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Greece and Southeastern Europe Economic & Financial Outlook

Executive Summary

1. Greece

- The post-PSI Greek economy is at a crossroads. On the one hand, fiscal consolidation and structural reform have been reinvigorated, benefiting from debt relief and prior actions making the path of adjustment more predictable and less accident-prone. With confidence restored and labour markets fully liberalized, economic activity is bound to improve. This will be supported by bank financing becoming available as the deposit outflow is reversed and banks are successfully recapitalized without being nationalized.
- On the other hand, the new financing package is conditional upon Greece's specifying by mid-2012 new measures of about 7% of GDP so as to ensure the emergence of a primary surplus of 4.5% of GDP by 2014. Savings to the tune of 5.5% of GDP will come from streamlining social benefits programs, restructuring operations and cutting pension payments. The remainder 1.5% of GDP adjustment will come from reforming the tax system and overhauling the revenue administration.
- With national elections in May unlikely to lead to the formation of a strong pro-reform government, the stage has been set for an early disappointment given the austerity overload thus far. Already, in 2010-11, incomes have been reduced by 30% in central administration, 15% in special wage regimes, 35% in state enterprises, 6.6% in private sector employees and by 15.5% in pensioners. Any program derailment will harm the economic climate, produce an even deeper than anticipated recession, and make bank recapitalization a rather precarious process risking financial stability.
- The success of the adjustment program rests critically on how fast resources move out of the non-tradables to the tradables sector of the economy, on the back of the liberalization of labour markets and services improving competitiveness. Reforms are pushed forward by reducing wages, public sector employment and red tape obstructing investment and exports. However, supply-side adjustment is a necessary but not a sufficient condition for kick-starting growth. Without confidence that the adjustment process leads to a sustained recovery in the time frame projected, economic agents postpone investment and consumption decisions prolonging thus the recession and ultimately undermining the policy resolve for reforms. It is thus of paramount importance to complement reforms with speeding up and facilitating the privatization process, lifting zoning impediments to construction activity, opening up opportunities for foreign direct investment and initiating infrastructure projects built by the private sector under special tax and investment protection regimes.

2. Romania

- The economy returned to growth in 2011 advancing by 2.5%, after two years in recession. Although households are expected to remain cautious, domestic demand is anticipated to be the key growth driver in 2012.
- Fiscal consolidation in the context of the new IMF program remains on track.
- The current account deficit reduced to 4.3% of GDP for 2011 from 4.5% of GDP in 2010, as export growth (+20.5%) continued to outstrip import growth (+16.7%) and transfer's balance kept on improving (+4.0%)

3. Bulgaria

- Economic activity has been hurt by the economic slowdown and the debt sovereign crisis in Europe. Bulgaria's GDP in 2011 rose by 1.6%.
- The government's budget deficit in 2011 stood at 2.1% of GDP from 4.0% in 2010, reinforcing the view that Bulgaria's sound fiscal discipline remains firmly in place.
- In 2011, the current account showed a surplus of €743.7 million equivalent to 1.9% of GDP after a deficit of €475.6 million, or 1.3% of GDP in 2010.

4. Cyprus

- Following, a moderate GDP growth of 1.1% in 2010, economic activity increased marginally by 0.5% in 2011.
- Moody's, has lowered the country's sovereign credit rating by one notch to Ba1 (junk) with negative outlook from Baa3, on expectations that the Cypriot government will have to provide renewed financial support to the banking sector due to its exposure to Greece.
- The budget deficit widened in 2011 to 6.0% of GDP or € 1,085 million from 4.9% of GDP or €850 million in 2010.

5. Serbia

- Slowing global and EU growth have an impact on the economy's gradual recovery with unemployment reaching high levels.
- The decision of EU Member States to grant Serbia the status of an official candidate country to the EU will make Serbia more attractive for foreign investment.
- Despite that inflation has entered the tolerance band of NBS (4.5% ±1.5%), the key interest rate easing cycle maybe approaching its end.

6. Albania

- Albania's economy continued its positive performance for a third consecutive quarter despite the unfavorable external environment. Economic growth in Q3 2011 increased by 2.6% yoy after an anemic 0.9% growth in Q2 and a very strong 4.5% in Q1.
- Moody's maintains its B1 rating for Albania, acknowledging the high public debt ratio to GDP.

7. Former Yugoslav Republic of Macedonia

- After a very strong economic performance in H1 2011, the growth momentum started to wane. Real GDP expanded by 2.3% yoy in Q3 2011 from 5.2% yoy recorded in H1 2011.
- The general government budget deficit for a second year in a row remained to its target level of 2.5% of GDP.

8. Ukraine

- GDP growth accelerated in 2011driven mainly by a good agricultural output and strong industrial production.
- The State's budget deficit was reduced to 1.7% of GDP, a significantly better reading compared to the target of 2.7% of GDP.
- The hryvnia after sliding to 8.05 against USD in late January 2012 strengthened to 7.99-8.03 level in March as depreciation expectations faded and investment sentiment for emerging markets improved.

9. Turkey

- Turkey's economic growth eased slightly in real terms to 8.2% yoy in Q3 2011 from 8.8% yoy in Q2 2011 and a 9.0% yoy average in 2010.
- In 2011, the current account deficit reached $77.2 billion or 10% of the projected GDP for 2011, posting a 65% yoy increase.
- The size of the current account deficit and investors' appetite for risky assets will determine lira's behaviour during the rest of the year.

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1. GREECE

Table 1. Basic Conjunctural Indicators (average annual % change)

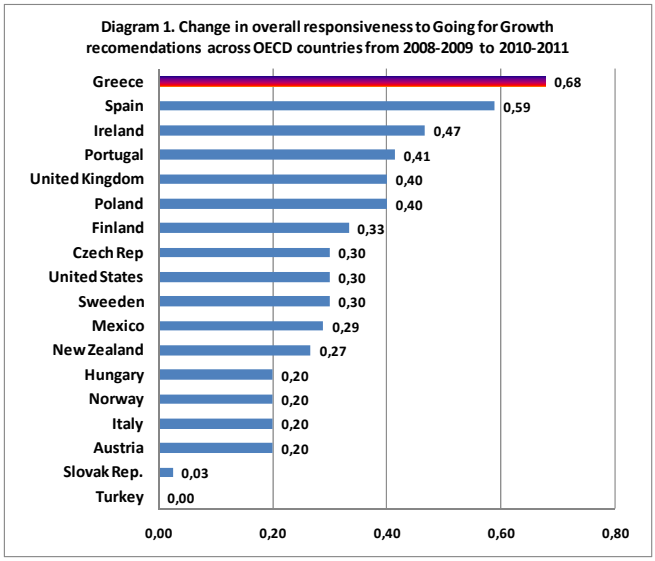
	2008	2009	2010	2011
Retail sales volume	-1.4	-9.3	-6.9	-8.7
Automobile sales	-7.0	-17.4	-37.2	-29.8
Tax on mobile telephony	5.3	13.2	37.1	-16.8
VAT revenue	5.0	-9.1	4.8	-2.8
Consumption tax on fuels	28.9	18.6	30.3	-18.3
Private Consumption	4.0	-1.3	-3.6	-7.1
Government Consumption	-2.1	4.8	-7.2	-9.1
Private building activity (volume, according to permits)	-17.3	-26.5	-23.7	-32.7
Cement production	-3.1	-21.4	-14.3	-37.8
Public investment payments	9.3	-2.8	-11.3	-17.1
Fixed investment	-7.7	-11.1	-15.0	-20.7
Change in Stocks and Stat. Dis.	47.9	-142.9	-26.1	-101.7
Unemployment	7.6	9.5	12.5	17.7
Manufacturing production	-4.7	-11.2	-5.1	-9.5
Economic sentiment indicator	97.4	79.7	79.3	77.6
-Industry	91.9	72.1	75.8	76.9
-Consumer confidence	-46	-45.7	-63.4	-74.1
PMI (manufacturing)	50.4	45.3	43.8	43.6
Exports of goods - excluding oil (El.Stat.)	3.2	-15.9	9.3	9.4
Exports of goods (El.Stat.)	1.1	-18.2	11.6	37.0
Imports of goods - excluding oil (El.Stat.)	4.0	-20.2	-10.7	-13.2
Imports of goods (El.Stat.)	10.5	-24.1	-1.9	-6.9
Tourist arrivals (airports)	-1.4	-7.4	-0.7	8.7
Tourism receipts (BoP)	2.8	-10.6	-7.6	9.5
Exports goods & services	3.3	-18.3	3.8	-0.3
Imports goods & services	4.0	-18.6	-4.8	-8.1
GDP growth	1.1	-2.1	-3,5	-6.9
Inflation (CPI)	4.2	1.2	4.7	3.3
Current Account (% of GDP)	-13.3	-10.3	-9.2	-8.6

Source: Bank of Greece and Hellenic Statistical Authority (El.Stat.)

The Second Financial Support Package (FSP II)

On 21st of July 2011, the European Council agreed on a 2nd financial support package (FSP II) from the Eurozone and the IMF for Greece (Table 2), designed to cover Greece's financing needs for the period 2011-2020. This new package was supported by a private sector involvement (PSI) transaction, implying a restructuring (extension of maturities) of the Greek debt held by banks and institutional investors and an estimated loss for these investors of 21% in present value terms. The FSP II agreement was based on the adoption by Greece of a new much stricter fiscal adjustment and structural reform (FA&SR) program, the Medium – Term Fiscal Strategy 2011-2015 (MTFS) ratified by the Greek Parliament in July 2011.

However, from early September 2011, endless discussions were initiated on Greece's adjustment program with the Troika pushing for successive packages of additional and extremely painful-measures, delaying substantially the disbursement of the € 8 bn 6th trance of the May 2010 loan of € 110 bln to Greece. This was the result of dramatically weakened projections concerning Greek nominal GDP growth and sovereign debt dynamics. Concerning nominal GDP growth, the new projections implied a substantial extension of the period in which Greece would be in deep recession, followed by a medium term period in which the economy would be in virtual stagnation and a longer term period substantially below trend growth. This was predicated upon implementation delays of structural reforms despite the fact that, according to the OECD, Greece was leading all OECD countries in applying growth enhancing structural reform policies in the period 2008-2011(Diagram 1). Concerning debt dynamics, it was projected that Greek sovereign debt would reach on exorbitant 198% of GDP in 2012, following the implementation of the 21 July 2011 agreement.



These developments had profoundly negative consequences on economic sentiment, economic activity, as well as the financial system, leading to a loss of bank deposits, of about €15 bn in the last four months of 2011, and to a new dramatic fall of Greek GDP of -7.0% yoy in Q4 2011 (on top of an -8.6% yoy fall in Q4 2010), from -5.0% yoy in Q3 2011.

In this environment, the 21 July 2011 agreement was abandoned in search for a new, substantially reinforced, agreement with a much deeper PSI (a PSI plus). Indeed, the Eurozone Heads of State Summit of the 26th October 2011 endorsed a voluntary 50% haircut of the nominal value of the Greek sovereign debt held by the private sector raising the present value loss from 21% implied earlier to about 60%. Nevertheless, the new FSP II for Greece was again not finalized. New negotiations started in January 2012, new measures were imposed and following a new downgrading of the prospects of the Greek economy, the Eurogroup of 20 February 2012 reached a yet new decision for the FSP II imposing now a 53.5% haircut of the nominal value of Greek sovereign debt and even lower interest rates on the new bonds, implying a 75% loss of value in present value terms. Following this decision, on March 1st 2012, the Greek government and parliament proceeded to legislate and put into effect a package of three dozen "prior actions", which the Eurogroup had demanded before the € 130 bln FSP II for Greece was to be finally approved and released.

The structure of the 21 July 2011 FSP II, led to bizarre calculations that the application of the agreement would imply an explosive jump of Greece's debt/GDP ratio in 2012 to 189.1% of GDP according to the IMF and to 198.3% of GDP according to the European Commission (from 144.9% of GDP in 2010). This more than 50 pps of GDP jump of the Greek debt in one year was due to inclusion of the following items: a) The € 30 bln of the available capital of the HFSF. However, until December 2011, no use had been recorded of these funds, with the exception of € 0.4 bn spent for Proton Bank, a small bank engaged in fraud. Moreover, under the 21 July 2011 agreement, Greek banks would not need more than € 8 billion of re-capitalization funds due to losses that they would suffer from the PSI and from additional write offs due to loan losses in the following two years. b) The € 35 bln of the EFSF credit enhancements needed for the implementation of the PSI. However, it was clear that Greece's debt following the PSI transaction would be € 135 billion and not € 170 bn as assumed. If Greece would continue servicing its debts, then the € 35 bn of credit enhancements would not be used.

The publication of the above new, inflated, numbers of Greece's prospective indebtedness led to increasing talk about Greece's insolvency and to the collapse of economic sentiment and consumer and business confidence in Greece. As such, these projections, contributed to the pervasive uncertainty in Greece and to the substantial deepening of the recession in Q4 2011, instead of the widely expected, even by the Troika, recovery of the economy from this quarter onwards.

Central to the new package of the 20 February 2012 FSP II was the PSI Plus. Private sector investors of General government, holding an estimated € 207 billion of these bonds, swaped their holdings for: a) new long term general government with a face value equal to 31.5% of the face value of their original bonds and b) AAA bonds issued by European Financial Stability Fund (EFSF) of the Eurozone worth 15% of the face value of the original General government. This implied an impairment of the face value of the original general government holdings by 53.5%. The new 11 to 30-year general government pay interest starting from 2.0% in the period 2012-2015, and stepping up to 3.0% in 2016-2020 and 4.3% after 2020. Moreover, an additional interest charge may arise linked to Greece's growth rate after 2015.

Eurozone countries, through the EFSF, provided guarantees aimed to facilitate the PSI plus and also additional financial support to cover remaining borrowing needs in the period before Greece returning to the international bonds market. Overall the headline EFSF financial contribution in the FSP II has been estimated at € 130 billion as follows: a) An amount of € 30 bn were credited enhancements to the private sector holders of general government tin the bond swap deal (that is 15% of the € 206 bln). b) An additional € 40 bn were provided in order to supplement the available funds of the HFSF. With the new injection, the funds of HFSF would total € 50 bn and be more than enough to cover the re-capitalization needs of the Greek banks under the terms of the 20 February 2012 FSP II. c) An amount of € 35 bn of EFSF bonds was used to replenish general government collateral in the ECB for the short period in which Greece was downgraded by rating agencies to Selective Default status. d) Additional funds were also be provided for covering the remaining Greece's financial requirements.

Eurozone countries also agreed to lower the interest margin on loans already made to Greece under the May 2010 € 110 bn loan to 150 bps above the interbank borrowing rates, from the current margin of 200-300 bps. Moreover, Eurozone countries were to return to Greece any income received by their national central banks (NCBs) on holdings of general government that were bought in the secondary market at low prices. Finally, Eurozone countries agreed also to allocate some of the profit made by Eurozone NCBs on general government purchased under the ECB's securities markets programme.

Eurozone finance ministers also agreed to strengthen the European Commission Task Force in Greece "to provide and coordinate technical assistance," for the implementation of the FA&SR programme, and also in order to secure stronger monitoring of Greece's progress in implementing all measures and changes provided by the recent MOU. Greece has pledged to provide three months in advance for debt service payments through deposits into an escrow account maintained in the Bank of Greece. This would facilitate a much better tracking of government cash flows. Greece has also indicated that it intends to appropriately amend its constitution as soon a possible to grant priority to debt servicing.

Debt sustainability and GDP growth dynamics

Taking into account the terms of the new deal of 20 February 2011 FSP II and under pessimistic assumptions concerning nominal GDP growth and fiscal performance in 2012-2020, the Troika estimated a gradual fall of Greek debt to below 120% of GDP by 2020 and a further fall to below 100% of GDP in the 2020s, which is considered as a sustainable sovereign debt level for Greece. Already, in its October 2011 Debt Sustainability Analysis, the Troika had proceeded with a substantial downgrade of its own (already depressed) July 2011 projections for real and nominal GDP growth in Greece, assuming a drastic fall of yearly average growth of nominal GDP in the period 2012-2020 to 2.5%, from 3.7% in the July 2011 projections. Underlying such a development were substantially weak assumptions about labour productivity and employment growth and GDP deflator in Greece in the whole period 2012-2020. Moreover, GDP growth of 1.4% was projected even for the period 2020-2030, from 1.5% in 2012-2020.

However, if one assumes that the 1.5% average annual real GDP growth in Greece in the period 2012-2020 is due to a 0.3% average annual growth in total employment and a 1.2% average annual growth in labour productivity, then a) labour productivity in Greece in the period 2012-2020, will be growing at a rate which is much lower than the average annual 1.73% achieved in Greece in the period 1996-2011. That would imply that the substantial structural reforms in Greece, in the labour and product markets, the pension system, the public sector, the privatizations and the overall improved functioning of the

economy will lead to a fall in the annual growth of productivity in the medium and long term to a much lower level than that before the reforms. And, b) unemployment in Greece, which increased from 379.000 people in 2008 to more than 1.050.000 people in 2012, would still remain dramatically high at about 800.000 people (17.5% of the labour force) in 2020. That is, in 2020 there will be 400.000 more unemployed people than in 2008.

Table 3. Troika's projections for Greek GDP growth in the period 2012-2020

	Real GDP			GDP Deflator			Nominal GDP		
Year	July 2011	October 2011	February 2012	July 2011	October 2011	February 2012	July 2011	October 2011	February 2012
2010	-4,4	-3,5	-3,5	2,5	1,7	1,7	-2,0%	-1,9%	-1,9%
2011	-3,8	-6,0	-6,1	1,5	1,9	1,7	-2,4%	-4,2%	-4,5%
2012	0,6	-3,0	-4,3	0,7	0,2	-0,7	1,3%	-2,8%	-5,0%
2013	2,1	0,4	0	1,0	0,3	-0,4	3,1%	0,7%	-0,4%
2014	2,3	1,9	2,3	1,0	0,4	0,0	3,3%	2,3%	2,3%
2015	2,7	2,5	2,9	0,9	0,6	0,8	3,6%	3,1%	3,7%
2016	2,9	2,7	2,8	1,1	0,8	1,0	4,0%	3,5%	3,8%
2017	3,0	2,6	2,8	1,3	1,0	1,3	4,3%	3,6%	4,1%
2018	3,0	2,6	2,6	1,4	1,2	1,5	4,4%	3,8%	4,1%
2019	3,0	2,5	2,5	1,7	1,5	1,7	4,8%	4,0%	4,2%
2020	3,0	2,2	2,2	1,8	1,7	1,8	4,9%	3,9%	4,0%
2020-30		**1,4**	**1,4**		**1,8**	**1,8**		**3,2%**	**3,2%**
Μέση Ετήσια Αύξηση 2012-2020							**3,7%**	**2,5%**	**2,3%**

Moreover, the Troika assumes average annual growth of labour productivity 1.4% in the period 2021-2030, which again is much lower than the 1.73% annual growth in the 16-years period 1996-2011. Moreover, they assume 0% growth in employment in the 2020s, a decade which will start with more than 800.000 unemployed. With this assumption, and assuming that the percentage of the labour force to total population in Greece will increase slightly (as it is the intention of the reforms in the labour market and the pension system) to 45.5% in 2030, from 43.0% in 2014, unemployment will remain above the 900.000 people for the whole period until 2030, when it will still hover at around 19% of the labour force.

With these assumptions, in the 21 July 2011 FSP II for Greece, the debt/GDP ratio would still exceed 160% in 2020 and 100% of GDP in 2030, will the Greek economy in virtual stagnation and with 20% of its people unemployed for the entire 20 year period. Then, with exactly the same assumptions concerning nominal GDP growth the Troika calculated that the Greek debt/GDP ratio would fall to 120% of GDP in 2020, in the 26 October 2011 FSP II including the PSI Plus. This package implied an effective reduction of debt by about only half of the € 100 bn haircut taking into account the increase of the debt by about € 50 bn set aside for the recapitalization of Greek banks.

And even this was not the end of the story. Following the dramatic deepening of the recession in the Greek economy in the last quarter of 2011, which was mainly due to the disarray caused by the continuous taking of new policy measures, the Troika proceeded with new calculations of Greek government debt dynamics in February 2012. According to the latter, given the 26th of October 2011 PSI Plus, the debt/GDP ratio would now reach 129% of GDP in 2020, instead of the 120% that had been calculated in October 2011. This caused a new change of the structure of the FSP II in 20 February 2012, with the haircut of the face value of GGBs held by the private sector raised to 53.5%. This brought the debt/GDP ratio to 116.5% of GDP in 2020, which at last is considered broadly sustainable.

It should also be noted that this 120% of GDP outcome for the Greek debt in 2020 assumes that the € 50 billion, which are supposed to be used for the recapitalization of the Greek banks in 2012 (despite the fact that the main Greek banks will not need more than € 23 bn), will still be burdening the debt even in 2020. That is, in the next 10-years, there will be no repayments from these funds.

The justification for the above assumptions concerning Greek GDP growth is as follows according to the leaked IMF report dated 21 October 2011, "Since the fourth review (that is since July 2011), the situation in Greece has taken a turn for the worse, with the economy increasingly adjusting through recession and related wage-price channels, rather than through structural reform driven increases in productivity". While this is true, it is equally true that in Q3 2011 there has been a substantial improvement (not deterioration) of economic activity (including tourism, exports of goods and other services, retail sales, the manufacturing industry and agriculture. Most importantly, labour productivity increased by 2.7% yoy in Q3 2011 and its growth was positive (+0.7%) even in the dismal Q4 2011. This implies that a recovery was in the making from Q3 2011 and that there was no justification in September 2011 for the dramatic change in assumptions shown in Table 3. Nevertheless, the new projections, predicting the virtual stagnation of the Greek economy in the following 20 years, exerted a negative impact on the Greek economy in Q4 2011, with the economic sentiment indicator falling to 67.8 in October 2011 from 73.8 in August 2011, bank deposits dropping by € 14.5 bn in the last four months of the year and the -7.5% fall of official GDP from -5.0% in Q3 2011.

Greek Sovereign Debt Sustainability

Following the completion of the 20 February 2012 FSP II for Greece, we assume that economic sentiment in the country will improve and the economy will be stabilizing. This may help the recovery of the economy and its return to trend labor productivity growth and unemployment-reducing employment growth. Trend labour productivity growth (derived in the period 1996-2011, which includes four years in which the Greek economy was in deep recession) stands at 1.73% annually. Unemployment-reducing employment growth is set at an average annual 0.8% for 2012-2020 and at 0.7% annual growth for 2021-2030. Under these assumptions, it is estimated that unemployment may fall to 710.000 (14% of the labour force in 2020) and to 510.000 (10.0% of the labour force in 2030). The above assumptions combined with an assumed annual GDP deflator growth of 1.2% (Troika: 0.8%) in the period 2012-2020 and 2.0% (Troika: 1.8%) in the period 2021-2030, imply an annual nominal GDP growth of 3.7% (Troika: 2.3%) in the period 2012-2020 and 4.4% (Troika: 3.2%) in the period 2021-2030.

This is a plausible scenario if one takes into consideration the big recession of 2008-2012 and the post 2012 operation of the Greek economy under the new market-friendly institutional and organizational structure. With these assumptions, it can be shown that the 2020 target of general government debt of less than 120% of GDP could have been reached even without the 53.5% face

value debt haircut. In fact, under less debilitating 2012-2020 nominal GDP growth assumptions (Scenario Alpha, in Table 4), the Greek sovereign debt was sustainable even with the 21st of July 2011 FSP II and, of course, it becomes even more sustainable under the 20th February 2012 FSF II for Greece (Diagram 2).

Diagram 3. Greek Sovereign Debt Dynamics

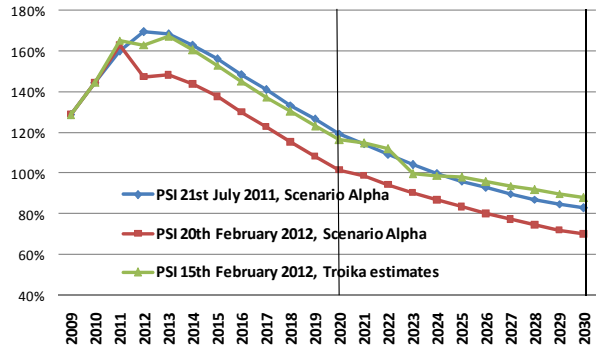


Table 4. Main assumptions for assessing Greek Sovereign Debt Dynamics in the period 2011-2030

		2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-2030
GDP Deflator	Troika (Febr.2012)	1,70	-0,70	-0,40	0,00	0,80	1,50	1,80	1,80
	Scenario Alpha	1,70	0,70	0,60	1,00	1,30	1,70	2,00	2,00
Real GDP Growth	Troika (Febr.2012)	-6,10	-4,30	0,00	2,30	2,90	2,60	1,50	1,50
	Scenario Alpha	-6,10	-2,80	1,90	2,90	3,10	3,20	2,70	2,20
Nominal GDP growth	Troika (Febr.2012)	-4,40	-5,00	-0,40	2,30	3,70	4,10	3,30	3,30
	Scenario Alpha	-4,40	-2,10	2,50	3,90	4,40	4,90	4,70	4,20
GG Revenue (% of GDP)	Troika (Febr.2012)	39,5	39,5	39,5	39,5	39,5	39,5	39,5	39,5
	Scenario Alpha	40,2	39,8	39,5	38,7	39,0	39,0	39,0	39,0
GG Primary Expen-diture (% of GDP)	Troika (Febr.2012)	41,9	40,5	37,7	35,0	35,0	35,3	36,0	36,0
	Scenario Alpha	42,6	39,4	37,5	35,1	34,8	34,1	34,5	35,5
G.G. Primary Balance	Troika (Febr.2012)	-2,4	-1,0	1,8	4,5	4,5	4,2	3,5	3,5
	Scenario Alpha	-2,4	0,4	2,0	3,6	4,2	4,9	4,5	3,5

Source: Troika (October 21, 2011). Senario Alpha: EAD Alpha Bank

Fiscal Adjustment

The progress made by Greece in 2010-2012 was substantial and impressive. Progress is shown in Table 5 below. The outcome is final for 2011, but the year 2012 is also included because the measures already in place from 2011 and additional measures undertaken in January-February 2012 are more than enough in order to reduce the deficit in 2012 as shown in Table 5, even with nominal GDP estimated to fall by another -5.5% in 2012. More specifically:

A remarkable fiscal adjustment of 5.3 pps of GDP was recorded in 2010. As the OECD (July 2011) points out, "no other OECD country has achieved such a fiscal improvement in a single year over the past three decades". The general government deficit declined to 10.8% of GDP in 2010 from 15.7% of GDP in 2009, while the primary deficit fell to 5.1% of GDP in 2010, from 10.4% of GDP in 2009, despite the fact that tax evasion continued in this first year of adjustment. Nevertheless, the Greek debt/GDP ratio reached 144.9% of GDP at the end of 2010. In fact, both the deficit and the debt for 2009 and 2010 have been inflated by the incorporation (following a Eurostat prescription) into the general government of the deficits and the liabilities of a multitude of state controlled entities (businesses and organizations), which in other EU countries fall outside the scope of general government, as if the substantial assets of these entities did not count.

Table 5. Fiscal Adjustment (FA) in Greece in 2010-2012

	General Government Primary Balance (% of GDP)	General Government Balance (% of GDP)
2009	-10,4%	-15,7%
2010	-5,1%	-10,8%
2011	-2,4%	-9,2%
2012	0,3%	-6,5%

Source: Suplementary Budget 2012 and EAD Alpha Bank projections for 2012

Fiscal adjustment was again substantial in 2011, with the general government primary deficit falling to -2.4% of GDP, from -5.1% of GDP in 2010 and -10.4% of GDP in 2009. Moreover, with the required revenue increasing and expenditure reducing measures already in place, the general government primary balance is expected to register a surplus of 0.3% of GDP in 2012. Of course, the general government deficit reached 9.3% of GDP in 2011 (from a target to reduce it to 7.6% of GDP), but this happened only because some of the fiscal adjustment measures legislated and applied in H2 2011 will have their main effect on increasing revenues and reducing expenditure mainly in 2012. Moreover, most of the overshooting of the general government deficit in 2011 is due to the substantial increase of interest payments to 6.7% of GDP in 2011, from 5.7% of GDP in 2010.

Finally, the substantial fiscal adjustment in 2011 was achieved despite the fact that tax and social security contributions revenues fell anew in 2011, with overall general government revenues falling to € 87.4 in 2011 from € 89.8 bn in 2010. This fall of the general government revenue was mainly due to the substantial loss of revenue from tax rebates inadvertently included in the tax law of April 2010, as well as to the continuing malfunctioning of the tax and social security contributions collection machinery. On the other hand, general government expenditure registered a new spectacular drop to € 92.6 bn in 2011, from € 101.4 bn in 2010 and € 111.8 bn in 2009.

The 2011 Budget required a fall in the Greek general government deficit by 3.0 pps (to 7.5%) of GDP in 2011, or a fall of the general government primary deficit by 4.1 pps (to -1.8%) of GDP. In order to secure the achievement of these targets the Greek Government had specified in the Budget 2011 revenue increasing measures amounting to 3.5% of GDP (€7.83 bln) and expenditure reducing measures amounting to 2.9% of GDP (€ 6.5 bln), implying a total adjustment of 6.4 pps of GDP (€ 14.33 bln).

However, in H1 2011 net current revenues fell by -8.3%, compared with a budgetary 8.5% increase for the year as a whole. On the other hand, net current primary expenditure was also higher by 4.5%, compared with a projected increase of 1.9%, and interest payments had already registered an increase 22.3% yoy, compared with a projected increase of 20.4% for the year as a whole.

Overall, the state's budget in H1 2011 was considerably off target. The main factors which led to this outcome included the following:

On the revenue side, the substantial shortfall of H1 2011 net current revenues was mainly due to flaws of the tax law of April 2010, which had not been detected by the government or the Troika until June 2011. As it turned out the new revenue increasing measures set in the Budget for 2011 were set to apply mainly from July 2011 onwards, but even in the second half of the year the outcome of these measures was widely out of target. Revenues from personal income tax fell to € 8.16 bn in 2011, from € 9.43 bn in 2010, a fall by -13.5%, on top of their -8.2% fall in 2010, which compares with a budgeted increase of 6.2%. This negative outcome was to some extent due to the substantially reduced incomes of wage earners in 2010 and in 2011, but it was also due to the much higher than expected revenue reducing effect of the substantial increase of tax free income and of the reduction of tax rates, legislated with the April 2010 tax law, to be applied from the beginning of 2011. Also, revenues from the VAT registered a fall by -2.8% in 2011, compared with a budgeted increase of 2.0%. It should be noted that the Budget 2011 was projecting an increase in VAT revenues in 2011 without the increase from September 2011 of the VAT rates on restaurants and the served beverages sector from 13% to 23%. In fact, VAT revenues fell substantially in all the months following the application of this huge VAT rate increase. Finally, revenues from the special consumption tax on fuels fell to € 4.65 bn in 2011, from € 5.7 bn in 2010, again following a decision to change, from the beginning of 2011, the system of collecting the special consumption tax on heating oil. Assessing data on domestic consumption and imports and exports of fuels, one may draw the conclusion for a surge of tax evasion in this sector as well in 2011.

On the expenditure side, total current primary expenditure was again lower by -0.3% in 2011 from 2010. More specifically, expenditure for wages and pensions in the central government was lower by -4.1% in 2011, despite a 5.2% increase in payments for pensions due to the rush of civil servants to go on retirement before the new more strict parameters of the pension system come into effect. Also, operational and other expenditure was down by -20.3% in 2011. In particular, current budget subsidies to public sector entities were lower by -35.7% (or € 1.13 bn). Finally, expenditure for social benefits and transfers was lower by -11.2%. The only current primary expenditure item that was much higher in 2011 was the transfers from the current budget to the pension funds which reached € 11.78 bn in 2011, from € 10.38 bn in 2010, up 13.5%.

Overall, the 2011 budgetary outcome has been the result of numerous additional measures undertaken since the summer of 2011. New measures amounting to € 6.74 bn for 2011 and € 13.64 bn for 2012 were legislated and applied in June 2011. These measures were promptly specified by the Greek government, agreed with the Troika and were included in the Medium Term Financial Strategy 2011-2015 (MTFS), which was the continuation of the May 2010 program and was voted into law by the Greek Parliament in early July 2011.

Then, in August 2011 the Troika proceeded with the substantial downgrade of growth prospects of the Greek economy for the period 2011-2012 and demanded a further reinforcement of the MTFS with additional measures in September-December 2011. It was then judged that the implementation of the 2011 and 2012 budgets under the assumed much deeper recession in 2011 and in 2012 would require a substantial array of additional measures from the ones determined in May-June 2011. Full compliance of the Greek government in legislating and implementing these new measures was then set as a prerequisite for the release of the 6th installment of € 8.0 bn of the loan of € 110 bn of May 2010. For four months (September 2011-December 2011) the Greek economy and the Greek political system were in virtual disarray. No one could assume with any degree of certainty that Greece could finally avoid defaulting and even exiting the Eurozone. This unfavorable outcome coincided also with the development of the disruptive "won't pay" movement. The latter in turn was nurtured by the extensive disruption of the tax collection mechanisms, in the wake of the government's effort to apply the Troika's directive on putting 30.000 public sector employees in labour reserve until the end of 2011.

In this period of turmoil, the following measures were enacted in September – December 2011:

a) The public sector wage grid reform was legislated and applied from 1st November 2011, designed to reduce further the general government wage bill by about € 200 million in 2011 and € 1.1 bn in 2012, or by 6.5% in 2012. This implied more extensive and upfront cuts in the general government wage bill, comparing to the plans included in the June 2011 MTFS 2011-2015, and brings entry-level salaries more in line with private sector norms. It also aligns wages across the general government and introduces formal evaluation processes for promotion and bonuses. It also implements additional substantial cuts on sector specific allowances.

b) Reform of the system of Supplementary Pensions and additional cuts on lamp sum pensions and the main pensions. These reforms and cuts were explicitly specified in February 2012 and are designed to reduce pension expenditure to below 15% GDP in 2012.

c) New revenue increasing measures were legislated and applied, including the reduction of Personal Income Tax (PIT) tax free allowance and deductions (expected to bring additional revenue of more than € 2.7 bn in 2012) and the introduction of a new special levy on real estate imposed through the electricity bill (expected to bring additional revenue of more than € 2.0 bn in 2011 and € 2.0 bn in 2012). With these measures, it is intended to raise PIT revenue to 5.3% of GDP, which is still much lower than the EU-27 average of 9.5%. Also, property tax revenue is expected to increase to 1.2% of GDP in 2011, from 0.18% of GDP in 2010.

Structural Reforms

Fiscal adjustment in 2010-2012 was accompanied with far reaching structural reforms, which were legislated and implemented until March 2012 and are expected to be completed and fully consolidated until the end-2012. This program of structural reforms aimed at the reversal of the

structural rigidities, inefficiencies and excesses of the 2000s, when high wage and employment growth, in combination with low (or even negative) productivity growth in the public sector and in excessively protected activities, contributed to the 2007-2009 fiscal derailment and to the gradual erosion of Greece's international competitiveness.

More specifically, in the last two years, Greece benefited from fundamental reforms of the pension and health care systems and the equally important reform of the labour and product markets, as well as the establishment of better governance practices in local and central government and in state controlled entities, not to mention the € 50 bn privatization drive. Although most of these reforms are still in the process of implementation and despite the fact that there are still challenges until these reforms become fully operational, the progress that had been achieved in this field until March 2012 has been even more remarkable than the progress in actual fiscal adjustment. This whole process implied a gradual but substantial reduction of the Greek state's involvement in the economy. In combination with the rationalization of the domestic labour market, the entrepreneurial management of privatized state entities and the creation of a business friendly institutional and organizational structure in the economy as a whole, are expected to contribute to a higher internationally competitive potential output growth in Greece, with the attraction of a much higher (than in the past) FDI, already from 2012 onwards.

In particular, Greece has already implemented drastic reforms in the labour market to facilitate changes in minimum wages, to rationalize arbitration practices and to substantially reduce the cost to firms for hiring and firing employees. Moreover, the Government has passed legislation providing: a) for more flexibility in working-time management, by permitting the employment of employees for longer hours per day and for a longer periods within the year, while reducing the use of overtime pay, b) for the use of fixed – term contracts by lowering severance pay associated with such contracts and by limiting the times these contracts can be renewed, and c) for the introduction of term contracts for young employees (less than 25 years old) aiming to gain work experience at much less than the nationally set minimum wages. These reforms have facilitated the firing of people by firms facing a substantial reduction of their activities in the period of deep recession in the economy, as well as the substantial containment of unit labour cost. However, these reforms have not yet helped facilitate the hiring of new personnel, thus leading to a rapid growth of youth unemployment. In fact, domestic firms tend to take advantage of the newly found ability to use part-time workers and irregular and individual contracts, as well working – time management in order to contain labour costs. However, firms have not yet made extensive use of the legislation enacted in 2011, to proceed with special firm – level collective agreements in wage determination, superseding existing sectoral collective agreements.

Overall, labour market reforms and wage policies pursued by firms have helped reducing average gross payment to employees in the private non-banking sector by -2.9% in 2010 and by -1.7% in 2011, with minimum wages actually increasing by 1.7% in 2010 and 0.9% in 2011. These developments were considered signs of still insufficient adjustment, with wage rigidities still preventing private sector wages and ULCs falling to more appropriate levels given the current economic conditions of the deep recession. More specifically, in order to protect employment and close Greece's competitiveness gap more rapidly, the government has agreed to target a reduction in ULCs of about 15% in the period 2012-2014. Towards this purpose the Government has already legislated and put into effect a new package of labor market measures. These include measures aiming to lift the existing constraints to downward wage flexibility, imposed through collective bargaining practices. Moreover, an outright substantial reduction of the minimum wage by 22% (32% for young employees) was enacted.

The Bank of Greece has estimated that as a result of the new labor market reforms and specific measures legislated in February 2012, there will be a decline of private sector wages of the order of -8.5% to -10.1% in the private non banking sector, with actual minimum wages falling by -19.6%. With these measures, at the end of 2013 Greece will have reversed completely the -31% 2001-2009 appreciation of its real effective exchange rate in terms of ULCs.

Recovery and growth prospects

The above substantial progress achieved by Greece in the fields of structural reform in 2010-2012, and the planned continuation and consolidation of this effort in 2012-2015, is in stark contrast with the downgrade of Greece's potential GDP growth in the period 2012-2030. According to the IMF "the ongoing contraction in economic activity (in Greece) is only partially of a cyclical nature. For a sizable part, it reflects a reduction in production potential in the context of a structural reallocation of resources from non-tradables to tradables. Overall, the previous assumption on the medium-term economic outlook (3.0% annual growth in 2015-2020) is viable only in case of a pronounced acceleration of structural reform efforts, including privatisation. In the absence of such acceleration, the medium-term real GDP growth rate could be well below projections".

Nevertheless, there is ground for optimism. In particular, a) Structural reforms have indeed accelerated at a pace not seen in any other country in the past two years, as analyzed above by the European Commission, the IMF and the OECD in their recent reports for the progress of adjustment in the Greek economy (see in particular Diagram 1). Therefore, structural reform does take place at a very fast pace in Greece paving the way for a dynamic growth of the economy from 2012 onwards (let alone from 2015 onwards), in combination with Greece's considerable competitive advantages.

b) The Greek economy has already registered a substantial contribution of net exports to GDP growth from 2009 onwards (2009: 3.03 pps, 2010: 3.14 pps, 2011: 2.4 pps). This is expected to accelerate in the following years not only through the expansion of exports but also, and even more importantly, through import substitution. As it is estimated by the Bank of Greece by the end-2013, on the basis of policies already in place, Greece will have reversed completely the loss of

competitiveness in terms of relative unit labour cost that it had incurred in the period of expansion 2001-2009. This substantially improved competitiveness, in combination with continuing restrictive fiscal policies, will help to further improve the contribution of net exports to GDP growth in the following years. In fact, Greece is thriving tourism and shipping sectors expected to grow substantially in the next few years.

c) Greece is set to receive more than € 13 bn in the period 2012-2015 from EU structural funds for the co-financing of investment in Greece. Moreover, Greece receives substantial current transfers from EU subsidies and from net emigrant's remittances. All these will help to contribute to the maintenance of its sizable domestic non-tradables sector. Overall, non-tradables in Greece are to a great extent complementary and will grow in tandem with tourism and the other tradables sectors with the latter receiving a great boost from structural reforms and fast increasing international competitiveness.

d) The exceptionally high contraction of domestic demand in H2 2010, in H1 2011 and in Q4 2011 was mainly the result of the deteriorated economic sentiment in Greece in these periods. This dramatic fall of business and consumer sentiment has contributed to the substantial fall of domestic consumption and investment far beyond the contraction that could be explained by the effect of fiscal retrenchment itself. Of particular importance was the loss of bank deposits amounting to € 70 bn, which was a straight result of the collapse of consumer and business confidence, especially after September 2011. These deposits will return to the Greek banking system as soon as confidence starts to be restored. This may start happening immediately following the completion of the FSP II in April 2012.

In fact, developments in the Greek economy in Q3 2011 are indicative of the way in which economic agents (households and businesses) are ready to change their actions and behavior, as soon as there is some certainty that the threat of a disorderly default of the Greek State is actually lifted. This indeed happened in Greece in Q3 2011, following the 21 July 2011 decision for the FSP II. The results were spectacular, as shown in Table 6:

Table 6. The substantial recovery of economic activity in 2011

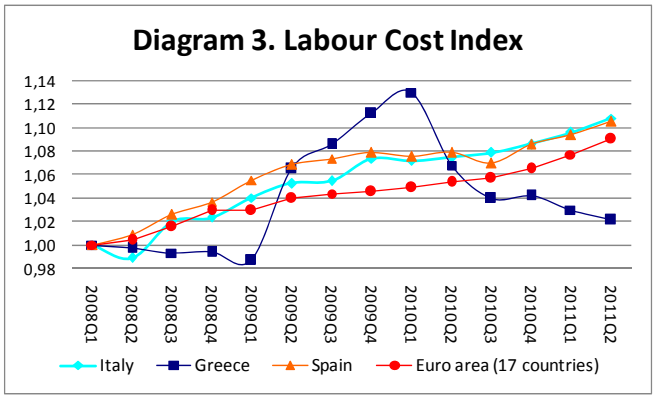
	Q1	Q2	Q3	Q4
Retail Trade Volume (excl. oil)	-14,0%	-11.7%	-8.7%	-8,7%
Private Building activity	-54,2%	-44.6%	-35.5%	-36.0%
Production Index in Construction	-38.2%	-34.4%	-0.7%	-34.6%
Manufacturing Production	-7,1%	-9.6%	-8.0%	-9.5%
Turnover in Industry	9,5%	7,3%	14,0%	-1,9%
Turnover in accomodation and restaurants	-20,6%	-2,2%	-1,2%	-18.2%
Turnover in Industry (Domestic market)	-3,6%	-4,7%	3,2%	-4,9%
Turnover in motor trades	-40,5%	-30,9%	-6,7%	-16.9%
Turnover in the land trasport sector	-17,4%	1,5%	14,2%	-3.7%
Turnover in the sea trasport sector	-1,2%	-8,7%	2,9%	-7.3%
Turnover in the air trasport sector	-12,4%	3,8%	4,5%	-4.6%
Storage and supporting transport activities	-11,5%	-14,1%	4,0%	-8.8%
Advertising and markert research services	-26,3%	-33,5%	3.1%	-16.8%
Exports of goods and services	6,7%	6,7%	9,9%	-1,5%
Imports of goods and services	-3,8%	1,0%	2,5%	-7,5%

Bank of Grece: Buletin of Conjuctural Indicators

In any case, the above unambiguous improvement of economic activity in the most important sectors of the Greek economy in Q3 2011 was turned around again abruptly in Q4 2011, due to the dramatic deterioration of the economic climate in the country in the period September 2011 – February 2012. It is a fact that fiscal adjustment and structural reform intensified in Q4 2011 and in 2012, implying a substantial negative effect on domestic demand. However, the level of domestic demand in Q4 2011 was compared with the substantially low level of domestic demand in the same period in the previous year. Therefore, the extraordinary strong base effect could constrain the size of the yoy fall of domestic demand in Q4 2011. This did not happen in Q4 2011.

Concerning the prospects for growth of the Greek economy in the medium and the longer term, one of the most important recurring arguments in support for the low potential growth assumption is that Greece is characterized by low international competitiveness and therefore, with low growth of domestic demand, a higher GDP growth cannot be supported by exporting in the international markets. The impressive performance of Greek exports of goods and services in the last 12-months, shown in Table 6 above, is evidence to the contrary. Moreover, the notable increase in exports in H2 2010 and in 2011 is taking place while at the same time the country experiences an equally important fall in imports of goods and services (by -9.8% in real terms in Q1 2011, -4.5% in Q2 2011, -3.8% in Q3 2011 and by -14.2% in Q4 2011), notwithstanding the aforementioned recovery of imports of goods in Q3 2011. The fall in imports also indicates a trend for import substitution especially in the agricultural sector, which will acquire wider proportions in the following quarters.

These developments are also supported by the substantial internal devaluation and improvement of international competitiveness, which has already happened in Greece in the last 22-months. An indication of that is presented in Diagram 3, while, according to the European Commission (Autumn 2011) the real effective exchange rate of Greece, with respect to the relative unit labour cost, has been devalued by 3.9% in 2010 and by a further 2.4% in 2011 and 4.5% in 2012. Moreover, further substantial improvement of Greece's international competitiveness is expected from the application of the February 2012 Memorandum of Understanding (MOU II), which is now under implementation.



Recent Economic Developments

Real GDP fell by -6.9% in 2011 following its drop by -3.5% in 2010 and by -3.3% in 2009. The performance of the economy deteriorated dramatically in Q4 2011 with the yoy fall of GDP reaching -7.5%, from -5.0% in Q3 2011, following its fall by -7.3% in Q2 2011, -8.0% in Q1

2011 and -8.6% in Q4 2010. Q3 2011 GDP numbers appear to may underestimate the substantially improved economic activity in the main sectors of the Greek economy (including, tourism, retail sales, manufacturing and transportation turnover, exports of goods and other sectors). On the other hand, Q4 GDP developments are the result of the turmoil that prevailed in Greece in this period, as the FSP II was under negotiation.

Indeed, the performance of the tourist sector was better than expected in the period June –October 2011, before plummeting in Q4 2011. According to ELSTAT, arrivals of foreign tourists in Jan.-Sept.'2011 registered a 10.4% increase, reaching 14.13 million, from 12.9 million Jan.-Sept.'2010. Arrivals from the Eurozone countries (excluding Cyprus and the UK) registered also a 10.0% increase. On the other hand, arrivals from the UK fell by -5.7% and from the USA by -1.1%. Of particular importance is the surge of arrivals from Russia (+58.0%), Switzerland (27.3%) and Norway (31.1%). Also, in 2011 as whole arrivals to the main Greek airports were up 8.7%, compared with a small fall by -0.72% yoy in 2010. On the other hand, revenue from foreign tourism was also up by 9.5%% in 2011 following a relatively weak performance in November-December 2011, compared with a sizable fall by-7.6% in 2010. It should be noted that arrivals of foreign tourists in 2010 and in 2011 have been unfavourably affected by protest demonstrations that took place in Athens in January-July 2011 and in Q4 2010 and 2011, as well as by major disruptions in overall economic activity caused by track and taxi driver's strikes in 2010 and 2011 respectively.

Greece's merchant shipping receipts fell by -8.6% in 2011, which was an improvement from their sizable fall by -10.3% in January – Sept. 2011, compared with their increase by 13.8% in 2010 and by 15.5% in January – September 2010. However, outflows from the same source were also -11.3% down in 2011, which is again an improvement from their fall by -10.1% in January – September 2011. Overall the net surplus revenue from shipping was lower by -5.5% in 2011 (from -10.5% in January – September 2011), compared with its increase by 12.1% in 2010 and by 12.5% In January – September 2010. Therefore, in 2011 net shipping revenues had a high negative effect on GDP growth, reversing the positive effect on growth of these revenues in 2010. In Q4 2011 this negative effect from shipping on GDP growth was much lower than in Q3 2011, which in turn was much lower than in H1 2011.

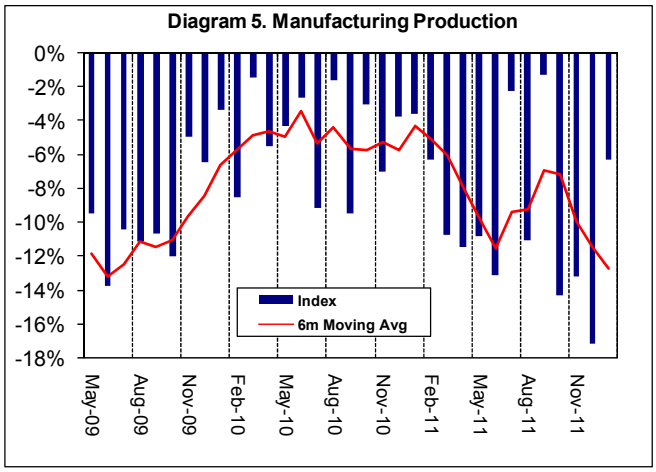
In the manufacturing industry (accounting for about 8% of value added in the Greek economy), the falling trend of production decelerated markedly to -4.6% in Q3 2011 (September 2011: -1.3%), from a fall by -11.8% in Q2 2011 and -7.1% in Q1 2011. However, the unambiguous trend towards a recovery in Q3 was abruptly reversed by the economic and political turmoil of Q4 2011, with the fall in manufacturing output taking again crisis proportions of -14.8%. Overall, industrial production continues mainly to be affected by the substantial fall in production: a) of traditional industries (textiles, clothing, footwear) facing intensifying competition from low cost countries, b) of industries (like non metallic minerals) related to the domestic construction activity and c) of industries (like shipyards, defense industries, etc) until recently relying on public procurement programs and orders from the Ministry of Defence. In recent months production in such industries has virtually stopped.

Of particular importance are developments in the index of business expectations in Greek industry in 2011, which shadow the movements in industrial production. This index had improved substantially to 80.6 in February 2011, from 71.3 in December 2010, but it fell again to 76.2 in June 2011. The Eurozone Heads of State 21 July 2011 decision for a FSP II for Greece contributed to sizable recovery of the index of business expectations in industry to 77.5 in July and to 81.0 in August (the highest level since 2008). This recovery was followed by a substantial improvement of manufacturing production in Q3 2011. However, d the index of business expectations in manufacturing industry fell to 76.2 in September 2011 and to 74 in October 2011, preceding the consequent fall of manufacturing production.

The decision of 26 October 2011 implied an improvement of the index of business confidence in manufacturing once more in November, but the implementation of this decision did not materialize before March 2012, with detrimental effects for Greek manufacturing production and for the economy as a whole. The relevant PMI index had been fluctuating around 43 until February 2011, but it improved to 45.4 in March 2011, 46.8 in April 2011, 45.5 in June, 45.2 in July, 43,3 in August –September 2011, around 40 in Q4 2011 and 37 in February 2012, showing the failure to build on the Q3 improvement and the falling back on a persisting falling trend of the manufacturing production until December 2011. The positive effect from the dynamic increase in exports of goods and exports orders has been over-compensated from the persistently low level of domestic demand. In fact, the falling trend of manufacturing production decelerated to -6.3% yoy in January 2012 mainly due to the substantial increase of the production of petroleum products, with the production of food products and beverages falling again by -8.1% yoy and -9.1% yoy respectively.

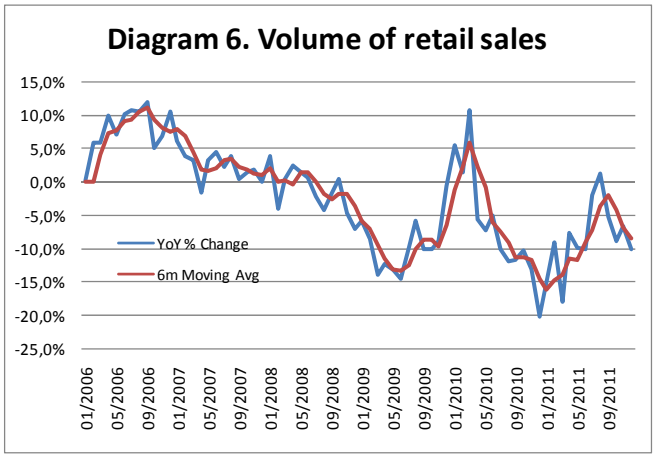
Some important sectors of the Greek manufacturing, especially those with substantial export activity, registered positive growth in production in 2010 and in 2011, or minor fall of production, as shown in Table 7. In particular the food industry, which is the most important sector of Greek manufacturing, registered positive growth of 3.0% in September 2011 but a new fall of production in Q4 2011 contributing to a -4.3% fall in 2011, from a -4.1% fall in 2010. Production in this sector is affected negatively by the big drop of domestic demand and positively by increasing exports. The same applies for other exporting sectors, as the basic metals and metal products in which production is also positively affected by strong exports but negatively affected by the substantial reduction of domestic construction activity, especially of housing investment. The sector which has been affected the most by the depression in the construction sector is non-metallic minerals (in particular cement industries), which also faced substantial difficulties in some of their export markets.

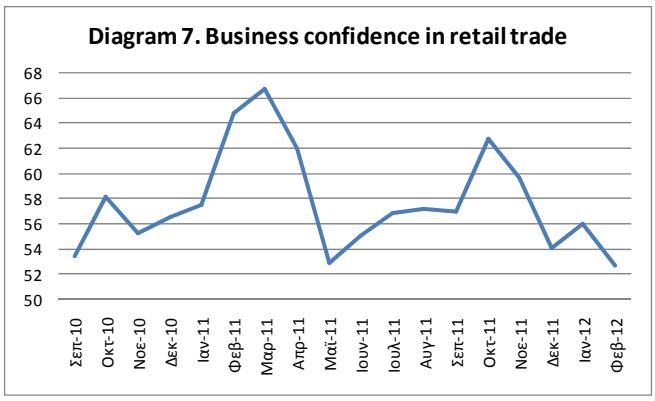
Table 7. Basic sectors of the Greek manufacturing industry					
	Weights	2011	2010	2009	Level end 2011 (2005=100)
Food	18,2	-4,3%	-4,1%	-2,7%	92,5
Beverages	6,0	-9,3%	-7,6%	-4,8%	87,4
Tobacco	1,9	10,5%	-17,5%	-2,7%	82,4
Oil (refineary) products	11,3	-14,5%	5,7%	-0,1%	94,7
Chemicals	5,3	-4,7%	1,9%	-14,6%	80,7
Pharmaceuticals	2,5	-0,6%	2,4%	18,3%	152,6
Basic metalls	8,0	6,5%	12,0%	-17,9%	98,6
Manuf. of metall products	5,1	-5,4%	0,2%	-17,7%	75,4
Machinery and equipment	2,1	-6,3%	-21,0%	-27,0%	60,8
Wood and cork products	1,2	2,8%	9,4%	-27,3%	62,1
Plastic products	4,2	-7,3%	-7,0%	-13,7%	79,1
Non-Metallic Minerals	10,3	-35,9%	-14,2%	-24,2%	38,1
Electrical equipment	3,0	-13,6%	-4,1%	-20,1%	68,3
Textiles	3,1	-22,0%	-20,6%	-27,8%	32,7
Clothing	3,4	-25,4%	-23,1%	-23,6%	36,0
Other transport equipment	1,6	-37,1%	-35,1%	-18,6%	34,4
Vechicles, trailers and others	0,8	-28,8%	-1,6%	-13,3%	51,0
Repair and machinery instalation	4,1	-2,6%	-22,8%	-15,2%	49,1
Manufacturing Industry	**100,0**	**-9,5%**	**-5,1%**	**-11,2%**	**75,8**
Source: ELL. STAT.					



Moreover, the index of industrial turnover registered a 6.9% increase in 2011, on top of its increase by 5.9% in 2010. More importantly, a positive increase was registered even in the index of manufacturing turnover in the domestic market by 3.2% yoy in Q3 2011 and by 4.6% yoy in September 2011 and 1.8% yoy in December 2011. However, for the year as a whole the index of industrial turnover fell by -4.9% in Q4 2011 and by -2.6% in 2011, compared with a -0.8% fall in 2010. Again here sales to exporting markets surged by 21.6% in 2011, on top of their increase by 29.3% in 2010.

PRIVATE CONSUMPTION: The fall of the volume of retail sales has decelerated notably to -2.0% in Q3 2011, compared with the substantial fall by -9.1% in Q2 2011 and by -14.7% in Q1 2011. Due to substantial favourable base effects, it was expected that the falling trend of the index of the volume of retail sales would continue in Q4 2011, with a positive increase in these sales expected in December 2011. Instead, the falling trend of retail sales accelerated again in Q4 2011, due to the demoralization of the Greek consumer and faced with prospects of Greece's default and exit from the Euro, rapidly rising unemployment and uncertainties about losing its savings. Greek households turned their whole attention on how to cover for these risks, further postponing their consumption, opting at the same time for unrecorded transactions without the payment of VAT. Therefore, the substantial yoy fall of retail sales by -8.6% in Q4 2011, from +1,2% in August 2011 and -2.0% in Q3 2011, was mainly the result of the dramatic deterioration of consumer confidence in October and November 2011. For the year as a whole the fall of the volume of retail sales reached -8.6%, from -6.9% in 2010.





Of particular importance was also the fact that in 2011 the volumes of retail sales in the big department stores increased by 2.5% and in the big supermarkets fell only by -3.6% in 2011, while the fall of the volume of sales of the multitude of small shops (of food-beverages and tobacco, or clothing ant footwear, furniture and electrical equipment appliances, etc) accelerated in the same year (See Table 8). This development may be partly due to the apparent inability of small shops to compete with the big ones. However, the numbers may also reflect the fact that in the big supermarkets and department stores all sales are recorded, while small shops can avoid recording a sizable part of their transactions to evade paying taxes.

On the other hand, the new fall of sales of durable goods in 2010 and in 2011 is related to the substantial fall of disposable incomes in 2011 but also to the abnormally depressed consumer and business confidence in the Greek economy, which persists until February 2012. In particular, concerning the business confidence in the retail trade sector, the relevant index fluctuates at low levels. Nevertheless, there were periods of recovery (see Diagram 7), only to be abruptly reversed as economic sentiment waned. On the other hand, the index of consumer confidence reached the -83.8 in October 2011 (the lowest level ever), only to improve slightly to -82.6 in November 2011, from its substantially elevated level of -66.2 in March 2011. In February 2012 the consumer confidence index fell again to -86.

Table 8. Index of the Volume of Retail Sales					
2005=100	January - December				
Specialized store categories	Index 2009	Index 2010	Index 2011	*2010%*	*2011%*
Supermarkets	106,9	101,4	97,8	-5,1%	*-3,6%*
Department stores	109,2	96,6	99,0	-11,5%	*2,5%*
Food-beverages-tobacco	93,2	88,9	75,7	-4,6%	*-14,8%*
Pharmaceutical products, cosmetics	109,2	107,7	98,0	-1,4%	*-9,0%*
Clothing and footwear	97,6	86,5	70,2	-11,4%	*-18,8%*
Furniture, electrical equipment	101,8	88,8	74,9	-12,8%	*-15,7%*
Books, stationery, other goods	83,0	79,4	75,4	-4,3%	*-5,0%*
Overall Index	**100,0**	**93,7**	**84,2**	-6,3%	*-10,1%*
Index (except automotive fuel)	**98,8**	**92,0**	**84,0**	-6,9%	*-8,7%*
Source: Hellenic Statistical Authority					

Pervasive uncertainty and abnormally low consumer confidence have greatly affected the new passenger cars market and the housing market. New passenger cars registrations dropped by -29.8% in 2011, following their fall by -37.2% in 2010. However, even in this sector the falling trend of yoy sales decelerated in Q3 2011 to -4.0% yoy, from -21.3% in Q2 2011 and the big fall by -55.9% in Q1 2011. Registrations fell to 107 thousand in 2011, from 152.3 thousand in 2010. Moreover, the fall of new passenger cars registrations continues in 2012 reaching -33.3% yoy in January-February 2012, on top of -56.2% yoy in January-February 2011. Finally, expenditure on imported cars fell to € 1.25 bn in 2011, from € 2.18 bn in 2010 € 3.3 bn in 2009 and € 5.26 bn in 2007.

Concerning investment in housing, the falling trend of residential construction activity – as measured by the volume (m^3) of building permits – continues unabated, registering a fall -36.0% yoy in January-November 2011, compared with its fall by -25.2% in January-November 2010. In fact activity in this sector is on a falling trend since 2006, registering sizable declines by -23.6% in 2010, by -26.5% in 2009,-17.1% in 2008, -5.0% in 2007 and -19.5% in 2006, following a big increase of 35.2% in 2005. In fact, the volume of residential construction fell to 23.2 million m^3 in 2011, from 36.12 million m^3 in 2010 and 102.24 million m^3 in 2005. These developments led to residential investment falling in real terms, of -23.6% in 2011, -18.0% in 2010, -23.5% in 2009, -28.2% in 2008 and -9.0% in 2007. In fact, residential investment fell to about € 7.45 bn in 2011 (in 2005 prices), from € 23.81 bn in 2006. Moreover, another fall of residential investment of the order of 18% is now expected to take place in 2012, dropping below € 6 bn. This level is extraordinarily low for Greece and a gradual recovery of residential investment due to demographic reasons may be expected from H1 2013.

In the current period, the aforementioned adverse developments in consumer and business confidence until March 2012 delay the revival of both residential investment and economic activity in this sector. In fact, the index of business expectations in construction registered a substantial improvement to 44.3 in September 2011, from 28.8 in July and 35.5 in September 2010. However, this was still a very low level of business confidence and it deteriorated again to 40.6 in October and to 37.1 November 2011. A new improvement to 43.4 has registered in February 2012. One explanation for these unfavorable developments may be provided by the new substantial fall of expenditure of the Public Investment Budget by -17.1% in 2011 from the already very low level of 2010 (-11.3%). The precipitous fall of construction activity in the private sector is not in any way compensated by more activity in the public sector.

INFLATION: CPI Inflation in Greece fell to 2.4% in December 2011 and to 2.1% in February 2012, from 3.0% in October 2011, dropping from 5.2% in December 2010, with average CPI inflation falling to 3.4% in 2011 from 4.7% in 2010. This evolution of inflation was mainly due to the fact that fiscal adjustment in Greece initially took the form of raising VAT and excise taxes, as well as through tariff hikes by deficit-ridden public sector entities. Additional increases in VAT rates and other taxes from early 2011, in combination with substantial increases in the international price of oil and other commodities, implied that inflation remained high in 2011 as well, despite starting its fast deceleration process from May 2011 onwards. The fall of inflation to 1.7% in August 2011 was also affected by the higher than usual summer sales, while inflation increased again to 3.0% in October 2011 before falling to 2.4% in December 2011 and to 3.3% average in 2011. Overall, inflation is expected to drop further to an average 1.0% in 2012, mainly due to the extraordinary low level of domestic demand and the falling trend of domestic unit labour costs.

IMPLEMENTATION OF 2012 BUDGET: The Central Government Budget deficit fell to € 0.49 bn in Jan.-Febr.'2012, from a deficit of € 1.05 bn in Jan.-Febr.'2011 and it was lower by € 385 million from the targeted deficit in the first 2-months of 2012. This was mainly due to the substantial surplus of the public investment budget (PIB) in this period, with PIB revenues reaching already € 1.19 billion, while PIB expenditure continues its rapid falling trend to € 0.19 bn in Jan.-Febr.'2012, from € 0.26 bn in Jan.-Febr.'2011 and € 0,79 bn in Jan.-Febr.'2010. Moreover, tax rebates were lower by € 0.23 bn from their targeted level. On the other hand, the main problems in the implementation of the 2012 budget appears to be: a) the substantial fall of the VAT revenues by -13.9% yoy in Jan-Febr.'2012, to a great extent due to tax evasion, and b) the substantial fall of revenue from social security contributions, again due to evasion by businesses and self employed (professional) workers, which in turn implies a continuation of big transfers of current budget primary expenditure to cover the increasing deficits of the main social security funds. Moreover, payments for pensions of civil servants continue increasing due to the surge of the number of pensioners in the last two years. However, overall payments for salaries and pensions of employees in the public sector registered an additional fall of -4.8% in Jan.-Febr.'2012, following their substantial fall in 2011 and in 2010. Also, operational expenditure of the central government, including subsidies to state-controlled entities were -1.2% lower in the first 2-months of 2012. Nevertheless, overall current primary expenditure was higher by 3.7% in Jan-Febr.'2012 due to the substantially increased payments to the social security funds. This compares with a targeted fall of these expenditures by -7.5% in 2012. Finally, encouraging developments in the implementation of the 2012 Budget appear to be: a) the increased personal income tax revenues (+4.1%), b) the surge of property tax revenues to € 791 million in Jan.-Febr.'2012, from € 16 million in Jan.-Febr.'2011, c) the substantial increase of direct and indirect tax revenues from previous years (+12.9% and +153.7% respectively), d) the healthy increase of

revenues from the special tax on cigarettes (+31.1%). Overall, with the assumption of a determined effort to combat VAT and social security contributions evasion in the course of 2012, the implementation of the 2012 Budget is expected to continue as planned, with a possible 0,0% of GDP primary deficit, better than the budgeted -1.0% of GDP.

BALANCE OF PAYMENTS: The current account deficit (CAD), including net capital transfers, reached € 18.4 bn in 2011, lower by -11.4% from 2010, which was lower by -12.2% from 2009. Thus, the current account deficit fell to -8.55% of GDP in 2011, from -9.2% of GDP in 2010 and -10.3% of GDP in 2009.

In fact, the CAD of Greece was maintained at relatively high levels in 2011, mainly due to the substantial increase by € 2.5 bn of the deficit of the fuels balance, which was completely at odds with the deep recession plugging the Greek economy in 2011. Therefore, the trade deficit - excluding oil and ships registered a much bigger fall, by -20.0% in 2011, to € 12.83 bn, from € 16.03 bn in 2010. This substantial fall of the non-oil deficit is due to imports of goods excluding fuels and ships declining by -4.5% yoy in 2011, on top of their fall by -12.6% in 2010. On the other hand, exports of goods excluding fuels and ships surged by 17.3% yoy in 2011, from a slight fall by -1.3% in 2010.

However, it is remarkable that imports of goods excluding fuels and ships registered also an increase by 1.5% at annual basis in Q3 2011, after their fall by -7.3% in H1 2011, while they fell again by -4.5% yoy in Q4 2011, on top of their fall by -15.9% yoy in Q4 2010.

Also, payments for imports of fuels rose markedly by 27.5% in 2011, on top of their big increase by 27.4% in 2010. This substantial upward surge in imports of fuels in 2011 can be partly justified by the increase of exports of fuels by 25.0% in 2011 (2010: +61.6%). In fact, the payments for imports of fuels increased by € 3.74 bn in 2011, while the receipts from exports of fuels were up by € 1.24 bn. Also, the immoderately big increase of fuel imports in 2011 can also be explained by the increase of fuel prices and probably the creation of big fuel inventories, since the domestic fuel consumption in nominal terms fell by -4.4% in 2011 due to weak domestic demand.

Table 11. Greek Balance of Payments (€ Billions)

	2010	2011	Jan11	Jan12
Trade Balance (TB)	-28.28	-27.22	-3.23	-2.34
Exports	17.08	20.23	1.40	1.74
Imports	45.36	47.45	4.63	4.08
Services Balance	13.25	14.64	0.31	0,53
Tourism Receipts	9.61	10.52	0.15	0.13
Shipping Receipts	15.42	14.10	1.13	1.12
Income Balance	-8.14	-9.10	-0.52	-0.47
Payment of Interest, Divid. & Profits	11.34	11.94	0.77	0.72
Transfers' Balance	2.27	3.25	0.67	0.77
Current Account (CA)	-20.90	-18.40	-2.77	-1.52
CA (% of GDP)	-9.20	-8.60	-1.29	-0.73
Capital Account	21.32	17.87	2.15	1.98

Source: Bank of Greece

The increase of total exports of goods by 18.5% yoy in 2011, provided support for the domestic economic activity in a period of deep recession. The exports of goods reached € 20.23 bn in 2011, from € 17.08 bn in 2010 and have exceeded the 9.2% of GDP in 2011. Total exports of goods and services (according to the BoP data) rose to € 48.86 bn (22.7% of GDP) in 2011, from € 45.56 bn (20.0% of GDP) in 2010 and € 42.3 bn (18.3% of GDP) in 2009.

An increase of the surplus of balance of services by 10.5% was registered in 2011, on top of its increase by 4.8% in 2010. This increase was determined by the following:

a) External tourism receipts registered a healthy increase of 9.5% in 2011, against fall by -7.6% in 2010, despite the dismal performance of the sector in November-December 2011. On the other hand, the payments of domestic residents for tourism abroad registered an increase by 5.5%, defying the big recession on the domestic economy. Consequently, the surplus of tourist balance rose by € 791 million in 2011, or by 10.6%, following its fall by -7.2% in 2010. In 2012, it is not yet clear whether tourism will show a better performance than in 2011. A lot will depend on whether unfavorable publicity of Greece abroad and disruption of services by special interest will be operational in 2012 as well.

b) Revenues from international shipping have registered a -8.6% fall in 2011, following their surge by 13.8% in 2010. However, the falling trend of these receipts has decelerated in Aug.-December 2011. Also, the payments for international shipping were down by -11.3% in 2011, resulting in the reduction of the surplus of the international transportation balance (mainly shipping) by -5.5%. This development influences negatively the increase of exports of services and has a substantial negative effect of GDP growth in 2011.

c) Remarkable was the increase of exports of other services by 16.2 in 2011, following their increase by 13.8% in 2010. On the contrary, the payments for imports of other services registered a considerable fall by -8.93% in 2011, contributing to the fall of the deficit of the sector.

The deficit of the incomes balance grew by 11.3% in 2011, against -9.4% in 2010. Payments for interest, dividends and profits to foreign investors in Greek government bonds and shares were higher by 5.3% yoy in 2011, following their fall by -11.8% in 2010. Also, receipts for interest, dividends and profits were down, by -6.6% in 2011, from -15.5% in 2010. In January 2012, the incomes balance deficit was lower by -8.6% yoy and it is expected to be much lower in 2012 as a whole, compared with 2011, as payments for interest on Greek public debt will be lower due to the reduction of internationally held public debt through the PSI plus.

The surplus of the balance of current transfers was substantially higher in 2011 by € 380.3 million compared with 2010, but substantially lower than the surplus of 2009. In particular, the transfers from the European Union were lower by € 66.4 million (or by -2.1%) in 2011 against 2010. These transfers include the payments by the European Agricultural Fund of Guarantees and by the European Social Fund. On the other hand, general government payments for current transfers to the EU were also lower by € 375 million (-13.1%) contributing to the increase of the surplus. Also, current inward and outward transfers for emigrant's remittances were lower in 2011 by -19.5% and -14.1% respectively.

Also, the surplus of the balance of capital transfers was higher by 29% in 2011, reflecting the substantial increase of transfers from European Union, which reached € 2.8 bn in 2011, up by 25% yoy, or by € 559.2 million. This development constitutes the first sign of progress in the absorption of available resources from the structural funds of European Union, in the context of implementation of the Community Support Framework 2007-2013 (CSF III) for Greece. The absorption process of these European funds, estimated at € 14 bn for the period 2012-2015, is expected to accelerate in 2012 and in 2013. However, these transfers were only € 0.4 million in January 2012, where the balance of capital transfers was negative of the order of € 24.4 million.

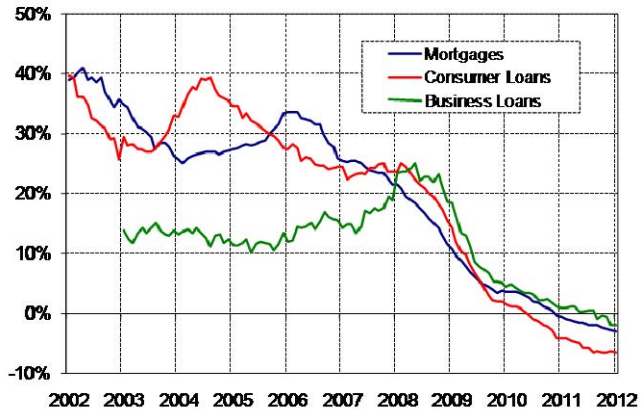
Taking into account the above developments, the fall of the current account balance in 2011 may be attributed mainly to the sizeable reduction of trade balance excluding fuels and ships and the improvement of balance of services and capital transfers. However, this balance was again burdened by € 2.5 bn from the abnormally high increase of the deficit of the fuels balance as a consequence of the new surge of imports of fuels in the environment of deep recession in the domestic economy. If these imports were intended for stock building, then we may see much lower fuel imports in 2012. This indeed happened in January 2012, where imports of fuels registered a -40.9% yoy fall, while exports of fuels were still 38.7% yoy higher.

Generally, the reduction of the current account deficit is expected to be even higher in 2012, to around 5.5% of GDP, as a result of a much lower fuels and income balance deficit and also of an even higher fall of the trade deficit excluding fuels and ships. Moreover, provided that the fiscal targets of the Medium-Term Fiscal Strategy 2012-2015 will be implemented, implying a general government deficit below 3.0% of GDP after 2014, the deficit of current account will fall fast in the next years and it can turn into surplus from 2015 onwards. Greek economic development from 2013 will be based on Greece's comparative advantage, international competitiveness and current account surpluses, overturning its development pattern until 2009, which was based on huge capital account surpluses and on a continuous boost of domestic demand through foreign borrowing.

In the capital account net capital inflows reached € 17.9 bn in 2011, from € 21.22 bn in 2010 and € 24.5 bn in 2009. Net official capital inflows reached € 39.4 bn; while net private capital outflows reached € 21.5 bn. Net capital inflow through foreign direct investment (FDI) reached € 25.1 million from net outflow of € 457.4 million in 2010. This was a combination of the substantial increase of FDI by foreign firms in Greece to € 1.31 bn in 2011, from € 0,28 bn in 2010 and also higher FDI by Greek firms abroad to € 1.28 bln in 2011, from 0.74 bn in 2010. In the portfolio investment balance, net capital outflows reached € 17.3 bn, from € 20.85 bn in 2010 and compared with net portfolio capital inflows of € 22.66 bn in 2009. More specifically in the period of Greek sovereign debt crisis Greek residents tend to liquidate their portfolio investments abroad and bring the money back to Greece with net inflows amounting to € 6.14 bn in 2011 and € 13.28 bn in 2010, from outflows of € 8.97 bn in 2009. On the other hand, foreign residents tend to liquidate their portfolio investment in Greece in order to take their capital out of the country in amounts reaching € 23.44 bn in 2011, from € 34.13 bn in 2010 and from net inflows of € 31.6 bn in 2009. Finally, there was a substantial net inflow of other investments (primarily general government borrowing from the IMF and the Eurozone) of € 35.17 bn in 2011, from a net inflow of € 42.5 bn 2010. This net inflow in 2011 comprises: a) a net inflow of € 39.4 bn of general government borrowing, b) a € 5.43 bn of net capital inflow from Greek residents through the liquidation of their deposits and repos in foreign banks and c) an outflow of € 9.66 bn by non-residents from the transfer abroad of their deposits and repos in domestic financial institutions. Official lending to Greece contributes to smooth the transition of the Greek capital account from a substantial surplus until 2009 to a gradually falling surplus until 2014 and then to a possibly increasing deficit (with a capital account surplus) from 2015 onwards.

MONEY & FINANCIAL MARKETS: Credit expansion to businesses and households fell by -3.8% in February 2012, from -3.3% at end-January 2012, from its fall by -1.3% at end-December 2011 and -0.3% at end-February 2011. In particular, the annual rate of change of mortgage and consumer lending fell by -3.2% and -6.8% respectively at end-February 2012, from -2.9% and -6.4% respectively at end- December 2011, further down from -1.0% and -4.2% respectively at end-February 2011. Moreover, lending growth to businesses decreased by -2.7% at end-February 2012, from -1.9% at end-January 2012, -2.0% at end-December 2011 from an increase by 0.9% at end-February 2011. Overall, the annual rate of change of credit to the private sector is expected to decelerate further to around -3.0% by year-end 2012, from -3.1% at year-end 2011.

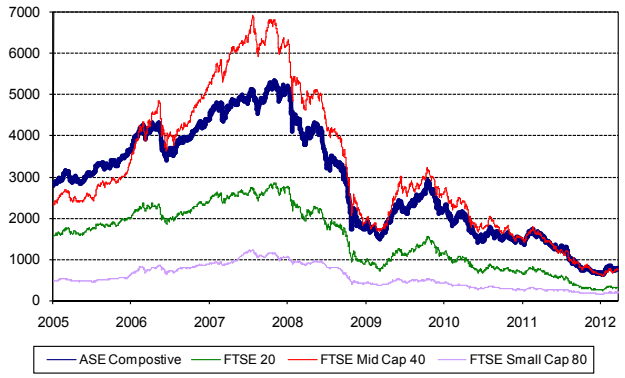
Diagram 8. Credit Expansion



By the end of February 2012, the main ASE composite index was down -52.8% on a yoy basis (FTSE-20 stocks: -58.4%, mid-cap (FTSE-40): -59.0% and small caps (FTSE-80): -35.5%), from -51.9% at end-2011 (FTSE-20 stocks: -60.0%, mid-cap (FTSE-40): -57.3% and small caps (FTSE-80): -37.8%). Following these developments, at the end of February 2012 49.67% of the total stock exchange value of listed firms was in the hands of foreign

investors, down from 50.24% at end-2011 and 51.24% at end of February 2011.

Diagram 9. Athnes Stock Exchange Indices



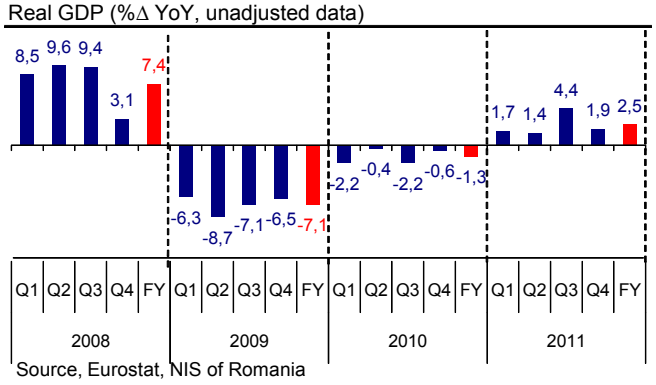
2. ROMANIA

ECONOMIC OVERVIEW: Romania's economy returned to growth in 2011, after a two year recession. In 2009 the economy shrank by 7.1%, followed by a 1.3% contraction in 2010, as the global financial crisis revealed structural weaknesses and imbalances. The economic growth in 2011 was driven primarily by exports. The Romanian economy expanded by 2.5% for 2011 as a whole. Specifically, GDP grew by 1.9% yoy in Q4 2011 from 4.4% yoy in Q3 2011, 1.4% yoy in Q2 2011 and 1.7% yoy in Q1 2011. The IMF and the EC project economic growth to ease in 2012 between 1.5%-2.0%, while this year's budget is based on growth of 1.8%-2.3%. The sovereign debt crisis in Europe, which has eroded demand for Romanian exports, will be a knock on the economy. EU trading partners absorb 55% of the Romanian exports.

A better absorption rate of EU structural funds is of vital importance for sustaining economic growth in positive territory. The low EU funds absorption rate of 6.3% (as of end-February 2012) reveals that there is room for a possible increase of government investment. Romania needs to simplify the procedures for the verification of refunding applications, the completion of the public procurement documents, and to strengthen its administrative capacity.

The EC revised downwards its forecast on economic growth to 1.6% in 2012 from 2.1% earlier, due to nervousness in the financial markets and the Euro zone sovereign-debt developments. Although households are expected to maintain their cautious spending behaviour in the first half of 2012, domestic demand is anticipated to be the key driver of growth in 2012. Improvement in employment and lower inflation could support income and give a boost to private consumption in the second half of 2012. The continued fiscal consolidation is likely to affect public consumption while private investment is expected to be weaker than previously foreseen due to global uncertainties. FDI inflows from EU countries account for 80% of the total inflows.

Real GDP (%Δ YoY, unadjusted data)

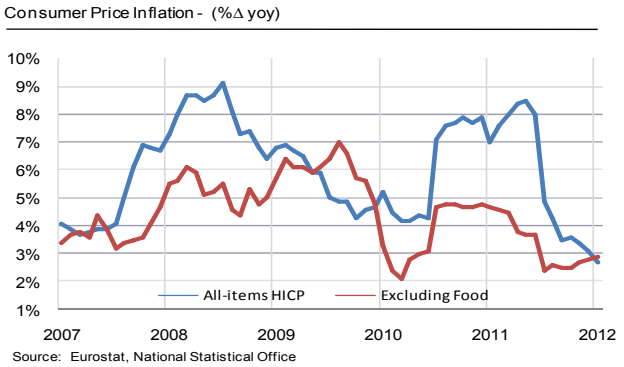


Source, Eurostat, NIS of Romania

On March 25 2011, the Romanian authorities signed up to a new 24-month IMF stand–by agreement (SBA) of about €3.4 billion, which also included additional precautionary support from the EU of €1.4 billion and a loan of € 0.4 billion from the World Bank. The agreement was supportive of the economic recovery by focusing on enhancing potential growth via targeted structural reform policies in conjunction with fiscal consolidation measures. The government of Romania and the IMF in February 2012 reached a staff-level agreement to release the €505 million tranche from its stand-by loan. The 5th tranche under this agreement will become available by early April 2012. Romania met the conditions of its €5.2 billion agreement by containing its budget deficit to 4.35% of GDP in 2011, compared with 6.50% in 2010. The Romanian government intends to trim its deficit to 1.9% of GDP in 2012 in order to maintain its international financial assistance. The authorities are proceeding with the implementation of plans to improve the governance and regulation of the State Owned Entities (SOEs) in the energy (electricity, gas), the health and the transport sectors, as well as plans for restructuring and privatizing some key state controlled firms. At the same time, the World Bank is working with the Romanian authorities on a new Development policy loan with a Deferred Drawdown Option (DPL DDO) of €1 billion aiming to support government reforms in public sector, financial services, infrastructure and social services. The next review of IMF's program is scheduled for late April-early May 2012.

FISCAL POLICY: The implementation of the fiscal consolidation program in the context of the new P-SBA with the IMF remains on track. Romania's budget deficit narrowed to 4.35% of GDP in 2011 from 6.5% of GDP a year earlier and just slightly below government's target of 4.4% of GDP agreed with the IMF. The budget deficit was reduced to RON 23.8 billion in 2011 from RON 33.6 billion in 2010. Total revenue jumped by 7.6% yoy to RON 181.6 billion while expenditure by 1.5% yoy to RON 205.4 billion. On the income side significant increases recorded on VAT revenues and excise duties due to improved tax collection. On the spending side, total expenditures rose to RON 205.4 billion in 2011 from RON 202.3 billion in 2010. Personnel expenditures were reduced by 10.1% yoy following cuts in public sector employment and wages. The government is targeting a reduction of the budget deficit to 1.9% of GDP in 2012 or 2.1% of GDP including expenditures of the National

Development and Infrastructure Program. This is a very ambitious target, in a very difficult external environment and local elections ahead.



INFLATION: Harmonized consumer price inflation (HCPI) decelerated noticeably to 2.7% (record low) in January 2012, from 3.1% in December 2011 and 8.5% in May 2011. The Central Bank met its inflation target for the first time in five years in 2011.The continued deceleration of inflation allowed the Central Bank to maintain its loose monetary policy in order to support credit expansion to the private sector. Food prices evolution brought a favourable base effect while the non food prices recent hike reflects the increase in excise tax duty in tobacco prices, fuel prices due to higher oil prices and RON depreciation against the US Dollar. We expect inflation to decline further during H1 2012 up to 2% and to move higher later due to base effects related to last year's very good harvest and the liberalization of administered prices. Romania's Central Bank (BNR) raised its 2012 inflation forecast at 3.2% compared with a previous forecast (November 2011) to 3% but still within a band of ± 1 pp. The target range for 2012 is the same as last year i.e. between 2 to 4%. The Central Bank expects the inflation to decelerate further to 3% in 2013. It should be noted that industrial producer price (PPI) inflation decelerated to 7.0% in December 2011, from 8.4% in October 2011.

BALANCE OF PAYMENTS: The current account deficit increased in 2011 by 3.0% yoy (see Table), to 4.3% of GDP for 2011 from 4.5% of GDP in 2010, as export growth (+20.5%) continued to outstrip import growth (+16.7%) and the current transfer's balance kept on improving (+4.0%). FDI inflow amounted to € 1.9 billion in 2011 from € 2.2 billion in 2010 and covered only 33.7% of the current account deficit. The fall in goods and services deficit implies a positive effect from net exports on GDP growth.

Current Account: 2011 (€ million)			
	2011	2010	%Δ
Exports (fob)	45.017	37.368	20,5%
Imports (fob)	52.482	44.968	16,7%
Trade Balance	-7.465	-7.600	-1,8%
Services Balance	382	404	-5,4%
-Tourism-travel	-390	-378	3,2%
Income Balance	-2.336	-1.914	22,0%
Current Transfers Balanace	3.737	3.592	4,0%
Current Account Balance	-5.682	-5.518	3,0%
Source: Central Bank of Romania			

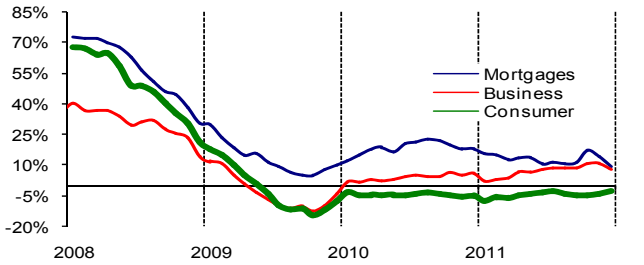
Net exports this year are expected to stay stable, as import demand will be compensated by export growth. The IMF expects the current account deficit to reach 4.4% of GDP in 2012.

EXTERNAL DEBT: Total external debt increased to € 98.6 billion by end-December 2011 from € 92.5 bn at end-2010 (up by 6.6%), but declined as a percent of GDP to 74.5% from 75.8% at end-2010. The composition of total external debt into medium & long-term and short-term remained at 77% versus 23% at end-December 2011 from 79%% versus 21% at end-2010. Borrowing from the IMF increased to €10.2 billion at end-December 2011, from € 9.1 billion at end-2010. Finally, at end February 2012, the National Bank of Romania's ***foreign exchange reserves*** stood at € 33.4 billion, up from €33.2 billion at end-September 2011. An amount of €1.12 billion of inflows is resulted from the international issuance of bonds denominated in US Dollar during February 2012.

MONEY & FINANCIAL MARKETS: The domestic currency (RON) depreciated against the Euro in 2011 by 0.9% (average levels). Since the beginning of the year the RON is trading in a similar pattern. The favourable review by the Troika for Romania's macroeconomic policies supports the RON exchange rate. The latest Eurobond issue of $1.5 billion helped the FX reserves to be stabilized nearly €34 billion and makes NBR's potential Fx intervention job easier.

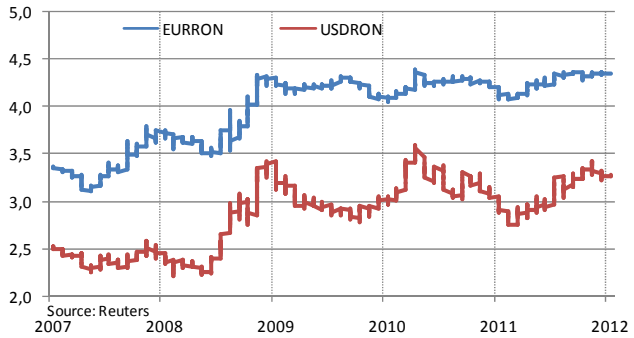
The National Bank of Romania (NBR) on the back of optimistic developments on the inflation front continued its loose monetary cycle by lowering its key interest rate from 6.00% in November 2011 to 5.50% on February 2, 2012. This latest cut, the third consecutive in three months, was in line with market's consensus. We do not exclude the extension of the easing monetary cycle in the next months. BNR wanted to balance risks stemming from the Euro zone debt crisis against slowing domestic inflation and weakening economic activity. A reversal of the key interest rate and the end of the easing cycle is anticipated in H2 2012 as inflation could start to rise again. Credit expansion (euro basis) to the private sector has remained stable since July 2011. Credit expansion stood at 4.5% yoy in December 2011 (businesses: 7.9%, households: 0.9%). Households continued to demonstrate a bias towards foreign currency-denominated loans, especially in the case of mortgages. The coverage ratio of foreign currency loans by foreign currency deposits dropped to 27% in 2011 from around 32% in 2010. The non performing loans stood at 14.1% at end December 2011 up from 11.9% in December 2010 and 7.9% in December 2009. The commercial banks remain well capitalized and liquid, with the capital adequacy and loans to deposit ratios at 14.5% and 116.7% respectively at end-December 2011.

Credit Growth (%Δ YoY)



Source: Central Bank of Romania, ALPHA BANK Reasearch

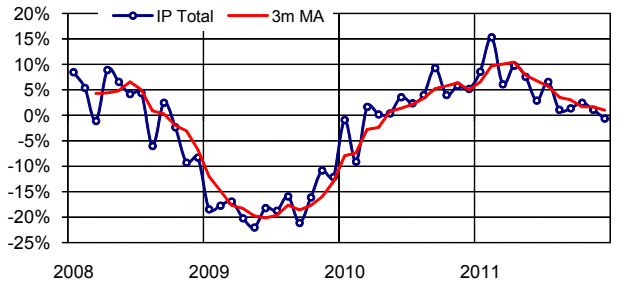
Exchange Rate Developments



3. Bulgaria

Economic Overview: The economy has revived relatively slowly over 2010-11, with real GDP in 2011 about 4.5% below its growth recorded in 2008. Economic activity has been hurt by the economic slowdown and sovereign crisis in Europe. Bulgaria's real GDP rose in 2011 by 1.7%. GDP expanded by 1.6% yoy (seasonally adjusted) in Q4 2011 versus a 2.3% yoy rise in Q3 2011, 1.5% yoy in Q2 2011 and 1.5% yoy in Q1 2011. Exports of goods and services registered an annual increase 12.8% in 2011 compared with a 14.7% rise in 2010. Private consumption decreased by 0.2% on annual basis in 2011 compared with 0.6% increase in 2010. Imports of goods and services registered an annual increase 8.5% in 2011, compared with a rise of 2.4% in 2010. Gross fixed capital formation registered a decrease of 6.5% yoy in Q4 2011 for a second consecutive quarter (-2.8% yoy in Q3 2011), bringing the total for the year to -9.7%.

Industrial Production - (%Δ yoy swda)

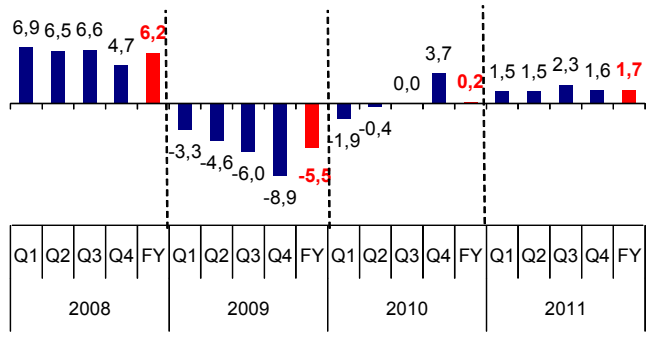


Source: Bloomberg

Going forward, the growth momentum from 2011 is expected to spill over to a certain extent into 2012. Domestic demand remains weak and is not expected to grow faster in the short term, in order to compensate for the low external demand. The sovereign debt crisis in the euro zone, which absorbs 60% of Bulgaria's exports, is constraining economic expansion. Retail sales continue to move in a negative territory since May 2011 and unemployment remains at high level. In particular, unemployment at the end of December 2011 was at 10.4% or 1.2 percentage points higher compared with a year ago. The negative environment in the labour market continued and in the first month of the current year where unemployment reached 11.1% (Jan.2012). Despite the worsening of the business environment in the first months of 2012 as depicted by the business climate indicator (BCI), some improvement is anticipated over the next six months.

Bulgaria's government appears optimistic expecting economic growth to be around 3.0% in 2012 as economic indicators, imply a mild economic recession in Germany, France and Italy. The IMF is more cautious and forecasts growth of 1.3% in 2012.

Real GDP (%Δ YoY, seasonally and calendar adusted data)

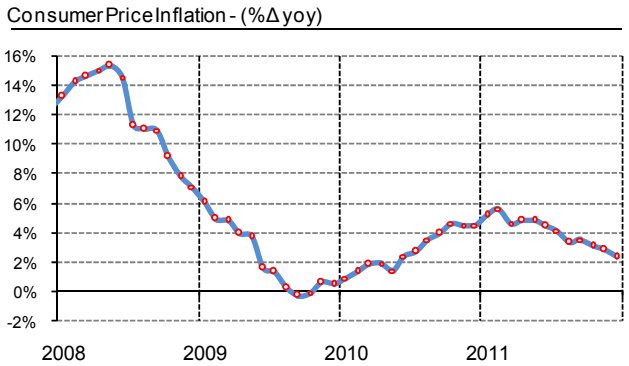


Source: National Statistical Institute

Fiscal policy: Preliminary data point out that the government's budget deficit in 2011 improved to 2.1% of GDP from 4.0% in 2010, reinforcing the view that Bulgaria's sound fiscal discipline remains firmly in place. In 2011, the deficit reached BGN 1.58 billion significantly lower than the 2010 deficit of BGN 1.96 billion. In 2011 the consolidated budget revenues amounted to BGN 25.4 bn from BGN 23.9 bn a year ago. More specifically, tax revenues have been higher mainly due to the 6.7% increase in indirect taxes. The consolidated budget expenditures in 2011 were BGN 26.2 billion slightly higher by BGN 135.4 million in the previous year. The balance on the fiscal reserve account (FRA) stood at BGN 5.0 billion at the end of December 2011 (minimum targeted balance BGN 4.5 billion) from BGN 6.0 billion at end-2010. These reserves are needed to support the currency board regime. Bulgaria should maintain a tight fiscal policy in 2012. In this context, the target budget deficit to

1.3% of GDP may be difficult to achieve given the ambitious growth forecast of 2.9% for the current year.

INFLATION: After peaking to 5.6% in March 2011 headline inflation continued its downward path to 2.8% in December 2011. The annual average CPI inflation in 2011 was 4.2% compared to 2.5% in 2010. The annual average measured by harmonized index in the period January-December 2011 was 3.4% compared to 3.0% in the corresponding period of the previous year. Inflation pressures will remain relatively constrained throughout 2012, due to weak domestic demand and moderate international commodity prices. In January 2012, inflation stood at 2.3% firmly on a deceleration path. We expected inflation to fall below 2% during the year.

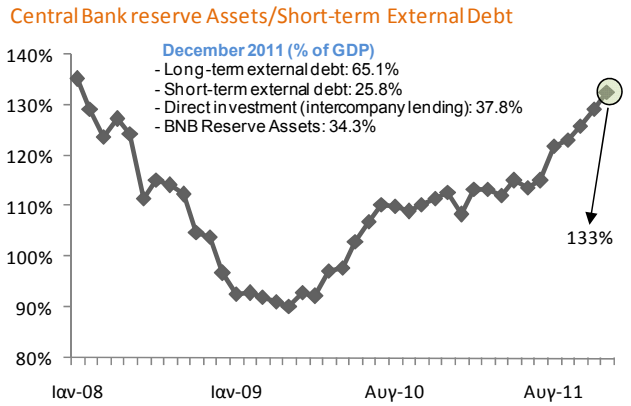


Source: National Statistical Institute

BALANCE OF PAYMENTS: At the end of December 2011, the current account showed a surplus of €743.7 million equivalent to a preliminary 1.9% of the projected GDP for 2011, after a deficit of €475.6 million, equivalent to a 1.3% of GDP in 2010. In particular, the trade deficit at the end of December 2011 was € 1,845 million compared to € 2,764 million a year ago. In 2011, exports surged by 29.1% yoy surpassing the growth of imports 19.7% yoy. Moreover, the services surplus increased to € 2,400 million in 2011 compared to € 2,016 in 2010. In the capital account, the net foreign direct investment (FDI) account decreased to € 939.5 million (2.4% of GDP) in 2011 from € 1,585.1 million (4.4% of GDP) a year ago.

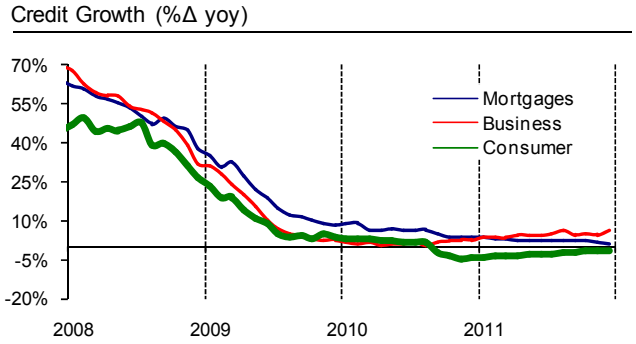
Current Account: 2011 (€ million)			
	2011	2010	%Δ
Exports	20.097	15.561	29%
Imports	21.942	18.325	20%
Trade Balance	-1.845	-2.764	-33%
Services Balance	2.400	2.016	19%
Income Balance	-1.518	-1.276	19%
Current Transfers Balance	1.706	1.548	10%
Current Account Balance	744	-475	-256%
Source: Bulgarian National Bank			

EXTERNAL DEBT & INT. RESERVES: Total gross external debt stood at € 35.4 billion at the end 2011 from € 37.0 billion at end-2010. The ratio of foreign reserves with the Central Bank to short-term debt was 133% at end-December 2011 from 113% at end-2010 and 105% at end- 2009.



Source: Bulgarian National Bank, MoF

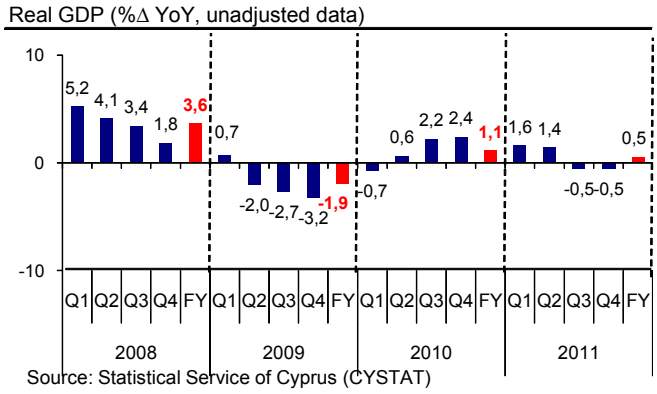
MONEY & FINANCIAL MARKETS: Bulgaria maintains a currency board pegging the Bulgarian Lev (BGN) to the euro at a fixed exchange rate of 1.95583 BGN to 1 Euro.. In 2011, the country fulfilled the criteria for joining ERM II, the Euro zone waiting room, for a second year. Despite the country's fulfilling the convergence criteria, sovereign debt crisis in the euro area makes the adoption of the euro any time soon rather unlikely. Domestic demand for credit remained subdued in 2011 amid elevated unemployment. In December 2011 credit expansion stood at 3.9% yoy from 1.4% in December 2010 and 3.8% in December 2009. Business financing grew by 6.3% yoy in December 2011 and credit to households declined by 0.4%. Consumer credit declined by 1.8% while mortgages grew by 1.1%.



Source: Bulgarian National Bank

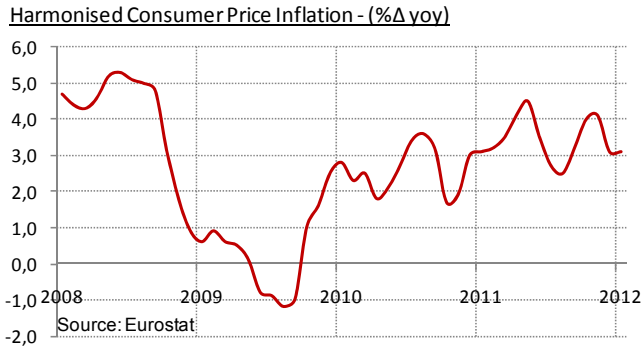
4. CYPRUS

ECONOMIC OVERVIEW: Following a moderate GDP growth of 1.1% in 2010, economic activity increased marginally by 0.5% in 2011. In particular, GDP contracted for a second quarter in a row by 0.5% yoy in Q4 2011 after recording positive growth rates in the first half of 2011.The explosion of decaying munitions which destroyed Vasilikos power plant, the biggest energy production facility of the island, weighted heavily on GDP figures. The negative economic environment in the Euro zone and the effect of the sovereign debt crisis in Greece compounded the problems afflicting economic activity. Negative growth rates were observed in the construction, manufacturing and electricity sectors, as well as in trade and transport.



Positive growth rates were registered in tourism, banking and services. In particular, 2011 was an exceptionally good year for tourism, with arrivals rising by 10.1% and revenue rose by 12.9% in 2011 registered 2.39 million arrivals from 2.17 million in 2010. In 2011, arrivals reached 2.39 mn visitors from 2.17 mn in 2010 and revenue € 1,749.3 million compared with €1,549.8 million in 2010. Domestic demand is expected to weaken further due to credit limitations and worsening labour market conditions. The unemployment accelerated, reaching 7.8% in 2011, up from 6.2% in 2010. The largest increases in absolute terms were registered in the sectors of wholesale/retail trade and construction. According to European Commission's forecasts, Cyprus is expected to contractor about 0.5% in 2012. Moody's on March 13 lowered the country's sovereign credit rating by one notch to Ba1 (junk) with negative outlook, from Baa3 on expectations that the Cypriot government will have to provide renewed financial support to its banking sector due to its exposure to Greece. Moody's is the second ratings agency to cut Cyprus to junk, after S&P (27.10.2011 BB+). Fitch rates Cyprus BBB-, one notch above junk.

Fiscal Policy: The budget deficit widened in 2011 to 6.0% of GDP or € 1,085 million from 4.9% of GDP or €850 million in 2010. Total revenues amounted to €6,590 million (up by 1.98% yoy) while the total expenditures reached € 7,674 million (up by 4.96% yoy). Revenue slippages appear to be related to lower indirect taxes despite the rise of VAT on food and pharmaceuticals and lower social security contributions due to rising unemployment. On the other hand, expenditure increased mainly due to higher interest and social security payments. In response to the country's weakening finances and a possible risk of contagion from the EU debt crisis, the government took a series of austerity measures that would allow Cyprus to meet its target for a budget deficit of 2.7% of GDP in 2012 and 1.8% of GDP in 2013. In November 2011, the authorities introduced a 4th consolidation package in order to cut selected government spending by about 8% and achieving a fiscal impact of ½ pp of GDP. The main budgetary measures for 2012 incorporate the freezing of salary increases in the public sector (including cost-of-living adjustment-COLA) for two years, the increase of standard VAT rate from 15% to 17% from 1.3.2012, an extraordinary levy in gross earnings of private sector employees and the introduction of a levy on the turnover to all companies with local activities for two years. In the meantime, Cyprus has launched a 2nd licensing round for offshore exploratory natural gas drilling expecting that new and old discoveries in Cyprus' Exclusive Economic Zone will support inland's revenue. The public debt to GDP ratio is anticipated to reach 67% of GDP in 2012 from an estimated 66.0% in 2011.



Inflation: Inflationary pressures increased during Q4 2011. In particular, in December 2011, inflation recorded a significant rise to 4.1% yoy compared with 2.5% yoy in September 2011 and 1.9% yoy in December 2010. In 2011, inflation averaged at 3.5% from 2.5% in 2010 mostly due to increases in the price of electricity, the introduction of VAT on food and medicines and higher tariffs on tobacco. In 2012, inflation started to slow down. During the first two months of 2012, the harmonised inflation rose 3.1%, compared to the corresponding period of 2011. A slower pace of price increases in food and non-alcoholic beverages was one reason, as the imposition of the lower VAT rate of 5% on food and medicines in January 2011 fell out of the index. Prices of clothing and footwear fell due to weak demand. On the other hand, prices of electricity increased over the year earlier, owing to higher tariffs in electricity bills, so as to rebuilt the destroyed power facility, to rebalance the cost between households and industry, and to pass on to the consumer EU penalties for breaking CO2 emissions levels. An expected rise of 2% in VAT in March 2012 is expected to intensify inflation pressures.

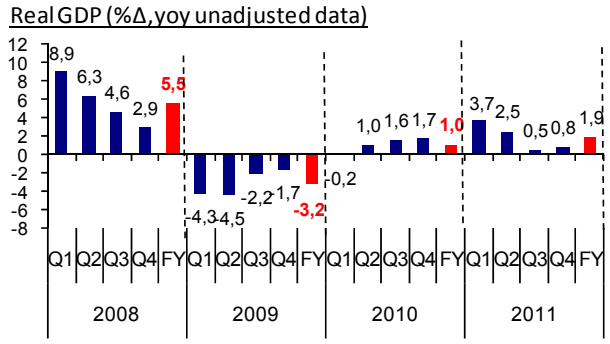
Balance of Payments: The current account gap stood at 8.1% of GDP or €1,427 million in the first nine months of 2011, having increased by 30% yoy. Exports rose by 26% yoy while imports also grew but by a modest pace of 4% yoy, having a positive impact on the trade deficit. The more defining factors behind the widening of the current account deficit are the relative low increase of the service balance surplus and the notable increase of income balance deficit. Net foreign direct investment inflows stood in the period January-September 2011 at €989 million or 5.6% of GDP from €-343 million or 2.0% of GDP in the same period of 2010.

Current Account: Jan.-Sept.'11 (€ million) provisional data			
	Jan.-Sep.'11	Jan.-Sep.'10	%Δ
Exports	1.034	819	26%
Imports	4.317	4.167	4%
Trade Balance	-3.283	-3.347	-2%
Services Balance	2.600	2.499	4%
Income Balance	-608	-150	305%
Current Transfers Balanace	-136	-98	39%
Current Account Balance	-1.427	-1.097	30%
Source: Central Bank of Cyprus			

MONEY & FINANCIAL MARKETS: Credit to the private sector grew by 14.0% in December 2011 from 13.5% in September 2011 and 7.2% in December 2010. Business loans grew by 18.4% yoy and loans to households by 8.1% yoy in December 2011. Mortgages rose by 8.3% while consumer credit by 7.9% yoy in December 2011. Private sector deposit growth remains subdued. In December 2011 private sector deposit growth stood at -1.0% from 4.2% in September 2011 and 20.3% in December 2010. Private sector deposits from domestic residents actually declined by 3.7% yoy in December 2011 from positive growth of 10.6% yoy in December 2010. Private sector deposits from non-residents increased by 4.0% yoy in December 2011 from 43.3% a year earlier. The loan-to-deposit ratio stood at 97.3% in December 2011 from 86.3% in December 2010. S&P lowered its long-term sovereign credit ratings on the Republic of Cyprus to BB+ from BBB, and its short-term rating to B from A-3, along with eight other European countries. The downgrade reflects the effect on Cyprus of deepening political, financial, and monetary problems within Eurozone, as well as Cypriot banking institutions' exposure to Greece. The outlook on the long-term rating is negative. Furthermore, the Fitch rating agency placed Cyprus on credit watch "negative" in mid-December 2011, signalling the possibility of a downgrade within three months. Due to the ongoing sovereign debt crisis, Cyprus's borrowing costs have risen. The 10-year bonds are priced at 10.78% on March 7, 2012 after having skyrocketed few weeks ago, up to 14.45%.

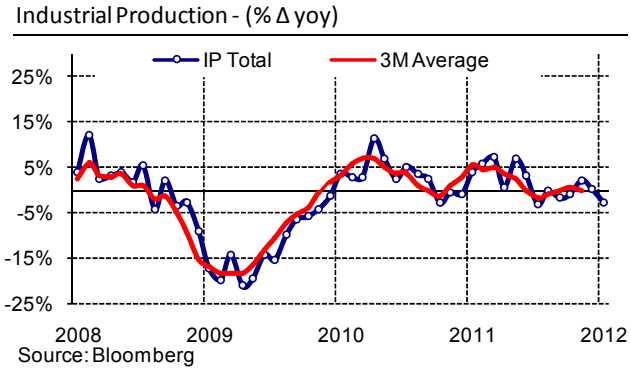
5. SERBIA

ECONOMIC DEVELOPMENTS: Economic growth in 2011 reached 1.9%, following a modest 1.0% increase in 2010 and a 3.2% contraction in 2009. Slowing global and EU growth have had an impact on the economy's gradual recovery with unemployment reaching high levels. Serbia's exports face difficulties due to lower demand from the regional steel industry and major trading partners, as well as, from the withdrawal of US Steel from the local market. The decision of EU Member States to grant Serbia an official candidate country to the EU status will make Serbia more attractive for foreign investment strengthening growth prospects. Last September, Serbia signed a new $1.5 billion Stand-by Arrangement (SBA) with the IMF, which expires in March 2013 but the IMF postponed the 1st review of its loan program, as the 2012 budget implies higher debt than is fiscally prudent. The IMF will start discussions on the necessary corrective steps in order to resume disbursements after the national elections (May 6, 2012). The Serbian economy is in need of various reforms in order to increase its efficiency and transparency.



Source: Statistical Office of the Republic of Serbia, Bloomberg

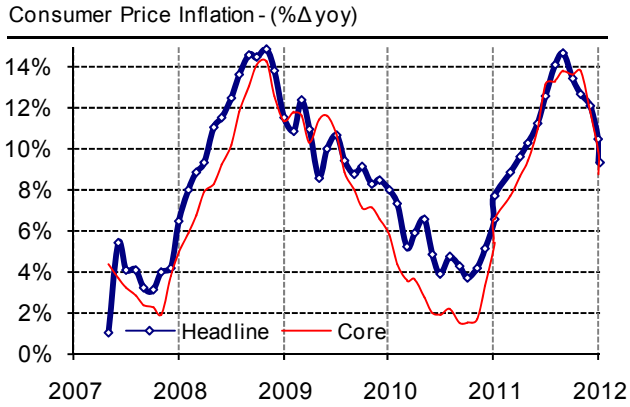
In January 2012, industrial production declined by 2.7% yoy compared to an annual increase of 3.8% the same month a year ago. Manufacturing dropped by 7.6% yoy, while mining rose by 10.9% yoy. The largest contributors to the fall in industrial output in January 2012 were sectors such as 'food products', 'basic pharmaceutical', 'tobacco products' and 'basic metal products'. Undoubtedly, the US Steel announcement to exit the Serbian market will affect industrial output, as the US company in 2010 accounted for about 10% of Serbian exports. Meanwhile, S&P Ratings Services affirmed its long and short term foreign and local currency sovereign credit ratings on the Republic of Serbia at BB/B with stable outlook.



FISCAL POLICY: In 2011, the budget deficit reached RSD 135.2 billion or 4.5% of GDP versus a year-end target of RSD 133 billion (3.6% of GDP), from RSD 113.0 billion or 4.8% of GDP in 2010. Revenues amounted to RSD 694.3 billion and expenditures to RSD 829.5 billion. The 1st review of the IMF loan program with Serbia was postponed as the budget deficit is projected to reach 5.25% of GDP in 2012. Last September, the IMF approved a €1 billion standby loan agreement for Serbia in case EU sovereign debt crisis generates capital outflows with the promise by the Serbian Government to restrict its budget deficit to 4.25% of GDP. The January 2012 data are not encouraging, although January is

traditionally a month with low revenue. Few months before national elections, Serbia tries to keep expenditure under control and boost tax collection without reducing social subsidies.

INFLATION: Inflation gathered pace in the first four months of 2011 on the back of rising food, administered prices and the declining dinar. After rising 14.7% yoy in April 2011 the inflation rate, measured by the Consumer Price Index (CPI) started on a declining path in H2 2011 and settled at 7.0% in December 2011. The average annual growth in consumer prices in 2011 amounted to 11.2%. Monetary policy measures and the stabilisation of food prices played a key role for the reduction of inflation in the second half of 2011 and bringing it closer to the tolerance band of 4.5% ± 1.5%, set by the National Bank of Serbia (NBS). After fifteen months, the annual rate of inflation returned in January 2012 within the target tolerance band and settled at 5.6%. According to NBS, inflation will continue to fall over the coming months, mainly due to the base effect of high monthly readings in the first months of 2011 and the positive impact of the trade margin cap (trade margins up to 10% until June 2012). The CPI in January 2012 reached 5.6% compared with 11.2% in January 2011. In January 2012 , the greatest increase in prices mom was noted in electricity, gas and other fuels (0.48%) and alcoholic, beverages and tobacco by 4.4%, while the greatest decrease in prices was noted in food and non-alcoholic beverages (-0.9%). However, inflation may rise in the following month from a possible rise in administered prices after elections, the abolition of the restrictions on the trade margins and the dinar's behaviour.



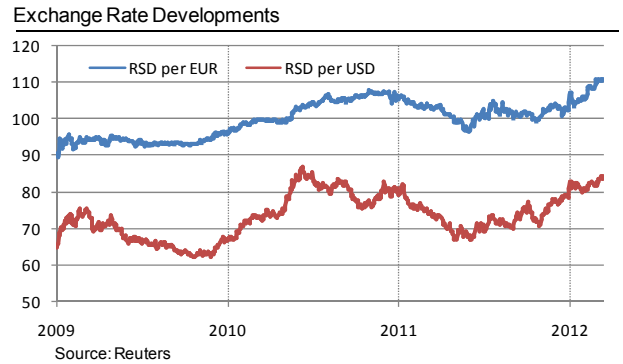
Source: Statistical Office of the Republic of Serbia

BALANCE OF PAYMENTS: The current account deficit widened by 42.5% yoy in 2011. In particular, the deficit reached €2.968 million or 9.2% of GDP from €2.082 million in 2010 or 7.2% of GDP. The trade gap grew by 16% yoy in 2011 as exports rose by 14% and imports by 15%. Net FDI in 2011 reached €1,826.9 million from €860.1 million a year earlier. Portfolio investment increased to €1,619.1 million in 2011 from €38.8 million in 2010 which primarily relate to investments in dinars T-Bills and Eurobonds (€1.5 billion).The National Bank of Serbia expects the current account deficit to reach 7.2% of GDP in 2012.

Current Account: 2011 (€ million)			
	2011	2010	%Δ
Exports	8.438	7.402	14%
Imports	13.952	12.176	15%
Trade Balance	-5.514	-4.774	16%
Services Balance	161	5	2932%
Income Balance	-758	-670	13%
Current Transfers Balance	3.143	3.356	-6%
Current Account Balance	-2.968	-2.082	43%
Source: National Bank of Serbia			

EXTERNAL DEBT & INT. RESERVES: In January 2012 the stock of external debt rose by 5.9% yoy to €24.3 billion. It is estimated that total external debt as a percent of the GDP for 2011 has decreased by about 8 percentage points in December 2011 from 82.1% at the end of 2010. The split between public and private sector debt, as a percent of the total, stands at 43.9% and 56.1% respectively. The level of National Bank of Serbia's foreign exchange reserves stood at € 11.6 million at end-January 2012, down by € 455 million from December 2011.

Stock of External Debt as of 31.1.2012 (in million of EUR)	
Total External Debt	**24.338**
Public Sector External Debt	**10.694**
Medium and long-term debt	***10.694***
of which IMF sba	1.604
Short-term Debt	**0**
Private Sector External Debt	**13.644**
Medium and long-term debt	**12.972**
of which Banks	3.846
of which Enterprises	9.126
Short-term Debt	**672**
of which Banks	609
of which Enterprises	63
Source: National Bank of Serbia	



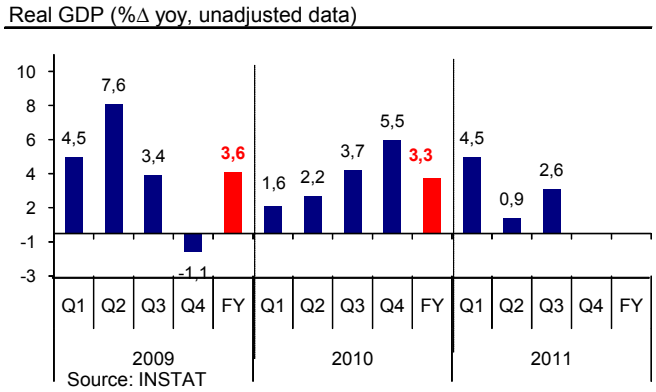
Source: Reuters

MONEY & FINANCIAL MARKETS: The drop of inflation during H2 2011, allowed the National Bank of Serbia (NBS) to cut its 2-week repo rate by 225 bps to 9.50%, since July 2011. In particular, NBS cut the interest rate by 75 bps in November 2011, 50 bps in October 2011 and 50 bps in September 2011, after pausing in August, while a month ago the Bank had reduced its 2-week repo rate by 25 bps to 11.75%. The continued dinar depreciation during the first months of 2012 is expected to affect NBS's future monetary stance. Despite that inflation has entered the tolerance band of NBS (4.5% ±1.5%) the key rate easing cycle maybe approaching its end. The small interventions so far on the FX market by NBS signals dinar's weakening as acceptable. Although, the capital

flows to the dinar debt market due to interest rate differential between the euro and the dinar supports the local currency, the delay of the IMF deal make investors more cautious towards the dinar market. The IMF intends to discuss with the new government after the May elections the necessary steps in order to resume program reviews. These would include a supplementary 2012 budget in line with the program's debt and deficit targets, a medium-term fiscal consolidation program, and finally a package of growth enhancing structural reforms. Credit expansion to the private sector slowed to 6.4% in December 2011 from 16.1% in June 2011 and 14.8% in December 2010 (Euro basis). Loans to businesses and to households grew by 7.6% and 4.4% yoy respectively in December 2011. The growth rate of private sector deposits accelerated to 7.0% yoy in December 2011 from 4.6% yoy in December 2010. The loan to deposit ratio stood at 130% in December 2011 from 131% in December 2010 and 119% in December 2009.

6. ALBANIA

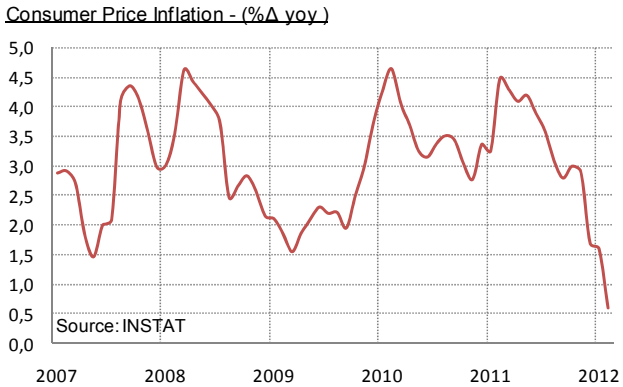
ECONOMIC OUTLOOK: Albania's economy continued its positive performance for a third consecutive quarter despite the unfavourable external environment. Economic growth in Q3 2011 increased to 2.6% yoy after an anemic 0.9% growth in Q2 and a very strong 4.5% in Q1. Comparing Q3 2011 with the corresponding period of 2010, the sectors with the biggest gains were transportation, trade and industry, which expanded by 19.7%, 6.2% and 4.8% respectively. Furthermore, agriculture increased by 2.5% yoy, while other services and post communications registered negative figures. The economic growth for the rest of the year will rely on foreign demand for Albanian products, given sluggish private consumption. Consumers are hesitant to spend as unemployment remains at high levels (Q4 2011: 13.29%). The Albanian government expects this year's real GDP growth to reach 4.3% while the IMF on its report (Oct. '11), predicts GDP to grow by 2.5% in 2011 and 3.5% this year.



FISCAL POLICY: The budget deficit stood at about ALL 38.1 billion in January-November 2011 (+ 65.1% yoy) although the budget for 2011 envisages a total deficit of ALL 46.8 billion or 3.5% of GDP. The deficit accounted for 2.9% of the projected GDP for 2011, up from 1.9% a year ago. Government revenue was ALL 295.6 billion, up 0.8% yoy, while government expenditure rose by 5.4% at ALL 333.6 billion. The increase of the deficit was driven by the underperformance of tax revenues which in the end of this period were ALL 272.4 billion or 4.4% less than the forecast. In order that the Albanian authorities reach their target and due to time constantly the IMF on its assessment in October 2011 had advised for cuts, particularly in capital spending. The authorities plan to limit the budget deficit to 3.5% of GDP in 2012 and to lower it further to 3% in 2012-14.

The credit rating agency Moody's maintained its B1 rating for Albania, although it acknowledged the high ratio of public debt as a percentage of GDP relative to the size of the country. According to Moody's, the banking sector is well-capitalized although the high level of non-performing loans remains a major concern. Non-performing loans in Albania reached 18.8% of the total loan portfolio in 2011, according to Bank's Association.

INFLATION: Inflation in 2011 remained within BoA's medium term target range 3 ±1%. According to National Statistical Office (INSTAT), the average annual inflation in Albania was reported at 3.4% in 2011, slightly lower from 3.6% reached in 2010. The inflation has been on a declining path since May 2011. This resulted mostly by the reduced contribution of processed and unprocessed food and the unwinding of the hike in administered prices (water, electricity tariffs) imposed in 2010. The contained inflationary pressures as well as the expectations for a prudent fiscal policy were the key factors in BoA's decision to lower its policy rate. Inflation continued to decline and settled at 0.6% in February 2012. The highest increase noted was in the food and non-alcoholic beverage group and especially in the vegetables subgroup. The disinflationary trend appeared to be well entrenched, as figures for January and February 2012 indicated that CPI rose on average by 1.1%. We expect that inflation will continue its fall but at a slower pace in the next few months and the average rate will settle at 2.7% in 2012.



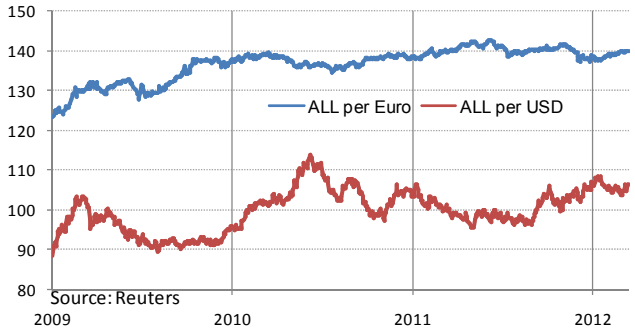
BALANCE OF PAYMENTS: During the first nine months of 2011, the current account deficit reached $1,167 million or 8.8% of projected GDP from $880 million or 6.8% of GDP in the corresponding period of 2011. The main factor for the widening of the current account was the deterioration of the trade balance, despite the rise in exports of goods by 30% yoy. In the third quarter of 2011, exports of goods rose by 39% yoy and imports by 18%

yoy. At the same time, the services account posted a surplus which, however, was lower than in the same period of 2010, as the increase in travel outflows surpassed the rise in earnings from inbound tourism. In the third quarter of 2011, current transfers increased by 3% yoy. Net inflows of remittances, which represent 72% of current transfers, rose by 7.4% compared to the same period a year before. In particular, net remittances rose in Q3 2011 to $188 million from $175 million a year later. Net FDI had a substantial decrease in Q3 2011 to $ 237 million from $ 319 million in Q2 2011 and $321 million in Q3 2010. The major contributor to FDI is equity capital and reinvested earnings. The current account deficit would gradually decline further during the next years on the back of continued buoyant exports and moderate imports growth. According to IMF the current account deficit is expected to reach 10.9% of GDP in 2011 from an estimated 11.8% of GDP in 2010.

Current Account: 2011 ($ mln)			
	Q1-Q3 2011	Q1-Q3 2010	%Δ
Exports	1.469	1.133	30%
Imports	3.705	3.097	20%
Trade Balance	-2.236	-1.964	14%
Services Balance	109	227	-52%
Income Balance	77	-42	-283%
Current Transfers Balance	883	899	-2%
Current Account Balance	-1.167	-880	33%
Source: Bank of Albania			

MONEY & FINANCIAL MARKETS: The local currency (ALL) depreciated against the Euro on average basis, by around 1.9% in 2011 compared with a year ago. Reduction of inflationary pressures in 2011 and expectations for low inflation rates during 2012 helped the Bank of Albania to ease its monetary policy. In particular the Supervisory Council of the BoA reduced its key interest rate (1 week repo rate) to the historic low 4.50%. Credit expansion accelerated in 2011 by 12.5% yoy (Euro basis) from 8.8% yoy in 2010. In January 2012 credit expansion decelerated to 11.9%, with loans to households declined by 0.4% yoy. Looking ahead to Q1 2012, banks expect a further tightening of credit standards for small and medium-sized enterprises (SMEs), while do not expect any change on loans to households, compared with the levels of Q4 2011. The loans to deposits ratio stood at 61.8% in January 2012 from 61.9% at the end December 2011.

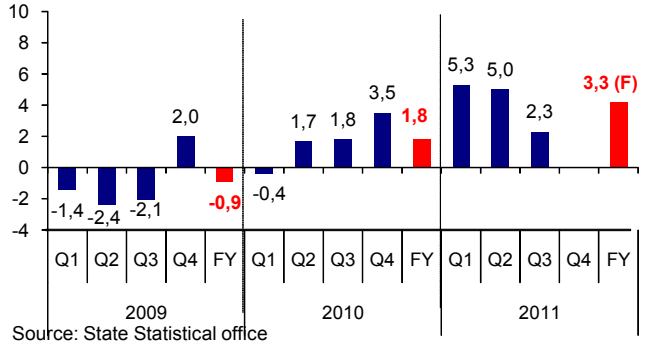
Exchange Rate Developments



7. FYROM

ECONOMIC DEVELOPMENTS: After the very strong economic activity observed in H1 2011 (average annual rate 5.2%), the growth momentum started to stall. Real GDP expanded by 2.3% yoy in Q3 2011 from 5.0% yoy recorded in Q2 2011. The sectors with the highest posted growth were the construction, hotels & restaurants and agriculture. The highest annual real growth rate in Q3 2011 was registered in the construction sector (12.3% yoy).

Real GDP (%Δ yoy, unadjusted data)

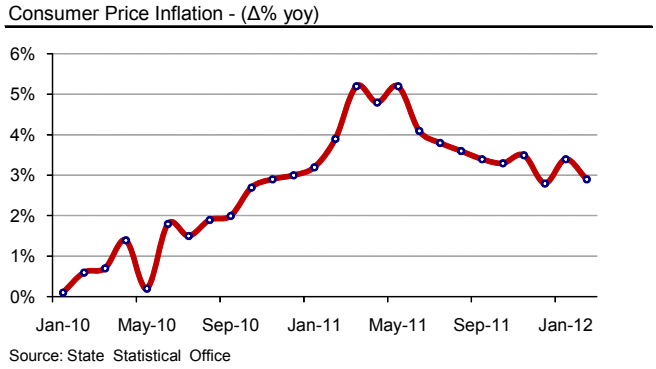


Moreover, the hotels & restaurants sector and agriculture sector posted growth rate of 7.0% and 6.0% respectively. The financial intermediation sector continued for the third quarter in a row with negative performance (-2.5% yoy). Growth was supported by external demand both in Q3 2011 as well as in previous quarters. Export of goods and services recorded an annual real growth of 18.8%. Domestic demand had a positive contribution as the personal consumption rose by 4.7% yoy in Q3 2011. The deteriorating global environment and the weak growth environment in the EU will weigh increasingly on economic activity in Q4 and into 2012. GDP is expected to rise by 0.7% yoy in the final three months of 2011 bringing the growth rate at 3.3% for the whole of 2011. IMF envisages a modest expansion of GDP in 2012 by 2.0% whilst the authorities target a growth of 4.0-4.5%.

FISCAL POLICY: The general government budget deficit for a second year in a row remained to its target of 2.5% of GDP. Revenues in 2011 were higher by 3.8% yoy. Tax revenues were up by 7.2% yoy. In the same period revenues from taxes on corporate profits rose to 5.4% yoy in 2011. Overall expenditures increased by 4.2% in 2011. The major part of the fiscal deficit was covered by external sources. In April 2011, the local authorities drew €220 million using the Precautionary Credit Line (PCL) of IMF. Under this arrangement FYROM has a credit line of about SDRs 413.4 million for 2-years. According to the IMF (Dec.13, 2011) the economy is facing an unfavourable external environment that has created new hazards to growth. The 2012 Budget targets for a third consecutive year a fiscal deficit of 2.5% GDP. Meeting the target will require more expenditure cuts whereas the financing of the 2012 deficit may not be in doubt as the government has available resources under the PCL of

about € 255 million or 3.3% of projected GDP for 2012. The IMF is estimating the budget deficit to exceed government's target by 0.1 pps in 2012.

INFLATION: In 2011, inflation rose to 3.9% from 1.6% in 2010. However, inflationary pressures have been coming down gradually since May 2011 and in February 2012 inflation stood at 2.9% yoy driven mainly by an increase in the prices of electricity, gas and other fuels of 11.7% and a 7.3% increase in the prices of transport while the increase of food and non-alcoholic beverages was contained at 1.7%. The Central Bank and the IMF both predict that inflation will be around 2% in 2012.



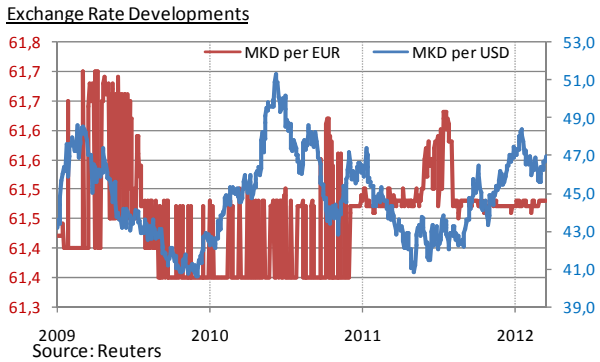
BALANCE OF PAYMENTS: The current account deficit widened to $ 201 million in 2011 or 2.7% of GDP from $ 150 million in 2010 or 2.2% of GDP due to higher domestic demand and fuel prices. Exports and imports rose by 28% and 23% yoy respectively. Net current transfers rose to €1,493 million or 20.1% of projected GDP. Net FDI inflows soared by 91.5% yoy in 2011 amounting €302 million, which is 4.1% of the projected GDP. The IMF (Dec.'11) expects the current account deficit to deteriorate further and to reach 6.3% of GDP in 2012.

Current Account: 2011		(€ mln)	
	2011	2010	%Δ
Exports	3.179	2.493	28%
Imports	4.861	3.961	23%
Trade Balance	-1.682	-1.468	15%
Services Balance	97	49	97%
Income Balance	-109	-99	10%
Current Transfers Balance	1.493	1.367	9%
Current Account Balance	-201	-150	34%
Source: National Bank			

MONEY & FINANCIAL MARKETS: The deceleration of inflation helped the Central Bank to retain its 28 days-bills weighted average interest rate to 4.0% in Q4 2011. The O/N Lombard rate remained also at 5.5% in the same period.

Credit expansion accelerated to 10.2% yoy in January 2012 from 10.1% yoy in December 2011 and 4.4% yoy in December 2010 (Euro basis). In January 2012 loans to businesses grew by 10.7% yoy and to households by 9.3% yoy whereas foreign exchange lending continued to have more considerable share to the total loans. The ratio of non-performing to total loans was 9.5% at the end of December 2011 from 9.0% at the end of December 2010.

The banking sector remains well capitalised with capital adequacy ratio at twice as high the level required at 16.8% at the end of December 2011.



8. UKRAINE

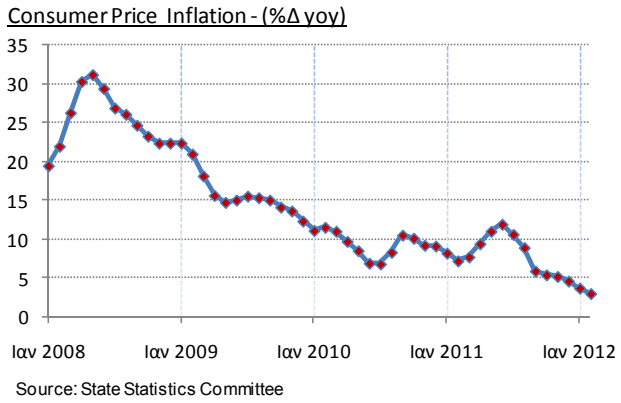
ECONOMIC OVERVIEW: Economic growth eased in Q4 2011, as weaker external demand for Ukrainian products negatively affected industrial production. According to the preliminary estimate GDP expansion slowed to 4.6% yoy in Q4 2011 from a robust 6.6% rise in Q3 2011. Growth was up by 0.6% qoq in Q4 2011 in seasonally adjusted terms, slowing from 2.2% qoq in Q3 2011. This outcome brought full year growth for 2011 at 5.2% yoy from 4.2% rise in 2010. GDP's growth pace in 2011, the fastest since 2007, was driven mainly by a good agricultural output and strong industrial production. GDP growth is likely to slow down in 2012 to 3.3% due to sluggish domestic and external demand. The trade and services sectors thanks to the Euro-2012 football championship are expected to affect positively economic activity. At the same time, potential devaluation of the hryvnia, a significant drop in steel prices, a worsening situation in Europe due to the debt crisis and severe frosts during January-February 2012, pose significant risks to overall growth. Nevertheless, the real sector's better than expected performance in January 2012 due to buoyant domestic demand was encouraging. Industrial output increased in January 2012 by 2.0% yoy, from a 0.5% yoy decline in December 2011. Machine building and energy industries posted the biggest growth gains 11.7% and 3.4% correspondingly. Retail trade grew by an annual rate of 13.8% in January 2012 and non-financial services by 19.3%.

As Ukraine failed to implement pension reform and to increase gas tariffs (IMF demanding hikes for households and enterprises by 30% and 60% respectively) a scheduled $1.5 billion tranche in March 2011, part of the $15.2 billion standby loan arrangement, was postponed. Ukraine repaid $575 million of debt to the IMF in February 2012 and is due to pay back about $3.1 billion by year end. In the meantime, the ratings agency S&P lowered its outlook on Ukraine's credit status from stable to negative and reaffirmed country's B+, for its long-term foreign currency. Ukraine's sovereign 5 year CDS spreads remain at high level among the CEE countries trading at 776 bps (16.3.2012) from 855 bps at the end of December 2011. After S&P's decision, Ukraine wants to

postpone its $3.1 billion repayments to the IMF although the lender denies any official request. Under normal circumstances, the rescheduling of debt payments would be possible if Ukraine's program wasn't frozen. S&P said it may revise Ukraine's outlook back to stable, before Parliamentary elections (October 2012) if an agreement is reached with either the Russia or IMF or both. Given the growing dissatisfaction with measures reducing energy subside, Ukraine has several times refused to increase gas tariffs and preferring instead to lower the price Ukraine pays to Russia for gas imports.

FISCAL POLICY: Ukraine made significant progress in reducing the budget deficit in 2011 to 1.7% of projected GDP, a significantly better reading compared with the target of 2.7% of GDP. However, consolidated budget deficit including Naftogaz and Pension Fund amounted to 4.4% of GDP above IMF's target of 3.5% of GDP but lower compared to 7.4% of GDP in 2010 and 8.7% of GDP in 2009. Revenues to the State budget rose by 22.4% yoy thanks to changes in taxation (accounting rules, higher tax rates on corporate, VAT) whereas expenditure were only up by 9.6% yoy. Naftogaz and Pension Fund imbalances are caused due to the government's resistance to hike gas tariffs and to implement pension changes. In 2012, the government plans to continue its fiscal consolidation program and to limit State's deficit at around 1.7% of GDP and the consolidated budget deficit at 3.5% of GDP. Undoubtedly, any pre-election promise will impact on the budget deficit. At the same time, the Pension Fund, an important element of the budget, registered a deficit of UAH 19.5 billion in 2011 (UAH 17.8 billion budgeted) from UAH 34.5 billion in 2010. The Pension Fund's deficit for 2012 is set at UAH 9.5 billion.

INFLATION: Inflation has slowed down for the seventh month in a row in February to 3.7% yoy from 4.6% in January and 11.9% in July (peak of 2011). February's figure was the lowest level for the last nine years, thanks to a record harvest of grains which caused agricultural output to increase by 17.5% yoy in 2011. The sharp drop of food prices (sugar, fruits and vegetables) during the last months is the main reason for inflation's deceleration. The reluctance of the government to raise natural gas rates, helped keep the cost of utility services at low levels while the unchanged prices in clothing and footwear had a positive effect as well. Even though the Central Bank cut its key interest rates by 25bps in January, inflation may be remain subdued during the first half of 2012 since the country has entered a pre-election period (elections to be held in October the 28th) and thus price controls in utilities tariffs are expected to remain. We expect inflation to pick up in the H2 2012 due to base effects and possible gas tariffs adjustments.

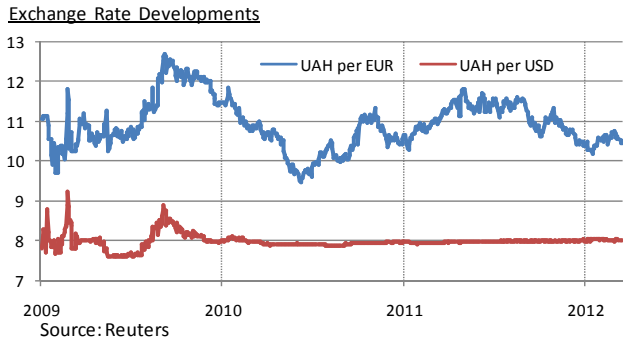


BALANCE OF PAYMENTS: The current account deficit widened in 2011 to $ 9.3 billion or 5.6% of projected GDP for 2011 from a deficit of $ 3.0 billion or 2.2% of GDP a year ago. Exports generated $69.5 billion growing by 33% yoy. Metals, energy and agricultural exports where the main drivers with 54% combined contribution to the export growth. In contrast to exports, imports advanced by 38% yoy in 2011 to $83.3 billion, as private consumption and investment demand remained strong during the year. The trade deficit rose by 65% yoy in 2011 to $ 13.8 billion and the surplus of capital and financial account stood at $6.8 billion in 2011 from about $8.1 billion a year earlier. The fear of UAH's depreciation in September 2011 boosted the demand for cash foreign exchange. Net FDI accelerated to $6.9 billion in 2011 (up 20%) from $5.8 billion in 2010 although covered only 74.4% of the current account deficit in 2011. Overall, external imbalances increased in 2011 making Ukraine more sensitive to unfavourable external shocks. The balance of payments registered a deficit of $ 2.5 billion in 2011. The Central Bank's reserves which were reduced by 8% yoy to $ 31.8 billion in December 2011 can withstand a short term capital outflow. In January 2012, the current account registered a significant improvement for the first time in the last twelve months. In particular, the current account posted a surplus of $ 395 million compared with a surplus of $ 336 million a year ago. The positive result was mainly due to the stronger growth of exports (14% yoy) compared with imports (7.0% yoy). The real economy continued to attract investment, with net FDI standing at $ 480 million from $434 million a year earlier. The current account deficit may decrease in 2012 and reach 4.8% of GDP.

Current Account: Jan.-Dec.'11 ($ mln)			
	2011	2010	%Δ
Exports	69.485	52.191	33%
Imports	83.319	60.579	38%
Trade Balance	-13.834	-8.388	65%
Services Balance	4.624	4.404	5%
Income Balance	-3.741	-2.009	86%
Current Transfers Balance	3.671	2.975	23%
Current Account Balance	-9.280	-3.018	207%
Source: National Bank of Ukraine			

MONEY & FINANCIAL MARKETS: The hryvnia (UAH) after sliding to 8.05 against USD in late January 2012 strengthened to 7.99-8.03 level in March as depreciation expectations faded and investment sentiment for

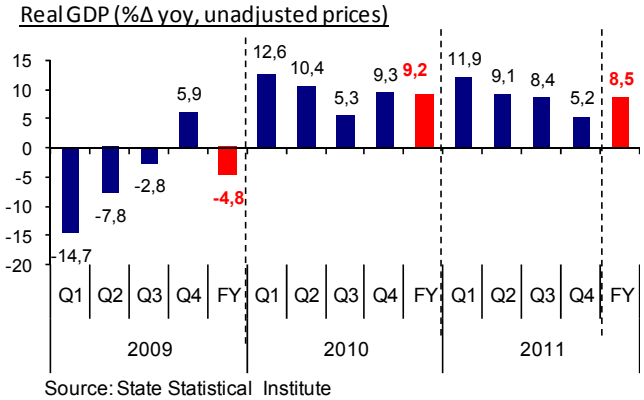
emerging markets improved. The net demand for cash foreign exchange fell from $740 million in December 2011 to $ 373 million in February 2012. The advance of Ukrainian exports the first month of the current year affected positively the national currency. At the same time, the balance of NBU FX interventions was negative in the period January-February 2012 by $ 1 billion, mainly due to Naftogas payment to Gazprom for energy supplies. The gross fx reserves of NBU were reduced at the end of February 2012 at $ 31.05 billion from $ 31.79 billion in December 2011. Big fluctuation are not expected in the next few months in the Fx market but if the external economic climate deteriorates, depreciation expectations may appear again. Following the low level of inflation and the return to normality in the currency market, NBU lowered its O/N credit rates by 50 bps to 8.75% (collateral T-bills) and 10.75% (unsecured). Credit expansion (euro basis) grew by 13.5% yoy in January 2012 from a rise of 13.0% in December 2011.Loans to corporates accelerated to 19.1% yoy in January 2012, while loans to households declined by 0.5% yoy. Private sector deposit growth grew by 10.51% yoy in January 2012 while the loan to deposit ratio was standing at 71.7% in January 2012 from 72.6% in December 2011. During the first 3 months of 2012 the national currency was under pressure mainly against Euro (-1.3% on avg level).



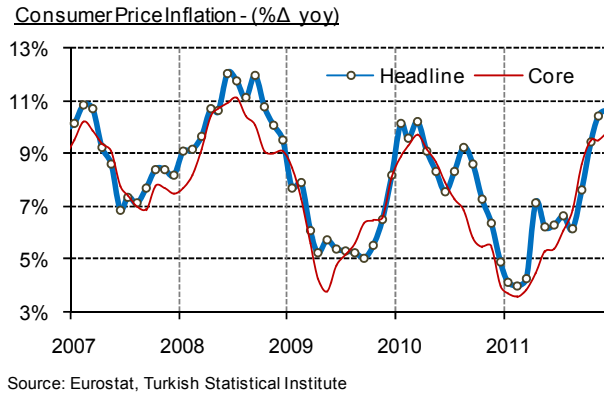
9. TURKEY

ECONOMIC OVERVIEW: Turkey's economy grew in real terms to 5.2% yoy in Q4 2011 from 8.4% yoy in Q3 2011 9.1% yoy in Q2 2011 and 11.9% yoy in Q1 2011. The annual GDP growth reached 8.5% in 2011 compared with 9.2% in 2010. Fourth quarter's reading was the weakest since Q3 2010. The slowing down of both consumption and investment was offset to a certain extent by a buoyant external demand. The sectors with the most significant contribution to GDP growth are mining & quarrying, agricultural, electricity, hotels & restaurants. It is worth noting that the electricity-gas & water sector, posted an increase of 10.5% yoy in Q4 2011 from 6.5% in Q4 2010. Agricultural sector posted a 6.7% yoy rise in Q4 2011 from 4.2% in Q3 2011. The slowdown in Q4 2011 versus previous quarter was broad based across various sectors and especially in construction (3.2 pps), in wholesale & retail trade (7.6 pps), in financial services (6.1 pps), transport (5.2 pps) and manufacturing (4pps). The slowdown of the economy may keep the economy on track for a soft landing and may rebalance the country's current account.

It is expected the GDP growth to slow further in Q1 2012 and to pick up slightly in the following quarter. Forecasts for current year's growth range between 2% and 5% with the government expecting 5% growth.



FISCAL POLICY: Fiscal consolidation was on track in 2011. After ending 2010 with a budget deficit equivalent to 3.6% of GDP, in 2011 Turkey managed to reduce the deficit to TRY 17.4 billion, or 1.4% of projected GDP. The deficit could have been even smaller, as the government spent had extra money on roads, health care and earthquake aid. The 2012 budget aims at a deficit of TRY 21.1 billion or 1.5% of GDP, assuming the economy grows 4%, according to the government's medium-term plan. Turkey's budget deficit was standing at TRY 2.64 billion in February 2012, compared with a TRY 988 million surplus a year ago, partly due to an annual increase of interest payments by 26%. Excluding interest payments on debt, the budget produced a surplus of TRY 5.97 billion in February, compared to a surplus of TRY 7.16 billion a year ago.

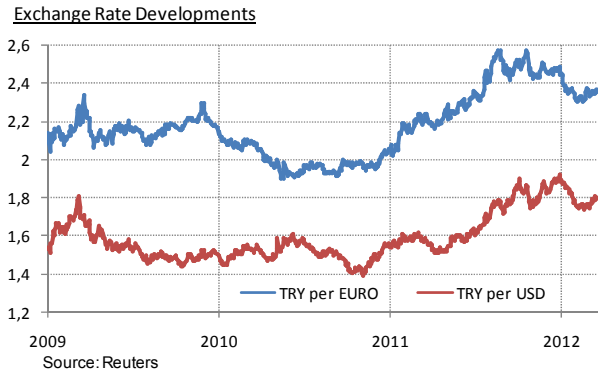


INFLATION: Headline inflation stood at 10.4% yoy in February 2012 and 10.6% yoy in January 2012 but inflation has significantly accelerated since March 2011 from 4.0% yoy. Headline inflation has been volatile but core inflation is steadily trending up. This is primarily due to the 30% nominal depreciation of lira (against an equally weighted Euro-Dollar basket) since November 2010. Average inflation in 2011 was 6.45% as a result of cumulative hikes in commodity prices, the fast rise in unprocessed food prices and a change in administered prices. The Central Bank expects year-end inflation for 2012 at 6.4% from a previous prediction of 5.2% and to decelerate in 2013 towards 5.1%.

BALANCE OF PAYMENTS: Current account balance in January recorded a deficit of $6.0 billion posting a marginal drop of 0.4% from a year ago. We should note that in 2011 the current account deficit (CAD) reached $77.2 billion or 10% of the projected GDP for 2011, posting a 65% yoy increase. Note that the 12-month rolling CAD in January reached $ 77.1 billion after its peak of $ 78.6 billion in October 2011.The net contribution from the external side of the economy remained negative, although exports outpaced imports. Exports of goods expanded by 8%, while imports accelerated by 4% in annual terms. Export/import coverage ratio increased to 64.9% in January 2012 from 62.4% a year ago. Services balance, improved significantly due to the rise of net tourism revenues by 23.2% yoy. On the financing side, there was a $ 0.8 billion net FDI inflow, which was mainly due to the deal between Malaysia's state investment company Khazanah and Turkey's largest hospital chain, Acibadem for a majority stake in the latter. The net FDI to current account deficit ratio stood at 13.8% in January 2012 from 49.2% in December 2011. The CAD to GDP ratio we think that it will modestly reduced to 9% in 2012 as rising oil prices and relatively strong economic activity in Turkey limit the chance for a sizeable reduction.

Current Account: January 2012 ($ mln)			
	Jan.2012	Jan.2011	%Δ
Exports	10.954	10.103	8%
Imports	16.876	16.172	4%
Trade Balance	-5.922	-6.069	-2%
Services Balance	483	404	20%
Income Balance	-629	-578	9%
Current Transfers Balance	70	220	-68%
Current Account Balance	-5.998	-6.023	-0,4%
Source: Central Bank of Turkey			

MONEY & FINANCIAL MARKETS: Since August 2011 the Central Bank (CBRT) has kept its key monetary 1-week repo at 5.75% and intervened in the currency market in order to mitigate depreciation pressures on the national currency, as sovereign debt crisis in Eurozone area continued to weigh on the global economic outlook. In 2011, the Turkish lira depreciated on average basis by 17% yoy against Euro and by 12% yoy against US dollar. Soaring inflation in the final quarter of 2011, due to substantial price adjustments in administered products in October 2011 and in order to avoid inflation expectations to worsen, the CBRT tightened its monetary stance in October. In particular, CBRT increased its O/N lending rate from 9% to 12.5% and its late liquidity lending rate from 12.0% to 15.5%. The rising risk appetite benefited the lira, as global stocks recovered and the euro strengthened after EU countries and the IMF approved Greece's 2nd financial rescue package. Since the beginning of the current year the Turkish lira has appreciated against the Euro and the US dollar by 2.7% and 4.5% respectively. The recent rebalancing between final domestic demand and net external allowed CBRT in late February to lower its O/N and late liquidity lending rates by 100 bps to 11.5% and 14.5% accordingly. The size of the current account deficit and investors' appetite for risky assets will direct lira's behaviour during the rest of the year.



9. Economic Data – Greece

Yearly Data	2006	2007	2008	2009	2010	2011	2012f
Real GDP Growth	5.5	3.0	-0.2	-3.3	-3.5	-6.9	-4.8
Gross Fixed Total Investments	8.1	5.5	-7.7	-11.1	-15.0	-20.7	-6.6
- Equipment	15.6	37.0	1.3	-24.0	-20.0	-22.1	-10.0
- Residential	31.4	-9.0	-28.2	-23.5	-18.0	-23.6	-18.0
Unemployment (percent)	8.9	8.3	7.7	9.5	12.5	17.7	19.4
Employment	1.9	1.2	1.1	-1.0	-2.7	-6.4	-4.8
Consumer Price Index (year average)	3.2	3,0	4.2	1.3	4.7	3.3	-0.5
Unit Labor Cost	2.3	1.3	0.4	4.2	-0.4	-2.8	-8.6
Credit Expansion (Private Sector)	21.1	21.5	15.9	4.1	0.0	-3.1	-3.0
Government Deficit (as % of GDP)	-5.7	-6.8	-10.0	-15.7	-10.6	-9.3	-7.3
Current Account (as % of GDP)	-9.6	-12.4	-13.3	-10.3	-9.2	-8.6	-7.5

Source: Hellenic Statisticsl Authority (ELSTAT.) and IMF, March 2012.

Quarterly Data	2010	2011	2011	2011	2011	2011	2012
		I	II	III	IV		available period
Economic Activity (avg)							
Retail Sales Volume	-6.9	-14.0	-11.7	-8.7	-8.7	-8.7	…
Construction Activity	-23.7	-54,2	-44,6	-35,5	-36,0	-37,7	…
Industrial Production (Manufacturing)	-5.1	-7.1	-9.6	-8.0	-9.5	-9.5	-6.3 (Jan)
PMI (manufacturing)	43.8	43.7	45.6	43.9	41.1	43.6	41.3 (Mar)
Economic Sentiment Indicator	79.3	82.2	77.5	76.5	74.2	77.6	74.9 (Jan)
Index of Business Expectations in Manufacturing	75.8	79.2	77.6	78.3	72.5	76.9	71.4 (Jan)
Consumer Sentiment Index	-63	-69	-71	-74	-83	-74	-80.1 (Jan)
Credit Expansion (eop)							
Private Sector	0.0	-0.4	-1.2	-2.2	-3.1	-3.1	-3.8 (Feb)
Consumer Credit	-4.2	-4.6	-5.8	-6.5	-6.4	-6.4	-6.8 (Feb)
Housing	-0.3	-1.3	-1.7	-2.1	-2.9	-2.9	-3.2 (Feb)
Business	1.1	1.1	0.2	-0.9	-2.0	-2.0	-2.7 (Feb)
Tourism	2.9	0.2	0.5	-0.8	-2.3	-2.3	-1.1 (Feb)
Prices (eop)							
Consumer Price Index	4.7	4.7	3.5	2.4	2.8	3.3	2.3 (Jan)
Core Inflation	3,0	2.5	1.7	0.7	1.3	1.5	1.3 (Jan)
Interest Rates (avg)							
Savings	0.38	0.39	0.40	0.40	0.41	0.40	0.41 (Jan)
Short-term Business Loans	6.14	6.88	7.35	7.73	7.88	7.46	7.86 (Jan)
Consumer Loans (with charges)	11.64	12.25	12.51	12.68	12.04	12.37	11.52 (Jan)
Housing Loans (with charges)	3.84	4.48	4.77	4.94	4.66	4.71	4.31 (Jan)
3 month Euribor	0.81	1.01	1.42	1.56	1.50	1.39	1.05 (Feb)
10 year Bond Yield	8.95	11.92	14.76	18.23	28.95	18.69	33.83 (Feb)
National Accounts							
Real GDP	-3.5	-8.0	-7.3	-5.0	-7.5	-6.9	…
Final Consumption	-3.6	-8.9	-8.3	-4.9	-7.9	-7.5	…
Investment	-18.0	-24.2	-19.6	-16.4	-22.2	-20.7	…
Exports of goods & services	3.8	-2.4	0.8	4.5	-6.1	-0.3	…
Imports of Goods & services	-4.8	-9.8	-4.5	-3.8	-14.2	-8.1	…
Balance of Payments (in € bn - Cumulative)							
Exports of Goods	17.1	4.3	9.5	15.1	20.2	20.2	1.7 (Jan)
Imports of Goods	45.4	11.9	23.7	36.0	47.5	47.5	4.1 (Jan)
Trade Balance	-28.3	-7.6	-14.2	-21.0	-27.2	-27.2	-2.3 (Jan)
Invisibles Balance	6.3	0.6	1.2	7.1	8.8	8.8	0.8 (Jan)
Invisibles Balance / Trade Account	22.3	7.5	8.6	34.0	32.4	32.4	35.1 (Jan)
Current Account	-22,0	-7.0	-13.0	-13.9	-18.4	-18.4	-1.5 (Jan)
Direct Investments	0.7	-0.3	-0.7	-1.6	0.03	0.03	-0.2 (Jan)
Portfolio Investments	-20.9	-6.1	-9.7	-14.6	-17.3	-17.3	-0.08 (Jan)
Athens Stock Exchange (eop)							
Composite Index	1,413.9	1,535.2	1,279.1	798.4	680.4	680.4	728.93 (Mar)
% change	-35.6	-25.8	-10.8	-45.7	-51.9	-51.9	-42.0 (Mar)
Market Capitalization ASE (% of GDP)	23.3	25.7	21.4	13.8	11.8	11.8	13.4 (Mar)

Source: Hellenic Statisticsl Authority (ELSTAT.), Alpha Bank - Economic Research

10. ECONOMIC DATA – SOUTHEASTERN EUROPE

Romania	2007	2008	2009	2010	2011 (f)	2012 (f)
Real Economy						
Real GDP	6.3	7.3	-6.6	-1.9	2.5	1.5
Private Consumption	11.9	9.0	-10.1	-1.6	1.2	0.8
Government Consumption	-0.1	7.2	3.1	-5.8	-1.5	0.2
Gross Fixed Investment	30.3	15.6	-28.1	-7.3	2.5	1.8
Exports (Goods & Services)	7.8	8.3	-6.4	13.1	7.8	3.4
Imports (Goods & Services)	27.9	7.9	-20.5	11.6	5.1	3.1
Prices						
HICP Inflation (Avg)	4.9	7.9	5.6	6.1	5.9	3.4
General Government (%GDP)						
Overall Balance	-3.1	-4.8	-7.3	-6.5	-4.3	-3.0
Balance of Payments (% GDP)						
Current Account Balance	-13.4	-11.6	-4.2	-4.5	-4.3	-4.1

Bulgaria	2007	2008	2009	2010	2011 (f)	2012 (f)
Real Economy						
Real GDP	6.4	6.2	-5.5	0.2	1.6	1.5
Private Consumption	9.0	3.4	-7.6	-1.2	0.8	1.4
Government Consumption	0.3	-1.0	-6.5	-1.0	1.6	0.8
Gross Fixed Investment	11.8	21.9	-17.6	-16.5	-6.3	1.2
Exports (Goods & Services)	6.1	3.0	-11.2	16.2	8.5	4.8
Imports (Goods & Services)	9.6	4.2	-21.0	4.5	5.8	4.4
Prices						
HICP Inflation (Avg)	7.6	12.0	2.5	3.0	3.6	3.1
General Government (%GDP)						
Overall Balance	3.5	3.0	-0.8	-4.0	-2.1	-1.7
Balance of Payments (% GDP)						
Current Account Balance	-26.8	-24.0	-9.9	-1.0	1.9	1.2

Cyprus	2007	2008	2009	2010	2011 (f)	2012 (f)
Real Economy						
Real GDP	5.1	3.6	-1.9	1.1	0.5	-0.5
Private Consumption	9.4	7.1	-2.9	0.8	0.9	-0.5
Government Consumption	0.3	6.2	5.8	0.5	0.4	-4.0
Gross Fixed Investment	13.4	6.0	-9.1	-7.9	-7.0	-5.0
Exports (Goods & Services)	6.1	-0.3	-11.3	0.6	3.7	1.8
Imports (Goods & Services)	13.3	8.1	-19.3	3.1	0.8	1.6
Prices						
HICP Inflation (Avg)	2.2	4.4	0.2	2.6	3.5	2.8
General Government (%GDP)						
Overall Balance	3.4	0.9	-6.0	-5.3	-6.5	-2.8
Balance of Payments (% GDP)						
Current Account Balance	-11.7	-11.9	-10.6	-9.0	-7.8	-8.4

Serbia	2007	2008	2009	2010	2011 (f)	2012 (f)
Real Economy						
Real GDP	5.4	3.8	-3.5	1.0	1.9	0.9
Private Consumption	0.3	5.4	-2.3	-3.8	0.2	1.1
Government Consumption	18.2	1.6	-5.1	-2.4	-3.0	-1.0
Gross Fixed Investment	25.6	1.9	-9.1	2.0	8.2	2.0
Exports (Goods & Services)	17.2	8.9	-14.9	19.1	11.2	10.0
Imports (Goods & Services)	26.0	9.3	-22.9	4.1	7.4	6.2
Prices						
Consumer Price Inflation (Avg)	6.5	12.4	8.1	6.2	11.2	6.2
General Government (%GDP)						
Overall Balance	-1.9	-2.6	-4.5	-4.6	-4.5	-4.4
Balance of Payments (% GDP)						
Current Account Balance	-15.9	-20.9	-7.1	-7.2	-9.2	-8.6

Albania	2007	2008	2009	2010	2011 (f)	2012 (f)
Real Economy						
Real GDP	5.3	8.3	3.3	3.5	2.1	2.1
Private Consumption	-	-	-			
Government Consumption	-	-	-	-	-	-
Gross Fixed Investment	-	-	-	-	-	-
Exports (Goods & Services)	-	-	-	-	-	-
Imports (Goods & Services)	-	-	-	-	-	-
Prices						
CPI Inflation (Avg)	2.9	3.4	2.3	3.6	3.4	3.1
General Government (%GDP)						
Overall Balance	-3.9	-5.5	-7.4	-4.2	-3.7	-3.5
Balance of Payments (% GDP)						
Current Account Balance	-10.3	-15.3	-13.5	-11.8	-10.9	-9.8

FYROM	2007	2008	2009	2010	2011 (f)	2012 (f)
Real Economy						
Real GDP	6.1	5.0	-0.9	1.8	3.3	2.1
Private Consumption	7.5	6.6	-5.5	0.6	2.6	1.3
Government Consumption	-0.3	10.6	0.5	-3.0	-1.5	-0.2
Gross Fixed Investment	17.1	5.4	-8.3	-2.7	6.0	5.0
Exports (Goods & Services)	11.8	-6.3	-16.2	23.4	11.0	7.0
Imports (Goods & Services)	16.1	0.8	-15.3	10.9	7.5	5.0
Prices						
HICP Inflation (Avg)	2.3	8.3	-0.8	1.6	3.9	1.9
General Government (%GDP)						
Overall Balance	0.6	-0.9	-2.7	-2.5	-2.5	-2.5
Balance of Payments (% GDP)						
Current Account Balance	-7.1	-12.8	-6.7	-2.8	-2.9	-6.0

Ukraine	2007	2008	2009	2010	2011 (f)	2012 (f)
Real Economy						
Real GDP	7.9	2.3	-14.8	4.2	5.2	3.3
Private Consumption	17.0	12.8	-14.9	7.0	5.5	3.9
Government Consumption	1.8	1.1	-2.4	3.3	1.5	3.5
Gross Fixed Investment	6.6	-1.2	-50.5	3.2	8.0	6.8
Exports (Goods & Services)	2.8	5.7	-22.0	4.5	5.8	4.9
Imports (Goods & Services)	23.9	17.0	-38.9	11.1	12.8	10.3
Prices						
CPI Inflation (Avg)	12.8	25.2	15.9	9.4	8.0	7.5
General Government (%GDP)						
Overall Balance*	-2.0	-3.2	-6.3	-5.7	-2.8	-3.5
Balance of Payments (% GDP)						
Current Account Balance	-3.7	-7.1	-1.5	-2.1	-5.6	-5.3

Turkey	2007	2008	2009	2010	2011 (f)	2012 (f)
Real Economy						
Real GDP	4.7	0.7	-4.8	8.9	8.5	3.0
Private Consumption	5.5	-0.3	-2.3	6.6	9.4	0.2
Government Consumption	6.5	1.7	7.8	2.0	6.8	3.1
Gross Fixed Investment	3.1	-6.2	-19.0	29.9	24.0	3.3
Exports (Goods & Services)	7.3	2.7	-5.0	3.4	5.5	4.9
Imports (Goods & Services)	10.7	-4.1	-14.3	20.7	19.2	-1.8
Prices						
HICP Inflation (Avg)	8.8	10.4	6.3	8.6	6.5	8.0
General Government (%GDP)						
Overall Balance	-1.6	-2.2	-5.5	-3.5	-1.5	-1.5
Balance of Payments (% GDP)						
Current Account Balance	-5.9	-5.7	-2.3	-6.6	-10.0	-9.0

Source: Central Banks, National Statistical Institutes, IMF, Economist Intelligence Unit, Eurostat, World Bank, Alpha Bank Economic Research
Note: Data for a 2011 are preliminary * Excluding Naftogaz
(f): Forecast Alpha Bank Economic Research

note: budget balance on cash basis (IMF)