SUMMARY OF THE ANNUAL REPORT 2009

APRIL 2010

BANK OF GREECE
EUROSYSTEM

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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

1 THE DEEP ECONOMIC CRISIS AND THE PROBLEM OF PUBLIC DEBT FINANCING

The Greek economy is in the midst of a deep crisis, characterised mainly by a large fiscal deficit, huge debt and a continued erosion of its competitive position. These problems were already present prior to the global crisis of 2008 and it was inevitable, in the absence of bold and decisive action, that they would sooner or later lead to an impasse. As no such action was taken, the situation deteriorated, culminating in fiscal derailment in 2008 and 2009, and in the subsequent widening of the yield spread of Greek government bonds over German ones. Meanwhile, the global crisis amplified the cumulated negative effects of these chronic weaknesses and accelerated the downturn of the economy.

The Bank of Greece had repeatedly issued timely and clear warnings about the gravity of the situation in its reports of October 2008 and of February, April and October 2009. These reports stressed that the large macroeconomic imbalances and the structural weaknesses would only become more severe and more difficult to address as the global economic situation worsened. Warning was also given that the cost of borrowing was likely to rise and that a widening of the yield spread would increase the future burden on taxpayers. Moreover, the Bank stressed the urgent need to send a clear message to the markets that Greece was determined to implement a multiyear plan of fiscal consolidation and structural reforms.

Unfortunately, the developments that followed confirmed these dire warnings. Since April 2009, Greece has been subject to the Excessive Deficit Procedure (EDP), as the deficits of both 2007 and 2008 exceeded the reference value set by the Maastricht Treaty. In 2009, confirming the Bank of Greece's timely warning, the general government deficit widened to a double-digit percentage of GDP (12.9% according to the EDP notification of 21.10.2009, and 13.6% according to revised data released by Eurostat on 22.4.2010), while the public debt climbed to 115.1% of GDP.

These negative developments triggered successive downgradings in Greece's credit ratings and a large widening in the yield spread between Greek and German government bonds through mid-April of this year, resulting in increased borrowing and debt servicing costs for the Greek government. This situation, as long as it persists, worsens Greece's fiscal position, makes fiscal consolidation even more difficult to achieve and seriously hurts the real economy and the banking system. The Greek economy seems to have been caught in a dangerous vicious circle, with only one way out: the drastic reduction of the fiscal deficit and debt so that the current adverse trend can be immediately reversed.

Moving in this direction, the Greek government prepared and published its Updated Stability and Growth Programme 2010-2013 on 14 January 2010, setting quite ambitious fiscal consolidation targets and outlining the structural reform policies to be pursued. On 9 February and 3 March, important fiscal measures were announced, including an increase in indirect tax rates and measures to reduce staff costs and restrict recruitment in the public sector.[1] The law on tax reform was submitted to Parliament on 24 March and passed on 20 April, while the broad lines of the draft law on social security reform were made public on 31 March. In addition, the independence of the national statistical services was consolidated with the establishment of the Hellenic Statistical Authority (EL.STAT.).[2]

These economic policy initiatives were welcomed by the institutions of the European Union:

- On 11 February the Heads of State or Government of the European Union stated that they fully support the efforts of the Greek gov-

1 These measures were incorporated into Laws 3815, 3828 and 3833 of 2010.
2 Law 3832/2010.

ernment and its commitment to do whatever is necessary, adding that the Member States would take determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole.

- On 16 February, the ECOFIN Council adopted an opinion on the latest update by Greece of its Stability and Growth Programme and called on Greece to ensure a budgetary adjustment of at least 4% of GDP in 2010 and to bring its deficit back under 3% of GDP by 2012. The Council issued a recommendation that Greece bring its economic policies into line with the EU's broad economic policy guidelines by adopting a bold and comprehensive structural reform package designed to address the macroeconomic imbalances and structural weaknesses of the Greek economy.

- On 3 March, the Governing Council of the European Central Bank welcomed the "convincing additional and permanent fiscal consolidation measures", announced by the Greek government earlier that day, and viewed as positive both the envisaged very swift implementation of these measures and the Greek government's recognition of the need to rapidly adopt and implement structural reforms in line with the ECOFIN Council Decision of 16 February.

- On 9 March, the European Commission concluded, after thorough assessment, that the additional fiscal measures announced by the Greek government on 3 March appeared sufficient to safeguard the budgetary targets for 2010. This was endorsed by the ECOFIN Council on 16 March.

- On 25 March, the Heads of State and Government of the euro area reaffirmed their statement of 11 February and further stated that the euro area Member States were ready to contribute to coordinated bilateral loans, as part of a financing mechanism involving substantial International Monetary Fund (IMF) financing and a majority of European financing.

However, the markets maintained a wait-and-see approach, at best, and remained sceptical about both the measures taken by the Greek government and the stance and decisions of the EU institutions. This was reflected by the continued widening of the bond yield spread and by Fitch's further downgrading of Greece's debt rating by two notches on 9 April. This reaction of the markets can be attributed to:

- The serious confidence and credibility deficit that the Greek economy still faces, as well as the markets' impatience for immediate and measurable results from the policy actions announced or beginning to be implemented.

- The vagueness of the modalities of the financial support mechanism agreed upon, in principle, on 25 March.

- Mounting concern among current and prospective holders of Greek government securities about the Greek economy's competitiveness and *medium-term* growth prospects, which will largely determine fiscal sustainability in the future and the public sector's ongoing ability to deliver essential services. In other words, the markets are concerned about the debt dynamics, which depends not only on current budgetary results or on the interest rate on government debt, but also on nominal GDP growth.[3]

Furthermore, it has been argued[4] that the increase in spreads from autumn 2009 till recently could also reflect a speculative strategy among some market participants that Greece would default. This strategy took advantage of the Greek government's delay in adopting additional fiscal measures as well as of the relatively protracted indecision of the euro area countries about the conditions of activation and operation of a financial support

3 See, for instance, the article by Arnaud Marès, Senior Vice-President at Moody's Sovereign Risk Group, published in the Athens daily *Kathimerini* (6.12.2009), as well as the rationale of Fitch Ratings behind the latest downgrading of Greek public debt (9.4.2010).

4 See Lorenzo Bini Smaghi (Member of the ECB's Executive Board), "Has the financial sector grown too big?", speech at Kyoto, 15.4.2010.

mechanism for Greece. Indeed, as this strategy delivered capital gains over time, it attracted an increasing number of investors, with an ability to influence the final outcome, thus further adding to market pressure. The investors who took positions based on a default hypothesis had a strong incentive to do all they could to ensure that this would actually happen – and, conversely, stood to lose a lot if it did not. Thus, the hypothesis eventually became a self-fulfilling prophecy. According to the same analysis, in markets characterised by conflicts of interest, colluding behaviour and lack of transparency, actions by individual agents can lead to outcomes which do not reflect market efficiency and an optimal allocation of resources. These considerations point to a need for a more efficient decision-making process within the euro area, aimed in particular at preventing similar situations from occurring in the future and eventually at solving them more efficiently.

In view of the above, it is particularly encouraging that, on 11 April, the Eurogroup specified the terms of the financial support to Greece. In this context, the euro area Member States were ready to contribute for their part up to €30 billion in 2010 in a joint support programme co-financed by the IMF.

As soon as the Eurogroup's decision was made public, the bond yield spreads declined, but then rose again.

On 15 April, the Greek Ministry of Finance sent a letter to the European Commission, the European Central Bank and the IMF requesting discussions with all three institutions "on a multi-year programme of economic policies building on the ECOFIN conclusions of February that could be supported with financial assistance from the euro area Member States and the IMF, if the Greek authorities were to decide to request such assistance".

Regarding the advisability of Greece's recourse to the financial support mechanism, the following points should be made:

- Under the current circumstances, i.e. for as long as the markets are sceptical about Greece's ability to achieve its budgetary targets and, at the same time, preserve its medium-term growth prospects (thereby ensuring smooth debt servicing over the medium term), *exclusive* reliance on the markets for financing the public debt could exacerbate the problem which the markets are concerned about. This could trigger a vicious circle, where high borrowing costs lead to a need for fiscal tightening, which, in turn, would undermine growth prospects and give rise to higher borrowing requirements and higher borrowing costs, and so on.

- Obviously, responsibility for correcting the omissions, delays and failures of the past that have led to the present situation lies entirely with Greece. In this sense, as already mentioned, the only way out of the crisis is to drastically reduce the deficit and debt, through an appropriate policy response. The time factor must however also be taken into account. Some policy measures, in particular most of those aimed at enhancing growth and competitiveness, cannot possibly yield immediate results. On the other hand, even those that can bear fruit immediately —such as specific expenditure cuts or raising indirect taxes— run the risk of being compromised, at least in part, if the markets remain sceptical and overly high interest rates on government debt persist. In such an event, a significant part of the expenditure saving achieved through discretionary fiscal policies would be offset by higher interest payments. If, for instance, the Greek government's borrowing programme for the current year were to be covered by market-based financing at an interest rate 2 percentage points higher than the corresponding rate of 2009, this would imply an additional burden of roughly 0.5% of GDP for 2010 alone, i.e. nearly half the amount to be saved through the cuts in government staff costs adopted on 3 March. Furthermore, *the burden would weigh on the budgetary position in the years to come.* Even if the new borrowing rate over the next five years is only one percentage point higher than that of 2009, the additional interest burden over the same period would exceed €8 billion, which is roughly equal to the additional tax revenue expected for 2010.

• It is, therefore, of critical importance to address the concerns of foreign investors, domestic enterprises and workers about the effective implementation of the fiscal consolidation plan, as well as about the economy's medium-term growth prospects (which will determine both smooth debt servicing and the level of well-being). Against this backdrop, an eventual recourse to the support mechanism would not only provide financing, but would also enhance fiscal discipline and foster the conduct of appropriate structural policies, drawing on the expertise of EU institutions and the IMF in order to ensure the rapid planning and the effective implementation of needed fiscal reform. This would lower the risk of "non-implementation" of economic policy, help build a more positive climate and boost confidence.

As is evident from the above, the support mechanism could serve as an additional policy instrument, provided that it is used not as a *partial substitute* for the national economic policy needed to correct the macroeconomic imbalances and to address the structural weaknesses, but as a *tool for bolstering* this policy, by giving it time to bear its fruit, while fostering its more effective implementation.

High fiscal deficits and debts can, of course, also be found in other countries. Unlike Greece, however, these countries are able to finance their deficits mainly from domestic saving. Greece's gross national saving, public and private combined, was just above 7% of GDP in 2008 and 5% in 2009, i.e. not even sufficient to finance investment to replenish fixed capital. This shortfall in national saving is primarily due to Greece's large fiscal deficits, but also to the strong growth of private consumption over the past few years, which was underpinned by fiscal relaxation. During the five-year period 2004-2008, private consumption at constant prices rose at an average annual rate of 3.8%, compared with 1.5% in the euro area. Moreover, between 1996 and 2008, private consumption accounted on average for 72% of GDP in Greece, against 57% in the euro area.

Given the low level of saving, the public debt cannot be financed from domestic sources; as a result, the current account deficit has been widening for several years now and external debt has been growing. Thus, the problem of the fiscal deficit is intertwined with the problem of the external deficit and debt, and the twin deficits emerge as the main source fuelling the dangerous vicious circle mentioned previously.

The main visible aspects of this situation were growing fiscal imbalances, rising public debt and competitiveness losses clearly reflected in the current account deficit. But the crisis is not limited to just this: it is also taking its toll on the entire economy, hampering the functioning of the banking system, undermining confidence, creating unprecedented uncertainties, and challenging social and economic attitudes and behaviour patterns that have prevailed in the country for decades. The ramifications of the economic crisis are spreading across all of society, which is now called upon not only to recognise the problem, but also to radically change attitudes and practices.

Key macroeconomic indicators and related forecasts reveal the multiple facets of the crisis that the Greek economy is going through.

After a decade of positive performance, GDP contracted by 2% in 2009, mainly because of a sharp fall in investment, but also due to declines in private consumption and exports. Needless to say, this contraction would have been more pronounced without buoyant public consumption. A negative rate of GDP change is projected for 2010 as well, although its level will ultimately depend on the effectiveness and the pace of implementation of the economic policy measures recently announced.

In its Report *Monetary Policy 2009-2010* released in March, the Bank of Greece estimated that GDP would decline this year by around 2%. This projection is surrounded by high uncertainty, and there are strong chances that the contraction may be even sharper, if certain risk factors should materialise. It is also important to note that the recession is hitting the Greek economy later than the rest of the world, where the recovery is already under way, albeit at a faltering pace. The euro area, in particular, has begun to post positive growth since the third quarter of 2009. However, recovery worldwide remains fragile, having been largely driven by expansionary fiscal policies, which will gradually have to be reversed, given that they have led to the accumulation of large fiscal deficits and debts in most advanced economies. The recovery of the global economy has additionally been fostered by accommodating monetary policies, primarily measures for the provision of ample liquidity, which are also being gradually and cautiously phased out.

The recession in the Greek economy has spread to all sectors of activity, negatively impacted on employment and led to higher unemployment. In 2009, total employment declined by 1.1%, the number of employees fell by 1.6% and the unemployment rate rose to 9.5%.

The adverse developments in economic activity and, most importantly, in Greece's fiscal aggregates, together with the blows to market confidence, ultimately took their toll on the banking system. Unlike what was the case with many other countries, where the crisis originated in the financial sector before spilling over to the real economy, the Greek banking system, which is fundamentally sound, only began to face liquidity constraints when the severe fiscal imbalances led to successive downgradings of the country's credit ratings, thereby restricting bank access to funding sources and raising their borrowing costs. Meanwhile, the slowdown in deposit growth, due *inter alia* to the recession, affected the domestic supply of credit. It is worth noting that, in spite of these problems, the annual rate of credit expansion to the private sector remained positive throughout 2009, contrary to the situation in the euro area as a whole, where there have also been periods of negative credit growth rates. As the Bank of Greece has repeatedly stressed, the Greek banking system showed remarkable resilience during the global crisis. The ability of the banking sector to maintain this resilience in the future will be conditional upon dealing with the exogenous factors that hamper its functioning, and restoring market confidence in the future of the economy.

In response to the serious challenges posed by the multi-faceted crisis, economic policy has been oriented towards decisions that signal a strong resolve to reverse the negative trends of previous years. As mentioned above, the Budget for 2010 and the Stability and Growth Programme were supplemented in February and March with measures that enhance the feasibility of the fiscal targets.

Clearly, reversing a trend that has accumulated many problems and led to a dangerous impasse will not be an easy task, nor will it be achieved soon. It will require an equally prolonged effort to break the vicious circle that is pushing the economy into a state of decline, and threatening to undermine the standard of living. If implemented effectively, the recently announced economic policy measures, which mark the start of a large-scale effort, will activate a durable virtuous circle capable of bringing the Greek economy back onto a path of sustainable growth and economic and social progress. In this way, economic policy will live up to the expectations of Greek society and, at the same time, dissipate market concerns about the medium-term prospects of the Greek economy.

However, in order for this to happen, the economic policy measures announced must be implemented promptly and rigorously, according to strict time schedules for concrete measures and interventions, without any faltering, procrastinating and wavering, and using all available tools, including the financial support mechanism, if and when needed. **Furthermore, it would be of crucial importance if fiscal consolidation on the expenditure side progressed further than currently planned and achieved a deficit reduction this year of more than 4% of GDP, by drastically curtailing the squandering of public funds and by merging or eliminating public sector entities that are not really productive. Cutting expenses is, in any case, the suitable option for the next two years too, as any further increase in the already heavy tax burden could have very adverse repercussions on economic activity, given the strong tax competition in Europe. The recommended acceleration of fiscal adjustment and consolidation would also favourably surprise the markets and contribute decisively to restoring confidence, which in turn would have a dampening impact on the cost of government borrowing, with favourable chain effects on banks' borrowing capacity and costs and, further down the line, on borrowing costs for businesses and households.** In this respect, valuable lessons can be learned from the cases of other euro area countries such as Ireland, which was the first country to adopt drastic fiscal adjustment measures and has succeeded in reducing government borrowing costs and stabilising them at levels clearly lower than prior to the adoption of the measures; or Spain, which is also planning to reduce its fiscal deficit by more than 8% of GDP by 2013. It is therefore evident, under the present circumstances, that fiscal consolidation is a *sine qua non* for relaunching growth.

The very next step for economic policy, without any room for delay, is to support the recovery process through structural reforms aimed at substantially bolstering competeviness, steadily improving production and employment conditions and modernising the growth model with special emphasis on two interlinked components, investment and export orientation, so as to ensure the dynamism and openness of the economy.

It must be understood that, as the effort to correct the macroeconomic imbalances of the Greek economy over the next few years will entail a smaller contribution of private as well as public consumption to growth, it is necessary to drastically increase the growth contribution of investment and exports. To this end, we must accustom ourselves to the idea that, just as we strive to meet specific quantitative targets in terms of fiscal deficit reduction, we can and must also start doing so for the enhancement of competitiveness, using relevant benchmarks.

The crisis that the Greek economy is facing today is all-encompassing and multi-faceted. It therefore calls for a bold response of the same kind: sustainable, ongoing and convincing fiscal consolidation, especially on the expenditure side, coupled with groundbreaking structural reforms aimed at improving the operation of markets and enhancing competitiveness. Most importantly, Greece must break with the patterns of behaviour, attitudes and policies that have brought us to the present situation.

2 THE ROOTS OF THE CRISIS AND THE INTERNATIONAL CONTEXT IN WHICH IT IS UNFOLDING

The crisis in the Greek economy stems mainly from chronic problems, but also reflects the impact of the global crisis, which has entered a second, difficult phase, despite a recovery of economic activity worldwide. Apart from its other woes, the Greek economy faces an unprecedented confidence and credibility deficit.

Since October 2008, the Bank of Greece has made a number of important points in its reports, most notably the following:

- The only safe way to shield the economy from exogenous shocks and maintain strong non-inflationary long-term growth is to effectively tackle its imbalances and structural weaknesses, in order to set into motion a far-reaching, more outward-looking, stronger and sustainable growth dynamics. Such a dynamics would be based primarily on enhancing the productive base through investment and a qualitative upgrading of human capital, strengthening market competition and implementing a wide range of structural reforms, particularly in the broader public sector (October 2008).

- The supply of government (and corporate) securities on the global market will increase significantly, as a result of the fiscal stimulus and bank liquidity support packages implemented in other countries; this will exert upward pressure on bond yields and possibly on yield spreads across individual countries and, as a result, raise the Greek government's borrowing costs. The widening yield spread translates into a cost for the entire economy, given that banks and non-financial corporations obtain funding from the international markets at less favourable terms than the government, and in addition will entail a higher future burden on taxpayers. If the confidence of markets and economic agents is restored through an immediate and drastic reduction of the fiscal deficit, a *prima facie* restrictive fiscal policy could have an expansionary effect by securing lower borrowing rates. Conversely, a *prima facie* expansionary policy would turn out to be restrictive, as it would entail fiscal costs several times higher over both the short and the medium term (February 2009).

- Never, in any part of the world, has a country achieved sustainable growth based on chronic fiscal deficits. On the contrary, numerous are the examples of countries whose growth process has been undermined by high deficit and debt levels (April 2009).

- Countries like Greece with twin deficits and debts face the serious risk of a much more difficult and slower exit from the crisis and of a protracted period of low growth. The necessary multi-annual fiscal consolidation plan must therefore be made public as soon as possible, so that the markets will know beforehand what the Greek authorities intend to do (and how they intend to do it). It is essential that the markets be conveyed the message that Greece remains committed to the medium-term target of a sound fiscal position, as this will enhance the country's credibility in international markets and generate positive expectations (October 2009).

The multi-faceted and all-encompassing crisis that the Greek economy is confronted with today is, due to its seriousness, also affecting the state, the institutions and finally society at large. The main features of this crisis can be summarised as follows:

First, the accumulated negative repercussions of chronic structural weaknesses and distortions as well as of macroeconomic imbalances have now emerged in full force, as the factors that had previously concealed them, i.e. factors that fostered strong economic growth over the 1996-2007 period (albeit unsustainably, as has now become apparent), have now been exhausted. The explosive fiscal imbalances were compounded by a major credibility problem, which spread from Greece's statistics to its economic policy and to its overall reputation.

Second, the effects of the global crisis on Greece's real and financial sectors are manifesting themselves with some lag. Due to domestic distortions, Greece may not be able to reap the full benefits of the recovery that has begun to gain traction in the rest of the world.

Third, the crisis in the European and the global economy has entered a second phase, characterised by a recovery that is proceeding at a faltering pace and is uneven across countries.[5] In this phase, the dominant question is how to

5 In the United States, the business cycle dating committee of the National Bureau of Economic Research (NBER) recently announced that on the basis of current data it would be premature to determine a possible date of the trough in economic activity marking the end of the recession that began in December 2007 in the United States (see NBER press release, 8 April 2010). In the euro area, the quarterly rate of change in GDP, albeit positive in the third quarter of 2009, was zero in the fourth quarter (Eurostat, News release, 7 April 2010).

address the surge in fiscal deficits and debts in all the advanced economies attributable to the fiscal stimulus and credit support packages. In other words, how to design the appropriate exit strategies so as to strike the difficult balance between the need to counter the risks to fiscal sustainability in time and the need to avert a return to recession as a result of a premature withdrawal of the fiscal stimulus measures. At the same time, in the context of fast-rising public debt in advanced economies, a new phenomenon has emerged that further complicates the situation: a shift in pressure towards government paper markets. This development has also been favoured by the hesitant steps so far in building a new architecture for the international financial system, especially with a view to expanding the scope of regulatory supervision to include other categories of financial institutions and instruments, such as hedge funds and credit default swaps (CDS).

All of the above factors have contributed to the confidence and credibility deficit currently faced by the Greek economy, amid negative assessments of its recent performance and negative forecasts about its medium-term prospects, taking into account its chronic structural weaknesses and macroeconomic imbalances. This confidence deficit is primarily reflected in the higher cost and greater difficulty that Greece faces in financing its public debt, which received a lot of publicity from domestic as well as foreign media. Characteristically, the yield spread between the ten-year Greek bond and the corresponding German one, after declining during the April-September 2009 period, widened considerably in the last three months of 2009, mainly as a result of the rising yields of the Greek bond. This trend continued during the first three months of 2010, although there were signs of a reversal in March. By end-March 2010, the yield of the ten-year Greek government bond had climbed to 6.48%, from 5.69% in December 2009 and 4.59% in August 2009, before soaring to 7.54% in the first ten days of April 2010. Underlying this negative development were: (a) the uncertainty surrounding the operational details of the financial support mechanism announced in the statement by the Heads of State and Government of the euro area countries on 25 March; and (b) the high volatility in the market for Greek government bonds, which discourages potential investors, as shown by the low participation in the seven-year Greek government bond issue of end-March 2010 amid concerns about the country's ability to correct its fiscal imbalances. After the technical modalities of the financial support mechanism were clarified by the Eurogroup on 11 April, it is reasonable to expect a gradual improvement in market conditions (although the yield spread continued to widen in the third week of April). Generally speaking, fiscal imbalances, changes in a country's credit rating, the liquidity situation in the secondary market and, of course, the long-term growth outlook (which has a decisive impact on the external debt dynamics) are considered important determinants of government bond yield spreads.

3 THE MANIFESTATIONS OF THE TWIN CRISES AND THE CRUCIAL ROLE OF SAVING AND COMPETITIVENESS

The close interconnection between the public deficit and debt problem and the external deficit and debt problem highlights the urgent need to increase national saving from its currently very low level, to improve the Greek economy's competitiveness and to upgrade productive capacity so that it can better meet domestic and external demand.

The current twin crises are reflected in the twin deficits and twin debts.

Fiscal deficit and public debt

Greece's large fiscal deficit and huge public debt are only to a small extent attributable to the economic recession. Rather, they are the cumulative result of chronic macroeconomic imbalances, which were not addressed when there was still room to do so and worsened in the absence of a proper, bold policy response. The global crisis simply aggravated Greece's fiscal performance and prospects, which had already begun to deteriorate in the second half of 2007 for reasons unassociated with the economic downturn. Indeed, the fiscal deficit has been above 3% of GDP almost every year for the past decade.

Greece has been subject to the excessive deficit procedure (EDP) since April 2009, as its deficits for both 2007 and 2008 had exceeded the reference value set by the Treaty. The general government deficit turned out at 3.6% of GDP in 2007, 7.7% in 2008 and 12.9% in 2009, according to the EDP notification to Eurostat on 21 October 2009. However, according to revised data notified on 1 April 2010 and released by Eurostat on 22 April 2010, the deficit came to 5.1% in 2007, 7.7% in 2008 and 13.6% in 2009. These adverse budgetary developments, as already mentioned, triggered the downgrading of Greece's credit rating and a sharp widening in the yield spread of Greek government bonds vis-à-vis German ones in late 2009 through to mid-April 2010.

As the economic crisis unfolded in 2009, high general government deficit ratios were posted by several other countries, such as the United States (12.5%), the United Kingdom (11.5%), Ireland (14.3%), Spain (14.3%) and Portugal (9.4%). However, the case of Greece is different, as it is associated with a dangerous mix of problems stemming from the economy's structural weaknesses. The high public debt (which at 115.1% of GDP in 2009 was the highest in the euro area along with that of Italy and is expected to keep rising at least through 2014, according to certain projections) and the anticipated additional budgetary burden over the medium to long term as a result of population ageing (pension expenditure is projected to grow from 11.7% of GDP in 2008 to 24.0% in 2050, as stated in the Updated Stability and Growth Programme (USGP) 2009-2013) underscore the magnitude of the long fiscal effort that will be required. Specifically, according to Bank of Greece staff projections, the debt dynamics is unfavourable, as it is estimated that the fiscal adjustment envisaged in the USGP will only lead to a stabilisation of the debt-to-GDP ratio in 2014, and —what is more— at very high levels (over 130%), on the basis of conservative assumptions regarding nominal GDP growth over the next few years and the nominal interest rate on public debt.[6] Should fiscal adjustment exceed the USGP targets, the debt ratio could stabilise at around 130% by 2012, whereas if the primary fiscal balance turns out lower than envisaged in the USGP, the evolution of public debt over time will be unsustainable. Meanwhile, it is estimated that reducing the debt ratio to below 100% of GDP will require a systematic fiscal effort over a number of years, at a time when it is essential to restart the growth process and ensure that strong economic performance is restored within a reasonable time frame. An additional effort will also be required to effectively and promptly address a number of significant future risks, such as the budgetary implications of population ageing. Social security reform must therefore signal resolve, which would be assessed as positive not only by the markets but also by future pensioners, who seek reassurance that their prospects of receiving a decent pension are not in jeopardy as current trends might suggest. Thus, a social security reform capable of successfully meeting future challenges, the strict implementation of the fiscal consolidation plan included in the USGP, and the promotion of structural reforms and growth-enhancing initiatives constitute the only option.

This fiscal effort, however, must be carried out and yield results in an environment of considerable risks to the sustainability of public finances worldwide. These risks stem from: (a) the sharp increases in the fiscal deficits and public debt of advanced economies; (b) adverse demographic prospects due to population ageing; and (c) the assessment that a

6 More pessimistic projections have been made by foreign analysts, while in Greece there have also been more optimistic projections: see Alpha Bank, Economic Research Division, *Weekly Economic Report*, 8 April 2010, pp. 2-4 (in Greek).

return of potential growth and employment to pre-crisis levels should not be expected soon. Additional risks stem from the vulnerability of public finances to market-driven shocks, where market uncertainty about the timing and pace of exit from fiscal stimulus measures leads to a widening in the yield spreads of government bonds. At the same time, as investors increasingly shy away from government securities, the advanced economies are expected to face higher interest rates on their public debt, while their growth figures will fall below pre-crisis levels. The wider the growth-interest rate gap, the larger the fiscal adjustment needed to halt the upward trend of the public debt-to-GDP ratio. Therefore, structural reforms are required in advanced countries in order to boost potential growth. As shown above, these remarks apply *a fortiori* to Greece.

Against this background, the manner in which each country finances its deficit and debt is of crucial importance. Japan, for instance, had a gross debt of 217.6% of GDP in 2009, but was able to finance it through domestic sources, given its high level of national saving (23% of GDP) and a current account surplus of 2.8% of GDP in 2009. In the United States, the public debt (83.2% of GDP in 2009, forecast for 2010: 92.6%), as well as the current account deficit (4.9% of GDP in 2008, 2.9% of GDP in 2009) are financed with US dollars, an international reserve currency, whereas national saving is relatively low (10.8% of GDP in 2009, compared with 18.7% in the euro area). In Italy, where the public debt was 115.8% of GDP in 2009 (almost as high as Greece's), national saving is relatively high (15.5% of GDP) and reliance on external financing is low (the current account deficit was only 3.4% of GDP in 2009). In Greece, however, national saving is very low, resulting in heavy reliance on capital inflows in order to finance the debt, as implied by the high current account deficit. Portugal is in a similar position to Greece (with national saving at only 8.1% of GDP in 2009, a current account deficit of 10.1% of GDP and —as mentioned previously— a relatively high fiscal deficit), but its public debt is not far above the euro area average, even though it is on an upward trend (2009: 76.6% of GDP, forecast for 2010: 85%).

Current account deficit and external debt

Greece's current account deficit, after widening continuously over the past few years, reached 14.6% of GDP in 2008. It declined temporarily to 11.2% in 2009, exclusively owing to the recession, but is expected to rise again this year (this forecast is supported by available data for the first two months of 2010, adjusted for the effects of extraordinary and temporary factors). Meanwhile, the total gross external debt (public and private) is also very large, having increased from 151.6% of GDP at end-2008 to 170% of GDP at end-2009. The gross external debt of general government accounted for 53.2% of the total external debt at end-2009 and was equivalent to 90.4% of annual GDP. Moreover, Greece's negative net international investment position, i.e. the difference between residents' financial assets and liabilities vis-à-vis non-residents, which best captures the country's external position, stood at 83.1% of GDP at end-2009. In the past, it was often thought that the current account deficit could be financed relatively easily in the context of euro area participation, but it was sometimes underestimated that persistently high deficits imply growing external debt, the financing of which can be hampered, no longer because of a lack of reserve assets, but because of increased credit risk. In other words, the current account deficit must not be ignored or underestimated, for two reasons: First, because, as was the case during the past few months, it can lead to an excessive increase in risk premia on the country's borrowing. And second, because, in the long run, it leads to a decline in the standard of living, as the economy runs the risk of becoming trapped in a quagmire of low production potential, increased interest rates on government borrowing and a substantial transfer abroad of resources and income for external debt servicing purposes.

By definition, a current account deficit reflects a shortfall in national saving relative to domestic investment spending, which is equivalent to the shortfall in aggregate domestic output relative to aggregate demand and expenditure. This insufficiency in output is due to large cumulative losses in international competitiveness.

The shortfall of national saving relative to domestic investment over the past decade is attributable to the concurrent fast growth of consumption and investment, spurred by the sharp drop in interest rates as a result of Greece's participation in EMU, robust credit expansion, the over-optimism of households and firms and, of course, large fiscal deficits. The insufficiency of gross national saving and its continuous decline as a percentage of GDP over the past twenty years are clearly reflected in national accounts data:[7] gross national saving dropped from 18.5% in the five-year period 1992-1996 to 14.0% (1997-2001), 10.5% (2002-2006), 7.6% (2007), 7.1% (2008) and further to 5.0% in 2009. These percentages are the lowest in the euro area.

Gross saving of the private sector dropped from 24.6% of GDP (1992-1996) to 14.5% (1997-2001), 12.5% (2002-2006), 10.0% (2007) and 9.8% (2008), but is estimated to have increased in 2009 (to roughly 15%).[8]

Finally, the evolution of general government gross saving reflected changes in the fiscal policy stance. From negative (-6.1% of GDP) in the period 1992-1996, general government saving came close to zero (-0.5%) over the following five-year period (1997-2001), before becoming increasingly negative (2002-2006: -2.0%, 2007: -2.5%, 2008: -2.7%, 2009: around -10%).

According to national accounts data, gross national saving, at only 7.1% of GDP in 2008 and 5.0% in 2009, was not sufficient to finance total investment, which came to 20.9% and 18.1% of GDP, respectively. The gap (as in previous years) was covered through the current account deficit (13.8% of GDP in 2008 and 13.1% in 2009 on a national accounts basis, 14.6% of GDP in 2008 and 11.2% in 2009, based on Bank of Greece balance of payments statistics). The problem is, in fact, far more serious, considering that net national saving, net of depreciation (which amounted to 12.2% of GDP in 2008 and 13.1% in 2009), was negative in the period 2000-2009 (-5.1% of GDP in 2008 and -8.1% in 2009), with the exception of the years 2001 and 2004, when it was positive, but did not exceed 0.2% of GDP. What this means is that saving was not even sufficient to replace depreciated fixed capital. It should be pointed out that net saving in the euro area was positive both in 2008 (5.8% of GDP) and in the twelve months through September 2009 (3.4% of GDP). As far as private sector saving in Greece is concerned, it is worth noting that, whereas both gross and net corporate saving have been positive, household gross saving was practically nil between 2001 and 2008 (+0.1% of GDP on an average annual basis) and net saving was strongly negative (-6.4% of GDP on an average annual basis).

The above data show how the large deficits of the public sector and the low levels of private sector saving have fuelled the external imbalances. This is supported by relevant research showing that the deterioration in the external balance reflects both increased investment and lower saving, which is associated with a rise in household borrowing.[9] The years from 1996 through 1999 were marked by an effort to achieve fiscal consolidation in order to secure euro area entry, as well as by a concurrent drop in private sector saving owing to the favourable conditions created by financial lib-

7 See European Commission, *Autumn 2009 Economic Forecasts*, Tables 43 to 45, USGP 2009-2013 and NSSG data (March 2010) for the period 2008-2009.

8 The nominal disposable income of the private sector increased at a low rate in 2009 (reflecting a rise in pre-tax income as well as increased tax and contribution evasion), while private consumption declined in nominal terms. As a result, gross private saving rose.

9 See Moschovis and Capo Servera (2009), "External imbalance of the Greek economy: the role of fiscal and structural policies", European Commission, DG Economic and Fiscal Affairs, *Country Focus*, Vol. 6 (6), and European Commission (2009). *Quarterly Report on the Euro Area*, Vol. 8 (1). See also: Brissimis et al. (2009), "Current account determinants and sustainability in periods of structural change", Bank of Greece (soon to be published).

eralisation, while the years 2000 through 2004 were marked by strong investment activity, mainly infrastructure-related, in preparation for the Olympic Games, as well as by a new widening of public deficits. The limited fiscal consolidation effort made in 2005 and 2006 was not continued in the next three years, while at the same time private saving began to drop significantly, mainly because the rise in residential investment was financed through loans. These developments have made it imperative to achieve drastic fiscal consolidation and, as pointed out in previous Bank of Greece reports, to develop an alternative growth model, not based exclusively on private consumption (with a high import content and excessive reliance on strong credit expansion) or on private residential investment.[10]

The losses in competitiveness, to which the large current account deficit is directly attributable, are mainly related to the structural weaknesses of the economy, such as product and labour market rigidities, fiscal policy relaxation at a time when rapid growth would have called for and allowed bold fiscal consolidation, and —finally— a bloated, ever-expanding, inefficient public sector, with insufficiently transparent accounting practices. Labour and product market rigidities have contributed to keeping wage and price growth rates steadily higher than in the euro area as a whole.

In the nine years from 2001 through 2009, average annual inflation in Greece exceeded the euro area rate by 1.1-1.2 percentage points, while the cumulative increase in average nominal earnings came to 63% in Greece, compared with 25.6% in the euro area. Meanwhile, the real effective exchange rate (EER) of the euro, weighted vis-à-vis Greece's 28 major trading partners, recorded a cumulative increase of 18.6% in terms of the CPI-based index or 26.6% in terms of the ULCT-based index as estimated by the Bank of Greece (according to ECB and European Commission estimates, the increase in the ULCT-based EER comes to 20.7% and 15.5% respectively). In respect to Greece's euro area partners, this index is obviously not affected by changes in the *nominal* exchange rate of the euro and is estimated to have recorded a cumulative increase of 9.2% based on relative prices, or 17.6% based on relative unit labour costs.

The ensuing large losses in price competitiveness have worsened the problems caused by the structural weaknesses in production and are one of the primary factors underlying both the persistently low "structural" competitiveness and the limited ability of domestic output to adequately and flexibly meet the composition of and changes in external and domestic demand. These conclusions are confirmed by Bank of Greece studies, soon to be published, on the current account deficit. These studies suggest that the current account deficit is unsustainable, as it is not due to temporary factors, and that productivity in the economy is negatively affected by a number of problems at the institutional level (such as corruption, the poor quality of the legal framework, in particular the plethora of laws), product and labour market rigidities, the shortcomings of the educational system and the inadequacy of infrastructures. The shortfall in production capacity is evident both in manufacturing and in sectors where Greece has traditionally had a comparative advantage, such as tourism.

A recent study by the European Commission on competitiveness and current account balances in the euro area countries, some of which are in deficit and others in surplus, points out that Greece is "in a league of its own", combining large and persistent imbalances and protracted losses of competitiveness.[11] This has been repeatedly underscored in reports by the Bank of Greece.

10 See Brissimis et al. (2009), *op. cit.*, Moschovis and Capo Servera (2009), *op. cit.*, European Commission (2009), *op. cit.* Also, Daniel Gros, "Greek burdens ensure some Pigs won't fly", *Financial Times*, 28.1. 2010, which stresses the need to address both the fiscal problem and low private saving if Greece wants to succeed in exiting from the crisis.

11 See European Commission, *Quarterly Report on the Euro Area,* Volume 9, No. 1 (2010), special issue: "The impact of the global crisis on competitiveness and current account divergences in the euro area", 1.4.2010.

It is important to note that on 15 March the Ministers of Economy and Finance of the euro area (Eurogroup) recognised that competitiveness divergences and current account imbalances are a matter of common concern for all euro area countries. The required policy response should be comprehensive, tailored to the specific needs of each Member State, and cover measures in four key areas: budgetary and wage policies, the labour market, product and services markets and the financial sector. Measures targeted at boosting labour productivity and potential growth, improving resource allocation by the financial sector and ensuring sustainable public finances would benefit all the Member States by helping to correct imbalances and to underpin the recovery. Action, however, is also needed in Member States that have accumulated large current account surpluses. In these countries, policies should aim to identify and implement structural reforms that help strengthen domestic demand. The Ministers committed:

- to address the issue of competitiveness divergences and macroeconomic imbalances swiftly and effectively;
- to put in place an ambitious and comprehensive policy response covering appropriate measures in all four areas mentioned previously;
- to make sure that the agreed policy response is coordinated in the euro area, designed to address the specific vulnerabilities and needs of each country and facilitate the smooth functioning of EMU; and
- to review progress on a regular basis.

4 THE PROSPECTS FOR THE MAIN MACROECONOMIC AGGREGATES IN 2010

In March, GDP was forecast to fall by around 2% over 2010 as a whole. This forecast is surrounded by high uncertainty, while there is a strong possibility of an even sharper drop. Crucial among the conditions required for generating favourable chain effects that will offset the immediate contractionary impact of certain fiscal measures is the prompt promotion and implementation of structural policy measures. Employment will continue to decline in 2010, probably at a quicker pace, while the unemployment rate will rise further. Inflation will pick up, but may hover just above 3% if part of the indirect tax increases is not passed on to prices. Reduced employee earnings will lead to lower unit labour costs or slower unit labour cost growth in the economy as a whole, but in the business sector this deceleration will be limited. The overall prevailing conditions (mainly on the demand side) foreshadow that business profit margins will be squeezed, the number of loss-making firms will rise and more enterprises, particularly SMEs, may be forced to shut down.

As regards **economic activity**, the present Report estimates that GDP will contract at a rate of around 2% in 2010, taking into consideration:

(a) the downward revision of 2009 GDP growth to -2.0% and, in particular, the fact that year-on-year growth was -2.5% in the last quarter;

(b) the continued (in late 2009 and early 2010) unfavourable evolution of certain key short-term activity and confidence indicators; and

(c) the adoption of further austerity measures announced on 2-9 February and 3 March (on top of those taken into account in the preparation of the Updated Stability and Growth Programme – USGP), which will lead to reduced incomes, lower public investment spending and higher inflation (and thus a larger decrease in real incomes).

However, this forecast of a fall of around 2% is clouded by higher than usual uncertainty and an increased likelihood of an even sharper contraction. In any event, the final impact of all the fiscal policy measures announced (those in the USGP plus the additional ones) will depend on:

- their efficient and prompt implementation;

- the relative balance struck between the contractionary and expansionary effects of each individual measure and of the package as a whole; for instance, the increased VAT rates feed into inflation, while the restrictive income policy measures drive down incomes and demand, but also help reduce both the fiscal deficit and unit labour costs – a development that can lead to contained inflation and higher competitiveness (thus also encouraging investment); and

- enriching the economic policy mix with other, non-fiscal structural policy measures, primarily ones generating a low or zero fiscal cost and quick results, e.g. slashing red tape, removing product and labour market rigidities, and swiftly utilising the EU funds available under the National Strategic Reference Framework (NSRF) – Community Support Framework IV, in order to improve the business environment and the investment climate as soon as possible, and thus foster conditions for recovering lost competitiveness in international markets.

Equally crucial will be the speed of implementation of the fiscal measures and the extent to which these measures, plus any structural measures designed to complement them, will boost the confidence of international markets and domestic economic agents in the Greek economy's fiscal and growth prospects. Eliminating market scepticism will help lower the cost of borrowing for the Greek government, thus generating favourable chain effects on Greek banks' access to funding and funding costs and, ultimately, on borrowing costs for businesses and households. In turn, these favourable effects could offset —at least in part— the immediate contractionary impact of certain fiscal measures. It should be stressed that the positive effect generated through the confidence channel and lower borrowing costs effectively depends on the resolved implementation of the announced policy and its enrichment with the aforementioned structural measures, as well as on the full use of all the available tools, including the financial support mechanism (the operating conditions of which were clarified by the Eurogroup on 11 April), if and when deemed advisable.

As regards the **labour market**, based on indications currently available for the relevant aggregates and the projected developments in activity, employment is expected to continue to decline in 2010, possibly at a higher rate than in 2009. In more detail, total employment could fall at a rate of around 1.5% (compared with -1.1% in 2009) and the number of employees could decrease by almost 2% (compared with -1.6% in 2009), while the unemployment rate may exceed 10.5% (from 9.5% in 2009).

Turning to **inflation**, the net balance between upside and downside risks to price stability suggests that average annual HICP inflation should come close to or just over 3% in 2010, up from 1.3% in 2009. Core inflation is also expected to rise and hover at or just above 2.5%, from 2.2% in 2009.

- Downside risks to the inflation outlook include the continued contraction in domestic demand this year, an expected decline or deceleration in unit labour costs in total economy, and squeezed business profit margins due to subdued demand for goods and services.

- Upside risks include the projected course of oil and other commodity prices in international markets, coupled with the depreciation of the euro vis-à-vis other major currencies, and the increases in indirect taxation (VAT and special consumption taxes) decided in February and on 3 March. In more detail, it is estimated that a full pass-through to prices of these higher indirect taxes would add almost 2.5 percentage points to HICP inflation, pushing it up to roughly 4%. Nevertheless, there are signs that —mainly due to adverse demand conditions— a considerable part of this increase in indirect taxes will be absorbed by businesses and not passed onto consumers. Hence, inflation could be contained at approximately 3%.

Furthermore, taking into account: (i) the announcements of 9 February and 3 March regarding the salaries of civil servants and employees of the broader public sector (which lead to substantially reduced earnings); and (ii) the working assumptions that collective bargaining in the private sector will result in zero increases or increases in the order of 1% (which, together with a carryover effect of 1.7-1.9% from the raises granted in 2009, would represent an average annual increase of around 1.7-1.9% or 2.7-2.9%), **average gross earnings** in the whole economy should fall by 1.4% or 0.8% in nominal terms, for the first time in 35 years, compared with a rise of 4.6% in 2009. Moreover, in real terms, average gross earnings should decrease by 4.3% or 3.7%. Compensation per employee (which includes both employer contributions and public sector employee pensions) is expected to fall by 0.5% or to remain practically stagnant (up by 0.1%), after rising by 4.9% in 2009. Assuming that GDP and dependent employment will decline by 2% and 1.9% respectively, labour productivity should be 0.1% lower. In such an event, **labour cost** growth in total economy would decrease by 0.4% or increase by 0.2% (2009: +5.3%). In the business sector, however, labour costs should rise by 1.6% or 2.5% (2009: 3.4%), i.e. the deceleration will be limited, mainly due to the carryover effect from the previous year. **This means that 2010 would see a continued erosion of competitiveness in terms of relative unit labour costs.** Unit labour cost growth in the business sector could be even higher if GDP contracts by more than 2%, or lower if wage employment falls by more than 1.9% and/or firms resort even more than in 2009 to cutting average working hours (and corresponding wage costs).

Finally, business **profit margins** are expected to be squeezed by subdued demand and higher costs of imported raw materials. Most likely, these developments will not be fully offset by the projected further deceleration in labour cost growth, which in the business sector will be limited, as mentioned above. At the same time, the number of loss-making firms is expected to rise, while more enterprises, in particular SMEs, may be forced to shut down, further worsening the unemployment outlook.

5 PRECONDITIONS FOR EXITING THE CRISIS AND ACHIEVING SUSTAINABLE GROWTH

Slashing the budget deficit is the only option for the Greek economy to survive. Fiscal consolidation is today a precondition for any step forward and for sustainable economic growth. In this sense, it is, under the present circumstances, the number one growth-generating measure. However, the final impact of the fiscal measures on the deficit outcome and the course of economic activity will depend on the pace and effectiveness of their implementation, as well as on the planned structural policy measures, which must be adopted and implemented as soon as possible.

The dramatic deterioration in Greece's **public finances** and the large widening in the spreads between Greek and German government bonds, if not reversed, will continue to lead to higher borrowing and debt servicing costs for the Greek government, and thus to put a further burden on fiscal balances, deflecting resources from other actions (public investment, education, health, etc.). They will also entail higher funding costs and limited access to funding for Greek banks and, ultimately, higher borrowing costs for businesses and households, with obvious dire consequences for growth prospects. Reducing the government deficit and debt is therefore a *sine qua non* for the survival of the Greek economy. The recent decision of the Eurogroup (11 April), which clarified the technical modalities of the financial support mechanism, can help ease market concerns, even though into the third week of April the spreads were still widening. However, dispelling concerns about the economy's medium-term growth prospects calls for a mapping out in detail and a prompt implementation of the structural reforms (outlined in the USGP), in addition to the reforms already underway.[12] Moreover, as mentioned earlier, possible recourse to the support mechanism would not only provide financing resources, but would also strengthen fiscal discipline and foster the conduct of appropriate structural policies, thus helping to consolidate a more positive climate and bolster confidence.

A fundamental premise of the warranted fiscal policy[13] is that the drastic and sustainable reduction of the government deficit and debt must be achieved not only by broadening the tax base and combatting tax and contribution evasion, but also by clamping down on squandering and by rationalising primary expenditure, in particular personnel outlays, operating expenses and social security and protection costs (through *targeted cutbacks* to reduce the misuse of healthcare resources and a stricter definition of arduous and hazardous occupations in order to restrict early retirement). In this context, the top priority of any exit strategy must be to restore the sustainability of public finances by generating substantial primary surpluses over a long period of time. Fiscal adjustment efforts must include a wide range of actions: (i) drastic reduction of the public debt; (ii) ensuring a sound institutional framework for the designing and implementation of budgetary policy; (iii) overhauling the pension system; (iv) tightening control over healthcare spending; (v) slowing down the growth of other primary expenditure; (vi) broadening the tax base; (vii) improving government asset/liability management; and (viii) ensuring that a well-functioning and well-targeted social safety net is in place. Of particular importance, in this respect, is the fight against corruption. As estimated by Daniel Kaufmann in a study to be published by the Brookings Institution, government revenue equal to at least 8% of GDP is lost every year to corruption, and even a moderately better control of corruption would enable Greece to reduce its budget deficit by 4% of GDP.[14]

As already mentioned, Greece would stand to gain a lot if fiscal consolidation on the expenditure side progressed even further than planned so far, and if the deficit could be reduced this year by more than 4% of GDP, by drastically curbing resource squandering and by merging or even eliminating public sector entities that are not really productive. It should be recalled that the outlays of the "other government" sector (i.e. excluding central government) climbed to almost 50% of GDP in 2009, from 20% in the 1960s, and were thus largely accountable for Greece's recent fiscal derailment.[15] The suggested acceleration of fiscal consolidation through cuts in expenditure is, at any rate, the option of choice for the next two years, given that any further increase in the already high tax burden on honest taxpayers could have extremely adverse repercussions on economic activity in the current environment of strong tax competition throughout Europe.

It is obvious that improving the quality of public finances is equally essential. An effective and efficient use of scarce public resources and a better-structured and efficient tax system will strengthen long-term potential growth, by ensuring that fiscal adjustment will indeed contribute to the long-term sustainability of public finances. According to relevant studies, expenditure in sectors such as education, R&D, public infrastructure, health or environmental protection foster economic growth.

12 Such as tax reform, restructuring regional/local government, social security reform, and simplification, decentralisation and enhanced efficiency of the National Strategic Reference Framework (NSRF) procedures.

13 The basic orientations for achieving deficit reduction were outlined in the USGP for 2009-2013, announced on 15 January, and complemented by additional policy measures announced on 2-9 February and 3 March. Detailed policy suggestions have also been made in previous Bank of Greece reports. Meanwhile, on 3 February the European Commission issued an opinion regarding Greece's stability programme, a recommendation on the correction of the excessive deficit under Article 126 (9) of the Treaty, as well as a recommendation on structural reforms under Article 121 (4) of the Treaty, while on 16 February the ECOFIN Council issued its own opinion on Greece's USGP, a binding decision giving notice to Greece to correct its deficit by 2012, and a recommendation to Greece on measures to be taken in order to bring its economic policies into line with the EU's broad economic policy guidelines.

14 See Marcus Walker, "Tragic flaw: Graft feeds Greek crisis", *Wall Street Journal*, 15 April 2010.

15 See Bank of Greece, *Monetary Policy 2009-2010.*

However, this link is not automatic and depends on the extent to which the desired results are achieved (in terms e.g. of improved skills or increased privately-funded research), as well as on the overall regulatory framework. According to estimates, the effectiveness and efficiency of Greek public expenditure in some of these sectors is below the EU-27 average. It is therefore imperative to put an end to the squandering of public funds and to restructure public spending in favour of more efficient alternatives that foster economic growth, through the development and upgrading of human capital, the use of new technologies and the enhancement of infrastructures.

Today, fiscal consolidation is a *sine qua non* for fostering growth and for the economy to move forward. Beyond that point, it is obvious that in order **to recoup competitiveness, improve production conditions and eventually accelerate potential growth over the medium term, profound and far-reaching structural changes** are today of the utmost urgency that would:

First, reduce unit production costs and, within a reasonable time span, reverse the erosion of cost and price competitiveness; and

Second, contribute to modernising the production model, i.e. to shifting resources to the sector of internationally tradable goods and services, achieving higher productivity, and developing a new structure of domestic production – capable of meeting the domestic and foreign demand of 2015, rather than that of 1970 or even of 1990.

Such changes must also be conducive to restoring the sustainability of the current account deficit. This calls for a policy mix that will re-establish macroeconomic and microeconomic equilibrium and improve the economy's competitiveness and productivity on a sustainable basis. Given that during the long period of rapid growth in Greece consumption patterns essentially exceeded the economy's productive capacity, from now on —in order to prevent a permanent drop in consumption levels— what the country precisely needs is to increase its productive capacity, i.e. the level and growth rate of its potential output, which has declined markedly in the last two years.

Naturally, due to the cumulative effect of past procrastinations or mistakes and the delays since the outbreak of the global crisis, at this point there is no "silver bullet" for the Greek economy, and the policy decisions made in the last few months were inevitable. As mentioned earlier, the final impact of the announced fiscal package will depend on its effective and prompt implementation and the net balance between the contractionary and expansionary effects of each measure and of the package as a whole. Meanwhile, the outcome of fiscal policy will also depend on the prompt promotion and implementation of structural and growth policy measures, preferably of low or zero budgetary cost and with quick results.

The crucial structural measures —highlighted, for one, in ECOFIN's recommendation (16 February) to Greece to bring its economic policies into line with the EU's broad economic policy guidelines, as well as in a recent OECD report[16]— include:

- slashing red tape;

- removing product and labour market rigidities;

- promptly absorbing the EU funds available under the National Strategic Reference Framework (NSRF) – Community Support Framework IV;

16 OECD, *Greece at a glance – Policies for a sustainable recovery*, 15 March 2010. In its summary of recommendations, the OECD points out the need to: simplify and modernise the tax system; improve the budget preparation process; tighten control over public spending; urgently reform the pension system; raise labour market flexibility and tackle poverty; enhance the effectiveness of competition policy; strengthen the efficiency of the education system; foster innovation and knowledge-based activities and promote a green fiscal reform; and resolutely pursue efforts to restore confidence in the management and impartiality of the State.

• promoting clean or green growth and changing the current production and energy consumption patterns (on this matter, see another recent OECD report on Greece's environmental performance[17]); and

• upgrading the education system and encouraging innovation and research.

Progress in these directions can help reduce unemployment (particularly among the young) and increase the rates of employment, fixed capital formation and total factor productivity, so as to substantially strengthen potential growth, which has declined markedly on account of the crisis.

In addition, against the background of a pick-up in inflation due to the increase in indirect taxation and the rising prices of oil and other commodities, strengthening market competition is particularly important if wage and profit formation is to be compatible with the objective of increasing competitiveness.

Finally, of utmost importance is the pace at which the recent fiscal measures will be put into practice and produce results, and at which the aforementioned structural interventions will be decided and implemented based on a concrete timetable. The progress made in these two directions will determine, among other things, how soon the international markets and the domestic economic agents will regain confidence in the Greek economy's fiscal and growth prospects. As mentioned earlier, restored confidence will lead to lower costs of government borrowing, which will have favourable chain effects on Greek banks' funding costs and access to funding and, further down the line, on borrowing costs for businesses and households. In turn, these favourable effects will —at least partly— offset the immediate contractionary impact of certain fiscal measures. Naturally, in order to actually boost confidence and reduce borrowing costs so as to ultimately have a positive effect on growth prospects, the fiscal measures must be coupled with and supported by structural policies as soon as possible. This policy mix must convince both foreign investors and domestic firms and employees that not only will the necessary fiscal tidying-up take place, but also that the Greek economy will not suffer a "slow death" (as certain foreign commentators have suggested) and that its growth engine will soon be back in motion, running this time with new technology and on new fuel.

If the fiscal adjustment measures are implemented piecemeal, amid a climate of uncertainty, there is a risk that they may have only contractionary results. This is exactly why they must be implemented promptly and effectively, in a manner as frontloaded as possible, alongside a rapid promotion of the legislative action envisaged in the USGP regarding the tax system, the pension reform, the budget preparation process and control over public spending, as well as concretising and implementing the other structural reforms under the USGP. This is the only way to turn the unfavourable climate around as soon as possible, dissipate uncertainty and expedite and bolster recovery.

Empirical studies point to the unambiguous long-term positive effect that fiscal adjustment can have on economic growth, as it drives down the debt and long-term interest rates and frees resources for more productive uses or allows for tax cuts. As regards the composition of fiscal adjustment, international experience has shown that an adjustment based mainly on cutting non-immediately productive spending (e.g. transfer payments, staff costs, etc.) is more likely to succeed and has a positive effect on economic growth. Moreover, the contribution of fiscal consolidation to long-term economic growth is greater when the initial size of the public sector is large and the economy is burdened by a high and unsustainable debt-to-GDP ratio. Recent studies have shown that when the debt ratio exceeds 90%, any increase in the debt has negative effects on long-term growth (due to higher long-term interest

17 OECD, Greece – *Environmental Performance Review*, 15 March 2010.

rates). In such cases, fiscal adjustment through a cut in non-productive spending can have a positive effect on economic growth.

All the above lead to the conclusion that, **although there is a risk of a sharper drop in GDP (e.g. in the event of an ineffective or delayed implementation of the measures), there is also a strong possibility that the future may turn out better than what currently seems likely. This will only happen if the measures are rigorously implemented, without any deviation, and are promptly complemented by structural measures focused as much on product and labour markets as on a drastic curtailing of fund squandering in the public sector and the elimination or merger of public entities that are not really productive (as already planned by the government). This will indeed create the necessary conditions for a virtuous circle of growth-generating synergies, thereby enabling the Greek economy to pull itself sooner out of its quagmire.**

6 CHALLENGES FACING THE BANKING SYSTEM

In 2010, Greek banks will need to maintain comfortable capital buffers above the supervisory minimums; to ensure adequate provisioning for credit risk in particular; and to manage their alternative funding sources with prudence and flexibility. Restoring the confidence of the markets and the international community in Greece's fiscal prospects will be key to safeguarding the stability of the banking sector and of the financial system as a whole. As post-crisis conditions will be very different, banks should redesign their strategic objectives and their overall business models.

The main developments in the banking sector during 2009 were an improvement in Greek commercial banks' capital adequacy, despite a considerable fall in their profitability; a further deterioration in the quality of their loan portfolios; and, finally, the virtual drying-up of funding sources, which resulted in increasingly high reliance on the Eurosystem.

As the global financial crisis affected the Greek economy with some lag, there was a marked deceleration in credit expansion to the private sector (households and businesses) in the course of 2009, which had a direct impact on banks' interest and fee income. In addition, the worsening of the financial condition of households and firms called for higher provisioning for credit risk.

These developments inevitably weighed on key profitability ratios such as the net interest rate margin, the return on assets (ROA) and the return on equity (ROE). (Individual banks were able to avoid larger drops in profitability or even losses thanks to profits from financial operations and valuation gains on securities, which, however, are typically volatile income sources.) The efficiency ratio (operating costs to operating income) showed a small improvement.

Banks' regulatory own funds improved considerably in both quality and quantity terms in 2009, as reflected in the Capital Adequacy Ratio and the Tier I Ratio. Underlying this positive development were recapitalisation through the issuance of preference shares under Law 3723/2008; further recapitalisation by certain banks through capital increases in cash; the issuance of hybrid securities and internal financing from undistributed profits. Moreover, the leverage ratio of Greek banking groups declined considerably at the end of 2009, remaining well below the ones of large banking groups in the euro area.

Turning to banking risks, the deterioration in the macroeconomic environment inevitably affected the quality of Greek banks' loan portfolios, which worsened considerably in 2009. The ratio of non-performing loans to total loans (NPL ratio) rose to 7.7% at end-2009, up 2.7 percentage points from December 2008 (5.0%).[18] Marked increases in NPL ratios were

18 Excluding data on foreign bank subsidiaries in Greece, non-performing loans came to 6.9% of total loans at end-2009, up from 4.4% in 2008.

seen across *all* categories of loans, but especially consumer loans. Another adverse development was a decrease in the coverage ratio. Meanwhile, the ratio of net NPLs (i.e. NPLs less accumulated provisions for credit risk) to total regulatory capital rose. All of these developments call for a substantial increase in the stock of provisions for credit risk, considering in particular the impact on banks' loan portfolios of the negative GDP growth projected for Greece once again in 2010.

During the last months of 2009 and especially in the first quarter of 2010, Greek banks saw their liquidity risk increase considerably, on account of tight funding conditions and a small-scale outflow of deposits. These funding constraints reflected the Greek economy's serious chronic macroeconomic imbalances, which became more evident during the crisis and triggered successive downgradings of Greece's credit rating, thereby restricting bank access to, and the cost of, market-based funding. Against this background, Greek banks relied heavily on the Eurosystem for liquidity in 2009 and continued to do so in the first months of 2010; this should be seriously taken into account in view of the ECB's plans to phase out its enhanced credit support measures. Such concerns were simply eased by the ECB President's recent announcement that the ECB had decided to maintain the minimum credit threshold for marketable and non-marketable assets in the Eurosystem collateral framework at investment-grade level beyond the end of 2010. Another cause for concern regarding banks' liquidity conditions is the slowdown in deposit growth observed in 2009 and the recent deposit outflow trend, due to heightened uncertainty about the fiscal situation and to the attractive yields of Greek government bonds. However, it should be stressed that the deposit base remains the primary source of funding for Greek banks. At end-December 2009, both the loan-to-deposit ratio (banks: 106.6%, banking groups: 113.7%) and the supervisory liquidity ratios remained at very satisfactory levels.

A favourable impact on liquidity conditions came from the recourse to the measures provided for in Law 3723/2008. By end-2009, banks had managed to recapitalise €3.8 billion through the issuance of preference shares, to draw an amount of €4.6 billion in liquidity using Greek government securities as collateral and to obtain €1 billion in loans using State guarantees. A similarly favourable impact is expected from the extension of the measures provided for under Law 3723/2008 until the end of June 2010. By early April 2010, banks had applied for €2.4 billion in liquidity using Greek government securities as collateral and for €8.9 billion using State guarantees. It is expected that by end-June 2010 the entire amount of €28 billion originally envisaged in Law 3723/2008 will have been used.

To sum up, for the year 2010, Greek banks will seriously have to take into account the unprecedented economic conditions that have unfolded in Greece and the forthcoming changes to the international regulatory framework. Against this background, they should maintain substantial capital buffers above the supervisory minimums; form adequate provisions, in particular for credit risk; and manage their alternative funding sources with prudence and flexibility.

However, these measures are, by themselves, not enough for the banks to address the current difficult conjuncture. Consolidating market confidence, as well as the confidence of the international community in Greece's fiscal prospects, will be key and catalytic to safeguarding banking sector and financial stability. Characteristically, whereas in many other countries the crisis first broke out in the financial system and from there spread to the real economy, in Greece things worked the other way round. Consequently, if the Greek banking system is to continue to retain the remarkable resilience it displayed even at the height of the crisis, it is essential that the fiscal and macroeconomic uncertainties that are currently affecting it in a negative way be eliminated. Even then, however, the new conditions that will emerge will be very different from the ones under which banks have operated in the past. Over the medium term, mergers in the banking sector will probably be inevitable. Furthermore, sound financial fundamentals, effective and transparent risk management and operating standards that can support robust business models will be key to bolstering bank resilience to shocks and ensuring adequate access to liquidity, thus laying the foundations for sustainable growth and financial stability.

7 ISSUES HIGHLIGHTED BY THE CRISIS

Being multi-faceted and all-encompassing, the current crisis calls for a radical reorientation of economic policy. The exit from the crisis will require painstaking and sustained efforts over a number of years, which is why we must all assume our responsibilities.

The developments of the past few months have brought some particularly crucial issues to the fore.

- Given that the current crisis is multi-faceted and pervades all aspects of the Greek economy, but also the state, the country's institutions and society at large, its ramifications, present everywhere, only amplify the negative impact on the economy. Recourse to piecemeal, one-dimensional or short-term remedies is therefore not an option. In response to the twin causes that led us to the crisis in the first place, what is needed is a radical reorientation of economic policy towards twin medium-term goals: sustainable fiscal consolidation and a policy of structural reforms that will steadily enhance competitiveness.

- The changes needed are of the utmost urgency. The major problems that we have been so reluctant to address now stand before us. The cost of inaction on our part would not only increase multifold, but would also spill over to the entire Greek economy and society.

- Even more crucial are the historical responsibilities that we must all assume in the face of this huge challenge. The road out of the crisis will be long and arduous, over ground that cannot possibly be covered in just one year. This is why greater and longer-lasting efforts will be needed from us all. The path that we will embark upon in the years ahead will largely be determined by the goal we set ourselves and our commitment to achieving it: do we want a country that is trapped in a low-level equilibrium or do we want to make Greece modern and dynamic? What is certain is that we can no longer rely on recipes of the past, with prefabricated answers to problems that either present themselves today in a different light or are totally new. Nor can we keep on perpetuating our dogmatic misinterpretations of reality and our vested interests at the expense of society at large, our short-termist pursuit of maximum possible gain, our selective and at will compliance with laws and regulations, our shifting of responsibility onto others, our refusal to make the slightest effort towards consensus-building. The public's apparently widespread awareness of the economy's serious problems should make it easier to build the consensus necessary to effectively address the crisis.

The crisis is challenging us to actually bring about the necessary reforms at a rapid pace, instead of just engaging in endless discussions. The cost that we will have to bear if we put off the reforms is enormous. **We must realise that today's crisis is unlike anything we have experienced before, at least in our post-war history,** and that it cannot be tackled with the logic of the past. On the one hand, there is the huge cost of inaction. Yet, on the other, there is the well-founded hope and the possibility of setting a durable virtuous circle into motion that will lead us out of our decline towards progress and growth. This virtuous circle will not be long in manifesting itself, provided that we do not deviate from the policies decided upon and that we reinforce them without delay with the necessary structural reforms. The sooner we realise what is at stake, the easier it will be to find and follow the lead that will guide us to a definitive exit from the crisis and set us on a sound and safe course toward durable economic progress. **We have one very difficult problem to solve: to achieve drastic fiscal adjustment and consolidation and, at the same time, safeguard the economy's medium-term growth prospects, amid adverse conditions for government borrowing worldwide. However, if we use all the policy instruments at our disposal with prudence and level-headedness, we can succeed.**

APPENDIX

TABLES AND CHARTS

TABLES

CHARTS

Table 1 Gross expenditure of the economy and gross domestic product

(constant market prices of 2000)

	Value in million euro	Annual percentage changes						
	2000	2003	2004	2005	2006	2007	2008	2009
1. Private consumption	98,627	3.3	3.6	4.6	5.3	3.3	2.3	-1.8
2. Public consumption	24,271	-0.9	3.5	1.1	-0.1	8.4	0.6	9.6
3. Gross fixed capital formation	29,450	11.8	1.4	-4.5	9.8	4.6	-7.4	-13.9
3.1a By investor: general government	...	...	...	...	...	...	...	...
3.1b other sectors	...	...	...	...	...	...	...	...
3.2a By type: construction	17,944	14.4	-2.9	-6.2	14.3	-5.3	-19.1	-11.3
3.2b equipment	10,415	9.1	7.1	-2.6	4.7	20.9	6.3	-19.0
3.2c other investment	1,091	2.1	8.1	-1.5	2.9	-14.4	-14.6	33.8
4. Domestic final demand[1]	152,348	4.3	3.1	2.1	5.4	4.3	0.0	-2.4
5. Change in inventories and statistical discrepancy (% of GDP)	2,328	1.2	0.5	-0.3	0.1	0.8	1.9	1.8
6. Exports of goods and services	33,882	2.9	17.4	2.4	5.3	5.8	4.0	-18.1
6.1 Exports of goods	14,253	4.3	9.6	6.1	11.7	1.5	3.7	-11.6
6.2 Exports of services	19,629	2.0	22.8	0.1	1.0	9.0	4.1	-22.6
7. Final demand	188,558	5.2	4.8	1.5	5.7	5.2	1.5	-5.2
8. Imports of goods and services	52,277	3.0	5.2	-0.3	9.1	7.1	0.2	-14.1
8.1 Imports of goods	40,730	2.4	4.5	-1.4	9.6	6.6	-3.1	-14.4
8.2 Imports of services	11,547	5.1	8.4	3,9	6.8	9.0	13.6	-13.0
GDP at market prices	136,281	5.9	4.6	2,2	4.5	4.5	2.0	-2.0
		Contribution to GDP change (percentage points)						
1. Private consumption		2.4	2.6	3.3	3.9	2.4	1.7	-1.3
2. Public consumption		-0.2	0.6	0.2	0.0	1.3	0.1	1.5
3. Gross fixed capital formation		2.7	0.3	-1.1	2.2	1.1	-1.7	-2.9
3.1a By investor: general government		...	...	...	...	...	...	...
3.1b other sectors		...	...	...	...	...	...	...
3.2a By type: construction		1.9	-0.4	-0.8	1.7	-0.7	-2.3	-1.1
3.2b equipment		0.8	0.7	-0.3	0.4	1.9	0.7	-2.1
3.2c other investment		0.0	0.1	0.0	0.0	-0.1	-0.1	0.2
4. Domestic final demand [1]		5.0	3.5	2.3	6.0	4.8	0.0	-2.6
5. Change in inventories and statistical discrepancy		1.5	-0.7	-0.8	0.4	0.8	1.1	-0.1
6. Exports of goods and services		0.6	3.6	0.6	1.2	1.3	0.9	-4.3
6.1 Exports of goods		0.4	0.9	0.6	1.1	0.2	0.4	-1.2
6.2 Exports of services		0.2	2.6	0.0	0.1	1.2	0.6	-3.1
7. Final demand		7.1	6.4	2.1	7.6	7.0	2.1	-7.1
8. Imports of goods and services		-1.1	-1.8	0.1	-3.1	-2.5	-0.1	5.0
8.1 Imports of goods		-0.7	-1.2	0.4	-2.6	-1.9	0.9	3.9
8.2 Imports of services		-0.4	-0.6	-0.3	-0.5	-0.7	-1.0	1.1
9. External balance of goods and services		-0.4	1.8	0.7	-1.8	-1.2	0.9	0.7
GDP at market prices		5.9	4.6	2.2	4.5	4.5	2.0	-2.0

Source: NSSG, National Accounts, provisional estimates for 2004-2009. March 2010.
1 Excluding inventories and statistical discrepancy.

Table 2 Indicators of consumer demand (2009-2010)

(annual percentage changes)

	2008	2009	2010 (available period)
Volume of retail sales (excl. fuel and lubricants)	-1.4	-9.3	5.4 (Jan.)
Food-beverages-tobacco[1]	-0.1	-6.1	5.2 (Jan.)
Clothing-footwear	-5.5	1.4	3.0 (Jan.)
Furniture-electrical appliances-household equipment	-4.3	-15.3	3.4 (Jan.)
Books-stationery-other	-1.3	-24.0	12,8 (Jan.)
Revenue from VAT (constant prices)	0.8	-10.2	-7,3 (Jan.-Feb.)
Retail trade business expectations index	-15.3	-21.4	7.5 (Jan.-March)
New passenger car registrations	-7.0	-17.4	17.2 (Jan.-March)
Tax revenue from mobile telephony[2]	5.3	13.2	71.7 (Jan.-Feb.)
Outstanding balance of consumer credit[3]	16.0 (Dec.)	2.0 (Dec.)	1.1 (Feb.)

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

Table 3 Indicators of investment demand (2008-2010)

(annual percentage changes[1])

	2008	2009	2010 (available period)
Capital goods output	-7.4	-21.7	-11.7 (Jan.-Feb.)
Capacity utilisation rate in the capital goods industry	(77.5)	(73.4)	(67.5) (Jan.-March)
Loans to non-financial corporations[2]	18.7 (Dec.)	5.1 (Dec.)	4.9 (Feb.)
Disbursements under the Public Investment Programme	9.3	-2.8	-48.2 (Jan.-March)
Volume of private construction activity (on the basis of permits issued)	-17.1	-27.6	...
Cement production	-3.1	-21.4	-4.8 (Jan.-Feb.)
Construction business expectations index	3.0	-31.4	-20.9 (Jan.-March)
Outstanding balance of total bank credit to housing[3]	11.5 (Dec.)	3.7 (Dec.)	3.6 (Feb.)

Sources: NSSG (capital goods output, volume of private construction activity, cement production), IOBE (capacity utilisation rate, business expectations index), Bank of Greece (loans to non-financial corporations, disbursements under the Public Investment Programme, housing loans).
1 Except for the capacity utilisation rate in the capital goods industry, which is measured in percentages.
2 Comprising loans and securitised loans and taking into account loan write-offs, foreign exchange valuation differences, as well as loans and corporate bonds transferred in 2009 by domestic MFIs to their subsidiaries operating abroad and to one domestic subsidiary.
3 Comprising loans and securitised loans and taking into account loan write-offs, foreign exchange valuation differences and a transfer of loans to a domestic subsidiary finance company.

Table 4 Industrial production

(2005=100)

		Weights 2005	Average annual percentage changes			Level 2009 (2005=100)
			2007	2008	2009	
INDUSTRY	**100.0**		**2.3**	**-4.0**	**-9.4**	**89.7**
1. Mining and quarrying	***6.1***	***100.0***	***-0.3***	***-4.5***	***-11.8***	***81.5***
Mining of coal and lignite		56.6	0.7	0.4	-2.3	92.9
Extraction of crude oil and natural gas		1.9	-18.2	-17.1	31.2	82.7
Mining of metal ores		9.1	-2.1	2.2	-23.3	63.9
Other mining and quarrying		32.4	-0.6	-13.1	-27.8	66.5
2. Manufacturing	***69.8***	***100.0***	***2.2***	***-4.7***	***-11.2***	***88.2***
Food		18.2	2.8	0.5	-2.6	100.8
Beverages		6.0	8.4	-0.5	-4.8	104.3
Tobacco		1.9	4.1	-3.3	-2.7	90.4
Textiles		3.1	2.1	-21.7	-27.7	52.9
Clothes		3.4	7.9	-16.9	-23.6	62.9
Leather-footwear		0.6	2.9	-4.5	-14.9	79.2
Wood and cork		1.2	-11.5	-9.5	-24.9	57.1
Paper and paper products		2.3	2.4	-4.5	-3.6	96.8
Printing and reproduction of recorded media		1.9	-3.5	-4.9	-11.6	87.9
Oil and coal products		11.3	3.0	-4.3	-0.1	104.8
Chemicals		5.3	4.1	-4.8	-13.1	84.9
Basic pharmaceuticals		2.5	10.8	2.9	16.6	147.7
Rubber and plastic products		4.2	4.3	-2.8	-14.0	91.4
Non-metallic mineral products		10.3	-6.2	-6.6	-24.0	69.4
Basic metals		8.0	2.0	-6.4	-17.9	82.7
Metal products		5.1	-3.2	-9.8	-18.2	79.1
Computers, electronics and optical products		1.2	-18.1	-2.7	-61.6	27.7
Electrical equipment		3.0	1.2	-1.6	-20.1	82.4
Machinery and equipment n.e.c.		2.1	-0.4	-0.5	-35.9	72.1
Motor vehicles, trailers and semi-trailers		0.8	18.3	-15.4	-15.9	70.6
Other transport equipment		1.6	14.8	-2.4	-12.2	91.1
Furniture		1.5	3.5	-2.1	-27.2	77.6
Other manufacturing		0.5	-2.3	-16.4	-14.3	70.5
Repair and installation of machinery and equipment		4.1	5.1	-9.2	-9.5	80.2
3. Electricity	***20.8***	***100.0***	***3.5***	***-2.8***	***-4.2***	***94.7***
4. Water supply	***3.3***	***100.0***	***1.2***	***2.5***	***-3.1***	***103.0***
INDUSTRY	**100.0**		**2.3**	**-4.0**	**-9.4**	**89.7**
Main industrial groupings						
Energy	36.8		2.9	-2,4	-2,9	97.5
Intermediate goods	28,0		0.8	-6,7	-18,3	78.7
Capital goods	8.6		-1.6	-7,4	-23,0	71.0
Consumer durables	2.3		0.3	-5,7	-20,7	77.6
Consumer non-durables	24.3		4.8	-2,0	-4,2	98.3

Source: NSSG.

Table 5 Activity indicators in the services sector (2008-2010)

(annual percentage changes)

	2008	2009	2010 (available period)
Services turnover indicators			
Car retail sales	-7.9	-15.6	...
Wholesale trade	9.4	-9.3	...
Telecommunications	-1.0	-8.7	...
Land transport	5.1	-31.5	...
Sea transport	10.2	-22.8	...
Air transport	6.5	-12.6	...
Storage and supporting transport activities	3.1	-33.3	...
Travel agencies and related activities	3.5	-15.8	...
Tourism (hotels and restaurants)	3.2	-9.1	...
Legal, accounting and management consulting services	10.9	-12.4	...
Architectural and engineering services	9.0	-18.6	...
Advertising and market research	2.6	-18.3	...
Passengers			
Passenger-kilometres of Olympic Airlines	-8.6	-17.4 (Jan.-Sept.)	...
Passenger-kilometres of Aegean Airlines[1]	14.4	9.9	...
Piraeus port passenger traffic	0.7	-3.8	...
Business expectations index in the services sector	**-8.3**	**-28.3**	**-0.6 (Jan-March)**

Sources: NSSG (services turnover), Olympic Airlines, Aegean Airlines, Piraeus Port Authority and IOBE (expectations).
1 Including charter flights.

Table 6 National saving and saving by sector

(% of GDP, current prices)

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
National saving	Saving, gross	11.3	11.8	9.6	12.2	12.4	9.3	8.9	7.6	7.1	5.0
	Saving, net	-0.1	0.2	-1.8	-0.2	0.2	-3.0	-3.2	-4.4	-5.1	-8.1
A. General government	Saving, gross	-0.2	-0.1	-0.8	-1.9	-3.0	-2.5	-1.7	-2.5	-2.7	-
	Saving, net	-2.2	-2.1	-2.7	-3.5	-4.7	-4.3	-3.5	-4.3	-4.6	-
B. Private sector	Saving, gross	11.4	11.9	10.4	14.1	15.4	11.8	10.6	10.0	9.8	-
	Saving, net	2.1	2.3	0.9	3.3	4.9	1.3	0.3	-0.2	-0.5	-
1. Firms[1]	Saving, gross	9.1	10.2	10.6	13.2	14.7	12.4	12.8	8.4	10.9	-
	Saving, net	5.2	6.1	6.1	9.5	11.2	8.9	9.5	5.0	7.3	-
2. Households[2]	Saving, gross	2.4	1.7	-0.2	0.9	0.7	-0.6	-2.3	1.6	-1.0	-
	Saving, net	-3.1	-3.8	-5.2	-6.2	-6.3	-7.6	-9.2	-5.1	-7.8	-

Source: NSSG. Provisional data for the period 2004-2009.
1 Comprising financial and non-financial corporations.
2 Comprising households and non-profit institutions serving households (NPISH).

Table 7 National saving and saving by sector

(million euro, current prices)

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
National saving[1]	Saving, gross	15,367	17,222	15,109	21,076	23,094	18,202	18,701	17,101	17,027	11,858
	Saving, net	-174	290	-2,839	-400	314	-5,781	-6,832	-10,069	-12,183	-19,342
A. General government	Saving, gross	-234	-169	-1,179	-3,236	-5,513	-4,890	-3,553	-5,594	-6,533	-
	Saving, net	-3,016	-3,103	-4,303	-6,119	-8,755	-8,435	-7,391	-9,707	-10,947	-
B. Private sector	Saving, gross	15,599	17,395	16,289	24,275	28,607	23,066	22,254	22,687	23,526	-
	Saving, net	2,841	3,396	1,466	5,683	9,069	2,628	559	-370	-1,270	-
1. Firms[2]	Saving, gross	12,359	14,974	16,535	22,735	27,308	24,190	27,004	18,951	25,979	-
	Saving, net	7,127	8,892	9,567	16,412	20,718	17,396	19,902	11,221	17,484	-
2. Households[3]	Saving, gross	3,241	2,421	-246	1,539	1,298	-1,124	-4,750	3,736	-2,453	-
	Saving, net	-4,287	-5,496	-8,101	-10,729	-11,649	-14,768	-19,343	-11,591	-18,754	-

Source: NSSG. Provisional data for the period 2004-2009.
1 For certain years, sectoral sub-totals do not add up to the total.
2 Comprising financial and non-financial corporations.
3 Comprising households and non-profit institutions serving households (NPISH).

Table 8 Private sector savings, operating surplus of firms and gross disposable income of households

(million euro, current prices)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
A. Firms[1]									
1. Operating surplus	28,774	31,386	32,168	37,883	43,277	44,560	49,357	53,078	55,728
2. Property income payments, net	9,573	9,244	8,694	8,649	8,991	12,261	14,713	25,560	21,432
3. Other current transfer payments, net	933	1,997	1,450	1,222	1,135	1,443	1,961	1,379	1,566
4. Current taxes on income, wealth, etc.	5,909	5,172	5,535	5,349	5,921	6,744	5,766	7,292	6,857
5. Gross saving[2] (= 1- 2- 3- 4)	12,359	14,974	16,535	22,735	27,308	24,190	27,004	18,951	25,979
6. Gross saving to GDP (%)	9.1	10.2	10.6	13.2	14.7	12.4	12.8	8.4	10.9
7. Consumption of fixed capital	5,232	6,082	6,969	6,323	6,590	6,794	7,102	7,730	8,495
8. Net saving	7,127	8,892	9,567	16,412	20,718	17,396	19,902	11,221	17,484
9. Net saving to GDP (%)	5.2	6.1	6.1	9.5	11.2	8.9	9.5	5.0	7.3
B. Households[3]									
1. Disposable income of households, gross	101,868	108,711	113,992	123,476	131,278	139,325	148,108	166,449	170,827
2. Final consumption expenditure	98,627	106,290	114,238	121,937	129,979	140,449	152,858	162,714	173,280
3. Saving, gross	3,241	2,421	-246	1,539	1,298	-1,124	-4,750	3,736	-2,453
4. Gross saving to gross household disposable income (%)	3.2	2.2	-0.2	1.2	1.0	-0.8	-3.2	2.2	-1.4
5. Consumption of fixed capital	7,527	7,916	7,855	12,269	12,947	13,644	14,593	15,327	16,301
6. Saving, net	-4,287	-5,496	-8,101	-10,729	-11,649	-14,768	-19,343	-11,591	-18,754
7. Disposable income of households, net	94,341	100,795	106,137	111,208	118,330	125,681	133,515	151,122	154,526
8. Net saving to net household disposable income (%)	-4.5	-5.5	-7.6	-9.6	-9.8	-11.8	-14.5	-7.7	-12.1

Sources: NSSG and Eurostat (Annual Sector Accounts) for firms' operating surplus, property income payments, other current transfer payments and current taxes on income and wealth, etc. Provisional data for 2004-2009.

1 Comprising financial and non-financial corporations.

2 Due to small statistical discrepancies, gross saving by firms does not reflect the difference 1-2-3-4.

3 Comprising households and non-profit institutions serving households (NPISH).

Table 9 Population, labour force and employment

	Q2 2008 (thousands of persons)	Annual percentage changes				
		Second quarter[4]				
		2005	2006	2007	2008	2009
Population aged 15 and over[1]	9,262	0.5	0.5	0.6	0.2	0.3
Population aged 15-64[1]	7,220	0.1	0.3	0.8	0.3	-0.1
Labour force[1]	4,974	0.5	0.6	0.8	0.4	0.7
Employment[1]	4,532	1.2	1.6	1.5	1.4	-1.1
– Primary sector[1]	530	-0.1	-1.7	-2.6	-0.6	2.1
– Secondary sector[1]	957	1.0	-0.2	3.1	1.1	-6.4
– Tertiary sector[1]	3,045	1.5	2.9	1.7	1.9	0.1
Labour force participation rate[2]		66.8	67.0	67.0	67.2	67.7
Employment rate[3]		60.3	61.0	61.5	62.2	61.6
Unemployment as a percentage of the labour force		9.6	8.8	8.1	7.2	8.9

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 population aged 15-64.
4 Average annual changes and average year levels are reported in the main text.

Table 10 Price indicators

(annual percentage changes)

Year or quarter	Consumer Price Index								Industrial Producer Price Index					Import price index in industry	
	General index	Sub-indices							Domestic market				External market		
									General index	Sub-indices					
		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 excl. energy	Interme-diate goods	Consumer goods	General index	General index	General index excl. energy
2003	3.5	3.1	4.2	3.2	3.1	5.0	10.7	3.9	2.3	2.5	2.3	2.7	-0.3	0.7	0.6
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
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
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
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
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
2009	1.2	-0.5	3.6	2.4	2.6	1.9	5.3	-15.7	-5.8	-0.1	-1.2	0.9	-6.0	-1.8	0.5
2006 Q1	α’	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
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
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
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	3.2
2007 Q1	α’	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
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
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
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
2008 Q1	α’	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
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	2.3
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
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
2009 Q1	α’	1.5	-0.5	4.3	3.2	3.3	3.6	8.2	-22.6	-5.2	1.1	0.5	1.5	-7.8	-2.4
Q2	0.7	-1.5	3.7	2.3	2.5	2.7	11.0	-23.0	-8.8	-0.7	-2.2	0.5	-9.5	-4.4	0.5
Q3	0.7	-1.2	3.3	2.1	2.3	2.1	8.3	-18.5	-9.1	-1.0	-2.9	0.8	-8.2	-3.7	-0.2
Q4	2.0	1.0	3.2	2.0	2.4	-0.7	-5.8	4.8	0.4	0.4	0.1	0.7	2.0	3.7	0.1
2010 Q1	3.0	2.8	3.3	1.7	2.1	-1.7	-9.4	33.0	...	...	...	...	...	...	...

Source: NSSG.

Table 11 Price developments in Greece and the euro area

(annual percentage changes)

	2008	2009	2009 June	2009 July	2009 Aug.	2009 Sept.	2009 Oct.	2009 Nov.	2009 Dec.	2010 Jan.	2010 Feb.	2010 March
A. Euro area												
Harmonised Index of Consumer Prices (HICP) and its components												
Overall index	**3.3**	**0.3**	**-0.1**	**-0.7**	**-0.2**	**-0.3**	**-0.1**	**0.5**	**0.9**	**1.0**	**0.9**	**1.4**
Goods	3.8	-0.9	-1.6	-2.4	-1.5	-1.8	-1.4	-0.3	0.5	0.7	0.6	1.3
Food	5.1	0.7	0.7	0.0	-0.1	-0.2	-0.4	-0.1	-0.2	-0.1	-0.1	0.3
Processed food[1]	6.1	1.1	1.1	0.8	0.6	0.5	0.3	0.5	0.7	0.6	0.6	0.5
Unprocessed food	3.5	0.2	0.0	-1.1	-1.2	-1.3	-1.6	-1.3	-1.6	-1.3	-1.2	-0.1
Industrial goods	3.1	-1.7	-2.7	-3.6	-2.3	-2.6	-2.0	-0.4	0.8	1.1	0.9	1.8
Non-energy industrial goods	0.8	0.6	0.6	0.5	0.6	0.5	0.3	0.2	0.4	0.1	0.1	0.1
Energy	10.3	-8.1	-11.7	-14.4	-10.2	-11.0	-8.5	-2.4	1.8	4.0	3.3	7.2
Services	2.6	2.0	2.0	1.9	1.8	1.8	1.8	1.6	1.6	1.4	1.3	1.6
Industrial producer prices	*6.1*	*-5.1*	*-6.5*	*-8.4*	*-7.5*	*-7.6*	*-6.6*	*-4.4*	*-2.9*	*-1.1*	*-0.5*	...
B. Greece												
Harmonised Index of Consumer Prices (HICP) and its components												
Overall index	**4.2**	**1.3**	**0.7**	**0.7**	**1.0**	**0.7**	**1.2**	**2.1**	**2.6**	**2.3**	**2.9**	**3.9**
Goods	4.5	-0.1	-1.0	-0.8	-0.4	-0.8	0.0	1.4	2.5	2.2	2.7	4.3
Food	4.6	2.5	3.6	3.5	2.5	2.4	1.1	0.4	0.4	-0.3	0.3	-0.2
Processed food[1]	5.0	1.6	1.5	1.5	1.5	1.4	1.4	1.5	1.6	1.6	1.1	0.2
Unprocessed food	4.0	3.9	6.8	6.9	3.9	3.9	0.5	-1.3	-1.5	-3.2	-0.9	-0.8
Industrial goods	4.4	-1.7	-3.7	-3.5	-2.2	-2.8	-0.7	2.1	3.8	3.8	4.3	7.1
Non-energy industrial goods	2.0	0.8	0.2	0.2	0.5	0.2	0.0	0.7	0.7	-0.3	-1.0	0.2
Energy	13.8	-12.1	-18.0	-17.2	-13.6	-14.4	-5.1	5.5	15.7	20.0	24.9	36.0
Services	3.8	3.2	2.8	2.7	2.9	2.7	2.8	2.9	2.6	2.5	3.0	3.5
Industrial producer prices	*10.0*	*-5.8*	*-9.1*	*-11.1*	*-8.1*	*-7.9*	*-3.8*	*0.8*	*4.5*	*5.2*	*6.2*	...

Source: Calculations based on ECB and NSSG data.
1 Including alcoholic beverages and tobacco.

Table 12 Earnings and labour costs (2003-2010)

(annual percentage changes)

	2003	2004	2005	2006	2007	2008	2009	2010 (forecast)
Greece								
Average gross earnings (nominal):								
– whole economy	5.6	7.2	4.4	5.7	5.2	6.2	4.6	-1.4 or -0,8
– central government[1]	5.9	9.7	2.3	3.1	3.8	7.1	5.2	-6.9
– public utilities	10.9	9.9	7.6	7.0	7.1	8.2	7.7	-1.9
– banks	3.1[2]	8.0	1.5[2]	10.8	8.9	0.0	3.7	1.9 or 2.9
– non-bank private sector	5.8	5.8	5.6	6.8	6.1	6.5	2.8	1.7 or 2.7
Minimum earnings	**5.1**	**4.8**	**4.9**	**6.2**	**5.4**	**6.2**	**5.7**	**1,7 or 2.7**
Average gross earnings (real)	**2.0**	**4.2**	**0.9**	**2.4**	**2.2**	**1.9**	**3.3**	**-4.3 or -3.7**
Total compensation of employees	**8.3[3]**	**8.9**	**5.8**	**7.8**	**8.2**	**8.5**	**3.2**	**-2.4 or -1.8**
Compensation per employee	**5.5**	**7.6**	**3.9**	**5.9**	**5.6**	**6.8**	**4.9**	**-0.5 or 0.1**
GDP[4]	**5.9**	**4.6**	**2.2**	**4.5**	**4.5**	**2.0**	**-2.0**	**-2.0**
Unit labour costs:								
– whole economy	2.3[3]	4.1	3.5	3.2	3.5	6.4	5.3	-0.4 or 0.2
– business sector[5]	2.6[3]	2.8	3.9	3.8	4.3	5.6	3.4	1.6 or 2.5

Sources: NSSG (GDP 2003-2009) and Bank of Greece estimates (for the 2010 GDP and the other annual aggregates in 2003-2009).
1 Average compensation per employee.
2 The relatively low growth rate of bank employees' average earnings mainly reflects changes in staff structure.
3 Taking into account the increase (of 0.1% of gross earnings) in employees' and employers' contributions to the Workers' Fund.
4 For 2003-2009: NSSG. For 2010: Bank of Greece estimates.
5 The business sector comprises private and public enterprises and banks.

Table 13 Average earnings and unit labour costs in total economy: Greece and the euro area (2001-2010)

(annual percentage changes)

	Average earnings		Unit labour costs	
Year	Greece	Euro area	Greece	Euro area
2001	4.7	2.8	3.9	2.4
2002	6.6	2.7	5.5	2.5
2003	5.6	2.9	2.3	2.2
2004	7.2	2.6	4.1	1.0
2005	4.4	2.2	3.5	1.3
2006	5.7	2.6	3.2	1.1
2007	5.2	2.6	3.5	1.6
2008	6.2	3.2	6.4	3.4
2009	4.6	1.5	5.3	3.4
2010 (forecast)	-1.4 or -0.8	1.6	-0.4 or 0.2	-0.5

Sources: For Greece: Bank of Greece estimates. For the euro area: European Commission, *Economic Forecasts*, Autumn 2009, *Statistical Annex of European Economy*, Autumn 2009 and ECB, *Monthly Bulletin*, April 2010.

Table 14 General and central government deficits

	2004	2005	2006	2007	2008	2009*
General government deficit[1]	**-7.5**	**-5.2**	**-2.9**	**-3.7**	**-7.7**	**-12.9**
(national accounts data – convergence criterion)						
– Central government	-9.6	-6.2	-4.2	-5.1	-8.3	-13.7
– Social security organisations, local authorities, legal persons in public law	2.1	1.0	1.3	1.4	0.6	0.8
Central government deficit[2]						
(administrative data)	**-6.9**	**-5.8**	**-3.9**	**-4.6**	**-6.1**	**-13.0**
Central government deficit[3]						
(cash data)	**-8.4**	**-7.4**	**-5.0**	**-6.0**	**-7.2**	**-13.0**

Sources: Bank of Greece, Ministry of Economy and NSSG.
* Provisional data.
1 Ministry of Economy data, as notified to the European Commission (Excessive Deficit Procedure).
2 State General Accounting Office data, as shown in the state budget.
3 Bank of Greece data, referring to the borrowing requirement of the 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.

Table 15 Net borrowing requirement of central government on a cash basis[1]

(million euro)

	2006	2007	2008	2009*
1. State budget	**11,500**	**12,432**	**17,361**	**32,622**
Percentage of GDP	5.4	5.4	7.3	13.7
– Ordinary budget[2]	7,020[4]	8,512[5]	12,585[6,7]	25,318[8]
– Public investment budget	4,480	3,920	4,776	7,304
2. ELEGEP – OPEKEPE[3]	**-1,033**	**1,160**	**-254**	**-1,778**
3. Central government (1+2)	**10,467**	**13,592**	**17,107**	**30,844**
Percentage of GDP	5.0	6.0	7.2	13.0

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) as from 3 September 2001.
4 Including unexpected income of €149.7 million from the settlement of revenue collected by the National Telecommunications and Post Commission, €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 of Greece shares, €597.4 million from the sale of Postal Savings Bank shares, €364.4 million from the sale of Emporiki Bank shares. Also, including expenditure of €422.9 million for a grant to the Farmer's Insurance Fund (OGA).
5 Including privatisation proceeds of €1,107.5 million from the sale of OTE shares and €502.8 million from the sale of Postal Savings Bank shares. Also, including expenditure of €264.9 million paid as emergency relief to five victims and a grant of €465.7 million to OGA.
6 Including proceeds of €430.8 million from the sale of OTE shares, as well as expenditure for a grant of €570.8 million to OGA, but excluding the payment of Greek government debt to the Social Insurance Fund (IKA) by the issuance of bonds (€1,172 million).
7 During the strike of the Bank of Greece personnel in March 2008, public debt service payments of €1,537 million were effected through commercial banks, of which €359 million were interest payments. If the latter amount is also taken into account, the net borrowing requirement of the State budget rises from 7.3% to 7.4% of GDP and the net borrowing requirement of the central government from 7.2% to 7.3% of GDP.
8 Not taking into account expenditure of €3,769 million for the acquisition of preference shares of Greek banks pursuant to Law 3723/2008 and of €1,500 million for the issuance of bonds to cover the capital increase of the Guarantee Fund for Small and Very Small Enterprises (TEMPME), but including revenue of €673.6 million from the sale of OTE shares, of €72.3 from the privatisation of Olympic Airlines, as well as the issuance of a bond amounting to €531 million, the proceeds of which were given as a grant to OGA to cover obligations of the Greek government.

Table 16 Financing of the borrowing requirement of central government

(million euro)

	2006		2007		2008		2009*	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Greek Treasury bills and government bonds[1]	11,342	108.4	15,310	112.6	17,283[4]	101.0	39,953[5]	129.5
Change in the balances of central government accounts with the banking system[2]	-1,145	-10.9	418	3.1	-3,850	-22.5	-6,390[5]	-8.8
External borrowing[3]	270	2.6	-2,136	-15.7	3,674	21.5	-2,719	-20.7
Total	**10,467**	**100.0**	**13,592**	**100.0**	**17,107**	**100.0**	**30,844**	**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 Comprising changes in the central government accounts held with the Bank of Greece and credit institutions, as well as changes in the OPEKEPE account.
3 Comprising securities issuance abroad and borrowing (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 Excluding bonds issued by the Greek government for debt repayment to the Social Insurance Institute – IKA. See also footnote 7 in Table 15.
5 Including the issuance of bonds to the amount of €3,769 for the acquisition of preference shares of Greek banks for the purpose of enhancing their liquidity, as well as the issuance of bonds for covering the capital increase of TEMPME.

Table 17 Consolidated debt of general government[1]

(million euro)

	2003	2004	2005	2006	2007	2008	2009*
Short-term	3,409	2,839	1,346	1,108	1,668	5,583	...
– securities	3,084	2,568	1,156	943	1,625	5,496	...
– loans	325	271	190	165	43	87	...
Medium- and long-term	163,860	179,342	192,757	202,298	214,020	230,870	...
– securities	140,922	156,969	170,863	180,968	194,658	212,552	...
– loans	22,938	22,373	21,894	21,330	19,362	18,318	...
Coin and deposits	756	1,006	1,318	1,017	713	743	...
Total	**168,025**	**183,187**	**195,421**	**204,423**	**216,401**	**237,196**	**272,300**
% of GDP	*97.4*	*98.6*	*100.0*	*97.1*	*95.6*	*99.2*	*114.7*
– domestic debt	164,643	180,684	192,674	202,367	214,485	235,564	271,070
(of which: debt to the Bank of Greece)[2]	(9,018)	(8,488)	(7,988)	(7,991)	(7,521)	(7,051)	(6,581)
– non-euro denominated debt	3,382	2,503	2,747	2,056	1,916	1,632	1,230

Sources: State General Accounting Office and Bank of Greece.
* Provisional data.
1 According to the definition in the Maastricht Treaty.
2 The reversal of the downward trend in the euro-denominated debt to the Bank of Greece in 2006 was 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 non-euro denominated debt.

Table 18 Decomposition of changes in the general government debt-to-GDP ratio[1]

(percentages of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009*
General government debt-to-GDP ratio	103.7	101.7	97.4	98.6	100.0	97.1	95.6	99.2	114.7
Changes in the general government debt-to-GDP ratio	0.3	-2.1	-4.2	1.1	1.4	-2.9	-1.6	3.6	15.5
– Primary balance	-2.0	-0.8	0.7	2.7	0.5	-1.5	-0.8	3.1	7.7
– Change in GDP and change in interest rates	-1.0	-1.3	-4.5	-2.4	-0.4	-2.9	-2.6	-0.6	5.5
– Deficit-debt adjustment[2]	3.2	0.1	-0.4	0.9	1.3	1.5	1.8	1.2	2.3

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:

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

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 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 proceeds (e.g. from privatisation) which do not affect the deficit, but reduce debt.

Table 19 State budget balance

(million euro)

	Annual data							Percentage changes			
				2009		2010					2010/09*
	2006	2007	2008	Stability Programme 2009	Implementation*	Budget	Stability Programme 2010	2007/06	2008/07	2009*/08	Budget/ Implem.
I. Revenue[1]	**52,460**	**56,652**	**60,340**	**66,687**	**55,461**	**62,210**	**62,670**	**8.0**	**6.5**	**-8.1**	**13.0**
1. Ordinary budget	48,685	51,777	55,322	62,987	53,420	58,350	58,810	6.4	6.8	-3.4	10.1
(of which extraordinary revenue)[2]	773	437		1,372	1,128	280					
2. Public investment budget	3,775	4,875	5,018	3,700	2,041	3,860	3,860	29.1	2.9	-59.3	89.1
– Own revenue	212	...	350	200	183	150	150	...	...	-47.7	-18.0
– Revenue from the EU	3,563	...	4,668	3,500	1,858	3,710	3,710	...	...	-60.2	99.7
II. Expenditure[1]	**60,692**	**67,166**	**74,920**	**79,378**	**86,342**	**84,746**	**84,239**	**10.7**	**11.5**	**15.2**	**-2.4**
1. Ordinary budget	52,508	58,357	65,296	70,578	76,754	74,446	73,939	11.1	11.9	17.5	-3.7
– Interest payments	9,589	9,796	11,207	12,100	12,325	12,950	12,950	2.2	14.4	10.0	5.1
– Ordinary budget primary expenditure	42,919	48,561	54,089	58,478	64,429	61,496	60,989	13.1	11.4	19.1	-5.3
of which: tax refunds	*2,392*	*2,623*	*3,654*	*3,700*	*4,952*	*4,650*	*4,650*	*9.7*	*39.3*	*35.5*	*-6.1*
new expenditure[3]			*710*	*1,672*	*1,349*						
extraordinary expenditure[4]		*1,948*			*2,825*	*500*					
2. Public investment budget	8,184	8,809	9,624	8,800	9,588	10,300	10,300	7.6	9.3	-0.4	7.4
III. State budget balance	**-8,232**	**-10,514**	**-14,580**	**-12,691**	**-30,881**	**-22,536**	**-21,569**				
% of GDP	**-3.9**	**-4.6**	**-6.1**	**-5.0**	**-13.0**	**-9.2**	**-8.8**				
1. Ordinary budget	-3,823	-6,580	-9,974	-7,591	-23,334	-16,096	-15,129				
2. Public investment budget	-4,409	-3,934	-4,606	-5,100	-7,547	-6,440	-6.440				
IV. State budget primary surplus	**1,357**	**-718**	**-3,373**	**-591**	**-18,556**	**-9,586**	**-8.679**				
% of GDP	**0.6**	**-0.3**	**-1.4**	**-0.2**	**-7.8**	**-3.9**	**-3.5**				
V. General government deficit											
% of GDP (on a national accounts basis)	**-2.9**	**-3.5**	**-7.7**	**-3.7**	**-12.9**	**-9.1**	**-8.7**				
Amortisation payments	16,954	22,544	26,246	29,129	29,135	19,510	19,510	33.0	16.4	11.0	-33.0
Ministry of National Defence programmes for the procurement of military equipment	2,075	2,129	2,597	2,200	2,129	2,000	2,000	2.6	22.0	-18.0	-6.1
GDP (current prices)	210,459	226,437	239,141	254,519	237,508	244,233	244,233	7.6	5.6	-0.7	2.8

Source: State General Accounting Office.
* Provisional data.
1 For comparability purposes, tax refunds are included in expenditure and have not been deducted from revenue, a practice followed by the Ministry of Finance in the past few years.
2 Including: for **2006**: an amount of €149.7 million from the settlement of revenue collected by the Hellenic Communications and Post Commission (EETT), €299.3 million (not included in the 2006 Budget) 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 and €290 million from additional dividends of the Deposits and Loans Fund; for **2007**: "notional" revenue of €437 million from the settlement of positions vis-à-vis Olympic Airlines; for **2009**: revenue from special accounts (now abolished), amounting to €1,081 million, as well as revenue from the liquidity support package, amounting to €47 million; for **2010**: revenue from the liquidity support package, amounting to €280 million.
3 Including: for **2008**: payment of €710 million to the Insurance Funds of DEH's personnel in exchange for property; for **2009**: payments out of special accounts (now abolished), amounting to €827 million, as well as expenditure of €522 million for the Intergenerational Solidarity Fund.
4 Including: for **2007**: "notional" expenditure of €840 million from the settlement of positions vis-à-vis Olympic Airlines, as well as additional contributions to the Community Budget (€1,108 million) due to the upward revision of past GDP figures; for **2009**: an amount of €350 million paid to the National Fund for Social Cohesion (home heating subsidies to pensioners entitled to the Social Solidarity Allowance (EKAS), unemployed and disabled persons), and extraordinary social solidarity aid amounting to €489 million, payments of €294 million to Olympic Airlines following an arbitration decision, of €1,502 million to hospitals for the repayment of old debts, as well as election expenditure amounting to €190 million; for **2010**: an extraordinary social solidarity aid amounting to €500 million.

Table 20 Balance of payments

(million euro)

	January – December		
	2007	2008	2009*
I CURRENT ACCOUNT BALANCE (I.A+I.B+I.C+I.D)	**-32,602.2**	**-34,797.6**	**-26,630.9**
I.A Trade balance (I.A.1 – I.A.2)	**-41,499.2**	**-44,048.8**	**-30,760.3**
Oil trade balance	-9,219.6	-12,154.6	-7,596.5
Non-oil trade balance	-32,279.6	-31,894.3	-23,163.8
Ships balance	-5,520.3	-4,705.0	-3,356.9
Trade balance excl. fuels and ships	-26,759.3	-27,189.3	-19,806.9
I.A.1 Exports of goods	*17,445.5*	*19,812.9*	*15,318.0*
Fuels	3,037.3	4,254.5	3,063.2
Ships (receipts)	2,275.4	1,582.0	771.7
Other goods	12,132.8	13,976.5	11,483.1
I.A.2 Imports of goods	*58,944.8*	*63,861.7*	*46,078.3*
Fuels	12,256.9	16,409.0	10,659.8
Ships (payments)	7,795.7	6,286.9	4,128.6
Other goods	38,892.2	41,165.8	31,289.9
I.B Services balance (I.B.1 – I.B.2)	**16,591.7**	**17,135.6**	**12,640.2**
I.B.1 Receipts	*31,337.3*	*34,066.2*	*26,983.3*
Travel	11,319.2	11,635.9	10,400.3
Transport	16,939.3	19,188.3	13,552.2
Other services	3,078.9	3,242.0	3,030.9
I.B.2 Payments	*14,745.6*	*16,930.6*	*14,343.2*
Travel	2,485.7	2,679.1	2,424.6
Transport	7,771.3	9,316.0	7,073.4
Other services	4,488.6	4,935.5	4,845.1
I.C Income balance (I.C.1 – I.C.2)	**-9,285.8**	**-10,643.0**	**-9,803.5**
I.C.1 Receipts	*4,558.5*	*5,573.2*	*4,124.9*
Wages, salaries	366.9	344.7	294.6
Interest, dividends, profits	4,191.7	5,228.5	3,830.3
I.C.2 Payments	*13,844.3*	*16,216.2*	*13,928.4*
Wages, salaries	332.6	410.1	411.9
Interest, dividends, profits	13,511.7	15,806.1	13,516.4
I.D Current transfers balance (I.D.1–I.D.2)	**1,591.1**	**2,758.6**	**1,292.6**
I.D.1 Receipts	*6,608.1*	*6,882.7*	*5,380.7*
General government (mainly receipts from the EU)	4,361.2	4,678.8	3,527.9
Other sectors (emigrants' remittances, etc.)	2,246.9	2,203.9	1,852.8
I.D.2 Payments	*5,017.0*	*4,124.1*	*4,088.1*
General government (mainly payments to the EU)	3,825.4	2,717.6	2,679.6
Other sectors	1,191.6	1,406.4	1,408.5
II CAPITAL TRANSFERS BALANCE (II.1–II.2)	**4,332.3**	**4,090.8**	**2,017.4**
II.1 Receipts	**4,673.9**	**4,637.8**	**2,328.1**
General government (mainly receipts from the EU)	4,401.4	4,241.9	2,133.2
Other sectors	272.4	395.9	194.9
II.2 Payments	**341.6**	**547.0**	**310.7**
General government (mainly payments to the EU)	27.1	192.0	14.4
Other sectors	314.5	354.9	296.3
III CURRENT ACCOUNT AND CAPITAL TRANSFERS BALANCE (I+II)	**-28,269.9**	**-30,706.8**	**-24,613.5**
IV FINANCIAL ACCOUNT BALANCE (IV.A+IV.B+IV.C+IV.D)	**27,570.2**	**29,914.2**	**25,212.6**
IV.A Direct investment[1]	**-2,290.2**	**1,420.7**	**1,091.7**
By residents abroad	-3,832.9	-1,650.4	-1,323.3
By non-residents in Greece	1,542.7	3,071.1	2,415.0
IV.B Portfolio investment[1]	**17,441.7**	**16,428.0**	**27,863.8**
Assets	-16,351.1	-268.9	-3,773.0
Liabilities	33,792.8	16,696.9	31,636.8
IV.C Other investment[1]	**12,740.6**	**12,094.6**	**-3,636.9**
Assets	-16,266.1	-27,823.3	-23,875.7
Liabilities	29,006.8	39,917.8	20,238.8
(General government loans)	-2,341.7	-572.7	-2,335.0
IV.D Change in reserve assets[2]	**-322.0**	**-29.0**	**-106.0**
V ERRORS AND OMISSIONS	**699.7**	**792.6**	**-599.1**
RESERVE ASSETS	**2,491.0**	**2,521.0**	**3,857.0**

Source: Bank of Greece.
* Provisional data.
1 (+) net inflow, (–) net outflow.
2 (+) decrease, (–) increase.

Table 21 Greece: revised nominal and real effective exchange rate (EER) indices[1]

(annual percentage changes in year averages)

		Real EER	
	Nominal EER	On the basis of relative consumer prices	On the basis of relative unit labour costs in total economy
2000	-6.0	-7.3	-5.6
2001	1.9	1.1	0.5
2002	2.3	2.6	4.0
2003	5.0	5.4	3.9
2004	1.7	1.9	4.2
2005	-1.0	-0.2	0.4
2006	0.1	0.7	1.6
2007	1.3	1.6	2.3
2008	2.5	2.6	4.9
2009	1.2	1.5	2.3
Cumulative percentage change between 2001 and 2009	15.7	18.6	26.6

Sources: Exchange rates: ECB, euro reference exchange rates. CPI: ECB. Harmonised Index of Consumer Prices where available. Unit labour costs in total economy: Bank of Greece estimates for Greece, ECB for the other countries.
1 The indices are compiled by the Bank of Greece and were revised on 1 January 2010. They comprise Greece's 28 main trading partners. The weights used have been recalculated on the basis of imports and exports of manufacturing products (SITC 5-8) during 2004-2006 and account for competition in third markets.

Table 22 Geographical breakdown of foreign direct investment in Greece

(million euro)

	2007	2008	2009*
EU-27	1,441	2,908	2,091
Euro area	1,679	3,043	2,199
Other OECD countries[1]	73	131	165
Balkan countries[2]	1	1	0
Middle East, Mediterranean and former USSR[3]	3	-5	2
Other countries	25	37	157
Total direct investment by non-residents	**1,543**	**3,071**	**2,415**

Source: Bank of Greece.
* Provisional data.
1 Australia, Canada, Iceland, Japan, S. Korea, Mexico, New Zealand, Norway, Switzerland, Turkey and United States.
2 Albania and former Yugoslavia (Bosnia-Herzegovina, Croatia, FYROM, Serbia and Montenegro).
3 Greece's main trading partners in the Middle East, the Mediterranean and former USSR countries.

Table 23 Geographical breakdown of Greek direct investment abroad

(million euro)

	2007	2008	2009*
EU-27	1,441	2,908	2,091
Euro area	1,679	3,043	2,199
Other OECD countries[1]	73	131	165
Balkan countries[2]	1	1	0
Middle East, Mediterranean and former USSR[3]	3	-5	2
Other countries	25	37	157
Total direct investment by residents	**1,543**	**3,071**	**2,415**

Source: Bank of Greece.
* Provisional data.
1 Australia, Canada, Iceland, Japan, S. Korea, Mexico, New Zealand, Norway, Switzerland, Turkey and United States.
2 Albania and former Yugoslavia (Bosnia-Herzegovina, Croatia, FYROM, Serbia and Montenegro).
3 Greece's main trading partners in the Middle East, the Mediterranean and former USSR countries.

Table 24 Greece's international investment position

(million euro)

	2007	2008[1]	2009*
1. Direct investment	-14,653	-637	-3,109
Abroad by residents	21,500	26,753	28,076
In Greece by non-residents	36,153	27,390	31,185
2. Portfolio investment	-149,589	-120,763	-140,044
Assets	86,848	88,216	92,215
Liabilities	236,437	208,979	232,259
3. Financial derivatives	503	970	1,771
4. Other investment	-53,220	-61,273	-59,781
Assets	78,717	106,695	129,056
Liabilities	131,937	167,968	188,837
5. Reserve assets	2,491	2,521	3,857
Net international investment position (iip)(1+2+3+4+5)	-214,469	-179,182	-197,306
GDP	226,437	239,141	237,494
Net iip as % of GDP	-94.7	-74.9	-83.1

Source: Bank of Greece.
* Provisional estimates.
1 Revised data.

Table 25 Trade weights used for the computation of Greece's effective exchange rates 2004-2006 (new) and 1999-2001 (old)

Nr.	Former Nr.	Broader EER indices (28 trading partners)	Relative shares 2004-2006	Relative shares 1999-2001	Nr.	Former Nr.	Indices vis-à-vis the euro area	Relative shares 2004-2006	Relative shares 1999-2001
1	1	Germany	16.7%	18.2%	1	1	Germany	27.8%	29.6%
2	2	Italy	15.1%	16.2%	2	2	Italy	24.3%	26.4%
3	3	France	7.0%	8.4%	3	3	France	11.8%	13.7%
4	4	United Kingdom	5.8%	7.1%	4	4	Netherlands	8.6%	8.4%
5	11	China	5.5%	3.1%	5	5	Spain	8.0%	6.6%
6	6	Netherlands	5.2%	5.2%	6	6	Belgium	7.4%	6.0%
7	8	South Korea	5.0%	4.0%	7	8	Austria	2.8%	2.2%
8	5	United States	4.9%	6.1%	8	10	Cyprus	2.5%	1.3%
9	9	Spain	4.9%	4.0%	9	7	Finland	2.0%	2.5%
10	10	Belgium	4.5%	3.7%	10	9	Ireland	1.8%	1.7%
11	7	Japan	3.8%	5.1%	11	15	Luxembourg	1.1%	0.1%
12	14	Turkey	3.2%	1.8%	12	11	Portugal	0.8%	0.8%
13	13	Switzerland	1.9%	2.1%	13	12	Slovakia	0.6%	0.3%
14	12	Sweden	1.7%	2.3%	14	13	Slovenia	0.4%	0.2%
15	15	Bulgaria	1.7%	1.8%	15	14	Malta	0.1%	0.2%
16	17	Russia	1.7%	1.4%			Total:	100.0%	
17	18	Austria	1.6%	1.4%					
18	22	Cyprus	1.3%	0.8%					
19	16	Finland	1.2%	1.5%					
20	19	Romania	1.2%	1.3%					
21	20	Ireland	1.1%	1.1%					
22	21	Denmark	0.9%	1.0%					
23	-	India	0.8%	-					
24	24	Czech Republic	0.8%	0.6%					
25	23	Poland	0.7%	0.7%					
26	28	Luxembourg	0.7%	0.1%					
27	25	Hungary	0.7%	0.5%					
28	26	Portugal	0.4%	0.5%					
		Total:	100.0%						

Source: Calculations based on ECB data, December 2009.

Table 26 Comparison between new and old effective exchange rate (EER) indices for Greece

	Index (1999=100)*									
	Nominal EER (broader index)		HICP- and CPI-based real EER				ULCT-based real EER			
			Broader index (28 partners)		Index vis-à-vis the euro area (15 partners)		Broader index (28 partners)		Index vis-à-vis the euro area (15 partners)	
Period	NEW	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW	OLD
1993	89.0	95.6	96.1	96.1	92.0	92.0				
1994	91.4	95.5	97.5	96.7	92.6	92.6				
1995	92.9	96.1	99.0	98.7	94.5	94.6	92.2	92.4	88.3	88.5
1996	95.2	97.8	102.0	102.0	97.5	97.5	97.2	97.6	93.2	92.9
1997	99.2	101.3	101.8	102.0	101.2	101.2	100.1	100.5	99.0	98.7
1998	97.8	98.6	99.9	99.9	98.1	98.1	98.3	98.3	96.9	96.9
1999	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2000	94.0	93.8	92.7	93.0	97.2	97.3	94.4	95.0	99.8	100.0
2001	95.8	94.8	93.7	94.0	97.1	97.3	94.8	95.4	99.8	100.2
2002	98.0	96.5	96.2	96.6	98.7	98.9	98.6	99.6	102.7	103.3
2003	102.8	100.8	101.4	101.7	100.0	100.2	102.4	103.4	102.7	103.4
2004	104.5	102.2	103.3	103.7	100.9	101.2	106.7	107.7	105.8	106.5
2005	103.5	101.5	103.1	104.0	102.2	102.5	107.2	108.8	108.2	109.0
2006	103.5	101.6	103.9	105.0	103.3	103.8	108.9	111.0	110.7	111.6
2007	104.9	103.1	105.5	107.0	104.2	104.7	111.4	114.0	113.0	113.9
2008	107.5	105.4	108.2	109.9	105.1	105.7	116.8	119.7	116.1	117.3
2009	108.8	106.4	109.9	111.3	106.1	106.5	119.5	121.3	117.3	117.1
Cumulative change 2001-2009 (%)	15.7	13.5	18.6	19.7	9.2	9.4	26.6	27.7	17.6	17,1

Source: Bank of Greece.
* Period averages.
Note: An increase(decrease) in the indices reflects an appreciation (depreciation) of the effective exchange rate (nominal or real). Weights are based on manufacturing goods imports and exports (SITC sections 5-8) during the three-year period 2004-2006 and account for competition in third markets. The REER indices vis-à-vis the remaining euro area partners refer to euro area composition including Slovakia.

Table 27 Bank interest rates on new deposits by households in the euro area and Greece

(percentages per annum)

	December 2008	January 2010	Change Dec. 2008/ Jan. 2010 (percentage points)	February 2010	Change Dec. 2008/ Feb. 2010 (percentage points)
Overnight[1]					
Weighted average interest rate in the euro area	1.16	0.43	-0.73	0.42	-0.74
Maximum interest rate	2.21	1.19	-1.02	1.19	-1.02
Minimum interest rate	0.17	0.06	-0.11	0.06	-0.11
Interest rate in Greece	1.24	0.43	-0.81	0.44	-0.80
Interest rate differential between Greece and the euro area	0.08	0.00	-0.08	0.02	-0.06
With an agreed maturity of up to one year[2]					
Weighted average interest rate in the euro area	3.75	1.74	-2.01	1.75	-2.00
Maximum interest rate	6.03	4.15	-1.88	4.00	-2.03
Minimum interest rate	2.59	0.48	-2.11	0.44	-2.15
Interest rate in Greece	5.36	2.18	-3.18	2.35	-3.01
Interest rate differential between Greece and the euro area	1.61	0.43	-1.17	0.60	-1.01

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

Table 28 Bank interest rates on new deposits by households in euro area countries[1]

	Overnight[2]		With an agreed maturity of up to 1 year[3]	
	December 2008	February 2010	December 2008	February 2010
Austria	2.03	0.63	3.55	1.09
Belgium	0.79	0.33	2.88	0.65
Cyprus	1.58	1.19	6.03	4.00
Finland	0.87	0.38	3.26	1.35
France	0.18	0.08	3.27	1.45
Germany	1.85	0.71	3.21	1.21
Greece	**1.24**	**0.44**	**5.36**	**2.35**
Ireland	1.04	0.63	3.17[4]	1.57[5]
Italy	1.23	0.24	3.01	0.95
Luxembourg	2.21	0.77	2.59	0.44
Malta	0.57	0.28	3.05	1.56
Netherlands	0.72	0.42	4.30	2.15
Portugal	0.17	0.06	3.68	1.32
Slovakia	0.57	0.38	2.93	1.68
Slovenia	0.43	0.22	4.45	1.75
Spain	0.69	0.31	4.17	1.99

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

Table 29 Financing[1] of the economy by domestic MFIs

(annual percentage changes, non-seasonally adjusted data)

	2005	2006	2007	2008		2009					2010	
	Q4[2]	Q4[2]	Q4[2]	Q4[2]	December[3]	Q1[2]	Q2[2]	Q3[2]	Q4[2]	December[3]	January[3]	February[3]
1. Total financing by MFIs	13.8	15.6	13.5	16.6	13.4	14.4	13.5	9.4	6.6	6.7	6.8	7.2
2. Financing of general government	-0.6	-1.8	-16.1	8.1	1.4	16.7	33.3	26.7	18.9	21.1	23.9	25.0
3. Financing of enterprises and households	19.8	21.7	21.7	18.3	15.9	14.1	9.9	6.4	4.5	4.2	3.8	3.9
3.1 Enterprises	12.3	17.3	20.1	21.6	18.7	17.0	11.8	7.6	5.5	5.1	4.5	4.9
3.2 Households	30.3	26.9	23.6	14.8	12.8	11.1	7.8	5.0	3.3	3.1	2.9	2.7
of which:												
3.2.1 Housing loans	31.1	28.4	23.3	13.4	11.5	10.1	7.3	5.1	3.9	3.7	3.6	3.6
3.2.2 Consumer loans	30.3	23.7	22.6	18.4	16.0	13.5	9.1	5.3	2.4	2.0	1.6	1.1

Source: Bank of Greece.
1 Including MFI holdings of bank loans, corporate bonds and government securities, as well as outstanding securitised bank loans and corporate bonds. The rates of change take into account loan write-offs and foreign exchange valuation differences in respect of loans denominated in foreign (non-euro) currencies. It should be noted that the rates of change in financing to enterprises take into account loans and corporate bonds transferred in 2009 by MFIs to subsidiaries abroad and to one domestic finance company.
2 The quarterly average is derived from monthly averages (which are calculated as the arithmetic means of two successive end-of-month figures) and is not the three-month average of end-of-month annual growth rates (see the Technical notes in the "Euro area statistics" section of the ECB *Monthly Bulletin*).
3 Based on end-of-month levels.

Table 30 Loans[1] to domestic firms and households from domestic MFIs

(non-seasonally adjusted data)

	Outstanding balances on 28.02.10 (million euro)	Annual percentage changes										
		2006	2007	2008		2009					2010	
		Q4[2]	Q4[2]	Q4[2]	December[3]	Q1[2]	Q2[2]	Q3[2]	Q4[2]	December[3]	January[3]	February[3]
A. Enterprises[4]	**135,285**	**17.3**	**20.1**	**21.6**	**18.7**	**17.0**	**11.8**	**7.6**	**5.5**	**5.1**	**4.5**	**4.9**
1. Trade	33,183	9.9	17.9	22.2	19.5	19.0	14.7	9.0	5.0	4.2	3.2	1.6
2. Industry[5]	23,926	9.5	11.0	17.3	15.8	13.5	6.9	0.6	-2.8	-3.5	-2.9	-3.0
3. Construction	11,544	28.9	28.5	37.3	35.2	27.9	15.2	7.0	2.2	2.7	3.5	3.4
4. Shipping	10,618	17.8	25.3	22.7	17.2	19.0	14.0	8.2	3.8	4.0	1.9	2.3
5. Tourism	7,512	11.0	21.0	24.3	19.7	16.9	11.0	7.3	6.4	7.8	8.2	7.7
6. Non-monetary financial institutions	6,506	35.1	14.7	-2.1	-8.7	-8.3	-7.2	-1.2	7.4	5.8	5.7	18.9
7. Transport and communications (excluding shipping)	5,850	51.9	39.6	35.6	26.8	18.1	10.2	18.7	19.5	25.5	25.8	29.2
8. Agriculture	4,063	11.0	10.7	20.4	20.3	15.6	8.8	5.4	3.7	3.7	6.2	4.4
9. Electricity - gas - water supply	4,211	3.0	40.2	36.4	29.8	25.2	30.8	14.0	14.8	14.7	14.5	27.9
10. Other sectors	27,872	28.8	27.4	23.6	23.4	22.1	16.7	14.0	12.5	10.4	8.0	7.0
B. Households	**119,652**	**26.9**	**23.6**	**14.8**	**12.8**	**11.1**	**7.8**	**5.0**	**3.3**	**3.1**	**2.9**	**2.7**
1. Housing loans	80,878	28.4	23.3	13.4	11.5	10.1	7.3	5.1	3.9	3.7	3.6	3.6
2. Consumer loans	35,791	23.7	22.6	18.4	16.0	13.5	9.1	5.3	2.4	2.0	1.6	1.1
– Credit cards	9,500	5.7	6.3	12.4	10.0	7.8	4.6	1.6	-0.4	-0.6	-1.3	-1.7
– Other consumer loans[6]	26,291	35.4	30.9	20.9	18.4	15.8	10.9	6.7	3.5	3.1	2.7	2.2
3. Other loans	2,984	30.6	42.2	7.5	9.5	6.8	4.0	-1.0	-2.3	-1.1	-1.0	0.5
Total	**254,937**	**21.7**	**21.7**	**18.3**	**15.9**	**14.1**	**9.9**	**6.4**	**4.5**	**4.2**	**3.7**	**3.9**

Source: Bank of Greece.
1 Including MFI holdings of bank loans, corporate bonds and government securities, as well as outstanding securitised bank loans and corporate bonds. The rates of change take into account loan write-offs and foreign exchange valuation differences in respect of loans denominated in foreign (non-euro) currencies. It should be noted that the rates of change in financing to enterprises take into account loans and corporate bonds transferred in 2009 by domestic MFIs to subsidiaries abroad and to one domestic finance company.
2 The quarterly average is derived from monthly averages (which are calculated as the arithmetic means of two successive end-of-month figures) and is not the three-month average of end-of-month annual growth rates (see the Technical notes in the "Euro area statistics" section of the ECB *Monthly Bulletin*).
3 Based on end-of-month levels.
4 Sectors are listed in descending order of their share in total financing, with the exception of "other sectors". Growth rates take into account loan write-offs.
5 Comprising manufacturing and mining/quarrying.
6 Comprising personal loans and loans against supporting documents.

Table 31 Bank interest rates on new loans in the euro area and Greece

(percentages per annum)

	December 2008	January 2010	Change Dec. 2008/ Jan. 2010 (percentage points)	February 2010	Change Dec. 2008/ Feb. 2010 (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	5.38	3.25	-2.13	3.26	-2.12
Maximum interest rate	7.26	5.77	-1.49	5.93	-1.33
Minimum interest rate	4.54	2.22	-2.31	2.04	-2.50
Interest rate in Greece	6.18	4.52	-1.66	4.72	-1.46
Interest rate differential between Greece and the euro area	0.80	1.27	0.47	1.46	0.66
A.2. Loans of more than €1 million to non-financial corporations					
Weighted average interest rate in the euro area	4.29	2.01	-2.28	1.93	-2.36
Maximum interest rate	5.93	4.98	-0.95	5.10	-0.83
Minimum interest rate	3.97	1.55	-2.42	1.44	-2.53
Interest rate in Greece	5.07	3.23	-1.84	3.23	-1.70
Interest rate differential between Greece and the euro area	0.78	1.22	0.44	1.20	0.66
A.3. Housing loans					
Weighted average interest rate in the euro area	5.09	2.71	-2.38	2.67	-2.42
Maximum interest rate	6.59	5.09	-1.50	5.01	-1.58
Minimum interest rate	3.81	1.90	-1.91	1.87	-1.94
Interest rate in Greece	4.92	3.05	-1.87	3.08	-1.84
Interest rate differential between Greece and the euro area	-0.17	0.34	0.51	0.41	0.58
A.4. Consumer loans					
Weighted average interest rate in the euro area	8.16	6.83	-1.33	6.72	-1.44
Maximum interest rate	13.02	11.05	-1.97	10.63	-2.39
Minimum interest rate	4.76	3.04	-1.72	3.03	-1.73
Interest rate in Greece	8.76	8.69	-0.07	8.65	-0.11
Interest rate differential between Greece and the euro area	0.60	1.86	1.26	1.93	1.33
B. Loans with an initial rate fixation of over one and up to 5 years[1]					
B.1. Housing loans					
Weighted average interest rate in the euro area	5.06	3.94	-1.12	3.83	-1.23
Maximum interest rate	7.30	6.67	-0.63	6.39	-0.91
Minimum interest rate	3.96	0.00	-3.96	2.64	-1.32
Interest rate in Greece	5.53	4.60	-0.93	4.67	-0.86
Interest rate differential between Greece and the euro area	0.47	0.66	0.19	0.84	0.37
B.1. Consumer loans					
Weighted average interest rate in the euro area	7.03	6.42	-0.61	6.25	-0.78
Maximum interest rate	12.62	14.53	1.91	14.34	1.72
Minimum interest rate	5.47	4.50	-0.97	3.66	-1.81
Interest rate in Greece	9.49	8.53	-0.96	9.00	-0.49
Interest rate differential between Greece and the euro area	2.46	2.11	-0.35	2.75	0.29

Sources: ECB and euro area national central banks.
1 Monthly average rates.

Table 32 Bank interest rates on new loans in euro area countries[1]

(percentages per annum)

	New loans with a floating rate or an initial rate fixation of up to one year[2]								New loans with an initial rate fixation of over one and up to five years[2]	
	To non-financial corporations				Housing loans		Consumer loans		Consumer loans	
	Loans up to €1 million		Loans over €1 million							
	Dec. 2008	Feb. 2010	Dec. 2008	Feb. 2010	Dec. 2008	Feb. 2010	Dec. 2008	Feb. 2010	Dec. 2008	Feb. 2010
Austria	4.89	2.38	4.49	1.77	5.61	2.81	6.44	4.72	6.07	3.77
Belgium	4.77	2.45	3.97	1.54	4.87	2.95	6.60	6.22	8.03	6.21
Cyprus	-[3]	5.93	-[3]	4.39	-[3]	4.52	-[3]	6.97	-[3]	-[3]
Finland	4.61	2.04	3.97	1.75	4.07	1.87	4.91	3.03	5.93	4.56
France	5.08	2.50	4.30	1.48	5.52	3.42	8.43	6.82	7.23	6.08
Germany	5.25	3.43	4.35	2.43	5.38	3.16	4.76	4.32	5.47	5.31
Greece	**6.18**	**4.72**	**5.07**	**3.37**	**4.92**	**3.08**	**8.76**	**8.65**	**9.49**	**9.00**
Ireland	5.95	3.81	4.99	2.89	4.33	2.75	5.66	5.63	-[3]	-[3]
Italy	5.31	2.92	4.17	1.44	4.91	2.24	11.72	9.80	8.70	7.41
Luxembourg	4.54	2.37	3.97	-	4.22	1.99	-[3]	-[3]	6.20	3.66
Malta	5.82	5.54	4.68	4.55	-[3]	3.47	-[3]	5.15	-[3]	-[3]
Netherlands	4.82	3.41	4.01	1.72	5.32	3.81	9.33	9.19	-[3]	-[3]
Portugal	7.26	5.14	5.77	3.15	4.96	2.16	8.10	5.79	12.62	11.04
Slovakia	-[3]	3.64	-[3]	2.49	-[3]	5.01	-[3]	8.14	-[3]	14.34
Slovenia	6.39	6.80	5.93	5.10	6.28	3.27	6.89	4.91	7.96	7.36
Spain	5.51	3.64	4.30	1.88	5.63	2.49	10.94	10.63	9.51	8.00

Sources: ECB and euro area national central banks.
1 Despite the efforts to harmonise statistical methodologies across the euro area, considerable heterogeneity remains in the classification of banking products, which is partly due to differences in national conventions and practices as well as in regulatory and fiscal arrangements.
2 Monthly average rates.
3 These countries do not publish data on the respective interest rates.

Table 33 Interest rate spread in Greece and the euro area

(percentage points)

	Average interest rate on new loans in Greece[1] (percentages per annum)	Average interest rate on new deposits in Greece[1] (percentages per annum)	Interest rate spread in Greece	Interest rate spread in Greece with euro area weighting	Interest rate spread in the euro area
December 1998	16.21	8.12	8.09	...	...
December 1999	14.02	6.98	7.04	...	...
December 2000	9.68	4.00	5.68	...	...
December 2001	7.26	1.96	5.30	...	...
December 2002	6.29	1.67	4.62	...	...
December 2003	5.92	1.20	4.72	4.45	2.77
December 2004	5.94	1.22	4.72	4.18	2.53
December 2005	5.79	1.27	4.52	3.59	2.56
December 2006	6.38	1.87	4.51	3.63	2.89
December 2007	6.67	2.53	4.14	3.48	3.09
December 2008	6.72	3.27	3.45	3.27	2.63
December 2009	5.09	1.32	3.77	3.39	2.29
February 2010	5.06	1.44	3.69	3.37	2.26

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

Table 34 Greek government paper issues

	2008			2009		
Type	**Million euro**	**Percentage of total**		**Million euro**	**Percentage of total**	
Treasury bills	*1,874*	*4.3*		*16,877*	*21.5*	
Bonds[1]	*41,515*	*95.7*	*100.0*	*61,483*	*78.5*	*100.0*
3-year	9,890		23.8	14,612		23.8
4-year	-		-	5,808		9.4
5-year	5,822		14.0	17,889		29.1
8-year*	5,600		13.5	-		-
10-year	8,439		20.3	16,235		26.4
15-year	3,457		8.3	6,939		11.3
23-year	3,966		9.6	-		-
30-year	3,741		9.0	-		-
50-year*	600		1.4	-		-
Total	**43,389**	**100.00**	**-**	**78,360**	**100.00**	**-**

Source: Ministry of Finance.
1 Reopened issues have been classified on the basis of their initial (rather than residual) maturity.
* Issued through private placement.

Table 35 Stock market aggregates

Year	Share price indices[1] (1980=100)		Average daily value of transactions (million euro)	Market capitalisation[1] (million euro)			Market capitalisation (percentage of GDP)			Funds raised through the Athens Exchange[3] (million euro)		
	Composite	Banks		Shares	Loans[2]	Total	Shares	Loans	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	50	85	135	397	79	476
2005	3,663.9	7,904.2	209.3	123,033	178,925	301,958	63	92	155	2,906	61	2,967
2006	4,394.1	6,194.5	343.3	157,928	191,549	349,477	75	91	166	3,396	86	3,482
2007	5,178.8	7,296.4	480.0	195,502	194,659	390,161	86	86	172	9,988	146	10,134
2008	1,786.5	1,899.4	316.4	68,176	201,859	270,035	29	84	113	623	9	632
2009	2,196.2	2,661.7	204.7	83,447	196,444	279,891	35	83	118	4,253	2	4,255

Sources: Athens Exchange, 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 36 Value and breakdown of stock market transactions

(million euro)

	2007		2008		2009	
	Value of transactions	Percentage breakdown	Value of transactions	Percentage breakdown	Value of transactions	Percentage breakdown
Shares	**121,266.6**	**100.0**	**78,145.8**	**100.0**	**50,847.8**	**100.0**
Large capitalisation	111,143.9	91.6	75,587.8	96.7	48,797.8	95.9
Medium and small capitalisation	9,081.3	7.5	1,814.9	2.3	1,548.8	3.0
Low dispersion, low marketability and special financial features	839.4	0.7	588.1	0.8	332.1	0.7
Under surveillance	171.9	0.1	93.8	0.1	97.9	0.2
Sale of existing shares	30.1	0.0	0.0	0.0	0.0	0.0
Exchange-traded mutual funds	-	-	61.2	0.1	71.2	0.1
Loans[1]	**13.4**	**0.0**	**28.6**	**0.0**	**19.0**	**0.0**
Total	**121,280.0**	**100.0**	**78,174.4**	**100.0**	**50,866.8**	**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 37 Total number and value of mutual funds' assets[1]

Year	Number	Value of mutual funds' assets	
		In million euro	% of GDP
1990	7	419.7	1.1
1991	18	493.0	1.0
1992	39	645.6	1.2
1993	67	2,544.4	4.1
1994	94	3,944.2	5.6
1995	115	7,201.8	9.1
1996	148	11,366.1	13.0
1997	162	21,496.7	22.2
1998	181	26,626.6	25.3
1999	212	35,204.7	31.4
2000	269	30,978.7	22.7
2001	272	26,826.1	18.3
2002	263	25,429.2	16.2
2003	265	30,384.0	17.6
2004	262	31,628.5	17.0
2005	258	27,089.9	13.9
2006	269	22,971	10.9
2007	260	20,701	9.1
2008	269	8,385	3.5
2009	236	8,070	3.4

Source: Bank of Greece
1 End of period.

Table 38 Financial results of Greek commercial banks and banking groups

(amounts in million euro)

	Banks			Banking groups		
	2008	2009	Change (%)	2008	2009	Change (%)
Operating income	**9,828**	**10,691**	**8.8**	**15,286**	**15,758**	**3.2**
Net interest income	8,169	7,998	-2.1	11,393	11,589	1.7
– Interest income	24,289	19,239	-20.8	28,907	24,182	-16.3
– Interest expenses	16,120	11,242	-30.3	17,514	12,593	-28.1
Net non-interest income	1,659	2,693	62.3	3,893	4,189	7.6
– Net fee income	1,456	1,318	-9.5	2,600	2,168	-16.6
– Income from financial operations	-284	989	-	478	1,423	197.4
– Other income	487	386	-20.7	814	597	-26.7
Operating costs	**5,895**	**6,140**	**4.2**	**8,569**	**8,661**	**1.1**
Staff costs	3,433	3,597	4.8	4,769	4,890	2.5
Administrative costs	1,996	2,037	2.0	2,954	2,875	-2.7
Depreciation	358	390	8.8	641	704	9.8
Other costs	108	117	8.0	205	193	-5.9
Net income (operating income less costs)	**3,932**	**4,551**	**15.7**	**6,717**	**7,117**	**5.9**
Provisions for credit risk (impairment charges)	2,886	4,485	55.4	3,383	5,777	70.8
Pre-tax profits	**1,047**	**66**	**-93.7**	**3,340**	**1,349**	**-59.6**
Taxes	384	420	9.2	787	673	-14.5
After tax profits	**662**	**-354**	**-**	**2,554**	**677**	**-73.5**

Source: Bank of Greece and financial statements of Greek commercial banks and banking groups.

Table 39 Key vulnerability and shock-absorption capacity and resilience indicators of Greek commercial banks and banking groups

(percentages)

	Banks		Banking groups	
	December 2008	December 2009	December 2008	December 2009
Asset quality[1]				
Non-performing loans (NPLs) - total	5.0	7.7		
– Housing loans	5.3	7.4		
– Consumer loans	8.2	13.4		
– Business loans	4.3	6.7		
Accumulated provisions over NPLs	48.9	41.5		
Ratio of net NPLs to regulatory own funds	26.1	38.2		
Liquidity				
Loan-to-deposit ratio	108.4	106.6	114.0	113.7
Liquid asset ratio	19.0	24.2		
Asset/liability maturity mismatch ratio	-7.1	-4.2		
Capital adequacy				
Capital adequacy ratio	10.7	13.2	9.4	11.8
Tier I ratio	8.7	12.0	7.9	10.7
	2008	**2009**	**2008**	**2009**
Profitability[2]				
Net interest margin	2.2	1.9	2.9	2.6
Cost-to-income ratio	60.0	57.4	56.1	54.9
Return on assets - ROA (after tax)	0.2	-0.1	0.7	0.2
Return on equity - ROE (after tax)	3.2	-1.5	9.9	2.4

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

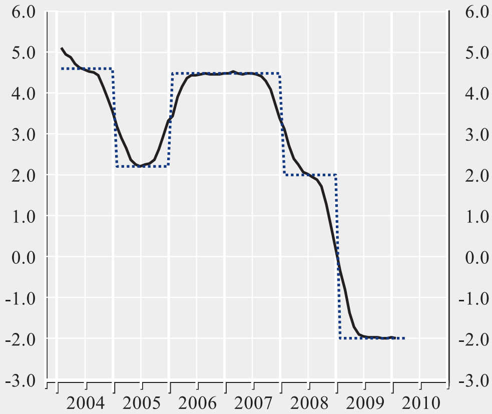
Table 40 Greenhouse[1] gas emissions and Kyoto Protocol targets

	1990	Kyoto Protocol (base year)[2]	2007	Change 2006-2007	Change 1990-2007	Change of base year 2007	Kyoto targets 2008-2012
	in million tons of CO_2 equivalent			percentage changes			
Austria	79.2	79.0	88.0	-3.9	11.3	11.3	-13.0
Belgium	143.2	145.7	131.3	-3.9	-8.3	-9.9	-7.5
Denmark	69.1	69.3	66.6	-6.2	-3.5	-3.9	-21.0
Finland	70.9	71.0	78.3	-2.0	10.6	10.3	0.0
France	562.6	563.9	531.1	-2.0	-5.6	-5.8	0.0
Germany	1,215.2	1,232.4	956.1	-2.4	-21.3	-22.4	-21.0
Greece	*105.6*	*107.0*	*131.9*	*2.9*	*24.9*	*23.2*	*25.0*
Ireland	55.4	55.6	69.2	-0.7	25.0	24.5	13.0
Italy	516.3	516.9	552.8	-1.8	7.1	6.9	-6.5
Luxembourg	13.1	13.2	12.9	-2.9	-1.6	-1.9	-28.0
Netherlands	212.0	213.0	207.5	-0.5	-2.1	-2.6	-6.0
Portugal	59.3	60.1	81.8	-3.4	38.1	36.1	27.0
Spain	288.1	289.8	442.3	2.1	53.5	52.6	15.0
Sweden	71.9	72.2	65.4	-2.2	-9.1	-9.3	4.0
United Kingdom	771.1	776.3	636.7	-1.7	-17.4	-18.0	-12.5
EU-15	**4,232.9**	**4,265.5**	**4,052.0**	**-1.6**	**-4.3**	**-5.0**	**-8.0**

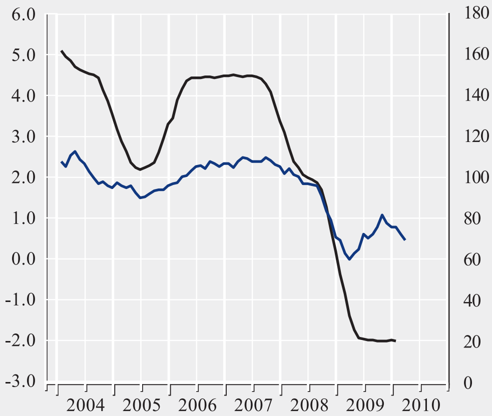
Source: European Environment Agency, "Annual European Community greenhouse gas inventory 1990-2007 and inventory report 2009", EEA Technical Report No 4/2009.
1 Total emissions excluding the "land use, land-use change and forestry" sector.
2 For gases CO_2 , CH_4 and N_2O, all member countries chose 1990 as base year. For gases HFC, PFC and SF_6, 12 member countries chose 1995 as base year, while Austria, France and Italy chose 1990.

Chart 1 Economic activity indicators

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



B. The coincident indicator of economic activity compiled by the Bank of Greece and the European Commission's economic sentiment indicator for Greece
(January 2004 - March 2010)

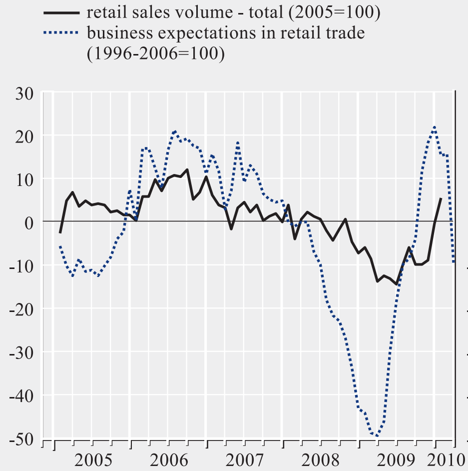


Sources: Bank of Greece (coincident indicator, as well as GDP for 2010), NSSG (GDP 2004-2009) and European Commission (economic sentiment indicator).

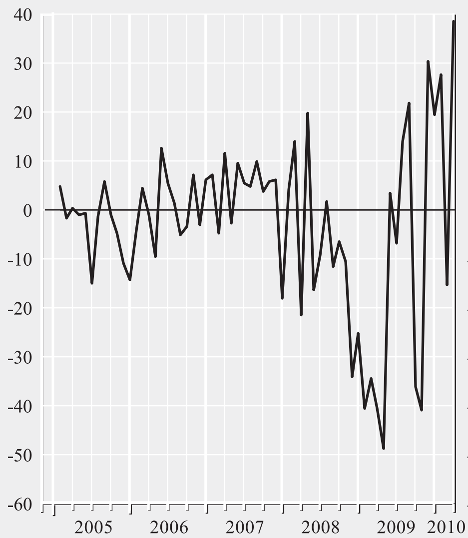
1 Annualised monthly percentage changes.
2 Annual rate of change.
3 Monthly data.

Chart 2 Consumer demand indicators

A. Retail trade volume and business expectations[1]
(January 2005 - March 2010)



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



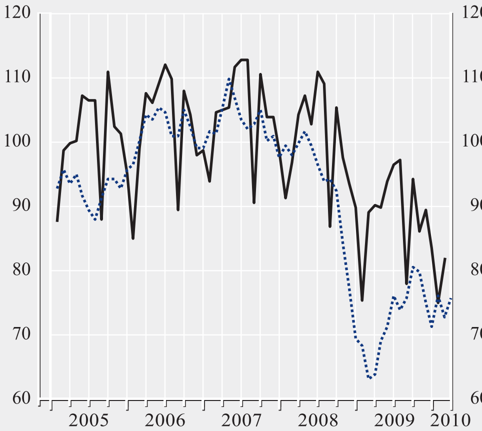
Sources: NSSG (retail trade and cars) and IOBE (expectations). The business expectations index is based on firms' estimates of sales and stocks as well as on their forecasts on business activity over the next three months.

1 Year-on-year percentage changes.

Chart 3 Output and business expectations in manufacturing (January 2005 - March 2010)

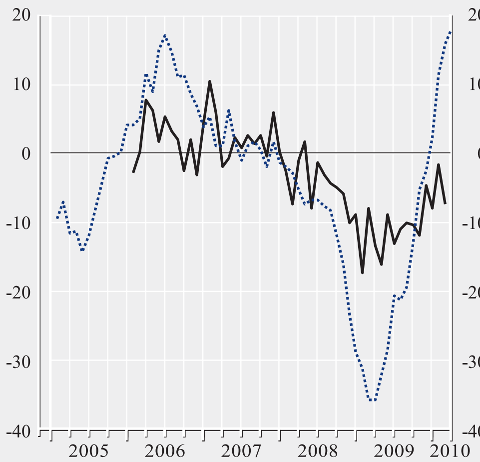
A. Indices

manufacturing output (2005=100)
business expectations in manufacturing (1996-2006=100)



B. Year-on-year percentage changes

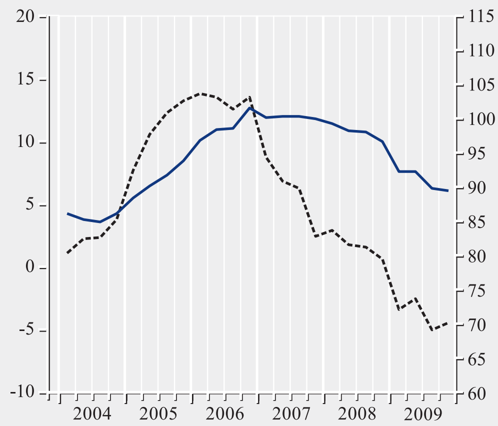
manufacturing output (2005=100)
business expectations in manufacturing (1996-2006=100))



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 House price-to-rent ratio

average annual change in the house price index (left-hand scale)
price-to-rent ratio (2007=100, right-hand scale)

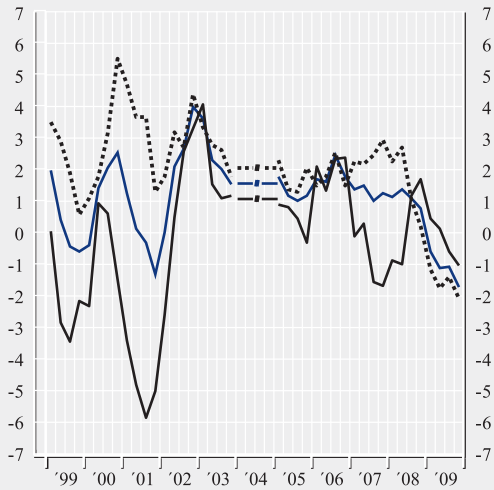


Source: Bank of Greece, based on data collected by credit institutions.

Chart 5 Employment (1999-2009)

(percentage changes over corresponding quarter of previous year)

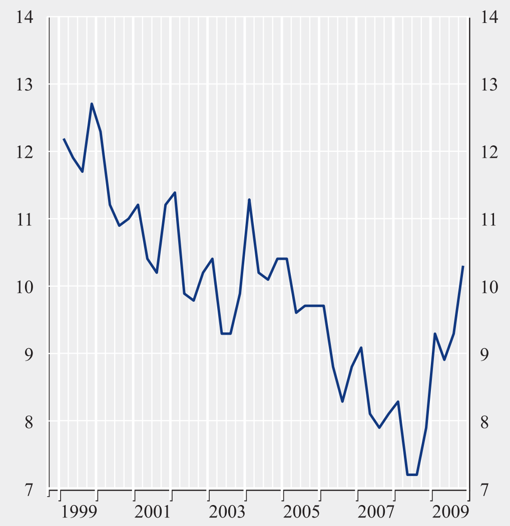
total
other employed persons*
employees



Source: NSSG, Labour Force Surveys. New revised data for 1998-2003, published in January 2005. No changes are shown for 2004, as 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 6 Total unemployment rate (1999-2009)

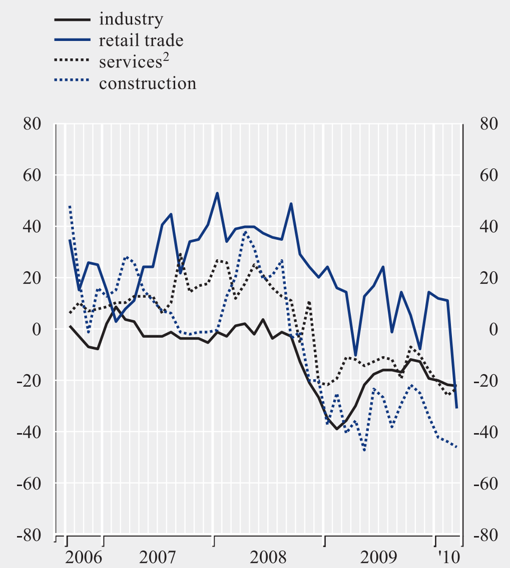
(percentage of labour force)



Source: NSSG, Labour Force Surveys.

Chart 7 Employment expectations[1] (September 2006 - March 2010)

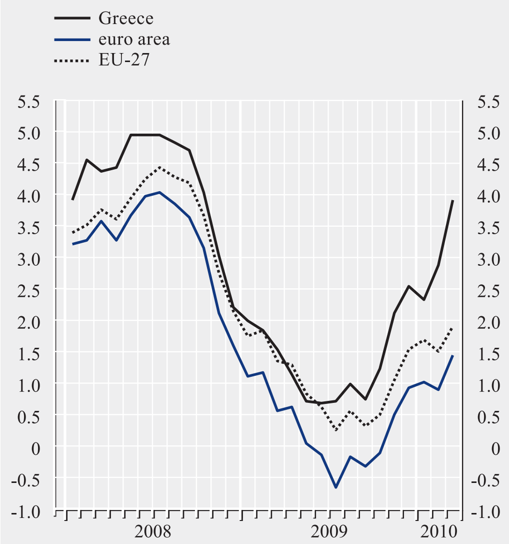
(net percentage balances)



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

Chart 8 Harmonised index of consumer prices in Greece, the euro area and the European Union (January 2008 - March 2010)

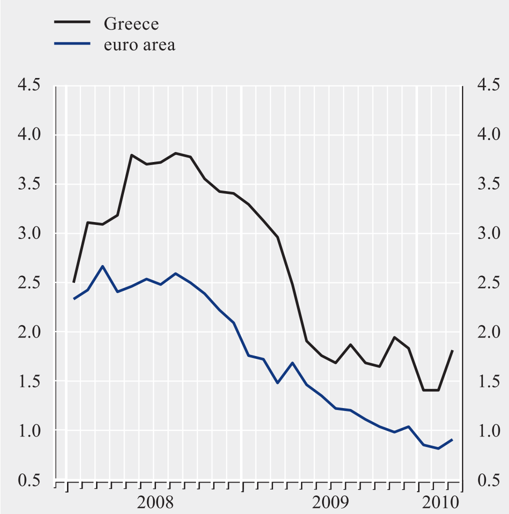
(year-on-year percentage changes)



Sources: NSSG and Eurostat.

Chart 9 Core inflation in Greece and the euro area on the basis of the HICP excluding energy and unprocessed food (January 2008 - March 2010)

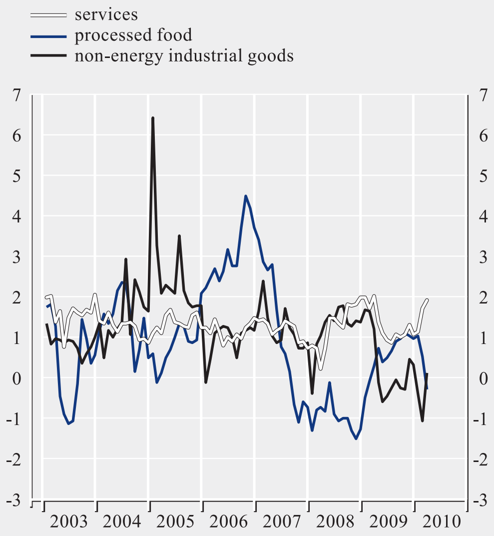
(year-on-year percentage changes)



Sources: NSSG and Eurostat.

Chart 10 Annual inflation differentials between Greece and the euro area (2003 - March 2010)

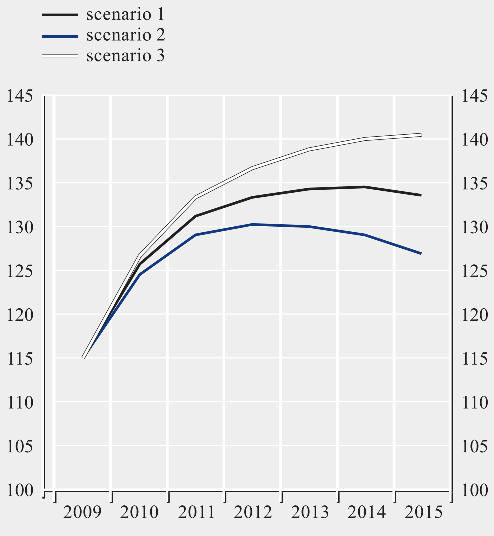
(selected price indicators, differentials in percentage points)



Source: Calculations based on Eurostat and ECB data.

Chart 11 Government debt scenarios

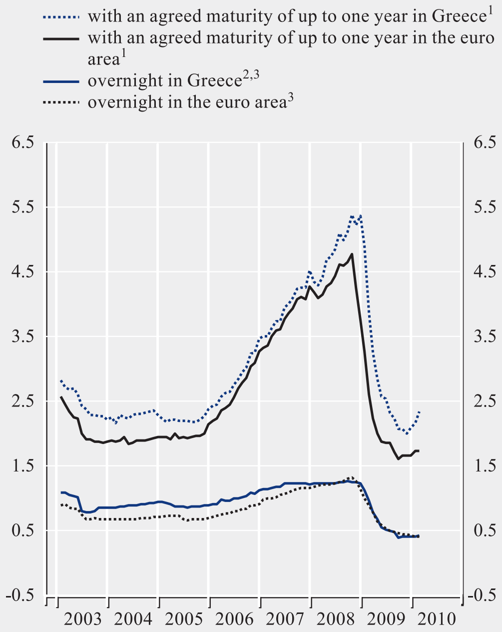
(percentages of GDP)



Source: Bank of Greece staff projections.
Scenario 1: based on the assumptions of the Stability and Growth Programme (2010-2013) and assuming a further improvement in 2014 and 2015.
Scenario 2: assuming a primary balance improvement of 1% of GDP.
Scenario 3: assuming a primary balance worsening of 1% of GDP.

Chart 12 Bank interest rates on new deposits by households in Greece and the euro area (January 2003 - February 2010)

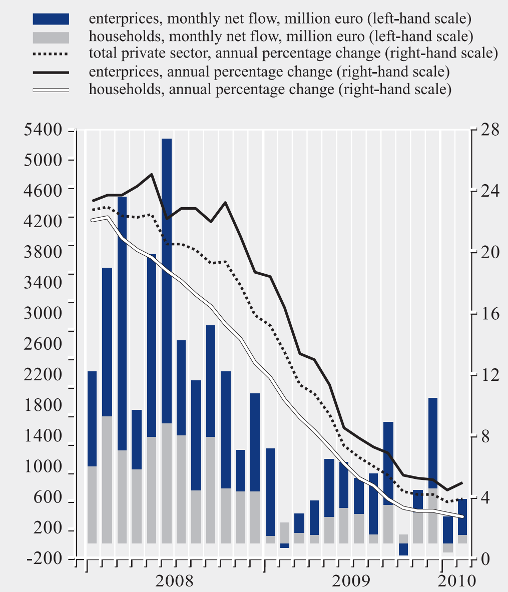
(percentages per annum)



Sources: Bank of Greece and ECB.
1 Monthly average rate.
2 Represented by the interest rate on savings deposits, which make up the bulk of overnight deposits.
3 End-of-month rate.

Chart 13 Credit[1] to non-financial corporations and households by domestic MFIs (January 2008 - February 2010)

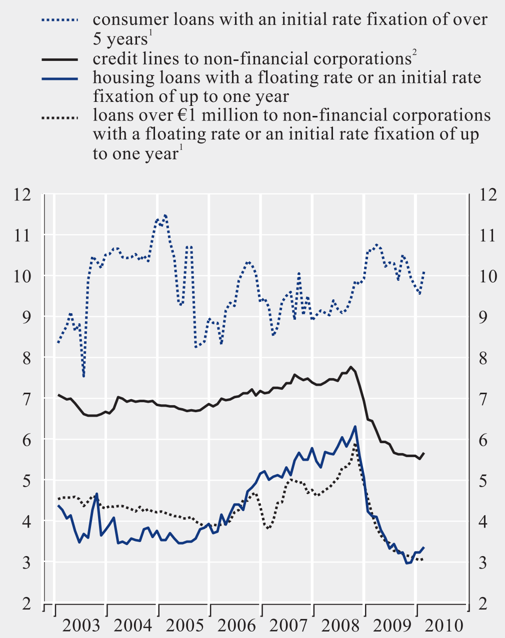
(monthly net flow[2])



Source: Bank of Greece.
1 Comprising the outstanding amounts of MFI loans to non-financial corporations and households, securitised loans and securitised corporate bonds. The rates of change are adjusted for exchange rate variations and write-offs carried out by banks during the reference period.
2 The net flow of credit includes the change in the outstanding stock of credit (loans, corporate bonds, securitised loans and securitised corporate bonds). It also includes the valuation differences on loans denominated in foreign currency, as well as write-offs effected by banks during the reference period.

Chart 14 Bank interest rates on new loans in Greece (January 2003 - February 2010)

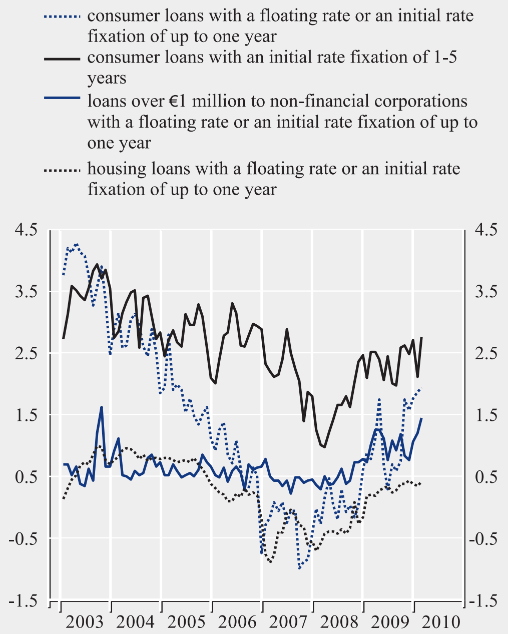
(percentages per annum)



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

Chart 15 Bank interest rates on new loans: differential between Greece and the euro area (January 2003 - February 2010)

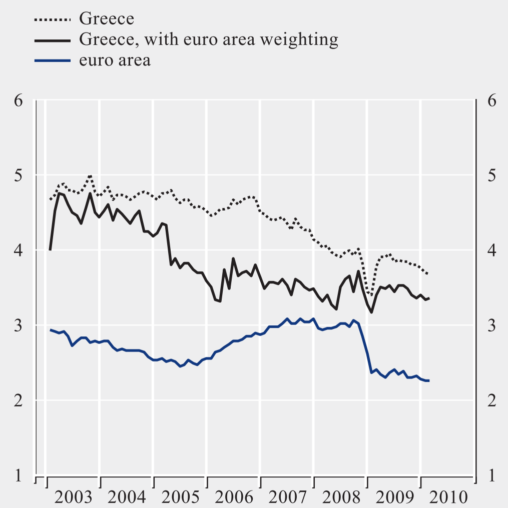
(percentage points)



Sources: Bank of Greece and ECB.

Chart 16 Average interest rate spread between new loans and new deposits in Greece and the euro area (January 2003 - February 2010)

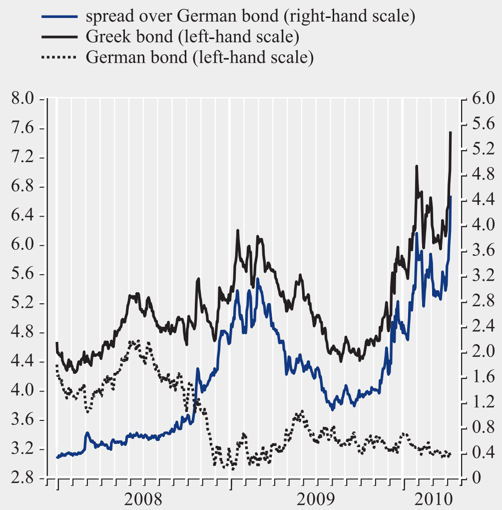
(percentage points)



Sources: Bank of Greece and ECB.

Chart 17 Yield on the Greek 10-year government bond and yield spread against the corresponding German bond (January 2008 - 8 April 2010)

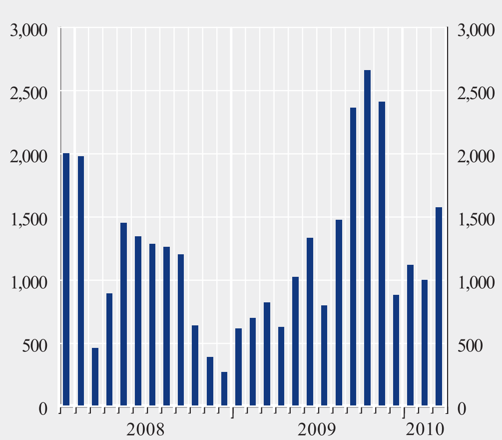
(daily data, percentages per annum, spread in percentage points)



Source: Bank of Greece.

Chart 18 Average daily value of transactions in the Electronic Secondary Securities Market (HDAT) (January 2008 - March 2010)

(million euro)



Source: Bank of Greece.

ANNUAL ACCOUNTS OF THE BANK OF GREECE FOR THE YEAR 2009

BALANCE SHEET AS AT 31 DECEMBER 2009

EIGHTY SECOND YEAR

(in euro)

ASSETS	31.12.2009	31.12.2008
1. Gold and gold receivables	**3,633,315,395**	**2,924,754,323**
2. Claims on non-euro area residents denominated in foreign currency	**1,108,075,094**	**301,602,543**
2.1 Receivables from the International Monetary Fund (IMF)	947,530,824	138,800,294
2.2 Balances with banks and security investments, external loans and other external assets	160,544,270	162,802,249
3. Claims on euro area residents denominated in foreign currency	**281,553,987**	**2,473,540,378**
3.1 General government	270,390,666	265,422,923
3.2 Other claims	11,163,321	2,208,117,455
4. Claims on non-euro area residents denominated in euro	**177,285**	**830,949,273**
4.1 Balances with banks, security investments and loans	177,285	830,949,273
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	**49,655,100,000**	**38,354,900,000**
5.1 Main refinancing operations	2,355,000,000	22,765,300,000
5.2 Longer-term refinancing operations	47,300,100,000	15,584,000,000
5.3 Marginal lending facility	0	5,600,000
6. Other claims on euro area credit institutions denominated in euro	**72,760,162**	**76,778,839**
7. Securities of euro area residents denominated in euro	**20,668,018,576**	**14,529,148,987**
7.1 Securities held for monetary policy purposes	674,147,384	0
7.2 Other securities of euro area residents denominated in euro	19,993,871,192	14,529,148,987
8. General government long term debt denominated in euro	**7,294,205,864**	**7,777,980,635**
9. Intra-Eurosystem claims	**1,597,874,267**	**1,483,347,572**
9.1 Participating interest in the ECB	435,391,713	390,454,407
9.2 Claims equivalent to the transfer of foreign reserves to the ECB	1,131,910,591	1,046,595,328
9.3 Claims related to the allocation of euro banknotes within the Eurosystem (net)	0	0
9.4 Net claims related to transactions with the ESCB (TARGET2)	0	0
9.5 Other claims within the Eurosystem (net)	30,571,963	46,297,837
10. Items in course of settlement	**2,369,833**	**623,195**
11. Other assets	**2,280,203,801**	**2,166,856,607**
11.1 Coins	58,087,539	44,783,716
11.2 Tangible and intangible fixed assets	763,695,749	804,157,896
11.3 Other financial assets	29,260,593	29,013,836
11.4 Accruals and prepaid expenses	830,239,223	727,246,535
11.5 Sundry	598,920,697	561,654,624
TOTAL ASSETS	**86,593,654,264**	**70,920,482,352**

OFF-BALANCE-SHEET ITEMS	31.12.2009	31.12.2008
1, 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	20,167,881,047	19,345,001,939
2, Greek government securities and other securities relating to the management and custody of funds of public entities, social security funds and private agents	9,624,298,900	7,726,244,396
3, Assets eligible as collateral for Eurosystem monetary policy operations and intra-day credit	77,190,735,706	51,763,228,376
4. Other off-balance-sheet items	282,506,757	3,232,802,709
TOTAL OFF-BALANCE-SHEET ITEMS	**107,265,422,410**	**82,067,277,420**

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 16 national central banks of the Eurosystem is 2.81539%.

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.

(in euro)

LIABILITIES	31.12.2009	31.12.2008
1. Banknotes in circulation	**20,886,044,900**	**18,291,344,500**
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	**8,008,073,640**	**7,793,859,079**
2.1 Current accounts (covering the minimum reserve system)	4,616,073,640	4,930,859,079
2.2 Deposit facility	3,392,000,000	2,863,000,000
3. Other liabilities to euro area credit institutions denominated in euro	**0**	**0**
4. Liabilities to other euro area residents denominated in euro	**1,381,108,771**	**1,597,505,489**
4.1 General government	1,333,377,502	1,520,711,578
4.2 Other liabilities	47,731,269	76,793,911
5. Liabilities to non-euro area residents denominated in euro	**719,806,349**	**803,627,501**
6. Liabilities to euro area residents denominated in foreign currency	**73,079,424**	**103,335,707**
7. Liabilities to non-euro area residents denominated in foreign currency	**84,505,484**	**78,796,254**
7.1 Deposits and other liabilities	84,505,484	78,796,254
7.2 Liabilities arising from the credit facility under ERM II	0	0
8, Counterpart of special drawing rights allocated by the IMF	**851,675,401**	**114,395,563**
9. Intra-Eurosystem liabilities	**49,122,200,115**	**37,833,037,850**
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)	86,137,460	2,484,729,740
9.3 Net liabilities related to transactions with the ESCB (TARGET2)	49,036,062,655	35,348,308,110
9.4 Other liabilities within the Eurosystem (net)	0	0
10. Items in course of settlement	**26,358,624**	**25,895,521**
11. Other liabilities	**764,807,737**	**728,834,622**
11.1 Off-balance-sheet instruments revaluation differences	191,109	0
11.2 Accruals and income collected in advance	68,547,768	114,274,663
11.3 Sundry	696,068,860	614,559,959
12. Provisions	**1,953,462,075**	**1,506,799,733**
13. Revaluation accounts	**1,917,223,958**	**1,249,112,781**
14. Capital and reserves	**805,307,786**	**793,937,752**
14.1 Capital	111,243,362	111,243,362
14.2 Ordinary reserve	111,243,362	111,243,362
14.3 Extraordinary reserve	72,500,000	55,000,000
14.4 Special reserve from the revaluation of land and buildings	509,257,925	516,175,995
14.5 Other special reserves	1,063,137	275,033
TOTAL LIABILITIES	**86,593,654,264**	**70,920,482,352**

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 2009 (€766.347 per fine oz., compared with €621.542 as at 31 December 2008).
6 Claims/liabilities denominated in foreign currency have been converted into euro using the euro foreign exchange reference rates of the ECB as at 31 December 2009.
7 Marketable debt securities are valued at the mid-market prices of 31 December 2009, with the exception of debt securities held to maturity which are valued at amortised cost.
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 buildings is calculated at a rate of 2.5%, over their expected life (40 years).
10 From 2009 onwards, banknote production costs are treated as expenses of the financial year in which banknotes are produced.
11 In 2009 €45 million were released from the provision against counterparty risks related to the monetary policy operations of the Eurosystem, which was initially created in 2008 and amounted to €149,5 million. The amount of €45 million was disclosed as income from the release of provisions.
12 From the net profit of financial year 2009, an amount of €17.5 million was transferred to the extraordinary reserve.
13 Certain items of the balance sheet and the profit and loss account for the year 2008 have been reclassified to ensure comparability with the respective items of the year 2009.

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2009

(in euro)

	2009	2008
1. Net interest income	**766,668,842**	**706,174,175**
1.1 Interest income	1,432,540,058	1,656,126,765
1.2 Interest expense	-665,871,216	-949,952,590
2. Net result of financial operations, write-downs and risk provisions	**58,209,232**	**36,999,655**
2.1 Realised gains arising from financial operations	58,209,232	36,999,655
2.2 Write-downs on financial assets and positions	-5,170,554	-11,923,222
2.3 Transfer from provisions for foreign exchange rate and price risks	5,170,554	11,923,222
3. Net income from fees and commissions	**174,816,632**	**144,003,938**
3.1 Fees and commissions income	176,416,753	145,510,199
3.2 Fees and commissions expense	-1,600,121	-1,506,261
4. Income from equity shares and participating interests	**66,983,496**	**38,150,051**
5. Net result of pooling of monetary income	**53,376,709**	**-134,653,569**
6. Other income	**19,410,623**	**15,511,550**
Total net income	**1,139,465,534**	**806,185,800**
7. Staff costs and pensions	**-333,133,279**	**-339,005,755**
8. Administrative and other expenses	**-46,135,461**	**-45,474,314**
9. Depreciation of tangible and intangible fixed assets	**-59,807,274**	**-27,811,854**
10. Provisions	**-472,228,907**	**-168,809,636**
Total expenses	**-911,304,921**	**-581,101,559**
PROFIT FOR THE YEAR	**228,160,613**	**225,084,241**

Note: *For financial year 2009, item 5 "Net result of pooling of monetary income" includes an amount of €44,966,265 regarding the partial release of the provision against counterparty risks related to the monetary policy operations of the Eurosystem, amounting to €149,522,606 and first established in 2008.*

DISTRIBUTION OF NET PROFIT

(Article 71 of the Statute)

(in euro)

	2009	2008
Dividend €0.67 per share on 19,864,886 shares	13,309,473	13,309,473
Ordinary reserve	-	22,248,672
Extraordinary reserve	17,500,000	-
Additional dividend €1.73 per share on 19,864,886 shares*	34,366,253	34,366,253
Tax payment on dividends (Law 3296/2004, Article 6)	15,891,909	15,891,909
To the Government	147,092,978	139,267,934
	228,160,613	**225,084,241**

* *The total dividend for financial year 2009 amounts to €2.40 per share. Dividends are subject to withholding tax of 10%, in accordance with Article 18 of Law 3697/2008.*

Athens, 23 March 2010

THE GOVERNOR — GEORGE A. PROVOPOULOS

THE DIRECTOR OF THE ACCOUNTS DEPARTMENT — CHRISTOS K. PAPAKONSTANTINOU

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, 2009, the Income Statement and the statement of profit distribution for the year 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 Statute, and note 12 in the General Council Report as concerns the method used to provide for general risks and the Accounting Standards prescribed by Greek legislation, as well as for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility: Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 item "Provisions" includes provision for pensions, other liabilities to employee funds amounting to €1,275 million (December 31, 2008: €1,081 million) for which we did not obtain audit evidence and, consequently, we are unable to satisfy ourselves as to the reasonableness of such provision.

Opinion: In our opinion, except for the effects of the matter described in the paragraph above, the financial statements present fairly, in all material respects, the financial position of the BANK OF GREECE S.A. as of December 31, 2009, 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 Statute and note 12 in the General Council Report as concerns the method used to provide for general risks 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, 23 March 2010

The Certified Auditors - Accountants

Christos Glavanis
(Registration no 10 371)

Christodoulos Seferis
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