

BANK OF GREECE

MONETARY  
POLICY  
INTERIM REPORT  
1999



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## To the Greek Parliament and the Council of Ministers

The present Interim Report is submitted to the Greek Parliament and the Council of Ministers in accordance with Law 2548/1997 and the Statute of the Bank of Greece. It is supplementary to the report submitted in March 1999, which defined in detail the monetary policy objectives and framework for 1999.

As it is known, the primary objective of the monetary policy pursued is to achieve and ensure price stability and to meet the convergence criterion regarding inflation, as set in the Maastricht Treaty.

The first section of the present Report is a brief but comprehensive account of monetary policy results up to October 1999, as well as of the main problems this policy faced. The second section includes an overview of developments in the world economy and international financial markets during the last 10 months, along with a more specific presentation of the single monetary policy pursued by the European Central Bank. The third section examines in detail the anti-inflationary monetary policy implemented over the period from January to October 1999, i.e. interest rate policy, Bank of Greece interventions in money and foreign exchange markets and the additional measures taken in April and July to contain credit expansion. This section also includes a description and assessment of developments in money, foreign exchange, bank credit and capital markets. The course of inflation and the factors which

affected it up to October 1999 are detailed in the fourth section, in relation to the evolution of economic activity. Particular reference is made to the labour market and the balance of payments.

Lastly, the fifth section of the Report makes an overall assessment of monetary policy in 1999 and analyses inflationary prospects. It is ascertained that the anti-inflationary stance of monetary policy was strengthened and that this policy contributed significantly to the deceleration of inflation. The analysis of short-term inflationary prospects in Greece and the European Union supports the forecast that Greece will eventually meet the relevant convergence criterion. In parallel, however, the need is stressed to maintain the anti-inflationary stance of monetary policy, in order to deal with possible inflationary pressures and ensure price stability for the year 2000 as a whole, but also after Greece joins the euro area. To achieve this goal, economic and monetary authorities should implement a consistent policy, while social partners should make a continuous effort with regard to pricing policy and labour agreements. Finally, owing to the restrictions on the conduct of monetary policy, which will be gradually set during the year 2000 in view of Greece's entry into EMU, the anti-inflationary stance of fiscal policy should be ensured and structural reforms which will contribute to further market deregulation and the enhancement of productivity should be sped up.

Athens, November 1999

Lucas Papademos  
Governor

# Monetary Policy Council of the Bank of Greece

## Chairman

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Panayotis Thomopoulos

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Antonis Mantzavinos

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# Contents

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I. Monetary policy objectives and results	11
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II. International economic developments	15
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III. Monetary developments and policy	
1. Exchange rate	21
2. Interest rates and interventions in the money market	23
3. Monetary aggregates	27
4. Credit expansion	29
5. Capital markets	33

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IV. Inflation and economic activity	
1. Price developments in the period January-October 1999	39
2. Factors affecting inflation in the period under review	41
3. Economic activity and employment	49
4. Trade balance and current account balance	57

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V. Monetary policy guidelines and the outlook for inflation	61
---	----

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Monetary policy measures	65
--------------------------	----

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Bank of Greece decisions	69
--------------------------	----

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Statistical appendix	77
----------------------	----

Charts		16 Consumer price index and core inflation	40
1	Three-month interbank rates	17	
2	Exchange rate of the US dollar against the euro and of the Japanese yen against the US dollar	19	
3	Exchange rate of the drachma against the euro and the US dollar	22	
4	Deviation of the drachma from its central rate against the euro, in percentages	22	
5	Bank of Greece interest rates	23	
6	Liquidity absorption by the Bank of Greece in the interbank market	24	
7	Breakdown of total liquidity absorption on the basis of deposit maturity	25	
8	Yield curves in the Athens interbank market	26	
9	Bank deposit rates	26	
10	Bank lending rates	27	
11	Liquidity indicator M4N	27	
12	10-year government bond yields in Greece, the USA and the euro area	34	
13	Yield differential between 10-year Greek government bonds and comparable German securities	34	
14	Term structure of Greek government bond yields	35	
15	Athens Stock Exchange: composite share price index and value of transactions	36	
		17 Harmonised index of consumer prices in Greece, the EU and the euro area	40
		18 Wholesale price index	41
		19 Wholesale price index and the inverse of the effective exchange rate of the drachma	42
		20 Inflationary expectations of consumers and business firms	42
		21 Consumer demand	47
		A. Retail sales volume and business expectations	
		B. New passenger car registrations	
		22 Output and business expectations in manufacturing	50
		A. Indices	
		B. Percentage change over same month of previous year	
		23 Business forecasts on employment	56
		24 A. Employment	56
		B. Registered unemployment	56
		Tables	
		I Monetary aggregates	28
		II Net borrowing requirement of central government	30
		III Financing of net public sector borrowing requirement	30
		IV Changes in total bank credit to the private sector by branch of activity	32
		V Fund raising through the Athens Stock Exchange	37

VI	Employees' earnings, productivity and labour costs	43	Box	
VII	Indicators of consumer demand	45	Employment, unemployment, economic immigrants and unit labour costs in 1998: an interpretation of developments	53
VIII	Aggregate demand and gross domestic product	49	Table: Population, labour force, employment and unemployment: 1997-1998	54
IX	Indicators of investment demand	51		
X	Current account balance: 1997-1999	58		
XI	Harmonised consumer price index: Greece and the EU	62		



# I. Monetary policy objectives and results

The main objectives and framework for monetary policy in 1999 were set out in the Report submitted by the Bank of Greece to the Greek Parliament and the Council of Ministers last March. The present Report examines monetary developments and the monetary policy pursued until the end of October 1999.<sup>1</sup>

The primary objective of monetary policy is to achieve and maintain the stability of the general price level and to meet the inflation criterion of the Maastricht Treaty, so that Greece can join the euro area in January 2001.

The monetary policy framework is determined by the participation of the drachma in the Exchange Rate Mechanism II (ERM II) since 1 January 1999, with the standard fluctuation band. The main intermediate target of monetary policy is thus to maintain the stability of the drachma/euro exchange rate. However, as attaining the inflation target remains the priority of monetary policy, the drachma has remained above its central rate vis-à-vis the euro. In the ten months from January to October 1999, the drachma traded at 6.5-9 per cent above its central rate. During most of this period, the drachma appreciated by up to 1.5 percentage points relative to the end of 1998 and only in October 1999 did the exchange rate stand at a level equal to or slightly lower than that at end-1998. This implies an appreciation in real terms as well, given the inflation differential between Greece and the euro area Member States.

The anti-inflationary stance of monetary policy is also underlined by developments in interbank rates, which have remained stable at around 10 per cent since mid-February 1999. The stability of

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<sup>1</sup> For certain aggregates for which data were not available, the Report covers developments only until end-September 1999.

nominal interest rates, combined with the deceleration of inflation, led to an increase in real interest rates. The appreciation of the drachma in real terms and the rise in real interest rates indicate a strengthening of the anti-inflationary stance of monetary policy, geared towards achieving the ultimate objective of price stability and offsetting the adverse impact of various factors on the course of inflation (for further details, see Section IV).

In assessing the outlook for inflation, the Bank of Greece uses various other indicators, such as the broader liquidity indicator (M4N) and total credit to the private and the public sector. For both aggregates, the Bank has announced reference ranges, which are judged consistent with the pursued deceleration of inflation and the projected growth of real GDP.

The 12-month growth rate of the broader liquidity indicator M4N slowed considerably (to 6.9 per cent in September from 9.8 per cent in December 1998), falling only marginally short of the reference range of 7-9 per cent.

Total credit expansion remained roughly unchanged (10.1 per cent in September 1999, compared with 9.9 per cent in December 1998), slightly above the reference range (7-9 per cent). This outturn reflects an acceleration in credit expansion to the public sector (September 1999: 8.4 per cent, December 1998: 7.6 per cent), while credit expansion to the private sector decelerated (September 1999: 14 per cent, December 1998: 15 per cent), despite a steep rise in certain categories of credit.

The consistent conduct of an anti-inflationary monetary policy has contributed substantially to disinflation and has weakened inflationary expectations at a time of strong GDP growth. The rate

of increase in the Consumer Price Index (CPI) slowed to 2.2 per cent in October 1999 from 3.9 per cent in December 1998. Even larger was the reduction in core inflation, as measured by the CPI excluding fresh fruit/vegetables and fuel (October 1999: 1.9 per cent, December 1998: 4.9 per cent). Other factors contributing to disinflation were the appreciable slowdown in unit labour costs in the whole economy, the reduction in the public deficit/GDP ratio and the *ad hoc* anti-inflationary measures taken by the government, such as indirect tax cuts and the moderate increases (and sometimes even the reduction) in public utility rates.

Monetary policy has been conducted efficiently, in spite of certain difficulties in realising its ultimate objective: First, persistently high domestic interest rates and growing market confidence in the prospects of Greece joining the euro area led to substantial capital inflows, especially for the purchase of Greek government securities, and to increased liquidity in the money market. With its interventions, the Bank of Greece absorbed this excess liquidity, in order to avert a drop in interest rates and an easing of monetary conditions. Second, the growth of certain categories of loans, notably consumer loans, which affect the course of demand and inflation, remained very high. Third, world crude oil prices, i.e. the main determinant of domestic fuel prices, more than doubled between end-December 1998 and end-October 1999. Fourth, the significant appreciation of the US dollar against the euro had an upward effect on the cost of imports, a large part of which is invoiced in US dollars. These developments induced the Bank of Greece to maintain its main intervention rates unchanged from mid-January to roughly mid-October 1999 – at which time these interest rates were lowered by half of a percentage point – and to take additional measures in April and July 1999 to contain credit expansion.

These measures are temporary and complement the main monetary policy instruments, i.e. Bank

of Greece interest rates and interventions in the money and foreign exchange markets.



## II. International economic developments

The conduct of monetary policy was influenced by the global environment, where developments were generally more favourable than initially anticipated. Certain factors did, however, hamper the achievement of policy objectives.

World economic growth is expected to accelerate to 3 per cent<sup>2</sup> in 1999 from 2.5 per cent in 1998, while world trade growth is expected to stabilise at 3.7 per cent. Inflation is projected to remain below 2 per cent in advanced economies and to be further restrained in developing countries.

The pick-up in world GDP growth is attributed to a turnaround, though still limited, of the Japanese economy and to the recovery of the SE Asian countries from the financial crisis of 1998. The maintenance of price stability in most advanced economies in 1999 was underpinned by the containment of domestic inflationary pressures and the continuous drop, from 1996 to August 1999, of raw material prices, excluding oil. However, the sharp rise in oil prices after March 1999 caused world inflation to pick up in the second half of the year.

In 1999, tensions in global financial markets gradually abated and the uncertainty about world economic developments – generated in particular by the crises in SE Asia and Russia<sup>3</sup> – subsided to a great extent. International organisations (e.g. the IMF, the OECD) thus began to revise upwards their projections for global economic activity in 1999. The turmoil in Brazil in January 1999 and the Kosovo conflict in the second quarter of the year had only a limited negative impact. The exchange rate of the US dollar against major currencies fluctuated considerably from January through October 1999. All in all, the US currency appreciated against the euro, but depreciated against the yen.

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<sup>2</sup> Latest IMF forecasts (*World Economic Outlook*, October 1999).

<sup>3</sup> For more details, see Bank of Greece “*Monetary policy 1998-1999*”, March 1999, Section 1.2.

The rate of increase in economic activity in the European Union (EU) is expected to decelerate to 2.0 per cent in 1999 from 2.7 per cent in 1998, mainly owing to a slowdown in exports, as reflected in the very weak growth of industrial production. The rise in GDP was mainly underpinned by the strong growth of both private consumption (2.6 per cent in 1999, compared with 2.9 per cent in 1998) and investment (4.4 per cent, compared with 5.2 per cent in 1998). Economic activity in the EU is nevertheless estimated to have picked up, especially in the second half of the year. The latest data available for the second quarter of 1999 point to a quarter-on-quarter acceleration in GDP growth, owing to a recovery in export activity (though combined with weaker consumption) in the EU. The fiscal policy stance in 1999 remained basically unchanged, as indicated *inter alia* by the general government deficit/GDP ratio, which is estimated, on average, to have remained roughly similar<sup>4</sup> to 1998 levels (at 1.5 per cent), thus implying a slight drop in the public debt/GDP ratio (1999: 68.6 per cent, 1998: 69.7 per cent). The unemployment rate in the EU is expected to fall to 9.1 per cent in 1999, from 9.6 per cent in 1998. This favourable turn of events is fostered by the establishment of macroeconomic stability conditions, the strengthening of the structural reform policy and the implementation of job creation measures in most of the EU Member States.

The economic repercussions of the Kosovo conflict, though severe on Greece's neighbours, were relatively limited on Greece itself. Transportation costs for imports and exports, however, increased markedly.

The average annual rate of inflation in the EU<sup>5</sup> is expected to decelerate further to 1.3 per cent in 1999, compared with 1.4 per cent in 1998, in spite of the surge in international oil prices. This

reflects both the containment of domestic inflationary pressures, in particular from wage increases, and the drop in non-oil commodity prices, as estimated on an average annual basis. Structural factors, relating to market liberalisation and enhanced competition, also had a favourable impact on prices, especially on those of services. If price stability achievements have been consolidated in the EU, this is largely attributable to the Member States' efforts in previous years to meet the convergence criteria of the Maastricht Treaty and, since 1 January 1999, to the monetary policy conducted by the European Central Bank (ECB) in the euro area and by the national central banks in the non-euro area EU countries.

In the euro area, where, as stated above, the ECB has the exclusive responsibility for formulating monetary policy since 1 January 1999, inflation – as measured by the 12-month rate of change in the Harmonised Index of Consumer Prices (HICP) – stood at 1.2 per cent in September 1999, compared with 1.0 per cent one year earlier. According to the projections of international organisations for 1999, the average annual rate of inflation in the euro area is expected to range between 1.0 and 1.2 per cent in 1999, although a small acceleration is anticipated in the final months of the year.

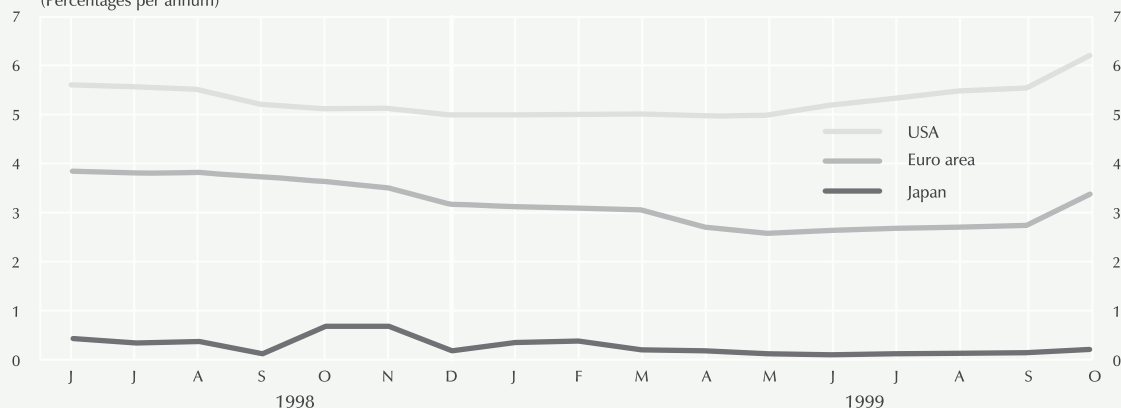
The rates of inflation and economic growth vary significantly across the euro area, as the Member States are not all at the same stage of the economic cycle. Thus, while certain countries have had inflation rates equal to or over 2 per cent, the three best performing Member States – in terms of price stability – on average achieved a 12-month rate of inflation of 0.7 per cent in September 1999. Such divergences not only complicate the conduct of monetary policy, which must

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<sup>4</sup> European Commission, spring 1999 forecasts.

<sup>5</sup> As measured by national consumer price indices.

Chart 1  
 Three-month interbank rates<sup>1</sup> (June 1998 - October 1999)  
 (Percentages per annum)



<sup>1</sup> End of period interest rates up to 31 December 1998. As from January 1999, average interest rates of the period.

Source: European Central Bank, *Monthly Bulletin*, various issues, Table 3.1 of "Euro area statistics".

focus on the euro area as a whole rather than on country-specific developments; they also call for additional – notably structural – measures to increase the flexibility of the markets for goods, services and labour in individual euro area countries, as well as for adjustments in national fiscal policies.

In the United States, robust growth persists in 1999 (at a rate of 3.7 per cent, compared with 3.9 per cent in 1998), combined with low rates of inflation (2.2 per cent in 1999, compared with 1.6 per cent in 1998) and of unemployment (4.3 per cent in 1999, compared with 4.5 per cent in 1998) and with strong productivity growth. These favourable developments are mainly attributable to the structural adaptability of the US economy, intense competition in the goods market, technological progress – particularly in the field of information technology – and to the favourable course of import prices. The situation of public finances is also very satisfactory, since a consolidation of the fiscal surplus is expected.

However, the increasing current account deficit of the United States (estimated to exceed 300 billion dollars in 1999) and the associated shortfall of pri-

vate savings relative to investment may cause a depreciation of the US dollar, with wider repercussions on the world economy. Meanwhile, a potential marked drop in equity prices would spur an increase in private savings and a fall in consumer expenditure in the United States.

In Japan, the latest indications (in particular, the relatively strong growth of economic activity during the first and the second quarter of 1999) confirm projections that GDP would grow by 1.0 per cent in 1999, after having contracted by 2.8 per cent in 1998. Consumer prices are expected to fall by 0.4 per cent in 1999, after rising by 0.6 per cent in 1998. The fact that interest rates remain exceptionally low, while fiscal policy remains expansionary and the banking system is currently undergoing structural reform, has halted the downward trend of GDP and contributed to a slow recovery of the economy. The recent appreciation of the yen against other currencies, however, has not been conducive to stronger economic activity in Japan.

In money markets, short-term interest rates moved largely in line with the changes made in the key central bank rates in the context of the monetary

policies pursued, which varied depending on the cyclical positions of the individual countries. Money, foreign exchange and bond markets in the EU continued to function smoothly, without any technical complications, after the euro was introduced. In the first three quarters of 1999, short-term rates decreased in all EU countries, particularly in the euro area (falling on average to 2.73 per cent in September 1999 from 3.17 per cent in December 1998, see Chart 1 on page 17). Interest rates also decreased marginally in Japan (from 0.18 per cent to 0.14 per cent over the same period), but rose in the United States (from 5 per cent in December 1998 to 5.56 per cent in September 1999). However, in October 1999, interest rates rose to 3.38 per cent in the euro area and to 0.24 per cent in Japan and registered a further increase to 6.20 per cent in the United States.

More specifically, on 8 April 1999, the Governing Council of the ECB decided to reduce the interest rate on the main refinancing operations from 3 per cent to 2.5 per cent. This decision was based on the assessment that price stability in the euro area was not at risk, but had already been achieved in spite of the continuing growth of M3 at over 5 per cent, i.e. at a rate higher than the reference value of 4.5 per cent. This assessment was confirmed by the thorough examination of other economic indicators. The reduction in short-term interest rates – which, in real terms, reached historically low levels – in conjunction with the weakening of the euro marked a substantial relaxation of monetary conditions, which boosted economic recovery not only in the euro area, but in all of Europe. However, on 4 November 1999, the ECB raised the interest rate on its main refinancing operations back to 3 per cent, as risks to price stability in the euro area seemed to be increasing, as a result of rising oil prices, accelerating monetary expansion and emerging signs of economic recovery. By raising

its interest rate, the ECB aimed primarily to contain inflationary expectations. This, in the words of the President of the ECB,<sup>6</sup> “would be greatly facilitated if individual member countries were to make convincing progress in the structural reform of the labour and product markets [...]. Together with fiscal consolidation in the context of the Stability and Growth Pact and the necessary moderate wage development, such reforms could make a crucial contribution towards transforming the current cyclical upswing into a process of longer-term non-inflationary growth”.

In the United States, the Federal Reserve decided (in June and, once again, in August 1999) to raise its target for the federal funds rate by 50 basis points, to 5.25 per cent. In August, the Federal Reserve also increased its discount rate by 25 basis points to 4.75 per cent. The Bank of Japan, on the other hand, steered the overnight inter-bank rate to almost zero.

The strength of the US economy, combined with relatively sluggish output growth in the EU, and expectations of a widening spread between US and EU interest rates caused the US dollar to appreciate continuously against the euro from the launching of EMU on 1 January through mid-July (average for January 1999: USD 1.16 per euro, 12 July 1999: USD 1.0124 per euro) (see Chart 2). From mid-July to the end of October 1999, the exchange rate of the euro ranged between USD 1.02 and USD 1.09.

The marked strengthening of the yen vis-à-vis the US dollar from June 1999 onwards (May 1999 average: JPY 122 per USD, end-October 1999: JPY 105 per USD) was due to a number of factors (such as expectations of even a limited recovery

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<sup>6</sup> Press conference of the President of the ECB, 4 November 1999.

Chart 2

Exchange rate of the US dollar against the euro (January - October 1999)  
(Daily data)



Source: European Central Bank.

Exchange rate of the Japanese yen against the US dollar (January - October 1999)  
(Daily data)



Source: Bank of Greece.

of the Japanese economy, the ensuing buoyancy of the Tokyo Stock Exchange and the increase in long-term interest rates), which prompted capital inflows to Japan. The strengthening of the yen also resulted from Japan's high current account surplus.

Since the beginning of 1999, yields on long-term securities in the euro area and in other countries, such as the United States, have been almost continuously on the rise (10-year bond yields in the

euro area rose on average from 3.95 per cent in December 1998 to 5.47 per cent in October 1999, while comparable US interest rates increased from 4.69 per cent to 6.10 per cent). These developments are attributed to a reversal of previous capital flows, especially those related to "flights to safety" away from emerging economies, and to expectations of a gradual rise in US short-term interest rates, of a pick-up of economic activity in Europe towards the end of the year and of a rekindling of inflationary pressures in the future.



### III. Monetary developments and policy

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#### 1. Exchange rate

At the beginning of 1999, the drachma entered the Exchange Rate Mechanism II (ERM II), which succeeded the previous Exchange Rate Mechanism,<sup>7</sup> at a central rate of 353.109 drachmas per euro and with the standard fluctuation band of  $\pm 15$  per cent. This fluctuation band provides greater flexibility in the conduct of monetary policy.

The drachma has remained strong in ERM II since the beginning of the year, as a result of the strict monetary policy pursued and the overall improvement in economic conditions and prospects (see Chart 3 on page 22). In the first two months of the year, considerable inflows of capital from abroad took place, exerting upward pressure on the drachma. These inflows mainly concerned investment in government bonds, owing to their considerably higher yields relative to comparable euro area government securities, as well as to market expectations for the convergence of Greek interest rates to those of the euro area, hence for substantial capital gains. It should be noted that in the first two months of 1999 the yield on 10-year government bonds fell by 0.8 percentage point. During that period, the Bank of Greece intervened in the foreign exchange market in order to restrain the aforementioned upward pressures. Thus, from mid-January until the end of March, the appreciation of the drachma above its central rate vis-à-vis the euro ranged between 8.5 and 9 per cent (see Chart 4), compared with a 7.5 per cent appreciation in December 1998.

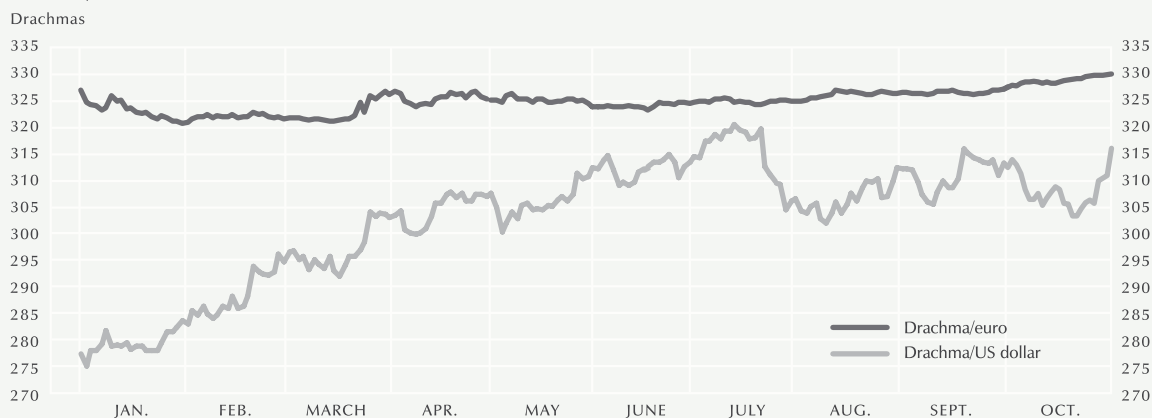
In late March 1999 capital outflows were observed, partly induced by uncertainty because of the Kosovo crisis, and the appreciation of the

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<sup>7</sup> For a brief description of ERM II, see Bank of Greece, *Monetary Policy 1998-1999*, March 1999, pp. 53-54.

Chart 3

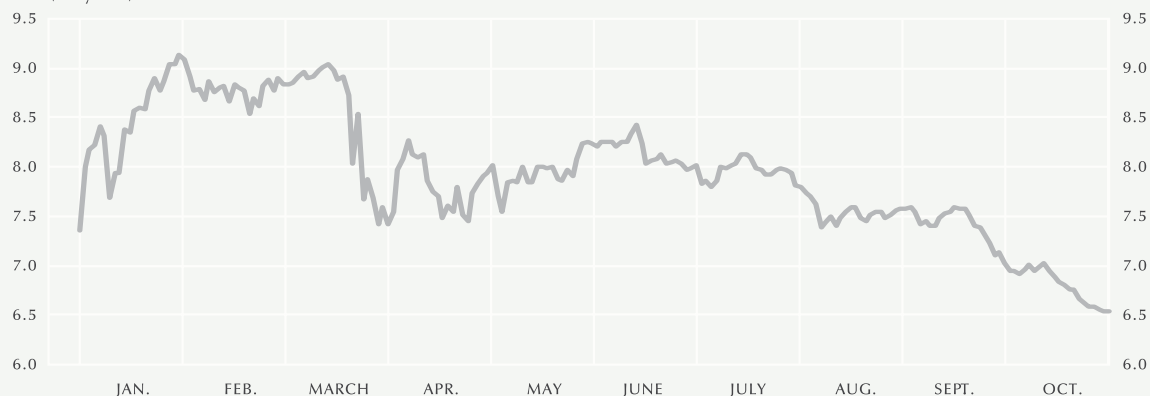
Exchange rate of the drachma against the euro and the US dollar (January - October 1999)  
(Daily data)



Source: Bank of Greece.

Chart 4

Deviation of the drachma from its central rate against the euro, in percentages  
(January - October 1999)  
(Daily data)

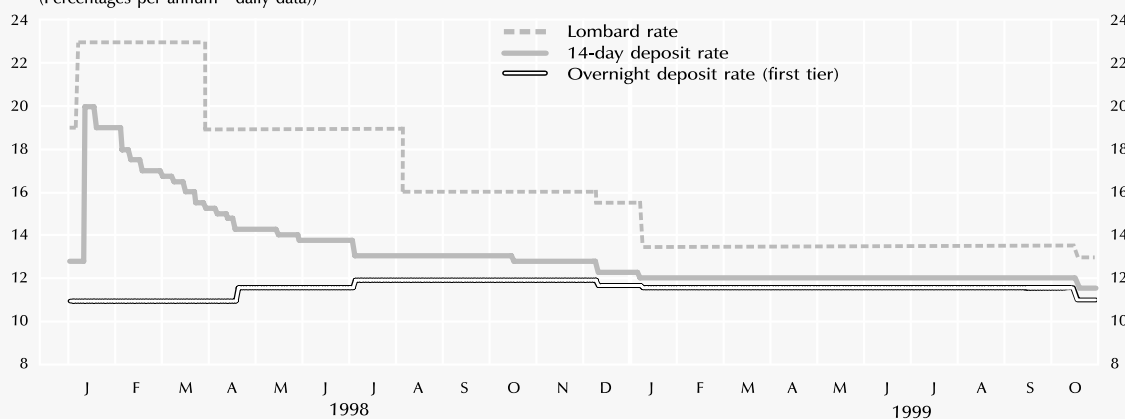


Source: Bank of Greece.

drachma was contained to 7.5-8 per cent, a level at which it remained through end-May 1999. In the June-July 1999 period – when the current account balance was in surplus owing to seasonal factors – the drachma strengthened and the appreciation relative to its central rate against the euro ranged between 8 and 8.5 per cent. In the August-October 1999 period, the deviation of the drachma from its central rate gradually narrowed to 6.5 per cent. In the first ten months of the year, foreign exchange reserves rose by USD 1.8 billion, reaching USD 20 billion at the end of October 1999.

Given the relative stability of the drachma against the euro – which is a characteristic feature of the monetary policy pursued – the course of the exchange rate of the drachma against third currencies mirrored the evolution of the exchange rate of these currencies vis-à-vis the euro. Specifically, the exchange rate of the drachma against the US dollar depreciated in the first seven months of 1999, reaching 320 drachmas per dollar in mid-July, from 282.6 drachmas at end-1998. However, in the August-October 1999 period, the drachma appreciated and its rate ranged between

Chart 5  
Bank of Greece interest rates (January 1998 - October 1999)  
(Percentages per annum - daily data)



Source: Bank of Greece.

303 and 316 drachmas per US dollar (see Chart 3). In the first five months of the year, the exchange rate of the drachma against the Japanese yen fluctuated around 250 drachmas per 100 yen but declined between end-May and end-October, reflecting the strengthening of the yen against the euro amidst emerging signs of recovery in the Japanese economy.

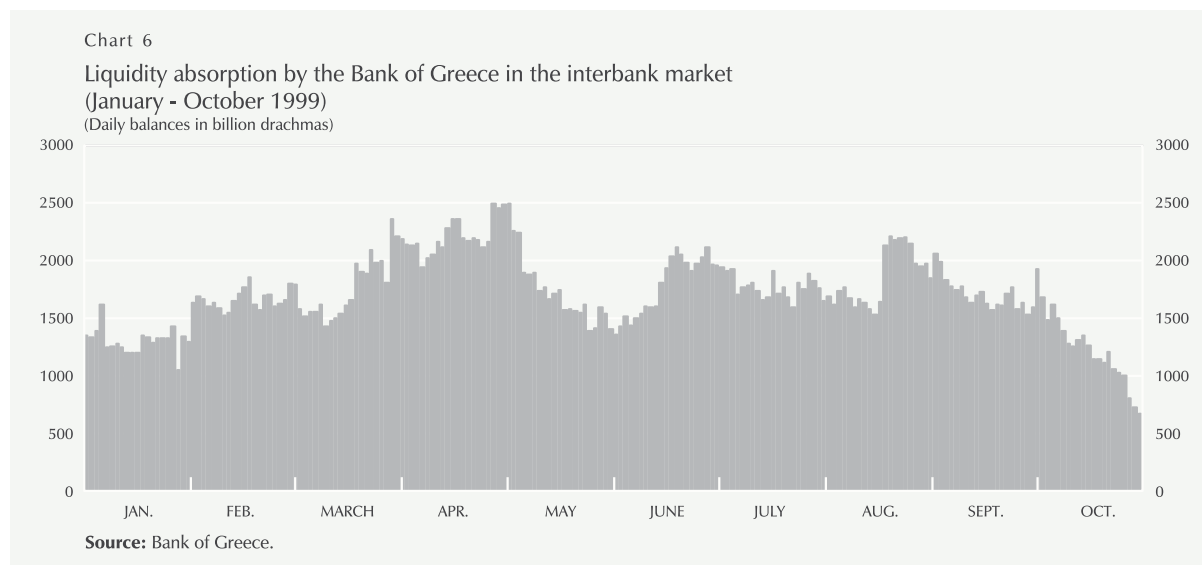
The effective exchange rate of the drachma<sup>8</sup> (against 15 currencies) fell by 3.2 per cent between end-December 1998 and end-October 1999, while, on average, it remained broadly stable compared with the corresponding period of 1998. The stability of the drachma, in conjunction with lower inflation rates in Greece's trading partners, helped contain domestic inflationary pressures.

## 2. Interest rates and interventions in the money market

The interest rates of the Bank of Greece remained at high levels until mid-October 1999, since their slight decrease in January 1999. In mid-January 1999, the Bank lowered by 0.25 percentage point

(to 12 per cent) the interest rate for the acceptance of 14-day deposits, which is its key instrument of intervention in the interbank market. Additionally, the Bank further reduced marginally (by 0.1 percentage point to 11.5 per cent) the interest rate on the first tier of its standing deposit facility, while retaining unchanged the interest rate on the second tier at 9.75 per cent (see Chart 5). Furthermore, the interest rate on credit institutions' borrowing from the central bank against collateral of government securities (Lombard rate) was lowered from 15.5 per cent to 13.5 per cent and the interest rate on the debit balances (overdrafts) of credit institutions' current accounts with the Bank of Greece (penalty rate) was reduced from 22 per cent to 20 per cent. These larger reductions in the interest rates on the credit facilities (Lombard rate and penalty rate) were rather of a technical nature and did not directly affect interest rates in the interbank market, which, since the entry of the drachma into the ERM in March 1998, has been generally characterised by excess liquidity inducing absorption operations by the Bank of Greece.

<sup>8</sup> The effective exchange rate is the rate of a representative basket of foreign currencies, each weighted on the basis of its weight in Greece's foreign trade.

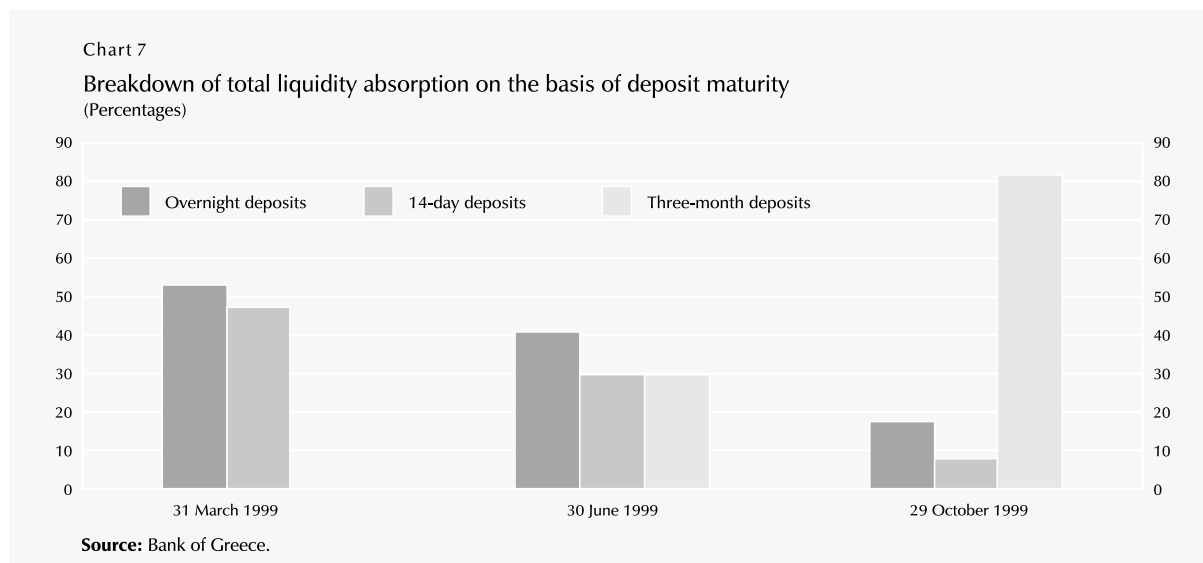


Recently (20 October 1999), the Bank of Greece further reduced its interest rates by 0.5 percentage point, taking into account the deceleration in core inflation, the containment of the rate of increase in liquidity and the outlook for inflation. In particular, the interest rates on the first and the second tier of the deposit facility were lowered to 11 and 9.25 per cent respectively, the Lombard rate to 13 per cent and the intervention rate for the acceptance of 14-day deposits to 11.5 per cent.

The maintenance of Bank of Greece interest rates at high levels in a period of falling inflation implies a strengthening of the restrictive stance of monetary policy, in order to achieve a further deceleration of inflation and ensure price stability. In formulating its interest rate policy for this period, the Bank of Greece took into consideration the unfavourable evolution of certain factors which have a –direct or indirect– effect on inflation, such as developments in aggregate demand, the sharp increase in world oil prices and the high (and at times accelerating) growth rate of credit, in particular consumer credit.

The Bank of Greece, in order to keep bank interest rates at levels compatible with the anti-infla-

tionary policy pursued, absorbed large amounts of liquidity from the interbank money market (see Chart 6). It should be noted that liquidity absorbed by the Bank of Greece amounted to 1,750 billion drachmas on average over the first nine months of 1999, compared with 750 billion drachmas in the corresponding period of 1998. Increased liquidity in 1999 largely reflects capital inflows, especially during the first two months of the year. However, from end-September 1999 onwards, liquidity absorption was gradually scaled down and stood at around 670 billion drachmas at end-October 1999, as a result of both a considerable increase (of 419 billion drachmas) in government reserves with the Bank of Greece, as well as capital outflows. The latter were related to sales to domestic investors of non-residents' holdings in Greek enterprises or to the liquidation of portfolio investments, or to the closing of positions so as to register profits from short-term investments in the interbank market. Liquidity has also been affected by the method of financing the government deficit, although this was lower in the period under review compared with a year before. As detailed below (Sections III.3 and III.4), in the first nine months of the year private purchases of govern-



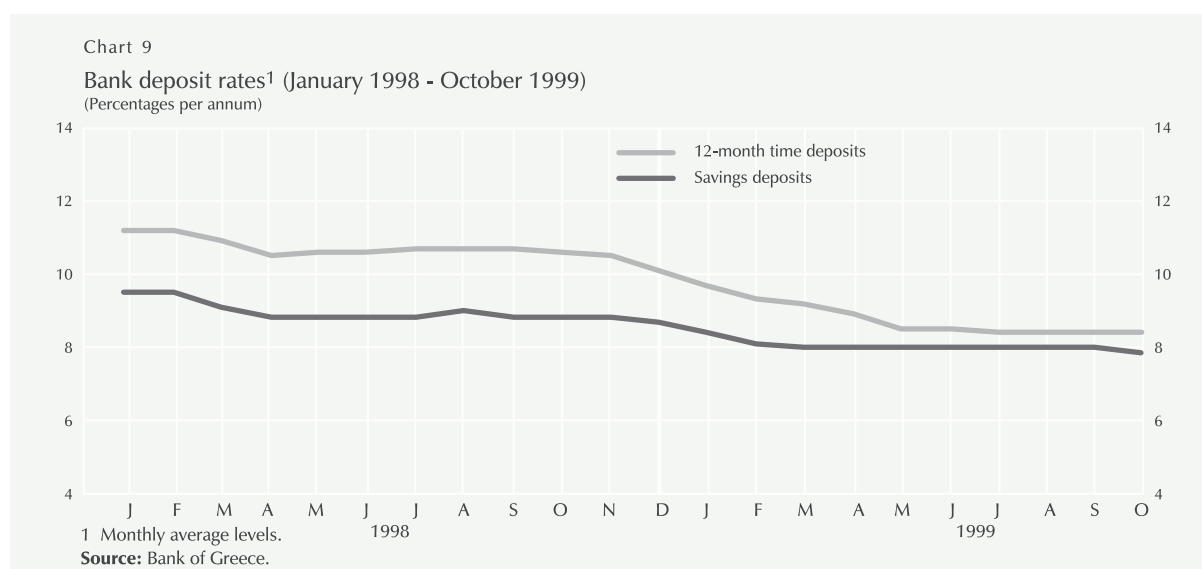
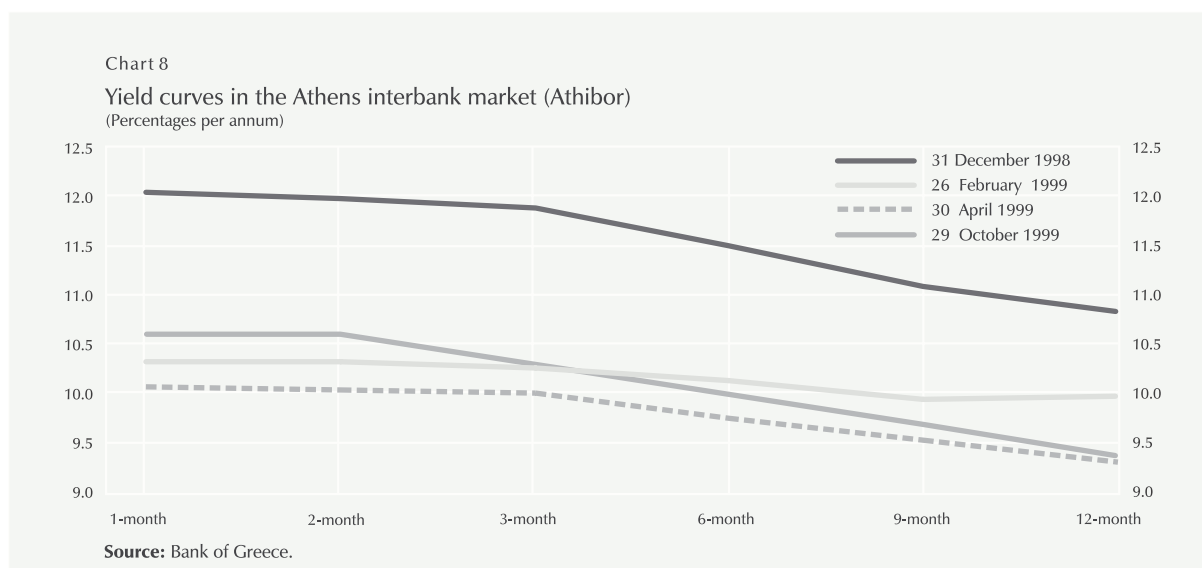
ment paper fell considerably, while bank deposits and repurchase agreements increased. However, in the January-October 1999 period, the government policy of borrowing in excess of current requirements and maintaining a high stock of reserves with the Bank of Greece helped to contain liquidity in the interbank market and reduced the need for central bank intervention.

In April 1999, the Bank of Greece introduced regular monthly tenders for the acceptance of 3-month deposits. These operations aim at absorbing for a longer period of time a considerable part of the structural liquidity surplus in the interbank market and enhance the effectiveness of the Bank's intervention policy by limiting the possibility of wide fluctuations in short-term interest rates in the face of unexpected changes in liquidity. As mentioned above, total liquidity absorption by the Bank of Greece was reduced substantially in October, leading to a commensurate decline in banks' overnight and 14-day deposits with the Bank (see Chart 7).

Interest rates in the interbank money market remained at relatively high levels in the January-October 1999 period, despite a drop of one to

two percentage points in the first two months of the year, with larger declines in shorter maturities. More specifically, the one-month Athibor rate fell by about two percentage points in the January-February 1999 period, to stand at 10.2 per cent in early March 1999. During the same period, the 12-month Athibor rate fell by one percentage point, to 9.8 per cent. From March and almost up to mid-October 1999, interbank rates remained broadly unchanged for all maturities, with the exception of the 12-month rate, which fell slightly. After the first ten days of October 1999, interbank rates registered small increases (of 0.5 percentage point for the shorter maturities, i.e. of one to three months), reflecting the containment of liquidity during that period. Compared with the corresponding euro area interest rates, the rates in the Greek interbank drachma market were considerably higher in the first ten months of the year, with differentials ranging between 6 and 7.5 percentage points, depending on maturity, at end-October.

Throughout the period under review, the yield curve in the interbank money market was almost flat for shorter maturities (up to 3 months), while it had a slight downward slope for longer maturi-



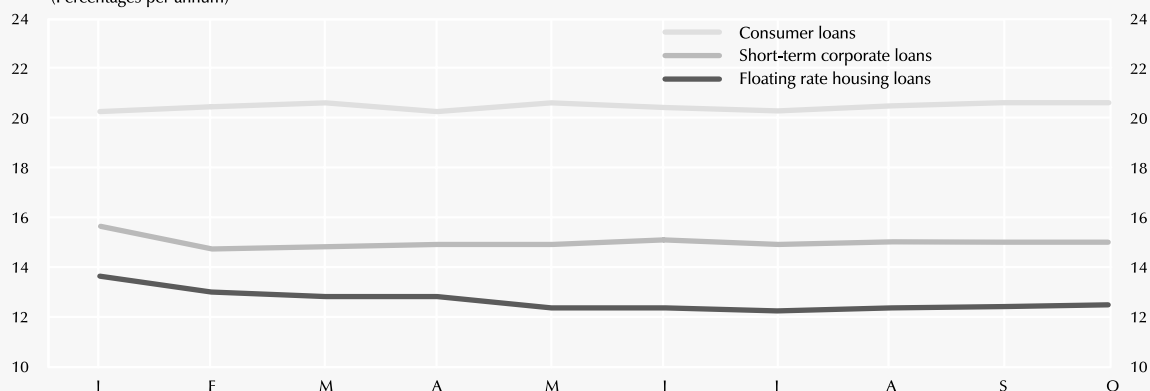
ties (see Chart 8). This reflects market expectations for relative stability of short-term interest rates (from one to three months) and for their slow decline over a time horizon of 12 months. Stable interbank rates after the first two months of the year, combined with the deceleration of inflation during the same period, resulted in an increase in real interest rates, as calculated on the basis of current inflation rates, and therefore supported anti-inflationary monetary policy.

In line with interbank rates, interest rates on bank

deposits remained broadly stable, after a small reduction in the first months of 1999. Specifically, the savings deposit rate fell by about 0.5 percentage point in the first two months of the year and has since remained unchanged at about 8 per cent. A larger decrease was observed in the rate on 12-month time deposits, which was adjusted to a lower level (8.5 per cent) until the end of May 1999 (see Chart 9).

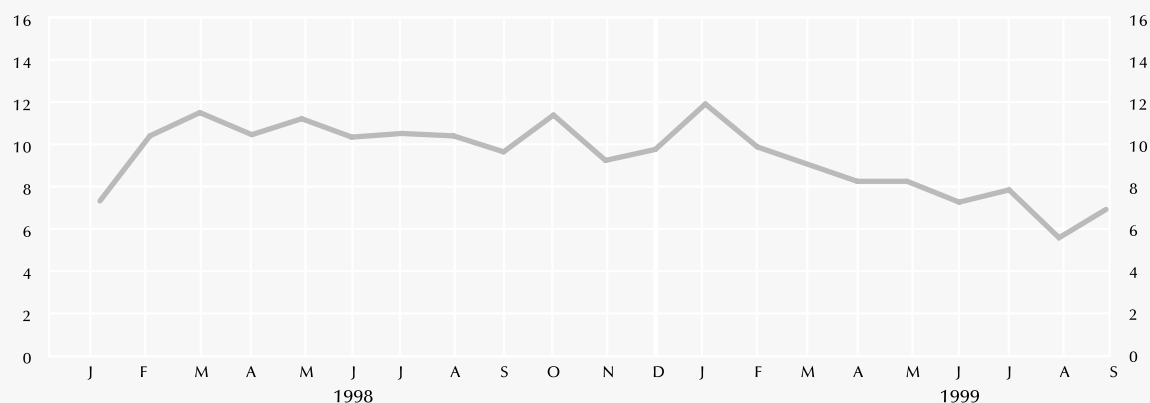
Interest rates on corporate and housing loans followed a path similar to that of deposit rates,

Chart 10  
Bank lending rates<sup>1</sup> (January - October 1999)  
(Percentages per annum)



<sup>1</sup> Monthly average levels.  
Source: Bank of Greece.

Chart 11  
Liquidity indicator M4N (January 1998 - September 1999)  
(Percentage change over same month of previous year)



Source: Bank of Greece.

initially decreasing and later stabilising (see Chart 10). In particular, the interest rate on short-term corporate loans fell by about one percentage point during the first two months of 1999 and has since fluctuated around 15 per cent. Interest rates on consumer loans either persisted at high levels (20.5 per cent for personal loans and 22.4 per cent for loans through credit cards) or increased slightly (by 0.8 percentage point to about 19 per cent at end-September 1999 for consumer loans against supporting documents).

### 3. Monetary aggregates

The twelve-month rate of increase in liquidity, as measured by the new indicator M4N,<sup>9</sup> followed a downward course after January 1999 and stood at 6.9 per cent in September 1999, compared with 9.8 per cent at end-1998. Since March 1999, the rate of increase in M4N has been within or very

<sup>9</sup> This aggregate includes currency in circulation, private deposits in drachmas and foreign currency, and private investments in repos, bank bonds, money market fund units and government paper of a maturity of up to one year.

Table I

Monetary aggregates<sup>1</sup>*(Changes in billion drachmas and percentage change in outstanding balances over previous year)*

	Year			January – September		Sept. 1999* over Sept. 1998
	1996	1997	1998	1998	1999*	
1. Currency in circulation, M0	78 (4.2%)	241 (12.4%)	23 (1.1%)	-204 (-9.4%)	-6 (-0.3%)	(11.2%)
2. Private deposits	2,042 (13.1%)	2,039 (11.5%)	1,672 (8.5%)	302 (1.5%)	1,904 (8.9%)	(16.4%)
2.1 In drachmas	1,889	1,697	385	-613	1,789	
2.2 In foreign currency	153	342	1,287	915	115	
3. Repos	4	-24	856	184	1,180	
4. Bank bonds	-490	57	10	31	-83	
5. Money-market fund units	1,041	2,152	1,536	1,489	-975	
6. Private investment in Greek government securities with an initial maturity of up to one year	1,122	-2,231	-1,059	-612	-1,655	
<b>7. Liquidity indicator M4N (=1+2+3+4+5+6)</b>	<b>3,797 (15.3%)</b>	<b>2,234 (7.8%)</b>	<b>3,038 (9.8%)</b>	<b>1,190 (3.9%)</b>	<b>365 (1.1%)</b>	<b>(6.9%)</b>
8. Total private investment in Greek government securities	2,455	119	62	-9	-924	

<sup>1</sup> Monetary aggregates comprise monetary liabilities of banks and money market funds, i.e. of monetary financial institutions (MFIs), to the domestic private sector.  
\* Provisional data.

Source: Bank of Greece.

close to the reference range of 7-9 per cent announced by the Bank of Greece for 1999 (see Chart 11), except in August 1999, when, for special reasons,<sup>10</sup> it was below (5.6 per cent) the lower end of the range.

Regarding the individual components of M4N, the 12-month growth rate of currency in circulation accelerated from 1.1 per cent in December 1998 to 11.2 per cent in September 1999 (see Table I). In the January-September 1999 period, this rate fluctuated but generally stood at low levels, close to the projected rate of GDP growth at current prices. The rate of increase in private deposits in drachmas and foreign currency also accelerated, to 16.4 per cent in September 1999 from 8.5 per cent in December 1998. This development is associated with a considerable reduc-

tion of private investment in government paper, especially in Treasury bills, which in the first nine months of the year fell by 1,655 billion drachmas, compared with a 612 billion drachma decrease in the corresponding period of 1998. The increased demand for deposits – mainly sight deposits<sup>11</sup> – is linked with the need to finance a growing volume of transactions in the Athens Stock Exchange (ASE). Moreover, the increase in repurchase agreements continued in 1999, reflecting a shift of investors to these instruments following the

<sup>10</sup> It should be noted that, towards the end of August 1998, Greek securities and foreign exchange markets were affected by the turmoil in international financial markets, leading to an increase in deposits – especially in foreign currency. As a result, the level of M4N was relatively high in August 1998.

<sup>11</sup> It should be noted that the twelve-month rate of increase in sight deposits accelerated to 71.5 per cent in September 1999, compared with 26.9 per cent at the end of 1998.

taxation of yields on repos was abolished in September 1998. In the first nine months of the year, repos rose by 1,180 billion drachmas, compared with a 184 billion drachma increase in the corresponding period of 1998. Finally, private investment in money market fund units fell by 975 billion drachmas in the January-September 1999 period relative to a year before, mainly as a result of a significant shift of investors to equity-type fund units, whose yields were particularly high. Obviously, the considerable fluctuations observed in certain of the above monetary aggregates largely reflect intra-M4N shifts that did not affect total M4N, which is a more accurate measure of liquidity in the economy.

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#### 4. Credit expansion

Total credit expansion showed relatively small fluctuations in the first nine months of the year and was generally above the upper end of the reference range (7-9 per cent) for 1999. In September 1999, the twelve-month rate of total financing to the private and the public sector stood at broadly the same level as at the end of 1998 (September 1999: 10.1 per cent, December 1998: 9.9 per cent). Credit expansion to the public sector accelerated, while credit expansion to the private sector slowed down.

More specifically, total financing to the public sector rose by 3.9 per cent in the January-September 1999 period, compared with a 2.8 per cent increase in the corresponding 1998 period. Its twelve-month rate stood at 8.4 per cent in September 1999, compared with 7.6 per cent in December 1998, although the public sector borrowing requirement on a cash basis was considerably lower in the first nine months of the year compared with the corresponding period a year before (January-September 1999: 194 billion

drachmas, January-September 1998: 699 billion). This development reflects the faster credit expansion to central government, as the financial surplus of public enterprises and entities was higher in the period under review than in the first nine months of 1998 (January-September 1999: 469 billion drachmas, January-September 1998: 372 billion).

As regards credit expansion to central government, it should be noted that the borrowing requirement of the latter was lower in the January-September 1999 period than in the same period of 1998 (January-September 1999: 663 billion drachmas, January-September 1998: 1,071 billion – see Table II on page 30), as a result of an increased primary surplus (January-September 1999: 914 billion drachmas, January-September 1998: 768 billion) and a rise in DIDAGEP and DEKA assets (January-September 1999: 859 billion drachmas, January-September 1998: 513 billion). At the same time, interest payments were higher (January-September 1999: 2,436 billion drachmas, January-September 1998: 2,352 billion). Nevertheless, despite the aforementioned lower borrowing requirement, credit expansion to central government accelerated. This was due to a change in the method of financing the borrowing requirement of central government, in particular to a considerable decrease in private non-bank holdings of government paper and correspondingly higher holdings by credit institutions (see Table III – next page). The financing of the central government deficit from abroad also increased and came almost entirely from purchases of government paper by non-residents.

Bank credit to the private sector rose by 1,217 billion drachmas or 9.5 per cent in the first nine months of 1999, compared with an increase of 1,168 billion drachmas or 10.5 per cent in the corresponding 1998 period (see Table IV on page 32), but its twelve-month rate of increase dropped to

**Table II**  
**Net borrowing requirement of central government<sup>1</sup>**  
*(Billion drachmas)*

	Year		January – September	
	1997	1998*	1998	1999*
<b>I. Government budget</b>	<b>2,595</b>	<b>2,302</b>	<b>1,426</b>	<b>1,052</b>
1. Primary surplus (-)	-318	-516	-768	-914
2. Change in the government's credit balances with the Bank of Greece	-140	-335	-158	-470
3. Interest payments <sup>2</sup> (Transfers from previous fiscal year)	3,053 (77)	3,153 (205)	2,352 (205)	2,436 (118)
<b>II. DIDAGEP</b>	<b>25</b>	<b>80</b>	<b>-355</b>	<b>-389</b>
<b>III. Central government (I+II)</b>	<b>2,620</b>	<b>2,382</b>	<b>1,071</b>	<b>663</b>

1 On a cash basis.  
2 Including capitalised interest.  
\* Provisional data.

Source: Bank of Greece.

**Table III**  
**Financing of net public sector borrowing requirement<sup>1</sup> (PSBR)**  
*(Billion drachmas)*

	Year		January – September	
	1997	1998*	1998	1999*
1. Bank of Greece	227	218	104	-958
2. Monetary financial institutions	656	-296	-728	412
3. Private sector	119	62	-9	-924
4. Financing from abroad	1,140	1,898	1,332	1,664
<b>Total</b>	<b>2,142</b>	<b>1,882</b>	<b>699</b>	<b>194</b>

1 Including general government and public enterprises.

\* Provisional data.

Source: Bank of Greece.

14 per cent in September 1999 from 15 per cent in December 1998. This slowdown in credit expansion to the private sector is associated with the maintenance of lending rates at high levels. It should be noted that the interest rate on short-term lending to enterprises rose, in real terms, by about one percentage point over the period from January to September 1999. Besides, credit expansion has also been affected by firms' increased recourse to the stock exchange (for details see

Section III.5.b) and their high profitability. Finally, credit developments have been affected by the measures to contain credit expansion that the Bank of Greece took in April 1999 and further tightened in July 1999.

Specifically, as certain categories of credit which affect final demand and are associated with the course of inflation – such as credit to consumers and to domestic and import trade – were increas-

ing from the beginning of the year at particularly high and in some cases accelerating rates, in April 1999 the Bank of Greece took measures to contain credit expansion. These measures were meant as a supplement to the monetary policy pursued and were aimed at containing the rate of increase in credit to the private sector and to public enterprises and entities to 12 per cent by the end of the year,<sup>12</sup> a level which is consistent with the containment of total credit expansion within the range of 7-9 per cent set for 1999.

In order to enhance the effectiveness of measures to check inflation, the Bank set a separate ceiling on the sum total of consumer credit and loans to domestic and import trade on the one hand and the sum total of the other categories of loans to the private sector and credit to public enterprises and entities on the other, rather than a global ceiling whereby a large increase in consumer credit could be offset by a containment of credit to other sectors. If the annual rate of increase in credit to each of those two categories exceeds 12 per cent, a penalty (compulsory deposit) is imposed, equal to the amount in excess. More specifically, since bank credit is characterised by seasonal features, the penalty (in the form of non-interest-bearing six-month deposits) would be imposed if credit expansion were higher than 3.5 per cent in the second quarter of 1999, 5.5 per cent in the April-September 1999 period and 9.5 per cent in the April-December 1999 period.

Developments in the May-September 1999 period indicate an only small containment of credit expansion, although the impact of the above-mentioned measures on certain categories of credit – such as long-term loans, in particular housing loans – was not expected to be direct. Thus, the twelve-month rate of increase in total credit to the private sector and public enterprises and entities slowed down from 13.3 per cent in

April 1999 to 12.7 per cent in September 1999. This development reflects a deceleration of credit expansion to consumers and to domestic and import trade (April: 24.6 per cent, September: 23 per cent), while the twelve-month rate of increase in all other categories of loans to the private sector and to public enterprises and entities accelerated (April: 6.5 per cent, September: 9.3 per cent). In particular, the twelve-month rate of increase in consumer credit decelerated slightly but remained at very high levels in June (April: 48.4 per cent, June: 46.5 per cent). For this reason, in July 1999 the Bank of Greece took additional measures focused on consumer credit.<sup>13</sup> In more detail, consumer credit would be monitored separately from loans to domestic and import trade and, if its rate of increase exceeded 2 per cent in the third quarter of 1999 and 6 per cent in the second half of the year, credit institutions would be obliged to deposit for six months double the excess amount in a non-interest bearing account with the Bank of Greece. After these additional measures, the course of consumer credit changed considerably. The outstanding balance of this category of loans decreased in September 1999 – for the first time since the effective deregulation in early 1994 – and the twelve-month rate of increase in these loans subsided to 39.1 per cent. The above suggest that the measures taken by the Bank of Greece contributed to limiting credit expansion, though, as was expected, loans from the domestic banking system were partly substituted by foreign loans, given firms' access to foreign credit institutions after the liberalisation of external transactions.

The slower credit expansion to the private sector reflects the relatively small increase in drachma-denominated loans (January-September 1999:

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<sup>12</sup> Monetary Policy Council Act 13/16 April 1999.

<sup>13</sup> Monetary Policy Council Act 16/28 July 1999.

Table IV

## Changes in total bank credit to the private sector by branch of activity

	Outstanding balances on 30 September 1999* (billion drachmas)	January-September changes in outstanding balances			
		1998		1999*	
		In billion drachmas	In percentages	In billion drachmas	In percentages
<b>Private sector</b>	<b>14,035</b>	<b>1,168</b>	<b>10.5</b>	<b>1,217</b>	<b>9.5</b>
In drachmas	10,195	1,049	12.5	492	5.1
In foreign currency	3,840	119	4.3	725	23.3
Industry & mining	2,585	21	0.9	190	7.9
Small-scale industry	815	46	6.3	10	1.2
Trade	3,122	367	15.8	151	5.1
Housing	2,775	282	14.7	443	19.0
Consumer credit	1,238	158	21.6	237	23.7
Other	3,500	294	9.8	186	5.6

\* Provisional data.

Source: Bank of Greece.

492 billion drachmas or 5.1 per cent, January-September 1998: 1,049 billion drachmas or 12.5 per cent). By contrast, loans denominated in foreign currency increased at a very high rate in the first nine months of 1999 (January-September 1999: 725 billion drachmas or 23.3 per cent), compared with an only small increase in the corresponding 1998 period (January-September 1998: 119 billion drachmas or 4.3 per cent) as a result of extensive substitution of drachma-denominated loans for foreign currency loans after the devaluation of the drachma in March 1998. It should be noted, however, that foreign currency loans increased substantially in the first quarter of 1999 (by 377 billion drachmas or 12.1 per cent), while from April 1999 onwards their growth decelerated (April-September 1999: 348 billion drachmas or 10 per cent).

Finally, as suggested by a breakdown of credit expansion to the private sector by branch of activity, the deceleration observed in the first nine months of 1999 was not broadly based (see Table IV). More specifically, a deceleration was observed in credit expansion to trade (September 1999: 16.3 per cent, December 1998: 28.2 per

cent) and small-scale industry (September 1999: 5.6 per cent, December 1998: 10.9 per cent), while credit expansion to industry accelerated, although its twelve-month rate of increase remains low (September 1999: 4.2 per cent, December 1998: -2.7 per cent). However, it should be noted that, in recent years, commercial and industrial firms have increased their recourse to the stock exchange for fund raising. This trend continued in 1999 and, in the first nine months of the year, commercial and industrial firms raised 232 billion drachmas from the stock exchange, while bank lending rose by 341 billion drachmas during the same period.

The twelve-month rate of increase in housing credit accelerated since March and stood at 25.8 per cent in September 1999, from 21.2 per cent in December 1998. This development was associated with the aforementioned decline in interest rates on housing loans, as well as with increased bank competition in this field. Thus, as was expected, given the long-term nature of this type of loans, housing credit did not seem to be affected by the measures taken by the Bank of Greece in order to restrain credit expansion. By

contrast, the twelve-month rate of increase in consumer loans, which was accelerating until May (47.9 per cent), recorded a small decline in July and August (45.8 per cent) and a considerable further deceleration in September 1999, standing close to its end-1998 level (September 1999: 39.1 per cent, December 1998: 36.7 per cent). More specifically, a large increase was seen in personal loans and loans through credit cards, while loans against supporting documents rose at a rather subdued pace. The evolution of consumer loans is linked to the surge in passenger car sales in this period, although there are indications that part of these loans is used by small investors for the purchase of shares in the stock market.

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## 5. Capital markets

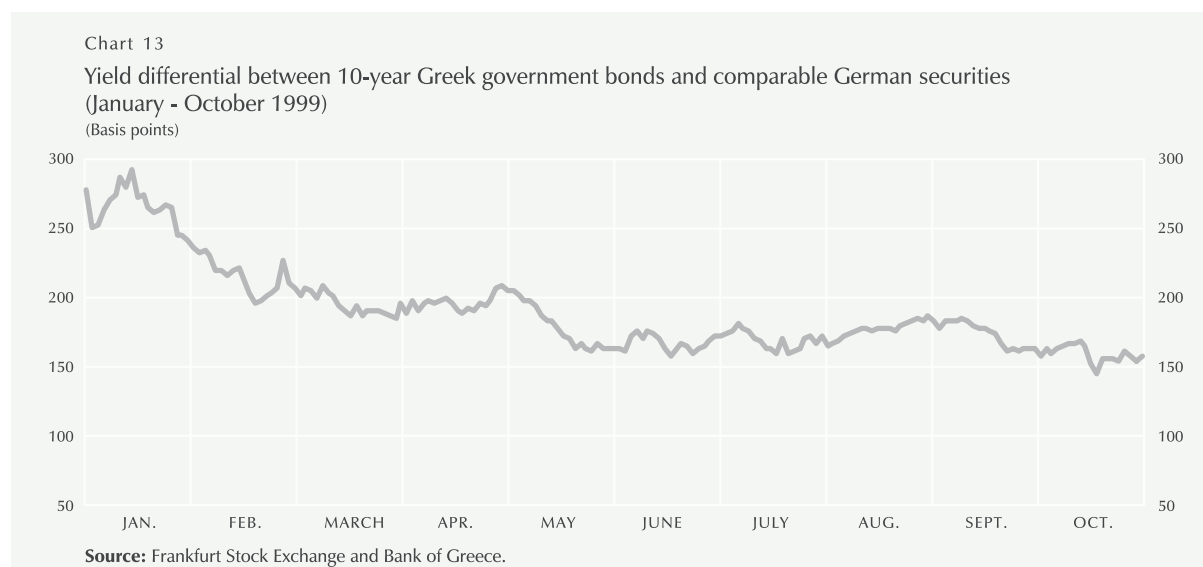
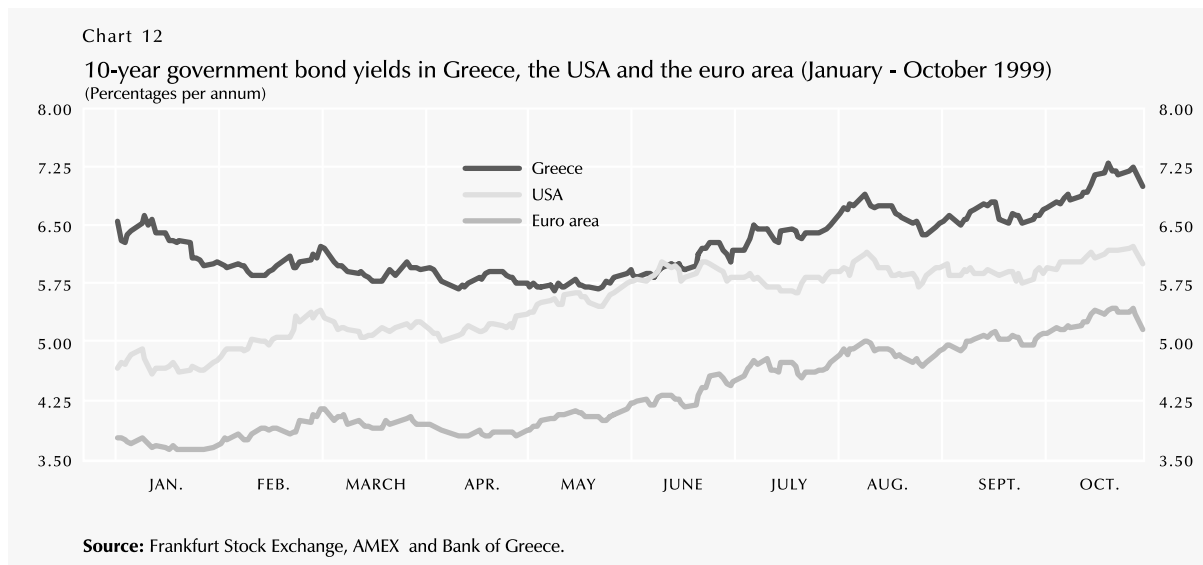
### *a. Developments in fixed-income securities markets*

In the first ten months of the year, the market on Greek government securities was affected by the positive evolution of domestic macroeconomic aggregates, structural changes that took place in euro area bond markets as a result of the introduction of the single currency, and developments in international bond markets, especially in the United States. Although international markets were considerably volatile, the steady convergence path of the Greek economy towards the euro area, along with systematic efforts to improve the structure and operation of the market, contributed to restoring favourable conditions and supported the liquidity, efficiency and transparency of the market on Greek government bonds. These developments led to an upgrading of the country's credit standing, as assessed by international rating agencies.

At the beginning of the year, the upward trend in long-term bond rates in the US market – which had started at end-1998 – and the financial crisis in Brazil caused uncertainty and volatility in international bond markets. These adverse developments were counterbalanced in the euro area by the observed tendency towards market homogenisation and maintaining yields at relatively low levels in the first half of 1999. Towards the middle of the year, bond yields in the euro area began to show a clear upward trend, similar to that already observed in the United States.

The positive climate which generally prevailed in the EU-wide bond market contributed to a drastic decline in the yields on long-term Greek government paper over the first half of the year and to a narrowing of their differentials against comparable euro area bonds. In fact, in the case of 10-year bonds, these differentials were – for the first time – below 200 basis points in the first quarter of the year, as required by the relevant convergence criterion (see Charts 12 and 13). This decrease in differentials, from more than 250 basis points at the beginning of the year to less than 200 basis points in March, as well as their maintenance between 155 and 185 basis points until recently, clearly indicate that the domestic market has become more mature and is resilient against a volatile international environment.

Towards the end of the first half of the year, the downward trend of Greek government paper yields came to a halt and from end-June through end-October 1999 a gradual recovery in yields was observed across all maturities. The reversal of the downward trend is linked with developments in US bond markets, which correspondingly affected bond yields in all EU countries. This is obvious from the yield curve, which shifted



upwards during that period (Chart 14). Nevertheless, the limited fluctuation of yields on 10-year Greek bonds from April 1999 onwards is a particularly positive development, considering that bond yields in international markets continued to rise through to October and reached levels of over 6.2 per cent in the United States and 5.4 per cent in the euro area.

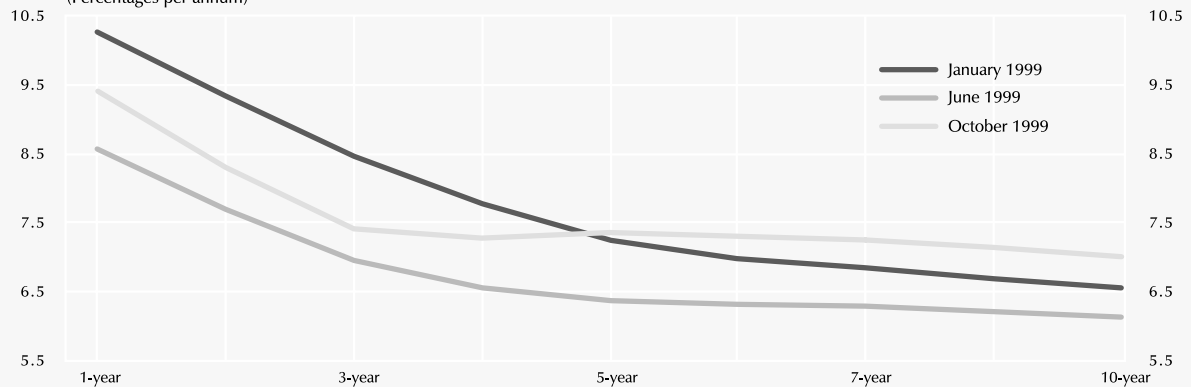
In spite of the negative impact of the international conjuncture on domestic securities at times during the year, the parameters which determine

the efficiency of the Greek bond market improved. More specifically:

- Apart from the substantial increase in the average volume of transactions and enhanced market information, the fluctuation of yields was limited. This enabled the conduct of repeated tenders for fixed-income securities by the “reopening” technique, i.e. without changing the terms of the issue that relate to the level of the fixed interest rate. More specifically, the difference between maximum and minimum yields on 10-year bonds in

Chart 14

Term structure of Greek government bond yields<sup>1</sup>  
(Percentages per annum)



<sup>1</sup> On the basis of "yields to maturity" on the latest issues of 3-year, 5-year, 7-year and 10-year paper. For the 1-year maturity, yields refer to the 12-month Athibid rate.

Source: Bank of Greece and Reuters.

the January-October 1999 period was 160 basis points for US bonds, 180 basis points for euro area bonds and 160 basis points for the corresponding Greek government bonds. This led to an improvement in the composition of debt, by a substitution of fixed-rate issues for variable-rate ones. Thus, new or reopened issues of long-term fixed-income securities led to a further lengthening of the average maturity of drachma-denominated government debt, which has recently exceeded 6 years, compared with 3.3 years in 1996.

— As regards liquidity, it is characteristic that the average daily volume of transactions carried out through the book-entry securities settlement system operating at the Bank of Greece exceeded 300 billion drachmas in each of the first three quarters of 1999, compared with 148 billion drachmas in the last quarter of 1998. In the January-October 1999 period, 10-year bonds proved the most attractive for investors, accounting for 39 per cent of total transactions, while 15-year and 7-year securities accounted each for about 22 per cent of transactions.

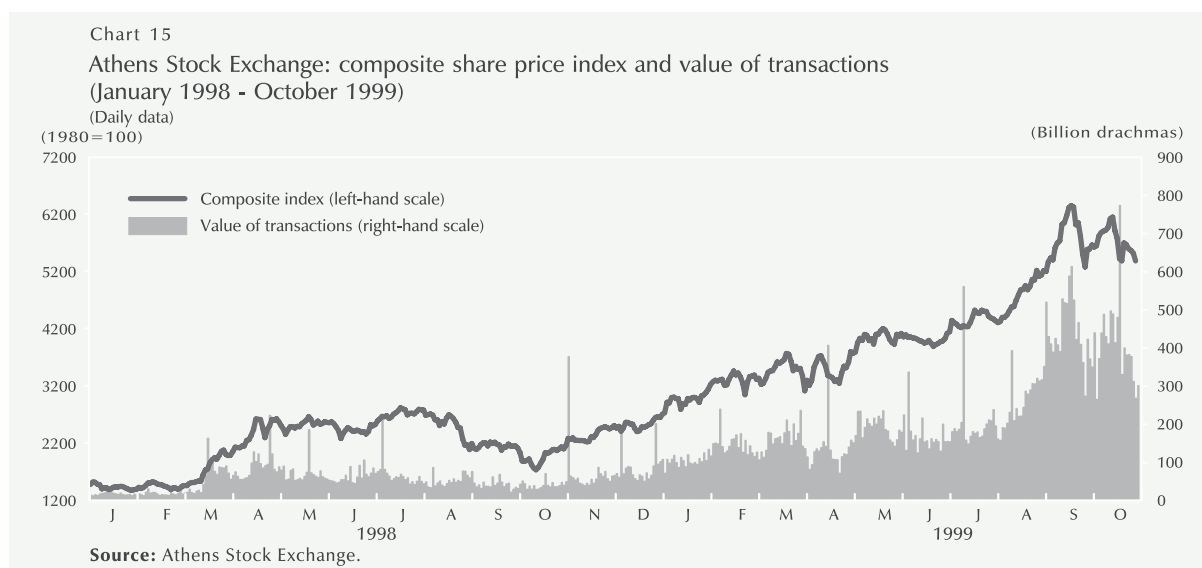
— Bid-ask spreads fell from about 0.5 percentage point in 1998 to 0.45 percentage point in the

January-October 1999 period, while for certain bond maturities these spreads range between 0.15 and 0.25 percentage point. Furthermore, price fluctuations do not exceed the corresponding parameters which have been approved by the European Central Bank for the provision of liquidity against collateral of government paper issued by euro area countries.

Bond yields still vary considerably across euro area countries, despite the homogenising tendencies observed in the market. In September and October 1999, yield differentials against comparable German bonds reached 20-40 basis points for Belgium, Spain, Portugal and Italy. For EU countries not participating in the euro area, i.e. the United Kingdom, Denmark and Sweden, these differentials reached 45-60 basis points. These variations may be attributed mainly to liquidity factors in the national markets concerned, as well as to the relative efficiency of local markets for repurchase agreements on fixed-income securities.

*b. Stock market developments*

From the beginning of 1999 up to mid-September, stock market transactions and share prices



followed an upward course which was particularly steep from early August onwards. In the second half of September, stock market transactions and share prices fell considerably, a development which was largely offset by a subsequent recovery in the first half of October 1999, while in the second half of October 1999, stock market transactions and share prices appeared to be stabilising (see Chart 15). Share prices rose by a cumulative 98.8 per cent between end-December 1998 and end-October 1999. At average monthly levels, share prices were 125 per cent higher in October 1999 than in December 1998. The daily average value of transactions also followed an upward course during the period under review, reaching 441 billion drachmas in September 1999 and 412 billion in October 1999, compared with 105 billion in January 1999. Similarly, the share marketability index<sup>14</sup> rose to 12.6 per cent in the January-October 1999 period, compared with 7 per cent in the corresponding period of 1998.

The big increase in share prices and the large number of new shares listed on the Athens Stock Exchange (ASE) in the period under review resulted in an increase in the market capitalisation of shares to 63,904 billion drachmas or 168 per cent

of GDP in September 1999, compared with 22,839 billion drachmas or 64 per cent of GDP in December 1998. In the first ten months of 1999, transactions were affected by the investing behaviour not only of institutional investors but also, and most importantly, of the general public. In particular, in the January-September 1999 period, new investment by mutual funds in shares listed on the ASE amounted to about 1,200 billion drachmas.

The (generally) favourable conditions prevailing in the stock market encouraged many enterprises, from different sectors of the economy, to resort to the stock exchange for fund raising. The funds raised from the stock exchange in the January-September 1999 period totalled 1,713 billion drachmas, compared with 467 billion drachmas in the corresponding 1998 period (see Table V). These funds were raised by 86 firms (January-September 1998: 50 firms), 25 of which had their shares listed on the stock market for the first time. More specifically, funds raised by banks in order

<sup>14</sup> The share marketability index is defined as the ratio of the number of shares traded to the total number of shares listed on the stock exchange.

**Table V**  
Fund raising through the Athens Stock Exchange<sup>1</sup>

Firms	January – September			
	1998		1999*	
	Number of firms	Amounts in billion drs.	Number of firms	Amounts in billion drs.
Banks	7	204	8	939
Investment	5	37	12	153
Insurance	–	–	3	43
Leasing	1	12	1	10
Industrial	24	116	23	200
Construction	1	4	12	147
Commercial	2	25	8	32
Telecommunications	–	–	1	25
Shipping	2	15	2	66
Other	8	54	16	98
<b>Total</b>	<b>50</b>	<b>467</b>	<b>86</b>	<b>1,713</b>

<sup>1</sup> Subscriptions to new capital are entered on the last day of the subscription period.

\* Provisional data.

Source: Athens Stock Exchange and Bank of Greece.

to strengthen their capital base and expand their activities rose to 939 billion drachmas in the January-September 1999 period, compared with 204 billion drachmas in the corresponding 1998 period. Besides, funds raised by non-financial firms in the January-September 1999 period (568 billion drachmas) were more than double those in the corresponding 1998 period (214 billion drachmas). This development contributes to strengthening the capital base of enterprises, reducing their financial costs and supporting their investment activity.

In the January-October 1999 period, the stock market was positively affected by favourable macroeconomic developments, in particular the deceleration of inflation, the prospect of Greece entering the euro area –pointing to a considerable decline in interest rates– and the large increase in profits of most enterprises listed on the ASE.

As mentioned above, the rate of increase in both share prices and the value of transactions in the

ASE accelerated significantly from the beginning of August 1999. Over a period of 45 days, share prices rose by 47 per cent, while the daily volume of transactions almost quadrupled (2 August 1999: 160 billion drachmas, 17 September 1999: 613 billion drachmas). This development was due to a considerable increase in demand which, among others things, reflects the entry of a large number of new investors into the ASE. It should be noted that, in the third quarter of the year, about 270,000 new accounts were opened in the stock exchange's System for Book-Entry Securities, 45 per cent of which in September. The extensive recourse of investors to the ASE from the beginning of August 1999 was influenced not only by the estimated ongoing rise in firms' profitability but also, to some extent, by self-fulfilling expectations of a further rapid increase in share prices. Another characteristic feature of transactions during that period was that investors took open positions with securities companies. When, in mid-September, the upward trend of the market came to a halt and securities companies called investors to settle their open positions, strong

downward pressures were observed, resulting in a considerable decrease of 17 per cent in share prices between 17 and 27 September 1999.

These developments and the problems encountered by securities companies could have caused additional pressures on the stock exchange and broader disturbance in financial markets. To prevent this, the Bank of Greece took measures to further liberalise the regime governing financing for the purchase of securities and for the settlement of stock exchange transactions. In particular, the ceiling on loans granted by credit institutions to natural persons for the purchase of shares listed on the ASE or for the settlement of obligations connected with the purchase of securities was raised from 5 to 15 million drachmas, on condition that borrowers could provide collateral of securities worth twice the amount of the loan. Furthermore, the regime governing credit institutions' financing to securities companies and

investment firms was liberalised. These measures had a stabilising effect on the stock market, the price index started recovering and by mid-October 1999 it had covered more than three quarters of its earlier drop. In the second half of the month, the stock market demonstrated a relative stabilisation, with minor fluctuations in the composite index.

In most European stock markets, share prices followed an upward course during the period under review. However, the growth rate of share prices in the ASE was considerably higher than elsewhere in Europe. Despite this increase, the P/E ratio of many enterprises listed on the ASE at the end of the first half of 1999 stood at about the same levels as at end-December 1998, given that profits of enterprises listed on the ASE rose in the first half of the year at about the same rate as share prices.

## IV. Inflation and economic activity

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### 1. Price developments in the period January-October 1999

In the January-October period of 1999, inflation slowed down steadily in Greece, but accelerated slightly in the euro area. The faster rise of euro area inflation was due to the large increase in crude oil prices in the world market (which more than doubled, compared with end-1998) and the fall in the exchange rate of the euro in the first half of the year.<sup>15</sup> These factors contributed to Greek inflation as well, which, however, *eventually* decelerated as the offsetting effect of other, disinflationary factors was stronger. In particular: First, it was to be expected that inflation would drop from the rather high level it had reached after the devaluation of the drachma in March 1998. Second, in the period under review the drachma appreciated slightly against the euro and, in general, monetary policy remained tight. Third, fiscal and incomes policies, as well as the additional *ad hoc* measures taken by the government had an anti-inflationary orientation. Fourth, fresh fruit/vegetable prices evolved favourably up to August (though unfavourably in September and October).

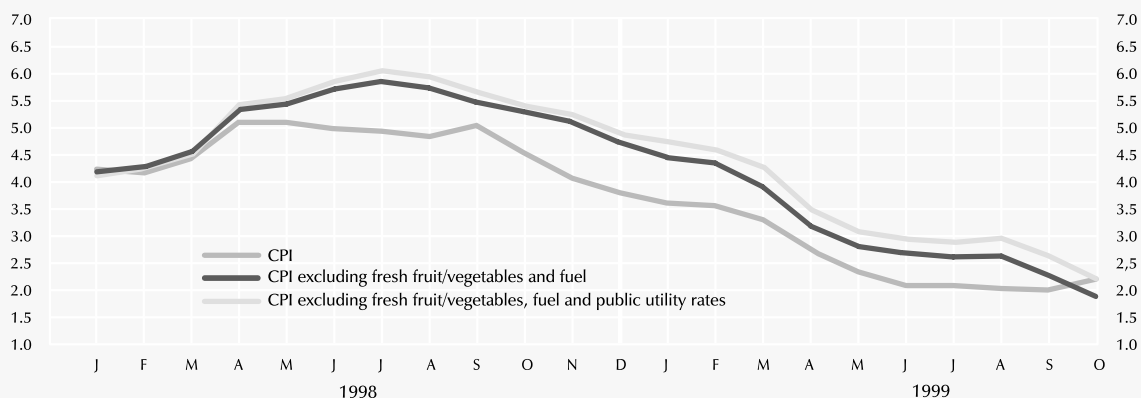
The twelve-month rate of Consumer Price Index (CPI) inflation decelerated to 2.1 per cent in June and 2 per cent in August and September 1999, from 3.9 per cent in December 1998, while in October it sped up slightly to 2.2 per cent, almost exclusively owing to the rise in fuel and fresh fruit/vegetable prices (see Chart 16). Moreover, on the basis of the Harmonised Indices of Consumer Prices (HICPs), inflation in Greece fell from 3.7 per cent in December 1998 to 1.5 per cent in September and 1.9 per cent in October 1999, whereas in the euro area (where it had

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<sup>15</sup> See also European Central Bank (ECB), *Monthly Bulletin*, September 1999, p.6.

Chart 16

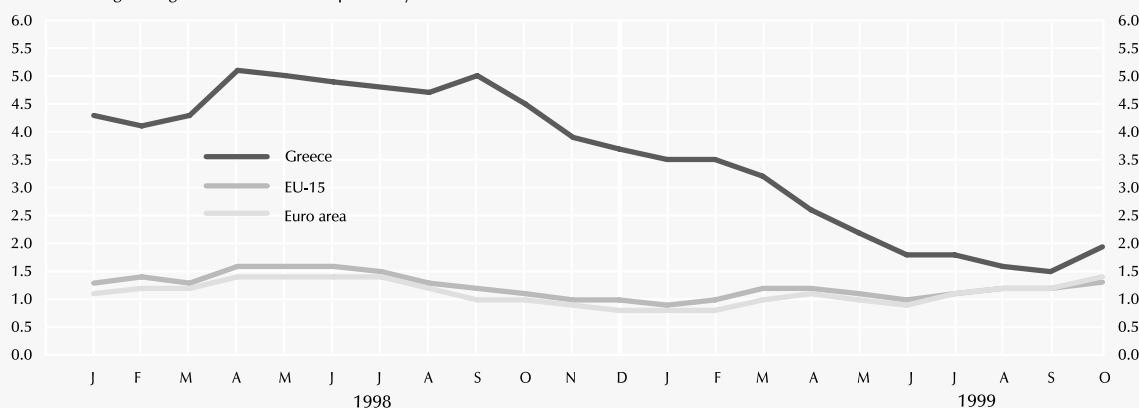
Consumer price index and core inflation (January 1998 - October 1999)  
(Percentage change over same month of previous year)



Source: Calculations based on National Statistical Service of Greece (NSSG) data.

Chart 17

Harmonised index of consumer prices in Greece, the EU and the euro area  
(January 1998 - October 1999)  
(Percentage change over same month of previous year)



Source: NSSG and Eurostat.

decreased to 0.8 per cent in December 1998) it accelerated after February 1999, to stand at 1.4 per cent in October (see Chart 17).

The abatement of inflationary pressures in Greece is confirmed by all available indices. Indeed, core inflation (as measured by the twelve-month rate of change in the CPI excluding fresh fruit/vegetables and fuel) fell from 4.9 per cent in December 1998 to 2.6 per cent in July and August 1999, 2.3 per cent in September and 1.9 per cent in October.<sup>16</sup>

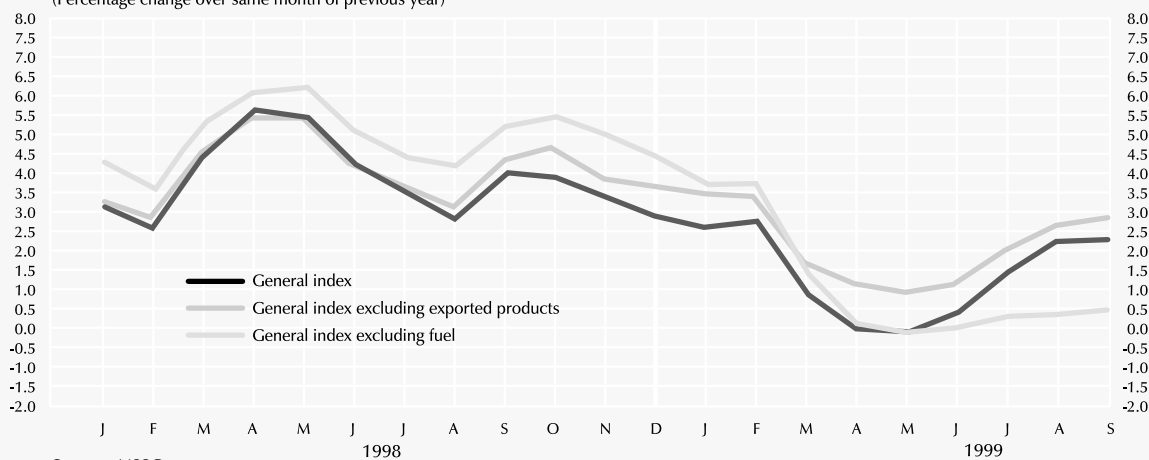
Core inflation remained higher than CPI inflation until the end of September,<sup>17</sup> but the difference between the two rates gradually narrowed and in October it became negative (see Chart 16), when

<sup>16</sup> Similar was the deceleration of the twelve-month rate of change in the CPI, excluding fresh fruit/vegetables, fuel and public utility rates (from 5.0 per cent in December 1998 to 2.2 per cent in October 1999).

<sup>17</sup> This was due to the fact that the *twelve-month* rate of change in fuel prices (as well as in fresh fruit/vegetable prices) included in the CPI (but not in core inflation) remained negative until end-September, despite the considerable increases recorded after February. From October onwards, however, this rate became positive.

Chart 18

Wholesale price index (January 1998 - September 1999)  
(Percentage change over same month of previous year)



Source: NSSG.

core inflation fell below CPI inflation. Further, the twelve-month rate of change in the Wholesale Price Index (WPI) compiled by the NSSG slowed down to 2.3 per cent in September 1999 from 3.0 per cent in December 1998, while the corresponding rate of the WPI excluding exports (which is more indicative of the evolution of domestic inflation) subsided to 2.9 per cent from 3.6 per cent. The deceleration of the WPI excluding fuel was much larger (from 4.5 per cent to 0.5 per cent, respectively, see Chart 18).<sup>18</sup>

## 2. Factors affecting inflation in the period under review

As already stated in brief, the monetary and economic policies pursued continue to have a clear anti-inflationary stance. More specifically, monetary policy, through both the determination of interest rate levels and Bank of Greece interventions in money and foreign exchange markets, aims to influence the decisions of economic agents and eventually contribute to an evolution of economic magnitudes which would favour the disinflationary effort (see in greater detail above, Section III.1-4).

The evolution of the exchange rate of the drachma, combined with stability in the export prices of Greece's trading partners and the negative twelve-month rate of change in raw material prices (excluding crude oil) in the world market,<sup>19</sup> led imported inflation (net of that related to fuel prices) close to zero. Indeed, in October 1999 the effective exchange rate of the drachma was only 1 per cent lower than in October 1998, while its average level in the January-October period of 1999 remained virtually unchanged (-0.3 per cent), compared with the corresponding period of 1998. Also close to zero (+0.2 per cent) was the average twelve-month rate of change in the wholesale prices of imported final products<sup>20</sup> in the January-September period of

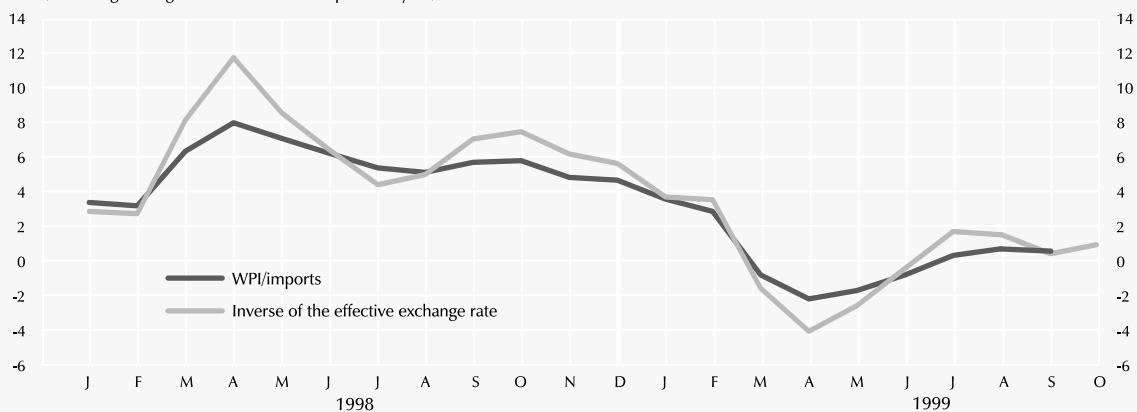
<sup>18</sup> In the case of fuel included in the WPI, the twelve-month rate of change remained negative only until May. It then became positive, reaching 55.1 per cent in September. It should be recalled that wholesale prices of fuel were not affected (as did consumer prices) by the cuts in special consumption taxes in the autumn of 1998 and August 1999.

<sup>19</sup> The twelve-month rate of change in prices of raw materials (excluding energy) in the world market was negative until August, but turned positive in September (6.6 per cent) and October (10.7 per cent). See OECD, *Economic Outlook*, June 1999, pp. 243 and 266, and ECB, *Monthly Bulletin*, November 1999, Table 4.2, p. 25\*.

<sup>20</sup> Precisely because it regards final products, this index has not been affected by the increase in the price of imported crude oil (which is a raw material).

Chart 19

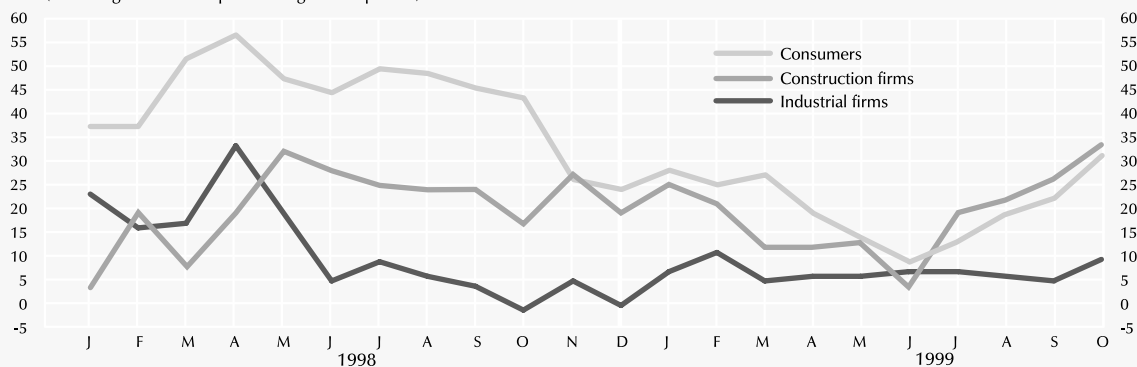
Wholesale price index and the inverse of the effective exchange rate of the drachma  
(January 1998 - October 1999)  
(Percentage change over same month of previous year)



Source: NSSG and Bank of Greece.

Chart 20

Inflationary expectations<sup>1</sup> of consumers and business firms (January 1998 - October 1999)  
(Percentage balances of positive-negative responses)



<sup>1</sup> Business firms' responses regard the prospect of a rise in the prices of their products over the next 3-4 months. Consumers' responses regard the prospect of a faster rise in consumer prices over the next twelve months. Data for consumers are seasonally adjusted.

Source: Foundation for Economic and Industrial Research (IOBE) and European Commission, *European Economy, Supplement B*.

1999 (see Chart 19). The consistent monetary policy, particularly the stability of the exchange rate of the drachma, also contributed to the abatement of inflationary expectations (see Chart 20). In addition to these favourable developments, the natural fading-out of the effect of the drachma's devaluation in March 1998 on the twelve-month CPI rate let inflation fall by about one percentage point in total in March and April 1999.

Unit labour costs remain an important inflation-reducing factor in 1999. According to available

data<sup>21</sup> and indications –and although the forecasts presented in the previous Report<sup>22</sup> have been revised upwards– unit labour cost growth in the whole economy is estimated to be dropping to 2.5 per cent (from 3.9 per cent<sup>23</sup> in 1998), i.e.

<sup>21</sup> As the expansion of the NSSG's sample surveys on earnings is under way, data from these surveys on the increase in earnings on a quarterly basis in 1999 will not be available before early 2000.

<sup>22</sup> See Bank of Greece, *Monetary Policy 1998-1999*, March 1999, Table IX.

<sup>23</sup> See Box (page 53) for the problems in the calculation of the increase in unit labour costs for the whole economy in 1998, which are due to the new data on the evolution of employment.

**Table VI**  
**Employees' earnings, productivity and labour costs**  
*(Annual percentage changes)*

	1998	1999 (estimate)
<b>Average gross earnings (nominal):</b>		
– whole economy	6.3	4.6
– central government <sup>1</sup>	8.6	4.5
– public enterprises	8.0	6.5
– banks	4.0	7.1
– manufacturing <sup>2</sup>	4.7	4.4
Minimum earnings	5.4	3.5
<b>Disposable income of an employee with average earnings</b>		
<b>(nominal)</b>	<b>5.7</b>	<b>3.7<sup>5</sup></b>
<b>(real)</b>	<b>0.9</b>	<b>1.1<sup>5</sup></b>
<b>GDP</b>	<b>3.7</b>	<b>3.5</b>
<b>GDP per employee (whole economy)</b>	<b>0.7 (2.4)<sup>3</sup></b>	<b>2.2</b>
Output per person-hour in manufacturing	4.4	2.7
<b>Unit labour costs:</b>		
– whole economy	3.9	2.5
– business sector <sup>4</sup>	3.3	2.8
– manufacturing	0.2	1.7

1 Average compensation per employee.

2 Hourly earnings of blue-collar workers.

3 In parentheses: alternative estimate based on adjustment of data on the increase in employment in 1998, for the sake of greater comparability (see also Box on page 53).

4 The business sector includes private and public enterprises and banks.

5 Including the refunding (in December 1999) of civil servants with the difference from tax withheld. The rest of wage earners will be similarly refunded by 15 January 2000, which will affect disposable income for the year 2000.

**Source:** Ministry of National Economy/Directorate of Macroeconomic Analysis (for GDP and GDP per employee) and Bank of Greece (for the remaining annual aggregates).

to a level consistent with the targeted and expected rate of inflation. As shown in Table VI, the estimated slowdown of the rise in average earnings in almost all major economic sectors is noticeable – though it is smaller than what was expected in the spring. This development reflects the wage policy pursued in central government and the outcome of collective wage bargaining in private and public enterprises and in banks.<sup>24</sup> It is worth mentioning that – unlike what had occurred in 1998 – the increase in central government's total outlays for salaries and pensions (including medical care expenses) is smaller than the estimated growth of outlays of the business sector (i.e. private and public enterprises and banks) for salaries and employers' social security contributions. For this reason, unit labour costs in the business sector (the evolution of which affects inflation from the

cost side more directly) are increasing faster than in the whole economy (2.8 per cent against 2.5 per cent), though at a rate slower than in 1998

**24** The increase in civil servants' salaries (2 per cent as of 1 January 1999) was determined by Law 2702/1999. For banks, a two-year collective agreement was signed, providing for increases of 3.4 per cent as of 1 January 1999 and 2.4 per cent as of 1 January 2000. In public enterprises, collective agreements of a one-year duration (Hellenic Railways Organisation – OSE, Hellenic Postal Service – ELTA) or a two-year duration (Hellenic Telecommunications Organisation – OTE, Public Power Corporation – DEH) were signed, providing for increases of 1.6-2.5 per cent as of 1 January 1999 and 1.5-2 per cent as of 1 July 1999 (for the year 2000, the agreement for DEH provides for an increase of 2 per cent as of 1 January 2000, as well as for the increase of a certain allowance as of 1 July 2000). Lastly, for the non-bank private sector, the two-year (1998-1999) collective agreements signed in 1998 applied for most branches and for the minimum wages of unskilled workers, while one-year collective labour agreements were signed in 1999 for several branches. In particular, minimum wages increased by 1.8 per cent as of 1 January 1999 (including a corrective pay rise of 0.4 per cent) and by 1.4 per cent as of 1 July, while at branch level pay rises are estimated – on average, according to a sample of 61 collective agreements and arbitration decisions – at 2.1 per cent as of 1 January (the corrective rise inclusive) and 1.5 per cent as of 1 July.

(when they had risen by 3.3 per cent); this slowdown, however, is rather small.<sup>25</sup>

The evolution of wages in 1999 affects inflation not only from the cost side. It is estimated that the growth of the real disposable income of a wage earner with average earnings was slow (0.6 per cent) during most of the year, but is expected to pick up to 1.1 per cent for 1999 as a whole, given that in December civil servants will receive tax rebates relating to tax withheld on salaries.<sup>26</sup> The low – until end-November – rate of increase in wage earners' real disposable income has contributed, to the extent that it has not been offset by other factors, to the containment of consumer demand. Moreover, the clearly slower growth of central government's outlays for salaries, pensions and medical care helped reduce these outlays as a percentage of GDP (from 10.8 per cent to 10.6 per cent). This contributes to the contraction of the general government's deficit as a proportion of GDP on a national accounts basis, from 2.5 per cent in 1998 to 1.5 per cent in 1999 (estimates of the Introductory Report on the new Budget). Such a reduction has also an autonomous dampening effect on inflationary pressures (by influencing both demand and inflationary expectations).

On the other hand, the drop of inflation would have been noticeably faster if crude oil prices in the world market had not risen sharply after February, a factor which pushed upwards fuel prices in the domestic market as well.<sup>27</sup> Indeed, between end-December 1998 and mid-November 1999, the Brent crude oil price (in US dollars) increased by about 140 per cent.<sup>28</sup> In the domestic market, wholesale fuel prices (included in the WPI) rose by 89.4 per cent, September 1999 over December 1998, while consumer fuel prices increased by 15.1 per cent between December 1998 and October 1999<sup>29</sup> and the twelve-month

rise may reach 20 per cent at the end of 1999 (thus contributing by 0.9 percentage point to the twelve-month rate of inflation in December). Actually, it is estimated that, had the government not cut the special consumption taxes, the increase in consumer fuel prices would have overshoot 28 per cent (end-1999 over end-1998), even if world prices (and Greek refinery prices) remained at mid-November levels.<sup>30</sup>

The exogenous inflationary impact of the rise in fuel prices was *only partly* offset by the favourable (until August) evolution of fresh fruit/vegetable

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**25** More specifically in manufacturing, where it is calculated that average earnings are increasing (slightly) less than in 1998, it is estimated that unit labour cost growth (only 0.2 per cent in 1998) may be accelerating to 1.5-2.0 per cent, mainly because in 1999 the increase in manufacturing output is clearly smaller than in 1998.

**26** The considerable tax relief measures for 1999 incomes, which are provided for in the tax law enacted in early November, will positively affect wage earners' disposable income from December 1999 onwards, given that it has been decided to refund immediately (together with the Christmas bonus) civil servants with the difference from the withheld tax, while the rest of wage earners will be accordingly refunded by 15 January 2000. It should also be pointed out that the considerable cuts in *indirect* taxation (in 1998 and 1999) contribute directly to the increase in *real* disposable income, as they lead to an equally direct drop of inflation.

**27** The increase in the transportation costs of imported products, because of the events in Yugoslavia, also had an unfavourable impact.

**28** On the basis of data released by *the Economist*. Owing to the appreciation of the US dollar vis-à-vis the drachma in the same period, the increase in the world crude oil price in drachma terms exceeds 165 per cent.

**29** The smaller increase in consumer fuel prices reflects three factors: a) the smaller share of the refinery price in the retail price, b) the cut in gasoline tax as of the beginning of August and in heating oil tax as of mid-October, and c) the special treatment ("freezing") of heating oil prices when the CPI for the summer months is compiled.

**30** Such a hypothetical development would lead the twelve-month rate of CPI increase in December 1999 to a level 1.2 percentage points higher than what it would have been if fuel prices in the world market had remained at December 1998-February 1999 levels (i.e. if they had remained unchanged throughout 1999). During 1998, the decrease in crude oil price in the world market (-39.6 per cent in US dollar terms, between December 1997 and December 1998, see IMF, *International Financial Statistics*, various issues) had contributed 0.40 percentage point to the *drop* of inflation (the reduction in fuel tax had contributed by an additional 0.40 percentage point – see below, footnote 33). It has been calculated that (assuming that all the other inflation determinants remain unchanged) an increase of 10 per cent in the world price of crude oil has a direct impact of 0.08-0.1 per cent on the Greek CPI (but also on the HICP of the euro area).

**Table VII**  
**Indicators of consumer demand**  
*(Annual percentage changes)*

	1997	1998	1999 (available period)
Volume of retail sales	4.3	2.4	4.5 (Jan.-Aug.)
Food	2.7	2.7	4.4 ( 00 00 )
Clothing-footwear	-0.1	1.9	2.3 ( 00 00 )
Furniture-household appliances	8.4	-0.6	-0.4 ( 00 00 )
Other goods	6.4	3.3	8.4 ( 00 00 )
Index of business expectations in retail trade	1.6	-0.9	-0.9 (Jan.-Oct.)
New registrations of passenger cars	13.7	10.8	44.0 (Jan.-Oct.)
Number of nights spent in hotels (by Greeks only)	11.8	2.3	2.5 (Jan.-Apr.)
Outstanding balance of total bank credit to consumers	27.3 (Dec.)	36.8 (Dec.)	39.1 (Sept.)

**Source:** Calculations based on NSSG (retail sales, cars), IOBE (business expectations), Bank of Greece (consumer credit) and National Tourism Organisation data (nights spent in hotels).

prices.<sup>31</sup> In addition, as pointed out in the previous Report,<sup>32</sup> the favourable effect of the indirect tax cuts (decided by the government in autumn 1998) on the twelve-month rate of CPI change would gradually wear off between end-September 1999 and January 2000.<sup>33</sup> For these reasons, it was decided to improve the economic policy mix by taking *ad hoc* measures, similar to those taken in 1998, so as to achieve the inflation target. In particular, as of 5 August 1999 the Special Consumption Tax (SCT) on gasoline was cut by 5 drachmas per litre, as of 6 September 1999 the “classification fees” (consumption taxes) for passenger cars were reduced so as to bring about a 10 per cent drop in their retail prices, while as of 15 October 1999 the SCT on heating oil was cut by 13.9 drachmas per litre, compared with the winter period of 1998-1999.<sup>34</sup> Furthermore, as had already been decided, the rates of most public enterprises remained unchanged or were reduced;<sup>35</sup> it should also be recalled that the “gentlemen’s agreements” of November 1998 cover all of 1999.<sup>36</sup>

But for the contribution of the *ad hoc* measures decided from August onwards, the twelve-month

CPI growth rate would have been 0.8 percentage point higher in December 1999.<sup>37</sup> The *disinflationary* effect of all the *ad hoc* measures in force since the *beginning* of the year reaches 1.1 percentage points and only partly offsets the inflationary impact of the rise in crude oil prices in the

**31** Between December 1998 and August 1999, fresh fruit/vegetable prices fell by 23.8 per cent, while in the corresponding period of 1998 they had fallen by only 10.9 per cent.

**32** See Bank of Greece, *Monetary Policy 1998-1999*, March 1999, page 56.

**33** The reference is to the reduction in indirect taxation on gasoline as of 24 September 1998, on heating oil as of 15 October 1998, on passenger cars as of 15 November 1998 and on electricity as of 1 January 1999. The total contribution of these measures to the drop of the twelve-month inflation rate has been calculated at 0.83 percentage point (fuel: 0.40 percentage point, cars: 0.26 percentage point, electricity: 0.17 percentage point): the contribution only during 1998 was 0.66 percentage point.

**34** Moreover, in September a ceiling of 2.5 per cent was set by law on the increase in the tuition fees of all types of private schools (article 10, para. 13 of Law 2741/1999).

**35** In particular, as had been decided in 1998, electricity rates for households were reduced by 8.4 per cent as of 1 January 1999 (owing to the cut —from 18 per cent to 8 per cent— in the VAT rate), while OTE rates were reduced by 3.7 per cent (weighted average) in March. Moreover, OTE rates were cut by a further 6 per cent as of November 1999.

**36** See Bank of Greece, *Monetary Policy 1998-1999*, March 1999, footnote 85.

**37** Reduction in the SCT on gasoline: 0.10 percentage point, reduction in passenger car classification fees: 0.33 percentage point, reduction in the SCT on oil: 0.26 percentage point, reduction in OTE rates as of 1 November 1999: 0.11 percentage point.

world market (about +1.2 percentage points) and of the wearing off of the disinflationary effect of the *ad hoc* measures taken in 1998 (+0.7 percentage point). Given also that inflation is about 2 percentage points lower than in December 1998, it is concluded that the disinflationary outcome of monetary, fiscal and incomes policies – net of the *ad hoc* measures – is of the order of 2.5 percentage points.

As had been pointed out with regard to the corresponding measures in 1998, the favourable effect of *ad hoc* measures is not of a short-term nature only.<sup>38</sup> As they help curb inflation, they mitigate inflationary expectations of business firms and households, on the one hand, and they influence positively labour costs in the ensuing year (through the mechanism of corrective pay rises provided for by many collective labour agreements in the private sector), on the other.<sup>39</sup>

At this point, it would be useful to make a more general reference to the evolution of consumer demand and its relationship with households' incomes and other funds, business profits and inflation.

As indicated by most recent data (see Table VII and Chart 21), the growth of retail sales volume is accelerating in 1999 and is similar to that in 1997 (a partly expected development, after the slowdown of the above growth in 1998, owing to the devaluation of the drachma). Besides, the number of new passenger car registrations is increasing impressively, owing to price cuts in 1998 and again in September 1999. According to some approximative – and rather conservative – calculations, annual expenditure for passenger car purchases will reach 1,200 billion drachmas in 1999. However, the index of retail trade expectations<sup>40</sup> dropped, in total, in the January-October period

of 1999, compared with the corresponding period of 1998 (though in the second quarter of the year, as also in October, it stood at a level higher than in the corresponding months of 1998). Finally, according to available indications, the rate of productive capacity utilisation does not seem to have changed noticeably. The *average level* of the industrial capacity utilisation rate in January-October was equal to that in the corresponding period of 1998, while the number of registered unemployed persons increased in the first half of the year (according to Manpower Employment Agency – OAED – data) – a development which followed the appreciable growth of the labour supply in 1998. At least at first sight, these developments do not suggest the existence of excess demand.

As regards households' funds, it has already been mentioned that the annual rate of increase in real disposable income from wages was low throughout most of the year, while households resort to borrowing to a greater extent than in 1998. Indeed, the outstanding balance of total bank credit to consumers continued to increase at a very fast rate, which was higher than in 1998 but is slowing down from May onwards. At the same time, the wealth of households continues to grow, owing to the appreciation of their assets (real estate, stocks, and units of mutual funds investing

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<sup>38</sup> Besides, as regards the *fiscal cost* of the *ad hoc* measures, the increase in demand for passenger cars leads to a *partial* offsetting of total costs. Indeed, the reduction in indirect taxation on passenger cars in November 1998 led to a large growth of corresponding tax revenue, on the one hand because of the increase in sales and, on the other hand, owing to the consumers' shift to cars of larger capacity (c.c.). (In addition, the reduction in revenue from SCT on fuel is *partly* offset, because one part of fuel VAT revenues has increased (the one which arises from the calculation of VAT on the fuel price excluding SCT, which in turn has increased owing to the very large rise in world prices.)

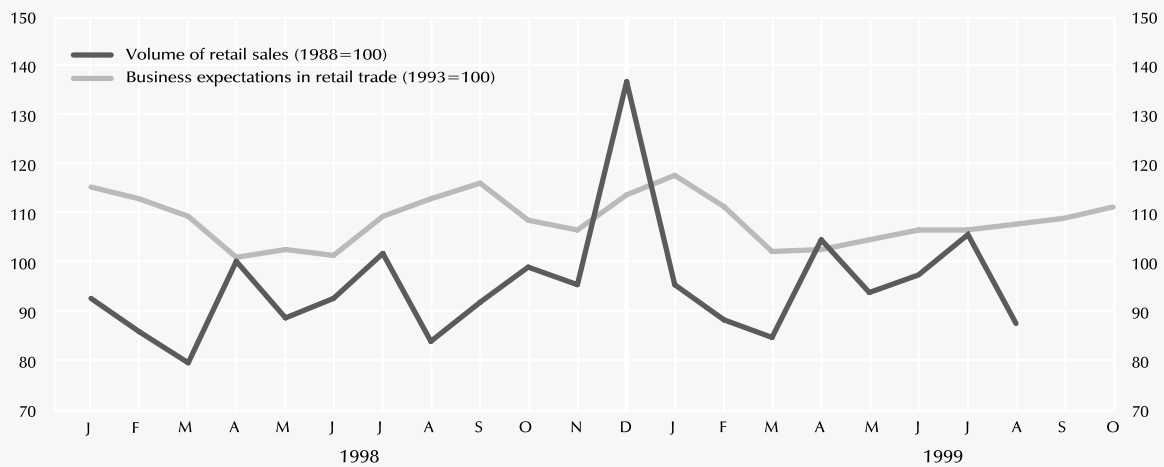
<sup>39</sup> These agreements provide for a corrective pay rise as of 1 January 2000, only in the event that inflation exceeds 2 per cent in December 1999.

<sup>40</sup> This index includes firms selling passenger cars.

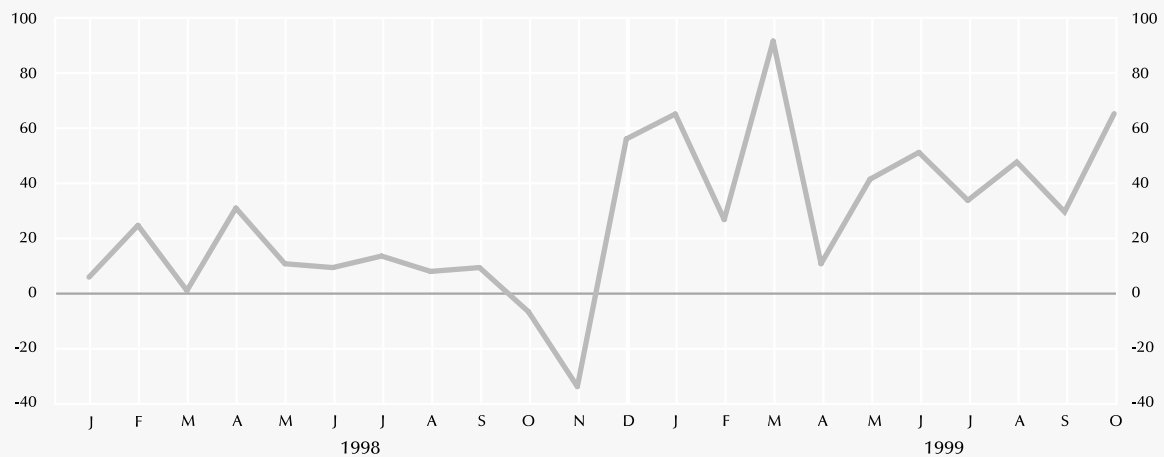
Chart 21

Consumer demand (January 1998 - October 1999)

A. Retail sales volume and business expectations  
(Indices)



B. New passenger car registrations  
(Percentage change over same month of previous year)



Source: Calculations based on NSSG (for retail sales and cars) and IOBE data (for business expectations). The index of business expectations is calculated on the basis of business firms' estimates on sales and stocks, and of forecasts on business activity over the next 6 months.

in stocks);<sup>41</sup> this growth either augments immediately disposable funds (when capital gains are realised) or (when these gains are not realised) creates expectations that these funds will be augmented in the future; these expectations can lead to a decrease in saving or to borrowing (for consumption purposes).<sup>42</sup> As a part of the funds stemming from realised capital gains is used again for the purchase of new stocks or consumer durables of a rather large value (usually imported goods, preferably cars) and for the acquisition of real estate, the impact on consumer prices may

**41** On the basis of data on prices of dwellings (which, for the Athens area, are published in the economic press and, for provincial urban centres, are collected by Bank of Greece branches), it is estimated that if the trends in the first 6-8 months of 1999 continue, the cumulative rise in the above prices *in real terms* will reach 9-11 per cent during 1999, compared with 6-11 per cent during 1998 (according to revised estimates). Moreover, the composite index of shares listed on the ASE was higher by 132 per cent on 17 September, compared with end-1998. After the sharp drop and the fluctuations that followed, at end-October the above rate of increase had been reduced to 98.8 per cent. (The composite index had risen by 58.5 per cent during 1997 and by 85 per cent during 1998 – or by 193.3 per cent in the 1997-1998 period.)

**42** In particular, the appreciation of shares (or units of mutual funds investing in stocks) concerns an ever-increasing number of households. It is characteristic that the average daily value of stock market transactions in October 1999 was almost five times as high as in December 1998, while the share of mutual funds investing in stocks in the total assets of mutual funds is continuously growing.

appear with a time lag and thus inflation will not be influenced *immediately*. Moreover, there are also indirect effects.<sup>43</sup> For example, if increased demand leads to a rise in real estate prices, as is *already* the case, then rents may be increased,<sup>44</sup> so as to achieve a satisfactory yield on invested funds. In this case, inflation will rise as well.<sup>45</sup>

With respect to the contribution of profits to the course of inflation, it should be first borne in mind, as was stated in the two previous Reports,<sup>46</sup> that *in 1998* selling prices set by industrial and commercial firms (except wholesale import firms) had risen more than would be justified by the drachma-devaluation-driven increase in the costs of imported inputs, and this against the background of a very small rise in labour costs and a decrease in financial costs and raw material prices in the world market. This preliminary conclusion was corroborated by firms' annual income statements for 1998, according to which profits increased noticeably faster than turnover.<sup>47</sup> This development partly reflected the above mentioned pricing policy of firms (which caused an increase in operational profit margins and did not contribute to disinflation); however, it was also partly related to the improvement in capital structure, i.e. the increase in the share of own in total assets, which was achieved because of substantial fund-raising from the ASE and led to a reduction in financial costs.<sup>48</sup>

For 1999, the examination of the various price and cost indicators cannot, for the time being, lead to indisputable conclusions on the evolution of profitability. In particular for manufacturing, the average twelve-month growth rate of wholesale prices of domestic final industrial goods *for home consumption* in the January-September period was 2.9 per cent.<sup>49</sup> As regards cost components, it should be recalled that: First, raw material prices in the world market, excluding crude oil, contin-

ued to decrease until August, compared with the corresponding months of 1998. Second, the effective exchange rate of the drachma (which affects the drachma costs of imported inputs) remained virtually unchanged in the January-October period, in comparison with the same period of 1998. Third, unit labour costs in manufacturing are estimated to be increasing by 1.5-2 per cent in 1999 (though in the first nine months of the year the average twelve-month rate is estimated at 2-2.5 per cent). Fourth, public utility rates have been reduced. Fifth, interest rates on short- and long-term bank lending to business firms are lower than in 1998. Lastly, *current* demand conditions, as recorded in the estimates of manufacturing and retail trade firms on total demand and sales,<sup>50</sup> do not seem to encourage a *large* increase in profit margins. On the basis of *these* facts and given that the evolution of cost components is not uniform (most of them increase at a slower pace than prices or even decrease, while the rest increase faster than prices), profit margins of manufacturing firms producing for the domestic market may have widened slightly. By contrast, it is clear that

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43 Apart from the effects of the *fast rise* in share prices, which are examined here, a *sharp and substantial adjustment* of prices that may follow could have a very serious impact – on the net position of households, business firms and banks, as well as on economic activity in general.

44 The twelve-month rate of increase in rents (included in the CPI) is slowing down in 1999, compared with 1998. However, it stood at 4.2 per cent in October, i.e. it was almost double the inflation rate.

45 At the same time, however, the rise in real estate prices leads to an increase in the supply of dwellings (a fact which is corroborated by the high growth of construction activity *on the basis of permits* until 1998), hence to a containment of rent increases.

46 Bank of Greece, *Monetary Policy: Interim Report 1998*, November 1998, and *Monetary Policy 1998-1999*, March 1999.

47 The processing of data from 3,485 industrial firms by the Federation of Greek Industries –SEB– (see *SEB Bulletin*, June-July 1999) reveals that in 1998 profits increased by 23.1 per cent and sales by 8.8 per cent.

48 See also Bank of Greece, *Annual Report 1998*, page 118.

49 The corresponding rate, excluding fuel, was 2.6 per cent.

50 By contrast, sales *prospects* of industrial firms for the next 3-4 months and order book *prospects* of retail trade firms for the next three months are clearly positive, according to the same IOBE surveys.

export firms' profit margins have decreased, possibly under the pressure exerted by demand conditions and competition in foreign markets.<sup>51</sup>

All the above refer mainly to *operational* profit margins. At the same time, on the basis of the published income statements of firms listed on the ASE, total profit margins have definitely expanded, given that in the first half of 1999, as in 1998, the increase in net pre-tax profits was *considerably* faster than turnover growth. This is chiefly attributable to the increase in "non-organic" revenue from stock market transactions and management of liquid assets, as well as to the reduction in financial costs, owing to, on the one hand, the drop of borrowing rates (on an annual basis) and, on the other hand, direct fund-raising from the Stock Exchange.

### 3. Economic activity and employment

Economic activity growth is decelerating slightly in 1999 and, according to estimates by the Ministry of National Economy, GDP will increase by 3.5 per cent, as against 3.7 per cent in 1998. On the demand side, this development was due to the slower increase, compared with 1998, in public investment (the growth rate of which, however, remained high) and in private housing investment, the small decrease in public consumption (which had risen slightly in 1998) and the small negative contribution of the real external balance for goods and services (on a national accounts basis).<sup>52</sup> By contrast, private consumer demand and private non-residential investment increased faster than in 1998 (see Table VIII). On the supply side, agricultural output remained unchanged, while output growth in the other two sectors decelerated (noticeably for secondary production and slightly for services – see Table 3 of the statistical appendix). These estimates on a

**Table VIII**  
Aggregate demand and gross domestic product  
(at constant market prices of previous year)  
(Annual percentage changes)

	1998	1999 (Estimate)	2000 (Forecast)
Private consumption	1.8	2.6	3.0
Public consumption	0.4	-0.5	0.5
Gross fixed capital formation:	9.8	9.0	8.9
private	8.4	7.7	8.5
– residential	8.5	5.0	6.5
– non-residential	8.4	9.4	9.7
public	13.7	12.4	10.0
Change in stocks (percentage of GDP)	(0.3)	(0.3)	(0.1)
Domestic final demand	3.3	3.5	3.7
Exports of goods and services (Exports of goods)	9.2 5.0	5.8 4.5	7.4 6.5
Imports of goods and services (Imports of goods)	5.7 4.8	5.1 5.1	6.3 6.1
Gross domestic product at market prices	3.7	3.5	3.7

**Source:** Estimates and forecasts by the Ministry of National Economy/Directorate of Macroeconomic Analysis, September 1999. For more details, see Table 3 of the statistical appendix.

national accounts basis are partly consistent with the evolution of available short-term indicators. (Reference to private consumption indicators has already been made in Section IV.2).

In particular, *total* industrial production increased at an average twelve-month rate of 4.5 per cent in the first eight months of 1999, i.e. at a slower pace than in the corresponding period of 1998, while *manufacturing* production rose by only 0.5 per cent.<sup>53</sup> In *manufacturing*, a noticeable output increase was observed in the branches of furniture, electrical machinery-appliances-miscella-

<sup>51</sup> The average twelve-month rate of change in the wholesale prices of exported final products in the January-September period was negative: -1.6 per cent (excluding fuel: -2.1 per cent).

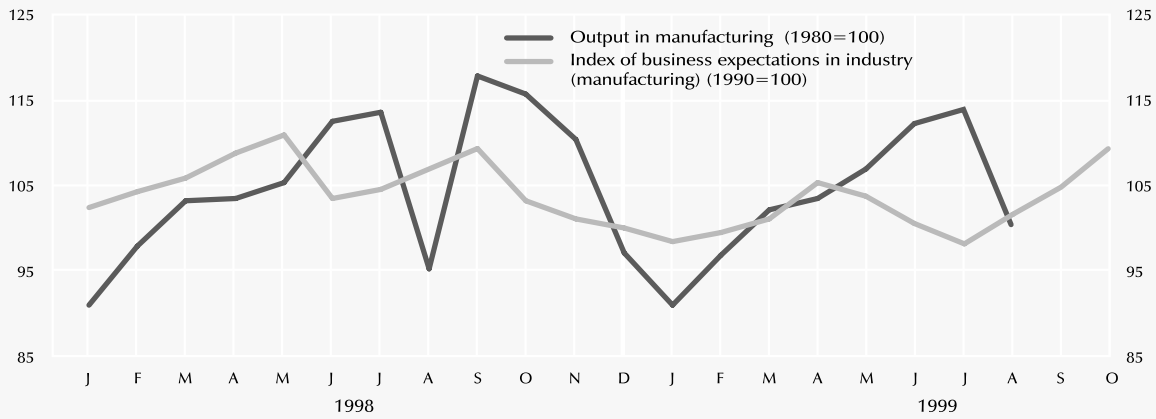
<sup>52</sup> For available short-term indicators, see below, Section IV.4.

<sup>53</sup> The rise in total industrial production stemmed mainly from the increase of 7.3 per cent in electricity production and of 138.8 per cent in natural gas distribution, while mining and quarrying output decreased by 15.2 per cent. In manufacturing, the increase in consumer durables output (+13.8 per cent) more than offset the drop (-0.7 per cent) in capital goods production, while consumer non-durables output remained unchanged.

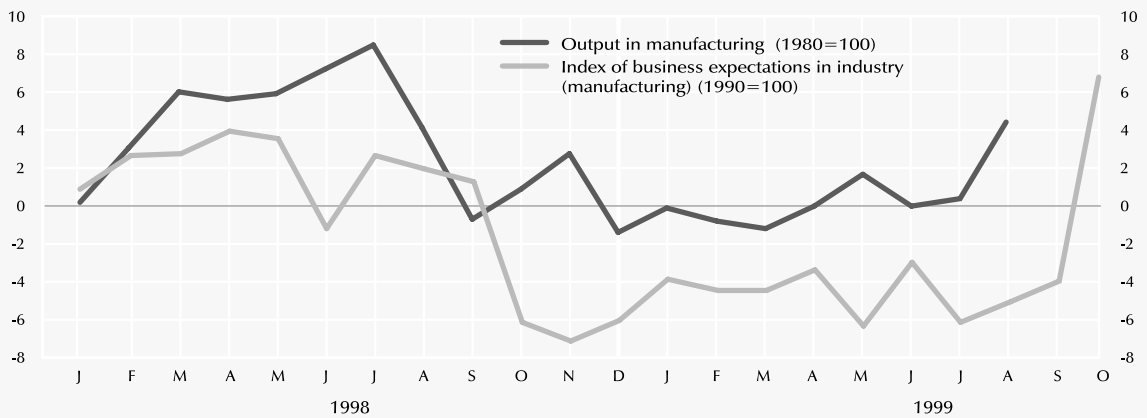
Chart 22

Output and business expectations in manufacturing (January 1998 - October 1999)

A. Indices



B. Percentage change over same month of previous year



Source: NSSG (for output) and IOBE (for business expectations). The index of business expectations is calculated on the basis of business firms' estimates on total demand and stocks, and of output forecasts for the next 3-4 months.

neous items,<sup>54</sup> rubber and plastics, food, transportation equipment, machinery and appliances excluding electrical, tobacco, chemicals and beverages. However, manufacturing output, the twelve-month rate of change in which was showing a sharp increase until August 1998, was characterised by volatility or no change in the last months of 1998 and the first seven months of 1999. This development was in line with a clearly negative twelve-month rate of change in the index of business expectations for industry in the

October 1998-September 1999 period (see Chart 22), as well as with a small decrease in the rate of industrial capacity utilisation in the January-July period, compared with the corresponding period of 1998 (surveys carried out by the Foundation for

<sup>54</sup> This branch (increase of 11.3 per cent) includes the production of telecommunications material, which is classified by NSSG under consumer durables. In 1999, as in 1998, there was a large rise in the output of telecommunications infrastructure material, which is used to convert OTE's network into digital, on the basis of the agreements signed by OTE and the two large firms which dominate the branch.

**Table IX**  
**Indicators of investment demand**  
*(Annual percentage changes)*<sup>1</sup>

	1997	1998	1999 (available period)
Capital goods output	4.3	2.0	-0.7 (Jan.-Aug.)
Investment expenditure (at current prices) of private industrial firms <sup>2</sup>	26.3 <sup>3</sup>	18.4 <sup>4</sup>	22.1 <sup>5</sup> (year)
Rate of capacity utilisation in the capital goods industry	(71.6)	(75.7)	(78.7) (Jan.-Oct.)
Disbursements out of the public investment budget	43.5	17.3	12.8 (Jan.-Sept.)
Volume of new buildings (on the basis of permits issued)	5.7	9.4	-5.5 (Jan.-Aug.)
Cement production	2.0	2.5	0.3 (Jan.-Aug.)
Marble, stone and other building materials	18.8	2.4	5.8 (Jan.-Aug.)
Index of business expectations in construction	18.9	19.3	1.3 (Jan.-Oct.)
Outstanding balance of total bank credit to housing	23.8 (Dec.)	21.2 (Dec.)	25.8 (Sept.)

1 Excluding capacity utilisation.

2 Estimates of firms participating in the IOBE investment survey.

3 Estimate of the March-April 1998 survey.

4 Estimate of the March-April 1999 survey.

5 Forecast of the March-April 1999 survey.

**Source:** NSSG (capital goods output, cement, marble, stone and other building material output, volume of buildings), IOBE (rate of capacity utilisation, investment survey, business expectations) and Bank of Greece (disbursements out of the public investment budget, housing loans).

Economic and Industrial Research – IOBE). It is logical to assume that these developments are also related to the appreciable deceleration of the annual growth of GDP in the EU (the countries of which are Greece's major trading partners) between the 3rd quarter of 1998 and the 2nd quarter of 1999,<sup>55</sup> as well as to the smaller (compared with 1998) GDP increase in Central and Eastern European countries (excluding Russia) in 1999.<sup>56</sup>

It should be pointed out, however, that manufacturing output has already exceeded slightly the rather high level reached in 1998, when it had increased by 3.4 per cent, while prospects for the last months of 1999 are particularly positive. In August, manufacturing output grew at a twelve-month rate of 4.5 per cent, while the evolution of two other indicators in October was favourable:

the twelve-month rate of change in the index of business expectations for manufacturing was positive (+6.9 per cent) for the first time since September 1998, while the rate of industrial capacity utilisation rose by more than 3 percentage points (compared with October 1998). Besides – according to the latest business survey of IOBE (October 1999) – industrial firms' forecasts on production, sales and exports in the next 3-4 months are definitely positive. Indications of business firms' investment intentions are also particularly favourable. According to the latest biannual investment survey by IOBE (March – April 1999),

<sup>55</sup> From 2.6 per cent to 1.6 per cent (Eurostat's estimates). As inferred from the evolution of short-term indicators, the growth rate of the EU and the euro area GDP is accelerating in the second half of 1999.

<sup>56</sup> 1.0 per cent in 1999, compared with 2.2 per cent in 1998, according to IMF estimates (*World Economic Outlook*), October 1999.

private industrial firms forecast a considerable rise in their investment expenditure (at current prices), which will actually overshoot the corresponding increase in 1998 (see Table IX).<sup>57</sup> These business forecasts are not reflected in the evolution of capital goods output *until June*. This output, however, grew at a twelve-month rate of 2 per cent in July and 9.6 per cent in August, while the rate of industrial capacity utilisation in the branches of *capital goods* shows a clear upward trend throughout the January-October 1999 period, compared with the corresponding period of 1998.

By contrast, private construction activity (more accurately: the volume of new buildings *on the basis of permits*, which is an indicator of future and not current construction activity) decreased in the January-August 1999 period, after a continuous and considerable increase in the previous years. However, as permits issued in recent years are already at the stage of implementation, the outstanding balance of total bank loans to housing continued to increase at a fast rate, similar to that in 1998. Moreover, the index of business expectations for construction rose slightly in the first 10 months of the year (compared with the corresponding period of 1998), while the output of marble, stone and other building materials grew in the first eight months of 1999.

Although the *growth* rate of private residential investment (on a national accounts basis) is estimated to have slowed down, total investment demand is undoubtedly increasing at a fast rate (see Table IX), given that, apart from private investment in equipment, public investment is also growing considerably. In particular, disbursements from the Public Investment Budget (PIB) increased at a twelve-month rate of 12.8 per cent (Bank of Greece data) in the January-September period of 1999, while, according to estimates of

the Introductory Report on the new budget, PIB expenditure (on an accruals basis) will rise by 19.1 per cent for the entire 1999. The large increase in public investment reflects the further progress made in 1999 in the absorption of funds from the 2nd Community Support Framework (CSF) 1994-1999. Indeed, on the basis of payments, the absorption rate of community funds of the 2nd CSF came to 64.4 per cent until June 1999 and is aimed at reaching 80 per cent by year-end, compared with 57.3 per cent at end-1998.<sup>58</sup> Community fund inflow will remain very substantial in the medium term as well, given that the 3rd CSF, covering the period 2000-2006, provides for the disbursement of 15.7 trillion drachmas, an amount exceeding by 57 per cent the corresponding funds of the 2nd CSF.<sup>59</sup>

The lack of adequate data<sup>60</sup> does not allow us to estimate the degree to which the evolution of total *employment* was affected in 1999 by the rise in GDP. It can be argued, however, that, as labour market conditions are not characterised by “tightness”, they did not cause inflationary pressures.

More specifically, according to IOBE’s business surveys, business firms’ forecasts indicate that employment remained stagnant in industry and increased clearly in construction, while the positive forecasts of retail trade firms followed a

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<sup>57</sup> Moreover, according to the same survey, public sector manufacturing firms forecast an increase of 30.5 per cent in their investment expenditure for 1999, while they estimate that this expenditure grew by 58.1 per cent in 1998.

<sup>58</sup> On the basis of credit commitments, the aim for the absorption rate is to reach 100 per cent by end-1999, so as to achieve absorption – *on the basis of payments* – of the remaining funds in the course of 2000.

<sup>59</sup> From these 15.7 trillion drachmas, 9 trillion are Community funds, 3 trillion national government funds, 3.2 trillion private funds and 0.5 trillion drachmas is the reserve.

<sup>60</sup> The most recent data released from the labour force survey carried out by NSSG refer to the second quarter of 1998 (see Box), while the index of wage earners’ employment in manufacturing (also compiled by NSSG) is available until December 1998 (the monthly data of the new revised index for 1999 will be available no sooner than in early 2000).

## BOX

### Employment, unemployment, economic immigrants and unit labour costs in 1998: an interpretation of developments

The most recent data on employment and unemployment in the whole economy were made public in July 1999 and were derived from the labour force survey which was carried out by NSSG in the 2nd quarter of 1998 and adopted the definitions employed by Eurostat. Up to 1997, NSSG used different definitions; e.g. on the basis of the same initial data, in 1997 the unemployment rate was 10.3 per cent according to NSSG and 9.6 per cent according to Eurostat. If, therefore, the data of the 1998 survey are compared, on the basis of common definitions, with those of the 1997 survey, they reveal a large increase (4.3 per cent) in the labour force (for the age group 15 years and over), which reflects –for the same age group– an appreciable growth of employment (3 per cent), particularly of wage-earners (6.3 per cent), on the one hand, and a significant increase (17 per cent) in the number of unemployed and in the unemployment rate (from 9.6 per cent to 10.8 per cent of the labour force). A more detailed examination of data (see the table of the Box) indicates that:

1) In 1998 the population aged 15 years and over decreased slightly (by 3,000 persons), because the registered considerable increase in immigrants from non-EU countries was more than offset by the decrease in the number of Greeks. However, the population at employment age (15-64 years) increased by 142,000. Almost three fifths of this increase were due to immigrants and the remainder to Greeks. Of particular importance –as will become evident below– was the increase (of 159,000) in the 20-34 age group, only one third of which was due to immigrants. (By contrast, the population aged 65 years and over was reduced by 145,000, which –in absolute terms– exceeded the increase in the population aged 15-64). The recorded increase in the population of immigrants from non-EU countries is estimated to be due to the legalisation process, which concerned those immigrants who were residing illegally in Greece at end-November 1997. The first stage of this process was completed (under Presidential Decrees 358 and 359/1997) in the January-

June period of 1998, i.e. it coincided with the conduct of the NSSG's survey.

2) The considerable growth of employment (114,000 persons) in 1998 stemmed almost exclusively from the increase (134,000 persons) in employed *wage-earners*, which was offset to a small extent by the decrease in the number of non-paid family members (a fact related to the decline of rural population). It should be pointed out that the increase in employment regards *both* Greeks and immigrants from non-EU countries; *the latter* account for 56 per cent (64,000 persons) of the increase in total employment and 43 per cent (57,000 persons) of the rise in the number of employed wage-earners. The statements above with regard to the increase in population apply also to the recorded growth of employed immigrants, which is allocated almost equally to the secondary and the tertiary sector of the economy (31,000 and 32,000 persons, respectively). It should also be mentioned that, while NSSG recorded 138,000 employed and 16,000 unemployed persons from non-EU countries in the 2nd quarter of 1998, Manpower Employment Agency (OAED) services –in the context of the legalisation process in the same period– recorded 373,000 persons, i.e. many more than NSSG did.

3) Only one tenth of the large increase in the number of unemployed (70,000 persons) reflected the increase in unemployed immigrants from non-EU countries (+7,000 persons). Of great significance is the fact that four sevenths of the increase in the number of unemployed regarded persons aged 20-34, i.e. age groups with a large population increase (as already stated). Moreover, 35 per cent of the rise in the number of unemployed concerned persons remaining jobless up to 5 months, 15 per cent persons jobless for 6-11 months and 50 per cent persons jobless for 24 months or more (the number of jobless for 12-23 months did not change).

These findings lead us to some conclusions and assumptions: →

## Population, labour force, employment and unemployment: 1997-1998

(Thousand persons)

	1997	1998	Difference
<i>Population 15 years old and over</i>	8,723	8,720	-3
Greeks	8,585	8,491	-94
From EU countries	20	21	+1
From non-EU countries	118	207	+89
<i>Population 15-64 years old</i>	6,792	6,934	+142
Greeks	6,662	6,714	+52
From EU countries	18	19	+1
From non-EU countries	112	200	+88
<i>Population 20-34 years old</i>	2,022	2,181	+159
Greeks	1,962	2,074	+112
From EU countries	6	7	+1
From non-EU countries	54	100	+46
<i>Labour force 15 years old and over</i>	4,262	4,446	+184
Greeks	4,168	4,278	+110
From EU countries	10	13	+3
From non-EU countries	83	154	+71
<i>Employed persons 15 years old and over</i>	3,853	3,967	+114
Greeks	3,772	3,822	+50
From EU countries	7	7	0
From non-EU countries	74	138	+64
<i>Wage and salary earners 15 years old and over</i>	2,111	2,245	+134
Greeks	2,041	2,117	+76
From EU countries	4	5	+1
From non-EU countries	66	123	+57
<i>Unemployed persons 15 years old and over</i>	409	479	+70
Greeks	396	456	+60
From EU countries	3	6	+3
From non-EU countries	9	16	+7
Unemployed men (Greeks and foreigners)	161	187	+26
Unemployed women (Greeks and foreigners)	246	288	+42
Unemployed persons 15-19 years old (Greeks and foreigners)	40	43	+3
Unemployed persons 20-34 years old (Greeks and foreigners)	241	281	+40
Unemployed persons 35 years old and over (Greeks and foreigners)	128	155	+27
Unemployed persons for up to 5 months	95	119	+24
Unemployed persons for 6-11 months	85	95	+10
Unemployed persons for 12-23 months	95	96	+1
Unemployed persons for 24 months and over	134	169	+35

Source: NSSG labour force survey and New Cronos database of Eurostat.

→ • The increase in the labour force and in employment in 1998 was *in part* only apparent – to the degree that it simply reflected the more accurate recording by NSSG of immigrants from non-EU countries, who were already present in Greece in 1997, but had been recorded to a smaller extent, because

their presence was illegal. (It is characteristic that, according to NSSG surveys, immigrants from non-EU countries who participated in the labour force increased gradually from 20,000 persons in 1990 to 83,000 in 1997, while they almost doubled in 1998, reaching 154,000 persons. By contrast, the number of im- →

→ migrants from EU countries remained low (13,000 persons) in 1998, compared with 10,000 in 1997 and 6,000 in 1990). *In part*, however, the increase in the labour force and employment was real – to the degree that it reflected the increase in the Greek population at employment age and was related to the growth of economic activity. Thus, on the reasonable assumption that immigrants from non-EU countries recorded by the 1998 survey were already present in Greece in 1997, it can be estimated that in 1998 the true increase in total employment was 1.3 per cent (and not 3 per cent) and in employed wage-earners 3.5 per cent (and not 6.3 per cent).

- The increase (of 50,000 persons) in employed Greeks absorbed virtually the entire growth (52,000 persons) of Greek population aged 15-64. At the same time, however, the participation rate of Greeks in the labour force increased. In particular, the labour force aged 15 and over (Greeks only) increased to 50.4 per cent of the population (of Greeks) aged 15 and over (1997: 48.5 per cent), or to 63.7 per cent of the population (of Greeks) aged 15-64 (1997: 62.6 per cent). As a result, the number of unemployed Greeks rose by 60,000 persons. The increase in the number of unemployed, when it coincides with a growth of employment and exceeds what would be expected on the basis of the increase in population, usually implies that persons who previously remained out of the labour force (either because they had never looked for a job or had stopped doing so) now begin to search for a job, because they are encouraged by economic developments and employment opportunities offered. The rate of participation in the labour force had increased, for these reasons, in 1995 and 1996 (see Bank of

Greece, *Annual Report 1996*, Athens 1997, page 83). It is logical to assume that this was exactly the case in 1998 too, if account is taken of the faster GDP growth (to 3.7 per cent) that year, as well as of the implementation by OAED of active employment-promoting policies. These policies regard programmes for the subsidisation of hirings and the training of unemployed persons; participation in these programmes was conditional on the registration of unemployed persons at OAED. As these programmes need some time to yield results, a seeming paradox occurs: *first* a rise in unemployment is observed (because persons which were out of the labour force show an interest in participating in the programmes) and *then* follows an increase in employment. *Therefore, given that employment of both Greeks and immigrants increased, the growth of unemployment in 1998 was due not to the presence of economic immigrants from non-EU countries, but mainly to rising expectations generated by the high growth rates.*

- The adjustment of estimates on the increase in employment (which was made above in order to disregard the apparent increase caused by the more accurate recording of immigrants from non-EU countries) can lead to a similar adjustment of estimates of productivity growth (GDP per employed person) made by the Ministry of National Economy (Directorate of Macroeconomic Analysis) in 1998 – from 0.7 per cent to 2.4 per cent (see Table VI in the main text). In a similar way, the growth of unit labour costs in the whole economy, as calculated by the Ministry of National Economy on a national accounts basis, can be also adjusted for 1998 – from 5.5 per cent to 3.8 per cent.

downward course until September but improved slightly in October (see Chart 23). In central government, the number of employees increased by 2-2.5 per cent<sup>61</sup> in the first half of the year, compared with the corresponding period of 1998, while it is estimated that for the year as a whole the rate of increase will be reduced to 1-1.5 per cent. By contrast, in public enterprises the number of employees continued to drop (-1.9 per cent in the first half of the year – see Chart 24).

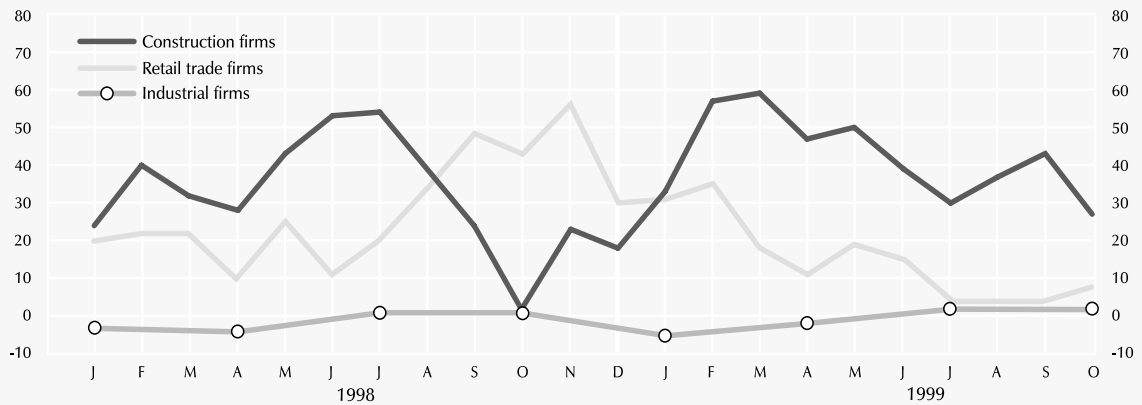
The number of *registered* unemployed (OAED data) grew by 52,000 persons in the first half of 1999 on a year-on-year basis (compared with a

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<sup>61</sup> This percentage is obtained through some adjustments to the initial data, so as, on the one hand, to include employees in public hospitals (whose wages are paid or subsidised by the government's ordinary budget) and, on the other hand, to take into account the fact that in the second quarter of 1998 contracts of a fixed duration referring to substitute teachers in secondary schools terminated earlier than usual (with the result that the raw data appear to indicate a fictitiously high annual rate of increase in the number of employees in the second quarter of 1999).

Chart 23

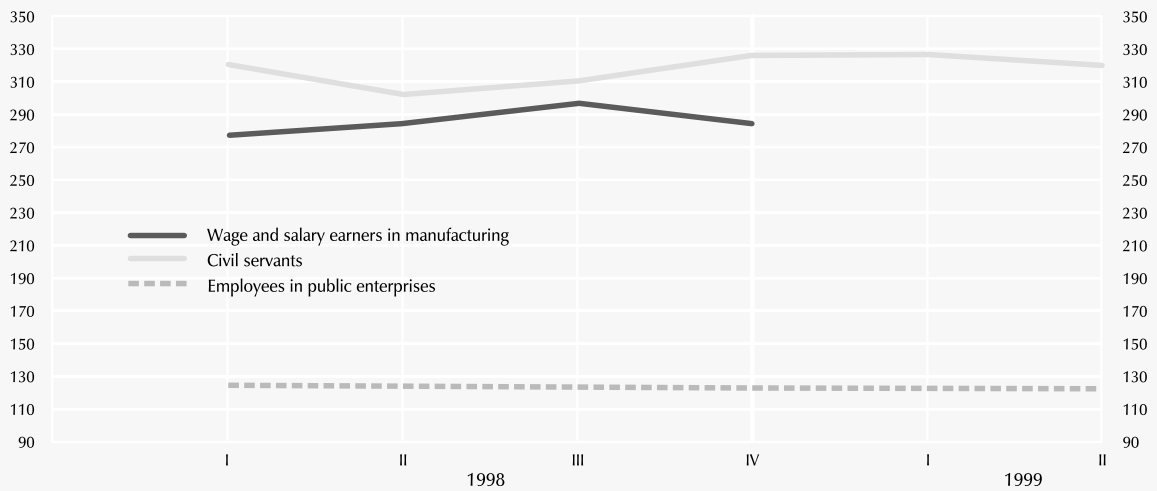
**Business forecasts<sup>1</sup> on employment (January 1998 - October 1999)**  
(Percentage balances of positive-negative responses)



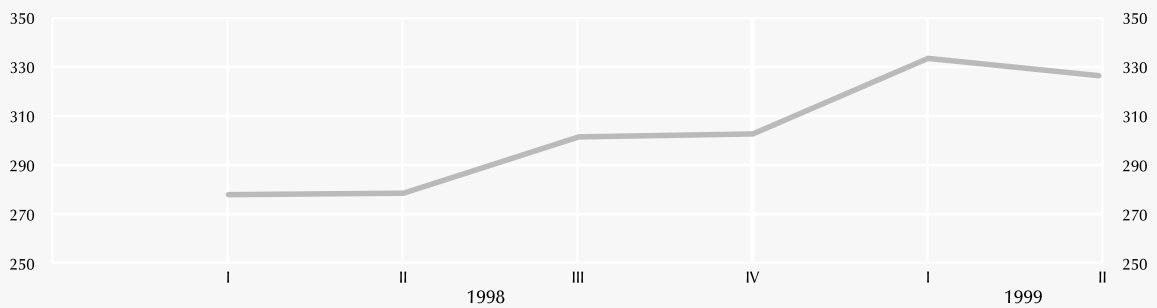
<sup>1</sup> Business firms' responses refer to the prospect of a rise in the number of employees in the forthcoming period.  
Source: IOBE, Economic Conjunction Surveys.

Chart 24

**A. Employment (1998 -1999)**  
(Thousand persons)



**B. Registered unemployment (1998 -1999)**  
(Thousand persons)



Source: NSSG (for manufacturing), Ministry of Finance (for civil servants), Ministry of National Economy (for public enterprises) and Manpower Employment Agency (for the employment). Persons employed in public hospitals are not included in the number of civil servants.

year-on-year increase of 76,000 persons in 1998 as a whole – see Chart 24). To a great degree this increase reflects the fact that the registration of the unemployed is a prerequisite for participation in the subsidised employment and training programmes, which are implemented under the National Plan of Action for Employment. These programmes cover an ever increasing number of persons.<sup>62</sup>

Lastly, in 1999 the legalisation process for foreign workers went on. According to released data, 225,691 persons, i.e. about 60 per cent of those that had been recorded in the first stage of the process (1 January-1 June 1998),<sup>63</sup> had submitted documents for the issuance of the “green card”<sup>64</sup> by the relevant deadline (end-April 1999). The government has taken measures to speed up the granting of these “cards”<sup>65</sup> and is drawing up a draft law with permanent arrangements for economic immigrants.<sup>66</sup>

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#### 4. Trade balance and current account balance

In the January-May period of 1999, the current account deficit, on the basis of data collected by the Bank of Greece,<sup>67</sup> decreased by 921 million euro, compared with the corresponding period of the previous year, to 1,886 million euro. This improvement resulted mainly from the reduction in the trade deficit and the income account deficit, but also from the rise in the surpluses for services and current transfers, compared with the corresponding levels in January-May 1998.<sup>68</sup>

The reduction of 438 million euro in the *trade deficit* reflects the decrease in the non-oil deficit and in net oil imports. The drop in the oil import bill was due to the fact that in the January-May period of 1999 the average *twelve-month* rate of change in crude oil prices in the world market was

still negative. The drop in the non-oil trade deficit resulted from the large rise in export receipts (+872 million euro), which more than offset the increase in the import bill (+671 million euro).

The rise in export receipts was partly due to the new, improved method of recording of foreign trade transactions, which began to be gradually

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**62** It should be noted that *in 1998* the increase in the number of unemployed persons registered by OAED eventually led to a rise in total unemployment as well, as this is measured by the labour force survey carried out by NSSG (see also the Box, above). Indeed, the total unemployment rate rose to 10.8 per cent in the second quarter of 1998, from 9.6 per cent in the second quarter of 1997. (These rates have been calculated on the basis of Eurostat’s definitions, which have now been adopted by NSSG. It should be recalled that, according to the definition previously employed by NSSG, the total unemployment rate was 10.3 per cent in 1997.)

**63** At this stage, 373,196 foreign workers submitted an application and were recorded by OAED. For the same period (second quarter of 1998), the NSSG’s labour force survey recorded only 167,000 foreigners – 145,000 employed persons (138,000 of whom originated from non-EU countries) and 22,000 unemployed. However, according to some official estimates, the total number of economic immigrants may be around 650,000.

**64** This is the “stay permit of limited duration”, which is provided for by relevant legislation (Presidential Decrees (P.D.) 358 and 359/1997, issued by virtue of Law 2434/1996 and amended by P.D. 241 and 242/1998, Article 73 of Law 2676/1998 and Article 20 of Law 2736/1999).

**65** Article 20 of Law 2736/1999.

**66** It should be recalled that the granting of “green cards” was a “one-off” procedure, as it concerned only those foreigners who were illegally in Greece at end-November 1997 (i.e. at the time of promulgation of Presidential Decree 358/1997).

**67** See Table 5 of the statistical appendix.

**68** Balance of payments data are published under a new classification as of January 1999, in compliance with the 5th edition of the IMF’s *Balance of Payments Manual*, which is employed by the ECB as well. Moreover, while previously data recorded transactions requiring conversion of foreign currency into drachmas and vice versa, the new method records transactions between residents and non-residents, irrespective of currency. As regards the breakdown, the trade balance corresponds, with respect to the items it covers, to the same aggregate under the previous classification, while the balances on services, income and current transfers together correspond by and large to the balance on invisibles of the previous classification. Lastly, the financial account balance roughly corresponds to the previous net capital movement and it is now possible to distinguish between direct investment and portfolio investment. Although the data of previous years cannot be very accurately adjusted to the new structure, it was deemed advisable to try to do so, in order to ensure the continuity of the statistical series. It should be noted, however, that, owing to conceptual differences between the two compilation systems, which differences are particularly important as regards the structure of the financial account, the comparison over time should be limited only to the basic categories of transactions and not deal with individual items.

Table X

## Current account balance: 1997-1999

	January - May					
	In million ECU/euro			As a percentage of annual GDP		
	1997	1998	1999	1997	1998	1999
– Trade balance	–6,618	–6,464	–6,027	–6.2	–6.0	–5.1
– Balance on goods and services	–4,662	–4,565	–4,079	–4.4	–4.2	–3.5
– Current account balance <sup>1</sup>	–2,621	–2,807	–1,886	–2.5	–2.7	–1.6

<sup>1</sup> The current account balance is divided into trade balance, services balance, income balance and current transfers balance.

Source: Bank of Greece (for current account balance data), NSSG and Ministry of National Economy/Directorate of Macroeconomic Analysis (for GDP).

implemented in 1998.<sup>69</sup> This means that data for 1999 record the absolute level of trade transactions much more accurately than by the previous method. *Therefore, these data are not fully comparable with the corresponding ones of previous years.*<sup>70</sup>

The increase of 48 million euro in the *surplus for services* stemmed from the rise in travel and transportation receipts, which more than offset the growth of corresponding payments. Prospects are favourable for a further substantial rise in this surplus because: a) in the April-August period of 1999, nights spent in tourist area hotels increased by 3.4 per cent and tourist arrivals by charter flights rose by 12.7 per cent<sup>71</sup> and b) the trend of freight market indicators is upward, following the increased demand for dry cargo (particularly coal), owing to the rise in crude oil prices.

The *income account* deficit was considerably reduced (by 350 million euro), mainly because of the large increase in receipts from interest, dividends and profits, as well as from remuneration and salaries, which more than covered the rise in interest payments.

The *surplus for current transfers* also increased (+86 million euro), because the rise of 287 million euro in EU transfers to general government more than offset the increase in transfer payments

(by general government and the other sectors) and the decrease in receipts from emigrants' remittances etc. The growth of EU transfers, which came to 1,849 million euro, reflects the faster inflow of funds from the Community's Structural Funds and the Cohesion Fund.

Owing to these developments, the *current account deficit* came to 1,886 million euro in the January-May period of 1999, i.e. to 1.6 per cent of the annual GDP, compared with 2.7 per cent in the corresponding period of 1998 (see Table X). For 1999 as a whole, it is estimated that the improvement (compared with 1998) in the deficit/GDP ratio will be smaller than that recorded in the January-May period. This estimate takes into account the effects (negative and positive) of various economic factors on the components of the deficit (particularly the trade deficit) on an annual basis.<sup>72</sup> Moreover, as regards the statistical

<sup>69</sup> The gradual implementation of the new method during 1998 was due to the required step-by-step adjustment of commercial banks' IT systems.

<sup>70</sup> For the first six months of 1999 there are also available the NSSG data on the evolution of visible trade (commodity transactions). According to these data, the trade deficit was reduced, while *import and export volume decreased considerably*, possibly because these data for the first half of 1999 are provisional and, as was the case in the past, they underestimate – pending finalisation – the level of exports and imports (particularly to and from EU countries).

<sup>71</sup> According to a sample survey by the National Tourism Organisation – EOT.

<sup>72</sup> It should be stressed that some of these effects emerge with a time lag.

recording, data for the *entire* year will be more comparable with those of 1998 than the data for the first 5 months of 1999, given that in the second half of 1998 data were compiled — to a considerable extent — by the new method.

As regards the economic factors affecting the current account balance and the trade balance in particular, world GDP growth accelerated in 1999,<sup>73</sup> but economic activity grew at a slower rate in countries which are important trading partners of Greece;<sup>74</sup> as a result, the rate of increase in foreign demand decelerated similarly, mainly in the first half of 1999. In the same period, the competitiveness of Greek products fell, in comparison with the first half of 1998.<sup>75</sup> At the same time, the cut in passenger car prices in November 1998 led to an increase in car imports, while the high growth rate of investment in equipment keeps the demand for imported capital goods at an increased level throughout the year. As regards the second half of 1999, prospects for goods exports are clearly better, if account is taken not only of the pricing policy of export firms,<sup>76</sup> but also of the fact that euro area GDP growth, year-on-year, appears to be speeding up in the third and fourth quarter of 1999, as well as of forecasts concerning a more favourable development of the competitiveness of Greek products (in the same period).<sup>77</sup> These favourable prospects are clearly reflected in the improved forecasts — from July onwards — of industrial firms on exports (according to the business survey carried out by IOBE).<sup>78</sup> However, goods imports are also expected to increase, as the new cut in passenger car prices in September 1999 will lead to a further growth of demand. Moreover, the fact that in the second half of the year the twelve-month rate of change in crude oil prices in the world market will be pos-

itive and very high entails a large increase in the *oil import bill* during the same period.

Lastly, the surplus on the *financial account* (which more or less corresponds to net capital movement under the previous classification) was reduced by 360 million euro in the January-May period of 1999. This outcome was affected by the decrease in the net inflow of funds for direct investment (–200 million euro) and portfolio investment (–54 million euro), as well as by the net outflow of “other investment” funds (1,623 million euro), which includes general government loan repayments. However, the net inflow of funds for portfolio investment, chiefly in shares and Greek government bonds, remained at a high level (5,470 million euro), despite its small decrease. The evolution of the above components of the financial account, as well of the current account, raised Greece’s *foreign exchange reserves* by \$2,263 million to \$20.5 billion in the period December 1998–May 1999, compared with \$19.0 billion in May 1998. Besides, according to the latest available data, foreign exchange reserves amounted to \$20.0 billion at end-October 1999.

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73 To 3 per cent, from 2.5 per cent in 1998. Besides, world trade volume increased by 3.7 per cent, compared with 3.6 per cent in 1998. See IMF, *World Economic Outlook*, October 1999.

74 The deceleration concerns mainly the first half of 1999 for euro-area countries and the entire year for Central and Eastern European countries. See above, footnotes 55 and 56.

75 This is implied by the 2-3 per cent increase, in the same period, of the drachma’s real effective exchange rate (on the basis of unit labour costs, consumer prices and wholesale prices).

76 As already mentioned, pressure in foreign markets has led to a decrease in the wholesale prices of exported products (see footnote 51).

77 For 1999 as a whole, it is estimated that the worsening of competitiveness, on the basis of the drachma’s average real effective exchange rate, will not exceed 1 per cent.

78 It should be also recalled that prospects for exports of services are favourable for 1999 as a whole, as can be inferred from what was stated above with regard to the expected further increase in the surplus for services.



## V. Monetary policy guidelines and the outlook for inflation

Monetary policy in 1999 has been characterised by a strengthening of its anti-inflationary stance, as evidenced by the rise both in real interest rates and the real exchange rate of the drachma, as well as by the additional measures taken to contain credit expansion. This tightening was considered necessary in order to achieve the ultimate objective of monetary policy, i.e. price stability, and to meet the inflation criterion of the Maastricht Treaty, taking into account the high level of core inflation at the beginning of the year, the rapid expansion of bank credit and the inflationary pressures exerted by exogenous factors, such as rising oil prices. The monetary policy pursued achieved its main objectives. Inflation, as measured by the national Consumer Price Index (CPI), fell to almost 2 per cent and, on the basis of the Harmonised Index of Consumer Prices (HICP), to below the 2 per cent level. The drachma remained strong in ERM II. Furthermore, the growth rate of the broader liquidity indicator M4N receded and credit expansion was contained slightly above the projected range. A substantial role in the deceleration of inflation was also played by the overall economic policy pursued, as discussed in Section IV.

The anti-inflationary stance of monetary policy will be maintained in the months to come. More specifically, interest and exchange rate policies will be conducted very cautiously, with the aim of ensuring price stability and meeting the relevant convergence criterion. Maintaining price stability will also be essential in order to enhance the competitiveness of the economy, in view of Greece's entry into EMU.

As announced by the government, Greece will be applying for admission to the final stage of EMU in March 2000. Whether Greece will actually qualify will be assessed by May. It is therefore estimated that the reference period for assessing

Table XI

## Harmonised consumer price index: Greece and the EU

(Annual percentage change)

Country	Dec. 1998	Jan.-Dec. 1998	Oct. 1999	Nov. 1998-Oct. 1999
Belgium	0.7	0.9	1.3	0.9
Denmark	1.1	1.3	2.4	1.6
Germany	0.2	0.6	0.8	0.4
Greece	3.7	4.5	1.5	2.8
Spain	1.4	1.8	2.5	1.9
France	0.3	0.7	0.6	0.4
Ireland	2.2	2.1	2.6	2.2
Italy	1.7	2.0	1.9	1.6
Luxembourg	0.4	1.0	1.6	0.6
Netherlands	1.5	1.8	2.0	1.9
Austria	0.5	0.8	0.6	0.4
Portugal	2.8	2.2	1.9	2.4
Finland	0.8	1.4	1.4	1.1
Sweden	0.0	1.0	1.1	0.3
United Kingdom	1.5	1.5	1.2	1.4
<i>European Union</i>	<i>1.0</i>	<i>1.3</i>	<i>1.2</i>	<i>1.1</i>
<i>Euro area</i>	<i>0.8</i>	<i>1.1</i>	<i>1.2</i>	<i>0.9</i>
<i>Average of three best performing countries in the EU</i>	<i>0.2</i>	<i>0.7</i>	<i>0.7</i>	<i>0.4</i>
<i>Average of three best performing countries in the euro area</i>	<i>0.3</i>	<i>0.7</i>	<i>0.7</i>	<i>0.4</i>

Source: Eurostat.

the convergence of the Greek economy, in terms of price stability, will be the 12-month period from April 1999 to March 2000. More specifically, the assessment will be made on the basis of the rate of increase in the average HICP during this reference period over the previous 12-month average.

According to the latest forecasts,<sup>79</sup> the average annual rate of inflation in the euro area, as measured by the HICP, is expected to range between 1.0 and 1.2 per cent in 1999 and between 1.3 and 1.6 per cent in the year 2000.<sup>80</sup> The 12-month rate of inflation in October 1999 stood at 1.4 per cent in the euro area and 1.3 per cent in the EU (see Table XI) and may increase slightly in December 1999.<sup>81</sup> In the three best performing euro area

countries –in terms of price stability—<sup>82</sup> the arithmetic mean of the respective 12-month average rates of inflation amounted to 0.4 per cent<sup>83</sup> in October 1999 and is projected to reach 0.6 per cent or more in the 12 months from April 1999 to March 2000 (once again, as measured by the HICP).

<sup>79</sup> See IMF, *World Economic Outlook*, October 1999, and European Central Bank (ECB), *Monthly Bulletin*, September 1999, p. 22.

<sup>80</sup> The average rate of inflation in the euro area has been forecast at 1.2-1.3 per cent for the 12 months to March 2000.

<sup>81</sup> The inflationary expectations of consumers (households) in the euro area increased steadily from February through June and remained relatively high through to October (see *European Economy – Supplement B*, October 1999).

<sup>82</sup> These countries were Austria, France and Germany.

<sup>83</sup> In EU-15, the three best performing countries were Sweden, Austria and France. The arithmetic mean of their average rates of inflation in the 12 months from November 1998 to October 1999 also amounted to 0.4 per cent.

The prospects of Greece meeting the convergence criterion for inflation over the 12-month reference period considered are good, since the average rate of inflation, as measured by the HICP, is expected to fall to around 2 per cent. This projection is based on the analysis of the anti-inflationary effects of monetary and economic policies and of the *ad hoc* measures taken (see Section IV.2). It also takes into consideration the negative impact of the rise in international crude oil prices and the wearing-off of the beneficial effects of the *ad hoc* measures taken at the end of 1998 and in January 1999. This projection is also supported by the evolution of business expectations in industry with regard to the prices of industrial goods: expectations remain weak, in spite of a slight pick-up in October.<sup>84</sup>

There still are, of course, some factors of uncertainty, such as the course of crude oil prices in the world market,<sup>85</sup> the possibility of a continued appreciation of the US dollar against the euro (and, therefore, against the drachma), which would affect the drachma prices of imported goods, as well as the course of fresh fruit and vegetable prices.<sup>86</sup> Moreover, it is difficult to accurately project the pricing policy that business firms will follow in upcoming months, particularly taking into account that the 12-month rate of change in the prices of domestic industrial goods for home consumption recorded a small acceleration since July 1999, which is only *partly* attributable to fuel prices.<sup>87</sup> An upholding of the anti-inflationary effort and the application by firms of a particularly moderate pricing policy are therefore essential if inflation is to be contained at a level compatible with the fulfilment of the convergence criterion and if, at the same time, the competitiveness of the Greek economy is to be enhanced.

As pointed out in the previous Monetary Policy Report (March 1999), the objective of price sta-

bility does not extend only to the period up to March 2000. Price stability must be maintained *throughout the year 2000* and, in particular, beyond the year 2000, when the Greek economy will face a highly competitive environment and the economic policy instruments available will be limited.

As far as the year 2000 is concerned, the lagged effect of the tight monetary policy stance, the anticipated further reduction in the ratio of general government deficit to GDP and the small slowdown in the growth rate of unit labour costs in the whole economy are expected to help achieve the inflation objective.

It should be stressed, however, that the gradual convergence of interest rates towards euro area levels and the adjustment of the drachma's exchange rate to the drachma/euro conversion rate in view of Greece's entry into the final stage of EMU will constitute an easing of monetary conditions.

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<sup>84</sup> See Chart 21, p. 47

<sup>85</sup> At the OPEC meeting in Vienna (22 September 1999), it was decided that the March 1999 agreement to reduce the daily crude oil production should be extended at least until March 2000. It is worth noting that the IMF, in its latest report (*World Economic Outlook*, October 1999, Box 1.4) estimates, based on mid-August market data, that the average annual rate of increase in international crude oil prices (in US dollars) will reach 27.7 per cent in 1999, but will be limited to 7.8 per cent in 2000. The Report points out, however, that prices rose further in September (to 23 USD per barrel) and that, should this price level persist, the average annual increase would reach about 35 per cent in 1999 and 15 per cent in 2000. According to the same report, a 10 per cent increase in the prices of crude oil leads to an increase of about 0.2 per cent in consumer prices in the euro area (indirect and direct effect combined). See also ECB, *Monthly Bulletin*, September 1999, Box 2.

<sup>86</sup> The month-on-month change in these prices was higher in September 1999 (18.7 per cent) than a year earlier (8.7 per cent in September 1998). The month-on-month change was also substantial in October 1999 (7.4 per cent, compared with virtually no change in October 1998).

<sup>87</sup> The rate of increase sped up from 2.3 per cent in June to 3.7 per cent in July and 4.6 per cent in both August and September. The rate of increase in the CPI, excluding fuels picked up only in July (June: 1.9 per cent, July: 2.2 per cent, August: 2.2 per cent, September: 2.1 per cent).

Consequently, safeguarding price stability in 2000 calls for the conduct of consistent policies by the economic and monetary authorities and a continuous effort on behalf of all social partners. Growing consensus on this objective has been evidenced in recent years by the favourable disposition of the social partners on specific issues (such as employees' moderate wage demands or the firms' acceptance of "gentlemen's agreements" on prices). In spite of diverging views, the social partners seem to be getting accustomed to the new environment of low inflation. Particularly in view of Greece's entry into EMU, it is essential that future pricing policies and wage agreements be compatible with the new environment of price

stability, i.e. with a rate of inflation not higher than 2 per cent.

Meanwhile, because of the objective constraints on the conduct of monetary policy in 2000, the anti-inflationary stance of fiscal policy and the promotion of structural reforms must be ensured. More specifically, fiscal policy should strictly adhere to the targets set in the budget submitted to Parliament. The further deregulation of markets and the enhancement of their flexibility will help increase productivity and competitiveness on a more permanent basis, thereby facilitating the adjustment of the economy to external shocks and boosting GDP growth without jeopardising price stability.

## Monetary policy measures

### **12 January 1999**

– Effective from 13 January 1999, the intervention rate of the Bank of Greece for the acceptance of 14-day deposits is lowered to 12 per cent from 12.25 per cent.

– Effective from 14 January 1999, the interest rate for the first tier of the deposit facility is lowered to 11.5 per cent from 11.6 per cent.

– Effective from 14 January 1999, the Bank of Greece Lombard rate is lowered to 13.5 per cent from 15.5 per cent.

– Effective from 14 January 1999, the rate on credit institutions' overdrafts from their current account with the Bank of Greece is lowered to 20 per cent from 22 per cent.

### **29 January 1999**

With the aim of improving the quality and further enhancing the soundness of banks' loan portfolios, the Bank of Greece establishes a general framework of minimum quantitative criteria for assessing the adequacy of provisions made by credit institutions for claims arising from lending.

### **6 April 1999**

With the aim of absorbing from the interbank market that part of liquidity which has become of a more permanent nature, the Bank of Greece establishes, on a monthly basis, competitive interest rate tenders for the acceptance of three-month deposits.

### **16 April 1999**

With a view to further enhancing the anti-inflationary policy pursued, the Bank of Greece decides that the following amounts shall be deposited with it in a non-interest-bearing account for a period of six months:

i) Any amount of the commercial, housing and cooperative banks' total outstanding balance of consumer credit and loans to domestic and import trade which exceeds the corresponding total balance outstanding on 31 March 1999 by:

3.5 per cent or 150 million drachmas on 30 June 1999,

5.5 per cent or 250 million drachmas on 30 September 1999, and

9.5 per cent or 400 million drachmas on 31 December 1999, whichever is the highest in all cases.

ii) Any amount of the banks' total outstanding balance of loans, other than the above, to the private sector and public enterprises and entities which exceeds the corresponding total balance outstanding on 31 March 1999 by:

3.5 per cent or 200 million drachmas on 30 June 1999,

5.5 per cent or 300 million drachmas on 30 September 1999, and

9.5 per cent or 550 million drachmas on 31 December 1999, whichever is the highest in all cases.

#### **18 May 1999**

Effective from 19 May 1999, the maximum borrowing of credit institutions from the Bank of Greece through the Lombard facility is adjusted as follows:

a) The additional amount allocated to each credit institution after the allocation of total borrowing is raised from 300 million to 700 million drachmas.

b) The additional amount to which a credit institution is entitled if it is a Primary Dealer is raised from 10 billion to 15 billion drachmas.

#### **23 June 1999**

With a view to enabling new credit institutions (established from 1 January 1998 onwards) to deal with the special conditions which have emerged in connection with Monetary Policy Council Act 13/16 April 1999 regarding temporary reserve requirements on credit institutions whose credit expansion exceeds the limits set, the Bank of Greece allows these institutions to calculate in an alternative way the ceiling on the change in their outstanding balance of loans over corresponding balances on 31 March 1999. This ceiling is calculated as a percentage of the paid-up share capital or cooperative or endowment capital of the above credit institutions.

#### **28 July 1999**

Credit institutions whose outstanding balances on all kinds of consumer credit exceed corresponding balances on 30 June 1999 by:

2 per cent or 50 million drachmas on 30 September 1999,

6 per cent or 130 million drachmas on 31 December 1999

shall be subject to additional temporary reserve requirements, apart from those provided for in Monetary Policy Council Act 13/16 April 1999. The requirements shall be in the form of a six-month deposit in a non-interest-bearing account with the Bank of Greece of double the amount in excess of the above limits.

#### **5 August 1999**

The provisions on the supply of foreign exchange for current transactions between residents of Greece and non-residents, as well as for capital movement, are simplified. More specifically, the maximum amount up to which no supporting documents are required for the supply of foreign exchange to cover personal needs and current transactions of natural persons is raised from

2,000 euro to 10,000 euro. Moreover, supporting documents are not required for small value transactions (up to 2,000 euro). Further, the requirement to submit multiple statistical statements at various stages of the process of capital transfer abroad is abolished.

#### **14 September 1999**

In order to help those hit by the earthquake of 7 September 1999 in the area of Attica, the Bank of Greece exempts from the restrictions imposed on banks' credit expansion loans supplied as from 8 September 1999 to natural persons or business firms included in the programmes for support to earthquake victims.

#### **23 September 1999**

Effective from 1 October 1999, the maximum borrowing of credit institutions from the Bank of Greece through the Lombard facility is raised from 200 billion to 480 billion drachmas. The amount added after the allocation of total borrowing is determined as follows:

- (i) 1 billion drachmas for each cooperative bank authorised to operate throughout the country and 700 million drachmas for each other cooperative bank,
- (ii) 2 billion drachmas for each other credit institution.

The additional amount to which a credit institution is entitled if it is a Primary Dealer is raised from 15 billion to 25 billion drachmas.

In the period 15 November 1999-14 January 2000, borrowing through the Lombard facility is not subject to any quantitative restrictions, to the extent that it is covered by an equivalent value of securities valued according to applicable rules.

#### **27 September 1999**

– The maximum amount of credit supplied by credit institutions to a natural person on collateral of securities listed on the Athens Stock Exchange is raised from 5 million to 15 million drachmas; such credit may not exceed 50 per cent of the current market value of these securities.

– Credit institutions are allowed to cover all kinds of financing requirements of investment firms and securities companies.

#### **20 October 1999**

– The intervention rate of the Bank of Greece for the acceptance of 14-day deposits is lowered to 11.5 per cent from 12 per cent.

– Effective from 21 October 1999, the interest rate for the first tier of the deposit facility is lowered to 11 per cent from 11.5 per cent and that for the second tier to 9.25 per cent from 9.75 per cent.

– Effective from 21 October 1999, the Bank of Greece Lombard rate is lowered to 13 per cent from 13.5 per cent.



## Bank of Greece decisions\*

*Re: Temporary reserve requirements on credit institutions whose credit expansion exceeds provided for limits (Monetary Policy Council Act 13/16 April 1999)*

The Monetary Policy Council of the Bank of Greece, having regard to:

- a) Articles 2 and 7 of Law 2548/19 December 1997 re: "Provisions relating to the Bank of Greece",
- b) the need to achieve the primary objective of price stability and meet, within 1999, the inflation criterion for convergence,
- c) developments in the bank credit market,

has decided the following:

1. Any amount of the commercial, housing and cooperative banks' total outstanding balance of consumer credit and loans to domestic and import trade which exceeds the corresponding total balance outstanding on 31 March 1999 by:

3.5 per cent or 150 million drachmas on 30 June 1999,

5.5 per cent or 250 million drachmas on 30 September 1999, and

9.5 per cent or 400 million drachmas on 31 December 1999, whichever is the highest in all cases,

shall be deposited in a non-interest-bearing account with the Bank of Greece for a period of six months, with value date: 2 August 1999, 1 November 1999 and 1 February 2000, respecti-

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\* Previous decisions of the Bank of Greece have been published in the *Report on Monetary Policy 1998-1999*, March 1999, and in Bank of Greece, *Economic Bulletin*, No. 13, July 1999.

vely. The sum total of the outstanding balances of the loans referred to in the present paragraph shall be calculated on the basis of the Loan Balances Statement, Sample No. 1, which is submitted on a monthly basis to the Bank of Greece (code numbers 11000, 10501 and 10502).

2. In case the sum total of the outstanding balances of credit, other than the above, to the private sector and public enterprises and entities (total, less loans referred to in paragraph 1, i.e. code number 30000 minus code numbers 11000, 10501 and 10502) exceeds the corresponding total balance outstanding on 31 March 1999 by:

3.5 per cent or 200 million drachmas on 30 June 1999,

5.5 per cent or 300 million drachmas on 30 September 1999, and

9.5 per cent or 550 million drachmas on 31 December 1999, whichever is the highest in all cases,

the banks referred to in 1. above shall be subject to additional temporary reserve requirements, in the form of a six-month deposit of the amount in excess in a non-interest-bearing account with the Bank of Greece, with the same value dates as in paragraph 1.

\* \* \*

*R e: Amendment of Monetary Policy Council Act 13/16 April 1999 re: "Temporary reserve requirements on credit institutions whose credit expansion exceeds provided for limits (Monetary Policy Act 16/28 July 1999)*

The Monetary Policy Council of the Bank of Greece, having regard to:

a) Articles 2 and 7 of Law 2548/19 December 1997 re: "Provisions relating to the Bank of Greece",

b) Monetary Policy Council Act 13/16 April 1999 re: "Temporary reserve requirements on credit institutions whose credit expansion exceeds provided for limits" as amended by Monetary Policy Council Act 15/23 June 1999,

c) the continuing considerable increase in consumer credit during the second quarter of 1999,

d) the unfavourable development of certain exogenous factors which affect the course of inflation, as well as the anticipated average inflation rate in the euro area,

has decided to amend as follows Monetary Policy Council Act 13/16 April 1999, as applicable:

1. Credit institutions whose outstanding balances on all types of consumer credit exceed corresponding balances on 30 June 1999 by:

i) 2 per cent or 50 million drachmas on 30 September 1999, and

ii) 6 per cent or 130 million drachmas on 31 December 1999, whichever is the highest in each case,

shall, in addition to the amounts provided for in Monetary Policy Council Act 13/16 April 1999, deposit double the amount in excess in a non-interest-bearing account with the Bank of Greece for a period of six months, with value dates: 1 November 1999 and 1 February 2000, respectively.

2. Particularly for credit institutions which began to operate from 1 January 1998 onwards and were granted (Monetary Policy Council Act 15/23 June 1999) the possibility to apply an alternative limit for the calculation of such reserve requirements, the respective limits on increases in the outstanding balances of consumer credit extended by these institutions shall, for the purpose of

implementation of the present Act, be the following percentages of their paid-up capital:

- 5 per cent for the period 30 June-30 September 1999, and
- 14 per cent for the period 30 June-31 December 1999.

The other provisions of the Monetary Policy Council Act 13/16 April 1999 shall remain unchanged.

\* \* \*

*Re: Supply of foreign exchange by banks for carrying out current external transactions and for capital movement (Bank of Greece Governor's Act 2449/5 August 1999)*

The Governor of the Bank of Greece, having regard to:

- a) Law 2548/19 December 1997, re: "Provisions relating to the Bank of Greece",
- b) Article 1 of Law 1266/2 July 1982, re: "Authorities responsible for the conduct of monetary, credit and exchange rate policies, and other provisions",
- c) Article 2 of Emergency Law 1837/12 June 1951,
- d) Presidential Decrees 96/23 March 1993 and 104/14 May 1994,
- e) Bank of Greece Governor's Acts 2344/19 December 1994 and 2302/16 May 1994, as amended, concerning the supply of foreign exchange by banks for carrying out current external transactions and for capital movement,

- f) Bank of Greece Governor's Act 2416/28 July 1997 on residents' foreign exchange deposits with credit institutions operating in Greece,
- g) Law 2331/24 August 1995 re: "Prevention and suppression of money laundering, and other criminal law provisions – Supreme Court Plenary Session – Arbitration and other provisions",
- h) Bank of Greece Guidelines on the Compilation of the Balance of Payments,
- i) the advisability of further simplifying the procedure of foreign exchange supply for carrying out current external transactions and for capital movement,

has decided the following:

A. The provisions of Bank of Greece Governor's Act 2344/19 December 1994 are amended as follows:

1. Paragraph 2 is amended as follows:

- a) Payments for (i) natural persons' current transactions on invisibles (tourism, hospitalisation expenses, tuition fees, etc.), (ii) the purchase of imported goods to cover personal needs and (iii) covering personal needs of residents abroad shall be effected by banks without the submission of supporting documents for the specific transaction, provided that the transaction value does not exceed the drachma equivalent of euro 10,000.
- b) Payments, up to the drachma equivalent of euro 2,000, for the purchase of small-value imported goods and for other current transactions on invisibles shall be effected according to the procedure applying for the transactions mentioned in case a) of the present paragraph.

2. The provisions of paragraph 3 are replaced as follows:

“Banks, when supplying foreign exchange and foreign banknotes, shall ask the resident who intends to effect current transactions of any kind with a counterparty in a foreign country to submit a declaration-application form, which shall include the following information:

- Personal data of the applicant (full name and address, identification card number, etc.) and the counterparty.
- Type of transaction.
- Country of destination.
- Transaction value and currency.
- Type of good – CTC (Combined Terminology Code) for purchases of imported goods, except for transactions mentioned in cases a) ii and b) of paragraph 1.

For those carrying out the above mentioned payments, the limits stipulated by Presidential Decree 96/93, as amended, and by Ministry of Finance decisions concerning the obligation to state the tax registration number and submit a certificate of payment of tax obligations, respectively, shall apply.”

3. Bank of Greece Governor’s Act 2344/94, as amended by the present Act, shall also apply to those intending to effect payments for current transactions:

- i) from a resident’s foreign exchange deposit account. If such an account is held jointly with a non-resident, the provisions of paragraph 2 above shall apply to that of the depositors who is resident of Greece.
- ii) following a resident’s order for crediting, in drachmas or in foreign currency, a non-resi-

dent’s account held with a credit institution operating in Greece.

4. The provisions of paragraphs 5, 6 and 7 are abolished and it is specified that banks shall communicate to the Bank of Greece all information on current external transactions, according to the applicable Bank of Greece Guidelines on the Compilation of the Balance of Payments.

5. The present Act shall be without prejudice to the provisions of Bank of Greece Administration’s Circular 2/18 February 1997.

The other provisions of Bank of Greece Governor’s Act 2344/19 December 1994 shall remain in force.

B. The provisions of paragraph 3 of Bank of Greece Governor’s Act 2302/16 May 1994, as amended, are supplemented as follows:

If either residents or non-residents, upon purchase of corresponding foreign exchange, have submitted to a resident credit institution a declaration on the transferred means of payment, upon departure from Greece they may show only a copy of this declaration instead of submitting a new declaration.

\* \* \*

*Re: Amendment of Bank of Greece Governor’s Act 2185/24 March 1993 concerning Bank of Greece financing of credit institutions on collateral of government securities (Monetary Policy Council Act 20/23 September 1999)*

The Monetary Policy Council, having regard to:

- a) Articles 7 and 12 of Law 2548/1997, re: “Provisions relating to the Bank of Greece”,

- b) Bank of Greece Governor's Act 2185/24 March 1993, as amended (latest relevant Monetary Policy Council Act 14/18 May 1999),
- c) Bank of Greece Governor's Act 2407/26 March 1997 on credit institutions' deposits with the Bank of Greece,
- d) the advisability of gradually adjusting the framework for Bank of Greece financing of credit institutions to the respective framework applied by the European Central Bank and national central banks in the euro area,
- e) the need to facilitate credit institutions to deal with any change in liquidity conditions that may occur during the transition to year 2000,

has decided to amend as follows the provisions of paragraph 1 of Monetary Policy Council Act 6/31 July 1998, as applicable:

1. a) The total amount allocated to credit institutions on the basis of the criteria set out in Monetary Policy Council Act 6/31 July 1998 (case a), as amended, is increased to 480 billion from 200 billion drachmas.
- b) The amount added after the above mentioned allocation of total borrowing is determined as follows:
  - (i) 1,000 million drachmas for each cooperative bank which has been granted an authorisation by the Bank of Greece to operate throughout the country and 700 million drachmas for each other cooperative bank.
  - (ii) 2,000 million drachmas for each other credit institution.
- c) The additional amount to which a credit

institution is entitled if it is a Primary Dealer is raised to 25 billion drachmas.

The adjustment of limits according to the present paragraph shall be effective as from 1 October 1999.

2. From 15 November 1999 up to 14 January 2000, Bank of Greece financing of credit institutions on collateral of government securities shall not be subject to quantitative restrictions, to the extent that it is covered by an equivalent value of securities valued according to applicable rules.

The other provisions of Monetary Policy Council Act 6/31 July 1998, as amended, shall remain unchanged.

\* \* \*

*Re: Amendment of the provisions of Bank of Greece Governor's Act 1955/2 July 1991, as amended, on the financing of natural persons from credit institutions on collateral of securities (Bank of Greece Governor's Act 2452/27 September 1999)*

The Governor of the Bank of Greece, having regard to:

- a) Law 2548/19 December 1997, re: "Provisions relating to the Bank of Greece",
- b) Article 1 of Law 1266/2 July 1982, re: "Authorities responsible for the conduct of monetary, credit and exchange rate policies, and other provisions",
- c) paragraph 3 of Chapter D of Bank of Greece Governor's Act 1955/2 July 1991, as amended, which allowed natural persons to receive loans on collateral of securities listed on the Athens Stock Exchange, the loans amounting to no

more than 50 per cent of the current value of the said securities and not exceeding 5,000,000 drachmas,

- d) the advisability of gradually deregulating the financing of natural persons for the purchase of securities,
- e) current conditions in the capital market and the need to improve the efficiency of the financing mechanisms for the purchase of securities,

has decided to:

amend as follows paragraph 3 of Chapter D of Bank of Greece Governor's Act 1955/2 July 1991, as applicable:

The ceiling on credit (loans or letters of guarantee) extended by credit institutions to natural persons on collateral of securities listed on the Athens Stock Exchange is raised to 15,000,000 drachmas from 5,000,000 drachmas and shall continue not to exceed 50 per cent of the current value of the securities.

This credit may be used for the purchase of securities or the repayment of liabilities connected with an already effected purchase of securities.

The other provisions of Bank of Greece Governor's Act 1955/2 July 1991, as applicable, shall remain unchanged.

\* \* \*

*Re: Financing of investment firms and securities companies by credit institutions (Bank of Greece Governor's Act 2453/27 September 1999)*

The Governor of the Bank of Greece, having regard to:

a) Law 2548/19 December 1997, re: "Provisions relating to the Bank of Greece",

b) Article 1 of Law 1266/1982, re: "Authorities responsible for the conduct of monetary, credit and exchange rate policies, and other provisions",

c) Bank of Greece Governor's Act 1843/30 November 1990 on current accounts held by securities companies to cover their needs arising from the settlement of stock exchange transactions,

d) paragraph 3 of Chapter A of Bank of Greece Governor's Act 1955/2 July 1991, as amended, which stipulates that securities companies are not allowed to be financed for the purchase of securities,

e) current developments in the capital market,

has decided the following:

1. To amend as follows paragraph 3 of Chapter A of Bank of Greece Governor's Act 1955/2 July 1991, as applicable:

Investment firms and securities companies may be financed by credit institutions to cover any kind of their financing requirements.

The terms and conditions of such financing shall be determined by contracting parties.

The other provisions of Bank of Greece Governor's Act 1955/2 July 1991, as applicable, shall remain unchanged.

2. Bank of Greece Governor's Act 1843/30 November 1990 is abolished.

\* \* \*

*Re: Adjustment of Bank of Greece interest rates (Monetary Policy Council Act 22/20 October 1999)*

The Monetary Policy Council, having regard to:

- a) Articles 7 and 12 of Law 2548/1997, re: "Provisions relating to the Bank of Greece",
- b) Bank of Greece Governor's Acts 2185/24 March 1993 (Chapter II, paragraph D) and 2214/15 June 1993, as amended, on Bank of Greece financing of credit institutions on collateral of government securities (Lombard facility) (latest relevant Act of the Monetary Policy Council: 12/12 January 1999),
- c) Bank of Greece Governor's Acts 2407/26 March 1997 (paragraph 3) and 2408/26 March 1997, as amended, on the acceptance of credit institutions' deposits by the Bank of Greece (latest relevant Acts of the Monetary Policy Council: 3/22 April 1998 and 12/12 January 1999),

d) the deceleration of inflation since the last adjustment of Bank of Greece interest rates in January 1999, the recent decrease in core inflation and the outlook for price developments,

e) monetary conditions, in particular the slowdown in the growth rate of the broader liquidity indicator (M4N),

has decided the following:

1. to set the interest rates for the first and the second tier of the overnight deposit facility (Bank of Greece Governor's Act 2407/26 March 1997) at 11 per cent and 9.25 per cent per annum, respectively.
2. to set the interest rate of the Lombard facility (Bank of Greece Governor's Act 2185/24 March 1993, Chapter II, paragraph D) at 13 per cent per annum.

The provisions of the present Act shall be effective as of 21 October 1999.



# Statistical appendix



# Tables

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1	Consumer price index: general index and basic sub-indices	81
2	Wholesale price index: general index and basic sub-indices	82
3	Gross domestic product	83
4	Drachma exchange rate	84
5	Balance of payments	85
6	Monetary aggregates and liquid assets	86
7	Total bank credit to the private sector	87
8	Interest rates and inflation	88
9	Interbank market and Bank of Greece interest rates	89



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)	Percentage change over previous year	(1994=100)	Percentage change over previous year	(1994=100)	Percentage change over previous year	(1994=100)	Percentage change over previous year	(1994=100)	Percentage change over previous year
<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> .....	117.8	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>1998</b> .....	130.3	4.8	124.1	3.9	140.8	6.2	132.0	5.3	134.0	5.7
<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
IV .....	132.1	4.3	125.5	3.2	143.4	5.8	134.8	5.2	137.2	5.5
<b>1999</b> I .....	131.7	3.6	124.3	2.8	144.5	4.9	133.7	4.3	135.8	4.5
II .....	134.7	2.4	128.0	1.3	146.5	4.2	136.5	2.9	139.1	3.2
III .....	132.9	2.0	124.6	0.8	147.1	3.9	135.7	2.5	137.6	2.5
<b>1996</b> 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	5.4	137.0	5.8
Nov. ....	131.9	4.2	125.5	3.1	142.7	5.9	134.6	5.3	136.9	5.6
Dec. ....	132.5	3.9	125.3	2.7	144.8	5.6	135.2	4.9	137.7	5.1
<b>1999</b> Jan. ....	131.2	3.7	123.1	2.7	145.0	5.2	133.2	4.6	135.2	4.7
Feb. ....	130.5	3.7	122.8	2.9	143.9	4.9	132.5	4.5	134.3	4.6
March ..	133.4	3.4	127.0	2.7	144.5	4.6	135.4	4.0	137.9	4.2
Apr. ....	134.8	2.8	127.7	1.8	147.0	4.3	136.5	3.2	139.2	3.5
May .....	134.7	2.4	128.1	1.1	146.1	4.3	136.2	2.8	138.8	3.3
June ....	134.7	2.1	128.1	0.9	146.3	4.0	136.8	2.7	139.2	2.9
July ....	132.1	2.1	123.6	0.9	146.8	4.0	135.0	2.6	136.7	2.7
Aug. ....	132.0	2.0	123.3	0.7	146.9	3.8	135.1	2.6	136.8	2.6
Sept. ...	134.6	2.0	126.9	0.8	147.7	3.9	137.1	2.3	139.2	2.2
Oct. ....	134.9	2.2	127.5	1.4	147.7	3.6	137.1	1.9	139.5	1.8

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	
	(1990=100)	Percentage change over previous year	(1990=100)	Percentage change over previous year	(1990=100)	Percentage change over previous year	(1990=100)	Percentage change over previous year	(1990=100)	Percentage change over previous year
<b>1995</b> .....	165.4	7.9	164.0	7.7	166.3	7.9	162.6	10.5	166.3	6.3
<b>1996</b> .....	175.7	6.2	171.2	4.4	180.0	8.3	174.2	7.1	170.3	2.4
<b>1997</b> .....	181.5	3.3	178.3	4.2	187.2	4.0	179.3	2.9	173.9	2.1
<b>1998</b> .....	188.5	3.9	191.7	7.5	192.5	2.8	184.7	3.0	183.4	5.4
<b>1997</b> I .....	178.7	2.4	171.6	0.7	185.1	5.2	175.4	0.3	171.4	-0.4
II .....	181.6	2.7	186.8	-2.5	186.0	3.7	179.4	3.1	174.1	2.2
III .....	182.9	4.5	181.6	11.7	188.3	4.1	182.0	5.2	174.7	3.1
IV .....	182.7	3.5	173.4	8.8	189.2	3.0	180.3	3.1	175.4	3.6
<b>1998</b> I .....	184.8	3.5	190.8	11.2	189.0	2.1	180.9	3.1	178.8	4.3
II .....	190.9	5.1	193.1	3.4	193.6	4.1	189.7	5.8	186.4	7.1
III .....	189.3	3.5	184.6	1.7	194.0	3.0	186.6	2.5	184.1	5.4
IV .....	189.0	3.4	198.4	14.4	193.3	2.2	181.6	0.7	184.3	5.1
<b>1999</b> I .....	188.8	2.1	209.9	10.0	193.5	2.3	179.3	-0.9	182.0	1.8
II .....	191.3	0.2	202.3	4.7	197.6	2.0	183.2	-3.4	183.4	-1.6
III .....	193.1	2.0	181.4	-1.8	202.3	4.3	186.0	-0.3	184.9	0.5
<b>1996</b> Dec. ...	176.8	3.9	160.0	-1.9	183.9	7.4	174.7	2.9	169.9	-0.2
<b>1997</b> Jan. ....	177.9	2.7	166.3	0.2	185.3	5.7	174.1	0.2	170.5	-0.5
Feb. ....	178.7	2.5	174.3	3.7	185.2	5.6	175.1	-0.4	171.1	-1.1
March ...	179.4	2.1	174.2	-3.3	184.9	4.3	177.1	1.2	172.7	0.3
Apr. ....	180.9	2.1	183.4	-3.1	185.5	3.4	179.1	2.1	173.6	1.3
May ....	181.7	2.4	187.1	-6.1	186.1	3.7	179.4	2.9	174.4	2.3
June ...	182.1	3.6	189.8	2.0	186.5	4.1	179.6	4.3	174.4	3.0
July ....	182.4	4.6	186.9	13.7	187.1	4.0	180.8	5.1	174.3	3.2
Aug. ....	183.3	4.9	181.3	12.5	188.8	4.7	183.0	6.1	174.6	3.0
Sept. ...	183.1	4.1	176.6	8.8	188.9	3.7	182.3	4.4	175.2	3.3
Oct. ....	182.9	3.6	168.9	5.6	189.2	2.9	182.5	4.0	175.4	3.9
Nov. ....	182.3	3.5	173.0	9.4	188.9	3.0	179.0	2.8	175.4	3.6
Dec. ....	182.9	3.5	178.3	11.4	189.4	3.0	179.3	2.7	175.4	3.2
<b>1998</b> Jan. ....	183.6	3.2	190.7	14.7	188.5	1.7	179.3	3.0	176.2	3.3
Feb. ....	183.4	2.6	190.1	9.1	188.5	1.8	178.2	1.8	176.5	3.2
March ...	187.5	4.5	191.7	10.0	190.1	2.8	185.3	4.6	183.6	6.3
Apr. ....	191.1	5.6	194.1	5.8	192.8	3.9	191.2	6.8	187.4	7.9
May ....	191.6	5.4	197.4	5.5	194.3	4.4	190.0	5.9	186.7	7.1
June ...	189.9	4.3	187.8	-1.1	193.7	3.9	188.0	4.7	185.2	6.2
July ....	188.8	3.5	180.9	-3.2	193.9	3.6	186.3	3.0	183.6	5.3
Aug. ....	188.6	2.9	180.2	-0.6	193.5	2.5	186.5	1.9	183.5	5.1
Sept. ...	190.5	4.2	192.8	6.6	194.6	3.4	187.0	2.7	185.1	6.4
Oct. ....	190.1	3.9	197.1	16.7	194.0	2.5	184.4	1.0	185.5	5.8
Nov. ....	188.6	3.5	194.7	12.5	193.1	2.2	181.8	1.6	183.8	4.8
Dec. ....	188.3	3.0	203.4	14.1	192.7	1.7	178.5	-0.4	183.5	4.6
<b>1999</b> Jan. ....	188.5	2.7	211.3	10.8	192.9	2.3	178.1	-0.7	182.4	3.5
Feb. ....	188.6	2.8	213.3	12.2	193.1	2.4	178.9	0.4	181.5	2.8
March ...	189.3	1.0	205.2	7.0	194.4	2.3	181.0	-2.3	182.0	-0.9
Apr. ....	191.3	0.1	207.6	7.0	197.1	2.2	182.8	-4.4	183.2	-2.2
May ....	191.7	0.1	209.8	6.3	197.4	1.6	183.0	-3.7	183.4	-1.8
June ...	190.9	0.5	189.4	0.9	198.2	2.3	183.8	-2.2	183.6	-0.9
July ....	191.7	1.5	175.8	-2.8	201.0	3.7	185.2	-0.6	184.1	0.3
Aug. ....	192.7	2.2	176.5	-2.1	202.4	4.6	185.8	-0.4	184.7	0.7
Sept. ...	194.9	2.3	191.9	-0.5	203.6	4.6	187.0	0.0	186.0	0.5

<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 percentage change (at constant prices of previous year)									
	1988	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1.1 Primary sector (agriculture)	1,034.5	-13.4	14.9	0.0	-0.3	5.9	4.2	-8.0	1.7	1.0	0.0
1.2 Secondary sector	2,264.5	-0.9	3.0	-2.6	-1.4	-0.9	0.3	4.0	3.4	5.8	4.3
1.2.a Mining and quarrying	89.3	-4.9	-3.3	0.4	1.2	0.2	-1.1	5.3	3.1	-4.0	-5.0
1.2.b Manufacturing	1,308.7	-2.0	3.7	-3.5	-3.1	2.0	0.1	3.6	0.1	3.0	1.5
1.2.c Electricity - town gas - water supply	214.1	2.5	3.3	8.1	-3.8	9.6	3.1	6.0	2.3	12.0	10.0
1.2.d Construction	652.4	0.8	2.3	-4.4	2.7	-9.1	-0.2	4.0	10.3	10.0	8.0
1.3. Tertiary sector	5,243.5	1.6	0.4	2.4	-2.7	4.3	3.1	2.8	3.3	3.6	3.3
1.3.a Transportation - communications	556.8	-2.7	0.6	11.4	3.2	-0.7	7.6	1.7	10.1	6.0	3.0
1.3.b Trade	1,261.8	1.7	0.4	7.6	-0.4	3.0	2.8	5.3	3.2	1.5	3.0
1.3.c Banking - Insurance	295.8	-0.9	14.8	9.6	26.4	12.8	6.1	4.9	8.7	8.0	8.0
1.3.d Ownership of dwellings	979.3	2.6	3.0	-4.4	-2.9	2.1	1.2	1.6	1.0	1.2	1.0
1.3.e Public administration - defence	596.2	1.1	-6.7	-4.7	-0.7	0.6	8.6	7.4	-7.6	-2.0	-1.0
1.3.f Health - education	682.7	5.7	0.6	0.2	-2.9	11.6	-0.2	-5.9	2.2	1.5	1.0
1.3.g Miscellaneous services	870.9	0.3	-1.9	3.6	0.3	4.8	2.1	5.2	7.7	10.0	8.0
1.4 Statistical discrepancies	-224.2	...	...	...	...	...	...	...	...	...	...
1.5 GDP at factor cost	8,318.3	-0.9	2.6	0.8	-1.7	2.8	2.2	1.9	3.0	3.7	3.5
2.1 Private consumption	6,502.0	2.6	2.8	2.4	-0.8	2.0	2.7	1.9	2.5	1.8	2.6
2.2 Public consumption	1,311.0	0.6	-1.5	-3.0	2.6	-1.1	5.6	1.0	-0.4	0.4	-0.5
2.3 Gross fixed capital formation	1,966.7	5.0	4.8	-3.2	-3.5	-2.8	4.2	8.8	9.6	9.8	9.0
2.3.a.a By type: Construction	1,326.0	3.2	3.2	-8.3	-6.0	-4.3	1.7	7.1	9.8	10.2	8.1
2.3.a.b Equipment	640.7	8.4	7.9	6.7	0.6	-0.3	8.4	11.5	9.3	9.1	10.4
2.3.b.a By investor: Private	1,542.6	8.7	2.0	-6.3	-5.0	-2.1	2.0	9.9	10.5	8.4	7.7
2.3.b.b Public	424.0	-8.3	16.9	8.2	1.1	-4.7	10.9	5.9	7.0	13.7	12.4
2.4 Change in stocks and statistical discrepancies (as a percentage of GDP)	53.5	-0.2	0.9	-0.3	-0.3	0.1	0.7	0.1	0.0	0.3	0.3
2.5 Final domestic demand	9,833.2	2.9	3.7	-0.6	-0.9	1.2	3.9	2.9	3.4	3.3	3.5
Exports of goods and services	1,696.4	-4.1	3.7	10.5	-3.2	6.6	0.5	3.0	5.3	9.2	5.8
2.6.a Exports of goods	1,111.6	-7.2	5.8	11.6	-6.9	4.6	3.7	4.1	5.1	5.0	4.5
2.7 Imports of goods and services	2,360.6	8.7	6.0	1.4	0.2	1.3	9.2	4.9	5.4	5.7	5.1
2.7.a Imports of goods	2,157.9	9.0	6.8	1.7	0.2	0.7	9.9	5.8	5.4	4.8	5.1
2.8 Balance of trade in goods and services	-664.2	...	...	...	...	...	...	...	...	...	...
2.9 GDP at market prices	9,169.0	0.0	3.1	0.7	-1.6	2.0	2.1	2.4	3.2	3.7	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, 1999: Ministry of National Economy/Directorate of Macroeconomic Analysis (September 1999). Provisional estimates.

Table 4  
Drachma exchange rate

Date <sup>1</sup>	Against the euro		Against the DEM		Against the USD	
	Drachmas per euro	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
31.12.98	330.010	-5.4	168.500	-6.3	282.570	0.0
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
30.11.98	329.730	-5.3	167.800	-5.9	286.180	-1.2
31.12.98	330.010	-5.4	168.500	-6.3	282.570	0.0
29.01.99	321.160	2.8	164.207	2.6	281.470	0.4
26.02.99	321.950	2.5	164.610	2.4	292.050	-3.2
31.03.99	325.950	1.2	166.656	1.1	303.900	-7.0
30.04.99	325.790	1.3	166.574	1.2	307.410	-8.1
28.05.99	325.160	1.5	166.252	1.4	310.240	-8.9
30.06.99	324.720	1.6	166.027	1.5	314.440	-10.1
30.07.99	325.100	1.5	166.221	1.4	303.880	-7.0
31.08.99	326.340	1.1	166.855	1.0	309.800	-8.8
30.09.99	328.600	0.4	168.011	0.3	308.270	-8.3
29.10.99	330.050	0.0	168.752	-0.1	316.040	-10.6

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 ECU/euro)<sup>1</sup>

	January – May			May		
	1997	1998	1999*	1997	1998	1999*
<b>I CURRENT ACCOUNT BALANCE (I.A+I.B+I.C+I.D)</b>	<b>-2,621.2</b>	<b>-2,807.2</b>	<b>-1,885.8</b>	<b>-582.6</b>	<b>-425.6</b>	<b>-472.6</b>
<b>I.A TRADE BALANCE (I.A.1-I.A.2)</b>	<b>-6,618.3</b>	<b>-6,464.4</b>	<b>-6,026.7</b>	<b>-1,365.3</b>	<b>-1,095.0</b>	<b>-1,231.5</b>
NON-OIL TRADE BALANCE	-5,596.9	-5,789.6	-5,588.5	-1,218.0	-1,054.5	-1,157.8
OIL TRADE BALANCE	-1,021.4	-674.8	-438.2	-147.3	-40.5	-73.8
I.A.1 Exports of goods	2,099.8	2,180.2	3,101.3	438.9	507.9	673.6
Fuel	167.4	194.2	243.4	40.7	78.4	54.8
Other goods	1,932.4	1,986.0	2,857.8	398.2	429.5	618.5
I.A.2 Imports of goods	8,718.1	8,644.7	9,128.0	1,804.3	1,602.9	1,905.1
Fuel	1,188.8	869.1	681.6	188.0	118.9	128.5
Other goods	7,529.3	7,775.6	8,446.4	1,616.3	1,484.0	1,776.5
<b>I.B SERVICES BALANCE (I.B.1-I.B.2)</b>	<b>1,955.9</b>	<b>1,899.7</b>	<b>1,947.7</b>	<b>508.2</b>	<b>542.8</b>	<b>533.7</b>
I.B.1 Receipts	3,181.5	3,335.1	4,720.4	770.5	807.8	1,130.5
Travel	1,432.5	1,489.4	2,404.4	410.7	438.7	617.8
Transportation	677.5	714.2	1,374.0	127.3	150.2	338.9
Other services	1,071.5	1,131.5	941.9	232.6	218.9	173.9
I.B.2 Payments	1,225.5	1,435.3	2,772.7	262.3	265.0	596.8
Travel	424.2	519.3	1,250.5	86.8	90.5	220.8
Transportation	132.4	133.1	577.1	30.1	38.9	172.5
Other services	668.9	782.9	945.1	145.4	135.6	203.5
<b>I.C INCOME BALANCE (I.C.1-I.C.2)</b>	<b>-549.1</b>	<b>-657.3</b>	<b>-307.6</b>	<b>-119.0</b>	<b>-125.1</b>	<b>-122.5</b>
I.C.1 Receipts	468.3	481.9	954.5	113.9	106.3	152.7
Wages, salaries	83.8	106.3	253.5	34.3	30.0	40.9
Interest, dividends, profits	384.5	375.7	701.0	79.6	76.3	111.7
I.C.2 Payments	1,017.4	1,139.2	1,262.1	232.9	231.5	275.2
Wages, salaries	106.4	149.2	87.0	28.7	18.5	17.4
Interest, dividends, profits	911.0	990.0	1,175.1	204.2	213.0	257.7
<b>I.D CURRENT TRANSFERS BALANCE (I.D.1-I.D.2)</b>	<b>2,590.1</b>	<b>2,414.8</b>	<b>2,500.9</b>	<b>393.4</b>	<b>251.7</b>	<b>347.6</b>
I.D.1 Receipts	2,611.0	2,508.5	2,759.9	396.5	288.6	404.4
General government (transfers from the EU)	1,648.1	1,562.8	1,849.4	206.4	131.9	225.6
Other sectors (emigrants' remittances etc.)	962.9	945.7	910.4	190.1	156.7	178.8
I.D.2 Payments	20.9	93.7	259.0	3.1	36.9	56.8
General government	10.9	2.8	42.7	0.1	0.8	6.9
Other sectors	10.0	90.9	216.3	2.9	36.1	49.9
<b>II FINANCIAL ACCOUNT BALANCE (II.A+II.B+II.C+II.D)</b>	<b>2,086.6</b>	<b>2,651.4</b>	<b>2,291.8</b>	<b>432.0</b>	<b>627.6</b>	<b>1,272.0</b>
<b>II.A DIRECT INVESTMENT<sup>2</sup></b>	<b>1,551.5</b>	<b>480.0</b>	<b>280.2</b>	<b>216.1</b>	<b>223.1</b>	<b>177.3</b>
<b>II.B PORTFOLIO INVESTMENT<sup>2</sup></b>	<b>331.9</b>	<b>5,523.6</b>	<b>5,469.7</b>	<b>5.2</b>	<b>1,380.5</b>	<b>380.3</b>
<b>II.C OTHER INVESTMENT<sup>2</sup></b>	<b>-1,556.6</b>	<b>2,121.5</b>	<b>-1,623.1</b>	<b>-1,624.9</b>	<b>-345.4</b>	<b>-804.1</b>
Assets	-1,044.6	-341.6	-986.5	-1,670.3	-251.6	-308.1
Liabilities	-512.1	2,463.2	-636.6	45.4	-93.8	-496.0
(General government loans)	(-741.5)	(3,084.4)	(1,322.7)	(-28.2)	(-81.8)	(190.1)
<b>II.D CHANGE IN RESERVE ASSETS<sup>3</sup></b>	<b>1,759.9</b>	<b>-5,473.7</b>	<b>-1,834.9</b>	<b>1,835.7</b>	<b>-630.7</b>	<b>1,518.6</b>
<b>III ERRORS AND OMISSIONS</b>	<b>534.6</b>	<b>155.8</b>	<b>-406.1</b>	<b>150.6</b>	<b>-202.0</b>	<b>-799.4</b>
RESERVE ASSETS				14,238.3	17,215.3	19,515.9

1 ECU for 1997 and 1998 and euro for 1999.

2 (+) net inflow, (-) net outflow.

3 (+) decrease, (-) increase.

\* Provisional data.

Source: Bank of Greece.

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

Period	Currency in circulation	Private deposits in drachmas	Private deposits in foreign currency	Repos	Bank bonds	Money-market fund units	Government securities with an initial maturity of up to one year	Liquidity indicator M4N
<b>1995</b> . . . . .	1,863.6	14,736.7	888.5	56.0	539.8	1,258.4	5,509.2	24,852.2
<b>1996</b> . . . . .	1,941.4	16,625.3	1,041.9	60.5	50.0	2,299.1	6,631.1	28,649.3
<b>1997</b> . . . . .	2,182.7	18,322.6	1,383.7	36.7	106.5	4,450.7	4,400.1	30,883.0
<b>1998</b> . . . . .	2,205.9	18,707.9	2,671.0	892.4	115.9	5,986.5	3,341.4	33,921.0
<b>1998</b> Jan. . . . .	1,947.9	17,346.3	1,355.8	67.5	99.7	4,977.3	4,356.0	30,150.5
Feb. . . . .	1,914.4	17,253.2	1,531.5	40.8	95.8	5,383.4	4,207.4	30,426.5
March . . . . .	1,851.3	17,535.6	1,808.3	82.6	104.7	5,417.2	4,224.6	31,024.3
Apr. . . . .	2,007.8	17,524.7	2,488.1	66.3	87.5	4,986.4	4,240.6	31,401.4
May . . . . .	2,015.9	17,469.5	2,347.7	98.5	107.3	5,014.4	4,393.0	31,466.3
June . . . . .	2,030.9	18,088.7	2,395.3	87.3	116.7	5,143.8	4,192.4	32,055.1
July . . . . .	2,184.6	17,801.8	2,074.4	100.6	124.1	5,506.2	4,209.0	32,000.7
Aug. . . . .	2,061.4	17,838.5	2,633.5	92.8	122.4	5,782.9	4,164.7	32,696.2
Sept. . . . .	1,978.2	17,709.6	2,298.9	220.2	137.3	5,939.8	3,788.6	32,072.6
Oct. . . . .	1,984.9	17,443.5	2,535.0	700.8	141.7	5,619.8	3,869.1	32,294.8
Nov. . . . .	1,902.6	17,120.1	2,443.6	838.7	130.6	5,898.2	3,540.5	31,874.3
Dec. . . . .	2,205.9	18,707.9	2,671.0	892.4	115.9	5,986.5	3,341.4	33,921.0
<b>1999</b> Jan.* . . . .	1,986.9	18,433.0	2,571.1	1,203.1	101.2	6,071.7	3,365.0	33,732.0
Feb.* . . . .	1,941.4	18,572.6	2,149.7	1,385.3	106.8	6,037.6	3,240.8	33,434.2
March* . . . .	2,010.0	19,062.7	2,497.2	1,449.2	75.4	5,845.2	2,919.1	33,858.8
Apr.* . . . .	2,170.3	19,430.7	2,438.3	1,490.7	80.1	5,785.6	2,602.0	33,997.7
May* . . . .	2,122.8	19,353.7	2,467.5	1,568.1	95.4	5,765.6	2,689.5	34,062.6
June* . . . .	2,185.9	20,027.5	2,350.7	1,604.1	93.5	5,741.8	2,407.7	34,411.2
July* . . . .	2,325.3	19,989.5	2,490.1	1,997.9	57.4	5,618.6	2,046.6	34,525.4
Aug.* . . . .	2,278.2	20,063.5	2,424.6	2,131.2	47.0	5,505.0	2,072.7	34,522.2
Sept.* . . . .	2,199.7	20,496.9	2,785.6	2,072.8	33.3	5,011.0	1,686.4	34,285.7

<sup>1</sup> Monetary aggregates comprise monetary liabilities of banks and money market funds, i.e. of monetary financial institutions (MFIs), to the domestic private sector.

\* 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>1995</b> . . . . .	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> . . . . .	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> . . . . .	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> . . . . .	12,817.7	9,703.1	3,114.6	3,200.0	2,971.5	2,332.3	513.1	1,000.6	2,800.2
<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. . . . .	12,313.6	9,457.1	2,856.5	3,252.4	2,684.1	2,206.5	484.3	890.5	2,795.8
Oct. . . . .	12,507.3	9,386.3	3,121.0	3,310.5	2,735.6	2,239.0	485.5	912.9	2,823.8
Nov. . . . .	12,542.9	9,447.7	3,095.2	3,323.2	2,714.0	2,274.2	493.2	934.3	2,804.0
Dec. . . . .	12,817.7	9,703.1	3,114.6	3,200.0	2,971.5	2,332.3	513.1	1,000.6	2,800.2
<b>1999</b> Jan. . . . .	12,946.6	9,727.8	3,218.8	3,217.0	2,981.6	2,355.5	509.6	1,019.3	2,863.6
Feb. . . . .	13,010.8	9,693.8	3,317.0	3,210.0	2,944.6	2,386.4	515.4	1,035.0	2,919.4
March . . .	13,220.2	9,728.1	3,492.1	3,244.2	2,970.1	2,430.8	527.5	1,108.6	2,939.0
Apr. . . . .	13,307.5	9,750.0	3,557.5	3,243.0	2,984.2	2,471.3	537.3	1,153.0	2,918.7
May . . . . .	13,565.8	9,974.9	3,590.9	3,283.3	3,085.5	2,523.1	540.9	1,184.7	2,948.3
June . . . . .	13,466.5	9,990.5	3,476.0	3,223.1	3,015.0	2,590.5	542.4	1,201.9	2,893.6
July . . . . .	13,819.1	10,189.5	3,629.6	3,357.0	3,106.1	2,664.2	528.1	1,230.9	2,932.8
Aug. . . . .	13,933.7	10,124.6	3,809.1	3,368.6	3,105.0	2,719.7	526.3	1,263.9	2,950.2
Sept.* . . . .	14,035.0	10,194.8	3,840.2	3,400.0	3,122.0	2,775.0	525.0	1,238.0	2,975.0

\* Provisional data.

Source: Bank of Greece.

**Table 8**  
**Interest rates and inflation**  
*(Percentages per annum, period averages)*

Period	Deposit rates			Lending rates				12-month Treasury bill yield <sup>4</sup>	10-year government bond yield	Consumer price index <sup>5</sup>
	Sight deposits	Savings deposits	12-month time deposits	Short-term		Long-term				
				To enterprises <sup>1</sup>	To households <sup>2</sup>	To enterprises <sup>1</sup>	To households <sup>3</sup>			
<b>1995</b> . . . . .	6.3	14.9	17.1	23.1	–	22.1	–	15.6	–	8.9
<b>1996</b> . . . . .	5.9	11.9	13.5	21.0	–	18.9	–	12.9	–	8.2
<b>1997</b> . . . . .	5.4	9.2	10.2	18.9	–	16.8	–	10.4	9.8	5.5
<b>1998</b> . . . . .	5.3	9.0	10.7	18.6	–	16.6	–	11.6	8.5	4.8
<b>1998</b> Jan. . . .	5.7	9.5	11.2	19.5	–	16.9	–	12.4	11.0	4.4
Feb. . . .	5.5	9.5	11.2	19.8	–	17.1	–	12.7	11.0	4.3
March . . .	5.6	9.1	10.9	19.3	–	16.7	–	11.5	9.3	4.6
Apr. . . .	5.3	8.8	10.5	18.7	–	16.7	–	11.1	8.1	5.3
May . . . .	5.3	8.8	10.6	18.5	–	16.5	–	11.3	7.9	5.3
June . . . .	5.2	8.8	10.6	18.6	–	16.6	–	11.7	7.7	5.2
July . . . .	5.2	8.8	10.7	18.3	–	17.0	–	11.5	7.7	5.1
Aug. . . .	5.2	9.0	10.7	18.2	–	16.7	–	13.2	7.6	5.0
Sept. . . .	5.3	8.8	10.7	18.2	–	16.9	–	11.6	8.3	5.2
Oct. . . .	5.2	8.8	10.6	18.0	–	16.6	–	11.0	8.5	4.7
Nov. . . .	5.1	8.8	10.5	18.0	–	16.0	–	10.5	7.7	4.2
Dec. . . .	4.6	8.7	10.1	17.6	–	16.0	–	10.3	7.2	3.9
<b>1999</b> Jan. . . .	3.6	8.4	9.7	15.6	20.3	14.4	13.6	9.5	6.3	3.7
Feb. . . .	3.3	8.1	9.3	14.7	20.4	13.8	13.0	9.2	6.0	3.7
March . . .	3.4	8.0	9.2	14.8	20.5	13.7	12.8	8.8	6.0	3.4
Apr. . . .	3.4	8.0	8.9	14.9	20.3	13.6	12.8	8.7	5.9	2.8
May . . . .	3.3	8.0	8.5	14.9	20.5	13.6	12.4	8.7	5.8	2.4
June . . . .	3.4	8.0	8.5	15.2	20.4	12.9	12.4	8.7	6.0	2.1
July . . . .	3.5	8.0	8.4	15.0	20.3	13.2	12.3	8.9	6.4	2.1
Aug. . . .	3.4	8.0	8.4	15.1	20.4	13.4	12.4	8.8	6.7	2.0
Sept. . . .	3.3*	8.0*	8.4*	15.0	20.5	13.5	12.4	8.7	6.6	2.0
Oct. . . .	3.7*	7.9*	8.2*	15.0*	20.5*	13.2*	12.5*	9.1	7.0	2.2

1 Up to December 1998, the average interest rate concerned all short-term or long-term categories of credit to enterprises and households.

2 Average interest rate on all types of consumer loans.

3 Average interest rate on floating-rate housing loans maturing in over 5 years.

4 Yield at issue.

5 Annual percentage change.

\* Provisional data.

Source: Bank of Greece and NSSG.

**Table 9**  
**Interbank market and Bank of Greece interest rates**  
*(Percentages per annum)*

Period	Interbank market rates <sup>1</sup>					Bank of Greece rates <sup>2</sup>		
	Overnight	1-month Athibor	3-month Athibor	6-month Athibor	12-month Athibor	Overnight deposit rate (first tier)	14-day deposit rate	Lombard rate
<b>1995</b> . . . . .	15.9	16.3	16.4	16.5	–	–	–	21.5
<b>1996</b> . . . . .	13.3	13.7	13.8	13.9	14.1	–	–	21.0
<b>1997</b> . . . . .	12.9	13.4	12.9	12.4	12.1	10.9	12.75	19.0
<b>1998</b> . . . . .	12.6	13.9	13.9	13.6	13.1	11.6	12.25	15.5
<b>1998</b> Jan. . . . .	15.1	18.6	19.0	18.5	17.7	10.9	19.00	23.0
Feb. . . . .	13.0	16.3	16.9	16.8	16.5	10.9	17.00	23.0
March . . . . .	13.2	14.4	14.5	14.4	14.1	10.9	15.50	19.0
Apr. . . . .	11.9	13.1	12.9	12.6	12.3	11.5	14.25	19.0
May . . . . .	11.9	13.4	13.2	12.8	12.3	11.5	14.00	19.0
June . . . . .	13.4	13.7	13.4	13.0	12.3	11.5	13.75	19.0
July . . . . .	12.3	13.1	13.0	12.7	12.1	11.9	13.00	19.0
Aug. . . . .	12.4	14.1	13.6	13.1	12.5	11.9	13.00	16.0
Sept. . . . .	11.7	13.9	13.9	13.6	13.1	11.9	13.00	16.0
Oct. . . . .	11.9	12.7	12.7	12.6	12.4	11.9	12.75	16.0
Nov. . . . .	12.3	12.3	12.0	11.7	11.2	11.9	12.75	16.0
Dec. . . . .	11.9	12.2	11.9	11.5	10.9	11.6	12.25	15.5
<b>1999</b> Jan. . . . .	11.4	11.9	11.7	11.3	10.7	11.5	12.00	13.5
Feb. . . . .	10.2	10.7	10.7	10.5	10.1	11.5	12.00	13.5
March . . . . .	10.2	10.2	10.1	9.9	9.6	11.5	12.00	13.5
Apr. . . . .	10.2	10.2	10.1	9.8	9.4	11.5	12.00	13.5
May . . . . .	10.4	10.1	10.0	9.6	9.1	11.5	12.00	13.5
June . . . . .	10.4	10.1	10.1	9.7	9.0	11.5	12.00	13.5
July . . . . .	10.3	10.1	10.1	9.7	9.1	11.5	12.00	13.5
Aug. . . . .	10.3	10.1	10.1	9.9	9.3	11.5	12.00	13.5
Sept. . . . .	10.3	10.0	10.0	9.8	9.1	11.5	12.00	13.5
Oct. . . . .	10.6	10.3	10.3	10.0	9.2	11.0	11.50	13.0

1 Period average rates.

2 End-of-period rates.

Source: Bank of Greece.