

Bank of Greece

Summary
of the Annual Report
2001



April 2002

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of the Annual Report 2001

Presented to the General Meeting of Shareholders
by Governor Lucas Papademos



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THE GREEK ECONOMY: DEVELOPMENTS, PROSPECTS AND POLICY ORIENTATIONS

1. INTRODUCTION

The year 2001 was one of major changes, challenges and achievements for the Greek economy and the Bank of Greece. Since Greece joined EMU and adopted the single currency on 1 January 2001, the economy has been functioning in a new monetary environment, which ensures a high degree of price stability and promotes economic growth. The year 2001 was, however, marked by a strong and concurrent slowdown of economic growth in the euro area and worldwide, as well as by increased uncertainty in international capital markets. Global economic developments inevitably had adverse effects on the Greek economy, but their overall impact was relatively limited and was offset by other factors. As a result, the rate of economic growth in Greece during the country's first year of euro area participation remained at the same high level as in 2000.

Last year was also a milestone in the history of the Bank of Greece. As of the beginning of 2001, the Bank is a member of the Eurosystem¹ and implements the single monetary policy in Greece. As a necessary condition for the implementation of this policy, the euro had to be introduced in book-entry form and the domestic money market linked to the corresponding euro area market. This task was successfully accomplished on 1 January 2001, thanks to the systematic preparations and coordinated actions of the Bank of Greece and Greek credit institutions. Meanwhile, in 2001 the Bank completed the multifaceted task of producing euro banknotes and coins and frontloading credit institutions with the new currency. In cooperation with the government, banks and economic and professional organisations, the Bank of Greece played a decisive role in the smooth introduction of the euro banknotes and coins and the gradual withdrawal from circulation of drachma banknotes and coins from 1 January 2002 onwards. The circulation of the euro in physical form marked the completion of the process for the single currency's introduction and the consolidation of the changeover to the new monetary environment.

2. THE GREEK ECONOMY IN 2001

2.1 International and European economic environment

World economic developments were generally unfavourable in 2001. Their main features were a sharp slowdown of economic activity in the advanced economies (where GDP growth fell to 1.2% from 3.9% in 2000), virtual stagnation in the volume of world

¹ The Eurosystem comprises the European Central Bank and the national central banks of the Member States of the European Union that have adopted the euro.

trade (−0.2%, compared with an increase of 12.4% in 2000), as well as a significant – albeit temporary – further deterioration of the international economic climate and a slowdown of economic activity following the 11th September terrorist attack on the USA. An important factor underlying the decline of the GDP growth rate in the advanced economies was the drop in the volume of investment (−0.7% in 2001, compared with the increase at a high average annual rate of 5.5% in the previous five years), while the slowdown of private consumption was less marked. However, there are strong indications that economic recovery has been under way since the end of 2001 in some of the major economies, notably the USA.

The slowdown of economic activity in the euro area was less sharp than in the USA (euro area: 1.6% in 2001 from 3.3% in 2000, USA: 1.2% in 2001 from 4.1% in 2000). In spite of the drop in the GDP growth rate, the steep rise in international oil prices (the average price of Brent in euro terms rose by 43% in 1999 and 81% in 2000) and the strengthening of the dollar in foreign exchange markets in 1999-2000, as well as conjunctural problems that led to a significant rise in the prices of unprocessed food, added to inflation in the euro area until mid-2001. The average annual increase in the HICP reached 2.5% in 2001 (compared with 2.3% in 2000).

As a consequence of the economic slowdown, the fiscal position of most of the major economies deteriorated. Beyond the impact of the slowdown on tax receipts, which was to be expected, in some economies the policies pursued aimed at boosting domestic demand by cutting tax rates and increasing public spending. The monetary policy conducted in 2001 by the central banks of the major economies outside the euro area¹ aimed, among other things, at preventing economic recession and creating conditions for recovery. The US Federal Reserve System followed a more aggressive monetary policy, cutting the federal funds rate eleven times, by a total of 475 basis points (from 6.5% to 1.75%). The Bank of England reduced its basic rate on repos seven times in 2001 (from 6% to 4%). The central bank of Japan cut its already very low rediscount rate three times, from 0.50% to 0.10%.

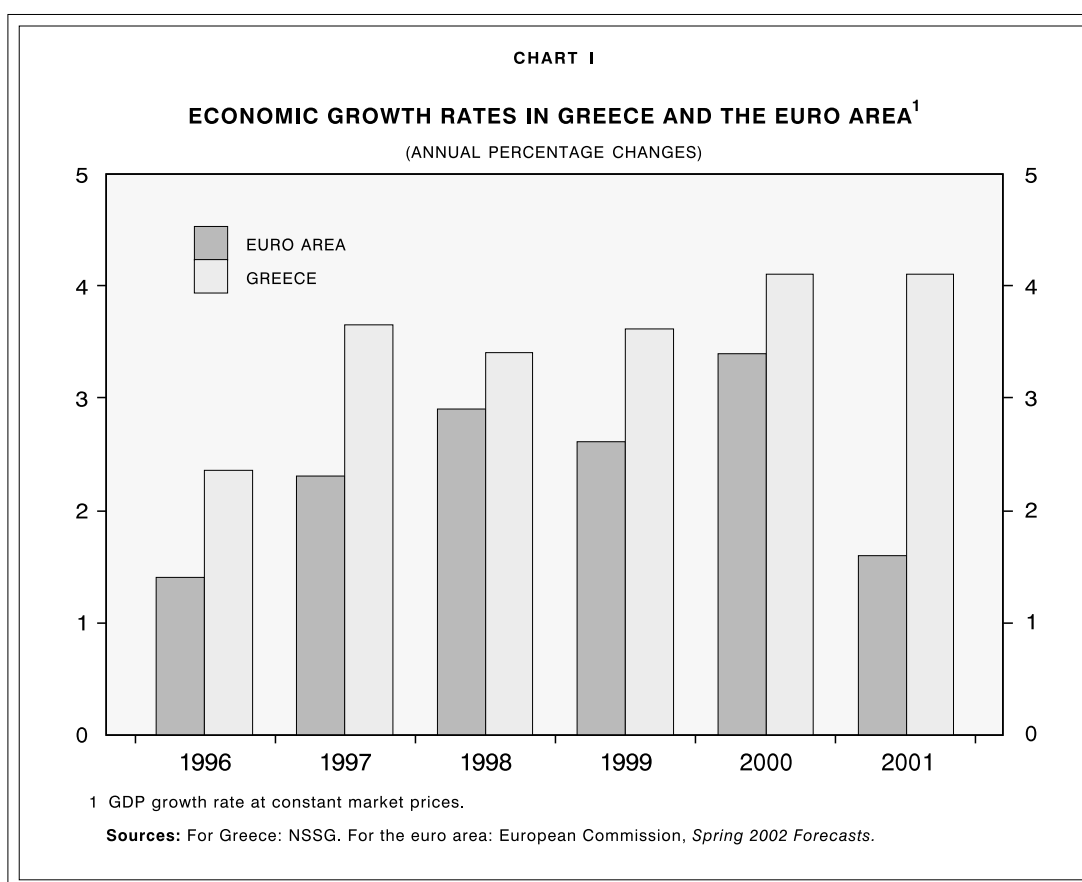
2.2 Economic activity and employment

Developments in the global economy (particularly in Europe) adversely affected some basic aggregates of the Greek economy. Specifically, the growth rates of exports of goods and services, industrial output and private business investment slowed down. However, the growth rate of private consumption remained high, residential investment and construction investment in general increased faster than in 2000 and there was a sharp fall in the growth rate of imports. As a result, real GDP growth was 4.1%, the same as in 2000 (according to the latest provisional estimates of the National Statistical Service of

¹ The monetary policy conducted in the euro area is described in fuller detail in Section 3.

Greece/NSSG – see Chart I) and considerably higher than the corresponding growth rate in the euro area.

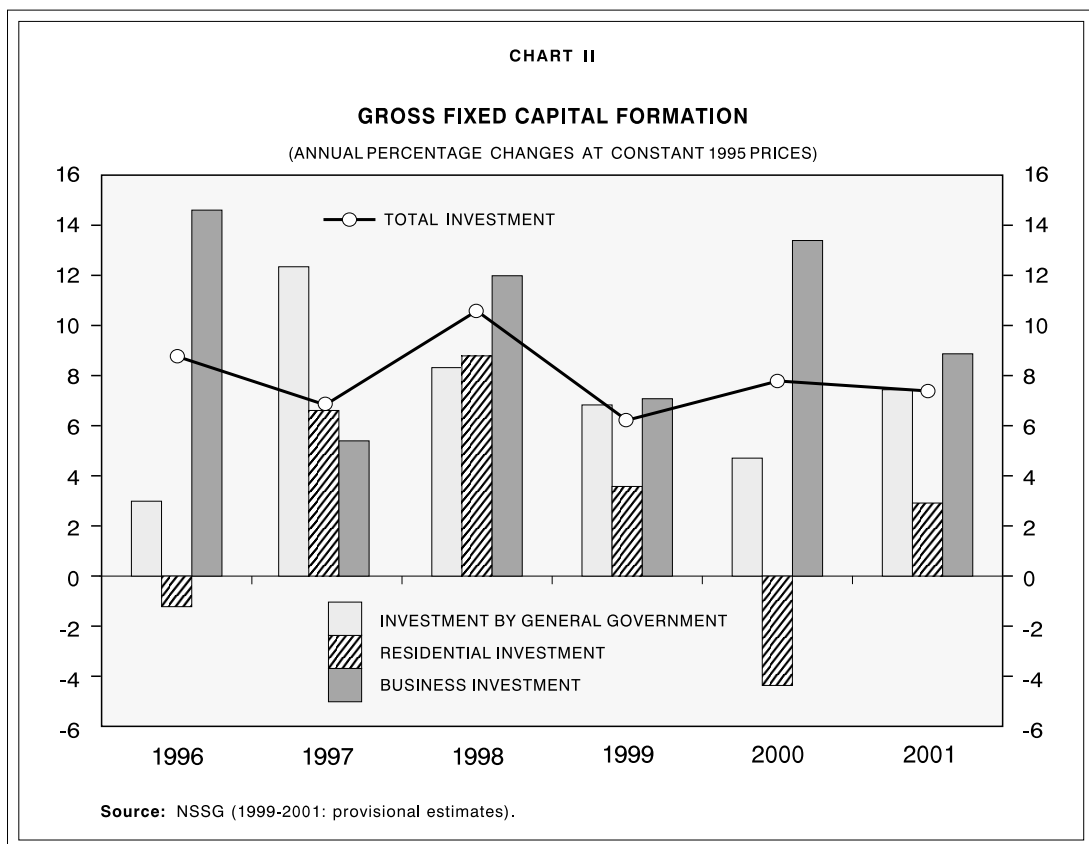
Available data suggest that the annual growth rate of private consumer demand remained high in 2001, although slightly lower than in 2000. In the course of the year, however, the volume of retail sales fell, though from a particularly high initial level, and, after reaching its lowest point in October, recovered in November. The reduction of lending rates and the strengthening of competition between banks led to rapid expansion of consumer credit. The concomitant increase in the borrowed funds of households



helped maintain the high growth rate of consumer demand. Moreover, it is estimated that the continuing rise in the prices of dwellings, which are important household assets, dampened the impact of a fall in share prices. A factor that contributed to the high growth rate of private consumption was the continuing decline of the average propensity to save. Indeed, it is estimated that the disposable income of households increased in 2001, though less than in 2000 and, furthermore, its growth rate lagged behind that of consumer spending. This development reflected the slowdown of the growth rate of employees' average net earnings, the reduction of household interest income, the

smaller – than in 2000 – increase in distributed profits and the small rise in real agricultural income per employed person.

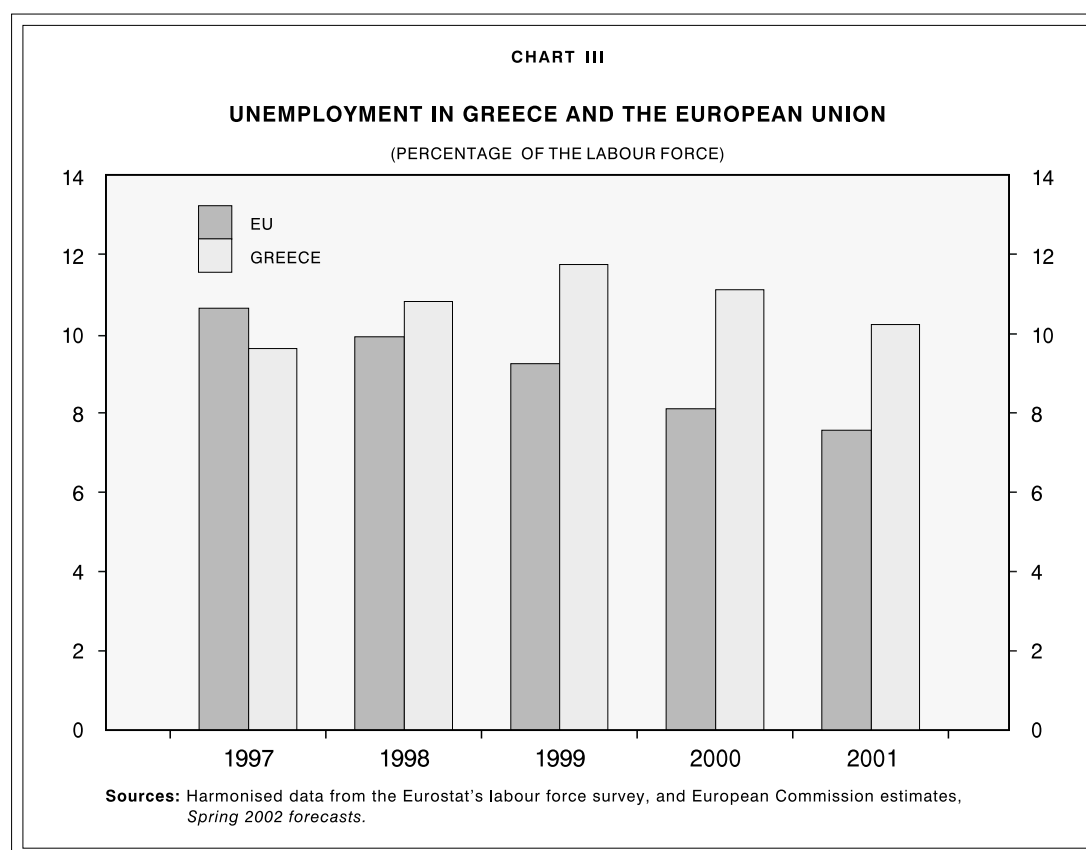
Total investment demand is estimated to have increased at a strong pace in 2001, though slightly less than in 2000. This result reflected the decline in the growth rate of private business investment, which was, to a considerable extent, offset by the faster growth of residential investment and construction investment in general (see Chart II). In particular, private business investment was adversely affected – especially in the second half of the year – by growing uncertainty about the course of the world economy, as well as



reduced business profitability.¹ At the same time though, a positive contribution to business confidence was made by (i) the progress noted in the area of structural reforms, such as the deregulation of the fixed telephony market, the opening up of the electricity market and the completion of a number of privatisations, which occurred despite delays due mainly to the adverse climate prevailing in the Greek and foreign stock markets, and (ii) the increase of business mergers and acquisitions (which also led to foreign direct investment

¹ According to the investment survey of the Foundation for Economic and Industrial Research – IOBE (October–November 2001), industrial firms estimated that their current investment expenditure fell in 2001.

inflows, whose level, however, remains very low). The satisfactory developments in residential investment reflected the fall in interest rates on housing loans and the rapid expansion of housing credit, as well as the rise in dwelling prices (with a positive effect on supply). Finally, public investment on an accrual basis grew as forecast in the government budget, but disbursements rose at a lower pace than in 2000, mainly because of time lags associated with the transition from the 2nd to the 3rd Community Support Framework (CSF). However, the increase in net transfers from the EU was significant; these include the inflow of resources from the Community Structural Funds which co-finance —



together with national public resources — the expenditure for public investment, as well as grants to private investments.¹

Labour market developments were mixed. To start with, the fact that the average annual unemployment rate fell for the second consecutive year (to 10.5% in 2001 from 11.1% in 2000 and 11.9% in 1999) is a positive development, although the rate remains

¹ According to the Community rules, these inflows (i) covered *ex post* investment expenditure that had already been recorded in the disbursements data and (ii) concerned advances for expenses that had not been made yet. This also explains the time lag between inflows and disbursements.

the second highest in the EU (see Chart III). The share of the long-term jobless in total unemployment also fell (to 52.8% from 56.5% in 2000), although it was still very high. Moreover, the number of employees increased significantly (by 2.2%). These developments reflect the high growth rate of economic activity in the last few years, in association with the employment promotion programmes and – to a certain extent¹ – the new provisions introduced to enhance the effective functioning of the labour market. In particular, the provisions of Law 2874/2000 came into force in 2001; these aimed at greater working time flexibility, reducing employers' social security contributions for low wage-earners and streamlining legislation on mass dismissals.

Total employment, however, fell by 0.8% in 2001, because the rise in the number of employees was offset by a drop in the number of the self-employed and of family workers, particularly in the agricultural sector (where employment fell by 6.6%). The small fall in employment is not only associated with the continuing reduction of employment in the agricultural sector,² but – as suggested by available data – also reflects the growing participation of young persons (aged 15-29) in education, as well as the increased number of persons aged 45 and over who take early retirement. It is worth noting that in 2001 employment rose only in the 30-44 age group, while the labour force participation rate³ and the employment rate⁴ fell slightly. In the non-agricultural sector of the economy, a considerable rise in employment was recorded in certain areas only (real property management, computer-related services, machinery and equipment leasing, education, construction); in the other areas employment remained unchanged or fell slightly. It should be noted that in 2001 the first phase of the new legalisation process for illegal immigrants was completed (pursuant to Law 2910/2001), during which 351,000 applications for legalisation were submitted. This development will eventually result in increasing officially registered employment⁵ and is expected to lead to a further improvement in labour market conditions. Specifically, the integration of immigrants into the labour market helps to improve their own terms of employment and to deal with the supply shortages in some areas. Also, integration levels the playing field for firms as regards employment and increases the revenue of social security funds.

Furthermore, in 2001 part-time employment as a proportion of total employment fell to 4.0% from 4.5% in 2000 and 5.8% in 1999 (annual averages). This development calls for closer examination, given that part-time employment is a useful form of employment, mainly for three reasons. First, part-time employment can meet the needs of some population

1 The available data do not allow a full evaluation of the effect of the new measures.

2 Employment in the agricultural sector (including fishing) fell by 41% or 433,000 persons between 1983 and 2001.

3 The share of the population aged 15 or over who are either employed or unemployed (i.e. actively seeking work).

4 Employed of 15-64 years as a percentage of the population aged 15-64.

5 As stressed in the press release of the NSSG, the Labour Force Survey seriously underestimates the total number of foreigners in Greece due to lack of relevant data and because of the geographical mobility of this population group. With the completion of the processing of the 2001 Population Census data, the overall picture is expected to change and the quality of the survey should improve.

groups, which would otherwise have to stay out of the labour force. Second, it can serve the needs of business for greater flexibility as far as labour is concerned. Finally, under conditions of high unemployment, it can help the unemployed find access to jobs and acquire work experience. Actually, while in 2000 the fall in the number of part-time employees was offset by the rise in the number of full-time employees, in 2001 the number of employees in each category decreased (although the drop in the number of part-time employees was bigger). Available data do not give an answer to the question whether this development is due to factors associated with labour supply or demand or with the institutional framework of the labour market. In any case, according to a survey carried out by the European Commission in 1999, in Greece employees strongly prefer full-time to part-time jobs¹ (although the existence of more opportunities for part-time employment is certainly of interest to those who cannot take up full-time jobs due to family or other obligations). This fact, combined with the rise in the employment of wage-earners in 2001, leads to the conclusion that the fall in the number of part-time employees reflected a shift to full-time jobs in 2001 as well.

2.3 Inflation

In 2001 inflation in Greece followed generally the same course as inflation in the euro area as a whole, although it rose to higher levels. The HICP inflation, which is appropriate for comparisons with inflation in the euro area, accelerated from 3.7% in December 2000 to 4.5% in June 2001, but then fell steadily until November (2.9%), rising because of one-off factors to 3.5% in December (see Chart IV). The average difference in inflation between Greece and the euro area was 1.2 percentage points during the year.² Average annual CPI inflation reached 3.4% in 2001, i.e. a slightly higher level than in 2000 (3.2%). Core inflation began to decelerate after July (4.1%) and fell to 3.3% in December, the lowest level since November 2000 (see Chart V). However, its average annual level rose appreciably in 2001, for reasons explained below.

That inflation in Greece remained relatively high in 2001 was mainly due to the indirect and lagged impact on the prices of goods (excluding fuel) and services of the rise in international fuel prices and the concurrent fall in the exchange rate of the euro against the US dollar and of the drachma against the euro³ during 2000. To a lesser extent, the relatively high rate of inflation was associated with the faster rise of unit labour costs in the business sector to 2.9% in 2001 from 2.5% in 2000. It is worth noting that in 2001 the positive difference between the growth rate of unit labour costs in Greece and that in the euro

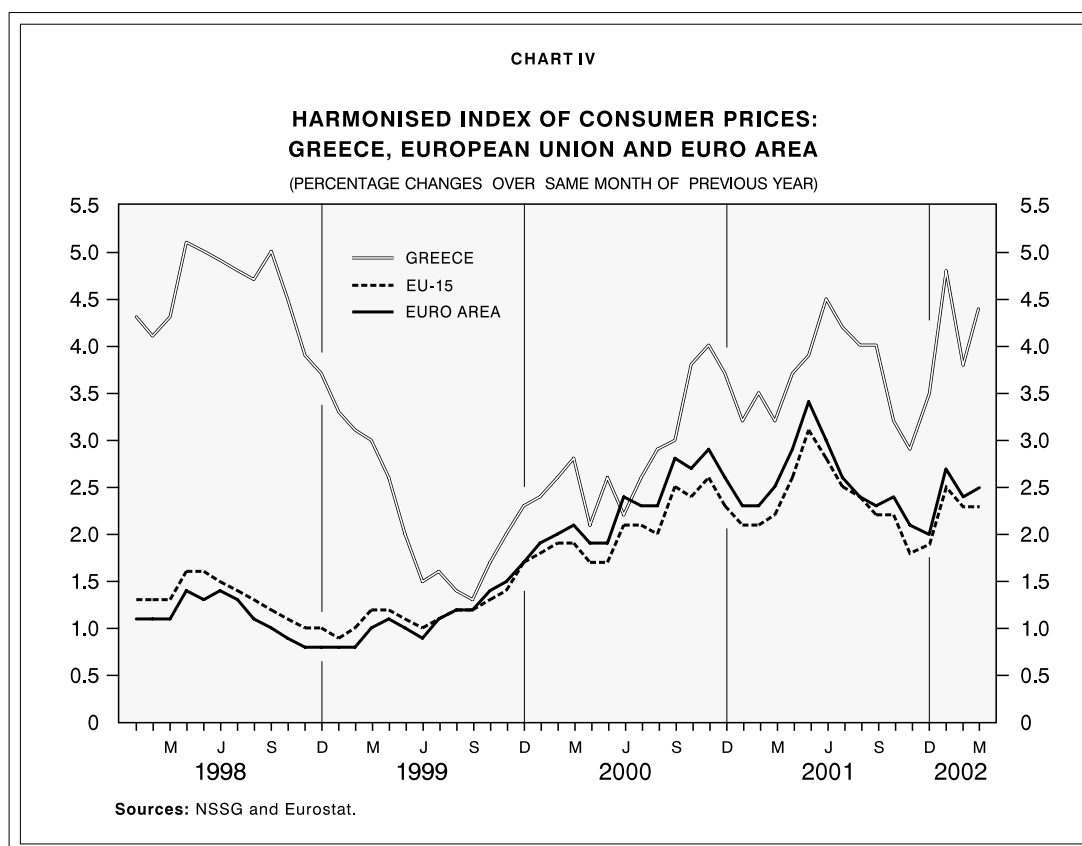
1 See "Ad hoc survey on labour market among employees", *European Economy – Supplement B*, March 2000. According to the survey, in Greece 69% of part-time employees would be willing to work on a full-time basis (against 36% in the EU), while only 12% of full-time employees would be willing to work on a part-time basis (the rate is equal in the EU).

2 In 2001 average annual HICP inflation was 3.7% in Greece and 2.5% in the euro area.

3 This was due to the convergence of the current exchange rate of the drachma towards its central exchange rate against the euro within ERM II.

area was virtually eliminated. This development reflects, on the one hand, the decrease in the growth rate of this aggregate in Greece over the last few years (from around 11% in 1994 to 2.9% in 2001) and, on the other hand, the sharp increase in the growth rate of unit labour costs in the euro area in 2001 (due to a zero change in productivity). However, the growth rate of the average earnings or compensation per employee in Greece was more than twice as high as that in the euro area (5.7% compared with 2.7%).¹

The fall in interest rates due to the changeover to the single monetary policy had a clear expansionary impact on demand. The rise in consumer demand, however, did not

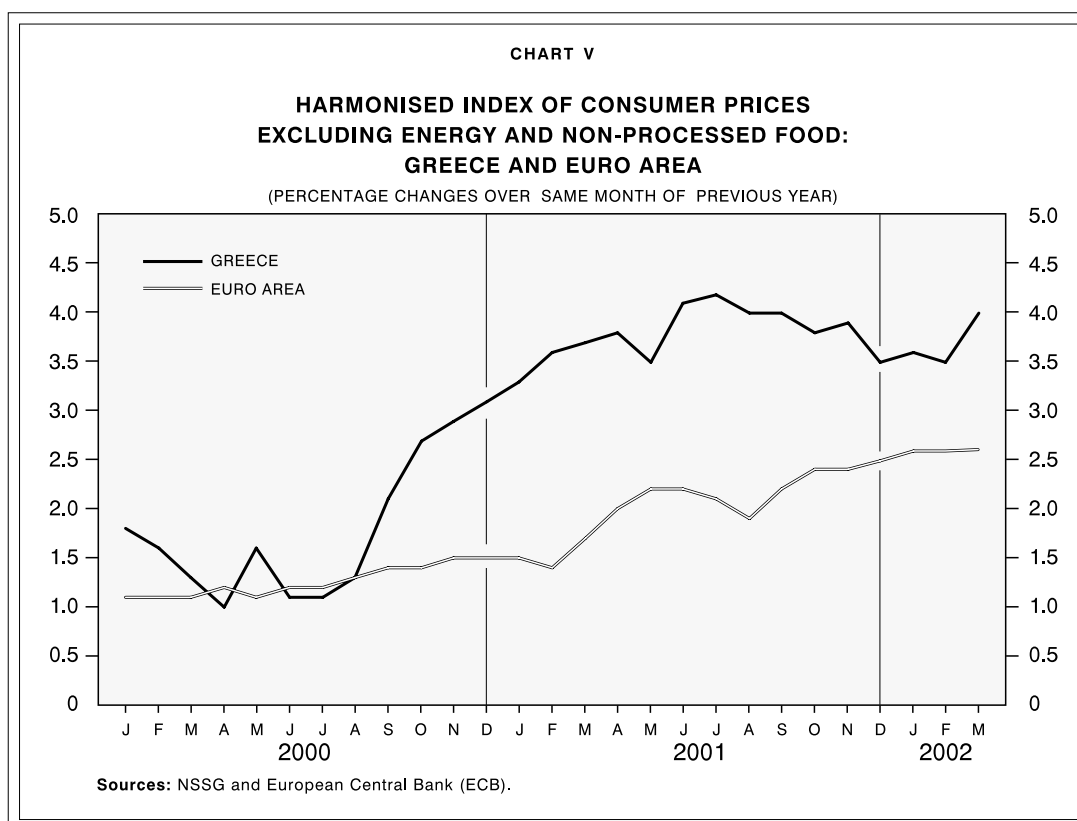


eventually lead to an increase in inflationary pressures (although it may have prevented their reduction), because, on the one hand, a significant part of the rise was channelled to imported products and, on the other hand, intensifying price competition on the import side kept in check profit margins and the rise in the prices of domestic products.

Finally, the actual or prospective deregulation of certain markets (such as telecommunications), as well as the further integration of other markets into the single European

¹ During the years 1998-2000, the annual growth rate of average nominal earnings in the euro area was between 1.5% and 2.5%, while in Greece it was between 4.5% and 6.5%.

market, have resulted in several goods and services (mainly services) becoming more marketable across borders than in the past. This outcome makes for a faster increase in productivity and for keener competition in parts of the tertiary sector, where in the past the sluggish rise in productivity (in comparison with the rest of the economy) or slack competitive conditions had led to a steeper rise in prices and had thus contributed to Greek inflation being higher than that in other European Union countries. Until 1999, the prices of services included in the CPI were rising faster than the prices of goods. The opposite



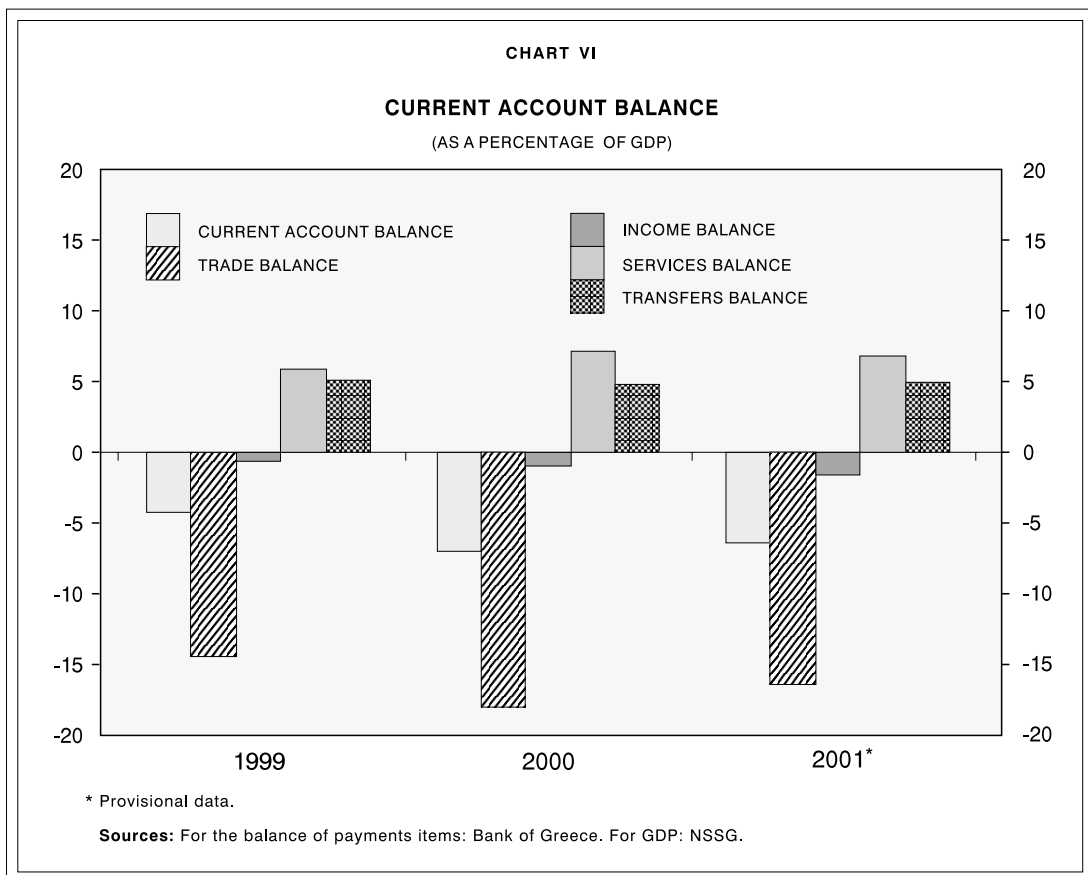
occurred in 2000. In 2001, however, the prices of services increased at an average annual rate, only slightly higher than that of the prices of goods (3.7% compared with 3.2%).

2.4 The current account balance

The adoption by Greece of the single European currency from 1 January 2001 has significantly reduced the importance of the current account deficit (and its financing) as a constraint on the conduct of economic policy. However, changes in the current account balance continue to provide useful information about the competitiveness of Greek goods

and services both in the domestic and in the world markets and affect GDP growth. Therefore, the fact that the current account deficit was reduced to 6.2% of GDP in 2001, compared with 6.8% in 2000 (i.e. a fall of €303 million), is a positive development (although the ratio is still high). The 2001 outcome was due to the reduction of the trade deficit and to the increase in the surplus in the balances of transfers and services, while the deficit in the income balance doubled (see Chart VI).

The trade balance deficit fell by €628 million in comparison with 2000, given that the deficit of the oil account and mainly that of the non-oil account were reduced. The fall



in the price of crude oil in the world market, combined with the drop in the volume of oil imports, led to an improvement in the oil account, despite the appreciation of the dollar against the euro over the same period. The improved non-oil trade deficit was due — according to Bank of Greece data — to the sharp increase in export receipts, which more than offset the larger import bill. If the relevant value aggregates are deflated, there results a significant increase in the volume of exports, compared with relative stagnation in the volume of imports. This positive course of goods exports, as recorded by the Bank of Greece in 2001, is partly associated with the overall improvement in price competitive-

ness over the four years from 1998 to 2001. Another positive development was the stronger export orientation of Greek businesses. In recent years, firms have taken advantage of opportunities in several product markets. Hence, products not included in traditional Greek exports have significantly contributed to the increase in exports. Furthermore, the composition of Greek exports by destination (mainly the growing share of exports to Balkan, Central European and former USSR countries, where the growth rates of economic activity remained relatively high in 2001) has resulted in exports being affected less than in the past by the slowdown of economic activity in the euro area and the OECD countries. As regards imports, those of consumer goods accounted for two thirds of the total increase, a development associated with the relatively high growth rate of households' disposable resources (borrowed funds in particular).

The balance of services showed a surplus of €8,804 million in 2001, slightly higher (by €93 million) in comparison with the previous year, thereby offsetting a larger part of the trade deficit (41.3%, against 39.7%). This development was due to the increase in net travel receipts (gross receipts grew only slightly, but gross payments decreased appreciably), which more than offset the fall in net receipts from shipping services (due to the fact that the rise in gross receipts was much smaller than the increase in respective payments). The small annual increase in travel receipts mainly reflected the decline of the economic growth rate in the euro area and, to a lesser extent, the impact of the 11 September events on tourist traffic during the last four months of the year, while the significant reduction in the growth rate of transport receipts was associated with the recession in world trade, as well as with the increase in the world merchant fleet, which led to a fall in freight rates.

The deficit in the income balance more than doubled in 2001, compared with 2000. The increase of €1,026 million was mainly due to the large fall in gross receipts from interest, dividends and profits, following the drop in interest rates in international markets. Total payments for interest, dividends and profits showed a small increase, given that – despite the decline in interest rates – investments by non-residents (mainly in Greek government paper) rose significantly.

The surplus in the transfers balance in 2001 was €608 million higher than in 2000, mainly due to the increase in receipts, as well as the decrease in payments. Increased receipts stemmed mainly from net transfers (receipts less payments) from the EU, as well as receipts from the sale of third-generation mobile telephony licences (included in “other sectors”). In 2001, net transfers from the EU rose significantly (by 18.2%), reaching €4,695 million, compared with €3,972 million in 2000. This outcome mainly reflected the increase in inflows from the structural funds under the 3rd CSF,¹ while receipts from

1 Advances from the 3rd CSF started in April 2001, while the collection of the first funds for the implementation of 3rd CSF projects began in December. At the same time, final payments for 2nd CSF projects, as well as inflows from the FEOGA Guarantee Section (within the framework of the Common Agricultural Policy) continue. In the first quarter of 2002, net inflows from the EU amounted to €2,018 million, against €1,499 million in the corresponding period of 2001.

the FEOGA under the Common Agricultural Policy (CAP) were almost at the previous year's level.

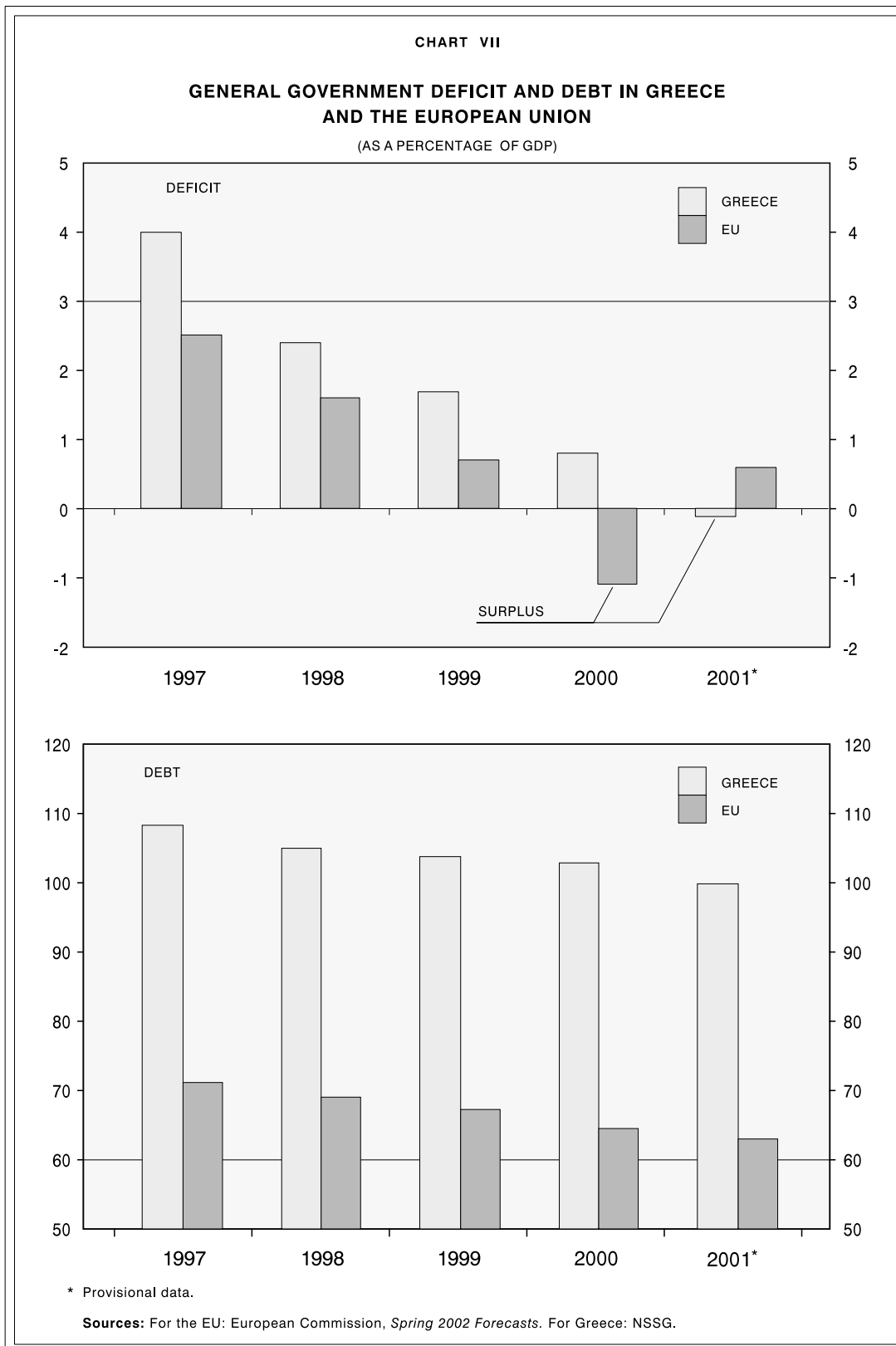
The participation of Greece in the euro area has affected financial transactions positively, since, among other things, it provides conditions of stability, favouring the free movement of capital to and from the country. Thus, despite the recession in the world market in 2001 and the events of 11 September, capital inflows for direct investment continued to show an upward trend (compared with their very low initial level) and reached €1,776 million in 2001, from €1,203 million in 2000 and €527 million in 1999. At the same time, net capital inflows for the purchase of government bonds by non-residents (€8,054 million) remained at the high levels of 2000, despite the further gradual drop in the bond yield differential between Greece and the other euro area countries.

2.5 Public finance

The year 2001 was a landmark in the course of public finance. The systematic effort made over a series of years to reduce fiscal imbalances resulted in a small surplus in 2001, for the first time in about three decades. Specifically, the results of general government, on a national accounts basis, turned from a deficit equal to 0.8% of GDP to a surplus equal to 0.1% of GDP in 2001. Consequently, from the very first year after joining the euro area, Greece met the requirements of the Stability and Growth Pact for a "general government budget close to balance or in surplus". Moreover, the consolidated general government debt was reduced by 3.1 percentage points, from 102.8% of GDP in 2000 to 99.7% in 2001.

The elimination of the general government deficit and the creation of a surplus resulted mainly from the reduction in interest payments (on a national accounts basis) of 0.8% of GDP in 2001 (to 6.2%, from 7.0% in 2000) and, to a lesser extent, from the marginal increase in the primary surplus, from 6.2% of GDP in 2000 to 6.3% in 2001. The small rise in the primary surplus was mainly due to increased capital transfers to general government from the European Union. By contrast, primary expenditure as a percentage of GDP (40.1%) was unchanged between 2000 and 2001, while general government revenue and social security contributions fell from 42.5% of GDP in 2000 to 42.0% in 2001.

The decrease in revenue mainly reflected changes in the ordinary budget revenue, which makes up the bulk of general government revenue. In particular, tax receipts, after three consecutive years of high yields, showed a decelerating growth rate and fell short of budget forecasts. This shortfall, which was mainly recorded in revenues from the taxation of corporate income, interest income and stock exchange transactions, was financed by extraordinary non-tax receipts (not included in the budget). As a result, total receipts rose by 7.1%, compared with a budget forecast of 8.1%. It should be noted that the average annual growth of government revenue in the years 1998-2001



was 11.3%. But for the extraordinary receipts, the growth rate of revenue in 2001 would have been limited to 4.7%. Extraordinary receipts also include the revenue from the sale of third-generation mobile telephony licences. Furthermore, ordinary budget revenue was boosted by the considerably increased dividends distributed by many public enterprises. Overall, as a share in total ordinary budget receipts, non-tax revenue rose to 9.3%, from an average of 6.3% in the three years 1998-2000. In contrast, tax receipts increased by 3% and their share in total ordinary budget receipts decreased. According to OECD data,¹ the total tax burden in Greece in 2000 reached 38.0% of GDP, compared with an average of 39.9% in the European Union and 37.3% in the OECD countries. It is worth noting, however, that in euro area countries whose level of economic development is similar to that of Greece (Spain and Portugal) the tax burden is around 35% of GDP.

Ordinary budget expenditure grew by 4.8% in 2001, compared with an increase of 6.7% in 2000, and there was no significant overrun of the budget forecasts. This restraint reflects a 2.0% reduction in interest payments. By contrast, primary expenditure rose by 7.4% compared with the previous year, while as a percentage of GDP it remained at the 2000 level (around 21.0% of GDP). Although total expenditure did not exceed budget forecasts, some individual categories experienced overruns, which were offset by shortfalls of budgeted expenditure in other categories. The biggest category of expenditure, personnel outlays, exceeded budget forecasts and, as a result, their share in total expenditure rose to 37.7%, from 37.1% in 2000 and 36.5% in 1999. The second biggest category of expenditure, interest payments, fell to 6.2% of GDP, but remained higher than the average in the EU and euro area countries (3.7% and 3.9% respectively).²

The decline of 3.1 percentage points in the debt-to-GDP ratio is significant, though smaller than that corresponding to the total surplus and the high primary surplus recorded in 2001. With a balanced budget, the debt ratio should have fallen in 2001 by 7.6% of GDP (by 6.3% of GDP owing to the primary surplus and 1.3% of GDP owing to the favourable combination of a high growth rate and a cut in interest rates). The fact that the debt ratio fell by only 3.1% of GDP indicates that other liabilities were assumed by government; these liabilities, although not affecting the budget deficit, burden the debt ("deficit-debt adjustment") and make its faster reduction difficult.³ Owing to its relatively slow decline, the general government debt-to-GDP ratio remains much higher (99.7%) than the average in European Union countries (62.8% – see Chart VII) and euro area countries (69.1%). According to Greece's commitments under the Stability and Growth Pact, debt is expected to fall gradually and steadily to 60% of GDP.

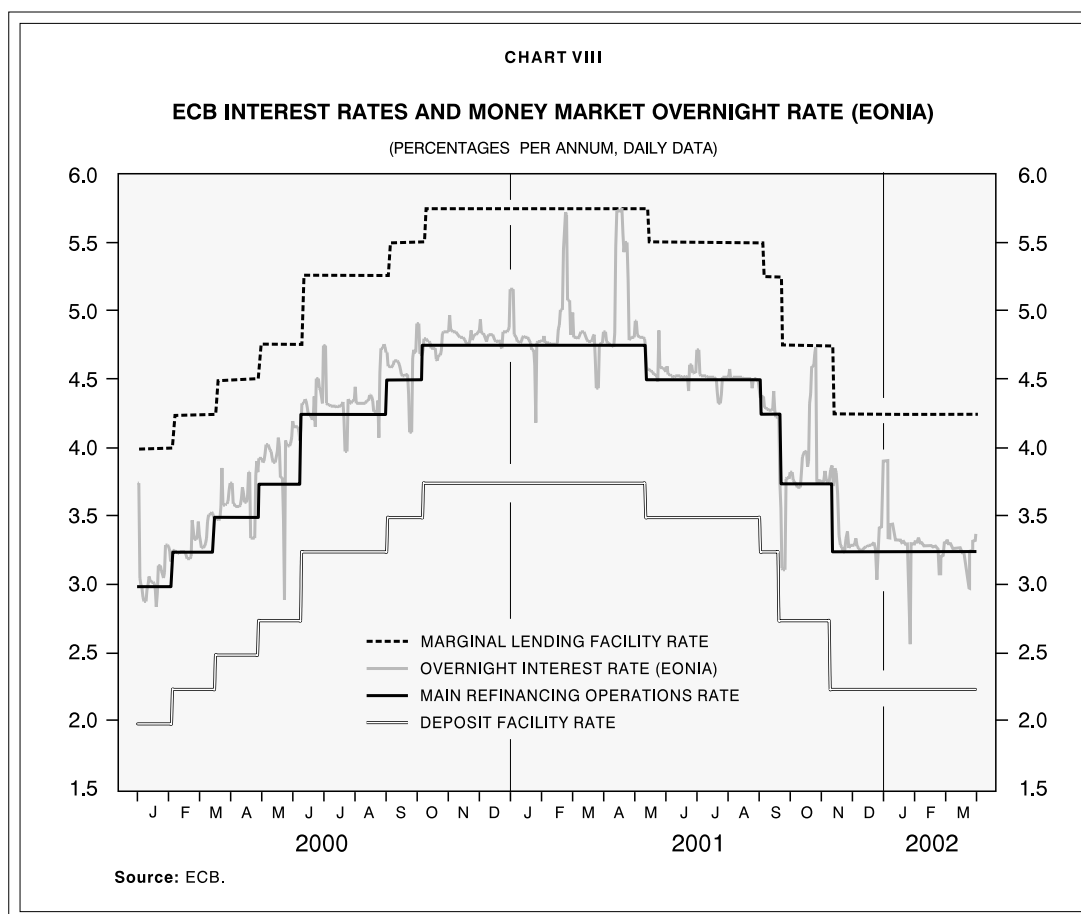
1 See OECD, *Revenue Statistics of OECD Member Countries*, 2001.

2 According to national accounts data and at general government level. European Commission, *Spring 2002 Forecasts*.

3 It should be noted that the "deficit-debt adjustment" is the algebraic sum of the aforementioned liabilities less receipts from privatisations, as well as receipts from privatisation certificates etc., of whose issue the proceeds are used to reduce public debt.

3. MONETARY DEVELOPMENTS IN THE EURO AREA

On 1 January 2001, Greece adopted the euro and since then the Bank of Greece participates in the formulation and conduct of the single monetary policy of the Eurosystem.¹ The primary monetary policy objective is to achieve and maintain price stability in the euro area. Without prejudice to this objective, the Eurosystem supports the general economic policy goals of the European Union. The decisions of the European



Central Bank (ECB) concerning its basic interest rates fit into this framework and serve the Eurosystem's primary objective *par excellence*.

During the first four months of 2001, the ECB did not change its basic rates, since, in the light of the acceleration of inflation, the Governing Council estimated that risks to price stability had not been eliminated. Between early May and early November 2001, the ECB cut its basic rates four times, by a total of 150 basis points. After the last cut, the min-

¹ The single monetary policy of the Eurosystem is formulated by the Governing Council of the European Central Bank.

imum bid rate on the main refinancing operations fell to 3.25%, the marginal lending facility rate to 4.25% and the deposit facility rate to 2.25% (see Chart VIII). The Governing Council judged that monetary developments did not pose risks to price stability in the medium term, while inflation had been falling since June and the prospect of a drop below 2% had improved.

The decisions of the ECB to cut its basic rates led to a significant fall in money market rates, bank retail rates and the yields of securities in 2001. However, the downward trend in the yields of long-term securities was reversed after November. As a result, their spread over short-term interest rates increased, since the conditions of uncertainty in the money market in the wake of the 11th September events returned to normal and there were improved prospects of global economic growth.

In the euro area, the annual growth rate of money supply (M3) accelerated significantly after January 2001, reaching 7.6% in the fourth quarter of 2001, from 4.2% in the corresponding quarter of 2000. This acceleration was due to the declining spread between the rate of return on M3 components and the yields on short- and long-term securities not included in M3. Moreover, the increased uncertainty in the stock markets, which rose after the 11th September terrorist attacks, led investors to shift from stocks to lower-risk investments, such as those included in M3. At the same time, price rises at the beginning of the year led to increased cash holding for transactions. However, the reduction of inflation and uncertainty in stock markets, as well as the steepening of the yield curve in the autumn of 2001, contributed to a decrease in the growth rate of M3 from January 2002 and confirmed the ECB's assessment that monetary developments did not signal risks to price stability at the time. This assessment was corroborated by the fact that the annual rate of credit expansion to the private sector decelerated to 6.9% in the fourth quarter of 2001 from 10.4% in the corresponding quarter of 2000.

After cutting interest rates in November 2001, the ECB made no further change in its basic rates until the end of April 2002, since the Governing Council considered their level as compatible with the achievement of price stability in the medium term. Specifically, the Governing Council holds that monetary developments continue not to entail risks to price stability, although increased liquidity in the economy could cause concern when the rate of economic growth accelerates. However, since recovery is gradual, it is estimated that the pressure exerted on prices by aggregate demand will be moderate. At the same time, for inflation to fall and stay below 2%, the ECB's Governing Council deems it necessary that the agreements concluded within the framework of collective bargaining should continue to provide for modest wage increases. It also considers that Member States should adhere to the medium-term fiscal objectives to avoid excessive deficits and reduce public debt; achieving these objectives entails that government budgets are balanced or in surplus. Such adherence could enhance confidence and, therefore, the prospects of recovery. Finally, to boost productivity and potential output of the euro area and thus facilitate the maintenance of price stability in the medium term, the ECB's Governing Council stresses the importance of the fast and decisive promotion –con-

firmed by the Barcelona European Council of 15-16 March— of structural reforms concerning public expenditure and revenue, the product and labour markets, as well as financial markets.

4. MONEY, CREDIT AND CAPITAL MARKETS IN GREECE

Monetary developments in Greece in 2001 featured a significant deceleration of M3, which is the local component of the euro area's M3. Although the single monetary policy pursued by the ECB takes into account the changes in M3 in the euro area as a whole, the movement of the Greek component of this aggregate provides useful evidence concerning monetary conditions in Greece. The annual growth rate of Greek M3 gradually decelerated to 6.7% in the fourth quarter of 2001 from 12.8% in the same quarter of 2000, while it accelerated to 9.9% in December, as no new bonds were issued and bond redemptions in that month caused an increase in private deposits. In the first two months of 2002, the growth rate of M3 slowed to its pre-December level and was 6% in February. The gradual slowdown in the growth rate of M3 in 2001 is mainly associated with the deceleration of credit expansion both to the private sector and general government. Despite its deceleration, the annual growth rate of Greek M3 remained higher than that of M3 in the euro area until the end of August 2001. This difference reflected faster credit expansion in Greece than in the euro area, but it was also associated with the relatively higher growth rate of nominal GDP in Greece, as well as the shift of savings of the private non-bank sector from items not included in M3 to items that are part of M3 (especially repos, whose yields had ceased to be taxed since September 1998¹). From September to the end of November 2001, the accelerated growth rate of M3 in the euro area, combined with the significant slowdown of credit expansion in Greece, meant that the growth rate of M3 in the euro area was higher than that of the Greek M3. This difference continued in January-February 2002.

Total credit expansion decelerated significantly in 2001, as it came to 15.7%, compared with 20.2% in 2000. This development was mainly a result of the limited growth of credit to general government, while the deceleration of credit expansion to enterprises and households was slower. In particular, general government financing rose by 10.4%, compared with an increase of 15.9% in 2000, while bank credit to enterprises and households rose by 24.8% in 2001, against an increase of 27.6% in 2000. Therefore, although credit expansion to enterprises and households slowed, it still remained high in 2001. Regarding demand for bank loans, the maintenance of high credit expansion is associated with the fall of over 2 percentage points in interest rates during 2001, as well as with the high growth rate of economic activity. As regards the supply of bank loans, high credit expansion is associated with the gradual release of a large amount of bank deposits with

1 These yields have started to be taxed again since 1 January 2002, at a rate of 7%.

the Bank of Greece. These are funds in drachmas and foreign currency held by the Bank of Greece in the form of time deposits, following the harmonisation in 2000 of Bank of Greece reserve requirements with those of the Eurosystem.

The analysis of bank financing by branch of economic activity shows that credit expansion to enterprises in all sectors decelerated significantly (2001: 18.6%, 2000: 24.9%), with the exception of tourist and leasing companies. In contrast, bank financing of households (consumer and housing loans) grew by 40% in 2001, compared with an increase of 34.8% in 2000 and, as a result, the balance of these loans at the end of 2001 was 31.9% of total bank loans to enterprises and households, compared with 29% at the end of 2000 and 27.5% at the end of 1999. Despite this increase, the share of loans to households in total bank loans to enterprises and households remains at a lower level in Greece than in the euro area as a whole. Additionally, although the balance of bank loans to households in Greece, as a percentage of GDP, has increased significantly in the last few years (end of 2001: 18%, end of 2000: 13.8%), it remains at a relatively low level (in the euro area as a whole, loans in this category equalled 50% of GDP in June 2001). It should be noted, however, that the significant rise in loans to households has absorbed in recent years a large proportion of Greek banks' total credit expansion to enterprises and households (end of 2001: 46.8%, end of 2000: 34.6%), with a direct impact on the quality of their loan portfolios. For this reason, the Bank of Greece closely monitors developments in loans to households, especially consumer loans.

In 2001, bank rates in Greece followed a downward path, as they were influenced by ECB rate cuts (total cut of 1.5 percentage points in 2001), but continued to converge further towards euro area rates. In particular, deposit rates almost fully converged to the respective euro area rates and the average weighted rate on deposits and repos fell by 2 percentage points in 2001. Similar reductions were also recorded in lending rates. Specifically, the average rate on short-term loans to enterprises was reduced by around 2.4 percentage points in 2001 and its difference from the respective euro area rate fell to 1.6 percentage points, compared with 2.9 points at the end of 2000. As regards the rates on loans to households, the average rate on consumer loans was reduced to 12.7% in December 2001 from 14.7% in December 2000, while the difference between rates in this category of loans in Greece and the euro area was reduced to 1.8 percentage points at the end of 2001 from 3.6 points at the end of 2000. A fall was also recorded in the rates of housing loans, especially those carrying floating rates, to 5.8% in December 2001, from 8.2% in December 2000. In 2001, the weighted average rate on deposits and repos was reduced by around 2 percentage points, while the weighted average lending rate was lowered by about 2.5 percentage points. Hence, the spread between lending and deposit rates decreased further last year, reflecting keener competition and the greater effectiveness of bank intermediation.

In 2001, capital markets featured a rise in the prices of bonds and an increase in transactions in the secondary market, as well as a significant fall in stock prices and a reduction of trading on, and fund raising from, the stock exchange. In particular, prices and trans-

actions in the primary and the secondary market for government paper were favourably affected by the entry of Greece into the euro area and the upgrading of the country's credit rating. Moreover, the bond market was influenced by adverse developments in the domestic and international stock markets. The decline in the yields of Greek bonds reflects the elimination of the risk associated with the drachma-euro exchange rate, following Greece's entry into the euro area and its participation in the single bond market, as well as the favourable conditions that prevailed in the international fixed-income securities markets, owing to the shift of investors to these securities, especially in the US market.

In the primary market for Greek government paper, fund raising decreased, reflecting the government's relatively slack demand for funds compared with the supply of funds by investors. Such securities were issued through auctions, mainly with the re-opening procedure, and to a lesser extent through new issues. In particular, re-issues made up 87% of the total value of government paper auctioned during 2001. The average maturity of total government paper offered in 2001 rose to 8.5 years, from 8.4 years in 2000 and 6.1 years in 1999.

Transactions in the secondary market increased from the beginning of 2001, though at a particularly fast pace in the last months of the year. The average daily value of transactions was €1,256 million or 428 billion drachmas in 2001, compared with 87 billion drachmas in 2000. The yield of the ten-year Greek government bond fell to 5.28% at the end of December 2001, from 5.47% at the end of December 2000. The differential between the yields of the Greek and the German ten-year bonds declined to 34 basis points at the end of December 2001 from 62 basis points at the end of December 2000 (see Chart 8 in Appendix II). The yields on the other Greek government bonds also fell in 2001 and continued to converge to the lower yields of the comparable euro area securities. The yield curve of Greek government bonds shifted downwards at the end of 2001, in comparison with the end of 2000, and its positive slope became steeper. Developments regarding yields in the domestic market reflect similar changes in the euro area, confirming the further integration of the Greek into the European bond market.

Share prices on the Athens Stock Exchange (ASE) fell during 2001 for the second consecutive year. Between the end of December 2000 and the end of December 2001, the ASE share price index fell by 23.5%, while transactions declined by 59%. In addition, the conditions that prevailed in the stock market in 2001 led to a significant reduction of fund raising through that market (2001: €835 million or 285 billion drachmas, 2000: 2,994 billion drachmas). The downward trend of stock prices continued during the first quarter of 2002. Developments in the Greek stock market were influenced by the reduced profitability of firms listed on the ASE and the adverse climate that prevailed in international stock markets following the 11th September terrorist attacks in the USA. Thus, between the end of December 2000 and the end of December 2001, the Dow Jones EURO STOXX index in the euro area and the Standard and Poor's index for the USA fell by 19.7% and 13% respectively. The developments observed during the last two years in stock prices and the profitability of firms listed on the ASE resulted in a relatively low average P/E ratio in

the Greek stock market at the end of 2001.

The negative performance of the stock market in 2001 affected the domestic mutual funds market. The fall in the prices and in the number of outstanding mutual fund units led to a decrease in mutual fund asset value in 2001, with a further decline in the first quarter of 2002. This outcome reflects the fall in the asset value of money-market- and equity-type mutual funds. In contrast, the asset value of bond- and mixed-type mutual funds rose, indicating a shift in investors' interest to investments combining relatively low risk with satisfactory yields.

5. THE EURO CASH CHANGEOVER

On 28 February 2002, when the dual circulation period ended, the euro cash changeover was completed in Greece. Thanks to warm public acceptance, the launch of euro banknotes and coins was carried out smoothly and uneventfully. Preparatory work for the cash changeover included the estimation and production of the necessary quantities of euro banknotes and coins, the completion of the legal framework for the euro cash changeover, the practical preparations for the launch of the euro banknotes and coins and the parallel withdrawal of drachmas, information activities, as well as arrangements for the protection of the new currency against counterfeiting.

The Bank of Greece estimated the quantity of euro banknotes and coins that would be needed to replace the drachmas in circulation at the end of 2001; it also provided for the production of logistical stocks (amounting to an additional 20% of the initial quantity) to address any errors in estimates, difficulties in the exchange procedure or other contingencies. In total, it was estimated that 617 million euro banknotes and 1,600 million euro coins of various denominations should be available. Immediately after the decision on the entry of Greece into the euro area, the Bank of Greece Printing Works (IETA) proceeded to the procurement of raw materials and upgraded and completed its machinery. At the same time, IETA stepped up its operation. The bulk of the required quantities of euro banknotes and coins was produced by IETA, while the production of the remainder was assigned to other printing works and mints in the euro area.

The legal framework for the euro cash changeover was based, in addition to the Treaty on European Union, on a number of Council Regulations, which, among other things, specified the rates and rules to be applied to conversions between the euro and the national currencies of participating Member States and determined the denominations and the technical specifications of the euro coins. These regulations provided a general framework for the cash changeover, whereas the details of this procedure were to be set at the national level by each Member State. Moreover, the ECB issued a number of Guidelines and Decisions that concerned the frontloading of euro banknotes and coins or addressed other changeover-related issues. The said Regulations, Guidelines and Decisions were implemented in Greek legislation through a number of laws, ministerial decisions and cir-

culars that laid down the details of the euro cash changeover in Greece (period of dual circulation, the designs of the national sides of euro coins, procedures and timetable of frontloading and sub-frontloading, protection of the currency against counterfeiting).

In Greece the frontloading of euro banknotes to credit institutions started on 1 October 2001, while the frontloading of coins started earlier, on 1 September. In view of the geography of the Greek territory, the Bank of Greece made special efforts to establish an extensive network of distribution centres all over the country. A total of 3,233 branches of credit institutions and post offices throughout Greece were frontloaded. Demand by retailers for sub-frontloading of euro banknotes and coins was much lower than the amount frontloaded to credit institutions. Nevertheless, there were no problems in the smooth operation of the market. Moreover, on 17 December 2001 euro coins started to be frontloaded to the public in the form of starter kits.

The circulation of euro banknotes and coins and the parallel withdrawal of drachmas started on 1 January 2002. Credit institutions ceased to give drachmas in their cash transactions. The rapid conversion of Automatic Teller Machines (ATMs) was particularly important and was completed in just three days' time all over the country. Adaptation of the public and enterprises to the new currency was faster than expected, as evidenced also by the fact that more than 90% of transactions were already carried out in euro by the end of January. The withdrawal of drachmas by the Bank of Greece also progressed at a satisfactory pace. The total value of drachma banknotes and coins that had been withdrawn by 28 February 2002 amounted to 2.7 trillion drachmas or around 90% of the currency in circulation on 31 December 2001.

During 2001 and the first months of 2002, the Bank of Greece conducted an information campaign aimed at the timely preparation of the public for the euro cash changeover. Some of the communication activities of the Bank of Greece were part of the "Euro 2002 Information Campaign" organised by the ECB in co-operation with the national central banks of the Eurosystem; however, independent communication activities were also undertaken. In this context, events were held in Athens and other cities in Greece, brochures were distributed to the public and agencies that would serve as information multipliers, a mass-media campaign was launched and training courses were organised to help cashiers identify euro banknotes and coins. Both the Eurosystem's campaign and the independent initiatives of the Bank of Greece included special projects for children.

The euro banknotes and coins include features that provide maximum security against counterfeiting. To enable the competent services to effectively address any attempt at counterfeiting, it was decided, in addition to strengthening the relevant legislative framework, to create a network of agencies, both centrally and at the regional level, with specific roles and responsibilities, extending beyond the euro area. The Bank of Greece, actively participating in the competent bodies, has taken the necessary steps to establish and operate a National Counterfeit Centre (NCC). At the same time, National Analysis Centres (NAC) and Coin National Analysis Centres (CNAC) have been set up, whose responsibility and operation has been undertaken by the Hellenic Police.

6. THE BANKING SYSTEM AND ITS SUPERVISION

The global economic slowdown and in particular the downturn in international stock exchanges during 2001 had negative repercussions on the performance of credit institutions in all European Union countries. Similarly affected was the profitability of Greek banks, which saw declines in their pre-tax profits (by 13.7%), return on assets (from 1.9% in 2000 to 1.5% in 2001) and return on equity (2000: 20.7%, 2001: 17.9%). Unlike non-interest income, which fell reflecting lower income from financial operations and lower fee and commission income, banks' net interest income increased by 13.9% in 2001 and as a percentage of their average assets remained at about the same level as in 2000. A factor that contributed to this development was the stronger growth of lending relative to that of deposits, in particular a very rapid increase in consumer loans, which involve higher profit margins. The operating costs of banks declined marginally in 2001 as a percentage of total assets (to 2.3% from 2.4% in 2000), mainly due to restrained staff costs. This is seen as an encouraging development, given that banks' administrative expenses in 2001 were further burdened by the cost of the preparation for the euro cash changeover.

The total assets of banks have increased at relatively high rates over the past years, reaching 146% of GDP in 2001, compared with 120% in 1998. However, deposits have risen at a weaker pace and, as a percentage of assets, stood around 62% at the end of 2001, compared with 76% in 1998. On the other hand, mainly reflecting fast credit expansion to households, lending increased considerably its share in bank assets to 46%, from 39% at the end of 1998.

Developments in the European banking sector in 2001 indicate that banks have shifted the focus of their strategic choices from expanding their activities to other euro area countries through cross-border acquisitions and mergers to selective expansion within national markets, as well as to accession countries. By adopting the same strategies (also due to size constraints), certain Greek banks aim primarily to strengthen their position in the domestic market and, in the medium term, to acquire a size that would afford them economies of scale and easier access to international financial markets. Alongside the acquisitions and mergers effected in the last few years, Greek banks are promoting strategic co-operation with strong European credit institutions and expanding their activities to southeastern European countries.

The size of Greek banks is still comparatively small both by international and by European standards. On the basis of total assets, at the end of 2000 no Greek bank was included in the world's 100 biggest banks, while only 2 ranked among the 100 top European banks. Greek banks hold a domestic share of around 80%, specialised credit institutions around 10%, branches of foreign banks 9.5% and co-operative banks slightly less than 0.5%, while in recent years the market share of credit institutions directly or indirectly controlled by the State has declined appreciably. Following the acquisition of ETBA by the Bank of Piraeus in early 2002, the market share of state-controlled banks has fallen (in terms of total assets) to about 53%, from 63% at the end of 1998, and is expected to

decline further, given the government's expressed intention to further reduce its portfolio of bank shares. It is also worth noting that the share of foreign banks in the domestic market has remained broadly stable or even declined in recent years, in line with similar trends in other European Union countries, indicating the dominant position of domestic banks, especially in the retail segment. Therefore, some initial estimates (that the creation of the single financial market in the euro area would lead to stronger competition from foreign credit institutions opting to have a physical presence in national markets) do not seem to have materialised. On the other hand, foreign multinational banks are increasingly concentrating their treasury functions in international financial centres, leading to economies of scale at group level, which have an impact on competition.

The further development of branch networks is a crucial aspect of the overall strategy of Greek banks. The number of bank branches continues to increase (1998: 2,779, 2001: 3,134), as the Greek banking market is at a different stage of development from most European markets which have reached a stage of maturity. Greek credit institutions, however, should gradually adopt advanced techniques, which enable the operation of low-staffed units or the development of alternative distribution channels, such as remote banking (phone-banking, or e-banking, whose users tripled in number in 2001). In fact, the number of employees per branch has decreased from about 21 in 1998 to 19 in 2001 (in the euro area the respective figure is only 12 employees per branch). Moreover, there has been an impressive rise in the number of ATMs, which almost doubled over the past three years (1998: 2,168, 2001: 4,326). Nevertheless, their ratio to population is well below the euro area average (Greece: 409 ATMs per million inhabitants in 2001, euro area: 609 ATMs in 1999).

Competition in the domestic market is intensifying. The spread between lending and deposit rates has been on a downward path in recent years and narrowed by about 3 percentage points between the end of 1998 and the end of 2001. Competition is particularly strong in the areas of consumer and housing credit, which exhibit the highest rates of credit expansion (about 34% on average in the past three years). Moreover, the recent decision of the Bank of Greece to allow the establishment and operation of Finance Companies, whose main activity would be the provision of consumer and personal loans, is expected to further strengthen competition in that market segment. However, in spite of the strong growth of these types of loans, the indebtedness of Greek households remains relatively low as a percentage of GDP (18% at the end of 2001) compared with a euro area average of 50%. Since the total volume of borrowing is not very high, this could possibly point to a problem with the allocation of credit and to overindebtedness of particular households, as overall indebtedness may not be adequately controlled by banks owing to delays in the full operation of the Teiresias interbank credit data company as a comprehensive Credit Bureau. Credit institutions therefore need to take special care to prevent a deterioration in the quality of their consumer and personal loan portfolios.

In the area of supervision, the most important issues currently discussed at the European Union level refer to the revision of the capital adequacy framework for credit

institutions and investment firms, the supervisory review process and measures to enhance market discipline. Also included are issues concerning the establishment of a supervisory framework for financial conglomerates and the amendment of the institutional framework for the provision of investment services. These important developments, which should have far-reaching implications for bank regulation, would have to be addressed by Greek legislation. Meanwhile, the Bank of Greece, within the scope of its authorisation under recently enacted legislation, has adopted several measures in this respect, which can be summarised as follows:

(a) The minimum initial capital of credit institutions operating as sociétés anonymes was increased from €11.7 million to €18 million. This increase, eight years after the last adjustment, was considered advisable in view of the need for credit institutions to undertake substantial investment in infrastructure in order to maintain and improve their competitiveness against the background of growing competition.

(b) Further significant adjustments were made in the institutional framework governing the operation of credit and financial institutions. Specifically:

- As already mentioned, enterprises other than credit institutions were permitted to grant loans to households, provided that they are supervised by the Bank of Greece.

- The maximum period allowed for banks to accrue interest on overdue loans is halved from 12 to six months of the principal and/or interest falling in arrears.

- A moratorium has been applied on part or all of the due obligations of credit institutions that face a liquidity shortage possibly entailing capital inadequacy, so as to allow for a reasonable time for remedial action on the part of the illiquid credit institution before more radical corrective measures can be adopted.

- Lastly, the framework of co-operation between the Bank of Greece and the auditing profession was strengthened.

The above arrangements are expected to further improve credit institutions' risk management and to enhance transparency, as a tool supplementary to supervision and conducive to systemic stability. Moreover, the discretionary scope of the Bank of Greece has been expanded in order to better serve the broader goal of financial stability: the Bank may determine capital requirements also at the level of individual institutions, further to general capital requirements.

Furthermore, additional support for a more efficient management of banks' assets should certainly come from the, long-delayed (relative to other countries), adaptation of the institutional and tax regime that will enable the securitisation of banks' loans and other claims.

As regards the size of banks' provisions, the Bank of Greece has repeatedly stressed the high importance it attaches to this issue, especially in view of the potential impact of rapid credit expansion on the quality of bank loan portfolios. For this reason, it has established a framework governing the creation of supervisory provisions, which are calculated as a percentage of various classes of overdue loans. This arrangement has ensured a more systematic and reliable evaluation of the degree of coverage, through gen-

eral and specific provisions, of expected losses from bad debts. The current accounting and tax treatment of provisions and, most importantly, the non-availability of a long historical data series have not allowed to date a statistical calculation of the amount of the provisions required and thus the avoidance of cases where bank efficiency is overestimated. A short-term approach of efficiency, which would not take medium-term risk factors into account, would often fail to lead to appropriate and timely adjustments of lending policy. In this particular area, all credit institutions should be encouraged to apply a more dynamic provisioning policy, following the example of those banks that have made provisions beyond the minimum requirements specified by the Bank of Greece, so as to mitigate any pro-cyclical effects on profits.

At the end of July 2001, the overall capital adequacy ratio, for credit and market risks, was 12.6%, having fallen by about 2 percentage points relative to the average of the years 1998-2000. It should be noted that this reduction is associated to a considerable extent with the release by the Bank of Greece of banks' minimum reserve holdings and the use of these funds for granting loans to the economy. By 2 January 2002, €9.6 billion had been released, which correspond to 13% of total bank loans to enterprises and households.

Finally, the Bank of Greece places particular emphasis on measures aimed at preventing the use of the domestic financial system for money laundering. Co-operation of financial institutions in this area is seriously taken into consideration in the evaluation of the adequacy of their administrative organisation and internal control procedures. In 2001 the Bank of Greece issued a specific circular including guidelines for the prevention and suppression of money laundering during the dual circulation period, which, due to an expected increase in cash transactions, was identified as a period of "high risk". Moreover, in the context of international co-operation against terrorism, in particular the recent commitment of the financial system to prevent and suppress the financing of terrorism, the Bank of Greece is monitoring developments and takes the necessary steps for ensuring compliance with this commitment by the entities under its supervision.

7. ECONOMIC OUTLOOK AND POLICY ORIENTATIONS

7.1 The short-term prospects of the economy

Greece is already in its second year of euro area participation. After successfully remaining on course towards real convergence in 2001, the Greek economy now faces new challenges in 2002. The recent acceleration of inflation must be halted and conditions of price stability ensured. It is also necessary to secure fiscal stability and substantially improve the country's international competitiveness.

The world economic outlook appears to be much more favourable than it was in December 2001. In fact, in April 2002 the International Monetary Fund revised its forecast for world economic growth in 2002 from 2.4% to 2.8% and that for the US economy from

0.7% to 2.3%.¹ GDP growth in the euro area is projected to pick up gradually in 2002 and approach 2.5% in the last quarter, while average annual growth is expected to reach 1.4%.² It is worth noting that the fundamentals of the European economy have generally remained sound, the conditions for financing households and firms are favourable, and, owing to the deceleration in inflation, the higher rise in real income will support total demand. Indeed, the annual rate of inflation in the euro area is expected to slow down to roughly 2% in the second half of 2002,³ in spite of the faster rise in the annual HICP in the first quarter of 2002,⁴ caused by higher world oil prices and by special factors the effect of which will be temporary.

The annual rate of inflation is projected to fall in the course of the year in Greece as well, in spite of a rise of one percentage point in the first quarter of 2002.⁵ This acceleration was mainly due to the sharp increase in the prices of fresh fruit and vegetables in December 2001 and January 2002 (not fully reversed in February and March 2002), the rise in world oil prices and the fact that the upward rounding of prices quoted in euro was greater than initially expected.⁶ With regard to the current year as a whole, it is estimated that price developments in Greece will be favourably affected by the deceleration of inflation in the other euro area countries and industrial countries in general. Two additional factors are expected to help reduce inflationary pressures: the waning of the indirect and lagged upward effect on consumer prices caused by the steep rise in 2000 in both oil prices and the dollar/euro exchange rate, and the continued deregulation of the telecommunications market. On the other hand, however, the latest available data seem to indicate that average annual oil prices will decline only slightly this year (and may even remain unchanged) compared with 2001, while the international prices of other imported raw materials will remain stable or increase (after decreasing in 2001). Furthermore, the growth rate of unit labour costs is expected to pick up this year to between 3.0% and 3.5% in the Greek economy as a whole (from 2.9% in 2001⁷), whereas in the euro area it is expected to slow down to 1.8% from 2.4% in 2001. On the basis of these new data, average annual inflation in Greece is projected to be about 3.5% in 2002 (i.e. roughly as much as in 2001). It will therefore exceed the level considered to be consistent with price stability (i.e. a rate of increase not exceeding 2%). In addition, the positive differential from the euro area inflation rate could exceed 1.5 percentage points (based on the HICP); in part,⁸

1 IMF, *World Economic Outlook*, 18 April 2002.

2 European Commission, *Spring 2002 Forecasts*, 24 April 2002. The IMF has also forecast a similar growth rate, whereas the OECD projects a rise of 1.3% in GDP.

3 European Commission HICP forecast. On the basis of this forecast, average annual inflation will reach 2.2% in 2002.

4 To 2.5% in March 2002, from 2.0% in December 2001.

5 The annual rate of inflation in March 2002 picked up to 4.0% based on the CPI and to 4.4% based on the HICP, from 3.0% and 3.5% respectively in December 2001.

6 This impact was limited in January but strengthened in March, i.e. once the dual price display and dual circulation periods had ended.

7 Revised estimates.

8 I.e. the part that is not due to the faster increase in the prices of certain goods and services that are not internationally traded, known as the Balassa-Samuelson effect. Of course, based on data for the first quarter of 2002, the faster increase in the prices of certain services to a significant extent involves commercial services, for instance in tourism.

this differential will entail a loss of international competitiveness. If differentials of this kind were to become more permanent, their cumulative impact on competitiveness would be severe, with negative effects on real incomes and employment.

The adverse developments abroad in 2001 may continue to impact on the growth rate of Greek exports this year, but it is estimated that their effect on the Greek rate of economic growth may be partly offset by the favourable influence of other factors. These factors include the conditions of bank finance to households and firms, the anticipated increase in private and public investment (connected with the inflow of funds from the 3rd CSF and the preparations of the public and private sectors for the Athens 2004 Olympic Games) and, finally, the positive impact that the package of tax measures announced in November 2001 will have on consumption and investment expenditure and on competitiveness. Uncertainty with regard to the external environment has, however, not yet been eliminated. Meanwhile, there are also elements of uncertainty involving internal factors – such as the effect of reduced profitability on the timing and the extent of implementation of private firms' investment programmes, as well as the growth rate of productivity. For these reasons, and based on available data and indications, GDP growth is expected to decelerate to roughly 3.5% in 2002. The latest forecasts by international organisations range between 3.4% and 3.7%.¹

The current account deficit, which – as mentioned above – provides a useful insight into the competitiveness of the economy, will remain high, although it is projected to decrease slightly as a percentage of GDP in 2002 (to around 6.0%, from 6.2% in 2001 and 6.8% in 2000). Specifically, the balances of services and transfers are expected to improve (registering an increase in surplus), owing to forecasts which show that – under certain conditions – travel receipts (which grew at a low rate in 2001) and inflows from the EU will increase. This improvement should more than offset the deterioration of the trade balance, which is anticipated chiefly because the rate of economic growth will continue to be higher in Greece than in the euro area. Indeed, the relatively low average annual growth rate forecast for the euro area (the Member States of which are amongst Greece's major trading partners) and the risk of a fall in the competitiveness of Greek products (mentioned above) may lead to a slowdown in export growth. Meanwhile, it is plausible that the relatively high growth rate forecast for the Greek economy will entail a high rate of increase in imports (both of consumer and investment goods).

7.2 Long-term prospects and challenges

The relatively high growth rates of the Greek economy in recent years² have served to reduce the gap in standards of living between Greece and the EU or the euro area.

1 The GDP growth rate was forecast at 3.4% by the International Monetary Fund (18 April 2002), 3.7% by the European Commission (24 April 2002), 3.5% by the OECD (25 April 2002) and 3.8% by the Greek government in the Updated Stability and Growth Programme (December 2001).

2 Greece's growth rate in 2001 was the second highest in the EU.

According to the latest available data,¹ Greece's GDP *per capita*, measured in purchasing power standards (PPS), rose from 64.1% of EU *per capita* GDP in 1993 to 68.6% in 2001. The elimination of this gap – in other words the achievement of real convergence, which is a basic long-term objective for Greece – presupposes, first, an increase in productivity (i.e. of GDP per worker) and, second, an increase in the employment rate (i.e. the percentage of the population aged 15-64 years in employment) at a faster pace than in the EU. According to the same data, productivity (GDP per worker, in PPS) rose from 74.2% of the EU average in 1993 to 84.5% in 2001,² suggesting that the increase in productivity was faster in Greece than in the EU. During the same period, however, the employment rate increased in Greece (from 53.7% in 1993 to 55.4% in 2001), but less than in the EU (59.9% in 1993, 63.9% in 2001³), and remains the second lowest in the EU.⁴ Furthermore, Greece has the second highest unemployment rate (after Spain) and the third highest long-term unemployment rate. Other structural indicators⁵ also confirm that the gap that needs to be filled to attain real convergence is still wide. Greece ranks last or second to last in the EU with regard to the percentage of adults (aged 25-64 years) attending educational or training programmes,⁶ public expenditure for education as a percentage of GDP,⁷ business and total expenditure for Research and Development as a percentage of GDP, expenditure for information technology as a percentage of GDP, and the percentage of households with Internet access.⁸ Also, as Greece has the third highest public debt as a percentage of GDP in the EU (after Italy and Belgium), the ability of fiscal policy to promote the growth process is constrained by the need to absorb funds for the servicing of public debt. On the other hand, Greece ranks first in expenditure for telecommunications equipment and services as a percentage of GDP⁹ and has seen its percentage of firms with Internet access significantly improve.¹⁰ Finally, Greece's private investment to GDP ratio is higher than the EU average.¹¹

1 Eurostat (website: www.europa.int/comm/eurostat), Structural Indicators, last updated on 12 April 2002. This statistical series only covers the period from 1993 onwards.

2 As part-time employment is more widespread in the other EU countries than in Greece, comparisons on the basis of productivity per worker are biased in favour of Greece. When productivity is measured on the basis of GDP per working hour (in PPS), the productivity ratio between Greece and the EU is lower (70.2% in 2001, compared with 62.8% in 1992 and 62.2% in 1993).

3 It should be recalled that the EU has set itself the target of raising the employment rate to 67% by 2005 and to 70% by 2010.

4 This is due to Greece's particularly low female employment rate (41.2% in 2000, compared with 54% in the EU). On the other hand, Greece's male employment rate (71.1%) was only slightly below the EU average (72.6%) in 2000.

5 The European Commission monitors the structural indicators of all Member States so as to assess progress towards achieving the goals set by the European Council of Lisbon (March 2000) and specified by the European Councils of Stockholm (March 2001) and Barcelona (March 2002).

6 1.4% in 2001, compared with 8.4% in the EU.

7 3.5% in 2001, compared with 5% in the EU.

8 9.9% in 2001, compared with 37.7% in the EU.

9 3.8% in 2000, compared with 2.7% in the EU.

10 This percentage rose from 54% in 2000 to 83% in 2001 (compared with 89% in the EU).

11 19.8% in 2000, compared with 18.3% in the EU.

Certain conclusions can be drawn from the selective data presented above. First, any effort to address the central issue of unemployment will have to focus not only on reducing labour market rigidities (which contribute to the persistence of high long-term unemployment), but also on increasing the efficiency of education and training systems and of labour supply and labour demand matching mechanisms. The social infrastructure will also have to be improved in order to foster a rise in the female employment rate. The benefits of an increased employment rate on the course of real convergence will be stronger if the increase in public and private expenditure for education, training and research contributes – together with other factors – to improved productivity. Second, an increase in public expenditure for education and, more generally, for social infrastructure will be feasible so long as the fiscal consolidation process continues at a fast pace, thus making a reduction in public debt and, consequently, in the cost of debt servicing possible. Third, the further enhancement of competitiveness and more efficient operation of markets will obviously have a tangible effect on growth, as already clearly observed in the broader telecommunications market (equipment and services), and an ultimately favourable impact on employment.

Some of the factors that have had a positive influence on economic activity in recent years will continue to do so in the medium term, although for a different length of time in each case. These factors mainly involve inflows from the EU Structural Funds and, generally speaking, from the EU Budget, as well as the expenditure associated with the Athens 2004 Olympic Games.¹

Ever since Greece joined the EU, net transfers from the EU budget have represented a significant percentage of GDP, averaging around 4% in the last decade.² Today, 40-45% of total inflows come from the FEOGA Guarantee Section to support farmers' incomes in accordance with the Common Agricultural Policy (CAP), while the rest comes mainly from the Structural Funds and helps finance programmes under the 3rd Community Support Framework (CSF) for 2000-2006. EU financing of the 3rd CSF over 2000-2006 is forecast to reach €26 billion (with average annual inflows exceeding €3 billion). According to estimates, the contribution of Structural Fund inflows to the average annual growth rate of the Greek economy from 1989 to date is of the order of 1 percentage point.³ The upcoming enlargement of the EU with ten new Member States⁴ from 2004 onwards

1 These factors have also been taken into consideration in the Updated Stability and Growth Programme (December 2001), which forecasts an average annual GDP growth rate of 4% over the 2002-2004 period.

2 In the 1995-1999 period, Greece ranked second (with €390.7 per year) in net *per capita* transfers from the EU Budget (after first-ranking Ireland with €622.8 and followed by Portugal with €282.6). Two other countries were "net recipients" of funds: Spain (€172.6 *per capita*) and Denmark (€39.8 *per capita*).

3 According to estimates of the European Commission (Bank of Greece, *Annual Report 2000*, p. 22), community structural funds helped raise GDP by 9.9% in the 1989-1999 period (equivalent to an average annual increase of 0.95%), while the Centre of Planning and Economic Research (KEPE) estimates this contribution at 0.8%-1.2% per year.

4 The European Council of Laeken (December 2001) expected that the following countries will be able to qualify for EU entry in 2004: Estonia, Cyprus, Latvia, Lithuania, Malta, Hungary, Poland, Slovakia, Slovenia and the Czech Republic. The entry of Romania and Bulgaria is expected after 2004.

will not immediately (that is, until 2006) affect the prospects of EU fund inflows to Greece, as clearly shown in recent European Commission proposals.¹ Furthermore, payments from the Structural Funds under the programmes of the 3rd CSF (which will concern the period through 2006) may actually continue through 2008 (without changes in the total disposable amount).

With regard to the shape of the EU budget beyond 2006, official projections or even general orientations do not yet exist. When seeking to estimate the impact that EU enlargement will have on Greece – and the other Member States – in terms of receipts from and contributions to the EU – it is considered that the new Member States will have a net benefit (owing to their comparatively low *per capita* GDP) and that, based on the current policy framework, the increased funding needs in the enlarged EU will most likely lead to a reform of structural and agricultural policies.² It is therefore fair to assume that those of the present Member States that make a net contribution to the EU Budget (for instance, Germany) will strive to avoid any substantial increase in their burden, whereas those that enjoy a net benefit (including Greece) will strive to maintain current funding levels. On the basis of these data and hypotheses, it is expected that the *per capita* net transfers from the EU to Greece will decrease.³ The evolution of these transfers to Greece, the extent to which they will be reduced and the relative position of Greece as a recipient of funds in the enlarged EU of 25 (and later on 27) members will depend, *inter alia*, on the economy's growth rate, on the changes that will be made in EU structural policy and the CAP, as well as on the transition periods⁴ which will be agreed for both new and present members.

1 See European Commission, (a) *Common Financial Framework 2004-2006 for the Accession Negotiations*, SEC (2002)102 final, 30.1.2002, (b) *First progress report on economic and social cohesion*, COM (2002)46 final, 30.1.2002. More specifically, the fiscal framework adopted by the European Council of Berlin in 1999 (on the basis of which the 3rd CSF for Greece was elaborated) was based on the assumption that the enlargement would take place in 2002 with six new Member States. The new orientations of the Commission take into account the prospect that the enlargement will take place from 2004 onwards with ten new Member States and conclude with funding proposals for the three-year period 2004-2006. The funding forecast for the ten new countries does not exceed the total amount initially forecast for the six Member States. The main reason for this are the transitional provisions expected to come into effect.

2 The reform of the CAP is considered inevitable because of i) the need to increase its effectiveness (the CAP is the only EU policy that does not require national co-financing), ii) the size of the agricultural sector in the candidate countries, and iii) pressure from the World Trade Organisation (which considers that CAP arrangements contravene freedom of trade).

3 According to surveys by the Deutsches Institut für Wirtschaftsforschung (DIW), an independent research institute in Germany, which were commissioned by the European Commission and the German Ministry of Finance and contain alternative forecast scenarios regarding the distribution and levels of community funds in 2007 and 2013, the decrease in *per capita* net transfers to Greece in comparison with the 1995-1999 average will range between 3.1% and 17.5% in 2007 and between 27.9% and 46.5% in 2013, depending on the hypotheses adopted with regard to EU policies. See, *inter alia*, Christian Weise, "EU Eastern Enlargement Can Be Financed – Increased Need for Reforms – Scenarios for the 2007 and 2013 EU Budgets", DIW (Deutsches Institut für Wirtschaftsforschung), *Economic Bulletin*, 10/2001.

4 So far, the prevailing tendency in the EU is that the transition period for transfers from the Structural Funds to the new Member States will be long and end in 2013. In parallel, there will be a transition period for present Member States that will cease to be entitled to a share of structural funds if *per capita* GDP in their regions is no longer lower than 75% of the EU average (as provided for in current rules).

The impact that the gradual decrease in transfers from the EU, expected towards the end of the decade, will have on the growth rate of the Greek economy will depend: First, on the contribution that EU transfers have made so far to strengthening the country's productive infrastructure and increasing potential output. Second, on the way expected inflows –based on the 3rd CSF– will be utilised, as this will determine their effectiveness and the final “multiplier effect”. Third, on the extent to which the Greek economy will take advantage of EU enlargement itself. Ultimately, growth will depend on how effectively Greece will utilise available funds and resources flowing in from the EU, and on its ability –by penetrating new European markets– to reap the opportunities offered by the forthcoming enlargement. Thus, while enlargement will entail a decrease in transfers from the EU, which now offset a substantial part of Greece's trade deficit, the ultimate effect of enlargement on the balance of payments will depend on Greece's ability to meet the above challenges. Finally, it is obvious that, as the utilisation of transfers and the enhancement of competitiveness will boost the dynamism of the economy, the need for structural resource inflows will decrease.

With regard to the preparations for the Athens 2004 Olympic Games, it is only normal that there should be increased investment activity both for the construction of sports facilities and for infrastructure projects – mainly roads and communications. These projects, many of which are already under way, are expected to be completed by the summer of 2004, even though some of them, for instance the extension of the underground railway system in Athens, come under an infrastructure modernisation programme which extends into the second half of the decade. Taking these factors into consideration, it is obvious that the direct or indirect benefits of the Athens 2004 Olympic Games on investment demand, GDP and employment will continue to manifest themselves for some time after the Games have ended. Of course, there may be constraints on fiscal policy to the extent that the financing of the projects connected with the Games will require an increase in public sector borrowing. In any case, however, the medium-term benefits from well-organised Games are a function of corresponding infrastructure expansion and human resource upgrading (in tourism, transport and telecommunications). These can contribute to a sustained increase in Greece's share in world tourism (for instance, by attracting new regular visitors, which would require an upgrading of the quality of the country's tourist services). Consequently, the long-term effect of the completion of projects connected with the Olympic Games will depend on the success of the event, on the ability of fiscal policy to act countercyclically, on the overall progress of the Greek economy in terms of competitiveness, and on international economic conditions.

Apart from the above, comfortable financing conditions for households and firms, which are expected to continue in the future, have also served to support economic activity in recent years. This means that they will remain more favourable than they were before Greece joined the euro area, but not necessarily more favourable than they are today (as present conditions reflect an intensification of competition between banks and the substantial interest rate cuts connected with the run-up to EMU). In terms of prospects, it has

already been pointed out¹ that the debt of the private sector and more particularly of households as a percentage of GDP is still low, compared with the euro area as a whole or the US. Nevertheless, while Greek households are not overindebted, on the basis of available data, the persistence of current trends over a number of years may increase their liabilities excessively. This would create problems as far as debt servicing is concerned, with negative effects on consumer spending and economic activity. The Bank of Greece is of course monitoring these developments closely and is striving, as mentioned previously, to increase transparency in the credit market, so as to make credit risk management by banks more efficient and to prevent negative developments of this type. In any case, it should be mentioned that, as shown by the experience of the US economy, it is difficult to foresee the moment in time and the level at which household borrowing will reach saturation.

7.3 Economic policy orientations

The foregoing examination of some major factors that affect Greece's long-term growth prospects leads to the conclusion that their favourable effect will decrease gradually and perhaps considerably after the next five years. The decrease in the beneficial impact of some of these factors may be felt even earlier (for instance, as soon as 2005). Useful conclusions can also be drawn regarding economic policy. First, as suggested above, resources available during the current period must be utilised efficiently, so as to multiply their effectiveness and prolong their beneficial effect. Second, fiscal policy must be able to mitigate the short-term consequences of cyclical shocks due to the decrease in the positive contribution of the above factors and, more generally, the impact of shocks that could cause fluctuations in economic activity. Therefore, the fiscal consolidation effort will have to be sustained, as provided for in the Greek Stability and Growth Programme, so that fiscal surpluses and a drop in the public debt-to-GDP ratio over the coming years will make the conduct of anti-cyclical fiscal policy possible whenever necessary, without impeding the achievement of balanced budgets in the medium term. Third, appropriate conditions must be created and policies formulated in time, in order to help maintain high growth rates, mainly by increasing net exports and by utilising opportunities in the world market. Such policies include those aimed at attracting direct foreign investment. Greece must take advantage of its participation in the euro area and expand its transactions with the other Member States, while particular attention must also be paid to developing trade with the EU accession countries. The expansion of exports presupposes, *inter alia*, that Greece will succeed in utilising its comparative competitive advantages (primarily in the sectors of tourism and shipping, but also in certain branches of agricultural and industrial production). Such advantages also include Greece's position in a region where it is so far the only Member State of the EU.

¹ See Bank of Greece, *Monetary Policy 2001-2002*, March 2002.

The question therefore is how Greece can improve the conditions and policies that will provide continued and substantial support to the growth dynamics of the Greek economy over the next ten years. The progress made in recent years in achieving low inflation, an improved fiscal position and both an expansion and upgrading of the productive potential has already created more favourable conditions for speeding up the growth process. Furthermore, the environment of monetary and exchange rate stability secured by the adoption of the single currency is an additional important factor favouring economic growth. Considering of course that the single monetary policy is pursued with the aim of ensuring price stability in the euro area as a whole, the contribution of national fiscal and structural policies is essential in order to establish a high degree of price stability at the national level, so that the economy's competitiveness will not be adversely affected in the years to come.

In order to maintain a high and sustainable rate of economic growth and achieve real convergence, reforms in several sectors will have to be accelerated and widened in scope, so as to increase the efficiency of the economy and improve its competitiveness. Furthermore, the completion of fiscal consolidation, and the steady reduction of the debt-to-GDP ratio will also contribute to the achievement of growth targets and, as mentioned above, enable fiscal policy to help stabilise economic activity in the short term, by playing an anticyclical role.

A major economic policy issue directly related to the prospects of ensuring fiscal stability is the reform of the social security system. This matter is at the heart of the dialogue between the government and the social partners. The need for such a reform is dictated by a combination of factors, such as the upcoming ageing of the population in conjunction with the pay-as-you-go character of the existing social security system, as well as the accumulation of financial burdens from policy choices of the past. The reform is therefore necessary not only to secure the viability of the pension system and the fair distribution of the burden between this and the next generations, but also to ensure fiscal stability in the long run. It should be stressed that, while the viability problem in Greece – as in other countries – will become more acute only after a number of years, it is imperative to start addressing it immediately. Otherwise, the required changes will be more drastic and certainly more painful.

To deal effectively with the problem at the heart of the social security issue, in other words how to secure resources on a sustainable and long-term basis, a global solution must be found. As stressed in last year's Annual Report, the implementation of policies geared towards boosting the employment rate, favouring a rise in productivity and helping to reduce contribution evasion is of particular importance. Efforts in this direction would be facilitated by integrating immigrants into the labour market and the social security system, by eliminating those features of the tax and social security systems that lead to increased employment in the underground economy, and by facilitating employment of workers with family responsibilities. In order to secure the viability of the social security system, it will be necessary to change some of the present system's key parameters (such

as the retirement age, the basis on which pensions are calculated, and the replacement rate), its structural features (e.g. its organisational structure per category of insured persons and sector of economic activity, as well as per level or “pillar” of insurance), as well as the ways of investing resources available to insurance funds. The purpose of these reforms should be –*inter alia*– to strengthen the funded character of the system (i.e. the correspondence between worker contributions and pensioner benefits). Increasing this correspondence as well as transparency could be achieved if the ordinary budget takes up directly the cost of benefits which have a “social welfare” character or are related to choices of social policy; this cost is at present borne by the social security funds. As far as funding is concerned, there is no doubt that the ageing of the population and the costs of the necessary transitional changes during the changeover to the new system will require additional public funds. However, as the budget surpluses expected over the coming years will have to be used, at least in the immediate future, to curtail public debt, the allocation of resources for the financing of the social security system will be subject to constraints. Consequently, an increase in the financing of the social security system would have to be combined with a cutback in other, non-productive, expenditures. An increase in the total tax burden would not be advisable, as this would have a negative impact on competitiveness and the growth prospects of the economy.

Frequent and extensive changes were made to the Greek tax system over the past two decades in order to meet obligations arising from EU membership and to obtain the revenue needed to reduce fiscal deficits. These successive changes, however, have made the tax system extremely complex,¹ while also undermining its internal cohesion. Hence, the existing system obstructs efforts to enhance Greece’s international competitiveness and to promote economic growth and restricts the achievement of fiscal consolidation and the implementation of a stabilising and growth-oriented fiscal policy. At the same time, it does not sufficiently ensure a fair allocation of the tax burden.

The tax reform² is therefore necessary to achieve the following major objectives: First, to simplify and increase the transparency and stability of tax provisions by drastically reducing bureaucracy and promoting equal treatment. This will help cultivate the taxpayer’s sense of social responsibility. Second, to encourage employment and entrepreneurship, by eliminating disincentives, boosting labour demand and supply and facilitating the founding and operation of business firms, regardless of their legal form. This will support a faster rise in GDP and increase the competitiveness of the economy. Third, to restrict tax evasion. This will help improve the country’s fiscal position and reduce public debt without imposing an additional tax burden, and thus create some room for a more efficient management of government spending.

1 Greece’s entry into the EEC, however, helped simplify indirect taxation by introducing the VAT and harmonising other indirect taxes.

2 A committee was already set up last year to examine the matter and recently submitted its proposals, which will be discussed by the social partners and the government.

The achievement of the above objectives will not be an easy matter. More specifically, a number of tax-related interventions will be required to enhance competitiveness, such as eliminating taxes and charges imposed only on Greek products, reducing tax rates on corporate profits, reducing employers' contributions to social security funds, cutting down enterprises' obligations to maintain files and constantly submit data, tax returns etc. to the tax authorities, as well as simplifying and stabilising the tax system in general, thus contributing in the medium term to a decrease in the costs assumed by firms. In order to promote economic growth, the tax system must also reduce the negative impact of taxes on the economy and help boost savings and domestic investment, raise employment and attract foreign direct investment. A meaningful tax reform must also be aimed at a fairer allocation of the tax burden. Achieving this objective will be difficult, since shifting the tax burden to others may lead to results contrary to those desired.

A simultaneous achievement of the foregoing tax reform objectives is not always feasible. A careful choice of relevant arrangements is thus warranted, so as to avert situations that could impede tax reform. Difficulties arise from the fact that the tax reform must be effected under specific fiscal constraints, associated with extensive tax evasion, future obligations to finance the social security system and the need to reduce high public debt. The actual allocation of the tax burden cannot be accurately estimated so long as tax evasion remains extensive, while most tax provisions (e.g. tax incentives, exemptions etc.) become pointless when applied to insincere taxpayers.¹ Therefore, the drastic reduction of tax evasion is a prerequisite for achieving a fairer distribution of the tax burden and a simplification of the overall tax system, given that the complexity of the present system is partly a result of efforts to fight tax evasion. Finally, the effective control of primary public expenditure is also a prerequisite for a stable tax system: if spending is not controlled, the need for new revenues will eventually lead to new changes to the tax system.

In recent years many countries – in an effort to control fiscal deficits and achieve sustainable fiscal consolidation – have focused on controlling primary public expenditure, by enacting rules and limits concerning e.g. the annual growth rate of primary expenditure and the level of spending as a percentage of GDP. Three of these rules are of particular interest to our country and call for further examination: (a) the enactment of limits to primary expenditure or certain categories thereof, (b) the accumulation of a social security reserve, to cover the future obligations of the social security system, and (c) the obligation to publish data concerning the net position and the total liabilities of the government sector. These rules should be considered permanent and cover all components of the public sector (not only central government), while specific annual targets should be connected with medium-term targets. The adoption of such rules at the national level would help enhance the credibility and sustainability of fiscal policy, with positive effects on the economic climate and on expectations concerning the completion of fiscal consolidation.

1 The abolition of exemptions tends to hurt sincere taxpayers more than tax-evaders.

Apart from the reforms to the tax and the social security system, announced or ongoing reforms must also be accelerated in other areas and be supplemented along the following four directions: modernising the public administration, improving the functioning of the labour market, strengthening competition in the product markets and, finally, ensuring stability and improving the effectiveness of the banking system.

Specifically, the modernisation of public administration is a prerequisite for the successful implementation of structural reforms in several areas. Moreover, it is crucial for the establishment of an environment that would favour investment and job creation by Greek and foreign firms, both big and small. In addition to the simplification and the rationalisation of the tax system, the systematic eradication of bureaucratic attitudes and the review of administrative procedures *ex nihilo*, with a view to making them as simple as possible, could yield spectacular results in terms of a better investment climate, a measurable curtailment of business operating costs and an increase in worker productivity. Some positive measures have already been taken or are being planned in this direction.

The effective functioning of the labour market should be achieved in such a way as to combine employment flexibility and employment security and should encourage both labour supply and demand. The rigidities of the Greek labour market do not emanate only – or even mainly – from the legal framework governing relations between employers and employees, but rather from shortcomings in the education and training system (which have not been sufficiently addressed, although some progress has been made) and labour market mismatches (although some positive steps were taken during 2001¹). Moreover, the unsatisfactory performance of the Greek economy in terms of job creation is associated with product market rigidities, disincentives contained in the tax and social security legislation and the inadequacy of the infrastructure to facilitate women's participation in the labour force. Hence, full employment, which is a key component of the broader objective of real convergence, requires reforms in all these areas. The fact that discussions on tax reform and the overhaul of the social security system, based on concrete proposals, are currently in progress and that the government wishes to implement these reforms by the end of the year is a positive development in this connection. Meanwhile, an overall evaluation of the results of the labour market reforms enacted since late 2000 would be useful.

The privatisation process during the last few years and the opening up of certain crucial markets, pursuant to provisions of EU law, are a positive first step towards stimulating competition in product markets and strengthening their effective functioning. The continued liberalisation of the energy market, after the successful liberalisation of the telecommunications market, should play a particularly important part in achieving this goal and have a direct effect on economic growth. Markets that are seemingly less important to growth should not be neglected, since they can – as seen during the last few

1 With the enactment of the law on the restructuring of the Manpower Employment Agency and the conditions of operation of Temporary Employment Agencies.

months in the market for fresh fruit and vegetables— adversely affect the economic climate and crucial indicators, such as inflation, owing to the lack of competitive conditions.

The further enhancement of the Greek banking system's efficiency will play an important role in supporting high growth rates of economic activity and investment. A modern and efficient banking system does not limit itself to traditional intermediation between savers and investors, but offers a broad spectrum of financial services, ranging from highly specialised consultancy and investment banking services to innovative combinations of bank products and other retail banking services offered to end-consumers. The degree of efficiency of a banking system depends on its ability to provide optimal quality services at the lowest possible cost. Now that domestic markets are part of the single European financial market, growing competition exerts increased pressure on Greek credit institutions to improve their performance and leaves no room for complacency or inertia: the Greek credit institutions' ability to take advantage of their dominant position in specific segments of the market will be reduced as competition increases. This challenge will have to be met by Greek banks through the further improvement of their efficiency and soundness. The Bank of Greece seeks to maintain the capital adequacy of banks at a high level and to promote consolidation of their loan portfolios and participations in the capital of other business firms. In order to promote these two goals, the Bank of Greece requires credit institutions to increase their own funds whenever the capital adequacy ratio approaches the minimum required levels and particularly whenever they plan to expand their branch network. At the same time, it requires them to make sufficient provisions that would allow them to write off bad debts and thus achieve faster consolidation of their portfolios. Furthermore, it pays particular attention to the upgrading of banks' internal audit and risk management systems, in compliance with the regulatory Acts it has issued. In order to improve their efficiency, credit institutions should include in their strategy a long-term policy geared at reducing their operating costs, based on better management of human resources, adoption of technologically advanced methods of service provision, and optimal utilisation of available information concerning customers and markets.

At the same time, the Bank of Greece gives priority to improving transparency in bank transactions, which serves their customers' as well as their own interests. The adoption of international accounting standards is expected to contribute substantially to a more accurate recording of the financial position of banks in their financial statements. The government has recently taken some important steps towards abolishing contributions, taxes and other regulations that distorted the entire range of relations between banks and their customers and were the main cause for the loss of business and the transfer of activities outside Greece. It is also necessary to abolish regulations that continue to have a negative effect on the competitiveness of Greek banks, including those concerning the recruitment of skilled staff and, generally, the proper management of human resources. However, in parallel to the adoption of advanced technology and software, banks should allocate additional resources to the continued training of existing staff, since the rate at which new bank products and techniques are introduced makes it difficult even for experienced staff to

adapt. Upgrading human resources is essential if the advantages offered by Greece's entry into monetary union are to be reaped by Greek banks in the field of international activity.

In conclusion, after its full entry in EMU, the Greek economy will continue to grow at a considerably faster pace than the euro area average. Inflation remains relatively low, especially compared with the rates of a few years ago, but markedly exceeds average euro area inflation. Also, the country's fiscal position has significantly improved, as the general government budget was virtually balanced in 2001 and is expected to register a surplus this year. These favourable developments, however, are accompanied by a number of unsatisfactory features. The unemployment rate and the current account deficit as a percentage of GDP remain particularly high despite the improvement recorded last year. These two indicators reflect structural weaknesses of the economy, especially the country's low competitive position in the world market. Although corporate and public investment has grown considerably in the last six years and led to an upgrading of the production base and the infrastructure, the Greek economy has not yet properly utilised its human resources, nor has it improved its export performance to such an extent as to ensure a high and sustainable growth rate over the long term. Moreover, despite a material improvement in the fiscal situation in the last few years, public debt as a percentage of GDP remains very high and thereby constrains the growth process.

The prospects of achieving real convergence and full employment are favourably affected by the adoption of the euro and the monetary and exchange rate stability this entails, as well as by the improvement in basic indicators as a result of nominal convergence. They are also favourably affected by the tangible advantages and the potential benefits of the country's participation in the European Union, particularly in the euro area. The real convergence process is, however, impeded by the constraints imposed by high public debt, low productivity, and the combination of ineffective functioning and insufficient competition in some markets. Consequently, the monetary stability ensured by the adoption of the euro and the protection it provides against the repercussions of the current account deficit should not lead to complacency and a slackening of the efforts to complete fiscal consolidation and improve productivity and the international competitiveness of the economy. Furthermore, the main goal should be to achieve and maintain price stability in our country, which cannot be ensured solely by means of the single monetary policy. The conduct of an appropriate national economic policy is also required, as well as the contribution of the social partners, through the implementation of a prudent pricing policy and agreements on wage increases that match the rise in productivity and ensure price stability. The social partners will thus help safeguard the workers' purchasing power, enhance competitiveness, reduce unemployment and, therefore, promote a faster and steady increase in real incomes.

The objectives of real convergence and full employment will be achieved more securely and rapidly if the appropriate fiscal and structural policies are implemented on a persistent and consistent basis. The implementation of such policies is not an easy matter, as it entails radical changes in the structure and functioning of the economy, as well as in

general attitudes and behaviour. The implementation of such policies is, however, imperative in order to maintain and improve the performance of the economy in the new environment created by the adoption of the euro, growing competition in the single market and the forthcoming EU enlargement. Through a systematic approach, prudence and consensus we can successfully carry out the reforms that will lead to a significant improvement in competitiveness and the completion of fiscal consolidation. These are the two main prerequisites that must be ensured in order to achieve full employment and real convergence and enhance social cohesion.

APPENDIX I

1. CHRONOLOGY OF MAIN MONETARY POLICY MEASURES OF THE EUROSISTEM

4 January 2001

The Governing Council of the ECB decides on an allotment amount of €20 billion per operation for the longer-term refinancing operations to be conducted in 2001. This amount takes into consideration the expected liquidity needs of the euro area banking system in 2001 and the desire of the Eurosystem to continue to provide the bulk of refinancing of the financial sector through its main refinancing operations. The Governing Council may adjust the allotment amount in the course of the year in the event of unexpected developments in liquidity needs.

4 January, 18 January, 1 February, 15 February, 1 March, 15 March, 29 March, 11 April, 26 April 2001

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 4.75%, 5.75% and 3.75% respectively.

10 May 2001

– With effect from the operation to be settled on 15 May 2001, the minimum bid rate on the main refinancing operations of the Eurosystem is lowered by 0.25 percentage point to 4.50%.

– With effect from 11 May 2001, the interest rate on the marginal lending facility is lowered by 0.25 percentage point to 5.50%.

– With effect from 11 May 2001, the interest rate on the deposit facility is lowered by 0.25 percentage point to 3.50%.

23 May, 7 June, 21 June, 5 July, 19 July, 2 August 2001

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 4.50%, 5.50% and 3.50% respectively.

30 August 2001

– With effect from the operation to be settled on 5 September 2001, the minimum bid rate on the main refinancing operations of the Eurosystem is lowered by 0.25 percentage point to 4.25%.

- With effect from 31 August 2001, the interest rate on the marginal lending facility is lowered by 0.25 percentage point to 5.25%.

- With effect from 31 August 2001, the interest rate on the deposit facility is lowered by 0.25 percentage point to 3.25%.

13 September 2001

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 4.25%, 5.25% and 3.25% respectively.

17 September 2001

- With effect from the operation to be settled on 19 September 2001, the minimum bid rate on the main refinancing operations of the Eurosystem is lowered by 0.50 percentage point to 3.75%.

- With effect from 18 September 2001, the interest rate on the marginal lending facility is lowered by 0.50 percentage point to 4.75%.

- With effect from 18 September 2001, the interest rate on the deposit facility is lowered by 0.50 percentage point to 2.75%.

27 September, 11 October, 25 October 2001

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 3.75%, 4.75% and 2.75% respectively.

8 November 2001

- With effect from the operation to be settled on 14 November 2001, the minimum bid rate on the main refinancing operations of the Eurosystem is lowered by 0.50 percentage point to 3.25%.

- With effect from 9 November 2001, the interest rate on the marginal lending facility is lowered by 0.50 percentage point to 4.25%.

- With effect from 9 November 2001, the interest rate on the deposit facility is lowered by 0.50 percentage point to 2.25%.

6 December 2001

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 3.25%, 4.25% and 2.25% respectively.

– In addition, the Governing Council decides that the reference value for the annual growth rate of the broad monetary aggregate M3 will remain at 4.5%.

3 January 2002

– The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 3.25%, 4.25% and 2.25% respectively.

– The Governing Council decides on an allotment amount of €20 billion per operation for the longer-term refinancing operations to be conducted in 2002. This amount takes into consideration the expected liquidity needs of the euro area banking system in 2002 and the desire of the Eurosystem to continue to provide the bulk of refinancing of the financial sector through its main refinancing operations. The Governing Council may adjust the allotment amount in the course of the year in the event of unexpected developments in liquidity needs.

7 February, 7 March, 4 April 2002

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 3.25%, 4.25% and 2.25% respectively.

2. CHRONOLOGY OF DECISIONS CONCERNING THE ESTABLISHMENT AND OPERATION OF CREDIT INSTITUTIONS AND THE SUPERVISION OF THE FINANCIAL SYSTEM

22 January 2001

The scope of activities of the Hellenic Industrial Development Bank is expanded.

27 February 2001

The Commercial Bank of Greece is authorised to acquire a qualifying holding of 75.02% in the share capital of its subsidiary to be established in Cyprus under the name “Commercial Bank of Greece (Cyprus) Ltd”, to which all the activities of the existing branch network of the Commercial Bank of Greece in Cyprus are to be transferred.

10 April 2001

– The minimum share capital of credit institutions is increased and set as follows per credit institution category:

1. Banks in the form of a société anonyme: €18 million (6,133.5 million drachmas, against a previous limit of 4,000 million drachmas).

2. Cooperative banks which engage in business:
 - a) within the prefecture of the city where their head office is located: €6 million (2,044.5 million drachmas, against a previous limit of 1,200 million drachmas),
 - b) in bordering prefectures or in the administrative region of their head office: €10 million (3,407.5 million drachmas, against a previous limit of 2,500 million drachmas),
 - c) in the region of Attica, in the Thessaloniki prefecture or in the whole country: €18 million (6,133.5 million drachmas, against a previous limit of 4,000 million drachmas).
3. Branches of credit institutions having their head office in a non-EU country:
 - a) for the first and up to 4 branches: €9 million (3,066.75 million drachmas, against a previous limit of 2,000 million drachmas),
 - b) for more than 4 branches: €18 million (6,133.5 million drachmas, against a previous limit of 4,000 million drachmas).

For the smooth adjustment, especially of small banks, to the new higher limits of minimum share capital, a transitional period is provided for until the end of 2002. This provision also applies to leasing and factoring firms, the minimum capital of which is determined as a percentage of the minimum share capital required for the establishment of a credit institution.

– The minimum share capital of firms acting as intermediaries in the interbank money and foreign exchange markets is increased to €0.3 million (102.2 million drachmas, against a previous minimum of 100 million drachmas). Own funds must have been adjusted to the new level by the end of 2001.

– The minimum share capital of bureaux de change belonging to sociétés anonymes other than credit institutions is increased to €0.25 million (85.2 million drachmas, against a previous minimum of 80 million drachmas). Own funds must have been adjusted to the new level by the end of 2001.

20 April 2001

A new bank, under the name of “Panhellenic Bank S.A.,” is authorised to operate in Greece. One of the main objectives of the bank is to contribute to the development and better functioning of cooperative credit. The “Pangritia Cooperative Bank” and the “Cooperative Bank of Chania” are authorised to acquire qualifying holdings up to 49% and 15.9%, respectively, in the share capital of the new bank.

3 May 2001

For the calculation and weighting of the items which determine own funds, the solvency ratio and the large exposures of factoring firms, the provisions in force for credit institutions shall apply.

21 May 2001

- A new bank under the name of “Probank S.A.” is authorised to operate in Greece.
- With a view to gradually harmonising the Postal Savings Bank’s operating framework to the rules governing the operation and supervision of the other credit institutions, the Postal Savings Bank is authorised to invest in equity and mutual fund units up to an amount corresponding to 25% of its own funds.

31 May 2001

The terms and conditions for the granting of credit by members of the Athens Stock Exchange for the purchase of shares, as well as the minimum maintenance margin, are defined. Moreover, the ceiling on loans granted by credit institutions to individuals for the purchase of shares, as well as relevant margins, are adjusted accordingly.

18 June 2001

A new bank under the name of “Proton Investment Bank S.A.” is authorised to operate in Greece.

17 July 2001

- A new bank under the name of “FBB-First Business Bank S.A.” is authorised to operate in Greece. The Agricultural Bank is authorised to acquire 44% of the share capital of the new bank.
- National Bank of Greece and Alpha Bank are authorised to participate in the share capital of a firm to be established for the management of the reloadable e-purse.

3 August 2001

The operating framework of mortgage banks is fully harmonised to that applying to the other credit institutions. The housing loan deposit scheme is extended to apply to all credit institutions.

27 August 2001

With a view to harmonising Greek banking legislation to that of the European Union, Directives 98/32/EC and 98/33/EC of the European Parliament and the European Council are incorporated into national law. These directives supplement the procedure for calculating the solvency ratio of credit institutions authorised in Greece.

3 September 2001

The absorption of Telesis Investment Bank by EFG Eurobank is approved.

10 October 2001

With a view to meeting the needs of central banks for specific statistical information for the conduct of the single monetary policy, mutual fund management companies are required to submit a monthly financial statement to the Bank of Greece.

23 October 2001

Marfin Investment Firm is authorised to acquire 71.42% of the Piraeus Prime Bank's share capital. By a subsequent decision (31 January 2002) it is authorised to acquire 100% of this bank's share capital.

5 November 2001

The operating framework of bureaux de change is adjusted to the conditions resulting from the introduction and circulation of the single currency.

29 November 2001

Authorisation to operate in Greece is withdrawn from the Bank of Nova Scotia. The branch network of the above bank is acquired by FBB-First Business Bank S.A.

18 December 2001

Nova Bank is authorised to acquire 100% of the Turkey-based Sitebank A.S.

20 December 2001

The limits set for monetary or supervisory policy purposes on certain transactions or activities are adjusted and redenominated in euro. These limits refer mainly to:

- 1) the granting of consumer loans,
- 2) credit institutions' participations in financial firms and their placements in the interbank market, and
- 3) the provision of supervisory data to the Bank of Greece and the application of limits related to the prevention and suppression of the use of the financial system for money laundering.

27 December 2001

In the context of implementation of Council Regulation 1338/2001(EC) on the determination of the necessary measures for the protection of the euro, credit institutions and bureaux de change must withhold the euro banknotes and coins produced to them

which they reasonably suspect to be counterfeit. If the above institutions fail to comply with this provision, they will incur a fine in favour of the Greek government.

31 January 2002

– The terms and conditions for the establishment and operation of Finance Companies, as well as the rules for the supervision of such institutions by the Bank of Greece, are laid down. The main activity of Finance Companies is the supply of credit to cover personal and consumption needs of natural persons.

– A Finance Company under the name “Codifis Hellas Finance Company S.A.” is authorised to operate in Greece.

26 February 2002

A new bank under the name “Aegean Baltic Bank” is authorised to operate in Greece.

1 March 2002

– Natural persons are allowed to keep a second joint account with the same credit institution, provided that the maximum amount (€1,500) up to which such accounts may be in debit applies cumulatively for both the accounts kept, irrespective of the number of beneficiaries.

– Credit institutions operating as credit cooperatives may record as their members, following an *ad hoc* permit of the Bank of Greece, leasing and factoring firms which have their head office out of the area in which such credit institutions operate.

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TABLE 1
GROSS EXPENDITURE OF THE ECONOMY AND GROSS DOMESTIC PRODUCT
(Constant prices of year 1995)

	Billion drachmas ¹	Annual percentage changes			
	1995	1998	1999	2000	2001
1. Consumption	24,075.7	3.2	2.6	2.9	3.0
1.1 Private	19,901.6	3.5	2.9	3.3	3.2
1.2 Public	4,174.1	1.7	0.9	0.7	1.8
1.2.a Individual consumption expenditure	1,600.7	2.3	-0.4	0.0	0.3
1.2.b Collective consumption expenditure	2,573.4	1.3	1.8	1.2	2.7
2. Gross fixed capital formation	5,066.0	10.6	6.2	7.8	7.4
2.1.a By investor: General government	864.0	8.3	6.9	4.7	7.4
2.1.b Other sectors	4,202.0	11.0	6.0	8.4	7.4
2.2.a By type: Construction	3,210.5	9.2	7.6	2.9	8.6
2.2.b Equipment	1,594.5	16.5	1.0	17.2	5.2
2.2.c Other investment	261.0	-14.0	34.0	0.0	10.6
3. Change in stocks and statistical discrepancy (percentage of GDP)	85.7	0.3	-0.3	0.0	-0.1
4. Domestic final demand	29,227.4	4.6	2.7	4.1	3.8
5. Exports of goods and services	4,800.2	5.3	8.1	18.9	2.3
5.1 Exports of goods	2,843.2	2.7	-4.9	11.8	1.4
5.2 Exports of services	1,957.0	7.7	20.0	24.0	2.9
6. Final demand	34,027.6	4.7	3.6	6.6	3.6
7. Imports of goods and services	6,792.4	9.2	3.6	15.0	1.9
7.1 Imports of goods	6,162.2	9.4	-5.1	15.8	2.9
7.2 Imports of services	630.2	8.5	54.4	12.3	-1.6
8. Balance of goods and services	-1,992.2	...	...	...	...
9. GDP at market prices	27,235.2	3.4	3.6	4.1	4.1
		Contribution to GDP growth (percentage points)			
1. Consumption		2.8	2.2	2.5	2.6
1.1 Private		2.5	2.1	2.4	2.3
1.2 Public		0.3	0.1	0.1	0.3
1.2.a Individual consumption expenditure		0.1	0.0	0.0	0.0
1.2.b Collective consumption expenditure		0.1	0.2	0.1	0.2
2. Gross fixed capital formation		2.1	1.3	1.7	1.7
2.1.a By investor: General government		0.3	0.3	0.2	0.3
2.1.b Other sectors		1.9	1.1	1.6	1.4
2.2.a By type: Construction		1.1	1.0	0.4	1.1
2.2.b Equipment		1.2	0.1	1.3	0.5
2.2.c Other investment		-0.1	0.3	0.0	0.1
3. Change in stocks and statistical discrepancy (percentage of GDP)		0.0	-0.6	0.3	-0.1
4. Domestic final demand		4.9	3.0	4.5	4.2
5. Exports of goods and services		1.1	1.7	4.1	0.6
5.1 Exports of goods		0.3	-0.5	1.1	0.1
5.2 Exports of services		0.8	2.2	3.1	0.4
6. Final demand		6.0	4.7	8.6	4.7
7. Imports of goods and services		-2.7	-1.1	-4.6	-0.6
7.1 Imports of goods		-2.3	1.3	-3.7	-0.8
7.2 Imports of services		-0.4	-2.4	-0.8	0.1
8. Balance of goods and services		-1.6	0.6	-0.4	-0.1
9. GDP at market prices		3.4	3.6	4.1	4.1

Source: National Statistical Service of Greece (NSSG)/National Accounts (provisional estimates for 1999-2001), March 2002.

TABLE 2
INDUSTRIAL PRODUCTION (1993=100)

	Weights (1993)		Average annual percentage change					2001 level ¹ (1993=100)
			1997	1998	1999	2000	2001 ¹	
INDUSTRY	100.0		0.7	6.9	2.8	7.7	0.9	125.4
1. Mining and quarrying	4.7	100.0	-1.0	-1.5	-6.2	14.0	-1.5	112.9
Coal and lignite extraction		42.2	-1.8	3.6	1.6	5.3	4.4	131.0
Oil wells and extraction of natural gas		9.1	-8.9	-32.3	-94.3	1,470.0	-24.9	36.9
Ores extraction		15.9	0.8	-6.4	-4.8	12.0	6.4	120.6
Other extraction and quarrying activities		32.8	1.1	0.4	-5.4	15.5	-10.5	107.1
2. Manufacturing	76.9	100.0	0.7	5.6	0.6	6.1	1.5	116.8
3. Electricity - natural gas - water supply	18.4	100.0	1.1	13.8	11.6	11.3	-0.3	162.7
Electricity		90.6	0.4	6.7	7.1	8.7	-0.9	140.3
Natural gas		0.2	105.2	1,587.1	79.8	34.3	0.4	9,660.3
Water supply		9.2	15.6	8.4	4.6	8.0	4.4	163.1
INDUSTRY	100.0		0.7	6.9	2.8	7.7	0.9	125.4
Basic categories								
Energy		25.0	0.6	12.8	4.6	13.0	-0.6	157.3
Intermediate goods		29.4	0.6	2.3	1.6	7.9	0.5	117.8
Capital goods		9.8	-2.6	14.0	-0.6	8.2	1.6	102.3
Consumer durables		1.9	4.3	15.7	7.3	15.5	-5.3	162.5
Consumer non-durables		33.9	1.1	3.7	2.5	1.6	3.1	111.2

1 Final data.

Source: NSSG.

TABLE 3
POPULATION, LABOUR FORCE AND EMPLOYMENT

	2001 (thous. persons)	Annual percentage changes							
		1994	1995	1996	1997	1998	1999	2000	2001
Population aged 15 or more ¹	8,954	1.4	0.9	1.0	1.2	0.0	1.0	0.8	0.9
Population aged 15-64 ¹	6,860	0.5	0.1	0.3	-0.1	2.1	-0.2	-0.7	-0.2
Labour force ¹	4,362	2.2	1.1	1.9	-0.5	4.3	0.4	-0.6	-1.7
Employment: ¹	3,918	1.9	0.9	1.2	-0.4	3.0	-0.7	0.2	-0.7
– Primary sector ¹	627	-0.4	-1.0	0.5	-2.4	-8.0	-5.0	0.2	-6.5
– Secondary sector ¹	894	-0.6	-0.9	-0.1	-2.1	5.5	-1.3	-1.5	0.7
– Tertiary sector ¹	2,396	3.8	2.4	2.1	1.1	5.7	0.8	0.8	0.4
Rate of participation in the labour force ^{1,2}		(49.1)	(49.2)	(49.7)	(48.8)	(51.0)	(50.7)	(50.0)	(48.7)
Employment rate ^{1,3}		(54.1)	(54.5)	(54.9)	(54.8)	(55.6)	(55.4)	(55.8)	(55.6)
Unemployment (as a percentage of the labour force) ¹	445	(8.9)	(9.1)	(9.6)	(9.6)	(10.8)	(11.7)	(11.1)	(10.2)
Employment in:									
– Manufacturing ¹	557	-0.3	0.0	-0.3	-2.8	3.4	-1.6	-2.1	0.0
– Construction ¹	285	0.0	-3.4	0.0	-1.2	13.3	-3.2	1.2	2.9
– Banks ⁴	62	5.3	4.0	2.8	1.0	1.8	1.1	2.3	-0.9
– Civil service ⁵	346	-2.0	2.2	2.3	1.0	0.9	2.4	1.9	1.0
– Public enterprises and entities ⁶	137	4.4	0.2	-0.3	-1.5	-2.6	-1.9	-4.3	-3.9

1 NSSG, Labour Force Surveys: changes from second quarter to second quarter. Revised data on the basis of Eurostat's definitions, New Cronos database and NSSG.

2 Participation rate of population aged 15 or more in the labour force.

3 Employed aged 15-64 as a percentage of population aged 15-64.

4 Data obtained from banks: December-on-December changes.

5 Ministry of Economy and Finance: December-on-December changes. *Average annual* employment is estimated to have increased by 2.2% in 1994, 1.4% in 1995, 2.5% in 1996 and 1.1% in 1997 and to have decreased by 1.1% in 1998. In 1999 average annual employment increased by 2.1% (if the personnel of public hospitals is counted in and the fluctuation of the number of substitute teachers in secondary schools is normalised), in 2000 by 1.8% and in 2001 by 0.6%.

6 Ministry of Economy and Finance: December-on-December changes. Average annual employment increased by 0.6% in 1994, or by 4.8% taking into account the reincorporation of the Athens bus system into the public sector. In 1995 average annual employment increased by 1.5%, in 1996 it remained unchanged, while it fell by 0.6%, 2.9% and 1.6% in 1997, 1998 and 1999, respectively, by 3.9% in 2000 and by 4.1% in 2001. If *only public enterprises* are taken into account, the corresponding rates are: +0.6%, -1.3%, -1.2%, -3.4%, -1.9%, -4.2% and -4.6% for 1995, 1996, 1997, 1998, 1999, 2000 and 2001, respectively.

TABLE 4
EVOLUTION OF REAL ESTATE (DWELLINGS) PRICES: 1994-2001

Year	Athens area		17 provincial cities	
	Percentage change	Deflated change ³	Percentage change ⁴	Deflated change ³
1994	10.2 ¹	-0.8 ¹	8.7	-1.6
1995	8.5 ¹	0.4 ¹	9.4	1.4
1996	10.5 ¹	2.5 ¹	6.8	-0.7
1997	13.7 ¹	8.2 ¹	11.2	6.1
1998	13.0 ¹ -13.7 ²	7.9 ¹ -9.4 ²	10.6	6.1
1999	12.5 ²	9.5 ²	5.4	2.8
2000	15.9 ²	11.5 ²	7.9	3.6
2001	15.1 ²	11.7 ²	10.8	7.9

1 Changes: 2nd year-half on 2nd year-half.

2 December-on-December changes. Data for December 2000 were estimated on the basis of November data.

3 On the basis of the corresponding Consumer Price Index (CPI) change.

4 Fourth-quarter-on-fourth-quarter changes.

Sources: For provincial cities, weighted change on the basis of quarterly data for the cities of Agrinion, Alexandroupolis (since 1996), Volos, Heraklion, Thessaloniki, Ioannina, Kavala, Kalamata, Xanthi, Patras, Pyrgos, Rethymnon, Rhodes (since 1997), Serres (since 2000), Sparta, Florina (since 2000) and Chania, collected by Bank of Greece branches. For Athens; for the 1994-1998 period, calculations on the basis of biannual data (collected by the firm "Danos & Associates") on the prices of new dwellings offered for sale; for 1998-2001, calculations based on monthly data (collected by "Property Ltd") on the prices of dwellings offered for sale.

TABLE 5
INFLATION INDICATORS
(Annual percentage changes)

Year or quarter	Consumer Price Index										Wholesale Price Index ¹					
	Sub-indices					Sub-indices					Sub-indices			Sub-indices		
	General index	Goods	Services	CPI excluding fresh fruit & vegetables and fuel	CPI excluding food & fuel	Food and non-alcoholic beverages	Fresh fruit and vegetables	Fuel	General index	Primary	Industrial	Industrial excluding fuel	Exported products	Imported products		
1993	14.4	11.9	19.0	14.8	15.0	12.7	1.5	16.8	11.9	5.4	13.5	...	11.3	12.2		
1994	10.9	10.9	10.8	11.0	10.8	12.9	24.8	2.7	8.7	13.7	7.4	8.5	8.7	9.2		
1995	8.9	7.5	11.4	9.4	9.6	8.4	8.2	2.8	7.8	5.1	8.1	8.7	10.2	7.0		
1996	8.2	7.2	9.9	8.1	8.4	7.0	8.4	10.2	6.1	8.9	7.1	6.1	5.6	1.6		
1997	5.5	3.7	8.4	6.0	6.8	4.1	11.0	-4.9	3.3	4.2	4.0	3.8	2.9	2.1		
1998	4.8	3.9	6.2	5.3	5.7	4.4	7.0	-5.9	3.9	7.5	2.8	4.3	3.0	5.4		
1999	2.6	1.7	4.0	2.9	3.0	2.4	1.8	-1.7	2.1	3.4	3.7	2.6	-0.1	0.5		
2000	3.2	3.4	2.8	2.0	2.0	1.9	1.4	26.9	7.8	3.0	8.4	3.3	10.5	6.1		
2001	3.4	3.2	3.7	3.8	3.7	5.1	9.2	-4.8	3.5	10.8	3.1	4.7	2.5	3.0		
1998	a	3.4	6.0	4.5	5.0	4.9	16.8	-4.7	3.5	11.2	2.1	3.4	3.1	4.3		
b	5.3	4.5	6.5	5.7	6.0	4.6	5.4	-2.2	5.1	3.4	4.1	5.0	5.8	7.1		
c	5.1	4.3	6.4	5.9	6.2	3.8	-0.8	-3.4	3.5	1.7	3.0	4.6	2.5	5.4		
d	4.3	3.2	5.8	5.2	5.5	4.4	6.8	-13.3	3.4	14.4	2.2	4.1	0.7	5.1		
1999	a	2.8	4.9	4.4	4.5	4.3	6.4	-11.9	2.1	10.0	2.3	3.7	-0.9	1.8		
b	2.4	1.3	4.2	2.9	3.2	1.7	1.7	-6.1	0.2	4.7	2.0	2.0	-3.4	-1.6		
c	2.0	0.8	3.8	2.5	2.5	1.2	-4.6	-2.1	2.0	-1.8	4.3	2.2	-0.3	0.5		
d	2.5	2.0	3.1	1.9	1.8	2.4	2.9	14.9	4.2	0.7	6.2	2.4	4.4	1.5		
2000	a	2.9	2.8	1.7	1.6	1.9	0.3	29.0	7.0	1.0	8.2	2.6	9.6	4.9		
b	2.7	2.7	2.6	1.6	1.5	1.8	0.0	25.8	7.6	2.7	8.2	3.0	10.0	6.0		
c	3.0	3.2	2.7	1.6	1.7	2.4	9.9	23.8	8.3	9.0	8.4	3.0	10.6	6.2		
d	4.1	4.7	3.2	2.9	3.0	1.5	-2.8	28.9	8.4	0.2	8.9	4.5	11.7	7.4		
2001	a	3.3	2.9	3.8	3.8	1.9	-5.7	3.4	4.7	-0.6	5.4	5.3	4.7	5.0		
b	3.7	3.7	3.7	3.8	3.6	4.6	7.4	2.4	5.3	11.0	5.3	5.1	5.0	3.8		
c	3.8	3.9	3.6	4.0	3.9	6.2	14.0	-4.4	3.1	11.7	2.4	4.8	2.1	2.8		
d	2.7	2.2	3.6	3.6	3.4	7.8	23.7	-18.7	1.0	21.7	-0.5	3.8	-1.3	0.3		

Source: Calculations based on NSSG data.

TABLE 6
EARNINGS, UNIT LABOUR COSTS AND PRODUCTIVITY: 1994 - 2001
(Annual percentage changes)

	1994	1995	1996	1997	1998	1999	2000	2001
WHOLE ECONOMY								
– Average gross earnings ¹ (nominal)	13.0	11.9	11.5	10.5	6.3	4.5	6.5	5.7
– Average gross earnings ¹ (real)	1.9	2.8	3.0	4.7	1.4	1.9	3.2	2.2
– Net earnings of average employee ¹ (nominal)	11.5	10.3	9.7	10.7	5.7	3.6	8.5	4.3
– Net earnings of average employee ¹ (real)	0.5	1.3	1.4	4.9	0.9	1.0	5.1	0.9
– Total compensation of employees ^{1,2}	13.7	12.6	12.5	10.7	7.7	6.3	7.3	7.1
– Unit labour costs ^{1,3}	11.4	10.3	9.9	6.9	4.2	2.6	3.1	2.9
– Consumer price index ⁴	10.9	8.9	8.2	5.5	4.8	2.6	3.2	3.4
– Gross domestic product ⁵	2.0	2.1	2.4	3.6	3.4	3.6	4.1	4.1
BUSINESS SECTOR⁶								
– Total compensation of employees ¹	14.7	12.4	10.9	9.4	6.8	6.4	6.7	7.2
– Unit labour costs ¹	12.4	10.1	8.3	5.6	3.3	2.7	2.5	2.9
CIVIL SERVICE⁷								
– Average gross earnings of employees	9.4	12.3	14.9	13.5	9.2	3.5	7.1	7.2
– Total outlays for salaries and pensions	11.3	13.1	16.4	13.3	9.9	6.1	8.5	6.9
– Total outlays for salaries (excluding pensions)	11.8	13.9	17.8	14.7	8.0	5.7	9.0	7.9
PUBLIC ENTERPRISES								
– Average gross earnings of employees ⁸	18.8	10.9	14.1	11.0	5.7	5.1	13.7	8.2
– Total personnel outlays ⁸	25.3	11.6	12.6	9.7	2.1	3.1	8.9	3.2
– Monthly earnings of white-collar workers in electricity-water supply ⁴	11.0	11.2	14.0	9.9	8.9	...	...	...
– Hourly earnings of blue-collar workers in electricity-water supply ⁴	16.1	15.8	8.7	10.4	11.4	...	...	...
BANKS								
– Average gross earnings of employees ¹	14.4	15.4	13.4	9.7	4.0	13.1	6.8	6.3
– Total outlays for salaries ⁹	20.5	20.0	16.6	10.8	5.9	14.3	9.3	5.3
– Total compensation of employees ⁹	18.2	17.3	16.0	9.8	6.6	12.7	9.4	6.4
– Monthly earnings of employees ^{4,10}	17.5	13.1	12.7	9.4	8.6	...	...	...
NON-BANK PRIVATE SECTOR								
– Minimum earnings ¹¹ (nominal)	12.6	9.4	8.2	8.0	5.4	3.5	4.2	3.5
– Minimum earnings ¹¹ (real)	1.5	0.5	0.0	2.4	0.6	0.9	1.0	0.1
– Average contractual earnings ¹²	12.5	10.1	8.6	8.2	5.7	3.9	4.2	4.2
– Average gross earnings ¹	12.9	11.2	8.8	8.8	5.8	4.4	5.0	5.3
– Total compensation of employees ¹	12.6	12.2	10.2	9.3	7.6	6.5	6.0	7.9
– Hourly earnings of blue-collar workers in manufacturing ⁴	13.1	13.2	8.6	8.9	4.7	4.4*	5.5*	5.5*
– Monthly earnings of white-collar workers in manufacturing ⁴	13.0	13.2	9.4	9.8	5.9	...	...	...
– Output per hour worked (manufacturing) ⁴	3.9	2.0	1.1	4.4	4.4	1.9*	3.2*	2.5*
– Unit labour costs (manufacturing) ⁴	8.7	11.0	7.5	4.4	0.2	2.5*	2.2*	2.9*
– Weekly earnings of blue-collar workers in mining ⁴	15.3	14.0	12.7	12.2	5.2	...	...	...
– Monthly earnings of white-collar workers in mining ⁴	12.9	11.3	11.7	14.3	13.7	...	...	...
– Monthly earnings of employees in retail trade ⁴	13.3	12.8	9.7	12.0	9.6	...	...	...
– Monthly earnings of employees in wholesale trade ⁴	15.3	15.3	9.9	10.5	6.3	...	...	...

1 Bank of Greece estimates.

2 NSSG estimates on the growth in total compensation of employees (March 2002): 1994: 12.9%, 1995: 15.3%, 1996: 8.8%, 1997: 13.6%, 1998: 10.4%, 1999: 5.2%, 2000: 6.4%, 2001: 7.8%.

3 NSSG estimates on the rate of increase in unit labour costs (as defined by the Ministry of Economy and Finance): 1994: 10.7%, 1995: 11.6%, 1996: 5.9%, 1997: 9.1%, 1998: 6.1%, 1999: 1.0%, 2000: 1.3%, 2001: 1.9%.

4 Calculations based on NSSG survey data.

5 NSSG estimates (March 2002).

6 The business sector comprises public enterprises, banks and private business firms.

7 Estimates based on data from the Ministry of Economy and Finance and Introductory Reports on the Budget. Data for 1997 have been adjusted to ensure comparability. For the calculation of expenditure growth in 1998, 1999, 2000 and 2001, health care outlays were not counted in.

8 Estimates based on Ministry of Economy and Finance data. Public enterprises include the Hellenic Telecommunications Organisation (OTE) for the entire period.

9 Data from annual profit and loss accounts (1994-2001).

10 October-on-October rates of change.

11 National General Collective Labour Agreement.

12 Calculations based on data from collective labour agreements at branch or occupational level.

* Provisional estimates.

TABLE 7
GREEK CONTRIBUTION TO THE MONETARY AGGREGATES OF THE EURO AREA
(Data not seasonally adjusted)

	Outstanding balances on 31 December 2001		Annual percentage change, ¹ quarterly average ²							
	(million euro)	(billion drs)	2000				2001			
			4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter	3rd quarter	4th quarter	December
1. Currency in circulation, M0	7,180	2,447	2.6	1.8	1.2	4.0	0.4	0.4	-7.2	
2. Overnight deposits	16,145	5,501	-6.6	-7.7	-8.8	-9.7	5.1	5.1	21.0	
3. M1 (1+2)	23,325	7,948	-3.7	-4.6	-5.5	-5.1	3.5	3.5	10.6	
4. Savings deposits and deposits redeemable at notice up to 3 months	57,184	19,485	2.7	5.8	6.8	8.4	12.7	12.7	14.7	
5. Deposits with agreed maturity up to 2 years	33,314	11,352	6.6	-3.1	-16.0	-15.1	-17.4	-17.4	-7.8	
6. M2 (3+4+5)	113,823	38,785	2.7	0.6	-3.6	-2.3	0.4	0.4	6.3	
7. Repurchase agreements	26,086	8,889	113.9	98.3	106.4	69.4	36.3	36.3	28.6	
8. Debt securities up to 2 years	136	46	-42.8	-21.0	-7.3	2.7	-1.4	-1.4	-9.1	
9. M3 (6+7+8)	140,045	47,720	12.8	11.1	9.5	8.4	6.7	6.7	9.9	

1 Annual rates of change in the corresponding index, which is compiled on the basis of the balance of the corresponding monetary aggregate and the accumulated monthly flows, adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.

2 The quarterly average stems from the arithmetic monthly averages (calculated as the average of the rates at the end of the reference month and the end of the previous month) and is not the average of the rates at the end of each of the quarter's months.

Sources: Bank of Greece and European Central Bank (ECB).

TABLE 8
TOTAL CREDIT EXPANSION IN GREECE
(Annual percentage change in outstanding balances)

	December		
	1999	2000	2001*
1. Total credit expansion	12.2	20.2	15.7
2. Credit expansion to general government	11.0	15.9	10.4
3. Credit expansion to business firms and households	12.7	27.6	24.8
3.1 Credit expansion to firms	8.0	24.9	18.6
3.2 Credit expansion to households	27.3	34.8	40.0

* Provisional data.

Source: Bank of Greece.

TABLE 9
CREDIT TO THE PRIVATE SECTOR BY BRANCH OF ECONOMIC ACTIVITY

	Outstanding balances on 31 Dec. 2001*		Changes in outstanding balances					
	(million euro)	(billion drs)	Billion drachmas			Percentage points		
			1999	2000	2001*	1999	2000	2001*
1. <u>Agriculture</u>	3,724	1,269	104	92	-55	9.2	7.5	-4.1
Long-term loans	2,279	776	19	56	-3	2.7	7.7	-0.4
Short-term loans	1,445	493	85	36	-52	20.1	7.1	-9.5
2. <u>Manufacturing¹</u>	12,615	4,299	372	457	270	11.6	12.8	6.7
Long-term loans	2,997	1,022	71	111	129	10.0	14.2	14.5
Short-term loans	9,618	3,277	301	346	141	12.1	12.4	4.5
3. <u>Trade</u>	15,524	5,290	170	1,075	1,073	5.7	34.2	25.5
4. <u>Housing</u>	15,652	5,333	596	913	1,493	25.5	31.2	38.9
5. <u>Consumer credit</u>	7,852	2,676	315	562	798	31.5	42.7	42.5
– Credit cards	3,726	1,270	160	260	489	44.1	49.8	62.7
– Against supporting documents	1,956	667	7	156	173	2.3	46.4	35.1
– Personal loans	2,170	739	148	146	136	47.9	31.9	22.4
6. <u>Other</u>	15,816	5,389	262	1,075	1,363	12.0	43.9	38.7
– Tourism	2,171	740	35	71	122	6.8	12.9	19.7
– Shipping	3,766	1,283	40	143	48	7.3	24.4	6.6
– Leasing companies	1,535	523	-73	109	337	-48.4	140.2	181.1
– Other	8,344	2,843	260	752	856	26.8	60.9	43.1
<u>T o t a l</u>	71,183	24,256	1,819	4,174	4,942	14.2	28.5	26.3
Long-term loans	30,622	10,434	759	1,612	2,493	15.0	27.7	33.5
Short-term loans	40,561	13,822	1,060	2,562	2,449	13.7	29.1	21.5

1 Including mining and small-scale industry.

* Provisional data.

Source: Bank of Greece.

T A B L E 10
STOCK MARKET AGGREGATES

Year	Share price indices ¹ (1980 = 100)		Average daily value of transactions ² (billion drachmas)		Market capitalisation ¹ (billion drachmas)			Market capitalisation (percentage of GDP)			Funds raised through the Athens Stock Exchange ⁴ (billion drachmas)		
	Composite	Banks	Shares	Banks	Shares	Bonds ³	Total	Shares	Bonds	Total	Listed companies	New companies	Total
1998	2,737.6	5,799.4	56.1	22,839	22,801	45,640	63	63	126	494	333	827	
1999	5,535.1	10,165.4	235.2	67,311	26,190	93,501	68	68	243	2,926	383	3,309	
2000	3,388.9	7,307.0	136.3	40,194	26,218	66,412	63	63	160	2,374	620	2,994	
2001	2,591.6	4,788.1	56.6	33,036	27,662	60,698	62*	74*	136*	125*	160*	285*	

1 Year-end.

2 Shares. Excluding transactions on existing shares.

3 Bonds comprise Greek Treasury bills and government bonds (drachma-denominated, in foreign currency, and with a foreign currency clause), bank bonds and corporate bonds.

4 Through capital increase and issue of new shares. Subscriptions to new capital are entered on the last day of the subscription period.

* Provisional data.

Sources: Athens Stock Exchange, Bank of Greece and (for GDP) Ministry of Economy and Finance.

TABLE 11
GENERAL GOVERNMENT BALANCE¹
(Percentage of GDP)

	1997	1998	1999	2000	2001*
General government					
National accounts data ² - <i>convergence criterion</i>	-4.0	-2.4	-1.7	-0.8	+0.1
On an accrual basis ^{3,4}	-5.4	-3.2	-2.5	-2.0	-1.7
Borrowing requirement (on a cash basis) ^{3,5}	-6.8	-5.0	-3.7	-4.0	-4.5

1 Deficit (-), surplus (+).

2 Including public enterprises' debt assumed by central government.

3 Excluding capitalised interest.

4 Ministry of Economy and Finance and Bank of Greece data.

5 Including expenditure for the acquisition of assets, which, however, according to established international practice, are deducted from the two indicators above.

* Provisional data.

Sources: Bank of Greece, Ministry of Economy and Finance, NSSG.

TABLE 12
PUBLIC SECTOR NET BORROWING REQUIREMENT
(Million euro)

	1996	1997	1998	1999	2000	2001*
1. Central government ¹	10,832	7,585	6,819	6,043	7,090	7,812
Percentage of GDP	12.3	7.8	6.4	5.4	5.9	6.0
– Government budget (Ordinary budget) ² (Public investment budget)	10,791 (8,777) (2,014)	7,512 (4,882) (2,630)	6,588 (3,459) (3,128)	5,835 (1,907) (3,929)	6,844 (1,888) (4,956)	7,909 (3,125) (4,784)
– DIDAGEP ³	41	73	232	208	247	–97
2. Public entities ⁴	–1,900	–1,013	–1,552	–1,866	–2,248	–1,996
Percentage of GDP	–2.2	–1.0	–1.5	–1.7	–1.9	–1.5
– Financing of social security funds	36	6	–76	80	82	–144
– Financing of local authorities	91	17	23	11	232	103
– Financing of other entities	–139	–68	–59	–106	73	138
– Reserves	–1,887	–969	–1,441	–1,851	–2,635	–2,092
General government (1+2)	8,932	6,572	5,267	4,178	4,843	5,817
Percentage of GDP	10.2	6.8	5.0	3.7	4.0	4.5
3. Public enterprises	245	–389	414	209	196	...
Percentage of GDP	0.3	–0.4	0.4	0.2	0.2	...
– Financing of public utilities	169	–339	191	253	214	...
– Financing of other enterprises	49	54	167	229	176	...
– Reserves	30	–104	56	–274	–194	...
Public sector (1+2+3)	9,177	6,183	5,681	4,386	5,039	...
Percentage of GDP	10.4	6.4	5.4	3.9	4.2	...
Public sector (including capitalised interest)	9,702	6,286	5,760	4,386	5,039	...
Percentage of GDP	11.0	6.5	5.4	3.9	4.2	...

1 Results from the respective accounts with the Bank of Greece, the Agricultural Bank and commercial banks.

2 Including, as of 1997, movements in public debt management accounts.

3 Agricultural Markets Management Service. As of 3 September 2001, DIDAGEP was replaced by the Payment and Control Agency for Guidance and Guarantee Community Aids (OPEKEPE).

4 Estimates on the basis of their investment in securities and bank deposits and the change in their liabilities to the banking system.

* Provisional data and estimates.

Source: Bank of Greece.

TABLE 13
SOURCES OF FINANCING THE PUBLIC SECTOR BORROWING REQUIREMENT¹
(Million euro)

	1996		1997		1998		1999		2000		2001*	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
BORROWING IN EURO	8,317	90.6	2,838	45.9	204	3.6	-3,634	-82.9	-3,483	-69.1	-1,514	-26.0
- Treasury bills and bonds purchased by monetary financial institutions ^{2,3}	1,437	15.7	1,834	29.7	-1,633	-28.7	1,543	35.2	5,379	106.8	4,070	70.0
- Treasury bills and bonds purchased by the domestic non-bank sector ²	7,206	78.5	350	5.7	180	3.2	-5,136	-117.1	-9,171	-182.0	-4,499	-77.3
- Loans and advances from monetary financial institutions ³	119	1.3	-12	-0.2	1,017	17.9	-396	-9.0	21	0.4	-191	-3.3
- Bank of Greece ⁴	-445	-4.8	665	10.8	640	11.3	354	8.1	288	5.7	-895	-15.4
BORROWING IN FOREIGN CURRENCY AND BORROWING FROM NON-RESIDENTS	860	9.4	3,345	54.1	5,476	96.4	8,020	182.9	8,522	169.1	7,331	126.0
TOTAL BORROWING	9,177	100.0	6,183	100.0	5,681	100.0	4,386	100.0	5,039	100.0	5,817	100.0

1 For 2001, borrowing requirements regard general government.

2 Sales of securities in the secondary market are also included.

3 For 2001, the source of financing the PSBR regards credit institutions only.

4 As from 1 January 1994, the respective figure no longer concerns financing by the Bank of Greece but changes in the credit balance of the government's cash account with the Bank.

* Provisional data.

Source: Bank of Greece.

T A B L E 14
 CONSOLIDATED DEBT OF GENERAL GOVERNMENT*
 (Million euro)

	1997	1998	1999	2000	2001**
Treasury bills and short-term bonds	14,154	10,465	4,531	1,767	892
Medium-term and long-term bonds	72,478	82,996	91,416	99,202	102,521
Other medium-term and long-term loans	18,553	17,570	21,156	23,795	26,635
Total	105,186	111,032	117,103	124,763	130,048
Percentage of GDP	108.2	105.0	103.8	102.8	99.7
– domestic debt ¹	80,740	84,182	87,187	91,140	121,922 ²
(of which: debt to the Bank of Greece)	(11,903)	(12,129)	(12,290)	(12,472)	(11,918)
– external debt	24,446	26,850	29,916	33,623	8,126 ²

1 Including euro-denominated securities held by non-residents, as well as Bank of Greece loans with a foreign currency clause.

2 From 2001 onwards, domestic debt covers all liabilities in euro and external debt all liabilities in non-euro-area currencies. External debt (Greece's liabilities to other countries) amounts to €30,274 million.

* According to the definition in the Maastricht Treaty.

** Provisional data.

Sources: State General Accounting Office and Bank of Greece.

TABLE 15
BALANCE OF PAYMENTS
(Million euro)

	January – December			Percentage changes	
	1999	2000	2001*	2000/99	2001/00
I. Current account balance (I.A+I.B+I.C+I.D)	-4,800.5	-8,371.6	-8,068.5		
I.A Trade balance (I.A.1 – I.A.2)	-16,888.7	-21,927.5	-21,299.3		
Non-oil trade balance	-15,450.7	-18,940.8	-18,500.2		
Oil trade balance	-1,438.0	-2,986.7	-2,799.1		
I.A.1 Exports of goods	8,030.3	11,098.6	11,857.0	38.2	6.8
I.A.2 Imports of goods	24,919.0	33,026.1	33,156.3	32.5	0.4
I.B Services balance (I.B.1 – I.B.2)	6,846.5	8,711.1	8,803.9		
I.B.1 Receipts	15,575.5	20,977.0	21,744.1	34.7	3.7
I.B.2 Payments	8,729.0	12,266.0	12,940.1	40.5	5.5
I.C Income balance (I.C.1 – I.C.2)	-626.5	-955.3	-1,981.3		
I.C.1 Receipts	2,414.1	3,039.1	2,100.3	25.9	-30.9
I.C.2 Payments	3,040.6	3,994.3	4,081.6	31.4	2.2
I.D Transfers balance (I.D.1 – I.D.2)	5,868.2	5,800.1	6,408.2		
I.D.1 Receipts	6,795.2	6,767.3	7,718.6	-0.4	14.1
I.D.2 Payments	927.0	967.2	1,310.5	4.3	35.5
II. Financial account balance	4,748.1	8,906.3	6,934.6		
III. Errors and omissions	52.3	-534.7	1,133.9		
Reserve assets (end of period)	18,836.9	14,520.0	7,031.0 ¹		

¹ In 2001, according to the ECB definition, reserve assets do not include:

- (a) claims in euro on non-euro-area residents,
- (b) claims in foreign currency and euro on euro area residents and
- (c) Bank of Greece participation in the ECB capital and reserves.

* Provisional data.

Source: Bank of Greece.

T A B L E 16
BALANCE ON SERVICES, INCOME AND TRANSFERS
(Million euro)

	1999	2000	2001*
Services balance	6,846.5	8,711.1	8,803.9
Exports	15,575.5	20,977.0	21,744.1
Travel	8,296.2	10,061.2	10,248.1
Transport	4,871.5	8,640.6	9,113.3
Other services	2,407.8	2,275.2	2,382.7
Imports	8,729.0	12,266.0	12,940.1
Travel	3,760.8	4,948.9	4,665.1
Transport	2,265.5	4,458.3	5,351.0
Other services	2,702.6	2,858.8	2,924.1
Income balance	-626.5	-955.3	-1,981.3
Receipts	2,414.1	3,039.1	2,100.3
Wages, salaries	576.5	631.0	606.3
Interest, dividends, profits	1,837.6	2,408.3	1,494.0
Payments	3,040.6	3,994.3	4,081.6
Wages, salaries	231.2	272.0	280.9
Interest, dividends, profits	2,809.4	3,722.4	3,800.8
Transfers balance	5,868.2	5,800.1	6,408.2
Receipts	6,795.2	6,767.3	7,718.6
General government (net EU transfers)	4,250.1	3,972.1	4,694.5
Other sectors (emigrants' remittances etc.)	2,545.1	2,795.2	3,024.2
Payments	927.0	967.2	1,310.5
General government	190.1	208.5	504.2
Other sectors	736.9	758.8	806.3

* Provisional data.

Source: Bank of Greece.

TABLE 17
FINANCIAL ACCOUNT BALANCE

	Million euro		
	1999	2000	2001*
Financial account balance (I+II+III+IV)	4,748.1	8,906.3	6,934.8
I. Direct investment	9.2	-1,116.2	1,087.6
By residents abroad	-518.0	-2,319.0	-688.5
By non-residents in Greece	527.2	1,202.8	1,776.1
II. Portfolio investment	5,706.0	9,107.6	9,464.8
Assets	-426.9	-933.0	-514.7
Liabilities	6,130.9	10,040.5	9,979.5
III. Other investment	-518.2	-4,856.8	-9,794.6
Assets	-4,457.1	-1,060.6	-1,467.0
Liabilities	3,938.9	-3,796.2	-8,327.6
(General government borrowing)	604.3	-437.7	-2,809.7
IV. Reserve asset changes	-448.9	5,771.7	6,177.0
Errors and omissions	52.3	-534.8	1,133.9

* Provisional data.

Source: Bank of Greece.

T A B L E 18
INTERNATIONAL INVESTMENT POSITION
(Million euro)

	1999	2000	2001 ¹
1. Direct investment	-11,523	-7,249	-7,100
Abroad	3,793	6,163	6,800
Home	15,316	13,412	13,900
2. Portfolio investment	-46,162	-54,657	-55,800
Assets	4,757	4,135	9,100
Liabilities	50,919	58,793	64,900
3. Financial derivatives	13	13	15
4. Other investment	6,407	-2,015	8,800
Assets	40,176	37,858	43,000
Liabilities	33,769	39,873	34,200
5. Reserve assets²	10,141	13,207	7,031
Net international investment position	-41,124	-50,701	-47,054
(Memo item: GDP) ³	(116,389)	(121,413)	(130,436)
% of GDP	-35.3	-41.8	-36.1

1 Provisional estimates.

2 According to the new ECB definition of reserve assets, i.e. excluding:

- (a) claims in euro on non-euro-area residents and
- (b) claims in foreign currency and euro on euro area residents.

The data for 2001 exclude, in addition, Bank of Greece participation in the ECB capital and reserves.

3 On the basis of exchange rates as at 31 December.

Source: Bank of Greece.

TABLE 19
NET INFLOWS IN GREECE FROM THE COMMUNITY BUDGET AS A PERCENTAGE OF GDP
AND OF THE TRADE DEFICIT*

Year	Net inflows ¹ (million euro)	As a percentage of GDP ²	As a percentage of the trade deficit
1991	3,255	4.5	32.8
1992	3,126	4.1	29.2
1993	3,476	4.3	32.5
1994	3,638	4.3	31.8
1995	3,839	4.2	29.0
1996	4,036	4.1	27.5
1997	4,087	3.8	25.3
1998	4,327	4.0	29.2
1999	4,250	3.6	25.2
2000	3,972	3.2	18.1
2001	4,695	3.6	22.0

1 Receipts from, minus payments to, the Community Budget.

2 On the basis of revised data from the Ministry of Economy and Finance, March 2002.

* Discrepancies between Bank of Greece and Ministry of Economy and Finance data are mainly due to the different calculation base used (on a cash and an accrual basis, respectively).

Sources: Bank of Greece and Ministry of Economy and Finance.

T A B L E 20
BANK BRANCH SIZE AND ATM/POPULATION RATIO

	Assets per branch (million euro)		Employees per branch		ATMs per million inhabitants	
	Greece	Euro area	Greece	Euro area	Greece	Euro area
1998	47.0	73.3	21	12	206	568
1999	53.9	84.8	21	12	290	609
2000	59.4	–	20	–	329	–
2001	59.5	–	19	–	409	–

Source: Bank of Greece, ECB, *Blue Book*, June 2001, Eurostat, *Statistics in focus, Statistics on credit institutions*, theme 4-9/2000, 25/2001, and OECD, *Main economic indicators*, April 2000, February 2001.

TABLE 21
MARKET SHARE OF THE FIVE LARGEST BANKS

	As a percentage of total			As a percentage of the respective figures for Greek banks ¹		
	Assets	Lending	Deposits	Assets	Lending	Deposits
1998	63.4	62.3	69.7	78.0	75.2	81.2
1999	67.1	70.9	73.6	84.8	84.8	89.5
2000	65.2	68.8	71.8	82.4	82.9	87.6
2001	66.0	68.7	71.3	80.9	81.5	85.8

¹ The term "Greek banks" does not exclude only foreign banks in Greece, but also the Postal Savings Bank, the Deposits and Loans Fund and cooperative banks, i.e. credit institutions with an operating regime differing from the standard one. **Source:** Bank of Greece (balance sheet data, excluding branches abroad).

T A B L E 22
BANKS' PROFIT AND LOSS ACCOUNTS
(As a percentage of average assets)

	2000	2001
Interest income	8.6	6.2
Interest expense	6.1	3.7
Net interest income	2.5	2.5
Non-interest income	2.1	1.5
Operating expenses	2.4	2.3
Pre-tax profits	1.9	1.5
Pre-tax profits as a percentage of own funds	20.7	17.9

Source: Bank of Greece calculations based on balance sheet data.

TABLE 23
MAIN AGGREGATES IN GREEK COMMERCIAL BANKS' BALANCE SHEETS
(As a percentage of assets)

	2000	2001
Lending	38.8	46.1
Deposits	76.1	61.8
Own funds	5.9	7.7

Source: Bank of Greece, calculations based on balance sheet data.

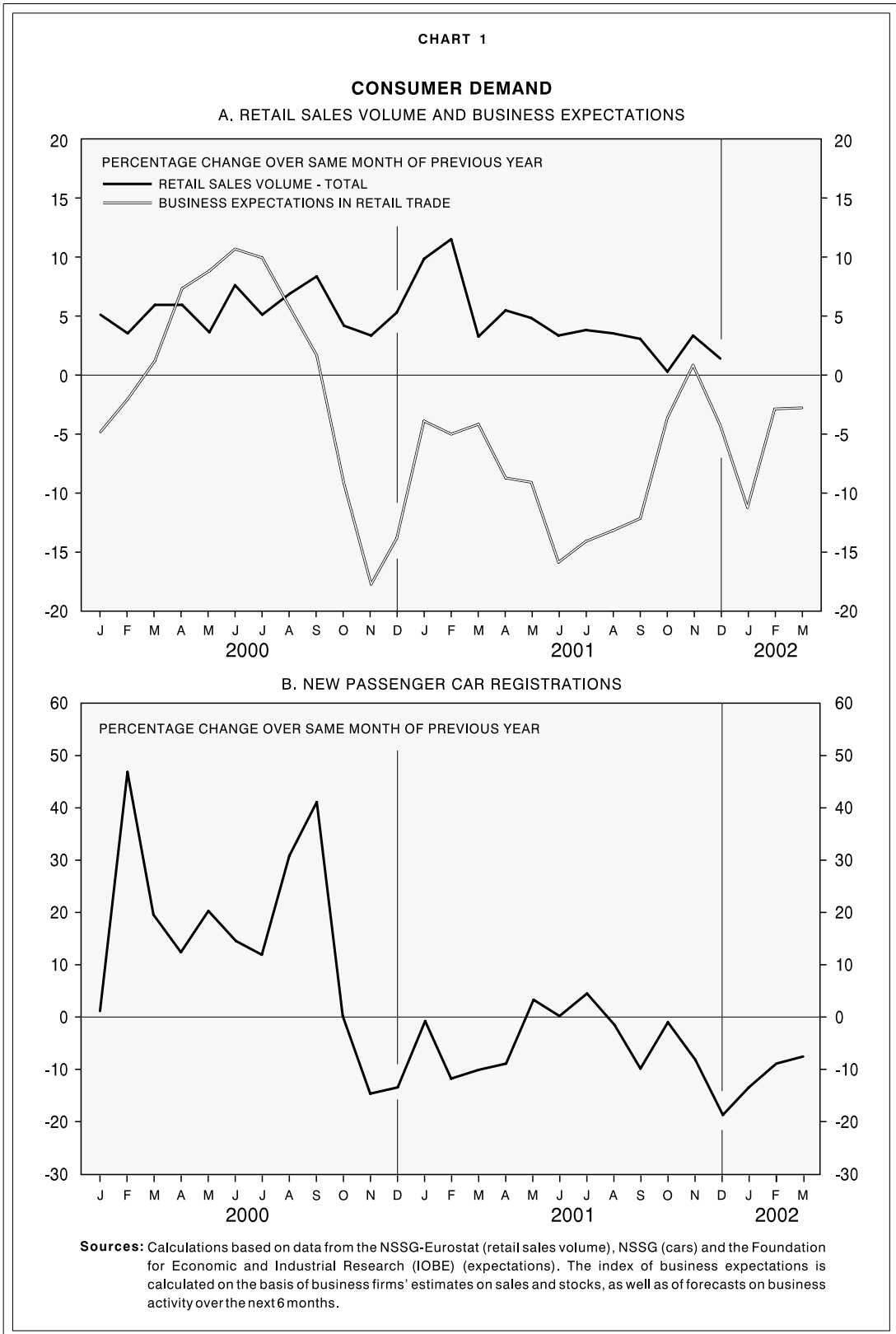
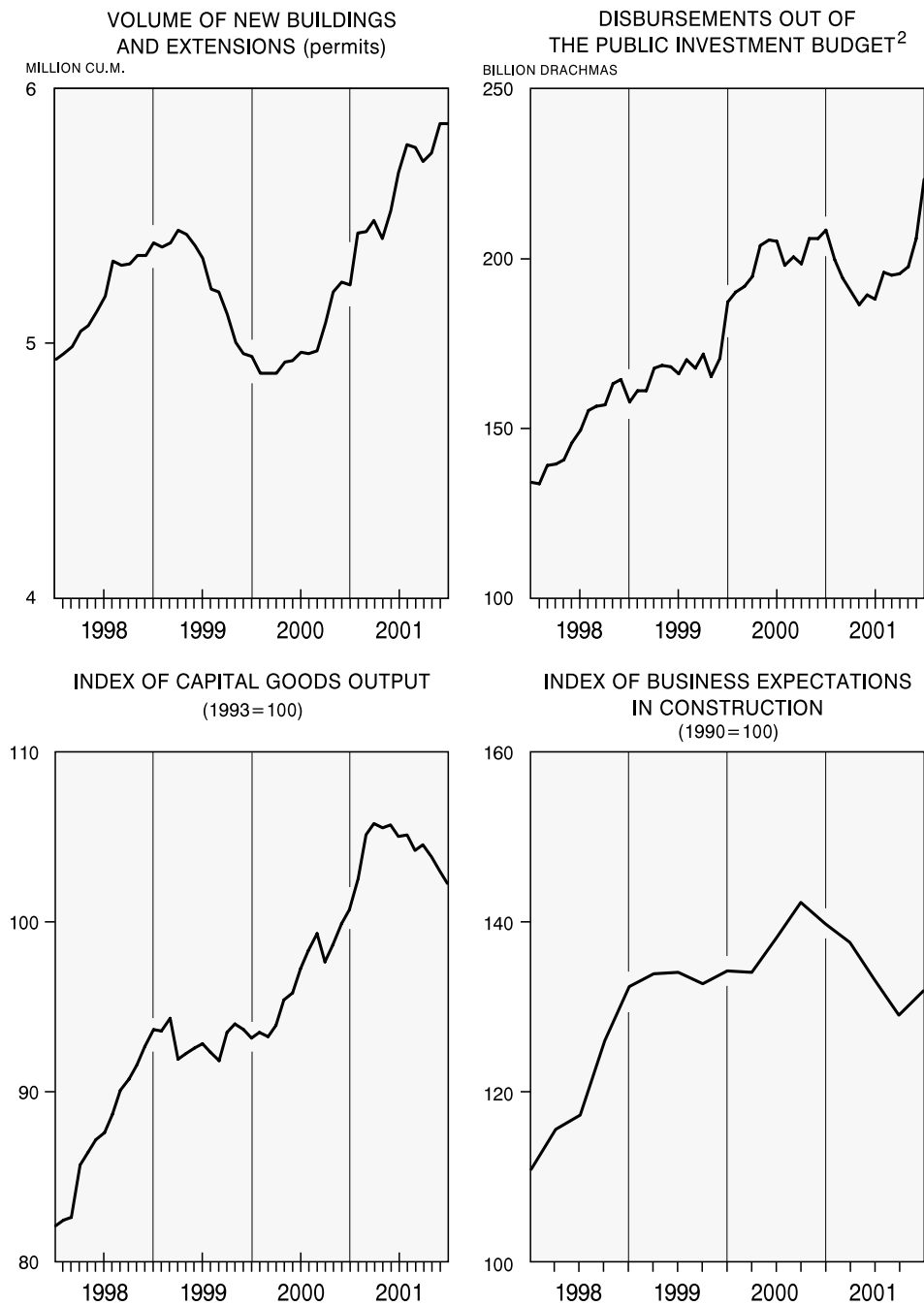


CHART 2

MAIN INDICATORS OF INVESTMENT ACTIVITY¹



1 Twelve-month moving average centred on the last month of the period.
 2 Disbursements to finance the public investment programme (cash basis, current prices).

Sources: NSSG, IOBE and Bank of Greece.

