

NATIONAL BANK OF GREECE

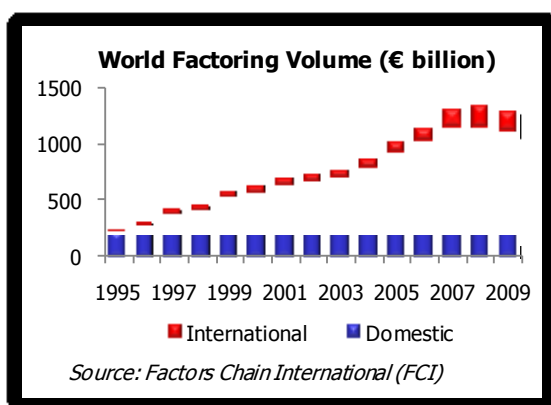
Economic Analysis Division

Press Release

FACTORING: A RAPIDLY GROWING SECTOR

The Economic Analysis Division of the National Bank of Greece, and specifically the analysts Fragiska Voumvaki, Maria Savva and Athanasia Koutouzou, conducted a study that focuses on the development and prospects in the sector of factoring business receivables in Greece.

Factoring: A flexible way of financing

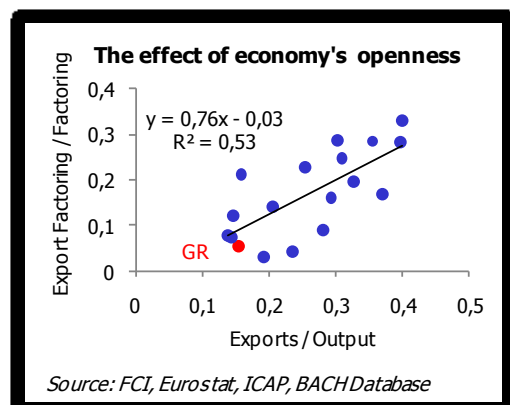


Factoring is a rapidly growing sector worldwide. The global volume of receivables traded through factoring reached €1.3 trill. in 2009 – twice as much as five years earlier. Its rapid development is due to the flexibility it offers as a means of financing. Basically, factoring provides access to capital, primarily to companies that do not have easy access to bank loans – and which essentially use the creditworthiness of their clients as a

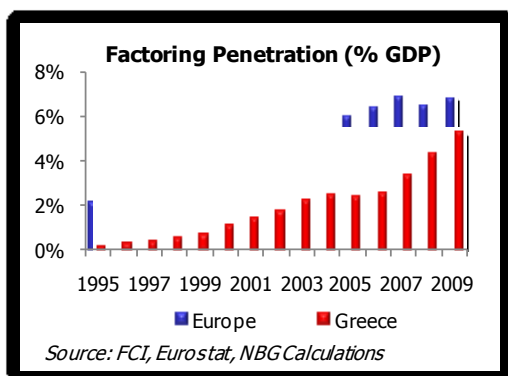
guarantee.

In this regard, the demand for factoring services arises mainly from SMEs. At the European level, 2/3 of factoring turnover stems from SMEs (with annual revenue up to €50 mill.). This brief report (i) focuses on the rapid growth of factoring services in Greece and in Europe, (ii) describes the determinants of its penetration in the economy, and (iii) evaluates its prospects for further expansion in Greece.

The European factoring market is the largest worldwide

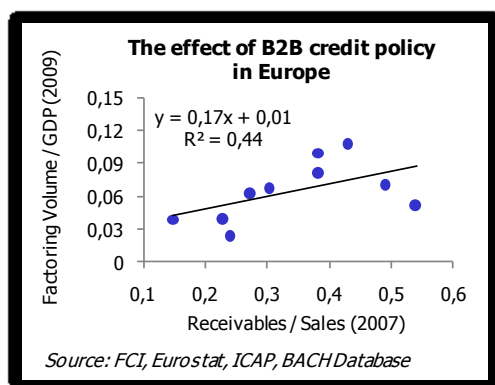


Factoring is a popular financing tool for European companies. More specifically, Europe covers 2/3 of the factoring market worldwide – with the four largest European countries (UK, Italy, France and Germany) covering ½ the global market. In more open economies, export factoring is a significant share of the total market (reaching 35%).



The volume of factor receivables reached 7% of European GDP in 2009 from almost 2% in 1995. However, the level of penetration varies from country to country – ranging from 1.2% in Romania to 19.8% in Cyprus. In the Greek economy, factoring penetration has increased significantly over recent years (to almost 5% of GDP in 2009 compared with 1% a decade ago).

Credit policies are the main determinant of the penetration of factoring services



The penetration of factoring services in the economy depends, to a large degree, on the lines of credit offered between companies. According to our estimates (see graph), a 10% increase in the receivables to sales ratio increases the volume of factor receivables to GDP ratio by 1.7%. In order to quantify the size of the potential factoring market, we have investigated the credit policies of Greek businesses. Our main

argument is the fact that the receivables to sales ratio is comparatively high in Greek businesses (54% on average against 38% for other European countries) – suggesting promising prospects for factoring services as long as the causes for high receivables are not cyclical. In this regard we analyze the structural factors contributing to this high level of receivables in Greek companies:

(i) the structure of the Greek non-financial corporate sector

Structure of Corporate Sector per company size			
	Large	SMEs	Total
Greece			
Manufacturing	13%	14%	27%
Services	17%	38%	55%
Trade	2%	16%	18%
Total	32%	68%	100%
Europe			
Manufacturing	27%	18%	45%
Services	16%	28%	44%
Trade	3%	8%	11%
Total	47%	53%	100%

Source: OECD, Eurostat, NBG Calculations

In terms of corporate structure, the dependence of the Greek economy on the services sector inflates the use of receivables. More specifically, the services sector has the highest ratio of receivables to sales in Greece (65% compared with 54% for the total corporate sector) and in Europe (53% compared with 38% for the total corporate sector). Services cover more than ½ of the Greek non-financial corporate sector (producing 55% of sales compared with 44% in Europe).

Additionally, the small size of the majority of Greek businesses exerts further upward pressure on receivables. Specifically, the contribution of Greek SMEs to the corporate sector is one of the largest in Europe, since Greek SMEs make up 68% of the economy (versus 53% for the EU), while they employ 82% of the workforce

(versus 67% in the EU).

Receivables / Sales*			
	Large	SMEs	Total
Manufacturing			
Greece	30%	50%	41%
Europe	28%	30%	29%
Services			
Greece	54%	71%	65%
Europe	46%	57%	53%
Trade			
Greece	22%	44%	41%
Europe	17%	21%	20%
Total			
Greece	42%	60%	54%
Europe	33%	43%	38%

* 2008 data for Greece and 2007 data for Europe

Source: ICAP, BACH Database, OECD

It is important to note that SMEs (with a turnover less than €50 mill.) follow a looser credit policy compared with larger companies. More specifically, in 2008, receivables comprised 60% of sales for SMEs compared with 42% for large enterprises. This difference also applies to the other European countries (43% for SMEs compared with 33% for large enterprises in 2007).

In this framework, we evaluated the effect of the different structure of the Greek economy (i.e. many service companies and SMEs) to the ratio of receivables to sales. Specifically, if the Greek

economy had the same structure as the European economy, the receivables to sales ratio would be 49% (versus 54% under the existing structure). Although the structure of the economy plays an important role for the high level of receivables, it does not fully explain the deviation from the European level (with the European receivables to sales ratio at 38%).

The second key component of the gap between Greek and European standards is that in Greece, the ratio of receivables to sales is higher, particularly in SMEs. In order to investigate this fact, we focus on the role of post-dated cheques.

(ii) post-dated cheques

According to a study by the European Commission (Flash Eurobarometer, September 2009), 39% of Greek SMEs consider the difficulty of financing their main problem, compared with 16% on average in the EU. Since Greek companies face difficulties in acquiring bank loans, they turn to “business-to-business” types of funding – whose backbone is post-dated cheques. This business practice has developed in Greece with the tolerance of the institutional framework. Post-dated cheques are a poor substitute for factoring services, as they create a parallel informal financing system.

Post-Dated Cheques 2008 (bn euros)			
	Large	SMEs	Total
Manufacturing	2,3	6,3	8,5
Services	3,9	11,2	15,2
Trade	0,4	3,8	4,2
Total	6,6	21,3	27,9

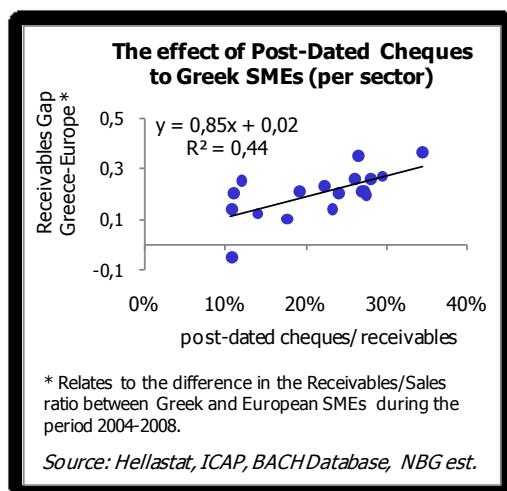
* The above estimates relate to post-dated cheques held by Greek enterprises as per end of year 2008.

Source: Hellastat, Eurostat, NBG Estimates

According to our calculations, private, non-financial companies had accumulated post-dated cheques reaching €30 bill. at the end of 2008 (covering 18% of total receivables). SMEs held $\frac{3}{4}$ of those cheques. It is worth noting that the €30 bill. refers to the level of post-dated cheques at the end of 2008. As the cheques have a maturity date, on average, of less than a year, post-dated cheques that circulated throughout the year were more than the

levels estimated at year end. For example, an average maturity of four months corresponds to

a total movement of post-dated cheques of around €90 bill. To put things in perspective, in 2008, the value of the cheques (post-dated and not) cleared by DIAS (Greek Interbanking System) exceeded €150 bill.



According to our estimates (see graph), sectors with high exposure to post-dated cheques (which cover large part of their receivables) appear to have significantly different credit policies compared with those of European businesses (as illustrated in the receivables to sales ratio). Consequently, the high receivables partly reflect the practice by Greek firms to “borrow” cash through post-dated cheques.

In respect to the above, factoring services can replace the business practice of post-dated cheques – thus bridging the liquidity gap and providing SMEs with better access to financing, while at the same time consolidating the business-to-business transactions.

Significant potential for further expansion of factoring in Greece

In conclusion, factoring services is a sector with significant growth potential in Greece, due to (i) the high volume of SMEs, (ii) the high share of services in the corporate sector and (iii) the prospect of replacing the business practice of post-dated cheques. Specifically, according to our estimates, the credit policies that Greek companies follow (which are reflected by the relatively high level of receivables as a percentage of sales) would justify the penetration of factoring services to up to 8% of GDP (from 5% in 2009).

Athens, 15 September 2010