

BANK OF GREECE

# MONETARY POLICY

INTERIM REPORT  
1998



NOVEMBER 1998



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POLICY  
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The Bank of Greece submits an interim report on monetary policy to the Greek Parliament and the Council of Ministers, as provided for by Article 4 of Law 2548/1997. This report is supplementary to the annual report submitted in April 1998, which defined the monetary policy objectives and framework for 1998 and assessed the policy pursued in 1997.

These reports facilitate democratic accountability and ensure greater transparency as regards monetary policy formulation and implementation. In addition, the more comprehensive updating on, and the better understanding of, monetary policy stance and manner of conduct reinforce policy effectiveness in achieving the objectives set.

This report on monetary policy consists of five sections. Section one briefly describes policy objectives, while section two is an overview of international financial developments. Section

three focuses on monetary policy conduct, mainly during the six-month period from the submission of the first report through to October 1998. In particular, it analyses the changes observed in the exchange rate of the drachma, interest rates, monetary aggregates and credit expansion. Section four includes an extensive reference to the course of inflation in 1998 and the factors which affected it until the end of October, in relation, *inter alia*, to the evolution of economic activity; it also presents the Bank's inflation projections for the rest of 1998 and for 1999. In other words, this section examines current progress towards "ensuring price stability", which, according to Article 1 of Law 2548/1997, is the primary objective of the Bank of Greece. Lastly, section five of the report outlines the stance of the monetary policy pursued and its desired contribution towards the achievement of the national goal of joining Economic and Monetary Union.

Athens, November 1998

Lucas Papademos  
Governor

# Monetary Policy Council of the Bank of Greece

## Chairman

Lucas Papademos

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Panayotis Thomopoulos

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Vassilis Droucopoulos

Antonis Mantzavinos

Nicholas Paleocrassas

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# I. Monetary policy objectives and framework

The report submitted by the Bank of Greece to the Greek Parliament and the Council of Ministers last April defined the primary monetary policy objectives and framework in 1998. This report examines monetary developments and the monetary policy pursued until October 1998,<sup>1</sup> as well as inflation developments and prospects.

The primary objective of monetary policy is price stability, which is considered to have been achieved when inflation does not exceed 2 per cent. The time horizon for the attainment of price stability, i.e. end-1999, is consistent with the satisfaction of the inflation criterion set in the Maastricht Treaty,<sup>2</sup> which is a key prerequisite if Greece is to join Economic and Monetary Union in 2001.

To attain the final objective of price stability, the Bank of Greece has set the intermediate policy aim of exchange rate stability in the Exchange Rate Mechanism (ERM) of the European Monetary System, which the drachma joined on 16 March 1998. Specifically, the aim is to maintain the exchange rate of the drachma against the other ERM currencies close to the central rates and, what is more, within the narrow band ( $\pm 2.5$  per cent on average). However, the Bank of Greece, as was pointed out in its previous report to the Greek Parliament, would allow an appreciation of the drachma beyond its narrow band, so long as the conduct of anti-inflationary monetary policy would lead to this result. In fact, monetary policy gave priority to the containment of inflation and inflationary pressures, and the drachma therefore appreciated against its central rates in the ERM.

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<sup>1</sup> For some aggregates for which there are no available data, the Report covers developments until end-September 1998.

<sup>2</sup> Specifically, the Maastricht Treaty stipulates (see relevant Protocol) that the high degree of price stability is achieved when the inflation rate of the member state in question does not exceed by more than 1.5 percentage points the inflation rate of the, at most, three best performing member states.

The Bank, unlike what it had done in previous years, did not adopt an intermediate objective for the rate of change in broad money (M3) in 1998. The change in the monetary policy framework, together with the continuing development of financial innovations in an environment characterised by the full liberalisation of capital movement, reduces the usefulness of monetary aggregates as intermediate goals. Under certain

conditions, however, monetary and credit aggregates provide useful information on inflationary expectations and the future path of inflation. The Bank has therefore set tentative limits to the increase in those aggregates. These limits, consistent in the medium term with the inflation target, are 6-9 per cent for the growth rate of M3 and 4-6 per cent for total credit expansion.

## II. International financial developments

Over the past ten months, monetary policy was conducted in an international environment characterised by crises in the financial markets of Eastern Asia, Latin America and Russia, as well as sharp fluctuations in stock markets in the USA and the European Union. Specifically, the rekindling, in early 1998, of the turmoil that had broken out in mid-1997 in the Eastern Asian markets had serious implications for foreign exchange and capital markets, not only in other emerging economies but also in some of the major industrial countries, such as Japan. At the same time, delays in carrying through the necessary structural reforms or in implementing a suitable macroeconomic policy in the countries where the turmoil had broken out maintained a climate of uncertainty in international markets. These disturbances affected not only financial developments but also the evolution of real economic aggregates. The IMF forecast on the growth rate of the world economy in 1998 was recently<sup>3</sup> revised downwards by more than one percentage point to 2 per cent (previous forecast, May 1998: 3.1 per cent), owing to the considerable deterioration of economic conditions in the countries hit by financial crises. In 1997, the growth rate of the world economy was 4.1 per cent.

Experience from these disturbances demonstrates the increased interdependence of national economies worldwide and how difficult it is to confine disturbances within national borders, when capital movement has been liberalised. The flight of capital from countries where disturbances had occurred to countries whose currencies were judged by investors to be safer, such as the US dollar and the Deutschmark, resulted in the depreciation of these countries'

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<sup>3</sup> IMF, *World Economic Outlook*, October 1998.

currencies against the American and the German currency. In fact, the transfer of capital to the USA helped a lot in keeping a strong dollar from the beginning of the year to August. However, the considerable drop in the prices of securities on the US stock market and elsewhere following the crisis in Russia at the end of August 1998, combined with the deceleration of the growth rate of GDP in the United States and the fall in US interest rates, led to a weakening of the dollar.

The international financial turmoil did not affect the process of monetary unification in the EU, which went ahead in accordance with the provisions of the Maastricht Treaty. At the EU Summit in early May 1998, it was decided that 11 Member States of the Union would participate in Stage Three of EMU as from 1 January 1999. Bilateral exchange rates between the participating currencies were also determined and will be used by the beginning of Stage Three to fix the

irrevocable exchange rates of these currencies to the euro. Also, on 1 June 1998 the European Central Bank (ECB) was founded and started operating. The ECB is responsible for the formulation and conduct of the single European monetary policy in the euro area. Better economic policy coordination in these countries and further convergence of their economies lead to the creation of a zone of stability, which helps reduce the impact of financial crises on European countries. Specifically, developments in the foreign exchange markets of the countries that will adopt the euro were smooth and the bilateral rates of their currencies remained almost stable, while there was a shift of capital from shares to bonds, resulting in a considerable drop in bond yields. In early October 1998, however, there was a flow of capital back to shares and other financial instruments, in an effort to achieve a wider spread of risks.

### III. Monetary developments and policy

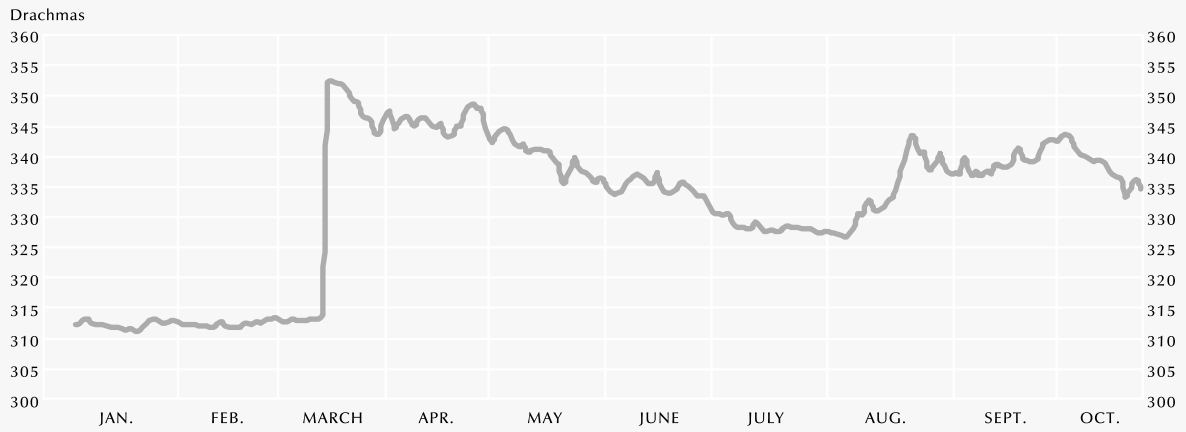
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#### 1. Exchange rate

From early 1998 until the entry of the drachma into the ERM in March 1998, the exchange rate of the drachma against the ECU remained broadly stable, despite occasional pressures connected with the rekindling of the monetary crisis in Eastern Asia and expectations that the drachma would join the ERM in May 1998 with a parallel adjustment of its exchange rate (see Chart 1). These pressures did not allow the normalisation of money market conditions nor a drop in interest rates, which were rather high.

With the entry of the drachma into the ERM and its depreciation of 12.3 per cent, the credibility of the economic policy pursued and the prospect of Greece's accession to EMU were strengthened, thus leading to considerable inflows of capital for investment mainly in Greek government bonds through the secondary market and in corporate shares, as well as in the interbank market. These inflows contributed to an increase in foreign exchange reserves, which rose to \$20.4 billion – at end-March 1998 – from \$15.1 billion at end-February 1998. Through interventions in the drachma interbank market, the Bank of Greece absorbed the excess liquidity generated by these inflows. Subsequently, the Bank reduced its interventions in the foreign exchange market and, as a result, the drachma appreciated by more than 2.5 per cent against almost all its central rates in the ERM. Consequently, capital inflows halted and liquidity creation decreased. Indeed, by the end of March 1998, the drachma had appreciated by 3.9 per cent against its central rate to the ECU. The appreciation of the drachma against all other EU currencies was about the same size, with the exception of the Irish pound and the pound sterling, against which the drachma appreciated

Chart 1  
Exchange rate of the drachma against the ECU (1998)  
(Daily data)



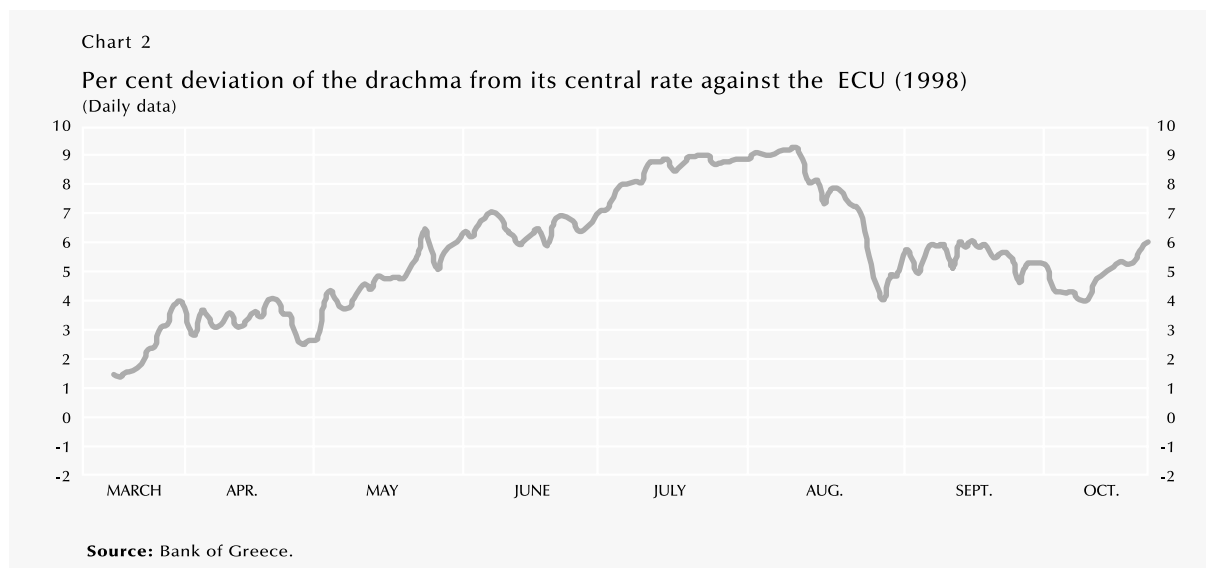
Exchange rate of the drachma against the Deutschemerk (1998)  
(Daily data)



Exchange rate of the drachma against the US dollar (1998)  
(Daily data)



Source: Bank of Greece.



by 3.2 per cent and 0.4 per cent, respectively, while its appreciation against the US dollar was relatively small (0.9 per cent).

Around the end of April 1998 the drachma came under pressure and there were capital inflows due to rumours that it would be devalued again on the occasion of the EU Summit in early May, when a decision would be made on which countries would participate in the EMU from the outset. The Bank of Greece reacted to these pressures by intervening in the foreign exchange market and the drachma interbank market, in order to underpin the exchange rate of the drachma and signal the markets that it would persist in its policy of exchange rate stability. As a result, these pressures subsided before the Summit, with heavy losses for those who “took positions” against the drachma.

In the ensuing months until mid-August there were some small inflows of capital and the Bank of Greece generally followed a policy of non-intervention in the foreign exchange market, allowing the drachma to appreciate. Towards the end of this period, however, when relatively increased capital inflows occurred, partly owing

to seasonal factors, the Bank of Greece was buying foreign currency, in order to avert a further sharp appreciation of the drachma and limit the fluctuation band of its exchange rate. In mid-August, the appreciation of the drachma in relation to its central rate against the ECU came to 8.1 per cent and against the ERM currencies to 7.5 per cent on average.

On account of developments in Russia, i.e. the devaluation of the rouble and the payments moratorium, as well as the subsequent turmoil in capital markets worldwide, small capital outflows were observed round mid-August, which became larger by the end of the month. Pressure was observed mainly in the government bonds market and indirectly affected the exchange rate of the drachma, as foreign investors liquidated part of their portfolio of Greek securities to obtain the additional liquidity required to cope with losses in the Russian market. As a result of those outflows, the exchange rate of the drachma began to fall and the appreciation against its central rate to the ECU was limited to 4 per cent on 28 August 1998. Extensive Bank of Greece interventions at the time were aimed at preventing wide fluctuations in the exchange rate of the drachma.

## **BOX**

### **Announcement about the Danish and the Greek participation in the new exchange rate mechanism (ERM II)**

The Ministers of the euro area Member States, the ECB and the Ministers and the Central Bank Governors of the Kingdom of Denmark and the Republic of Greece discussed the participation in ERM II of non-euro area Member States. The European Commission was involved and the Monetary Committee was consulted. They:

- welcomed the decision by the Greek and the Danish government to carry on from ERM I into ERM II their participation in the exchange rate mechanism, linking their currencies to the euro area,
- agreed that the Greek drachma will participate in ERM II with the standard fluctuation band of  $\pm 15$  per cent around its central rate against the euro,
- agreed that the Danish krone will participate in

ERM II with a fluctuation band of  $\pm 2.25$  per cent around its central rate against the euro.

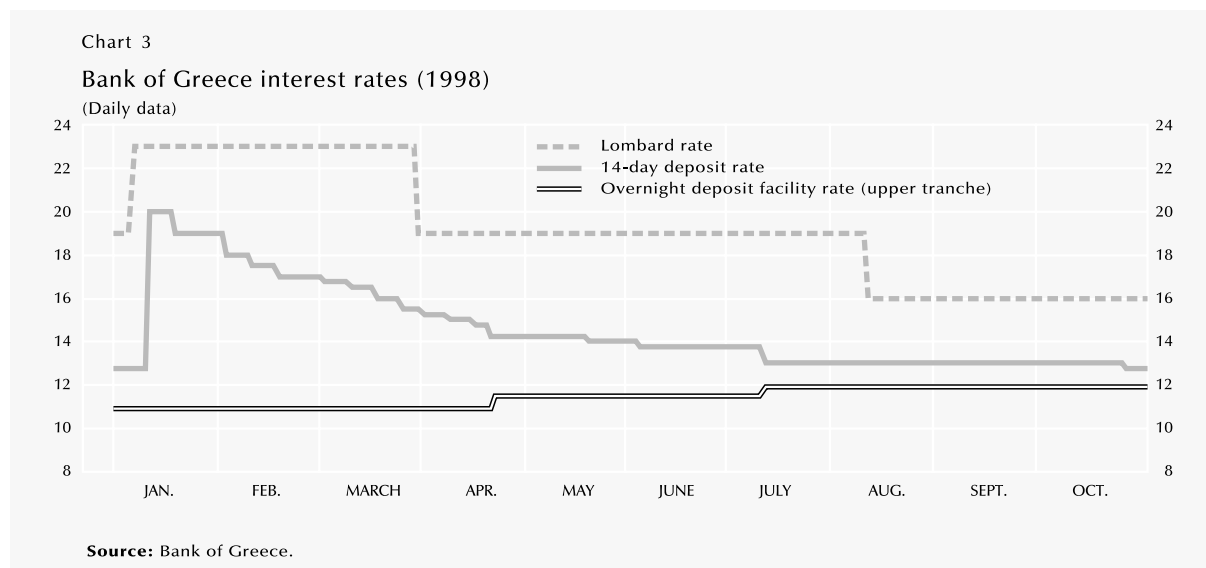
The agreement concerning the Greek drachma is a continuation of satisfactory participation in the exchange rate mechanism following progress towards convergence and recognises that the flexibility provided by the standard fluctuation band enhances the effectiveness of the stability-oriented monetary policy pursued at present.

The agreement concerning the Danish krone is based on the high level of convergence achieved by Denmark in terms of the convergence criteria, including the very high degree of stability of the krone in the markets and the unchanged parity within ERM I since January 1987. This is the result of sustained stability-oriented economic policies.

The above agreements will be implemented in accordance with the formal procedure envisaged under the ERM II Resolution of the European Council, so as to become effective from the opening of foreign exchange markets on 4 January 1999.

The containment of liquidity as a result of the aforementioned outflows led to an increase in interbank interest rates. To deal with the shortage of liquidity and to lower interest rates, the Bank of Greece effected dollar-drachma swaps, through which it increased liquidity by about 250 billion drachmas. The Bank judged that, as pressures came from the bond market and did not reflect speculative positions against the drachma, it was not necessary to raise interest rates, as had been done during the monetary turmoil of October 1997, but it was necessary to restore liquidity in the interbank market. The State used its increased reserves for the purchase of bonds in the secondary market so as to restrain their prices, which had fallen, and, thus, the rise in their yields. At the end of August, ten-year bond yields had reached 8.4 per cent (from 7.6 per cent at the end of July 1998). The differential between Greek ten-

year bond yields and the average yield on similar securities in the euro area widened from 2.8 percentage points at end-July 1998 to 4 percentage points at end-August. Specifically, the differential between Greek and German ten-year bond yields rose to 4.2 percentage points at end-August from 2.9 percentage points at end-July 1998. The wider differential mainly reflects the rise in Greek bond yields, as well as the relatively sharp drop in bond yields in the euro area, where demand for bonds grew considerably during the crisis, as a result of capital transfers from the emerging markets to the euro area and the United States. In early September, foreign exchange market conditions began to normalise as capital outflows ceased, while the Bank of Greece intervened in this market by purchasing foreign currency and offering drachmas, in order to avert sharp fluctuations in the drachma exchange rate. It



should be noted that the amount of foreign exchange reserves at end-October 1998 rose to \$18.3 billion from \$16.8 billion at end-August 1998.

The drachma was the currency with the highest appreciation against its central rate throughout the period after it joined the ERM. This was due to the confidence of the markets in the prospect of Greece's entry into the EMU, as well to the anti-inflationary monetary policy pursued.

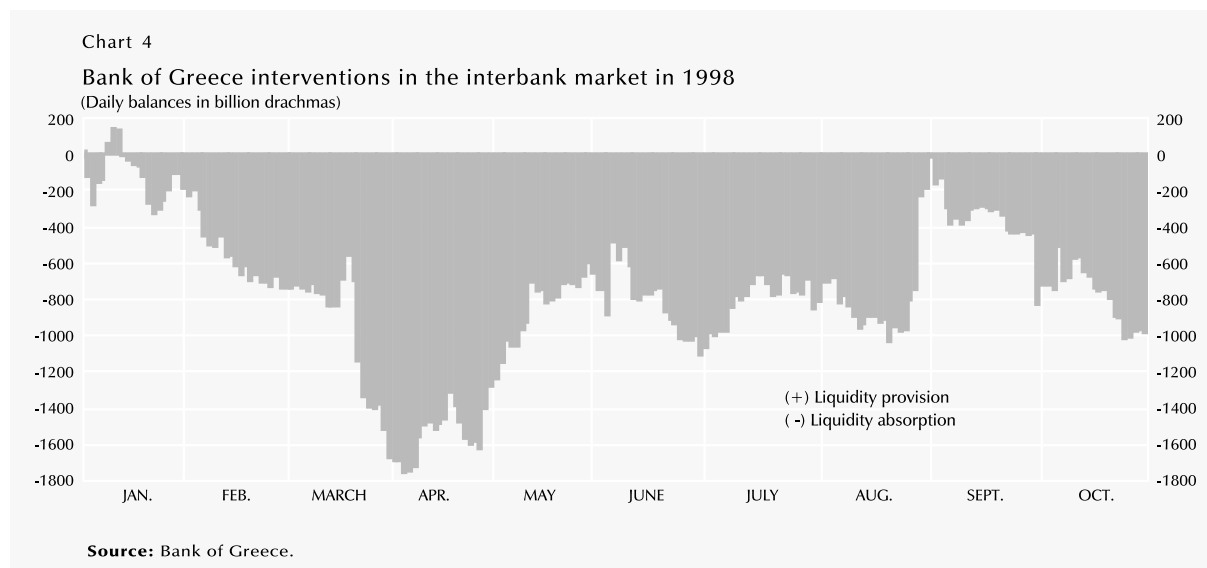
The reliability of economic policy was further enhanced by the recent joint decision of the Ministers of the euro area Member States, the European Central Bank, the Ministers and the Governors of the central banks of Denmark and Greece to allow the drachma to participate as from early-1999 in the Exchange Rate Mechanism II, the successor of the present ERM. This decision is based on the satisfactory participation of the drachma in ERM I so far and on the progress made in the convergence of the Greek economy, in relation to the criteria set in the Maastricht Treaty (see Box on page 16).

## 2. Interest rates

During the first two months of 1998 and until 16 March 1998, when the drachma joined the ERM, monetary conditions were characterised by relatively high interbank rates and a limited upward trend in deposit and lending rates, especially short-term rates. These developments, as already noted, were linked to pressures exerted at intervals on the exchange rate of the drachma, thus preventing money market conditions from returning to normal.

As soon as the drachma entered the ERM, interest rates declined to varying degrees, reflecting a drastic cut in the risk premia they incorporated. A particularly steep fall occurred in interbank rates. Specifically, the 3-month interbank rate fell from 16 per cent just before the devaluation to a trough of 12.5 per cent at the end of March 1998. In April, interbank rates rebounded (rising by up to 0.7 percentage points for short maturities) and remained broadly unchanged until the end of July.

The Bank of Greece, in order to achieve its inflation target and contain credit expansion, also



in view of strong economic growth, pursued a policy of gradual and cautious cuts in its tender rate, applicable to 14-day liquidity-absorption operations, which are the chief instrument for central bank intervention in the interbank market, and raised rate on its standing deposit facility. Specifically, the tender rate was successively adjusted from 16.75 per cent prior to the devaluation to 12.75 per cent on 14 October 1998. On 23 April 1998 the Bank of Greece raised the rate on the first tier of the deposit facility by 0.60 percentage points (to 11.50 per cent) and by a further 0.40 percentage points (to 11.90 per cent) on 8 July 1998,<sup>4</sup> thereby establishing a more rational relationship between its key intervention rates in the interbank market.

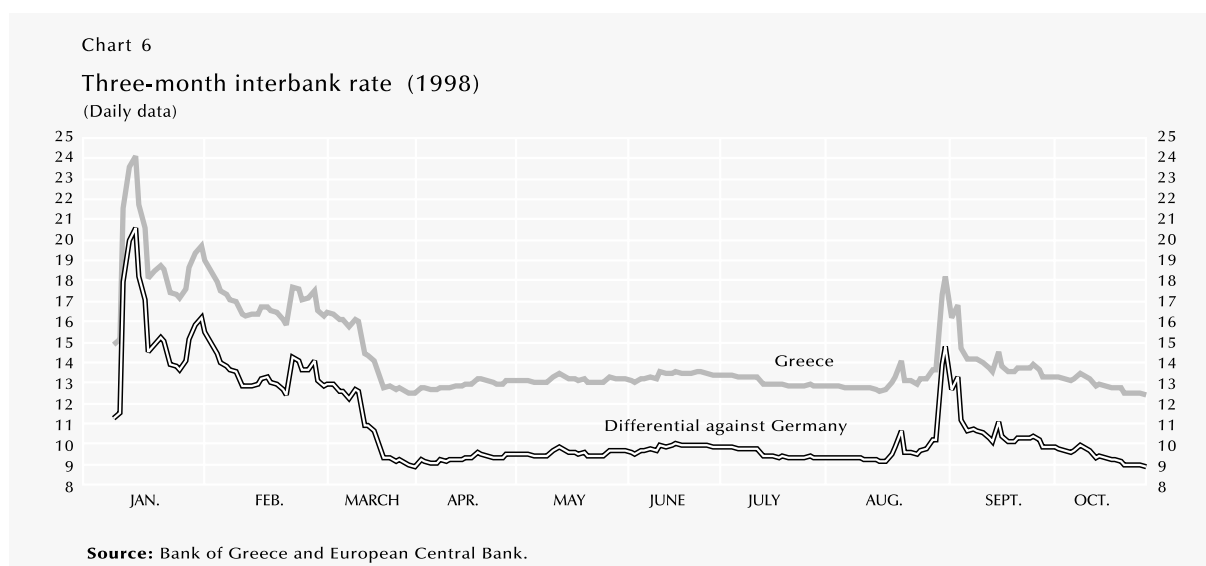
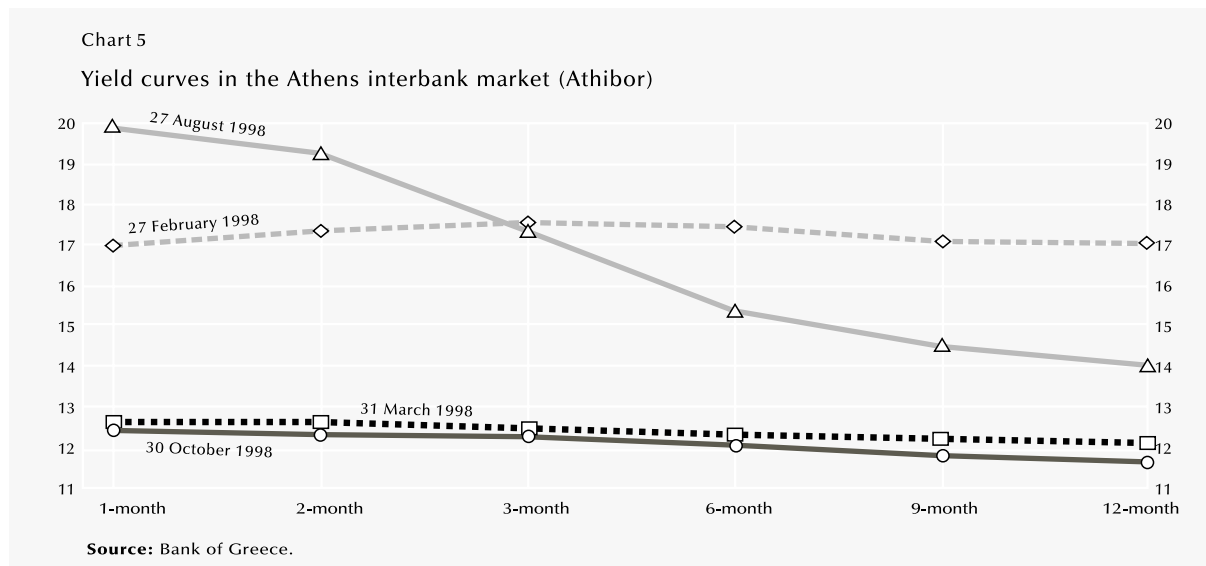
The second half of August 1998 began with a rise in interbank rates, which reached high levels following pressures experienced during the last week of that month. For short maturities, interest rates rose by 6-7 percentage points (3-month Athibor, 12 August 1998: 12.6 per cent, 28 August 1998: 18.3 per cent); for longer maturities increases did not exceed 2 percentage points. In early September 1998, as pressures in the foreign exchange market abated and liquidity was

restored to normal levels, interbank rates gradually fell and towards the end of October they were slightly lower than before the outbreak of the crisis in Russia.

Following the devaluation of the drachma in March 1998, the yield curve in the interbank market exhibited a downward slope along the entire maturity spectrum,<sup>5</sup> while previously the downward slope was confined to longer maturities. With the rise in interbank rates in April 1998, the yield curve shifted upwards and its downward slope became steeper, causing the interest-rate spread between the one-month and the twelve-month maturity to rise from 0.50 percentage point at the end of March 1998 to 1.3 percentage points at the end of June. This

<sup>4</sup> The rate of the second tier of the deposit facility was raised by 0.15 percentage point (to 9.75 per cent) on 23 April 1998.

<sup>5</sup> This curve shows the yield of securities as a function of residual maturities. The position and slope of this curve is typically determined by two factors: First, securities yields incorporate a liquidity premium, which is directly proportional to the respective residual maturity, meaning that, *ceteris paribus*, a yield curve is expected to slope up. Second, securities yields are influenced by expectations about the evolution of interest rates. Thus, if inflation and interest rates are expected to decline, yields for longer maturities would be lower than for shorter maturities. In that case, the yield curve would have a downward slope, in fact the more steep as the larger the expected fall in interest rates.



reflected the tight monetary policy pursued and improving market expectations about a fall in inflation and interest rates within the twelve months ahead. During the period of pressures in the bond market in August, the yield curve became steeper, but in early September, as pressures abated, it began to flatten and at the end of October 1998 the spread narrowed to 0.80 percentage points.

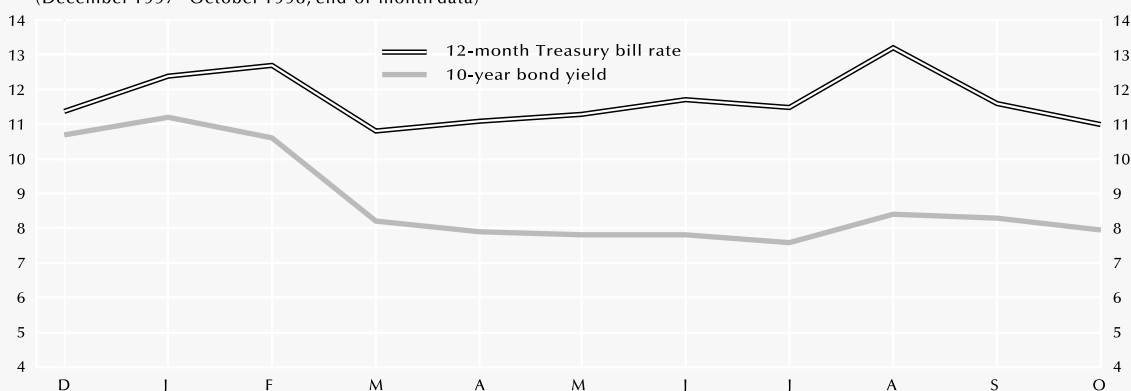
Differentials between the Greek and the euro area interbank rates declined significantly after the

devaluation of the drachma. In particular, the differential over German three-month interbank rates was reduced from 14 percentage points at the end of February 1998 to about 9 percentage points at the end of March 1998; in April 1998 it widened slightly to 9.50 percentage points and broadly stabilised until the end of August; during the short-lived (4-5 days) monetary turmoil of last August, it rose to some 15 percentage points; later, as money markets came back to normal, it fell gradually and stood at 8.70 percentage points at the end of October 1998.

Chart 7

Interest rate on 12-month Treasury bills and yield on 10-year Greek government bonds

(December 1997 - October 1998, end-of-month data)

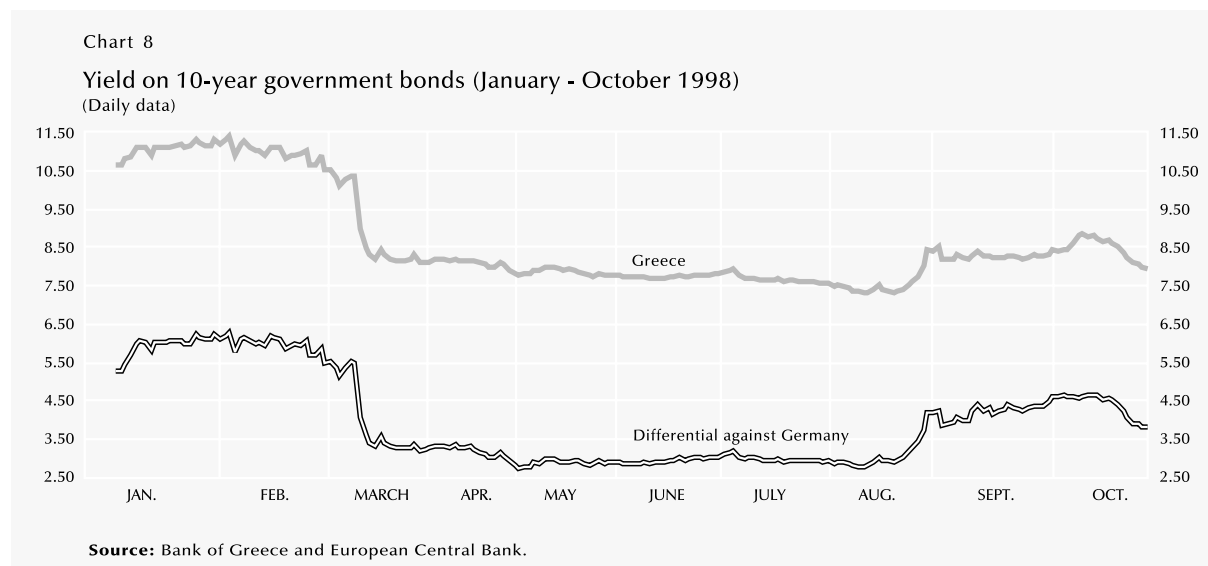


Source: Bank of Greece.

Interbank rates affected bank rates as well as government paper yields. Specifically, over the first two months of 1998, deposit rates generally stood at the relatively high levels of end-1997. The devaluation of the drachma and its accession to the ERM was followed by an across-the-board cut in deposit rates. As was to be expected, the first and larger cuts (1.5-2.5 percentage points) were made in short-term time deposit rates, which mirror more closely interest rates and liquidity conditions in the interbank market, followed by smaller cuts (of about 0.80 percentage point) in the rates on savings deposits and twelve-month time deposits. The average short-term lending rate, after having increased by 0.70 percentage points in the January-February period of 1998, dropped after the devaluation and has remained at 18.1 per cent since August.

In the two-month period of January-February 1998, interest rates on government paper also hovered at high levels. Specifically, the 12-month Treasury bill rate increased from 11.4 per cent in early January 1998 to 12.9 per cent in early March 1998. After the drachma joined the ERM and normal conditions were restored in the foreign exchange market, the above rate fell by 2

percentage points to 10.8 per cent at the beginning of April 1998, but subsequently increased to 11.5 per cent at the end of July, in line with the overall trend in interest rates. A similar trend was observed in government bond yields. Thus, the yield on ten-year bonds, which is the reference value of the relevant convergence criterion, fell from 10.3 per cent before the devaluation to 7.9 per cent at the end of April but then showed a slight downward trend, to stand at 7.3-7.5 per cent in mid-August 1998. The yield curve sloped downwards also in the case of government paper, reflecting market expectations that Greece would join EMU and interest rates and inflation would fall. The pressure exerted by foreign investors in the government bond market during the August 1998 turmoil led to a significant increase in government paper yields. The yield on the September 1998 issue of twelve-month Treasury bills reached 13.2 per cent (compared with 11.5 per cent at the end of July), while the 10-year bonds yielded 8.4 per cent at the end of August. As the foreign exchange market came back to normal, yields on government paper declined. At the end of October, the 12-month Treasury bill yield was reduced to 11 per cent, while the 10-year bond yield fell to 7.9 per cent,



although it is still higher than what it was before the crisis of last August, reflecting the conditions that have prevailed ever since in world bond markets.

### 3. Monetary aggregates

The twelve-month rate of increase in broad money (M3), which comprises banknotes and coins in circulation, drachma deposits held by the non-bank private sector, repos and bank bonds, decelerated considerably in January 1998 and, falling short of the monitoring range for 1998 (6-9 per cent) throughout the January-September period, reached 1.2 per cent in September.

The slowdown in M3 growth is associated with the substitution of assets included in M3 with (mostly short-term) financial derivatives, government paper maturing in more than one year and foreign exchange deposits. The first nine months of the year were also a period of stronger activity in the field of synthetic currency swaps, which are largely conducted by institutional investors. Specifically, the outstanding balance of synthetic swaps carried out by mutual funds grew by about

1,240 billion drachmas in the January-September 1998 period. In the past, these operations were possible only through deposits in foreign exchange held with banks abroad. Since August 1997, however, currency swaps can be effected also through credit institutions operating in Greece, where residents are now allowed to open deposit accounts in foreign exchange. This change has significantly affected residents' foreign exchange deposits, which grew by about 2,460 billion drachmas in the January-September 1998 period. This increase reflected not only synthetic swaps but also the substitution of foreign exchange deposits for drachma deposits, particularly in the early months of 1998, when, as already mentioned, markets anticipated a devaluation of the drachma. Nevertheless, since June 1998 the growth of residents' foreign exchange deposits has been relatively subdued.

The broader liquidity indicator M4 (comprising M3 plus non-bank holdings of Treasury bills) remained lower in the January-September 1998 period than the comparable 1997 figure. As a result, the twelve-month growth rate of M4 was negative throughout this period. Specifically, it was -1.5 per cent in September 1998, i.e. almost the same as at

Table 1

## Monetary aggregates

*(Changes in billion drachmas and per cent changes in outstanding balances)*

|  | Year                           |                                |                               | January – September             |                                 | Sept. 1998*<br>over<br>Sept. 1997 |
|--|--------------------------------|--------------------------------|-------------------------------|---------------------------------|---------------------------------|-----------------------------------|
|  | 1995                           | 1996                           | 1997                          | 1997                            | 1998*                           |                                   |
| <b>1. M0 (Currency in circulation)</b>   | <b>175</b><br><b>(10.4%)</b>   | <b>78</b><br><b>(4.2%)</b>     | <b>241</b><br><b>(12.4%)</b>  | <b>-39</b><br><b>(-2.0%)</b>    | <b>-180</b><br><b>(-8.2%)</b>   | <b>(5.3%)</b>                     |
| 2. Private deposits  | 1,939<br>(15.0%)               | 2,065<br>(13.9%)               | 1,560<br>(9.2%)               | 1,035<br>(6.1%)                 | -656<br>(-3.6%)                 | (-0.7%)                           |
| 2.1 Sight deposits   | 180                            | 321                            | 214                           | 103                             | 46                              |                                   |
| 2.2 Time and savings deposits  | 1,759                          | 1,744                          | 1,346                         | 932                             | -702                            |                                   |
| <b>3. M1 (= M0 + private sight deposits)</b>   | <b>355</b><br><b>(12.7%)</b>   | <b>399</b><br><b>(12.7%)</b>   | <b>455</b><br><b>(12.8%)</b>  | <b>64</b><br><b>(1.8%)</b>      | <b>-134</b><br><b>(-3.3%)</b>   | <b>(7.1%)</b>                     |
| 4. Repos   | -222                           | -7                             | -47                           | 1                               | 298                             |                                   |
| 5. Bank bonds  | -267                           | -511                           | 67                            | 61                              | 8                               |                                   |
| <b>6. M3 (= 1+2+4+5)</b>   | <b>1,625</b><br><b>(10.3%)</b> | <b>1,625</b><br><b>(9.3%)</b>  | <b>1,821</b><br><b>(9.6%)</b> | <b>1,058</b><br><b>(5.6%)</b>   | <b>-530</b><br><b>(-2.5%)</b>   | <b>(1.2%)</b>                     |
| 7. Private investment in Greek government securities with a maturity of up to one year | 115                            | 1,122                          | -2,224                        | -2,244                          | -617                            |                                   |
| <b>8. M4 (= 6+7)</b>   | <b>1,740</b><br><b>(8.2%)</b>  | <b>2,747</b><br><b>(12.0%)</b> | <b>-403</b><br><b>(-1.6%)</b> | <b>-1,186</b><br><b>(-4.6%)</b> | <b>-1,147</b><br><b>(-4.5%)</b> | <b>(-1.5%)</b>                    |
| 9. Total private investment in Greek government securities                             | 2,088                          | 3,113                          | 650                           | 360                             | -50                             |                                   |

(\*) Provisional data.

Source: Bank of Greece.

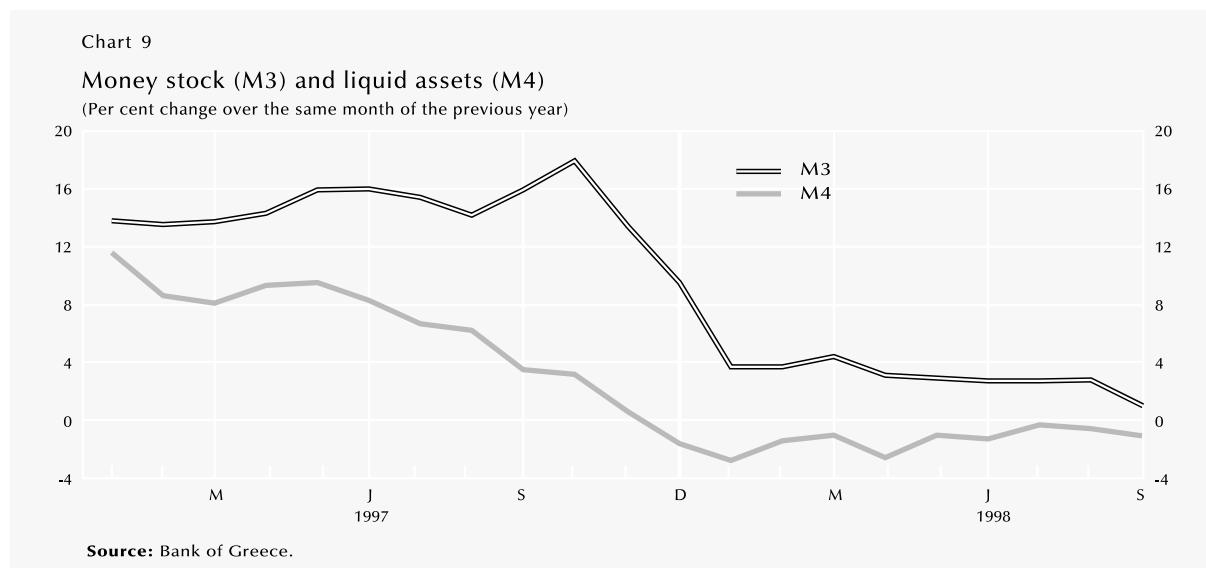
the end of 1997 (-1.6 per cent), owing to shifts from M4 components to financial derivatives and government paper maturing in more than a year. Net holdings by the domestic non-bank private sector of government bonds with maturities longer than one year amounted to about 570 billion drachmas in the nine months from January through September 1998, while purchases of Treasury bills fell short of redemptions by 620 billion drachmas. These developments have been influenced by the government policy of prolonging the average maturity of public debt, by offering mainly fixed-rate bonds with maturities of 2 to 15 years. Demand for these securities, chiefly from foreign institutional investors, increased, espe-

cially after the drachma's entry into the ERM, reflecting the favourable outlook for the convergence of the Greek economy.

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#### 4. Credit expansion

The twelve-month rate of total credit expansion stood at 10.5 per cent in September 1998, i.e. much higher than the monitoring range of 4-6 per cent announced for the year. At the end of 1997 the rate was 9.7 per cent. This outturn reflects faster credit expansion to the public sector, while credit expansion to the private sector decelerated, although it remains high.



The acceleration of credit expansion to the public sector is largely linked to the way of financing the public deficit. On a cash basis, the deficit in January-September 1998 was slightly higher than in the corresponding period of 1997. Specifically, the higher public deficit reflects the reduction in the financial surplus of public entities and enterprises, while the borrowing requirements of central government were lower than in the same period of 1997. The government budget deficit on a cash basis was 1,544 billion drachmas in the January-September 1998 period, compared with 1,547 billion drachmas a year before. This reflects increased interest payments, while the primary surplus was significantly higher than in the previous year. A large part of the increase in interest payments is attributable to the comparatively large carryover effect from 1997 (1998: 205 billion drachmas, 1997: 77 billion). In addition, the cash deficit of central government in 1998 increased by 18 billion drachmas during the extension of fiscal year 1997, while the corresponding deficit of 1997 had been reduced by 120 billion drachmas during the extension of fiscal year 1996. For all these reasons, the government budget deficit for January-September 1998 on an accruals basis

was 21 per cent lower relative to the previous year (January-September 1998: 1,154 billion drachmas, January-September 1997: 1,464 billion).

As noted above, a significant factor affecting credit expansion to the public sector was the way of financing the deficit of central government. Over the nine months from January to September 1998, non-bank private holdings of government paper declined slightly, while they had increased in the corresponding period of 1997, resulting in faster credit expansion to central government. To a significant extent, however, credit expansion to central government reflects the higher net purchases of government paper by non-residents, although most of these purchases have been financed by the banking system. Purchases by non-residents rose after the drachma's entry into the ERM and remained high until late August, when, as noted earlier, there was heavy government paper selling activity by non-residents, and outflows of foreign exchange. Since early September, however, the government paper market has returned to normal and earlier foreign exchange outflows have been offset by substantial inflows.

**Table II**  
**Central government deficit**  
*(Billion drachmas)*

|   | January – September                    |                |                |              |
|---|--|----------------|----------------|--------------|
|   | Cash basis (net borrowing requirement) |                | Accruals basis |              |
|   | 1997                                   | 1998*          | 1997           | 1998*        |
| <b>I. Government budget</b>   | <b>1,547</b>                           | <b>1,544</b>   | <b>1,464</b>   | <b>1,154</b> |
| 1. Primary surplus (-)<br>(of which, extension of previous fiscal year) | -586<br>(-120)                         | -790<br>(18)   | -656<br>-      | -1,101<br>-  |
| 2. Interest payments<br>(transfers from previous fiscal year)           | 2,133<br>(77)                          | 2,334<br>(205) | 2,120<br>-     | 2,255<br>-   |
| <b>II. DIDAGEP<sup>1</sup></b>  | <b>-264</b>                            | <b>-356</b>    | <b>-</b>       | <b>-</b>     |
| <b>Central government (I+II)</b>  | <b>1,283</b>                           | <b>1,188</b>   | <b>1,464</b>   | <b>1,154</b> |

(\*) Provisional data.

<sup>1</sup> Agricultural Markets Management Service. Financial surplus (-).

Source: Ministry of Finance and Bank of Greece.

The financial surplus of public entities and enterprises fell, reflecting the significant reduction in the surplus of public enterprises, while a small decline was observed in the financial surplus of public entities.

Credit expansion to the private sector decelerated. Specifically, lending to the private sector increased by 1,173 billion drachmas or 10.5 per cent in the January-September 1998 period, compared with an increase of 1,215 billion drachmas or 12.6 per cent in the same period of 1997. A similar slowdown occurred in the twelve-month growth rate of lending, which fell to 13.2 per cent in September 1998 from 15.3 per cent in December 1997. It should be noted, however, that foreign exchange valuation differences due to the devaluation of the drachma in March 1998 had an upward effect on the drachma value of outstanding loans denominated in foreign currency; actual credit expansion, as measured by changes in the outstanding balances of loans, is therefore overestimated. Excluding valuation differences, credit expansion slowed down to

12.3 per cent in September 1998. It should be noted that the extensive substitution of drachma-denominated loans for loans in foreign currency, which had begun in mid-1997 and peaked during the two months following the devaluation of the drachma in March 1998, continued in the first five months of 1998. Thus, although the adjustment of the exchange rate in March 1998 had an expansionary effect on the drachma value of foreign exchange loans, the outstanding balances of such loans fell by about 400 billion drachmas in April-May 1998, relative to March 1998. More recently, however, demand for loans in foreign exchange has been recovering, with a significant rise in outstanding balances (9.7 per cent) during the June-September 1998 period, when the increase in drachma loans was very small (1.3 per cent). This reflects the stabilisation of expectations about the exchange rate of the drachma following the EU Summit in early May 1998.

The maintenance of credit expansion to the private sector at comparatively high levels is

associated with a considerable strengthening of activity in several sectors of the economy, as well as with the continuing repercussions of the relatively recent deregulation of consumer loans and keener competition between banks, especially in the field of housing and consumer loans. Specifically, the growth rate of consumer loans in the January-September 1998 period accelerated slightly, while credit expansion to the other sectors of the economy slowed down or remained unchanged.

A breakdown of commercial banks' credit suggests that loans and advances extended by domestic private banks and most foreign banks, which engage mainly in the financing of trade and the provision of consumer and housing loans, grew at very high rates, as opposed to the low rates of credit expansion of the large banks (which are, for the most part, of state interest).



## IV. Inflation and economic activity

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### 1. Price developments and the impact of the drachma's devaluation

The twelve-month rate of inflation, as measured on the basis of the change in the Consumer Price Index (CPI), pursued its downward course in the first two months of 1998. However, after the adjustment of the exchange rate of the drachma upon entry into the Exchange Rate Mechanism (ERM) on 16 March 1998, a temporary rise in inflation was observed. In particular, the year-on-year CPI rate of increase, which had fallen to 4.3 per cent in February 1998 (from 4.7 per cent in December 1997), gradually accelerated, peaking at 5.3 per cent in April and May. It then began to recede again in June, falling to 5 per cent in August and 4.7 per cent in October (after rising to 5.2 per cent in September owing to conjunctural factors).<sup>6</sup> The inflation differential between Greece and the euro area (EU-11), which had been reduced to 3.0 percentage points at end-1997 (from 5.0 percentage points at end-1996), increased in 1998 as a result of the devaluation and stood at 4.0 percentage points in September, according to the latest available data on Harmonised Indices of Consumer Prices (HICPs)<sup>7</sup> (see Chart 10 and Table III).

The maximum acceleration in the twelve-month CPI rate of increase did not exceed one per-

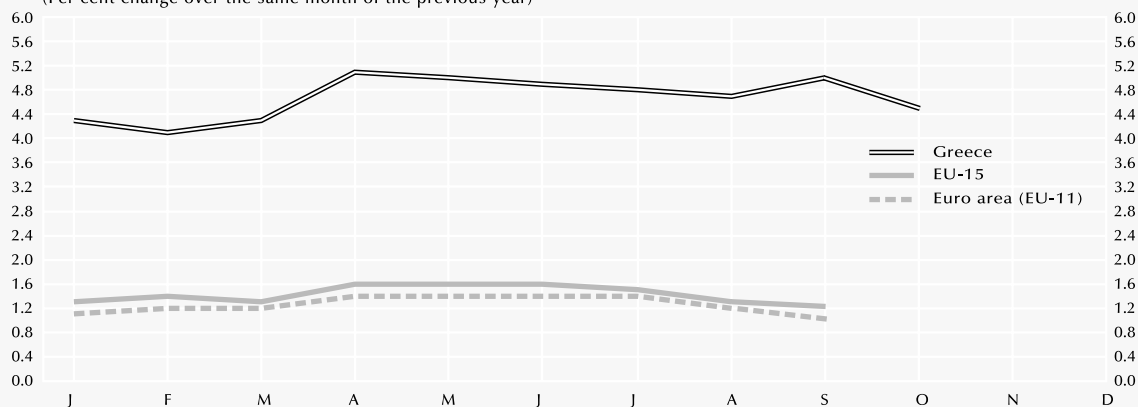
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<sup>6</sup> This acceleration was due to the unusually large rise in fresh fruit-vegetable prices that month and to the impact of the devaluation on some autumn goods.

<sup>7</sup> The twelve-month growth rate of the HICP in September was 5.0 per cent for Greece and 1.0 per cent for the euro area. In the same month, the average inflation rate in the three EU countries with the best performance regarding price stability (Sweden, France and Germany or Austria) was 0.3 per cent. If account is taken of the three best performing countries only in the *euro area*, the average rate was 0.6 per cent. In October, the twelve-month growth rate of the HICP for Greece fell to 4.5 per cent. It should be recalled that harmonised indices are compiled in a uniform manner to ensure comparability and are employed to assess convergence in the field of price stability.

Chart 10

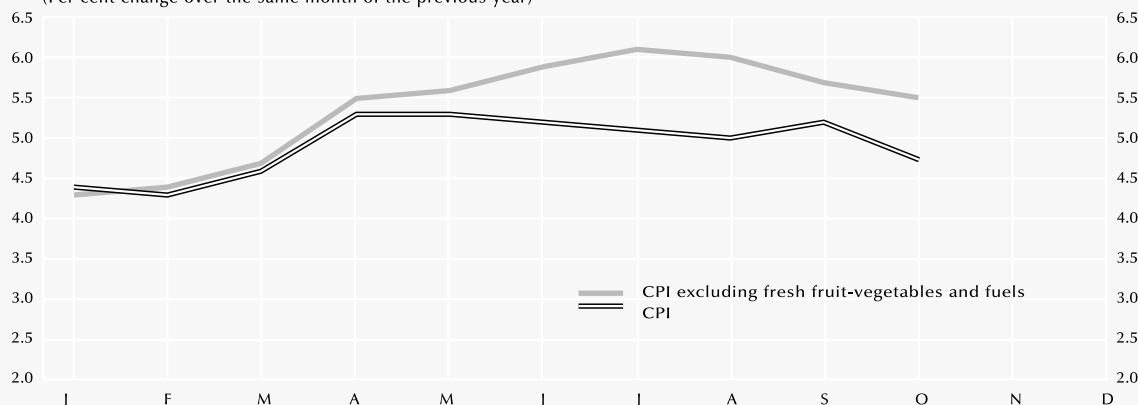
Harmonised index of consumer prices in Greece and the European Union (1998)  
(Per cent change over the same month of the previous year)



Source: National Statistical Service of Greece (NSSG) and Eurostat.

Chart 11

Consumer price index and core inflation (1998)  
(Per cent change over the same month of the previous year)



Source: Calculations based on NSSG data.

tage point after the devaluation,<sup>8</sup> partly reflecting favourable developments in domestic fresh fruit-vegetable prices, crude oil world prices and public utility rates. Core inflation, as measured by the rate of change in the CPI excluding fresh fruit-vegetables and fuels (see Chart 11), reached a maximum acceleration of 1.7 percentage points (rising to 6.1 per cent in July from 4.4 per cent in February), but nevertheless eased off substantially to 5.7 per cent in September and 5.5 per cent in October.<sup>9</sup> Even higher acceleration was recorded

in the twelve-month rate of change in other indices, such as the CPI excluding fresh fruit-vege-

<sup>8</sup> The acceleration of the twelve-month rate of change in prices after the devaluation of the drachma is a useful measure of the effects of the devaluation, although it *underestimates* them, as it does not take account of the downward course which inflation was expected to follow after February had the devaluation not taken place.

<sup>9</sup> The corresponding CPI rate excluding food and fuels (which is also used as a measure of core inflation), after falling from 5.8 per cent in December 1997 to 4.9 per cent in February 1998, rose to 6.3 per cent in July and August (maximum acceleration: 1.4 percentage points), but in September and October it also fell (to 6 and 5.8 per cent, respectively).

**Table III**  
**Harmonised index of consumer prices:**  
**Greece and European Union**  
*(Per cent changes over previous year)*

| Period                | Greece | EU-15 | Euro area<br>(EU-11) |
|-----------------------|--------|-------|----------------------|
| <b>1996</b> .....     | 7.9    | 2.4   | 2.2                  |
| <b>1997</b> .....     | 5.4    | 1.7   | 1.6                  |
| <b>1996</b> Dec. .... | 6.9    | 2.1   | 1.9                  |
| <b>1997</b> Dec. .... | 4.5    | 1.6   | 1.5                  |
| <b>1998</b> Jan. .... | 4.3    | 1.3   | 1.1                  |
| Feb. ....             | 4.1    | 1.4   | 1.2                  |
| March ...             | 4.3    | 1.3   | 1.2                  |
| Apr. ....             | 5.1    | 1.6   | 1.4                  |
| May ...               | 5.0    | 1.6   | 1.4                  |
| June ....             | 4.9    | 1.6   | 1.4                  |
| July ....             | 4.8    | 1.5   | 1.4                  |
| Aug. ....             | 4.7    | 1.3   | 1.2                  |
| Sept. ....            | 5.0    | 1.2   | 1.0                  |
| Oct. ....             | 4.5    | ...   | ...                  |

**Source:** National Statistical Service of Greece (NSSG) and Eurostat.

tables, fuels and public utility rates (1.9 percentage points).<sup>10</sup>

Useful indications of the impact of the drachma's devaluation on the course of inflation and of the pricing policy adopted by major branches of the business sector can also be drawn from detailed data on the Wholesale Price Index (WPI – see Chart 12 on page 32), which covers only consumer and capital goods. The twelve-month rate of change in the general WPI reached a maximum acceleration of 2.9 percentage points, only to begin slowing down after April (although it did pick up again in September). With regard to WPI major components, the strongest acceleration was noted in the prices of exported goods (maximum of 5.8 percentage points), while the maximum acceleration for imported goods amounted to 4.3 percentage points. The maximum acceleration in the rate of increase in the prices of domestic industrial products (2.4 percentage points) is, however, more indicative

of the impact of the drachma's devaluation on domestic inflation.

To understand the course of inflation in connection with the devaluation of the drachma, it should be recalled that after 16 March 1998 the drachma began to appreciate, compared with the central rates set on that date.<sup>11</sup> The effective exchange rate of the drachma, after receding in March and April (though to a lesser extent than anticipated on the basis of the official devaluation rate), rose from May through July, then fell slightly in the second half of August, before roughly stabilising in September and October (the average monthly level for September did, however, fall as a result of the impact of developments in the second half of August). Therefore, the appreciation of foreign currencies against the drachma (as measured by the twelve-month rate of increase in their effective exchange rate against the drachma)<sup>12</sup> picked up significantly until the end of April 1998, then slowed down until July before accelerating again from August to October. Considering furthermore that imported goods and services make up about 22 per cent of domestic final demand (on a national accounts basis) and assuming that imports account for a similar share of private consumption, it is possible

**10** The increase in goods' prices (excluding fresh fruit-vegetables) included in the CPI peaked at 2.5 percentage points. Particularly fast (4 to 9 percentage points) was the increase for some categories of consumer goods which are mainly imported, such as vehicles and their spare parts, household appliances, fixtures and furniture, household repair and maintenance articles, travel and tobacco items, jewels and watches, cds – compact cassettes – floppy disks, cameras and films, as well as durable goods for personal care. Moreover, considerably faster (2.5-3 percentage points) was the increase in food prices (excluding fresh fruit-vegetables).

**11** A comparison of the central parity of the drachma against the ECU (set on 16 March on the basis of the fixing price of 12 March) showed a 12.3 per cent devaluation of the drachma (equivalent to a 14 per cent revaluation of foreign currencies).

**12** This is the reverse of the effective exchange rate of the drachma (when this rate falls by e.g. 10 per cent, its reverse rises by 11.1 per cent). This index is used in the analysis because its evolution influences the rise in the drachma prices of imported goods.

Table IV

## Expected and estimated impact of the devaluation of the drachma

(Percentage points)

|   | Acceleration <sup>1</sup> of twelve-month rates of change between February 1998 and: |          |           |           |           |            |           |
|---|--|----------|-----------|-----------|-----------|------------|-----------|
|   | April 1998   | May 1998 | June 1998 | July 1998 | Aug. 1998 | Sept. 1998 | Oct. 1998 |
| Appreciation of foreign currencies<br>(inverse of the effective exchange rate) <sup>2</sup> | 9.0  | 5.8      | 3.7       | 1.7       | 2.3       | 4.3        | 4.7       |
| Appreciation of the ECU<br>(drachma/ECU parity) <sup>2</sup>                                | 9.5  | 7.0      | 5.6       | 3.7       | 5.0       | 6.8        | 7.0       |
| Expected <sup>3</sup> impact of the appreciation<br>of foreign currencies:                  |  |          |           |           |           |            |           |
| – on import prices  | 9.0  | 5.8      | 3.7       | 1.7       | 2.3       | 4.3        | 4.7       |
| – on consumer prices and<br>domestic product prices   | 2.0  | 1.3      | 0.8       | 0.4       | 0.5       | 0.9        | 1.0       |
| Estimated <sup>4</sup> impact on:   |  |          |           |           |           |            |           |
| – CPI   | 1.0  | 1.0      | 0.9       | 0.8       | 0.7       | 0.9        | 0.4       |
| – CPI excluding fresh fruit-vegetables<br>and fuels (core inflation)                        | 1.1  | 1.2      | 1.5       | 1.7       | 1.6       | 1.3        | 1.1       |
| – CPI excluding fresh fruit-vegetables,<br>fuels and public utility services                | 1.3  | 1.4      | 1.7       | 1.9       | 1.8       | 1.5        | 1.2       |
| – CPI goods excluding fresh<br>fruit-vegetables and fuels                                   | 1.5  | 2.0      | 2.2       | 2.5       | 2.3       | 2.2        | 1.9       |
| .....   |  |          |           |           |           |            |           |
| – Wholesale Price Index (WPI)   | 2.9  | 2.8      | 2.0       | 0.9       | 0.3       | 1.7        | ...       |
| – WPI/domestic industrial products<br>for home consumption                                  | 2.4  | 2.4      | 1.8       | 1.4       | 0.5       | 0.8        | ...       |
| – WPI/exports (industrial & primary products)   | 5.8  | 5.1      | 4.4       | 2.0       | 0.5       | 1.0        | ...       |
| – WPI/imports (industrial & primary products)   | 4.3  | 3.9      | 3.7       | 3.0       | 2.8       | 3.1        | ...       |

1 The twelve-month rates of change for most of these indicators are presented in Tables 1 and 2 of the statistical appendix.

2 Monthly average.

3 The *expected* impact was calculated assuming constant profit margins (and taking into account that the share of imports in demand and consumption is estimated at about 22 per cent). Therefore a larger (smaller) *estimated* impact would imply an increase (a decrease) in profit margins. For the WPI/imports, the expected acceleration of the twelve-month rate of change is assumed equal (100 per cent) to that of the appreciation of foreign currencies against the drachma, as measured by the twelve-month rate of change in the inverse of the effective exchange rate. For the other price indices, the expected acceleration is assumed equal to 22 per cent of the acceleration of the twelve-month rate of change in the inverse of the effective exchange rate.

4 It should be recalled that the acceleration of the twelve-month rate of change in prices after the devaluation *underestimates* the impact of the devaluation, since it does not take account of the slowdown of inflation that was expected after February, but for the devaluation.

Source: Calculations based on Bank of Greece and NSSG data.

to make a *rough estimate* of the impact of the devaluation on prices.<sup>13</sup>

Table IV presents some comparative data, which allow for a preliminary estimate on the development of profit margins after the devaluation. In particular:

(a) *With regard to consumer prices, particularly the course of core inflation (CPI excluding fresh fruit-vegetables and fuels) and –a fortiori– of the prices of goods excluding fruit, vegetables and fuels, it seems that the pricing policy of firms up*

to September was mainly determined by developments in the drachma's effective exchange rate until April, while the drachma's appreciation from May through July and in the first half of August caused prices to decrease on only a limited scale. Although this tendency of prices to be contained was more pronounced in October (as a result of "gentlemen's agreements" – see section IV.4 below), the analysis of available data suggests that average profit margins of retail

<sup>13</sup> Always taking into account what was stated in footnote 8.

trade firms over the seven-month period from April through October increased, compared with those in February.

(b) *As for the wholesale prices of imported and exported goods*, the picture is more complex. With regard to imported final products, the acceleration of drachma price increases from February till June was consistent with what was to be anticipated on the basis of the concurrent appreciation of foreign currencies against the drachma. A comparison between February and July or August twelve-month rates of increase in prices, however, indicates that the price increases of imported goods were slightly faster than would have been justified by the course of the drachma's exchange rate. Profit margins therefore increased during July and August, although they were squeezed in September. On the whole, average profit margins for wholesale import firms during the six months from April to September decreased slightly in comparison with February levels. Until July, the drachma prices of *exported goods* (the production costs of which are affected by the devaluation only to the extent that they involve imported inputs) rose faster than the prices of domestic products for home consumption. More specifically, export firms initially chose to reduce their prices in terms of foreign currency less than what they could have, and then raised them again to their pre-devaluation level, preferring temporarily to expand their profit margins (which, however, fell to February levels in August and September). Eventually, average profit margins of export firms over the six-month period from April to September increased noticeably, in comparison with February levels. Overall, price developments of both imported and exported goods indicate that the impact of the devaluation on drachma prices was almost exhausted by April.<sup>14</sup>

(c) Finally, as far as *domestic industrial products for home consumption* are concerned, the acceleration in their price increases was at its

maximum until May and, though it was contained in June and July, it exceeded the level that would have been justified by the course of the drachma's exchange rate. However, until August and September, the acceleration was broadly consistent with the development of the exchange rate. On average, during the six months from April to September, the profit margins of domestic industrial firms whose products are intended for home consumption exceeded February levels but nevertheless increased less than those of export firms.

From the previous analysis it may be inferred that between February and October *core inflation accelerated by 1.1 percentage points, i.e. only slightly more than expected as a result of the drachma's devaluation (1.0 percentage point); the average acceleration from April through October (1.4 percentage points) did, however, clearly exceed the level anticipated (1.0 percentage point)*. More specifically, in response to the devaluation, most domestic firms (except wholesale import firms) immediately increased their prices by as much –percentage-wise– as foreign currencies had appreciated against the drachma until April, while the downward adjustment of prices as a result of the *drachma's appreciation from May to mid-August*<sup>15</sup> was (depending on the case) either limited or lagging in time. These pricing tactics brought about an increase in profit margins, which in the case of industrial firms (exporters or non-exporters) was

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<sup>14</sup> Indeed, in the ensuing quarter, in parallel with the development of the effective exchange rate of the drachma, these prices decreased continuously (total drop between April and July: 0.9 per cent for imported and 2.1 per cent for exported goods). In August and September, when the average monthly level of the effective exchange rate fell, these prices either remained unchanged or rose slightly.

<sup>15</sup> The stated data show that firms had already "made provision" for the depreciation of the drachma in the second half of August; thus, only to a very limited extent was it a source of new inflationary pressures in September.

Chart 12

Wholesale price index (1998)  
(Per cent change over the same month of the previous year)



Source: NSSG.

temporary, but in the case of retail trade firms continued through to September.<sup>16</sup> The increase in the profit margins of the latter firms is not reflected in the acceleration of the *general* Consumer Price Index (which –until September– appeared equal to the speed-up anticipated as a result of the devaluation, though it was smaller through to October), as it was offset by favourable developments in fresh fruit-vegetable prices (until August), fuel prices in the world market and public utility rates.

## 2. Other factors affecting inflation, and developments in the real economy

In the first ten months of 1998, inflation was not affected solely by the adjustment of the exchange rate of the drachma when it joined the ERM. The course of prices so far, as well as the prospects for the rest of 1998 and 1999, have been and continue to be affected, on both the demand and the supply side, by other important exogenous and endogenous factors as well.

Brief mention has already been made of the contribution of certain exogenous factors towards

partially offsetting the inflationary effects of the devaluation. Specifically, the substantial drop in fresh fruit and vegetable prices during the three summer months had a favourable impact (though these prices did rise substantially in September). In addition, world market prices for goods (excluding fuel and gold) decreased by 17 per cent and crude oil prices by roughly 24 per cent (in US dollars) from end-1997 to mid-October 1998.<sup>17</sup> In the domestic market, in spite of the effects of the devaluation, the twelve-month rate of *decrease* in the (drachma) fuel prices included in the Wholesale Price Index (WPI) had reached –10.1 per cent (from –5.4 per cent in December 1997), while the rate of decrease in fuel prices included in the CPI had come to –10.9 per cent in October (from –2.2 per cent in December 1997), a development partly accounted for by indirect tax

<sup>16</sup> The increase in profit margins is confirmed, on the one hand, by the course of the profits of firms listed on the ASE in the first half of the year (to the degree that this course is representative) and, on the other hand, by price developments in relation to the evolution of cost factors (see page 34).

<sup>17</sup> On the basis of the indices compiled by the *Economist*. Moreover, according to recent estimates (IMF, *World Economic Outlook*, October 1998), manufactured product prices in the world market will fall by 3.9 per cent in 1998, raw material prices (excluding fuels) by 13.9 per cent and crude oil prices by 31.1 per cent (in all three cases, in US dollars).

**Table V**  
**Employees' earnings, productivity**  
**and labour costs**  
*(Per cent annual changes)*

| Item   | 1997       | 1998       |
|--|------------|------------|
| <b>Average gross earnings:</b>                     |            |            |
| – whole economy (nominal)                          | 10.5       | 6.6        |
| – central government (*)                           | 13.5       | 7.8        |
| – public enterprises                               | 11.0       | 7.2        |
| – banks  | 9.7        | 6.3        |
| – manufacturing (**)                               | 8.9        | 6.5-7      |
| Minimum earnings                                   | 8.0        | 5.4        |
| <b>Employees' average disposable income (real)</b> | <b>4.9</b> | <b>1.1</b> |
| <b>GDP</b>   | <b>3.2</b> | <b>3.5</b> |
| <b>GDP per employee (whole economy)</b>            | <b>3.6</b> | <b>3.3</b> |
| Output per person-hour in manufacturing            | 4.4        | 4.5        |
| <b>Unit labour costs:</b>                          |            |            |
| – whole economy                                    | 7.2        | 3.8        |
| – manufacturing                                    | 4.4        | 2–2.5      |

(\*) Compensation per employee.

(\*\*) Hourly earnings of blue-collar workers.

Source: Ministry of National Economy/Directorate of Macroeconomic Analysis (for GDP and GDP per employee) and Bank of Greece estimates (for the rest of the items).

cuts (see Section IV.4 below). Furthermore, the prices of raw materials and semi-finished products in the domestic market remained virtually unchanged over the first three quarters of 1998.<sup>18</sup>

Unit labour costs are the main endogenous factor to have contributed this year to disinflation, by offsetting the *direct* repercussions of the devaluation. It is estimated that the growth of these costs – which is determined by wage policy in central government, the outcome of collective bargaining in the business sector (i.e. in private and public enterprises and in banks) and the course of productivity – has slowed down by roughly 3.5 percentage points in 1998 in the whole economy and to very low levels in the

manufacturing sector in particular,<sup>19</sup> as indicated in Table V. Average gross earnings in the whole economy are also estimated to have increased appreciably less than in 1997, as a result of the considerably slower growth of the average wage bill in central government<sup>20</sup> and of the notable slowdown of the increase in average gross earnings in public enterprises, banks<sup>21</sup> and the private sector.

In this connection, it should be noted that pay rises for civil servants had been determined prior to the devaluation (upon submission of the budget for 1998). The same holds for the earnings of employees in banks and most public enterprises (two-year agreements had been signed in 1997). In the private sector, where collective bargaining for minimum and

**18** Average twelve-month rate: +0.6 per cent, according to the Wholesale Price Index for Athens-Piraeus (domestic transactions), compiled by the Bank of Greece.

**19** The NSSG data for 1998, on the basis of which unit labour costs in manufacturing are calculated, are not yet available.

**20** The increase for 1997 (13.5 per cent) was particularly large, owing to the implementation of the new pay-scale for civil servants (Law 2470/97). The estimate that the average wage bill increased by 7.8 per cent in 1998 arises if account is taken of: the carryover from 1997; the impact of "seniority"; and the cost of implementation of new pay-scales for the Armed Forces' staff, the judiciary, the teaching staff of universities and technical institutions, medical doctors employed by the National Health System, and the diplomatic staff (Laws 2448/96, 2521/97, 2530/97 and 2606/98), in conjunction with relevant government budget forecasts, as revised in May to include the particularly limited impact of the devaluation on "salaries paid abroad". Furthermore, expenditure for salaries, health fees and other outlays and grants for salaries (including personnel outlays of hospitals and clinics) grew by 7.4 per cent (Ministry of Finance data) in the January-September period of 1998, compared with the corresponding period of 1997, while the number of civil servants decreased by 1.7 per cent in the same period (see below). The Ministry of Finance estimates that the rate of increase in the above expenditure for the whole of 1998 will be slower than in the first nine months of the year (it will be reduced to 6.2 per cent), because in 1997, owing to the implementation of the new pay-scale, wage increases began to be paid in August and thus burdened the last months of that year. If the number of civil servants decreases by an annual average of 1.5 per cent, per capita expenditure will indeed rise by 7.8 per cent.

**21** As indicated by the bi-annual financial statements of banks, the annual rate of increase in total personnel outlays in the first half of the year (about 7.5 per cent) is consistent with the estimate (see Table V) on bank personnel average salaries, taking also into account the rise in employment.

contractual wages at branch or occupational level was completed after the devaluation, the rises agreed to by both sides were restrained.<sup>22</sup> This reflects both the moderation of workers' wage demands, as a result of their greater confidence in the prospects of disinflation, and the effect of anti-inflationary monetary policy on the behaviour of social partners. Finally, the substantial rise in productivity for the second year in a row has also contributed to the comparatively slow growth of unit labour costs (see Table V).

An additional factor with an anti-inflationary effect this year (on the cost side) is the pricing policy of public enterprises, which was affected, *inter alia*, by the favourable evolution of cost factors. From December 1997 to October 1998, public enterprises' rates increased (on average) by only 3.4 per cent, compared with 8.3 per cent over the same period one year earlier.

By contrast, on the basis of available fragmentary evidences, the course of profit margins in 1998 has not contributed so far to the deceleration of inflation. In fact, data on the performance of non-bank firms listed on the Athens Stock Exchange (main and parallel market) indicate that during the first half of 1998 net pre-tax profits increased at a definitely higher rate than over the same period a year earlier. Furthermore, there are indications, as already mentioned, that after the devaluation the profit margins of most firms increased – as shown by the relationship between the price increase of imported inputs and that of exported goods or of goods for home consumption. Considering, additionally, that the prices of goods are increasing faster than unit labour costs, while financial costs are falling, even though slightly, it is estimated that profit margins this year will increase on an annual basis as well. Specifically, the Ministry of National Economy estimates that in the whole economy the GDP deflator will

increase by 4.8 per cent, as against a unit labour cost increase of 3.8 per cent; further, in the manufacturing sector the wholesale prices of domestic industrial products for home consumption will rise by 3.5-4 per cent,<sup>23</sup> compared with an expected unit labour cost increase of 2-2.5 per cent. (Similar calculations show that profit margins had remained virtually unchanged in 1997, after dropping in 1996).<sup>24</sup> As regards financial costs, the average short-term lending rate stood at 18.70 per cent in the first ten months of 1998, i.e. at roughly the same level as in the respective period of 1997 (18.78 per cent). This means that the average costs of short-term drachma loans remained unchanged. Should this interest rate remain at its October level, the average annual decrease in the cost of financing in 1998 would amount to 1.7 per cent (compared with a decrease of roughly 10 per cent in 1997 and about 9 per cent in 1996).<sup>25</sup>

The apparent increase of profit margins, i.e. the faster rise in prices than in cost factors, can be interpreted in the light of demand conditions in 1998, which, however, are far from uniform. Some demand components have, indeed,

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<sup>22</sup> According to the National General Collective Labour Agreement 1998-1999, minimum wages increased by 2.5 per cent as of 1 January 1998 (+0.2 per cent because of a corrective pay rise in 1997) and by 2 per cent as of 1 July 1998, and they will rise by 1.4 per cent as of 1 January 1999 and by 1.4 per cent as of 1 July 1999. The Agreement also provides for a corrective pay rise as of 1 January 1999 if inflation exceeds 3.5 per cent in December 1998. *If inflation is higher than 4.5 per cent, the corrective increase corresponding to the percentage over 4.5 per cent will be granted as of 31 December 1999.*

<sup>23</sup> The increase in prices of exported industrial products is even larger.

<sup>24</sup> On the basis of industrial firms' income statements, as analysed by the Federation of Greek Industries (SEB), net profit margins in industry fluctuated around 5-5.5 per cent in the 1995-1997 three-year period, i.e. they were 1-2.5 percentage points higher than in 1992-1994.

<sup>25</sup> The average annual level of the short-term bank lending rate fell to 18.9 per cent in 1997, from 21 per cent in 1996 and 23.1 per cent in 1995, contributing to the reduction in industrial firms' financial costs, as revealed by the analysis of balance sheets for 1997.

increased at a decelerating rate, while others show an acceleration. More specifically, according to the latest estimates, on a national accounts basis, of the NSSG and the Ministry of National Economy, the annual rate of increase in private consumption and imports is *slowing down* this year, compared with 1997, the growth rate of investment remains high but virtually unchanged and that of exports is picking up, while GDP will increase slightly more than last year. Investment and exports account for the largest contribution to GDP growth. At the same time, on a national accounts basis, the general government deficit is expected to fall from 4 per cent of GDP in 1997 to 2.2 per cent this year.

By contrast, according to econometric estimates,<sup>26</sup> the gap between actual and potential output in the whole economy continues to narrow. In particular, actual output has so far never exceeded potential output, and the difference between these two aggregates as a percentage of potential output (i.e. the output gap) has always been negative. However, since 1994, when the recovery of the economy began, the output has been decreasing (though less in 1998 than in 1997).

The econometric estimates of the decrease in the output gap in 1998 are corroborated by the rise in the industrial capacity utilisation rate, according to a survey by the Foundation for Economic and Industrial Research (IOBE). After dropping in 1996 and 1997, this rate rose to 75.8 per cent on average in the January-October period of 1998, from 73.9 per cent in the same period a year earlier. Its rise – in comparison with the corresponding months of 1997 – became clearly more pronounced from March 1998 onwards, as a result of the faster growth of manufacturing output, reflecting the improved competitiveness (primarily in the domestic

market), the establishment of a climate of confidence after the drachma's entry into the ERM, the substantial increase in productive investment over the previous three years, the implementation of a number of important procurement agreements between the industrial and the public sector, as well as the continued expansion of export activity by Greek firms towards non-EU countries. More specifically, total industrial output increased at an average twelve-month rate of 7.1 per cent in the January-August period,<sup>27</sup> while manufacturing output grew by 4.9 per cent.<sup>28</sup> In fact, the twelve-month rate of increase in manufacturing output rose *uninterruptedly* until July, at which time it reached 8.4 per cent, before falling to 3.3 per cent in August.<sup>29</sup> The evolution of manufacturing output is in step with firms' positive output estimates, as recorded in the IOBE conjunctural survey. However, there is still room for more intensive utilisation of productive capacity which is itself increasing, owing to the substantial growth, in recent years, of public and private investment, which is forecast to continue.

Furthermore, the employment rate appears to be falling, as the rate of *registered* unemployment is

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<sup>26</sup> The estimates are made by international organisations (OECD, IMF, European Commission) and the Economic Research Department of the Bank.

<sup>27</sup> This rate has been favourably affected by the fact that natural gas began to be distributed in February (previously this index included the production and distribution of town gas). Had this not occurred, it is estimated that the general industrial index would increase by a mere 4.2 per cent, which, however, is considerably larger than the annual increase in 1997 (1.1 per cent).

<sup>28</sup> In particular, in the same period the production of consumer durables increased by 22 per cent, of consumer goods by 4.4 per cent and of capital goods by 3.1 per cent. The positive contribution to the 4.9 per cent growth of manufacturing production stemmed mainly from the branches of foodstuff (1.66 percentage points), electrical machines and appliances (1.30 percentage points – including the production of telecommunication infrastructure items), chemicals (1.29 percentage points), plastic and rubber (0.48 percentage point) and basic metallurgy (0.35 percentage point).

<sup>29</sup> According to available indications, agricultural production is expected to remain at 1997 levels or increase slightly.

rising and has come to 9.6 per cent (average over the first seven months of 1998, as against 8.2 per cent over the same period of 1997).<sup>30</sup> The Ministry of National Economy, by contrast, forecasts a small drop in the rate of *total* unemployment (from 10.3 per cent in 1997 to 10.1 per cent in 1998). Sufficient data on employment are still not available for 1998. In central government and public enterprises, the number of employees decreased, by 1.7 and 3.5 per cent, respectively, in the first three quarters of 1998, compared with the same period of 1997, whereas in manufacturing the number of employees fell by 2.1 per cent in the first quarter of 1998 (NSSG data). As shown by conjunctural surveys conducted by IOBE, which include questions on employment prospects, industrial firms forecast that employment will remain unchanged or will drop, while retail trade and construction firms project an increase. It is worth recalling that total employment fell by 0.5 per cent in 1997, although the total number of employees rose by 0.5 per cent in 1997 (according to the NSSG labour force survey). In manufacturing, however, employment decreased by 3.2 per cent (NSSG). For the current year, the Ministry of National Economy anticipates a very small increase in total employment (0.2 per cent). Such a development seems likely if two counterbalancing factors are taken into consideration. On the one hand, the continued restructuring and technological modernisation in the primary and the secondary sector have led to higher productivity, labour saving and a reduction in employment. This has also been the result of the recruiting policy pursued in the public sector, aimed at fiscal consolidation and operational improvement. On the other hand, the expansion of the services sector, the substantial increase in output, the improvement in competitiveness and the special programmes implemented by the government in the context of

the National Employment Action Plan have all led to an increase in employment. The implementation of the provisions of Law 2639/1998 on labour relations is expected to lead to the same result (especially next year), by increasing labour market flexibility and helping reduce labour costs. Moreover, the registration of illegal foreign workers was completed on 1 June this year, with a total of 375,000 people having applied, while the continuing legalisation procedure of these workers will increase the labour force.

On the basis of the above data, there does not seem to be any overall shortfall of supply with respect to demand. However, discrepancies are likely to be manifested in particular sectors, with adverse effects on inflation if they are not checked in time by using available economic policy instruments. A more detailed reference to demand components would therefore be useful (see Table VI on page 39).

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### 3. Demand developments (detailed presentation)

The estimate that the increase in private consumption has slowed down owing to the impact of the devaluation is corroborated by most short-term indicators. In particular, the average twelve-month growth rate of retail sales volume in the January-August period was much lower than in the corresponding period of 1997 (2.1 per cent, compared with 4.3 per cent), given that the slower increase in demand for furniture-

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<sup>30</sup> In the same period of 1998, the number of registered unemployed persons increased by 72,000 or 34.3 per cent. The Manpower Employment Agency (OAED) estimates that the increase reflects mainly the fact that a person's registration as unemployed is now a precondition for participation in the subsidised employment and training programmes.

household equipment and “miscellaneous items” more than offset the faster growth of demand for foodstuff. Similarly, the index of business expectations in retail trade (which IOBE has recently begun to publish) fell steeply, immediately after the devaluation. The same applies to demand for tourist services – in Greece – by Greeks<sup>31</sup>: its twelve-month growth rate decelerated in the January-June period. However, after the devaluation there was a temporary upsurge of demand for certain categories of products (mainly imported), because consumers rushed to buy before stocks sold by firms at previously applying prices were exhausted. As regards new private passenger car registrations (not included in the retail sales index), the corresponding twelve-month rate accelerated sharply, from 1.4 per cent in March to 31.2 per cent in April, while it *remained high* during the first nine months of 1998 (13.2 per cent on average, compared with 10.8 per cent in the corresponding 1997 period).

The considerably slower increase in employees’ average real disposable income (from 4.9 per cent in 1997 to about 1 per cent in 1998) contributed to the overall evolution of demand; this deceleration reflects moderate rises in nominal earnings, combined with the (small) increase in wage earners’ tax burden and the limited – compared with 1997 – inflation drop (owing to the devaluation). The effect of this factor is partly offset by the increase in the value of assets held by households and by the rapid expansion of consumer credit. It is characteristic that the composite share price index of the Athens Stock Exchange, despite a considerable drop in August and September, rose by 46.2 per cent during the first ten months of the year, while in 1997 it had risen by 58.5 per cent.<sup>32</sup> Furthermore, according to unofficial estimates published in the financial press, prices of dwellings in Athens, which had

decreased cumulatively by about 30 per cent between 1991 and 1996, rose, *in real terms*, by 7-8 per cent in 1997, while this year the increase may be even greater. Finally, the outstanding balance of total bank credit to consumers increased in September by 21.4 per cent, compared with December 1997, and by 30.4 per cent, compared with September 1997.

Two main factors contributed to the expansion of consumer credit, which maintains inflationary pressures. First, banking competition is intensifying, owing to the efforts of banks (mainly small ones) to increase their market share. Second, the considerably slower increase in employees’ real income in 1998 leads households to seek alternative sources of financing for the improved level of consumption they have achieved following the economic recovery in recent years. Households are willing to undertake an increased burden of debt, possibly because they wish to come closer to foreign consumption standards, as well as because their expectations regarding the course of the Greek economy and the country’s entry in EMU are improving.

The above data, combined with some more permanent factors (such as imperfect competition in the distribution of goods and services and the pressure exerted by the non-registered earnings of the black economy), explain the, at first sight, strange phenomenon mentioned above – i.e. the increase in the profit margins of most enterprises under conditions of slower growth of total consumer demand and employees’ real disposable income.

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<sup>31</sup> As can be measured by overnight stays of nationals in hotels, according to data released by the Hellenic Tourism Organisation (EOT).

<sup>32</sup> Although the proportion of households that own shares is still rather small, this development may somewhat affect consumer demand and thus exert pressure on prices.

As regards investment demand, available short-term indicators confirm, to some degree, the latest estimates of the Ministry of National Economy, according to which total gross fixed capital formation is expected to rise much faster than in the other EU countries.<sup>33</sup> In particular, disbursements out of the Public Investment Programme rose at a twelve-month average rate of 33.2 per cent in the January-October period,<sup>34</sup> private construction activity increased at a high rate in January-August (11.5 per cent, compared with 4.3 per cent in the corresponding 1997 period)<sup>35</sup> and the production of capital goods grew by 3.1 per cent also in the January-August period.<sup>36</sup> The fact that the growth rate of private construction activity (dwellings) is high and accelerating, compared with 1997, is related, *inter alia*, to the continuing rapid expansion of housing credit<sup>37</sup> and could possibly become a source of inflationary pressures, although it does not affect consumer prices directly. The considerable increase in public investment is also connected with the ever faster absorption of funds from the 2nd Community Support Framework 1994-1999. Besides, private industrial firms forecast a 9.1 per cent increase in investment expenditure (at current prices) in 1998 (according to revised data derived from the investment survey carried out by IOBE in March-April 1998). However, these firms estimate that the rise was much higher last year (26.3 per cent). It is also worth mentioning that the index of business expectations in manufacturing (IOBE), though it rose notably faster right after the devaluation (its twelve month growth rate reached 3.9 per cent in April and 3.4 per cent in May), in the January-October period increased at an average rate considerably lower than in the corresponding period of 1997 (1.2 per cent, compared with 6.2 per cent).

As mentioned above, according to the latest estimates by the Ministry of National Economy, the general government deficit will drop to 2.2 per

cent this year, from 4 per cent in 1997. According to provisional data released by the Ministry of Finance, the deficit of the overall government budget, on an accruals basis, dropped to 3.2 per cent of GDP in the first nine months of the year, compared with 4.5 per cent in the corresponding 1997 period. Furthermore, according to Bank of Greece data, the net deficit of central government, on a cash basis, fell to 3.3 per cent of GDP in the first nine months of 1998, from 3.9 per cent in the corresponding period of 1997. This reflects the revenue increase in the January-September period of 1998 at a rate higher than forecast for the year as a whole. At the same time, however, expenditure also rose faster than forecast. The rather large increase –up to now– in ordinary budget's primary expenditure is associated, on the one hand, with delays in salary payments in the corresponding nine-month period of 1997 (the increases provided for by the new pay-scale began to be paid in August of that year) and, on the other hand, with the high growth rate of pension outlays. Interest payments increased as well, because interest rates, particularly those on twelve-month Treasury bills (which affect, among other things, floating-rate bond yields), remain at levels higher than forecast at the time when the budget was drawn up. The Ministry of Finance, however, estimates that primary expenditure will return to

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<sup>33</sup> According to the "Autumn forecasts" of the European Commission in 1998, investment in equipment will increase by 7.9 per cent in the EU (1997: 4.9 per cent), while in Greece it is rising by 9.1 per cent (1997: 9.3 per cent, according to estimates by NSSG and the Ministry of National Economy).

<sup>34</sup> Assignments of public works by auction in the January-August 1998 period increased very much, compared with the corresponding period of 1997 (+56 per cent on the basis of the budget on public works assigned by auction).

<sup>35</sup> Moreover, cement production increased by 2.4 per cent in the January-August period, while the index of construction firms' business expectations (compiled by IOBE) rose by 17.6 per cent (twelve-month average) in the January-September period.

<sup>36</sup> The rise in the productive capacity utilisation rate for industries producing capital goods was also considerable.

<sup>37</sup> The outstanding balance of total bank lending to housing increased by 14.4 per cent and 22.2 per cent in September, respectively, compared with December and September 1997.

its normal course in the last months of the year, while interest payments depend not only on the evolution of interest rates but also on the manner in which the deficit is financed (foreign borrowing, Treasury bills or bonds). Actually, according to Ministry of Finance estimates, the deficit of the overall government budget, on an accruals basis, will eventually come to a level slightly lower than forecast.

As regards foreign demand, according to the latest estimates by the International Monetary Fund and the European Commission,<sup>38</sup> the GDP growth rate in the EU is accelerating slightly in 1998 (to 2.9 per cent, from 2.7 per cent in 1997), but the growth rate of the world economy is slowing down to 2 per cent (1997: 4.1 per cent) and the volume of world trade in goods and services is increasing by only 3.7 per cent (1997: 9.7 per cent). It should be pointed out, however, that Greek production benefits from the improvement in competitiveness which is due to, on the one hand, the adjustment of the exchange rate of the drachma after its devaluation and, on the other hand, the narrowing of the differential between unit labour cost increases in Greece and the EU (and the other competitor countries). Nevertheless, the appreciation of the drachma in the May-July period seems to lead to a smaller increase in exports than initially expected. These data were the basis of the latest estimates by the Ministry of National Economy that export growth will accelerate rather slightly and the increase in imports will record an even smaller slowdown (see Table VI).

Moreover, in the January-June period, owing to the smaller trade deficit, the current account deficit fell to \$3,087.8 million, from \$3,487.9 million in the corresponding period of 1997. By contrast, the surplus on invisibles decreased slightly in the above period. More specifically, from January through to June the trade deficit fell to \$9,009.3

**Table VI**  
Demand and gross domestic product  
(Per cent annual changes)

| Item  | 1997       | 1998<br>(Estimate) | 1999<br>(Forecast) |
|---|------------|--------------------|--------------------|
| Private consumption                                 | 2.5        | 1.8                | 2.0                |
| Public consumption                                  | -0.4       | -0.6               | -0.8               |
| Gross fixed capital formation:                      | 9.6        | 9.8                | 11.0               |
| private   | 10.5       | 8.4                | 9.9                |
| - residential                                       | 10.9       | 8.5                | 8.0                |
| - non-residential                                   | 10.3       | 8.4                | 11.2               |
| public  | 7.0        | 13.7               | 14.1               |
| Change in stocks (per cent of GDP)                  | (0.0)      | (0.4)              | (0.8)              |
| Domestic final demand                               | 3.4        | 3.3                | 3.7                |
| Exports of goods and services<br>(Exports of goods) | 5.3<br>5.1 | 7.1<br>6.4         | 7.0<br>6.5         |
| Imports of goods and services<br>(Imports of goods) | 5.4<br>5.4 | 4.9<br>5.2         | 5.9<br>6.3         |
| Gross domestic product<br>at market prices          | 3.2        | 3.5                | 3.7                |

**Source:** Revised estimates and forecasts by NSSG and the Ministry of National Economy/Directorate of Macroeconomic Analysis, September–November 1998. For more details, see Table 3 of the statistical appendix.

million from \$9,521.4 million in the corresponding period of 1997. This resulted from the cut in the import bill, which offset by a wide margin the drop in export receipts. The reduction in the trade deficit stemmed almost entirely from the oil account. During the same period, invisible receipts increased by \$337.4 million and invisible payments by \$449.4 million, compared with the corresponding period of 1997. Thus, the surplus on invisibles decreased by \$112 million – compared with the first half of 1997 – to \$5,921.5 million.

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#### 4. Inflation prospects and factors affecting them

Despite the temporary upsurge of inflationary pressures, the prospects of further disinflation in 1998 and particularly in 1999 are generally

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<sup>38</sup> IMF, *World Economic Outlook*, October 1998 and "Autumn forecasts" of the European Commission.

favourable, because major inflation determinants are evolving satisfactorily and the monetary policy pursued, along with some special measures, will contribute to faster disinflation. This estimate is corroborated by price developments in October and the fact that inflationary expectations seem to be abating.<sup>39</sup>

As regards major determinants of inflation, the anticipated course of unit labour costs has a favourable contribution. It is characteristic that the provisions of the collective, two-year, labour agreements signed in 1998 for the *private sector* point to a clear deceleration of wage increases in 1999. Moreover, *central government* outlays for salaries and pensions will increase at a notably slower pace, as provided for in the new budget. These facts, combined with the expected maintenance of productivity growth at high levels (about 3 per cent), mean that, according to a provisional forecast, the increase in unit labour costs for the whole economy can be contained to 2-2.5 per cent next year (1998: 3.8 per cent, 1997: 7.2 per cent). In manufacturing, unit labour costs are forecast to rise by less than 2 per cent. This will be of decisive importance for attaining the inflation target. Moreover, the increase in wage earners' real disposable income is projected to be moderate, affecting demand accordingly.

Moreover, the impact of price developments in the world market – which were favourable in 1998 – is expected to be small.

Another major factor is the strict monetary policy, which has led to an appreciation of the drachma, compared with its central exchange rates determined on 16 March, and has thus reduced the impact of the devaluation and imported inflation in general. At the same time, the fact that interest rates remain at high levels and monetary and credit expansion is moderate

restrains inflationary pressures on the demand side as well.

The further cut in the fiscal deficit will also contribute to moderating inflationary pressures and weakening inflationary expectations, as the general government deficit is forecast to decline to 1.9 per cent of GDP in 1999, compared with an estimated 2.2 per cent of GDP in 1998.

The above analysis indicates that the policy mix is improving, provided that all three policies (wage, monetary and fiscal policy) converge towards the same objective.

However, the slow drop of inflation in the previous months and the distance from the objective for 1999 led to the conclusion that it is necessary to take some additional measures that would yield immediate results, such as a cut in indirect taxes, and “gentlemen's agreements”, as well as to implement the structural policy faster.

In particular, it is estimated that – in conjunction with the favourable effect of basic determinants of inflation – the cut in some special consumption taxes (on gasoline as of 25 September and on heating oil as of mid-October), as well as “gentlemen's agreements”, which the Ministry of Development has already promoted and continues to do so with a view to reducing the prices of some consumer goods in the last 4-5 months of the year, have already contributed to the decline in the twelve-month rate of inflation in October. It is also estimated that they will further contribute to

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<sup>39</sup> Consumers' inflationary expectations (as recorded by a survey conducted on behalf of the European Commission), as well as those of industrial and construction firms (according to IOBE conjunctural surveys), were reinforced immediately after the devaluation but began to abate as early as from May or June. Although consumers' inflationary expectations increased temporarily in July (thereafter they abated once more), firms' inflationary expectations followed a strongly downward trend until the end of October.

reducing this rate to a level slightly above 4 per cent in December, particularly if the government decision to cut (as of mid-November) indirect taxes on private passenger cars is taken into account. For 1999, the government decided to reduce indirect taxes on electricity rates (as of January) and is also pressing ahead for the conclusion of additional "gentlemen's agreements" to restrain price increases on some basic products, while it has announced that public utility rates will be "frozen" or even reduced. The impact of these measures is not only of a short-term nature, as is usually believed. If they contribute to reducing inflation to a level lower than 4.5 per cent at end-1998 and not higher than 2 per cent at the end of 1999, inflationary expectations will be dampened and the clauses of the two-year labour agreements for corrective pay rises in the private sector as of 31 December 1999 and 1 January 2000, respectively, will remain inoperative.<sup>40</sup> This will strengthen the downward trend of inflation until the beginning of the year 2000.

The fiscal cost of the measures reducing indirect taxes is expected to be offset by a revenue growth (which will depend on the increase in demand and the expansion of economic activity, but also on the tax reform) and a decrease in expenditure (which can stem either from a reduction in interest payments or from better fiscal management, or –if necessary– from cuts which may slow down GDP growth). Without this offsetting action, the deficit would increase. Correspondingly, the cost of restraining increases in public utility rates should be offset by a rise in productivity and a containment of operating costs, so as not to burden the financial results of public enterprises<sup>41</sup> nor make their privatisation prospects worse.

As regards structural policy, despite delays and problems, progress has been recorded in the field

of public enterprises.<sup>42</sup> Privatisation (involving not only public enterprises), despite some problems which had appeared initially, is expected to proceed faster over the coming months.<sup>43</sup> Moreover, various legislative measures concerning structural adjustment,<sup>44</sup> aimed at improving market operation and the effectiveness of the public sector, are being implemented or promoted at a faster pace. In this way, structural reforms will contribute, in the medium term, to reducing the public deficit and the public debt, restraining labour costs and the cost of supplying public utility services, and to faster disinflation.

With respect to the time-schedule of disinflation, it should be noted that the largest part of the direct impact of the devaluation of the drachma

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**40** The corrective pay rise to be given to private sector's wage earners as of 1 January 1999 will also be *smaller* than initially expected. It should be recalled that, according to the two-year collective labour agreements applying to the private sector, if inflation ranges between 3.5 and 4.5 per cent at the end of 1998, a corresponding pay rise will be given as of 1 January 1999. If inflation exceeds 4.5 per cent, the corrective rise for the percentage *over 4.5 per cent*, will be paid as of 31 December 1999, and if it is higher than 2 per cent at end-1999, a corrective pay rise will be given as of 1 January 2000.

**41** In 1998, the containment of increases has up to now contributed to the reduction in public enterprises' deficit (see also Section III.4).

**42** In compliance with the provisions of Law 2414/96 (as amended by Article 31, para 8 of Law 2579/98, which facilitates the revision of personnel regulations in order to abolish restrictive practices hindering the rise in productivity), many public enterprises have completed the procedures of management selection, introduction of business standards of operation and drawing up of operational and strategic plans, while the conversion of some public enterprises into sociétés anonymes, the revision of personnel regulations and the conclusion of management contracts are under way.

**43** The sale of the third part of OTE shares has been completed.

**44** Law 2601/98 on private investment aids is already in force, Law 2639/98 on labour relations was enacted in August, while the first stage of implementation of presidential decrees on registering and legalising foreign workers (as mentioned above) has been completed; the enactment of the law arranging stock market issues is imminent, draft laws on the National Land Registry, the new code for civil servants and the organisation and operation of urban transport have been submitted to the Parliament, while the draft laws on collective bargaining in central government and on social insurance have been made public. At the same time, preparations are made to establish a new regime of the market for postal services and the operation of OSE (Hellenic Railways Organisation), and to deregulate the electric power market.

on the twelve-month rate of inflation will be eliminated after March 1999. As a result, this rate will drop by about one percentage point.

However, there is an element of uncertainty, which affects prospects. Among *internal* factors, the extent to which the fiscal cost of reducing indirect taxes will be offset, the pace at which the "output gap" will narrow, and the possibility that consumer and housing loans<sup>45</sup> will continue to grow may turn out to be a source of inflationary pressures.<sup>46</sup> These effects, however, are countered – to a degree which is not easy to estimate – by other factors. In particular, potential output will be bolstered by private productive investment, as well as public investment which improves infrastructure: as a result, not only the stock of fixed capital but also total productivity will increase. Furthermore, potential output is boosted by the increase in the labour force due to the legalisation of immigrant workers. At the same time, this development helps to restrain labour costs in the official sector of the economy (hence, also inflation) and reduce the deficit of general government (as it leads to an increase in the receipts of social security funds).

Finally, there are *external* factors as well, which are related to the economic crisis observed in certain parts of the world. In particular, there are two elements of uncertainty: first, the risk of a further slowdown in the growth rate of the world economy, which could influence the rates of increase in Greek exports and GDP; second, the risk of a new turmoil in international capital markets, which could hinder the financing of the public deficit and slow down the fall in interest rates.

As for the first risk, according to the latest IMF and European Commission forecasts, GDP growth in the EU as a whole is expected to slow

down from 2.9 per cent this year to 2.4-2.5 per cent in 1999 (compared with 3 per cent, forecast in March). By contrast, world economic growth is expected to accelerate to 2.5 per cent (from 2 per cent this year) and the increase in world trade volume to 4.6 per cent (1998: 3.7 per cent). Since commodity exports to countries which actually face, or are at risk of facing, a crisis account for no more than 1 to 2 per cent of Greece's GDP, any decrease in export volume towards these countries would have only a small negative impact on Greece's GDP growth rate.<sup>47</sup> The impact of a possible slowdown in the growth rate of commodity exports to EU countries (*these* exports account for 5 per cent of GDP) would be more serious. Such a contingency would in turn have two *direct* effects. First, productivity growth would be slower than forecast at present (save for a corresponding slowdown in employment growth) – and consequently, the rise in unit labour costs would be sharper in 1999. Second, the "output gap" would narrow at a slower pace. The first effect would push inflation upwards, while the second one would push it in the opposite direction. Moreover, the devaluation of the currencies of some Asian countries facing a crisis and the recent drop of the exchange rate of the US dollar have so far contributed towards partially offsetting the impact of the devaluation of the drachma against European currencies and therefore restraining the rise in the drachma

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<sup>45</sup> Capital gains of households from the revaluation of their assets (shares and real estate), may also exert inflationary pressures, though, in the case of shares, ownership is not wide-spread, as already mentioned.

<sup>46</sup> Although indications are (in principle) favourable, as stated above, it cannot be ruled out that unit labour costs will evolve more unfavourably than forecast. Nevertheless, owing to the lack of adequate data, even for 1998, no detailed estimates can be made.

<sup>47</sup> For example, a possible decrease of 20-30 per cent in commodity export volume to these countries would directly entail a 0.2-0.6 percentage point drop in Greek GDP growth in 1999 (in 1998, according to available indications, the downward impact of such a decrease would be negligible or would not exceed 0.1-0.2 percentage point).

prices of imported goods (hence also in the rate of inflation). If this phenomenon *does not* continue in 1999, and given that international organisations forecast that oil prices will recover and other commodity prices in the world market will increase only slightly or remain unchanged (in 1998, prices in both cases fell significantly), the extent to which Greek inflation will decelerate in 1999 may be unfavourably affected.

The second risk has already occurred, as interest rates on government paper rose after the Russian crisis in August. Repetition of such phenomena will either jeopardise the attainment of the targeted reduction in the fiscal deficit or slow down economic growth (if the increase in central government's interest payments leads to a cut in investment expenditure and cannot be offset by an increase in revenue or an improvement in fiscal management).<sup>48</sup>

Precisely because of these uncertainties and since the remaining period of time for reducing inflation

below 2 per cent is limited, it is necessary to follow an adequate macroeconomic policy, in a concerted and consistent manner with respect to all policy components. It is also imperative to implement, the soonest possible, additional measures, so as to create sufficient "safety margins". If these conditions are fulfilled, then with the –indispensable– active contribution of social partners, it is feasible to attain the targeted 2 per cent inflation rate by the end of 1999. It goes without saying that the Bank of Greece will contribute to the achievement of this major objective –which is of national importance– by maintaining the anti-inflationary stance of the monetary policy pursued.

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**48** In particular, it is estimated that if the increase in central government expenditure for interest payments due to a rise of *one* percentage point in the average annual level of the twelve-month Treasury bill rate is *offset by a cut, to the same amount*, of investment expenditure, this would *directly* curb GDP growth by 0.2 percentage point in the same year and 0.6 percentage point in the following year. This calculation does not take into account the fact that if the increase in interest rates is generalised, it would have a downward impact on private investment, on the one hand, and an upward effect on the income of government paper holders, on the other.



## V. Monetary policy guidelines

The main aims of monetary policy were the containment of inflationary pressures, which intensified in the wake of the devaluation of the drachma in March 1998, the return of inflation to a downward path, and the creation of conditions in the money, foreign exchange and credit markets conducive to a fall in inflation below 2 per cent by the end of 1999. In fact, directly after the devaluation of the drachma in March, the Bank of Greece sought to mitigate inflationary pressures and expectations, thereby contributing to a climate that would facilitate the signing of favourable wage agreements.

The anti-inflationary stance of monetary policy is reflected chiefly in the evolution of the exchange rate of the drachma and interest rates. After the drachma joined the ERM, and especially following the EU Summit in early May 1998, the Bank of Greece pursued a policy of gradual and slow cuts in its intervention rates, which had reached exceptionally high levels prior to the devaluation, owing to the pressure exerted on the drachma at the time. Real interest rates remained high. Thus, the real 3-month interbank rate averaged 7.6 per cent in October 1998, the comparable rate in the other euro area countries being below 3 per cent. At the same time, the Bank of Greece, in the context of its disinflationary policy and in order to restrain liquidity creation due to capital inflows, generally refrained from intervening in the foreign exchange market; as a result, the drachma appreciated and capital inflows abated. The appreciation of the drachma above its ERM central rates averaged 7.5 per cent in mid-August, then fell to 4.7 per cent at the end of September, owing to the international monetary turmoil, and rose to 6.1 per cent at the end of October.

The tight stance of monetary policy has also contributed to a slowdown in the growth rate of broad money (M3), while the broader liquidity

indicator M4 has declined. However, total credit expansion is still high, for two main reasons. First, it is mostly domestic credit institutions that finance the deficit of central government, either directly, by increasing their holdings of government paper, or indirectly, by extending drachma loans to foreign investors to finance the purchase of government bonds. Second, credit expansion to the private sector, despite some deceleration, remains high, especially as regards consumer loans, thereby strengthening total demand and fostering inflationary pressures and expectations.

Monetary policy will fully retain its anti-inflationary stance until the ultimate inflation target is attained. In particular, interest rate policy will depend mainly on the evolution of core inflation and of the basic determinants of its future trend. The anticipated deceleration in unit labour costs and the containment of the fiscal deficit at the level budgeted for 1999 should contribute to the abatement of inflationary pressures in 1999, while they are also essential preconditions for a sustained fall in inflation and interest rates. Specific government interventions, such as cuts in indirect taxes and gentlemen's agreements to restrain price rises should also contribute to a faster deceleration of inflation.

Despite the estimated favourable impact of the above factors on price developments, monetary policy must continue to support the disinflation process. This view is indeed advocated by the slow pace at which core inflation fell during the preceding months, the persisting uncertainties about the international economic environment and the short time available for the attainment of

the inflation target. Also, the positive and relatively direct impact of government interventions on inflation will only be sustained if the appropriate economic and monetary conditions prevail. For these reasons it must be ensured that the rise in total demand will be compatible with the increase in domestic supply, so as to mitigate inflationary pressures in the long run, and that the gentlemen's agreements will be applied consistently and will not be breached during 1999.

Monetary policy must therefore ensure that the drachma will remain strong within the ERM and that monetary and credit expansion will help stem the growth rate of total demand in line with the potential of the economy. The fall in inflation will thus continue over the coming months and will not prove short-lived. Especially during this critical period until Greece joins monetary union, interest rate policy must be conducted very cautiously so as to enable the smooth changeover of the Greek economy to the single currency. The decline and stabilisation of inflation at a low level will help achieve a significant and sustained drop in interest rates, which will bring about substantial benefits to the economy. That will be the positive contribution of monetary policy, within the framework of overall economic policy, to the attainment of the objectives set for the nominal and real convergence of the Greek economy and the country's entry into EMU. This is a matter of national importance, not only for the further progress of Greece within Europe, but also for attaining and maintaining high rates of economic growth which will enable a steady rise in the standard of living and, most importantly, will help create jobs and curb unemployment.

## Monetary policy measures in 1998

### *8 January*

As of 9 January 1998, the Bank of Greece raises its lombard rate to 23 per cent from 19 per cent. The maximum borrowing per credit institution under this facility is lowered by 50 per cent.

### *14 January-11 March*

During this period, the Bank of Greece absorbs liquidity through regular tenders for 14-day deposits. The intervention rate is gradually reduced from 20 per cent (14 January 1998) to 16.5 per cent (11 March 1998).

### *30 March*

As of 31 March 1998, the Bank of Greece lowers its lombard rate from 23 per cent to 19 per cent. The maximum borrowing per credit institution under this facility is restored to the level in effect before 9 January 1998.

In addition, as of 31 March 1998, the overdraft rate is lowered from 24 per cent to 22 per cent and the 0.2 percentage points daily surcharge on this rate is abolished.

### *9 April*

As of 10 April 1998, the Bank of Greece abolishes its standing facility for the discounting of bills of exchange and promissory notes. This facility had not been used for a long time.

### *22 April*

As of 23 April 1998, the interest rates of the deposit facility are raised to 11.5 per cent for the first tranche and 9.75 per cent for the second tranche, from 10.9 per cent and 9.6 per cent respectively.

### *2 June*

As of 1 July 1998, the redeposit requirement, with the Bank of Greece, on seamen's and emigrants' foreign exchange deposits with credit institutions

operating in Greece is reduced to 60 per cent from 70 per cent. The commission on these redeposits is lowered from 1.2 per cent to 1 per cent per annum.

*18 March-3 June*

During this period, the intervention rate of the Bank of Greece on 14-day deposits is gradually lowered from 16 per cent (18 March 1998) to 13.75 per cent (3 June 1998).

*8 July*

– The intervention rate of the Bank of Greece on 14-day deposits is lowered from 13.75 per cent to 13 per cent.

– As of 9 July 1998, the interest rate for the first tranche of the deposit facility is raised from 11.5 per cent to 11.9 per cent.

*31 July*

– The total borrowing under the Bank of Greece lombard facility and its allocation are determined as follows: an amount of 200 billion drachmas is allocated to credit institutions on the basis of their respective quotas in the first tranche of the deposit facility, plus an amount of 300 million drachmas per credit institution and, if the institution is a Primary Dealer, plus a further 10 billion drachmas.

– As of 5 August 1998, the Bank of Greece lowers its lombard rate from 19 to 16 per cent.

*14 October*

The intervention rate of the Bank of Greece on 14-day deposits is lowered from 13 per cent to 12.75 per cent.

# Press releases regarding decisions of the Monetary Policy Council\*

*Re: Changes in key interest rates and financing limits*

30 March 1998

The Monetary Policy Council of the Bank of Greece (Act 1/30 March 1998) decided the following:

1. to lower the interest rate on credit institutions' borrowing from the Bank of Greece against collateral of government securities (lombard rate) to 19 per cent per annum (from 23 per cent), i.e. to the level applying prior to its latest increase (8 January 1998);
2. to reset the maximum borrowing per credit institution in the context of the above facility at the level applying prior to 8 January 1998, when it was cut by 50 per cent. The amount available for this type of credit is again subject to a global ceiling (for the banking system as a whole) of 150 billion drachmas;
3. to abolish the daily surcharge of 0.2 per cent in addition to the annual overdraft facility rate that was charged on further increments in the debit balances of banks' current accounts with the central bank. At the same time, the Monetary Policy Council decided to lower to 22 per cent per annum (from 24 per cent) the overdraft facility rate.

The adjustment of interest rates and financing limits reflects the fact that normal conditions were fully restored in money and foreign exchange markets following the entry of the drachma into the Exchange Rate Mechanism of the European Monetary System. Given the excess liquidity conditions prevailing in

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\* This chapter includes press releases regarding certain decisions of the Monetary Policy Council on the conduct of monetary policy.

the interbank market, these adjustments have no direct effect on the level of interest rates. In this period, credit institutions do not require central bank financing; the Bank of Greece intervenes frequently in the interbank market and absorbs liquidity totalling over one trillion drachmas per day.

\* \* \*

*Re: Abolition of the standing credit facility to banks through the rediscount of bills of exchange and promissory notes*

9 April 1998

The Monetary Policy Council of the Bank of Greece (Act 2/9 April 1998) decided to abolish as of 10 April 1998 the standing credit facility offered by the Bank of Greece to banks through the rediscount of bills of exchange and promissory notes.

This facility was virtually inactive owing to changes in the practice followed by banks in providing credit to their customers: the banks did not hold a sufficient quantity of securities (discounted commercial paper and bills of exchange) to meet the criteria for their subsequent rediscount by the Bank of Greece (Bank of Greece Governor's Act 2185/24 March 1993).

Moreover, as decided recently by the Council of the European Monetary Institute, the monetary policy framework to be adopted by the European System of Central Banks (ESCB) will not include a standing facility of this kind.

The ESCB will steer interbank rates through standing facilities and with instruments similar to those adopted by the Bank of Greece, namely a standing lombard facility and a standing deposit facility.

\* \* \*

*Re: Adjustment of key interest rates of the Bank of Greece*

22 April 1998

The Monetary Policy Council of the Bank of Greece decided to change the interest rates applying to interventions of the Bank of Greece in the money market as follows:

- Effective from 23 April 1998 (Monetary Policy Council Act 3/22 April 1998), the interest rate on the first (basic) tranche of banks' overnight deposits with the Bank of Greece is raised from 10.90 to 11.50 per cent per annum and the interest rate on the second tranche from 9.60 to 9.75 per cent per annum.
- The intervention rate on the regular weekly tender (held on 22 April 1998) of the Bank of Greece for accepting 14-day deposits is lowered from 14.75 to 14.25 per cent per annum.

The increase in the interest rates on the standing facility for the acceptance of overnight deposits aims to contain incipient inflationary pressures. This was accompanied by a reduction in the regular tender rate, with a view to establishing a more rational relationship between the key rates of central bank intervention in the money market.

\* \* \*

*Re: Adjustment of interest rates on Bank of Greece interventions in the interbank market*

8 July 1998

The Bank of Greece announces that the Monetary Policy Council in its meetings of 7 and 8 July 1998, after having examined thoroughly the conditions prevailing in money and foreign exchange markets

as well as the course of inflation and its determinants over the remainder of the year and through 1999, decided the following:

- to lower from 13.75 to 13 per cent per annum the interest rate on Bank of Greece interventions in the interbank market for accepting 14-day deposits;
- to raise the interest rate on the first (basic) tranche of the overnight deposit facility from 11.50 to 11.90 per cent per annum. The interest rate on the second tranche of the deposit facility remains unchanged, at 9.75 per cent per annum (Monetary Policy Council Act 5/8 July 1998).

The above adjustments aim to further rationalise the relationship between the two intervention rates of the Bank of Greece by reducing the spread between them from 2.25 to 1.1 per cent. They also reflect positive developments in the foreign exchange market and the containment of inflationary pressures following the devaluation of the drachma in mid-March 1998. At the same time, they take into consideration the need to maintain a tight monetary policy, in particular to contain credit expansion, so as to achieve a fall in inflation to below 2 per cent by the end of 1999.

\* \* \*

*Re: Change in the regime of the lombard facility and adjustment of the relevant rate*

31 July 1998

The Monetary Policy Council of the Bank of Greece decided (Acts 6 and 7/31 July 1998) to amend, as from 5 August 1998, the provisions of Bank of Greece Governor's Act 2185/24 March 1993 and the Act of the Monetary Policy Council 1/30 March 1998 concerning: (i) the maximum

borrowing limit, (ii) the method of allocation per credit institution and (iii) the interest rate on credit institutions' borrowing from the Bank of Greece against collateral of government securities (lombard facility). The main purposes of these regime changes are the following:

- adjustment to the respective credit facility to be offered by the European System of Central Banks;
- wider use of this facility in order to enhance the efficiency of monetary policy. In particular:

1. (a) The maximum borrowing per credit institution under the lombard facility is raised from 150 to 200 billion drachmas, plus an additional 10 billion drachmas for each credit institution that is an authorised Primary Dealer in the Greek government securities market.

(b) This global amount is to be allocated among credit institutions by the same method as in the case of the deposit facility, i.e. on the basis of their total activity rather than on the basis of their own funds.

(c) Each credit institution's quota as above is increased by 300 million drachmas, in order to secure a minimum amount of financing for smaller credit institutions. The global ceiling thus comes to about 310 billion drachmas.

2. The interest rate on this credit facility is lowered to 16 per cent (from 19 per cent) per annum.

3. It should be noted that the above changes in the interest rate and the maximum amount which can be borrowed by a credit institution facing a liquidity shortage do not affect directly the conditions prevailing in the interbank market, given the existing liquidity surplus which is absorbed by the Bank of Greece

through the acceptance of overnight and 14-day deposits at a rate of 11.9 and 13 per cent per annum, respectively.

\* \* \*

*Re: Adjustment of the intervention rates of the Bank of Greece in the interbank market*

14 October 1998

The Monetary Policy Council of the Bank of Greece, in its meeting of 14 October 1998,

decided to lower from 13 to 12.75 per cent the Bank of Greece intervention rate in the interbank market for accepting 14-day deposits. This decision takes into account the new conditions which have emerged in international money and capital markets, in particular recent cuts in the corresponding rates of several EU central banks.

The Monetary Policy Council decided to keep unchanged the other two key interest rates of the Bank of Greece, i.e. the rate on the first tranche of the deposit facility (at 11.90 per cent) and the lombard rate (at 16 per cent).

# Statistical appendix



# Tables

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Table 1  
Consumer price index: general index and basic sub-indices

| Period               | General index |                                    | Goods      |                                    | Services   |                                    | CPI excluding fresh fruit-vegetables and fuels |                                    | CPI excluding food and fuels |                                    |
|----------------------|---------------|------------------------------------|------------|------------------------------------|------------|------------------------------------|--|------------------------------------|------------------------------|------------------------------------|
|                      | (1994=100)    | Per cent change over previous year | (1994=100) | Per cent change over previous year | (1994=100) | Per cent change over previous year | (1994=100)                                     | Per cent change over previous year | (1994=100)                   | Per cent change over previous year |
| <b>1994</b> .....    | 100.0         | 10.9                               | 100.0      | ...                                | 100.0      | ...                                | 100.0  | ...                                | 100.0                        | ...                                |
| <b>1995</b> .....    | 108.9         | 8.9                                | 107.4      | 7.4                                | 111.4      | 11.4                               | 109.4  | 9.4                                | 109.6                        | 9.6                                |
| <b>1996</b> .....    | 119.8         | 8.2                                | 115.2      | 7.2                                | 122.4      | 9.9                                | 118.2  | 8.1                                | 118.7                        | 8.4                                |
| <b>1997</b> .....    | 124.3         | 5.5                                | 119.5      | 3.7                                | 132.6      | 8.4                                | 125.3  | 6.0                                | 126.8                        | 6.8                                |
| <b>1997</b> I .....  | 121.8         | 6.4                                | 117.0      | 5.0                                | 129.9      | 8.6                                | 122.7  | 6.7                                | 123.7                        | 7.3                                |
| II .....             | 125.0         | 5.6                                | 120.9      | 3.6                                | 132.0      | 8.8                                | 125.4  | 6.4                                | 127.1                        | 7.3                                |
| III .....            | 123.9         | 5.3                                | 118.6      | 3.2                                | 133.1      | 8.6                                | 125.0  | 5.8                                | 126.4                        | 6.7                                |
| IV .....             | 126.7         | 4.9                                | 121.6      | 3.1                                | 135.5      | 7.6                                | 128.1  | 5.3                                | 130.1                        | 5.9                                |
| <b>1998</b> I .....  | 127.1         | 4.4                                | 121.0      | 3.4                                | 137.7      | 6.0                                | 128.1  | 4.5                                | 130.0                        | 5.0                                |
| II .....             | 131.6         | 5.3                                | 126.3      | 4.5                                | 140.6      | 6.5                                | 132.6  | 5.7                                | 134.8                        | 6.0                                |
| III .....            | 130.2         | 5.1                                | 123.6      | 4.3                                | 141.6      | 6.4                                | 132.4  | 5.9                                | 134.2                        | 6.2                                |
| <b>1995</b> Dec. ... | 113.5         | 7.9                                | 111.8      | 6.6                                | 116.7      | 10.1                               | 114.2  | 8.6                                | 114.9                        | 8.8                                |
| <b>1996</b> Jan. ... | 113.5         | 8.4                                | 109.8      | 6.9                                | 119.8      | 10.7                               | 114.3  | 8.8                                | 114.7                        | 9.0                                |
| Feb. ...             | 113.3         | 8.4                                | 109.8      | 7.2                                | 119.4      | 10.4                               | 113.9  | 8.8                                | 114.1                        | 9.1                                |
| March ..             | 116.4         | 8.9                                | 114.5      | 8.1                                | 119.7      | 10.0                               | 116.7  | 8.7                                | 117.2                        | 8.7                                |
| Apr. ...             | 117.6         | 8.8                                | 115.3      | 8.0                                | 121.6      | 10.0                               | 117.6  | 8.5                                | 118.2                        | 8.7                                |
| May ...              | 118.6         | 8.7                                | 117.3      | 7.9                                | 120.8      | 10.1                               | 117.6  | 8.5                                | 118.0                        | 8.7                                |
| June ...             | 118.9         | 8.4                                | 117.3      | 7.3                                | 121.6      | 10.1                               | 118.5  | 8.2                                | 119.0                        | 8.4                                |
| July ....            | 116.8         | 8.1                                | 113.8      | 7.4                                | 122.1      | 9.5                                | 117.2  | 7.9                                | 117.4                        | 8.2                                |
| Aug. ...             | 116.7         | 8.0                                | 113.6      | 7.2                                | 122.2      | 9.4                                | 117.3  | 7.7                                | 117.5                        | 8.0                                |
| Sept. ...            | 119.5         | 7.9                                | 117.1      | 7.3                                | 123.5      | 9.1                                | 119.8  | 7.5                                | 120.4                        | 7.8                                |
| Oct. ...             | 120.4         | 8.0                                | 117.7      | 6.8                                | 125.1      | 10.0                               | 121.1  | 7.6                                | 122.2                        | 8.1                                |
| Nov. ...             | 120.3         | 7.5                                | 117.6      | 6.2                                | 125.1      | 9.8                                | 121.3  | 7.4                                | 122.4                        | 7.9                                |
| Dec. ...             | 121.8         | 7.3                                | 118.4      | 6.0                                | 127.7      | 9.5                                | 122.7  | 7.4                                | 123.8                        | 7.8                                |
| <b>1997</b> Jan. ... | 121.2         | 6.8                                | 115.9      | 5.6                                | 130.1      | 8.6                                | 122.1  | 6.9                                | 122.9                        | 7.1                                |
| Feb. ...             | 120.7         | 6.5                                | 115.6      | 5.3                                | 129.5      | 8.5                                | 121.5  | 6.6                                | 122.4                        | 7.2                                |
| March ..             | 123.4         | 6.0                                | 119.4      | 4.3                                | 130.2      | 8.8                                | 124.3  | 6.5                                | 126.0                        | 7.4                                |
| Apr. ...             | 124.5         | 5.9                                | 120.0      | 4.1                                | 132.2      | 8.7                                | 125.3  | 6.5                                | 127.0                        | 7.4                                |
| May ...              | 125.0         | 5.4                                | 121.0      | 3.1                                | 131.9      | 9.2                                | 125.3  | 6.6                                | 126.9                        | 7.6                                |
| June ...             | 125.5         | 5.6                                | 121.7      | 3.7                                | 132.0      | 8.5                                | 125.7  | 6.1                                | 127.4                        | 7.0                                |
| July ....            | 123.1         | 5.4                                | 117.7      | 3.5                                | 132.5      | 8.5                                | 124.0  | 5.8                                | 125.2                        | 6.6                                |
| Aug. ...             | 123.2         | 5.6                                | 117.7      | 3.6                                | 132.8      | 8.7                                | 124.2  | 5.9                                | 125.4                        | 6.8                                |
| Sept. ...            | 125.3         | 4.9                                | 120.3      | 2.7                                | 134.0      | 8.5                                | 126.8  | 5.8                                | 128.5                        | 6.8                                |
| Oct. ...             | 126.1         | 4.7                                | 121.1      | 2.9                                | 134.6      | 7.6                                | 127.7  | 5.4                                | 129.5                        | 6.0                                |
| Nov. ...             | 126.5         | 5.2                                | 121.7      | 3.5                                | 134.8      | 7.7                                | 127.8  | 5.3                                | 129.7                        | 6.0                                |
| Dec. ...             | 127.6         | 4.7                                | 122.0      | 3.0                                | 137.1      | 7.4                                | 128.9  | 5.1                                | 131.0                        | 5.8                                |
| <b>1998</b> Jan. ... | 126.5         | 4.4                                | 119.9      | 3.4                                | 137.8      | 5.9                                | 127.4  | 4.3                                | 129.1                        | 5.1                                |
| Feb. ...             | 125.9         | 4.3                                | 119.3      | 3.2                                | 137.2      | 5.9                                | 126.8  | 4.4                                | 128.4                        | 4.9                                |
| March ..             | 129.0         | 4.6                                | 123.7      | 3.6                                | 138.2      | 6.1                                | 130.2  | 4.7                                | 132.4                        | 5.1                                |
| Apr. ...             | 131.1         | 5.3                                | 125.4      | 4.5                                | 140.9      | 6.6                                | 132.2  | 5.5                                | 134.6                        | 6.0                                |
| May ...              | 131.6         | 5.3                                | 126.7      | 4.7                                | 140.1      | 6.2                                | 132.4  | 5.6                                | 134.4                        | 5.9                                |
| June ...             | 132.0         | 5.2                                | 126.9      | 4.3                                | 140.7      | 6.6                                | 133.2  | 5.9                                | 135.3                        | 6.2                                |
| July ....            | 129.4         | 5.1                                | 122.6      | 4.1                                | 141.2      | 6.6                                | 131.5  | 6.1                                | 133.1                        | 6.3                                |
| Aug. ...             | 129.4         | 5.0                                | 122.4      | 4.0                                | 141.5      | 6.6                                | 131.6  | 6.0                                | 133.3                        | 6.3                                |
| Sept. ...            | 131.9         | 5.2                                | 125.9      | 4.7                                | 142.2      | 6.1                                | 134.0  | 5.7                                | 136.2                        | 6.0                                |
| Oct. ...             | 132.0         | 4.7                                | 125.8      | 3.9                                | 142.6      | 5.9                                | 134.6  | 5.5                                | 137.0                        | 5.8                                |

Source: Calculations based on NSSG data.

Table 2  
Wholesale price index: general index and basic sub-indices

| Period               | General index |                                    | Domestic primary products <sup>1</sup> |                                    | Domestic industrial products <sup>1</sup> |                                    | Exported products |                                    | Imported products |                                    |
|----------------------|---------------|------------------------------------|--|------------------------------------|---|------------------------------------|-------------------|------------------------------------|-------------------|------------------------------------|
|                      | (1980=100)    | Per cent change over previous year | (1980=100)                             | Per cent change over previous year | (1980=100)                                | Per cent change over previous year | (1980=100)        | Per cent change over previous year | (1980=100)        | Per cent change over previous year |
| <b>1994</b> .....    | 748.7         | 8.7                                | 754.3                                  | 13.7                               | 769.9                                     | 7.4                                | 589.3             | 8.7                                | 856.2             | 9.2                                |
| <b>1995</b> .....    | 807.2         | 7.8                                | 792.5                                  | 5.1                                | 832.0                                     | 8.1                                | 649.4             | 10.2                               | 915.9             | 7.0                                |
| <b>1996</b> .....    | 856.8         | 6.1                                | 862.7                                  | 8.9                                | 891.1                                     | 7.1                                | 686.0             | 5.6                                | 930.9             | 1.6                                |
| <b>1997</b> .....    | 887.8         | 3.6                                | 860.9                                  | -0.2                               | 933.4                                     | 4.8                                | 717.8             | 4.6                                | 947.4             | 1.8                                |
| <b>1997</b> I .....  | 815.7         | 3.0                                | 852.8                                  | 0.0                                | 921.7                                     | 5.1                                | 701.8             | 2.1                                | 935.1             | -1.1                               |
| II .....             | 887.1         | 3.1                                | 893.1                                  | -3.3                               | 925.9                                     | 4.7                                | 714.6             | 4.2                                | 947.2             | 1.8                                |
| III .....            | 893.6         | 5.0                                | 867.3                                  | 3.5                                | 938.1                                     | 5.4                                | 728.5             | 7.0                                | 950.6             | 2.9                                |
| IV .....             | 894.9         | 3.4                                | 830.1                                  | -0.7                               | 948.1                                     | 3.8                                | 726.3             | 5.2                                | 956.6             | 3.4                                |
| <b>1998</b> I .....  | 904.4         | 3.3                                | 879.0                                  | 3.1                                | 949.9                                     | 3.1                                | 725.9             | 3.4                                | 972.7             | 4.0                                |
| II .....             | 932.0         | 5.1                                | 905.8                                  | 1.4                                | 970.1                                     | 4.8                                | 763.2             | 6.8                                | 1,016.0           | 7.3                                |
| III .....            | 924.3         | 3.4                                | 867.7                                  | 0.0                                | 970.8                                     | 3.5                                | 749.5             | 2.9                                | 1,010.1           | 6.3                                |
| <b>1995</b> Dec. ... | 834.3         | 6.7                                | 826.3                                  | -1.1                               | 857.9                                     | 7.8                                | 681.2             | 10.1                               | 936.9             | 6.3                                |
| <b>1996</b> Jan. ... | 846.6         | 6.6                                | 843.8                                  | 2.7                                | 874.4                                     | 7.6                                | 682.7             | 7.5                                | 942.3             | 5.5                                |
| Feb. ...             | 848.5         | 6.4                                | 843.9                                  | 1.5                                | 873.8                                     | 7.3                                | 688.9             | 8.4                                | 949.9             | 5.7                                |
| March ...            | 855.4         | 6.7                                | 871.4                                  | 5.3                                | 881.7                                     | 7.5                                | 690.3             | 8.5                                | 943.4             | 3.7                                |
| Apr. ...             | 863.4         | 7.0                                | 920.2                                  | 8.1                                | 886.8                                     | 7.7                                | 691.7             | 8.6                                | 936.2             | 2.8                                |
| May ...              | 866.4         | 6.9                                | 963.3                                  | 17.9                               | 885.2                                     | 6.5                                | 689.3             | 6.0                                | 929.4             | 0.8                                |
| June ...             | 851.3         | 6.2                                | 888.7                                  | 14.9                               | 880.1                                     | 6.2                                | 676.0             | 5.3                                | 924.7             | 1.0                                |
| July ....            | 846.1         | 6.4                                | 835.2                                  | 13.8                               | 883.1                                     | 6.8                                | 677.3             | 6.0                                | 921.4             | 0.8                                |
| Aug. ....            | 847.6         | 6.2                                | 834.3                                  | 14.7                               | 885.0                                     | 6.3                                | 678.5             | 5.2                                | 923.8             | 1.0                                |
| Sept. ....           | 860.0         | 6.4                                | 844.4                                  | 14.3                               | 902.4                                     | 7.1                                | 687.3             | 4.5                                | 924.9             | 0.8                                |
| Oct. ...             | 865.2         | 6.1                                | 838.4                                  | 9.5                                | 912.2                                     | 7.9                                | 693.7             | 4.7                                | 921.4             | -0.7                               |
| Nov. ...             | 864.0         | 5.0                                | 837.5                                  | 5.4                                | 911.6                                     | 7.4                                | 686.9             | 2.3                                | 924.8             | -0.6                               |
| Dec. ...             | 866.9         | 3.9                                | 831.0                                  | 0.6                                | 916.3                                     | 6.8                                | 689.7             | 1.2                                | 928.5             | -0.9                               |
| <b>1997</b> Jan. ... | 872.7         | 3.1                                | 844.1                                  | 0.0                                | 921.0                                     | 5.3                                | 697.3             | 2.1                                | 930.3             | -1.3                               |
| Feb. ...             | 877.2         | 3.4                                | 860.2                                  | 1.9                                | 922.8                                     | 5.6                                | 702.1             | 1.9                                | 934.5             | -1.6                               |
| March ...            | 877.3         | 2.6                                | 854.2                                  | -2.0                               | 921.3                                     | 4.5                                | 706.1             | 2.3                                | 940.5             | -0.3                               |
| Apr. ...             | 884.6         | 2.5                                | 894.6                                  | -2.8                               | 922.6                                     | 4.0                                | 711.9             | 2.9                                | 944.6             | 0.9                                |
| May ...              | 888.7         | 2.6                                | 906.9                                  | -5.9                               | 925.5                                     | 4.6                                | 714.4             | 3.6                                | 947.9             | 2.0                                |
| June ...             | 888.0         | 4.3                                | 877.9                                  | -1.2                               | 929.5                                     | 5.6                                | 717.4             | 6.1                                | 949.2             | 2.6                                |
| July ....            | 890.1         | 5.2                                | 875.8                                  | 4.9                                | 932.4                                     | 5.6                                | 722.8             | 6.7                                | 947.9             | 2.9                                |
| Aug. ....            | 896.7         | 5.8                                | 878.3                                  | 5.3                                | 939.9                                     | 6.2                                | 733.4             | 8.1                                | 950.1             | 2.8                                |
| Sept. ....           | 893.9         | 3.9                                | 847.9                                  | 0.4                                | 942.0                                     | 4.4                                | 729.2             | 6.1                                | 953.8             | 3.1                                |
| Oct. ...             | 895.2         | 3.5                                | 819.9                                  | -2.2                               | 949.4                                     | 4.1                                | 731.1             | 5.4                                | 956.3             | 3.8                                |
| Nov. ...             | 895.7         | 3.7                                | 827.7                                  | -1.2                               | 950.4                                     | 4.3                                | 725.4             | 5.6                                | 956.5             | 3.4                                |
| Dec. ...             | 893.9         | 3.1                                | 842.7                                  | 1.4                                | 944.5                                     | 3.1                                | 722.3             | 4.7                                | 957.1             | 3.1                                |
| <b>1998</b> Jan. ... | 898.8         | 3.0                                | 873.8                                  | 3.5                                | 946.6                                     | 2.8                                | 719.8             | 3.2                                | 959.3             | 3.1                                |
| Feb. ...             | 898.8         | 2.5                                | 874.5                                  | 1.7                                | 946.7                                     | 2.6                                | 714.1             | 1.7                                | 965.4             | 3.3                                |
| March ...            | 915.5         | 4.4                                | 888.8                                  | 4.1                                | 956.4                                     | 3.8                                | 743.9             | 5.4                                | 993.4             | 5.6                                |
| Apr. ...             | 932.4         | 5.4                                | 911.6                                  | 1.9                                | 968.6                                     | 5.0                                | 765.5             | 7.5                                | 1,016.8           | 7.6                                |
| May ...              | 935.6         | 5.3                                | 928.9                                  | 2.4                                | 971.5                                     | 5.0                                | 763.1             | 6.8                                | 1,016.0           | 7.2                                |
| June ...             | 928.0         | 4.5                                | 876.9                                  | -0.1                               | 970.3                                     | 4.4                                | 760.9             | 6.1                                | 1,015.2           | 7.0                                |
| July ....            | 920.4         | 3.4                                | 844.1                                  | -3.6                               | 969.5                                     | 4.0                                | 749.8             | 3.7                                | 1,007.5           | 6.3                                |
| Aug. ....            | 921.4         | 2.8                                | 854.8                                  | -2.7                               | 968.9                                     | 3.1                                | 749.5             | 2.2                                | 1,008.3           | 6.1                                |
| Sept. ...            | 931.1         | 4.2                                | 904.1                                  | 6.6                                | 974.0                                     | 3.4                                | 749.1             | 2.7                                | 1,014.4           | 6.4                                |

<sup>1</sup> For home consumption.

Source: Calculations based on NSSG data.

**Table 3**  
**Gross domestic product**  
*(at market prices and factor cost)*

|   | Billion drachmas | Annual per cent change<br>(at constant prices of previous year) |       |      |      |      |      |      |      |      |      |
|---|------------------|---|-------|------|------|------|------|------|------|------|------|
|   |                  | 1988  | 1989  | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
| 1.1 Primary sector (agriculture)  | 1,034.5          | 3.9   | -13.4 | 14.9 | 0.0  | -0.3 | 5.9  | 4.2  | -8.0 | 1.7  | 1.5  |
| 1.2 Secondary sector  | 2,264.5          | 1.8   | -0.9  | 3.0  | -2.6 | -1.4 | -0.9 | 0.3  | 4.0  | 3.4  | 6.2  |
| 1.2.a Mining and quarrying  | 89.3             | -3.4  | -4.9  | -3.3 | 0.4  | 1.2  | 0.2  | -1.1 | 5.3  | 3.1  | -0.5 |
| 1.2.b Manufacturing   | 1,308.7          | 1.7   | -2.0  | 3.7  | -3.5 | -3.1 | 2.0  | 0.1  | 3.6  | 0.1  | 4.0  |
| 1.2.c Electricity - town gas - water supply                               | 214.1            | 9.2   | 2.5   | 3.3  | 8.1  | -3.8 | 9.6  | 3.1  | 6.0  | 2.3  | 7.0  |
| 1.2.d Construction  | 652.4            | 0.4   | 0.8   | 2.3  | -4.4 | 2.7  | -9.1 | -0.2 | 4.0  | 10.3 | 10.5 |
| 1.3. Tertiary sector  | 5,243.5          | 3.8   | 1.6   | 0.4  | 2.4  | -2.7 | 4.3  | 3.1  | 2.8  | 3.3  | 3.2  |
| 1.3.a Transport - communications  | 556.8            | 2.2   | -2.7  | 0.6  | 11.4 | 3.2  | -0.7 | 7.6  | 1.7  | 10.1 | 6.0  |
| 1.3.b Trade   | 1,261.8          | 4.6   | 1.7   | 0.4  | 7.6  | -0.4 | 3.0  | 2.8  | 5.3  | 3.2  | 1.5  |
| 1.3.c Banking - insurance   | 295.8            | -7.5  | -0.9  | 14.8 | 9.6  | 26.4 | 12.8 | 6.1  | 4.9  | 8.7  | 8.0  |
| 1.3.d Ownership of dwellings  | 979.3            | 3.0   | 2.6   | 3.0  | -4.4 | -2.9 | 2.1  | 1.2  | 1.6  | 1.0  | 1.2  |
| 1.3.e Public administration - defence                                     | 596.2            | 3.2   | 1.1   | -6.7 | -4.7 | -0.7 | 0.6  | 8.6  | 7.4  | -7.6 | -2.0 |
| 1.3.f Health - education  | 682.7            | 10.8  | 5.7   | 0.6  | 0.2  | -2.9 | 11.6 | -0.2 | -5.9 | 2.2  | 1.5  |
| 1.3.g Miscellaneous services  | 870.9            | 3.4   | 0.3   | -1.9 | 3.6  | 0.3  | 4.8  | 2.1  | 5.2  | 7.7  | 8.0  |
| 1.4 Statistical discrepancies   | -224.2           | ...   | ...   | ...  | ...  | ...  | ...  | ...  | ...  | ...  | ...  |
| 1.5 GDP at factor cost  | 8,318.3          | 3.1   | -0.9  | 2.6  | 0.8  | -1.7 | 2.8  | 2.2  | 1.9  | 3.0  | 3.5  |
| 2.1 Private consumption   | 6,502.0          | 6.0   | 2.6   | 2.8  | 2.4  | -0.8 | 2.0  | 2.7  | 1.9  | 2.5  | 1.8  |
| 2.2 Public consumption  | 1,311.0          | 5.4   | 0.6   | -1.5 | -3.0 | 2.6  | -1.1 | 5.6  | 1.0  | -0.4 | -0.6 |
| 2.3 Gross fixed capital formation   | 1,966.7          | 7.1   | 5.0   | 4.8  | -3.2 | -3.5 | -2.8 | 4.2  | 8.8  | 9.6  | 9.8  |
| 2.3.a.a By type: Construction   | 1,326.0          | 2.0   | 3.2   | 3.2  | -8.3 | -6.0 | -4.3 | 1.7  | 7.1  | 9.8  | 10.2 |
| 2.3.a.b Equipment   | 640.7            | 17.4  | 8.4   | 7.9  | 6.7  | 0.6  | -0.3 | 8.4  | 11.5 | 9.3  | 9.1  |
| 2.3.b.a By investor: Private  | 1,542.6          | 7.0   | 8.7   | 2.0  | -6.3 | -5.0 | -2.1 | 2.0  | 9.9  | 10.5 | 8.4  |
| 2.3.b.b Public  | 424.0            | 7.2   | -8.3  | 16.9 | 8.2  | 1.1  | -4.7 | 10.9 | 5.9  | 7.0  | 13.7 |
| 2.4 Change in stocks and statistical discrepancies (as a per cent of GDP) | 53.5             | -0.3  | -0.2  | 0.9  | -0.3 | -0.3 | 0.1  | 0.7  | 0.1  | 0.0  | 0.4  |
| 2.5 Final domestic demand   | 9,833.2          | 5.3   | 2.9   | 3.7  | -0.6 | -0.9 | 1.2  | 3.9  | 2.9  | 3.4  | 3.3  |
| 2.6 Exports of goods and services   | 1,696.4          | 4.8   | -4.1  | 3.7  | 10.5 | -3.2 | 6.6  | 0.5  | 3.0  | 5.3  | 7.1  |
| 2.6.a Exports of goods  | 1,111.6          | 11.1  | -7.2  | 5.8  | 11.6 | -6.9 | 4.6  | 3.7  | 4.1  | 5.1  | 6.4  |
| 2.7 Imports of goods and services   | 2,360.6          | 10.6  | 8.7   | 6.0  | 1.4  | 0.2  | 1.3  | 9.2  | 4.9  | 5.4  | 4.9  |
| 2.7.a Imports of goods  | 2,157.9          | 10.9  | 9.0   | 6.8  | 1.7  | 0.2  | 0.7  | 9.9  | 5.8  | 5.4  | 5.2  |
| 2.8 Balance of trade in goods and services                                | -664.2           | ...   | ...   | ...  | ...  | ...  | ...  | ...  | ...  | ...  | ...  |
| 2.9 GDP at market prices  | 9,169.0          | 3.8   | 0.0   | 3.1  | 0.7  | -1.6 | 2.0  | 2.1  | 2.4  | 3.2  | 3.5  |

**Source:** 1988 - 95: NSSG/National accounts (September 1998). Final data on the basis of the European System of Integrated Economic Accounts (ESA).  
1996 - 97: NSSG/National accounts (September 1998). Provisional estimates.  
1998: Ministry of National Economy/Directorate of Macroeconomic Analysis (November 1998). Provisional estimates.

**Table 4**  
**Drachma exchange rate**

| Date <sup>1</sup>  | Against the ECU  |  | Against the DEM  |  | Against the USD  |  |
|--------------------|------------------|--|------------------|--|------------------|--|
|                    | Drachmas per ECU | Per cent change over the end of previous year <sup>2</sup> | Drachmas per DEM | Per cent change over the end of previous year <sup>2</sup> | Drachmas per USD | Per cent change over the end of previous year <sup>2</sup> |
| 31.12.95 . . . . . | 303.760          | -3.0   | 165.490          | -6.3   | 237.040          | 1.3  |
| 31.12.96 . . . . . | 306.830          | -1.0   | 158.970          | 4.1  | 247.020          | -4.0   |
| 31.12.97 . . . . . | 312.120          | -1.7   | 157.890          | 0.7  | 282.610          | -12.6  |
| 31.01.96 . . . . . | 303.280          | 0.2  | 165.304          | 0.1  | 246.535          | -3.9   |
| 29.02.96 . . . . . | 303.370          | 0.1  | 163.900          | 1.0  | 240.540          | -1.5   |
| 29.03.96 . . . . . | 302.680          | 0.4  | 163.330          | 1.3  | 241.020          | -1.7   |
| 30.04.96 . . . . . | 299.210          | 1.5  | 159.164          | 4.0  | 243.320          | -2.6   |
| 31.05.96 . . . . . | 298.630          | 1.7  | 158.078          | 4.7  | 242.500          | -2.3   |
| 28.06.96 . . . . . | 299.920          | 1.3  | 158.200          | 4.6  | 240.720          | -1.5   |
| 31.07.96 . . . . . | 300.000          | 1.3  | 159.630          | 3.7  | 234.580          | 1.0  |
| 30.08.96 . . . . . | 301.200          | 0.8  | 160.100          | 3.4  | 236.860          | 0.1  |
| 30.09.96 . . . . . | 301.250          | 0.8  | 157.900          | 4.8  | 241.300          | -1.8   |
| 31.10.96 . . . . . | 301.480          | 0.8  | 157.085          | 5.4  | 237.560          | -0.2   |
| 30.11.96 . . . . . | 303.850          | 0.8  | 157.325          | 5.2  | 241.560          | -1.9   |
| 31.12.96 . . . . . | 306.830          | -1.0   | 158.970          | 4.1  | 247.020          | -4.0   |
| 31.01.97 . . . . . | 304.350          | 0.8  | 157.600          | 0.9  | 257.120          | -3.9   |
| 28.02.97 . . . . . | 304.360          | 0.8  | 156.840          | 1.4  | 265.500          | -7.0   |
| 31.03.97 . . . . . | 308.300          | -0.5   | 158.710          | 0.2  | 265.870          | -7.1   |
| 30.04.97 . . . . . | 310.200          | -1.1   | 158.900          | 0.0  | 274.600          | -10.0  |
| 30.05.97 . . . . . | 311.000          | -1.3   | 159.935          | -0.6   | 271.250          | -8.9   |
| 30.06.97 . . . . . | 309.330          | -0.8   | 157.685          | 0.8  | 275.220          | -10.2  |
| 31.07.97 . . . . . | 308.000          | -0.4   | 156.210          | 1.8  | 286.460          | -13.8  |
| 29.08.97 . . . . . | 309.200          | -0.8   | 157.330          | 1.0  | 282.830          | -12.7  |
| 30.09.97 . . . . . | 309.730          | -0.9   | 158.045          | 0.6  | 278.910          | -11.4  |
| 31.10.97 . . . . . | 309.640          | -0.9   | 157.100          | 1.2  | 271.320          | -9.0   |
| 28.11.97 . . . . . | 310.980          | -1.3   | 156.930          | 1.3  | 277.050          | -10.8  |
| 31.12.97 . . . . . | 312.120          | -1.7   | 157.890          | 0.7  | 282.610          | -12.6  |
| 31.01.98 . . . . . | 312.820          | -0.2   | 158.520          | -0.4   | 289.260          | -2.3   |
| 27.02.98 . . . . . | 313.200          | -0.3   | 158.400          | -0.3   | 286.670          | -1.4   |
| 31.03.98 . . . . . | 343.540          | -9.1   | 172.800          | -8.6   | 319.800          | -11.6  |
| 30.04.98 . . . . . | 347.870          | -10.3  | 176.030          | -10.3  | 316.030          | -10.6  |
| 29.05.98 . . . . . | 337.140          | -7.4   | 171.075          | -7.7   | 305.360          | -7.5   |
| 30.06.98 . . . . . | 334.230          | -6.6   | 168.665          | -6.4   | 305.320          | -7.4   |
| 31.07.98 . . . . . | 327.990          | -4.8   | 166.320          | -5.1   | 296.350          | -4.6   |
| 31.08.98 . . . . . | 340.370          | -8.3   | 172.200          | -8.3   | 306.530          | -7.8   |
| 30.09.98 . . . . . | 339.100          | -8.0   | 172.235          | -8.3   | 289.090          | -2.2   |
| 30.10.98 . . . . . | 334.440          | -6.7   | 170.085          | -7.2   | 281.010          | 0.6  |

1 Last working day.

2 A negative sign indicates depreciation of the drachma against the respective foreign currency.

Source: Bank of Greece.

**Table 5**  
**Balance of payments**  
*(Million US dollars)*

|   | January – June |          |          | Per cent change |       |
|---|----------------|----------|----------|-----------------|-------|
|   | 1996           | 1997     | 1998*    | 1997            | 1998  |
| Imports (cif)                             | 11,823.5       | 12,003.8 | 11,402.3 | 1.5             | -5.0  |
| Oil                                       | 1,210.9        | 1,544.9  | 1,102.4  | 27.6            | -28.6 |
| Non-oil                                   | 10,612.6       | 10,458.9 | 10,299.9 | -1.4            | -1.5  |
| Exports (fob)                             | 2,897.0        | 2,482.4  | 2,393.0  | -14.3           | -3.6  |
| Oil                                       | 289.9          | 229.7    | 280.2    | -20.8           | 22.0  |
| Non-oil                                   | 2,607.1        | 2,252.7  | 2,112.8  | -13.6           | -6.2  |
| TRADE BALANCE                             | -8,926.5       | -9,521.4 | -9,009.3 | 6.7             | -5.4  |
| NON-OIL TRADE BALANCE                     | -8,005.5       | -8,206.2 | -8,187.1 | 2.5             | -0.2  |
| OIL TRADE BALANCE                         | -921.0         | -1,315.2 | -822.2   | 42.8            | -37.5 |
| Invisible receipts                        | 9,242.0        | 9,116.8  | 9,454.2  | -1.4            | 3.7   |
| Travel                                    | 1,413.5        | 1,411.9  | 1,547.7  | -0.1            | 9.6   |
| Transportation                            | 1,096.7        | 1,033.5  | 1,056.9  | -5.8            | 2.3   |
| Emigrants' remittances                    | 1,331.1        | 1,328.9  | 1,299.4  | -0.2            | -2.2  |
| Interest-dividends-profits                | 475.1          | 511.2    | 538.2    | 7.6             | 5.3   |
| Withdrawals by non-residents              | 1,520.7        | 1,550.0  | 1,727.0  | 1.9             | 11.4  |
| Other                                     | 1,201.9        | 1,214.3  | 1,100.2  | 1.0             | -9.4  |
| EU transfers (net)                        | 2,203.0        | 2,067.0  | 2,184.8  | -6.2            | 5.7   |
| Invisible payments                        | 3,432.6        | 3,083.3  | 3,532.7  | -10.2           | 14.6  |
| Travel                                    | 556.5          | 588.8    | 703.8    | 5.8             | 19.5  |
| Government services                       | 222.6          | 250.6    | 239.4    | 12.6            | -4.5  |
| Interest-dividends-profits                | 1,668.3        | 1,214.9  | 1,317.1  | -27.2           | 8.4   |
| Transportation                            | 199.3          | 196.3    | 215.5    | -1.5            | 9.8   |
| Other                                     | 785.9          | 832.7    | 1,056.9  | 6.0             | 26.9  |
| BALANCE ON INVISIBLES                     | 5,809.4        | 6,033.5  | 5,921.5  | 3.9             | -1.9  |
| CURRENT ACCOUNT BALANCE                   | -3,117.1       | -3,487.9 | -3,087.8 |                 |       |
| CAPITAL MOVEMENT (NET)                    | 547.2          | 940.8    | 9,665.6  |                 |       |
| Private sector                            | 3,047.5        | 1,596.3  | 2,981.6  |                 |       |
| Entrepreneurial capital                   | 2,630.7        | 2,369.3  | 2,440.1  |                 |       |
| Real estate investment                    | 469.9          | 459.6    | 357.0    |                 |       |
| Commercial banks                          | 11.6           | -15.5    | -4.4     |                 |       |
| Deposits with credit institutions         | -637.6         | -770.9   | 1,355.0  |                 |       |
| (by individuals)                          | -694.0         | -813.5   | 1,370.0  |                 |       |
| Suppliers' credit                         | 166.9          | 317.8    | 172.7    |                 |       |
| Other                                     | 406.0          | -764.0   | -1,338.8 |                 |       |
| Public sector                             | -2,500.3       | -655.5   | 6,684.0  |                 |       |
| Long-term borrowing                       | 1,036.9        | -722.9   | 7,622.0  |                 |       |
| Central bank                              | 0.0            | 0.0      | 0.0      |                 |       |
| Central government                        | 4,060.5        | 2,558.2  | 10,595.0 |                 |       |
| Public enterprises/entities               | 105.0          | 200.2    | 498.0    |                 |       |
| Suppliers' credit                         | 0.0            | 0.0      | 0.0      |                 |       |
| SDR allocation                            | 0.0            | 0.0      | 0.0      |                 |       |
| Amortisation                              | -3,128.6       | -3,481.3 | -3,471.0 |                 |       |
| Short-term borrowing (net)                | -3,537.2       | 67.4     | -938.0   |                 |       |
| Errors and omissions                      | 312.0          | 488.2    | -499.4   |                 |       |
| Valuation adjustment                      | -446.4         | -842.9   | -34.2    |                 |       |
| OVERALL BALANCE                           | -2,704.3       | -2,901.8 | 6,044.2  |                 |       |
| IMF credit                                | 0.0            | 0.0      | 0.0      |                 |       |
| Change in foreign exchange reserves       | -2,704.3       | -2,895.4 | 6,044.2  |                 |       |
| Change in clearing accounts               | 0.0            | -6.4     | 0.0      |                 |       |
| FOREIGN EXCHANGE RESERVES (end-of-period) | 13,031.3       | 16,281.9 | 19,380.7 |                 |       |
| CLEARING ACCOUNTS (end-of-period)         | 11.0           | 4.6      | 4.6      |                 |       |

\* Provisional data.  
Source: Bank of Greece.

**Table 6**  
**Money stock and liquid assets<sup>1</sup>**  
*(End-of-period balances in billion drachmas)*

| Period                   | Currency<br>in<br>circulation<br>(1) | Sight<br>deposits<br>(2) | M1<br>(3) | Savings<br>deposits<br>(4) | Time<br>deposits<br>(5) | Repos &<br>bank<br>bonds<br>(6) | M3<br>(7) | Treasury<br>bills and<br>one-year<br>government<br>bonds<br>(8) | M4<br>(9) |
|--------------------------|--------------------------------------|--------------------------|-----------|----------------------------|-------------------------|---------------------------------|-----------|---|-----------|
| <b>1993</b> . . . . .    | 1,512.0                              | 711.7                    | 2,223.7   | 7,709.7                    | 1,944.0                 | 2,597.4                         | 14,474.8  | 4,092.1   | 18,566.9  |
| <b>1994</b> . . . . .    | 1,687.7                              | 1,105.8                  | 2,793.5   | 8,811.5                    | 2,994.2                 | 1,156.2                         | 15,755.4  | 5,394.0   | 21,149.4  |
| <b>1995</b> . . . . .    | 1,863.6                              | 1,285.4                  | 3,149.0   | 10,445.4                   | 3,119.2                 | 666.8                           | 17,380.4  | 5,509.2   | 22,889.6  |
| <b>1996</b> . . . . .    | 1,941.4                              | 1,606.6                  | 3,548.0   | 12,201.7                   | 3,106.6                 | 149.0                           | 19,005.3  | 6,631.0   | 25,636.3  |
| <b>1997</b> . . . . .    | 2,182.7                              | 1,820.3                  | 4,003.0   | 13,335.3                   | 3,319.4                 | 168.6                           | 20,826.3  | 4,407.0   | 25,233.3  |
| <b>1996</b> March . .    | 1,603.9                              | 1,107.4                  | 2,711.3   | 10,334.6                   | 3,019.5                 | 463.1                           | 16,528.5  | 5,765.4   | 22,293.9  |
| June . . . .             | 1,745.3                              | 1,207.0                  | 2,952.3   | 10,989.5                   | 2,959.2                 | 235.4                           | 17,136.4  | 5,959.8   | 23,096.2  |
| Sept. . . . .            | 1,742.3                              | 1,346.2                  | 3,088.5   | 11,213.8                   | 2,886.2                 | 127.8                           | 17,316.3  | 6,312.0   | 23,628.3  |
| Dec. . . . .             | 1,941.4                              | 1,606.6                  | 3,548.0   | 12,201.7                   | 3,106.6                 | 149.0                           | 19,005.3  | 6,631.0   | 25,636.3  |
| <b>1997</b> Jan. . . . . | 1,787.3                              | 1,425.7                  | 3,213.0   | 12,284.8                   | 3,081.4                 | 278.9                           | 18,858.1  | 5,746.9   | 24,605.0  |
| Feb. . . . .             | 1,753.8                              | 1,418.8                  | 3,172.6   | 12,181.1                   | 3,128.3                 | 227.0                           | 18,709.0  | 5,241.2   | 23,950.2  |
| March . . . .            | 1,712.9                              | 1,475.1                  | 3,188.0   | 12,218.0                   | 3,146.5                 | 245.5                           | 18,798.0  | 5,311.1   | 24,109.1  |
| Apr. . . . .             | 1,916.2                              | 1,527.1                  | 3,443.3   | 12,408.3                   | 3,095.5                 | 231.3                           | 19,178.4  | 5,474.7   | 24,653.1  |
| May . . . . .            | 1,885.7                              | 1,510.3                  | 3,396.0   | 12,462.3                   | 3,080.7                 | 221.7                           | 19,160.7  | 5,225.7   | 24,386.4  |
| June . . . . .           | 1,899.5                              | 1,771.8                  | 3,671.3   | 12,823.5                   | 3,115.9                 | 264.7                           | 19,875.4  | 5,141.2   | 25,016.6  |
| July . . . . .           | 2,011.9                              | 1,542.7                  | 3,554.6   | 12,938.6                   | 3,014.0                 | 221.4                           | 19,728.6  | 4,867.4   | 24,596.0  |
| Aug. . . . .             | 1,972.4                              | 1,520.0                  | 3,492.4   | 13,024.7                   | 2,999.7                 | 193.5                           | 19,710.3  | 4,899.3   | 24,609.6  |
| Sept. . . . .            | 1,902.2                              | 1,709.9                  | 3,612.1   | 13,198.1                   | 3,041.9                 | 211.4                           | 20,063.5  | 4,386.9   | 24,450.4  |
| Oct. . . . .             | 1,934.9                              | 1,766.5                  | 3,701.4   | 13,059.7                   | 3,161.1                 | 193.1                           | 20,115.3  | 4,212.9   | 24,328.2  |
| Nov. . . . .             | 1,865.5                              | 1,467.2                  | 3,332.7   | 12,211.4                   | 3,707.1                 | 175.5                           | 19,426.7  | 4,409.7   | 23,836.4  |
| Dec. . . . .             | 2,182.7                              | 1,820.3                  | 4,003.0   | 13,335.3                   | 3,319.4                 | 168.6                           | 20,826.3  | 4,407.0   | 25,233.3  |
| <b>1998</b> Jan. . . . . | 1,947.9                              | 1,443.8                  | 3,391.7   | 12,591.8                   | 3,351.8                 | 218.4                           | 19,553.7  | 4,360.7   | 23,914.4  |
| Feb. . . . .             | 1,914.4                              | 1,387.1                  | 3,301.5   | 12,520.4                   | 3,379.0                 | 197.4                           | 19,398.3  | 4,211.7   | 23,610.0  |
| March . . . .            | 1,851.3                              | 1,666.6                  | 3,517.9   | 12,504.0                   | 3,402.3                 | 219.7                           | 19,643.9  | 4,228.0   | 23,871.9  |
| Apr. . . . .             | 2,007.8                              | 1,634.0                  | 3,641.8   | 12,687.5                   | 3,266.8                 | 197.2                           | 19,793.3  | 4,242.3   | 24,035.6  |
| May* . . . .             | 2,015.9                              | 1,647.7                  | 3,663.6   | 12,700.5                   | 3,136.7                 | 210.7                           | 19,711.5  | 4,419.3   | 24,130.8  |
| June* . . . .            | 2,030.9                              | 1,865.6                  | 3,896.5   | 13,181.0                   | 3,133.0                 | 207.3                           | 20,417.8  | 4,272.1   | 24,689.9  |
| July* . . . .            | 2,196.2                              | 1,717.0                  | 3,913.2   | 13,080.2                   | 3,052.1                 | 220.2                           | 20,265.7  | 4,248.3   | 24,514.0  |
| Aug.* . . . .            | 2,107.6                              | 1,734.6                  | 3,842.2   | 13,089.4                   | 3,102.5                 | 230.2                           | 20,264.3  | 4,197.0   | 24,461.3  |
| Sept.* . . . .           | 2,003.2                              | 1,865.9                  | 3,869.1   | 12,972.9                   | 2,980.3                 | 474.3                           | 20,296.6  | 3,790.0   | 24,086.6  |

<sup>1</sup> Deposits and liquid assets of non-bank private sector.

M1=(1)+(2).

M3=M1+(4)+(5)+(6).

M4=M3+(8).

\* Provisional data.

Source: Bank of Greece.

**Table 7**  
**Total bank credit to the private sector**  
*(End-of-period balances in billion drachmas)*

| Period                | Total    | In drachmas | In foreign currency | Branches of economic activity |         |         |         |                 |         |
|-----------------------|----------|-------------|---------------------|-------------------------------|---------|---------|---------|-----------------|---------|
|                       |          |             |                     | Manufacturing                 | Trade   | Housing | Tourism | Consumer credit | Other   |
| <b>1993</b> Dec. .... | 6,008.9  | 5,372.3     | 636.6               | 2,191.3                       | 1,042.9 | 929.6   | 324.2   | 128.3           | 1,392.6 |
| <b>1994</b> Dec. .... | 6,824.7  | 5,909.1     | 915.6               | 2,437.9                       | 1,231.8 | 1,020.6 | 343.5   | 230.7           | 1,560.2 |
| <b>1995</b> Dec. .... | 8,328.0  | 6,858.1     | 1,469.9             | 2,788.9                       | 1,584.8 | 1,219.0 | 398.5   | 423.1           | 1,913.7 |
| <b>1996</b> Dec. .... | 9,676.1  | 7,362.2     | 2,313.9             | 3,028.9                       | 1,890.4 | 1,554.4 | 439.1   | 574.5           | 2,188.8 |
| <b>1997</b> Dec. .... | 11,145.8 | 8,407.5     | 2,738.3             | 3,185.4                       | 2,316.9 | 1,924.4 | 464.7   | 731.6           | 2,522.8 |
| <b>1996</b> March ... | 8,650.6  | 6,948.1     | 1,702.5             | 2,860.9                       | 1,675.6 | 1,309.7 | 410.9   | 475.7           | 1,917.8 |
| June .....            | 9,093.9  | 7,154.2     | 1,939.7             | 2,955.2                       | 1,807.9 | 1,384.1 | 434.4   | 512.8           | 1,999.5 |
| Sept. ....            | 9,408.4  | 7,230.9     | 2,177.5             | 2,996.1                       | 1,868.0 | 1,471.9 | 422.1   | 537.0           | 2,113.3 |
| Dec. ....             | 9,676.1  | 7,362.2     | 2,313.9             | 3,028.9                       | 1,890.4 | 1,554.4 | 439.1   | 574.5           | 2,188.8 |
| <b>1997</b> Jan. .... | 9,741.2  | 7,300.2     | 2,441.0             | 3,032.2                       | 1,892.6 | 1,569.7 | 436.6   | 584.5           | 2,225.6 |
| Feb. ....             | 9,823.9  | 7,253.8     | 2,570.1             | 3,007.4                       | 1,928.7 | 1,594.7 | 447.8   | 594.5           | 2,250.8 |
| March ...             | 10,053.1 | 7,366.5     | 2,686.6             | 3,096.4                       | 1,995.3 | 1,617.2 | 456.7   | 601.2           | 2,286.3 |
| Apr. ....             | 10,121.6 | 7,321.0     | 2,800.6             | 3,072.7                       | 2,031.3 | 1,629.3 | 463.4   | 607.2           | 2,317.7 |
| May .....             | 10,329.8 | 7,424.9     | 2,904.9             | 3,121.3                       | 2,114.5 | 1,650.8 | 469.4   | 626.5           | 2,347.3 |
| June .....            | 10,630.3 | 7,672.9     | 2,957.4             | 3,191.3                       | 2,210.5 | 1,698.2 | 471.7   | 635.0           | 2,423.6 |
| July .....            | 10,790.7 | 7,754.5     | 3,036.2             | 3,237.7                       | 2,239.7 | 1,740.3 | 469.4   | 649.7           | 2,453.9 |
| Aug. ....             | 10,814.8 | 7,830.0     | 2,984.8             | 3,218.1                       | 2,248.9 | 1,765.5 | 463.4   | 658.9           | 2,460.0 |
| Sept. ....            | 10,891.1 | 8,000.9     | 2,890.2             | 3,213.3                       | 2,256.3 | 1,801.3 | 458.9   | 681.2           | 2,480.1 |
| Oct. ....             | 10,921.3 | 8,152.1     | 2,769.2             | 3,208.4                       | 2,269.8 | 1,837.5 | 454.6   | 697.8           | 2,453.2 |
| Nov. ....             | 11,027.4 | 8,220.6     | 2,806.8             | 3,237.4                       | 2,290.6 | 1,871.0 | 462.8   | 711.5           | 2,454.1 |
| Dec. ....             | 11,145.8 | 8,407.5     | 2,738.3             | 3,185.4                       | 2,316.9 | 1,924.4 | 464.7   | 731.6           | 2,522.8 |
| <b>1998</b> Jan. .... | 11,256.7 | 8,423.0     | 2,833.7             | 3,228.4                       | 2,350.9 | 1,953.9 | 466.1   | 743.3           | 2,514.1 |
| Feb. ....             | 11,337.2 | 8,486.6     | 2,850.6             | 3,227.1                       | 2,353.3 | 1,989.9 | 471.9   | 757.8           | 2,537.2 |
| March ...             | 11,754.3 | 8,743.7     | 3,010.6             | 3,273.8                       | 2,476.3 | 1,998.6 | 497.5   | 770.9           | 2,737.2 |
| Apr. ....             | 11,854.4 | 9,254.8     | 2,599.6             | 3,244.2                       | 2,568.1 | 2,031.0 | 505.3   | 777.4           | 2,728.4 |
| May .....             | 11,941.8 | 9,325.5     | 2,616.3             | 3,229.3                       | 2,621.6 | 2,058.6 | 497.7   | 800.7           | 2,733.9 |
| June .....            | 12,127.2 | 9,404.6     | 2,722.6             | 3,239.1                       | 2,605.2 | 2,094.2 | 505.4   | 820.6           | 2,862.7 |
| July .....            | 12,152.7 | 9,407.1     | 2,745.6             | 3,252.2                       | 2,618.5 | 2,136.3 | 495.6   | 844.6           | 2,805.5 |
| Aug. ....             | 12,260.8 | 9,360.2     | 2,900.6             | 3,249.8                       | 2,613.4 | 2,168.2 | 490.0   | 866.9           | 2,872.5 |
| Sept.*....            | 12,319.6 | 9,451.5     | 2,868.1             | 3,252.2                       | 2,680.6 | 2,201.4 | 485.1   | 888.0           | 2,812.3 |

\* Provisional data.

Source: Bank of Greece.

**Table 8**  
**Interest rates and inflation**

| End of period           | Interbank rates        |                 | Savings deposits | Short-term bank lending <sup>1</sup> | 12-month Treasury bill yield | 10-year government bond yield | Consumer price index <sup>2</sup> |
|-------------------------|------------------------|-----------------|------------------|--------------------------------------|------------------------------|-------------------------------|-----------------------------------|
|                         | Overnight <sup>1</sup> | 3-month Athibor |                  |                                      |                              |                               |                                   |
| <b>1993</b> .....       | 19.9                   | –               | 17.1             | 28.4                                 | 20.3                         | –                             | 12.1                              |
| <b>1994</b> .....       | 17.5                   | 18.2            | 15.1             | 26.4                                 | 17.5                         | –                             | 10.6                              |
| <b>1995</b> .....       | 14.4                   | 15.4            | 12.8             | 21.1                                 | 14.2                         | –                             | 7.9                               |
| <b>1996</b> .....       | 12.8                   | 12.6            | 10.7             | 20.2                                 | 11.2                         | –                             | 7.3                               |
| <b>1997</b> .....       | 11.0                   | 15.1            | 9.5              | 19.1                                 | 11.4                         | 10.7                          | 4.7                               |
| <b>1996</b> March ..... | 13.8                   | 14.2            | 12.4             | 21.2                                 | 13.3                         | –                             | 8.9                               |
| June .....              | 13.6                   | 15.3            | 12.4             | 21.2                                 | 13.3                         | –                             | 8.4                               |
| Sept. ....              | 12.6                   | 13.1            | 11.4             | 20.6                                 | 12.7                         | –                             | 7.9                               |
| Dec. ....               | 12.8                   | 12.6            | 10.7             | 20.2                                 | 11.2                         | –                             | 7.3                               |
| <b>1997</b> Jan. ....   | 12.4                   | 11.9            | 10.2             | 19.9                                 | 10.9                         | –                             | 6.8                               |
| Feb. ....               | 12.1                   | 11.8            | 9.7              | 19.6                                 | 10.5                         | –                             | 6.5                               |
| March .....             | 11.7                   | 10.9            | 9.5              | 19.3                                 | 10.3                         | –                             | 6.0                               |
| Apr. ....               | 10.8                   | 10.5            | 9.1              | 19.0                                 | 10.3                         | –                             | 5.9                               |
| May .....               | 10.6                   | 11.2            | 9.0              | 18.7                                 | 9.6                          | –                             | 5.4                               |
| June .....              | 11.7                   | 11.5            | 8.9              | 18.3                                 | 9.6                          | 9.2                           | 5.6                               |
| July .....              | 11.7                   | 11.1            | 8.9              | 18.2                                 | 9.6                          | 9.5                           | 5.4                               |
| Aug. ....               | 11.6                   | 11.2            | 8.9              | 18.2                                 | 9.5                          | 9.6                           | 5.6                               |
| Sept. ....              | 11.0                   | 11.1            | 8.9              | 18.4                                 | 9.5                          | 9.2                           | 4.9                               |
| Oct. ....               | 16.9                   | 41.6            | 8.7              | 18.2                                 | 11.3                         | 11.4                          | 4.7                               |
| Nov. ....               | 23.7                   | 14.5            | 9.5              | 20.1                                 | 11.2                         | 10.3                          | 5.2                               |
| Dec. ....               | 11.0                   | 15.1            | 9.5              | 19.1                                 | 11.4                         | 10.7                          | 4.7                               |
| <b>1998</b> Jan. ....   | 15.1                   | 18.4            | 9.5              | 19.5                                 | 12.4                         | 11.2                          | 4.4                               |
| Feb. ....               | 13.0                   | 17.6            | 9.5              | 19.8                                 | 12.7                         | 10.6                          | 4.3                               |
| March .....             | 13.2                   | 12.5            | 9.1              | 19.3                                 | 10.8                         | 8.2                           | 4.6                               |
| Apr. ....               | 11.9                   | 13.2            | 8.8              | 18.7                                 | 11.1                         | 7.9                           | 5.3                               |
| May .....               | 11.9                   | 13.2            | 8.8              | 18.5                                 | 11.3                         | 7.8                           | 5.3                               |
| June .....              | 13.4                   | 13.4            | 8.8              | 18.6                                 | 11.7                         | 7.8                           | 5.2                               |
| July .....              | 12.3                   | 12.8            | 8.8              | 18.3                                 | 11.5                         | 7.6                           | 5.1                               |
| Aug. ....               | 12.4                   | 16.2            | 8.8              | 18.2                                 | 13.2                         | 8.4                           | 5.0                               |
| Sept. ....              | 11.7                   | 13.2            | 8.8*             | 18.1*                                | 11.6                         | 8.3                           | 5.2                               |
| Oct. ....               | 11.9                   | 12.2            | 8.8*             | 18.1*                                | 11.0                         | 7.9                           | 4.7                               |

<sup>1</sup> Monthly average.

<sup>2</sup> Per cent change over the previous year.

\* Provisional data.

Source: Bank of Greece and NSSG.

Table 9  
Bank of Greece interest rates

| End of period           | Rediscount rate <sup>1</sup> | Lombard rate | Overdraft rate on banks' current accounts | Bank of Greece intervention rate in the interbank market |        |
|-------------------------|------------------------------|--------------|---|--|--------|
|                         |                              |              |   | Overnight <sup>2</sup>                                   | 14-day |
| <b>1993</b> .....       | 21.5                         | 25.5         | 30.0                                      | 20.5   | –      |
| <b>1994</b> .....       | 20.5                         | 24.0         | 30.0                                      | 17.0   | –      |
| <b>1995</b> .....       | 18.0                         | 21.5         | 27.0                                      | 14.0   | –      |
| <b>1996</b> .....       | 16.5                         | 21.0         | 25.0                                      | 12.4   | –      |
| <b>1997</b> .....       | 14.5                         | 19.0         | 24.0 <sup>3</sup>                         | 10.5   | 12.75  |
| <b>1996</b> March ..... | 18.0                         | 21.5         | 27.0                                      | 13.8   | –      |
| June .....              | 17.5                         | 21.0         | 26.0                                      | 13.4   | –      |
| Sept. ....              | 17.5                         | 21.0         | 26.0                                      | 13.4   | –      |
| Dec. ....               | 16.5                         | 21.0         | 25.0                                      | 12.4   | –      |
| <b>1997</b> Jan. ....   | 16.5                         | 21.0         | 25.0                                      | 12.4   | –      |
| Feb. ....               | 15.5                         | 20.0         | 25.0                                      | 11.9   | 11.89  |
| March ....              | 15.5                         | 20.0         | 25.0                                      | 10.5   | 11.87  |
| Apr. ....               | 15.5                         | 20.0         | 25.0                                      | 10.7   | 11.90  |
| May .....               | 14.5                         | 19.0         | 24.0                                      | 11.4   | 11.90  |
| June .....              | 14.5                         | 19.0         | 24.0                                      | 11.7   | 11.90  |
| July .....              | 14.5                         | 19.0         | 24.0                                      | 11.6   | 11.90  |
| Aug. ....               | 14.5                         | 19.0         | 24.0                                      | 11.3   | –      |
| Sept. ....              | 14.5                         | 19.0         | 24.0                                      | 11.3   | –      |
| Oct. ....               | 14.5                         | 19.0         | 24.0 <sup>3</sup>                         | 150.0 <sup>4</sup>                                       | –      |
| Nov. ....               | 14.5                         | 19.0         | 24.0 <sup>3</sup>                         | 10.9   | 14.00  |
| Dec. ....               | 14.5                         | 19.0         | 24.0 <sup>3</sup>                         | 10.5   | 12.75  |
| <b>1998</b> Jan. ....   | 14.5                         | 23.0         | 24.0 <sup>3</sup>                         | 10.9   | 19.00  |
| Feb. ....               | 14.5                         | 23.0         | 24.0 <sup>3</sup>                         | 10.9   | 17.00  |
| March ....              | 14.5                         | 19.0         | 22.0                                      | 10.3   | 15.50  |
| Apr. ....               | –                            | 19.0         | 22.0                                      | 11.4   | 14.25  |
| May .....               | –                            | 19.0         | 22.0                                      | 11.5   | 14.00  |
| June .....              | –                            | 19.0         | 22.0                                      | 11.2   | 13.75  |
| July .....              | –                            | 19.0         | 22.0                                      | 11.9   | 13.00  |
| Aug. ....               | –                            | 16.0         | 22.0                                      | 11.8   | 13.00  |
| Sept. ....              | –                            | 16.0         | 22.0                                      | 11.9   | 13.00  |
| Oct. ....               | –                            | 16.0         | 22.0                                      | 11.9   | 12.75  |

1 The standing facility credit to banks through the rediscount of bills of exchange and promissory notes was abolished on 10 April 1998.

2 As of 28 March 1998, data refer to the average weighted interest rate on credit institutions' deposits with the Bank of Greece.

3 As of 31 October 1997, new debit balances or the increase in existing ones were charged by additional interest at the rate of 0.4 per cent per day; as of 29 December 1997 at 0.2 per cent per day; as of 31 March 1998, this surcharge was abolished.

4 Interest rate on 3-day tenders.

Source: Bank of Greece.

