1.4	-3.2	-6.1	-4.8
d. Other areas	-	-	5.0	1.4	-4.4	-5.9	-4.3
1.2 Indices of prices of dwellings **(Historical series)**							
a. Urban areas	10.9	13.0	6.2	1.5	-4.3	-4.4	-5.3
a1. Athens	8.6	11.7	6.2	0.9	-4.6	-3.2	-6.3
a2. Other urban areas[1]	13.4	13.0	3.8	2.6	-2.9	-6.7	-6.6 (Q3)
1.3 Price index of rents[2]	4.2	4.4	4.5	3.9	3.6	2.4	0.8
1.4 Price-to-rent ratio (2007=100)[3]	90.9	98.7	100.0	97.9	91.0	84.7	79.7
2. Indices of residential property transactions							
2.1 Indices of residential property transactions with MFI intermediation (BoG)[4]							
a. Number of transactions	-	-	36.8	-21.7	-35.7	-0.2	-44.1
b. Volume of transactions (in square metres)	-	-	36.6	-23.5	-38.9	-0.1	-41.3
c. Value of transactions	-	-	41.1	-20.0	-40.0	-6.2	-41.2
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	-16.3	-34.1
b. Value of contracts	-	-2.9	12.5	-2.3	-28.3	-20.8	-43.0
2.3 Indices of deeds of real estate[5] transactions (ELSTAT)							
a. Greece, total	29.6	-19.6	-3.0	-5.8	-13.9	...	...
b. Athens	49.5	-22.0	-8.2	-9.2	-14.0	...	...
2.4 Number of real estate[5] transactions (Hellenic National Cadastre)							
a. Greece, total	-	-	-	-	-16.3	-9.8	-28.1
b. Athens	-	-	-	-	-15.2	-12.5	-34.0
2.5 Number of real estate[5] transfers (Hellenic National Cadastre)							
a. Greece, total	-	-	-	-	-14.0	-13.0	-28.8
b. Athens	-	-	-	-	-8.0	-19.2	-33.6
2.6 Number of residential property transfers recorded at the Athens land registry	-	-	-	-	-	-15.5	-30.5

Sources: Bank of Greece (BoG), Hellenic Statistical Authority (ELSTAT), Athens Bar Association (DSA), Hellenic National Cadastre, Land Registry of Athens.
1 Data collected by Bank of Greece branches, mainly from real estate agencies.
2 The rate of change in the first two months of 2012 was -0.4% year-on-year.
3 In absolute terms.
4 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.
5 Including all real estate categories of residential and commercial properties (dwellings, general stores, offices, building plots, rural plots, etc.)

resilience of the prices of newly-built apartments that are normally sold by developers.

- It is highly likely that the Greek residential market has not shown signs of a major overvaluation, while downward trends in prices will probably continue in the coming months, with little risk of abrupt change in prices.

- During the crisis, households' buying interests shifted towards smaller, older and, mainly, cheaper properties. Moreover, the percentage of cash transactions and the share of cash in total financing for real estate purchase have increased.

- In the commercial real estate market (offices, retail stores, industrial buildings, warehouses, etc.), there has been reduced demand in the past few years, combined with a shift towards more economically-priced business premises, increased supply and falling prices, tight credit and relative cautiousness in developing new investment projects, increased number of unoccupied retail stores and offices, significant fall in rental prices and renegotiation of lease contracts.

- Prospects for recovery in the real estate markets depend, inter alia, on the improvement of business and household expectations, better bank financing terms, as well as better prospects for the recovery of the Greek economy and, consequently, reduced uncertainty.

I.2.A POTENTIAL EFFECTS OF PUBLIC PROPERTY UTILISATION ON THE REAL ESTATE MARKET

The effort to utilise public property runs up against the long-standing problems of the Greek administration. Despite repeated reminders of the hidden potentials of public property that could contribute to economic growth and boost public revenues, any efforts to develop it are characterised by relative irresolution. This is directly associated both with the recession in the Greek real estate market in recent years and the significant problems that stand in the way, including the deficient recording of public property, the piecemeal management system, the lack of a complete and accurate cadastre, pending matters relating to the redetermination of land uses and the delineation of seashores and beaches, continuous violation of land use and long-standing litigations relating to a substantial part of public property, as well as multiple commitments and restrictions (e.g. protection of the environment or of the local architectural identity, archaeological restrictions, legislation on bequests).[11]

The need of the government to immediately resolve legal and technical issues relating to urban planning and permits for the development of public property is also underlined in the new Memorandum of Economic and Financial Policies.[12] In any event, however, it is estimated that the dynamic and rational utilisation and development of public property can ensure —constantly and on a long-term basis— revenues for the Greek State, as well as additional development benefits for local communities and economies. However, real estate market experts estimate that if a large number of public properties are put up for sale in the current conjuncture of marked recession and reduced investor interest (because of the uncertainty and limited liquidity in the market), the recovery of the market will become even more difficult and the Greek State will not obtain commensurate revenues and benefits. On the contrary, it is estimated that the concession and long-term lease contracts are very effective in the development of public property and will activate foreign direct and other private investment, thereby supporting economic recovery and improving market sentiment and public revenues.

11 See *Monetary Policy – Interim Report 2010*, Special Feature 3.
12 In the context of this Memorandum, the Hellenic Public Asset Development Fund (HRADF) will identify about 3,000 properties by end-June 2012, in order to proceed to their effective use.

I.2.B POTENTIAL EFFECTS OF THE RECENT TAX MEASURES

The significant increase in the tax burden on real estate in the past three years (in the context of the effort to boost public revenues) is estimated to have intensified recession in the real estate market.[13] Apart from this burden, repeated announcements and postponements of additional measures prolong uncertainty about the tax regime on real estates (increase in objective values, the imposition of VAT on the commercial property of individuals etc.) and make the future recovery of the market even more difficult. For instance, objective values (that determine the value of real estate properties for taxation purposes) have not increased, although this measure has been announced many times in the past. In any event, objective values are expected to be adjusted to market prices by June 2012 (new Memorandum of Economic and Financial Policies). If this is the case, there will be significant adjustments to the taxable value of real estate properties (especially in areas where the difference between objective and market value is high), which will lead to increases in many taxes, thereby accentuating the heightened uncertainty and recession in the Greek real estate market.[14] Any such adjustment should, in any event, be coupled with rational real estate taxation, towards both reducing taxes on transfers[15] and abolishing various charges, as well as establishing or maintaining a very small number of uniform taxes that would replace the multitude of existing ones (e.g. a single tax on *transactions* and a single tax on real estate ownership).

2 EMPLOYMENT AND UNEMPLOYMENT: DEVELOPMENTS AND PROSPECTS

• National accounts data show that the slowdown in economic activity had an increasingly negative effect on employment in January-September 2011 (see Chart III.9). Indeed, in the third quarter, the percentage decline in employment was larger than that in output. This is probably attributable to the already long duration of the crisis, combined with increased uncertainty for the months ahead.

In particular, as regards developments in employment, quarterly data from the Labour Force Survey (see Chart III.6) show that in January-September 2011 the average number of the employed decreased by 275,200 people, or 6.2%, against the respective period of 2010 (when it declined by 100,800 people, or 2.2%). Owing to these developments, the employment rate for people aged 15-64 dropped to 56.2% in January-September 2011, against 60% in 2010 and 61.4% in 2009.

The annual rate of decline in the number of the employed accelerated during 2011 (Q1: 5.2%; Q2: 6.1%; Q3: 7.3%; October-December provisional data: 8.1%), maintaining the trend recorded since early 2010. The decline in the course of the year more than offset any rise in employment during the months when economic activity increases due to seasonal reasons.[16]

• It is estimated that the decline in total hours worked was stronger for the following reasons:

– first, the number of persons with two jobs fell substantially (to 102,000 in January-September 2011, from 137,000 in January-September 2010);

13 The most important recent tax burdens include the special levy on real estate paid through electricity bills, the significant reduction in the tax-free limits for real estate tax levy and the increase in VAT in the newly-built property purchases and "antiparohi" (the exchange of land for apartments, consideration).

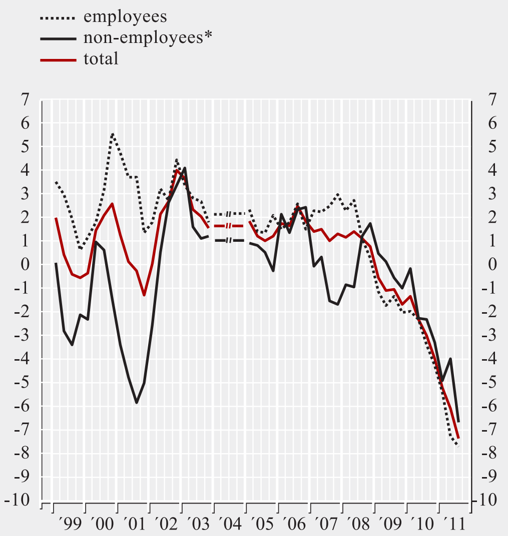
14 Indeed, objective values are used to calculate the level of various taxes, charges, contributions and fines relating to real estates, such as taxes on transfers, acquisitive prescription, exchange, distribution, inheritance, parental donations and gifts, the recently imposed special levy on real estate for residential or commercial use, the real estate tax, the real estate charge (TAP) imposed by local authorities etc. The objective value is also associated with the cost of property transfer contracts (notarial fees, lawyer's fees, registration fees etc.) and the charges and contributions paid on building permits, while it is also used to determine presumed revenues from real estate and presumed minimum income derived from self-owned or leased houses.

15 It should be noted that taxes on property transfers and parental donations in Greece are very high compared with the other EU countries, while it is estimated that their reduction will increase the very low frequency of transactions in the real estate market.

16 The number of those employed in accommodation and food service activities increased (by 45,100 people or 16.6%) between the first and the third quarter of 2011, but this was not enough to offset the decline in employment in other sectors.

Chart III.6 Employment (1999-2011)

(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.

– second, workers on short-time work programmes[17] or on temporary layoff are recorded as employed;

– third, a number of full-time employment contracts became part-time employment contracts;

– fourth, many persons work less hours per week due to lower demand.

• Moreover, higher tax burdens may have given rise to uninsured employment and, therefore, the decline in employment may be overestimated.

• The stronger decline in employment during 2011 reflects the retirement of many civil servants, more layoffs from the private sector and a stronger withdrawal rate of the self-employed from the labour market.

In January-September 2011, the number of people employed in the public sector was 4.1% (or 40,400 people) lower than in January-September 2010, due to the increase in the number of retirements.[18] In the *private sector*, the number of the employed fell by 6.8%, as the number of *wage-earners*, who account for approximately 53% of the total, dropped by 8.2%. However, a decline of 2.9% was also recorded in the number of the *self-employed without personnel* (e.g. professionals), who account for 30% of the total number of people working in the private sector. The number of the *self-employed with personnel* (e.g. shop owners), who account for 10% of those working in the private sector, also dropped, by 8.5%, while *assistants in family businesses* declined by 9.5%.

Job losses had an impact on family income, with implications on social cohesion, total output and the finances of social security funds. In particular, LFS data show that between January-September 2010 and January-September 2011, the number of persons insured with the Social Insurance Institute (IKA) fell by 8.3%, the Agricultural Insurance Fund (OGA) by 9.2%, and the Self-Employed Workers' Insurance Organisation (OAEE) by 1.9%, while the number of insured civil servants dropped by 1,8%.

• Quarterly data for 2011 show that although hirings continued in sectors characterised by increased labour mobility (hotels and restaurants, construction and trade), they were significantly lower than the total number of layoffs and withdrawals, both in 2011 and in the two previous years. In addition, most new jobs (around 58%), in all sectors, concern fixed-term contracts.[19]

In January-September 2011 employment decreased in construction (72,900 people), manufacturing (51,200 people) and trade

17 Data from the Labour Inspectorate for 2011 show that 9% of new employment contracts concern short-time work, against 6.9% in 2010 and 4.3% in 2009.
18 From the fourth quarter of 2010 to and including the third quarter of 2011, 18.4% of all new pensioners came from public administration and 11.7% from education. The average age of new pensioners from these two sectors is 56.2 and 58.1 years, respectively.
19 The respective percentage for part-time jobs is around 18%.

(29,000 people), against the respective period in 2010. Economic activity in these sectors is highly cyclical and they were hit most by the crisis since 2008. In particular, from the third quarter of 2008 and up to the third quarter of 2011, the number of the employed fell by 510,000 people. With the exception of health services, employment dropped in all sectors, though 70% of total job losses came from the three sectors mentioned above: construction (157,000), manufacturing (124,000), and trade (85,000).

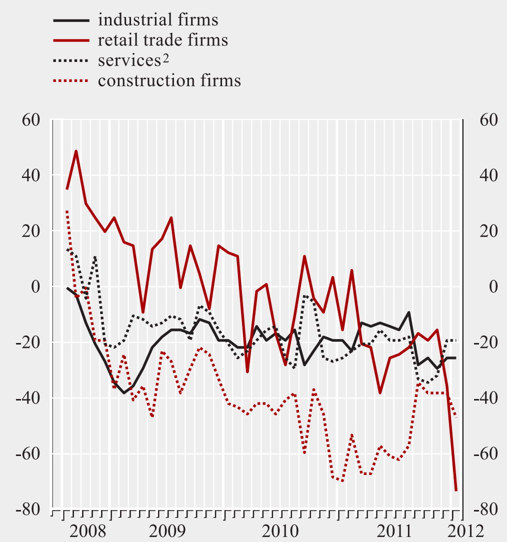
In certain regions of the country (Epirus, Ionian Islands, West Greece, North Aegean, South Aegean and Crete) the percentage decline in employment between the third quarter 2008 and the third quarter of 2011 was lower than the average for the country as a whole. Underlying this development is probably the fact that the share of the self-employed is higher in these regions.

From January to September 2011, the number of wage-earners in small- and medium-sized enterprises of the private sector fell more than in enterprises with over 50 workers, thus causing an increase in the share of the employed in large enterprises.

• Young people, people with low education and immigrants also suffered the consequences of the recession. In January-September 2011 the number of employed persons aged 25-29 decreased by 14.7% against the respective period in 2010, i.e. more than double the 6.2% decline recorded for all ages. As regards the 40-44 age group, the number of the employed with at least higher technological education fell by 2.7%, the number of those with lower or higher secondary education by 5.3%, and the number of those with lower education by 18%. The number of employed immigrants fell more (-11.5%) than that of Greek nationals (-5.7%), as immigrants usually find employment in the sectors hit more by the crisis (construction, manufacturing). Thus, on the basis of LFS data, immigrants now account for 8.8% of total employed persons, against 9.4% in 2010.

Chart III.7 Business expectations[1] for employment (August 2008-January 2012)

(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.

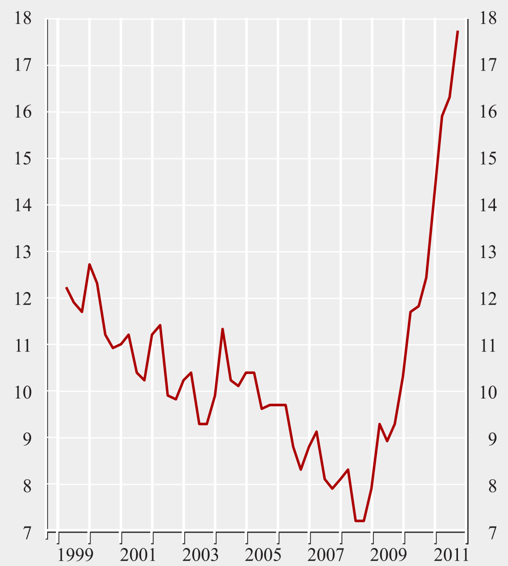
In the first two months of 2012, and despite the fact that employment has already declined considerably, **business estimates**, as reflected in IOBE business surveys (see Chart III.7) on **short-term employment prospects**, remained negative across all sectors, particularly so in retail trade and construction. Similar negative prospects are recorded in surveys by Alba[20] and Manpower, as well as the survey of the Athens Chamber of Commerce & Industry (ACCI) on business prospects.[21]

• The decline in the number of the employed caused an increase in the number of the unemployed to 827,200 (on average) in January-September, 903,500 thousand in October, 1,029,600 in November and 1,033,500 in December. The **average rate of unemployment** in January-September 2011 was 16.6%, i.e. 4.7

20 Recruitment Confidence Indicator (http://www.alba.edu.gr/RCI/Documents/RCI_REPORT_2011_B.pdf).
21 http://www.acci.gr/acci/Portals/0/Departments/keme/Keme_2012_1_results.pdf

Chart III.8 Total unemployment rate (1999-2011)

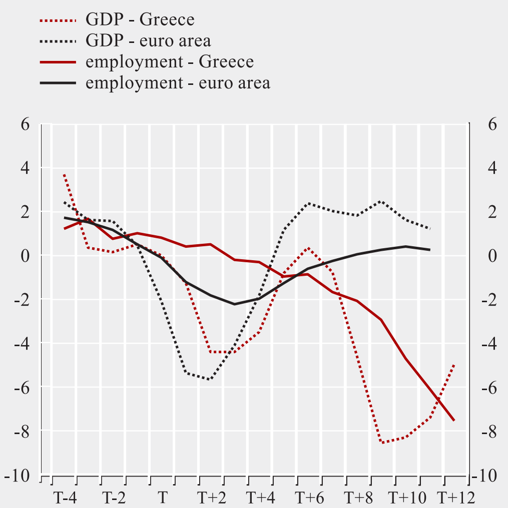
(percentage of labour force)



Source: ELSTAT, Labour Force Surveys.

Chart III.9 Annual percentage changes in GDP and employment: Greece and euro area

(quarterly observations)[1]



Sources: ELSTAT national accounts data (released on 9 December 2011) and Eurostat.
1. T denotes the quarter in which GDP declines for the first time on an annual basis. For the euro area, T=Q4 2008, for Greece T=Q3 2008.
T-1, T-2… denote 1,2… quarters before. The last observation in the chart refers to Q3 2011 both for Greece and the euro area.

percentage points higher than in the respective 2010 period (see Chart III.8). The rate of unemployment kept rising in the following months of 2011 and is estimated to have averaged 20% in the fourth quarter.

The unemployment rate for men rose to 14.0% in January-September 2011, from 9.4% in January-September 2010, and for women to 20.3%, from 15.6%. The rate of unemployment for people aged 25-29 rose by 9 percentage points, to 28.1% from 18.6%. Finally, the rate of unemployment for young people aged 15-24 (with typically low participation rates in the labour force) rose to 42.5%, from 31.6%.

The year-on-year increase in the number of the unemployed by 226,000 in January-September 2011 was *smaller* than the decrease in the number of the employed (275,000). This gap, which occurred despite the fact that the number of new entrants was larger than in the January-September 2010 period, is attributable to two factors:

– first, the significant increase in the number of withdrawals from the *labour force* due to retirement; and

– second, the increase in the number of persons that, although unemployed, do not seek employment because they believe they will not find a job.

Taking into account the number of persons not seeking employment because they believe they will not find a job, those who would like to work but do not seek work for any reason, as well as people who work on a part-time basis because they cannot find a full-time job, the **unemployment-underemployment rate** in the third quarter of 2011 is estimated to have been somewhat higher than 22% (against an unemployment rate of 17.7% over the same period).[22]

22 The gap between the two aggregates widened in the third quarter of 2011, year-on-year (4.5 percentage points, against 4.0 percentage points, respectively).

Lastly, the increase in **long-term unemployment**, i.e. the number of persons that remained unemployed for over a year as a percentage of the labour force (January-September 2010: 5.6%; January-September 2011: 8.4%) is a matter of concern. This is because the probability to find a job decreases with the duration of the unemployment. Thus, unemployment becomes **structural**. European Commission estimates[23] on the rate of structural unemployment in Greece show that it already increased by 1.6 percentage points between 2008 and 2011.

- The short-term prospects for employment are definitely negative. In the medium-term, however, it is expected that the crisis will create opportunities for new business initiatives and will bring a restructuring of the economy towards more efficient and productive businesses. Indeed, as mentioned above, a restructuring of employment is already taking place, with a shift to larger firms, which should contribute to improving competitiveness.

2.A LABOUR MARKET PARTICIPATION RATE

Since the early 1990s, the participation rate in the Greek labour market, which is defined as the number of the employed and the unemployed aged 15-64 to the total population of this age, has been on an upward course.[24] Indeed, the trend was not reversed after the onset of the economic crisis in the third quarter of 2008, since according to Labour Force Survey (LFS) data, the participation rate continued to increase until the third quarter of 2010, when it started to decline. Despite the recent decline, the labour market participation rate was still 0.4 percentage point higher in Q3 2011 than in Q3 2008. By contrast, in several European countries (e.g. Denmark, Ireland, Italy, the Netherlands), as well as in the US, the participation rate started falling with the onset of the crisis and, at end-2011, it was lower than in Q3 2008 (see OECD, *Employment Outlook*, 2011).[25] However, developments in the total rate mask significant differences (regarding the turning point, the extent, as well as the direction of changes) depending on gender, age group and nationality. Specifically, the positive differential of the total participation rate between 2008 and 2011 is solely attributable to women, whose participation rate increased by 2.2 percentage points between Q3 2008 and Q3 2010, while the male participation rate (Greek nationals and immigrants) was 1.4 percentage points lower during the same period. The decline in male participation mostly came from the withdrawal of older persons from the labour market.

The recently announced reductions in minimum wages, within the framework of the Memorandum of Economic and Financial Policies, may cause a decline in the labour market participation rate over the next few years, as the "substitution effect" (arising from lower free-time costs, i.e. non-employment) may exceed the "income effect" (i.e. the need to work longer hours in order to have a stable income), particularly as regards women.

2.B YOUTH, LABOUR MARKET AND PARTICIPATION IN EDUCATION

Economic theory gives no clear ex ante reply to the question of how the recession is expected to affect the participation of young people in education. The "substitution effect" (i.e. as wages decline, participation in the labour market offers less advantages) has a positive impact on the continuation of studies, while the "income effect" (decline in family income) has a negative impact. Empirical studies rather tend to conclude that in practice the substitution effect is dominant.[26]

23 http://circa.europa.eu/Public/irc/ecfin/outgaps/library?l=/autumn_2011_forecast/autumn_2011_results&vm=detailed&sb=Title
24 Although the main reason behind the increased total rate of labour market participation is the higher participation of women, the participation of men also increased after 2000.
25 In Ireland, the participation rate fell by 4.1 percentage points between the third quarter of 2007 (the onset of the crisis in Ireland) and the third quarter of 2011.
26 Dellas, H. and P. Sakellaris, (2003), "On the cyclicality of schooling: theory and evidence", *Oxford Economic Papers*, 55:1, 148-172; Heylen, F. and L. Pozzi, (2007), "Crises and human capital accumulation", *Canadian Journal of Economics*, 40:4, 1261-85.

Available data appear to support these findings for Greece, though the intensity of the current crisis is such, that it is unclear whether the participation of youth in education will become stronger.

LFS data on youth participation (19-27 years old) in the labour market and education since 2008 show that:

– The share of the unemployed has been falling substantially every year since 2008;

– Between 2008 and 2011, the decline in the rate of employment is almost equal to the increase in the rate of unemployment (in percentage points).

– The share of students aged 19-27 rose by almost 1.7 percentage points from 2008 to 2011. The increase comes mainly from the 24-27 age group, while the 19-23 age group showed a marginal increase.

– The share of persons neither participating in the labour force (as employed or unemployed) nor studying fell substantially to around 5.9% in 2011 from 7.1% in 2008.

3 INFLATION, LABOUR COSTS AND COMPETITIVENESS

3.1 INFLATION

• In 2011 inflation was affected mainly by increases in indirect taxation. The average annual rate of increase in the Harmonised Index of Consumer Prices (HICP) fell to 3.1% in 2011, from 4.7% in 2010 (see Table III.7 and

Table III.7 Harmonised index of consumer prices: Greece and the EU (2010-2012)

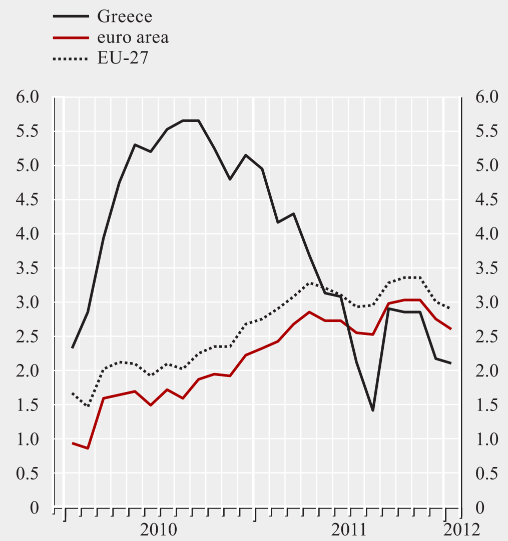
(annual percentage changes)

Country	2010 (year average)	2011 (year average)	January 2011	January 2012
Austria	1.7	3.6	2.5	2.9
Belgium	2.3	3.5	3.7	3.3
Bulgaria	3.0	3.4	4.3	1.9
Cyprus	2.6	3.5	3.0	3.1
Czech Republic	1.2	2.1	1.9	3.8
Denmark	2.2	2.7	2.6	2.8
Estonia	2.7	5.1	5.1	4.7
Finland	1.7	3.3	3.1	3.0
France	1.7	2.3	2.0	2.6
Germany	1.2	2.5	2.0	2.3
Greece	**4.7**	**3.1**	**4.9**	**2.1**
Hungary	4.7	3.9	4.0	5.6
Ireland	-1.6	1.2	0.2	1.3
Italy	1.6	2.9	1.9	3.4
Latvia	-1.2	4.2	3.5	3.4
Lithuania	1.2	4.1	2.8	3.4
Luxembourg	2.8	3.7	3.4	3.2
Malta	2.0	2.4	3.3	1.5
Netherlands	0.9	2.5	1.9	2.9
Poland	2.7	3.9	3.5	4.1
Portugal	1.4	3.6	3.6	3.4
Romania	6.1	5.8	7.0	2.8
Slovakia	0.7	4.1	3.2	4.1
Slovenia	2.1	2.1	2.3	2.3
Spain	2.0	3.1	3.0	2.0
Sweden	1.9	1.4	1.4	0.7
United Kingdom	3.3	4.5	4.0	3.6
European Union - 27	2.1	3.1	2.7	2.9
Euro area	1.6	2.7	2.3	2.6

Source: Eurostat.

Chart III.10 Harmonised index of consumer prices in Greece, the euro area and the European Union (January 2010 - January 2012)

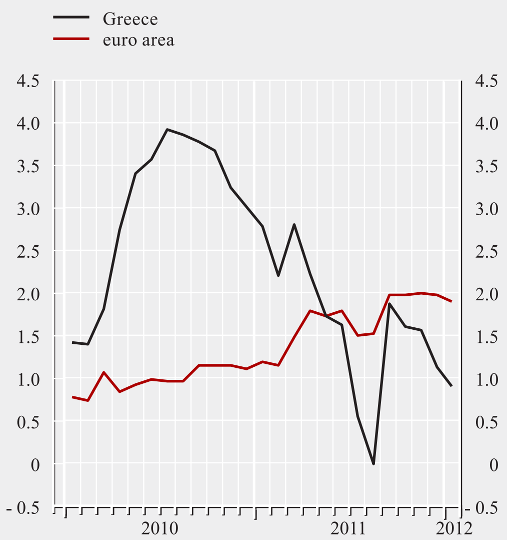
(percentage changes over same month of previous year)



Sources: ELSTAT and Eurostat.

Chart III.11 Core inflation in Greece and the euro area on the basis of the HICP excluding energy and unprocessed food (January 2010 - January 2012)

(percentage changes over same month of previous year)



Sources: ELSTAT and Eurostat.

Chart III.10), while average annual core inflation (i.e. excluding energy and unprocessed food prices) stood at 1.7%, from 3.0% in 2010 (see Chart III.11). The downward trend in inflation continues; HICP inflation was 2.2% in December 2011, 2.1% in January and 1.7% in February 2012. Moreover, core inflation dropped to 1.1% in December 2011 (from 3.0% in December 2010), and further to 0.9% in January and 0.5% in February 2012. *Excluding the effect of the increase in indirect taxation*, average HICP inflation was only 1.1% in 2011 (0.8% in December), while average core inflation was only 0.2% (0% in December).

Table III.8 Contributions to the inflation differential between Greece and the euro area (2006-2011)

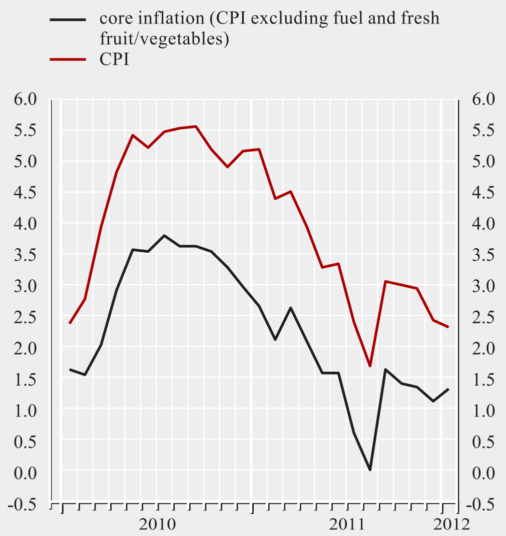
(percentage points)

	2006	2007	2008	2009	2010	2011
Differential of average annual rates of HICP change	**1.1**	**0.9**	**1.0**	**1.1**	**3.1**	**0.4**
Contributions:						
Core inflation	1.15	1.00	0.77	0.91	1.60	-0.04
of which						
Services	0.43	0.50	0.56	0.64	0.71	0.01
Processed food	0.44	0.13	-0.14	0.14	0.52	0.21
Non-energy industrial goods	0.28	0.35	0.35	0.13	0.37	-0.26
Unprocessed food	-0.12	-0.06	0.03	0.39	-0.12	0.08
Energy	0.11	-0.03	0.24	-0.25	1.66	0.40

Source: Calculations based on Eurostat and ECB data.

Chart III.12 Consumer Price Index and core inflation in Greece (January 2010 - January 2012)

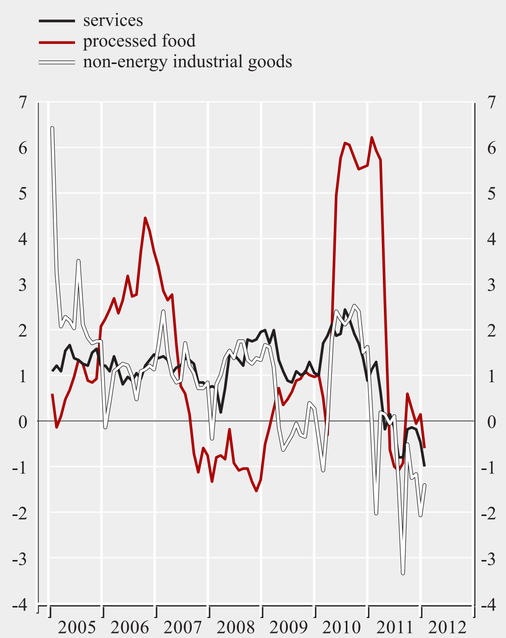
(percentage changes over same month of previous year)



Source: Calculations based on ELSTAT data.

Chart III.13 Annual inflation differentials between Greece and the euro area (2005 - 2012)

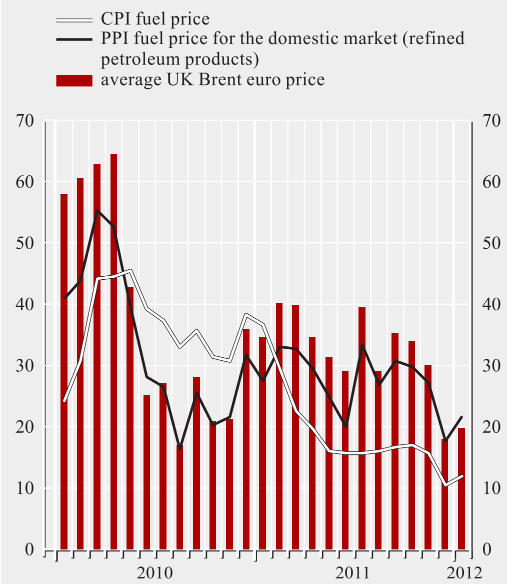
(selected indices; differentials in percentage points)



Source: Calculations based on Eurostat and ECB data.

Chart III.14 Evolution of CPI/PPI fuel prices and of the euro price of Brent crude oil (January 2010 - January 2012)

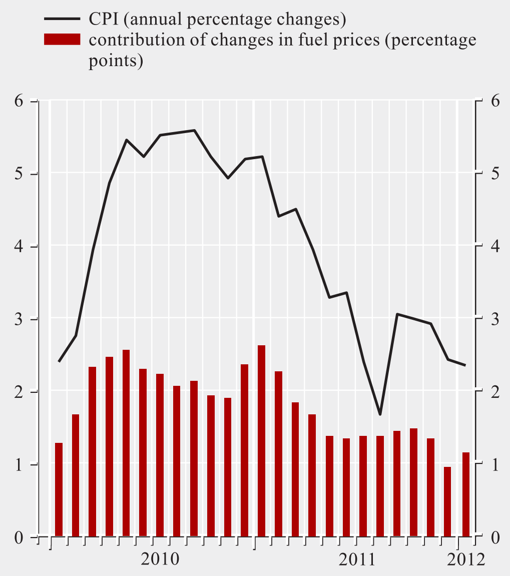
(percentage changes over same month of previous year)



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

- The decline in inflation in 2011 reflects the gradual weakening of the effects of indirect taxation, the larger decrease in unit labour costs in the business sector compared with 2010, the stronger decline in consumer demand, and the somewhat smaller —though substantial— rise in international crude oil prices in euro (average increase of 31.3% in 2011, against 36.1% in 2010 – see Charts III.14 and III.15). The effects of these factors are expected to continue in 2012, as the average annual HICP inflation is estimated to stand at or below 1%, while core inflation will probably be slightly negative (average annual level of around -0.1%). Indeed, indirect taxation is not expected to change significantly, unit labour costs in the business sector are estimated to decline at almost twice the rate of 2011, the contraction in consumer demand will continue, while crude oil prices —based on the most recent forward prices— will show a limited increase in US dollars (and a rather stronger increase in euro terms, which, however, represents a large deceleration against the above-mentioned rise in 2011).

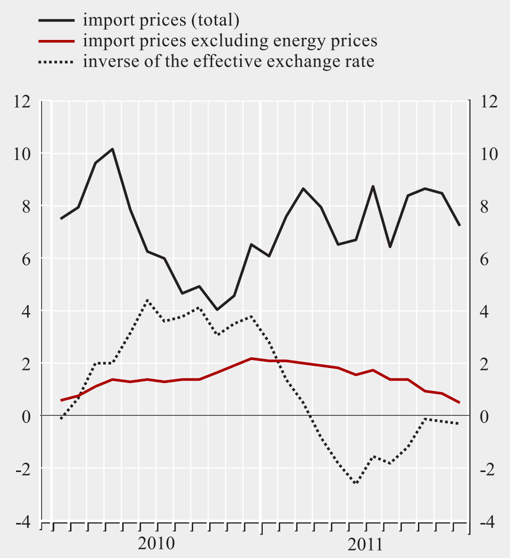
Chart III.15 Inflationary contribution of changes in fuel prices (January 2010 - January 2012)



Source: Calculations based on ELSTAT data.

Chart III.16 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 2010 - December 2011)

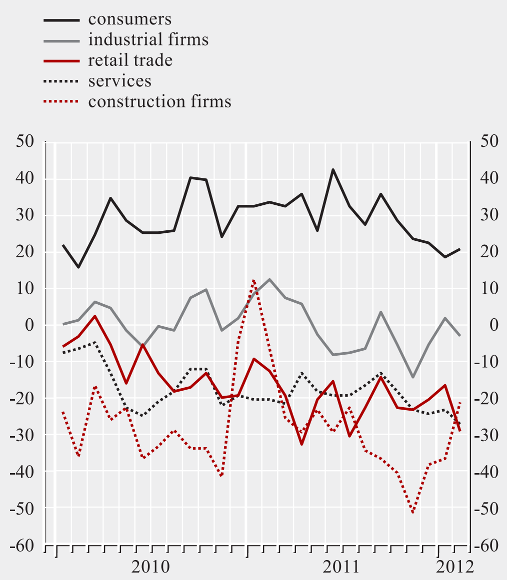
(percentage changes over same month of previous year)



Sources: ELSTAT and Bank of Greece.

Chart III.17 Inflation expectations[1] of consumers and business firms (January 2010-February 2012)

(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.

Lastly, in 2013, according to certain assumptions, HICP inflation is expected to decline further, to around 0.5%, while core inflation should remain negative (at around -0.2%).

3.2 REMUNERATION – UNIT LABOUR COSTS

- Average nominal pre-tax earnings of employees in total economy are estimated to have fallen by 3.0% and real earnings by 6.1%, in 2011. Moreover, compensation per employee, including social security contributions and expenditure for pensions in the civil service, is estimated to have fallen by 2.0%. The average remuneration of civil servants is estimated to have decreased more (4.9% in nominal terms, 7.9% in real terms), while a substantial decline was seen in the average remuneration in the business sector (-2.4% in nominal terms, -5.5% in real terms). See Table III.9 for more detailed estimates.

Table III.9 Earnings and labour costs (2005-2012)

(annual percentage changes)

	2005	2006	2007	2008	2009	2010	2011	2012 (forecast)
Greece								
Average gross earnings (nominal):								
– total economy	4.4	5.7	5.2	6.2	4.6	-4.8	-3.0	-8.4 to -9.2
– central government[1]	2.3	3.1	3.8	7.1	5.2	-8.5	-4.9	-7.4
– public utilities	7.6	7.0	7.1	8.2	7.7	-5.5	-7.9	-9.5
– banks	1.5[2]	10.8	8.9	0.0	3.7	-1.8	0.1	-7.5
– non-bank private sector	5.6	6.8	6.1	6.5	2.8	-2.9	-1.7	-8.5 to -10.1
Minimum earnings	**4.9**	**6.2**	**5.4**	**6.2**	**5.7**	**1.7**	**0.9**	**-19.6[4]**
Average gross earnings (real)	**0.9**	**2.4**	**2.2**	**1.9**	**3.3**	**-9.1**	**-6.4**	**-9.3 to -10.1**
Total compensation of employees	**5.8**	**7.8**	**8.2**	**8.5**	**3.2**	**-7.2**	**-8.4**	**-10.1 to -11.0**
Compensation per employee	**3.9**	**5.9**	**5.6**	**6.8**	**4.9**	**-4.3**	**-2.0**	**-6.3 to -7.2**
Unit labour costs:								
– total economy	3.4	2.2	5.0	8.7	6.6	-3.8	-2.0	-5.8 to -6.7
– business sector[3]	3.8	2.8	5.8	7.9	4.6	-2.7	-3.9	-7.7 to -8.9

Sources: ELSTAT (for the 2005-2010 GDP), Bank of Greece estimates-forecasts (for the 2011-2012 GDP and the other annual aggregates over 2005-2012).
1 Average compensation per employee.
2 The relatively low growth rate of bank employees' average earnings mainly reflects changes in staff structure.
3 The business sector includes private and public enterprises and banks.
4 Average annual change, on the basis of the decrease as from 15 February 2012 in minimum wages by 22% (for persons aged 25 and over) to 32% (for persons less than 25).

Taking into account that productivity remained almost unchanged in total economy and rose by 1.5% in the business sector, it is estimated that unit labour costs decreased for the second consecutive year – by 2.0% in total economy (2010: -3.8%) and 3.9% in the business sector (2010: -2.7%).

• The decline in the remuneration of wage earners in 2011 and 2012 was and still is heavily affected by (i) significant policy interventions, directly associated with the level of wages (initially in the public sector and, this year, also in the private sector) and the institutional framework governing them; and (ii) negative economic developments that shape labour market conditions.

– Already since the beginning of the crisis, private enterprises sought different ways to adjust their labour costs to decreasing demand: reducing/eliminating overtime; temporary lay-offs; introducing reduced working time per week; converting full-time employment contracts to part-time or short-time work contracts; cutting earnings on the basis of individual employment contracts; laying off personnel.

– In the first ten months of 2011, private enterprises took advantage —albeit to a limited extent— of the new special firm-level collective agreements that make it possible to set remuneration at levels lower than those provided for in sectoral or occupational collective agreements. As a whole, only 12 such contracts were signed, concerning 3,555 employees.

3.2.A COLLECTIVE BARGAINING AND WAGE POLICY IN THE PUBLIC SECTOR

– Since end-October 2011, with the enactment of Law 4024 (art. 37) that facilitated the

Table III.10 Average earnings and unit labour costs in total economy: Greece and the euro area (2001-2012)

(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	2.2	1.1
2007	5.2	2.5	5.0	1.4
2008	6.2	3.3	8.7	3.7
2009	4.6	1.8	6.6	4.1
2010	-4.8	1.6	-3.8	-0.8
2011	-3.0	2.3	-2.0	1.0
2012 (forecast)	-8.4 to -9.2	2.0	-5.8 to -6.7	1.4

Sources: For Greece: Bank of Greece estimates. For the euro area: European Commission, *Economic Forecasts*, Autumn 2011.

conclusion of special firm-level agreements (eliminating the remaining limitations), a clear shift of private enterprises towards such contracts has been observed. In most cases, special firm-level agreements provide for a downward adjustment of remuneration in the order of 10%-40% —from the levels provided for in branch and occupational contracts— towards the levels of the National General Collective Labour Agreement, i.e. minimum remuneration and respective benefits. Already in the first 15 weeks since Law 4024/2011 was passed, at least 109 special firm-level agreements were signed, affecting more than 20,000 people (or 35,000 if we take into consideration the agreements concerning the Hellenic Telecommunications Organisation (OTE) and Emporiki Bank). In 2/3 of these contracts the employee side was a simple "union of persons", as provided for in the new law, and the rest were concluded by enterprise unions.

– During 2011, public remuneration was cut on the basis of the provisions of Law 3899/2010, 3986/2011, 4002/2011 and 4024/2011. Furthermore, structural interventions in the labour market, included in the Memorandum, passed by the Parliament on 12 February (Law 4046/2012) provide for: (i) a 22% immediate reduction in minimum wages for persons over 25 years old and 32% for youth under 25 years old; (ii) suspension of increases due to the "seniority" effect; (iii) limiting the "extended effect" of collective agreements after termination, and determining a maximum duration for collective agreements; (iv) converting long-term collective agreements (quasi permanence) in the public sector (or in companies belonging to the public sector) to indefinite duration contracts of employment; (v) the introduction, before June 2012, of a 10% reduction (on average) in remuneration according to "special pay-scales" (judges, diplomats, doctors, university staff, military personnel, law enforcement personnel).

• Assuming that the percentage decline in minimum wages, combined with the expansion of special firm-level agreements, will affect around 25-33% of employees in the business sector (excluding banks and utilities), certain temporary estimates were made concerning changes in remuneration and labour costs in 2012 (see also Table III.9) and in 2013. In particular:

– It is estimated that average nominal pre-tax earnings in total economy will decline by 8.4%-9.2% in nominal terms, and 9.3%-10.1% in real terms in 2012. A larger average decline is expected in the business sector (-8.7% to -10.0% in nominal terms, -9.6% to -10.9% in real terms) while the average remuneration in the public sector will be about 7.4% lower in nominal terms and 8.3% in real terms. Assuming that GDP will decline by 4.5% and employment by 4%, it is calculated that unit labour costs will fall substantially (for the third consecutive year), by 5.8%-6.7% in total economy and by 7.7%-8.9% in the business sector.

– In 2013, when many collective labour agreements will expire (and remuneration provided for in these agreements will then most probably be adjusted downwards), average nominal wages could decrease by around 7% in total economy (around 3% in the public sector, and almost 9% in the business sector), causing a further decline in unit labour costs, by 6%-6.5% in total economy and by almost 8% in the business sector.

• **It should be noted that, based on the above —approximate and provisional— calculations, the aggregate decline in unit labour costs in 2012-2013 could reach 11.8%-12.6% in total economy and 15.2%-16.3% in the business sector. The Memorandum provides for a targeted decline of 15% in 2012-2014.**

3.2.B COST COMPETITIVENESS: PERFORMANCE AND HOW TO RECOVER PAST LOSSES

• As noted in Section 4, the decrease in labour costs is *reflected* in industrial product prices, though this decrease is not evident in data on export prices (i.e. on the basis of the Industrial Producer Price Index for the external market). However, the PMI in manufacturing shows a continuous *decrease* in the prices of industrial final products from March 2011 to and including February 2012 (latest available data), pointing to substantial price cuts by Greek enterprises, as demand went down and they needed to attract customers.

• As noted before,[27] a sustainable improvement in competitiveness —after an inevitable initial period of "adjustment"— cannot rest entirely on reductions in nominal remuneration and a decline or stagnation in productivity. This is because the negative impact on domestic demand from repeated wage cuts would more than offset the positive effects on external demand. Therefore, it is necessary to improve cost competitiveness by boosting productivity. Structural reforms aiming at a more effective functioning of product and labour markets allow for both higher potential growth rates and improved structural competitiveness.

• It should be recalled that in order to examine the impact of changes in labour costs on competitiveness, the simplest approach is to assess changes in relative unit labour costs on a common currency basis or the "ULC-based real effective exchange rate". The index is calculated *against Greece's 28 major trading partners*, among which also the euro area countries.[28] According to Bank of Greece estimates, this index rose by 31.9% in 2001-2009, suggesting an equal loss in cost competitiveness. Over the same period, the nominal effective exchange rate of the euro rose by 15.5%, i.e. the euro appreciated against other currencies (see Table III.11), which suggests that the faster increase in labour costs in Greece accounted for almost half the losses in competitiveness. Specifically, the relative labour cost increased by 14.2% in 2001-2009, and the euro *appreciated* by 15.5%, causing losses in competitiveness in the order of 31.9% (1.142 X 1.155=1.319).

27 *Monetary Policy – Interim Report 2011*, November 2011, p. 22.
28 Country weights are calculated on the basis of Greece's trade with each country.

Table III.11 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	1.7	1.1	0.3
2002	2.3	2.6	4.2
2003	5.0	5.4	3.9
2004	1.7	1.9	4.2
2005	-1.0	-0.1	0.4
2006	0.0	0.8	0.8
2007	1.3	1.6	4.1
2008	2.4	2.5	6.6
2009	1.2	1.6	3.8
2010	-2.8	-0.3	-7.0
2011*	0.5	0.8	-3.5
Cumulative percentage change between 2001 and 2011	12.7	19.3	18.4

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 2011) indices (compiled by the Bank of Greece) comprise Greece's 28 main trading partners. Weights were calculated anew on the basis of imports and exports of manufacturing goods (SITC 5-8) in the years 1998-2000 for the period 1993-2000 and in the years 2004-2006 for the period 2001-2010. Weights take account of third-market effects.

The situation changed after 2009. According to estimates, the ULC-based real effective exchange rate fell by 7.0% in 2010 and 3.5% in 2011, suggesting equal improvements in cost competitiveness against Greece's 28 trading partners. The 10.2% aggregate improvement in 2010-2011 reflects an 8.0% aggregate decrease in relative labour costs and a 2.4% depreciation of the euro (to be precise: a 2.8% depreciation in 2010 and a 0.5% appreciation in 2011).

Thus, competitiveness losses were limited to 18.4% in 2001-2011 (from 31.9% in 2001-2009), where only one third is attributable to increases in relative labour costs (which rose by an aggregate 5.0% in 2001-2011) and two thirds to the appreciation of the euro (12.7% over the same period).

• Competitiveness losses can also be calculated **against Greece's trading partners in the euro area**. The calculation takes no account of exchange rates, as there is a common currency, and *thus the change in the index solely reflects the change in relative labour costs*. According to Bank of Greece estimates, the aggregate loss in competitiveness against Greece's trading partners in the euro area, on the basis of relative labour costs, reached 22.7% in 2001-2009. It is also estimated to have improved by 3.2% in 2010 and by 3.6% in 2011, resulting in aggregate losses of 14.5% in 2001-2011.

• According to competitiveness indicators based on harmonised ECB methodologies,[29] the real harmonised competitiveness indicators based on ULC indices for total economy[30] for Greece rose (i.e. competitiveness fell) by 23.0% in 2001-2009 and declined (i.e. competitiveness improved) by a total of 5.9% between 2009 and Q3 2011. For the whole

29 See http://www.ecb.int/stats/exchange/hci/html/hci_ulct_2011-04.en.html on the ECB website.
30 This indicator is calculated against Greece's 36 trading partners, among which all the other euro area countries.

period from 2001 to and including Q3 2011, the indicator rose (i.e. competitiveness fell) by 15.7%.

Taking into consideration the respective ECB "*nominal* harmonised competitiveness indicator"[31], which is analogous to the nominal effective exchange rate of the euro calculated by the Bank of Greece, it appears that (a) in 2001-2009, the increase in relative labour costs made a 3/10 contribution to the total loss of cost competitiveness and 7/10 came from the appreciation of the euro; (b) in the period from 2001 to and including Q3 2011, the increase in relative labour costs had a maximum 1/5 contribution to the total loss of cost competitiveness, while the rest came from the appreciation of the euro.

Provisional forecasts on the evolution of unit labour costs in 2012 and 2013 show that ULC-based competitiveness will improve in 2012: by 7.4%-8.3% against the 28 trading partners and by 7.1%-7.9% against the euro area. The improvement should continue into 2013 (by 7.1% against the euro area, according to available estimates). The above show that 2/3 to 3/4 of total competitiveness losses in 2001-2009 will be recovered by end-2012 – more specifically, 69%-73% of the losses against the 28 trading partners, and 71%-75% of the losses against the euro area. Furthermore, 2013 could possibly witness a recovery of the total loss against the euro area, while the relevant indicators should suggest an improvement against the 2000 levels.

4 BALANCE OF PAYMENTS: DEVELOPMENTS AND PROSPECTS

4.1 CURRENT ACCOUNT BALANCE – REVIEW OF DEVELOPMENTS AND PROSPECTS

• The current account deficit declined by 8.3% in 2011 to €21.1 billion, or 9.8% of GDP (from 10.1% in 2010 and 14.9% in 2008), mostly due to the protracted recession in the domestic market, which significantly constrained expenditure for imports of almost all categories of goods, except fuel, in 2009-2011. Moreover, the recovery of economic activity in external markets up to mid-2011 contributed to an increase in export receipts at least up to and including the third quarter of the year.

Table III.12 Exports and imports of goods excluding fuel and ships

(current prices 2008-2012)

	Percentage changes	
Year	Exports	Imports
2008/2007	15.2	5.8
2009/2008	-17.8	-24.0
2010/2009	-1.3	-12.6
2011/2010	17.3	-4.5
2012*/2011	7.2	-5.7
2011/2008	-4.9	-36.6
2012*/2008	2.0	-40.2

Source: Bank of Greece, Balance of Payments Statistics and forecasts.
* Forecasts.

• Specifically, the significant decline in the **trade deficit excluding fuel** is a result of the recession, given that the decline in the import bill (which is more than double that of export receipts) is mostly attributable to the reduction in consumer and investment demand, while the increase in exports is also associated with the effort of exporters to gain access to foreign markets, given lower domestic demand.

It is worth noting that the aggregate decline in the import bill excluding fuel and ships in 2009-2011 reached 36.5% (2009: -24.0%; 2010: -12.6%; 2011: -4.5%).

At the same time, receipts from exports of goods excluding fuel and ships, after falling by 17.8% in 2009 owing to the global recession, started to recover in mid-2010 (registering a very low rate of decline for the year as a whole: -1.3%), and rose by 17.3% in 2011. This means that they were only 4.9% short of the 2008 level, which they are expected to exceed in

31 It rose by 15.9% in 2001-2009 and decreased by 2.7% in 2010-2011.

2012 (see Table III.12). According to detailed Bank of Greece data, receipts from exports increased across all product categories in 2011. Metallurgy products (receipts: +45%) made the strongest contribution to the total increase in receipts from exports excluding fuel, followed by chemicals, agricultural products and machinery.

• The annual rate of change in exports of goods (excluding fuel and ships) remained positive up to and including November (on the basis of Bank of Greece data) or up to and including September (on the basis of ELSTAT data). At the same time, new industrial orders from abroad recorded a negative annual rate of change in October and the same applies to non-domestic industrial turnover in November and December. These developments are associated both with the evolution of economic activity in Greece's trading partners and with funding and liquidity issues of export companies. However, these do not constitute sufficient evidence to support a view that the upward trend in exports of goods, observed since mid-2010, is reversed. And this is because:

– *First*, in the case of ELSTAT data, the negative rates were following a decelerating course (October: -10.3%, November: -3.5%), with a slightly positive rate in December (0.9%).[32] In the case of Bank of Greece data, the decline in December was small (annual rate: -3.0%).

– *Second, new industrial orders from abroad recorded an increase in November* and December (ELSTAT), which may foreshadow an increase in non-domestic turnover in the months ahead. (Orders from abroad continued to increase at a satisfying pace in 2011 in most manufacturing sectors and followed an accelerating rate in paper, metal products, machinery and means of transportation). Furthermore, expectations of manufacturing firms on the volume of exports, which had been positive from October 2009 to July 2011, turned negative in October, but became positive again in January 2012.

– *Third*, the substantial improvement in cost competitiveness (on the basis of unit labour costs in total economy, as well as the business sector) in 2010-2011 is projected to continue and to accelerate in 2012-2013, on account of both expected developments in labour costs (see Section 3) and improved productivity owing to structural reforms in product and labour markets.

– *Fourth*, the decline in labour costs is reflected in industrial product prices, although this effect is not apparent in the Industrial Producer Price Index data for the external market (ELSTAT).[33] However, the PMI in manufacturing has been recording a continuous decline in "outflow prices" (or "output charges", i.e. final product prices) since March 2011. The relevant press release for the PMI survey in December 2011 noted that the *continued decline in output charges recorded in the past few months suggests that the foundation has been set for a recovery in trade, both at a European and at a global level*, while the PMI survey in January 2012 notes the following: *Greek manufacturers reported significant cuts in outflow prices during January. The latest survey data indicated a decline in output charges for the eleventh consecutive month and at the fastest pace recorded since May 2009. Lower demand and the efforts to attract customers were the factors exerting downward pressures on outflow prices.* The respective February report goes on to mention that *competition and weaker demand led to lower prices.*

– *Fifth*, while some of Greece's main trading partners are projected to record (IMF, Janu-

32 According to ELSTAT, the decline in October affected all export categories excluding food. The strongest contribution to the decline came from chemicals and other industrial products excluding machinery and means of transportation. In November the decline came mainly from raw materials, chemicals, machinery and means of transportation. However, it should be noted that the decline in exports in October and November 2011 is set against the very high levels observed in October and November 2010. The value of exports excluding fuel and ships had risen by 24%, 36% and 27% in October, November and December 2010, compared with the respective months of 2009.

33 This indicator (excluding energy) rose by 0.5% in 2009, 4.0% in 2010 and 3.8% in 2011.

Table III.13 Breakdown of Greek imports of goods (excluding fuel and ships) according to their use

	2008	2009	2010	2011	2009/08	2010/09	2011/10	2011 /08
	(million euro)				(percentage change)			
Raw material (excluding fuel) and intermediate goods	6,244 (15.3)	3,741 (12.2)	3,926 (15.7)	4,223 (19.8)	-40.1	5.0	7.6	**-32.4**
Non-durable consumer goods	19,183 (47.0)	15,980 (51.9)	13,412 (53.6)	12,513 (54.9)	-16.7	-16.1	-6.7	**-34.8**
Durable consumer goods	5,012 (12.3)	2,879 (9.4)	2,708 (10.8)	1,847 (8.1)	-42.6	-5.9	-31.8	**-63.1**
Capital goods	10,406 (25.5)	8,172 (26.6)	4,969 (19.9)	3,766 (17.2)	-21.5	-39.2	-24.2	**-63.8**
Total (excluding fuel, ships and unclassified goods)	40,846	30,771	25,015	22,349	-24.7	-18.7	-10.7	**-45.3**
Unclassified goods[1]	320	526	2,349	3,775				
Total (excluding fuel and ships)	41,166	31,297	27,364	26,124	-24.0	-12.6	-4.5	**-36.5**

Source: Bank of Greece.
1 Goods for which the transaction value is below the minimum value (as defined by the EU) that credit institutions are obliged to report under a Combined Nomenclature Code to the Bank of Greece. As from 1 January 2010 this limit was increased from €12,500 to €50,000 and, as a result, a significant rise in expenditure for imports of goods of this category was recorded.
Note: The percentage share of import expenditure in the total (excluding fuel, ships and unclassified goods) is shown in parentheses.

ary 2012) a strong deceleration in GDP growth (in Central and Eastern Europe from 5.1% to 1.1%), a virtual stalling (in the EU as a whole: -0.1%), or a limited downturn (in the euro area: -0.5%), this development is not considered to be widespread (the IMF still forecasts fairly high GDP growth rates for other regions[34]) and may be offset by the strong improvement in competitiveness.

• As regards imports of goods, Bank of Greece data show that the aggregate decline in payments in 2009-2011 (-36.5%, as mentioned above) was broadly based across all categories excluding fuel (see Table III.13). The largest declines were seen in payments for imports of consumer durables (-63.1%) and capital goods (-63.8%). A smaller decrease was recorded in imports of consumer non-durables (-34.8%) and raw material (excluding oil) and semi-finished/intermediate products (-32.4%). Therefore, the aggregate decline in the import bill excluding fuel and ships in 2009-2011 came from consumer non-durables (44.5%), capital goods (44%), consumer durables (21%) and raw material and semi-finished products (13.5%), while an offsetting contribution of 23% came from "unclassified goods".[35] Data suggest that:

– *First*, the large decline in investment due to the recession reduced imports of capital goods drastically.

– *Second*, lower income affected household estimates on their "permanent" (i.e. long-term) income, contributing to a decline in the *share* of high-value imported goods (e.g. consumer durables) in total imported goods, but not in the *share* of consumer non-durables, which increased (given that the income elasticity of demand for consumer non-durables is less than one).

34 Asian developing countries: 7.3%; CIS: 3.7%; Latin America and the Caribbean: 3.6%; the Middle East and North Africa: 3.2%; advanced economies excluding the G7 and the euro area: 2.6%; USA: 1.8%.
35 See footnote in Table III.13. This category has been registering a large increase since 2010, due to an upward adjustment of the minimum value of transactions that credit institutions are obliged to report to the Bank of Greece.

– *Third*, the relatively high import content of the Greek output led to a *relatively* limited decrease in the import bill for raw material and semi-finished/intermediate products (which actually decreased substantially only in 2009, then rose in 2010 and 2011, and are expected to rise further in 2012) and to an increase of their *share* in the total. In 2011, the import bill for metallurgy and chemical products (raw material and intermediate products) rose, in part because of rising prices and a shortfall in domestic production.

• The increase in the **services surplus** in 2011 reflects the rise in net receipts from travel services, which more than offset the decrease in net receipts from transport services due to lower freight rates in world markets. In 2012, it is estimated that the services sector will be supported by positive developments in tourism, after the complete deregulation of the cruise market. Cruise passenger traffic already increased substantially in 2011 compared with 2010, even though the market deregulation process has not been completed yet. Furthermore, a further rise in arrivals from new markets is expected (e.g. Russia).[36] However, there is still ample room to increase arrivals in Greece, mostly by improving tourist infrastructure and price competitiveness (some of the measures taken were, to some degree, contradictory[37]). It is also necessary to ensure favourable conditions and a friendly environment to foreign visitors, particularly in Athens, which constitutes the main gate into the country and, in itself, an independent tourist destination.

By contrast, net transport receipts —mainly from shipping— are expected to decline again this year. Already since 2011 the transport capacity of the world fleet continued to increase at rates faster than the volume of the world trade; as a result, freight rates decreased. The trend is expected to continue this year, as more new ships will be delivered, while the growth rate of world GDP and the volume of world trade are projected (by the IMF) to decline in 2012. However, lower freight rates can be offset by the increased number of ship withdrawals or suspensions.[38]

• The **income account** deficit was burdened in 2011 by higher net interest payments, but is expected to decrease substantially in the coming years due to the forthcoming private sector involvement (PSI) in the Greek bond exchange programme. This, together with the reduction in the interest rate of the loan granted by the other euro area countries,[39] is expected to help reduce interest payments and, thus, the current account deficit. Flash estimates and data available so far indicate that the PSI may help reduce the deficit by around €2.5 billion, or 1%-1.5% of GDP.

• Lastly, the **current transfers surplus** more than doubled in 2011 compared with 2010, owing to the rise in general government net transfer receipts. However, this inflow category has been on a downward path over time and, thus, its contribution to funding the goods and services deficit is expected to keep falling.

4.1.A CURRENT ACCOUNT DEFICIT: TRENDS IN 2007-2011 AND OUTLOOK FOR 2012

• *In the past five years (2007-2011), the current transfers surplus* (primarily from the EU) rose to 0.6% of GDP on average (0.3% in 2011), while in 2000-2006 it was 2.2% of GDP on average. Moreover, the *net fuel bill* in the past five years rose on average to 4.3% of GDP (5.2% in 2011), and the net interest payments of the general government to 3.9% of GDP (4.6% in 2011). However, in the same

36 Receipts from Russia rose significantly (2011: 50%) to €746 million, while arrivals increased by 64%.
37 For instance, the small positive effect of the measures on price competitiveness, such as the reduction in VAT rates on tourist accommodation services, is offset by the increase in VAT rates on catering services.
38 Specifically this year, the number of dry cargo vessels is expected to increase faster than demand, which is partly attributable to higher ton-miles. Nevertheless, the relationship between these two rates is expected to reverse in 2013, with positive effects on revenue.
39 http://consilium.europa.eu/uedocs/cms_data/docs/pressdata/eu/ecofin/128075.pdf, p. 2.

period, the current account deficit recorded a steady decline, both in absolute terms and as a percentage of GDP. Indeed, **the current account deficit, excluding the net fuel bill and interest payments of the general government, came close to zero in 2011 (0.1% of GDP)**. This deficit had previously registered a steady decrease, from 7.1% of GDP in 2007 to 6.0% in 2008, 4.0% in 2009 and 2.3% in 2010, and is expected to turn into a surplus in 2012. Lastly, *the balance of goods and services excluding fuel and ships* recorded a surplus of €1.8 billion in 2011, for the first time since 2000,[40] against a deficit of €2.8 billion in 2010, €7.2 billion in 2009, €10.1 billion in 2008 and €10.2 billion in 2007 (the highest in the period since 2000).

Without underestimating the importance of these developments, which are partly attributable to the fact that Greek products are gradually regaining their international cost competitiveness (see Section 3 above), there is still ample room for improvement, as there still remain structural weaknesses in the Greek economy which led to a growing current account deficit. Therefore, the sustainable reduction of the deficit must be based on effectively dealing with such weaknesses. Most importantly, dysfunctional product and labour markets contributed to maintaining the low structural competitiveness of products and services (this is already being dealt with), the strong external energy dependence of the economy, the high import content of exports, as well as the low degree of substitution of imported goods with domestic ones. These weaknesses keep the deficit at persistently high levels, while also affecting the services balance, the available funds of which are, in any case, sensitive to exogenous effects and, therefore, volatile.

• Taking into account all the above (including the PSI, which is expected to considerably reduce interest payments), the current account deficit is projected to decline further in 2012 to around 7% of GDP and the decline is expected to continue in the coming years.

4.2 CAPITAL TRANSFERS BALANCE

• The capital transfers surplus[41] rose to €2.7 billion in 2011, from €2.1 billion in 2010. The annual target of the Memorandum for the absorption of resources from the structural funds was achieved and, at end-February 2012, the aggregate absorption rate was 40%[42] of the Community resources in the 2007-2013 period, slightly exceeding the respective EU-27 average and helping reduce the fiscal deficit. Furthermore, the other targets of the Memorandum were also achieved.[43]

• The faster absorption of remaining Community funds (about €16 billion, including resources for agricultural development and fishing) should be supported by the decision to increase the share of Community co-financing for NSRF programmes to 95%, with pre-disbursement of the Community funds,[44] the enhanced role of the European Investment Bank (EIB)[45] and the revision of the NSRF operational programmes in 2012, by placing

40 When the balance of payments started being compiled using the new methodology.

41 Capital transfers from the EU primarily include receipts from Structural Funds – excluding the European Social Fund – under the Community Support Framework and the National Strategic Reference Framework.

42 On a cash basis, according to provisional data for the balance of payments compiled by the Bank of Greece: it includes advance payments to the amount of €1.5 billion, received in 2007-2009. However, only specific programmes show high absorption rates, e.g. the "Competitiveness and Entrepreneurship" programme, in contrast with other programmes such as the "Administrative Reform" programme. As a whole, regional programmes performed better than sectoral ones. See Special Secretariat for the National Strategic Reference Framework, Monitor Information System data, 31 December 2011. An inflow of another €700 million was registered in 2011, as projects under CSF III were completed.

43 See Ministry of Development, Competitiveness and Shipping, Special Secretariat for the National Strategic Reference Framework, Implementation Process, 19 January 2012.

44 The European Commission had originally approved (in October 2011) the retroactive increase in the share of co-financing to 85% as from 1 January 2007. The further increase to a maximum of 95% has been in force since 11 May 2010. This also concerns five more countries under fiscal consolidation or balance-of-payments adjustment programmes (Ireland, Portugal, Romania, Latvia, Hungary) and resulted in the inflow of an additional €880 million in 2012, while total savings are estimated at €1.5 billion by 2013.

45 The EIB grants new loans to support the real economy in Greece; see Press Release of the EIB, Luxembourg, 9 December 2011, BEI/11/193. EIB support to banks in order to finance SMEs and large projects will be facilitated by two Guarantee Schemes of €500 million and €1.5 billion, respectively, which will provide guarantees coming from structural fund resources (see speech by Minister of Development, Competitiveness and Shipping in Brussels, 22 November 2011).

emphasis on boosting liquidity and entrepreneurship.[46]

With the support of the European Commission Task Force,[47] priority was given to high-added value projects, which could make a decisive contribution to economic recovery, tackle unemployment, boost competitiveness and support vocational training.[48]

• Up to 2013, direct aid and subsidies under the common agricultural policy are broadly maintained, in a range of around €2.5 billion per annum, given that the CAP reform will be implemented after 2014. Consequently, net EU transfers in 2012 and 2013 (current transfers plus capital transfers minus payments to the Community budget) will be close to €4.5 billion on a cash basis per annum, against €3.6 billion in 2011.

Regarding the outlook after 2013, total EU transfers to Greece (structural actions and transfers to agriculture) will be reduced and will only be granted under completely different terms, as is obvious in the European Commission proposals for the 2014-2020 Community Budget.[49]

4.3 FINANCIAL ACCOUNT

The financial account in 2011 showed a net inflow of €17.9 billion, against €21.3 billion in 2010. Specifically, a net inflow was seen in other investment (of €35.2 billion), while portfolio investment recorded a net outflow (€17.3 billion). The net inflow in direct investment was only €25 million.

Direct investment in Greece by non-residents recorded a net inflow of €1.3 billion (against €0.3 billion in 2010),[50] while direct investment abroad by residents recorded an outflow of €1.3 billion,[51] against €0.7 billion in 2010.

The low level of foreign direct investment in Greece is associated with inadequate infrastructure, time-consuming bureaucratic procedures, as well as the above-mentioned dysfunctioning of the product and labour markets.[52] Reasonably enough, the weaknesses and delays in resolving judicial disputes, together with the volatile tax system, result in direct investment by non-residents that involves mainly bank capital increases rather than investment in production units.

As regards **portfolio investment**, a net outflow of €17.3 billion was recorded in 2011 (against a net inflow of €20.9 billion in 2010), mainly due to the €23.2 billion decrease in non-residents' purchases of Greek government bonds and Treasury bills and, secondarily, the €707

46 See Advice from the Minister of Development, Competitiveness and Shipping to the Standing Committee on Production and Trade of the Greek Parliament concerning the implementation of the NSRF, 19 January 2012.

47 The first quarterly report of the Commission's Task Force for Greece devoted particular attention to a number of delayed public works, capable of boosting investment and sustaining many jobs, as well as the issue of access to financing for many Greek businesses. Part of the cohesion policy assistance is being redirected to support bank lending to SMEs. (See European Commission Press Release, Brussels, IP/11/1360, 17 November 2011).

48 See European Commission announcement, Brussels, 29 November 2011, MEMO/11/854. Regarding the importance of the EU's structural funds for the growth process, given the budgetary restraints, see European Commission, "Cohesion Payments Increase as Member States Tap EU funding for Growth", Press Release, IP/12/78, 27.01.2012. Furthermore, a significant step forward is the implementation of the law on Public-Private Partnerships and the investment law (3908/11), the utilisation of EU JEREMIE, JESSICA etc. initiatives (again with the involvement of the private sector), the operation of the National Hellenic Fund for Entrepreneurship and Development (ETEAN), and the activation of the operational programme "National Contingency Reserve", which is co-financed by the European Social Fund (see *Monetary Policy – Interim Report 2011*, November 2011, Box VI.4.

49 See *Monetary Policy – Interim Report 2011*, November 2011, Box VI.4.

50 This is due to: (a) an inflow of €1.0 billion for the participation of Credit Agricole SA (France) in the capital increase of Emporiki Bank SA; (b) an inflow of €575 million for the participation of Société Générale (France) in the capital increase of Geniki Bank; (c) an inflow of €392 million for the acquisition of 10% of the share capital of the Hellenic Telecommunications Organisation (OTE) by Deutsche Telekom (Germany); (d) an inflow of €400 million for the acquisition of Specifar Pharmaceuticals SA by Watson Pharmaceuticals Inc. (USA); and (e) an inflow of €105 million for the participation of Banco Commercial Portugues (Portugal) in the capital increase of Millennium Bank.

51 The most notable transactions concern the outflow of €491 million by EFG Eurobank Ergasias SA as an endowment to its branch in Poland, EFG Eurobank Ergasias SA Spolka Akcyjna Odddzial w Polsce. An additional outflow of €587 million euro was recorded by the National Bank of Greece SA for the acquisition of the other 50% (it already owns 50%) of the portfolio investment company CPT London (United Kingdom) by Credit Suisse. It should be noted that this investment did not involve a cash flow, but was only a book-entry settlement.

52 These issues have been repeatedly identified by the Bank of Greece and international organisations: (a) Transparency International, *Corruption Perception Index 2011*; (b) World Bank, *Doing Business 2012*; (c) World Economic Forum, *Global Competitiveness Report 2011-2012*.

million increase in residents' purchases of foreign financial derivatives and the €246 million decline in non-residents' purchases of shares in Greek firms. These developments were only partly offset by a €6.8 billion decrease in domestic institutional investors' holdings of foreign bonds and Treasury bills, as well as a €71 million drop in residents' holdings of foreign shares.

Under **other investment**, a net inflow of €35.2 billion (against a net outflow of €42.5 billion in the corresponding period of 2010) is mainly attributable to a €39.4 billion increase in net general government borrowing, which reflects gross borrowing of €41.5 billion under the support mechanism for the Greek economy. Furthermore, another inflow was recorded because of a €5.5 billion decrease in residents' foreign deposit and repo holdings. On the other hand, a decrease (outflow) of €8.8 billion was recorded in non-residents' deposits and repo holdings in Greece.

Finally, at end-December 2011, Greece's reserve assets were €5.4 billion.

IV FISCAL DEVELOPMENTS AND PROSPECTS

1 OVERVIEW OF DEVELOPMENTS AND PROSPECTS

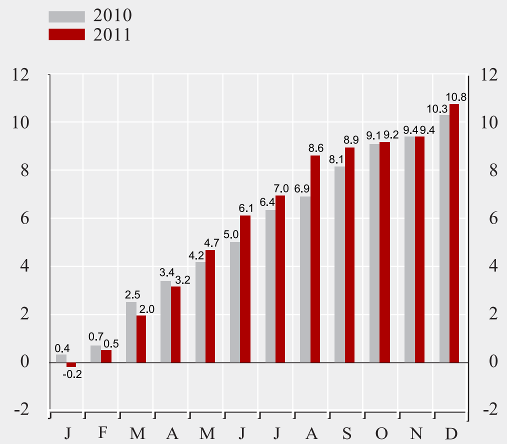
• **The state budget (SB) showed a deficit of 10.6% of GDP (€22,882 million) in 2011** (see Table IV.1), compared to a deficit of 9.8% of GDP in 2010 (€22,284 million). This result is close to the revised target set out in the 2012 budget (for an annual SB deficit of €22,958 million).[1] However, there is a significant deviation from the initial target set out in the Medium-Term Fiscal Strategy Programme (MTFSP) (€21,053 million), due to the higher than expected recession, the inability to collect tax revenues and the failure to fully implement policy measures already decided upon (e.g. the labour reserve scheme).

Despite a slight worsening of the deficit compared to the previous year, the primary deficit of the SB narrowed to €6,534 million (or 3.0% of GDP), down from €9,061 million (or 4.0% of GDP) in 2010, against a revised target of €6,578 million (or 3.0% of GDP). Although the primary deficit of the state budget was close to the revised target, this improvement is attributable solely to the decrease in the deficit of the Public Investment Budget (PIB). In particular, the primary deficit of the ordinary budget[2] rose by €18 million compared to 2010 and reached €3,696 million in 2011, against a revised target of €3,053 million in the 2012 Budget. The deficit of the Public Investment Budget narrowed by €2,544 million compared to 2010 and reached €2,838 million in 2011, against a revised target of €3,525 million.

• According to **available data, the cash deficit in the SB, excluding the OPEKEPE account, reached 10.8% of GDP (€23.1 billion) in 2011**, compared to a deficit of 10.3% of GDP (€23.4 billion) in 2010 (see Table IV.2 and Chart IV.1). In absolute terms, a slight improvement can be observed, as the SB cash deficit of 2011 narrowed by 1.1% compared to 2010. An even larger improvement was seen in the primary cash deficit of the SB, which fell by 32.3% to €6.9 billion (or 3.2% of GDP), down from €10.2 billion (or 4.5% of GDP) in 2010.

Chart IV.1 Net borrowing requirement of central government on a cash basis (January 2010 - December 2011)

(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. The balance of the Payment and Control Agency for Guidance and Guarantee Community Aid (OPEKEPE) account is excluded.

• According to **available national accounts data, the general government deficit in the first three quarters reached €17,137 million or 8.0% of GDP in 2011**, against the initial annual target set out in the Economic Adjustment Programme (EAP) for a general government deficit of €17,065 million (or 7.9% of GDP) and the revised annual target set out in the 2012 Budget for a general government deficit of €19,683 million (or 9.1% of GDP). **The primary deficit of the general government stood at €5,691 million or 2.6% of GDP in the three quarters of the year**, against a revised target of €3,925 million or 1.8% of GDP (and an initial target of €801 million in the Medium-Term Fiscal Strategy Programme or 0.4% of GDP).

• To correct the deviations observed in 2011 and to continue the fiscal adjustment effort in

1 The general government deficit for 2011 will be officially announced towards the end of April 2012. This chapter takes into account data and information published up to 8 March 2012.
2 Expenditure under the ordinary budget includes grants for the repayment of public hospitals' arrears, NATO-related expenditure, spending for the procurement of military equipment and guarantees called in by organisations inside and outside the general government.

Table IV.1 State budget balance

(million euro)

	Annual data						Percentage changes			
	2009	2010	2011			2012	2010/09	2011/2010		2012/11
			Medium-term	Estimates	Execution*	Revised post-PSI budget		Estimates	Execution*	Revised budget/ Execution*
	(1)	(2)	(3)	(4)	(5)	(6)	(7=2:1)	(8=4:2)	(9=5:2)	(10=6:5)
I. Revenue	**50,586**	**53,929**	**57,967**	**54,673**	**53,861**	**56,159**	**6.6**	**1.4**	**-0.1**	**4.3**
1. Ordinary budget (net)	48,546	50,857	54,042	51,308	50,091	51,409	4.8	0.9	-1.5	2.6
Revenue before tax refunds	53,443	56,155	57,012	55,212	54,217	54,949	5.1	-1.7	-3.5	1.4
NATO-related revenue	55	24	40	40						
Special revenue from licensing and concession fees	0	0	790	1,056	1,157	270				
Tax refunds	4,952	5,322	3,800	5,000	5,283	3,810	7.5	-6.1	-0.7	-27.9
2. Public investment budget	2,040	3,072	3,925	3,365	3,770	4,750	50.6	9.5	22.7	26.0
– Own revenue	183	271	203	190	146	200	48.1	-29.9	-46.1	37.0
– Receipts from the European Union	1,857	2,801	3,722	3,175	3,623	4,550	50.8	13.4	29.3	25.6
II. Expenditure	**84,213**	**76,212**	**79,020**	**77,631**	**76,743**	**70,298**	**-9.5**	**1.9**	**0.7**	**-8.4**
(State budget primary expenditure)	71,888	62,989	63,018	61,251	60,395	57,248	-12.4	-2.8	-4.1	-5.2
1. Ordinary budget	74,625	67,758	71,470	70,741	70,135	62,998	-9.2	4.4	3.5	-10.2
– Interest payments	12,325	13,223	16,002	16,380	16,348	13,050	7.3	23.9	23.6	-20.2
– Ordinary budget primary expenditure	57,992	52,146	52,009	51,790	51,548	47,685	-10.1	-0.7	-1.1	-7.5
– Grants for the payment of public hospitals' arrears	1,498	367	450	450	435	400				
– NATO-related expenditure	51	33	40	40						
– Programmes for the procurement of military equipment	2,175	1,017	1,500	600	359	700				
– Call-in of guarantees from entities within and outside the general government	584	972	1,469	1,481	1,445	1,163				
2. Public investment budget	9,588	8,454	7,550	6,890	6,608	7,300	-11.8	-18.5	-21.8	10.5
III. State Budget balance	**-33,627**	**-22,284**	**-21,053**	**-22,958**	**-22,882**	**-14,139**	**-33.7**	**3.0**	**2.7**	**-38.2**
% of GDP	**-14.5**	**-9.8**	**-9.3**	**-10.5**	**-10.6**	**-6.9**				
1. Ordinary budget	-26,079	-16,901	-17,428	-19,433	-20,044	-11,589				
2. Public investment budget	-7,548	-5,382	-3,625	-3,525	-2,838	-2,550				
IV. State Budget primary surplus	**-21,302**	**-9,061**	**-5,051**	**-6,578**	**-6,534**	**-1,089**				
% of GDP	**-9.2**	**-4.0**	**-2.2**	**-3.0**	**-3.0**	**-0.5**				
V. General government deficit										
% of GDP (on a national accounts basis)	**-15.8**	**-10.6**	**-7.3**	**-9.0**		**-6.7**				
Amortisation payments	29,135	19,549	28,950	28,851	28,843	41,900	-32.9	47.6	47.5	45.3
GDP (at current prices)	231,642	227,318	225,400	217,771	215,249	206,319	-1.9	-4.2	-5.3	-4.1

Source: State General Accounting Office.
* Provisional data.

Table IV.2 State budget deficit on a cash basis[1,2]

(million euro)

	Annual data		
	2009	2010	2011*
1. State budget	**32,622**	**23,396**	**23,144**
Percentage of GDP	14.1	10.3	10.8
– Ordinary budget[3]	25,318[4]	18,333[5]	20,082[6]
– Public investment budget	7,304	5,063	3,062

Source: Bank of Greece.
* Provisional data.
1 As shown by the respective accounts with the Bank of Greece and other credit institutions.
2 Excluding transactions of the OPEKEPE (Payment and Control Agency for Guidance and Guarantee Community Aid) account.
3 Including transactions of public debt management accounts.
4 Not taking into account expenditure of €3,769 million for the acquisition of preference shares of Greek banks pursuant to Law 3723/2008 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 revenue of €673.6 million from the sale of OTE shares, of €72.3 million from the privatisation of Olympic Airlines, as well as the issuance of a bond amounting to €531 million, the proceeds of which were given as a grant to OGA to cover obligations of the Greek government.
5 Including expenditure of: a) €297.9 million (bond issue reopening) for the payment of past government debt to the Social Insurance Institute (IKA); and b) €714.7 million (bond issuance) for the payment of Greek government debt to the Hellenic Petroleum SA (ELPE), EGNATIA MOTORWAY SA, and the Agricultural Bank of Greece, but excluding expenditure of: a) €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 b) €424.3 million (bond issuance) for the settlement of financial obligations to the Hellenic Agricultural Insurance Organisation (ELGA), a replacement of previous loan with the same terms. Also excluding expenditure of €1,500 million for the paying-up of the capital of the Hellenic Financial Stability Fund.
6 Not including revenue of: a) €675 million from the sale of preference shares of the Agricultural Bank of Greece by the Greek State; and b) €250 million from the Deposits & Loans Fund due to the reduction of its reserves. By contrast, including privatisation proceeds of €1,536 million, but excluding expenditure of: a) €4,011 million (bond issue reopening) for the repayment of public hospitals' arrears pursuant to Article 27 of Law 3867/2010, which burdens the 2011 debt; b) €350 million (bond issuance) for the settlement of financial obligations of the Hellenic Agricultural Insurance Organisation (ELGA), a replacement of previous loan with the same terms; and c) €140.2 million (bond issuance) for covering the State's debt to dismissed Olympic Airlines employees. Also, not including expenditure of €1,551.8 million for the participation of the Greek State to capital increases, of which €1,434.5 million relate to the capital increase of the Agricultural Bank of Greece as well as to the proceeds from a bond issue reopening (€1,380 million) paid for the purchase by the Greek State of preference shares of the National Bank of Greece and Piraeus Bank.

order to meet the revised fiscal targets for 2012, it is estimated that additional measures, amounting to 1.5% of GDP, are required. According to the revised 2012 Budget, the new measures involve targeted spending cuts.

- According to some estimates, however, the growing fiscal effort will have an increasingly negative impact on the nominal GDP, which could lead to new deviations and to a need for new measures. Deteriorating macroeconomic aggregates make the reduction of public debt as a percentage of GDP particularly difficult. Indeed, it is estimated that in 2011 public debt rose by 15.4% of GDP due to the unfavourable evolution of the relation between nominal GDP and the interest rate (snowball effect).

Despite the worsened economic activity – according to estimates of the European Commission (Autumn forecast 2011) – the cyclically adjusted (or structural) deficit of the general government on an annual accounts basis has improved by more than 10.0% of GDP over 2009-2011. Moreover, the primary deficit has also improved by 8.4% of GDP in 2009-2011. **Therefore, the ongoing fiscal consolidation effort and the achievement of primary surpluses, combined with a successful Private Sector Involvement (PSI) which will lower both the amount of debt and the burden from interest payments, as well as a faster pace of reform and the effective use of public property could reverse the negative climate and boost the medium-to long-term prospects of the Greek economy.**

1.A MAIN REASONS BEHIND THE SHORTFALL/DROP IN REVENUE IN 2011

Tax revenue in the ordinary budget (before tax refunds) decreased by 3.5% in comparison to 2010 and fell short by about €995 million of the revised target for 2011, which was set out in the 2012 Budget (1.7% decrease). Net revenue in the ordinary budget fell by 1.5%, against a revised target for an increase of 0.9% (including revenue from the issue of licenses, amounting to €1,157 million). In spite of the new short-term revenue-enhancing measures, revenue from direct taxes rose by only 0.5%, thus lagging behind the revised annual target for a 2.0% rise.[3] Revenue from indirect taxes dropped by 7.8% compared to 2010, falling short of the revised annual target for a 6.3% decrease. Receipts from VAT fell by 2.8% (annual target: -2.7%), despite the increase in the lower VAT rate since the beginning of 2011, in the VAT on restaurants and soft drinks and in oil prices. Lower revenue was generated from excise taxes (-10.1%), as well as from other indirect taxes, including the property transfer tax (-27.1%), stamp duties (-5.4%), car registration fees (-60.6%) and the tax on stock exchange transactions (-31.3%).

There was excessive accumulation of tax refunds in 2011, after the assessment of personal income tax and the netting of tax arrears – in particular, tax refunds should have decreased by 6,1% according to the target, but ultimately they were only 0.7% lower compared to 2010. Given the pronounced weakening of the economic activity and the even stronger fall in tax receipts (before tax refunds), it is at least paradoxical that tax refunds should reach such a high level.

Finally, revenue in the PIB appears significantly increased —by 22.7%— compared to 2010 and to the revised annual target for a 9.5% increase.

In particular, it should be highlighted that the deterioration of the economic activity contributed to the deviations of direct and indirect taxes from the targets.[4] Considering the elasticities of tax revenue relative to economic activity, which have been estimated by the OECD for Greece,[5] and the slowdown in economic activity, 2/3 of the worsened (compared to 2010) total revenue from indirect taxes and personal and corporate income tax can be attributed to the decline in economic activity. The remaining 1/3 is attributable to other factors, including tax evasion, which is partly due to the reduced liquidity of individuals and businesses, and to weaknesses in the tax-collecting mechanism.

Therefore, a significant part of the shortfall in revenue, in spite of the series of tax measures, is not attributable to the worsened economic situation, but to the already mentioned negative factors that continue to persist in the second year of implementation of the Economic Adjustment Programme.

According to the OECD survey (2011) for Greece,[6] the efficiency of VAT collection in Greece falls considerably short of that in other OECD countries. In particular, in Greece it reached 0.51, while in the other OECD countries (based on data for 2008, non-weighted average) 0.71. This is attributed to the inefficiency of the tax-collecting and tax-controlling mechanisms, which results in a very high loss of revenue. Considering the increase in the standard VAT rate from 19% in 2009 to 21% in March 2010 and 23% in July 2010, the evolu-

3 In particular, revenue from personal income tax declined by 11.9% due to the lower tax withholding as a result of reduced employment and wages, and the liquidity shortage in businesses. Revenue from corporate income tax declined by 13.1%, as most businesses suffered losses in 2010. Despite their positive rate in the first half of the year, receipts from tax arrears fell short of the targets (-33.5%, annual target: -28.7%). By contrast, revenue from taxes on property grew by 140.7%, on account of the receipts from the special levy on real estate, overshooting the revised target for a 131.6% increase, and amounted to €1,172 million. Moreover, revenue from other indirect taxes grew considerably on account of receipts from the extraordinary levy on businesses (€1,127 million) and the extraordinary solidarity levy (€1,170 million).

4 According to the report of the European Commission in the framework of the third revision of the Economic Adjustment Programme (February 2011), nominal GDP was initially expected to decrease by 1.5% in 2011. In the context of the fifth revision of the Economic Adjustment Programme, the report of the European Commission (October 2011) estimated the nominal GDP decrease in 2011 to 4.2%. According to ELSTAT's announcement of 14 February 2012, nominal GDP shrank by 5.3% in 2011. The dramatic worsening of nominal GDP by 3.8 percentage points affected revenue from both direct and indirect taxes considerably.

5 See Girouard and André (2005), "Measuring cyclically-adjusted budget balances for OECD countries", OECD Economics Department Working Paper, No. 434. As stated in this paper, the elasticity of corporate tax is 1.08, the elasticity of personal tax 1.80 and the elasticity of indirect taxes 1.00.

6 OECD (2011), *Economic Surveys: Greece*, Paris: OECD.

tion of VAT revenue and of private consumption, it follows that the VAT tax efficiency fell to 0.45 in 2011, down from 0.50 and 0.48 in 2009 and 2010, respectively. Therefore, the efficiency of VAT collection has dropped dramatically during the implementation of the Economic Adjustment Programme, on account of weaknesses in the tax-collection mechanism, extensive tax evasion and the liquidity shortage in the market. It is indicative that (other factors being equal):

(1) If Greece had maintained in 2011 the VAT collection efficiency of 2008 (0.51), the current VAT rates would have yielded additional VAT revenue of some €2.3 billion or 1.1% of GDP.

(2) If it had been possible for Greece to achieve in 2011 the average efficiency of OECD countries (other than Greece) (0.71), then its annual VAT revenue would have been higher by some €9.8 billion or 4.6% of GDP.[7]

1.B MAIN DETERMINANTS OF PRIMARY EXPENDITURE IN 2011

Total expenditure rose by 0.7% compared to 2010, against an annual revised target for a 1.9% increase. Primary expenditure in the SB declined by 4.1%, against an annual target for a 2.8% decline. Primary expenditure in the ordinary budget fell by 1.1% compared to 2010, against an annual revised target for a 0.7% reduction, and reached €51,548 million. With regard to the main expenditure components, outlays for wages and pensions shrank by 1.4% compared to 2010, but slightly exceeded the revised annual target for a reduction of 1.8%, mainly due to outlays for pensions. Earmarked spending and operating expenses declined by 11.7% and 13.7%, respectively, performing better than expected. By contrast, expenditure on social insurance, health care and social protection exceeded the targets, as it increased by 11.5%, against a revised target of a 10.1% increase. This can be attributed mostly to subsidies to the Agricultural Insurance Organisation (OGA), the Social Security Institute (IKA), the Social Security Organisation for the Self-Employed (OAEE), OTE's insurance fund (TAP-OTE) and other insurance funds.

Interest payments rose by 23.6% compared to 2010 and met the revised targets set out in the budget. PIB expenditure fell by 21.8% compared to 2010, reaching €6.6 billion, against an annual revised target of €6.9 billion. Significant cost savings amounting to 64.7%, relative to 2010, were achieved in relation to defence equipment, which declined to €359 million compared to an annual revised target of €600 million.

Therefore, some €523 million of the containment of expenditure in relation to the annual revised targets for 2011 set out in the 2012 Budget is attributed to cuts in investment and military expenditure following the approval of the 2012 budget in November 2011. Without these cuts, the budget deficit would have exceeded the revised targets. As this development cannot be considered permanent and sustainable, it cannot contribute to the sustainability of the fiscal balance or to economic recovery.

It should be stressed, though, that the decline in economic activity, the reduction of wages, the drop in employment, the rise in unemployment and the possibly higher contribution evasion have had a negative impact on the revenue of social insurance organisations, which makes additional state aids necessary.[8]

7 In order to calculate the efficiency of VAT collection, we first have to calculate the efficiency rate, which is equal to the ratio of VAT revenue to private consumption divided by the highest VAT rate applicable in each period of time.

8 According to the European Commission report in the context of the third review of the Economic Adjustment Programme (February 2011), nominal GDP was estimated to decline by 1.5% in 2011, while the unemployment rate was estimated at 14.6% (higher by 2.5 percentage points in relation to 2010). According to the European Commission report in the context of the fifth review of the Economic Adjustment Programme (October 2011), projections were revised and the decline in the nominal GDP in 2011 was estimated at 4.2%, while the unemployment rate was estimated at 15.7% (higher by 4 percentage points compared to 2010). The dramatic deterioration of the overall economic activity (according to ELSTAT's announcement of 15 February 2012, the nominal GDP fell by 5.3%) and the dramatic rise in unemployment compared to 2010 had a significant effect on government spending for the reduction of unemployment, as well as on the receipts of social insurance organisations.

Taking into account the elasticities of public expenditure in relation to economic activity, as estimated by the OECD and the IMF for Greece,[9] the fall in economic activity, the rise in unemployment and the contraction both in employment and average wages, it follows that more than half of the worsening in respect to spending on social insurance, healthcare and social protection, compared to 2010, can be attributed to the contraction of economic activity and the rise in unemployment. The remainder can be attributed to other factors, which include contribution evasion and poor management, the increasing number of pensioners, etc.

1.C FACTORS/INTERVENTIONS THAT COULD HELP ACHIEVE SATISFACTORY PERFORMANCE IN 2012

In accordance with the Memorandum of Economic and Financial Policies (MEFP) and the Memorandum of Understanding on Specific Economic Policy Conditionality approved by the Greek Parliament on 12 February 2012 (Law 4046/2012), the target for the primary balance of the general government for 2012 has been readjusted to a deficit of 1.0% of GDP or €2.1 billion, against a surplus of 0.2% of GDP under the IMF report in the context of the fifth review of the Economic Adjustment Programme (November 2011).[10] Therefore, the deviations of 2011, combined with the revised target for a primary surplus in 2013 instead of 2012 due to the estimated contraction of GDP by a cumulative 4-5% in 2012-2013, contributed to the downward revision of the measures required for filling the fiscal gap, which is now estimated at 1.5% of GDP against 2 % of GDP in the above IMF report.

The **revised budget** projects a general government deficit (on a national accounts basis) for 2012 of 6.7% of GDP (€13,732 million), compared to 5.4% of GDP (€11,427 million) in the initial budget. The general government primary deficit for 2012 is estimated at 0.2% of GDP (€488 million), on a national accounts basis, against a surplus of 1.1% of GDP (€2,423 million) in the budget. The state budget deficit for 2012 is estimated at 6.9% of GDP (€14,139 million), against 6.3% of GDP (€13,374 million) in the budget. The state budget primary deficit for 2012 is estimated at 0.5% of GDP (€1,089 million), against 0.3% of GDP (€624 million) in the budget.

The main changes in relation to the budget are as follows:

(a) the inclusion of new expenditure-reducing measures, amounting to 1.5% of GDP;

(b) the reduction of interest accruals by €1.0 billion, in the context of the adjustment of national accounts;

(c) the reduction of cost savings from the labour reserve by €200 million;

(d) the deterioration of the results of social insurance organisations by some €1.4 billion;

(e) the reduction of guarantees given to entities within the general government by €450 million;

(f) the revision of ordinary budget revenue (down by €3 billion).

Up to now, measures totalling €20.6 billion have been announced for 2012, of which 56.6% involves expenditure cuts and 43.4% tax increases. These measures include the spending cuts of 1.5% of GDP adopted by Parliament on 12 February 2012[11] to cover the fiscal gap of 2011.[12]

9 See Girouard and André (2005), "Measuring cyclically-adjusted budget balances for OECD countries", OECD Economics Department Working Paper, No. 434. As stated in this paper, the elasticity of social security contributions relative to earnings is 0.85, while the relevant IMF report states that the elasticity of current expenditure relative to economic activity is 0.16. See Ivanova and Weber (2011), "Do fiscal spillovers matter?", IMF Working Paper, 11/2011.

10 It should be noted that the performance criterion regarding the amended primary balance of the general government for 2012, as set out in the MEFP, was to achieve a deficit of €2.2 billion, against a surplus of €1.3 billion in November 2011 (fifth review of the Economic Adjustment Programme) and a surplus of €2.4 billion in February 2011 (third review of the Economic Adjustment Programme).

11 The initial estimates include measures taken in 2011 which will affect 2012 (equalling 4.6% of GDP), as well as measures planned to take effect in 2012 (equal to 3.6% of GDP).

12 It should also be stressed that the efficiency of fiscal measures intended to improve the primary deficit is declining. In particular, efficiency is estimated to have reached 38% in 2011, down from 57% in 2010, and is expected to decline further, to 29.4%, in 2012. This reflects the significant fiscal impact of the recession.

Expenditure

As underlined in previous reports of the Bank of Greece, particular emphasis should be placed on targeted spending cuts, given that at least 2/3 of the fiscal effort should be on the expenditure side. As already mentioned, the fiscal gap of 1.5% of GDP for 2012 will be covered by spending cuts (amounting to €3,185 million). In particular, according to the MEFP and the revised 2012 budget, the public wage bill is expected to shrink further, but only as far as the so called "special wage regimes" are concerned, as these had been exempted from the common public sector wage grid. It is anticipated that by June 2012 the wages of these employees will be reduced by 10% on average, with the aim of saving €205 million in 2012.

Up to now, eliminations and mergers of public entities did not have significant results – therefore, more effort is required in this direction. The same applies to the restructuring of public enterprises and organisations, and the reduction of operating expenses, while the effort to rationalise social expenditure and improve the financial results of local authorities further should continue.[13]

According to the Memorandum of Understanding, it is estimated that in the first tier of local government, cost savings of €59 million will be achieved by reducing the number of deputy mayors and the relevant staff. A further reduction of the central government's operational expenditure and election-related spending is expected to bring in at least €370 million. Moreover, cuts are planned in the subsidies and allowances to families with many children, in the wages of some categories of teachers and employees of public enterprises and in grants to various entities supervised by the central administration, with a view to reducing expenditure by at least €273 million, while measures have been taken to reduce the procurement of military material by €300 million.

It is necessary to continue efforts to curtail pharmaceutical expenditure and improve the performance of the health sector. The Memorandum of Understanding envisages a further reduction in pharmaceutical expenditure by €1,076 million. This is expected to be achieved by reducing medicine prices, increasing co-payments, reducing the profit margins of pharmacists and wholesalers, implementing the electronic prescription by active ingredient and protocols, updating the positive list of reimbursed medicines and implementing a mechanism of quarterly rebates (automatic claw-back) to be paid by the pharmaceutical industry. Reducing overtime pay for doctors in hospitals would also make a positive contribution of at least €50 million.

However, the Memorandum of Understanding also provides for reductions in the higher main and supplementary pensions, estimated to yield €452 million, as well as new cuts in the national contribution to the PIB amounting to €400 million, which would deepen recession.

The new Memorandum of Understanding emphasises on the effort required to secure tighter control over spending and to prevent the accumulation of arrears. According to available data, accumulated arrears in 2011 totalled €395.7 million. The MEFP provides for several actions, such as better budgeting (for the 2012-2016 period) and control of expenditure by expanding the coverage of commitment registers, enhancing the effectiveness of accounting officers appointed in ministries, revising and improving the auditing procedures, better monitoring and implementing the budget (monitoring of tax refunds, social budget and better coverage of general government entities) and clearing the arrears.

13 It should be noted that, according to a recent IMF paper, when the independence of local authorities in terms of spending is increased without an equivalent increase in their tax responsibilities, i.e. when local authorities continue to rely on transfers from the central administration without being able to raise taxes on a local level to cover their expenses, then the fiscal deficit of the general government follows an upward trend. See Eyraud and Lusinyan (2011), "Decentralizing Spending More than Revenue: Does It Hurt Fiscal Performance?", IMF Working Paper, 11/226.

Revenue

It is necessary to pursue measures aimed to address tax and contribution evasion, enhance controls and further strengthen and restructure tax offices on the basis of clear and quantifiable criteria. Moreover, **increases in the tax burden on savings and supply should be avoided**. The same applies to the continuation of favourable arrangements as far as the collection of outstanding debts to the state is concerned, as these (i) act as a counter-incentive to the voluntary compliance of taxpayers; and (ii) are unfair to honest taxpayers. The MEFP provides for improvements in the collection of social insurance contributions and the government has also committed to amend Law 4038/2012 in order to restrict the extension of payment terms for tax debt and overdue social security contributions and the suspension of criminal prosecution. Particular attention should be given to collecting outstanding taxes, in many cases due to delays of the judicial system.

Furthermore, in the nation-wide dialogue on the reform of the tax system, consideration should be given to further expanding the tax base by curbing tax evasion, as well as to enhancing tax justice and eliminating counter-incentives to labour supply (e.g. over-taxation of labour has been described, also by the OECD,[14] as a counter-incentive that should be corrected in the medium term, but in a way that would produce a neutral fiscal result).

The MEFP aims at both short- and long-term results in respect to tax administration. An essential priority in the short term is efficiency enhancement, which could be achieved by improving the tax dispute resolution system, using additional electronic tools to combat corruption and money laundering and by upgrading personnel. Over a medium-term horizon, priorities include restructuring the tax administration by establishing key functional units, consolidating tax administration operations (closure of 200 local tax offices), securing greater control over local tax offices, while steps will be taken towards an independent tax administration. In this context, it was decided that by end-March 2012 an independent Secretary General of the revenue administration would be appointed.

A successful completion of the PSI agreement would help to bring down outstanding debt and reduce interest payments. It is estimated that furthering the contribution of the official sector (official sector involvement) through the Eurosystem and the national central banks, as decided by the Eurogroup on 21 February 2012, will be very positive. All these should help to improve the economic climate and boost economic activity. At the same time, speeding up privatisations (whose progress has not been satisfactory up to now), after the PSI agreement is concluded, could boost development. The same is expected from expediting the absorption of EU funds through the National Strategic Reference Framework with the aid of the Task Force of the European Commission. These factors are expected to have a positive effect on the economic climate and on economic activity, which could in turn promote revenue growth and strengthen fiscal consolidation.

14 According to a recent OECD paper, if Greece were to reduce its average labour tax wedge to the average OECD level, it could achieve a 9.3% increase in its real GDP per capita in the long run. See Barnes, S., Bouis, R., Briard, P., Dougherty, S., Eris, M. (2011), "The GDP impact of reform: A simple simulation framework", OECD Economics Department Working Papers, No. 834. According to another OECD paper, if the average labour tax wedge were to be reduced to the average level of the six OECD countries with the highest employment rates, then the employment rate would rise by 1.5%-3.5% in a period of 5 to 10 years, under fast implementation of reforms, while in the long run gains in terms of higher employment rates would exceed 6%. See Bouis, R. and R. Duval, (2011), "Raising potential growth after the crisis: A quantitative assessment of the potential gains from various structural reforms in the OECD area and beyond", OECD Economics Department Working Papers, No. 835. Furthermore, according to a recent study, raising direct taxes has a negative effect on consumer and business confidence. See Konstantinou and Tagkalakis (2011), "Boosting confidence: is there a role for fiscal policy?", *Economic Modelling*, 28, 1629-41.

V MONETARY AND CREDIT AGGREGATES AND DEVELOPMENTS IN FINANCIAL MARKETS IN GREECE

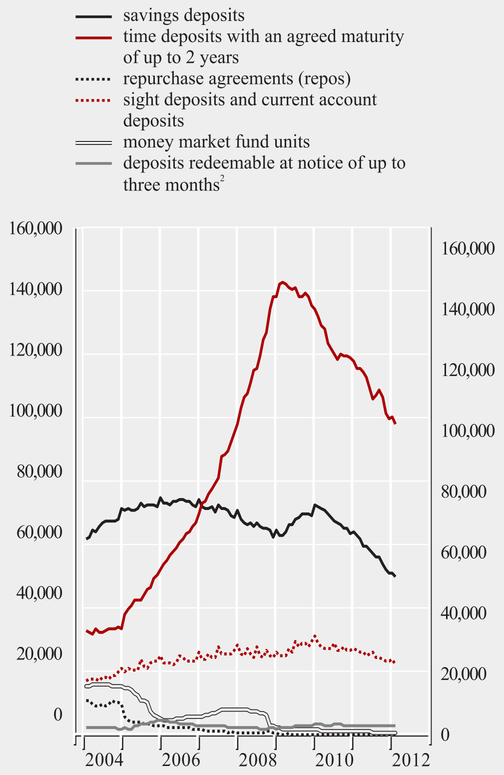
1 MONETARY AGGREGATES

• The monetary aggregate M3 (excluding coins and banknotes in circulation) maintained in 2011 (as also in January 2012) the downward course it had been following since early 2010, at a stronger annual rate of decrease compared with 2010 (January 2012: -17.5%, fourth quarter 2011: -15.8%, fourth quarter 2010: -11.8%; see Table V.1).

• As regards developments in the deposits of individual sectors included in M3, deposits made by non-financial corporations declined faster (December 2011: -24.1%) than deposits by households (December 2011: -15.9%).

Chart V.1 Deposits, repurchase agreements and money market fund units in Greece[1] (January 2004 - January 2012)

(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.

• The rate of decrease in overnight deposits, i.e. savings and sight deposits and current accounts, was stronger (January 2012: -20.0%, December 2011: -18.0%) than that of time deposits (January 2012: -15.6%, December 2011: -15.3%; see Table V.1 and Chart V.1).

• Deep recession, savers' uncertainty, higher tax liabilities and lower value of assets held by enterprises and households are the main drivers behind recent monetary developments in Greece.

• The decline in M3 components in Greece, given the limited scope for alternative funding sources of Greek MFIs, further intensifies pressures on the liquidity of Greek banks, making it more difficult to supply the real economy with bank credit.

1.A MAIN FACTORS BEHIND THE DECLINE IN DEPOSITS – EVIDENCE OF AND PROSPECTS FOR STABILISATION

The substantial decline in deposits included in M3, which intensified in 2011 and continued into January 2012, is attributable to the economic recession and the increased tax obligations of depositors, i.e. factors with a bearing on the latter's available income. Uncertainty associated with the fiscal crisis in Greece is also central in explaining lower deposits of households and non-financial corporations, as 2011 witnessed an extensive substitution of domestic deposits with investment in foreign deposits and debt securities, as well as the hoarding of euro banknotes of high nominal value, gold sovereigns, etc. However, it is estimated that the effect of uncertainty was moderated over the last months of 2011, specifically after the formation of the coalition government. This contributed to a small increase in deposits made by domestic private non-financial corporations in December (which fell, by contrast, in January 2012.) However, the expected further decline in economic activity and the real disposable income (as well as recent developments in these aggregates) are expected to impact adversely

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

(non-seasonally adjusted data)

	Outstanding balances on 31.12.2012 (million euro)	Annual percentage changes[1]										
		2006	2007	2008	2009	2010	2011					2012
		Q4[2]	Q4[2]	Q4[2]	Q4[2]	Q4[2]	Q1[2]	Q2[2]	Q3[2]	Q4[2]	Dec.[3]	Jan.[3]
1. Overnight deposits	71,491	0.7	-0.9	-7.0	11.4	-8.0	-11.6	-12.6	-13.7	-17.3	-18.0	-20.0
1.1 Sight deposits and current account deposits	21,864	1.8	10.3	-3.6	15.7	-7.6	-8.4	-7.1	-9.1	-12.8	-12.2	-17.0
1.2 Savings deposits	49,627	0.2	-4.6	-7.9	9.5	-8.1	-13.1	-15.3	-16.0	-19.3	-20.3	-21.2
2. Time deposits with an agreed maturity of up to 2 years	97,962	37.5	42.2	39.1	2.7	-13.8	-11.2	-8.6	-9.0	-14.6	-15.3	-15.6
3. Deposits redeemable at notice of up to 3 months[4]	2,677	-24.4	-20.3	-24.1	64.2	-7.0	-8.1	0.1	-15.0	-14.9	-13.6	-12.9
4. Total deposits (1+2+3)	**172,130**	**12.1**	**15.9**	**15.3**	**6.6**	**-11.3**	**-11.3**	**-10.3**	**-11.1**	**-15.7**	**-16.4**	**-17.4**
5. Repurchase agreements	84	-35.7	-54.3	-11.4	-67.1	-48.9	-43.9	-27.5	-36.0	1.4	2.4	0.0
6. Money market fund shares/units	639	-2.5	40.5	-58.8	-44.8	-45.8	-29.3	-7.0	-11.8	-22.7	-31.6	-32.9
7. Debt securities issued with a maturity of up to 2 years[5]	0	24.2	-	-	-	-	-	-	-	-	-	-
8. M3 excluding currency in circulation (4+5+6+7)	**172,853**	**10.6**	**14.7**	**14.4**	**4.8**	**-11.8**	**-11.4**	**-10.2**	**-11.2**	**-15.8**	**-16.5**	**-17.5**

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.

on deposits in 2012, given the lagged response of such impact. On the other hand, improved confidence, after the establishment of the second financial support package to Greece and the private sector involvement (PSI) in the exchange of Greek government bonds, as well as bank recapitalisation, are expected to have a favourable effect on the demand of the domestic private sector for deposits.

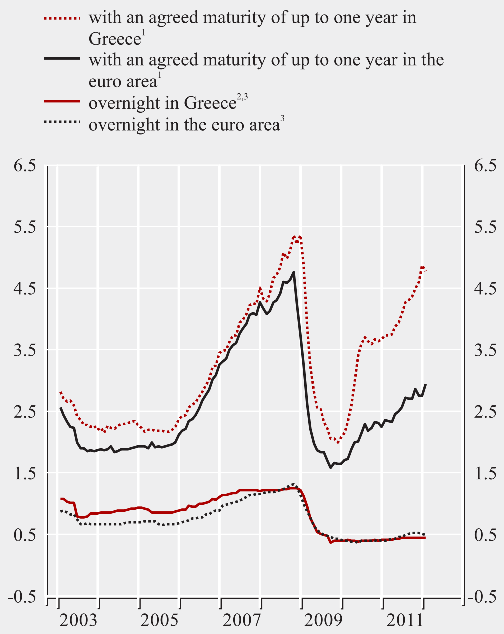
2 BANK DEPOSIT RATES

• In 2011, bank deposit rates in Greece increased significantly, up to 126 basis points depending on the holder (enterprises, households) and the maturity, for new deposits *with an agreed maturity*, and increased only slightly, up to 12 basis points depending on the holder, for new overnight deposits. By contrast, in January 2012, interest rates on the most important categories of new deposits fell (see Table V.2A and Chart V.2).

• The increase in time deposit rates in Greece in 2011 is attributable to the efforts of credit institutions to reduce the withdrawal of

Chart V.2 Bank interest rates on new deposits by households in Greece and the euro area (January 2003 - January 2012)

(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.

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

(percentages per annum)

	December 2010	December 2011	Change Dec. 2010/ Dec. 2011 (percentage points)	January 2012	Change Dec. 2010/ Dec. 2012 (percentage points)
Overnight[1]					
Weighted average interest rate in the euro area	0.43	0.54	0.11	0.53	0.10
Maximum interest rate	1.10	1.10	0.00	1.11	0.01
Minimum interest rate	0.07	0.09	0.02	0.09	0.02
Interest rate in Greece	0.44	0.48	0.04	0.47	0.03
Interest rate differential between Greece and the euro area	0.01	-0.06	-0.07	-0.06	-0.07
With an agreed maturity of up to one year[2]					
Weighted average interest rate in the euro area	2.27	2.78	0.51	2.96	0.69
Maximum interest rate	3.98	4.88	0.90	4.79	0.81
Minimum interest rate	0.75	1.03	0.28	0.88	0.13
Interest rate in Greece	3.68	4.88	1.20	4.79	1.11
Interest rate differential between Greece and the euro area	1.41	2.10	0.69	1.83	0.42

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

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

	Overnight[2]		With an agreed maturity of up to 1 year[3]	
	December 2010	January 2012	December 2010	January 2012
Austria	0.57	0.78	1.22	1.84
Belgium	0.34	0.30	0.75	0.88
Cyprus	1.10	1.11	3.98	4.28
Estonia	0.12	0.11	1.19	1.35
Finland	0.43	0.45	1.68	1.99
France	0.08	0.09	1.87	2.25
Germany	0.71	0.89	1.06	1.50
Greece	**0.44**	**0.47**	**3.68**	**4.79**
Ireland	0.62	0.62	1.84[4]	2.55[4]
Italy	0.28	0.39	1.40	3.39
Luxembourg	0.71	0.82	0.80	0.91
Malta	0.28	0.30	1.96	1.94
Netherlands	0.43	0.55	2.49	3.16
Portugal	0.07	0.11	2.56	3.75
Slovakia	0.37	0.42	1.97	2.16
Slovenia	0.20	0.24	1.94	2.39
Spain	0.27	0.27	2.68	2.86

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 December 2011.

deposits, given (i) difficulties in tapping international money and capital markets, and (ii) the need to gradually substitute funding from the Bank of Greece.

- The interest rate spread between Greece and the euro area gradually widened in major deposit categories in 2011, which suggests that pressures on the liquidity of Greek banks progressively intensified. However, the spread declined in January 2012 in the major domestic deposit category, i.e. household deposits with an agreed maturity of up to one year, although nominal rates on this deposit category in Greece remained the highest among euro area countries (see Table V.2B).

- Real interest rates[1] on *time deposits*, which have been recording positive values across all categories since May 2011, increased substantially in 2011, by 274-401 basis points (depending on holder and maturity), reflecting on the one hand the efforts to attract deposits and on the other substantially lower inflation. It should be noted that if the prevailing expectations of a larger decline in inflation had been realised, the increase in real interest rates would have been even stronger. Real interest rates on overnight deposits remained negative. In January 2012, time deposit rates rose in real terms for most categories, while overnight rates fell slightly.

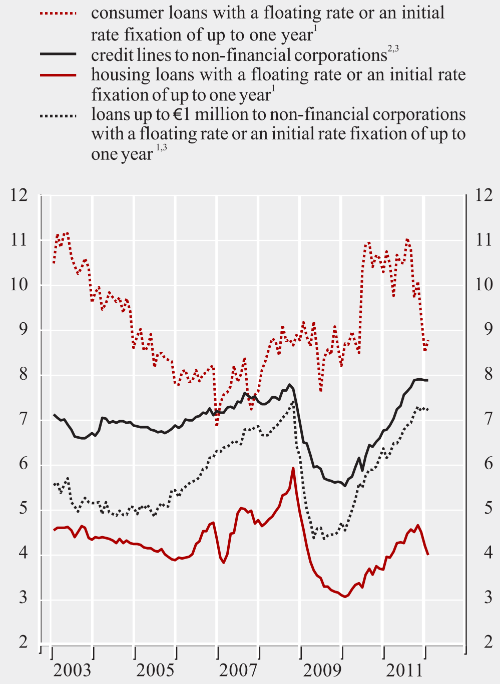
3 BANK LENDING RATES AND THE INTEREST RATE SPREAD

- Bank lending rates in Greece rose substantially in 2011 on most new loans to non-financial corporations and sole proprietors (up to

1 The average real interest rate for a given month is the nominal interest rate for the same month (on average or at its end, depending on the deposit category) less the year-on-year inflation rate for the same month.

Chart V.3 Bank interest rates on new loans in Greece (January 2003 - January 2012)

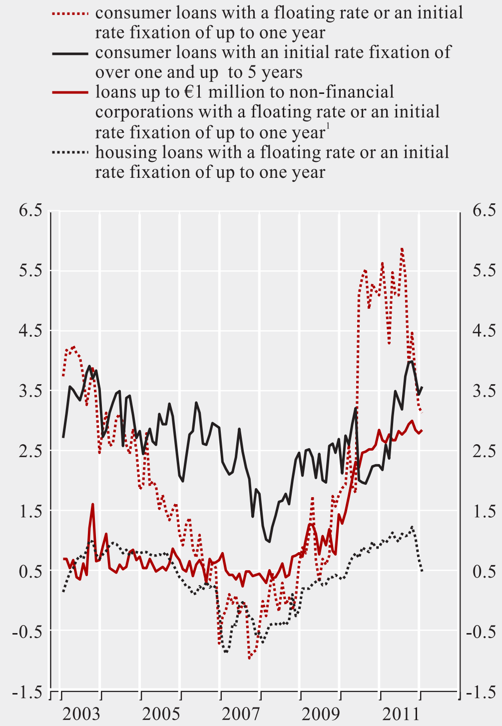
(percentages per annum)



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

Chart V.4 Bank interest rates on new loans: differentials between Greece and the euro area (January 2003 - January 2012)

(percentage points)



Sources: Bank of Greece and ECB.
1 See footnote 2 in Table V.3A.

228 basis points, depending on loan category). Interest rates increased in certain housing and consumer loans and decreased in other categories (see Table V.3A and Chart V.3), since they were affected by the renegotiation of underlying loan agreements. Moreover, in the past few months, broad declines were observed in the floating rates on loans to households, which is consistent with lower Eurosystem key interest rates and Euribor rates towards the end of the year, a development that also continued into early 2012 as far as Euribor rates are concerned. In January this year, interest rates on major new loan categories declined.

- The interest rate differential between Greece and the euro area widened in 2011 in major categories of loans to non-financial enterprises, which suggests that financial conditions for enterprises in Greece were increasingly tighter; on the other hand, it decreased for major categories of loans to households (see Tables V.3A and V.3B and Chart V.4). These trends continued into January 2012 in most categories of loans to households and in certain categories of loans to non-financial corporations.

- Real interest rates on new loans rose substantially in 2011, by 97-504 basis points, in all loan categories to non-financial corporations and households. In this case too, the increase reflects substantially lower inflation, though in certain categories it is also the result of a noticeable increase in nominal rates. In January 2012, lending rates to non-financial corporations and households mostly increased in real terms.

Table V.3A Bank interest rates on new loans in the euro area and Greece

(percentages per annum)

	December 2010	December 2011	Change Dec. 2010/ Dec. 2011 (percentage points)	January 2012	Change Dec. 2010/ Dec. 2012 (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	3.50	4.47	0.97	4.36	0.86
Maximum interest rate	6.64	7.53	0.89	7.62	0.98
Minimum interest rate	2.55	2.87	0.32	2.65	0.10
Interest rate in Greece[2]	6.34	7.26	0.92	7.20	0.86
Interest rate differential between Greece and the euro area	2.84	2.79	-0.05	2.84	0.00
A.2. Loans of more than €1 million to non-financial corporations					
Weighted average interest rate in the euro area	2.59	3.15	0.56	2.80	0.21
Maximum interest rate	6.18	7.55	1.37	7.28	1.10
Minimum interest rate	1.95	2.24	0.29	1.97	0.02
Interest rate in Greece	4.98	6.64	1.66	6.10	1.12
Interest rate differential between Greece and the euro area	2.39	3.49	1.10	3.30	0.91
A.3. Housing loans					
Weighted average interest rate in the euro area	2.78	3.49	0.71	3.50	0.72
Maximum interest rate	5.16	5.73	0.57	5.48	0.32
Minimum interest rate	1.88	2.52	0.64	2.22	0.34
Interest rate in Greece	3.65	4.18	0.53	3.98	0.33
Interest rate differential between Greece and the euro area	0.87	0.69	-0.18	0.48	-0.39
A.4. Consumer loans					
Weighted average interest rate in the euro area	5.16	5.27	0.11	5.63	0.48
Maximum interest rate	18.99	21.33	2.34	22.26	3.27
Minimum interest rate	3.16	3.08	-0.08	3.25	0.09
Interest rate in Greece	10.27	8.49	-1.78	8.76	-1.51
Interest rate differential between Greece and the euro area	5.11	3.22	-1.89	3.13	-1.99
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	3.52	3.74	0.22	3.71	0.19
Maximum interest rate	5.46	5.31	-0.15	5.30	-0.16
Minimum interest rate	2.38	2.57	0.19	2.71	0.33
Interest rate in Greece	3.95	3.29	-0.66	2.84	-1.11
Interest rate differential between Greece and the euro area	0.43	-0.45	-0.88	-0.87	-1.30
B.1. Consumer loans					
Weighted average interest rate in the euro area	5.95	6.44	0.49	6.58	0.63
Maximum interest rate	29.23	23.06	-6.17	21.31	-7.92
Minimum interest rate	4.56	4.76	0.20	4.05	-0.51
Interest rate in Greece	8.21	9.87	1.66	10.16	1.95
Interest rate differential between Greece and the euro area	2.26	3.43	1.17	3.58	1.32

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.

Table V.3B 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									
	Loans up to €1 million		Loans over €1 million		Housing loans		Consumer loans		Consumer loans	
	Dec. 2010	Jan. 2012	Dec. 2010	Jan. 2012	Dec. 2010	Jan. 2012	Dec. 2010	Jan. 2012	Dec. 2010	Jan. 2012
Austria	2.55	2.86	2.20	2.33	2.75	3.04	4.95	4.86	4.88	4.87
Belgium	2.63	2.68	1.95	1.97	3.12	3.96	5.27	6.52	5.90	6.15
Cyprus	6.64	7.21	6.18	7.28	5.16	5.48	6.79	6.93	[3]	[3]
Estonia	5.01	4.56	4.12	3.00	3.23	3.28	18.99	22.26	29.23	21.31
Finland	2.96	3.34	2.48	2.48	2.08	2.37	3.39	3.67	4.67	6.12
France	2.65	3.12	2.19	2.74	3.06	3.65	6.40	6.57	5.68	6.48
Germany	3.77	3.60	2.78	2.64	3.38	3.60	3.16	3.25	5.27	5.65
Greece	**6.34**	**7.20**	**4.98**	**6.10**	**3.65**	**3.98**	**10.27**	**8.76**	**8.21**	**10.16**
Ireland	3.87	4.70	3.12	2.84	3.01	3.11	4.76	6.36	[3]	[3]
Italy	3.18	4.98	2.56	3.46	2.52	3.86	6.63	8.94	6.65	7.74
Luxembourg	2.69	2.65	2.52	2.78	1.88	2.22	[3]	[3]	4.56	4.05
Malta	4.81	5.08	4.32	3.48	3.42	3.38	5.81	5.60	[3]	[3]
Netherlands	3.47	3.68	2.29	2.40	3.58	4.03	[3]	[3]	[3]	[3]
Portugal	5.92	7.62	4.44	5.76	2.96	4.65	6.67	8.40	10.13	12.20
Slovakia	4.02	4.18	3.30	2.29	4.74	5.13	7.56	14.34	15.13	15.49
Slovenia	5.60	5.84	5.06	4.53	3.35	3.82	4.73	5.27	6.74	7.23
Spain	3.78	4.90	2.57	2.90	2.52	3.57	5.06	8.39	8.07	10.80

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.

Table V.4 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	1.2	4.72	4.47	2.78
Dec. 2004	5.94	1.22	4.72	4.2	2.54
Dec. 2005	5.79	1.27	4.52	3.60	2.57
Dec. 2006	6.38	1.87	4.51	3.66	2.91
Dec. 2007	6.67	2.53	4.14	3.50	3.11
Dec. 2008	6.72	3.27	3.45	3.26	2.63
Dec. 2009	5.09	1.32	3.77	3.39	2.29
Dec. 2010	6.08	2.15	3.93	4.02	2.25
Dec. 2011	6.81	2.81	4.00	4.52	2.44
Jan. 2012	6.62	2.78	3.84	4.28	2.33

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 V.5 Average interest rate spread between new loans and new deposits in Greece and the euro area (January 2003 - January 2012)

(percentage points)

Sources: Bank of Greece and ECB.

• Developments in lending rates in Greece in 2011 are largely explained by higher credit risk and the effort of banks to deleverage, given the liquidity pressures. Naturally, declines in the Eurosystem's key interest rates and the Euribor rates in the last two months of 2011 (which continued into early 2012 as far as Euribor rates are concerned) had had a direct effect on some lending rates, insofar as key interest rates and Euribor rates are used as benchmark rates in loan agreements. Additionally, further downward pressures on interest rates were exerted from the rescheduling of loans in order to improve the possibility of their regular servicing.

• The interest rate spread in Greece maintained in January-October 2011 the upward course it had been following since mid-2010, which is consistent with the smaller total size of the balance sheet of the Greek credit system. However, the spread decreased in November-December 2011 and in January

2012. The spread between Greece and the euro area widened in January-October 2011, but decreased in the last two months of 2011 and in January this year (see Table V.4 and Chart V.5.)

4 CREDIT AGGREGATES

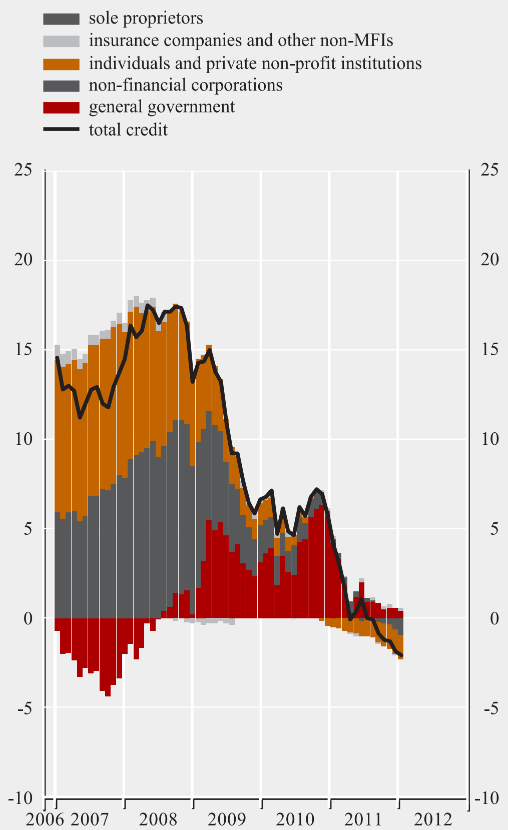
• The annual rate of change of total credit to the economy by domestic MFIs moved from positive to increasingly negative levels in the course of 2011 (December 2011: -1.9%, December 2010: 5.7%), (see Table V.5 and Chart V.6.) This reflects both the strong deceleration of credit expansion to the general government (December 2011: 2.3%, December 2010: 28.3%) and the gradually stronger negative growth rate of credit to the domestic private sector (December 2011: -3.1%, December 2010: 0.0%; see Table V.6 and Chart V.7.) In January this year, credit expansion to the general government and the private sector remained on the trend it had been following in 2011, thus the annual rate of decline of total credit to the economy accelerated further to -2.1%.

• In respect to the private sector, the growth rate of credit to non-financial corporations turned negative in September 2011 (January 2012: -2.6%, December 2011: -1.8%, December 2010: 0.8%; see Table V.6 and Chart V.7.) Moreover, the negative growth rate of loans to individuals and private non-profit institutions (essentially households) became stronger and reached -4.1% in January 2012 (December 2011: -3.9%, December 2010: -1.2%), which reflects the increased negative growth rate of both housing and consumer loans, -3.1% and -6.6% respectively, in the same month (December 2011: -2.9% and -6.4%, December 2010: -0.3% and -4.2%, respectively).

• In 2011, the annual net flow of credit from MFIs to total economy was negative (-€6.3 billion, against €17.9 billion in 2010), due to the negative net flow of credit to the private sector (-€8.1 billion, against €50 million in 2010), while the net flow of credit to the general government was positive (€1.8 billion, against €17.8 billion in 2010). The largest share in this negative flow of credit to the private sector in 2011 had to do with the net flow of loans to individuals and private non-profit institutions, essentially households (2011: -€4.6 billion, 2010: -€1.4 billion). In January 2012, the monthly net flow of MFI credit to total economy remained negative (-€1.8 billion), as the negative flows of credit to the general government, non-financial corporations and

Chart V.6 Total credit to the economy by domestic MFIs broken down by sector of borrower (December 2006 - January 2012)

(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, loan reclassifications and total write-offs carried out by banks during the reference period.

Table V.5 Total credit[1] to the economy by domestic MFIs

(annual percentage changes, non-seasonally adjusted data)

	2008	2009	2010		2011					2012
	Q4[2]	Q4[2]	Q4[2]	December[3]	Q1[2]	Q2[2]	Q3[2]	Q4[2]	December[3]	January[3]
1. Total credit by MFIs	16,3	6,5	6.8	5.7	3.6	0.5	0.0	-1.3	-1.9	-2.1
2. Credit to general government	7.3	17.2	32.7	28.3	17.9	5.2	4.9	2.5	2.3	1.8
3. Credit to the private sector	18.3	4.5	0.9	0.0	-0.2	-0.8	-1.4	-2.4	-3.1	-3.3
3.1 Enterprises[4]	21.8	5.5	2.0	1.1	1.0	0.7	0.3	-0.8	-2.0	-1.9
of which:										
3.1.1 Credit to non-financial enterprises	23.8	5.4	1.9	0.8	0.8	0.9	0.1	-1.0	-1.8	-2.6
3.1.2 Credit to insurance companies and other non-MFIs	-2.4	7.4	4.2	8.2	4.0	-2.1	3.1	4.2	-5.2	10.5
3.2 Sole proprietors[4]	-	-	1.4	0.3	0.1	-2.2	-4.1	-6.0	-6.6	-7.3
3.3 Individuals and private non-profit institutions	14.6	3.3	-0.3	-1.2	-1.5	-2.2	-2.8	-3.6	-3.9	-4.1
of which:										
3.3.1 Housing loans	13.1	3.9	0.5	-0.3	-0.8	-1.5	-2.0	-2.5	-2.9	-3.1
3.3.2 Consumer loans	18.4	2.4	-2.8	-4.2	-4.2	-5.0	-6.2	-6.6	-6.4	-6.6

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 reclassifications, and foreign exchange valuation differences in respect of loans denominated in foreign currencies. It is noted that the rate 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 based in Greece. Since these transactions do not affect credit to domestic enterprises and households but decrease or increase, respectively, outstanding credit balances, as shown in domestic MFI balance sheets, the calculation of net flows and rates of change has been adjusted accordingly.
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.

Table V.6 Credit[1] to the domestic private sector by domestic MFIs

(annual percentage changes, non-seasonally adjusted data)

	Outstanding balances on 31.01.12 (million euro)	2008	2009	2010		2011					2012
		Q4[2]	Q4[2]	Q4[2]	December[3]	Q1[2]	Q2[2]	Q3[2]	Q4[3]	December[3]	January[3]
A. Enterprises [4,5]	**121,138**	**21.8**	**5.5**	**2.0**	**1.1**	**1.0**	**0.7**	**0.3**	**-0.8**	**-2.0**	**-1.9**
A.1 Non-financial corporations	**111,836**	**23.8**	**5.4**	**1.9**	**0.8**	**0.8**	**0.9**	**0.1**	**-1.0**	**-1.8**	**-2.6**
1. Trade	24,342	22.2	5.0	-2.1	-3.5	-3.4	-3.1	-5.0	-5.7	-6.0	-6.6
2. Industry[6]	23,325	17.4	-2.8	-1.3	-2.0	-1.2	-0.7	1.0	0.4	0.1	-1.9
3. Shipping	17,238	24.6	3.9	6.9	4.2	6.5	4.6	0.3	1.1	2.4	0.1
4. Construction	10,643	37.4	2.2	2.3	1.9	0.2	-0.3	0.0	-3.6	-7.4	-7.6
5. Tourism	7,318	24.4	6.4	4.0	2.9	1.1	-0.2	0.1	-1.0	-2.3	-1.9
6. Electricity - gas - water supply	5,937	36.5	14.8	23.1	21.6	19.0	18.3	18.8	13.9	12.3	12.0
7. Agriculture	1,954	20.5	3.7	0.6	1.1	-0.7	-0.2	-2.9	-5.0	-5.6	-8.4
8. Transport - excluding shipping	1,856	35.7	19.5	-3.8	-9.2	-10.2	-10.8	-12.9	-7.9	-3.7	-4.8
9. Other sectors	19,222	23.8	12.3	5.0	4.1	4.5	5.0	2.8	0.1	-2.1	-1.5
A.2 Insurance companies and other non-MFIs	**9,302**	**-2.4**	**7.4**	**4.2**	**8.2**	**4.0**	**-2.1**	**3.1**	**4.2**	**-5.2**	**10.5**
B. Sole proprietors [5]	**15,259**	**-**	**-**	**1.4**	**0.3**	**0.1**	**-2.2**	**-4.1**	**-6.0**	**-6.6**	**-7.3**
C. Individuals and private non-profit institutions	**112,690**	**14.6**	**3.3**	**-0.3**	**-1.2**	**-1.5**	**-2.2**	**-2.8**	**-3.6**	**-3.9**	**-4.1**
1. Housing loans	78,104	13.1	3.9	0.5	-0.3	-0.8	-1.5	-2.0	-2.5	-2.9	-3.1
2. Consumer loans	32,778	18.4	2.4	-2.8	-4.2	-4.2	-5.0	-6.2	-6.6	-6.4	-6.6
- Credit cards	7,261	12.4	-0.4	-4.6	-5.4	-5.8	-7.0	-9.4	-9.9	-9.9	-10.0
- Other consumer loans[7]	25,517	20.9	3.5	-2.2	-3.7	-3.6	-4.4	-5.2	-5.6	-5.3	-5.6
3. Other loans	1,808	7.5	-2.3	9.6	10.7	12.1	14.7	23.7	3.8	-2.2	-0.4
TOTAL	**249,087**	**18.3**	**4.5**	**0.9**	**0.0**	**-0.2**	**-0.8**	**-1.4**	**-2.4**	**-3.1**	**-3.3**

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 reclassifications, and foreign exchange valuation differences in respect of loans denominated in foreign currencies. It is noted that the rate 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 based in Greece. Since these transactions do not affect credit to domestic enterprises and households but decrease or increase, respectively, outstanding credit balances, as shown in domestic MFI balance sheets, the calculation of net flows and rates of change has been adjusted accordingly.

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.

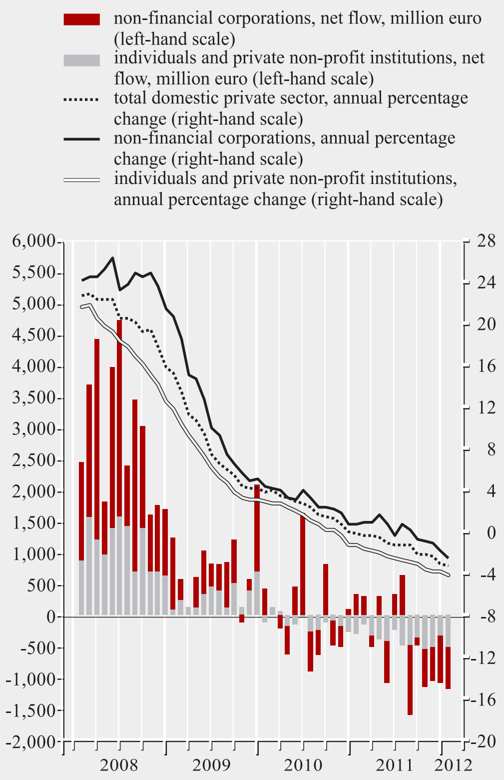
5 As of June 2010, loans to sole proprietors are presented separately and are no longer included in "credit to enterprises".

6 Comprising manufacturing and mining/quarrying.

7 Comprising personal loans and loans against supporting documents.

Chart V.7 Credit[1] to the domestic private sector by domestic MFIs (January 2008-January 2012)

(monthly flows[2]; annual percentage changes)



Source: Bank of Greece.
1 Including MFI loans and holdings of corporate bonds as well as the outstanding amounts of securitised loans and securitised corporate bonds. The annual rates of change are adjusted for loan write-offs and reclassifications and foreign exchange valuation differences on loans denominated in foreign currency.
2 The monthly net flow of credit is calculated as the difference between the outstanding stock of credit at the beginning and the end of a given month, adjusted for foreign exchange valuation differences in respect of loans denominated in foreign currency, loan write-offs and reclassifications during that month.

households offset the positive flow of credit to insurance companies and other non-financial institutions.

• According to the results of the Bank Lending Survey,[2] banks tightened their credit standards in 2011. Furthermore, they reported a decline in household demand for loans throughout 2011 and, in the second half of the year, a decline in non-financial corporations' demand for loans.

4.A INDICATIONS OF A CREDIT CRUNCH AND PROSPECTS OF CONTAINING IT

Since end-2009, as the yield spread between Greek and German 10-year government bonds started to broaden substantially, bank lending rates gradually increased. Later, during 2010, the tightening of credit standards by banks, which was somewhat limited over most of 2009, picked up again. In 2010-2011, banks' collateral requirements from borrowers increased, while banks also reduced the duration and amount of loans granted and, in the case of housing loans, the percentage of the mortgage that real estate property has to cover.

The economic downturn in the past few years, coupled with increased lending rates, also contributed to the decline in demand for loans and, therefore, the deceleration in the annual rate of change of credit aggregates, already observed e.g. for corporate loans since 2008. On the other hand, surveys such as the ECB survey (December 2011) on the access of small- and medium-sized enterprises to external financing verify that Greece, compared with other euro area Member States, has a much higher share of corporate loan applications that are rejected or only partly covered by credit institutions. Consequently, the implementation of investment plans or even the current production of corporations seems to be under a strain as funding is insufficient. These findings[3] may reflect the generally higher credit risk that the Greek economy runs due to the long economic recession

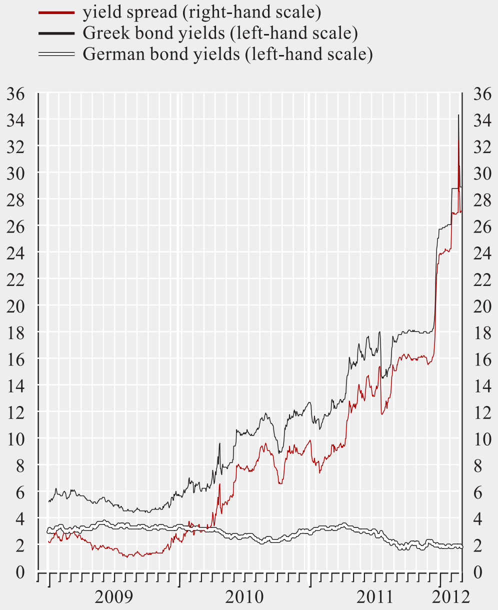
2 The Bank Lending Survey is conducted by the Bank of Greece on a quarterly basis as part of a broader Eurosystem-wide survey.
3 See also the study uploaded on the website of the Foundation for Economic & Industrial Research (IOBE) in December 2011: "Business survey: forecasting changes in regional production systems and local labour markets" (in Greek), commissioned by the Federation of Greek Industries to the IOBE and the Laboratory of Industrial & Energy Economics of the National Technical University of Athens (NTUA) which reports e.g. that in the context of the economic crisis, firms are quite exposed to liquidity shortages, mainly however on account of to the fact that their clients or suppliers face the exact same problem, as banks do not approve of new loans. Reduced bank lending is critical for construction.

that, reasonably enough, discourages bank lending. However, it is very probable that if access of Greek banks to international money and capital markets was gradually restored and, at the same time, the extensive withdrawal of deposits was abated, the supply of credit would be significantly enhanced and a substantial decrease in bank interest rates would be recorded.

Of course, improved economic activity and reduced fiscal risk would urge banks to review their credit risk assessments and increase the supply of loans, while enhancing the private sector's demand for funding. Furthermore, developments in the supply of loans should be positively influenced by the recapitalisation of banks, which is necessary mostly in view of impairment losses suffered because of the PSI and the exchange of Greek government bonds under the decisions of 26 October 2011 and 21 February 2012. Lastly, it cannot be disregarded that the flow of funds to Greek corporations also depends directly on the implementation course of the National Strategic Reference Framework – thus, any improvement in the absorption of funds would offset, to some degree, reduced loan supply (the relevant decisions were announced after the meeting of the Prime Minister with the President of the European Commission on 29 February).

Chart V.8 Yields on the 10-year Greek and German government bonds (January 2009 - February 2012)

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



Source: Bank of Greece.

1 As Greek government bonds are traded on several regulated markets (e.g. HDAT, BrokerTec, MTS, ICAP etc.) as well as on electronic OTC trading platforms (e.g. Reuters. Bloomberg), divergences in prices (and reveland yields) are often observed across data providers. These divergences became more apparent in Q4 2011 due to considerably lower transactions in Greek bonds.

5 THE GOVERNMENT BOND MARKET

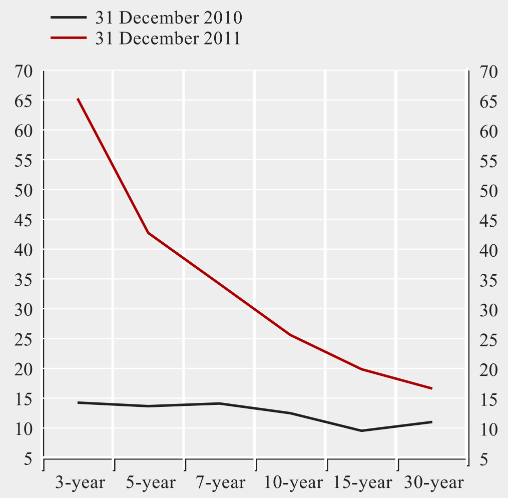
• Strong investor concerns about Greece's fiscal condition were the key determinant of developments in the Greek government bond market in 2011, resulting in significantly lower transactions in the secondary market and considerably higher yields across maturities. In the first two months of 2012, the upward movement of Greek bond yields moderated as progress was made towards an agreement on the terms of the PSI. More specifically, the yield of ten-year Greek government bonds in the Electronic Secondary Securities Market (HDAT) doubled from 12.55% at end-2010 to 25.68% at end-2011, and came to 28.89% at end-February 2012 (see Chart V.8).

• The yield spread between the ten-year Greek government bond and its German counterpart followed an upward course in 2011 (see Chart V.8). This widening of the spread is attributed, on the one hand, to investors' estimates that Greek government bonds entail higher credit risk and, on the other hand, to a worldwide perception that the German bonds constitute a safe haven (as a result, German bond yields declined due to increased demand).

• The slope of the Greek government bond yield curve became more negative in 2011, as the rise in yields was considerably stronger for

Chart V.9 Greek government paper yield curves

(yields in percentages per annum)



Source: Bank of Greece.

3-year maturities compared to longer maturities (see Chart V.9), a trend that continued into the first two months of 2012.

• The average daily value of transactions in Greek government bonds decreased in 2011. Specifically:

– In HDAT, it came to €22 million in 2011, from €390 million in 2010.

– In the Book-Entry Securities System (SAT),[4] it declined to €712 million in 2011, from €3,319 million in 2010.

In the first two months of 2012, the average daily value of transactions in both HDAT and SAT declined further.

• During 2011, the Greek government issued Treasury bills with a six- and three-month maturity on a regular basis. The total amount of funds raised in 2011 came to €45 billion, while the weighted average interest rate was 4.67% in 2011, against 3.80% in 2010.[5]

In the first two months of 2012, the Greek government raised a total of €7 billion through Treasury bills with a weighted average rate of 4.75%.

6 THE STOCK MARKET

• In 2011 share prices on the Athens Exchange (Athex) continued to decline at a fast pace; in the euro area, the drop in share prices was quite smaller. This is associated with investors' uncertainty about fiscal developments in Greece and the general outlook for the Greek economy.[6] By contrast, in the first two months of 2012, share prices on the Athens Exchange followed an upward course.

• By end-2011, the Athex composite share price index had dropped by 52% year-on-year (see Chart V.10),[7] whereas the Dow Jones Euro Stoxx Broad index had declined by 18%. On the other hand, the rebound (by 9%) of the Athex index in January-February 2012 was almost similar to the rise (by 10%) in the Dow Jones Euro Stoxx Broad index.

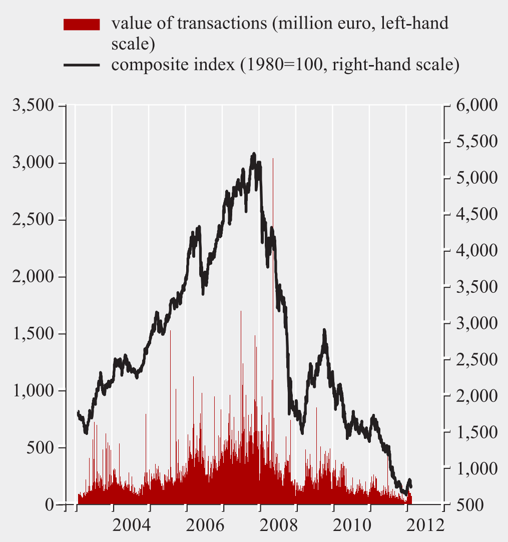
• Compared to 2010, the average daily value of transactions in the Athens Exchange was significantly reduced in 2001 (by about 41%), and declined further in the first two months of 2012. The total amount of funds raised through the stock market fell to €3.3 billion in 2011 (compared to €3.8 billion in 2010) and was mainly channelled to three banks (see Table V.7).[8]

• In 2011, the rate of decline in the banking sub-index (79%) was considerably stronger than in the Athex composite share price index and the euro area banking sub-index (38%). This

4 The value of transactions in SAT includes, apart from HDAT transactions, purchases and sales of securities and repurchase agreements in other electronic markets, as well as OTC, given that SAT also operates as a depository for Greek government securities.
5 It should be recalled that in the first quarter of 2010, the cost of borrowing through Treasury bills was particularly low (1.74%).
6 The outflow of foreign investor funds from the Athens Exchange was €262 million in 2001.
7 At average annual levels, the decline of the Athex index was -32%.
8 In December 2011, two banks increased their capital through the issuance of preference shares in favour of the Greek State, pursuant to Law 3723/2008, as currently in force, and to relevant ministerial decisions.

Chart V.10 Athens Exchange: composite share price index and value of transactions (January 2003 - February 2012)

(daily data)



Source: Athens Exchange.

reflects the significant pressures on Greek banks' liquidity and profitability in 2011, the deterioration in the quality of their loan portfolios as a result of the recession, as well as investors' estimates about the impact of the PSI.

However, as mentioned above, pessimism in the Athens Exchange moderated in January-February 2012, mainly because of the emerging prospect of concluding an agreement on the PSI and settling certain technical modalities relating to banks' restoring capital levels; as a result, the banking sub-index and the Athex composite share price index rose substantially, by 52% and 9% respectively. It should be pointed out that the rate of increase in the banking sub-index at the Athens Exchange is several times higher than the euro area banking sub-index (14%).

7 OVERVIEW OF DEVELOPMENTS IN THE BANKING SECTOR

- In the course of 2011, the banking sector came under strong and mounting pressure, which had a particularly negative impact on its liquidity and profitability. According to data for January-September 2011, banks and banking groups posted (after-tax) losses of €7.4 billion and €7.3 billion, respectively (see Table V.8).

- Return on equity (ROE) and return on assets (ROA) ratios[9] were negative at end-September 2011 (see Table V.9), maintaining the

9 ROA and ROE are calculated as the ratios of pre-tax profits to average assets and equity, respectively.

Table V.7 Funds raised through the Athens Exchange

(million euro)

	Number of firms		Funds raised (million euro)[1]	
	January-December		January-December	
Categories of firms and sectors	2010	2011*	2010	2011*
Listed firms	15	12	3,755.2	3,255.2
Newly-listed firms	-	-	0.0	0.0
Total	**15**	**12**	**3,755.2**	**3,255.2**
Financial sector – Banks	5	3	3,537.2	3,021.5
Non-financial sector	10	9	218.0	233.7

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 V.8 Financial results of Greek commercial banks and banking groups with shares listed on the Athens Exchange (first nine months of 2010 - first nine months of 2011)

(million euro)

	Banks			Banking groups		
	Jan.-Sept. 2010	Jan.-Sept. 2011	Change (%)	Jan.-Sept. 2010	Jan.-Sept. 2011	Change %
Operating income	**6,465**	**6,545**	**1.2**	**10,160**	**9,890**	**-2.7**
Net interest income	6,094	6,002	-1.5	8,807	8,436	-4.2
– Interest income	12,654	13,595	7.4	16,142	16,765	3.9
– Interest expenses	6,559	7,593	15.8	7,335	8,329	13.5
Net non-interest income	371	543	46.3	1,353	1,454	7.5
– Net fee income	857	617	-28.0	1,402	1,175	-16.2
– Income from financial operations	-617	-372	-	-324	-204	-
– Other income	131	298	127.6	275	483	75.7
Operating costs	**4,134**	**3,839**	**-7.1**	**5,909**	**5,591**	**-5.4**
Staff costs	2,480	2,279	-8.1	3,412	3,184	-6.7
Administrative costs	1,381	1,297	-6.1	2,004	1,891	-5.6
Depreciation	231	254	10.0	439	461	5.1
Other costs	42	9	-78.9	53	56	4.3
Net income (operating income less costs)	**2,331**	**2,707**	**16.1**	**4,251**	**4,299**	**1.1**
Provisions for credit risk	3,874	5,245	35.4	4,678	6,178	32.1
Provisions for PSI[1]		5,926	-		6,264	-
Profit/loss from holdings			-	-12	-53	-
Pre-tax profits	**-1,542**	**-8,465**	**-**	**-439**	**-8,195**	**-**
Taxes	178	-1,052	-	439	-924	-310.5
After-tax profits	**-1,720**	**-7,413**	**-**	**-878**	**-7,271**	**-**

Source: Financial statements of Greek commercial banks and banking groups.
1 Agreement of 21 July 2011 on Private Sector Involvement.

downward trend that had started at the beginning of 2010. This development is mainly attributed to:

– losses due to the initial PSI agreement of 21 July 2011,

– higher provisioning for credit risk on the back of a rapidly worsening macroeconomic environment, which has a negative impact on the financial situation of borrowers,

– a decline in banks' operational profitability (i.e. net fee and net interest income) as a result of downsized operations amidst the economic recession.

• In the first nine months of 2011, operational profitability was positively affected by a year-on-year decrease in operating expenses (by 7.1% at bank level and 5.4% at banking group level). This decrease is nonetheless small if one takes into account both the intensity of the recession and the challenges faced by the banking sector. The new environment calls for further rationalisation of operating costs.

• The quality of loans deteriorated across all categories, particularly consumer loans. It is clear that enterprises and households find it all the more difficult to service their debt obligations in a consistent manner. At end-September 2011, the non-performing loans ratio

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

(percentages)

	Banks		Banking groups	
	December 2010	September 2011	December 2010	September 2011
Asset quality[1]				
Non-performing loans (NPLs) - total	10.5	14.7		
– Housing loans	10.3	14.0		
– Consumer loans	20.0	26.4		
– Business loans	8.8	13.0		
Accumulated provisions over NPLs	46.2	46.2		
Net-of-provisions NPLs to regulatory own funds	46.9	78.6		
Liquidity				
Loan-to-deposit ratio	116.8	130.1	120.9	132.7
Liquid asset ratio	25.5	12.8	25.6	22.2
Asset/liability maturity mismatch ratio	-6.9	-23.2	-3.9	-23.6
Capital adequacy				
Capital adequacy ratio	13.9	11.7	12.3	10.1
Tier I ratio	12.5	10.7	11.2	9.2
Core Tier 1 Ratio	10.6	8.9	9.9	8.2
	Jan.-Sept. 2010	Jan.-Sept. 2011	Jan.-Sept. 2010	Jan.-Sept. 2011
Profitability[2]				
Net interest margin	1.9	2.0	2.7	2.6
Cost-to-income ratio	63.9	58.6	58.2	56.5
Return on assets - ROA (after tax)	-0.5	-2.1	-0.3	-1.9
Return on equity - ROE (after tax)	-8.6	-34.2	-3.8	-28.2

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.
2 Including the effects of the agreement of 21 July 2011 on Private Sector Involvement.

(NPL ratio) came to 14.7%, up from 10.5% at end-December 2010 (see Table V.9). At the same time, the provision coverage ratio remained low.

• Credit institutions, which are cut off from international money and capital markets, came up against mounting liquidity pressures. As mentioned above, the outflow of deposits continued, while the value of collateral against which the Eurosystem provides liquidity to credit institutions kept on falling. Under such pressures, credit institutions were supported by the Eurosystem through open market operations and the marginal lending facility, but also through contingency funding under the responsibility of the Bank of Greece. A positive effect on liquidity, through the creation of eligible collateral, came from the expansion of the bank bond guarantee scheme in the context of liquidity-support measures for the Greek economy (Law 3965/2011).

• Capital adequacy ratios remained above the supervisory minimum, despite having declined further compared to end-June 2011. At end-September 2011, the Capital Adequacy Ratio (CAR) and the Tier I ratio for banks stood at 11.7% and 10.7%, respectively, and for banking groups at 10.1% and 9.2%, respectively.

The Core Tier 1 also declined, to 8.9% and 8.2% for banks and banking groups, respectively.

Year 2012 is expected to be a landmark for the banking system. Banks will be called upon, by the end of Q3 2012 at the latest, to review their business plans in full in order to be able to meet the increasing challenges brought along with the crisis and significantly strengthen their capital base. Additional capital requirements will be imposed on banks following the recapitalisation exercise conducted by the Bank of Greece in close cooperation with the troika (IMF/EU/ECB). In order to determine the minimum level of additional capital needs, account must be taken of:

– the impairment of Greek government bonds held in bank portfolios as a result of the PSI, following the European Council decisions of 26 October 2011 and 21 February 2012,[10]

– credit loss projections (assessed by BlackRock in the case of Greek risk or by the Bank of Greece in the case of foreign risk or state-related risk),

– provisions already set aside for these losses,

– banks' estimated profitability.

The final amount of capital needs must also be adequate in order to meet the minimum Core Tier 1 target ratio of 9% by the end of Q3 2012 and of 10% by the end of Q2 2013, as provided for by Law 4046/2012. In terms of covering capital needs, priority should be given to attracting funds from private investors. Additional funds will be raised, to the extent necessary, from the Hellenic Financial Stability Fund through the issuance of ordinary shares (with limited voting rights, under certain conditions) and convertible bonds, in accordance with Article 9(5-7) of Law 4051/2012, amending Law 3864/2010.

10 This haircut will be recorded in banks' financial statements of end-2011. Given the level of exposure of banks to Greek government bonds and the terms for exchanging these bonds, additional capital requirements come to roughly €26 billion.

CHRONOLOGY OF MAIN MONETARY POLICY MEASURES OF THE EUROSYSTEM

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.

3 MARCH 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.

It also decided to continue conducting its main refinancing operations as fixed rate tender procedures with full allotment for as long as necessary and at least until 12 July 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 second quarter of 2011. The fixed rate in these special-term refinancing operations will be the same as the main refinancing operation (MRO) rate prevailing at the time. Furthermore, the Governing Council of the ECB decided to conduct the 3-month longer-term refinancing operations (LTROs) to be allotted at end-April, end-May and end-June 2011 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.

31 MARCH 2011

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 Irish government. The Irish government is implementing the economic and financial adjustment programme. The Governing Council has assessed the programme positively. The suspension is based on this positive assessment of the programme, the commitment of the Irish government to fully implement it and the Irish government's decisions to ensure a capital increase of €24 billion, for four Irish banks, and to deleverage and downsize the banking sector.

7 APRIL 2011

The Governing Council of the ECB decided that the interest rate on the main refinancing operations of the Eurosystem will be increased by 25 basis points to 1.25%, and that the interest rates on the marginal lending facility and the deposit facility will be increased by 25 basis points, to 2.00% and 0.50% respectively, with effect from 13 April 2011.

5 MAY 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 1.25%, 2.00% and 0.50%, respectively.

9 JUNE 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 1.25%, 2.00% and 0.50%, respectively.

In also decided to continue conducting its MROs as fixed rate tender procedures with full allotment for as long as necessary and at least until 11 October 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 third quarter of 2011. The fixed rate in these special-term refinancing operations will be the same as the MRO rate prevailing at the time. Furthermore, the Governing Council of the ECB decided to conduct the 3-month LTROs to be allotted at end-July, end-August and end-September 2011 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.

29 JUNE 2011

The Governing Council of the ECB decided to continue to conduct US dollar liquidity-providing operations with a maturity of seven days. These operations will continue to take the form of repurchase operations against eligible collateral and will be carried out as fixed rate tender procedures with full allotment. To this end, the Governing Council of the ECB decided, in co-ordination with other central banks, to extend the liquidity swap arrangements with the Federal Reserve up to 1 August 2012.

7 JULY 2011

The Governing Council of the ECB decided that the interest rate on the main refinancing operations of the Eurosystem will be increased by 25 basis points to 1.50%, starting from the operation to be settled on 13 July 2011 and the interest rates on the marginal lending facility and the deposit facility will be increased by 25 basis points to 2.25% and 0.75% respectively, with effect from 13 July 2011.

The Governing Council also 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 Portuguese government. The Portuguese government has approved an economic and financial adjustment programme. The Governing Council has assessed the programme and considers it to be appropriate, while the Portuguese government is committed to fully implement it.

4 AUGUST 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 1.50%, 2.25% and 0.75%, respectively.

Given the renewed tensions in some financial markets in the euro area, the Governing Council of the ECB also decided to conduct a supplementary liquidity-providing LTRO with a maturity of approximately six months on 11 August 2011. The operation will be conducted as a fixed-rate tender procedure with full allotment. The rate of the operation will be fixed at the average rate of the MROs over the life of the supplementary LTRO.

The Governing Council also decided to continue conducting its MROs as fixed rate tender procedures with full allotment for as long as necessary and at least until 17 January 2012. This procedure will also remain in use for the Eurosystem's LTROs with a maturity of one maintenance period, which will continue to be conducted at least until the end of the fourth quarter of 2012. The fixed rate in these special-term refinancing operations will be the same as the MRO rate prevailing at the time. Furthermore, the Governing Council decided to conduct the 3-month LTROs to be allotted at end-October, end-November and end-December 2011 as fixed rate tender procedures with full allotment. The rates in these three-month operations will be fixed at the average rate of the MROs over the life of the respective LTRO.

8 SEPTEMBER 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 1.50%, 2.25% and 0.75%, respectively.

15 SEPTEMBER 2011

The Governing Council of the ECB decided, in coordination with the Federal Reserve, the Bank of England, the Bank of Japan and the Swiss National Bank, to conduct three US dollar liquidity-providing operations with a maturity of approximately three months covering the end of the year. These operations will be conducted in early October, November and December 2011. These will all take the form of repurchase operations against eligible collateral and will be carried out as fixed rate tender procedures with full allotment.

6 OCTOBER 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 1.50%, 2.25% and 0.75%, respectively.

The Governing Council also decided to conduct two LTROs, one with a maturity of approximately 12 months, on 27 October 2011, and the other with a maturity of approximately 13 months, on 22 December 2011. The operations will be conducted as fixed-rate tenders with full allotment. In both operations, the rate applied will be fixed at the average of the rates in the MROs over the life of the relevant LTRO (371 days and 406 days, respectively), and interest will be paid at maturity.

The Governing Council also decided to continue conducting its MROs as fixed rate tender procedures with full allotment for as long as necessary and at least until 12 July 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 necessary and at least until the above date. The fixed rate in each special-term refinancing operation will be the same as the MRO rate prevailing at the time. In addition, the Governing Council decided to conduct the 3-month LTROs to be allotted at the end of each month in the period January-June 2012 as fixed rate tender procedures with full allotment. In each of these 3-month operations, the rate applied will be fixed at the average rate of the MROs over the life of the respective LTRO.

Finally, the Governing Council also decided to launch a new covered bond purchase programme (CBPP2) involving purchases for an intended amount of €40 billion. Further details regarding the modalities of CBPP2 will be announced after the Governing Council's meeting of 3 November 2011.

3 NOVEMBER 2011

The Governing Council of the ECB decided that the interest rate on the main refinancing operations of the Eurosystem will be decreased by 25 basis points to 1.25%, starting from the operation to be settled on 9 November 2011, and the interest rates on the marginal lending facility and the deposit facility will be decreased by 25 basis points to 2.00% and 0.50% respectively, with effect from 9 November 2011.

The Governing Council also decided on the technical modalities of the new covered bond purchase programme (CBPP2). It decided, inter alia, the following: the purchases of covered bonds will be distributed across the euro area. The counterparties qualified to participate in CBPP2 are those eligible for the Eurosystem's monetary policy operations, together with any other counterparties that are used by the Eurosystem for the investment of its euro-denominated portfolios. In order to be qualified for purchase under the programme, covered bonds must: be eligible for use as collateral in Eurosystem credit operations; have a minimum rating of BBB- or equivalent from at least one of the major rating agencies; have a maximum residual maturity of 10.5 years; and have an issue volume of €300 million or more. Furthermore, Governing Council decided to make its CBPP2 portfolio available for lending. Lending will be voluntary and conducted through security lending facilities offered by central securities depositories or via matched repo transactions with eligible counterparties.

30 NOVEMBER 2011

The Governing Council of the ECB decided, in cooperation with the Federal Reserve, the Bank of England, the Bank of Canada, the Bank of Japan and the Swiss National Bank, to lower the pricing on the existing temporary US dollar liquidity swap arrangements by 50 basis points, with effect from 5 December 2011, so that the new rate will be the US dollar Overnight Index Swap (OIS) rate plus 50 basis points.

In addition, it was decided to extend the conduct of US dollar liquidity swap lines with the Federal Reserve through 1 February 2013, same as with other central banks.

The Governing Council of the ECB decided, in cooperation with other central banks, the establishment of a temporary network of reciprocal swap lines. This action will enable the Eurosystem to provide euro to those central banks when required, as well as to provide liquidity operations, should they be needed, in Japanese yen, sterling, Swiss francs and Canadian dollars (in addition to the existing operations in US dollars).

8 DECEMBER 2011

The Governing Council of the ECB decided that the interest rate on the main refinancing operations of the Eurosystem will be decreased by 25 basis points to 1.00%, starting from the operation to be settled on 14 December 2011, and the interest rates on the marginal lending facility and the deposit facility will be decreased by 25 basis points to 1.75% and 0.25% respectively, with effect from 14 December 2011.

The Governing Council of the ECB also decided:

a) to conduct two 36-month liquidity-providing operations with full allotment on 22 December 2011 and 1 March 2012, respectively, at a rate that will be fixed at the average rate of the MROs over the life of the respective LTRO. Interest will be paid when the respective operation matures. After one year, counterparties will have the option to repay any part of the amounts they are allotted in the operations. The 12-month LTRO to be settled on 22 December 2011 will be allotted on 21 December 2011 and will replace the 12-month LTRO announced on 6 October 2011. Counterparties are permitted to shift all of the outstanding amounts received in the 12-month LTRO allotted in October 2011 into the first 3-year LTRO allotted on 21 December 2011;

b) to discontinue for the time being, as of the maintenance period starting on 14 December 2011, the fine-tuning operations carried out on the last day of each maintenance period;

c) to reduce the reserve ratio, which is currently 2%, to 1% as of the reserve maintenance period starting on 18 January 2012;

d) to lower the minimum credit rating threshold for asset-backed securities (ABS). Specifically, in addition to the ABS that are already eligible for Eurosystem operations, ABS having a second-best rating of at least "single A" in the Eurosystem's harmonised credit scale[1] at issuance, and at all times subsequently, and the underlying assets of which comprise residential mortgages and loans to small and

1 "Credit quality step 1" in the Eurosystem's harmonised rating scale means a rating of A+/A/A from Fitch and Standard & Poor's, and A1/A2/A3 from Moody's.

medium-sized enterprises (SMEs), will be eligible for use as collateral in Eurosystem credit operations;

e) as a temporary solution, to allow national central banks to accept as collateral for Eurosystem credit operations additional performing credit claims that satisfy specific eligibility criteria. The responsibility entailed in the acceptance of such credit claims will be borne by the NCB authorising their use;

f) further technical details on (a)-(e) above.

Furthermore, the Governing Council announced that it would welcome wider use of credit claims as collateral in the Eurosystem's credit operations on the basis of harmonised criteria.

16 DECEMBER 2011

The Governing Council of the ECB decided to conduct two one-day liquidity-providing fine-tuning operations (FTOs). The first will be settled on 21 December 2011 and the second on 29 February 2012. These operations will be conducted as fixed rate tenders with full allotment (the rate being the same as the prevailing MRO rate) and will have the purpose of smoothing out the liquidity effects of the MROs maturing on these dates. Raising new liquidity through 36-month LTROs will only be possible a day later, i.e. on 22 December 2011 and 1 March 2012, respectively.

12 JANUARY 2012

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.

9 FEBRUARY 2012

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.

Following up on its decision of 8 December 2011, the Governing Council approved for the seven national central banks that have put forward relevant proposals, specific national eligibility criteria and risk control measures for the temporary acceptance of additional credit claims as collateral in the Eurosystem's credit operations.

28 FEBRUARY 2012

The Governing Council of the European Central Bank (ECB) has decided to temporarily suspend the eligibility of marketable debt instruments issued or fully guaranteed by the Hellenic Republic for use as collateral in Eurosystem monetary policy operations. This decision takes into account the rating of the Hellenic Republic as a result of the launch of the private sector involvement offer. Marketable debt instruments issued or fully guaranteed by the Hellenic Republic will become in principle eligible upon activation of the collateral enhancement scheme agreed by the Heads of State or Government of the euro area on 21 July 2011, and confirmed on 26 October 2011. In the meantime, the liquidity needs of affected Eurosystem counterparties can be satisfied by the relevant national central banks, in line with relevant Eurosystem arrangements (emergency liquidity assistance).

8 MARCH 2012

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 has acknowledged the activation of the buy back scheme, provided to underpin the quality of marketable debt instruments issued or fully guaranteed by the Hellenic Republic. In light of this, the Governing Council has decided that the aforementioned debt instruments will be again accepted as collateral in Eurosystem credit operations, without applying the minimum credit rating threshold for collateral eligibility until further notice. The scheme is backed up by bonds issued by the European Financial Stability Facility with a nominal value of €35 billion.

STATISTICAL APPENDIX

TABLES

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

Period		General index		Goods		Services		CPI excluding fresh fruit/vegetables and fuel		CPI excluding food and fuel	
		(2009=100)	Percentage change over previous year	(2009=100)	Percentage change over previous year	(2009=100)	Percentage change over previous year	(2009=100)	Percentage change over previous year	(2009=100)	Percentage change over previous year
2008		98.8	4.2	100.6	4.3	96.5	3.9	97.7	3.4	97.5	3.0
2009		100.0	1.2	100.0	-0.5	100.0	3.6	100.0	2.4	100.0	2.6
2010		104.7	4.7	105.6	5.6	103.6	3.6	103.0	3.0	103.4	3.4
2011		108.2	3.3	110.0	4.2	105.9	2.3	104.6	1.5	104.8	1.3
2010	I	101.7	3.0	101.3	2.8	102.2	3.3	100.7	1.7	100.8	2.1
	II	105.3	5.2	106.9	6.2	103.3	3.8	103.4	3.3	104.0	3.8
	III	105.1	5.5	105.8	6.7	104.2	4.0	103.2	3.7	103.6	4.1
	IV	106.7	5.1	108.3	6.6	104.5	3.1	104.7	3.3	105.3	3.6
2011	I	106.5	4.7	107.3	5.9	105.5	3.2	103.2	2.5	103.3	2.5
	II	109.0	3.5	111.7	4.5	105.7	2.4	105.2	1.7	105.7	1.6
	III	107.6	2.4	108.9	2.9	106.0	1.8	104.0	0.7	104.0	0.3
	IV	109.6	2.8	112.2	3.6	106.5	1.9	106.0	1.3	106.2	0.8
2009	Jan.	98.7	1.8	98.4	-0.3	99.1	4.5	99.0	3.3	98.8	3.4
	Feb.	97.8	1.6	97.0	-0.4	98.8	4.3	97.9	3.2	97.4	3.3
	March	99.7	1.3	100.3	-0.8	98.9	4.2	100.0	3.1	99.9	3.2
	Apr.	100.0	1.0	100.5	-1.3	99.4	4.2	100.0	2.7	100.0	2.9
	May	100.3	0.5	100.8	-1.6	99.5	3.5	100.1	2.1	100.2	2.4
	June	100.2	0.5	100.7	-1.5	99.6	3.3	100.1	2.1	100.2	2.3
	July	99.5	0.6	99.2	-1.3	99.8	3.1	99.4	2.0	99.3	2.2
	Aug.	98.7	0.8	97.7	-1.1	100.1	3.3	98.7	2.1	98.4	2.3
	Sept.	100.6	0.7	100.6	-1.2	100.6	3.3	100.7	2.1	100.9	2.3
	Oct.	101.1	1.2	101.2	-0.4	101.0	3.4	101.0	2.0	101.2	2.3
	Nov.	101.6	2.0	101.9	1.1	101.2	3.2	101.4	2.0	101.6	2.4
	Dec.	101.8	2.6	101.6	2.3	102.0	3.1	101.8	2.0	102.1	2.4
2010	Jan.	101.0	2.4	100.3	2.0	102.0	2.9	100.6	1.6	100.7	1.9
	Feb.	100.5	2.8	99.3	2.4	102.0	3.3	99.4	1.5	99.2	1.9
	March	103.7	3.9	104.4	4.0	102.7	3.8	102.0	2.0	102.4	2.5
	Apr.	104.9	4.8	106.2	5.7	103.1	3.7	103.0	2.9	103.4	3.4
	May	105.7	5.4	107.5	6.6	103.3	3.8	103.7	3.6	104.2	4.1
	June	105.4	5.2	107.0	6.2	103.4	3.9	103.7	3.6	104.3	4.1
	July	104.9	5.5	105.6	6.4	104.1	4.3	103.2	3.8	103.6	4.3
	Aug.	104.2	5.5	104.2	6.7	104.2	4.0	102.2	3.6	102.4	4.1
	Sept.	106.2	5.6	107.6	7.0	104.3	3.6	104.3	3.6	104.9	4.0
	Oct.	106.4	5.2	107.8	6.6	104.4	3.4	104.6	3.5	105.2	4.0
	Nov.	106.6	4.9	108.2	6.1	104.5	3.3	104.7	3.3	105.4	3.7
	Dec.	107.0	5.2	108.9	7.1	104.6	2.6	104.8	3.0	105.4	3.3
2011	Jan.	106.3	5.2	107.1	6.8	105.3	3.2	103.3	2.7	103.4	2.7
	Feb.	104.9	4.4	104.4	5.1	105.5	3.5	101.5	2.1	101.3	2.1
	March	108.3	4.5	110.5	5.9	105.6	2.8	104.7	2.6	105.1	2.7
	Apr.	109.0	3.9	111.6	5.1	105.7	2.5	105.1	2.1	105.5	2.1
	May	109.2	3.3	111.9	4.1	105.7	2.3	105.3	1.5	105.7	1.4
	June	109.0	3.3	111.5	4.3	105.7	2.2	105.3	1.6	105.7	1.4
	July	107.4	2.4	108.8	3.0	105.8	1.7	103.8	0.6	103.7	0.2
	Aug.	105.9	1.7	106.1	1.7	105.8	1.6	102.2	0.0	101.9	-0.6
	Sept.	109.4	3.1	111.9	3.9	106.4	2.0	106.0	1.6	106.3	1.3
	Oct.	109.6	3.0	112.1	3.9	106.4	1.9	106.0	1.4	106.3	1.0
	Nov.	109.7	2.9	112.4	3.9	106.4	1.8	106.1	1.3	106.3	0.9
	Dec.	109.6	2.4	112.0	2.9	106.6	1.9	106.0	1.1	106.1	0.6
2012	Jan.	108.7	2.3	110.0	2.7	107.2	1.8	104.6	1.3	104.4	1.0

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
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
2011		121.4	3.1	116.5	3.4	128.1	4.7	108.6	-0.2
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
2011	I	119.4	4.5	115.7	2.7	126.3	8.1	104.9	-0.1
	II	122.3	3.3	118.8	4.9	127.0	3.3	111.6	1.1
	III	120.7	2.1	114.8	2.5	128.6	3.2	106.2	-1.3
	IV	123.0	2.6	116.9	3.4	130.3	4.3	111.6	-0.3
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
2011	Jan.	119.2	4.9	113.9	2.7	126.4	8.0	105.7	0.4
	Feb.	117.6	4.2	116.1	2.6	126.3	8.0	98.9	-1.9
	March	121.4	4.3	117.1	2.8	126.3	8.2	110.2	1.0
	Apr.	122.2	3.7	119.0	3.5	126.8	5.4	111.2	1.2
	May	122.4	3.1	119.7	5.1	127.1	2.5	111.7	1.0
	June	122.2	3.1	117.6	6.1	127.2	2.1	111.8	1.0
	July	120.5	2.1	115.5	5.0	127.7	2.4	106.1	-1.4
	Aug.	118.8	1.4	114.4	2.0	128.1	2.7	100.5	-3.3
	Sept.	122.8	2.9	114.4	0.6	130.0	4.6	112.0	0.7
	Oct.	123.0	2.9	115.5	2.3	130.1	4.6	111.9	0.0
	Nov.	123.2	2.8	117.1	3.5	130.2	4.2	112.0	0.1
	Dec.	123.0	2.2	118.0	4.4	130.4	4.2	111.0	-0.9
2012	Jan.	121.6	2.1	117.1	2.8	130.8	3.5	105.2	-0.5

Source: Calculations based on ELSTAT data.

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

Period		Energy (2005=100)	Energy Percentage change over previous year	Services (2005=100)	Services Percentage change over previous year	HICP excluding unprocessed food and energy (2005=100)	HICP excluding unprocessed food and energy Percentage change over previous year
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
2011		170.0	16.7	120.3	1.9	117.5	1.7
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
2011	I	164.3	25.5	119.9	2.6	115.7	2.6
	II	171.3	15.3	120.0	1.9	118.3	1.9
	III	171.4	14.1	120.4	1.4	116.8	0.8
	IV	172.9	12.9	121.0	1.6	119.2	1.4
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
2011	Jan.	161.2	31.0	119.8	2.6	116.0	2.8
	Feb.	162.8	25.9	120.0	2.9	113.7	2.2
	March	168.9	20.4	119.9	2.3	117.6	2.8
	Apr.	171.8	17.9	120.0	1.9	118.1	2.2
	May	171.8	14.3	120.1	2.0	118.3	1.7
	June	170.3	13.9	120.1	1.9	118.4	1.6
	July	171.4	13.8	120.1	1.2	116.5	0.6
	Aug.	171.0	13.9	120.2	1.1	114.6	0.0
	Sept.	171.8	14.5	121.0	1.8	119.3	1.9
	Oct.	172.8	15.2	120.9	1.7	119.3	1.6
	Nov.	173.2	14.1	121.0	1.7	119.4	1.6
	Dec.	172.7	9.5	121.0	1.5	119.1	1.1
2012	Jan.	182.4	13.2	120.8	0.9	117.0	0.9

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
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
2011		132.0	7.4	153.4	15.3	175.9	27.6	120.5	2.7
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
2011	I	129.9	7.6	148.2	16.2	167.9	31.2	120.0	2.6
	II	132.1	7.1	153.7	13.7	177.8	24.7	120.5	3.0
	III	132.6	8.1	154.7	16.8	177.6	30.3	120.7	2.8
	IV	133.6	6.9	157.2	14.5	180.2	24.6	120.9	2.2
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
2011	Jan.	128.1	6.8	144.0	14.5	158.9	27.6	119.5	2.3
	Feb.	129.8	8.0	147.8	17.1	166.8	33.1	120.1	2.6
	March	131.7	8.2	152.8	17.0	178.0	32.6	120.4	2.9
	Apr.	133.3	7.9	156.9	16.2	184.6	29.5	120.5	2.8
	May	131.5	7.1	152.0	13.7	174.6	24.7	120.4	3.1
	June	131.6	6.3	152.1	11.3	174.1	20.0	120.5	3.1
	July	133.0	8.7	156.0	18.0	181.1	33.3	120.6	3.1
	Aug.	131.8	7.5	152.5	15.3	173.2	26.8	120.7	2.8
	Sept.	133.0	8.1	155.6	17.1	178.5	30.9	120.8	2.6
	Oct.	132.9	7.9	155.3	17.0	177.8	29.8	120.8	2.4
	Nov.	133.8	7.2	157.8	15.1	181.4	27.3	120.9	2.2
	Dec.	134.1	5.7	158.4	11.6	181.4	17.6	121.1	1.9
2012	Jan.	137.9	7.7	168.5	17.1	193.4	21.7	121.4	1.5

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
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	120.0	6.6	110.4	1.4
2011		127.9	8.8	118.2	3.8	129.1	7.6	112.0	1.5
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	121.2	5.1	111.2	1.9
2011	I	125.8	10.2	117.6	4.8	126.6	7.4	111.9	2.1
	II	127.8	8.4	118.1	4.0	129.2	7.1	112.1	1.8
	III	128.7	9.3	118.5	3.8	129.5	7.8	112.1	1.5
	IV	129.2	7.5	118.6	2.7	131.0	8.1	112.0	0.7
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	123.0	6.6	111.5	2.2
2011	Jan.	123.7	9.4	116.9	4.6	124.0	6.1	111.7	2.1
	Feb.	125.6	10.5	117.7	4.9	126.3	7.6	111.9	2.1
	March	128.1	10.6	118.4	4.9	129.4	8.6	112.1	2.0
	Apr.	128.5	9.0	117.9	4.0	130.5	8.0	112.1	1.9
	May	127.1	8.2	118.1	4.0	128.1	6.5	112.2	1.8
	June	127.6	8.0	118.3	4.0	129.0	6.7	112.1	1.6
	July	129.3	10.3	118.9	4.6	130.6	8.7	112.2	1.7
	Aug.	127.9	8.6	118.5	3.7	128.3	6.4	112.0	1.4
	Sept.	128.7	9.0	118.1	3.0	129.6	8.3	112.0	1.4
	Oct.	128.7	8.7	118.3	3.1	130.0	8.6	111.9	0.9
	Nov.	129.5	8.1	118.7	2.8	131.3	8.5	112.1	0.8
	Dec.	129.4	5.7	118.8	2.1	131.9	7.2	112.0	0.5
2012	Jan.	132.2	6.9	119.7	2.4				

Source: Calculations based on ELSTAT data.

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

(thousands)

	Q3 2011	
	Total employed persons	Salaried employees
Total	**4,079.3**	**2,611.3**
Agriculture, forestry and fishing	504.1	48.7
Mining and quarrying	12.6	10.8
Manufacturing	419.0	309.2
Electricity, gas, steam and air conditioning supply	25.4	25.0
Water supply, sewerage, waste management and remediation activities	26.3	25.5
Construction	241.8	150.8
Wholesale and retail trade; repair of motor vehicles and motorcycles	744.8	418.3
Transportation and storage	196.8	137.0
Accommodation and food service activities	317.4	196.5
Information and communication	70.8	62.7
Financial and insurance activities	115.2	102.3
Real estate activities	6.3	1.3
Professional, scientific and technical activities	213.0	77.7
Administrative and support service activities	74.4	60.4
Public administration and defence; compulsory social security	359.0	359.0
Education	304.3	278.4
Human health and social work activities	241.3	200.9
Arts, entertainment and recreation	49.7	33.6
Other service activities	86.4	46.0
Activities of households as employers	68.2	64.6
Activities of extraterritorial organisations and bodies	2.6	2.6

Source: ELSTAT, Labour Force Survey.

Table 6 Balance of payments

(million euro)

			January-December			December		
			2009	2010	2011	2009	2010	2011
I	**CURRENT ACCOUNT BALANCE (I.A+I.B+I.C+I.D)**		**-25,818.7**	**-22,975.6**	**-21,069.8**	**-3,074.2**	**-1,818.6**	**-2,172.1**
I.A	***TRADE BALANCE (I.A.1–I.A.2)***		***-30,767.3***	***-28,279.6***	***-27,221.2***	***-2,779.6***	***-1,456.9***	***-1,956.1***
	Oil trade balance		-7,596.5	-8,627.2	-11,126.9	-621.0	-10.8	-670.3
	Non-oil trade balance		-23,170.8	-19,652.4	-16,094.2	-2,158.6	-1,446.1	-1,285.7
	Ship balance		-3,356.9	-3,621.3	-3,261.2	-333.9	-242.4	-250.7
	Trade balance excl. oil and ships		-19,813.9	-16,031.1	-12,833.0	-1,824.7	-1,203.7	-1,035.0
	I.A.1	*Exports of goods*	*15,318.0*	*17,081.5*	*20,233.0*	*1,469.2*	*1,869.0*	*1,639.4*
		Oil	3,063.2	4,950.0	6,187.7	370.0	692.9	536.4
		Ships (receipts)	771.7	798.6	754.7	11.0	90.0	49.5
		Other goods	11,483.1	11,332.9	13,290.6	1,088.2	1,086.1	1,053.5
	I.A.2	*Imports of goods*	*46,085.3*	*45,361.0*	*47,454.1*	*4,248.8*	*3,325.9*	*3,595.4*
		Oil	10,659.8	13,577.1	17,314.6	991.0	703.7	1,206.7
		Ships (payments)	4,128.6	4,419.9	4,015.9	344.9	332.4	300.2
		Other goods	31,296.9	27,364.0	26,123.7	2,912.9	2,289.8	2,088.5
I.B	***SERVICES BALANCE (I.B.1–I.B.2)***		***12,640.2***	***13,248.5***	***14,638.7***	***448.5***	***470.7***	***607.9***
	I.B.1	*Receipts*	*26,983.3*	*28,477.8*	*28,624.1*	*1,797.0*	*1,746.1*	*1,765.9*
		Travel	10,400.3	9,611.3	10,519.6	185.9	153.8	146.3
		Transport	13,552.2	15,418.4	14,096.6	1,258.0	1,234.8	1,212.9
		Other services	3,030.9	3,448.1	4,007.9	353.2	357.4	406.7
	I.B.2	*Payments*	*14,343.2*	*15,229.4*	*13,985.4*	*1,348.5*	*1,275.4*	*1,158.0*
		Travel	2,424.6	2,156.0	2,273.5	210.9	161.0	186.5
		Transport	7,073.4	8,155.4	7,233.2	657.9	669.7	573.7
		Other services	4,845.1	4,917.9	4,478.7	479.7	444.7	397.8
I.C	***INCOME BALANCE (I.C.1–I.C.2)***		***-8,984.3***	***-8,143.4***	***-9,066.5***	***-832.5***	***-849.9***	***-1,055.8***
	I.C.1	*Receipts*	*4,282.9*	*3,571.9*	*3,339.4*	*332.9*	*297.2*	*330.0*
		Wages, salaries	294.6	199.7	188.0	24.0	16.5	19.2
		Interest, dividends, profits	3,988.3	3,372.2	3,151.4	308.9	280.7	310.9
	I.C.2	*Payments*	*13,267.2*	*11,715.2*	*12,405.9*	*1,165.4*	*1,147.1*	*1,385.8*
		Wages, salaries	411.9	377.6	470.0	41.1	36.6	48.2
		Interest, dividends, profits	12,855.2	11,337.7	11,936.0	1,124.3	1,110.5	1,337.6
I.D	***CURRENT TRANSFERS BALANCE (I.D.1–I.D.2)***		***1,292.6***	***198.9***	***579.2***	***89.4***	***17.5***	***231.8***
	I.D.1	*Receipts*	*5,380.7*	*4,654.3*	*4,435.0*	*329.6*	*295.3*	*409.4*
		General government (mainly transfers from the EU)	3,527.9	3,188.5	3,254.9	190.7	189.6	308.2
		Other sectors (emigrants' remittances etc.)	1,852.8	1,465.8	1,180.1	138.9	105.7	101.2
	I.D.2	*Payments*	*4,088.1*	*4,455.4*	*3,855.8*	*240.2*	*277.9*	*177.5*
		General government (mainly payments to the EU)	2,679.6	2,860.4	2,485.4	122.3	120.6	106.1
		Other sectors	1,408.5	1,595.0	1,370.4	117.9	157.3	71.5
II	**CAPITAL TRANSFERS BALANCE (II.1– II.2)**		**2,017.4**	**2,071.5**	**2,671.8**	**53.6**	**1,190.9**	**794.7**
	II.1	*Receipts*	*2,328.1*	*2,356.2*	*2,932.7*	*84.4*	*1,216.4*	*820.8*
		General government (mainly transfers from the EU)	2,133.2	2,239.3	2,798.5	65.6	1,205.7	809.0
		Other sectors	194.9	116.9	134.2	18.8	10.7	11.7
	II.2	*Payments*	*310.7*	*284.7*	*260.8*	*30.8*	*25.5*	*26.1*
		General government (mainly payments to the EU)	14.4	15.8	12.7	1.5	0.7	0.5
		Other sectors	296.3	268.9	248.1	29.2	24.7	25.6
III	**CURRENT ACCOUNT AND CAPITAL TRANSFERS BALANCE (I+II)**		**-23,801.3**	**-20,904.1**	**-18,398.0**	**-3,020.5**	**-627.7**	**-1,377.4**
IV	**FINANCIAL ACCOUNT BALANCE (IV.A+IV.B+IV.C+IV.D)**		**24,395.4**	**21,323.5**	**17,867.0**	**2,808.4**	**138.6**	**713.8**
	IV.A	***DIRECT INVESTMENT*** [1]	***274.5***	***-457.4***	***25.1***	***-311.8***	***-106.1***	***1,895.4***
		By residents abroad	-1,479.3	-738.8	-1,286.2	-331.0	-96.1	14.7
		By non-residents in Greece	1,753.8	281.4	1,311.3	19.2	-10.1	1,880.7
	IV.B	***PORTFOLIO INVESTMENT*** [1]	***22,663.8***	***-20,855.0***	***-17,298.3***	***-4,647.2***	***3,226.7***	***-142.8***
		Assets	-8,973.0	13,278.7	6,139.0	-330.7	1,994.9	1,461.2
		Liabilities	31,636.8	-34,133.6	-23,437.3	-4,316.5	1,231.8	-1,604.0
	IV.C	***OTHER INVESTMENT*** [1]	***1,563.1***	***42,538.8***	***35,166.2***	***7,819.4***	***-2,971.9***	***-989.8***
		Assets	-23,875.7	7,658.7	5,429.9	270.2	7,082.8	1,949.9
		Liabilities	25,438.8	34,880.2	29,736.3	7,549.2	-10,054.8	-2,939.6
		(General government loans)	*2,865.0*	*29,978.2*	*39,393.9*	*-133.2*	*2,430.2*	*7,770.1*
	IV.D	***CHANGE IN RESERVE ASSETS*** [2]	***-106.0***	***97.0***	***-26.0***	***-52.0***	***-10.0***	***-49.0***
V	**ERRORS AND OMISSIONS**		**-594.1**	**-419.4**	**531.0**	**212.1**	**489.1**	**663.6**
	RESERVE ASSETS [3]					***3,857.0***	***4,777.0***	***5,377.0***

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, not 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)
2007		626.6	3,213.7	3,840.3	1,976.0	1,541.1	7,357.4	303.8	680.9	311.7	8,653.8
2008		711.8	3,279.1	3,990.9	2,477.8	1,568.1	8,036.8	346.5	749.2	266.1	9,398.4
2009		757.5	3,738.1	4,495.7	1,896.8	1,804.8	8,197.3	334.3	668.1	131.8	9,331.4
2010		793.6	3,904.9	4,698.5	1,781.3	1,914.9	8,394.8	433.8	570.2	121.2	9,520.0
2011		842.1	3,938.8	4,780.9	1,828.1	1,961.2	8,570.2	402.1	536.9	207.1	9,716.3
2009	Jan.	716.7	3,370.8	4,087.5	2,392.7	1,596.9	8,077.0	335.3	765.9	216.2	9,394.5
	Feb.	721.7	3,407.6	4,129.3	2,355.0	1,621.4	8,105.7	335.9	778.3	214.3	9,434.2
	March	725.9	3,413.8	4,139.7	2,311.6	1,642.0	8,093.2	342.0	781.1	193.8	9,410.2
	Apr.	729.0	3,456.8	4,185.8	2,297.8	1,665.4	8,149.0	331.3	772.5	205.2	9,458.1
	May	729.7	3,474.9	4,204.6	2,254.4	1,684.2	8,143.1	326.1	757.4	197.7	9,424.3
	June	732.9	3,521.8	4,254.7	2,204.0	1,701.1	8,159.8	337.3	745.1	181.2	9,423.4
	July	734.6	3,588.5	4,323.1	2,143.4	1,724.6	8,191.1	328.7	752.3	170.4	9,442.4
	Aug.	740.9	3,619.7	4,360.5	2,087.4	1,742.9	8,190.8	315.2	746.5	155.8	9,408.3
	Sept.	745.8	3,657.1	4,403.0	2,026.3	1,760.2	8,189.5	326.5	745.8	147.8	9,409.6
	Oct.	747.9	3,713.7	4,461.6	1,963.6	1,780.6	8,205.7	301.0	741.5	138.4	9,386.6
	Nov.	753.4	3,715.2	4,468.7	1,916.8	1,790.1	8,175.6	312.2	721.5	133.5	9,342.8
	Dec.	757.5	3,738.1	4,495.7	1,896.8	1,804.8	8,197.3	334.3	668.1	131.8	9,331.4
2010	Jan.	761.1	3,771.1	4,532.2	1,854.5	1,816.8	8,203.5	320.5	657.5	131.4	9,312.8
	Feb.	765.4	3,792.1	4,557.5	1,838.2	1,827.1	8,222.8	331.6	642.3	124.9	9,321.6
	March	774.5	3,797.5	4,571.9	1,820.5	1,836.4	8,228.8	345.5	628.7	134.1	9,337.0
	Apr.	769.8	3,854.9	4,624.7	1,789.0	1,843.6	8,257.3	354.9	626.9	134.4	9,373.5
	May	778.9	3,872.7	4,651.6	1,794.3	1,849.1	8,295.0	358.9	618.5	129.1	9,401.5
	June	783.1	3,885.4	4,668.5	1,793.6	1,855.1	8,317.2	394.7	608.2	123.1	9,443.2
	July	782.8	3,906.7	4,689.5	1,785.3	1,867.0	8,341.8	391.0	591.9	126.9	9,451.7
	Aug.	790.0	3,917.0	4,707.0	1,794.2	1,883.5	8,384.7	392.0	596.8	126.5	9,500.0
	Sept.	790.6	3,889.1	4,679.8	1,795.1	1,897.5	8,372.3	401.0	593.5	128.4	9,495.3
	Oct.	791.8	3,892.9	4,684.6	1,804.3	1,908.6	8,397.6	377.3	579.4	122.6	9,476.9
	Nov.	795.9	3,889.5	4,685.4	1,795.7	1,917.7	8,398.9	431.4	585.3	119.6	9,535.2
	Dec.	793.6	3,904.9	4,698.5	1,781.3	1,914.9	8,394.8	433.8	570.2	121.2	9,520.0
2011	Jan.	802.6	3,884.9	4,687.5	1,804.2	1,916.3	8,408.0	408.4	575.0	127.4	9,518.8
	Feb.	804.8	3,890.6	4,695.4	1,816.3	1,918.2	8,430.0	441.3	573.7	125.6	9,570.7
	March	802.7	3,910.8	4,713.5	1,817.9	1,922.3	8,453.7	410.2	568.5	153.5	9,585.8
	Apr.	802.5	3,898.0	4,700.5	1,824.4	1,923.4	8,448.3	418.4	563.6	157.6	9,587.8
	May	812.5	3,892.4	4,704.9	1,850.6	1,934.0	8,489.5	457.3	556.0	158.0	9,660.9
	June	815.4	3,903.6	4,719.0	1,842.4	1,937.9	8,499.3	441.2	548.3	175.5	9,664.3
	July	816.3	3,917.0	4,733.3	1,845.8	1,944.2	8,523.2	455.6	534.8	177.0	9,690.7
	Aug.	825.4	3,957.0	4,782.4	1,847.1	1,953.4	8,583.0	499.8	549.7	173.8	9,806.1
	Sept.	832.3	3,951.2	4,783.5	1,862.7	1,958.6	8,604.7	508.8	552.6	169.1	9,835.3
	Oct.	843.3	3,926.2	4,769.5	1,846.3	1,963.5	8,579.3	486.8	543.1	170.2	9,779.4
	Nov.	847.3	3,941.7	4,789.0	1,828.7	1,971.9	8,589.6	464.3	549.3	172.1	9,775.4
	Dec.	842.1	3,938.8	4,780.9	1,828.1	1,961.2	8,570.2	402.1	536.9	207.1	9,716.3
2012	Jan.*	851.9	3,932.0	4,783.9	1,875.9	1,960.3	8,620.1	432.8	500.2	205.8	9,758.9

Source: ECB.
* Provisional data.
1 Figures take into account euro area enlargements.
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 excluding 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			Deposits with an agreed maturity up to two years	Deposits redeemable at notice up to three months[1]	Repurchase agreements (repos)	Money market fund shares/units	Debt securities up to two years[2]	Total[3] (M3 excluding currency in circulation) (7)=(1)+(2)+(3)+(4)+(5)+(6)	Memo item: Currency in circulation[4]
		(1)	Sight deposits and current accounts (1.1)	Savings deposits (1.2)	(2)	(3)	(4)	(5)	(6)		
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	26,978	63,853	117,623	3,015	87	935	6	212,497	20,383
2011		74,572	23,698	50,874	99,845	2,692	89	640	-1	177,837	21,370
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	131,480	3,214	174	1,500	-75	236,796	18,859
	Feb.	99,125	27,983	71,142	128,957	3,138	149	1,306	-73	232,602	19,022
	March	98,051	27,253	70,798	127,505	2,918	169	1,167	-75	229,735	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	96,283	28,877	67,406	119,794	3,531	105	894	-7	220,600	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	26,978	63,853	117,623	3,015	87	935	6	212,497	20,383
2011	Jan.	89,282	26,331	62,951	115,593	2,959	84	952	5	208,875	19,930
	Feb.	87,613	25,770	61,843	115,362	2,887	102	995	5	206,964	19,952
	March	85,280	25,807	59,473	114,097	2,805	99	981	5	203,267	19,951
	Apr.	84,482	25,009	59,473	112,744	2,768	78	979	4	201,055	20,266
	May	83,469	25,510	57,959	109,074	2,780	118	922	4	196,367	20,211
	June	83,007	26,121	56,886	105,767	2,721	71	832	3	192,401	20,417
	July	80,568	24,515	56,053	107,060	2,654	73	788	2	191,145	20,359
	Aug.	80,551	24,526	56,025	108,410	2,617	88	806	2	192,474	20,463
	Sept.	77,476	23,745	53,731	106,050	2,623	78	752	2	186,981	20,702
	Oct.	75,602	23,338	52,264	101,279	2,571	97	696	1	180,246	20,555
	Nov.	74,125	23,365	50,760	99,775	2,606	139	649	-1	177,293	20,845
	Dec.	74,572	23,698	50,874	99,845	2,692	89	640	-1	177,837	21,370
2012	Jan.	71,491	21,864	49,627	97,962	2,677	84	639	0	172,853	21,159

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	Breakdown by currency: In euro	Breakdown by currency: In other currencies	Breakdown by type: Sight deposits	Breakdown by type: Savings deposits	Breakdown by type: Time deposits
2007		197,238	173,498	23,740	25,019	73,562	98,657
2008		227,253	200,638	26,615	21,827	67,328	138,098
2009		237,341	217,257	20,084	26,140	75,811	135,390
2010		209,521	191,988	17,533	22,865	66,706	119,951
2011		174,137	160,789	13,348	19,601	53,439	101,097
2009	Jan.	228,583	200,338	28,245	20,685	65,526	142,372
	Feb.	229,143	201,132	28,011	20,836	65,570	142,737
	March	230,083	205,505	24,578	20,752	66,557	142,774
	Apr.	233,790	209,556	24,234	22,931	69,222	141,637
	May	232,038	208,326	23,712	21,710	69,329	140,999
	June	237,271	214,272	23,000	24,862	71,094	141,315
	July	234,286	211,619	22,667	23,697	72,080	138,509
	Aug.	236,163	212,690	23,473	24,548	72,881	138,734
	Sept.	237,594	214,978	22,616	24,684	73,232	139,678
	Oct.	235,272	213,535	21,737	24,099	73,104	138,069
	Nov.	234,261	213,057	21,204	25,349	72,720	136,192
	Dec.	237,341	217,257	20,084	26,140	75,811	135,390
2010	Jan.	232,889	212,593	20,296	24,210	75,628	133,051
	Feb.	229,685	210,105	19,580	23,797	74,853	131,035
	March	227,649	209,164	18,485	23,494	74,292	129,863
	Apr.	222,577	204,905	17,672	23,353	72,943	126,280
	May	220,106	201,634	18,472	23,058	72,069	124,979
	June	216,766	197,432	19,334	24,374	70,595	121,797
	July	212,253	194,139	18,114	22,525	69,797	119,932
	Aug.	213,003	194,153	18,850	22,217	69,371	121,415
	Sept.	212,903	195,238	17,665	23,619	67,785	121,499
	Oct.	211,515	194,029	17,486	22,398	67,813	121,303
	Nov.	209,128	190,743	18,385	22,524	66,082	120,522
	Dec.	209,521	191,988	17,533	22,865	66,706	119,951
2011	Jan.	205,438	188,543	16,895	22,063	65,552	117,823
	Feb.	202,815	186,494	16,321	21,057	64,428	117,330
	March	199,086	183,277	15,809	20,829	62,102	116,156
	Apr.	196,678	181,243	15,435	20,098	62,080	114,499
	May	191,815	176,699	15,116	20,333	60,569	110,914
	June	188,108	174,095	14,013	21,071	59,446	107,592
	July	187,143	173,435	13,708	19,941	58,552	108,649
	Aug.	188,574	174,786	13,788	20,211	58,493	109,871
	Sept.	183,128	169,563	13,565	19,615	56,210	107,304
	Oct.	176,323	163,781	12,542	19,202	54,699	102,422
	Nov.	172,759	160,232	12,527	18,695	53,236	100,828
	Dec.	174,137	160,789	13,348	19,601	53,439	101,097
2012	Jan.	168,872	156,193	12,679	17,468	52,178	99,227

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

Table 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]
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
2011		0.87	1.18	1.39	1.64	1.82	2.01
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
	Feb.	0.71	0.89	1.09	1.35	1.54	1.71
	March	0.66	0.90	1.18	1.48	1.72	1.92
	Apr.	0.97	1.13	1.32	1.62	1.86	2.09
	May	1.03	1.24	1.43	1.71	1.93	2.15
	June	1.12	1.28	1.49	1.75	1.95	2.14
	July	1.01	1.42	1.60	1.82	1.99	2.18
	Aug.	0.91	1.37	1.55	1.75	1.92	2.10
	Sept.	1.01	1.35	1.54	1.74	1.90	2.07
	Oct.	0.96	1.36	1.58	1.78	1.94	2.11
	Nov.	0.79	1.23	1.48	1.71	1.88	2.04
	Dec.	0.63	1.14	1.43	1.67	1.84	2.00
2012	Jan.	0.38	0.84	1.22	1.50	1.69	1.84
	Feb.	0.37	0.63	1.05	1.35	1.53	1.68

Source: Bloomberg.
1 Euro overnight index average (EONIA).
2 Euro 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	30-year
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
2011		26.18	22.88	18.97	15.75	12.97	10.72
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
	Feb.	13.40	13.04	13.18	11.40	10.14	8.64
	March	15.33	15.49	14.37	12.44	10.57	8.87
	Apr.	19.11	18.04	16.30	13.86	11.27	9.40
	May	24.28	20.87	17.86	15.94	13.19	10.52
	June	26.48	22.83	19.04	16.69	13.97	11.54
	July	28.96	24.37	19.66	16.15	13.73	10.98
	Aug.	26.74	24.43	19.68	15.90	13.19	10.06
	Sept.	31.51	28.88	22.27	17.78	13.97	10.08
	Oct.	34.61	29.53	22.59	18.04	14.16	11.00
	Nov.	34.08	29.31	22.50	17.92	14.20	13.76
	Dec.	45.88	34.85	26.90	21.14	16.71	14.85
2012	Jan.	68.08	47.04	41.84	25.91	20.10	16.91
	Feb.	77.65	50.35	44.05	29.24	21.51	17.28

Source: Bank of Greece.

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: Total	Firms: Agricul-ture	Firms: Industry[3]	Firms: Trade	Firms: Tourism	Firms: Other	Sole pro-prietors	Individuals and private non-profit institutions: Total	Individuals and private non-profit institutions: Housing	Individuals and private non-profit institutions: Consumer credit	Individuals and private non-profit institutions: Other
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		249,677	130,043	3,962	22,790	33,519	7,358	62,413	-	119,635	80,559	36,044	3,032
2010		257,846	123,244	2,060	24,269	25,355	7,355	64,205	16,483	118,119	80,507	35,081	2,532
2011		248,535	120,126	2,009	23,405	24,687	7,229	62,796	15,359	113,050	78,393	32,985	1,672
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.	249,677	130,043	3,962	22,790	33,519	7,358	62,413	-	119,635	80,559	36,044	3,032
2010	Jan.	250,167	130,611	4,076	22,964	33,408	7,428	62,736	-	119,556	80,704	35,875	2,977
	Feb.	251,173	131,521	4,063	23,031	33,183	7,512	63,732		119,652	80,878	35,791	2,984
	March	251,062	131,393	3,987	23,042	33,203	7,639	63,522	-	119,669	81,173	35,489	3,007
	Apr.	250,983	131,530	4,014	22,999	33,104	7,665	63,748	-	119,453	81,125	35,327	3,002
	May	252,072	132,718	4,012	23,060	33,088	7,640	64,919	-	119,353	81,110	35,193	3,050
	June	260,352	126,525	2,200	25,423	26,724	7,380	64,797	13,904	119,924	81,430	36,292	2,202
	July	258,944	125,529	2,189	24,991	26,718	7,345	64,286	13,929	119,485	81,334	35,960	2,192
	Aug.	258,777	125,452	2,191	24,662	26,633	7,349	64,617	13,812	119,512	81,450	35,898	2,163
	Sept.	258,476	123,543	2,155	24,471	25,873	7,274	63,771	15,618	119,316	81,201	35,834	2,281
	Oct.	257,256	122,772	2,051	24,687	25,663	7,244	63,127	16,429	118,055	80,033	35,621	2,401
	Nov.	258,023	123,361	2,052	24,540	25,607	7,295	63,866	16,444	118,217	80,302	35,443	2,472
	Dec.	257,846	123,244	2,060	24,269	25,355	7,355	64,205	16,483	118,119	80,507	35,081	2,532
2011	Jan.	256,852	122,894	2,064	24,658	25,125	7,301	63,747	16,465	117,493	80,128	34,884	2,480
	Feb.	256,737	122,999	2,057	24,698	25,134	7,283	63,828	16,450	117,288	80,028	34,702	2,558
	March	255,374	122,173	2,124	24,854	25,407	7,404	62,383	16,355	116,846	79,823	34,454	2,569
	Apr.	253,703	121,175	2,119	25,115	25,279	7,197	61,464	16,170	116,358	79,718	34,060	2,580
	May	253,193	120,934	2,077	24,918	25,266	7,182	61,492	16,032	116,227	79,794	33,811	2,622
	June	253,486	121,372	2,031	24,862	25,245	7,224	62,009	16,027	116,088	79,800	33,598	2,690
	July	254,242	122,287	2,032	25,526	25,149	7,224	62,357	16,004	115,951	79,936	33,241	2,773
	Aug.	252,484	121,352	2,002	25,096	24,661	7,133	62,461	15,846	115,286	79,575	33,885	1,826
	Sept.	252,947	122,680	2,024	23,907	25,678	7,282	63,789	15,713	114,554	79,170	33,680	1,704
	Oct.	251,106	121,670	2,018	23,884	25,153	7,291	63,325	15,529	113,907	78,869	33,385	1,654
	Nov.	249,996	121,244	2,003	23,764	24,954	7,238	63,285	15,363	113,389	78,506	33,194	1,689
	Dec.	248,535	120,126	2,009	23,405	24,687	7,229	62,796	15,359	113,050	78,393	32,985	1,672
2012	Jan.	249,087	121,138	1,954	23,325	24,342	7,318	64,199	15,259	112,690	78,104	32,778	1,808

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.

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)
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	n.p.
2010		0.43	0.38	3.26	0.35	2.53	n.p.
2011		0.47	0.40	4.18	0.41	3.55	n.p.
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.	0.43	0.38	3.66	0.32	3.14	n.p.
	Sept.	0.43	0.38	3.61	0.33	2.98	n.p.
	Oct.	0.44	0.38	3.68	0.34	2.98	n.p.
	Nov.	0.44	0.38	3.65	0.35	3.27	n.p.
	Dec.	0.44	0.38	3.68	0.36	3.29	1.92
2011	Jan.	0.44	0.38	3.74	0.34	3.40	n.p.
	Feb.	0.44	0.38	3.75	0.34	3.23	2.26
	March	0.45	0.39	3.76	0.41	3.39	2.45
	Apr.	0.46	0.39	3.88	0.38	3.56	2.94
	May	0.46	0.40	3.95	0.35	3.52	n.p.
	June	0.47	0.41	4.10	0.42	3.38	n.p.
	July	0.47	0.40	4.29	0.45	3.82	3.00
	Aug.	0.47	0.40	4.31	0.44	3.54	3.23
	Sept.	0.47	0.41	4.37	0.43	3.65	2.93
	Oct.	0.48	0.41	4.50	0.44	3.75	n.p.
	Nov.	0.48	0.41	4.62	0.43	3.64	n.p.
	Dec.	0.48	0.41	4.88	0.48	3.76	n.p.
2012	Jan.	0.47	0.41	4.79	0.41	4.03	n.p.

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]		
			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 an agreed maturity[3,4]	With a 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
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
2011		14.98	10.16	9.96	4.28	4.33	10.12	8.76	7.50	6.77	5.74
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	4.94
	Dec.	14.40	10.27	9.68	3.65	3.79	9.57	7.83	6.79	6.34	4.98
2011	Jan.	14.59	10.73	9.84	3.93	4.05	9.58	8.27	6.81	6.14	4.89
	Feb.	14.64	10.44	9.88	3.91	4.04	9.72	8.40	6.90	6.23	5.37
	March	14.70	9.74	9.52	4.04	4.17	9.78	8.59	7.05	6.46	5.39
	Apr.	14.74	10.65	10.15	4.25	4.32	9.91	8.63	7.26	6.46	5.55
	May	14.89	10.48	10.22	4.26	4.33	9.98	8.86	7.34	6.59	5.48
	June	14.94	10.47	10.23	4.23	4.32	10.10	8.62	7.59	6.76	5.56
	July	15.06	11.03	10.45	4.44	4.52	10.19	8.74	7.65	6.85	5.76
	Aug.	15.24	10.77	10.55	4.54	4.57	10.35	9.14	7.76	6.92	5.88
	Sept.	15.26	9.70	9.95	4.49	4.51	10.44	8.93	7.91	7.12	6.04
	Oct.	15.24	10.07	10.22	4.65	4.56	10.43	8.97	7.92	7.27	6.20
	Nov.	15.23	9.30	9.57	4.48	4.40	10.50	8.97	7.93	7.18	6.13
	Dec.	15.22	8.49	8.92	4.18	4.14	10.46	8.94	7.90	7.26	6.64
2012	Jan.	15.18	8.76	9.17	3.98	3.97	10.37	9.19	7.90	7.20	6.10

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.

ISSN: 1108 - 2690