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Statement by the Hon. **YANNOS PAPANTONIOU**,
Governor of the Bank for **GREECE**,
at the Joint Annual Discussion

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Governor of the Bank for Greece,
at the Joint Annual Discussion**

Washington, 28th of September 1999

When we last met here a year ago, the world financial markets were still in turbulence and we were reflecting on the causes of the crises, their expected effects and the best ways to react.

Since then world economic developments have turned more positive.

- World growth has picked up.
- We have started implementing the actions necessary to prevent and detect crises, and to improve the functioning of the international financial system.

It is generally accepted, however, that even if progress has been made this is no time for complacency. Actions are needed in coordinating the surveillance process and in designing incentives so that the private and the public sector alike benefit from international financial stability.

The introduction of the Euro in 1999 played a substantial part in fostering a climate of stability. Today, the sound macroeconomic policies pursued by the Euro member states have led to an environment of low inflation and healthy public finances. Members of the Euro-zone can now enjoy the benefits of stability and exploit the opportunities created by the Single Market. Stability in the Euro-zone has led to resumption of economic growth, while improved co-ordination of economic policies is expected to lead to higher efficiency and employment. Greece is about to join the Economic and Monetary Union, as from January 1st 2001, and to share in the advantages that it creates.

The case of Greece could serve to illustrate the benefits that arise from sound macroeconomic policies and a positive attitude towards reform. The Greek economy has shown resilience to the financial crises and is exhibiting high rates of growth.

The process of macroeconomic rationalization started in Greece later than in other European countries. With the 1994 convergence plan we pursued policies designed to achieve the Maastricht Treaty criteria and have made substantial progress in achieving them. Indeed, from the middle of this year we satisfy four out of the five criteria and we are confident that in the next few months we will be successful on all five.

- Following the devaluation of the drachma in March 1998 we participated in the Exchange Rate Mechanism, and from January 1999 we are members of its successor, ERM2.
- We reduced the general government deficit from 13.8% of GDP in 1993 to 2.5% of GDP in 1998 and 1.5% of GDP this year. This is a reduction of over 12 percentage points of GDP and is almost three times as big as the improvement registered in the rest of the European Union in the same period. The lowering of the government deficit resulted from applying strict controls on public expenditure and from increases in the revenue side owing to a broadened tax base and an effective combating of tax evasion.
- Government debt was reduced from 111.8% of GDP in 1993 to 106.1% of GDP in 1998 and 105.1% by the end of this year. Privatization revenues contributed substantially to debt reduction.
- Increased credibility of the government policy has led to a substantial fall of government bond yields. The yield on the 10-year government bond was 10.7% in 1997, 562 basis points above the yield on the German 10-year government bond. At the middle of September of this year, the yield stood at 6.75%, about 160 points higher than the German 10-year government bond.
- Anti-inflationary incomes policy pursued in the public sector, the increased competition in a number of areas such as telecommunications and transport, together with a reduction in inflation expectations, have led to a drastic drop in the annual rate of inflation. In 1993 the average annual rate of inflation was 14.4%. In August this year the annual rate of inflation was only 2%. These are rates of inflation last recorded in Greece more than three decades ago.

In the last few years we proceeded with structural reforms in the product, capital, services and labor markets. Our privatization program has been intensified in the last two years; at present 27 state corporations have been either privatized or are in the process of privatization. Receipts from privatization in 1998 and 1999 have reached 7 billion dollars.

Economic reform together with substantial public infrastructure investment partly financed by the European Union led to a substantial acceleration of real growth. In fact, 1999 will be the sixth consecutive year of substantial growth while in the past three years growth rates reached 3.5%, significantly higher than the European Union average.

The prospects point to further considerable growth in the next few years. The investment opportunities that arise from making Thessaloniki the center for the development of South Eastern Europe, the direct and indirect productivity gains from faster investment and output growth itself as well as the organization of the Olympic Games in Athens in 2004, are likely to introduce further dynamism in the growth process. At the moment, we are forecasting an increase of GDP of the order of 3.7% for the year 2000 and more than 4% in 2001.

The crises of the last few years have made it clear to all of us that transparency of corporate, financial and state institutions is paramount in preventing and detecting non viable situations. It is in the interests of transparency that Greece, one of the very first countries to do so, participates in the two IMF initiatives in this direction, the release of the conclusions of Article IV consultations as well as the fiscal transparency exercise.

Our economy has been submitted to the test by the financial crises of the last few years. Our exchange rates, short-term interest rates, bond yields, stock market and real economy remained unaffected all but in the very short-run. Last year, Michel Camdessus in his concluding statement noted that programs work only if governments want them to. We have indeed been determined to succeed.

Last year the Meetings were sessions of reflection on how to go about preventing, detecting, and remedying crises. This year, we are in the more comfortable position of being able to evaluate our actions in these areas. Let's hope that we carry on in this direction so that next year we can appreciate the results in the shape of accelerated growth, more employment and improved welfare.