

SUMMARY OF THE ANNUAL REPORT 2008



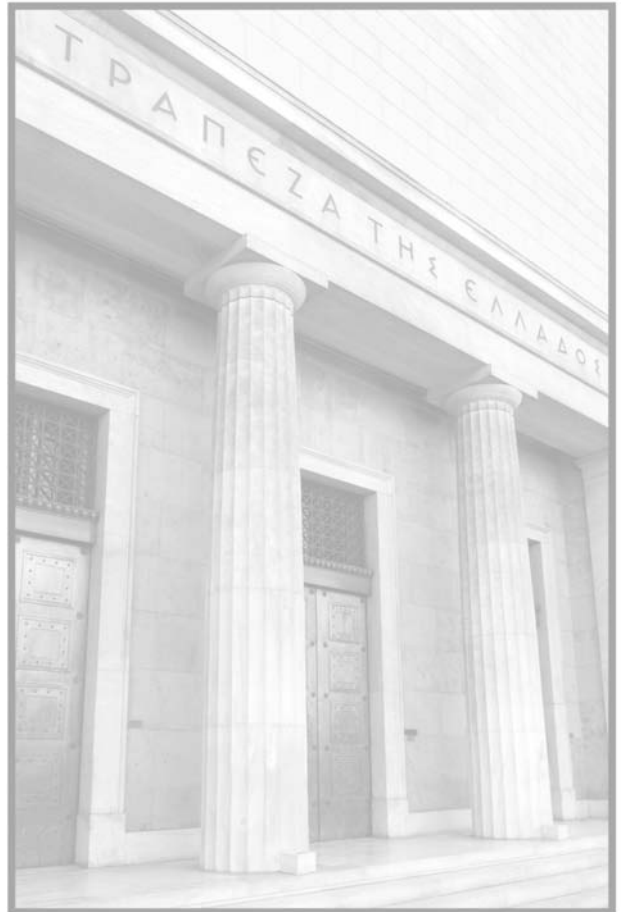
APRIL 2009



BANK OF GREECE
EUROSYSTEM

SUMMARY OF THE ANNUAL REPORT 2008

Presented to the General Meeting of Shareholders
by Governor George Provopoulos



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THE STATE AND PROSPECTS OF THE GREEK ECONOMY AND ECONOMIC POLICY CHALLENGES

I INTRODUCTION

The global financial and economic crisis has revealed the macroeconomic imbalances and structural weaknesses of the Greek economy

The global economy is in the midst of its most severe financial and economic crisis since the 1930s. The strong turbulence that started in the United States in August 2007 and spilled over to the rest of the world is continuing for the second year running, with occasional episodes of intensification. The persistence of the financial turmoil has caused the global outlook for output, employment and trade to deteriorate rapidly, especially during the last few months. At the current phase, **developments in the financial and the real sectors of the global economy form a negative feedback loop**, whereby the dysfunctioning of financial markets squeeze activity and, in turn, the fall in economic activity further undermines the capital position of the financial sector and its ability to finance enterprises and households. **Exit from this vicious circle will not be easy or fast.**

The global crisis has negatively affected the Greek economy, especially since the intensification of the crisis in September 2008. The growth rate of the Greek economy, which had been steadily high since the second half of the 1990s, decelerated markedly in 2008, while **economic activity is projected to stagnate in 2009.** The financial crisis is affecting economic activity in Greece in two ways: on the one hand, the tightening of banks' credit standards for lending to enterprises and households is restricting the supply of loans and, on the other hand, the significant weakening of consumer and business confidence and the resulting lower propensity to consume and invest in housing and the higher risk aversion are causing credit demand by both households and enterprises to decline as well. The world economic crisis also has a direct impact on the Greek economy, since the ongoing contraction in global economic activity and the decrease in world trade volumes have hit Greek exports of goods as well as services, notably shipping and tourism.

The financial and economic crisis has made the macroeconomic imbalances and structural weaknesses of the Greek economy more visible.

First of all, the favourable factors that had supported strong growth rates for a number of years, fostering complacency with regard to the economic outlook, have lost their momentum. In addition, market concerns have heightened, as indicated by the yield spreads between Greek government bonds and the corresponding German securities. In particular, markets are concerned about Greece's fiscal deficit which has been well in excess of 3% for two consecutive years (triggering a re-initiation of the excessive deficit procedure against Greece), as well as about the country's high public debt-to-GDP ratio (over 95% in 2008) and the failure of successive governments to achieve a sustainable fiscal adjustment, despite the strong growth performance seen since the mid-1990s. Another source of concern are the extremely high levels of the current account deficit, attributed, to a large extent, to the insufficiency of structural measures taken at the time with a view to reforming the public sector and enhancing the production base and productivity. As pointed out in the latest Report on Monetary Policy of the Bank of Greece (February 2009), **there is an urgent need for a credible medium-term plan that will include bold but necessary reforms, with fiscal consolidation being the top priority.**

As for the key aggregates of the Greek economy, annual **GDP growth** fell from 4.0% in 2007 to 2.9% in 2008 (and 2.4% in the fourth quarter). According to Bank of Greece estimates, economic activity will stagnate in 2009 and even negative annual rates of change cannot be ruled out in the course of the year, while developments could turn out even worse if global economic conditions deteriorate more than expected (causing a stronger than expected drop in Greek exports). However, Greek GDP increased more than the euro area average in 2008 and, though projected to stagnate in 2009, would fare better than area-wide GDP which is expected to decrease signifi-

cantly. **Employment** growth decelerated only slightly in 2008, and the rate of **unemployment** decreased, but in 2009, employment is projected to fall and the rate of unemployment to rise. The average annual **inflation** rate in 2008 rose considerably above the level of 2007 (4.2% compared with 3.0% respectively), but was very volatile in the course of the year, dropping to 2.0% in December, before slowing down further in the first quarter of 2009. The decline in crude oil and food commodity prices is expected to exert a continued dampening effect on the annual rate of inflation, which will level off at an average 1.5% or even less (1.1-1.2%) this year. Core inflation, however, which was relatively high in 2008 (3.4%), is expected to decrease less than headline inflation in 2009 and to remain higher than the corresponding euro area measure. Consequently, **the price competitiveness of the Greek economy will erode further.**

2 THE INTERNATIONAL AND THE EUROPEAN ECONOMIC ENVIRONMENT

2.1 DEVELOPMENTS AND PROSPECTS

A decline in world GDP and a sharp decrease in world trade volumes are expected in 2009

After breaking out in the United States in August 2007, the turmoil in the international financial markets developed in the course of 2008 into the most severe financial crisis since the 1930s, with adverse repercussions on global economic activity and world trade. By early 2008, the spread of the financial turmoil to the rest of the world, combined with the further surge in commodity prices (mainly crude oil and food), had led to a slowdown in economic growth in most advanced economies. However, since mid-September 2008, when the global financial crisis intensified after the bankruptcy of a major US investment bank, global economic conditions deteriorated further at a rapid pace, reflected in a generalised mistrust in the financial system, a shortage of credit supply, a dramatic drop in stock prices and

– in some economies – house prices, as well as a sharp deterioration in business and consumer confidence worldwide. Despite **the important and unprecedented measures taken by governments, central banks and international organisations** in order to contain systemic risks and restore financial stability, the financial crisis and its impact on the real economy spread to almost every part of the world. By the end of 2008, most advanced economies were already in or on the brink of recession, while the emerging or developing economies – especially those with substantial macroeconomic imbalances – had also been considerably affected.

Global economic activity contracted further in early 2009, while the forecasts of international organisations have been repeatedly revised downwards. **According to the latest IMF estimates,¹ global GDP will decrease, for the first time since the 1940s, by between 0.5% and 1.0% in 2009, while according to OECD estimates² world³ GDP will shrink by 2.7% and world trade growth will plummet (-13.2%).** The IMF also forecasts a gradual recovery of the global economy in 2010, subject to certain conditions, such as effective policy action to support financial stability and improve credit conditions, sizeable fiscal stimulus, a starting recovery in the US housing market and continued low levels of oil and other commodity prices. Global inflation was very volatile in 2008, rising sharply in the first half of the year, mainly due to higher food and energy prices, before dropping markedly in the second half as a result of the subsequent fall in these commodity prices and weaker global economic activity. Inflation will continue to decline in 2009, reflecting lower commodity prices and a buildup of spare capacity in the world economy.

- In **the advanced economies**, growth weakened markedly in 2008, dropping to 0.8% from 2.7%

¹ IMF, Global economic policies and prospects, 19 March 2009, note prepared for the meeting of G20 Finance Ministers and Central Bank Governors of 13-14 March 2009.

² OECD, Economic Outlook - Interim Report, 31 March 2009.

³ OECD countries plus Brazil, Russia, India and China, representing 82% of world GDP.

in 2007. Domestic demand in these economies was adversely affected by worsening credit conditions, the erosion of real incomes as a result of high inflation (roughly until mid-2008, when fuel and food prices started to decline significantly), lower household asset valuations (on account of the substantial fall in equity prices worldwide and in house prices in several economies during 2008), as well as a generalised decline in investor and consumer confidence. External demand was affected too, as most emerging and developing economies also experienced a significant economic downturn in the course of 2008. The macroeconomic outlook for the advanced economies is generally bleak, with economic activity projected by the IMF to contract by between 3% and 3.5% in 2009 (the worst performance in post-war history) and to stagnate or increase only slightly (no more than 0.5%) in 2010. There is a considerable risk of an even stronger decline and then a slower recovery, particularly if the global financial system should experience stronger strains and if consumer and investor confidence were to worsen. (It is worth noting that, according to the OECD, the GDP of its member countries as a whole is projected to contract by 4.3% in 2009 and by 0.1% in 2010). Inflation in the advanced economies is estimated to have increased on average to 3.5% in 2008 from 2.1% in 2007, despite its significant decline during the last months of 2008. In 2009, subdued oil and food prices, combined with sluggish aggregate demand, are expected to contribute to very low or even negative inflation rates. According to the IMF, there is even a risk of a deflation for relatively long periods in certain advanced economies, in particular Japan and the United States.

- In the **euro area**, GDP growth weakened substantially in 2008 to 0.8% (from 2.6% in 2007), as the impact of the global financial crisis became more visible from the second quarter onwards. According to the latest IMF estimates, euro area GDP will shrink by 3.2% in 2009 (by 4.1% according to the OECD), reflecting the collapse in external demand, the impact of housing market corrections in some

member states, and tight credit conditions. The impact of falling external demand will be stronger in the euro area than in the United States, and policy stimulus will be more moderate, though “automatic stabilisers” are substantially larger in the euro area. Euro area inflation stood at 1.6% in December 2008 and is expected to fall to lower or even negative levels in the course of 2009 (according to preliminary estimates, 0.6% in March), mainly reflecting the impact of falling fuel and food prices.

- In the **emerging and developing economies**, GDP growth remained relatively strong in 2008 (at 6.1%, down from 8.3% in 2007), but decelerated markedly in the fourth quarter, mainly reflecting the shrinking of these countries’ export markets among advanced economies. The slowdown was more pronounced among the economies that rely largely on the exports of oil and other commodities, the prices of which have plummeted since mid-2008. According to the IMF, the growth rate of emerging and developing economies is projected to recede further to between 1.5% and 2.5% in 2009 (according to the OECD, GDP growth will drop to 6.3% in China and to 4.3% in India, from 9.0% and 6.0% respectively in 2008, while in Russia GDP is projected to contract by 5.6%, after a 5.6% increase in 2008). Inflation in the emerging and developing economies fell as a result of the drop in oil and other commodity prices, remaining, however, considerably higher than in the advanced economies.

- The **emerging economies of Southeastern Europe** – which, in contrast with other emerging economies, have high current account deficits – are more vulnerable to the deteriorating international environment, as they are adversely affected not only by falling external demand, but also by the sharp contraction in capital inflows and higher foreign borrowing costs. These developments have contributed to a decline in investor confidence and to downward pressure on foreign exchange markets and – to a larger extent – on stock market val-

uations. Particularly affected are Croatia, Romania and Bulgaria. It is encouraging that the International Monetary Fund, the European Bank for Reconstruction and Development and the European Union have already provided financial support to the countries of Southeastern Europe.

2.2 INTERVENTIONS IN THE FINANCIAL SYSTEM AND MACROECONOMIC POLICY MEASURES AT THE INTERNATIONAL LEVEL

The international community has taken coordinated, bold and unprecedented action

The severity of the global crisis has prompted the international community – governments, central banks, supervisors and international organisations – to take coordinated, bold and unprecedented action. These interventions involved, on the one hand, the provision of liquidity and measures to support and consolidate the financial system and, on the other hand, direct demand-enhancing measures, in order to break the vicious circle of developments in the financial and the real sectors of economy. Meanwhile, discussions are intensifying in view of effectively reforming the international financial system so as to ensure financial stability in the future. Important decisions on this issue were adopted at the last G-20 meeting on 2 April.

- **Financial sector measures** have primarily focused on providing liquidity, guarantees and capital injections to the banking system, thus helping to avert a credit crunch and panic among depositors and creditors due to a lack of trust in financial institutions. However, the interventions in the financial system have, at least so far, been direct responses to very severe crisis episodes and to disruptive events in the money, credit and capital markets rather than systematic measures aimed at addressing the deeper problems of financial institutions and at consolidating them on a sustained basis. Thus, a general lack of confidence in the balance sheets of large financial institutions still persists and will dissipate only gradually, after

decisive measures for impaired asset relief and recapitalisation have been taken.

- As for the establishment of a **new international financial architecture**, the IMF and the Financial Stability Forum have made important proposals, the implementation of which has been fostered by the decisions of the G-20 summit on 2 April 2009. At the European level, the recommendations contained in the Report of the de Larosière group are particularly worthy of note.⁴ The main lines of the proposed reform are the following:⁵

- expanding the scope of regulation and supervision to encompass the entire financial sector, and enhancing transparency;

- strengthening macro-prudential supervision, with a view to averting systemic risks;

- reducing the pro-cyclicality of both the credit system and the regulatory framework of supervision;

- closer supervisory cooperation at the international and the European levels. At the **European level**, the European Central Bank is prepared to assume an enhanced role. At the **international level**, the G-20 leaders decided to set up a Financial Stability Board (FSB) to succeed the Financial Stability Forum, with significantly increased responsibilities and an enlarged composition. The FSB will work with the IMF, whose role and available resources are being reinforced.

- **Measures to support demand** include, first of all, **drastic cuts in the key interest rates of major central banks** to historically low levels (especially after the intensification of the financial crisis in September 2008) and the **effectively**

4 The High-Level Group on Financial Supervision in the EU chaired by Jacques de la Larosière, Report, Brussels, 25 February 2009.

5 See “G-20 Finance Ministers’ and Central Bank Governors’ Communiqué”, 14.3.2009, “Presidency conclusions” of the Brussels European Council, 19-20.3.2009, and “G-20 Final Communiqué”, 2.4.2009. See also, Jean-Claude Trichet, “What lessons can be learned from the economic and financial crisis?”, 17.3.2009, and Lucas Papademos, “Strengthening macroprudential supervision in Europe”, 24.3.2009 (both speeches are available on the ECB’s website).

unlimited provision of liquidity. The key interest rate cuts, however, have not fully translated into lower rates for loans to households and businesses, as banks have tightened their credit standards. These difficulties have led several central banks to take “non-standard” measures to boost demand, including interventions in non-bank financial markets and direct financial support to enterprises.

- In the same direction, **fiscal policy stimulus packages** have been introduced by governments in most of the advanced and emerging economies – of course, those whose low starting levels of deficit and debt allow them to do so. The discretionary fiscal stimulus provided by governments in advanced economies is estimated by the IMF at 1.6% of their GDP in 2009 and 1.2% in 2010, while in the large emerging economies among G-20 countries the respective percentages should amount to 2.0% and 1.4% (with a sizeable contribution from China). The magnitude of stimulus provided varies significantly across economies. The countries of the EU have generally opted for a smaller fiscal stimulus, partly because the size of their “automatic fiscal stabilisers” is larger compared with countries such as Australia, Canada, Japan and the United States. Overall, the IMF estimates that the government deficits of advanced economies will rise from 4.1% of GDP in 2008 to 6.7%⁶ in 2009 and 7.6% in 2010, thus considerably supporting demand. At the same time, most governments have recognised the existence of risks to the sustainability of their fiscal positions and are already preparing for gradual deficit reductions in the context of their medium-term fiscal policy planning, taking into account both the higher expenditure entailed by the crisis and the longer-term budgetary implications of population ageing.

2.3 THE MONETARY POLICY OF THE ECB AND THE INTERVENTIONS OF THE EUROSISTEM IN THE EURO AREA MONEY MARKET

The monetary policy of the ECB and the provision of liquidity by the Eurosystem have been key to

ensuring price stability, supporting economic activity and stabilising the financial system

The Governing Council of the ECB determines the level of key interest rates with a view to achieving the Eurosystem’s primary objective of price stability in the euro area over the medium term, defined as an annual inflation rate of below but close to 2%. The progressive withdrawal of monetary accommodation, which had started in December 2005 and involved nine increases in key interest rates by 25 basis points each, lasted until the third quarter of 2008. Since October 2008, **the Governing Council of the ECB, taking into account the gradual easing of inflationary pressures, has lowered its interest rate on main refinancing operations on six occasions (by a cumulative 300 basis points)**, bringing it to 1.25% on 2 April 2009. Several other central banks also proceeded to a gradual monetary easing during the same period.

Underlying the decisions to reduce the key interest rates was the assessment of the ECB Governing Council that the intensification of the financial turmoil since mid-September 2008 has had considerable negative effects on aggregate demand over an extensive period of time, and has thus contributed to containing inflationary pressures. In addition, declining commodity prices also contribute to the easing of inflationary pressures, while inflation has been on a downward path since August 2008. At the same time, the growth rates of monetary and credit aggregates continue to decline.

Regarding the outlook for price developments, the Governing Council expects that, after the recent reductions in key interest rates, price stability will be maintained over the medium term. According to the latest ECB staff macroeco-

⁶ According to IMF calculations, the US budget deficit will come to 7.7% of GDP in 2009, excluding the cost of financial sector support measures (estimated at 5.7% of GDP). Hence, the IMF estimates the total US fiscal deficit at 13.4% in 2009 (and the OECD at 10.2%). Moreover, according to calculations by the US Congressional Budget Office, the government deficit, this year, should reach 13.1% of GDP (Congressional Budget Office, A Preliminary Analysis of the President’s Budget and an Update of CBO’s Budget and Economic Outlook, 20 March 2009).

conomic projections, which, however, were finalised before the last interest rate cuts, average annual inflation should fall to between 0.1% and 0.7% in 2009, and to between 0.6% and 1.4% in 2010. Risks to this outlook are broadly balanced, and the inflation rate outcome will depend on developments in economic activity and commodity prices. In any case, the annual inflation rate is expected to decelerate further in the next few months and to turn negative by mid-2009, before picking up again.

Turning to economic activity in the euro area, the Governing Council of the ECB recently communicated its expectation of a recovery in the course of 2010, reflecting, on the one hand, the effect of the financial sector support packages and, more generally, the expansionary macro-economic policies implemented worldwide, and, on the other hand, the boosting impact of lower commodity prices on real disposable income and, hence, on private consumption.

Throughout 2008, the euro area interbank market experienced tensions and disruptions, which accentuated after the bankruptcy of Lehman Brothers. Among other developments, the spread between the Euribor and the expected EONIA rate widened significantly, while the volume of interbank transactions contracted. The Eurosystem addressed these developments with interventions in the money market that intensified after mid-September. The aim of these interventions was to provide liquidity to credit institutions which, albeit solvent, faced difficulties in tapping the interbank market due to the prevailing tensions. Lately, however, these disruptions have subsided and tensions in the euro area interbank market are gradually easing.

The Eurosystem's interventions have been decisive in mitigating disruptions and easing tensions. In particular, in October 2008, the Governing Council of the ECB decided, on a temporary basis and until the normal functioning of the interbank market is restored:

- to conduct liquidity-providing operations as fixed rate tenders with full allotment;

- to increase the frequency of longer-term refinancing operations;

- to enlarge the set of eligible collateral accepted in Eurosystem credit operations; and

- to broaden the set of eligible counterparties in quick tender operations.

Moreover, the Eurosystem continued, in cooperation with the Federal Reserve and other central banks, to provide liquidity in US dollars to euro area credit institutions through standard tenders and against assets eligible for monetary policy operations.

Through these interventions, the Eurosystem effectively substituted banks in the interbank market, providing ample liquidity. This development is reflected in the impressive increase in the Eurosystem's total assets by 42% between mid-September 2008 and the end of the year. The higher assets were initially in line with a rise in the outstanding amounts placed in the context of the deposit facility, associated with the temporary narrowing of the corridor formed by the interest rates on the Eurosystem's two standing facilities (i.e. the marginal lending and the deposit facilities) from early October 2008 until late-January 2009. When the narrowing of the corridor was reversed in late January 2009, the outstanding amounts under the deposit facility declined. Finally, **after early October 2008, with the provision of ample liquidity, the EONIA rate fell below the rate on the main refinancing operations.**

More generally, the monetary policy of the ECB and the provision of liquidity by the Eurosystem have been key to addressing the risk of inflation falling (on a more permanent basis) below the level that is consistent with price stability, to supporting economic activity and to stabilising the financial system.⁷

⁷ See Lucas Papademos, "How to deal with the global financial crisis and promote the economy's recovery and sustained growth", 26 March 2009 (available on the ECB's website).

3 MACROECONOMIC DEVELOPMENTS IN GREECE IN 2008 AND THE OUTLOOK FOR 2009

3.1 ECONOMIC ACTIVITY

The international crisis is affecting the Greek economy – GDP is projected to stagnate in 2009

The dramatic deterioration in the external environment has had an adverse effect on the Greek economy. The GDP growth rate fell to 2.9% in 2008 from 4.0% in 2007, mostly due to a large decline in investment. The growth rate of private consumption fell gradually to 2.2% in 2008, from 3.0% in 2007. However, private consumption remains the most important contributor to GDP growth. By contrast, residential investment shrank (-29.1%) and investment in equipment declined by 9.6%, more than offsetting the positive effect of rising private consumption on domestic demand. The change in domestic demand turned out to be negative, and the rise in GDP was mostly driven by the improved real external balance of goods and services (as imports declined markedly, while exports rose moderately) as well as by the significant (undesired) inventory accumulation. In other words, domestic demand fell, while the sum of domestic and net external demand rose but was outpaced by output, leading to a build-up of unsold stocks.

As national and international short-term indicators do not currently suggest any signs of improvement, **GDP is expected to stagnate in 2009**. Moreover, the high stocks accumulated in 2008, to the extent that they are used to meet demand during this year, could contribute to a decline in domestic output in 2009 (even assuming no change in these stocks, the contribution to GDP growth would again be neutral, in contrast with their positive impact on growth in 2008). Growth forecasts are surrounded by high uncertainty and, as already mentioned, **the evolution of activity could turn out to be even worse**, in the event of a sharper than expected deterioration in global economic conditions that would cause Greek

exports to decline more than currently expected.

Reflecting the expected further deceleration in credit expansion to households and enterprises and heightened uncertainty, the growth rate of private consumption should continue to weaken, while private investment in houses, other construction and equipment is expected to decline. Further factors that are likely to dampen private consumption are the (rather small) decline in employment and the subdued rise in incomes. Business investment should be adversely affected by weaker domestic demand and falling external demand, as well as by the drop in profitability in 2008, which is expected to continue in 2009.

Against the backdrop of the expected significant decline in world economic activity and trade volumes, Greek exports of goods, mostly directed to EU countries and non-EU Balkan countries, are expected to shrink. Moreover, a marked drop is expected in travel receipts from visitors originating from Western Europe, the United States, as well as Southeastern Europe and Russia. Transport (shipping) receipts are also projected to drop because of lower freight rates and declining trade volumes.

On the other hand, **there are also some factors that may mitigate the negative effects of the crisis on economic activity in 2009**. In particular:

- Lower oil prices imply a substantial drop in inflation, helping to raise real disposable incomes.
- Average real earnings in total economy are expected to rise by 2-2.5% (even after taking into account the observed reduction in average working time). If the drop in employment turns out to be only moderate, as anticipated, the total wage income should increase by 1-1.5% in real terms, thus supporting a 1% rise in private consumption, provided that household confidence does not decline significantly further.

- The implementation of the liquidity support plan is expected to help raise the rate of credit expansion to households and enterprises above the growth rate of nominal GDP (at current prices), which however will be low. **Clearly, the final outturn of the credit expansion rate will depend not only on supply of loans but also on the respective demand, which has weakened as increased uncertainty has depressed business and household confidence.**

- The large decline in stock prices does not seem to be exerting a significant effect on Greek household consumption. Moreover, although the prices of houses (a major component of household wealth, unlike equity shares) are expected to fall, the change in housing market valuations should not have a significant effect on consumption behaviour.

- The speeding up of the implementation of already approved public-private partnership projects and projects included into the development law but not yet completed, as well as possible large investments in the energy sector, could mitigate the decline in business investment. Moreover, public investment could be curtailed to a lesser extent than envisaged in the budget, if financing can be secured through advance payments of Community resources under the National Strategic Reference Framework or through saving on other government expenditure.

- Finally, as imports of goods and services are expected to fall significantly in 2009, reflecting a weakening in consumption demand and a drop in investment demand, the real external balance should have a neutral contribution to GDP growth (despite a projected strong decline in the exports of goods and services).

3.2 EMPLOYMENT AND UNEMPLOYMENT

Expectations of a relatively limited decline in employment, a small increase in the unemployment rate, but a considerable increase in average hours worked

The total number of employed persons rose at an average annual rate of 1.1% in 2008, compared with 1.3% in 2007. As employment growth outpaced that of the labour force (0.4% year-on-year), the unemployment rate fell to 7.6% in 2008 from 8.3% in 2007.

For 2009, the upward trend of employment is expected to come to a halt, and the number of employed persons should fall slightly. In contrast, a more marked decline is expected in average hours worked, reflecting both a cut-back on average overtime work and a reduction in regular working hours in some firms. It is estimated that the decline in the total number of employed persons will be about 0.5-0.8%, i.e. smaller than the decline in the number of wage and salary earners (-1%). It should be noted that for 35.4% of employed persons, comprising the self-employed or workers in family businesses, weak economic activity typically implies a reduction in working times (i.e. underemployment) and lower income. In this respect, in the second half of 2008 the number of self-employed grew markedly, possibly because weaker economic growth (i) encouraged necessity entrepreneurship among those who cannot find a job, and (ii) discouraged a shift of employment out of agriculture, thus supporting a marginal rise in employment in that sector.

At the current phase, **the most vulnerable groups of workers** are the unskilled and low-skilled, those with temporary employment and immigrants. Among employers, those facing particular strains as a result of **the financial and economic crisis** include construction companies, export-oriented manufacturers, enterprises engaging in import trade (mostly of capital goods and consumer durables) and tourism and financial enterprises. However, **the unemployment rate might not rise by more than 0.5-0.8 percentage point**, as the labour force is expected to show near-zero growth under the impact of a “discouraged worker effect”, whereby weak economic activity induces more and more workers to give up searching for a job and drop out of the labour force.

3.3 INFLATION

Headline inflation is expected to drop sharply, but core inflation is expected to fall only slightly

Inflation was very volatile during 2008. In the first seven months of the year, when international oil prices kept rising, the annual inflation rate reached its highest level since 1998. However, with the subsequent sharp declines in the international prices of oil and other commodities, inflation fell substantially, standing at a post-2000 low of 2.2% in December 2008. Owing to developments up until July, the average annual inflation rate in 2008 stood at significantly higher levels than in 2007 (4.2% against 3.0%). Core inflation (i.e. excluding energy and unprocessed food prices) remained at a high level in 2008 (3.4% on average), but rose only slightly compared with 2007, as demand-induced inflationary pressures weakened, while unit labour cost growth accelerated.

The annual inflation rate, as measured by the HICP, continued its downward course in the first months of 2009 (1.5% in March) and is likely to fall to about 1% or lower by mid-2009, before rising again, mostly reflecting the expected year-on-year evolution of international oil prices. **It is estimated that in 2009 the average annual rate of HICP inflation could fall to 1.5% or less (to 1.1-1.2%). Core inflation is projected to remain relatively elevated at about 2.9%**, only slightly lower than in 2008, still exceeding the euro area average. However, conditions are in place that would favour a stronger decline in core inflation. Specifically, the excess demand conditions, having weakened in 2008, will be reversed this year, and the narrowing of profit margins is expected to continue into 2009. Moreover, unit labour cost growth is expected to moderate significantly. Therefore, the inflationary effect of labour costs (as well as that of other cost components) should be weaker than in 2008. However, given that the Greek economy is still characterised by conditions of imperfect competition that distort price formation, core inflation is projected to decline less than could be possible. Of

course, these projections are subject to high uncertainty, associated with the evolution, during 2009, of commodity prices, exchange rates and — on the domestic side — demand and unit labour costs. In particular, in the event of a sharper than expected deceleration (or a fall) in domestic demand, a significant decline in core inflation cannot be precluded.

The projected deceleration in the growth of nominal earnings in 2009 and the expected, very limited, decrease in productivity mean that the growth rate of unit labour costs will decelerate and converge substantially towards the corresponding rate for the euro area as a whole, without, however, standing at lower levels than the euro area rate. This means that **the erosion of international cost and price competitiveness, which was substantial during the past eight years, will continue, even with a much slower rate than up until 2008**, reflecting an almost stable inflation differential between Greece and the euro area as a whole (and Greece's trade partners in general).

3.4 EXTERNAL BALANCE

The current account deficit soared in 2008, but will decline in 2009 against the backdrop of weakening economic activity

The current account deficit widened to 14.4% of GDP in 2008, from 14.2% of GDP in 2007. The deficit of the combined current and capital account, which corresponds to the external financing requirements of the economy (i.e. net inflows of loans, portfolio investment and direct investment), stood at 12.7% of GDP in 2008, compared with 12.3% in 2007.

The widening of the current account deficit mostly reflected the increased net fuel bill (despite a sharp fall in international oil prices in the last months of 2008), as well as higher payments for interest, dividends and profits (in order to service the increased external debt). To a much smaller extent, it also reflected a rise in the trade deficit excluding fuel and ships. These developments were only partly offset by

an increase in the surpluses of current transfers and services.

The trade deficit excluding fuel and ships continued to rise, but only moderately, in 2009. This growing deficit reflects the continued decline in international price competitiveness and, more generally in recent years, the inadequate responsiveness of domestic supply to the changing composition and growth of domestic and external demand. Nevertheless, despite a weakening in total external demand, export receipts rose considerably (according to Bank of Greece data), chiefly as a result of Greek firms' export penetration into the countries of Southeastern Europe, which continued to experience robust growth in 2008. **One factor that has supported this export activity is the extensive networks of Greek banking groups in the region.**

In 2009, the current account deficit will be significantly affected by the deterioration of the international and domestic economic environment, combined with the long-term structural weaknesses of the Greek economy, and **is expected to fall to 12.5-13% of GDP**. Specifically, exports of goods will be adversely affected by the sluggish external demand, in particular the worsened situation of export markets in the Balkans and other countries of Eastern Europe. At the same time, imports will shrink due to a sharp deceleration in the growth of domestic demand. As a net result of these developments and given the relatively higher weight of imports, the trade deficit is expected to decrease. Moreover, developments in international markets will have a significant negative impact on travel receipts, while transport receipts will be hampered by the strong decline in world trade volumes and lower freight rates.

Despite its projected decline, the current account deficit is still high and could start increasing again, once the recovery of the economy is under way, acting as a drag on growth. Therefore, it remains imperative to **implement medium and long-term policy meas-**

ures, in order to deal with the more permanent factors that drive deficit to high levels. As repeatedly pointed out, the persistently high current account deficit in recent years, partly fuelled by the Greek economy's international competitiveness losses, reflects the significant shortfall of national saving relative to domestic investment. **It is thus crucial, among other things, to improve international competitiveness through the implementation of structural reforms and the containment of unit labour cost growth, as well as to correct macroeconomic imbalances, primarily through fiscal consolidation.**

The widening of the current account deficit to high levels in the eight years from 2001 to 2008 has led to a significant deterioration in the **negative international investment position of Greece** (i.e. the net financial liabilities of the private and public sectors vis-à-vis non-residents) from -43.4% of GDP at end-2000 to -94.0% at end-2007 and -75.7% of GDP at end-2008. The considerable improvement during 2008 is exclusively attributable to the significant decline in stock prices and the resulting lower valuation mostly of portfolio investment and, to a lesser extent, of direct investment.

4 FISCAL DEVELOPMENTS AND PROSPECTS

4.1 THE GENERAL GOVERNMENT DEFICIT

The deficit exceeded 3% in 2007 and 2008, triggering the initiation of the Excessive Deficit Procedure for Greece

Fiscal policy remained expansionary in 2008. Moreover, in the last two months of the year the impact of the international financial crisis on the Greek economy had negative repercussions on public finances; as a result, the general government deficit (on a national accounts basis) exceeded the reference value of the Maastricht Treaty (3% of GDP) for the second consecutive year. Owing to these developments, **steps have been taken under the**

Excessive Deficit Procedure for Greece, as well as for certain other countries, and an official ECOFIN decision determining the existence of an excessive deficit is expected within April. As recommended by the European Commission, Greece will be invited to implement fiscal adjustment measures and, if these are considered to be adequate, the procedure will remain at the stage referred to in Article 103 (7) of the Maastricht Treaty, allowing time for the measures to yield results.

In 2008, the **general government deficit** was 3.7% of GDP, according to estimates of the Updated Stability and Growth Programme 2008-2011 (USGP) of January 2009. **However, on the basis of more recent data, this figure has subsequently been revised upwards by the National Statistical Service of Greece (NSSG) to above 4% of GDP** (the final figures will be confirmed by Eurostat on 22 April). It should be noted that the deficit target for 2008 was 1.6% of GDP, compared with a 2007 outcome of 3.5% of GDP. The cyclically adjusted deficit exceeded the headline deficit as a percentage of GDP for the third consecutive year. This indicates the size of fiscal adjustment necessary to restore the deficit to levels below 3.0% of GDP. At the same time, the primary surplus of general government (on a national accounts basis) fell from 1.3% of GDP in 2006 to 0.5% in 2007 and was reversed into a primary deficit of 0.5% in 2008.

According to initial USGP estimates, the widening of the deficit is solely attributed to the general government, the deficit of which rose by 1.4 percentage points relative to 2007 and stood at 6.3% of GDP. This increase was to some extent offset by the higher consolidated surplus of social security organisations, local authorities and other public sector entities, which improved to 2.6% of GDP in 2008, from 1.4% of GDP in 2007 (2008-2011 USGP estimates). The fact that the general government deficit overshoot the target set for 2008 is attributed both to a significant shortfall of revenues and to a marked overrun of expenditure.

According to the 2008-2011 USGP, the general government deficit (on a national accounts basis) is expected to stand at 3.7% of GDP in 2009, before falling to 3.2% in 2010 and 2.6% in 2011. This reduction in the government budget deficit is expected to be achieved through a significant increase in ordinary budget revenue (14.2%), while ordinary budget expenditure will increase by 9.3%, at almost the same rate as in 2008 (or by 12.8% and 6.7% respectively, if for comparability purposes an adjustment is made for sizeable revenue and expenditure items which appeared for the first time in 2009).⁸ It should be noted that nominal GDP growth is projected by USGP at 3.8%.

The considerable increase in ordinary budget revenue in 2009 is partly associated with the collection, during this year, of the single tax on real estate (ETAK) for both 2008 and 2009, the equalisation of the excise tax rate on heating fuel with that applying to diesel fuel (a measure first implemented for a whole year), as well as the tax measures announced in August 2008.⁹ However, meeting the revenue target is a challenging task, particularly taking into consideration the projected stagnation of economic activity in 2009. It can be reasonably expected that tax revenues, including those from VAT, car registration tax, the excise tax on fuel, the tax on stock exchange transactions and the real estate transfer tax, will be negatively affected by the weakening of economic activity. This weakening, in conjunction with the tight incomes policy in the public sector, will also bring about a decline in revenue from personal and corporate income tax. Against this background, on 5 February 2009 the minimum excise tax on cigarettes, determined on the basis of cigarette of the price category most in demand, was raised from 75% to 80% and the excise tax on alcohol was raised by

⁸ The 2009 budget forecasts were revised (downwards in the case of revenue and upwards in the case of expenditure) with the 2008-2011 USGP submitted by Greece to the European Commission on 30 January 2009, implying a general government deficit ratio of 4.9% of GDP for 2009, compared with an initial forecast of 3.5% of GDP.

⁹ Primarily the settlement of pending tax cases and tax arrears, a 20% increase in road duties, an increase in corporate tax advances, etc.

20%. Furthermore, on 18 March 2009 an extraordinary one-off tax was imposed on natural persons with a declared income of over €60,000.

As announced by the government in March 2009, primary expenditure savings of up to €500 million (0.2% of GDP) are expected to be achieved through a 10% curtailment of discretionary expenditure (transport, commission fees, operating costs, other expenses and grants). Moreover, the incomes policy in the public sector, according to which there will be no increases in civil servants' basic wages and pensions, except for extraordinary one-off allowances to low-income civil servants and pensioners (i.e. those with a monthly salary or pension of up to €1,700 and €1,100 respectively), is estimated to lead to a net expenditure saving of up to €390 million (0.15% of GDP), while the tightened recruitment policy can save another 0.15% of GDP.

4.2 THE EVOLUTION OF PUBLIC DEBT

The general government debt stood at very high levels

The continued international financial crisis revealed very clearly the risks entailed by a persistently high public debt. In 2008, the consolidated debt of general government (according to estimates included in the 2008-2011 USGP) rose to 95.4% of GDP (as revised by the NSSG), from 94.8% in 2007. **This figure, however, was subsequently revised upwards** with the Excessive Deficit Procedure notification of 31 March 2009. This evolution of the debt reflects the significant widening of the deficit and the reversion of primary surplus to a primary deficit in 2008. After an increase in 2008, the debt-to-GDP ratio is expected to rise further this year (according to the 2008-2011 USGP).

Over the last 15 years, public debt as a percentage of GDP has remained persistently high, being currently the second highest in the EU, although the conditions that prevailed

from the second half of the 1990s through to 2007 (i.e. strong growth performance, a substantial fall in interest rates up to 2005, high primary surpluses up to 2001 and significant proceeds from privatisation) were very favourable for its reduction. It should be noted **that debt remained high not only due to annual deficits, but also owing to significant “deficit-debt adjustments”**. These are financial transactions of the government which, according to the applicable rules, are not recorded in the deficit, but increase public debt.

Public debt is thus a major source of financial vulnerability for the economy. Moreover, it is the main factor underlying the large widening of the yield spread between Greek and German government bonds, particularly from the latter part of 2008 onwards, which implies higher cost of government borrowing. The weighted average borrowing cost of the Greek government rose from 3.8% in 2006 to 4.4% in 2007 and 4.6% in 2008, while it stood at 5.0% in the first quarter of 2009. More recently, it fell to 4.7% in early April, but this was solely due to a shift to the issuance of short-term securities which carry very low interest rates.

4.3 THE EXCESSIVE DEFICIT PROCEDURE FOR GREECE

The ECOFIN recommendation for the correction of the excessive deficit of Greece is expected on 24 April

As already mentioned, the Excessive Deficit Procedure has already been initiated for Greece. On 24 March 2009 the European Commission concluded that Greece, among other countries, was running an excessive deficit and recommended to the ECOFIN Council to adopt a recommendation for bringing this situation to an end. Underlying the assessment of the European Commission were estimates that the general government deficit of Greece had been in excess of the 3% reference value in 2007 and in 2008 for reasons not associated with the ongoing international crisis and was expected to remain above 3% in

2009 and to exceed 4% in 2010 on a no-policy-change basis.

In view of the existing macroeconomic imbalances and the ongoing re-pricing of risks in the financial markets, which put further pressure on the high debt burden, the Commission noted that a rapid correction of the deficit by 2010 seemed appropriate, sooner than envisaged by the 2008-2011 USGP (and also sooner than the deadlines proposed by the Commission for other countries with excessive deficits). Thus, the Commission recommended to the Council that Greece strengthens the fiscal adjustment in 2009 through permanent expenditure restraint. Thereafter, the country should implement additional permanent measures in 2010 in order to bring the headline deficit clearly below the 3% of GDP reference value, with a view to recovering competitiveness losses and addressing the existing external imbalances. Greece should also pursue efforts to control factors other than net borrowing, which contribute to the change in debt levels, and improve the collection and processing of economic and, in particular, general government data. Finally, Greece is invited to improve the quality and sustainability of its public finances and, with a view to recovering competitiveness losses and addressing the existing external imbalances, to urgently implement bold structural reforms. The adoption of the relevant ECOFIN Recommendation is expected on 24 April.

After the announcement of the assessment of the European Commission, the Minister of Economy and Finance confirmed the government's intention to reduce the deficit to below 3% in 2010 in a credible and sustainable manner. In particular, the Minister assured of the government's commitment to promoting the fiscal consolidation plan, as required by the Commission, through clearly defined and permanent expenditure restraint measures, including a prudent incomes policy in the public sector, and to fully implementing the health-care and social security system reforms already under way.

5 MONEY, CREDIT AND CAPITAL MARKETS IN GREECE

5.1 BANK FINANCING

The annual growth rate of the outstanding balance of the total financing of the economy continued to accelerate up to September 2008

After having accelerated in the period between January and September 2008, the annual growth rate of the outstanding balance of the total financing of the economy by domestic Monetary Financial Institutions (MFIs)¹⁰ weakened later in the year (fourth quarter 2008: 16.6%, fourth quarter 2007: 13.5%) and in the first two months of 2009, standing at 14.2% in February. This moderation reflected a marked slowdown in credit expansion to the private sector over the same period. By contrast, the annual growth rate of the outstanding balance of MFI credit to general government continued to rise (February 2009: 21.3%, fourth quarter 2008: 8.1%, fourth quarter 2007: -16.1%), partly reflecting higher MFI investment in government paper. (However, it should be noted that a sale of portfolio assets by one domestic MFI to an MFI of another euro area country has had a downward effect on the rate of credit expansion to the total economy and to the private sector for the first two months of 2009.)

The annual growth rate of credit to businesses and households slowed down in 2008 and will continue to decelerate in 2009

The recent slowdown in credit expansion to the private sector (non-financial corporations and households) reflected the deceleration of credit expansion to both businesses and house-

¹⁰ Total financing of the economy by domestic MFIs comprises: MFI loans to enterprises, households and general government; government securities and corporate bonds held by MFIs; and the outstanding balances of securitised loans and corporate bonds. The valuation differences arising when loans denominated in foreign currency are valued in euro, as well as write-offs effected by banks during the reference period, are taken into account in the calculation of the rate of change in total financing.

holds. This development is attributable to the impact of the financial crisis feeding into the real sector of the economy, as well as to the unfavourable outlook for economic activity. These factors add to the uncertainty of households and businesses with regard to the evolution of their incomes and profits respectively; they also increase the uncertainty of MFIs about the future creditworthiness of borrowers. It should be noting that since November 2008, based on seasonally adjusted data, the annualised monthly rate of credit expansion to the private sector has been significantly lower than the respective twelve-month rate. Furthermore, in the fourth-month period from November 2008 to February 2009, new deposits of the private sector with domestic MFIs declined by around 30% compared with one year earlier, while the ratio of net flow of financing to new deposits fell even more strongly (from 142% to 32%).

In particular, the annual rate of **credit expansion to non-financial corporations**, which had followed an upward trend since the second half of 2005, slowed down considerably from November 2008 onwards to 21.6% in the fourth quarter of 2008 and 15.3% in February 2009 (fourth quarter 2007: 20.1%). Figures for the first two months of 2009 reflect the downward impact of a sale of a corporate bond portfolio by one domestic MFI to an MFI of another euro area country; excluding this sale, the rate of credit expansion to businesses would have been 18.3% in January and 16.6% in February. The weaker credit expansion to non-financial corporations was due to a tightening in MFIs' credit standards for lending to enterprises, while demand for business loans remained virtually unchanged. The weakening is likely to continue, as banks' expectations of an increase in non-performing loans in the future should constrain the supply of new business loans, possibly also leading to the non-renewal of existing credit lines.

The annual growth rate of **credit from domestic MFIs to households** exhibited a sharp downward trend in 2008, which continued into the

first two months of 2009 and stood at 10.3% in February (fourth quarter 2008: 14.8%, fourth quarter 2007: 23.6%). The deceleration was more pronounced in the fourth-month period from November 2008 to February 2009, as the net flow of financing¹¹ fell by 72% compared with one year earlier. In particular, the net flow of housing loans in the November 2008 to February 2009 period fell by 67% year-on-year, and the net flow of consumer loans dropped by 78%. The observed slowdown is attributable to, among other things, a weakening of demand for bank loans as a result of a decrease in expenditure for house purchases or repairs, and to increased cautiousness of consumers in the face of uncertainty about the evolution of their incomes.

As a percentage of GDP, total MFI financing of households (including securitised loans) stood at 48.2% in December 2008 (December 2007: 45.6%). Excluding securitised loans, household indebtedness reached 39.9% of GDP at the end of 2008, compared with 53.2% in the euro area.

The decline in the rate of increase in the outstanding balance of MFI loans to the private sector is expected to continue. On the loan supply side, the tightening of credit standards by banks, in their effort to avert an increase in non-performing loans on account of the further weakening in economic activity and maintain a high degree of liquidity, should probably be a constraining factor. By contrast, the so far satisfactory participation of Greek banks in the government's liquidity support plan is expected to have a positive effect on the supply of loans. In addition, domestic MFIs are continuing to strengthen their liquidity through the Eurosystem's liquidity-providing operations, taking advantage of additional collateral available through loan securitisation activity, which

¹¹ The net flow of financing includes the change in the outstanding balance of financing (loans, corporate bonds, securitised loans and securitised corporate bonds). It also includes the valuation differences arising when loans denominated in foreign currency are valued in euro, as well as write-offs effected by banks during the reference period.

appears to have increased considerably, as is also the case in the euro area as a whole.

On the demand side, households' uncertainty about their future incomes and the economic downturn are expected to continue to negatively affect the willingness of non-financial corporations and households to increase their indebtedness. This should contribute to a further deceleration in the rate of credit expansion to the private sector in 2009. However, this rate is expected to remain higher than nominal GDP growth, thus providing ongoing support to domestic economic activity.

5.2 BANK LENDING AND DEPOSIT RATES – THE INTEREST RATE SPREAD

Bank lending and deposit rates have been declining in recent months – The interest rate spread has also been narrowing

In 2008, interest rates on **deposits** by households with a maturity of up to one year rose substantially, while interest rates on households' overnight deposits remained broadly unchanged. Developments in deposit rates in the course of 2008 were associated with the fact that Greek banks offered high interest rates for deposits with longer maturities in order to strengthen their deposit base. By contrast, in the first two months of 2009 the interest rates on both categories of deposits declined, as funding conditions for banks improved (partly thanks to the provision of liquidity by the Eurosystem). During 2008, the larger rise in the interest rate on time deposits relative to other categories of deposits encouraged a shift from more liquid deposits to time deposits. Thus, although the growth rate of time deposits moderated, it remains high; as a result, the share of these deposits in M3 increased. By contrast, overnight deposits continued to decline, which reduced their share in M3.

Developments in interest rates on bank **loans** to the private sector in Greece were not uniform in 2008. Interest rates on new loans showed a broadly-based decline in the last two months of

2008, which continued into the first two months of 2009. This, however, masked divergent developments in individual components, as interest rates on new loans to households were higher in December 2008 than in December 2007 and those on loans to non-financial corporations were lower. The overall decline in the interest rates of loans to businesses in 2008, which fell short of the decline in interbank market rates, was offset by an increase in interest rates in all categories of loans to households. Thus, the average interest rate on total new loans rose marginally in 2008.

The above developments mainly reflected the fact that **banks, facing difficulties in tapping the interbank market, sought to secure liquidity by offering high interest rates on time deposits, which implied that they had to keep their lending rates high as well.** Also, the credit conditions faced by Greek banks were negatively affected by an increase in the yield spread of Greek government bonds vis-à-vis German bonds. The cuts in the key ECB rates and the fall in interbank market rates did not translate into significantly lower interest rates on new loans, as their impact was partly offset by the higher risk premia required by Greek banks in the context of increased non-performing loans. By contrast, a marked debt reduction was achieved in the case of existing loans carrying floating rates.

In the **euro area**, interest rates on bank loans to households at the end of 2008 stood at a lower level than at the end of 2007, by contrast with the respective Greek rates. During the same period, interest rates on most categories of bank loans to non-financial corporations declined more strongly than in Greece. Due to these developments, the interest rate spread between Greece and the euro area widened in both categories and increased further in January 2009, primarily in loans to non-financial corporations and, to a lesser extent, in loans to households. In general, interest rates in Greece remain higher than the euro area average due to structural factors, with the largest differentials observed in the rates on consumer loans, which nevertheless are not among the highest in the euro area.

The **interest rate spread**, i.e. the difference between the weighted average interest rate of new bank loans and the corresponding rate on new deposits in Greece, narrowed by 70 basis points in 2008 (December 2007-January 2009: 75 basis points), because of a larger increase in the deposit rate than in the lending rate. The corresponding spread contracted by 45 basis points in 2008 in the euro area. The interest rate spread in Greece, despite falling more than the average figure for the euro area, remains at a higher level than the euro area average. This situation is attributable to some inherent characteristics of the domestic banking system, e.g. the relatively large number of small depositors and borrowers, the higher borrowing costs of Greek banks in the inter-bank market, the higher ratio of non-performing loans to total loans and the longer time needed for the realisation of collateral. Another important factor is the different composition¹² of both deposits and loans in Greece and in the euro area.

5.3 THE PRIMARY AND SECONDARY MARKETS FOR GOVERNMENT PAPER

Government borrowing costs increased in recent months up to March, before declining slightly in early April

The adverse impact of the international financial crisis, which became more strongly felt in the world economy during the last months of 2008, also affected the conditions that prevailed in the primary and secondary markets for government paper. **The primary market in 2008 was mainly characterised by the upward trend in interest rates and the significant increase in funds raised**, in the context of a growing government deficit and higher interest payments. The rise in government borrowing rates in the primary market continued more strongly in the first quarter of 2009 (as already mentioned, average borrowing costs decreased slightly in early April). This development is attributable to the fact that, due to the international crisis, investors were cautious with regard to the Greek economy and some other economies with significant macro-

economic imbalances and structural weaknesses. **The rise in the interest rates on government paper negatively affects the servicing costs of new securities issuance and represents an additional burden to the entire economy**, insofar as these rates influence the rates at which banks and other enterprises are financed from markets. However, despite the overall adverse environment, **in 2008 and in the first quarter of 2009 no difficulties were encountered in the implementation of the government borrowing plan.**

In the **secondary market** for government securities, i.e. the **Electronic Secondary Securities Market (HDAT)**, developments in 2008 were particularly negative, mainly characterised by a rise in yields and high volatility, as well as a considerable decline in transaction volumes. In the last quarter of the year, high uncertainty in international money and capital markets led to an upward reappraisal of risks and, in the euro area, flight-to-safety shifts to German bonds. Consequently, yields in the Greek secondary market rose amid high volatility, by contrast with German bond yields which fell to historically low levels. These developments were reflected also in the yield spread between Greek and German government bonds, which widened significantly for all maturities, reaching at the end of 2008 the highest levels since Greece joined EMU. In particular, the yield spread between the ten-year Greek government bond and the corresponding German bond at the end of December 2008 stood at 228 basis points, compared with only 29 basis points at the end of December 2007; in the first quarter of 2009, this spread initially widened further and then fluctuated to reach 243 basis points on 6 April. The yield spread widened markedly, albeit to a lesser extent, in bonds of other euro area countries, such as Ireland, Italy, Belgium, Portugal and Spain. These developments reflected variations in investor behaviour depending on each country's credit risk and fiscal position.

¹² The share of household overnight deposits is relatively higher in Greece compared with the euro area. Within loans, the share of loans through credit cards is higher in Greece, whereas this category is not so important in the euro area.

5.4 THE STOCK MARKET

A large decline in stock prices in 2008 and in the first quarter of 2009 – Lower participation of foreign investors – Funds raised through the stock market decreased considerably

The downward trend in the Athens Exchange (Athex) composite index that started in November 2007 continued at a fast pace in 2008; in the first quarter of 2009 this index fell slightly. The decline in the Athex composite index was larger than that in the Dow Jones EURO STOXX broad index. **Reflecting falling Athex stock prices, total stock market capitalisation as a percentage of GDP at the end of 2008 stood at one third of its end-2007 level (December 2008: 28%, December 2007: 86%).**

The Greek stock market was adversely affected mainly by developments in international stock markets due to increasing uncertainty among investors about the extent and duration of the financial crisis, as well as its impact on corporate profitability and on the real economy. Additional pressures on Athex stock prices came from disinvestment by foreign investors, which was partly due to repatriation of funds in order to meet obligations in their home countries. **Since October 2008 and for the first time after March 2007, the share of foreign investors in the Athex total market capitalisation has been below 50%.**

The above developments are reflected in declines both in transactions and in the amounts of funds raised. Specifically, **funds raised by enterprises were very limited in 2008, down by around 94% compared with 2007.**

6 THE STABILITY OF THE BANKING SYSTEM

The key aggregates of the Greek banking system remain fundamentally sound

The dysfunctioning of international money and capital markets throughout 2008, which led to a deterioration in the international and domes-

tic macroeconomic environment in particular after September 2008, has had a negative impact on the determinants of the stability of the Greek banking system. **At end-2008, banks' profitability and capital adequacy ratios were lower than at the end of 2007, but still stood higher than those of banks in the EU as a whole. In addition, there was a small decline in the quality of banks' portfolios and in liquidity ratios during 2008. However, the relevant ratios remain at satisfactory levels, above the regulatory minimums, while the tightening of banks' credit standards and the intensive supervisory controls by the Bank of Greece have helped maintain the soundness of the key aggregates of the Greek banking system.**

Specifically, **after tax profits** of banking groups dropped substantially in 2008 (by 42.8%) to 2.6 billion euro; excluding the non-recurrent profits recorded in 2007, the decline in profits was 34.6%. Underlying this drop in profits were the more than doubling of provisions for credit risk, the increased cost of funding and lower profits from financial operations and from investment portfolios. These developments inevitably affected return on risk-weighted assets (2008: 1%, 2007: 2.1%), return on equity (2008: 10.1%, 2007: 17.9) and the efficiency ratio (2008: 56%, 2007: 52.7%). The net interest rate margin deteriorated only slightly (2008: 2.9%, 2007: 3%). However, Greek banking groups performed better in terms of these ratios than their large euro area counterparts, which saw a sharper deterioration.

Declines were also seen in the **capital adequacy ratio** (2008: 9.5%, 2007: 11.2%) and the **Tier I ratio** (2008: 7.9%, 2007: 9.2%). These ratios were affected by valuation losses recognised in own funds, purchases of own shares by banks, write-downs on participations held by Greek banking groups due to foreign exchange valuation differences, the calculation for the first time – under the “Basel II” framework – of capital requirements for operational risk, and an increase in credit risk-weighted assets, which more than offset a decline in market risk-weighted assets. **Nevertheless, the leverage ratio**

of Greek banking groups, despite having picked up, remained relatively low (2008: 17.6, 2007: 13.2). Furthermore, capital adequacy remains higher than the supervisory minimum level and is expected to improve, mainly through the issuance of preference shares under Law 3723/2008 and through capital injections to subsidiaries of foreign banks in Greece by their parent banks.

Regarding the quality of bank loan portfolios in Greece, **the ratio of non-performing loans (NPL)** rose to 5.0% at end-2008, from 4.5% at end-2007. This development stemmed exclusively from loans to households, with increased NPL ratios for both housing and consumer loans. A small improvement was seen in the NPL ratio for loans to businesses. The NPL ratio increased with respect to loans to the countries of Southeastern Europe (including Turkey), especially in the second half of 2008. At the same time, the provision coverage ratio (i.e. the ratio of accumulated provisions for credit risk to non-performing loans) in Greece fell to 48.9% in 2008, compared with 53.4% in December 2007; the coverage ratio was unchanged, at about 100%, for Greek banks' branches and subsidiaries abroad. **The above coverage ratios and the maintenance of capital adequacy above the supervisory minimum level are expected to largely offset the impact on the quality of Greek banks' portfolios from the deterioration of the macroeconomic environment in the domestic and foreign markets where Greek banks are active.**

The lower availability of funding sources and the high cost involved caused banks' **liquidity ratios** to deteriorate. Despite increased volatility in international money and capital markets, market risk-weighted assets declined at bank and banking group level, mainly because of partial unwinding of positions entailing market risk.

The liquidity support plan is being implemented gradually

The above factors need to be viewed in the context of emerging developments and prospects, as

well as of policy measures taken at both the national and the international level aimed to restore confidence and absorb shocks from the slowdown in economic activity. In this respect, the Greek plan to support liquidity in the economy (Law 3723/2008) is gradually being implemented and is expected to further strengthen the liquidity and capital adequacy ratios of banks.

It should be recalled that Law 3723/2008 includes three measures:

- a recapitalisation scheme, whereby an amount of up to 5 billion euro will be injected to eligible banks, in exchange for preference shares to be acquired by the Greek State;
- a guarantee scheme (up to 15 billion euro), covering against remuneration new debt with a maturity between three months and three years, issued by 31 December 2009 at the latest; and
- a securities scheme, i.e. the issuance, by 31 December 2009, of special government bonds (up to 8 billion euro) to be provided to eligible credit institutions enabling them to enhance their access to liquidity, in particular through financing from the Eurosystem or from the interbank market.

By an amendment to the above-mentioned law it was stipulated that, for as long as the support measures are in place, beneficiary institutions may not purchase own shares. Also, any dividend to be distributed by institutions benefiting from the recapitalisation/issuance of preference shares scheme may only be in the form of shares.

The total amount corresponding to the above measures, namely 28 billion euro, represents 11.5% of Greek GDP in 2008. This percentage is lower than that of the *euro area as a whole* (26.5% of GDP in 2008) and of the EU-27 (around 23% of GDP in 2008), where significant variations are observed across countries and where many banks faced serious problems, which was not the case in Greece.

With regard to the implementation of this law so far, the shareholder meetings of twelve banks have approved the issuance of preference shares totalling 4.1 billion euro, eight banks have raised 4.4 billion euro through the issuance of special Greek government securities (while an amount of 1 billion euro has been approved for another three banks) and two banks have made use of the government guarantee scheme for loans totalling 1 billion euro.

The full exploitation of the possibilities offered by the plan is expected to mitigate the impact of the financial crisis on the real economy (contributing, along with the cuts in ECB rates, to a gradual reduction in banks' funding costs and supporting the supply of credit to households and businesses) and to bolster the stability of the banking system, in conjunction with the implementation of corresponding measures at the EU and Southeastern Europe level.

The pace of implementation of the plan is similar to the one observed in the euro area as a whole, where by late March only one third of the commitments for capital injections had been used and about 12% of the commitments to guarantee new bank debt had been called upon. In the ECB's view, the limited use of these guarantees may reflect a decline in credit demand or banks' desire to continue deleveraging their balance sheets. However, there are certain disincentives associated with the provision or pricing of these debt guarantees, which need to be addressed, so as to help banks finance additional lending to the private sector.¹³

In view of the increased risks associated with the weak economic environment, the high uncertainty in money and capital markets and the prevailing conditions of low liquidity and reduced profitability, the Bank of Greece continues to call upon banks to pursue appropriate policies for promoting financial stability. In this respect, banks are encouraged to make use of the liquidity support plan in order to strengthen their capital base and prevent a credit crunch. At the same time, the Bank of

Greece is closely monitoring developments on a consolidated basis (i.e. taking into account subsidiaries operating abroad) and has recommended that Greek banks with activities in the countries of Southeastern Europe (including Turkey), which are currently facing increasing risks, should carefully assess local economic conditions and the possibility of finding themselves exposed to both credit risk and exchange rate risk. Finally, the Bank of Greece has, in a timely manner, pointed out the need for increased loan loss provisioning and restraint on manager bonuses.

7 MEDIUM- AND LONG-TERM ECONOMIC PROSPECTS AND POLICY CHALLENGES

7.1 GROWTH PROSPECTS, STRUCTURAL WEAKNESSES AND MACROECONOMIC IMBALANCES

The factors that supported growth have lost momentum – In the current circumstances in Greece, a *prima facie* restrictive fiscal policy could have an expansionary effect – There are ways to support economic activity without fiscal relaxation

The growth model of the Greek economy since its entry into the euro area was not sustainable. This has become clearer after the recent worsening of the international environment. The high growth rates of the past eight years (4.1% on average in 2001-2008) were primarily driven by the benefits of euro area participation and the generally favourable international economic environment, rather than by the strengthening of the domestic production base. The strong growth performance, along with a decline in inflation (compared to the preceding period) and low medium-term inflation expectations, supported by the credibility of the monetary policy of the ECB, created in Greece a climate of certainty and security, ultimately fostering complacency. In this context,

¹³ See Lucas Papademos, "How to deal with the global financial crisis and promote the economy's recovery and sustained growth", 26 March 2009 (available on the ECB's website).

the declines in interest rates and the deregulation of the domestic credit system led to rapid credit expansion, thus boosting domestic demand. Furthermore, the participation of Greece in a strong currency area effectively eliminated exchange rate risk, which led to an improvement in foreign borrowing conditions and encouraged the inflow of funds from abroad. However, with the growth of domestic demand outpacing that of domestic supply for a number of years, inflation remained persistently above the euro area average, the current account deficit continued to widen and the external debt of both the private and the public sectors kept growing. The size and persistence of these imbalances suggested that the structural reforms implemented have not been sufficient, perhaps partly because of the complacency mentioned above.

In the current circumstances, **the deterioration of the international environment has obviously weakened further the factors that had supported economic growth in Greece. Now that the world crisis has hit the Greek economy too, there is absolutely no room for complacency.** During the period of fast growth Greece failed to implement the reforms that would have allowed its economy to deal with the current situation from a more favourable position. Therefore, a multi-annual plan must be adopted, which will include all necessary reforms that were not implemented in the past 15 years, with fiscal consolidation being the first priority. This is the only way to convince international markets of Greece's positive growth prospects, to secure reasonable terms of borrowing for both the public and the private sectors and to create the conditions for setting the growth process safely in motion once the global economy starts to recover.

In greater detail, the macroeconomic imbalances and structural weaknesses will have to be addressed with resolve by the competent authorities, in order to safeguard the prospects for long-term growth, based on a model that will rely on the strengthening of the production base and productivity through investment and

structural reforms. This presupposes, first and foremost, fiscal consolidation and wage and pricing policies that are consistent with price stability, so as to ensure macroeconomic stability. Wage and pricing policies should also contribute to improving the international price competitiveness, which is a necessary but not sufficient condition for drastically reducing the current account deficit and supporting growth and employment. In order to achieve these end objectives, bold structural reforms are needed, aimed at improving the productivity and adaptability of the economy.

The current conditions — on the one hand, the high levels of fiscal deficit and public debt and, on the other, the ongoing re-pricing of risks in world markets that has led to a sharp increase in the public sector's cost of borrowing — point to the urgent need to effectively correct fiscal imbalances in order to considerably reduce the debt-to-GDP ratio. Fiscal adjustment is also warranted in view of Greece's adverse demographic developments and prospects, which will put additional pressure on public finances from 2015 onwards. As already noted, fast fiscal adjustment is also needed in order to correct the excessive deficit situation, in line with the European Commission's recommendation, which is expected to be endorsed by the ECOFIN Council on 24 April.

Given that Greece has no room for fiscal relaxation, economic activity can, in the current adverse circumstances, only be supported by a reallocation of government spending towards more efficient uses, in order to:

- support, through targeted interventions, vulnerable social groups that are the most directly hit by the crisis; and
- enhance public investment, which is more growth-generating than other government expenditure components.

At the same time, by increasing the efficiency of government expenditure and by implementing policies conducive to a gradual elim-

ination of fiscal imbalances, Greece can gain the confidence of international markets and domestic economic agents.

Thus, a *prima facie* restrictive fiscal policy could in fact have an expansionary effect. Conversely, in the current circumstances, a *prima facie* expansionary fiscal policy would entail multiple fiscal costs – directly and in the medium run – so it would ultimately turn out to be restrictive. This circumstance must be understood by those who believe that large fiscal deficits can be a growth-inducing factor. In fact, there has never been a country that achieved sustainable growth based on chronic fiscal deficits. On the contrary, there are numerous examples of countries in which high deficit and debt levels have hampered economic growth. Moreover, in those countries that are currently implementing policies of strong fiscal stimulus – because, unlike Greece, they have the room to do so – the purpose is clearly counter-cyclical. The same countries are already considering fiscal exit strategies for reducing their deficits once the recovery is under way. In the current circumstances, however, any increase in Greece’s fiscal deficit would not even have a counter-cyclical effect, since it would lead to an outright increase in the costs of borrowing for both the public and the private sectors, thereby undermining the recovery.

A positive contribution to growth could also come from the speedy implementation of other reforms that do not entail budgetary costs but directly help to improve productivity. Notable examples are reducing red tape and strengthening competition. The European Economy Recovery Plan, which has been adopted by the European Council and has an EU-wide scope, identifies ten policy orientations for structural interventions of a direct effect (within a period of two years), which can enhance demand and support the resilience of economies. These orientations are particularly useful to Greece.

It is clear that fiscal consolidation, which will contribute to bolstering confidence in the prospects of the economy and to reducing the

cost of government borrowing, the freeing-up of resources that can be used to support the more vulnerable social groups and to enhance public investment, and structural reforms that have a quick effect and zero budgetary cost can help mitigating the effects of the crisis and speed up recovery. For this reason, these measures must have top priority in the context of the much needed multi-annual national strategy.

7.2 CORRECTING FISCAL IMBALANCES

A medium-term strategy focusing on fiscal adjustment and consolidation is required – The Bank of Greece has repeatedly submitted its proposals

The ongoing financial crisis has clearly revealed the budgetary problems of the Greek economy. As mentioned above, since September 2008 there has been a **sharp widening in the yield spread between Greek and German bonds** (for in all maturities). In the first quarter of 2009 the spread widened further and then fluctuated, before narrowing somewhat more recently. It should be noted that other countries are expected to run higher fiscal deficits than Greece in the period 2008-2010, but their bond yield spreads over Germany are smaller, as these economies are already in recession and their deficits are essentially of a cyclical nature, while their public debt is much lower.¹⁴ The widening of the spread reflects market concerns about Greece’s very high public debt-to-GDP ratio (the second highest in the EU) and failure to control fiscal deficits and achieve a sustainable fiscal position, despite the high growth rates of the past decade. It also reflects the heightened market concern about the very large external deficit, which has been rising since 2004 and is further exacerbated by the budgetary deficit, and also market disappointment about the delays in implementing structural reforms. Finally, international organisations keep on stressing the problems caused by the repeated revisions of statistical

¹⁴ For instance, in the case of Ireland, which is in a recession, the debt-to-GDP ratio at end-2007 was 24.8%.

data (especially those on fiscal aggregates) and by the fact that important categories of public sector liabilities (e.g. of public hospitals) are not fully accounted for.

The high level of public debt causes serious problems, especially when combined with other features that hamper the economy. A high public debt (a) renders public finances vulnerable to a rise in the interest rates on government borrowing; (b) considerably reduces the scope for a counter-cyclical fiscal policy; and (c) leads to a higher cost of debt refinancing. However, the worst consequence is the strengthening of debt dynamics, when a high public debt is accompanied by a rise in real interest rates and weakening economic growth, as is the case today (and was also in the 1990-1993 period). At such times, the debt-to-GDP ratio tends to increase, thus acting as a drag on growth. It is therefore very important to contain the debt dynamics immediately, because, if the debt-to-GDP ratio starts to rise again, the yield spread between Greek and German bonds could widen even more and cause additional problems to the Greek economy and further strengthen the debt dynamics.

In the medium term, the containment of fiscal imbalances requires sizeable primary surpluses (of 4.5-5% of GDP, according to indicative calculations), in order to achieve a drastic reduction in the debt-to-GDP ratio to below the Maastricht Treaty reference value of 60% within a reasonable period of time, e.g. within the next ten years. This is necessary in view of the future budgetary implications of population ageing. The medium-term planning should make it clear that sustainable fiscal adjustment is pursued with a view to changing the public finance landscape and the role of the public sector in Greece (it is worth noting that Germany is even ready to amend its Constitution to send a clear signal to the markets that, in the current conjuncture, any budgetary deviation will be temporary and will be corrected as soon as possible). A policy of sustainable fiscal adjustment will support economic growth – mainly through

strengthened confidence, lower interest rates and a change in expectations about the tax burden in the future – and will thus prove to be “expansionary”, as mentioned above. **A fiscal adjustment of such scope is feasible, provided that a part of the huge amounts of evaded tax is recovered, waste in government spending is drastically reduced and public resources are used more efficiently.**

Turning to the role of **expenditure** in fiscal adjustment, international and national experience has shown that sustainable fiscal adjustment is more likely to be achieved in a sustainable manner if it relies on a permanent containment of primary expenditure, which typically involves an increase in efficiency. At the same time, public spending should be reallocated in favour of growth-promoting components, such as education, research and development and infrastructure. In recent years, the shares of these expenditure components in GDP, and especially the share of public investment, have declined. This reallocation will improve the “quality” of public finances.

As repeatedly stressed in previous reports by the Bank of Greece, a very useful measure for controlling and containing public expenditure is to **establish numerical fiscal rules** (preferably by a law of superior status) as regards the level (either in absolute terms or in relation to GDP) or the annual growth rate of public expenditure. Such national rules complement and reinforce the respective rules contained in the Maastricht Treaty and the Stability and Growth Pact. Greece is the only EU Member State that has not enacted rules of this type.

The effectiveness of these rules is closely related with **transparency**. The targeted fiscal variables should be clearly specified, their evolution should be systematically monitored and outcomes should be measurable. The rules must be considered permanent and cover all the sectors of general government (e.g. central government, hospitals, local authorities, universities etc.), while the annual targets must be linked to corresponding

medium-term targets. Furthermore, an appropriate institutional framework for the operation of these rules is of crucial importance. Measures that fall within this category include: multi-annual budgeting, the establishment of systems for the evaluation of public expenditure during the budget process (e.g. a zero-based budget approach), timely preparation of the budget and its submission to Parliament together with all necessary information, as well as the restructuring of the budget and establishment of additional budgets for the remaining sectors of general government (social security organisations, local authorities, public hospitals, universities etc.). Another useful step would be to set up an independent body whose tasks would be to analyse and assess the budget, monitor its execution during the year and submit frequent regular reports to Parliament. In the case of local authorities, which have registered large deficits over the last fifteen years, an “internal stability and growth pact” should be established between such authorities and central government and, at the same time, effective control mechanisms should be put in place.

Together with the containment of expenditure, the hardest possible effort must be made in order to **curb tax evasion**. The size, intensity and the social repercussions of this phenomenon are so huge that a drastic course of action is imperative. Curbing tax evasion could substantially increase government revenue and thus help reduce deficits. The tax evasion problem is of a structural nature, and its resolution requires systematic efforts, consistency and continuity, a broader social consensus and cooperation among many agencies and government services. Tax evasion can take various forms, depending on the category of tax, the type or scale of economic activity (e.g. small or large enterprises) or on the taxpayer’s employment status (e.g. salaried worker, self-employed, etc.). This is why the problem cannot be addressed by any single measure alone. Rather, it requires a whole set of measures, as well as the cooperation of all the parties involved.

The size of tax evasion is determined, apart from the marginal tax rate faced by taxpayers, by two further factors: the chances of being caught and the severity of the penalty imposed in such cases. Both factors are within the control of the tax authorities. In Greece, penalties for tax evasion are high and sometimes disproportionate to the amount of tax evaded. It would seem appropriate to restore some sort of proportionality between the seriousness of the infringement and the relevant penalty. However, the problem is that the likelihood of tax evasion cases being detected and punished is almost zero, owing to the inefficiency of the relevant services and to the complexity of tax regulations that favours non-transparent practices. Furthermore, some tax evaders argue that the tax system is unfair or that tax revenue is not properly managed. These perceptions favour extensive tax evasion.

Any attempt to combat tax evasion should start by improving the tax-collecting mechanism and by introducing tighter tax controls. The chances of tax evasion cases being detected and punished must by all means be increased. This requires, among other things, the abolition of the continuous “arrangements” for the settlement of pending tax cases and other tax amnesty measures, as non-compliers tend to incorporate this practice into their expectations. Dealing with tax evasion and successfully restraining expenditure would enable the creation of a stable tax system, thereby contributing to a better business environment. It should be noted that the extremely extensive tax evasion poses obstacles not only to the execution of the budget but also to the pursuit of a proper and fair tax policy. Designing an effective tax system that would distribute the tax burden in an equitable manner among taxpayers presupposes that there is no tax evasion. Otherwise, and as long as tax evasion remains unaddressed, this situation often leads to tax measures of a short-term revenue-enhancing scope which are met with opposition as they fail to deal with the real problem, which is the inefficiency of the tax collecting mechanism.

As already stressed¹⁵ by the Bank of Greece, *no tax measure can substitute for a sound and efficient tax-collecting mechanism.*

Alongside efforts to reduce tax evasion, there is a need for a programme to deal with **social security contribution evasion**. As in the case of tax evasion, measures to combat contribution evasion should seek to improve the contribution-collection mechanism. However, the most important step towards reducing contribution evasion is **linking contributions and benefits more closely**, in order to strengthen the incentives for paying contributions.

7.3 ADDRESSING THE FUTURE IMPLICATIONS OF POPULATION AGEING – THE PENSION SYSTEM

A comprehensive and effective reform of the social security system is a very complex and challenging task with important social implications – The international experience is valuable in this respect

Apart from the extensive contribution evasion, which must be dealt with as soon as possible, another important issue refers to the budgetary impact of population ageing. This impact is expected to be particularly strong in the case of Greece, because of its adverse demographic developments and prospects and certain features of its pension system. It is estimated that the future (implicit) liabilities of the pension system exceed the current level of nominal GDP. **The measures taken in 2008** focused on the unification of the numerous pension funds and **are an important step** towards a reform of the system. Clearly, the social security issue is a complex problem not directly related to the ongoing financial crisis; it is of a structural nature and calls for a comprehensive, far-reaching approach.

According to national accounts data, pension outlays **in 1970 corresponded to 6.2% of GDP, rising to 6.7% by 1980 and 10.4% by 1990.**¹⁶ **Furthermore, according to the new projections of the National Actuarial Authority (which are included in the Updated Stability and Growth Programme of January 2009), this percentage,**

from 11.7% in 2007, will reach 13.2% in 2020, 17.1% in 2030, 21.4% in 2040 and 24.0% in 2050.¹⁷ Meanwhile, according to the demographic projections of the NSSG,¹⁸ **the number of people aged 65 and over as a ratio to people aged 15-64 was 26.8% in 2006 and is expected to reach 37.9% in 2030 and 58.6% in 2050.**

It is obvious that these prospects call for a comprehensive reform of the social security system, in order to ensure expenditure control and medium-term fiscal sustainability, on the one hand, and to secure adequate pensions (and health care) in the future for a growing part of the population, on the other. At the same time, the reform should contribute to supporting economic growth and increasing the labour force.

The reform of social security, and of the pension system in particular, is not an easy task, given the system's interactions with the labour market, the capital market, income (re)distribution, economic growth and public finances. This is why a comprehensive reform will have to take into consideration and address a wide range of issues.¹⁹

- Regarding the **labour market**, account has to be taken of the effects of the reform on labour supply, workers' retirement decisions, labour mobility, as well as the impact on investment in human capital and productivity growth. Another crucial question is whether a higher statutory retirement age would lead to a higher effective retirement age. **It is well-known that the average effective retirement age is well below the statutory retirement age.**

¹⁵ Bank of Greece, *Monetary Policy 2008-2009*, February 2009, Box I.1.
¹⁶ These estimates are partly based on data from the Social Budget 2006.

¹⁷ The USGP notes that "the projections for pension outlays do not take into consideration a large part of the provisions of the recent reform of the pension system (Law 3655/2008), due to methodology, data and time limitations". Therefore "the projections do not fully reflect the effect of the legislation in force and may overstate the increase in pension outlays". More detailed information on the positive effect of the reform of the pension system will be available by end-2010.

¹⁸ NSSG, Vital statistics of Greece (Births – Marriages – Deaths), Life Tables, Demographic Projections in <http://www.statistics.gr/>.

¹⁹ This section draws partly on papers presented at the conference "Pension Reform, Fiscal Policy and Economic Performance" held by the Banca d'Italia in Perugia (26-28 March 2009).

- A social security reform will influence workers' saving and investment decisions (and options) and thereby the **capital market**. Furthermore, the issues entailed by a potential shift towards a funded pension system, e.g. the need for efficient management and high returns, enhanced supervision of funds, etc., will have to be dealt with. A question increasingly raised lately is whether the ongoing financial crisis has weakened the arguments in favour of funded-type systems.

- As regards **income redistribution**, it is worth exploring whether the reform will have intra-generational or cross-generational redistributive effects. Policy options in this respect involve choices concerning the relationship between “effort” and “reward”, i.e. contributions and pension benefits respectively, and the relative importance of the “pay-as-you-go” and the “welfare” component of the pension. As mentioned in a previous report by the Bank of Greece,²⁰ a closer link between the insurance effort and the level of pension will automatically reduce contribution evasion, especially in certain sectors and occupations. Each insured person should have an “account”, the balance of which would be communicated to him/her regularly (e.g. biannually). It should be clear to all insured persons, from the beginning of their working lives, that the higher the balance on their account, the higher their pension. In this context, the welfare component of the pension should stop being paid by the insurance funds and should instead be covered by the budget. However, this welfare component should not act as a disincentive for the insurance effort. This would improve the transparency of the system and the sense of justice, thus further reducing contribution evasion, while the insured persons will have an incentive to stay in the labour market longer (which, in turn, considerably supports the sustainability of the system) and be more productive. Such a development would have a beneficial effect on long-term economic growth.

The above considerations confirm the view that the reform of the system is an extremely complex and challenging task, with very serious social implica-

tions. International experience offers valuable lessons regarding the factors and the conditions for a successful reform of the social security system. The most important are the following:

- The more the reform is delayed, the more painful the measures will be for the insured.²¹

- The successive piecemeal reforms create expectations of further changes, resulting in high uncertainty for the future, “reform fatigue” and, in a counter-productive manner, lower labour force participation among persons aged over 55. Workers who are close to retirement age opt for early retirement, so as to avoid the risk of losing certain benefits.

- Interplay with the labour market, the capital market and growth prospects have to be taken seriously into consideration.

- It is important that reliable and transparent measurements and projections regarding demographic trends and social security statistics become available regularly and frequently. Awareness of the size and complexity of the problems makes the necessity of reforms more understandable.

- If it is decided to develop a second and a third pillar²² (with mostly funded characteristics), the interactions between the pillars will have to be taken into consideration. The high compulsory contributions under the (perhaps unfunded) first pillar limit the possibilities and the desire of the insured to participate in the second pillar.

- An increase in the effective average retirement age, which is undoubtedly the most effective parametric change, requires a greater flex-

²⁰ See *Monetary Policy 2008-2009*, February 2009, Box II.1.

²¹ See Bank of Greece, *Monetary Policy 2007-2008*, February 2008, p. 154.

²² The first pillar is that of the main pension. The second pillar concerns the pensions that are related to the form of employment, and its funding comes exclusively from the insured and their employers. The third pillar concerns the individual saving choices of the insured and funding is effected through insurance firms, e.g. through individual insurance programmes or individual pension accounts with clearly funded characteristics.

ibility in the labour market and other incentives for older workers to remain in the labour force. These measures include: more favourable working time arrangements, a higher marginal increase in the level of pension for each additional year of work, etc. At the same time, any changes to the retirement age limits should be accompanied by appropriate policies aimed at retraining employees and reducing the cost for employers, in order to encourage demand for older workers.

It goes without saying that such a serious reform, which has a profound impact on the lives of the insured, will require the **widest possible social consensus**. For this reason, the public should be given the full truth about the problems facing the social security system and, consequently, the need for an extensive reform. The objectives, specific measures, timing, extent and implications of any change will have to be made publicly known, as accurately and as transparently as possible. Furthermore, any parametric changes to the system have to be phased in over a transition period as appropriate, in order not to invalidate the planning of workers who had based their decisions on the current system and – due to age constraints – do not have sufficient time to adjust their decisions to the new conditions.

7.4 STRUCTURAL REFORMS FOR INCREASING THE EMPLOYMENT RATE AND IMPROVING PRODUCTIVITY AND COMPETITIVENESS

Reforms should be aimed at long-term sustainable development – Structural problems can also be tackled by following the broad guidelines of the Lisbon Strategy

The far-reaching reforms that the Greek economy needs should contribute to effectively improving productivity and competitiveness and raising the employment rate, and should facilitate full consolidation of public finances. Moreover, reforms should be aimed at long-term sustainable development – i.e. development that does not destroy, but respects and protects the environment.

In recent years, the gap between per capita income in Greece and the fifteen older EU Member States (EU-15) has narrowed considerably. However, there still is a gap, which is attributable to Greece's lower employment rate and lower productivity per employee.

The employment rate differential between Greece and the EU-15 reflects lower employment rates for the young, women and older persons. Specifically, the employment rate:

- regarding the **young**, is partly associated with the longer time spent in tertiary education;
- regarding **women**, is also associated with inadequate childcare facilities and arrangements that help reconcile work and family; moreover, it reflects early retirement arrangements (which, however, tend to be reduced); and
- regarding **older persons**, reflects early retirement arrangements (in particular for those engaging in arduous and unhygienic occupations).

It should be noted that the employment rate, which is lower than in the EU-15, is measured on the basis of the *number of employed persons*. By contrast, average hours worked in Greece are more than in the EU-15, both because part-time employment is less common and because the average working hours of full-timers are longer. The latter phenomenon is partly attributable to the composition of economic activity and the organisation of firms (the relatively large number of small firms, in particular in the tourist sector, which are based on family employment).

The **productivity** differential is particularly high when measured on the basis of productivity per hour worked (about 30% lower in Greece), and is attributable to the different composition of output (lower share of high-technology and high-added value activities in total output) and lower productivity of individual sectors, relative to the EU-15.

The factors that contribute to **lower productivity** include:

- the lower penetration of new technologies in most subsectors;
- low vocational and on-the-job training; and
- the inefficiency of public administration.

With particular regard to the **penetration of new technologies**, Eurostat data show that only 68% of small firms (with 10-49 employees) in Greece have access to broadband networks (84% in the EU-15), while only 10% of firms using computers train their staff in the use of new technologies (18% in the EU-15). Besides, the broadband penetration rate remains low in Greece: the number of broadband network subscribers as a percentage of the total population lags behind the corresponding figures for all the other EU-15 countries as well as for other countries with lower per capita income (such as Hungary or the Czech Republic). Finally, broadband networks in Greece are almost exclusively based on ADSL technology, while the use of optic fibres, which offers clear advantages, is at an early stage in Greece.

Regarding on-the-job and vocational training, Eurostat data show that the hours spent for on-the-job training in Greek firms (irrespective of size) are less than in all the other EU-15 countries.

Finally, concerning the **inefficiency of public administration**, according to a **World Bank** survey and on the basis of the arrangements in force until mid-2008, Greece ranks 96th among 181 countries in terms of the “ease of doing business” index. In fact, it is the last among the OECD countries and lags considerably behind the other EU Member States.²³ This index measures the procedures and costs required in various stages of business activity. The procedures that are recorded in this survey and concern the setting-up and the operation of businesses include some that could be simplified at no cost. An interesting attempt to map “mal-

administration” was made in the latest annual report of the **Greek Ombudsman**.²⁴

Tackling the aforementioned structural problems can be achieved by taking into account the broad policy guidelines of the **Lisbon Strategy**, which is binding upon all EU Member States. The central objective of this strategy is to enhance the competitiveness of European economies. The main policy orientations of the strategy are:

- **Consolidating the public sector and increasing its efficiency.** The European Commission, in its recent annual recommendations to the EU Member States²⁵ on the implementation of the Lisbon Strategy structural reforms, recommends that Greece should – in addition to promoting fiscal consolidation – implement reforms in order to (a) modernise its public administration by building up effective regulatory, control and enforcement capacities; and (b) cut red tape and simplify the regulatory environment of business firms. Last October, in its *Monetary Policy – Interim Report*, the Bank stressed that improving the business environment and the tax collecting mechanism is also directly connected to combating corruption. It is obvious that these reforms can contribute to improving productivity.

- **Enhancing the productive base through investment.** In addition to increasing public administration efficiency, cutting red tape and simplifying the business environment, an improvement in the quality and efficiency of investment could also be achieved through reforms aimed to support research and development and through a more efficient use of resources available from the Structural Funds. Strengthening competition can also help in this direction (see below).

²³ See World Bank, *Doing Business 2009*, September 2008, Table 1.3.

²⁴ Press release of 26 March 2009. For the full text (Ombudsman, *Annual Report 2008*), see www.synigoros.gr.

²⁵ European Commission, *Implementation of the Lisbon Strategy Structural Reforms in the context of the European Economic Recovery Plan – Annual country assessments: Recommendation for a Council Recommendation on the 2009 update of the broad guidelines for economic policies of the Member States and the Community and on the implementation of Member States’ employment policies*, COM(2009) 34/2, 28 January 2009.

- **Raising the employment rate and constantly improving the quality of human capital.** According to the **European Commission**, priorities include strengthening active labour market policies, tackling undeclared work, reducing the tax burden on labour, modernising the employment protection legislation, speeding up reforms on education and lifelong learning and allowing for a smooth transition into employment. Similar recommendations on education are contained in the **OECD's** recent report.²⁶ The OECD recommends that the government should reduce over the medium term (when fiscal conditions allow) the tax wedge, i.e. employer and employee social security contributions and income tax on wages. (The bigger the tax wedge, the bigger the gap between the wages offered by employers and the wages demanded by job seekers, leading to lower employment.) The OECD recommends that this policy be financed by cutting public spending and combating tax evasion. Furthermore, in its latest **Annual Report**, the Bank of Greece recommended that active employment policies be strengthened, so as to complement the existing legislation. Specifically, it is proposed – in line with the experience of other European countries, such as France, Italy and Germany – that the “suspension” system (in place since 1955) be modernised, so that employees who face reductions in working times and wages but do not lose their jobs can also benefit from employment subsidisation. Besides, last October, in its **Interim Report**, the Bank pointed out that improving childcare systems, promoting equal employment opportunities for men and women and eliminating tax disincentives can contribute to the labour market inclusion of population groups with relatively low participation rates, especially women and older persons.

- **Strengthening competition across markets.** Enhancing competition in professional services is ranked as a priority by the **European Commission**. Action to strengthen competition is required in other sectors too (e.g. energy or road transport), as stressed in the Bank's **Interim Report** of last October. The afore-

mentioned recent report of the **OECD** recommends enhancing competition and deregulating the electricity, telecommunications and road transport sectors.

- **Changing the current energy production and consumption patterns.** The Greek economy is highly energy-consuming and its oil import dependence remains strong, despite the use of renewable energy sources (hydroelectric and wind energy), as well as lignite. Moreover, according to available estimates, Greece, as a Mediterranean country, will suffer more from the impact of climate change. The new European policy on energy and climate change gradually adopted by the **European Council** over the last two years has set a goal for all Member States to reduce greenhouse gas emissions, improve energy efficiency and increase the use of renewable energy sources. In implementation of this policy, Greece should, *inter alia*, better organise both production, by introducing less energy-consuming technology, and life in the cities. The latter involves streamlining the public transport network and reducing the use of energy-consuming means of transport, as well as promoting new energy technologies and alternative energy sources for the insulation and heating of houses and other buildings. The implementation of these reforms will require proper planning and appropriate incentives. Progress towards achieving these European policy goals is crucial for Greece and is not only dictated by climate change and life quality considerations; it can also lead to large-scale investments, stronger competition in the energy sector and the creation of new businesses and jobs and can contribute to reducing the country's energy dependence and thereby the current account deficit. The current conjuncture should not be viewed as an obstacle to such developments. On the contrary, investment in energy and the so-called “green” investment could give impetus to economic recovery, as pointed out in the European Economic Recovery Plan.

²⁶ OECD, *Economic Policy Reforms: Going for Growth 2009 – Structural Policy Indicators, Priorities and Analysis*, 3 March 2009.

8 CONCLUSION

There are policies that can foster not only an exit from the crisis as soon as possible, but also a return to sustainable growth rates

The preceding analysis points out some key policy guideposts for the implementation of a credible medium-term plan. These guideposts can foster not only an exit from the crisis as soon as possible, but also a return to sustainable growth rates. At the same time, it is clear that an appropriate policy mix can restore the confidence of foreign investors, international markets and domestic firms and households in

the prospects of the Greek economy. The action plan should aim at putting firmly in place conditions for setting in motion a far-reaching, more outward-looking, dynamic and sustainable growth process – i.e. one that will respect and protect the environment. Such a policy can secure additional resources to be used for strengthening social cohesion and will be all the more effective if it is supported by a strong social consensus. Consensus-building will require an open public dialogue on the equitable allocation of burdens, that is the sacrifices that will be needed in the short term, and the broadest possible diffusion of benefits so that the whole of society wins.

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Table I Gross expenditure of the economy and gross domestic product

(constant market prices of 2000)

	Value in million euro	Annual percentage changes						
		2000	2002	2003	2004	2005	2006	2007	2008
1. Private consumption	98,627	4.7	3.3	3.7	4.3	4.8	3.0	2.2
2. Public consumption	24,271	7.2	-1.0	2.9	1.2	0.0	7.7	3.2
3. Gross fixed capital formation	29,450	9.5	13.2	1.9	-0.5	9.2	4.9	-11.5
3.1a By investor: general government	...	...	...	...	...	...	...	...
3.1b other sectors	...	...	...	...	...	...	...	...
3.2a By type: construction	17,944	-1.6	23.2	-5.6	0.6	5.8	1.6	-14.6
3.2b equipment	10,416	28.5	1.7	12.7	-1.0	14.2	9.1	-9.6
3.2c other investment	1,090	25.1	-13.0	26.7	-11.1	7.8	9.4	11.9
4. Domestic final demand ¹	152,348	6.0	4.6	3.2	2.8	5.0	4.1	-0.6
5. Change in inventories and statistical discrepancy (% of GDP)	2,328	-0.2	0.6	0.1	-0.6	-0.9	0.2	1.6
6. Exports of goods and services	33,882	-8.4	3.5	13.9	4.2	10.9	3.1	2.2
6.1 Exports of goods	14,253	-6.8	10.0	3.1	11.1	20.1	-7.3	-1.1
6.2 Exports of services	19,629	-9.5	-1.1	22.1	-0.3	4.5	11.8	4.4
7. Final demand	188,558	2.2	5.1	4.5	2.5	5.8	4.7	1.0
8. Imports of goods and services	52,277	-1.3	3.4	3.3	1.4	9.7	6.7	-4.4
8.1 Imports of goods	40,730	4.4	6.9	3.0	-5.4	10.3	6.7	-7.3
8.2 Imports of services	11,547	-19.2	-11.5	4.5	34.6	7.0	6.9	10.4
GDP at market prices	136,281	3.4	5.6	4.9	2.9	4.5	4.0	2.9
Contribution to GDP change (percentage points)								
1. Private consumption		3.5	2.4	2.7	3.1	3.5	2.2	1.6
2. Public consumption		1.2	-0.2	0.5	0.2	0.0	1.2	0.5
3. Gross fixed capital formation		2.1	3.0	0.5	-0.1	2.1	1.2	-2.8
3.1a By investor: general government		...	...	...	...	...	...	...
3.1b other sectors		...	...	...	...	...	...	...
3.2a By type: construction		-0.2	3.0	-0.8	0.1	0.8	0.2	-1.9
3.2b equipment		2.1	0.2	1.1	-0.1	1.3	0.9	-1.0
3.2c other investment		0.2	-0.1	0.2	-0.1	0.1	0.1	0.1
4. Domestic final demand ¹		6.8	5.3	3.6	3.2	5.6	4.6	-0.7
5. Inventories and statistical discrepancy		-1.8	0.8	-0.4	-0.7	-0.3	1.0	1.5
6. Exports of goods and services		-2.0	0.7	2.9	0.9	2.5	0.8	0.5
6.1 Exports of goods		-0.7	0.9	0.3	1.0	2.0	-0.8	-0.1
6.2 Exports of services		-1.3	-0.1	2.5	0.0	0.6	1.5	0.6
7. Final demand		3.0	6.9	6.1	3.4	7.8	6.4	1.4
8. Imports of goods and services		0.5	-1.2	-1.1	-0.5	-3.3	-2.4	1.6
8.1 Imports of goods		-1.2	-2.0	-0.9	1.5	-2.7	-1.8	2.1
8.2 Imports of services		1.7	0.8	-0.3	-2.0	-0.5	-0.5	-0.8
9. External balance of goods and services		-1.5	-0.4	1.7	0.5	-0.8	-1.6	2.1
GDP at market prices		3.4	5.6	4.9	2.9	4.5	4.0	2.9

Sources: NSSG, National Accounts, provisional estimates for 2003-2008, March 2009.

¹ Excluding inventories and statistical discrepancy.

Table 2 Indicators of consumer demand

(annual percentage changes)

	2007	2008	2009 (available period)
Volume of retail sales (excluding fuel and lubricants) ¹	2.3	-1.4	-5.8 (Jan.)
Food-beverages-tobacco ²	0.9	-0.1	-4.1 »
Clothing-footwear	1.1	-5.5	12.1 »
Furniture-electrical appliances-household equipment	6.7	-4.3	-15.5 »
Books-stationery-other	6.7	-1.3	-24.8 »
Revenue from VAT (constant prices)	6.8	0.8	...
Retail trade business expectations index	9.0	-15.3	-47.4 (Jan.-March)
New passenger car registrations	4.3	-7.0	-38.7 »
Tax revenue from mobile telephony ³	114.2	5.3	3.1 (Jan.-Feb.)
Outstanding balance of total consumer credit extended by banks ⁴	22.4 (Dec.)	16.0 (Dec.)	12.3 (Feb.)

Sources: NSSG (retail sales, cars), Bank of Greece (consumer credit), IOBE (expectations), Ministry of Economy and Finance (VAT revenue and tax revenue from mobile telephony).

1 Rebased index 2005=100.

2 Including large food stores and specialised food-beverages-tobacco stores.

3 Adjusted rates apply as from 1 November 2006.

4 Taking into account securitised loans and loan write-offs.

Table 3 Indicators of investment demand(annual percentage changes)¹

	2007	2008	2009 (available period)
Capital goods output ²	-1.0	-6.8	-17.9 (Jan.)
Capacity utilisation rate in the capital goods industry	(80.4)	(77.5)	74.3 (Jan.-Feb.)
Outstanding balance of loans to non-financial corporations with a maturity of over one year ³	25.7 (Dec.)	21.4 (Dec.)	19.4 (Feb.)
Disbursements out of the Public Investment Programme	7.6	9.3	272.8 (Jan.-March)
Volume of private construction activity (on the basis of permits issued)	-5.0	-17.1	...
Cement production	-9.2	-3.1	-37.0 (Jan.)
Construction business expectations index	1.5	3.0	-31.8 (Jan.-March)
Outstanding balance of total bank credit to housing ⁴	21.9 (Dec.)	11.4 (Dec.)	9.6 (Feb.)

Sources: NSSG (capital goods output, volume of private construction activity, cement production), IOBE (capacity utilisation rate, business expectations) and Bank of Greece (loans to non-financial corporations, disbursements under the public investment programme, housing loans).

1 Except for the capacity utilisation rate in the capital goods industry, which is measured in percentages.

2 Rebased index 2005=100.

3 Adjusted for the amount of loan write-offs.

4 Taking into account securitised loans and loan write-offs.

Table 4 Industrial production

(2005=100)

	Weights 2005	Average annual percentage changes			Level 2008 (2005=100)	
		2006	2007	2008		
Industry	100.0	0.9	2.6	-4.0	99.3	
1. Mining and quarrying	6.1	100.0	-2.9	0.1	-4.8	92.6
Mining of coal and lignite	56.6	-6.0	0.7	0.4	95.1	
Extraction of crude petroleum and natural gas	1.9	-7.1	-18.2	-17.1	63.0	
Mining of metal ores	9.1	-16.7	-2.1	2.2	83.3	
Other mining and quarrying	32.4	6.6	0.7	-13.7	92.6	
2. Manufacturing	69.8	100.0	2.0	2.6	-4.6	99.8
Food	18.2	-0.9	3.3	1.2	103.6	
Beverages	6.0	1.6	8.0	-0.5	109.3	
Tobacco	1.9	-7.7	4.1	-3.3	92.8	
Textiles	3.1	-9.3	1.8	-22.8	71.3	
Clothes	3.4	-7.9	13.2	-14.5	89.1	
Leather-footwear	0.6	-1.1	1.8	-5.7	95.0	
Wood and cork	1.2	-5.1	-10.6	-9.3	76.9	
Paper and paper products	2.3	3.4	3.6	-3.8	103.1	
Printing and reproduction of recorded media	1.9	8.0	-3.7	-4.8	99.0	
Oil and coal products	11.3	6.5	3.0	-4.3	105.0	
Chemicals	5.3	-0.6	3.5	-4.7	98.1	
Basic pharmaceuticals	2.5	13.2	14.6	3.4	134.2	
Rubber and plastic products	4.2	4.6	4.2	-2.8	106.0	
Non-metallic mineral products	10.3	4.2	-6.1	-6.5	91.5	
Basic metals	8.0	5.5	2.0	-9.0	98.0	
Metal products	5.1	10.9	-3.9	-10.1	95.8	
Computers, electronics and optical products	1.2	2.1	-17.6	-4.3	80.5	
Electrical equipment	3.0	3.7	1.1	-1.0	103.8	
Machinery and equipment n.e.c.	2.1	13.1	-0.3	-0.8	111.8	
Motor vehicles, trailers and semi-trailers	0.8	-23.5	28.2	-16.7	81.7	
Other transport equipment	1.6	-7.4	14.8	-3.0	103.1	
Furniture	1.5	3.6	1.9	-1.4	104.0	
Other manufacturing	0.5	0.8	-1.7	-15.1	84.1	
Repair and instalation of machinery and equipment	4.1	-6.0	6.4	-6.7	93.3	
3. Electricity	20.8	100.0	-1.7	3.5	-2.8	98.9
4. Water supply	3.3	100.0	2.5	1.1	2.5	106.2
Industry	100.0	0.9	2.6	-4.0	99.3	
Main industrial groupings						
Energy	36.8	0.1	2.8	-2.4	100.4	
Intermediate goods	28.0	2.6	1.0	-7.2	96.1	
Capital goods	8.6	2.3	-1.0	-6.8	94.3	
Consumer durables	2.3	2.5	-0.7	-4.6	97.2	
Consumer non-durables	24.3	-0.5	5.6	-1.6	103.4	

Source: NSSG. Rebased index, 2005=100.

Table 5 Activity indicators in the services sector

(annual percentage changes)

	2007	2008	2009 (available period)
Turnover in services			
Car retail sales	6.8	-2.3	...
Wholesale trade	11.4	9.4	...
Telecommunications and post	1.2	0.3	...
Information technology	9.9	-1.0	...
Land transport	18.2	5.1	...
Sea transport	8.1	10.2	...
Air transport	7.0	6.5	...
Supporting transport services including travel agencies	12.6	3.3	...
Tourism (hotels and restaurants)	6.5	3.2	...
Other business activities ¹	18.3	3.6	...
Olympic Airlines passengers-km	2.7	-8.6	...
Aegean Airlines passengers-km ²	25.5	21.1	...
Piraeus port passenger traffic	2.0	0.7	...
Business expectations index in the services sector	2.8	-8.3	-41.2 (Jan.-March)

Sources: NSSG (turnover in services) Olympic Airlines, Aegean Airlines, Piraeus Port Authority and IOBE (expectations).

¹ Including mainly architects-engineers, legal services and advertisement.² Including charter flights.

Table 6 House price index

Period	Urban areas-total			Athens			Other urban areas		
	Index 1997=100	Percentage changes		Index 1997=100	Percentage changes		Index 1993 IV=100	Percentage changes	
		Over previous quarter	Year- on-year		Over previous quarter	Year- on-year		Over previous quarter	Year- on-year
1997	100.0	9.7	9.7	100.0	12.5	12.5	134.7	7.1	7.1
1998	114.4	14.4	14.4	115.5	15.5	15.5	152.6	13.3	13.3
1999	124.5	8.9	8.9	129.6	12.2	12.2	161.5	5.8	5.8
2000	137.7	10.6	10.6	149.1	15.1	15.1	171.3	6.1	6.1
2001	157.5	14.4	14.4	175.4	17.6	17.6	190.2	11.0	11.0
2002	179.3	13.9	13.9	203.8	16.2	16.2	211.7	11.3	11.3
2003	189.0	5.4	5.4	211.9	4.0	4.0	226.8	7.1	7.1
2004	193.4	2.3	2.3	212.4	0.3	0.3	237.4	4.7	4.7
2005	214.5	10.9	10.9	230.8	8.6	8.6	269.3	13.4	13.4
2006	240.6	12.2	12.2	256.8	11.3	11.3	304.2	13.0	13.0
2007	251.6	4.6	4.6	270.1	5.2	5.2	315.8	3.8	3.8
2008	258.2	2.6	2.6	277.3	2.7	2.7	323.9	2.6	2.6
1997	I	96.2	...	95.1	...	...	130.9	3.0	6.1
	II	98.2	2.1	97.8	2.9	...	132.6	1.3	6.2
	III	100.2	2.0	100.8	3.1	...	134.0	1.1	4.8
	IV	105.4	5.1	105.7	4.8	...	141.3	5.5	11.2
1998	I	110.1	4.5	109.3	3.4	14.9	149.4	5.7	14.1
	II	113.9	3.5	115.4	5.6	18.0	151.6	1.5	14.4
	III	115.0	0.9	116.5	1.0	15.6	153.0	0.9	14.2
	IV	118.4	2.9	120.9	3.7	14.4	156.3	2.1	10.6
1999	I	120.4	1.7	123.8	2.5	13.3	157.9	1.0	5.7
	II	123.6	2.7	128.1	3.4	11.0	161.0	2.0	6.2
	III	125.3	1.3	130.5	1.9	12.0	162.3	0.8	6.1
	IV	128.8	2.9	136.0	4.2	12.5	164.7	1.5	5.4
2000	I	132.1	2.5	141.6	4.1	14.3	166.1	0.8	5.2
	II	135.7	2.8	146.5	3.5	14.4	169.6	2.1	5.3
	III	138.8	2.2	150.4	2.7	15.3	172.6	1.8	6.4
	IV	144.2	3.9	158.0	5.0	16.2	177.1	2.6	7.5
2001	I	150.5	4.4	165.7	4.9	17.0	184.0	3.9	10.8
	II	156.1	3.7	174.2	5.1	18.9	188.0	2.2	10.8
	III	159.5	2.2	178.7	2.6	18.8	191.3	1.8	10.9
	IV	164.0	2.8	183.0	2.4	15.8	197.5	3.2	11.5
2002	I	171.5	4.6	193.6	5.8	16.8	204.0	3.3	10.8
	II	180.3	5.1	208.0	7.4	19.4	208.9	2.4	11.2
	III	180.7	0.2	205.4	-1.3	14.9	213.3	2.1	11.5
	IV	184.9	2.3	208.2	1.4	13.8	220.5	3.4	11.6
2003	I	188.6	2.0	214.6	3.1	10.8	222.5	0.9	9.1
	II	187.5	-0.6	210.6	-1.8	1.3	224.4	0.8	7.4
	III	189.0	0.8	210.6	0.0	2.6	228.1	1.7	7.0
	IV	190.9	1.0	211.5	0.4	1.6	232.1	1.7	5.3
2004	I	190.6	-0.2	209.7	-0.9	-2.3	233.6	0.6	5.0
	II	191.6	0.5	209.4	-0.2	-0.6	236.5	1.2	5.4
	III	193.3	0.9	211.1	0.8	0.2	238.8	1.0	4.7
	IV	198.0	2.4	219.4	3.9	3.7	240.9	0.9	3.8
2005	I	205.2	3.6	223.7	2.0	6.6	254.1	5.5	8.8
	II	211.6	3.1	228.9	2.3	9.3	264.1	3.9	11.7
	III	216.9	2.5	231.5	1.1	9.7	274.5	4.0	15.0
	IV	224.1	3.3	239.0	3.2	8.9	283.8	3.4	17.8
2006	I	233.3	4.1	249.9	4.6	11.7	294.1	3.6	15.7
	II	238.7	2.3	255.0	2.1	11.4	301.7	2.6	14.2
	III	240.9	0.9	254.9	0.0	10.1	307.4	1.9	12.0
	IV	249.2	3.4	267.2	4.8	11.8	313.7	2.0	10.5
2007	I	251.3	0.8	269.5	0.9	7.9	315.8	0.7	7.4
	II	249.5	-0.7	266.9	-1.0	4.7	314.3	-0.5	4.2
	III	252.1	1.0	272.1	1.9	6.7	314.5	0.1	2.3
	IV	253.5	0.6	271.9	-0.1	1.7	318.4	1.2	1.5
2008	I	255.6	0.9	274.2	0.8	1.7	321.1	0.8	1.7
	II	258.3	1.0	277.6	1.3	4.0	323.7	0.8	3.0
	III	258.1	-0.1	277.2	-0.2	1.9	323.6	0.0	2.9
	IV	260.9	1.1	280.3	1.1	3.1	327.1	1.1	2.7
2009*	I	...	...	270.4	-3.5	-1.4	...	...	...

Sources: For the other urban areas: Bank of Greece (data collected by the Bank's branches, mainly from real estate agencies). For Athens: calculations based on data from "Danos and Associates" (1993-97), "Property Ltd" (1997-2005) and Bank of Greece (data collected by credit institutions, 2006-2009). For the total of urban areas: weighted index based on the housing stock in Athens and other urban areas.

* Estimates.

Table 7 Population, labour force and employment

	Q2 2008 (thousands of persons)	Annual percentage changes (second quarter) ⁵				
		2004 ⁴	2005	2006	2007	2008
Population aged 15 and over ¹	9,230	...	0.5	0.5	0.6	0.2
Population aged 15-64 ¹	7,228	...	0.1	0.3	0.8	0.3
Labour force ¹	4,939	...	0.5	0.6	0.8	0.4
Employment ¹	4,582	...	1.2	1.6	1.5	1.4
– Primary sector ¹	518	...	-0.1	-1.7	-2.6	-0.7
– Secondary sector ¹	1,022	...	0.0	-0.2	3.1	1.1
– Tertiary sector ¹	3,042	...	1.5	2.9	1.7	1.9
Labour force participation rate ²		66.5	66.8	67.0	67.0	67.2
Employment rate ³		59.6	60.3	61.0	61.5	62.2
Unemployment as a percentage of the labour force		10.2	9.6	8.8	8.1	7.2

Source: NSSG, Labour Force Surveys.

1 Second quarter-on-second quarter.

2 Labour force participation rate of population aged 15-64.

3 Employed persons aged 15-64 as a percentage of the population aged 15-64.

4 Labour Force Survey data for 2004 are not fully comparable with those for the previous years.

5 Average annual changes and average year levels are reported in the main text.

Table 8 Inflation indicators

(annual percentage changes)

Year or quarter	Consumer Price Index										Industrial producer price index						Import price index in industry	
	Sub-indices					Domestic market					External market			General index		General index		
	General index	Goods	Services	CPI excl. fuel & fresh fruit and vegetables	CPI excluding food & fuel	Food and non-alcoholic beverages	Fresh fruit and vegetables	Fuel	General index	General index excl. energy	Intermediate goods	Consumer goods	General index	General index	General index	General index excl. energy		
2002	3.6	3.2	4.3	3.6	3.6	5.3	13.8	-1.7	2.3	2.3	1.3	3.2	1.1	0.3	0.4	0.6		
2003	3.5	3.1	4.2	3.2	3.1	5.0	10.7	3.9	2.3	2.3	2.3	2.7	-0.3	0.7	0.6	0.8		
2004	2.9	2.3	3.8	3.3	3.2	0.5	-11.9	7.5	3.5	4.7	3.2	6.0	5.0	3.1	0.8	1.2		
2005	3.5	3.4	3.7	3.1	3.2	0.6	-8.1	18.0	5.9	3.0	3.8	2.5	3.7	8.8	1.2	2.7		
2006	3.2	3.4	3.0	2.7	2.5	3.7	3.3	10.9	7.3	6.5	7.3	6.2	4.8	4.2	2.7	3.0		
2007	2.9	2.5	3.5	2.9	3.0	3.2	5.6	1.3	4.1	2.7	6.1	-0.3	3.0	2.6	3.0	2.5		
2008	4.2	4.3	3.9	3.4	3.0	5.4	4.6	14.7	10.0	6.4	8.4	4.5	6.4	7.1	2.5	1.4		
2005 Q1	3.3	3.1	3.6	3.3	3.5	-0.6	-11.5	15.1	4.6	2.6	4.9	0.8	2.7	8.2	1.4	1.1		
Q2	3.3	3.0	3.8	3.0	3.1	-0.3	-12.4	18.1	4.9	2.3	3.6	1.4	2.3	8.4	1.1	1.4		
Q3	3.9	4.0	3.6	3.0	3.1	1.4	-4.1	21.6	6.3	2.6	3.3	2.2	4.5	9.8	1.1	1.4		
Q4	3.7	3.6	3.7	3.0	3.0	2.1	-2.2	17.1	7.7	4.7	3.5	5.7	5.4	8.9	1.4	1.8		
2006 Q1	3.3	3.3	3.2	2.5	2.3	1.9	-5.8	19.6	9.4	6.8	4.6	8.9	7.2	7.6	1.8	2.6		
Q2	3.2	3.6	2.7	2.5	2.3	3.4	1.3	14.8	9.0	7.3	7.5	7.6	6.4	6.7	2.6	3.0		
Q3	3.4	3.9	2.8	2.7	2.4	5.1	10.8	11.8	7.4	7.4	8.9	6.6	4.0	2.5	3.0	3.2		
Q4	2.9	2.7	3.1	3.0	2.8	4.6	9.4	-1.2	3.7	4.6	8.2	2.0	1.8	0.4	3.4	3.2		
2007 Q1	2.7	2.1	3.4	3.2	3.3	3.1	4.9	-4.9	1.5	1.9	6.4	-1.7	0.4	-0.7	3.4	3.2		
Q2	2.6	1.9	3.6	2.9	3.1	2.0	2.9	-1.5	2.7	1.9	5.8	-1.5	2.1	0.9	3.2	3.0		
Q3	2.7	2.0	3.6	2.8	3.0	3.3	11.8	-3.1	3.4	2.3	5.7	-0.7	2.5	3.0	3.0	2.6		
Q4	3.6	3.9	3.2	2.8	2.5	4.5	3.7	15.8	8.9	4.7	6.6	2.9	7.1	7.4	2.6	2.5		
2008 Q1	4.3	5.0	3.3	2.9	2.3	6.1	7.1	24.0	11.5	6.9	9.3	4.9	8.5	8.1	2.5	2.3		
Q2	4.8	5.6	3.6	3.6	3.0	6.4	5.3	21.5	13.5	7.2	9.4	5.3	10.0	10.1	2.8	2.8		
Q3	4.7	5.1	4.2	3.7	3.2	4.5	-3.1	22.9	14.2	7.2	9.7	4.9	9.8	10.1	2.8	2.3		
Q4	2.9	1.7	4.5	3.5	3.4	4.5	8.9	-7.4	1.3	4.2	5.4	3.0	-2.4	0.4	2.3	2.3		

Source: NSSG.

Table 9 Price developments in Greece and the euro area

(annual percentage changes)

	2007	2008	2008 June	2008 July	2008 Aug.	2008 Sept.	2008 Oct.	2008 Nov.	2008 Dec.	2009 Jan.	2009 Feb.	2009 March
A. Euro area												
Harmonised Index of Consumer Prices (HICP) and its components												
Overall index	2.1	3.3	4.0	4.0	3.8	3.6	3.2	2.1	1.6	1.1	1.2	0.6 ²
Goods	1.9	3.8	5.0	5.1	4.6	4.4	3.5	1.8	0.9	0.2	0.3	...
Food	2.8	5.1	5.8	6.1	5.6	5.2	4.4	3.7	3.3	2.7	2.5	...
Processed food ¹	2.8	6.1	7.0	7.2	6.8	6.2	5.1	4.2	3.5	2.7	2.0	...
Unprocessed food	3.0	3.5	4.0	4.4	3.7	3.6	3.4	2.8	2.8	2.6	3.3	...
Industrial goods	1.4	3.1	4.5	4.6	4.2	4.0	3.1	0.8	-0.3	-1.0	-0.7	...
Non-energy industrial goods	1.0	0.8	0.8	0.5	0.7	0.9	1.0	0.9	0.8	0.5	0.7	...
Energy	2.6	10.3	16.1	17.1	14.6	13.5	9.6	0.7	-3.7	-5.3	-4.9	...
Services	2.5	2.6	2.5	2.6	2.7	2.6	2.6	2.6	2.6	2.4	2.4	...
<i>Industrial producer prices</i>	2.8	6.2	8.0	9.2	8.5	7.9	6.3	3.3	1.6	...	...	...
B. Greece												
Harmonised Index of Consumer Prices (HICP) and its components												
Overall index	3.0	4.2	4.9	4.9	4.8	4.7	4.0	3.0	2.2	2.0	1.8	1.5
Goods	2.5	4.5	5.7	5.7	5.5	5.0	3.8	2.0	0.4	0.2	0.1	...
Food	3.1	4.6	5.1	4.7	4.0	3.6	3.8	4.5	3.6	3.4	3.2	...
Processed food ¹	3.7	5.0	6.1	6.1	5.8	5.1	3.7	2.6	2.3	2.2	1.8	...
Unprocessed food	2.2	4.0	3.7	2.4	1.3	1.2	3.9	7.5	5.6	5.4	5.5	...
Industrial goods	2.2	4.4	6.0	6.3	6.4	5.8	3.7	0.4	-1.5	-1.8	-1.8	...
Non-energy industrial goods	2.2	2.0	2.2	2.2	2.5	2.2	2.2	2.3	2.2	2.1	2.3	...
Energy	2.1	13.8	20.9	22.2	21.1	19.9	9.2	-6.5	-15.6	-16.7	-17.0	...
Services	3.7	3.8	4.0	3.9	3.9	4.4	4.4	4.4	4.5	4.4	4.1	...
<i>Industrial producer prices</i>	4.1	10.0	15.5	16.7	14.3	11.8	6.7	0.5	-3.2	-3.4	-5.3	...

Source: Calculations based on ECB and NSSG data.

1. Including alcoholic beverages and tobacco.

2. Provisional estimates by Eurostat.

Table 10 Earnings and labour costs

(annual percentage changes)

	2002	2003	2004	2005	2006	2007	2008	2009 (prov.)
Greece								
Average gross earnings (nominal):								
– whole economy	6.6	5.6	7.2	4.4	5.7	5.2	6.6	3.7
– central government ¹	7.3	5.9	9.7	2.3	3.1	4.5	8.3	4.7
– public utilities	10.6	10.9	9.9	7.6	7.0	7.1	8.2	7.7
– banks	2.9 ²	3.1 ²	8.0	1.5 ²	10.8	8.9	0.0 ²	6.2
– non-bank private sector	6.5	5.8	5.8	5.6	6.8	6.1	6.5	2.8
Minimum earnings	5.4	5.1	4.8	4.9	6.2	5.4	6.2	5.7
Average gross earnings (real)	2.9	2.0	4.2	0.9	2.4	2.2	2.2	
Net³ income of an employee with average earnings								
– nominal	6.3 ⁴	6.3 ⁵	5.3	3.6	4.3	5.5	...	...
– real	2.6 ⁴	2.7 ⁵	2.3	0.1	1.1	2.5	...	...
Total compensation of employees	9.1⁶	8.3⁵	8.9	5.8	7.8	8.2	8.5	3.3
Compensation per employee	5.9	5.5	7.6	3.9	5.9	5.7	6.8	4.3
GDP⁷	3.4	5.6	4.9	2.9	4.5	4.0	2.9	0.0
Unit labour costs:								
– whole economy	5.5 ⁶	2.6 ⁵	3.8	2.8	3.2	4.0	5.4	3.3
– business sector ⁸	4.9 ⁶	3.0 ⁵	2.5	3.2	3.8	4.8	4.7	2.6

Sources: NSSG/Ministry of Economy and Finance (revised GDP 2002-2008), Bank of Greece estimates (for GDP in 2009 and the other annual aggregates in 2002-2009).

1 Average compensation per employee.

2 The relatively low growth rate of bank employees' average earnings mainly reflects changes in staff structure.

3 Gross earnings less employees' social security contributions and income tax.

4 Including the abolition (as from 1 January 2002) of stamp duties (0.6% of gross earnings) paid by employees.

5 Taking into account the increase (0.1% of gross earnings) in employees' and employers' contributions to the Workers' Fund.

6 Taking into account the abolition (as from 1 January 2002) of stamp duties (0.6% of earnings) paid by employers in the business sector.

7 NSSG/Ministry of Economy and Finance for 2002-2009 (revised data). Bank of Greece estimates for 2009.

8 The business sector includes private and public enterprises and banks.

Table II Selected indicators of social cohesion

Indicator	Greece			EU-15 ¹	EU-27 ¹
	2005	2006	2007		
I. Risk of poverty					
<i>1. At-risk-of-poverty rate</i>					
<i>1.1 Total population</i>	20	21	20	16	16
a. People aged 65+	28	26	23	20	19
b. Children aged 0-15	19	22	23	18	19
c. Single-parent households	44	30	34	32	32
d. Two adults with 3 or more children	33	38	30	22	25
<i>1.2 In-work poverty</i>	13	14	14	7	8
a. Part-time employment	24	26	27	10	11
b. Temporary employment	19	19	19	12	12
<i>1.3 Unemployed</i>	33	33	36	39	41
<i>2. At-risk-of-poverty gap²</i>					
<i>Total population</i>	24	26	26	22	22
a. People aged 65+	24	24	24	18	18
b. Children aged 0-15	23	26	30	22	23
<i>3. At-risk-of-poverty line (in euro)</i>					
a. Single-member households	5,650	5,910	6,120	...	...
b. Two adults with two children	11,866	12,411	12,852	...	...
II. Inequality indicators					
<i>1. Gini coefficient</i>	33	34	34	29	30
<i>2. S80/S20 ratio³</i>	5.8	6.1	6.0	4.7	4.8
III. Social welfare					
<i>1. Social expenditure, % of GDP</i>					
<i>Total</i>	24.3	24.2	...	27.5	26.9
a. Pensions	11.9	11.9	...	12.1	11.9
b. Social transfers	12.4	12.3	...	15.4	15.0
<i>2. Reduction in the at-risk-of-poverty rate:</i>					
<i>Social expenditure (total)</i>	19	18	22	27	27
a. Pensions	16	16	18	17	17
b. Social transfers	3	2	4	10	10

Source: Eurostat.

1 Data for the EU-15 and the EU-27 refer to the latest available year (2007 data referring to the earnings of 2006).

2 For definitions see the main text.

3 Share ratio, defined as the ratio of the total income received by the 20% of the population with the highest income (highest quantile) to that received by the 20% of the population with the lowest income (lowest quantile).

Table 12 General and central government deficits

(percentage of the revised GDP)

	2003	2004	2005	2006	2007	2008*
General government deficit¹	-5.6	-7.5	-5.1	-2.8	-3.5	(-3.7)⁴
(national accounts data – convergence criterion)						
– Central government	-8.1	-9.6	-6.1	-4.1	-4.9	(-6.3) ⁴
– Social security organisations and local government	2.5	2.1	1.0	1.3	1.4	(2.6) ⁴
Central government deficit²						
(administrative data)	-5.7	-6.9	-5.7	-3.9	-4.6	-5.7
Central government deficit³						
(cash data)	-6.1	-8.4	-7.3	-4.9	-6.0	-7.0

Sources: Bank of Greece, Ministry of Economy and Finance and NSSG.

* Provisional data.

1 Ministry of Economy and Finance data, as submitted to the European Commission (Excessive Deficit Procedure-EDP notification).

2 State General Accounting Office data, as shown in the state budget.

3 Bank of Greece data, referring to the borrowing requirement of central government on a cash basis. The borrowing requirements of public entities are now calculated by the NSSG on the basis of a quarterly survey among these entities regarding their net financial results (revenue-expenditure) and financial situation (borrowing, investment in securities, deposits, etc.), a method considered more reliable than the bank statistics used previously.

4 According to the Updated Stability and Growth Programme 2008-2011; these data have already been revised by NSSG, in the context of the EDP notification of 31 March 2009.

Table 13 Net borrowing requirement of central government on a cash basis¹

(million euro)

	2005	2006	2007	2008*
1. State budget	14,793	11,500	12,432	17,361
% of GDP	7.5	5.4	5.4	7.1
(Ordinary budget) ²	10,033 ⁴	7,020 ⁵	8,512 ⁶	12,585 ^{7,8}
(Public investment budget)	4,760	4,480	3,920	4,776
2. ELEGEPE - OPEKEPE³	369	-1,033	1,160	-254
3. Central government (1+2)	14,424	10,467	13,592	17,107
% of GDP	7.3	4.9	6.0	7.0

Source: Bank of Greece.

* Provisional data.

1 As shown by the respective accounts with the Bank of Greece and other credit institutions.

2 Including movements in public debt management accounts.

3 Payment and Control Agency for Guidance and Guarantee Community Aid. It replaced DIDAGEP (Agricultural Markets Management Service) from 3 September 2001.

4 Including a grant of about €2,586 million to hospitals, expenditure (€1,239.3 million) for the capital increase of the Agricultural Bank of Greece, as well as proceeds of €1,090 million from the sale of 16.4% of OPAP (the Greek soccer pools organisation) shares, €826 million from the sale of 10% of OTE (Hellenic Telecommunications Organisation) shares and a €425 million grant to OGA.

5 Including an amount of €149.7 million from the settlement of revenue collected by the Hellenic Communications and Post Commission (EETT), €299.3 million from the decrease in the capital of the Postal Savings Bank, €34 million from the decrease in the capital of the Agricultural Bank of Greece, €290 million from additional dividends of the Deposits and Loans Fund, €323 million from the sale of Agricultural Bank shares, €597.4 million from the sale of Postal Savings Bank shares, €364.4 million from the sale of Emporiki Bank shares and a €422.9 million grant to OGA.

6 Including privatisation proceeds of €1,107.5 million and €502.8 million from the sale, respectively, of OTE and Postal Savings Bank shares, as well as expenditures of €264.9 million and €465.7 million for aid to the fire-stricken and a grant to OGA, respectively.

7 Including the receipt of €430.8 million from the sale of OTE shares and a €570.8 million grant to OGA, but excluding the payment of Greek government debt to IKA by the issuance of bonds (€1,172 million).

8 During the strike of the Bank of Greece in March 2008, public debt service payments of €1,537 million were effected through commercial banks, of which €359 million were interest payments. If the latter amount is also taken into account, the net borrowing requirement in the state budget would rise from 7.1% to 7.2% of GDP and the net borrowing requirement of the central government from 7.0% to 7.1% of GDP.

Table 14 Financing of the borrowing requirement of central government

(million euro)

	2005		2006		2007		2008*	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Greek Treasury bills and government bonds ¹	15,325	106.2	11,342	108.4	15,310	112.6	17,283 ⁴	101.0
Change in the balances of central government accounts with the banking system ²	-1,224	-8.5	-1,145	-10.9	418	3.1	-3,850	-22.5
External borrowing ³	323	2.2	270	2.6	-2,136	-15.7	3,674	21.5
Total	14,424	100.0	10,467	100.0	13,592	100.0	17,107	100.0

Source: Bank of Greece.

* Provisional data.

1 Comprising Treasury bills and government bonds issued in Greece, as well as bonds convertible into shares.

2 Including changes in the central government accounts held with the Bank of Greece and credit institutions, as well as changes in the OPEKEPE account. The figure does not include the purchase of government paper by domestic MFIs, as this is included in item 1.

3 Including securities issuance and borrowing abroad (in any currency). The figure does not include non-residents' holdings of bonds issued in Greece. It also includes the change in government accounts with banks abroad.

4 Not including bonds issued by the Greek government for debt repayment to the Social Insurance Institute – IKA. See also footnote 3 in Table 13.

Table 15 Consolidated debt of general government¹

(million euro)

	2002	2003	2004	2005	2006	2007	2008*
Short-term	1,398	3,409	2,839	1,346	1,108	1,668	...
– securities	982	3,084	2,568	1,156	943	1,625	...
– loans	416	325	271	190	165	43	...
Medium- and long-term	156,974	163,860	179,342	192,757	202,298	214,020	...
– securities	134,040	140,922	156,969	170,863	180,968	194,658	...
– loans	22,934	22,938	22,373	21,894	21,330	19,362	...
Coin and deposits	842	756	976	1,235	988	693	...
Total	159,214	168,025	183,157	195,338	204,394	216,381	(231,861)⁴
<i>% of GDP</i>	<i>100.8</i>	<i>97.9</i>	<i>98.6</i>	<i>98.8</i>	<i>95.9</i>	<i>94.8</i>	<i>(95.4)⁵</i>
– domestic debt	154,517	164,643	180,654	192,591	202,338	214,465	(230,229) ⁴
<i>(of which: debt to the Bank of Greece)²</i>	<i>(9,561)</i>	<i>(9,018)</i>	<i>(8,488)</i>	<i>(7,988)</i>	<i>(7,991)</i>	<i>(7,520)</i>	<i>(7,051)</i>
– external debt ³	4,697	3,382	2,503	2,747	2,056	1,916	1,632

Sources: State General Accounting Office and Bank of Greece.

* Provisional data.

1 According to the definition in the Maastricht Treaty.

2 The small increase recorded in this item for 2006 is due to the redenomination in euro of debt denominated in foreign currency, previously included in external debt. This is also reflected in the significant decrease in external debt.

3 Debt in currencies other than euro.

4 According to the Updated Stability and Growth Programme 2008-2011; these data have already been revised by NSSG, in the context of the EDP notification of 31 March 2009.

5 Based on the revised (March 2009) GDP figure for 2008.

Table 16 Decomposition of changes in the general government debt-to-GDP ratio

(percentages of GDP; changes in percentage points) ²

	2000	2001	2002	2003	2004	2005	2006	2007	2008*
General government debt-to-GDP ratio	103.4	103.7	101.7	98.0	98.6	98.8	95.9	94.8	95.4
Changes in the general government debt-to-GDP ratio	-8.9	0.3	-2.1	-3.6	0.5	0.3	-3.0	-1.0	0.6
– Primary balance	-3.6	-2.0	-0.7	0.7	2.6	0.7	-1.3	-0.6	-0.3
– Change in GDP and change in interest rates	-12.5	-0.9	-1.4	-4.0	-2.9	-1.6	-3.2	-2.3	-1.8
– Deficit-debt adjustment ³	7.3	3.2	0.1	-0.4	0.9	1.2	1.5	1.9	2.8

Sources: Ministry of Economy and Finance, General Directorate of Economic Policy, “Macroeconomic Aggregates” (various issues).

*Provisional data.

1 Changes in the debt ratio have been decomposed using the following formula:

$$\left(\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} \right) = \frac{PB_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} \cdot \frac{i_t - g_t}{1 + g} \right) + \frac{SF_t}{Y_t}$$

where D_t = general government debt

PB_t = primary balance (deficit or surplus)

Y_t = GDP in current prices

g_t = nominal GDP growth rate

i_t = average nominal rates on government debt

SF_t = deficit-debt adjustment

2 Based on the revised (March 2009) GDP figure.

3 The deficit-debt adjustment includes expenditure or liabilities assumed by the general government which do not affect the deficit but increase debt, as well as revenue (e.g. privatisation proceeds) which does not affect the deficit, but reduces debt.

Table 17 Revenue, expenditure and deficit of the state budget

(million euro)

	2005	2006	2007	2008*	Stability Programme 2009**	Percentage changes				Stability Programme 2009**/2008*	
						2006/2005	2007/2006	2008*/2007	2009**/2008*		
I. Revenue¹											
1. Ordinary budget (of which, extraordinary revenue)	47,446	52,460	56,649	60,295	66,852	10.6	8.0	6.4	10.9	10.9	14.2
	44,760	48,685	51,777	55,317	63,152	8.8	6.4	6.8	10.9	14.2	
	0	773 ⁴	437 ⁵	534 ⁷	1,372 ⁹						
2. Public investment budget	2,686	3,775	4,872	4,978	3,700	40.5	29.1	2.2	2.2	2.2	-25.7
– Own revenue	63	212	64	310	200	236.5	-69.8	384.4	-35.5	384.4	-35.5
– Revenue from the EU	2,623	3,563	4,811	4,668	3,500	35.8	35.0	-3.0	10.5	10.5	7.0
II. Expenditure¹											
1. Ordinary budget	58,763	60,692	67,166 ⁶	74,202	79,378	3.3	10.7	10.7	10.7	10.7	9.3
	51,239 ⁵	52,508	58,357 ⁶	64,578	70,578	2.5	11.1	10.7	10.7	10.7	9.3
– Interest payments ²	9,774	9,589	9,796	11,210	12,000	-1.9	2.2	14.4	7.0	14.4	7.0
– Primary expenditure	41,465 ³	42,919	48,561	53,368	58,578 ¹⁰	3.5	13.1	9.9	9.9	9.9	9.8
(of which: tax refunds)	2,554	2,392	2,624	3,653	3,700	-6.3	9.7	39.2	1.3	39.2	1.3
2. Public investment budget	7,524	8,184	8,809	9,624	8,800	8.8	7.6	9.3	9.3	9.3	-8.6
III. Net deficit (-) / surplus (+)											
% of GDP											
1. Ordinary budget	-5.7	-3.9	-4.6	-5.7	-5.0						
	-6,479	-3,823	-6,580	-9,261	-7,426						
2. Public investment budget	-4,838	-4,409	-3,937	-4,646	-5,100						
IV. Ordinary budget primary surplus											
% of GDP											
	-1,544	1,357	-721	-2,697	-526						
	-0.8	0.6	-0.3	-1.1	-0.2						
V. General government deficit											
% of GDP (on a national accounts basis)											
	5.1	2.8	3.5	(3.7) ⁸	3.7						
Amortisation payments ²	21,752	16,954	22,544	26,278	29,158	-22.1	33.0	16.6	11.0	16.6	11.0
Ministry of National Defense programmes for the procurement of military equipment ²	1,394	2,076	2,129	2,596	2,200	48.9	2.6	21.9	-15.3	21.9	-15.3
GDP (current prices)	197,645	213,207	228,180	242,946	252,250	7.9	7.0	7.4	3.8	7.4	3.8

Source: Ministry of Economy and Finance, State General Accounting Office.

* Provisional data.

** Budget 2009 data, revised on the basis of the Updated Stability and Growth Programme 2008-2011 of January 2009. In greater detail, a decrease in revenue (of €2,420 million) and an increase in expenditure (of €1,300 million) of which €400 million concern higher tax refunds) have been taken into consideration.

1 For comparability purposes, tax refunds are included in expenditure and have not been deducted from revenue, a practice followed by the Ministry of Economy and Finance in the last few years.

2 From 2003 onwards, interest and amortisation payments effected by the Ministry of National Defence are recorded in the off-budget item "Ministry of National Defence programmes for the procurement of military equipment". Including a grant of €330 million to the OTE's personnel insurance fund (TAP-OTE) and repayment of debt (€345 million) to the Agricultural Bank of Greece. These expenditure amounts are not included in the estimates of the Ministry of Economy and Finance for 2005, as published in the Introductory Report on the 2006 Budget, but were included in the Introductory Report on the 2007 Budget.

3 Including an amount of €149.7 million from the settlement of revenue collected by the Hellenic Communications and Post Commission (BETT), €299.3 million (which has not been included in the 2006 Budget) from the decrease in the capital of the Postal Savings Bank, €34 from the decrease in the capital of the Agricultural Bank of Greece and €290 million from additional dividends of the Deposits and Loans Fund.

4 Including "notional" revenue of €437 million arising from the settlement of positions vis-à-vis the Olympic Airlines.

5 Including "notional" expenditure of €840 million arising from the settlement of positions vis-à-vis the Olympic Airlines, as well as additional contributions to the Community Budget (€1,108 million) due to the upward revision of past GDP figures.

6 It concerns revenue from special accounts (now abolished), amounting to €534 million.

7 Data come from the Updated Stability and Growth Programme 2008-2011, revised by the NSSG with the EDP notification of March 2009.

8 Including revenue from special accounts (now abolished), amounting to €972 million, as well as revenue from the liquidity-support package, amounting to €400 million.

9 Including payments out of special accounts (now abolished), amounting to €882 million, as well as expenditure of €790 million for the Intergeneration Solidarity Fund.

10 Including payments out of special accounts (now abolished), amounting to €882 million, as well as expenditure of €790 million for the Intergeneration Solidarity Fund.

Table 18 Balance of payments

(million euro)

	January – December		
	2006	2007	2008*
I Current account balance (I.A+I.B+I.C+I.D)	-23,668.1	-32,393.4	-35,043.6
I.A Trade balance (I.A.1–I.A.2)	-35,286.3	-41,499.2	-44,048.8
Oil trade balance	-8,761.3	-9,219.6	-12,154.6
Non-oil trade balance	-26,525.0	-32,279.6	-31,894.3
Ships balance	-3,390.5	-5,520.3	-4,705.0
Trade balance excl. fuel and ships	-23,134.5	-26,759.3	-27,189.3
<i>I.A.1 Exports of goods</i>	<i>16,154.3</i>	<i>17,445.5</i>	<i>19,812.9</i>
Fuel	2,939.8	3,037.3	4,254.5
Ships (receipts)	1,631.8	2,275.4	1,582.0
Other goods	11,582.7	12,132.8	13,976.5
<i>I.A.2 Imports of goods</i>	<i>51,440.6</i>	<i>58,944.8</i>	<i>63,861.7</i>
Fuel	11,701.1	12,256.9	16,409.0
Ships (receipts)	5,022.3	7,795.7	6,286.9
Other goods	34,717.2	38,892.2	41,165.8
I.B Services balance (I.B.1–I.B.2)	15,337.1	16,591.7	17,135.6
<i>I.B.1 Receipts</i>	<i>28,364.1</i>	<i>31,337.3</i>	<i>34,066.2</i>
Travel	11,356.7	11,319.2	11,635.9
Transport	14,324.7	16,939.3	19,188.3
Other services	2,682.7	3,078.9	3,242.0
<i>I.B.2 Payments</i>	<i>13,027.0</i>	<i>14,745.6</i>	<i>16,930.6</i>
Travel	2,382.8	2,485.7	2,679.1
Transport	6,991.3	7,771.3	9,316.0
Other services	3,652.9	4,488.6	4,935.5
I.C Income balance (I.C.1–I.C.2)	-7,118.8	-9,077.0	-10,889.0
<i>I.C.1 Receipts</i>	<i>3,626.1</i>	<i>4,625.7</i>	<i>5,732.8</i>
Wages, salaries	318.1	366.9	344.7
Interest, dividends, profits	3,308.0	4,258.9	5,388.1
<i>I.C.2 Payments</i>	<i>10,744.9</i>	<i>13,702.7</i>	<i>16,621.8</i>
Wages, salaries	280.7	332.6	410.1
Interest, dividends, profits	10,464.2	13,370.1	16,211.7
I.D Current transfers balance (I.D.1–I.D.2)	3,399.9	1,591.1	2,758.6
<i>I.D.1 Receipts</i>	<i>6,847.4</i>	<i>6,608.1</i>	<i>6,882.7</i>
General government (mainly receipts from the EU)	4,462.4	4,361.2	4,678.8
Other sectors (emigrants' remittances, etc.)	2,385.0	2,246.9	2,203.9
<i>I.D.2 Payments</i>	<i>3,447.5</i>	<i>5,017.0</i>	<i>4,124.1</i>
General government (mainly payments to the EU)	2,472.7	3,825.4	2,717.6
Other sectors	974.8	1,191.6	1,406.4
II Capital transfers balance (II.1–II.2)	3,041.3	4,332.3	4,090.8
II.1 Receipts	3,310.7	4,673.9	4,637.8
General government (mainly receipts from the EU)	3,116.5	4,401.4	4,241.9
Other sectors	194.2	272.4	395.9
II.2 Payments	269.5	341.6	547.0
General government (mainly payments to the EU)	32.2	27.1	192.0
Other sectors	237.3	314.5	354.9
III Current account and capital transfers balance (I+II)	-20,626.8	-28,061.1	-30,952.8
IV Financial account balance (IV.A+IV.B+IV.C+IV.D)	20,363.7	27,361.4	30,160.2
IV.A Direct investment¹	953.8	-2,499.0	1,666.7
By residents abroad	-3,321.6	-3,900.1	-1,810.0
By non-residents in Greece	4,275.4	1,401.1	3,476.7
IV.B Portfolio investment¹	8,115.4	17,441.7	16,428.0
Assets	-6,961.2	-16,351.1	-268.9
Liabilities	15,076.6	33,792.8	16,696.9
IV.C Other investment¹	11,518.5	12,740.6	12,094.6
Assets	-5,851.0	-16,266.1	-27,823.3
Liabilities	17,369.5	29,006.8	39,917.8
(General government loans)	-447.7	-2341.7	-572.7
IV.D Change in reserve assets²	-224.0	-322.0	-29.0
V Errors and omissions	263.1	699.7	729.7
Reserve assets	2,169.0	2,491.0	2,521.0

Source: Bank of Greece.

* Provisional data.

1 (+) net inflow, (-) net outflow.

2 (+) decrease, (-) increase.

Table 19 Greece: revised nominal and real effective exchange rate (EER) indices¹

(average annual levels, percentage changes)

	Nominal EER	Real EER	
		On the basis of relative consumer prices	On the basis of the relative unit labour costs in total economy
2001	1.1	1.0	0.7
2002	1.9	2.8	4.3
2003	4.5	5.3	4.3
2004	1.4	1.9	3.9
2005	-0.7	0.3	0.3
2006	0.1	1.0	1.9
2007	1.4	1.9	3.2
2008 ²	2.3	2.8	4.7
Cumulative percentage change between 2001 and 2008	12.4	18.3	25.7

Sources: Exchange rates: ECB, euro reference exchange rates. CPI: ECB, harmonised CPI where available. Unit labour costs in total economy: Bank of Greece estimates for Greece; ECB for the other countries.

1 Revised indices (compiled by the Bank of Greece) comprise Greece's 28 main trading partners (including the other euro area countries, with the exception of Malta). The weights used reflect the share of each partner country in Greece's manufacturing trade (SITC 5-8) during 1999-2001 and account for competition in third markets.

2 Provisional data and estimates.

Table 20 Geographical breakdown of Greek foreign direct investment inflows

(million euro)

	2006	2007	2008*
EU-27 ¹	3,994	1,196	3,200
Euro area	3,253	1,435	3,297
Other OECD countries ²	203	108	143
Balkan countries ³	0	0	1
Middle East, Mediterranean and former USSR ⁴	13	19	7
Other countries	65	78	124
Total direct investment by non-residents	4,275	1,401	3,475

Source: Bank of Greece.

* Provisional data.

1 EU: 25 countries in 2006 and 27 countries thereafter (following the accession of Bulgaria and Romania).

2 Australia, Canada, Iceland, Japan, Korea, Mexico, New Zealand, Norway, Switzerland, Turkey and United States.

3 Albania and former Yugoslavia countries (Bosnia-Herzegovina, Croatia, FYROM and Serbia-Montenegro).

4 Greece's main trading partners in the Middle East, the Mediterranean and former USSR countries.

Table 21 Geographical breakdown of Greek direct investment outflows

(million euro)

	2006	2007	2008*
EU-27 ¹	375	1,371	789
Euro area	461	864	1,073
Other OECD countries ²	2,342	2,125	617
Balkan countries ³	510	121	153
Middle East, Mediterranean and former USSR ⁴	15	47	75
Other countries	80	236	167
Total direct investment by non-residents	3,322	3,900	1,802

Source: Bank of Greece.

* Provisional data.

1 EU: 25 countries in 2006 and 27 countries thereafter (following the accession of Bulgaria and Romania).

2 Australia, Canada, Iceland, Japan, Korea, Mexico, New Zealand, Norway, Switzerland, Turkey and United States.

3 Albania and former Yugoslavia countries (Bosnia-Herzegovina, Croatia, FYROM and Serbia-Montenegro).

4 Greece's main trading partners in the Middle East, the Mediterranean and former USSR countries.

Table 22 Greece's international investment position

(million euro)

	2006	2007 ¹	2008*
1. Direct investment	-14,328	-14,653	-3,063
Abroad by residents	17,022	21,500	23,310
In Greece by non-residents	31,350	36,153	26,373
2. Portfolio investment	-127,172	-149,589	-123,099
Assets	67,195	86,848	85,880
Liabilities	194,367	236,437	208,979
3. Financial derivatives	10	503	970
4. Other investment	-38,842	-53,220	-61,273
Assets	62,640	78,717	106,695
Liabilities	101,482	131,937	167,968
5. Reserve assets	2,169	2,491	2,521
Net international investment position (iip)(1+2+3+4+5)	-178,163	-214,468	-183,944
GDP	213,207	228,181	242,946
Net iip as % of GDP	-83.6	-94.0	-75.7

Source: Bank of Greece.

* Provisional estimates.

1 Revised data.

Table 23 Key macroeconomic aggregates of tourism and shipping

(million euro)

	January-December					Average 2004-2008
	2004	2005	2006	2007	2008	
Receipts from travel services	10,347.8	10,729.5	11,356.7	11,319.2	11,635.9	11,077.8
Annual rate of change (%)	9.0	3.7	5.8	-0.3	2.8	4.1
Payments for travel services	2,310.4	2,445.7	2,382.8	2,485.7	2,679.2	2,460.8
Annual rate of change (%)	8.2	5.9	-2.6	4.3	7.8	4.6
Net receipts from travel services	8,037.4	8,283.8	8,973.9	8,833.5	8,956.7	8,617.1
Annual rate of change (%)	9.2	3.1	8.3	-1.6	1.4	4.0
Net receipts from travel services as:						
– % of GDP	4.3	4.2	4.2	3.9	3.7	4.0
– % of the trade balance	31.6	30.1	25.4	21.3	20.3	24.8
– % of the services balance	52.0	53.8	58.5	53.2	52.3	53.9
Receipts from sea transport	12,404.2	12,953.0	13,280.2	15,678.6	17,940.5	14,451.3
Annual rate of change (%)	38.4	4.4	2.5	18.1	14.4	14.9
Payments for sea transport	4,486.0	4,646.9	5,024.5	5,426.7	6,487.2	5,214.2
Annual rate of change (%)	17.5	3.6	8.1	8.0	19.5	11.2
Net receipts from sea transport	7,918.3	8,306.1	8,255.7	10,251.9	11,453.3	9,237.1
Annual rate of change (%)	54.0	4.9	-0.6	24.2	11.7	17.4
Net receipts from sea transport as:						
– % of GDP	4.3	4.2	3.9	4.5	4.7	4.3
– % of the trade balance	31.1	30.1	23.4	24.7	26.0	26.6
– % of the services balance	51.2	54.0	53.8	61.8	66.8	57.8

Sources: Bank of Greece and NSSG.

Table 24 Evolution of spending per journey, per night and average duration of stay of tourists in Greece

Year	Expenditure per journey (in euro)	Expenditure per overnight stay (in euro)	Average duration of stay (nights)
2004	757.5	70.7	10.7
2005	745.7	69.9	10.7
2006	745.9	70.0	10.7
2007	700.2	70.2	10.0
2008	730.0	76.3	9.6

Source: Bank of Greece, Border Survey.

Table 25 Greek contribution to the main monetary aggregates of the euro area

(non-seasonally adjusted data)

	Outstanding balances on 31.12.07 (million euro)	Annual percentage changes ¹													
		2004		2005		2006		2007		2008				2009	
		Q4 ²	Q4 ²	Q4 ²	Q4 ²	Q4 ²	Q4 ²	Q1 ²	Q2 ²	Q3 ²	Q4 ²	Dec. ³	Feb. ³		
1. Overnight deposits	90,798.9	16.8	9.3	0.7	-0.9	-2.8	-4.4	-6.3	-7.0	-8.6	-4.0	-8.6	-4.0		
1.1 Sight deposits and current account deposits	25,916.3	19.1	20.2	1.8	10.3	6.2	2.6	-1.3	-3.6	-8.5	0.3	-8.5	0.3		
1.2 Savings deposits	64,882.6	16.1	6.3	0.2	-4.6	-5.8	-6.8	-8.1	-7.9	-8.6	-5.3	-8.6	-5.3		
2. Time deposits with agreed maturity of up to 2 years	137,639.1	5.3	45.2	37.5	42.2	42.1	43.0	38.3	39.1	37.3	28.9	37.3	28.9		
3. Deposits redeemable at notice up to 3 months ⁴	1,883.0	2.8	105.2	-24.4	-20.3	-20.0	-18.0	-22.9	-24.1	-23.2	-14.8	-23.2	-14.8		
4. Total deposits (1+2+3)	230,321.0	13.1	20.7	12.1	15.9	16.0	16.5	14.3	15.3	13.8	13.4	13.8	13.4		
5. Repurchase agreements	377.4	-12.6	-72.8	-35.7	-54.3	-55.7	-50.9	-39.3	-11.4	-46.2	-52.9	-46.2	-52.9		
6. Money market fund shares/units	2,263.6	-1.9	-51.8	-2.5	40.5	28.1	9.3	-11.2	-58.8	-71.4	-76.3	-71.4	-76.3		
7. Debt securities issued with maturity of up to 2 years ⁵	2,126.1	-0.3	-42.2	24.2	-	-	-	-	-	-	-	-	-		
8. M3 excluding currency in circulation (4+5+6+7)	235,088.1	9.2	6.9	10.6	14.7	15.2	16.2	15.0	14.4	12.3	10.9	12.3	10.9		

Sources: Bank of Greece and ECB.

1 Annual rates of change in the corresponding index, which is compiled on the basis of outstanding stocks for December 2001 and cumulative monthly flows, adjusted for exchange rate variations, reclassifications etc. The quarterly average is derived from monthly averages (which are calculated as arithmetic means of two successive end-of-month figures) and is not the three-month average of end-of-month annual growth rates (see the Technical Notes in the "Euro area statistics" section of the ECB Monthly Bulletin).

2 Based on end-month levels.

3 Including savings deposits in currencies other than the euro.

4 This aggregate is calculated on a consolidated basis with the other euro area countries and thus does not include domestic MFIs' holdings of debt securities with a maturity of up to two years issued by euro area MFIs.

Table 26 Bank interest rates on new deposits by households in the euro area and Greece

(percentages per annum)

	Dec. 2007	June 2008	Oct. 2008	Dec. 2008	Jan. 2009	Change Jan. 2009/ Dec. 2007 (in per- centage points)	Feb. 2009 ³	Change Feb. 2009/ Dec. 2007 (in per- centage points)
Overnight¹								
Weighted average interest rate in the euro area	1.18	1.24	1.34	1.16	1.02	-0.16	...	...
Maximum interest rate	2.58	2.62	2.73	2.21	1.77	-0.81	...	...
Minimum interest rate	0.19	0.21	0.17	0.17	0.16	-0.03	...	...
Interest rate in Greece	1.24	1.25	1.27	1.24	1.15	-0.09	0.98	-0.26
Interest rate differential between Greece and the euro area	0.06	0.01	-0.07	0.08	0.13	0.07	...	...
With an agreed maturity of up to one year²								
Weighted average interest rate in the euro area	4.28	4.43	4.77	3.75	3.28	-1.00	...	...
Maximum interest rate	4.68	5.11	5.72	6.04	6.14	1.46	...	...
Minimum interest rate	2.94	3.10	3.73	2.59	1.82	-1.12	...	...
Interest rate in Greece	4.52	4.84	5.37	5.36	4.89	0.37	3.87	-0.65
Interest rate differential between Greece and the euro area	0.24	0.41	0.60	1.61	1.61	1.37	...	...

Sources: ECB and euro area NCBS.

1 End-of-month rate.

2 Monthly average rate.

3 Data on bank interest rates in February 2009 were not available on the date of publication of this Report.

Table 27 Total financing¹ of the economy by domestic MFIs

(annual percentage changes)

	2005	2006	2007	2008*				2009*		
	Q4 ²	Q4 ²	Q4 ²	Q1 ³	Q2 ³	Q3 ³	Q4 ³	December ³	January ³	February ³
1. Total financing by MFIs	13.8	15.6	13.5	16.1	17.3	17.4	16.6	13.4	14.0	14.2
2. Financing of general government	-0.6	-1.8	-16.1	-9.4	-3.2	3.8	8.1	1.3	10.9	21.3
3. Financing of enterprises and households	19.8	21.7	21.7	22.6	22.1	20.2	18.3	15.9	14.6	12.9
3.1 Enterprises ⁴	12.3	17.3	20.1	23.1	24.1	22.6	21.6	18.7	17.2	15.3
3.2 Households	30.3	26.9	23.6	22.0	19.9	17.6	14.8	12.8	11.8	10.3
of which:										
3.2.1 Housing loans	31.1	28.4	23.3	20.9	18.5	16.3	13.4	11.5	10.6	9.6
3.2.2 Consumer loans	30.3	23.7	22.6	23.3	22.1	21.0	18.4	16.0	14.7	12.3

Source: Bank of Greece.

* Revised data after Q1 2008.

1 Including bank loans, corporate bonds and government securities held in MFI portfolios, securitised bank loans and securitised corporate bonds. The rates of change are calculated after taking into consideration loan write-offs and foreign exchange valuation differences in respect of loans denominated in foreign (non-euro) currencies.

2 The quarterly average is derived from monthly averages (which are calculated as arithmetic means of two successive end-of-month figures) and is not the three-month average of end-of-month annual growth rates (see the Technical Notes in the "Euro area statistics" section of the ECB Monthly Bulletin).

3 Based on end-of-month levels.

4 It should be noted that the rate of change of the outstanding financing to enterprises in January and February 2009 had been negatively affected by the sale of a corporate bonds portfolio of a domestic MFI to an MFI of another euro area country. If this transaction is not taken into account, the rate of change would have been 18.3% in January and 16.6% in February.

Table 28 Loans¹ to domestic enterprises and households by domestic MFIs

	Outstanding balances on 31.12.08 (million euro)	Annual percentage changes											
		2006		2007		2008*						2009*	
		Q4 ²	Q4 ²	Q4 ²	Q1 ²	Q2 ²	Q3 ²	Q4 ²	December ³	January ³	February ³		
A. Enterprises^{4,7}	132,458	17.3	20.1	23.1	24.1	22.6	21.6	18.7	17.2	15.3			
1. Trade	32,985	9.9	17.9	19.7	21.5	22.6	22.2	19.5	19.6	19.3			
2. Industry ⁵	24,873	9.5	11.0	14.0	16.1	17.9	17.3	15.8	15.2	13.1			
3. Construction	11,257	28.9	28.5	33.7	36.6	35.8	37.3	35.2	32.2	25.2			
4. Shipping	10,228	17.8	25.3	25.5	25.1	23.6	22.7	17.2	20.9	19.8			
5. Other financial intermediaries (non-MFI)	8,326	35.1	14.7	18.6	16.9	7.8	-2.1	-8.7	-22.3	-25.7			
6. Tourism	7,032	11.0	21.0	24.1	25.7	27.4	24.3	19.7	19.0	15.1			
7. Transport and communication (excluding shipping)	4,642	51.9	39.6	60.1	60.6	30.1	35.6	26.8	23.2	14.0			
8. Agriculture	3,856	11.0	10.7	15.0	22.8	19.7	20.4	20.3	17.6	14.1			
9. Electricity – gas – water supply	3,518	3.0	40.2	39.5	20.4	26.8	36.4	29.8	29.4	19.0			
10. Other sectors	25,742	28.8	27.4	28.9	29.5	25.4	23.6	23.4	21.8	23.1			
B. Households	117,203	26.9	23.6	22.0	19.9	17.6	14.8	12.8	11.8	10.3			
1. Housing loans	77,700	28.4	23.3	20.9	18.5	16.3	13.4	11.5	10.6	9.6			
2. Consumer loans	36,435	23.7	22.6	23.3	22.1	21.0	18.4	16.0	14.7	12.3			
– Credit cards	10,044	5.7	6.3	11.2	13.5	13.9	12.4	10.0	8.3	7.2			
– Other consumer loans ⁶	26,391	35.4	30.9	29.1	25.9	23.9	20.9	18.4	17.3	14.3			
3. Other loans	3,068	30.6	42.2	34.1	30.7	13.8	7.5	9.5	8.9	5.8			
TOTAL	249,661	21.7	21.7	22.6	22.1	20.2	18.3	15.9	14.6	12.9			

Source: Bank of Greece.

* Revised data after Q1 2008.

1 Including bank loans, corporate bonds and government securities held in MFI portfolios, securitised bank loans and securitised corporate bonds. The rates of change are calculated after taking into consideration loan write-offs and foreign exchange valuation differences in respect of loans denominated in foreign (non-euro) currencies.

2 The quarterly average is derived from monthly averages (which are calculated as arithmetic means of two successive end-of-month figures) and is not the three-month average of end-of-month annual growth rates (see the Technical Notes in the "Euro area statistics" section of the ECB Monthly Bulletin).

3 Based on end-of-month figures.

4 Sectors are listed in descending order of their share in total financing, with the exception of "other sectors".

5 Including manufacturing and mining-quarrying.

6 Including personal loans and loans against supporting documents.

7 See Table 27, footnote 4.

Table 29 Bank interest rates on new loans in the euro area and Greece

(percentages per annum)

	December 2007	January 2009	Change Jan. 2009/ Dec. 2007 (percentage points)	February 2009 ²	Change Feb. 2009/ Dec. 2007 (percentage points)
A. Loans with a floating rate or an initial rate fixation of up to one year					
A.1. Loans up to €1 million to non-financial corporations					
Weighted average interest rate in the euro area	6.08	4.73	-1.35	...	...
Maximum interest rate	7.25	7.13	-0.12	...	...
Minimum interest rate	5.41	3.71	-1.70	...	...
Interest rate in Greece	6.83	5.45	-1.38	4.99	-1.84
Interest rate differential between Greece and the euro area	0.75	0.74	-0.01	...	...
A.2. Loans of over €1 million to non-financial corporations					
Weighted average interest rate in the euro area	5.35	3.51	-1.84	...	...
Maximum interest rate	6.72	6.58	-0.14	...	...
Minimum interest rate	4.89	3.00	-1.89	...	...
Interest rate in Greece	5.79	4.24	-1.55	4.12	-1.67
Interest rate differential between Greece and the euro area	0.44	0.73	0.29	...	...
A.3. Housing loans					
Weighted average interest rate in the euro area	5.32	4.39	-0.93	...	...
Maximum interest rate	6.45	6.70	0.25	...	...
Minimum interest rate	4.76	3.18	-1.58	...	...
Interest rate in Greece	4.76	4.55	-0.21	4.16	-0.60
Interest rate differential between Greece and the euro area	-0.56	0.16	0.72	...	...
A.4. Consumer loans					
Weighted average interest rate in the euro area	8.05	8.30	0.25	...	...
Maximum interest rate	11.30	11.93	0.63	...	...
Minimum interest rate	5.51	4.13	-1.38	...	...
Interest rate in Greece	7.61	9.15	1.54	8.84	1.23
Interest rate differential between Greece and the euro area	-0.44	0.85	1.29	...	...
B. Loans with an initial rate fixation of over one and up to 5 years¹					
B.1. Housing loans					
Weighted average interest rate in the euro area	5.03	4.80	-0.23	...	...
Maximum interest rate	6.30	7.02	0.72	...	...
Minimum interest rate	4.21	3.60	-0.61	...	...
Interest rate in Greece	4.21	5.50	1.29	5.56	1.35
Interest rate differential between Greece and the euro area	-0.82	0.70	1.52	...	...
B.2. Consumer loans					
Weighted average interest rate in the euro area	6.93	7.02	0.09	...	...
Maximum interest rate	11.79	15.81	4.02	...	...
Minimum interest rate	5.46	5.44	-0.02	...	...
Interest rate in Greece	8.71	9.11	0.40	9.15	0.44
Interest rate differential between Greece and the euro area	1.78	2.09	0.31	...	...

Sources: ECB and euro area NCBS.

¹ Monthly average rates.

² Euro area bank interest rates for February 2009 were not available on the date of publication of this Report.

Table 30 Interest rate spread in Greece and the euro area

(percentages per annum)

	Average interest rate on new loans in Greece ¹	Average interest rate on new deposits in Greece ¹	Interest rate spread in Greece (percentage points)	Interest rate spread in Greece with euro area weighting (percentage points)	Interest rate spread in the euro area (percentage points)
Dec. 1998	16.21	8.12	8.09	...	...
Dec. 1999	14.02	6.98	7.04	...	...
Dec. 2000	9.68	4.00	5.68	...	...
Dec. 2001	7.26	1.96	5.30	...	...
Dec. 2002	6.29	1.67	4.62	...	...
Dec. 2003	5.92	1.20	4.72	4.45	2.77
Dec. 2004	5.94	1.22	4.72	4.18	2.53
Dec. 2005	5.79	1.27	4.52	3.59	2.56
Dec. 2006	6.38	1.87	4.51	3.63	2.89
Dec. 2007	6.67	2.53	4.14	3.48	3.09
Dec. 2008	6.72	3.27	3.45	3.27	2.64
Jan. 2009	6.40	3.00	3.40	3.18	2.39
Feb. 2009 ²	6.19	2.41	3.78	...	...

Sources: Bank of Greece and ECB.

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

2 Data on bank interest rates for February 2009 were not available on the date of publication of this Report.

Table 31 Percentage breakdown of Greek government paper issues

Type of securities	2006		2007		2008	
Treasury bills	6.9		4.2		4.3	
Bonds	93.1		95.8		95.7	
3-year	19.1		4.2		23.5	
5-year	25.4		21.6		15.2	
8-year ¹	-		-		13.3	
10-year	29.1		31.2		20.1	
12-year	1.9		-		-	
15-year	-		19.3		8.2	
23-year	8.8		9.7		9.4	
30-year	15.7		11.2		8.9	
50-year ¹	-		2.8		1.4	
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total funds raised (million euro)	28,955		37,532		43,943	

Source: Ministry of Economy and Finance.

Note: Reopened past issues are classified according to initial (rather than residual) maturity.

1 Effected through private placement.

Table 32 Stock market aggregates

Year	Share price indices ¹ (1980=100)		Average daily value of transactions (million euro)	Market capitalisation (million euro)			Market capitalisation (percentage of GDP)			Funds raised through the Athens Exchange (ATHEX) ³ (million euro)		
	Composite	Banks		Shares	Bonds ²	Total	Shares	Bonds ²	Total	Listed companies	New companies	Total
2003	2,263.6	4,246.9	141.1	84,547	135,219	219,766	49	78	128	317	61	378
2004	2,786.2	6,129.0	140.8	92,140	157,905	250,045	49	85	135	397	79	476
2005	3,663.9	7,904.2	209.3	123,033	178,925	301,958	61	90	152	2,906	61	2,967
2006	4,394.1	6,194.5	343.3	157,928	191,549	349,477	73	90	163	3,396	86	3,482
2007	5,178.8	7,296.4	480.0	195,502	194,659	390,161	86	86	171	9,988	146	10,134
2008	1,786.5	1,899.4	316.4	68,176	201,859	270,035	28	83	111	623	9	632

Sources: ATHEX, Bank of Greece and (for GDP) Ministry of Economy and Finance.

1 At year-end.

2 Comprising Treasury bills and bonds issued by the Greek government, bonds issued by banks and non-financial corporations.

3 Through capital increase and issuance of new shares.

Table 33 Value and structure of stock market transactions

(million euro)

	2006		2007		2008	
	Value of transactions	Percentage breakdown	Value of transactions	Percentage breakdown	Value of transactions	Percentage breakdown
Shares	85,334.0	100.0	121,266.6	100.0	78,145.8	100.0
Large capitalisation	77,423.0	90.7	111,143.9	91.6	75,587.8	96.7
Medium and small capitalisation	6,873.0	8.2	9,081.3	7.5	1,814.9	2.3
Low dispersion, marketability and special financial features	187.9	0.2	839.4	0.7	588.1	0.8
Under surveillance	210.7	0.2	171.9	0.1	93.8	0.1
Sale of existing shares	639.4	0.7	30.1	0.0	0.0	0.0
Exchange-traded mutual funds	-	-	-	-	61.2	0.1
Loans¹	5.7	0.0	13.4	0.0	28.6	0.0
Total	85,339.7	100.0	121,280.0	100.0	78,174.4	100.0

Source: Athens Exchange.

1 Comprising Treasury bills and bonds issued by the Greek government, bonds issued by banks and non-financial corporations.

Table 34 Profitability and efficiency ratios of Athex-listed banks and banking groups

(percentages per annum)

	Banking groups		Banks	
	2008	2007	2008	2007
Net interest rate margin	2.9	3.0	2.2	2.5
Return on risk-weighted assets (after tax) - RoA	1.0	2.1	0.3	1.5
Return on equity (after tax) - RoE	10.1	17.9	3.0	14.7
Efficiency ratio	56.0	52.7	60.9	52.9

Source: Bank of Greece.

Table 35 Greenhouse gas emissions by source category: EU-27, EU-15 and Greece

(in million tons of CO₂ equivalents)

	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU-27													
Energy	4,277	4,029	4,141	4,037	4,024	3,965	3,974	4,058	4,030	4,131	4,137	4,109	4,099
Industrial processes	478	455	452	459	432	392	404	393	389	400	412	416	417
Solvent and other product use	13	11	11	11	11	11	11	11	10	10	10	10	10
Agriculture	592	513	515	515	513	509	501	493	487	482	481	474	473
Waste	216	210	206	198	191	185	179	171	167	161	155	151	148
<i>Total*</i>	5,572	5,214	5,320	5,216	5,167	5,058	5,066	5,121	5,080	5,180	5,191	5,157	5,143
EU-15													
Energy	3,256	3,175	3,261	3,195	3,237	3,215	3,232	3,304	3,292	3,365	3,375	3,352	3,327
Industrial processes	373	371	368	378	358	325	329	321	319	324	330	332	328
Solvent and other product use		9	9	9	9	9	9	9	9	8	8	8	8
Agriculture	434	413	417	417	417	416	413	404	399	395	393	387	384
Waste	175	169	165	157	151	144	139	130	125	118	113	110	107
<i>Total *</i>	4,244	4,133	4,216	4,152	4,168	4,105	4,118	4,164	4,139	4,207	4,216	4,186	4,151
Greece													
Energy	78	82	84	89	94	93	99	101	101	105	106	105	105
Industrial processes	9	11	12	13	13	14	13	13	13	13	13	13	13
Solvent and other product use	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Agriculture	14	12	13	12	12	12	12	12	12	12	12	12	12
Waste	4	4	4	4	4	4	4	3	3	3	3	3	4
<i>Total *</i>	105	110	114	119	124	124	128	130	129	134	134	134	133

Sources: European Environment Agency, *Annual European Community greenhouse gas inventory 1990-2006 and inventory report 2008*, No 6/2008, Hellenic Ministry for the Environment, Physical Planning and Public Works, *Annual inventory submission under the convention and the Kyoto Protocol for greenhouse and other gases for the years 1990-2006*, April 2008.

* Excluding the source category of "land use, land use change and forestry".

Table 36 Allocation of emission entitlements in existing industries(in million tons of CO₂ equivalents)

Activities	Total entitlements 2005-2007	Total entitlements 2008-2012	% allocation 2005-2007	% allocation 2008-2012
Electricity production	156.2	230.1	73.1	70.8
Cement	33.2	53.9	15.5	16.6
Refineries	10.3	20.5	4.8	6.3
Other combustion	3.5	3.0	1.6	0.9
Lime	2.5	4.6	1.2	1.4
Metal friction	2.4	4.0	1.1	1.2
Iron and steel	2.4	2.8	1.1	0.9
Ceramics	2.4	4.6	1.1	1.4
Paper	0.6	0.9	0.3	0.3
Glass	0.3	0.3	0.1	0.1
Total	213.8	324.8	100.0	100.0

Source: Hellenic Ministry for the Environment, Physical Planning and Public Works, National Plan for the Allocation of Emission Entitlements for 2005-2007 (December 2004) and for 2008-2012 (April 2008).

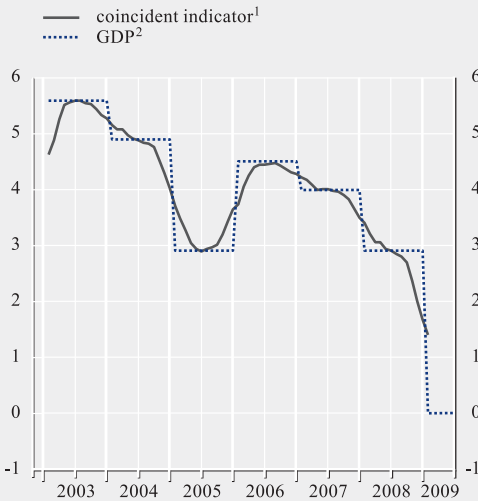
Table 37 Electricity production licences issued between 1 February 2001 and 12 January 2009, by plant type

Plant type	Number	Power (MW)
1. Renewables	857	7,739.1
1.1 Wind power	501	6,858.8
1.2 Small hydroelectric	277	670.1
1.3 Biomass – geothermal	17	84.5
1.4 Photovoltaic	62	125.7
2. Combined heat and power	31	430.9
3. Large hydroelectric	1	60.0
4. Large thermoelectric	21	6,976.2
4.1 Large private thermoelectric	14	5,476.0
5. Other	134	1,682.1
6. Total	1,044	16,888.3

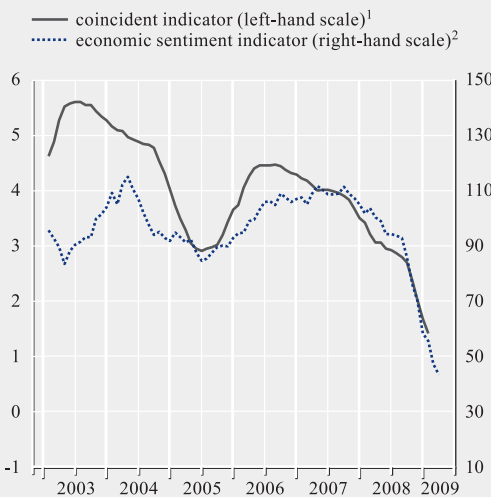
Source: Regulatory Authority for Energy, Registry of electricity production licences.

Chart 1 Economic activity indicators

A. The coincident indicator of economic activity compiled by the Bank of Greece



B. The coincident indicator of economic activity compiled by the Bank of Greece and the economic sentiment indicator compiled by the European Commission for Greece



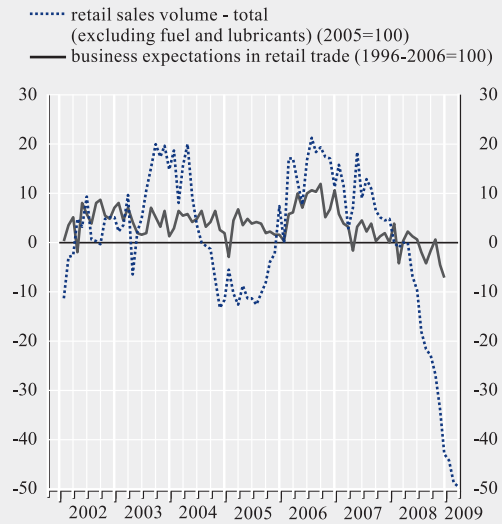
Sources: Bank of Greece (coincident indicator, as well as GDP for 2009), NSSG (GDP 2003-2008) and European Commission (economic sentiment indicator).

1 Annualised monthly percentage changes.
 2 Annual rate of change.
 3 Monthly data.

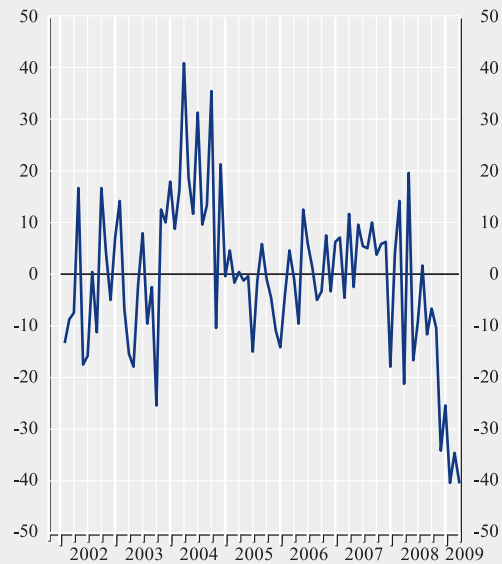
Chart 2 Consumer demand indicators

(annual percentage changes)

A. Retail trade volume and business expectations



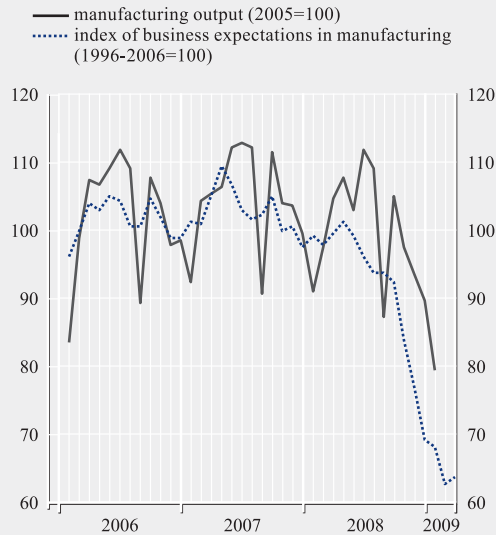
B. New passenger car registrations



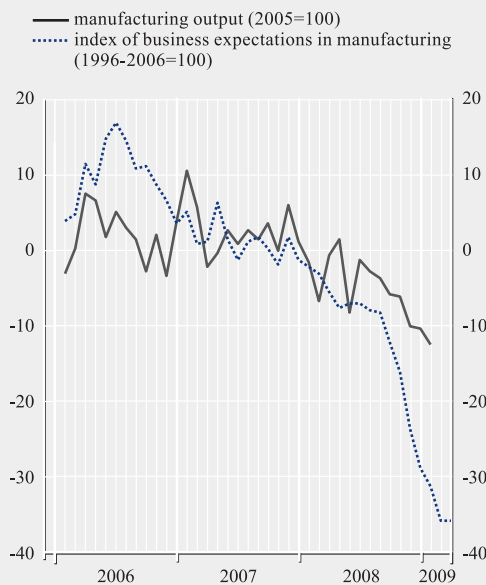
Sources: NSSG (retail trade and cars) and IOBE (expectations). The business expectation index is based on firms' estimates of sales and stocks as well as on their forecasts on business activity over the next six months.

Chart 3 Output and business expectations in manufacturing

A. Indices



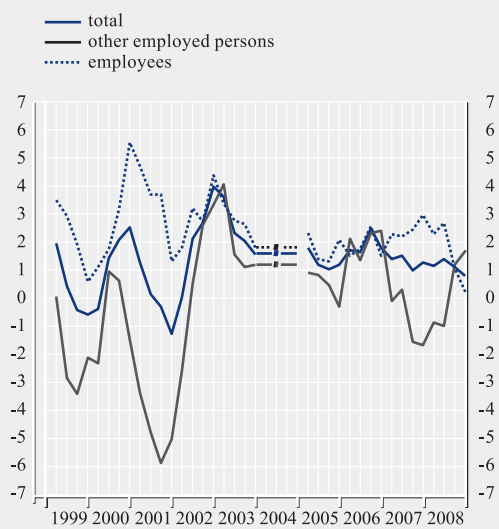
B. Percentage changes over same month of previous year



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

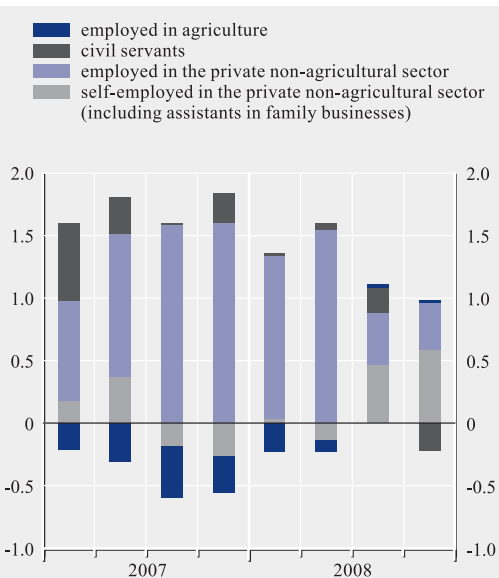
Chart 4 Employment

(percentage changes over corresponding quarter of previous year)



Source: NSSG, Labour Force Surveys.
 Note: New revised data for 1998-2003, published in January 2005. No changes are shown for 2004, since data are not fully comparable due to a change in the survey sample.
 * Other employed persons = self employed with staff (employers) + self employed without staff + assistants in family businesses.

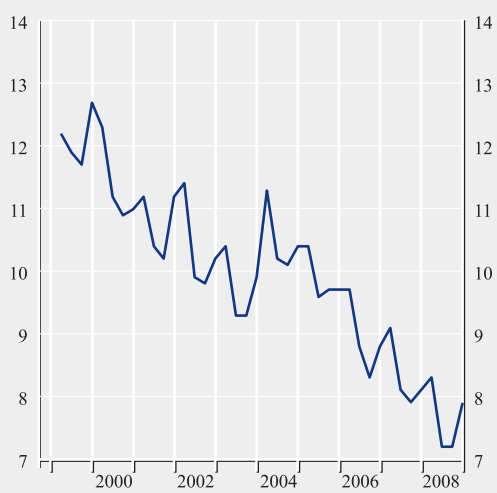
Chart 5 Sectoral contributions to the change in employment¹



Source: NSSG, Labour Force Survey, 2007-2008.
 1 Contributions to annual percentage changes.

Chart 6 Total unemployment rate

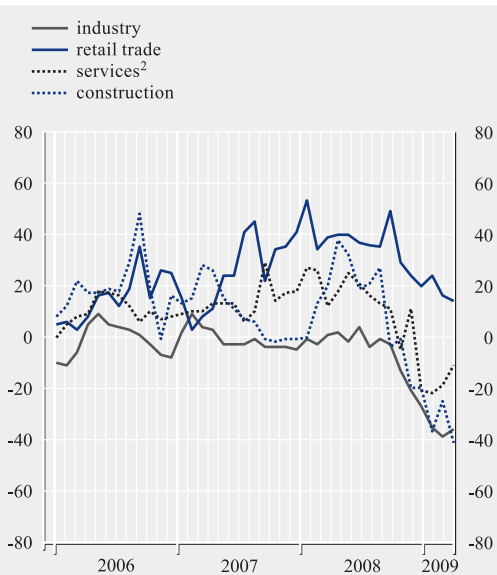
(percentage of the labour force)



Source: NSSG, Labour Force Surveys.

Chart 7 Business expectations¹ for employment

(percentage net balances)

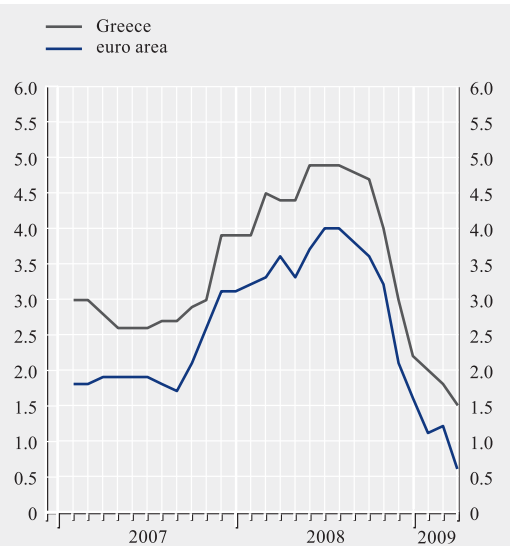


Source: IOBE, Business Surveys.

1 Firms were asked to assess the prospect of an increase in their number of employees over the coming period.
2 Excluding banks and retail trade.

Chart 8 Harmonised index of consumer prices: Greece and the euro area

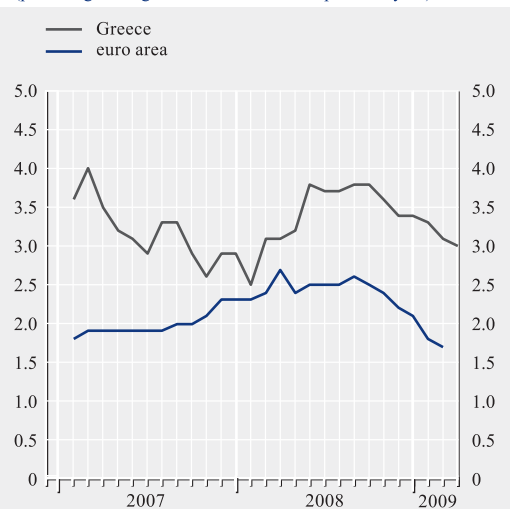
(percentage changes over same month of previous year)



Sources: NSSG and Eurostat.

Chart 9 Harmonised index of consumer prices excluding energy and unprocessed food: Greece and the euro area

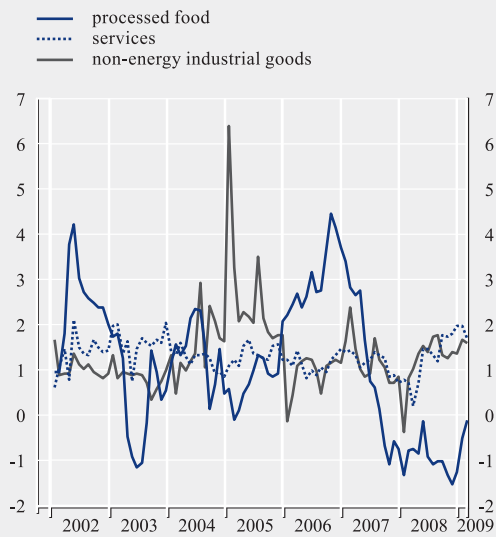
(percentage changes over same month of previous year)



Source: Calculations based on NSSG and ECB data.

Chart 10 Annual inflation differentials between Greece and the euro area

(selected price indicators, differentials in percentage points)



Source: Calculations based on NSSG and Eurostat data.

Chart 11 The output gap of the Greek economy

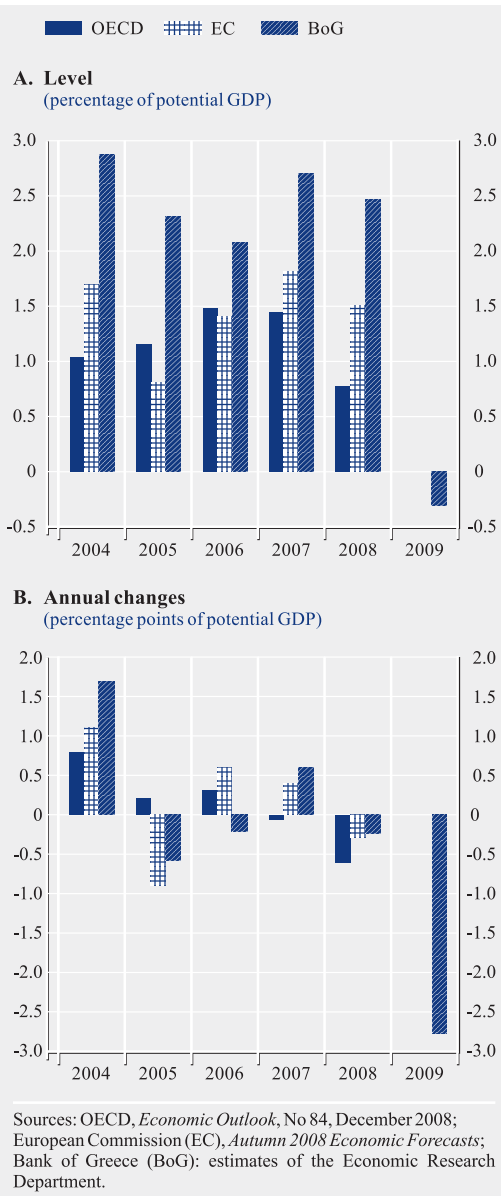
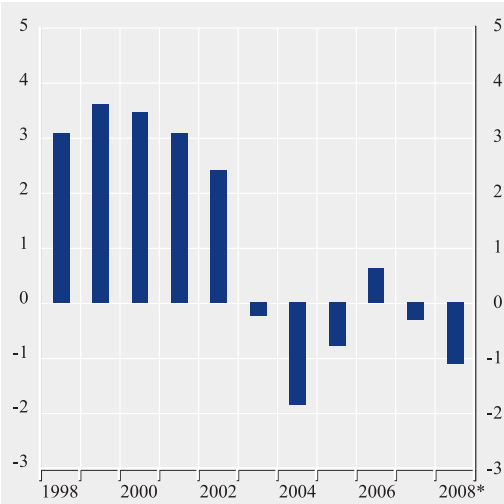


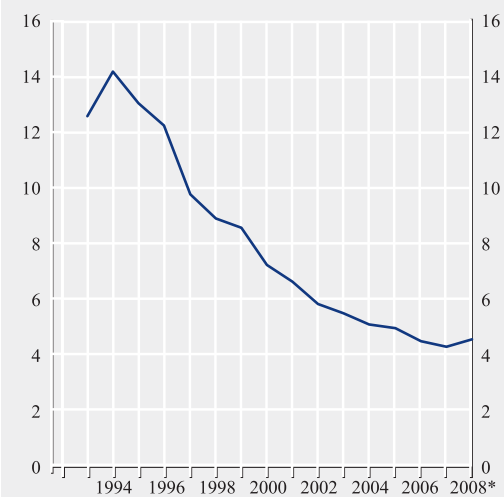
Chart 12 Primary balance of the State Budget as a percentage of GDP



Source: State General Accounting Office.
* Provisional data.

Chart 13 Interest payments¹ on central government debt

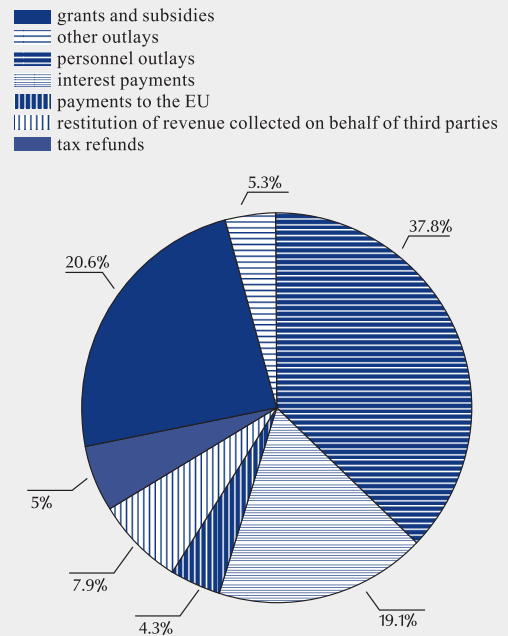
(percentage of GDP)



Source: State General Accounting Office.
* Provisional data.
1 On an administrative basis. Including capitalised interest and other debt servicing outlays.

Chart 14 Composition of outlays under the ordinary¹ budget

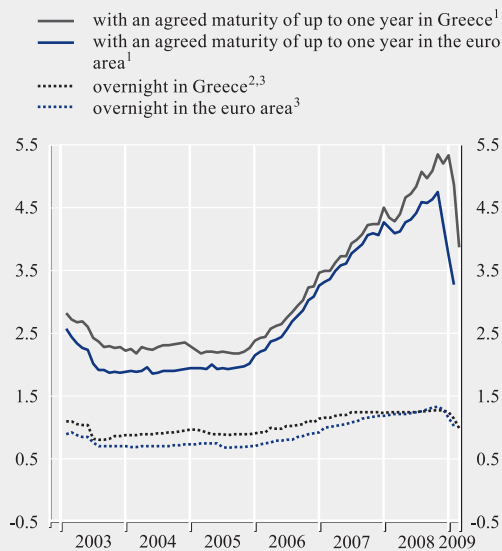
(2008*)



Source: State General Accounting Office.
* Provisional data.
1 Excluding amortisation payments.

Chart 15 Bank interest rates on new deposits by households in Greece and the euro area

(percentages per annum)



Sources: Bank of Greece and ECB.

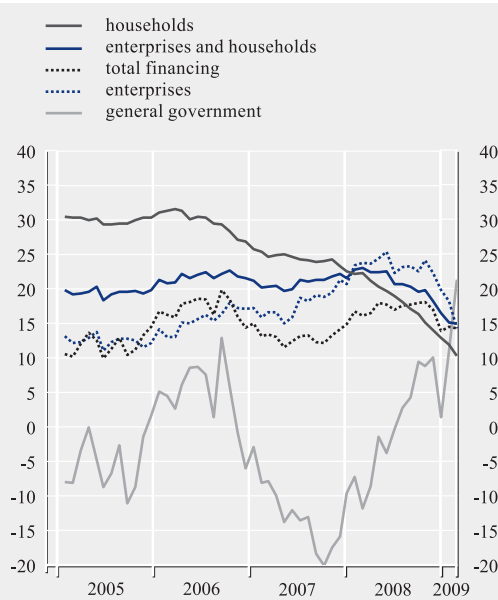
1 Monthly average rate.

2 The interest rate on savings deposits is used, as these deposits represent the bulk of overnight deposits and their interest rate is almost identical to the overnight rate.

3 End-of-month rate.

Chart 16 Financing¹ by domestic MFIs

(percentage changes over same month of previous year)

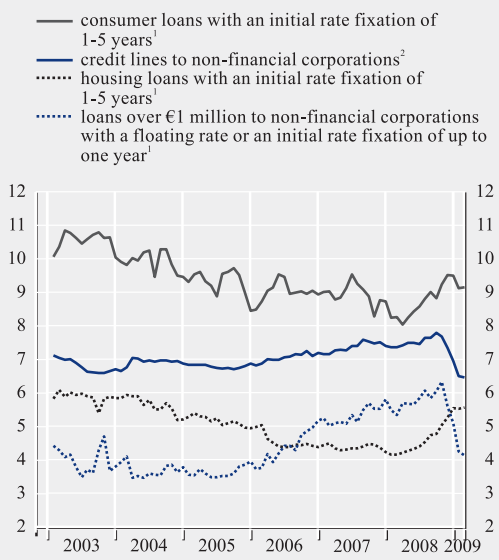


Source: Bank of Greece.

1 Including MFI loans to business firms, households and general government, as well as total MFI holdings of government securities and corporate bonds. Also including the amounts of securitised loans, foreign exchange valuation differences and loan write-offs carried out by banks during the reference period.

Chart 17 Bank interest rates on new loans in Greece

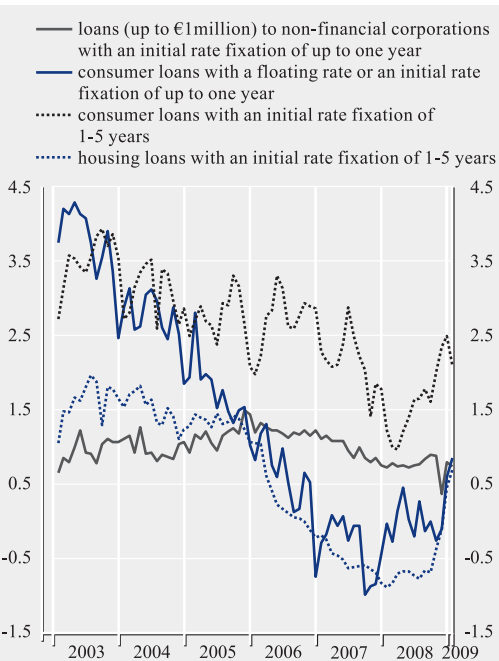
(percentages per annum)



Source: Bank of Greece.
1 Monthly average rate.
2 End-of-month rate.

Chart 18 Bank interest rates on new loans: differential between Greece and the euro area

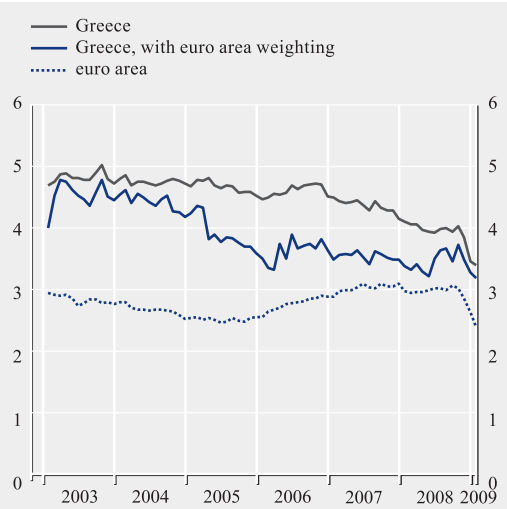
(percentage points)



Sources: Bank of Greece and ECB.

Chart 19 Average interest rate spread between new loans and new deposits in Greece and the euro area

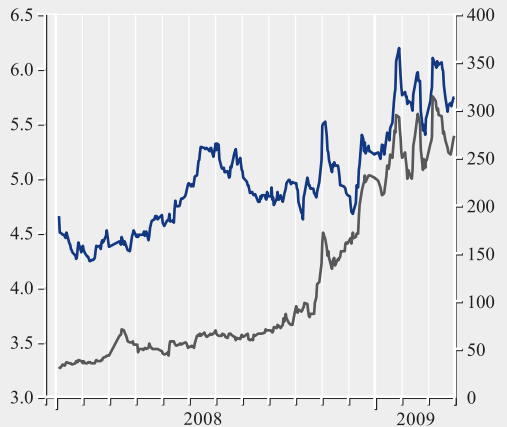
(percentage points)



Sources: Bank of Greece and ECB.

Chart 20 Yield on the Greek 10-year government bond and yield spread against the corresponding German bond

— Greek bond (percentages per annum, left-hand scale)
— spread over German bond (basis points, right-hand scale)

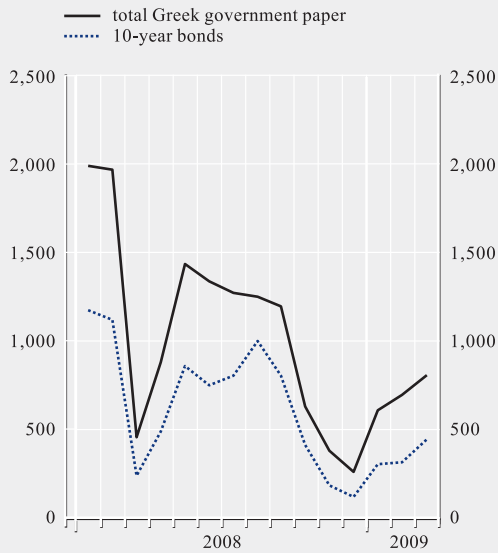


Source: Bank of Greece.

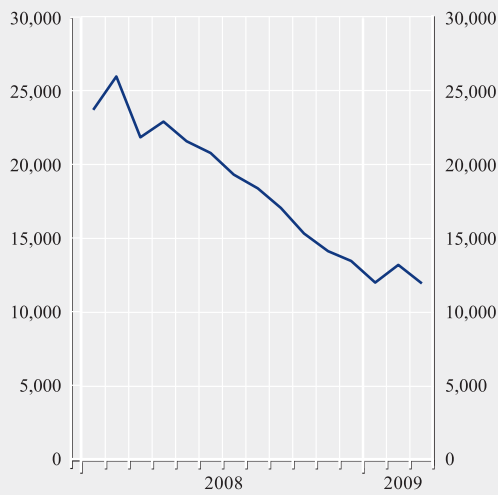
Chart 21 Average daily value of transactions in Greek government paper

(million euro)

A. In the Electronic Secondary Market for Securities (HDAT)

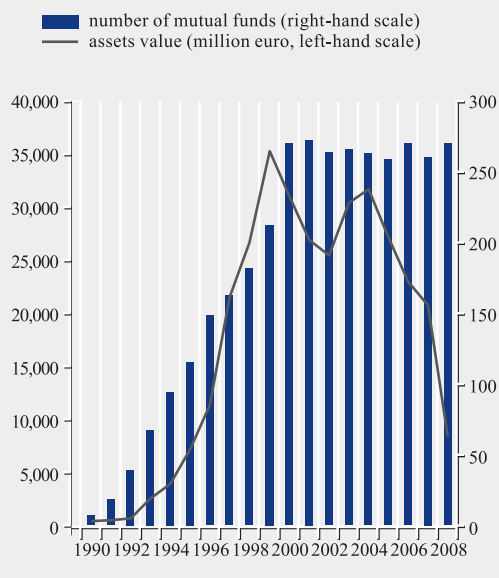


B. In the Book-entry Securities System (SAT)



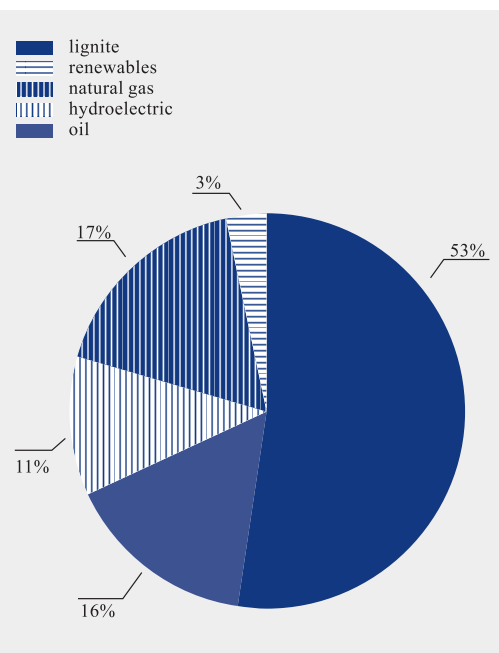
Source: Bank of Greece.

Chart 22 Mutual funds: number and assets



Source: Bank of Greece.

Chart 23 Electricity production by source in Greece (2006)



Source: Eurostat.

Chart 24 Net electricity production and trade (2000-2006)

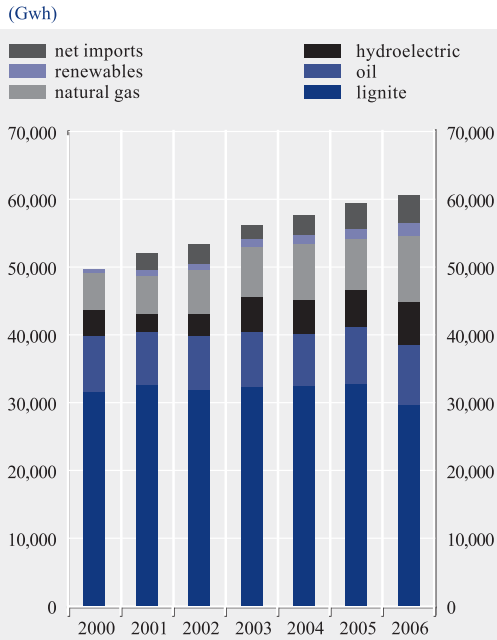


Chart 26 Energy intensity by sector in Greece and the euro area

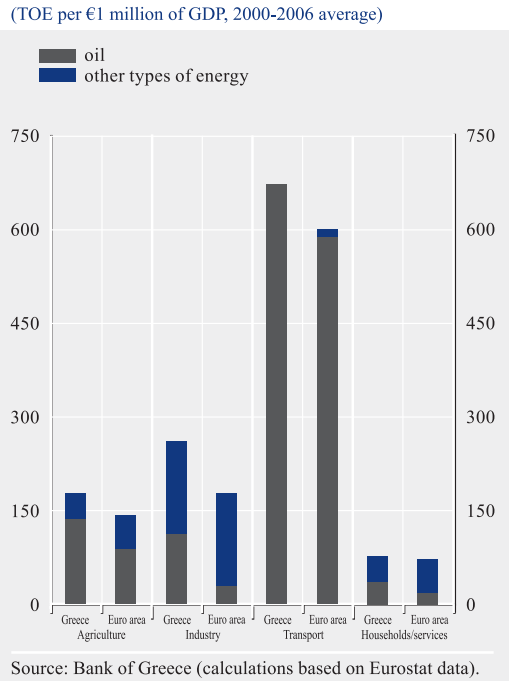


Chart 25 Electricity consumption by sector in 2006

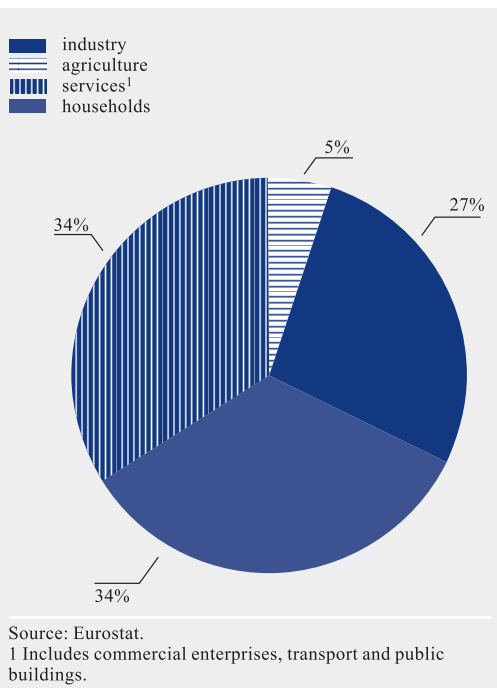
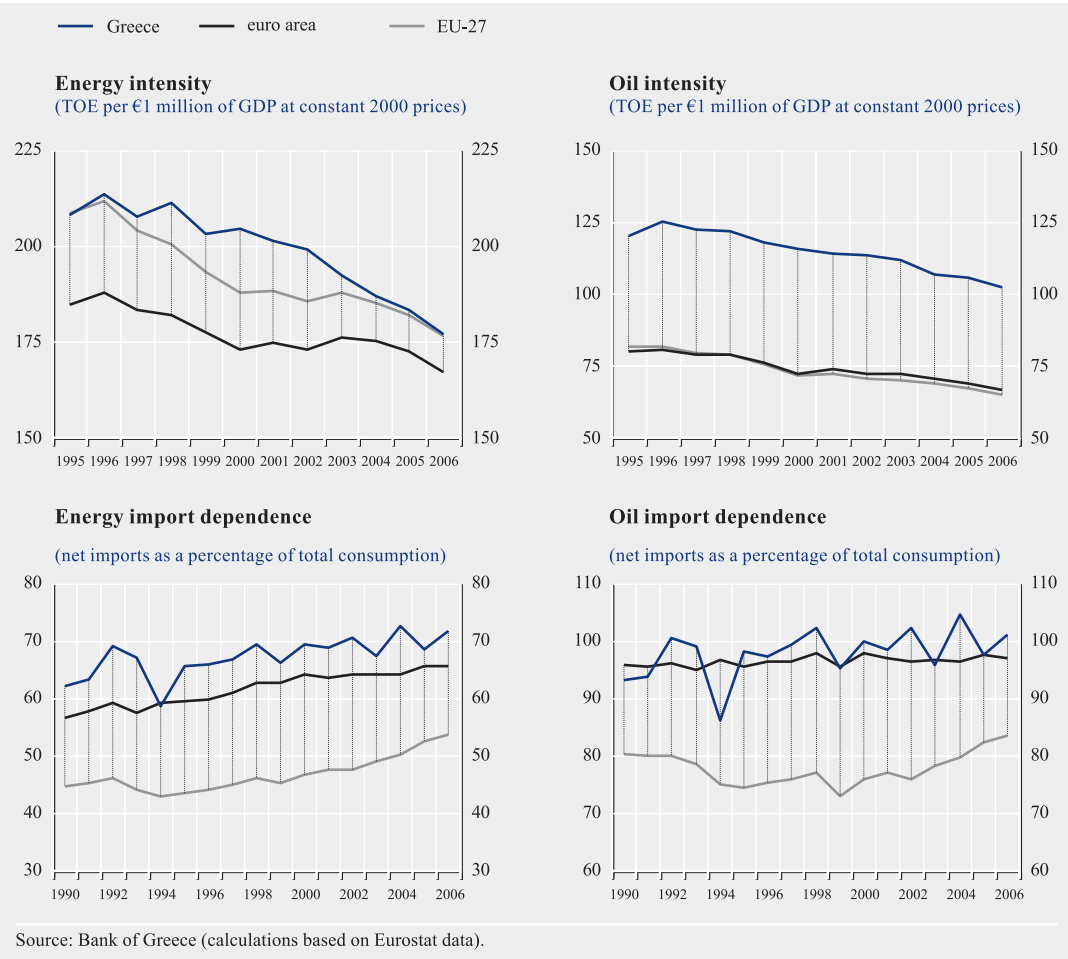


Chart 27 Energy and oil intensity and dependence in the EU-27, the euro area and Greece



**ANNUAL ACCOUNTS
OF THE BANK OF GREECE
FOR THE YEAR 2008**

BALANCE SHEET AS AT 31 DECEMBER 2008

EIGHTY FIRST YEAR

(in euro)

ASSETS	31.12.2008	31.12.2007
1. Gold and gold receivables	2,924,754,323	2,654,573,188
2. Claims on non-euro area residents denominated in foreign currency	301,602,543	439,077,917
2.1 Receivables from the IMF	138,800,294	82,587,355
2.2 Balances with banks and security investments, external loans and other external assets	162,802,249	356,490,562
3. Claims on euro area residents denominated in foreign currency	2,473,540,378	700,755,139
3.1 General government	265,422,923	283,313,841
3.2 Other claims	2,208,117,455	417,441,298
4. Claims on non-euro area residents denominated in euro	830,949,273	1,002,378,668
4.1 Balances with banks, security investments and loans	830,949,273	1,002,378,668
4.2 Claims arising from the credit facility under ERM II	0	0
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	38,354,900,000	8,727,274,500
5.1 Main refinancing operations	22,765,300,000	6,759,000,000
5.2 Longer-term refinancing operations	15,584,000,000	1,968,274,500
5.3 Marginal lending facility	5,600,000	0
6. Other claims on euro area credit institutions denominated in euro	76,778,839	232,122,255
7. Securities of euro area residents denominated in euro	14,529,148,987	17,006,126,881
8. General government long term debt denominated in euro	7,777,980,635	8,231,573,922
9. Intra-Eurosystem claims	1,483,347,572	1,443,521,602
9.1 Participating interest in the ECB	390,454,407	390,235,477
9.2 Claims equivalent to the transfer of foreign reserves to the ECB	1,046,595,328	1,046,595,328
9.3 Claims related to promissory notes backing the issuance of ECB debt certificates	0	0
9.4 Claims related to the allocation of euro banknotes within the Eurosystem (net)	0	0
9.5 Net claims related to transactions with the ESCB (TARGET2)	0	0
9.6 Other claims within the Eurosystem (net)	46,297,837	6,690,797
10. Items in course of settlement	623,195	3,352,187
11. Other assets	2,166,856,607	2,138,966,098
11.1 Coins	44,783,716	50,594,774
11.2 Tangible and intangible fixed assets	804,157,896	822,814,486
11.3 Other financial assets	29,013,836	28,863,993
11.4 Accruals and prepaid expenses	713,208,538	710,243,489
11.5 Sundry	575,692,621	526,449,356
TOTAL ASSETS	70,920,482,352	42,579,722,357
OFF-BALANCE-SHEET ITEMS	31.12.2008	31.12.2007
1. Investments in Greek government securities relating to the management of the "Common capital of legal persons in public law and social security funds" according to Law 2469/97	19,345,001,939	19,361,048,419
2. Investments in Greek government securities and other securities relating to the management and custody of funds of public entities, social security funds and private agents	7,726,244,396	13,474,822,865
3. Other off-balance-sheet items	54,996,031,085	13,461,812,780
TOTAL OFF-BALANCE-SHEET ITEMS	82,067,277,420	46,297,684,064

Notes:

- 1 Under Article 54A of the Bank's Statute, the financial statements of the Bank of Greece are drawn up in accordance with the accounting principles and rules established by the European Central Bank (ECB) and applying to all the members of the European System of Central Banks (ESCB).
- 2 The Bank's key for subscription to the ECB's capital fully paid up by the 15 national central banks of the Eurosystem is 2.60674%.
- 3 Claims/liabilities denominated in euro or foreign currency are broken down into claims on/liabilities to euro area residents and non-euro area residents.
- 4 Account balances related to monetary policy operations are shown under distinct items.
- 5 Gold has been valued at the price provided by the ECB as at 31 December 2008 (€621.542 per fine oz., compared with €568.236 as at 31 December 2007).

LIABILITIES	31.12.2008	31.12.2007
1. Banknotes in circulation	18,291,344,500	16,269,736,665
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	7,793,859,079	7,107,978,508
2.1 Current accounts (covering the minimum reserve system)	4,930,859,079	6,602,978,508
2.2 Deposit facility	2,863,000,000	5,000,000
2.3 Fixed term deposits	0	500,000,000
3. Other liabilities to euro area credit institutions denominated in euro	0	33,400,000
4. Liabilities to other euro area residents denominated in euro	1,597,505,489	1,215,526,026
4.1 General government	1,520,711,578	1,159,332,273
4.2 Other liabilities	76,793,911	56,193,753
5. Liabilities to non-euro area residents denominated in euro	803,627,501	838,556,609
6. Liabilities to euro area residents denominated in foreign currency	103,335,707	81,162,206
7. Liabilities to non-euro area residents denominated in foreign currency	78,796,254	102,325,450
7.1 Deposits and other liabilities	78,796,254	102,325,450
7.2 Liabilities arising from the credit facility under ERM II	0	0
8. Counterpart of special drawing rights allocated by the IMF	114,395,563	111,207,295
9. Intra-Eurosystem liabilities	37,833,037,850	13,195,830,237
9.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates	0	0
9.2 Liabilities related to the allocation of euro banknotes within the Eurosystem (net)	2,484,729,740	2,399,261,590
9.3 Net liabilities related to transactions with the ESCB (TARGET2)	35,348,308,110	10,796,568,647
9.4 Other liabilities within the Eurosystem (net)	0	0
10. Items in course of settlement	25,895,521	43,934,772
11. Other liabilities	728,834,622	666,204,432
11.1 Accruals and income collected in advance	114,275,189	70,402,997
11.2 Sundry	614,559,433	595,801,435
12. Provisions	1,506,799,733	1,173,625,858
13. Revaluation accounts	1,249,112,781	965,418,437
14. Capital and reserves	793,937,752	774,815,862
14.1 Capital	111,243,362	88,994,690
14.2 Ordinary reserve	111,243,362	88,994,690
14.3 Extraordinary reserve	55,000,000	55,000,000
14.4 Special reserve from the revaluation of land and buildings	516,175,995	541,550,688
14.5 Special reserve from the acquisition (free) of fixed assets	275,033	275,794
TOTAL LIABILITIES	<u>70,920,482,352</u>	<u>42,579,722,357</u>

6 Balance sheet items denominated in foreign currency have been converted into euro using the euro foreign exchange reference rates of the ECB as at 31 December 2008.

7 Marketable debt securities are valued at the mid-market prices of 31 December 2008, with the exception of debt securities held to maturity which are valued at amortised cost. These latter securities, in line with the revised accounting policy applied by the ECB, are as of 31 December 2008 reclassified from "other assets" to the appropriate asset item, depending on the currency denomination and the origin of the issuer. Accordingly, an amount of €7.3 billion corresponding to debt securities held to maturity was transferred to asset item 7 "Securities of euro area residents denominated in euro".

8 Fixed assets are valued at cost, with the exception of land and buildings which are valued at market prices determined by independent appraisers, less depreciation.

9 From 2005 onwards, depreciation of fixed assets and banknote production costs is calculated at a rate of 2.5% and 20% respectively, over the expected life of buildings (40 years) and banknotes (5 years on average).

10 Provisions for the year 2008 include an amount of €149.5 million against counterparty risks related to the Eurosystem's monetary policy operations.

11 By virtue of Cabinet Act No. 8/10 June 2008, the Bank's share capital was increased by €22,248,671.20. This amount reflects part of the surplus value arising from real estate revaluation in 2004 and 2007. The share capital increase was effected by the issuance of 3,972,977 new bonus shares of a par value of €5.60 each, which were allotted to current shareholders in a proportion of one new share for every four existing shares. The ordinary reserve was increased by the same amount, drawn from the profit for the year 2008, so as to remain equal to the share capital, in compliance with Articles 10 and 71 of the Bank's Statute.

12 Certain items of the balance sheet and the profit and loss account for the year 2007 have been reclassified to ensure comparability with the respective items of the year 2008.

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2008

(in euro)

	2008	2007
1. Net interest income	706,174,175	540,872,459
1.1 Interest income	1,656,126,765	1,195,032,737
1.2 Interest expense	-949,952,590	-654,160,278
2. Net result of financial operations, write-downs and risk provisions	36,999,655	104,237,125
2.1 Realised gains arising from financial operations	36,999,655	119,570,378
2.2 Write-downs on financial assets and positions	-11,923,222	-43,333,253
2.3 Transfer from provisions for foreign exchange rate and price risks	11,923,222	28,000,000
3. Net income from fees and commissions	144,003,938	131,739,075
3.1 Fees and commissions income	145,510,199	132,948,968
3.2 Fees and commissions expense	-1,506,261	-1,209,893
4. Income from equity shares and participating interests	38,150,051	3,383,702
5. Net result of pooling of monetary income	-134,653,569	6,690,797
6. Other income	32,872,186	38,574,547
Total net income	823,546,436	825,497,705
7. Staff costs and pensions	-311,187,990	-291,754,246
8. Administrative and other expenses	-47,320,801	-58,143,853
9. Depreciation of tangible and intangible fixed assets	-42,567,026	-42,786,390
10. Provisions	-197,386,378	-148,129,355
Total expenses	-598,462,195	-540,813,844
PROFIT FOR THE YEAR	225,084,241	284,683,861

Note: Item 5 "Net result of pooling of monetary income" includes an amount of €149,522,606 regarding the establishment of the provision against counterparty risks in the Eurosystem's monetary policy operations.

DISTRIBUTION OF NET PROFIT

(Article 71 of the Statute)

(in euro)

	2008	2007
Dividend €0.67 per share on 19,864,886 shares	13,309,473	10,647,579
Ordinary reserve	22,248,672	-
Extraordinary reserve	-	36,000,000
Additional dividend €1.73 per share on 19,864,886 shares*	34,366,253	40,206,530
Tax payment on dividends (Law 3296/2004, Article 6)	15,891,909	16,951,370
To the Government	139,267,934	180,878,382
	225,084,241	284,683,861

* The total dividend for the financial year 2008 amounts to €2.40 per share, compared with €2.56 per share (adjusted to the new number of shares) in 2007. Dividends are subject to withholding tax of 10%, in accordance with Article 18 of Law 3697/2008.

Athens, 11 March 2009

THE GOVERNOR

THE DIRECTOR OF THE ACCOUNTS DEPARTMENT

GEORGE A. PROVOPOULOS

DIMITRIOS E. MATSIMANIS

To the Shareholders of the BANK OF GREECE S.A.

Report on the Financial Statements

We have audited the accompanying financial statements of the BANK OF GREECE S.A. ('the Bank'), which comprise the balance sheet as at December 31, 2008, the income statement, and the statement of profit distribution for the period then ended.

Management's Responsibility for the Financial Statements: Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles prescribed by the European Central Bank (ECB) as adopted by the Bank in Article 54A of its Articles of Incorporation and the Accounting Standards prescribed by Greek legislation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility: Our responsibility is to express an opinion on these financial statements based on our audit. Except as in the paragraph below, we conducted our audit in accordance with the Greek Auditing Standards, which are based on International Standards of Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The balance sheet caption "Provisions" includes provision for pensions, other liabilities to employee funds and other general risks amounting to €1,188 million as at December 31, 2008 (December 31, 2007: €1.003 million) which are not supported by an analysis of its method of calculation and, consequently, we are unable to satisfy ourselves as to the reasonableness of such provision.

Opinion: In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the provisions referred to above, the aforementioned financial statements present fairly, in all material respects, the financial position of the BANK OF GREECE S.A. as of December 31, 2008, and of its financial performance for the year then ended in accordance with the accounting principles prescribed by the European Central Bank as adopted by the Bank in Article 54A of its Articles of Incorporation and the Accounting Standards prescribed by Greek legislation.

Report on Other Legal Requirements: We confirm that the information given in the General Council Report is consistent with the accompanying financial statements.

Athens, 11 March 2009

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