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Focus notes: Greece

Latest macro & market developments

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Part I

Delayed reporting of general government arrears causes uncertainty over final 2010 deficit figure

In line with the requirements of the present EU/IMF-backed stabilization programme, Greece continues the publication of monthly (cash-based) statistics for the general government fiscal accounts. According to the most recent data, total reported arrears decreased by 18.1% mom in January 2011, reaching €4.1bn or ca 1.7%-of-GDP. This compares with an *upwardly-revised* figure of €5.0 bn in the prior month, initially reported as €4.5 bn. The still high volume of outstanding debts in the broader public sector constitutes a lingering concern for both the government and the official lenders. As such, It is not by chance that in its upcoming EDP notification (scheduled for April 28), Eurostat will reportedly estimate Greece's 2010 general government deficit at 10.2%-of-GDP or higher (levels around 10.5%-of-GDP suggested by a number of local press reports). This compares with an earlier government estimate for a deficit of 9.4%-of-GDP last year and a 9.6%-of-GDP projection envisioned in the latest IMF country report on Greece (March 2011).

Reportedly, the upward revision of the Greek deficit realization in 2010 will come as a result of **a)** a revision in the overall fiscal balance of Greek pension funds to a *deficit* of 0.5%-of-GDP, from a *surplus* of +0.9%-of-GDP estimated earlier, **b)** last year's sharper than expected economic downturn and **c)** the still vast size of unreported arrears. More worryingly, a large number of local authorities, social security funds and other public entities are still to provide detailed reporting of their spending records and arrears. The total number of public entities failing to report their accounts fell to 892 in January 2011, from 1078 in the prior month. The decline was mainly due to the implementation of the so-called "Kalikratis" reform, which reduced the total number of local authorities to 369 from

1601. Nevertheless, still around 13% of the local authorities failed to report their arrears in January, compared to ca 25% in the prior month. Specifically, only 684 of a total 892 general government entities reported their outstanding obligations in January 2011. From the 208 entities that failed to report, 49 were local authorities, 25 were social security funds and 133 were other general government entities.

These developments prompted the Ministry of Finance (General Secretariat of Fiscal Policy) to **a)** approve a decision envisioning the imposition of fines and the freezing of financing from the state budget for entities failing to report their arrears and **b)** publish – for the first time ever– a list of general government entities failing to report their arrears. In the following months the reporting of general government budget accounts is expected to improve as a result of **a)** the "Kalikratis" reform for local authorities, **b)** new accounting standards to be adopted by all sub-national-level bodies and **c)** the electronic registry and auditing of all general government entities.

If confirmed, an upward revision of the 2010 deficit would add to the government's fiscal challenges. More austerity measures - over and above these required to confront an officially expected budget shortfall of 1.7%-of-GDP in 2011 - will likely be needed to make up for last year's deficit outrun. According to a number of press reports, the implementation of these additional measures were among the issues discussed during last week's visit of a new EC/ECB/IMF mission to Athens. Announcements regarding these measures will reportedly take place after Eurostat's upcoming EDP notification of member states' past deficit and debt figures.

State budget execution data continue to record weak revenue growth

According to preliminary data released by the General Accounting Office (GAO), the year-to-March central government deficit grew by 7.8% yoy to ca €4.7bn, broadly in line with the corresponding state budget target for the first three months of the year.

Year-to-March ordinary budget revenue recorded a 8.1% yoy decline, mainly as a result of: **a)** the sharper than expected downturn of the Greek economy in the first three months of 2011, **b)** the non repetition of the January 2010 extension of the road duties payment period (~€0.4 bn), **c)** lower receipts from an extraordinary tax on profits of large companies (~€0.1 bn) and **d)** lower revenue from the withholding personal income tax during January and February 2011.

Budget expenditure increased by 3.5% yoy in Q1:2011, mainly because of the allocation of some €0.4 bn for the settlement of past hospital debt. Elsewhere, Interest payments increased by 15.6% yoy, while primary expenditures declined by -2.3% yoy.

Finally, Public Investment Budget (PIB) revenues increased by 121.3% yoy to €0.3 bn year-to-March (compared with an annual target of +27.7%), while PIB expenditure fell by €0.7 bn (vs. compared an annual growth target of +0.6%).

Ordinary Budget	Jan-March 2011 (€bn)	Jan-March 2011 (%YoY)	2011 Budget Jan-March (€bn)	Annual target (%YoY)
1. Net Revenues (a-b-c)	11.11	-8.1	12.49	8.5
a. Gross revenue	11.92	-9.3	13.24	5.6
b. NATO revenues	0.02	463.0	0.00	207.7
c. Tax returns	0.82	-22.0	0.77	-23.7
2. Expenditure (α+β+γ+δ+ε+στ)	15.76	3.5	15.60	6.6
α. Primary expenses	12.09	-2.3	11.87	1.9
β. Transfer to hospitals for the settlement of part of past debt	0.38		0.17	19.9
γ. NATO expenditures	0.00		0.00	73.9
δ. Military equipment expenditure	0.05		0.37	57.3
ε. Forfeiture of Government Guarantees	0.01	-77.5	0.04	0.0
στ. Interest costs	3.23	15.6	3.16	20.4
Public Investment Budget (PIB)				
3. Revenue	0.61	121.3	0.00	27.7
4. Expenditure	0.68	-55.3	1.60	0.6
5. Budget deficit (-) or budget surplus (+) (1-2+3-4)	-4.71	7.8	-4.70	-3.9

Source: Ministry of Finance

Greece's medium-term fiscal plan, privatizations to be focal points in next EU/IMF programme review

The medium-term fiscal plan for the period 2012-2015 and the government's privatization agenda were among the main issues discussed during last week's visit of an EC/ECB/IMF mission to Greece.

Reportedly, the medium-term fiscal plan envisions a reduction in the general government budget deficit to just €3bn by 2015, from ca €17 bn expected in 2011. The plan is currently under preparation, with a first draft expected to be presented to the Ministers' Council by April 15th. The plan is expected to pass parliament by mid-May 2011.

According to Minister of Finance, George Papaconstantinou, around two-thirds of total measures worth €22bn to be implemented in 2012-2015 will be in the form of spending cuts, with the remaining one-third coming from the revenue side.

Reportedly, the new budget deficit targets for the coming years are as follows: 6.4%-of-GDP in 2012; 4.8%-of-GDP in 2013 and 2.6%-of-GDP in 2014. In addition, the government has committed to reduce the budget deficit further in 2015, to levels below 1%-of-GDP.

According to reports, the latest EC/ECB/IMF mission to Greece urged the government to implement a more front-loaded privatization program, starting with the divesture of public stakes in a number of listed companies. Note also that a new bill recently voted in Parliament envisions the creation of a General Directorate for Public Property, which, from now on, will take responsibility for the supervision and development of public real estate assets.

New bill aiming to improve tax collections

On March 23, the Greek Parliament passed a complementary bill to the tax reform voted in April 2010. The new bill aims to reform the tax collection system and reinforce the fight against tax evasion. Its vigorous implementation is key for the achievement of the 2011 deficit target, which crucially depends on higher revenue from the fight against tax evasion and the increased efficiency of the tax collection mechanism.

The new bill introduces, among others, the following measures: **a)** an installments system for the fulfillment of VAT obligations, **b)** imprisonment for persons or entities that owe VAT to the state, **c)** introduction of an economic-financial prosecutor, **d)** reform of the tax authorities, **e)** centralization of the tax auditing system, **f)** introduction of an internal affairs agency for tax officials' corruption cases, **g)** tax arbitration mechanisms and **h)** introduction of an electronic system of registering receipts.

Monitoring progress on EU/IMF-agreed reforms

Programme implementation news has been encouraging lately, with recent reforms including:

Implementation of the business start-up law (general electronic commercial registry, one stop shops for start ups etc): Both the General Electronic Commercial Registry (GCER) and the "one-stop shops for Business Start-Ups" provisioned in the July 2010 Start-Ups bill became fully operational on April 4th 2011. The time needed for a business start-up will be reduced from 19 days to 1 day. The reform aims to improve economic competitiveness. Note that in the 2011 *Ease of Doing Business* report, Greece was downgraded 12 places – from 97 to 109.

Bill on the Hellenic Competition Committee: The bill, which is currently under discussion in Parliament, aims to a) strengthen the role of the Hellenic Competition Committee, b) improve its efficiency and c) update the competition legislation in line with the present EU standards.

Part II – Recent macroeconomic and political developments in Greece, Ireland and Portugal: Decoupling between *small* and *large* euro area periphery markets persists

Euro area periphery bond spreads decline temporarily after Portugal asks for EU/IMF financial assistance

The Portuguese caretaker government finally bowed to market pressure mid-last week and announced that the country will seek EU/IMF financial support. The knee jerk reaction of Eurozone-periphery government bond markets was positive on the view that Portugal's bailout request removes a significant source of investor uncertainty and eases contagion risks. However, gains proved short-lived as investors remain skeptical about the ability of smaller euro area periphery sovereign borrowers to meet their financing needs on a sustainable basis. To exaggerate things further, worries over a Greek debt-restructuring have been on the rise lately. As a result, the decoupling trend witnessed over the last couple of months between small (Greece, Ireland and Portugal) vs. large (Spain, Italy and Belgium) periphery market spreads remained intact. This is especially evident in the case of Spain, with the country's 10-yr sovereign bond yield spread vs. the German counterpart hovering around 171bps at the time of writing against levels above 200bps in mid-March. Spanish government's apparent commitment to fiscal consolidation, an improving domestic macro backdrop and the implementation of structural reforms in the domestic labour market and pension system have reinforced market optimism that country will not be in need of external financial assistance in the foreseeable future.

In the euro area sovereign credit space, Portugal was the worst performer over the last few sessions pressured by the ongoing political uncertainty, worries over the country's debt sustainability and its ability to meet its financing needs in the coming months. Market anxiety regarding the precise form of the bailout package (structure, terms, conditions attached) had also an impact. Portuguese Primer Minister Jose Socrates resigned on March 23 after parliament rejected a new package of government austerity measures. As a result, the President dissolved the parliament and called for national elections on June 5. Under the country's constitution, a new government can not be sworn until late June, suggesting that the country will remain in political limbo for at least two more months.

Greece also fared poorly on resurfaced debt restructuring rumours and expectations for a likely upward revision in the 2010 budget deficit. On the flip side, Ireland outperformed in the wake of the government's decision to overhaul the baking sector, following the release of the bank stress tests in late March.

In what follows we highlight some of the key political and economic issues likely to affect market sentiment towards Portugal, Greece and Ireland in the period ahead

Portugal

i) Political uncertainty prevails, unclear how soon an EU/IMF rescue plan will be sealed

In a special meeting that took place late last week, Eurozone finance ministers discussed Portugal's request for EU/IMF financial assistance. The ensuing statement suggested that there will be an EFSF/EFSM package, subject to conditionality, just like in the case of Ireland. Negotiations for a Memorandum of Understanding will start immediately and will involve the European Commission, the ECB and the IMF as well as the current caretaker government and the main opposition parties. The purpose is to reach an agreement on a bailout package with conditions attached in mid-May. The plan consequently needs to be fully adopted and implemented by the new government that will be sworn after the snap election in early June. The programme will be based on three pillars: i) an ambitious fiscal plan to restore fiscal sustainability ii) structural reforms to boost productivity and competitiveness and hence, medium-term economic growth. An ambitious privatization program and measures to address high private sector indebtedness will also be included in the rescue plan iii) measures to safeguard the liquidity and solvency of the financial sector.

The exact size of the bailout it will likely be 80bn. Yet, in view of present complicated state of domestic politics, it is unclear how soon an EU/IMF deal will be sealed. A key issue is whether the interim government has the legitimate mandate to negotiate a rescue plan and approve the austerity measures attached to the loan agreement. Mr. Jose Socrates who will serve as a caretaker Prime Minister until snap elections are held, has stressed out several times in recent days that an interim administration has limited powers and does not have the legitimacy to approve a rescue plan. According to the constitution, the functions of the caretaker government are confined to "act strictly necessary to ensure the management of public finances".

ii) Challenging fiscal conditions

The country's statistics office revised upwards the 2010 budget deficit to 8.6%-of-GDP from 7.3%-of-GDP estimated previously. This was due to changes in accounting methods demanded by Eurostat. The latter required the Portuguese general government fiscal accounts to incorporate losses at nationalized bank PBN as well as the financial results of three public transport companies. The upward revision of the 2010 deficit suggests that additional fiscal measures will be required to ensure that Portugal will cut its budget deficit to 4.6%-of-GDP in 2011, as planned. The revision also coincided with the publication of the Portuguese Central Bank's latest Economic Bulletin, which read that the economy is expected to contract this year more than previously forecasted (-1.4%yoy vs. -1.3%yoy) and expand in 2012 at a slower pace than initially projected (+0.3%yoy vs. +0.6%yoy). Real GDP grew by an estimated rate of 1.4%yoy in 2010.

iii) Lingering credit rating risks

Lingering political uncertainty, rising borrowing costs and mounting worries over Portugal's ability to meet its tough fiscal targets have prompted a series of downgrades by all three major rating agencies over the last few weeks. After lowering the country's sovereign debt rating by two notches in mid-March, Fitch cut it once again a few sessions earlier, this time by three notches to BBB-, the lowest investment grade rank. The ratings agency noted that the severity of the downgrade reflects concerns that timely external financial support is quite unlikely in the near future, given the recent announcement of a snap election in early June. The agency stressed out that any further delay in securing a timely and credible IMF/EU financial support increases risks to economic and financial stability. In a similar move, Moody's cut Portuguese sovereign credit rating by one notch early last week from A3 to Baa1, two notches above that of Fitch. The ratings agency kept Portugal on negative CreditWatch and warned that further sovereign credit rating downgrades are possible, depending on the country's ability to secure medium-term funding. On its part, S&P lowered the country's sovereign credit rating twice in the second half of March, by a cumulative of three notches. Increased risks to "policy implementation and fiscal financing" on the back of lingering political uncertainty was one of the main reasons behind the S&P's decision to push Portugal's debt rating to as low as BBB-, the same as Fitch's and just one notch above junk. The ratings agency also cited concerns about the operational features of the permanent rescue mechanism ESM, the fund Portugal is eventually likely to tap. More specifically, S&P said that sovereign debt restructuring could be made a pre-condition for borrowing from the ESM while the Fund's senior creditor status could discourage private investors from buying government debt of countries that could face the risk of default.

iv) Sovereign borrowing calendar remains demanding

Portugal's IGCP debt agency sold a total of €1.005bn in 12-month and 6-month T-bills on April 6, with yields rising sharply compared to those in previous auctions of similar maturities. The 12-month T-bill auction produced an average yield of 5.902%, up from 4.331% in a previous auction three weeks earlier. Similarly, the average yield on the shorter-maturity paper rose to 5.117% from 2.984% in an early March sale. The bid-to-cover ratio stood at 2.6 and 2.3 for the 12-month and the 6-month T-bill respectively. Portugal plans to issue up to €7bn in Treasury bills until mid-June, all with maturities of one-year or less. Two thirds of the funding needs for 2011 are concentrated over the first six months of the year. The country's debt agency noted though that upcoming bond issuance will depend on market conditions.

Portugal has to repay €4.2bn in maturing bonds on April 15, and an additional €4.9bn in June. Including coupon payments and deficit financing, the country's requirements until June are put at €12-€15bn. The outgoing government said early last month that the country has enough cash reserves to meet its April financing needs. But investors are increasingly worried that the country might not be able to cover all these payments up to June, especially given the recent surge in domestic borrowing costs. The 10-yr Portuguese government bond yield hit a fresh record high of 8.77% mid-last week remaining above 7.0% -a level that many market participants see as a debt sustainability threshold –for more than two months.

Greece

Greek government securities remained under pressure over the last few sessions weighed down by resurfaced debt restructuring rumours, rising doubts about the country's ability to meet its fiscal targets and a deteriorated sovereign credit outlook. Following a short-lived drop to levels below 930bps mid-last week, the 10-yr Greek government bond (GGB) yield spread to German Bund resumed its uptrend to hover around 942bps at the time of writing. Technically, strong support stands at two-month highs of 960bps hit on March 11 ahead of 977bps all-time highs recorded early this year. On the downside, the technical picture suggests that only a sustained move below the 850/60bps area could provide potential for further narrowing towards 750bps (early February trough) or lower levels.

i) Resurfacing debt-restructuring rumours

Germany's Der Spiegel magazine reported in late March that IMF officials are privately pressing Greece to restructure its sovereign debt. Along these lines, former ECB chief economist Otmar Issing said recently that "as soon as other countries are out of danger" Greece will have to restructure its debt. In a similar note, Klaus Regling, head of the European Financial Stability Facility, told reporters last week that there are risks regarding Greece's ability to pay back all of its debts. However, speaking on the sidelines of a conference early last week, Greek Finance Minister George Papaconstantinou denied anew a debt restructuring scenario for Greece, underlying that a default would create severe contagion effects on other euro area economies. Mr. Papaconstantinou emphasized that the government's prime objective is to brink the economy towards sustainable output growth and expressed his optimism that the country will return to international bond markets in early 2012 at the latest. Denying debt restructuring rumours, Amadeu Altafaj, the spokesman for the European Commissioner for Economic and Monetary Affairs, pointed out earlier this week that he is not aware of any talks concerning such a possibility. In a similar vein, IMF Managing Director Dominique Strauss-Kahn dismissed the recent report in the German magazine, stressing out that the Fund supports the Greek government's position of no debt restructuring. Mr. Dominique Strauss Kahn stressed out that the real problem Greece has to address is to enhance competitiveness and restore sustainable economic growth.

ii) 2010 general budget deficit likely to be revised upwards

According to several press reports over the last few sessions, Greece's 2010 government budget deficit has likely exceeded the 9.6%-of-GDP projection envisioned in the latest update of the EU/IMF economic adjustment programme (March 2011). Reportedly, this was mainly the result of significant revisions to Greek pension fund accounts, which are now estimated to have recorded an overall deficit of €0.5bn last year, instead of a surplus of €0.9bn estimated earlier. If confirmed, an upward revision to Greece's 2010 deficit would add to the government's fiscal challenges. This is especially as the government is purportedly considering additional measures worth ca €1.7bn this year, aiming to prevent an possible overshooting of the 2011 fiscal target due to lower than projected budget revenue. Greece's 2010 budget figure, currently processed by the Hellenic statistics authority, will be finalized by Eurostat on April 26.

iii) Sovereign credit outlook deteriorates

S&P cut Greece's sovereign credit rating by two notches in late March to BB- from BB+, with a negative outlook. Based on the outcome of the March 24-25 Summit regarding the operational characteristics of the ESM, the ratings agency cited that a restructuring of sovereign debt could be a prerequisite for borrowing from the permanent rescue mechanism that Greece is "highly likely" to tap given its "persistently significant borrowing needs". S&P added that there are growing risks to Greece's budgetary position and that the terms under which EU sovereigns may borrow from the ESM "undermine Greece's plans to resume commercial borrowing by mid-2013". The ratings agency kept Greece on CreditWatch negative and warned that it would lower the country's sovereign credit rating by one or two notches within the next three months should upcoming fiscal data add to the risk of a higher-than-expected 2010 general government deficit and "further near-term fiscal deterioration in

2011". Greek Finance Ministry reacted angrily to the S&P''s rating move. In a statement released shortly after the rating announcement, the ministry underlined that the downgrade is "unbalanced and unjust" while "it reflects neither the effort made to date and the achievements nor Greece's economic prospects".

S&P's rating action on Greece followed Fitch's warning early last month that that there is a high risk of a multi-notch downgrade, if Greece fails to regain access to wholesale funding markets at affordable rates by the end of the year. Fitch currently rates Greece at B+, one notch below S&P, with outlook negative.

Moody's also cut Greece's sovereign credit rating further below to non investment territory last month, having delivered a cumulative nine notches downgrade since late December 2009. Moody's currently places Greece at B1, the lowest rating among the three main ratings agencies, with a negative credit watch.

Ireland

Reflecting improved market sentiment towards the domestic banking sector following the recent release of the bank stress tests results, Ireland was the star performer in the EMU sovereign credit space over the last few sessions. The 10-yr Irish/ Bund yield spread was standing close to 580bps at the time of writing, some 100bps narrower compared to all-time highs recorded a week earlier. Despite the most recent downward move, the spread was still above a 530bps year-to-date trough reached in early January.

i) Government takes radical steps to overhaul domestic banking system, but fiscal jitters linger

The eagerly awaited results of the latest round of the domestic bank stress tests, a condition of the EU/IMF rescue loan granted last November, were released in late March. They were characterized as more detailed and more intense compared to the present EU-wide tests. According to the test results, the four biggest banks -Allied Irish Bank, Bank of Ireland, Irish Life & Permanent and Educational Building Society- need €24bn in additional capital, almost in line with market expectations. Including the €46bn already committed by the previous Irish government, the total banking bailing out cost rose to €70.3bn or about 44%-of-GDP. Although the Finance Minister said that the banks could raise a proportion of this capital from other sources, including subordinated debt holders and private investors, the vast majority is expected to come from the €35bn already earmarked for banks under the €85bn EU/IMF bailout agreed late last year. Soon after the release of the stress test results, the Finance Minister announced a radical restructuring plan of the banking sector. The plan envisions the creation of two new pillar banks; Allied Irish Bank will take over the small state-owned Educational Building Society and Bank of Ireland. Irish Life & Permanent, the only lender that has so far avoided a state bailout will be probably nationalized. Aiming to help Irish banks facing mounting liquidity problems, the ECB decided to suspend collateral rules in money market operations, as it did for the Greek banks. The ECB will accept for repo operations Irish government and government-guaranteed paper irrespective of the credit rating.

ii) Agreement on lower EFSM interest rates for Ireland not reached yet

Adding to Ireland's woes, several recent press reports suggested that the Irish Prime Minister rejected an offer at the special EU Summit on March 11 for a 100bps adjustment of the interest rate charged on the EU's portion of its bailout package in exchange for an increase in domestic corporate tax rates. Ireland's corporate tax rate is one of the lowest in the EU after Cyprus, Bulgaria and Hungary. A likely abolition would purportedly risk damaging the country's appeal to international businesses and curb its growth potential. Alternatively, Ireland was also required to compromise on the introduction of a common consolidated corporate tax base, the so-called CCCTB. PM Kenny also rejected the second proposal arguing that it is tantamount to tax rate harmonization 'by the back door'. Ireland's deputy PM Eamon Gilmore said in a radio interview earlier this month that Ireland will launch a "coordinated diplomatic drive" to secure a better deal for the EU portion of its international bailout out. He added that "we are now in the process of negotiating a reduction on that interest rate" but did not specify what borrowing rate the country is targeting.

Part III - Latest macro releases in Greece

March CPI overshoots expectations

Greece's CPI rose to 4.5%yoy in March from 4.4%yoy in February confounding market expectations for a drop to 3.3%yoy. The unexpected inflation rise was mainly due to higher energy prices and a reversal of the disinflationary effect of the prior month's sales season. Headline March consumer inflation stood above the 3.9%yoy rate recorded in the same month a year earlier and the Eurozone's 2.6%yoy corresponding inflation figure. On a more positive note, domestic inflation excluding the pass-through effect of recent hikes in VAT and a range of excise taxes remained close to zero percent. Looking ahead, we expect rapid disinflation to resume from H2:2011 onwards, with the annual CPI rate averaging between 2.5% and 3.0% in 2011 compared to 4.7% in the prior year.

Prolonged domestic recession continues to weigh heavily on consumer spending
Greek **retail sales** declined in January for the tenth month in a row, albeit at a somewhat slower pace compared the prior month. Sales (including fuels and auto lubricants) in volume terms, dropped by 16.0%yoy, following December's 19.2%yoy decline, pointing to a further contraction in consumer spending in early 2011. Retail sales by revenue declined by 10.5%yoy following a 13.2%yoy drop in the prior month as wage restraint, rising unemployment and higher taxation continued to weigh on disposable incomes. We expect consumer spending to remain in negative territory in the coming months with net exports providing the sole positive contributor to gross domestic product.

Markit manufacturing purchasing managers' (PMI) index came in at 45.4 in March, the highest reading in 15 months, after stabilizing at an eighth-month low near 42.8 in the last couple of months. Despite the improvement, the corresponding index remained firmly below the 50 boom-or-bust level that separates growth from contraction. New orders and inventories continued to decline. On a slightly better tone, the pace of contraction in employment slowed to its lowest level in 14 months while production declined for the 18th month in a row albeit at the slowest pace since early last year.

Total credit to the domestic private sector remained in a downward trend in February. According to data provided by the Bank of Greece, the corresponding annual growth rate eased to a new post-EMU entry low of -0.3% from -0.2% in January and 0.0% in December 2010. The annual growth rate of credit to individuals and private non-profit institutions fell to -1.6%, following a 1.4% contraction in the prior month. More specifically, the net flow of housing loans was negative for the third month in a row, amounting to -€126bn vs. -€170bn in January. We expect annual credit growth to the domestic private sector to remain broadly stagnant in the coming months as contraction in domestic economic activity continues and difficulties in domestic banks' funding conditions linger.

Separately, the downward momentum in Greek business and household bank deposits remained intact in February. Deposits fell by 1.3%mom to €202.1bn, from €204.8bn in the prior month. On a year on-year basis, deposits dropped by €27.1bn (or 13.4%) in February 2011 or 13.4%.

Adding to the recent string of negative data releases, the **Economic Sentiment** index - compiled by the Foundation for Economic and Industrial Research (IOBE) - resumed its downtrend in March. Halting a two-month improving streak, the index came in at 78.4 last month, down from February's 79.4, mainly as result of a further sharp deterioration in the construction sector. Consumer confidence edged up at -66 in March from -67 in the prior month, remaining though not far off December's -75 record lows. IOBE reported that 69% of Greeks expect their financial situation to worsen in the months ahead, while 80% of the households participating in the survey see unemployment rising in the next 12 months.

Table1: Greece-Key Indicators	Last	ytd	2009
Macroeconomic indicators			
GDP growth (%YoY)	-6.6 (Q4 10)	-4.5	-2.0
CPI	4.5 (March 11)	1.2	4.7
Unemployment growth	14.8 (Dec 10)	45.1	1.3
Labor Cost (%YoY)	-4.2 (Q4 10)	-4.2	3.6
Economic Sentiment (%YoY)	78.4 (March 11)	6.4	76.3
Consumer-vigor indicators			
Private consumption in constant prices (% YoY)	-8.6 (Q4 10)	-8.6	-2.2
Retail sales excl. fuels & lubricants volume (% YoY)	-18.7 (Jan 10)	-15.8	-0.7
New private passenger car registrations (% YoY)	-55.2 (March 11)	131.1	22.0
Consumer confidence (index level - period average)	-66.2 (March 11)	-66.8	-45.7
Retail trade expectations (index level - period average)	-22.0 (March 11)	-24.9	-15.4
Industrial-activity indicators			
Industrial production (% YoY)	-5.0 (Feb 11)	-2.9	-17.4
Capacity utilization in industry (index level -period average rate)	68.0 (Feb 11)	68.4	70.5
Industrial confidence (index level - period average)	-15.6 (March 11)	-25.4	-28.1
Manufacturing PMI (index level - period average)	45.4 (March 11)	43.7	45.4
Construction sector & other investment-activity indicators			
Cross fixed capital formation in constant prices (% YoY)	-7.6 (Q4 10)	-7.6	-15.1
Housing investment in constant prices (% YoY)	-18.5 (Q4 10)	-18.5	-23.0
Other construction in constant prices (% YoY)	35.3 (Q4 10)	35.3	-16.7
Private building permits volume (% YoY)	-31.4 (Nov 10)	-39.9	-22.6
Construction confidence (index level - period average)	-67.8 (March 11)	-64.9	-39.5
Balance-of-Payments statistics *(euro-terms)*			
Tourism revenues (% YoY)	14.1 (Jan 11)	13.6	-10.2
Transportation revenues (% YoY)	-2.3 (Jan 10)	-8.3	-7.9
Customs-based statistics *(€ - terms)*			
Goods exports (% YoY)	35.2 (Feb 11)	-21.2	-3.2
Goods exports to EU (% YoY)	34.2 (Feb 11)	-0.2	4.2
Goods exports to non-EU countries (% YoY)	37.0 (Feb 11)	-43.1	-14.4
Goods imports (% YoY)	-17.3 (Feb 11)	-21.1	1.0
Goods imports from EU (% YoY)	-13.3 (Feb 11)	-8.7	-7.8
Goods imports from non-EU countries (% YoY)	-22.5 (Feb 11)	-26.7	1.1
Domestic MFI credit to domestic enterprises & households *(oustanding balances)*			
Private sector (% YoY)	-0.3 (Feb 11)	-0.4	1.5
Enterprises (% YoY)	0.9 (Feb 11)	-0.3	1.0
Households (% YoY)	-1.6 (Feb 11)	-0.5	1.9
Housing loans (% YoY)	-1.1 (Feb 11)	-0.5	3.7
Consumer credit (% YoY)	-4.2 (Feb 11)	-0.6	-1.6
Private-sector credit outstanding (% GDP) *			
Total domestic enterprices & households	113.7 (Feb 11)	-	106.6
Domestic households	51.9 (Feb 11)	-	50.2

Source: Hellenic Statistical Authority, Bank of Greece, ECOWIN

* IMF's nominal GDP projection for 2011 was used. The respective number is €225.7 bn

Table 2: EC/ECB/IMF Baseline Scenario	2009	2010	2011	2012	2013	2014	2015	2020
GDP Growth (%)	-2.0	-4.5	-3.0	1.1	2.1	2.1	2.7	3.0
GDP deflator (%)	1.5	2.3	1.6	0.4	0.8	1.2	0.6	1.8
Nominal GDP (€ bn)	235.0	229.0	226.0	229.0	236.0	244.0	252.0	315.0
Current Account (% GDP)	-11.0	-10.5	-8.2	-7.1	-6.6	-5.5	-4.4	----
Interest Rate (%)	4.8	4.9	4.6	5.0	5.4	5.7	5.7	5.9
Bund Rate (bps)	----	225.0	275.0	350.0	350.0	350.0	350.0	350.0
Spread over Bund (bps)	----	550.0	525.0	350.0	300.0	300.0	300.0	250.0
Interest Expense (€ bn)	12.4	14.6	15.1	17.3	19.7	21.2	21.4	23.7
Interest Expense (% GDP)	5.3	6.4	6.7	7.5	8.3	8.7	8.5	7.5
Primary Expenditure (% GDP)	47.9	43.5	44.0	41.7	38.5	33.2	32.2	30.5
General Government Revenue (% GDP)	37.8	40.4	43.1	42.8	42.0	39.3	38.5	36.5
Primary Balance (% GDP)	-10.1	-3.2	-0.9	1.0	3.5	6.0	6.3	5.9
General Government Deficit (% GDP)	-15.4	-9.6	-7.5	-6.5	-4.8	-2.6	-2.1	-1.6
General Government Deficit (€ bn)	-36.2	-22.0	-16.9	-14.9	-11.3	-6.3	-5.3	-5.0
General Government Debt (% GDP)	127.0	143.0	153.0	159.0	158.0	154.0	151.0	130.0
General Government Debt (€ bn)	298.0	327.0	345.0	364.0	373.0	375.0	381.0	409.0

Source: 3rd Review of the EC/ECB/IMF Adjustment Programme for Greece

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