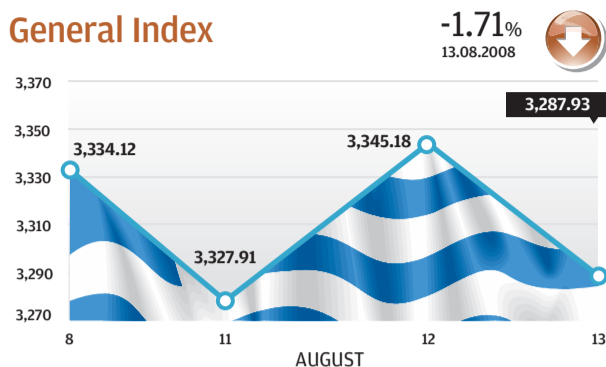


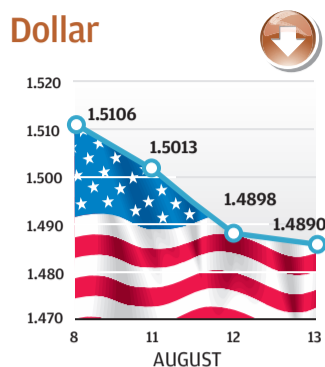
## Athens Stock Exchange

## General Index

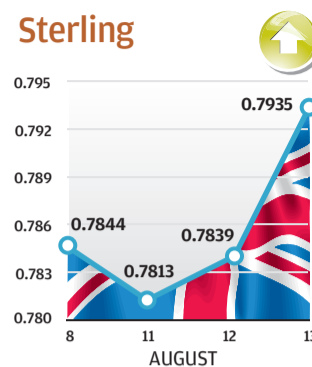


## Euro Exchange

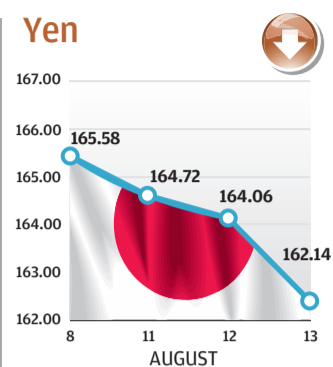
## Dollar



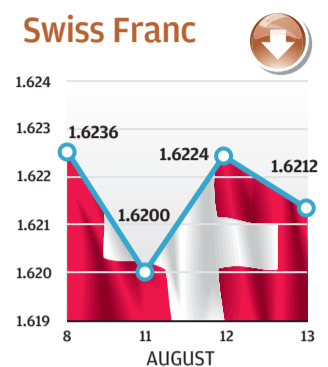
## Sterling



## Yen



## Swiss Franc



# Bankers fear realty market 'bubble'

Lax lending criteria of recent years and economic downturn have increased apprehension

BY YIANNIS SIOTOS

While many are expressing the view that the Greek realty market is sheltered from the storm hitting the global economy, monetary authorities are beginning to buttress defenses against a possible wave of non-performing mortgage loans, sources say.

The Bank of Greece is said to be focusing on three points in particular: the number of loans in arrears, the quality of sureties that back them and the development of realty prices and market trends.

The sources said the aim of such checks is "the continuous monitoring of credit risks in order to avoid upheavals, either at the level of individual banks or the market level as a whole."

Commercial banks have already been heeding stricter general credit risk criteria advised by the central bank which, combined with the effects of the economic slowdown, has led to a drop in new loans.

Bank analysts note that household economic behavior has been increasingly influencing the credit system and for this reason supervisory authorities and banks themselves have to exercise



## Excessive loans

In more than a few cases, the loans even exceeded the commercial value of properties

added caution in the risks undertaken and the broader dangers therein. Household credit represented 38 percent of all loans in 2003 and rose to 45

percent last May. Mortgage loans take the lion's share, 30 percent, which warns for added caution.

"House prices fell in many areas in Athens and other areas of the country in 2007. This has a direct impact on the mortgage credit market. Of course, the capital gains realized in previous years are significant and more than cover any losses, but when the realty market is on the threshold of a nerv-

ous crisis throughout the world, we should be particularly careful," said a senior realty firm official.

Another factor necessitating the monitoring of the property market is the turn which banks have taken in recent years in their financing policy. Not in a few cases, the amounts disbursed exceeded even the commercial value of properties, and this was done in a number of ways, including valuations and supplementary loans. Only a few years ago, loans did not represent more than 50-75 percent of the commercial value of the properties.

"In reality, such practices can boomerang in crisis periods – this is really the great lesson from the subprime crisis in the US. In such a context, the continuous monitoring of the quality of mortgage loan portfolios is necessary, as it protects both the credit system and the households which have borrowed," said a senior banker. "This is also the aim of the changes introduced under the Basel II Convention, whereby credit institutions have to update the value of their mortgaged loans," he added.

Both central and commercial bank officials insist that one thing is certain: The carefree days are over.

## ADAPTING TO THE NEW REALITIES

Several commercial banks have begun evaluating risk parameters such as the extent of excess supply in the property market, as well as availability indices in residential and commercial realty. "We have to adapt to the new realities which have knocked down the mechanisms insulating the property market from the general economic environment. We have to accept that prices can fall and demand can slide because of rising interest rates," said a commercial banker. "I am afraid that the old axiom, 'nobody lost by buying land,' may soon be overturned. Prices fell in many areas last year and the trend is showing signs of deterioration," he added. The international environment is not very encouraging, either. House prices in the US recorded their steepest slide since 2000 in May – 15.8 percent year-on-year – and the latest ripples of the subprime crisis have hit giant mortgage lenders, Fannie Mae and Freddie Mac. If the global crisis continues into 2009 it looks rather improbable that Greece will remain a safe haven for property prices.

# Fiscal straits do not make for a popular budget

Higher interest rates have increased the cost of public borrowing by about 500 million euros

The government is preparing a strong dose of fiscal discipline, with cuts in social spending, a tight income policy and new taxes which will be incorporated into the 2009 budget now being drafted, sources say.

The outline of the measures is said to be included in the prime minister's keynote economic policy speech which is traditionally delivered at the opening of the Thessaloniki International Fair in early September.

The basic directions of economic policy, decided at a meeting between Costas Karamanlis and his Economy Minister Giorgos Alogoskoufis last week are a reduction in the budget deficit, further reforms and relief measures for low incomes hit by rising inflation and the global econom-

ic downturn. The prime factor behind the tightening of the fiscal screws is that the government is facing a serious revenue problem, as the traditional inefficiency of the tax collection mechanism is now compounded by

## Wary of deficits

Many believe the deficit may flirt with the EU-set 3 percent ceiling again

the slowdown in economic activity and consumption, and the growth of tax evasion, through which individuals try to offset income losses.

But rising interest rates also mean a higher cost of borrowing for the pub-

lic purse. This is estimated to exceed the budget target by 300 million euros. Additional borrowing to cover the growing budget deficit is seen adding a further 200 million in interest expenses.

The deficit is considered almost certain to exceed 2 percent of GDP, against a target of 1.6 percent, and many believe it may even flirt with the European Union-set 3 percent ceiling which Greece was found to have violated for a number of years and was consequently placed under a regime of fiscal supervision in 2005 and 2006. A repetition is seen very likely to bring a return of the supervision regime.

Under such constraints and given the uncertainties of the international environment, the government has

few options for the remainder of 2008 and the 2009 budget.

The emphasis is bound to be on containing expenses and only the low incomes, which take the brunt of the economic slowdown and rising inflation, are likely to be offered some support, such as a heating fuel supplement for pensioners and the long-term unemployed.

Alogoskoufis has said the new budget will contain no measures adverse for salary earners and pensioners.

There will be a 10 percent tax on capital gains, share dividends and stock options, while greater effort will be made to fight tax evasion, improve revenue collection and cut waste.



Prime Minister Costas Karamanlis will have little good news in his keynote economic policy speech early next month.