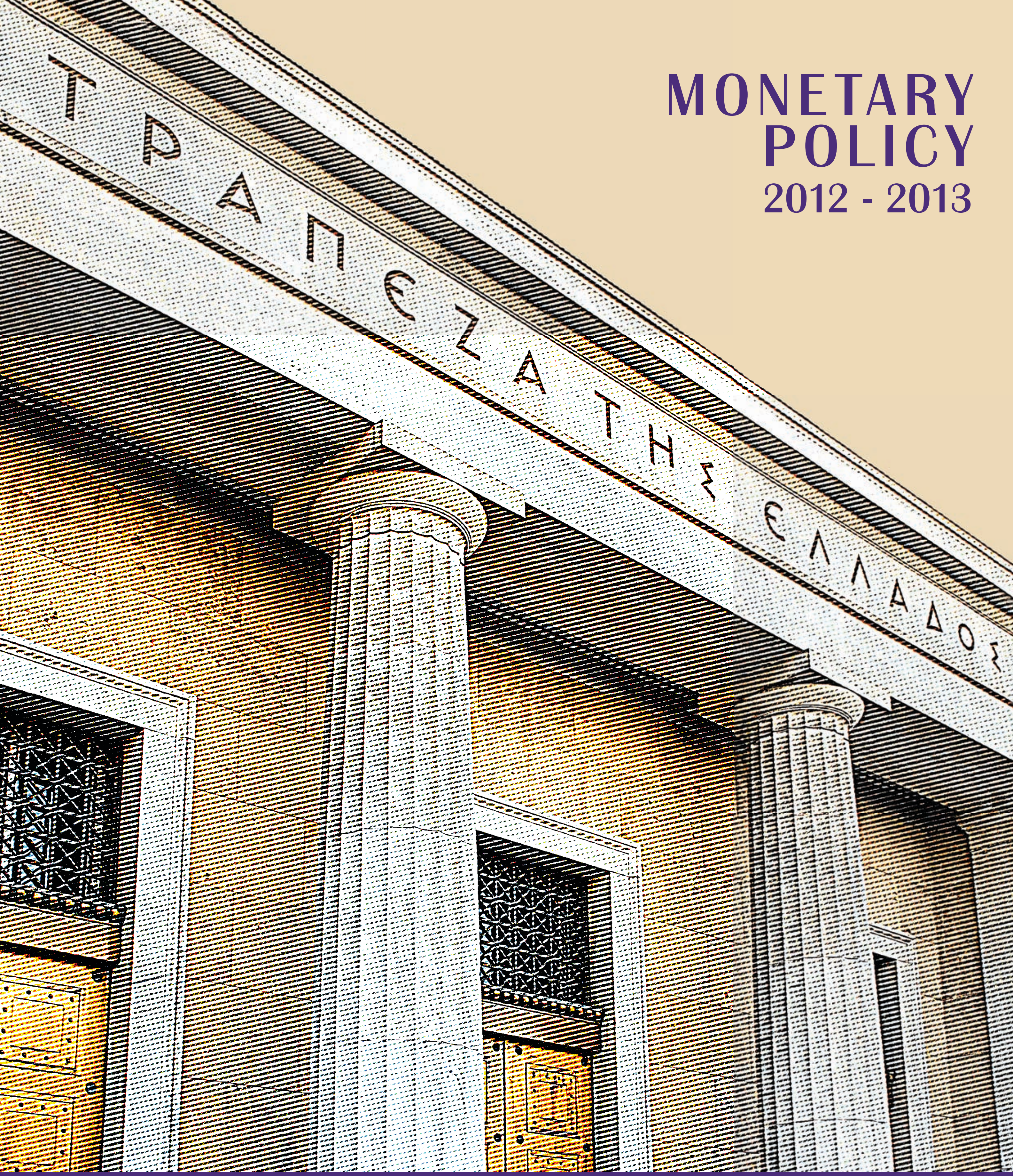
MONETARY POLICY
2012 - 2013



MAY
2013

BANK OF GREECE
EUROSYSTEM

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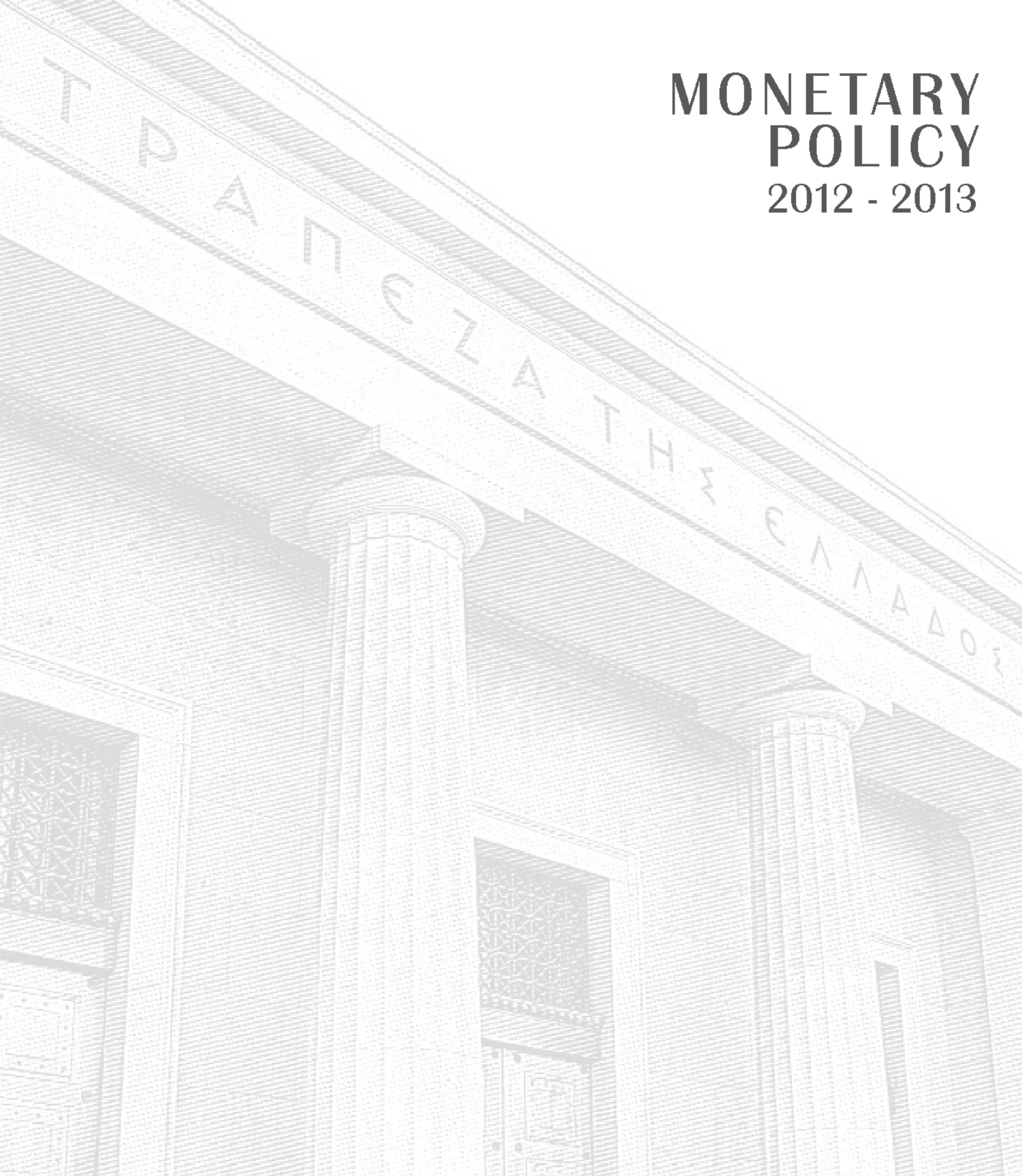

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To the Greek Parliament
and the Cabinet

Today, in accordance with its Statute, the Bank of Greece submits its Report on Monetary Policy 2012-2013 to the Speaker of the Greek Parliament and the Cabinet.

In recent months there have been stronger indications, both at home and abroad, that the economy is rebalancing and could recover in the coming year.

These indications can be summarised as follows:

– The possibility of a Greek exit from the euro area is now remote, as widely acknowledged by analysts and international organisations.

– **Confidence** in Greece's economic prospects is gradually being restored, as shown by the sharp decrease in the yield spread between Greek and German ten-year government bonds.

– The Greek **banking system** has weathered the storm and proved resilient to the severe crisis; it is currently undergoing a process of restructuring on new, healthy foundations. This is the first crucial step towards restoring normal financing conditions in the real economy. It is worth noting that the stability of the banking system was shielded from the tangible risk of a spillover from the Cyprus crisis. Thus, the peak in uncertainty triggered by the developments in Cyprus proved short-lived, putting a halt to the outflow of deposits observed in April 2013.

– The twin deficits (fiscal and external) have declined considerably: **fiscal consolidation** has made remarkable progress, and a primary surplus seems likely to be achieved in 2013, while the **external balance** has also improved substantially.

– The implementation of the **stabilisation programme** is judged to be well on track, and disbursements under the loan agreement are continuing smoothly.

These indications are decidedly positive and, if sustained, herald a future improvement in the real economy. However, the recession and the rise in unemployment continue. Adjustment has taken a heavy toll in terms of output, employment and disposable income – the reason being that it was necessary to address, within a short space of time, accumulating chronic problems and imbalances that, if left unchecked, would surely have led to a default and an exit from the euro area. In the end, the default was averted thanks to substantial progress in the area of fiscal adjustment, which made possible the continued financial support from our partners. The extent and duration of the recession could nevertheless have been lessened, had structural reforms to promote the efficient functioning of the public administration and markets been pursued more energetically and boldly.

If the implementation of structural reforms can be speeded up and the improvement in economic sentiment takes hold, it is plausible to expect that the results will soon be felt in the real economy as well. A prerequisite for recovery is the continued steadfast and faithful implementation of the stabilisation programme.

Until recently, the banking sector had been facing serious problems with liquidity, loan portfolio quality and capital adequacy. These problems, though still present, are gradually being mitigated. It is particularly worth noting that, despite the extremely adverse conditions, the government and the Bank of Greece took effective action and succeeded in safeguarding financial stability and fully protecting depositors. This was confirmed again recently when, starting in late March, Greek banks had to tackle the negative fallout from developments in Cyprus. Following swift and effective action on the part of the Greek authorities, the risk that shocks from the Cypriot banking system would be transmitted to the Greek financial system was minimised, as deposits with Greek branches of Cyprus banks were fully excluded from the bail-in imposed on deposits in

Cyprus. The former Cypriot bank branches operating in Greece continued to serve their customers smoothly after their acquisition by a domestic bank. The risk of contagion from the Cypriot to the Greek banking system was thus nipped in the bud.

Following the transitional recapitalisation of the core banks by the Hellenic Financial Stability Fund (HFSF) in May and December 2012 using EFSF debt securities, recapitalisation is nearing its completion within the specified timeframe.

Recapitalisation will mark the starting point for a restructuring of the banking system based on a comprehensive long-term strategy. A noteworthy number of mergers and acquisitions have already been completed, while the consolidation in the banking system has also been supported by the bank resolutions that took place without any disruption to market stability and with full protection of all depositors.

In the months ahead, the banking system will face new challenges. Once banks' capital base has been strengthened, they will be expected to manage their new entities with a focus on achieving the maximum possible synergies, in the context of the regular (quarterly) funding plans that they are required to submit to the Bank of Greece for assessment. At the same time, banks will need to prepare for the new stress test exercise to be conducted by the Bank of Greece by end-2013. Special attention will be given to the more efficient management of non-performing loans. Moreover, by end-September 2013, the institutional framework of cooperative banks must be aligned with the best international practices.

The return of deposits, the fall in funding costs, as well as the completion of the restructuring and recapitalisation of the banking system (both of which are structural reforms of crucial importance) will contribute decisively to the restoration of confidence in the prospects for the Greek economy and are prerequisites for economic recovery. The Bank of Greece will continue to take action with a view to maintaining the stability of the financial system, protecting depositors and creating a sustainably sound and well-capitalised banking system; these goals are a *sine qua non* for supporting the real economy.

These encouraging developments, however, leave no room for complacency, as risks and uncertainties still remain which could jeopardise stabilisation and undermine the prospects of economic recovery:

- Despite progress in several areas, the functioning of public administration remains weak. This weakness leads to shortfalls as regards the implementation of measures previously passed by the Greek Parliament and effectively delays reforms that could mitigate the intensity of the recession.

- The protracted and deep recession, combined with the lack of liquidity, could increase the number of – essentially viable – businesses that are forced to shut down.

- Finally, the political and public debate remains confrontational and often prevents the forming of a minimum consensus that would ensure the continuity of adjustment and rapid recovery.

The climate is favourable today for the speedier pursuit of policies aimed at translating the improvement in expectations into real economic activity. For this to happen, there are a number of prerequisites:

First, to **press ahead with the fiscal consolidation programme, fully adhering to the timetable and targets set**. Meeting the budgetary targets both fully and on time is the first and essential condition for the continued smooth disbursement of funds under the loan agreement. Top priority should be given to achieving a primary surplus in 2013. Achieving the budgetary targets would bolster confidence in the Greek economy, while also eliminating the need for additional across-the-board measures. In fact, the progress made so far with fiscal adjustment has been crucial to ensuring continued financial support to the Greek economy.

Second, to **accelerate structural reforms, especially in the public sector**. In particular, emphasis should be given to:

(i) finalising the **tax reform** agenda, which should create the conditions for reducing the tax burden of those who already pay taxes. This requires a broadening of the tax base, through the effective curbing of tax evasion;

(ii) improving the efficiency of **tax administration**, in order to boost public revenue. Of major importance in this respect is the upgrading and effective functioning of the General Secretariat of Public Revenue Administration;

(iii) taking steps to **rationalise the functioning of the public sector**, by utilising the opportunity for staff renewal opened up by the recent decision to replace some 15,000 civil servants who are expected to leave service under mandatory exits by 2014. New recruitments should be strictly merit-based and targeted to cover pressing needs in key areas (e.g. tax administration, health).

Third, to **carry through the privatisation agenda with greater resolve and at a faster pace**, assessing each privatisation in terms of its potential to create jobs and foster a shift in the Greek economy's growth model.

Fourth, to **urgently address the issue of unemployment, by inter alia strengthening active labour market policies**. This can be achieved by making more effective use of resources available from the Structural Funds to support social cohesion.

Fifth, **to complete pension reform in practice, by developing the occupational and private life insurance pillars**, which, under certain conditions, could help offset the declines in main, first-pillar pensions. This would require eliminating existing obstacles and rigidities.

Sixth, **to enhance liquidity in the short term**, by accelerating: (i) the payment of public sector arrears to the private sector; and (ii) the utilisation of available resources of the National Strategic Reference Framework (NSRF) and the European Investment Bank to support investment and relaunch infrastructure projects.

Key to restoring normal liquidity conditions will also be the strengthening of the banking sector, which – along with the completion of structural reforms – will help to rebuild confidence in the economy and increase both the supply and demand for bank financing.

In the long term, however, given that domestic savings are not sufficient to finance growth via bank lending, **alternative sources of financing the economy need to be tapped, complementing bank credit and EU funds**.

In this respect, as the economic and business outlook improves, Greece must seek to attract foreign direct investment through privatisations and to take advantage of the opportunities offered by the corporate bond market.

Athens, May 2013

George Provopoulos
Governor

MONETARY POLICY COUNCIL OF THE BANK OF GREECE

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Ioannis Papadakis

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I THE ECONOMY IS STABILISING – REFORMS MUST BE COMPLETED TO CONFIRM POSITIVE EXPECTATIONS

The economy is balancing

After three years of implementing adjustment programmes, there are currently some indications that the economy is balancing —at low output levels— and may recover next year, provided that the stabilisation programme continues to be implemented without deviations.

The stabilisation of the economy and the improved outlook came as a result of three interlinked factors: (i) a gradual **restoration of confidence** following the formation of the coalition government in June 2012; (ii) the achievement of great progress in addressing long-standing economic imbalances; and (iii) the safeguarding of financial stability and the smooth operation of the banking system.

In 2012 the Greek economy's **twin deficits** (fiscal and current account deficits) declined substantially on the back of a contractionary fiscal policy and the recovery of competitiveness. A primary surplus is expected in 2013, for the first time since 2002, as well as a further decrease in the external deficit, since the continued improvement in price and cost competitiveness boosts exports.

The **banking system** proved resilient and is now being reorganised on new, solid foundations. This is the first crucial step to gradually restore smooth financing conditions in the real economy.

The Greek banking system was ringfenced against the Cypriot crisis, as the assets and liabilities (including total deposits) of Cypriot banks' branches in Greece were transferred to a Greek bank. Thus, the heightened uncertainty caused by the developments in Cyprus proved to be temporary and did not affect the overall trend for a **gradual return of deposits** to Greek banks.

Evidence of improved expectations

Positive developments are already being acknowledged at national and international level. The risk of **Greece's exit from the euro area** has been averted and the **yield spread** between the Greek and the German ten-year government bond has rapidly declined, from about 3,000 basis points a year ago to less than 750 basis points in May 2013. The course of implementation of the **stabilisation programme** is considered satisfactory and disbursements under the loan agreement continue as planned. The **Economic Sentiment Indicator** keeps improving and reached a three-year high (89.2 in April 2013), thereby reflecting the substantial decrease in uncertainty.

Although the recovery of real output lags the recovery in expectations, there is some positive evidence from the supply side and the labour market. **Industrial output** continues to decline, albeit at slower rates, and activity in several industrial subsectors shows signs of stabilisation. In **services**, activity in tourism-related branches is expected to recover. In the labour market, there has been a noticeable **reduction in the number of layoffs** and, more recently, an increase in the rate of hiring. In addition, business expectations about the **short-term employment outlook**, though still negative, have significantly improved compared with the 2012 average.

In the real economy, however, recession continues and unemployment rises

The contracted production base and the simultaneous public and private sector deleveraging have led, however, to continued recession for the fifth consecutive year, with a 20% cumulative decline in economic activity since the onset of the crisis and a 17 percentage points cumulative rise in unemployment, which reached a 27% high in February 2013.

In terms of output, employment and disposable income, the cost of adjustment has been heavy, since in a short period of time it was necessary to tackle long-standing problems and correct imbalances which, if left unresolved, would have inevitably led to Greece's bankruptcy and exit from the euro area. Bankruptcy was eventually averted, thanks to continued financial support by Greece's partners. However, the depth and length of the recession could have been shorter had economic policy pursued with greater zeal and boldness the timely implementation of structural reforms in the government sector and the markets. Labour market reforms have undoubtedly been radical and acted as a catalyst in reducing unit labour costs and recovering competitiveness losses. If these reforms had been implemented before the deepening of the crisis, the private sector would have had stronger incentives to amend labour contracts and preserve jobs, thereby containing unemployment, instead of resorting to layoffs.

Now, after five years of deep recession, the economy is faced with a new deficit, i.e. insufficient demand, since the **output gap** (the difference between real GDP and potential output) of the economy in 2013 stands at about -12%, meaning that demand must increase by 12% to make up for potential supply of products and services in the economy. The output gap would have been even bigger if the **potential output** of the economy had not also declined by about 6% between 2009 and 2012 as a result of a rise in long-term unemployment and a partial obsolescence of productive fixed capital.

It is estimated that **GDP** will drop by 4.6% in 2013, as the continued fiscal adjustment, wage cuts, lack of liquidity and the recession in Cyprus negatively affect economic activity. However, the decline in uncertainty about the outlook of the Greek economy, coupled with the provision of liquidity through the gradual repayment of government arrears, financing by the European Investment Bank and the National Strategic Reference Framework (NSRF), as well as progress in the privatisation programme, are expected to gradually dampen the intensity of recession. If these positive prospects materialise, the economy, assisted by mild negative inflation, is expected to recover in 2014.

Fiscal adjustment continues

In 2012 fiscal adjustment continued for the third consecutive year with significant outcomes.

The **primary deficit** of general government, excluding net government support to financial institutions, was contained at 1% of GDP, in line with the revised fiscal targets set out in the second Financial Adjustment Programme.

Because of the recession, the improvement in the **structural deficit** of general government was much higher; it declined by 6.9 percentage points of potential GDP compared with 2011. Similarly, the structural primary balance is estimated to have improved by 4.6 percentage points of potential GDP, shifting to a small primary surplus. According to an IMF report, the improvement in the cyclically adjusted deficit amounted to about 16.4 percentage points of potential GDP in 2010-2012, which makes **Greece's fiscal improvement the highest among developed countries**.

General government **debt** was contained at 157% of GDP in 2012, because of the positive contribution of the PSI and the bond buyback operation that was completed in December 2012.

Fiscal consolidation efforts continue and a primary surplus in line with fiscal targets is considered feasible in 2013, despite the shortfalls recorded so far in various revenue categories because of the continued decline in economic activity, rising unemployment and tax evasion. However, persistently low indirect tax revenue and the accumulation of overdue debts limit the scope for fiscal policy to improve the primary balance amidst a continued economic downturn, thereby making it absolutely necessary to take stimulus measures. The acceleration in the implementation of the privatisation programme will also help in this direction, as it will further boost market confidence in the Greek economy and attract foreign direct investment.

Favourable external economic environment and stabilising decisions by EU institutional bodies

The world economic outlook for 2013 is moderately positive, mainly driven by emerging economies, while recovery is expected to be slow and fragile in developed economies. The path of the euro area economy will remain slightly negative in 2013, reflecting the continued recession in the euro area southern countries and weak performance in the other euro area countries. A gradual recovery in economic activity is expected to start in the second half of 2013, with GDP increasing in 2014 in line with the rise in domestic demand and exports.

In terms of competitiveness and geographic breakdown of exports, Greece is well-placed to benefit from the rise in global demand, especially in non-EU countries, which are the destination of more than half of Greek exports. According to Bank of Greece estimates, about 80% of the cost competitiveness losses in the 2001-2009 period vis-à-vis Greece's trading partners have been recovered. Actually, cost competitiveness is expected to record a 2.5% improvement in 2013 for the first time since 2000.

The anticipated recession of the Cypriot economy in 2013 should negatively affect exports of goods and services. However, since Greek exports to Cyprus mainly include goods with inelastic demand (oil products, foods), the direct impact on the rate of change in Greek GDP from exports of goods and services will be no more than ¼ percentage point.

Policy responses in the euro area

Institutional initiatives towards a banking union in the euro area (single supervisory mechanism and adoption of the European Commission proposals on the European bank resolution framework and the harmonisation of deposit guarantee schemes before June 2013) have contributed to stemming economic uncertainty, favourably affecting the climate in Greece as well. Moreover, the decisions made by the Eurogroup in March and April 2013 on the management of the debt crisis and the implementation of financial adjustment programmes in various euro area countries (loan agreement with Cyprus, prolongation of loan repayments for Portugal and Ireland) **have confirmed the European partners' commitment to jointly and effectively tackle the crisis**.

However, the strongest boost to confidence in the euro area came from the **introduction of Outright Monetary Transactions** by the Eurosystem in September 2012, which resulted in significantly reducing the malfunctions in the monetary policy transmission mechanism and normalising conditions in financial markets. Significant progress has been made since the summer of 2012 in improving banks' potential to tap market funding, lowering funding costs for banks in troubled euro area countries and encouraging deposits to return to the banking system of euro area southern countries that have been most affected by the debt crisis. Furthermore commercial banks became less reliant on the Eurosystem for liquidity. At the same time, monetary policy remains accommodative, while the European Central Bank has also announced that, through the Eurosystem's open market operations, liquidity will be provided to credit institutions through fixed rate tenders with full allotment for as along as necessary.

Financial aggregates tend to improve

Declined uncertainty has contributed to **a gradual increase in the deposit base** of the banking system since June 2012. Coupled with the beginning of the **recapitalisation of core credit institutions** and the resolution of certain non-core credit institutions, this development helped to slightly slow the shrinking of bank financing to the real economy and decrease interest rates on deposits and loans. It should be noted, however, that slower annual rates of decline in bank financing to the real economy also reflect the fact that many existing loans are non-performing or have been restructured by banks.

According to Bank of Greece empirical studies, confidence was the main determinant of deposit outflows during the crisis, accounting for about 2/3 of total outflows, while macroeconomic developments played a secondary role. Empirical model simulations imply that, with confidence consolidating, deposits will continue to return, despite the negative effects of the continued recession.

Serious, but gradually easing, pressures on the banking system in 2012

In 2012 the banking system continued to face serious problems as regards its liquidity, loan portfolio quality and capital adequacy. Credit institutions' liquidity came under strong pressure, which however eased significantly in the second half of 2012, mainly due to inflows of deposits. In addition, banks' securities portfolios were strengthened by EFSF notes, which carry a high credit rating and can be used as collateral to raise liquidity on favourable terms both from the Eurosystem and international money markets.

On the other hand, the deep recession has caused a significant increase in the NPL ratio for all loan categories, to 24.5% at end-December 2012, from 16% at end-December 2011. As a result of these adverse effects, banks and banking groups posted once again losses, of €6.5 billion and €5.4 billion, respectively.

Despite the extremely adverse conditions, the government and the Bank of Greece continued to safeguard financial stability and citizens' deposits. This was also confirmed in 2013, when Greek banks had to face the negative impact from the developments in Cyprus in late March. Thanks to rapid and effective action, the Greek financial system was ringfenced, as depositors in Greece were fully excluded from the bail-in on deposits in Cyprus. Moreover, the branches of Cypriot banks in Greece were acquired by Piraeus Bank following a tender procedure and therefore continued to serve their customers smoothly. Thus, the risk of contagion from the Cypriot to the Greek banking system was nipped in the bud and the outflow of deposits observed in April quickly came to a halt. The successful policy to safeguard deposits was reconfirmed in early May with the resolution of First Business Bank, whose total deposits were transferred to the National Bank of Greece.

The recapitalisation procedure is being concluded

Following the bridge recapitalisation of core banks by the Hellenic Financial Stability Fund (HFSF) in May and December 2012 through the transfer of EFSF notes, the recapitalisation procedure will be concluded within the envisaged timeframe. The general meetings of all core banks decided capital increases according to schedule by end-April 2013 and the procedure to raise private funds has begun. Two core banks, Alpha Bank and Piraeus Bank, have effectively ensured the contribution of the required minimum 10% of capital by private investors, the National Bank of Greece has notified the competent authorities that private investors have expressed solid interest in participating in its capital increase, while Eurobank, by decision of the general meeting of its shareholders, asked the HFSF to fully cover its capital needs, thereby making the HFSF its main shareholder. Turning to non-core banks, First Business Bank notified the Bank of Greece of its failure to raise the required capital and, as a result, was resolved, while the other non-core banks continue their efforts to meet their entire capital needs through private funds with a strong likelihood of success. The outcome of the efforts of all banks is expected to become known in mid-June 2013.

The conclusion of recapitalisation will mark the beginning of a restructuring of the financial system on the basis of a comprehensive strategy.

The Greek banking system is expected to turn page in the course of 2013, a process than began in 2012. A significant number of acquisitions and mergers have been completed. The restructuring of the banking system also benefited from the resolution of insolvent banks, which was completed without causing market disruptions and with full protection afforded to all depositors.

The Bank of Greece, as the banking system supervisor, has repeatedly maintained that the size of the Greek economy requires **fewer and stronger banks**, which will be more resilient to financial shocks.

In the coming months, the banking system will face new challenges. Having a strong capital base, banks should now manage their new structures and achieve as many synergies as possible, in the context of a new requirement to submit quarterly funding plans for assessment by the Bank of Greece. At the same time, they must prepare for the stress tests to be concluded by the Bank of Greece, by the end of 2013. Moreover, special emphasis will be placed on the management of non-performing loans, in order to come to a sustainable solution over the long term. As regards cooperative banks, their institutional framework should be adapted to international best practices by end-September 2013.

The return of deposits, the reduction in credit institutions' refinancing costs,[1] as well as the conclusion of the restructuring and recapitalisation of the banking system (which are crucial structural reforms), decisively contribute to gradually restoring confidence in the prospects of the Greek economy and are key to economic recovery. The Bank of Greece will continue to take action to maintain the stability of the banking system, protect depositors and create a viable and well-capitalised banking system, which is vital for supporting real economy.

Uncertainties and risks persist

These encouraging developments do not however leave room for complacency as risks and uncertainty persist and could jeopardise the prospects of stabilisation and economic recovery.

- Despite the progress made in many areas, the **functioning of government** remains a problem. Measures approved by Parliament are implemented poorly or are not implemented at all. This results in delays in the implementation of reforms that could reduce the intensity of the recession.

- The protracted and deep recession and **liquidity constraints** may increase the number of —fundamentally viable— enterprises that are forced to shut down, or may substantially delay the recovery of investment.

- Finally, **political debate** and public dialogue are still marked by conflicts that often do not allow for a minimum consensus that would ensure continued adjustment and rapid recovery.

2013 will be a turning point subject to conditions

In order for the tentative improvement in expectations to be translated as soon as possible into improvement in the real economy and job creation, the following conditions must be fulfilled:

Continuing fiscal adjustment

It is important to continue, in a fully consistent manner, the implementation of the **fiscal part** of the adjustment programme, in line with the time schedules and targets set. Achieving the fiscal targets without delays and procrastinations is the first necessary condition in order for Greece to continue to receive support from its international lenders without disruptions. The top priority is to achieve a **primary surplus** in the course of 2013. The achievement of fiscal targets will firstly boost confidence in the

1 It should also be noted that some credit institutions already raise funds from the secured interbank lending market using as collateral EFSF notes, acquired in late 2012 in the context of the recapitalisation process and the Greek government debt buyback operation.

Greek economy and, secondly, make any new across-the-board measures unnecessary. It should also be noted that the great progress made so far in fiscal adjustment was the main reason why the Greek economy continues to receive financial support.

Accelerating structural reforms in the public sector

Structural reforms in the public sector should be stepped up, focusing on increasing public revenue and promoting the smooth operation of an efficient public administration.

The completion of the **tax reform** should lay the foundations for gradually decreasing the tax burden of already taxed persons and expanding the tax base by effectively combating tax evasion, which is key to the success of the programme. It is also imperative to improve the efficiency of the **tax-collection mechanism** in order to limit revenue shortfalls and promptly collect tax and social security contribution arrears from households and enterprises. In this regard, it is important to upgrade and ensure the effective operation of the General Secretariat for Revenue.

Finally, the opportunity for new hirings following the recent decision to replace the 15,000 who will exit the civil service by 2014 must be effectively tapped. New hirings should not only be strictly meritocratic, but should also be targeted, so as to meet the real needs of public administration in critical areas (e.g. taxation, healthcare). The possibility of replacing a relatively large number of civil servants, coupled with the closures and mergers of government organisations, the activation of the mobility process and the dismissal of all civil servants who have committed disciplinary offences, is a very important opportunity to begin an effective **rationalisation of the public sector**. This is why it should not be wasted.

Completing social security reform

The 2010 social security reform has significantly enhanced —albeit with much delay— the long-term sustainability of the public pension system. However, coupled with additional fiscal measures, the level of pensions paid by the first pillar has now been substantially reduced, thereby raising a question of adequacy, since the reduced rate of replacement will push below the poverty line those who, during their working life, earned below-average incomes. **Tapping occupational and private insurance** could, under certain conditions, offset this impact. However, in Greece, the development of the second and third pillar has always come up against a series of obstacles, both on the demand and the supply side. International experience can serve as a guide for the introduction of adequate incentives, both in the form of tax reliefs and by cutting red tape and removing other regulatory restrictions, so as to facilitate and activate employers and ensure adequate participation by vulnerable social groups.

Promoting active employment policies

Prolonged joblessness erodes the skills of the unemployed, thereby reducing their chances to enter or re-enter the labour market. Their non-entry, apart from the cost it implies for the persons themselves and society, will create even more adverse macroeconomic conditions: high long-term unemployment and a noticeable decline in the potential rate of economic growth. To prevent this, the unemployed must be supported to brush up their knowledge and skills and seek employment with good chances of success, thereby ensuring social cohesion.

To this end, it is now imperative to promote active labour market policies: subsidised social security contributions, vocational training programmes, community programmes to meet social needs by hiring the unemployed directly by municipal and regional agencies or other public services (e.g. schools, hospitals). Active labour market policies may be promoted by utilising more effectively the resources of Structural Funds for social cohesion.

Privatisations to boost growth and employment

The implementation of the privatisation programme must be bolder and faster, guided by **the potential of each privatisation to create jobs and contribute to changing the productive model of the economy**. Overall, the shrinking of the public sector to the benefit of the private sector and the simultaneous implementation of the necessary structural reforms will facilitate the reallocation of funds to more dynamic sectors, attract foreign direct investment (also tapping synergies with domestic enterprises) and boost private investment, thereby increasing employment and the real and potential output of the economy. There are already some positive signs from current or planned **investments by foreign enterprises in Greece**, with a significant multiplier effect.

Restoring smooth liquidity conditions

On a short-term basis, liquidity may be boosted by more rapidly implementing policies relating to (i) the payment of government arrears and (ii) tapping NSRF and European Investment Bank funds to implement investment plans and reactivate infrastructure projects that have been discontinued due to the crisis.

Key to restoring smooth liquidity conditions will also be the completion of structural reforms and the strengthening of the banking sector, which will fully restore confidence in the prospects of the Greek economy and increase both supply and demand for bank financing. It should be, however, taken into account that the decline in incomes, the increased tax burden and deleveraging due to the debt overhang have led to **negative household saving** in the past three years. Therefore, the ability to generate new domestic deposits, capable of financing recovery and investment through bank loans, will be relatively limited, at least for some time.

Consequently, it would be advisable to **explore and utilise alternative methods of financing the economy**, supplementary to bank loans and Community funds. The shift of the economy towards a new growth model must be supplemented by a new model for financing sound business activity. In this context, it is imperative to attract foreign direct investment through privatisations and to tap the corporate bond market, as the prospects of the Greek economy and Greek enterprises improve.

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

*The **global economic outlook** for 2013 is overall positive, mainly on account of the dynamics of emerging market economies, which have contributed 3/4 to global GDP growth over the past five years. In advanced economies, the recovery is expected to be slow and fragile, as a number of setbacks such as weaknesses in the financial sector and lack of reliable medium-term fiscal adjustment programmes still weigh on some economies. The rate of change in **euro area** GDP is expected to remain slightly negative in 2013, while a gradual recovery of the economy is anticipated from the second half of 2013 onwards, with growth rates returning to positive territory in 2014. However, the economic crisis still holds, as evidenced by recent developments in the Cyprus economy, and the euro area continues to be faced with serious challenges, mainly the smooth functioning of the Economic and Monetary Union and the promotion of growth with a view to reducing soaring unemployment rates, especially in some member countries.*

1 INTERNATIONAL ECONOMIC DEVELOPMENTS, PROSPECTS AND POLICY RESPONSES

1.1 GLOBAL ECONOMY[1]

World economic activity weakened in the fourth quarter of 2012, mainly on account of developments in the United States and major euro area economies. Nevertheless, signs of recovery have been visible since early 2013, particularly in the US and Japan,[2] and the global economic outlook is overall positive, in spite of some persisting risks. Global imbalances are receding, government bond spreads in countries with high debt levels are declining, despite the recent shock from the economic developments in Cyprus, while financial markets have been on the upturn since the second half of 2012, boosting economic confidence indicators. However, unemployment will continue to be the most serious problem in advanced economies, notably in Europe.

Compared with 2012, **world GDP** is projected to pick up on account of a small acceleration in emerging market growth. It is estimated that growth rates in advanced economies will remain low and unchanged in 2013, at 1.2%. Economic growth in the US and Japan is expected to decelerate, whereas in the euro area the pace of growth will continue to hover in negative territory (-0.3%, from -0.6% in 2012).

The stabilisation of commodity prices and the increased negative output gap in advanced economies will lead to a further decline in **global inflation**, which is projected to drop to 1.7% from 2.0% in advanced countries. Low core inflation and inflation expectations firmly anchored at low levels have so far helped maintain very low interest rates and negative real interest rates, as well as non-standard monetary policy measures in most advanced economies to support global economic recovery (see Chart II.1).

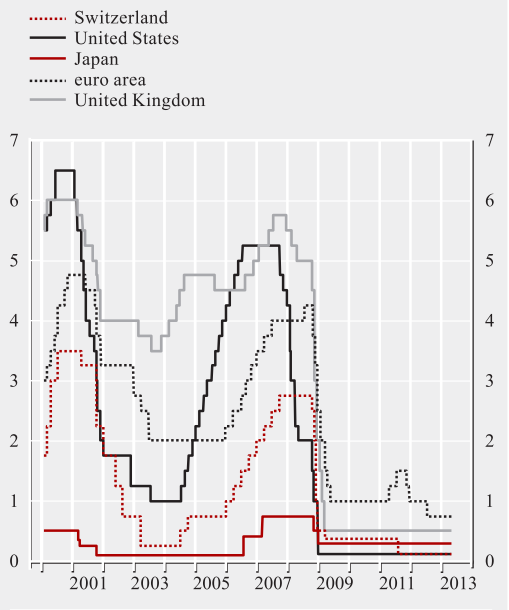
In the **United States**, the forecast for the 2013 growth rate was revised downwards to 1.9% (from 2.1% in the January estimate), against 2.2% in 2012, while unemployment is expected to decline further to 7.7%, from 8.1% in 2012. The fiscal cliff, which was initially estimated at 4% of GDP at the start of 2013, will amount to only 1.7% of GDP.[3] Given the fiscal constraints and the already elevated public debt, the Fed's announcement of its intention to keep the federal funds rate near zero at least as long as unemployment remains above 6.5%, as well as to continue its quantitative easing by purchasing Treasury securities and mortgage-backed securities, are expected to continue to support —albeit at a gradually lesser extent— economic growth.

In **Japan**, the announcements about fiscal expansion of 2.5% of GDP[4] as well as the Bank of Japan's new aim of achieving an inflation rate of 2% by doubling the monetary base,

1 Main sources: International Monetary Fund, *World Economic Outlook*, April 2013; European Commission, *European Economic Forecast - Spring 2013*, May 2013; and OECD, *Interim Assessment*, 28 March 2013. The cut-off date for data and forecasts in this chapter was mid-May 2013.
2 *Markit Monthly Economic Overview*, April 2013.
3 ECB, *Monthly Bulletin*, Box 1 "Recent developments in US fiscal policy and their impact on economic activity", April 2013.
4 OECD, *Interim Assessment*, 28 March 2013.

Chart II.1 Central bank policy rates (January 2000-April 2013)

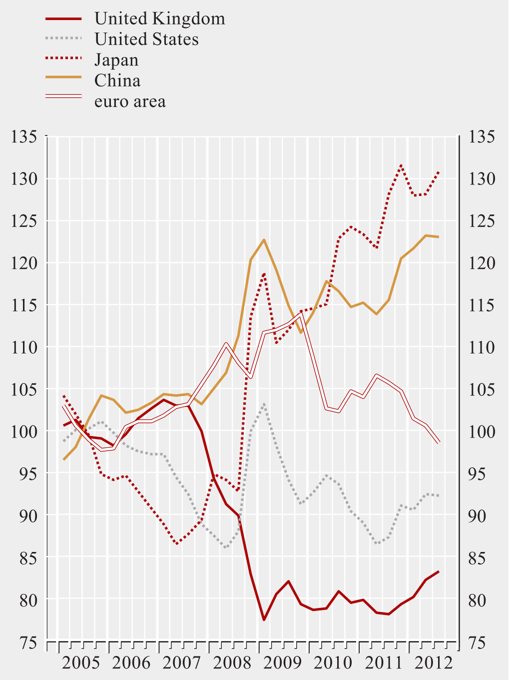
(percentages per annum, daily data)



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

Chart II.2 Nominal effective exchange rates

(2005=100, quarterly averages)



Source: European Commission, Price and Cost Competitiveness Report.

whilst at the same time remaining vigilant about the emergence of asset price bubbles, have contributed to an improvement in the economic climate and a considerable depreciation of the yen since August 2012. The projected slowdown in GDP growth for 2013 (down to 1.6%, from 2.0%) will come from domestic demand, while net exports will continue to make a smaller but negative contribution to GDP, given a sharp decline in external trade over the 2012-2013 period.

Although their **forecasts** are generally surrounded by a high degree of uncertainty, international organisations underscore that several serious problems that have been pending for quite some time and weighing on global recovery have been, to a large extent, overcome. More specifically, restored market confidence in the single currency following the ECB's announcement of its new Outright Monetary Transactions (OMTs) in September 2012 and the institutional initiatives to establish a banking union across the euro area, as well as the easing of the fiscal cliff in the US, have undoubtedly contributed to limiting uncertainty, with a positive effect on the recovery prospects of advanced economies.

1.2 EURO AREA

In the euro area, although the institutional initiatives to enhance economic governance were welcomed by the markets and government bond spreads have declined, **the economic climate remains unfavourable**. The Purchasing Managers' Index (PMI) for new orders stabilised in April after declining for two months, while business expectations were negatively affected by developments in Cyprus.[5] Inflation fell sharply to

5 Nevertheless, the new coalition government in Italy enjoying widespread political backing is expected to help ease uncertainties and improve the economic climate in the euro area.

1.2% in April, from 1.7% in March and, according to the ECB staff projections, is expected to stand between 1.2% and 2.0% in 2013.

Turning to macroeconomic developments, there exist significant cross-country differences within the euro area. In eight out of the 17 euro area economies, negative rates of change in GDP are projected in 2013 (against nine in 2012), while GDP growth rates are expected to slow down in three economies. According to the IMF, euro area GDP is expected to shrink less in 2013 (-0.3%)[6], despite an anticipated smaller contribution from net exports (+0.9%, from +1.6% in 2012), as all domestic demand components excluding public investment are expected to decline at a lower rate in 2013. Among the components of domestic demand, fixed capital formation was hit most (declining by 4.1% in 2012, against an increase of 1.5% in 2011), in particular investment in equipment, a very frequent development in times of distress. Nonetheless, the outlook for investment in equipment appears to be favourable, as economic activity is stabilising, uncertainty is declining and investor confidence is gradually being restored (see also Box II.1).

It is estimated that the protracted recession and its depth, most notably in countries under fiscal adjustment or banking sector restructuring programmes, will lead to a further rise in **unemployment**. For the euro area as a whole, the average annual rate of unemployment is projected to continue rising, from 11.4% in 2012 to 12.3% in 2013, while in Greece and in Spain it will come close to 27%.

The euro area economies that are subject to **financial support programmes** by the EU and the IMF, although differing in the composite challenges facing them as well as in the pace of the necessary reforms (see Chart II.3), are progressing quite well with the implementation of necessary measures, as reflected in a gradual decline in uncertainty. However, the recent crisis in Cyprus highlights the fragility of the exit from both the international financial crisis and the (public and/or private) debt crisis.

Almost all euro area economies have shown great perseverance in pursuing deficit reduction policies, aimed at eliminating fiscal risks and breaking the vicious circle of fiscal position, real economy and financial sector. The **structural fiscal deficit** for the euro area as a whole narrowed considerably in 2012 to 2.0% of potential GDP, compared with 3.4% in 2011, and is expected to decline further to 1.2% in 2013. As a result of the economic downturn, it is estimated that the **general government deficit** decreased less in 2012, i.e. to 3.6% of GDP, from 4.1% in 2011, while a further reduction is expected in 2013, to 2.9%. **Gross public debt** rose by nearly 5 percentage points to 92.9% of GDP in 2012 and is expected to stabilise at 95% in 2013 and in 2014.

1.3 EU AND EURO AREA: POLICY RESPONSES

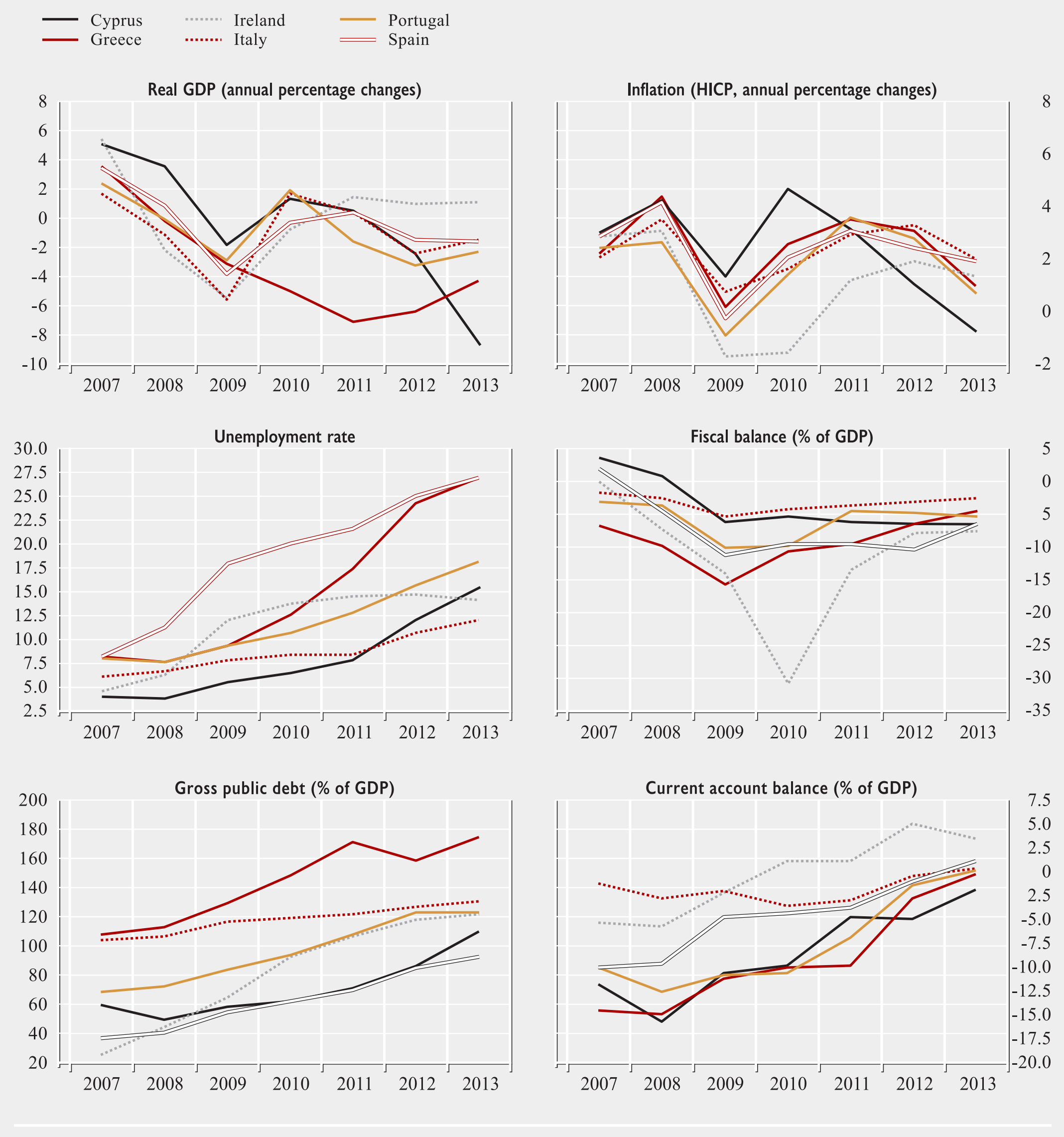
Decisions aimed at easing the debt crisis and implementing economic adjustment programmes in euro area countries

On 4 March 2013 the Eurogroup noted with satisfaction that, after the update of the Medium-Term Fiscal Strategy for 2013-2016 by the Greek Parliament on 18 February, the Greek authorities have achieved the milestones agreed as a precondition for the disbursement of €2.8 billion in February, followed by a further sub-tranche of €2.8 billion in the beginning of May. Furthermore, on 13 May the Eurogroup stated that the necessary elements are in place for the approval of the next tranche, which amounts to €7.5 billion. A first sub-tranche of €4.2 billion will be disbursed in May, while the disbursement of the second sub-tranche of €3.3 billion will be made in June subject to full implementation of prior actions by the Greek authorities.

On 25 March, the Eurogroup reached a final political agreement with the **Cyprus** authorities, following the agreement of 16 March which was

6 The European Commission forecasts a slightly larger drop in GDP (-0.4%).

Chart II.3 Euro area economies in crisis and/or under a financial assistance programme



Sources: International Monetary Fund, *World Economic Outlook Database*, April 2013, and European Commission, *European Economic Forecast - Spring 2013*, May 2013.

rejected by the Cyprus Parliament.[7] In the context of the relevant decisions, a loan agreement for €10 billion[8] was approved, along with an economic adjustment programme aimed at restructuring the financial sector, ensuring fiscal consolidation and promoting structural reforms in Cyprus. Moreover, an appropriate downsizing of the financial sector was deemed necessary, with the Cyprus banking sector reaching the EU average by 2018. The plan aimed at stabilising the domestic financial system and envisaged the resolution of Cyprus

7 On 19 March, the Cyprus Parliament rejected a draft law which, under the bail-out agreement of 16 March, imposed a one-off levy on bank deposits in Cyprus.

8 Of which €9 billion concern a loan from the European Stability Mechanism (ESM) and €1 billion a loan from the International Monetary Fund (approved on 15 may 2013).

Popular (Laiki) Bank, as well as the recapitalisation of Bank of Cyprus through the conversion of uninsured deposits (i.e. those over €100,000) into equity and the full contribution (bail-in) of equity shareholders and bond holders, thereby ensuring that all deposits up to €100,000 are fully guaranteed, in line with EU principles. Following these decisions, the Cyprus authorities introduced temporary capital controls, with a view to minimising large capital outflows. On 24 April, the European Stability Mechanism (ESM) endorsed to grant financial support to Cyprus, and the first tranche of €2 billion was disbursed in mid-May, after an independent audit on the implementation of the anti-money laundering framework was finalised (for further details on the crisis in Cyprus, see Box II.2).

On 12 April, the Eurogroup and the ECOFIN agreed, in principle, to lengthen the maturities of the EFSF and EFSM loans[9] to **Ireland** and **Portugal** by increasing the weighted average maturity limit by 7 years, provided their continued successful programme implementation is confirmed by the Troika at the coming reviews. The extension would smooth the debt redemption profile of both countries and help them regain full market access. In this context, the Portuguese authorities pledged to legislate appropriate compensatory measures following the negative ruling of the Portuguese constitutional court on certain elements of the 2013 budget.[10]

Interinstitutional decisions to ensure a more integrated European Union and developments in the adoption of the EU budget

In March 2013, the European Parliament, the European Council and the European Commission agreed upon the legal framework governing the **single supervisory mechanism**.[11] The framework, which confers specific tasks on the ECB relating to the prudential supervision of credit institutions, in cooperation with national competent authorities,[12] is the first pillar of the **banking union**, which aims at enhancing the functioning of the monetary union and whose creation was decided by the European Council in 2012.[13] The European mechanism for banking supervision (which is to become operational in March 2014 at the earliest) will allow for the direct recapitalisation of banks via the European Stability Mechanism (ESM). In March 2013, with a view establishing the necessary framework for the operation of the banking union, the Council approved the legislative acts for the **transposition of the Basel III regulatory framework** (their approval by the European Parliament is still pending). At the same time, the European Commission's legislative proposals on a **European framework for the resolution of banks** and a **common deposit guarantee scheme** are put on track, in line with the conclusions of the European Council of 14-15 March 2013.

In March 2013, the European Parliament voted against the proposed **Multiannual Financial Framework** (MFF) for 2014-2020, agreed by the European Council on 8 February 2013,[14] considering that, among other things, greater flexibility is warranted between and within budget headings. Negotiations on the MFF are still underway, so as to allow its implementation in 2014.

2 THE ECONOMIES OF SOUTH-EASTERN EUROPE[15]

In 2012, the economies of South-Eastern Europe witnessed a sharp slowdown, on the

9 In contrast with the EFSF, which raises funds guaranteed by the euro area member countries, the EFSM relies on funds raised on the financial markets and guaranteed by the European Commission using the budget of the European Union as collateral.
10 The Portuguese constitutional court ruled against the elimination of two extra "bonus" months paid in the summer and at Christmas to public-sector employees and pensioners, as well as against cuts in sickness and unemployment benefits.
11 Its formal adoption by the European Parliament and the 27 EU Member States is still pending.
12 For further details concerning the single supervisory mechanism and the banking union, see Bank of Greece, *Annual Report 2012*, Box IV.1.
13 See European Council decisions of 28-29 June 2012, 18-19 October 2012 and 14 December 2012.
14 See Bank of Greece, *Annual Report 2012*, "Developments in EU policies".
15 The South-East European economies that are discussed in this section include: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia (FYROM), Montenegro, Romania, Serbia, and Turkey.

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

Country	GDP (annual percentage changes)			Inflation (annual percentage changes)			Current account balance (% of GDP)			CAR (%)		Loans/ deposits (%)		NPL ratio (%)	
	2011	2012[2]	2013[3]	2011	2012[2]	2013[3]	2011	2012[2]	2013[3]	2011	2012	2011	2012	2011	2012
Albania	3.1	1.3	1.8	3.5	2.0	2.2	-13.0	-10.1	-9.4	15.6	16.2	61.3	58.3	18.8	22.5
Bosnia-Herzegovina[1]	1.0	-0.5	0.6	3.7	2.1	1.9	-9.5	-9.7	-8.7	13.6	14.1	96.7	100.6	11.8	12.7
Bulgaria	1.7	0.8	1.4	3.4	2.4	2.6	1.7	-0.7	-1.6	17.5	16.6	102.4	97.7	14.9	16.6
Croatia[1]	0.0	-2.0	-0.4	2.3	3.4	3.0	-0.9	0.0	-0.6	17.9	19.1	126.3	121.1	12.3	13.9
FYROM	2.8	-0.3	1.5	3.9	3.3	3.0	-3.0	-3.9	-3.8	16.7	17.1	89.0	89.4	9.7	10.3
Montenegro[1]	3.2	-0.5	2.2	3.1	4.1	2.7	-17.7	-17.7	-20.6	15.1	14.7	107.6	94.5	15.5	18.5
Romania	2.2	0.2	1.6	5.8	3.4	4.6	-4.5	-3.8	-4.0	14.9	14.7	119.1	114.5	14.3	18.2
Serbia	1.6	-1.7	1.7	7.0	12.2	10.2	-9.2	-10.6	-8.9	19.1	16.4	129.8	129.0	19.0	19.9
Turkey	8.8	2.2	3.0	6.5	8.9	7.7	-9.7	-5.9	-6.6	16.5	17.9	98.2	103.0	2.7	2.9

Sources: European Commission, *EU Candidate and Pre-accession Countries Economic Quarterly* - CCEQ,1/2013, IMF, *World Economic Outlook* (WEO), April 2013, national central banks.
1 Data for banking indicators for 2012 refer to the third quarter.
2 Estimates.
3 Forecasts.

one hand as a result of the worsening of the recession in the euro area and the decline in external demand and, on the other hand, because of the continued deleveraging in the banking sector. Turkey is the only exception as, despite the slowdown, the Turkish economy continues to record the highest growth in the region. This is mainly due to the positive contribution of net exports to non-EU markets, as well as to an accommodative monetary policy stance (see Table II.1).

In 2013, the overall growth rate of the region is expected to improve slightly, as the monetary policy stance remains accommodative and the euro area economy is set to gradually recover. Nevertheless, fiscal constraints, structural weaknesses and competitiveness issues, as well as the continued rise in non-performing loans in several countries are expected to have a negative effect.

Inflation did not constitute a major problem in most of the countries in 2012. More specifically, after a hike observed after the summer on account of adverse developments in international commodity and energy prices, inflation rates returned to lower levels towards the end of the year and are expected to continue declining in 2013.

In several countries, the current account deficit is a major source of vulnerability. With the exception of Romania and Turkey, which saw an improvement, imbalances in the external sector are fuelled by competitiveness issues faced by most countries.

Fiscal adjustment poses a serious challenge to SEE countries. In some countries, e.g. Romania and Bulgaria, fiscal deficits in 2012 narrowed compared with 2011, despite a slowdown in economic activity. By contrast, there are countries, e.g. Serbia and to a lesser extent FYROM, which witnessed a widening of their fiscal deficits.

In most countries, weaker growth rates, compounded by relatively low inflation (excluding Serbia[16]), enabled monetary authorities to pursue accommodative monetary policies by

16 The central bank of Serbia, consistent with the inflation target of 4% with a tolerance band of ±1.5%, keeps its key policy rate unchanged at 11.25% (the highest in the region), with a view to absorbing excess liquidity in dinars and thereby containing aggregate demand in the economy and, by extension, inflation.

keeping their key policy rates at relatively low levels. So far, this policy remains in place also in 2013.

With respect to the banking system, the biggest problems are associated with banks' asset quality, as in some countries (Albania, Serbia, Romania) the NPL ratio is very high. Conversely, in Turkey, this ratio is low, reflecting robust economic growth over recent years. However, the average capital adequacy ratio of the banking sector remains elevated in all SEE countries (see Table II.1).

Large-scale withdrawals by robust western European groups could imperil the regional banking system (except for Turkey).[17] Nevertheless, this deleveraging phenomenon seems to be under control, as the rate of capital outflows is low and liquidity is gradually being substituted with local funding sources, such as domestic deposits.

3 THE EUROSYSTEM'S SINGLE MONETARY POLICY

During 2012, the ECB cut its key rates once (in July, see Table II.2), as renewed tensions in certain government bond markets (e.g. in Italy and Spain) and subsequent heightened uncertainty adversely affected the euro area economic outlook, thus curbing inflationary pressures. In August 2012, the Governing Council of the ECB announced that the Eurosystem would be in a position to conduct outright purchases of government bonds (Outright Monetary Transactions – OMTs), to a sufficient extent in order to normalise conditions in financial markets. OMTs are aimed at mitigating disruptions to the monetary policy transmission mechanism. The introduction of OMTs helped alleviate tensions in government bond markets and, more generally, safeguard the stability of the euro area financial system. In May 2013, the interest rate on the Eurosystem main refinancing operations (MROs) was reduced again, as inflationary pressures weakened further. The Governing Council of the ECB stressed that the cut in interest rates should contribute to support prospects for a recovery later in 2013.

17 According to the CESEE Deleveraging Monitor (November 2012), the cumulative withdrawal of funds from Central Eastern and South Eastern Europe (excluding Turkey and Russia) is estimated to have exceeded 4% of GDP (since mid-2011). As a matter of fact, in some cases, e.g. in Bulgaria and in Serbia, losses were well above 7%.

Table II.2 Changes in key ECB interest rates

(percentages per annum)

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

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.

Table II.3 Eurosystem's open market operations in 2012 and the first months of 2013*

1. Main and longer-term refinancing operations:	
1.1 Main refinancing operations (MRO): provision of liquidity with a maturity of one week	**Frequency:** Once a week. **Procedure:** At least until 8 July 2014, fixed-rate tender with full allotment.
1.2 Longer-term refinancing operations (LTRO):	
1.2.1 Provision of liquidity with a maturity of one maintenance period	**Frequency:** Once at the beginning of each maintenance period. These operations will continue to be conducted for as long as needed. **Procedure:** Fixed-rate tender (at a rate equal to the MRO rate) with full allotment.
1.2.2 Provision of liquidity with a maturity of three months	**Frequency:** Once a month (usually at end-month). **Procedure:** At least until June 2014, fixed-rate tender with full allotment and an interest rate set ex post equal to the average value of the fixed rate of the MROs conducted during the life of the respective longer-term refinancing operations.
1.2.3 Provision of liquidity with a maturity of thirty-six months	One longer-term refinancing operation was conducted with a maturity of 36 months on 1 March 2012 (settlement date). **Procedure:** Fixed rate tender with full allotment and an interest rate set ex post equal to the average value of the fixed rate in the MROs conducted during the life of the respective 36-month operation. Credit institutions were given the option of early repayment after one year. Credit institutions made extensive use of that option.
2. Outright purchases of securities:	
2.1 Securities Markets Programme	The Governing Council of the ECB decided on 9 May 2010 to launch the Programme and on 6 September 2012 to discontinue it. By the end of the Programme, the Eurosystem had purchased securities of a total value of €201 billion.** The Eurosystem will hold these securities to maturity.
2.2 Outright Monetary Transactions	On 6 September 2012, the Governing Council of the ECB announced that the Eurosystem may purchase sovereign bonds with a maturity of 1-3 years on secondary markets, without pre-defined quantitative limits. A prerequisite is that the issuing Member State is subject to an economic adjustment programme financed by the European Financial Stability Fund (EFSF) or the European Stability Mechanism (ESM) and observes the terms and conditions of the programme, provided that this includes the possibility of EFSF/ESM primary market purchases.
2.3 New covered bond purchase programme	The Governing Council of the ECB decided on 6 October 2011 to conduct this programme from November 2011 to end-October 2012. By the end of the programme, the Eurosystem had purchased covered bonds of a total value of €16 billion.** The Eurosystem will hold these bonds to maturity.
3. Fine-tuning operations:	
3.1 Liquidity absorption on a weekly basis to sterilise the effect, on the overall liquidity of the banking system, of purchases made under the Securities Markets Programme	**Frequency:** Every week, starting on 18 May 2010. The absorption of liquidity continues even after the discontinuation of the Programme (following which new purchases are no longer possible). **Procedure:** Collection of weekly deposits from credit institutions through variable-rate tenders with a maximum bid rate equal to the MRO fixed rate.
3.2 Provision of overnight liquidity on 29 February 2012 (settlement date)	The purpose of this operation was to avert liquidity fluctuations as on 29 February 2011 credit institutions had to repay the amounts raised through the MRO of the previous week, while raising new liquidity through LTROs with a maturity of 36 months was only possible a day later.
4. US dollar liquidity-providing operations:	
4.1 Operations with a maturity of one week	**Procedure:** Fixed-rate tender with full allotment against collateral eligible for the Eurosystem's credit operations in euro.
4.2 Operations with a maturity of three months	

* The table was compiled on the basis of data and information available until mid-May 2013.
**The figure takes into account redemption of securities.

As regards the outlook for euro area inflation, the Governing Council expects inflation rates to remain moderate, against the backdrop of stable long-term inflation expectations and subdued economic activity. According to the ECB staff macroeconomic projections of March 2013, average annual inflation is expected to stand between 1.2% and 2.0% in 2013 and between 0.6% and 2.0% in 2014. Taking account also of the fact that euro area monetary and loan dynamics remain subdued, the Governing Council confirmed that, following the latest cuts in key rates, its monetary policy stance would remain accommodative for as long as needed. Furthermore, the Eurosystem will continue to conduct open market operations as fixed-rate tenders with full allotment (against eligible collateral) in order to provide liquidity to euro area credit institutions for as long as necessary (see Table II.3).

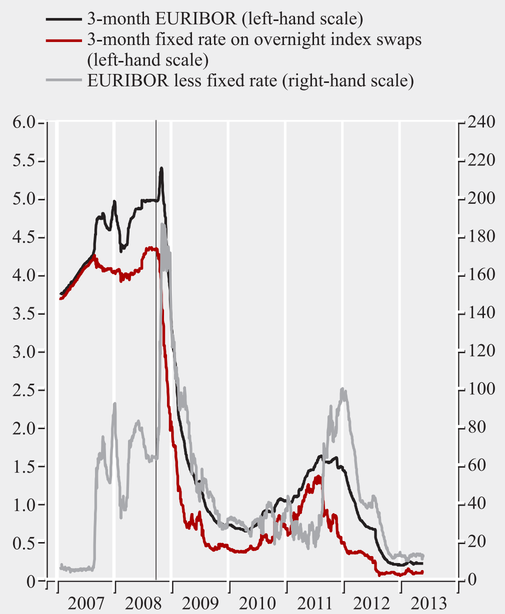
As repeatedly stressed by the ECB Governing Council, it is essential that the fragmentation of euro area credit markets continues to decline further. Since the summer of 2012, the domestic deposit base in stressed countries has been strengthened and commercial banks' reliance on the Eurosystem has been reduced, as reflected in earlier repayments of the three-year LTROs. On the other hand, there are still significant differences in lending rates across the euro area. According to the ECB Governing Council, the entry into operation of a single bank supervisory mechanism in the near future and the planning for a single resolution mechanism as soon as possible are necessary to prevent the fragmentation of financial markets along national borders. Recently, the Governing Council announced the start of consultations with other European institutions on initiatives to promote a functioning market on asset-backed securities collateralised by loans to non-financial corporations; if implemented, this would boost euro-area banks' lending activity.

Recent important decisions on the Eurosystem's monetary policy framework primarily include the decision stipulating that, as of 21 December 2012, debt instruments issued or guaranteed by the Hellenic Republic shall again constitute eligible collateral for the purposes of Eurosystem monetary policy operations. However, as of 1 March 2015, uncovered government-guaranteed bank bonds that have been issued by the counterparty itself or an entity closely linked to it will not be eligible as collateral in Eurosystem monetary policy operations.

With regard to developments in the single money market, the three-month Euribor dropped considerably in the course of 2012, as the Eurosystem undertook a number of non-standard monetary policy measures which led to a significant decline in counterparty risk premium (see Chart II.4).

Chart II.4 Euro area money market interest rates and spreads (January 2007-May 2013)

(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).
The Euribor and fixed overnight swap rate curves refer to the left-hand axis and the curve illustrating developments in the spread between the two rates is shown on the right-hand axis. The presentation of the three curves in a single chart helps the reader to form a qualitative view about whether changes in Euribor are due to changes in the "spread" (which can be explained as the counterparty risk premium) or to changes in the fixed swap rate (reflecting expectations for the overnight rate and, ultimately, for the Eurosystem key rates).

The implementation of non-standard monetary policy measures enabled credit institutions to have significantly enhanced access to Eurosystem liquidity also in 2012, making up for their shortfall in market funding. However, after early-2013, liquidity supply by the Eurosystem decreased, as conditions in financial markets became smoother.

Box II.1

THE IMPACT OF THE CRISIS ON PRIVATE NON-RESIDENTIAL INVESTMENT IN THE EU – TRENDS AND PROSPECTS[1]

Total investment in the EU has been on a downward path since mid-2011, a trend that is expected to continue at least up to mid-2013. In more detail, total investment in the EU as a percent of GDP was considerably lower in 2012 compared with the long-term average, with private non-residential investment dropping to 1997-98 levels. The drop has been particularly pronounced in the more fragile countries of the euro area (Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain).

The factors behind the considerable decrease in private non-residential investment (i.e. productive investment by private sector enterprises), both during and after the crisis, can be summarised as follows: (a) high uncertainty, (b) low economic growth prospects, (c) tight credit, (d) deleveraging by enterprises due to debt overhang and (e) lower profitability.

Business profitability is closely related with increased investment, especially in tight credit conditions. After a decline in 2007-2009, profitability in the EU (measured as the ratio of gross operating surplus to GDP) recovered somewhat, but remained below the pre-crisis levels, with large differences among individual Member States. Recent developments in profitability suggest that these differences ultimately lead to convergence rather than divergence as regards investment in the EU. Namely, profitability in the periphery, despite being lower than in the core EU countries before the crisis, has risen (especially in Spain) because of higher productivity and lower wages. Rising healthy profitability creates better conditions for the financing of private non-residential investment from own funds. Additionally, the completion of structural reforms in products markets, by enhancing competition, is expected to create a more favourable environment for productive and profitable investment.

The outlook for private non-residential investment in the EU are generally favourable, as economic activity is smoothening out, uncertainty decreases and investment confidence is being restored. However, improvement of the rate of increase in investment is expected to be gradual. Among the main inhibitors are the continuing deleveraging of the private sector, the high degree of excess capacity, and credit constraints, which are expected to keep investment low for some time. According to European Commission estimates, the need of non-financial enterprises in the euro area for further deleveraging comes to 12% of GDP. Simulation-based analysis using the Quest model, which has been developed by the European Commission, shows that deleveraging of 10% of GDP in the euro area would reduce business investment by 0.6% in the first year and by 1.6% cumulatively over the next five years.

1 See European Commission, *European Economic Forecast – Winter 2013*, Box 1.2 “Non-residential investment in the EU”, 22 February 2013.

Box II.2

THE CRISIS IN CYPRUS

After Cyprus's accession to the European Union in 2004 and especially after the adoption of the euro in 2008, Cypriot banks' **assets** rose significantly to €136 billion (716% of GDP) in July 2012, from 63 billion in January 2006 (see Table). During that period, loans to enterprises rose by 66% and housing loans by 80%. Finally, the value of government bonds in Cypriot banks' portfolios increased by 81% over the same period and reached a peak in the first quarter of 2011 (€16 billion, i.e. up by 350% compared to January 2008).

Assets and liabilities of the Cypriot banking sector

(million euro)

	2006	2012
Total assets/liabilities	62,483	128,127
Total assets/liabilities as a percentage of GDP at current prices	364%	716%
Assets		
Loans to euro area residents	37,796	81,811
Claims on non-euro area residents	14,750	32,190
Other assets	9,937	14,126
Liabilities		
Deposits by euro area residents	34,301	73,587
Liabilities to non-euro area residents	17,687	35,134
Capital and reserves	5,979	15,129
Other liabilities	4,516	4,277

Source: European Central Bank, Statistical Data Warehouse.

Turning to the composition of Cyprus banks' assets, government bonds accounted for 5%-15% of total assets over 2006-2012 and, on the eve of the Greek PSI in March 2012, they accounted for 10%. In December 2012 (after the Greek PSI), the value of Cypriot banks' non-loan portfolio had declined to 6.8% of total assets, reflecting the reduced value of government bonds (by €4.5 billion) and shares (by €1.8 billion) on account of the constantly falling stock prices in Greece and Cyprus over this period.

Total liabilities of Cypriot banks also rose significantly: after the adoption of the euro, the Cyprus banking system became very attractive to non-euro area residents and, as a result, their deposits grew more rapidly than the deposits of Cyprus residents.

Recourse to the support mechanism – stabilisation and restructuring measures

The sovereign debt crisis in the euro area and intensifying concerns about the banking sector in Cyprus caused a deterioration of the short-term economic outlook and made it more difficult to raise funds from the markets. These factors added to the imbalances that had built up over a number of years. In the good times that followed EU accession and the adoption of the euro, low interest rates and easy access to funding had brought rapid growth, which was propelled by bank lending and was reflected in sharply increasing real estate prices and swelling private debt. Over the same period, price and cost competitiveness recorded losses, as high wage increases outpaced productivity growth and led to a rapidly rising trade deficit, persistent current account deficits and a worsening of the country's net investment position.[1]

Thus, on 25 June 2012 Cyprus submitted a request for support from the euro area support mechanism and the IMF. After long negotiations between the Cyprus authorities and the troika and after the final agreement of the Eurogroup on 25 March, the European Stability Mechanism approved on 24 April the financial support programme amounting to €10 billion and the first tranche was disbursed in May 2013.

In the context of the fiscal adjustment programme, Cyprus authorities committed to step up fiscal and structural measures in order to restore the stability of the Cypriot banking system, achieve fiscal consolidation and enhance competitiveness. The Memorandum of Understanding that was approved by the EU Ministers of Finance in April aims at a general government primary deficit of less than 2.4% of GDP for 2013 and 4.25% of GDP for 2014, ultimately turning into a primary surplus of 4% in 2018.

Policy measures for 2013 include wage and pension cuts in the broader public sector, higher tax rates on business profits and interest income, higher retirement age limits (by two years for a number of employee categories), reduced health and social spending, proceeds of €1 billion from privatisations by 2015 and another €400 million by 2018 the latest, as well as structural reforms in public administration and in the labour, goods and services markets.

1 See European Commission, Occasional Paper No. 101, "Macroeconomic Imbalances – Cyprus", July 2012.

III MACROECONOMIC DEVELOPMENTS AND PROSPECTS IN GREECE

The Greek economy is in deep recession for the sixth consecutive year. The risk however of a Greek exit from the euro area was averted after the June 2012 election, and decisions on the management of the debt crisis at international level have reversed the trend of continuous deterioration of the business climate. The challenge now is to ensure that the climate improves further and transmit this improvement to the real economy. Impetus for change should come from investment as, on the one hand, private consumption cannot support growth due to declining incomes and, on the other hand, investment is necessary so as to modernise economy and create jobs. A restart of investment is conditional upon implementing structural reforms and privatisation. GDP is expected to decline at a rate close to 4.6% in 2013 and unemployment is expected to stabilise at around 28%. The economy is estimated to enter the track of positive growth rates as of 2014, while unemployment should start declining as of 2015.

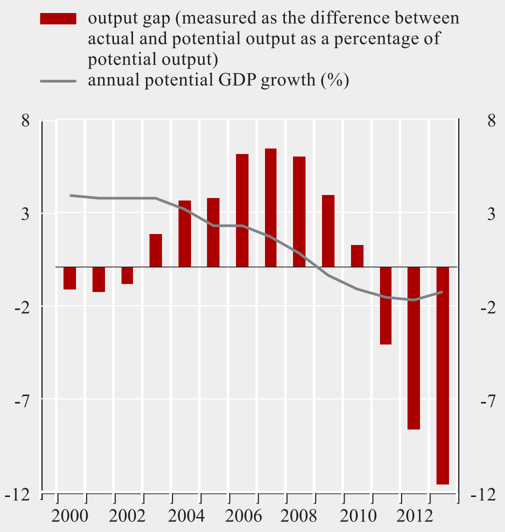
In 2012, the **twin deficits** of the Greek economy (fiscal deficit and current account deficit) declined considerably, as fiscal contraction continued and competitiveness improved further. However, the limited production base coupled with deleveraging in the public and private sectors are prolonging recession.

The economy is now faced with a new deficit: deficient demand. According to Bank of Greece estimates, the negative **output gap** in the economy (the difference between real GDP and potential output) in 2013 rose to about 12%. In other words, demand would have to grow by 12% to meet the potential supply of products and services in the economy (see Chart III.1).

The output gap would have been even larger if the **potential output** of the economy had not declined as well. Closure of businesses, investment lagging behind depreciation and prolonged unemployment have all affected potential output, which is estimated to have declined by about 6% between 2009 and 2012.

Chart III.1 Output gap and annual potential GDP growth

(percentages)



Source: Bank of Greece.

Persistent high levels of long-term unemployment and the reduction in the stock of the economy's fixed capital will continue to put pressure on the potential supply of goods and services for some time. This could only be reversed by investment and structural reforms aimed at opening product and service markets to competition. Furthermore, a rebound in investment is a precondition for Greek products to become competitive at world level and, in particular, for the Greek product mix to improve, so as to respond to the composition of domestic and external demand.

GDP is estimated to shrink by about 4.6% in 2013 and the economy is expected to enter a positive growth track in 2014, on condition that the implementation of the stabilisation programme continues without deviation, credit conditions gradually return to normal and the risk of a Greek exit from the euro area is completely eliminated. Economic recovery will stem mainly from investment and exports, while private consumption is not expected to be able to support growth as incomes have declined and unemployment remains high. The considerable improvement in competitiveness over the past three years is expected to give exports a lasting boost. Tradable goods have already increased their share in total production. At the same time, lower uncertainty with regard to the prospects of the Greek economy (see Chart III.2), increased liquidity as a result of the gradual repayment of arrears by the State, financing by the European Investment Bank and the National Strategic Reference Framework, as well as the advancement of the privatisation programme, are all expected to mitigate the downward trend in investment.

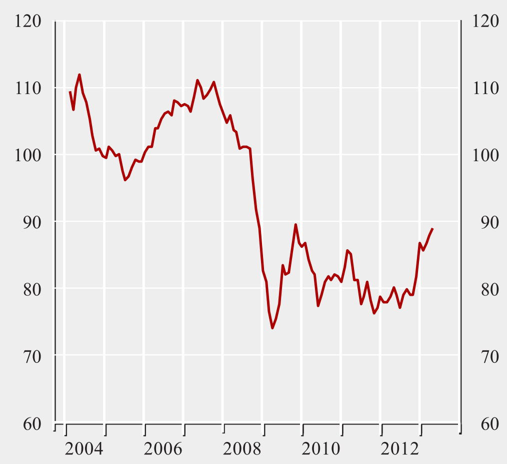
Although the rebound in expectations precedes the recovery of real economy, some positive signs are already visible in the supply side and the labour market. According to ELSTAT estimates, the annual rate of decline in GDP in Q1 2013 (-5.3%) was weaker compared to Q4 2012 (-5.7%). Also, according to Bank of Greece estimates based on seasonally adjusted data, the decline in GDP in Q1 2013 over Q4 2012 was weaker than the decline in Q4 2012 over Q3 2012. In **industry**, although total production continues to decline, activity in several sectors shows signs of stabilisation and expectations for output over the coming months are on an upward track. Turning to services, although commerce is still under stress due to declining incomes, activity in some **tourism**-related sectors is expected to recover. Finally, turning to the labour market, the balance of salaried employment flows was positive both in March and in April.

Under the pressure of the deep recession, the **restructuring of the economy** has not been completed yet: private consumption is still an important pillar of demand and although exports have increased, this rise is not enough to absorb excess supply.

Against this background, there is an even more urgent need to promote **structural reforms and privatisation and to tap into the resources from EU funds and the European Investment Bank**. Structural reforms will help shifting funds towards more dynamic sectors, attract foreign direct investments and bring about synergies with domestic businesses. Furthermore, combined with rising investment, structural reforms will increase employment, as well as real and potential output. There already exist some positive indications in relation to **foreign enterprises taking up or expanding activities in Greece and production shifting towards sectors of tradable goods**, a development encouraged by the rise in the relative prices of tradable goods compared to non-tradable goods.

Chart III.2 Economic sentiment indicator (January 2004-April 2013)

(seasonally adjusted)



Source: European Commission.

1.1 ECONOMIC ACTIVITY: DEVELOPMENTS AND PROSPECTS

In 2012 GDP declined at an annual rate of 6.4%. This was mainly due to lower private consumption and investment, while exports of services also made a negative contribution (see Table III.1). Compared to 2011, the negative contribution of private consumption was stronger in 2012; by contrast, the negative contribution of public consumption and investment was slightly reduced. The positive contribution of the external sector was larger, mostly because of significantly lower imports.

The **decline in private consumption** was the result of lower households' disposable

Table III.1 Demand and GDP

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

	2008	2009	2010	2011	2012
Private consumption	4.3 (3.0)	-1.6 (-1.2)	-6.2 (-4.4)	-7.7 (-5.6)	-9.1 (-6.5)
Public consumption	-2.6 (-0.5)	4.9 (0.9)	-8.7 (-1.7)	-5.2 (-0.9)	-4.2 (-0.8)
Gross fixed capital formation	-14.3 (-3.9)	-13.7 (-3.2)	-15.0 (-3.0)	-19.6 (-3.6)	-19.2 (-3.0)
Final domestic demand[1]	-1.2 (-1.4)	-3.0 (-3.5)	-8.3 (-9.1)	-9.3 (-10.2)	-9.8 (-10.5)
Inventories and statistical discrepancy (% of GDP)	1.1 (1.1)	-1.8 (-2.7)	-0.3 (1.3)	0.4 (0.7)	0.8 (0.4)
Domestic demand	-0.2 (-0.3)	-5.4 (-6.2)	-7.1 (-7.8)	-8.7 (-9.5)	-9.4 (-10.1)
Exports of goods and services	1.7 (0.4)	-19.4 (-4.7)	5.2 (1.0)	0.3 (0.1)	-2.4 (-0.6)
Imports of goods and services	0.9 (0.3)	-20.2 (-7.7)	-6.2 (-1.9)	-7.3 (-2.3)	-13.8 (-4.2)
External demand	... (0.1)	... (3.1)	... (2.9)	... (2.4)	... (3.7)
Gross domestic product at market prices	-0.2	-3.1	-4.9	-7.1	-6.4

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

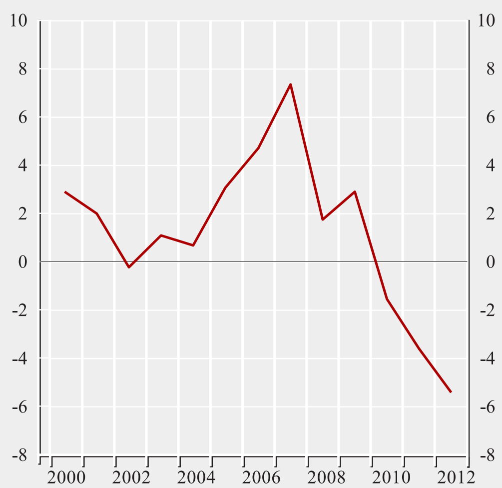
income, due to the reduction in wages and in the number of persons employed, increased tax burden and tight consumer credit (see Table III.2 and Chapter V), coupled by widespread uncertainty. In 2012, according to ELSTAT's non-financial accounts of institutional sectors, households' gross disposable income decreased by 9.6% compared to 2011 (at current prices), mainly because of the decrease in wages and social benefits, but also due to the significant increase in income and property taxes. This leads households to spend wealth accumulated over previous years, bringing the savings ratio well below zero (see Chart III.3).

The **structure of household expenditure** has changed, with an increasing share of income spent on inelastic expenses and taxes.

Private consumption is expected to decline considerably also in 2013, due to a further decrease in income and employment, increased tax burden and tight credit. A positive contribution is expected, however, from tax refunds (€800 million) and the payment of arrears by the State (€8 billion).

Chart III.3 Household saving as a percentage of household disposable income

(percentages)



Source: ELSTAT, Non-financial accounts of institutional sectors.

In the first months of the year, the volume of retail sales, VAT receipts and revenue from mobile telephony continued to decline rapidly (see Table III.2) both year-on-year and against Q4 2012. New car registrations seem to have stabilised at very low levels, despite a consid-

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

(annual percentage changes)

	2009	2010	2011	2012	2013 (available period)
Volume of retail trade (total)	-11.4	-6.2	-10.2	-12.2	-15.6 (Jan.-Feb.)
Volume of retail trade (excluding fuel and lubricants)	-9.3	-6.9	-8.7	-11.8	-15.0 (Jan.-Feb.)
Food-beverages-tobacco[1]	-6.1	-5.5	-6.0	-9.0	-15.3 (Jan.-Feb.)
Clothing-footwear	1.4	-11.4	-18.8	-20.4	-11.9 (Jan.-Feb.)
Furniture-electrical appliances-household equipment	-15.3	-12.7	-15.7	-16.3	-14.1 (Jan.-Feb.)
Books-stationery-other	-24.0	-4.3	-5.2	-12.0	-9.3 (Jan.-Feb.)
Revenue from VAT (at constant prices)	-10.2	0.1	-5.9	-12.8	-11.8 (Jan.-Mar.)
Retail trade business expectations index	-21.4	-26.4	-0.5	-3.1	18.6 (Jan.-Apr.)
New private passenger car registrations	-17.4	-37.2	-29.8	-41.7	-5.7 (Jan.-Apr.)
Tax revenue from mobile telephony[2]	13.2	37.1	-16.8	-8.4	-11.4 (Jan.-Mar.)
Outstanding balance of consumer credit[3]	7.5	-0.8	-5.5	-6.0	-5.3 (Mar.)[4]

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

erable increase in April, which is most likely not to continue at the same pace.

In 2012, gross **fixed capital formation** declined by 19.2% against 2011, affected inter alia by the negative business climate, especially in the first half of the year, and tight credit. The decline in investment was more marked in construction (-22.7%). Despite the fact that business investment has declined less than residential investment, depreciation outweighs gross business investment and, therefore, the net stock of fixed capital is gradually eroded.

The decline in consumption and investment resulted in reduced **imports of goods and services** (-13.8% on a national accounts basis) in 2012. After increasing (at constant prices) by 4.0% in 2011, **exports of goods** rose by 1.8% in 2012. In 2012, **exports of services** continued the downward path (-6.7%) that had started in the first quarter 2011. Overall, exports of goods and services on a national accounts basis and at constant prices declined by 2.4% in 2012.

Developments on the supply side

In 2012, **gross value added** of the domestic economy declined by 6.2% at constant prices (see Table III.3)[1] and the **gross operating surplus** of businesses fell by 15% at current prices. The decrease in economic activity has been more pronounced in construction and in the tertiary sector, and milder in the primary sector and in industry.

The relatively moderate decline of value added in industry is explained by the fact that the fall in production in most sectors was offset by the significant increase in the output of oil refineries (+24.3% in 2012).[2] Poor activity in industry is reflected in the very low level of the PMI (see Chart III.4).

1 The decline is larger (-7.2%) when excluding the real estate management sector (whose added value seems to have increased in 2012, following an increase also in 2011).
2 Refined petroleum products have a weight of about 8% in the index of industrial output volume.

Table III.3 Gross value added at basic prices

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

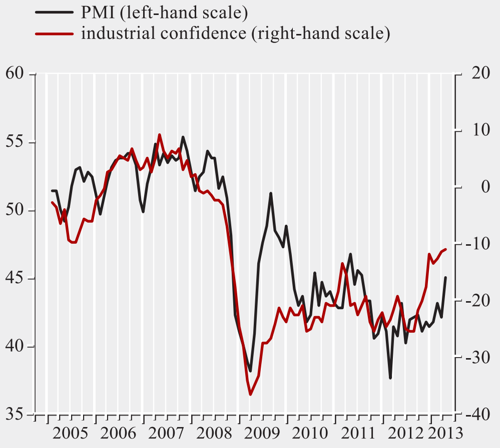
	2008	2009	2010	2011	2012
Agriculture, forestry and fishing	2.0 (0.1)	5.2 (0.2)	5.5 (0.2)	-5.4 (-0.2)	-3.2 (-0.1)
Secondary sector	-10.2 (-2.1)	-8.5 (-1.5)	-9.9 (-1.7)	-12.6 (-2.0)	-4.5 (-0.7)
Industry including energy	-9.7 (-1.2)	2.0 (0.2)	0.9 (0.1)	-7.4 (-0.9)	-1.7 (-0.2)
Construction	-11.0 (-0.9)	-24.6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

Source: ELSTAT, National accounts, March 2013.
Note: Contributions (in percentage points) are given in parentheses.

In the first quarter of 2013, industrial production continued to decline (-3.0%). This development mostly reflects lower electricity production (-9.8%), while the output of manufacturing fell by only 0.3%, as sectors producing non-durable consumer goods joined oil refineries in the group of businesses that continue to increase production. The index of business expectations in industry and the Purchasing Managers' Index (PMI) for the first four months of 2013 seem to have improved against 2012, but still remain low (see Chart III.4). However, it is positive that the industrial turnover index for the external market continued to rise in the first months of 2013, following a double-digit increase in 2012, which partly offsets lower domestic demand (see Table III.4).

Business expectations in **construction** have been strongly negative over the first four months of 2013, although significantly

Chart III.4 Purchasing Managers' Index[1] (PMI) and industrial confidence (January 2005-April 2013)[2]



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

Table III.4 Indicators of industrial activity (2009-2013)

(annual percentage changes)

	2009	2010	2011	2012	2013 (available period)
1. Industrial production index (overall)	**-9.4**	**-5.9**	**-7.8**	**-3.3**	**-3.0 (Jan.-Mar.)**
Manufacturing	-11.2	-5.1	-8.5	-4.0	-0.3 (Jan.-Mar.)
Mining-quarrying	-11.8	-6.5	0.6	0.6	-6.8 (Jan.-Mar.)
Electricity	-4.2	-9.2	-8.8	-3.0	-9.8 (Jan.-Mar.)
Main industrial groupings					
Energy	-2.9	-4.9	-8.4	5.3	-3.7 (Jan.-Mar.)
Indermediate goods	-18.4	-0.9	-8.8	-10.2	-3.2 (Jan.-Mar.)
Capital goods	-22.5	-22.1	-9.7	-14.9	-15.0 (Jan.-Mar.)
Consumer durables	-20.7	-13.4	-15.6	-17.8	-16.6 (Jan.-Mar.)
Consumer non-durables	-4.1	-7.2	-4.8	-6.2	1.2 (Jan.-Mar.)
2. Industrial turnover index[1]	**-23.2**	**6.0**	**7.1**	**3.2**	**-9.6 (Jan.-Mar.)**
Domestic market	-22.2	-0.7	-2.3	-6.1	-19.3 (Jan.-Mar.)
External market	-25.6	29.3	21.6	20.3	5.6 (Jan.-Mar.)
3. Industrial new orders index[2]	**-28.1**	**4.2**	**1.8**	**-7.8**	**-6.9 (Jan.-Mar.)**
Domestic market	-23.4	-3.4	-23.7	-11.7	-4.7 (Jan.-Mar.)
External market	-34.7	28.2	22.3	-4.5	-9.0 (Jan.-Mar.)
4. Index of business expectations in industry	**-21.5**	**5.1**	**1.4**	**0.4**	**15.0 (Jan.-Apr.)**
5. Capacity utilisation in industry	**70.5**	**68.5**	**67.6**	**64.4**	**64.4 (Jan.-Apr.)**
6. Manufacturing Purchasing Managers' Index (PMI)[3]	**45.3**	**43.8**	**43.6**	**41.2**	**43.0 (Jan.-Apr.)**

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.

improved against 2012, particularly in April (see Table III.5). Prospects in this sector will ultimately depend on whether the restart in infrastructure projects will suffice to compensate for the continued decline in residential construction. The availability of credit, essential for the realisation of infrastructure projects, is expected to be ensured inter alia by financing from the European Investment Bank (EIB) and by putting into use funds from the National Strategic Reference Framework (NSRF) and the "project bonds" co-financed by the European Commission and the EIB (EU-EIB Project Bond Initiative, see Box III.1).

The decline in value added in the **tertiary sector** at an annual rate of 6.8% in 2012 contributed 5.4 percentage points to the change in the total value added over the same period (see Table III.3 and Table III.6 for a detailed record of developments per industry).

Despite the strong decline in retail sales also in 2013, the **index of business expectations in retail trade** have been improving from October 2012 to April 2013. This improvement reflects the more positive expectations of businesses that survived the crisis. Positive effects are also expected from the elimination of the structural rigidities that have restricted inter alia the scope of business activities. After the implementation of significant structural measures in 2005 (including the deregulation of opening hours) investment in retail trade rose considerably and so did employment (see Box III.4).

Table III.5 Indicators of investment demand (2009-2013)

(annual percentage changes[1])

	2009	2010	2011	2012	2013 (available period)
Capital goods output	-22.5	-22.1	-9.7	-14.9	-15.0 (Jan.-Mar.)
Capacity utilisation rate in the capital goods industry	73.4	66.1	62.7	58.2	59.5 (Jan.-Apr.)
Bank credit to domestic enterprises[2]	10.5	3.3	0.3	-4.2	-3.6 (Mar.)[5]
Disbursements under the Public Investment Programme[3]	-2.8	-11.3	...	-10.5	-12.6 (Jan.-Apr.)
Production index in construction (at constant prices)	-17.5	-29.2	-28.1	-26.1	...
Volume of private construction activity (on the basis of permits issued)	-26.5	-23.3	-37.7	-30.6	-36.2 (Jan.-Feb.)
Cement production	-21.4	-14.3	-37.8	-12.8	35.9 (Jan.-Mar.)
Business expectations index in construction	-31.4	-27.4	-27.8	26.1	31.5 (Jan.-Apr.)
Outstanding balance of total bank credit to housing[4]	6.6	2.3	-1.7	-3.4	-3.2 (Mar.)[5]

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

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

(annual percentage changes)

	2009	2010	2011	2012	2013 (available period)
A. Services turnover indicators					
1. Trade					
Wholesale trade	-8.9	-5.9	-13.5	-11.9	...
Retail trade	-10.2	-1.1	-7.2	-11.0	-15.5 (Jan.-Feb.)
2. Transport					
Land transport	-31.5	-18.1	-1.7	-3.3	...
Sea transport	-22.8	-8.5	-2.7	-15.3	...
Air transport	-11.7	-7.0	-0.9	-1.1	...
Storage and supporting transport activities	-32.2	-10.8	-7.9	-4.8	...
3. Hotels and restaurants					
Accommodation and food service activities	-9.1	-8.2	-7.4	-17.2	...
4. Professional-scientific-technical activities					
Legal, accounting and management consulting services	-12.4	-7.3	-0.3	1.1	...
Architectural and engineering services	-18.6	-20.4	-19.6	-12.4	...
Travel agencies and related activities	-9.9	-24.5	-35.3	-26.9	...
B. Passenger traffic					
Athens International Airport	-1.5	-5.0	-6.3	-10.4	-7.8 (Jan.-Mar.)
Piraeus Port (OLP)	-3.8	-6.0	-0.8	-17.5	-10.9 (Jan.-Feb.)
C. Business expectations index in the services sector	-28.3	-9.3	-2.9	-11.2	11.3 (Jan.-Apr.)

Sources: ELSTAT (services turnover), Athens International Airport, Piraeus Port Authority (OLP) and IOBE (expectations).

Passenger traffic at the Athens International Airport in the first quarter of the year fell by 7.8% year-on-year (see Table III.6). However the Association of Greek Tourism Enterprises (SETE) conveys optimistic messages regarding tourism in 2013, as the number of tourist arrivals in Greece in the first quarter of 2013 is already increased (data from the Bank of Greece border survey – see Section 4 below).

For 2013 activity in the business sector is expected to be positively influenced by the payment of arrears by the State, the activity of the National Entrepreneurship and Growth Fund (ETEAN), in particular the provision of low-interest working capital loans to small and medium enterprises in cooperation with banks, and the programme to grant guarantees to importing and exporting enterprises. Moreover, structural measures implemented early in the adjustment process of the Greek economy, including those in the sector of road freight transport, are expected to start bearing fruit (see Box III.4).

For 2013, it is estimated that, due to the continued decline in incomes and employment, the fiscal measures included in the medium-term programme and the reduced bank credit, resources in the order of €26 billion will flow out of the economy. On the other hand, on the basis of conservative assumptions, resources in the order of €13 billion are expected to flow into the economy as a result of the payment of arrears by the State and inflows from the EU funds. The net outflow of €13 billion will ultimately influence economic activity by about -3.8 percentage points. In addition, the net outflow will be contained by the positive influence expected from external demand, and will be increased by the carry-over effect from 2012.[3] As, according to Bank of Greece estimates, financial conditions and the economic climate in previous years suspended business investment, an improvement in financial conditions and the economic climate would have a positive effect in the evolution of investment.

In 2013 exports of goods and services will be negatively affected by the recession in the **Cypriot economy**. Nevertheless, as the goods exported to Cyprus are mostly goods with inelastic demand (petroleum products, food), it is estimated that the immediate impact from exports of goods and services on the Greek GDP will not exceed 1/4 percentage point.

Overall, it is estimated that the GDP will decrease by about 4.6% in 2013 and the economy is expected to enter positive growth territory in 2014.

1.2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

The Greek real estate market continues to be characterised by excessive supply and declining market prices (for purchase and rent).[4] The commercial property market is affected the most due to decreasing business activity and ongoing pressure for significant rent reviews.

Reduced demand for residential properties can be attributed to the dramatic increase in unemployment and the decline in households' disposable income, lower wealth, negative business and household expectations about the prospects of income and employment, higher real estate taxation and tightened bank financing.

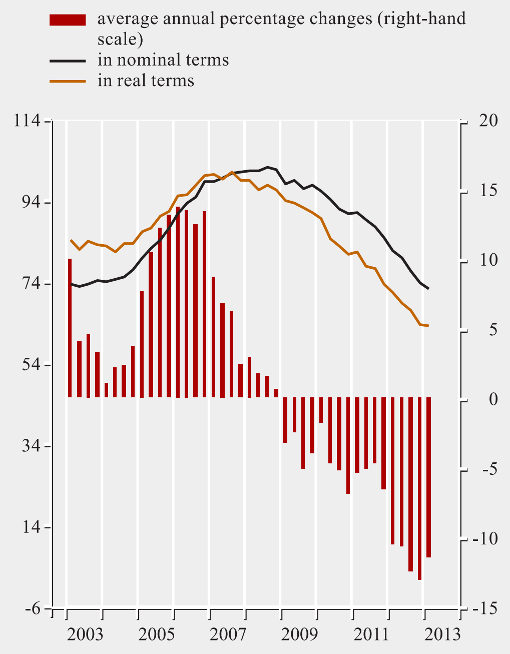
In 2012 and the first quarter of 2013 the drop in prices in the residential market continued at a stronger pace than in the first years of the crisis (see Chart III.5). In more detail, on the basis of data collected from credit institutions, apartment prices fell at an average annual 11.7% in 2012 and 11.5% in the first quarter of 2013 while, since the onset of the crisis, the

3 The carry-over effect results from the fact that, as recession led to a continuous decline in GDP in all quarters of 2012, even if the GDP stabilises at the level of the fourth quarter of 2012, the average GDP in 2013, calculated on the basis of seasonally adjusted data, will by about 2.8% lower against 2012.

4 Recently, the quarterly survey carried out by the Real Estate Market Analysis Section of the Bank of Greece using data from real estate agencies and consultants showed some weak evidence of a potential stabilisation or improvement of market conditions. Similarly, there was some recovery in expectations indicators published by IOBE (business expectations in construction, months of assured production in construction etc.).

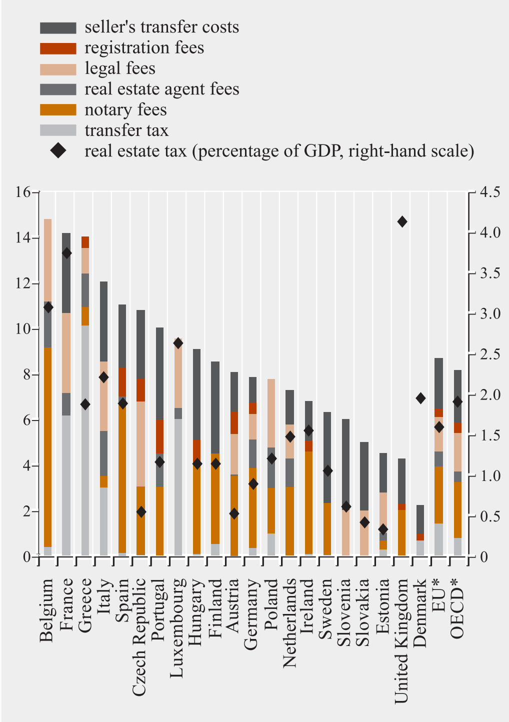
Chart III.5 House price index

(2007=100)



Source: Bank of Greece (data collected from domestic credit institutions).

Chart III.6 Real estate transfer costs and taxes



Source: OECD.
Note: Included are only those EU and OECD countries for which data are available. Real estate taxes as a percentage of GDP refer to 2011, except for Ireland, the Netherlands, Poland and Portugal (2010). Transfer costs, based on the OECD Housing Market questionnaire, may overestimate actual costs in some countries, as they do not take into account tax reliefs applicable to specific types of houses and owners.
* Non-weighted average of member countries for which data are available.

total decline in apartment prices has reached 29.4% and was stronger for the two major urban centres, Athens (-29.6%) and Thessaloniki (-32.7%).[5]

Taxation is an inhibitory factor for the medium-term growth in the sector's activity. In more detail, property transfer costs are among the highest in OECD countries, despite the recent reduction in notary and attorney fees. The complete abolition of the mandatory attorney attendance as from 2014 will further alleviate property transfer costs, but the transfer tax still remains the main reason of such high cost. On the other hand, annual property possession taxes, at least before the imposition of the special levy on real estate paid through electricity bills, stood at lower levels than in OECD countries. The recovery of the Greek real estate market strongly depends on the adoption of a taxation framework that would limit transfer costs and expand the tax base in accordance with the tax-paying ability of owners, simplify the existing system by consolidating the numerous taxes into a single progressive tax on real estate and remain unchanged for at least 5-10 years.

It is estimated that the successful implementation of the privatisation and public property development programme will further promote market recovery. Moreover, the recent reform of the institutional framework on Real Estate Investment Companies (REICs, Law 4141/2013) expanded their investment scope (by including housing projects, holiday prop-

5 Information collected from real estate agencies shows an even larger decline in residential prices (see Results of the real estate agencies survey at the Bank of Greece website).

erty, land plots, properties under construction), also enabling them to participate in concession contracts through joint venture schemes. REICs are expected to invest in public property development projects and thus contribute to the overall recovery of the commercial property market (see also Box III.3).

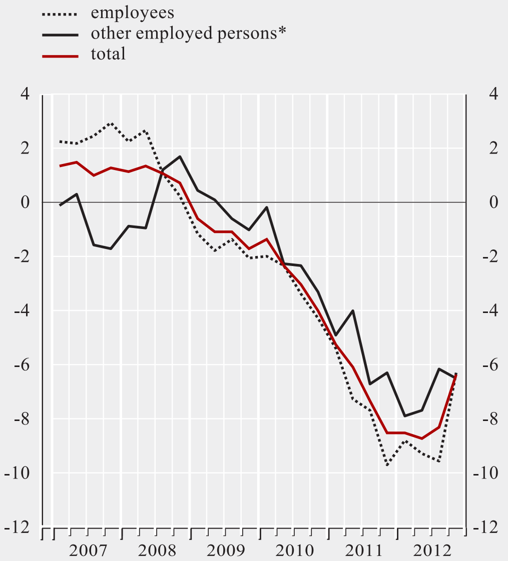
2 EMPLOYMENT AND UNEMPLOYMENT: DEVELOPMENTS AND PROSPECTS

The close to 20% decline in GDP over 2008-2012 was accompanied by an almost equal change in employment (-17.5% between 2008 and 2012, see Chart III.7). The dramatic decline in employment reflects the negative expectations for a swift economic recovery, as reflected in the evolution of investment and the limited —until 2011— flexibility of the labour market institutional framework.

Initially, the recession had a larger impact on the possibility to exit unemployment (see Chart

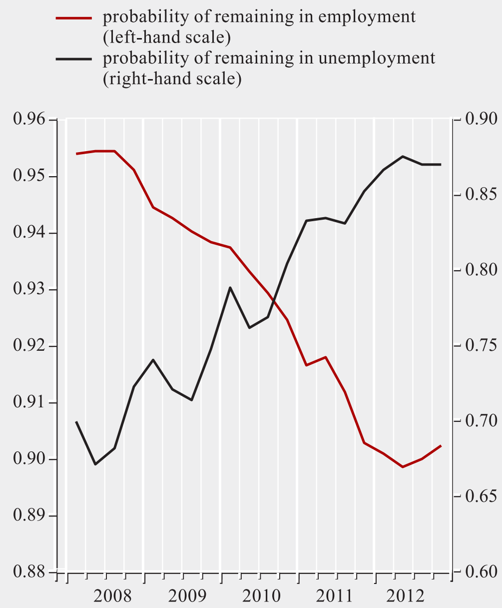
Chart III.7 Employment

(year-on-year percentage changes)



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

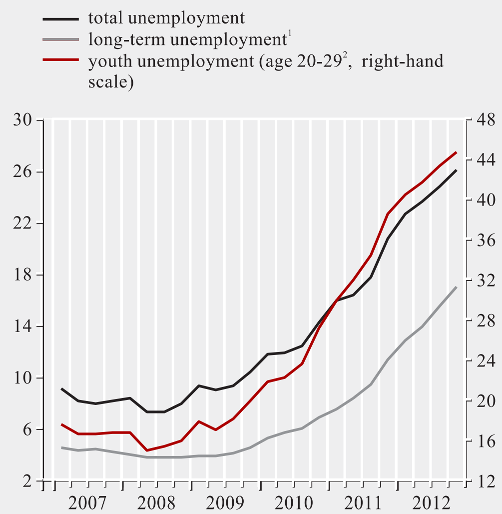
Chart III.8 Probability[1] of remaining in employment/unemployment for two consecutive years



Source: ELSTAT, Labour Force Surveys.
1 Based on answers to LFS survey questions no. 75 and 91 which reflect activity during the week of the survey and in the previous year.

Chart III.9 Unemployment rates

(percentage of labour force)



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

Table III.7 Means of reducing company operating costs

(percentage of companies that selected each option)

	Unskilled workers	Skilled workers
Reduction in the number of employees on indefinite contracts	25.6	21.3
Reduction in the number of employees on fixed-term contracts	21.9	10.0
Stagnancy/restrained rise in base salary	22.1	25.4
Adjustment of working time	18.9	22.1
Reduction of variable components of labour costs (productivity premiums, bonuses, etc.)	10.1	17.2
Reduction of other components of labour cost	1.4	4.0
Total	**100.0**	**100.0**

Source: Bank of Greece and IOBE (2007), Firm-level survey on wage and pricing policies in Greece.

III.8), but it gradually started affecting the possibility to remain in employment. More specifically, the possibility to remain unemployed for two consecutive years rose from 69% in 2008, to 73% in 2009, 78% in 2010, 84% in 2011 and 87% in 2012. Conversely, in 2008 and up to early 2010, the possibility of stay employed for two consecutive years was close to 95%, but dropped to 90% in 2012.

The limited possibility to exit unemployment is reflected (i) in the rise in **long-term unemployment** (i.e. over 12 months) from 4.0% in 2009 to 14.8% in 2012 (see Chart III.9) and (ii) in the **lengthening of the time required to enter employment after leaving education**. The rate of unemployment for young people aged 20-29 tripled from 15.7% in 2008 to 42.8% in 2012 and 47.3% in January-February 2013.

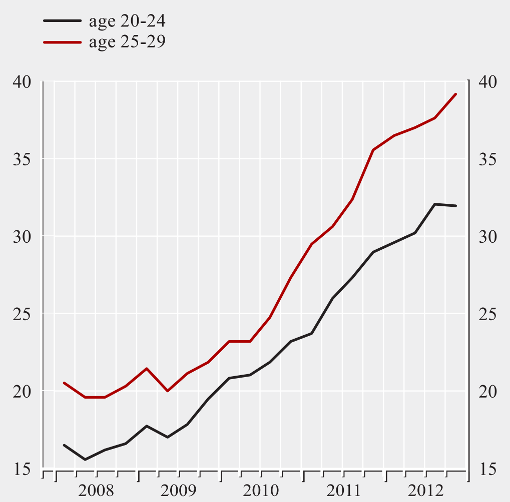
If the **institutional environment** of the labour market had been more **flexible**, the reduction in the number of the employed would have been smaller. Quite indicatively, according to a field research conducted before the crisis, a significant number of businesses reported that the most probable way to cut down operating costs in the event of reduced demand would be a reduction in the number of unskilled workers (on fixed-term and indefinite term contracts) and not to contain or reduce wages (see Table III.7). Moreover, when businesses were asked the reasons why they would not cut wages even though it would be necessary in order to contain labour costs, they stated institutional constraints. Changes in the institutional framework are likely to eliminate these constraints, which would lead to an increase in the number of recruitments.

Another source of concern regarding the evolution of **potential output** is that, although the possibility of someone becoming unemployed and remaining unemployed is higher for the low-skilled, the percentage of young people who neither work nor study has also increased in recent years (Chart III.10) and a considerable number of young people migrate, putting at risk the future of the new generation and highlighting the need for active measures to boost employment.

The **sectors** affected most by the crisis are **construction** (employment decreased by almost 50% compared to 2008), **manufacturing** (1/3 less jobs between 2008 and 2012) and **trade**.

Turning to the **geographic breakdown of unemployment**, while at the beginning of the crisis the differences were very pronounced —the urban centres were affected much more than the semi-urban, island and rural areas— unemployment rates now converge to very high levels, with the exception of only some island areas (Ionian islands, South Aegean), where the average rate of unemployment was below 20% in 2012.

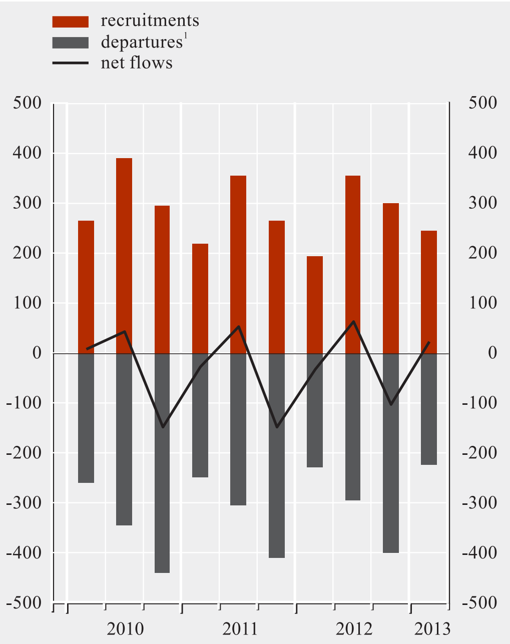
Chart III.10 Persons not in education, employment or training as a percentage of same age population



Source: ELSTAT, Labour Force Surveys.

Chart III.11 Salaried employment flows in the private sector

(thousands persons, per four-month period)



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

Intersectoral labour mobility is already taking place, though at a very slow pace. At the same time there is a shift towards larger businesses – especially in trade. Recent retirements from the broader public sector have altered the sectoral distribution of the employed, as the percentage of those working in state-owned enterprises (DEKO) has been considerably reduced. This will lead to the elimination of differences with other OECD countries, as Greece had the highest percentage of employees in state-owned enterprises.[6]

The institutional changes in the labour market combined with dwindling activity have raised **part-time employment in the private sector**, from 5.8% in 2008 to 11.5% in 2012.

Business estimates on **short-term employment prospects** as reflected in IOBE business surveys for April 2013 are still negative – although an improvement is registered for all sectors compared both with the first quarter (except for services) and with the average for 2012. Improvement in employment prospects has been particularly strong in manufacturing and construction.

Data on **salaried employment flows** support the evidence of stabilisation in employment. From the second four-month period of 2012 through to the first four months of 2013, flows improved against the corresponding periods of the previous year (Chart III.11). Moreover, while up to March 2013 it seemed that the improvement was due to the reduction of dismissals, this improvement reflected increased recruitment in April.

In 2013 the average rate of unemployment is expected to be slightly higher than at end-2012 and stand close to 28%.

The problems that call for immediate action in the labour market are the **dramatically high rate of unemployment** – especially among the

6 OECD (2011), *OECD Public Governance Reviews. Greece: Review of the Central Administration*, Paris.

young— and **underemployment**. In this direction, the Ministry of Labour and the Greek Manpower Employment Organisation (OAED) have established action plans in order to: (i) upgrade Employment Promotion Centres (KPA) to better match job seekers with job openings; (ii) enhance the effectiveness of training programmes for both the unemployed and the employed, through company training for the unemployed and participation of the employed in training programmes to compensate for reduced working hours and (iii) activate municipal and regional authorities to set up programmes that would cover social needs, which would be staffed by unemployed persons.

3 INFLATION, LABOUR COSTS AND COMPETITIVENESS: DEVELOPMENTS AND PROSPECTS

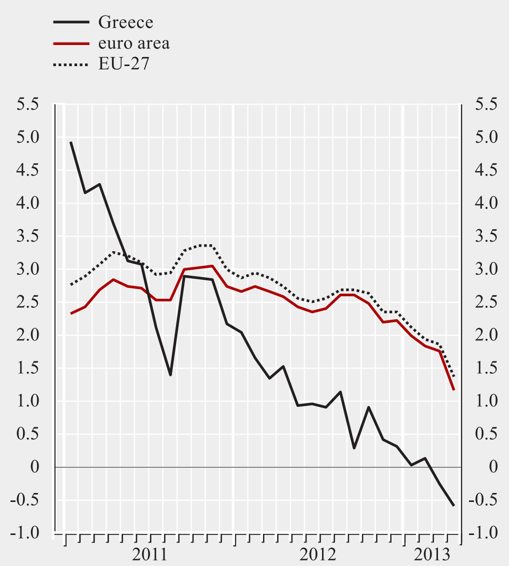
3.1 INFLATION

The pronounced decline in domestic demand and labour costs led to a sharp drop in inflation in 2012 and to negative inflation in the first four months of 2013. The average annual rate of change in the Harmonised Index of Consumer Prices (HICP) dropped to 1.0% in 2012 (from 3.1% in 2011) and to -0.6% in April 2013 (see Chart III.12 and Table III.8). It is worth noting that without the effect of increases in indirect taxation, the average annual HICP inflation rate in April was -1.3%. The average annual level of core inflation (excluding energy and unprocessed food prices) also followed a downward course and declined from 1.7% in 2011 to -0.1% in 2012 and -1.5% in April 2013 (see Chart III.13 and Table III.8).

The sharper decline in inflation in 2012 and the first four months of 2013, compared with 2011, is mainly attributable to the larger decrease in labour costs and the significant decline in the growth of crude oil prices in euro terms, as well as to the lower impact of the rise in indirect taxation. These factors are expected to exert an impact for the rest of the year. Thus inflation is estimated to stand close to -0.3% in 2013 and core inflation to -1.1%. In the medium term, high unemployment and excess supply in the economy will keep inflation at low levels (even negative for a period of time).

Chart III.12 Harmonised index of consumer prices

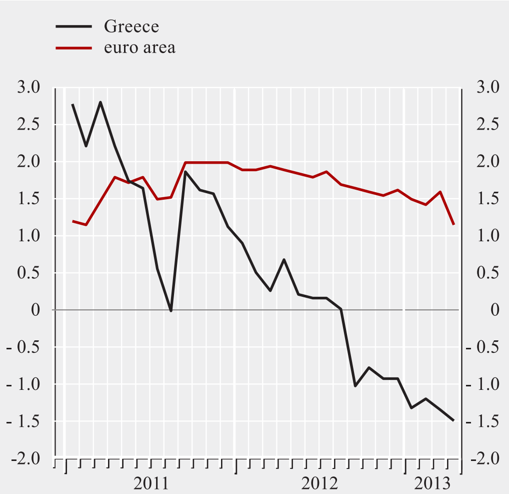
(year-on-year percentage changes)



Sources: ELSTAT and Eurostat.

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

(year-on-year percentage changes)



Sources: Eurostat and calculations based on ELSTAT data.

Table III.8 Contributions to the inflation differential between Greece and the euro area (2008-2013)

(percentage points)

	2008	2009	2010	2011	2012	2013 (Jan.-Apr.)
Average annual HICP inflation differentials	**1.0**	**1.1**	**3.1**	**0.4**	**-1.5**	**-1.9**
Contributions:						
Core inflation	0.77	0.91	1.60	-0.04	-1.64	-2.30
of which						
Services	0.56	0.64	0.71	0.01	-0.86	-1.56
Processed food	-0.14	0.14	0.52	0.21	-0.29	-0.23
Non-energy industrial goods	0.35	0.13	0.37	-0.26	-0.49	-0.51
Unprocessed food	0.03	0.39	-0.12	0.08	-0.16	-0.19
Energy	0.24	-0.25	1.66	0.40	0.35	0.63

Source: Calculations based on Eurostat and ELSTAT data.

Negative inflation —insofar as it is mild— is expected to boost real income and purchasing power of households as well as price competitiveness of the economy, especially in outward-looking sectors, such as tourism. The risk involved is that, if maintained for long, negative inflation could negatively affect supply and investment, as it leads to lower business profit margins and to higher real lending rate.

3.2 UNIT LABOUR COSTS

In 2012, unit labour costs in total economy declined by 8.1%. In 2013 it is estimated that the decline will continue for the fourth consecutive year: by 7.8% in total economy and 8.2% in the business sector, reflecting a considerable decline in average remuneration (larger than in 2012) and a very small decrease in productivity (for more detailed estimates see Tables III.9 and III.10). Moreover, in 2014, once economic recovery is under way, it is estimated that unit labour costs will decline by 0.7% in total economy and increase only slightly (by 0.3%) in the business sector, reflecting almost exclusively the expected increase in average working hours.

On the basis of the above calculations, the target set in the Memorandum (i.e. to reduce unit labour costs by 15% in 2012-2014) will most probably be overshot, as the cumulative reduction in these three years is expected to reach 19.2%.

In both 2012 and 2013, reductions in the remuneration of employees have been decisively affected by major legislative interventions in the labour market (October 2011, February and November 2012) and the impact of economic recession on the labour market.

Already from 2012 businesses have been increasingly turning to individual labour contracts while, from end-October 2011 up to mid-April 2013 some 1,150 enterprise-level collective agreements had been signed, typically providing for a "freezing" in earnings or a downward adjustment of wages by 10%-40%. It is estimated that wage reductions through enterprise-level and individual labour contracts have so far affected about 27% of employees in the business sector and reductions through sectoral agreements about 20%-25%.

3.3 COST COMPETITIVENESS

According to Bank of Greece indicators, 78.1% of the 2001-2009 loss in **international competitiveness on the basis of unit labour costs** against 28 trade partners had been recovered by 2012 (see Table III.11). It is estimated that in 2013,

Table III.9 Earnings and labour costs (2007-2014)

(annual percentage changes)

	2007	2008	2009	2010	2011	2012	2013 (forecast)	2014 (forecast)
Greece								
Average gross earnings (nominal):								
– total economy	5.2	6.2	4.6	-4.6	-1.7	-6.6	-7.8	-0.5
– central government[1]	3.8	7.1	5.2	-7.7	-0.5	-3.8	-6.7	-1.9
– public utilities	7.1	8.2	7.7	-5.5	-7.9	-9.5	-10.0	0.0
– banks	8.9	0.0	3.7	-1.8	0.1	-7.5	-10.0	-6.3
– non-bank private sector	6.1	6.5	2.8	-2.9	-1.7	-9.3	-7.8	1.0
Minimum earnings	**5.4**	**6.2**	**5.7**	**1.7**	**0.9**	**-19.6[3]**	**...**	**...**
Average gross earnings (real)	**2.2**	**1.9**	**3.3**	**-8.9**	**-4.7**	**-7.6**	**-7.3**	**...**
Total compensation of employees	**8.2**	**8.5**	**3.2**	**-6.9**	**-8.1**	**-14.0**	**-12.0**	**-1.2**
Compensation per employee	**5.6**	**6.8**	**4.9**	**-4.0**	**-0.7**	**-6.0**	**-7.9**	**0.2**
Unit labour costs:								
– total economy	4.5	8.7	6.4	-2.1	-1.1	-8.1	-7.8	-0.7
– business sector[2]	5.3	7.9	4.4	-1.1	-3.5	-12.3	-8.2	0.3

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

Table III.10 Average earnings and unit labour costs in total economy: Greece and the euro area (2001-2014)

(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	4.5	1.4
2008	6.2	3.4	8.7	3.8
2009	4.6	1.8	6.4	4.3
2010	-4.6	2.0	-2.1	-0.7
2011	-1.7	2.2	-1.1	0.9
2012	-6.6	1.8	-8.1	1.4
2013 (forecast)	-7.8	1.8	-7.8	1.4
2014 (forecast)	-0.1	1.8	-0.7	0.8

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

Table III.11 Nominal and real effective exchange rate (EER) indices[1] (2000=100)

	Broad EER-28 (nominal)	Real EER*			
		Broad EER-28		EER-euro area	
		CPI-deflated	ULCT-deflated	CPI-deflated	ULCT-deflated
2000	100.0	100.0	100.0	100.0	100.0
2009	115.5	118.7	132.0	109.2	121.8
2010	112.2	118.1	125.3	112.6	120.0
2011	112.8	118.6	122.1	113.0	117.4
2012	110.6	114.4	107.0	111.3	105.8
2013**	111.7	112.1	97.6	108.4	96.1

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

cost competitiveness will recover all its losses – in other words, competitiveness is expected to improve by 2.4% against Greece's 28 trading partners and 3.9% against the euro area. Further improvement is expected in 2014. Improvement is also seen on the basis of **consumer price indices** —though to a lesser extent— due to rigidities in product markets, the increase in indirect taxes and the high energy cost for businesses.

According to the Global Competitiveness Index (of the World Economic Forum, the World Bank, Transparency International, International Institute for Management Development etc.), **structural competitiveness** of the Greek economy —despite recent signs of improvement[7]— remains extremely low compared with other OECD countries. On the basis of most of these indices, Greece continues to rank last among EU-27 economies as well as all other advanced economies.

3.4 BUSINESS PROFITS

A comparison between the reduction in unit labour costs and the much smaller decrease in the GDP deflator (by 0.8% in 2012) suggests that the profit margin in total economy has increased.[8] National accounts data lead to the same conclusion, as the remuneration of employees declined more than nominal GDP or the "gross operating surplus/gross income" in total economy (which incorporates business profits, income of self-employed and farmers, as well as property revenue, e.g. rents). Moreover, according to non-financial accounts by ELSTAT, the gross operating surplus of non-financial corporations declined by 2.2% in 2012, while the net operating surplus (net of depreciation) decreased by 15.0%. Nevertheless, this conclusion on the profit margin takes into account only one cost component, i.e. labour costs, while ignoring other input costs (raw material, intermediate goods, energy consumption), financial costs and the tax burden on businesses.

If the profit margin is calculated on the basis of the profit to turnover ratio of non-financial corporations listed on the Athens Exchange (ATHEX), it is suggested that gross profit margins continued to decline in 2012, while the negative net profit margin widened (the "net loss" margin). In 2012, according to published

7 The ranking of Greece according to the "ease of doing business index" of the World Bank improved for 2013 (78th from 89th among 185 economies).
8 The GDP deflator to unit labour costs ratio is often used as an indicator of the profit margin in the economy.

financial statements of 169 non-financial corporations[9] listed on the Athens Exchange, sales dropped by 11.1%, gross profits by 20.7% and net losses before tax rose by 274%. Thus, the gross profit margin decreased by 1.8 percentage point (to 14.6% from 16.4%), while the net profit margin is still negative and actually widened (to -2.5%, from -0.6% in 2011). Moreover, return on equity (ROE) and return on assets (ROA) became even more negative (-2.8%, from -0.7%) and (-1.3%, from -0.3%) respectively.

4 BALANCE OF PAYMENTS: DEVELOPMENTS AND PROSPECTS

The sharp decrease in the current account deficit in 2012 to around 1/3 of the 2011 figure (3.4% of GDP in 2012, 9.9% in 2011) is attributable to a significant decline in two deficits: the trade deficit and the income account deficit (see Table III.12).

Available evidence on developments in the current account deficit in 2013 points to a further decline to less than 3% of GDP, while this rate should stand at around 2% in 2014.

However, if the current account deficit is to remain low, long-standing structural weaknesses of the Greek economy must be tackled (energy dependence, high import content of exports and a limited production base that cannot meet domestic demand).

Compared with 2011, the trade balance fell by 3 percentage points of GDP (from 13.1% of GDP to 10.1% of GDP) and stood at €19.6 billion in 2012 (see Table III.12). Bank of Greece data on changes in imports and exports of goods and services are not significantly different from national accounts data presented in Section 1 above.

The efforts of Greek businesses to expand their access to markets abroad continued, despite substantial liquidity constraints and the deterioration in the external environment, mostly in the EU countries. This resulted in a small-scale reorientation of exports from euro area and SE Europe to Middle East and Northern Africa, as well as other developing countries (see Chart III.14). This was not accompanied

9 The two refineries and the Public Power Corporation (DEH) are not included in these 169 companies.

Table III.12 Balance of payments

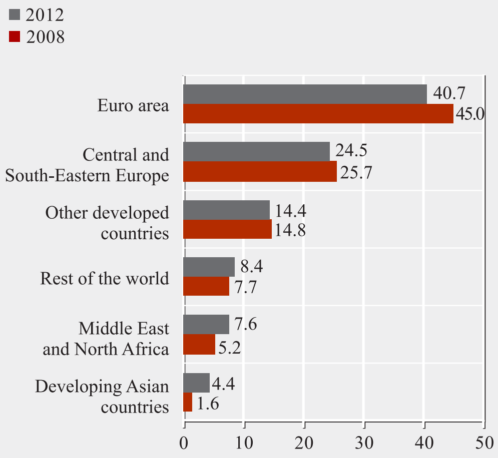
(million euro)

	January-December			January-March		
	2010	2011	2012	2011	2012	2013
I CURRENT ACCOUNT BALANCE	**-22,506.0**	**-20,633.5**	**-6,527.9**	**7,099.0**	**-4,810.9**	**-2,346.9**
Trade balance	-28,279.6	-27,229.1	-19,619.0	-7,609.5	-5,872.2	-4,522.4
Services balance	13,248.5	14,629.6	14,721.4	996.2	1,515.7	1,500.1
Income balance	-7,673.8	-8,594.8	-3,061.7	-1,697.5	-1,833.4	-1,027.5
Current transfers balance	198.9	560.8	1,431.5	1,211.7	1,379.0	1,702.9
II CAPITAL TRANSFERS BALANCE	**2,071.5**	**2,671.8**	**2,327.6**	**312.1**	**1,053.4**	**1,092.5**
III FINANCIAL ACCOUNT BALANCE	**20,853.9**	**17,838.1**	**4,153.5**	**6,380.6**	**4,958.2**	**133.1**
Direct investment[1]	-927.0	-452.6	2,322.4	-700.2	-518.3	1,293.4
Portfolio investment[1]	-20,855.0	-19,778.3	-99,903.9	-6,055.3	-37,033.7	542.7
Other investment[1]	42,538.8	38,050.0	101,744.1	13,093.2	42,530.1	-1,711.0
Change in reserve assets[2]	97.0	19.0	-9.0	43.0	-20.0	8.0
IV ERRORS AND OMISSIONS	**-419.4**	**123.6**	**46.8**	**406.3**	**-1,200.6**	**1,121.3**
RESERVE ASSETS	4,777.0	5,332.0	5,500.0	4,557.0	5,434.0	5,461.0

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

Chart III.14 Greek exports of goods, by destination

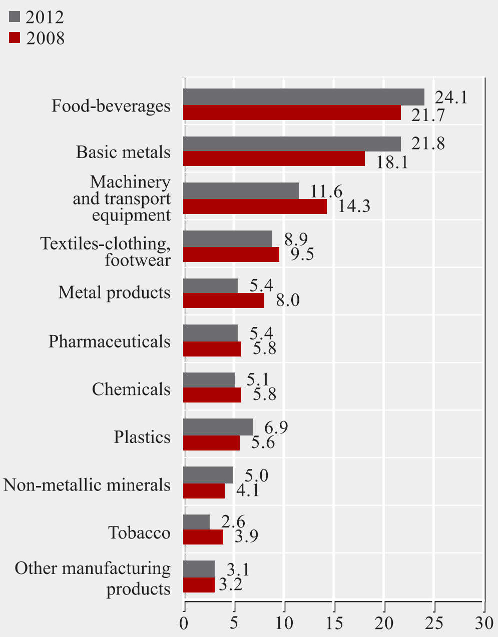
(percentage of total value of non-fuel exports)



Source: Eurostat, COMEXT database.

Chart III.15 Sectoral breakdown of Greek exports of goods

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



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

by any significant change in the sectoral breakdown of exports (see Chart III.15).

The decline in the **import bill** accelerated in 2012, due to a substantial decrease in imports of raw materials (excluding oil), capital and intermediate goods, as well as consumer durables (see Chart III.16).

In the first quarter of 2013, the trade deficit fell by €1.4 billion, due to a decline in all individual items. As regards the trade balance excluding oil and ships, export receipts continued to rise and the import bill kept on falling. The decrease in imports is expected to continue in an environment of declining disposable income, so long as investment activity and output do not improve considerably. Data for the first months of 2013 show that the first quarter of 2013 saw an increase in export receipts, despite a decline recorded in March this year. Exports are expected to be affected adversely by developments in Cyprus, though with a small impact on the Greek GDP, as mentioned above.

The surplus of the **services balance** in 2012 remained at around the 2011 level. The increase in net transport receipts offset a marginal decrease in net travel receipts.

In the first quarter of 2013, tourist arrivals rose by 4.6%, while travel receipts fell by 3.7%. The increase in tourist traffic is expected to continue and intensify in the months ahead. Estimates of the Association of Greek Tourist Enterprises (SETE) point to an increase of 15%-20% in pre-bookings. Total arrivals are projected to rise by around 10%, reaching 17 million, while travel receipts are also expected to increase.

The outlook for the **cruise industry** is also optimistic, now that the relevant restrictions have been lifted (cabotage). However, in order to tap the full potential of Greek ports, faster implementation of the required structural reforms is necessary.[10]

10 World Economic Forum: According to the Travel and Tourism Competitiveness Index 2013, Greece is ranked 32nd among 140 countries, down from 29th in 2011. The decline in the ranking can be traced to a further worsening of the policy environment and a lower perceived prioritisation of Travel & Tourism, probably because of dwindling resources available for the particular industry amid general economic and financial difficulties.

In the **transport industry**, net transport receipts, mostly from merchant shipping, rose marginally in 2012, despite lower freight rates in international markets, which are the main determinant of sea transport receipts (see Box III.2 for a discussion of the determinants of shipping receipts). In the first quarter of 2013, net sea transport receipts fell slightly year-on-year. According to estimates, during 2013 tonnage should increase by around 5% on a net basis, while transport demand should rise by around 4%.[11]

The **income account deficit** in 2012 fell by €6.4 billion over 2011, due to a sharp decline in the net interest payments on Greek government securities held by non-residents. The decline is attributable to the PSI, as well as the deferral of interest payments on loans under the support mechanism and due to an adjustment in interest rates.

In 2013 the Greek government's interest payments to non-residents are expected to decline further, while interest payments on loans under the support mechanism are expected to remain at around the 2012 levels.

In 2012 the **current transfers balance** showed a surplus of €1.4 billion, up by €871 million over 2011, mainly due to an increase in the net transfer receipts of general government (mostly from the EU). In the first quarter of 2013, the current transfers balance showed a surplus of €1.7 billion, compared with €1.4 billion in the first quarter of 2012. According to Bank of Greece provisional estimates, net current transfers from the EU are expected to stand at €1.1 billion in 2013 and €800 million in 2014.[12]

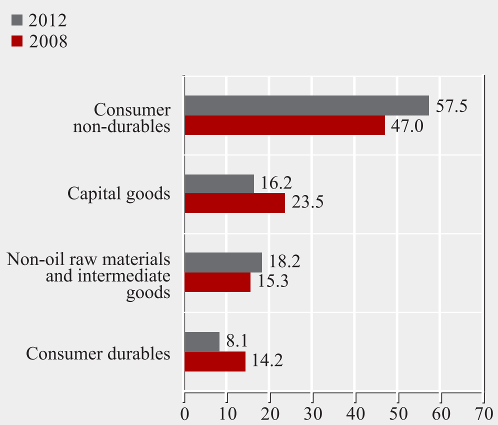
In 2012 the **capital transfers balance** showed a surplus of €2.3 billion, compared with €2.7 billion in 2011. According to Bank of Greece provisional estimates, net capital transfers from the EU are expected to stand at €4.8 billion in 2013 and €3.7 billion in 2014.

The **financial account** showed a smaller net inflow in 2012 than in 2011 (€4.1 billion, compared with €17.8 billion). This decrease is due to a substantial increase in net capital outflows for portfolio investment (to €99.9 billion, from €19.8 billion in 2011), both by residents (mostly investment in foreign bonds and Treasury bills) and by non-residents in Greece (mostly divestment of bonds and Treasury bills). This development was more than offset by an increase in net inflows under "other" investment, chiefly loans to general government (€109 billion, from €39.9 billion in 2011) and an inflow due to a drop in residents' deposit and repo holdings (by €15.3 billion, compared with €7.5 billion in 2011).

In 2013 inflows under foreign direct investment (FDI) are expected to increase as the economic climate and the business environment in Greece gradually improve. The early signs of foreign investors' interest are encouraging. Completion of reforms, combined with Greece's geopolitical advantages, may transform the country into a significant transit hub

Chart III.16 Breakdown of Greek imports of goods according to their use

(percentage of total import bill*)



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

11 Estimates of G. Moundreas S.A. The small differential (1%) between demand and supply is quite encouraging compared with the 2012 level (6%).
12 Current transfers from the EU primarily include direct aid under the Common Agricultural Policy (CAP) and receipts from the European Social Fund.

in Europe and a major producer-exporter of goods and services, in industries such as energy, food, pharmaceuticals, tourism, banking and information-telecommunications. Moreover, renewed interest of foreign investors in equities and debt securities is expected in line with the restoration of confidence in the Greek economy. In this context, corporate bonds could be a source of liquidity, supplementing bank lending, in an environment characterised by tight credit standards and bank deleveraging.

Box III.1

EIB ACTIONS AND THE USE OF COMMUNITY FUNDS TO ENHANCE LIQUIDITY

The European Investment Bank (EIB) has played an active role in providing liquidity to the real economy and will continue to do so also in 2013, through disbursements and contracts that will amount to approximately €1.9 billion and will involve infrastructure projects and loans to SMEs.[1] According to data from EIB and the Ministry of Development, Competitiveness, Infrastructure, Transport and Networks:

- By end-April 2013 a loan contract of €200 million had been signed with Attiko Metro SA for the Athens subway and another one of €25 million with DESFA SA (manager of the natural gas grid).
- Based on available data (March 2013),[2] a total of €212.5 million have been disbursed out of the €440 million of the programme for SME financing.
- Once the major highways programme is initiated, it is expected that the EIB will disburse €650 million to finance it.

In order to cover the financing needs of SMEs and to help them continue their activities, the following were agreed with the EIB:

- The "Guarantee Fund for Small- and Medium-sized Enterprises" will issue guarantees for EIB loans to SMEs through Greek banks, totalling €1 billion by end-2013.
- The programme for external trade guarantees will be activated. These revolving guarantees, amounting to €500 million, will reach a total of €1.5 billion per annum.

Finally, EIB financing to the Greek economy will be facilitated by two new tools that the EIB has at its disposal and are currently at different stages of realisation:

- EIB's risk sharing instrument, which is guaranteed by NSRF funds and is based on EIB leveraging, has already been used in the conclusion of six contracts (totalling €180 million) with commercial banks. Its aim is to grant loans of about €360 million to SMEs. By February 2013 about €90 million had been absorbed.[3]

1 See announcement (10 December 2012) of the Ministry of Finance on the schedule for the disbursement of €750.5 million by EIB to Greece, between Tuesday 11 December and Friday 21 December and announcement of the Ministry of Development, Competitiveness, Infrastructure, Transport and Networks on EIB financing to enterprises (26 March 2013).
2 See announcement of the Ministry of Development, Competitiveness, Infrastructure, Transport and Networks on EIB financing, ibid.
3 See "The EIB in Greece", February 2013.

- The EU-EIB Project Bond Initiative has entered its pilot phase. This initiative aims at providing credit for infrastructure projects, through the EIB and the Community Budget. The pilot phase will make use of funds available under NSRF 2007-2013.

Apart from these actions undertaken by the EIB, the levels of liquidity are expected to improve as funds from the National Fund for Entrepreneurship and Development (ETEAN) will be unlocked. In April 2013 the Enterpreneurship Fund of ETEAN "Business Restart"[4] came into operation after reaching an agreement with 14 banks for granting loans of €550 million, half of which will be covered by the banks and half by the Fund. The loans will be given to small- and medium-sized enterprises as working and investment capital and their interest rate will be subsidised by 50%.

4 See announcement of the Ministry of Development, Competitiveness, Infrastructure, Transport and Networks, 30 April 2013.

Box III.2

DETERMINANTS OF SEA TRANSPORT RECEIPTS

Sea transport receipts are instrumental to covering the current account deficit in Greece. Receipts from cross-trade correspond to about 97% of total receipts from shipping services. The level of these receipts is determined by freight rates and the demand for shipping services.[1]

Freights are agreed upon internationally and are captured by the ClarkSea Index.[2] The level of shipping activity can be approached or, better, forecast by the level of bank financing. As ship-owners tend to prefer those credit institutions that are registered or have a branch in the country where ship-owners have their seat, outstanding loans granted from the domestic banking system to shipping companies through branches in Greece can be used as a proxy.

The results of the analysis, on the basis of an error correction model (Engle-Granger, 1987) for January 2002-December 2012), show that there exists a long-term relationship between the ClarkSea Index and, on the one hand, outstanding loans to shipping and, on the other, receipts from transit trade.

The long-run elasticity of shipping receipts with respect to the ClarkSea index is estimated at 0.43, i.e. if the Index rises by 10%, shipping receipts are expected to rise by 4.3% in Greece. Elasticity is below 1, as Greek shipping companies register their revenue in other countries. In the short run, a 10% rise in the ClarkSea Index is related with an increase in shipping receipts by 2.1% after one month. Effectively, the modalities of freight collection imply that any payments will be recorded in the Greek balance of payments on average about a month later, which is in accordance with the shipping practice in other countries.

1 See Bradoudakis and Panagiotou (2010), "Determinants of the receipts from shipping services: the case of Greece", Bank of Greece, *Economic Bulletin*, 34, p. 41-55.
2 As described by Clarkson Research Studies in "Sources and Methods for the Shipping Intelligence Weekly" (2009), the ClarkSea Index is the only published weekly indicator of earnings for all the main commercial vessel types. It is weighted according to the number of vessels in each fleet sector.

Determinants of shipping receipts

Explanatory variables	Long-run relationship	Short-run relationship
Constant	-2.820** (-12.621)	0.010 (1.816)
ClarkSea Index	0.431** (23.240)	0.209** (4.465)
Stock of outstanding loans	0.629** (34.178)	0.188 (1.559)
Long-run equilibrium adjustment coefficient		-0.580** (-7.808)
Number of observations	132	131
R^2	0.942	0.580

Sources: Bank of Greece and Clarkson Research Studies.
** Denotes statistical significance at 5% level.
The t-statistic values are given in parentheses.

As regards outstanding loans to shipping, the long-run elasticity is estimated at 0.62, i.e. a 10% increase in the outstanding loans leads to 6.2% increase in shipping receipts. The error correction coefficient is -0.58 and suggests a relatively swift return to balance (approximately two months).

In conclusion, a policy aimed at further improving sea transport receipts should:

(a) Attract new shipping companies in Greece, something that traditionally relates to registering vessels under the Greek flag, and expand the services offered by the existing maritime cluster; containing bureaucracy in registering vessels under the Greek flag and in establishing shipping companies can help in this direction.

(b) Enhance the competitiveness of the Greek maritime finance cluster. In order to safeguard the role of the Greek banking system, the supply of credit to shipping companies should be normalised, enabling them to maintain their share in shipping financing.

Box III.3

REAL ESTATE INVESTMENT COMPANIES IN THE GREEK MARKET: DEVELOPMENTS AND PROSPECTS

In the current adverse economic environment, Real Estate Investment Companies (REICs) and their portfolios have exhibited considerable resilience compared with the commercial property market as a whole. This can be attributed to their focus on high-quality properties (in terms of location, state of maintenance, construction quality, etc.) and high-quality tenants/lessees; their professional fund management and portfolio diversification across locations and property types, as well as the more favourable tax treatment they enjoy.

Some key figures[1]

The portfolios of the five REICs[2] which are active in the Greek market comprise 370 properties of a total asset value of €1.4 billion (as at end-2012), while the aggregate net asset value of these companies amounts to €1.75 billion. The properties predominantly consist of retail space (49.6%) and offices (44.9%), which are typically leased to commercial banks, and to a much lesser extent warehouses (2.7%), shopping centres (0.8%) and other properties (2.0%). As regards the geographic breakdown, 65.3% (in value terms) of REICs' investment activity in properties is accounted for by the Attica region, 28.4% by other big cities in Greece, and the remaining 6.3% by eastern European countries (Romania, Serbia, Ukraine).

1 These figures are calculations based on data collected by the Real Estate Market Analysis Section of the Bank of Greece under Act No. 9/10 January 2012 of the Executive Committee of the Bank of Greece.
2 These companies are: Trastor, Eurobank Properties, MIG Real Estate, Intercontinental and NBG Pangaea, the first three of which are listed in the Athens Exchange.

The average yields of retail property assets included in the portfolios are estimated at 8.6% for retail spaces and at 8.8% for office spaces. Over the past five years, the shares of the three listed REICs, taken together, outperformed the general index of the Athens Exchange.[3] Between 2009 and 2011, Greek REICs offered an average dividend yield of 9.3%, well above other REICs in the EU (5.1% over the period 2007-2011, according to the European Public Real Estate Association).

The new institutional framework and prospects for the development of the REIC sector

The weaknesses of the initial institutional framework of REICs (under Law 2778/1999), alongside the prevailing macroeconomic uncertainty and the deep recession of recent years, have prevented the growth of the REIC market in Greece. The new Law 4141/2013 attempts to address these weaknesses by introducing major improvements and providing additional incentives, which are expected to boost REIC activity and attract investment, potentially leading to the emergence of new business initiatives. Meanwhile, the consolidation currently underway in the banking sector is expected to reshape the REIC sector and enhance its efficiency.

The most important reforms in the legal framework governing the operation of REICs, as stipulated in Law 4141/2013 "Investment tools for growth, financing and other provisions", aim at broadening the range of investment options and the scope of activities for REICs, as well as ensuring greater flexibility. As regards the expansion of investment options, REICs have been given the possibility to invest also in residential property, holiday property (up to 25% of their total investments), property under construction and land with building permit. Moreover, they are allowed to participate in joint ventures or other business arrangements for the development of prime properties (exceeding €10 million) and they may invest in rights arising from financial leases, building rights, as well as long-term concessions of real estate projects. Among other key reforms, the new law lowered, from €29.35 million to €25 million, the initial share capital required for setting up a REIC and raised the minimum leverage ratio to 75% of assets (from 50%) and the minimum dividend distribution ratio to 50% of net profits (up from 35%), bringing them more in line with international standards.

It is evident that the new legal framework for REICs, coupled with the newly granted possibility to participate in joint ventures, special purpose vehicles, long-term concession schemes as well as public property sale and leaseback programmes, could help to improve the industry's growth prospects and enhance its role in the effort to put public real property into more effective use. Via REICs, real estate becomes a liquid instrument and an investment tool that is accessible not only to institutional funds but also to individual investors, enabling them to invest in strictly supervised listed companies and in high-value property, without having to deal with management issues.

3 Between end-June 2008 and mid-April 2013, while the general Athex index recorded losses of 71.8%, the share prices of the three listed REICs posted losses of 46.6%, on average, performing better than both the general index and the real estate sub-index (the latter fell by 59.5% between the start of the series on 1 December 2009 and 15 April 2013).

Box III.4

STRUCTURAL REFORMS BOOST PRODUCTIVITY AND BOLSTER INVESTMENT: EVIDENCE FROM ROAD FREIGHT TRANSPORT AND RETAIL TRADE

A. Road freight transport

I. Sectoral characteristics that made changes in the institutional framework imperative

The road freight transport industry in Greece is characterised by a large number of small-sized companies and a high percentage of self-employed workers, as opposed to other EU countries. Despite the large number of active businesses, profit margins remained very high until recently, as a result of protectionist institutional arrangements, and did not reflect high efficiency in the sector.

The rigidity of the regulatory environment can be seen clearly in the relevant OECD indicator, which is based on data regarding market entry barriers, operational restrictions (conduct regulation) and price controls. Until 2010, Greece's ranking for the regulatory framework on road freight transport was worse than the OECD average.[1]

The sector's productivity was low because of high share of empty runs (38% in 2010, compared with 26% in Europe) and old fleet age (in 2010, vehicles of up to 2 years of age accounted for a mere 11% of the total fleet, against 31% in Spain and 48% in Germany), while the fleet size was disproportionately high compared to economic activity (truck intensity – defined as the number of trucks per €1 million of GDP – was 4.7 in Greece, against an EU-27 average of about 2.0). Low levels of efficiency are also partly attributed to the limited and low-quality road network and logistics infrastructure, as well as to the lack of interconnectedness with other transport.[2]

The role of the sector in overall economic activity is evident, given that transport costs are included in every single production process, and its significance for the Greek economy is even greater today, taking account of the strategic goal to turn Greece into a major hub for the transit of goods.

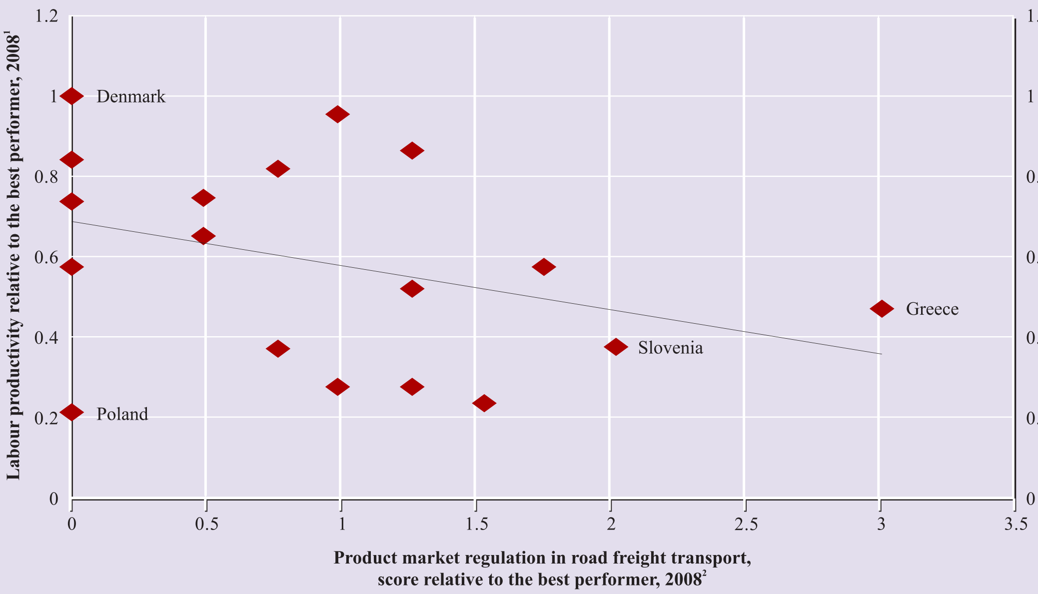
A flexible institutional framework helps increase efficiency, as has been extensively pointed out in the literature.[3] Chart A clearly shows the negative correlation between productivity and the rigidity of sectoral regulation.

II. Recent changes in the institutional framework

The above reasons have made it imperative to change the institutional framework. In particular, the number of commercial motor vehicle licences had remained unchanged from 1976 until 2010, there were strictly defined geographical restrictions on licences (i.e. licences were issued either for one prefecture or for the national network) and freight charges were administratively fixed. Changes introduced from 2010 onwards include: liberalisation of commercial vehicle licensing, a significant reduction in the cost of licensing fees for commercial vehicles and start-up fees for

1 In 2008, the OECD ETCR indicator in the transport sector for Greece was 3.5, whereas the OECD average was slightly above 1. Index scale of 0-6 from least to most restrictive.
2 In 2007, motorway density in Greece was 8.9/1000 km^2, against an EU-27 average of 14/1000 km^2.
3 See Boylaud, O. and G. Nicoletti (2001), "Regulatory Reform in Road Freight", OECD Economic Studies 32:1.

Chart A Labour productivity and product market regulation in road freight transport



Sources: Eurostat, OECD Product Market Regulation Database.
1 Labour productivity in the country concerned relative to Denmark (best performing country).
2 Score relative to the best practice in the sample. A higher score indicates more restrictive regulation.

road freight transport businesses, the permission to 'own-account' vehicles to perform carriage for 'hire and reward'; as a result, the number of journeys with empty runs declined and incentives were given to road freight transport companies to make investments. These improvements promote free competition and are expected to help reduce prices, increase productivity, lower profit margins and boost economic activity. Although it is difficult to identify the positive impact of these changes amidst the current deep recession, an evaluation of reforms on the basis of the OECD ETCR indicator points to a significant improvement against the OECD average.[4] In view of these improvements and given the correlation between the regulatory environment and productivity, it is estimated that there is now significant room for an increase in road freight transport productivity.

B. Retail trade

Retail trade is a key sector in most economies. In Greece, it accounts for more than 10% of total employment and represents around 5% of total value-added. It is evident that the smooth operation of the market is essential in the formulation of prices in retail trade. The productivity of retail trade in Greece is low and it is, in fact, lower than in most other EU-15 countries.[5] Limited productivity can be attributed, inter alia, to low investments in the sector, barriers to entry

4 In particular, based on Bank of Greece estimates, the indicator (on a scale from 0 to 6, from least to most restrictive) fell from 3.5 in 2008 to a mere 0.5.
5 Greece's productivity in retail trade, measured as value-added per worker, accounts for a mere 44% of that of France, the country with the highest productivity levels among the EU-15 countries.

Chart B Labour productivity and product market regulation in retail trade

Sources: Eurostat, OECD Product Market Regulation Database.
1 A higher score indicates more restrictive regulation.

and exit, and restrictions on the activities of retail outlets. The relationship between productivity and the regulatory environment is clearly shown in Chart B, which presents the correlation between the rate of change in total productivity and the rigidity of the regulatory framework in OECD countries. Greece's ranking on the OECD ETCR indicator measuring the rigidity of regulation in retail trade was higher than the OECD average in 2011 (that is, its regulatory environment was more rigid).[6] The changes introduced since then (e.g. lifting of constraints on the sale of restricted product by big retailers, abolition of the prohibition to sell merchandise at prices below cost and delinking of the working hours of employees in retail outlets from their opening hours), as well as other pending reforms (e.g. review and amendment of the Market Policing Code) are expected to improve the regulatory framework. It should be noted that after the considerable liberalisation of retail outlet opening hours in 2005 (Law 3377/2005), investment in the retail sector rose significantly (the average annual rate of investment, defined as the ratio of investment to value-added, was 20% in 2006-2007, against 10% in 2003-2004) and so did employment (the average annual rate of change in the retail trade sector was 3.1% in 2006-2007 up from 2.4% in 2003-2004).

6 On a scale from 0 to 6, from least to most restrictive, it stood at 2.9 for Greece, compared with an OECD average of less than 2.5.

IV FISCAL DEVELOPMENTS AND PROSPECTS[1]

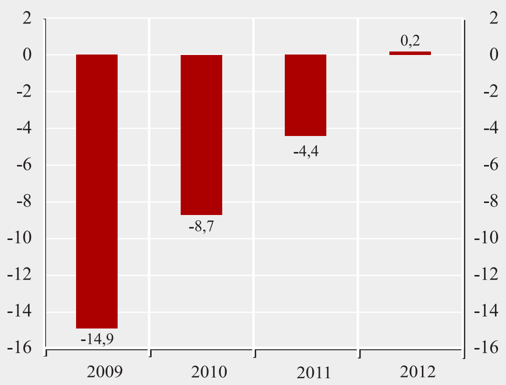
In 2012 fiscal adjustment continued for the third consecutive year with notable results, in spite of the economic and political developments. The general government primary deficit (adjusted for the state support to financial institutions, ANFA revenue and part of the 2012 special property tax collected through electricity bills) came down to about 1.3% of GDP, improved by 0.2% of GDP against the revised fiscal targets set in the second Economic Adjustment Programme. The improvement in the structural deficit of the general government was much stronger, as it was reduced by 6.9 percentage points of GDP in comparison with 2011. In 2012 the general government debt was contained to 156.9% of GDP due to the positive contribution of the PSI and the bond buyback operation that was completed in December 2012. Fiscal consolidation efforts continue in 2013 and the achievement of primary surplus in 2013 in line with fiscal targets is considered feasible.

1 OVERVIEW OF DEVELOPMENTS AND PROSPECTS

In 2012 fiscal adjustment continued for the third consecutive year with notable results, in spite of the deep economic recession, the two elections and other delays. According to national accounts data, as announced by the Hellenic Statistical Authority and Eurostat, general government deficit stood at 10.0% of GDP, against 9.5% of GDP in 2011 (see Table IV.1). However, the general government deficit adjusted for the net state support to financial institutions[2] was limited to 6.0% of GDP in 2012, from 9.8% of GDP in 2011.[3] Furthermore, the general government primary deficit adjusted for the state support to financial institutions, ANFA revenue and part of the 2012 special property tax collected through electricity bills (EETHDE)[4] (as this constitutes a criterion for the attainment of the targets of the Economic Adjustment Programme – EAP), was reduced to about 1.3% of GDP, from 2.7% of GDP in 2011. This result overshoots the revised EAP fiscal targets (primary balance of -1.5% of GDP) by 0.2% of GDP, despite the worse than expected macroeconomic environment.

Chart IV.1 Structural primary balance of general government (2009-2012)

(percentage of potential GDP)



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

If cyclical effects on government revenue and expenditure are not taken into account, the improvement in the general government structural deficit —which was reduced by 6.9 percentage points of potential GDP in 2012 as compared with 2011— was even greater. Respectively, the structural primary balance is estimated to have improved by about 4.6 percentage points of potential GDP and turned into a small primary surplus (see Chart IV.1).

According to the IMF,[5] the improvement of the cyclically adjusted deficit as a percentage of

1 This chapter takes into account data and information published up to 1 May 2013.
2 Not including net state support to financial institutions amounting to €7,734 million or 4.0% of GDP.
3 Support to financial institutions had a positive effect on the general government balance for 2011 as —on an accruals basis— revenue collected (guarantee fees on interbank lending and the system of bond loans as well as yields on bank preference shares) was higher than expenditure (capital transfers and interest). For this reason, after the relevant adjustment, the deficit for 2011 increases.
4 ANFA revenue comprises the profits of euro area national central banks from holdings of Greek government bonds (which did not participate in PSI) that are transferred to the Greek state. For 2012 this revenue is estimated at €654 million. As regards revenue from EETHDE 2012, it is estimated at €650 million and will be collected in the second quarter of 2013; it has been taken into consideration in the national accounts deficit for 2012, but not in the revised fiscal targets.
5 See IMF, *Fiscal Monitor*, April 2013 (Table 1, p. 2).

Table IV.1 General government and state budget deficits

(percentages of GDP)

	2008	2009	2010	2011	2012*
General government deficit[1] *(national accounts data - convergence criterion)*	**-9.8**	**-15.6**	**-10.7**	**-9.5**	**-10.0**
– Central government	-9.9	-15.4	-11.8	-9.0	-9.2
– Social security funds, local government, legal entities in public law	0.1	-0.3	1.1	-0.5	-0.8
General government deficit adjusted for net state support to financial institutions		-15.8	-11.1	-9.8	-6.0
State budget deficit					
Administrative data[2]	**-6.2**	**-14.6**	**-10.0**	**-10.9**	**-8.1**
Cash data[3]	**-7.4**	**-14.1**	**-10.5**	**-11.1**	**-5.5[4]**

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

potential GDP was about 16.4 percentage points of potential GDP in 2010-2012, making Greece's fiscal improvement the strongest among advanced economies.[6] Specifically, fiscal improvement is considerably higher in relation to that achieved in other euro area countries facing fiscal problems, e.g. Portugal (6.7 percentage points of potential GDP in 2010-2012), Ireland (5.9 percentage points of potential GDP in 2008-2012) and Spain (5.1 percentage points of potential GDP in 2009-2012).[7]

The improvement in terms of cyclically adjusted primary balance for 2010-2012 was equally important, coming to 15.7 percentage points of potential GDP. As for 2012, the IMF estimates a cyclically adjusted primary surplus of 2.1 percentage points of potential GDP. This demonstrates the significant progress in fiscal adjustment against the background of recession. It should be stressed that the result for 2012 is much better in comparison with other euro area countries facing fiscal problems. Specifically, it is estimated that Portugal achieved a cyclically adjusted primary surplus of 1.0% of potential GDP in 2012, while Ireland and Spain continue to have a cyclically adjusted primary deficit of 2.9% and 2.6% of potential GDP respectively.

The general government debt in 2012 was reduced by 13.4 percentage points of GDP against 2011 and stood at 156.9% of GDP. This particularly improved balance reflects the positive contribution of the PSI and the recent debt buyback operation that was concluded in December 2012. Nevertheless, the effect of the relationship between interest rates and economic growth, on which the possibility to further reduce public debt critically depends, remains negative.

The fiscal consolidation effort continues also in 2013, a fact that was recognised in the joint announcement of the IMF, the ECB and the European Commission on 15 April 2013 following the completion of the third assessment of the 2nd Economic Adjustment Programme. The successful completion of the assessment led to the disbursement of a tranche of €2.8 billion in early May, while fur-

6 See IMF, *Fiscal Monitor*, April 2013 (Statistical Table 2).
7 The cyclically adjusted deficit corrects the fiscal balance for the effect of economic conjuncture and expresses the fiscal balance if economic activity followed its potential trend. The structural deficit isolates the permanent nature of the cyclically adjusted deficit by omitting the effect of temporary factors (e.g. one-off expenditure to support banks). Both aggregates constitute theoretical concepts and their estimates may differ considerably, depending on the quantification method.

ther disbursements of tranches of €9.3 billion are expected by end-June, to meet the financing needs of the budget.

According to Bank of Greece estimates, the attainment of a primary surplus in 2013 in line with fiscal targets is feasible, despite deviations in certain categories of revenue and expenses because of the ongoing economic downturn, higher unemployment, tax evasion, contribution evasion and accumulating deficits of social security funds. However, the low performance of indirect taxes and the accumulation of tax arrears are factors of uncertainty surrounding the course of fiscal adjustment.

The fiscal measures amounting to about 5.2% of GDP in 2013 that are included in the Medium-Term Fiscal Strategy Framework (MTFS) 2013-2016 will contribute to the attainment of the targets set in the Economic Adjustment Programme. However, as the contribution of fiscal measures to the improvement of the general government primary balance is considerably reduced because of the ongoing decline in economic activity and as the aforementioned measures are expected to have a 1:1 negative impact on GDP (if all other factors remain unchanged), it is imperative to take stimulus measures. Moreover, the privatisations programme should be set on a faster track as it will contribute to the attainment of the targets, further enhancing market confidence in the Greek economy.

In any case, fiscal consolidation must continue, because it constitutes a prerequisite for the stabilisation of the economy. Emphasis should be placed on rationalising expenditure, reducing bureaucracy and limiting the size of the public sector. The abolition and merger of organisations, the activation of the civil servants' mobility process and the dismissal of perjurer civil servants will help in this direction. Additionally, enhancing the performance of the tax-collection mechanism is necessary in order to limit deviations in revenue and promptly collect tax and contribution arrears. Ongoing actions for the improvement and reorganisation of the tax-collection mechanism as well as the intensification of audits by the Financial and Economic Crime Unit (SDOE) are geared towards the right direction.

2 CURRENT FISCAL DEVELOPMENTS (Q1, 2013)

General government (State General Accounting Office data)

According to general government data compiled by the State General Accounting Office, the general government deficit in January-March 2013 was 0.5% of GDP, against a deficit of 2.4% of GDP in the corresponding period of 2012. The general government primary balance in the same period was a surplus of 0.5% of GDP, against a primary surplus of 1.2% of GDP in the respective period of 2012. The improved result in comparison with 2012 is due to the better performance of the state budget (by 1.8% of GDP), mainly owing to a reduction in interest payments by 2.8% of GDP. The shortfall observed in revenue is mainly due to the shortfall in indirect taxes and social security contributions.

Government arrears to suppliers and tax refund were reduced in the first quarter of 2013 by €669 million and now amount to about €8.1 billion. However, hospital arrears started rising anew from the beginning of the year. According to the time-schedule of the Ministry of Finance, arrears of €8.0 billion will be paid to suppliers in 2013. From December 2012 to March 2013 inclusive, an amount of €3.1 billion has been approved for the payment of government arrears and pending tax refunds and €2.3 billion has been allocated to the relevant general government entities. Fully paying government arrears and avoiding the accumulation of new ones will considerably enhance the liquidity of the economy.

State budget (administrative data)

The state budget recorded a deficit of 0.7% of GDP (€1,354 million) in January-March 2013, against a deficit of 3.8% of GDP in the corresponding period of 2012 (€7,279 million, see Table IV.2). The primary balance was a surplus of 0.3% of GDP, against a deficit of 0.2% of GDP in the corresponding period of 2012.

Despite the fact that ordinary budget revenue before tax refunds and particularly income from indirect taxes present a negative picture, the result of the state budget is by about €2.8 billion better than the monthly targets of the Ministry of Finance,[8] because of: (i) the larger containment of primary expenditure, (ii) the improved performance of Public Investment Budget revenue and (iii) the containment of tax refunds.

Net revenue under the state budget is 3.9% lower in January-March 2013 in relation to the respective period of 2012; it is however better than the monthly targets of the revised Medium-Term Fiscal Strategy Framework (MTFS). This is due to the better than expected course of revenue under the Public Investment Budget (PIB) and net revenue under the ordinary budget against the monthly targets of the budget. Nevertheless, the improvement of net revenue under the ordinary budget came exclusively from the considerable reduction in tax refunds (-58.9%). Ordinary budget revenue before tax refunds was reduced by 9.1% in relation to 2012 and was €348 million lower than the targets of the updated MTFS, mainly due to the decline in receipts from indirect taxes (VAT, special consumption tax, other indirect taxes etc). Specifically, in the first quarter of the year, revenue from indirect taxes declined by 14.7% year-on-year, falling short of the updated MTFS target by €506 million.

By contrast, direct taxes, though 8.0% reduced compared to the previous year, have delivered €95 million more than the monthly target of the State General Accounting Office. This development is mainly due to increased property taxes (EETHDE 2012 etc.) and receipts concerning previous fiscal years (PFY). PFY revenue rose considerably, by 44.5%, due to receipts from Real Property Tax 2010 and the collection of the last two installments of income tax 2012.

Total expenditure under the state budget in January-March 2013 were 31.9% lower year-on-year (against an updated annual MTFS target for a reduction of 10.8%), owing to the larger than expected containment of primary expenditure under the ordinary budget and the PIB.

Primary expenditure under the ordinary budget in the first quarter of 2013 is 11.1% lower, against a targeted annual reduction of 5.0%. If this rate of reduction is to be sustained, no new arrears should accumulate in 2013. Specifically, in the first quarter of the year outlays for wage costs and pension spending came down by 4.9%, while social security and healthcare costs decreased by 22.4% against the corresponding 2012 period. However, as regards social security and healthcare costs and on the basis of the State General Accounting Office announcements, 27.4% of budgetary appropriations were disbursed in the first quarter, which is higher than initially forecast, due to overruns in grants to all social security funds.

PIB expenditure in the first quarter of the year, although marginally lower (by 1.8%) than the corresponding period of 2012, is significantly reduced against the initial MTFS estimates.

In the first quarter of the year interest payments were reduced by 73.0% against the respective period of 2012 (updated MTFS annual target: -47.6%). According to the updated MTFS 2013-2016, interest payments in 2013 are expected to be reduced by €2,500 million in relation to the 2013 Budget as a result of Eurogroup decisions (December 2012) which include: bond buyback, reduction in the borrowing rate, extension of the maturity of loans and payment to Greece of earn-

8 See State Budget Execution Monthly Bulletin, March 2013.

Table IV.2 State budget balance

(million euro)

	January-March			Percentage changes		Annual data				Percentage changes		
	2011	2012	2013*	2012/11	2013*/12	2011	2012*	2013		2012*/11	2013/12*	
								Budget/ Forecasts	MTFS Update Estimates 2013-2016			
	(1)	(2)	(3)	(4=2:1)	(5=3:2)	(6)	(7)	(8)	(9)	(10=7:6)	(11=8:7)	(12=9:7)
I. Revenue	**11,732**	**12,840**	**12,338**	**9.4**	**-3.9**	**53,932**	**51,926**	**51,458**	**51,863**	**-3.7**	**-0.9**	**-0.1**
1. Ordinary budget (net)	11,123	11,443	10,724	2.9	-6.3	50,159	48,325	46,322	46,727	-3.7	-4.1	-3.3
Revenue before tax refunds	*11,948*	*11,961*	*10,875*	*0.1*	*-9.1*	*54,285*	*51,482*	*49,137*	*49,542*	*-5.2*	*-4.6*	*-3.8*
Special revenue from licensing and consession fees	*0*	*0*	*62*			*1,157*	*15*	*86*	*86*			*473.3*
Tax refunds	*825*	*518*	*213*	*-37.2*	*-58.9*	*5,283*	*3,172*	*2,901*	*2,901*	*-40.0*	*-8.5*	*-8.5*
2. Public investment budget	609	1,397	1,614	129.4	15.5	3,773	3,601	5,136	5,136	-4.6	42.6	42.6
– Own revenue	43	46	40	7.0	-13.0	147	166	200	200	12.9	20.5	20.5
– Receipts from the EU	566	1,351	1,574	138.7	16.5	3,626	3,434	4,936	4,936	-5.3	43.7	43.7
II. Expenditure	**16,138**	**20,118**	**13,692**	**24.7**	**-31.9**	**76,705**	**67,614**	**62,652**	**60,307**	**-11.9**	**-7.3**	**-10.8**
(State budget primary expenditure)	12,904	13,173	11,818	2.1	-10.3	60,357	55,391	53,752	53,907	-8.2	-3.0	-2.7
1. Ordinary budget	15,461	19,631	13,214	27.0	-32.7	70,146	61,499	55,802	53,457	-12.3	-9.3	-13.1
– Interest payments	3,234	6,945	1,874	114.7	-73.0	16,348	12,223	8,900	6,400	-25.2	-27.2	-47.6
– Ordinary budget primary expenditure	12,086	12,578	11,181	4.1	-11.1	51,996	47,529	45,050	45,150	-8.6	-5.2	-5.0
– Procurement of defence equipment	50	4	0	-92.0	-100.0	360	410	750	750	13.9	82.9	82.9
– Call-in of guarantees from entities *of which*	91	104	135	14.3	29.8	1,442	796	1,027	1,027	-44.8	29.0	29.0
from within the general government	81	93	34			1,249	679	558	558	-45.6	-17.8	-17.8
from outside the general government	10	11	101			193	117	469	469	-39.4	300.9	300.9
– Fee for disbursement of EFSF loans	0	0	24			0	541	75	130			
2. Public investment budget	677	488	479	-27.9	-1.8	6,559	6,114	6,850	6,850	-6.8	12.0	12.0
III. State budget balance	**-4,405**	**-7,279**	**-1,354**	**65.2**	**-81.4**	**-22,773**	**-15,688**	**-11,194**	**-8,444**	**-31.1**	**-28.6**	**-46.2**
% of GDP	-2.1	-3.8	**-0.7**			-10.9	-8.1	-6.1	-4.6			
1. Ordinary budget	-4,338	-8,188	-2,490			-19,987	-13,174	-9,480	-6,730			
2. Public investment budget	-68	909	1,135			-2,786	-2,513	-1,714	-1,714			
IV. State budget primary balance	**-1,171**	**-334**	**520**			**-6,425**	**-3,465**	**-2,294**	**-2,044**	**-46.1**	**-33.8**	**-41.0**
% of GDP	**-0.6**	**-0.2**	**0.3**			**-3.1**	**-1.8**	**-1.3**	**-1.1**			
Amortisation payments	10,123	4,914	814	-51.5	-83.4	28,843	23,905	12,845	12,845	-17.1	-46.3	-46.3
GDP (at current prices)	208,532	193,749	183,500	-7.1	-5.3	208,532	193,749	183,500	183,500	-7.1	-5.3	-5.3

Source: Ministry of Finance.
* Provisional data.

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

(million euro)

	Year		January-March		
	2011	2012*	2011	2012	2013*
State budget	**-23,144**	**-10,697**	**-4,254**	**-1,318**	**-2,760**
% of GDP	-11.1	-5.5	-2.0	-0.7	-1.5
– Ordinary budget[2]	-20,462 [3]	-8,503 [4]	-4,196 [5]	-2,264 [6]	-3,899 [7]
– Public investment budget	-2,682	-2,194	-58	946	1,139

Source: Bank of Greece.
* Provisional data.
1 As shown by the respective accounts with the Bank of Greece and other credit institutions, excluding the OPEKEPE (Payment and Control Agency for Guidance and Guarantee Community Aid) account.
2 Including movements in public debt management accounts.
3 Not including revenue of: a) €675 million from the sale of preference shares of the Agricultural Bank of Greece by the Greek State; and b) €250 million from the Deposits & Loans Fund due to the reduction of its reserves. By contrast, including privatisation proceeds of €1,536 million, but excluding expenditure of: a) €4,011 million (bond issue reopening) for the payment of public hospitals' arrears pursuant to Article 27 of Law 3867/2010, which burdens the 2011 debt; b) €350 million (bond issuance) for the settlement of financial obligations of the Hellenic Agricultural Insurance Organisation (ELGA), a replacement of a previous loan with the same terms; and c) €140.2 million (bond issuance) for covering the State's debt to the former employees of Olympic Airlines who were laid off. Also, not including expenditure of €1,551.8 million for the participation of the Greek State in capital increases, of which €1,434.5 million relate to the capital increase of the Agricultural Bank of Greece as well as to the proceeds from a bond issue reopening (€1,380 million) paid for the purchase by the Greek State of preference shares of the National Bank of Greece and Piraeus Bank.
4 Including revenue of: a) €303 million relating to ANFA returns; and b) €10.6 million from privatisation proceeds, but excluding expenditure of: a) €4,751 million for accrued interest on PSI bonds paid in the form of EFSF notes, as well as interest payments of €519 million due to the debt buyback through EFSF notes; b) €9.9 million (bond issuance) for covering the State's debt to the Jewish Community of Thessaloniki; and c) €73 million for the participation of the Greek State in capital increases (Horse Racing Organisation of Greece (ODIE), Hellenic Vehicle Industry (ELVO), Hellenic Defence Systems SA, etc.). Including expenditure of: a) €901.3 million relating to Greece's participation in the European Stability Mechanism (ESM); and b) roughly €618 million for the payment of arrears.
5 Not including expenditure of (a) €4,000.4 million (bond issue reopening) for the payment of public hospitals' arrears pursuant to Article 27 of Law 3867/2010, which burdens the 2011 debt; b) €350 million (bond issuance) for the settlement of financial obligations to the Hellenic Agricultural Insurance Organisation (ELGA), a replacement of a previous loan with the same terms; and c) €139.4 million (bond issuance) for covering the State's debt to the former employees of Olympic Airlines who were laid off.
6 Not including expenditure of: a) €4,751 million for accrued interest on PSI bonds paid in the form of EFSF notes as well as interest payments of €519 million due to the debt buyback through EFSF notes; b) €9.9 million (bond issuance) for covering the State's debt to the Jewish Community of Thessaloniki.
7 Including revenue of: a) €317 million relating to ANFA returns; and b) €62 million from privatisation proceeds (sale of IBC premises), but excluding expenditure of: €25.9 million for the participation of the Greek State in capital increases (Hellenic Defence Systems SA, etc.). Including expenditure of about €1,669 million for the payment of arrears.

ings on Greek bonds held by the European Central Bank (under the Securities Market Programme – SMP), as well as by the national central banks (ANFA). Consequently, while the Budget for 2013 included interest payments of €8,900 million, they are now expected to be narrowed to €6,400 million.

State Budget (cash data)

Fiscal developments in the first quarter of 2013 on a cash basis show a deterioration and seem to move to the opposite direction in relation to the positive developments suggested by data on an administrative basis. Specifically, the cash deficit of the state budget rose to 1.5% of GDP, against 0.7% of GDP in 2012 (see Table IV.3). Also, the cash primary balance of the state budget was a deficit of 0.5% of GDP, against a surplus of 0.5% of GDP in the corresponding quarter of 2012.

These developments are primarily due to the fact that accrued interest of €4,751 million was paid in the first quarter of 2012 (in the form of EFSF notes) to bondholders who participated in the debt buyback operation and was recorded in expenditure on an administrative basis. It was not recorded in the cash data of the first quarter of 2012 (since no payment in cash was made) and thus the deficit of the previous year (net balance of the central government) of the first quarter appears small when compared with the deficit of 2013 in the same period (base effect). Adding to this development was the payment of arrears of €1.7 billion in the first quarter of 2013, unlike in 2012.

3 PUBLIC DEBT

In 2012 the public debt fell by 13.4 percentage points of GDP to 156.9% of GDP or €303.9 billion. This reduction is mainly due to: (i) the effect of the PSI (-44.0% of GDP) and (ii) the debt buyback (-10.6% of GDP). Debt restructuring has contributed to a negative stock-flow adjustment amounting to 36.8% of GDP; in contrast, the recapitalisation of banks (+17.3% of GDP) has dampened the negative adjustment. Due to the recession, the effect of the difference between interest rate and economic growth rate continues to aggravate the debt-to-GDP ratio.

According to the updated MTFS, despite the positive effect of the PSI and the debt buyback operation in 2012, the general government debt is expected to rise to 173.8% of GDP in 2013 because of the effect of the relationship between interest rate and economic growth rate and the cost of banks' recapitalisation. Public debt is expected to come down to 164.0% of GDP (against 189.1% in 2013 and 184.9% in 2016 under the initial MTFS 2013-2016).

4 FISCAL POLICY MEASURES AND INSTITUTIONAL FISCAL REFORMS

In February 2013 Parliament passed Law 4127/2013 "Adoption of the updated Medium-Term Fiscal Strategy Framework 2013-2016". The updated MTFS includes Eurogroup decisions (26-27 November and 13 December 2012) on the buyback of Greek debt and the reduction of interest rates, which contribute to a notable decline in interest payments,[9] as well as revised estimates of the results of fiscal measures for 2013-2016.

According to revised MTFS estimates, the general government deficit is expected to stand at €7,900 million or 4.3% of GDP in 2013 and come down to 2.3% of GDP in 2016. Furthermore, a primary surplus of 0.3% of GDP is expected in 2013, which is estimated to gradually rise to 3.2% of GDP in 2016.[10]

Overall, as a result of the PSI and the November-December 2012 Eurogroup decisions, interest payments (according to ESA 95) are estimated to amount to 4.5% of GDP in 2013, 5.3% of GDP in 2014, 5.8% of GDP in 2015 and 5.7% of GDP in 2016, against initial estimates for interest payments of 5.5% of GDP in 2013, 6.0% of GDP in 2014, 6.4% of GDP in 2015 and 6.5% of GDP in 2016.

Fiscal adjustment in 2013-2016 is still considered as frontloaded. The net performance of interventions is estimated at €13,358 million (against €14,244 million in the initial MTFS), €9,537 million of which is earmarked for 2013 and €3,701 million for 2014.[11]

It is worth noting that, the performance of fiscal measures in containing the general government primary deficit in 2013, although expected to remain low (reflecting the impact of recession on the fiscal effort and the interaction between recession and fiscal adjustment), it will be higher than in 2012. This is due to the fact that about 70% of fiscal adjustment in 2013 concerns measures on the expenditure side, which achieve more sustainable fiscal results, as shown by international literature and as suggested by the Bank of Greece,[12] while fiscal measures in 2012 were almost equally divided between revenue and expenditure. If net measures of €9,537 million for 2013 included in the revised MTFS, as well as net measures of €2,185 million for 2013 included in the baseline scenario of MTFS are taken into account, total measures amounting to 6.4% of GDP will be required in order to improve the general government primary balance by 1.7% of GDP in 2013, i.e. the per-

9 See Bank of Greece, *Annual Report 2012*, February 2013.

10 ANFA revenue, SMP revenue and capital transfers to banks are not included in the calculation of the MTFS targets.

11 In order to attain the EAP targets for a general government primary surplus of 3.0% of GDP in 2015 and 4.5% of GDP in 2016, further measures are required, which have not been defined yet.

12 See Bank of Greece (2012), *Monetary Policy 2011-2012*, March 2012. Alesina, A. and R. Perroti (1995), "Fiscal expansions and adjustments in OECD countries", *Economic Policy*, 21, 207-247. Alesina, A. and R. Perotti (1997), "Fiscal adjustments in OECD countries: Composition and macroeconomic effects", *IMF Staff Papers*, 44, 210-248. Alesina, A. and S. Ardagna (1998), "Tales of fiscal adjustments", *Economic Policy*, 13, 489-545.

formance of fiscal interventions is estimated at about 27%.[13] The continued economic downturn, the increase in unemployment and their significant impact on revenue from indirect taxes and social security contributions pose risks to the attainment of fiscal targets.

In order to support fiscal adjustment, actions aiming at improving the tax-collection mechanism are underway. In this context, in February 2013 a new bill was tabled at Parliament, which includes[14] inter alia a set of provisions regarding the organisation of the audit mechanism, the acceleration of the collection of tax arrears and the combating of tax-evasion. Emphasis is placed on auditing high-wealth tax-payers, debts are distinguished in collectable and non-collectable, fines are reduced to 1/5 in cases of voluntary compliance and the possibility of confiscation of deposits for tax arrears is adopted, as well as the possibility of prompt auctions for the payment of debts.

As shown by the outcome of the consultations regarding the third assessment of the 2nd Economic Adjustment Programme and the adoption by Parliament of Law 4152/2013 "Emergency measures for the implementation of Laws 4046/2012, 4093/2012 and 4127/2013", it was decided that tax administration independence[15] should be enhanced. To this end, competencies concerning tax and customs issues are transferred from other Ministry of Finance agencies to the General Secretariat of Public Revenue, while it is provided that tax collection procedures will be supported by more effective tax audit mechanisms. Besides, according to a recent report (April 2013) of the Task Force for Greece, more intensive efforts are required with regard to the improvement of tax administration, particularly in sectors such as debt collection, tax audits of high-wealth individuals and the high-income self-employed, as well as large enterprises.

Turning to tax policy, the government decision to continue the collection of the single tax on real property (with a 15% reduction) through electricity bills will contribute to the smooth execution of the Budget 2013. However, it is expected that as from 2014 the new Real Estate Tax soon to be introduced will not be collected through electricity bills. Furthermore, another positive development is the Greek authorities' commitment to simplify the tax system and modernise the tax codes, as well as to adopt permanent and extraordinary (due to the economic recession) arrangements for the collection of installments of tax arrears and social security contribution arrears. This will help increase revenue, also facilitating debtors faced with financing constraints because of the recession.

Finally, the government is committed to continue administrative reforms in order to improve the quality of public services. In this context, and as it was a prior action for the disbursement of the tranche of €2.8 billion in March 2013, decisions were made regarding mobility and mandatory exit of civil servants, reaching 15,000 people by end-2014, of which 4,000 in 2013.

As from 1 July 2013 all procurements and project awards will be performed at central level through the National System of Electronic Public Procurement (ESHDHS).[16] This is expected to lead to considerable savings, reduce bureaucracy and improve the efficiency state agencies. According to the revised MTFS, savings are expected to reach €100 million in 2014-2015.

Turning to the privatisation programme, a positive development is the completion of the privatisation of the Hellenic Football Prognostics Organisation SA (OPAP) (€652 million for the

13 As an ex post assessment of fiscal efforts has shown, the performance of fiscal measures for the reduction of the primary deficit of general government had been deteriorating in previous years. Specifically, it is estimated at about 66% in 2010, 33% in 2011 and 14% in 2012. The primary surplus does not include state support to financial institutions or ANFA revenue.

14 Chapter E "Other provisions within the scope of Ministry of Finance competencies" and Chapter F "Provisions of the Ministries of Labour, Social Security & Welfare and Rural Development & Food".

15 The relevant omnibus law was adopted on 28 April 2013.

16 These changes are included in a draft law of the Ministry of Development tabled at Parliament on 10 April 2013. The draft law provides *inter alia* for the drastic reduction of agencies that may conduct tenders to 700, from about 7,000.

acquisition of 33% of OPAP), while the tender for the privatisation of State Lotteries was completed. At the same time, progress is made in tenders for the Public Gas Corporation SA (DEPA)/ Hellenic Gas Transmission System Operator SA (DESFA) and the Water Supply and Sewerage Company of Thessaloniki (EYATH). According to the Hellenic Republic Asset Development Fund (HRADF), the deadline for the expression of interest for small ports and marinas was extended, while other tenders are underway: the development of Hellinikon SA and of the real property in Afantou (Rhodes) and Kassiopi (Corfu). At the same time, it was agreed to start tender procedures for the development of 28 buildings through sale and leaseback. Cumulative targeted revenue amounts to €11.1 billion by 2016, of which €2.6 billion in 2013. Efforts should accelerate in order to attain the targets of the privatisation programme, which will boost market confidence in the course of fiscal adjustment and the recovery of the Greek economy.

Box IV.1

THE PROSPECTS FOR TAPPING PRIVATE INSURANCE

Although the Greek national insurance legislation provides for three pillars of insurance (social, occupational and private), pensions in Greece are almost exclusively provided by funds which have the status of public entities through the first pillar (see Chart A). The limited expansion of the second and third pillars can be attributed to low demand as well as to regulatory constraints on the supply side.

A generous first pillar at the expense of the second and third pillars

According to Mylonas and de la Maisonneuve, domestic insurance firms attribute low demand for private pensions to the fact that the first pillar is too generous in actuarial terms.[1]

- While the direction of causality needs to be further explored, public pension schemes with high gross replacement rates tend to be correlated with limited expansion of the second and the third pillar (see Chart B).

- Before the 2010 social security reform under Laws 3863/2010 and 3865/2010, Greece had the highest first-pillar gross replacement rate[2] in the OECD (95.7%) and the lowest ratio of non-public pension assets to GDP (0.03%).

Increased sustainability, but lower adequacy

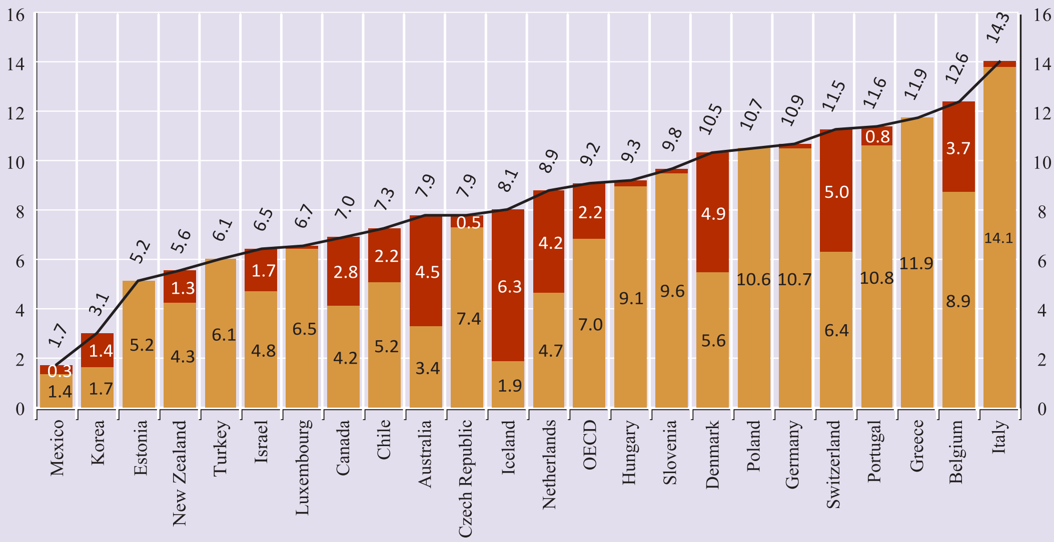
The need to strengthen the long-term sustainability of the pubic pension system led, with considerable delay, to the 2010 social security reform, which significantly reduced the generosity of the first pillar.

- The total gross replacement rate is expected to fall to 48.5% on average between 2020 and 2060, compared with 95.7% in the period before the 2010 reform.[3]

1 Mylonas, P. and C. de la Maisonneuve (1999), "The problems and prospects faced by pay-as-you-go pension systems: A case study of Greece", *OECD Economic Department Working Papers*, No. 215. See also Bank of Greece (2012), *Monetary Policy – Interim Report*, November 2012, Box VI.1.
2 The gross replacement rate is calculated by the OECD as the ratio of average gross pension in retirement to average gross earnings during the entire working life.
3 National Actuarial Authority (2012), Greek Pension System Fiche – European Commission, Economic Policy Committee Ageing Working Group, Ageing Projections Exercise 2012, Table 9, p.18.

Chart A Private and public pension spending in 2011

(percentages of GDP)



Source: OECD (2012), *Pension Markets in Focus*, 9, September.

• In the absence of other income sources, the reduction of the first-pillar gross replacement rate could push below the relative poverty line those who, during their working life, earned up to 1.2 times the median income.

Ensuring future pension adequacy calls for an enhanced role for the second and third pillars, which can only be achieved through strong participation, high contributions and adequate rates of return.

The second and third pillars need to be reinforced

With the generosity of the first pillar reduced, the conditions are in place for an increase in the current low demand for private pension plans. However, a series of possible barriers to tapping private and occupational insurance have been identified by international experience; hence the need for careful design.

Supply-side constraints

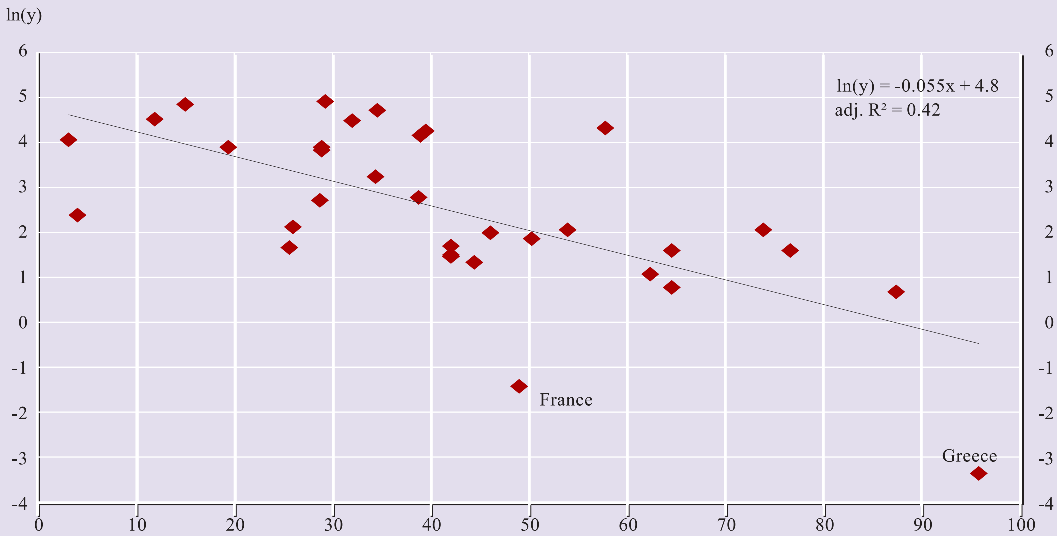
In Greece, the provision of second pillar-insurance coverage faces three main obstacles:

– the unstable, disincentivised tax regime for employers;

– a high proportion of small or micro enterprises that are not allowed to establish an occupational fund under the current legislation;[4] and

4 Law 3029/2002 allows an occupational fund to be established only if the number of insured in an enterprise exceeds 100. There is no provision for multi-employer occupational funds.

Chart B Ratio (%) of assets of non-state pension plans to GDP (y-axis) and first-pillar gross replacement rates (x-axis), 2011



Source: OECD (2012), *Pension Markets in Focus,* 9, September.
Note: These gross replacement rates do not take into account the impact from recent social security reforms. In Greece, in particular, the first-pillar gross replacement rate was considerably reduced following the social security reform of 2011.

— the bureaucratic procedures facing large enterprises.

Another important constraint in Greece is the lack of proposals for the provision of comprehensive special insurance coverage by such funds.

• In the United Kingdom, the Red Tape Challenge (RTC) initiative aims at improving the regulatory framework, containing costs and reducing the risks faced by employers offering occupational insurance.[5]

• In the United States, simplification of procedures has not proved an effective incentive for small businesses to offer occupational insurance, according to Munnell et al., who also refer to recent initiatives that include a mix of mandatory enrolment, tax incentives and state involvement.[6]

Design

(a) Voluntary participation

Where participation in second- and third-pillar pension plans is still on a voluntary basis, coverage rates of the working-age population range between 13% and 50% according to international experience,[7] with lower participation rates for young people and low-wage, part-time or casual workers.

5 Department for Work and Pensions, UK (2012), *Reinvigorating workplace pensions*, Presented to Parliament by the Secretary of State for Work and Pensions by Command of Her Majesty, November 2012.
6 Munnell, A.H., R.C. Fraenkel and J. Hurwitz (2012), "The pension coverage problem in the private sector", Center for Retirement Research, Boston College, *Issues in Brief*, No. 16.
7 See OECD (2012), *Pensions Outlook.*

A strengthening of tax incentives to save for retirement and/or the subsidising of contributions could increase participation in voluntary pension plans according to OECD recommendations.[8]

However, as Antolin et al. note, tax reliefs are far from being a powerful incentive for low-wage workers, which has led a number of countries, including the Czech Republic, Germany, Mexico and New Zealand, to a targeted subsidising of private insurance.[9]

- In Germany, the Riester pension plans have been introduced since 2001, offering tax reliefs and subsidies the level of which depends on the respective contribution rates.

- In Greece, on the other hand, there was a move in the opposite direction, as Law 4110/2013 recently abolished tax reliefs related to private insurance. That should be seen as part of the overall abolition of tax reliefs with a view to meeting a number of near-term fiscal targets. Yet, the appropriateness of such measures over a medium to longer-term horizon is challenged by international experience.

(b) Mandatory or automatic enrolment

Mandatory (Australia, Chile) or semi-mandatory second (third) pillar plan participation (Denmark, the Netherlands) achieves considerably higher working age population coverage rates (of nearly 70%).

- However, in countries with a large shadow economy, automatic enrolment *per se* is not enough. Although automatic enrolment enables Chile and Mexico to achieve high enrolment rates (of 73.7% and 57.7%, respectively), the percentage of those who, during their working life, actively contribute to a pension scheme is 40 percentage points lower for both countries. Such gap is less commonly found for the second pillar.[10]

- A number of other countries, including Italy, New Zealand and the United Kingdom, have also adopted automatic enrolment (auto-enrolment), but with an opt-out clause. In the case of New Zealand, 'Kiwisaver' schemes have indeed led to one of the highest coverage rates, with only limited deviations across income or age groups.[11]

- Of key importance to the success of both compulsory and automatic enrolment is the design of the default options (default schemes). According to Rinaldi, the limited effectiveness of auto-enrolment in Italy in the early stages of its application is attributable to the very conservative nature of the default pension plan, which had very limited appeal to young workers.[12]

As stressed by the OECD,[13] achieving high second- and third-pillar participation rates is not the only challenge for pension adequacy. Of equal importance is the management of administrative

8 See OECD (2012), *The OECD roadmap for the good design of defined contribution pension plans*, endorsed by the OECD Working Party on Private Pensions in June 2012, available at *http://www.oecd.org/finance/private-pensions/50582753.pdf*.
9 Antolin, P., S. Payet and J. Yermo (2012), "Coverage of private pension systems: evidence and policy options", OECD Working Papers on Finance, Insurance and Private Pensions, No. 20.
10 See OECD (2012), *Pensions Outlook*, Table 4.2, p. 108
11 St John, S., M.C. Dale and M. Littlewood (2011), "Kiwisaver: Four years on", Retirement Policy and Research Centre, University of Auckland Business School, Working Paper 2011-2.
12 Rinaldi, A. (2011), "Pension awareness and nation-wide auto-enrolment: the Italian experience", Centre for Research on Pensions and Welfare Policies (CeRP) Working Paper 104.
13 See footnote 7.

costs and of the potential investment risk exposure of new pension schemes. The economic crisis in the past few years has demonstrated the need to review and adjust the regulatory framework and the role of supervisors in order to ensure that those insured are effectively protected.[14]

Lastly, efforts to promote private insurance also have a significant macroeconomic and financial dimension. As Daykin notes,[15] it is not certain that strengthening the second and third pillars will necessarily increase overall saving, as it may absorb resources from traditional saving depositories such as banks.

14 International Organisation of Pension Supervisors (IOPS) (2012), "Supervising default investment funds", *IOPS Working Papers on Effective Pensions Supervision*, No. 18. In Greece, responsibility for the supervision of private insurance has been assigned to the Bank of Greece.

15 Daykin, Ch. (1999), "Privately managed old-age pension schemes: theory and reality", Government Actuary, UK, paper presented at the International Social Security Meeting for Directors of Social Security Institutions in Asia and the Pacific, Kuala Lumpur, Malaysia, 17.11.1999.

Box IV.2

THE RELATIONSHIP BETWEEN INDIRECT TAXES AND ECONOMIC ACTIVITY

Fiscal adjustment has delivered tangible results towards reducing the general government primary deficit. However, collection of VAT and indirect taxes in general is still falling short of expectations, hindering the fiscal effort.

Relying on quarterly national accounts data on VAT revenue, total indirect taxes, private consumption and GDP for the period from Q1 2000 to Q3 2012, and drawing on previous empirical research by the IMF,[1] this box provides an econometric examination of the relationship between VAT tax efficiency and economic activity,[2] along with an empirical investigation of the determinants of the rate of change in indirect tax revenue.[3]

The resulting estimates show that a deterioration of economic conditions does lower VAT tax efficiency. A 1% decrease in the rate of change in real GDP reduces VAT tax efficiency by about 0.4 percentage point. Moreover, the impact of economic activity on VAT tax efficiency has grown stronger since end-2008, when GDP started sliding down (see Chart, panel A).

The economic downturn affects VAT tax efficiency directly through a shift in consumption expenditure towards essential goods and services (with lower VAT rates), but also indirectly through an increase in tax evasion (because of credit and financing constraints).[4]

1 All variables have been expressed in real terms using the GDP deflator. See Poghosyan T. (2011), "Assessing the variability of tax elasticities in Lithuania", IMF Working Paper 11/270, and Sancak, C., R. Velloso and J. Xing (2010), "Tax revenue response to the business cycle", IMF Working Paper 10/71.

2 VAT tax efficiency is defined as: (VAT revenue/private consumption)/basic VAT rate x 100. Data on tax changes in the past few years were obtained from the Bank of Greece Annual Reports published in 2008-2012 (Annex on Tax Policy Measures).

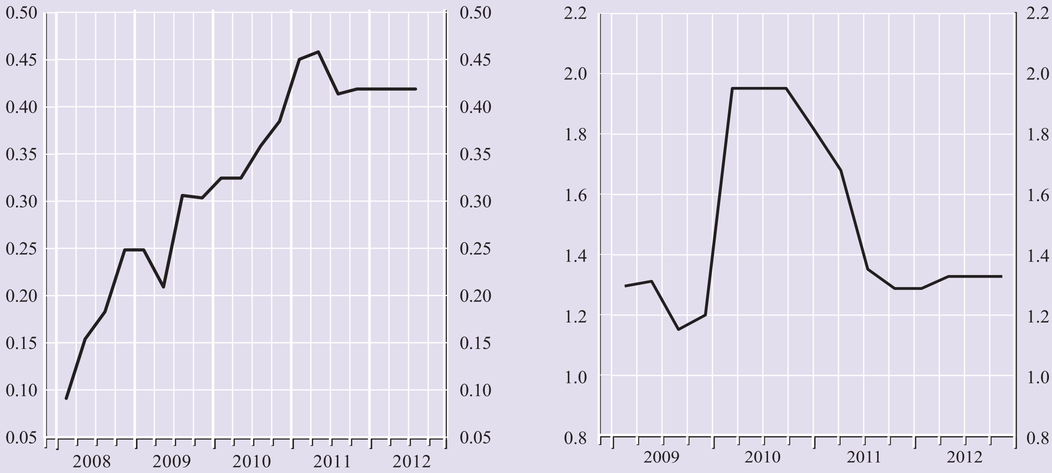
3 These include: (1) changes in tax rates, the tax base and the rate of unemployment; (2) the time trend effect; (3) the measures adopted under the Economic Adjustment Programme; and (4) the impact of measures taken in 2004-2007, when Greece first entered the excessive deficit procedure.

4 Eurostat data on the percentage of consumption spending on food, non-alcoholic beverages, housing, water, electricity, natural gas and other fuel, as well as qualitative data from the IMD World Competitiveness Online database (see Sancak, Velloso and Xing, 2010) were used.

The relationship between indirect taxes and economic activity

A. Change in VAT tax efficiency caused by a 1% change in real GDP

B. Elasticity of indirect taxes with respect to private consumption



Source: Bank of Greece calculations.

Total indirect tax elasticity with respect to private consumption has been subject to considerable volatility over the past few years. Despite declining (to about 1.3), it remains considerably higher than the unitary tax elasticity assumed in a number of papers (see Chart, panel B).[5] The rate of unemployment (as a determinant of an economy's cyclical fluctuations) has had an increasingly negative influence on indirect tax revenue over the past few years.

A number of key policy conclusions can be drawn:

(1) The increased volatility of indirect tax elasticity with respect to private consumption needs to be taken into consideration when making projections about the future path of tax revenue, to avoid their systematic overestimation during downturns.

(2) Efforts to combat tax evasion need to be intensified, even more so in downturns when tax compliance become laxer.

(3) The adoption of a flexible legal and regulatory framework supportive of economic competitiveness facilitates effective law enforcement while also encouraging tax compliance.

(4) An increase in tax obligations does not necessarily lead to higher tax revenue in downturns, as more firms and households face credit and financing constraints and a significant part of the latter spend a larger share of their consumption budget on essentials.

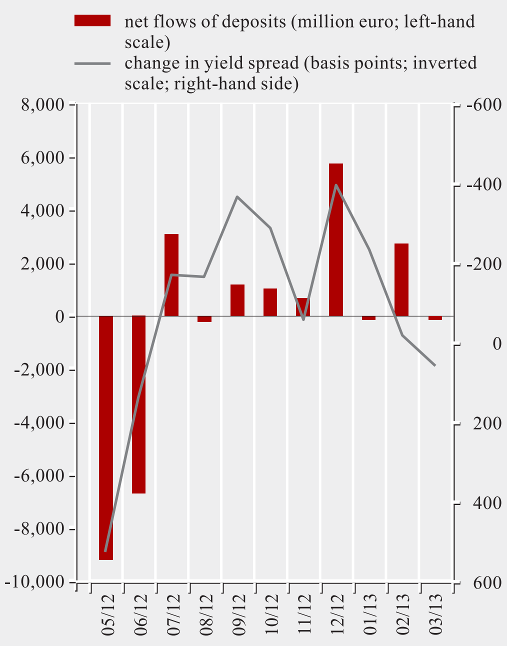
5 Elasticity initially rose in Q1 2012 and then hovered at high levels until late-2010 because of consecutive hikes of VAT and other indirect taxes, which fuelled the shift towards essentials (with lower VAT rates) and exacerbated tax evasion. Elasticity has been on a decline since Q1 2011, as the middle and the low VAT rates have been raised significantly (VAT on food services also increased in Q3 2011), limiting the impact of the shift towards essentials on tax revenue. Tax evasion, fuelled by the recession and credit constraints, is pushing elasticity upwards. See European Commission (2005), "New and updated budgetary sensitivities for the EU budgetary surveillance", Directorate-General Economic and Financial Affairs; and Girouard, N. and C. André (2005), "Measuring cyclically-adjusted budget balances for OECD countries", *OECD Economics Department Working Papers*, No. 434, OECD Publishing.

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

The sharp decline in uncertainty after the formation of a coalition government in late June 2012 contributed variously to a gradual strengthening of the domestic banking system's deposit base in the following months. The trend for return of deposits, combined with the recapitalisation of core banks and the resolution of certain non-core banks, contributed to a slowdown in the contraction of bank financing to the real economy and to a decline in interest rates on deposits and loans. Moreover, the easing of uncertainty led to an almost continuous and rapid decline in Greek government bond yields after May 2012 and to a rise in the composite share price index over the same period. The Greek banking system continued to record losses and rising NPL ratios throughout 2012. On the other hand, important steps are being taken towards the recapitalisation, resolution and restructuring of the Greek banking system, further enhancing the safety of bank deposits, which is still the foremost concern of the government and the Bank of Greece.

Chart V.1 Net flows of private sector deposits and yield spread between Greek and German 10-year government bonds

(million euro; basis points)



Source: Bank of Greece.

The formation of a coalition government in late June 2012 mitigated significantly the concerns that had led to banknote hoarding and capital flight. Ever since then, there has been an almost continuous inflow of deposits into the banking system from domestic enterprises and households.

The re-inflows of private deposits mostly represent hoarded banknotes that were re-deposited. The repatriation of deposits from credit institutions abroad was comparatively slower.

The recapitalisation of core banks, the resolution of insolvent banks and the increase in the deposit base enhanced the potential of banks to extend credit to the real economy and led to a slowdown in the rate of decline in bank credit to the real economy, which had been accelerating until early 2012. On the other hand, the growing number of non-performing loans limits the potential of credit institutions to grant new credit to relatively healthier businesses —especially small and medium-sized ones— as it deprives banks from funds that they would otherwise recycle to the real economy (see Chart V.1).

So long as the economic sentiment improves further, deposits will continue to return. However, the continuation of the return of deposits depends not only on economic developments in Greece, but also on factors affecting the cohesion of the euro area as a whole. The recent crisis in Cyprus is likely to make bank deposits less attractive as a wealth holding medium. Already in March 2013 a small outflow of business deposits was recorded, while outflows are also expected in April for other types of deposits as well. It should be noted that depositors' concerns were fuelled on the one hand by a misreading of the Eurogroup President's statements as to what the management of the Cyprus crisis heralds for the solution of future problems in the banking systems of other Member States, and, on the other hand, by the postponement of the final decision concerning the merger of the National Bank of Greece and Eurobank. The rapid and effective response of the government and the Bank of Greece secured deposits in the branches of Cypriot banks in Greece and minimised the risk of a severe and protracted impact.

So long as deposit inflows continue steadily, banks will tend to increase credit to the real economy, subject to reasonable, moderate-risk business plans. For credit to grow there should also be sufficient demand by solvent borrowers, which should not be taken for granted as long as GDP continues to decline. On the other hand, a potential increase in bank credit will lead to a strengthening of economic activity.

Moreover, the improvement in the macroeconomic environment and the progress towards the payment of government arrears are likely to enhance the willingness of banks to provide credit. This is so because these developments will improve the financial condition and solvency of potential borrowers, thus limiting credit risk for banks.

It should not be overlooked, however, that due to the continuous decline in incomes and increase in the tax burden in recent years, there has been a decrease in the amount of private savings that could be amassed by banks and channelled in the form of credit to the real economy. Besides, although the conditions are in place for banks' tapping international financial markets, it will take a long time before banks' market funding returns to the pre-crisis levels.

This underlines that recapitalisation is only the starting point on the course to a resumption of lending by domestic banks. This course will be a long one and its successful outcome cannot be taken for granted, as it requires a number of conditions, as specified above.

As for retail bank interest rates, both deposit and lending rates have been on a downward path for several months, mainly reflecting the return of deposits to the banking system, as well as a decline in the cost of credit institutions' refinancing by the Eurosystem and the Bank of Greece, which will be facilitated by the cut in the interest rate on main refinancing operations in the euro area in May 2013.

The implementation of the bond buyback operation and other measures that reduced public debt have also led to a sharp decline in government bond yields in March 2012. In the months that followed, however, uncertainty mounted, leading to a rise in yields. The easing of uncertainty (for the reasons discussed above) in the second half of 2012 and the first months of 2013 was accompanied by an almost continuous decline in Greek government bond yields, with the exception of the peak of the Cyprus crisis in the second half of March 2013. The Athens Exchange (Athex) composite index followed a similar course.

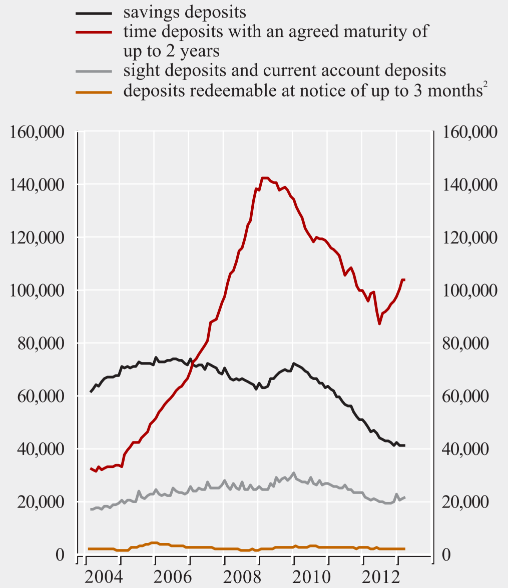
The decline in Greek government bond yields will continue as long as our country further eliminates macroeconomic imbalances. Moreover, to the extent that macroeconomic imbalances are unwound, markets' confidence that the debt-to-GDP ratio is on a downward path will strengthen. It is necessary, however, that the climate prevailing in capital markets —which certainly does not depend solely on developments in Greece— does not change dramatically for the worse.

The financial results of Athex-listed Greek banks showed losses also in 2012, mainly due to lower income and increased provisions for non-performing corporate and household loans. Besides, in 2012 the NPL ratio continued to rise for all types of bank loans.

The recapitalisation of banks is almost completed. Three core banks have launched efforts to raise funds from private investors, while the fourth one has covered its capital needs with the assistance of the Hellenic Financial Stability Fund (HFSF). The effort to

Chart V.2 Deposits in Greece[1]
(January 2004-March 2013)

(end-of-period balances; million euro)



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

recapitalise non-core banks by raising capital solely from the private sector continues, with the exception of one bank that will be resolved, having failed to raise the required capital. In the next few months, the competent authorities are expected to formulate a comprehensive strategy for both commercial and cooperative banks. It is also expected that the existing two interim credit institutions will be restructured and sold by the HFSF, stress tests will be conducted, credit institutions will start submitting on a regular basis their funding plans to the Bank of Greece and the question of the management of banks' troubled assets will be discussed.

The actions of the Bank of Greece focus —among other things— on maintaining the stability of the banking system, protecting depositors and developing a dynamic and viable banking system in the long term.

1 MONETARY AGGREGATES

The upward trend in the annual rate of decrease in M3 (excluding coins and banknotes in circulation) has halted since July 2012. The rate of decrease eased almost unceasingly until January 2013 due to the return of deposits to the Greek banking system. February and March 2013 saw a positive annual rate of change in M3 for the first time in three years (March: 1.2%, see Chart V.2).

As regards individual sectors,[1] in 2012 and during the first quarter of 2013, the deposits of both non-financial corporations and households continued to record negative annual rates of change (March 2013: -3.3% and -1.3%, respectively). On the other hand, the change rate in deposits of insurance companies and residents of other euro area countries in the Greek banking system turned positive in recent months.

2 FACTORS EXPLAINING THE DEVELOPMENTS IN DEPOSITS

The year 2012 saw declines in nominal income and, possibly, real wealth – mainly due to the decrease in house prices. In addition, deposit rates followed (after mid-year) a downward trend. Therefore, the return of business and household deposits, as described below, can only be attributed to the easing of overall uncertainty. Among other developments, fluctuations in the yield spread between Greek and German government bonds can be used as an indicator of changes in the degree of uncertainty (see Chart V.1). The strengthening of financial stability, which was ensured by the second loan agreement, also played a significant role. Box V.1 provides an econometric assessment of the impact of fluctuating uncertainty on deposit flows to and from the banking system.

1 Including deposits (e.g. deposits redeemable at notice of over three months) not included in M3.

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

(million euro; non-seasonally adjusted data)

	Net flow[1,2] of deposits to the Greek banking system July 2012-March 2013
Total deposits (1+2+3)[2]	**19,791**
1. Residents	***22,687***
1.1. General government	*8,926*
1.1.1 Central government	5,828
1.1.2 Social security funds and local government	3,098
1.2. Private sector	*13,761*
1.2.1 Enterprises	*2,759*
1.2.1.1 Non-financial corporations	1,328
1.2.1.2 Insurance companies	660
1.2.1.3 Other financial institutions (non-MFIs)	771
1.2.2 Households	*11,002*
2. Other euro area residents	***46***
3. Non-euro area residents[2]	***-2,943***

Source: Bank of Greece.
1 The net flow of deposits is defined as the difference in the outstanding amount of deposits between the beginning and the end of a given period, adjusted for exchange rate variations in respect of deposits denominated in foreign currency and reclassifications.
2 Although banks' securitisation liabilities (March 2013: €25,979 million) are included (from June 2010) in the outstanding amounts of deposits of non-euro area residents and total deposits (not shown here), the net flow of deposits does not include the effects of securitisation.

Specifically, confidence in the economic prospects of Greece was somewhat enhanced following the success of the restructuring of Greek public debt in March-April 2012, leading to a return of business and household deposits to the banking system during the said period. However, during the election period (mid-April to mid-June 2012), fears of a Greek euro area exit and default fuelled. Thus, bank deposit outflows reached an all-time high in May 2012.

The formation of a coalition government in late June 2012 considerably dampened the concerns that had led to banknote hoarding and capital flight. As a result, the period July 2012-February 2013 was marked by almost continuous deposit inflows in the Greek banking system (see Table V.1) by domestic businesses and households. In March 2013, business deposit outflows offset the ongoing inflow of household deposits.

Table V.2 Inflow of deposits and banknotes from domestic private-sector enterprises and households (July 2012-February 2013)

(million euro)

1. Repatriation of deposits	3,665
2. Repatriation of proceeds from the sale of other financial instruments held abroad	521
3. Return of banknotes to the banking system (rough estimate)	10,000
4. Total (1+2+3)	14,186
5. Memo item: Total inflow of deposits from domestic enterprises and households.	13,905

Source: Bank of Greece.

The re-inflows of deposits mostly represent hoarded banknotes that were re-deposited. The repatriation of deposits from credit institutions abroad was comparatively slower. It is estimated that over the period July 2012-February 2013, the banknotes deposited into bank accounts amounted to around €10 billion. Business and household deposits repatriated from banks abroad to domestic banks amounted to €3.7 billion (see Table V.2). Furthermore, the repatriation of proceeds from the sale of other financial instruments (bonds, equities, mutual fund shares/units) in domestic private sector portfolio holdings abroad was not extensive – around €520 million. The sum of the value of banknotes returned to banks and the deposits and other financial instrument holdings repatriated from credit institutions abroad does not differ significantly (see Table V.2) from the total amount of deposit inflows recorded over the period under review.

Box V.1

ESTIMATING THE IMPACT OF CONFIDENCE IN THE GREEK ECONOMY ON NON-FINANCIAL PRIVATE-SECTOR DEPOSITS

The evolution of outstanding deposits and its determinants are key to the stability of the banking system. Using a VAR model that is subject to Markov regime shifts,[1] this box explores, during the period from the second quarter of 2009 to the second quarter of 2012,[2] the impact on deposit flows from factors reflecting economic activity as well as conditions of investor uncertainty and business confidence in the Greek economy.[3]

In contrast with what had been observed before the crisis, when deposit flows into the Greek banking system were mainly determined by economic activity and monetary developments in the Greek economy, during the crisis deposit flows were primarily affected by confidence and secondarily by macroeconomic developments. More specifically, between June 2009 and June 2012, according to the econometric model and the factors reviewed, 2/3 of deposit outflows reflect the degree of investor uncertainty and business confidence, whereas only the remaining 1/3 appears to be recession-induced.

A reversal in this trend and positive developments, on a cumulative basis, in non-financial private-sector deposits from June 2012 onwards are, to a great extent, explained by improved confidence and by the easing of investor uncertainty surrounding the prospects of the Greek economy. As regards the future path of deposits, model simulations imply that a further improvement of confidence in the Greek economy is likely to lead to an increase in deposits by €8.5 billion over the next 12 months, despite the negative effects of continued recession.

1 This method was specifically applied to capture the non-linear pattern of both long-run relationships and short-term interactions of deposits with other variables.
2 The full sample starts from January 2001 and its isolation having June 2009 as reference point was achieved by applying Markov switching techniques.
3 More specifically, the following variables were used: a) the industrial output index, b) the intraday range of the Athex composite share price index, c) the yield spread between Greek and the German 10-year government bonds, and d) the retail trade business confidence index.

3 BANK DEPOSIT RATES

After their steep upward path since late 2009, new bank deposit rates started declining gradually from the second half of 2012 onwards. Indicatively, the interest rate on deposits with an agreed maturity of up to one year decreased by 65 basis points to 4.36% over the July 2012-March 2013 period (see Table V.3), remaining however the highest across euro area countries.

Declining deposit rates are attributable to (a) the fact that deposit outflows by domestic non-financial corporations and households have halted since mid-2012, and (b) the lower cost of banks' refinancing from alternative sources of liquidity, i.e. funding from the Eurosystem and the Bank of Greece, from late 2012 onwards (see Section 5 below).

4 CREDIT AGGREGATES

Throughout 2012 and up to the first months of 2013, the annual rate of decline in total financing of the Greek economy by domestic MFIs[2] picked up and came to -5.8% in March 2013. The pace of credit to general government decelerated considerably, albeit with some

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

Table V.3 Bank interest rates on new deposits and loans in Greece

(percentages per annum)

	December 2011	December 2012	March 2013	Change Dec. 2011-March 2013 (percentage points)
Deposits with an agreed maturity of up to one year by households and non-financial corporations[1]				
of which				
by households	4.88	4.70	4.36	-0.52
by non-financial corporations	3.76	4.15	3.95	0.19
Loans to households and non-financial corporations[1]				
with a floating rate or an initial rate fixation of up to one year:				
of which				
– housing loans	4.18	3.04	3.18	-1.00
– consumer loans	8.49	7.60	7.96	-0.53
– loans of up to €1 million to non-financial corporations	7.26	6.46	6.62	-0.64
– loans of more than €1 million to non-financial corporations	6.64	6.07	5.80	-0.84
loans without a defined maturity to non-financial corporations	7.90	7.52	7.56	-0.34

Source: Bank of Greece.
1 Monthly averages.

fluctuations, and has now turned negative. Since the second half of 2012, the annual rate of decline in the financing of the private sector has ceased to strengthen and gradually moderated. Characteristically, the annual rate of change in bank credit to non-financial corporations stood at -2.8% in March 2013, from -5.1% in July 2012 (see Chart V.3).

5 DETERMINANTS OF DEVELOPMENTS IN LOANS

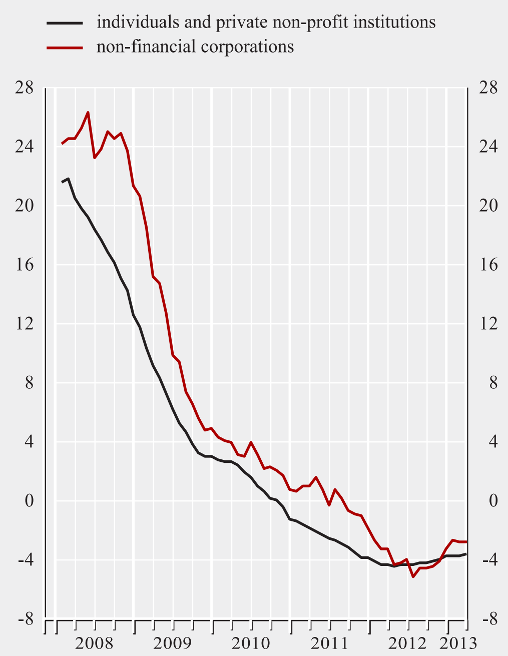
The gradual recapitalisation of core credit institutions, the resolution of insolvent banks and the enhancement of the deposit base have increased banks' ability to grant new loans to the real economy.

As the improvement of economic prospects takes hold in Greece, perceived credit risk may decline somewhat. If credit risk were reduced on a permanent basis, banks would be more willing to grant new loans to the real economy. Some early signs of declining credit risk in a number of new loans (although the NPL ratio in outstanding loans is still high) may be provided by (a) the downward trend of lending rates (see Section 6 of this chapter); (b) an easing (as evidenced by the Eurosystem-wide Bank Lending Survey) in the quarter-on-quarter tightening[3] of bank credit standards in 2012,[4] mainly as a result of an improvement in lenders' expectations about economic developments (according to their responses to the aforementioned survey); and (c) a moderation in the tightening of several non-interest rate borrowing terms and conditions over the same period. In general, as the risks of a Greek euro area exit and sovereign default were averted, this inevitably led to a favourable revision of banks' perceived credit risk in 2012.

3 The Eurosystem-wide Bank Lending Survey (which is conducted in each euro area country separately) attempts to measure the degree of tightening (or relaxation) of banks' credit standards and lending terms and conditions (interest rates or other) on a quarterly basis. Although credit standards in various loan categories continued to tighten throughout 2012 (with the exception of some quarters in which they remained unchanged), the degree of tightening was broadly declining quarter-on-quarter.
4 This development came to a halt in the first quarter of 2013.

Chart V.3 Credit[1] to the domestic private sector by domestic MFIs (January 2008-March 2013)

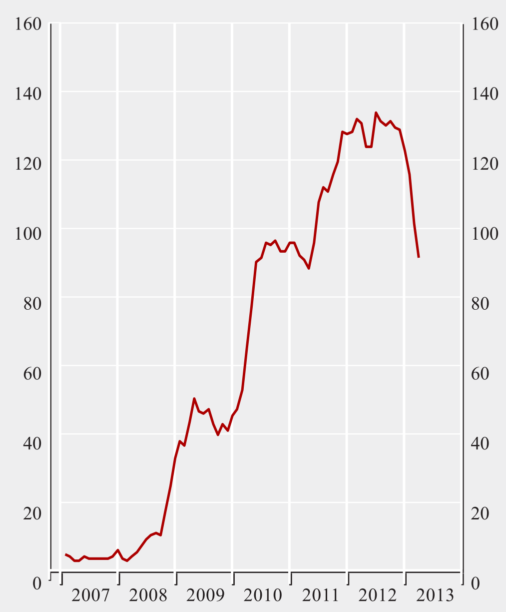
(annual percentage changes)



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

Chart V.4 Credit to domestic MFIs by the Eurosystem and the Bank of Greece (January 2007-March 2013)

(average monthly stocks; billion euro)



Source: Bank of Greece.

It should be noted that credit institutions used to some extent the liquidity drawn from their recovering deposit base to repay part of the funding they had received from the Bank of Greece, mainly in the form of emergency liquidity assistance (ELA), or through the Eurosystem monetary policy operations (see Chart V.4). Indeed, the outstanding balance of central bank lending to domestic credit institutions decreased by €44 billion between end-June 2012 and end-March 2013, while the rise in deposits (by general government, the private sector and non-residents)[5] and the drop in the outstanding balance of bank credit amounted to €16 billion. Thus, in order to reduce the outstanding amounts of funds raised from the Eurosystem and the Bank of Greece, credit institutions have also resorted to the realisation of some of their assets as well as to alternative sources of funding other than retail deposits.

Some banks opted to tap the secured interbank lending market using as collateral EFSF notes, acquired in late 2012 in the context of the recapitalisation process and the Greek government debt buyback operation. Actually, credit institutions proceeded also to outright sales of EFSF notes. Besides, a gradual reduction in credit institutions' reliance on central bank funding over the medium term is one of the requirements included in the Memorandum of Understanding.

In the early months of 2012, the annual rates of decline in several components of bank credit to the real economy, which had been strengthening until then, stabilised or moderated gradually. Certainly, this moderation was nei-

5 In contrast with Sections 1 and 3 of this chapter, the rise is in this case calculated as the difference of the outstanding stock of deposits in the consolidated balance sheets of credit institutions between the beginning and the end of the reviewed period.

ther synchronised nor continuous across the spectrum of bank loan categories; it became more frequent after April 2012 and, by late 2012 and early 2013, was broadly based. These developments should partially reflect the favourable effects on banks' credit policies mentioned above.

This moderation (or even stabilisation) in 2012 and in early 2013 may also reflect a technical factor, i.e. the fact that non-performing loans are continuously increasing. Not recording principal and interest payments on these loans has led to an artificial increase in the net flow of new bank loans (since the net flow is calculated as the differential between new loan disbursements and recorded principal and interest payments on outstanding loans). As a result, the respective annual rates of change in various categories of bank credit are seemingly less negative than what would have been the case if all outstanding loans were serviced.

An indication that this factor was to some extent at play is provided by the fact that the annual rates of decline remained stable or moderated for a comparatively longer period and to a greater extent in the case of loans to the self-employed, farmers and sole proprietorships, as well as in the case of consumer loans, which are known to have very high NPL ratios.

However, the fact that many outstanding loans do not perform limits banks' ability to grant new credit, as this deprives them of substantial funds (principal and interest payments) which they would otherwise recycle by extending new loans to relatively healthier firms (including small and medium-sized enterprises).

6 BANK LENDING RATES

The downward trajectory of interest rates on new bank loans, which had started in the second half of 2011, continued (see Table V.3). From the beginning of 2012 to March 2013, a considerable decrease (of 129 basis points) in interest rates has been observed for loans to individuals and private non-profit institutions (i.e. the household sector), in particular for consumer loans with a defined maturity. Conversely, real[6] interest rates on new loans (in the majority of loan categories) rose as a result of a sharp decline in inflation. Indicatively, in March 2013 the real interest rate on corporate loans is estimated at 6.57%, which is the second highest after that on loans to the self-employed.

The decrease in nominal interest rates on bank loans in 2012 and early 2013 may be attributable to: (a) the pass-through of the decline in Euribor rates (which are used as reference rates in many loan agreements, mainly for housing loans) and retail deposit rates; (b) lower refinancing costs for banks, particularly since late 2012, when the availability of collateral acceptable to the Eurosystem increased, thereby considerably reducing their need to resort to ELA; (c) banks' policy to increase their collateral requirements on borrowers; (d) extensive private debt rescheduling and restructuring by banks, among other things to contain the rise in non-performing loans; and (e) weaker demand for new loans by non-financial corporations and households, as confirmed in the euro area Bank Lending Survey conducted by the Eurosystem and as was to be expected given the economic downturn and its consequences (e.g. corporate defaults, high unemployment risk for households).

7 THE BOND MARKET

The implementation of the PSI, coupled with other measures aimed at improving the sustainability of public finances, brought about a sharp drop in Greek government bond yields in March 2012 (see Chart V.5 and Table 4 of the Statistical Annex). Over the following months, however, uncertainty peaked, as mentioned above, leading to a surge in

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

yields. Conversely, on the back of easing uncertainty since June 2012, Greek government bond yields have embarked on a downward path. Nevertheless, their decrease is in line with falling sovereign bond yields in several other euro area countries against a backdrop of a general normalisation of conditions in European bond markets. The downward trend of Greek government bond yields was temporarily interrupted as a result of the crisis in Cyprus. In less than two weeks after 15 March 2013, 10-year Greek government bond yields increased by more than 210 basis points. Yet, soon enough, yields resumed their downward course, which gathered pace later on, supported by positive developments such as the upgrading of the Greek economy's credit rating by Fitch to B- from CCC around mid-May 2013. During the first fortnight of May 2013, 10-year government bond yields averaged 9.6%.

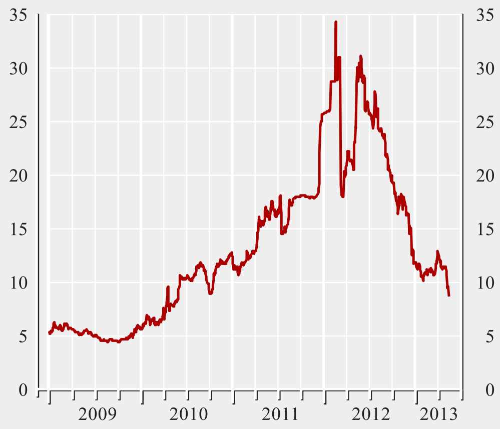
As Greek government bond yields started decreasing, the government spread between Greek and German 10-year bonds kept narrowing from early June 2012 to late January 2013. The subsequent widening of this spread by approximately 230 basis points during the intensification of the Cyprus crisis was reversed towards late March 2013. By mid-May 2013, the spread had fallen to its lowest level for two and a half years (730 basis points).

The average daily value of transactions on the Electronic Secondary Securities Market (HDAT) rose to €4.1 million during the January-April 2013 period, against €2.8 million in 2012. Respectively, the daily average value of transactions on the Dematerialised Securities System (DSS) came to €236 million, compared with €410 million in 2012. During the first fortnight of May 2013, the transaction value on HDAT and DSS increased.

Throughout 2012 and in the beginning of 2013, the Greek government continued its regular Treasury bills issues with a maturity of 3 and 6 months.[7] In the Treasury bill auctions, €49 billion and €13.2 billion were raised in 2012

Chart V.5 10-year Greek government bond yield (January 2009-15 May 2013)

(daily data; percentage points)



Source: Bank of Greece.

and in the first four months of 2013, respectively. The weighted average interest rate on these issues stood at 4.14% over the reviewed period, falling by more than 50 basis points relative to the fourth quarter of 2012.

Significant evidence of the improving climate for debt securities issued by Greek non-financial corporations is provided by the fact that, towards the end of 2012 and in the first months of 2013, five Greek companies with important export activity, namely Titan, Fage, OTE, Hellenic Petroleum and Frigoglass, were able to tap into international corporate bond markets. These are the first debt issues since the onset of the crisis in Greece. This diversification of funding sources for Greek enterprises is desirable and should continue on a larger scale, as it mitigates the problem of insufficient bank credit and the subsequent liquidity shortage faced by Greece in recent years, which is known to exacerbate the economic recession. The shift of the economy towards a new growth model must be complemented with a new financing model for sound business activity.

7 In January 2013, 1-month Treasury bills worth €1.2 billion were issued.

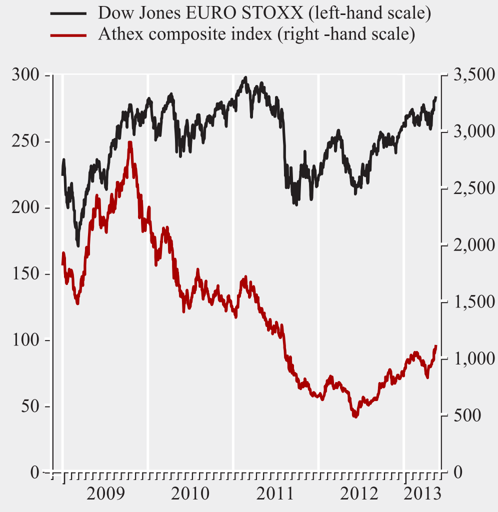
8 THE STOCK MARKET

The considerable increase in share prices on the Athens Exchange (Athex) in 2012, after a sharp fall in the past two years, was halted temporarily towards the end of the first quarter of 2013. During the second half of 2012 and at the beginning of 2013, share prices benefited from improved confidence in the Greek economy. Conversely, in March 2013 the crisis in Cyprus led to a drop in share prices, while in April and during the first fortnight of May an upward trend was observed.

Overall, between January and mid-May 2013 the Athex composite share price index rose by 23%, against 33% in 2012. The Dow Jones Euro Stoxx index for the euro area and the S&P 500 for the United States increased after some fluctuations in early 2012 and followed an upward path until mid-May 2013 (see Chart V.6)

Chart V.6 Athens Exchange composite share price index and Dow Jones EURO STOXX (January 2009-15 May 2013)

(daily data)



Source: Thomson Reuters-Datastream.

Turning to the remaining key aggregates in the Athens Exchange, between January and mid-May 2013 the average daily value of transactions increased by 29% year-on-year. Market capitalisation stood at €54 billion in mid-May, up by 103% compared with the beginning of 2012. The share of foreign investors rose progressively in the first four months of 2013 and came to 52% in April 2013 (2012 average: 51%). Over the January-April 2013 period, capital inflows by non-resident investors amounted to €258 million, against an outflow of €67 million in the first four months of 2012. Furthermore, the total amount of funds raised on the stock market stood at €373 million in the first four months of 2013, against €101 million in the same period of 2012 (see Table V.4). Just as in 2012, the bulk of funds was raised by financial corporations.

Table V.4 Funds raised on the Athens Exchange

(million euro)

Categories of firms and sectors	Number of firms			Funds raised (million euro)[1]		
	2011	2012	2013*	2011	2012	2013*
Listed firms	13	6	9	3,189.7	132.1	373.4
Newly-listed firms	-	-	-	0.0	0.0	0.0
Total	**13**	**6**	**9**	**3,189.7**	**132.1**	**373.4**
Financial sector–Banks	3	1	2	2,931.6	90.0	353.6
Non-financial sector	10	5	7	258.2	42.1	19.8

Sources: Athens Exchange and Bank of Greece.
* Data for January-April 2013.
1 Capital increases through public offerings, private placements and conversion of bonds into equity. Subscriptions to a capital increase are entered on the last day of the public offering period.

The banking sub-index rose sharply (by 66%) over the June-October 2012 period. It is estimated that the implementation of the initial phase of the recapitalisation process and the restructuring of the domestic banking system have had a positive effect on bank stock prices. Conversely, between November 2012 and March 2013 the banking sub-index declined by 58%, amid heightened uncertainty —compounded by unfounded rumours and misinformation— concerning the private sector's ability to cover an adequate part of credit institutions' capital needs in the context of the final phase of the recapitalisation process. Actually, uncertainty peaked and sharp swings in share prices were recorded when, towards the end of the period under review, it became obvious that the merger between the National Bank of Greece and Eurobank would encounter difficulties. By contrast, between April and mid-May 2013, the banking sub-index picked up markedly (by 122%), as considerable headway was made in the involvement of private investors in banks' recapitalisation.

9 OVERVIEW OF RECENT DEVELOPMENTS IN THE BANKING SECTOR

As mentioned above, the banking sector continued to face serious problems throughout 2012. Despite the extremely adverse conditions, the government and the Bank of Greece took effective action and succeeded in safeguarding financial stability and fully protecting depositors.

According to the releases of financial data for 2012, Athex-listed Greek commercial banks[8] reported (after-tax) losses of €6.5 billion, against €28.8 billion in 2011, while banking groups posted losses totalling €5.4 billion, against €29.5 billion in 2011 (see Table V.5). Excluding the impact from the private sector involvement (PSI) in the Greek public debt restructuring, which had mostly affected the 2011 results, operating losses in 2012 were higher than in 2011.

Losses in 2012 are, to a large extent, attributable to the following factors:

- reduced net interest and fee income, due to subdued banking business and higher funding costs, as a result of the upward path of retail deposit rates in the first half of 2012 and credit institutions' increased reliance on emergency funding by the Bank of Greece;

- losses from financial operations (e.g. transactions in bonds or shares and valuation of financial derivatives);[9]

- high provisioning for increased credit risk;

- some additional losses as a result of the PSI; and

- impairment losses on securities as well as on tangible and intangible assets.

Operating results benefited somewhat from a reduction in operating costs, which is mainly due to cutbacks in staff costs.

The quality of Greek banks' loan portfolios worsened further across all loan categories. The ratio of non-performing loans to total loans (NPL ratio) came to 24.5% at end-December 2012, from 16% at end-December 2011. A sharp increase was observed in the NPL ratio for both consumer loans (December 2012: 38.8%, December 2011: 28.8%) and corporate loans (December 2012: 23.4%, December 2011: 14.2%). The NPL ratio for housing loans recorded a relatively milder rise (December 2012: 21.4%, December 2011: 14.9%).

The developments that followed the Eurogroup decision of 15 March 2013 about Cyprus put a strain on the liquidity of Greek

8 Financial statements for 2012 have been released to date by the following banks (in alphabetical order): Alpha Bank, Attica Bank, Eurobank, Geniki Bank, National Bank of Greece and Piraeus Bank.

9 Excluding gains from the Greek debt buyback operation that was implemented in December 2012, as these had already been included in the total impact from the PSI (see Table V.5).

Table V.5 Financial results of Greek commercial banks and banking groups with shares listed on the Athens Exchange (2011-2012)

(million euro)

	Banks			Banking groups		
	2011	2012	Change (%)	2011	2012	Change %
Operating income	**6,334**	**3,936**	**-37.8**	**10,339**	**8,779**	**-15.1**
Net interest income	5,885	4,310	-26.8	8,967	7,374	-17.8
– Interest income	14,172	11,903	-16.0	18,650	16,905	-9.4
– Interest expenses	8,287	7,593	-8.4	9,683	9,530	-1.6
Net non-interest income	449	-374	-	1,372	1,404	2.3
– Net fee income	569	449	-21.2	1,296	1,222	-5.7
– Dividend income	38	30	-21.8	13	12	-4.7
– Income from financial operations	-171	-761	-	-73	-404	-
– Other income	12	-91	-	136	573	322.1
Operating costs	**3,707**	**3,520**	**-5.1**	**6,115**	**5,796**	**-5.2**
Staff costs	2,191	1,988	-9.3	3,297	3,092	-6.2
Administrative costs	1,195	1,180	-1.2	1,913	1,955	2.2
Depreciation	259	271	4.7	535	559	4.5
Other costs	63	80	27.4	370	190	-48.6
Net income (operating income less costs)	**2,626**	**417**	**-84.1**	**4,225**	**2,983**	**-29.4**
Provisions for credit risk	6,237	6,600	5.8	7,044	7,963	13.0
Impairment losses on Greek government bonds[1]	27,500	631	-97.7	28,929	660	-97.7
Other impairment losses[2]	1,799	1,028	-42.8	1,904	898	-52.8
Share of profit (loss) of associates				-30	12	-
Pre-tax profits	**-32,910**	**-7,843**	**-**	**-33,683**	**-6,526**	**-**
Taxes	-4,156	-1,388	-	-4,229	-1,146	-
After tax profits	**-28,754**	**-6,455**	**-**	**-29,454**	**-5,380**	**-**

Source: Financial statements of Alpha Bank, Attika Bank, Geniki Bank, National Bank of Greece, Eurobank and Piraeus Bank. The financial results for Piraeus Bank also include the results of the "good" Agricultural Bank of Greece for the 27.7.2012-31.12.2012 period. Similarly, the financial results of Piraeus Bank also include the financial results of Geniki Bank for the 12.12.2012-31.12.2012 period.
1 The 2011 figures concern banks' PSI provisions under the PSI agreements of 26 October 2011 and 21 February 2012 on the restructuring of Greek government debt. The 2012 figures concern further impairment losses associated with the aforementioned agreements of 26 October 2011 and 21 February 2012, which had not been recorded in the 2011 financial statements of banks, excluding profit from banks' participation in the buyback of Greek government debt in December 2012.
2 Impairment losses on securities (bonds, shares, etc.) and tangible and intangible assets.

banks. However, the Bank of Greece played a decisive role in safeguarding financial stability in Greece. In concert with the Greek authorities, the Cyprus government, the Central Bank of Cyprus and Greek credit institutions, it ensured the smooth transfer of the assets and liabilities of Cypriot banks' branches in Greece to a Greek bank through a tendering process. The highly complex task of spinning off the Greek branches of distressed Cypriot banks and transferring their assets and liabilities to a domestic bank was successfully completed in no time, thereby ensuring that:

(a) deposits with Greek branches of Cypriot banks were fully excluded from the bail-in of depositors in Cyprus;

(b) the former Cypriot bank branches operating in Greece continue to serve their customers smoothly; and, above all,

(c) the risk of contagion from the Cypriot to the Greek banking system was nipped in the bud.

Recapitalisation is nearing its completion within the specified timeframe. The bridge recapitalisation of the core banks by the Hellenic Financial Stability Fund (HFSF) (in May and December 2012) using EFSF notes helped restore their capital adequacy ratios. General meetings of shareholders of the core banks were called to approve share capital increases and banks will presently embark on an effort to raise the required funds.

Alpha Bank and Piraeus Bank effectively managed to secure the coverage of the required minimum of 10% of their capital needs by private investors. Thus, the private sector will maintain management control in both banks, while the HFSF will have a say only in strategic decisions. The National Bank of Greece informed the authorities that private investors have shown solid interest to participate in its capital increase. Finally, following the decision of the general meeting of its shareholders, Eurobank proposed raising the full amount of the required capital from the HFSF, thereby ceding management control to the HFSF.

Moreover, the core banks seek to enhance the quality of their capital through liability management, with a view to strengthening Core Tier 1 capital. More specifically, they have submitted proposals to buyback hybrid securities and subordinated debt either at a discount (Alpha Bank, National Bank of Greece, Piraeus Bank) or in exchange for new common shares (Eurobank).

With regard to non-core banks, their efforts to raise private capital are still underway. However, if they fail to do so, the Bank of Greece will take action in accordance with the Memorandum, with a view to safeguarding both financial stability and depositors' interests, as was the case with the resolution of First Business Bank, where total deposits were safely transferred to the National Bank of Greece.

In parallel with the recapitalisation process, the restructuring of the banking system is also progressing. In addition to the resolution measures that have been applied to certain commercial and cooperative banks, a number of mergers and acquisitions have already been completed. Furthermore, the HFSF has proceeded to the restructuring of interim credit institutions (New TT Hellenic Postbank, New Proton Bank), with the aim of selling them by mid-July 2013. In a few months the Greek banking system will comprise a much smaller (than in the pre-crisis period) number of strong and well-capitalised banks. Thus, excess capacity in the banking sector will be eliminated, while synergies and economies of scale will be exploited.

The banking system currently being shaped is more demanding for both supervised entities and supervisors. First, as from the end of March 2013, the required minimum Core Tier 1 ratio for credit institutions has been raised to 9% of risk-weighted assets. Second, by mid-July 2013 at the latest, the Bank of Greece, in cooperation with the HFSF, the Greek Ministry of Finance and the troika of Greece's international lenders, will develop an overall strategy for commercial banks and, by the end of September 2013, a strategy for cooperative banks. Third, credit institutions will have to make all necessary preparations for the new stress test exercise to be conducted by the Bank of Greece by end-2013. Fourth, banks will be required to submit regular (quarterly) funding plans[10] to the Bank of Greece for assessment. Finally, special attention will be given to the management of banks' troubled assets (mainly non-performing loans). In this context, alternative ways to manage such assets will be sought, with a view to finding the most sustainable solution over a long-term horizon.

The completion of the restructuring and recapitalisation of the banking system are crucial

10 In their funding plans, banks will have to describe their actions and projections, aimed at broadening the range of their funding sources and gradually limiting their reliance on refinancing through the Eurosystem or the Bank of Greece.

structural reforms that are key to restoring confidence in the prospects of the Greek economy and prerequisites for economic recovery. The strong effect of bank credit on economic activity is examined from an econometric point of view in Box V.2.

Box V.2

THE INTERPLAY OF BANK FINANCING AND ECONOMIC ACTIVITY BEFORE AND DURING THE CRISIS

Given the deep and protracted recession in Greece, it is quite interesting to look into the interplay between the rate of change in bank financing to the private sector and the growth rate of the real economy, both before and during the crisis.[1,2] Empirical findings of relevant econometric models clearly show that financing of the private sector by the domestic banking system makes a positive and significant contribution to economic growth. An increase, in real terms, of bank financing to the private sector seems to promptly speed up real GDP growth. Furthermore, through feedback mechanisms, this interaction remains statistically significant also in the medium run (i.e. over three years). It is estimated that under normal conditions (i.e. when the 1993-2007 period is taken into consideration), a 1 percentage point increase in real credit expansion to the private sector leads to a cumulative increase of 0.8 percentage point in real GDP growth over a period of three years.

Real GDP and real credit growth to the private sector (1999-2012)

(percentages)

Sources: ELSTAT and Bank of Greece.

The estimated relationship between bank lending and economic growth remains positive and statistically significant during the crisis too. However, there are signs that, after five years of deep recession and heightened uncertainty, the efficiency of bank lending in supporting the real economy has weakened, as an increase in credit expansion to the private sector seems to lead to a comparatively smaller increase in real GDP than what would have been expected before the crisis.

The weaker impact of bank lending on growth could signify that the especially intense and protracted uncertainty as to the prospects of the Greek economy has led to higher risk aversion by businesses and households and a postponement of important consumption and investment decisions. Moreover, it could also reflect a trend for the restructuring of loans by banks, without which credit expansion would be even slower. Finally, a plausible explanation could be the disruption of the ECB single monetary policy transmission to the Greek economy through bank lending, which seems to be corraborated by recent indications that the relaxation of monetary policy after 2009 does not seem to have led to a corresponding improvement of credit conditions in the periphery.[3]

1 Banks in Greece (as well as in other countries) came under significant pressure, as they were shut out of international money markets and/or suffered a slow, but steady, outflow of deposits. At the same time, some banks were faced with sever shortage of collateral and thus could not participate in monetary policy operations, as a result of the consecutive downgrades of the credit ratings of Member States and their banks, which led to higher valuation haircuts and the exclusion of certain categories of collateral from Eurosystem operations.
2 The estimation was based on VAR models, which incorporate variables such as real credit growth, real economic growth, sovereign spreads between Greece and Germany, inflation and a number of selected pseudo-variables.
3 See *Monetary Policy – Interim Report 2012*, Box II.4.

10 DEVELOPMENTS IN THE PRIVATE INSURANCE SECTOR

In 2012, the Greek insurance market comprised 74 insurance firms, of which 55 based in Greece and supervised by the Bank of Greece and 19 branches of EU- and EEA-based insurance firms. On the basis of provisional data, at end-2012 the total assets of Greek-based insurance firms amounted to €14.9 billion, insurance provisions totalled €12 billion and total losses (before tax) stood at €428 million. Annual gross written premiums came to €4,478 million (down by 11.9% compared with 2011), 43.4% of which in the life insurance sector and 56.6% in the non-life insurance sector. Turning to the degree of market concentration in terms of gross written premiums, the five and ten largest firms have market shares of 69.5% and 92.3% in the life insurance sector, respectively, and of 37.3% and 60.9% in the non-life insurance sector, respectively.

In order to tackle the impact from adverse economic developments, several insurance firms took actions to cut back on operating costs. At the same time, capital increases in 2012 amounted to over €1.1 billion; added to the capital increases of 2011, they total approximately €1.7 billion.

In the area of private insurance supervision, the Department of Private Insurance Supervision (DOPIS) of the Bank of Greece, again placing an emphasis on on-site inspections, conducted more than 120 general and specific field reviews throughout the year. Also, at a number of private meetings held with senior officers of insurance firms, several organisational and compliance issues were raised and other structural weaknesses were identified. At the same time, the DOPIS improved, in terms of both quantity and quality, the reporting requirements to ensure an effective monitoring of the financial condition and solvency of insurance firms. Special emphasis was placed on the auditing of insurance premia owed by intermediaries, which totalled €900 million in 2012.

As regards harmonisation with EU law and, more generally, the role of the Bank of Greece in shaping developments at the European level, the final drafting of the Omnibus II Directive amending Solvency II Directive continued throughout 2012. In this context, the European Insurance and Occupational Pensions Authority (EIOPA) issued an opinion on the Interim Implementation of Solvency II, with a view to achieving a consistent and convergent implementation of some Solvency II elements in the EU, starting from 1 January 2014. Moreover, the DOPIS received a highly favourable peer review report by the EIOPA about the procedures it has followed in assessing insurers' internal models.

With regard to insurance intermediation, the Bank of Greece, geared towards ensuring the provision of state-of-the-art services to consumers and insured persons, has implemented a modern and transparent system for the certification of prospective insurance intermediaries. Furthermore, in the same vein, the Bank participated in the development of the EIOPA Guidelines on complaints-handling either by insurers or by insurance intermediaries. Complaint management rests upon the obligation of insurance firms to manage such complaints fairly and investigate them in depth and within a specified timeframe. The ultimate goal is to identify and tackle in a timely manner any internal defects of insurance firms that increase operational risk and force consumers to long and costly litigations.

Lastly, turning to insurance firms whose authorisation has been revoked, in 2012 the Private Life Insurance Guarantee Fund proceeded to the settlement of claims submitted by policyholders of VDV Leben International. Out of total claim lodgings against the company, 47% was validated in 2012 and an amount of €16.7 million was paid. In this same year, the Motor Insurers' Bureau completed the winding-up of Euromonde, Eikostos Aionas, Piraiki, Apollon, Propontis-Merimna and Intrust. With respect to the winding-up of ASPIS Group, on 21 March 2013 the Life Insurance Portfolio Supervisor of the insurance firms Aspis Pronia SA and Commercial Value SA completed his summary report on the calculation of the life insurance portfolio exposure, in search of a transferee. The Bank of Greece, in order to approve the accountability report of the Life Insurance Portfolio Supervisor under Article 2, para. 7 of Law 3867/2010, assigned the calculation of the exposure to a specialised consulting firm through a tendering procedure. The Supervisor's exposure estimate was not validated. Subsequently, the Bank of Greece publicised all available data and issued a call for expression of interest by prospective transferees. The procedure was completed unsuccessfully on 31 May 2012 and, as a result, the portfolios of the aforementioned firms were subject to winding-up under Article 2 of Law 3867/2010.

CHRONOLOGY OF MAIN MONETARY POLICY MEASURES OF THE EUROSYSTEM

9 FEBRUARY 2012

Following its decision of 8 December 2011, the Governing Council of the ECB 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 ECB 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 has acknowledged the activation of the buyback 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.

21 MARCH 2012

The Governing Council of the ECB decided to temporarily lift the obligation of NCBs to accept as collateral for Eurosystem credit operations eligible bank bonds guaranteed by a Member State under an European Union/International Monetary Fund programme, or by a Member State whose credit assessment does not comply with the Eurosystem's benchmark for establishing its minimum requirement for high credit standards for issuers and guarantors of marketable assets.

5 APRIL 2012

The Governing Council of the ECB approved the direct link between the Greek securities settlement system and Clearstream Banking AG – CASCADE as eligible to be used for the collateralisation of Eurosystem credit operations. Greek credit institutions will be able to use this link in order to use short-term EFSF bonds (which they acquired in the context of the public debt restructuring in March and April 2012) as collateral to raise liquidity from the Bank of Greece.

6 JUNE 2012

The Governing Council of the ECB decided that the main refinancing operations will continue to be conducted as fixed rate tender procedures with full allotment for as long as necessary and, in any event, at least until 15 January 2013. 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. The Governing Council also decided to provide liquidity by means of three-month longer-term refinancing operations (LTROs) to be allotted at the end of July, August, September, October, November and mid-December 2012 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.

20 JUNE 2012

The Governing Council of the ECB decided on additional measures to improve the access of the banking sector to Eurosystem operations in order to further support the provision of credit to households and non-financial corporations. It reduced the rating threshold and amended the eligibility requirements for certain asset-backed securities (ABSs) and thus broadened the scope of the measures to increase collateral availability. In addition to the ABSs that are already eligible for use as collateral in Eurosystem operations, the Eurosystem will consider the following ABSs as eligible:

1. Auto loan, leasing and consumer finance ABSs and ABSs backed by commercial mortgages (CMBSs) which have a second-best rating of at least "single A" in the Eurosystem's harmonised credit scale, at issuance and at all times subsequently. These ABSs will be subject to a valuation haircut of 16%.

2. Residential mortgage-backed securities (RMBSs), securities backed by loans to small and medium-sized enterprises, auto loan, leasing and consumer finance ABSs and CMBSs which have a second-best rating of at least "triple B" in the Eurosystem's harmonised credit scale, at issuance and at all times subsequently. RMBSs, securities backed by loans to SMEs, and auto loan, leasing and consumer finance ABSs would be subject to a valuation haircut of 26%, while CMBSs would be subject to a valuation haircut of 32%.

3 JULY 2012

The Governing Council of the ECB decided that credit institutions that issue eligible bank bonds guaranteed by an EEA public sector entity with the right to impose taxes may not submit such bonds or similar bonds issued by closely linked entities as collateral for Eurosystem credit operations in excess of the nominal value of these bonds already submitted as collateral. In exceptional cases, the Governing Council may decide on derogations, as long as credit institutions also submit a funding plan.

5 JULY 2012

The Governing Council of the ECB decided to lower the interest rate on the main refinancing operations by 25 basis points to 0.75%, starting from the operation to be settled on 11 July 2012. In addition, it decided to lower the interest rates on both the marginal lending facility and the deposit facility by 25 basis points, to 1.50% and 0.00% respectively, both with effect from 11 July 2012.

18 JULY 2012

Due to the expiration on 25 July 2012 of the buyback scheme for marketable debt instruments issued or fully guaranteed by the Hellenic Republic, these instruments will become for the time being ineligible for use as collateral in Eurosystem monetary policy operations. Liquidity needs may be addressed by the relevant national central bank in line with existing Eurosystem arrangements. In line with established procedures, the Governing Council of the ECB will assess their potential eligibility following the conclusion of the currently ongoing review, by the European Commission in liaison with the ECB and the IMF, of the progress made by Greece under the second adjustment programme.

6 SEPTEMBER 2012

The Governing Council of the ECB decided on a number of technical features regarding the Eurosystem's outright transactions in secondary sovereign bond markets that aim at safeguarding an appropriate monetary policy transmission and the singleness of the monetary policy. These will be known as Outright Monetary Transactions (OMTs). The Governing Council will consider them to the extent that they are warranted from a monetary policy perspective.

a) A necessary condition for Outright Monetary Transactions is strict and effective conditionality attached to an appropriate European Financial Stability Facility/European Stability Mechanism (EFSF/ESM) programme.

b) Such programmes can take the form of a full EFSF/ESM macroeconomic adjustment programme or a precautionary programme (Enhanced Conditions Credit Line), provided that they include the possibility of EFSF/ESM primary market purchases. The involvement of the IMF shall also be sought for the design of the country-specific conditionality and the monitoring of such a programme;

c) Following a thorough assessment, the Governing Council will decide on the start, continuation and suspension of Outright Monetary Transactions in full discretion and acting in accordance with its monetary policy mandate;

d) Outright Monetary Transactions will be considered for future cases of EFSF/ESM macroeconomic adjustment programmes or precautionary programmes as specified above. They may also be considered for Member States currently under a macroeconomic adjustment programme when they will be regaining bond market access;

e) No ex ante quantitative limits are set on the size of Outright Monetary Transactions. Transactions will be focused on the shorter part of the yield curve, and in particular on sovereign bonds with a maturity of between one and three years;

f) The Eurosystem intends to clarify in the legal act concerning Outright Monetary Transactions that it accepts the same (*pari passu*) treatment as private or other creditors with respect to bonds issued by euro area countries and purchased by the Eurosystem through Outright Monetary Transactions, in accordance with the terms of such bonds;

g) Aggregate Outright Monetary Transaction holdings and their market values will be published on a weekly basis. Publication of the average duration of Outright Monetary Transaction holdings and the breakdown by country will take place on a monthly basis;

h) The Securities Markets Programme is terminated. The liquidity injected through the SMP will continue to be absorbed as in the past, and the existing securities in the SMP portfolio will be held to maturity. The liquidity created through Outright Monetary Transactions will be fully sterilised.

The Governing Council of the ECB also decided on additional measures to preserve collateral availability for counterparties in order to maintain their access to the Eurosystem's liquidity-providing operations. More specifically, the Governing Council decided to suspend the application of the minimum credit rating threshold 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 central government, and credit claims granted to or guaranteed by the central government, of countries that are eligible for Outright Monetary Transactions or are under an EU-IMF programme and comply with the attached conditionality as assessed by the Governing Council. The Governing Council also decided that marketable debt instruments denominated in currencies other than the euro, namely the US dollar, the pound sterling and the Japanese yen, and issued and held in the euro area, are eligible to be used as collateral in Eurosystem credit operations until further notice.

6 DECEMBER 2012

The Governing Council of the European Central Bank has decided to continue conducting its main refinancing operations (MROs) as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the sixth maintenance period of 2013 on 9 July 2013. 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 2013. 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 has decided to conduct the three-month longer-term refinancing operations (LTROs) to be allotted on 30 January, 27 February, 27 March, 24 April, 29 May and 26 June 2013 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.

19 DECEMBER 2012

Marketable debt instruments issued or fully guaranteed by the Hellenic Republic and fulfilling all other eligibility criteria shall again constitute eligible collateral for the purposes of Eurosystem credit operations, as from 21 December 2012, subject to special haircuts. This will apply irrespective of whether they meet the minimum credit rating threshold in the collateral eligibility requirements for the purposes of the Eurosystem's credit operations. Special haircuts are determined for such assets from 15% to 18%, depending on the residual maturity and whether they have coupons or are zero-coupon. In this decision the Governing Council has taken into consideration the positive assessment by the European Commission, the ECB and the International Monetary Fund of the policy package for the first review under the Second Economic Adjustment Programme for Greece and the wide range of measures already implemented by the Greek government in the areas of fiscal consolidation, structural reforms, privatisation and financial sector stabilisation.

21 MARCH 2013

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

22 MARCH 2013

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

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

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

2 MAY 2013

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

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

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

STATISTICAL APPENDIX

TABLES

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

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

Source: Calculations based on ELSTAT data.

Table 2 Balance of payments

(million euro)

		January-December			January-March		
		2010	2011	2012	2011	2012	2013
I	**CURRENT ACCOUNT BALANCE (I.A+I.B+I.C+I.D)**	**-22,506.0**	**-20,633.5**	**-6,527.9**	**-7,099.0**	**-4,810.9**	**-2,346.9**
I.A	***TRADE BALANCE (I.A.1–I.A.2)***	***-28,279.6***	***-27,229.1***	***-19,619.0***	***-7,609.5***	***-5,872.2***	***-4,522.4***
	Oil trade balance	-8,627.2	-11,126.9	-10,220.0	-3,331.5	-3,142.9	-2,299.1
	Non-oil trade balance	-19,652.4	-16,102.1	-9,399.1	-4,278.0	-2,729.3	-2,223.4
	Ship balance	-3,621.3	-3,261.2	-1,042.6	-733.1	-356.8	-300.0
	Trade balance excl. oil and ships	-16,031.1	-12,840.9	-8,356.4	-3,544.9	-2,372.5	-1,923.3
	I.A.1 Exports of goods	*17,081.5*	*20,230.6*	*22,020.6*	*4,329.3*	*4,930.9*	*5,446.6*
	Oil	4,950.0	6,187.7	7,426.4	1,134.7	1,470.8	1,920.6
	Ships (receipts)	798.6	754.7	737.8	182.8	178.0	109.4
	Other goods	11,332.9	13,288.2	13,856.5	3,011.8	3,282.2	3,416.6
	I.A.2 Imports of goods	*45,361.0*	*47,459.6*	*41,639.7*	*11,938.8*	*10,803.2*	*9,969.0*
	Oil	13,577.1	17,314.6	17,646.3	4,466.2	4,613.7	4,219.7
	Ships (payments)	4,419.9	4,015.9	1,780.4	915.9	534.8	409.5
	Other goods	27,364.0	26,129.2	22,213.0	6,556.7	5,654.7	5,339.9
I.B	***SERVICES BALANCE (I.B.1–I.B.2)***	***13,248.5***	***14,629.6***	***14,721.4***	***996.2***	***1,515.7***	***1,500.1***
	I.B.1 Receipts	*28,477.8*	*28,609.2*	*27,108.8*	*4,635.3*	*4,712.6*	*4,136.6*
	Travel	9,611.3	10,504.7	10,024.9	466.7	407.3	392.2
	Transport	15,418.4	14,096.6	13,287.4	3,340.9	3,367.7	2,883.1
	Other services	3,448.1	4,007.9	3,796.5	827.6	937.6	861.3
	I.B.2 Payments	*15,229.4*	*13,979.6*	*12,387.4*	*3,639.0*	*3,196.8*	*2,636.5*
	Travel	2,156.0	2,266.5	1,843.9	530.6	414.4	326.2
	Transport	8,155.4	7,234.4	6,328.0	1,860.9	1,639.8	1,405.9
	Other services	4,917.9	4,478.7	4,215.5	1,247.5	1,142.7	904.4
I.C	***INCOME BALANCE (I.C.1–I.C.2)***	***-7,673.8***	***-8,594.8***	***-3,061.7***	***-1,697.5***	***-1,833.4***	***-1,027.5***
	I.C.1 Receipts	*4,009.3*	*3,322.1*	*3,274.6*	*787.6*	*826.6*	*817.9*
	Wages, salaries	199.7	188.0	200.8	45.0	49.0	54.1
	Interest, dividends, profits	3,809.6	3,134.1	3,073.7	742.6	777.6	763.7
	I.C.2 Payments	*11,683.1*	*11,916.9*	*6,336.3*	*2,485.0*	*2,660.0*	*1,845.4*
	Wages, salaries	377.6	470.0	468.0	102.4	119.7	107.7
	Interest, dividends, profits	11,305.5	11,447.0	5,868.4	2,382.6	2,540.3	1,737.6
I.D	***CURRENT TRANSFERS BALANCE (I.D.1–I.D.2)***	***198.9***	***560.8***	***1,431.5***	***1,211.7***	***1,379.0***	***1,702.9***
	I.D.1 Receipts	*4,654.3*	*4,435.0*	*5,125.6*	*2,508.7*	*2,631.2*	*2,778.7*
	General government (mainly transfers from the EU)	3,188.5	3,254.9	4,060.2	2,222.8	2,356.4	2,376.8
	Other sectors (emigrants' remittances etc.)	1,465.8	1,180.1	1,065.4	285.9	274.8	402.0
	I.D.2 Payments	*4,455.4*	*3,874.2*	*3,694.1*	*1,296.9*	*1,252.2*	*1,075.9*
	General government (mainly payments to the EU)	2,860.4	2,485.4	2,647.9	909.2	926.7	917.9
	Other sectors	1,595.0	1,388.8	1,046.2	387.8	325.5	158.0
II	**CAPITAL TRANSFERS BALANCE (II.1– II.2)**	**2,071.5**	**2,671.8**	**2,327.6**	**312.1**	**1,053.4**	**1,092.5**
	II.1 Receipts	*2,356.2*	*2,932.7*	*2,564.6*	*370.7*	*1,118.7*	*1,194.5*
	General government (mainly transfers from the EU)	2,239.3	2,798.5	2,486.0	351.8	1,101.5	1,173.1
	Other sectors	116.9	134.2	78.6	18.9	17.2	21.4
	II.2 Payments	*284.7*	*260.8*	*237.1*	*58.6*	*65.2*	*102.0*
	General government (mainly payments to the EU)	15.8	12.7	13.7	2.5	2.0	0.9
	Other sectors	268.9	248.1	223.3	56.1	63.3	101.2
III	**CURRENT ACCOUNT AND CAPITAL TRANSFERS BALANCE (I+II)**	**-20,434.5**	**-17,961.7**	**-4,200.3**	**-6,786.9**	**-3,757.5**	**-1,254.4**
IV	**FINANCIAL ACCOUNT BALANCE (IV.A+IV.B+IV.C+IV.D)**	**20,853.9**	**17,838.1**	**4,153.5**	**6,380.6**	**4,958.1**	**133.1**
	IV.A DIRECT INVESTMENT [1]	***-927.0***	***-452.6***	***2,322.4***	***-700.2***	***-518.3***	***1,293.4***
	By residents abroad	-1,176.2	-1,274.9	30.4	-258.4	-106.6	685.1
	By non-residents in Greece	249.2	822.3	2,292.0	-441.8	-411.7	608.3
	IV.B PORTFOLIO INVESTMENT [1]	***-20,855.0***	***-19,778.3***	***-99,903.9***	***-6,055.3***	***-37,033.7***	***542.7***
	Assets	13,278.7	4,139.0	-58,086.1	1,120.6	-11,807.5	1,725.4
	Liabilities	-34,133.6	-23,917.3	-41,817.8	-7,176.0	-25,226.2	-1,182.7
	IV.C OTHER INVESTMENT [1]	***42,538.8***	***38,050.0***	***101,744.1***	***13,093.2***	***42,530.1***	***-1,711.0***
	Assets	7,658.7	7,638.7	13,863.4	4,885.4	10,247.8	15,782.5
	Liabilities	34,880.2	30,411.3	87,880.7	8,207.8	32,282.3	-17,493.5
	(General government loans)	*29,978.2*	*39,873.9*	*109,093.9*	*21,136.9*	*38,731.1*	*7,940.8*
	IV.D CHANGE IN RESERVE ASSETS [2]	***97.0***	***19.0***	***-9.0***	***43.0***	***-20.0***	***8.0***
V	**ERRORS AND OMISSIONS**	**-419.4**	**123.6**	**46.8**	**406.3**	**-1,200.6**	**1,121.3**
	RESERVE ASSETS [3]	***4,777.0***	***5,332.0***	***5,500.0***	***4,557.0***	***5,434.0***	***5,461.0***

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

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

(outstanding balances in euro; not seasonally adjusted)

End of period		Total deposits	Breakdown by currency: In euro[2]	Breakdown by currency: In other currencies	Breakdown by type: Sight deposits[2]	Breakdown by type: Savings deposits	Breakdown by type: Time deposits
2008		227,253	200,638	26,615	21,827	67,328	138,098
2009		237,341	217,257	20,084	26,140	75,811	135,390
2010		209,521	191,988	17,533	22,865	66,706	119,951
2011		174,137	160,789	13,348	19,601	53,439	101,097
2012		161,373	149,975	11,398	18,173	44,844	98,357
2010	Jan.	232,889	212,593	20,296	24,210	75,628	133,051
	Feb.	229,685	210,105	19,580	23,797	74,853	131,035
	March	227,649	209,164	18,485	23,494	74,292	129,863
	Apr.	222,577	204,905	17,672	23,353	72,943	126,280
	May	220,106	201,634	18,472	23,058	72,069	124,979
	June	216,766	197,432	19,334	24,374	70,595	121,797
	July	212,253	194,139	18,114	22,525	69,797	119,932
	Aug.	213,003	194,153	18,850	22,217	69,371	121,415
	Sept.	212,903	195,238	17,665	23,619	67,785	121,499
	Oct.	211,515	194,029	17,486	22,398	67,813	121,303
	Nov.	209,128	190,743	18,385	22,524	66,082	120,522
	Dec.	209,521	191,988	17,533	22,865	66,706	119,951
2011	Jan.	205,438	188,543	16,895	22,063	65,552	117,823
	Feb.	202,815	186,494	16,321	21,057	64,428	117,330
	March	199,086	183,277	15,809	20,829	62,102	116,156
	Apr.	196,678	181,243	15,435	20,098	62,080	114,499
	May	191,815	176,699	15,116	20,333	60,569	110,914
	June	188,108	174,095	14,013	21,071	59,446	107,592
	July	187,143	173,435	13,708	19,941	58,552	108,649
	Aug.	188,574	174,786	13,788	20,211	58,493	109,871
	Sept.	183,128	169,563	13,565	19,615	56,210	107,304
	Oct.	176,323	163,782	12,541	19,202	54,699	102,422
	Nov.	172,759	160,232	12,527	18,695	53,236	100,828
	Dec.	174,137	160,789	13,348	19,601	53,439	101,097
2012	Jan.	168,873	156,194	12,679	17,468	52,178	99,227
	Feb.	164,308	152,079	12,229	17,014	50,621	96,673
	March	165,283	152,988	12,295	16,593	49,077	99,613
	Apr.	165,877	153,387	12,490	17,230	49,317	99,330
	May	157,367	145,599	11,768	16,679	48,459	92,229
	June	150,513	139,435	11,078	15,982	46,543	87,988
	July	153,825	142,488	11,336	16,174	46,129	91,522
	Aug.	153,328	142,185	11,143	15,490	45,545	92,292
	Sept.	154,246	143,326	10,920	15,949	45,154	93,143
	Oct.	155,190	144,231	10,959	15,830	44,533	94,827
	Nov.	155,816	144,912	10,904	15,997	43,718	96,100
	Dec.	161,373	149,975	11,398	18,173	44,844	98,357
2013	Jan.	160,897	150,354	10,543	16,014	43,590	101,293
	Feb.	163,948	153,044	10,904	15,813	43,509	104,625
	March	163,958	153,255	10,703	16,158	43,417	104,382

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

Table 4 Greek government bond yields

(percentages per annum; period averages)

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

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

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

(balances in million euro; non-seasonally adjusted)

End of period		Grand total	Firms						Sole proprietors and unincorporated partnerships	Individuals and private non-profit insitutions			
			Total	Non-financial corporations				Other financial institutions and insurance companies		Total	Housing	Consumer credit	Other
				Total	of which								
					Industry	Trade	Shipping						
2008		249,661	132,458	124,132	24,873	32,985	10,228	8,326	-	117,203	77,700	36,435	3,068
2009		249,677	130,043	123,821	22,790	33,519	10,031	6,222	-	119,635	80,559	36,044	3,032
2010		257,846	123,244	116,514	24,269	25,355	17,498	6,730	16,483	118,119	80,507	35,081	2,532
2011		248,535	120,126	113,045	23,405	24,687	18,008	7,081	15,359	113,050	78,393	32,985	1,672
2012		227,655	107,335	100,758	22,162	22,168	12,442	6,577	13,790	106,530	74,634	30,236	1,660
2010	Jan.	250,167	130,610	124,477	22,964	33,407	10,350	6,133	-	119,557	80,704	35,876	2,977
	Feb.	251,173	131,520	124,916	23,031	33,182	10,618	6,604	-	119,653	80,878	35,792	2,984
	March	251,062	131,392	125,192	23,042	33,202	10,701	6,201	-	119,669	81,173	35,490	3,007
	Apr.	250,982	131,529	124,844	22,992	33,103	10,686	6,685	-	119,453	81,125	35,326	3,002
	May	252,072	132,718	126,164	23,060	33,087	11,729	6,554	-	119,355	81,110	35,194	3,050
	June	260,352	126,525	120,823	25,423	26,724	19,340	5,702	13,904	119,924	81,430	36,292	2,202
	July	258,943	125,529	119,080	24,991	26,718	18,339	6,449	13,929	119,485	81,334	35,960	2,192
	Aug.	258,777	125,452	119,229	24,662	26,633	18,708	6,224	13,812	119,512	81,450	35,898	2,163
	Sept.	258,476	123,543	116,978	24,471	25,873	17,798	6,564	15,618	119,316	81,201	35,834	2,281
	Oct.	257,256	122,772	116,233	24,687	25,663	17,141	6,539	16,429	118,055	80,033	35,621	2,401
	Nov.	258,023	123,361	117,005	24,540	25,607	18,108	6,356	16,444	118,217	80,302	35,443	2,472
	Dec.	257,846	123,244	116,514	24,269	25,355	17,498	6,730	16,483	118,119	80,507	35,081	2,532
2011	Jan.	256,852	122,894	116,347	24,658	25,125	17,485	6,548	16,465	117,493	80,128	34,884	2,480
	Feb.	256,737	122,999	116,484	24,698	25,134	17,356	6,516	16,450	117,288	80,028	34,702	2,558
	March	255,374	122,173	115,794	24,854	25,407	16,983	6,379	16,355	116,846	79,823	34,454	2,569
	Apr.	253,703	121,175	114,880	25,115	25,279	16,273	6,295	16,170	116,358	79,718	34,060	2.580
	May	253,193	120,934	114,935	24,918	25,266	16,944	6,000	16,032	116,227	79,794	33,811	2,622
	June	253,486	121,372	115,041	24,862	25,245	16,927	6,331	16,027	116,088	79,800	33,598	2,690
	July	254,242	122,287	116,026	25,526	25,149	17,254	6,262	16,004	115,951	79,936	33,241	2,773
	Aug.	252,484	121,352	114,641	25,096	24,661	17,140	6,711	15,846	115,286	79,575	33,885	1,826
	Sept.	252,947	122,680	115,758	23,907	25,678	18,306	6,922	15,713	114,554	79,170	33,680	1,704
	Oct.	251,106	121,670	113,926	23,884	25,153	17,600	7,744	15,529	113,907	78,869	33,385	1,654
	Nov.	249,996	121,244	113,564	23,764	24,954	17,710	7,680	15,363	113,389	78,506	33,194	1,689
	Dec.	248,535	120,126	113,045	23,405	24,687	18,008	7,081	15,359	113,050	78,393	32,985	1,672
2012	Jan.	249,087	121,138	111,836	23,325	24,342	17,238	9,302	15,259	112,690	78,104	32,778	1,808
	Feb.	246,841	119,455	110,418	23,138	24,146	16,182	9,037	15,149	112,237	77,857	32,568	1,811
	March	245,113	118,316	110,126	23,054	24,053	16,231	8,190	15,067	111,729	77,601	32,300	1,828
	Apr.	242,708	116,365	108,730	23,021	23,643	16,300	7,636	15,002	111,341	77,381	32,141	1,818
	May	242,040	116,193	108,594	22,802	23,495	16,837	7,599	14,975	110,872	77,124	31,911	1,837
	June	240,141	114,529	107,224	22,879	23,590	14,803	7,305	15,011	110,601	77,002	31,745	1,854
	July	234,334	112,050	104,863	22,036	22,810	14,994	7,186	13,879	108,406	75,747	30,858	1,801
	Aug.	233,035	111,011	104,016	21,976	22,674	14,530	6,995	13,954	108,070	75,482	30,776	1,811
	Sept.	231,818	110,320	103,419	22,011	22,641	14,190	6,902	13,957	107,541	75,098	30,634	1,809
	Oct.	230,674	109,599	102,850	22,142	22,351	14,097	6,749	13,854	107,221	74,897	30,509	1,815
	Nov.	229,787	109,241	102,599	22,046	22,243	14,081	6,642	13,843	106,702	74,683	30,381	1,637
	Dec.	227,655	107,335	100,758	22,162	22,168	12,442	6,577	13,790	106,530	74,634	30,236	1,660
2013	Jan.	225,506	106,485	100,010	22,445	21,785	12,124	6,475	13,650	105,371	73,864	29,898	1,609
	Feb.	224,990	106,393	99,736	22,088	21,653	12,373	6,658	13,619	104,977	73,662	29,684	1,630
	March	228,362	110,037	103,297	22,372	22,220	13,586	6,740	13,637	104,688	73,524	29,511	1,653

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

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

(percentages per annum; period averages unless otherwise indicated)

Period		Deposits by households			Deposits by non-financial corporations		Average rate on total deposits
		Overnight deposits[1,2]		Deposits with an agreed maturity up to one year	Overnight deposits[1,2]	Deposits with an agreed maturity up to one year	
		Total	of which Savings deposits[2]				
2008		1.26	1.17	4.87	1.09	4.48	2.89
2009		0.63	0.56	2.74	0.50	1.65	1.71
2010		0.43	0.38	3.26	0.35	2.53	1.91
2011		0.47	0.40	4.18	0.41	3.55	2.44
2012		0.47	0.42	4.78	0.44	4.19	2.84
2010	Jan.	0.43	0.37	2.18	0.37	1.21	1.35
	Feb.	0.44	0.38	2.35	0.36	1.29	1.44
	March	0.43	0.38	2.61	0.38	1.61	1.58
	Apr.	0.43	0.37	2.98	0.36	1.71	1.75
	May	0.42	0.37	3.42	0.38	2.06	1.96
	June	0.43	0.38	3.61	0.32	3.37	2.11
	July	0.43	0.38	3.71	0.31	3.40	2.16
	Aug.	0.43	0.38	3.66	0.32	3.14	2.12
	Sept.	0.43	0.38	3.61	0.33	2.98	2.09
	Oct.	0.44	0.38	3.68	0.34	2.98	2.12
	Nov.	0.44	0.38	3.65	0.35	3.27	2.11
	Dec.	0.44	0.38	3.68	0.36	3.29	2.15
2011	Jan.	0.44	0.38	3.74	0.34	3.40	2.18
	Feb.	0.44	0.38	3.75	0.34	3.23	2.18
	March	0.45	0.39	3.76	0.41	3.39	2.21
	Apr.	0.46	0.39	3.88	0.38	3.56	2.29
	May	0.46	0.40	3.95	0.35	3.52	2.32
	June	0.47	0.41	4.10	0.42	3.38	2.39
	July	0.47	0.40	4.29	0.45	3.82	2.51
	Aug.	0.47	0.40	4.31	0.44	3.54	2.51
	Sept.	0.47	0.41	4.37	0.43	3.65	2.55
	Oct.	0.48	0.41	4.50	0.44	3.75	2.62
	Nov.	0.48	0.41	4.62	0.43	3.64	2.68
	Dec.	0.48	0.41	4.88	0.48	3.76	2.81
2012	Jan.	0.47	0.41	4.79	0.41	4.03	2.78
	Feb.	0.47	0.41	4.86	0.46	4.08	2.83
	March	0.47	0.41	4.94	0.53	4.43	2.89
	Apr.	0.47	0.41	4.96	0.47	4.37	2.92
	May	0.48	0.42	4.90	0.46	4.26	2.91
	June	0.48	0.42	5.01	0.46	4.17	2.94
	July	0.47	0.42	4.82	0.40	4.29	2.86
	Aug.	0.47	0.42	4.56	0.40	4.04	2.72
	Sept.	0.46	0.41	4.60	0.45	4.19	2.75
	Oct.	0.47	0.42	4.64	0.41	4.12	2.79
	Nov.	0.47	0.42	4.60	0.41	4.20	2.79
	Dec.	0.49	0.43	4.70	0.46	4.15	2.85
2013	Jan.	0.48	0.42	4.59	0.47	4.23	2.81
	Feb.	0.48	0.42	4.49	0.49	4.22	2.76
	March	0.49	0.42	4.36	0.44	3.95	2.72

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

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

(percentages per annum, period averages unless otherwise indicated)

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

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

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