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MULTILATERAL INVESTMENT GUARANTEE AGENCY

INTERNATIONAL MONETARY FUND

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

STATEMENT BY MR. YANNOS PAPANTONIOU

third stage of EMU by the year 2001. The 1997 budget is an ambitious one, aimed at bringing the general government deficit to GDP ratio down to 4.2 percent from 7.5 percent in 1996. Preliminary results in the first seven months of the year suggest that the budget is on track.

The restrictive stance of fiscal, monetary and exchange rate policies has contributed to the deceleration of inflation. The exchange rate policy pursued, while playing an important role in combating inflation, did not have adverse effects on competitiveness on account of the substantial fall in interest rates and firms' financial costs as well as the limited rise in raw material prices. The sustained profitability of the business sector in recent years, which mainly produces traded goods, supports this view. The "stable drachma" policy remains a constant parameter in our economic strategy.

Good economic performance since the beginning of the year has produced buoyancy in capital and money markets. The Athens Stock Exchange Index rose by more than 70 percent since the beginning of the year. Interest rates are falling faster than forecast in the budget. Three, five and seven year fixed-rate bonds, index-linked bonds and zero coupon bonds have been issued for the first time in Greece. The result was judged by markets as a success.

Apart from macroeconomic policies pursued, the Government has put more emphasis on structural policies. Recent legislation which gives more independence to the management of public corporations, the partial privatization of the Hellenic Telecommunications Company (OTE) as well as the selling of certain industrial firms, the creation of the Hellenic Investment Center to facilitate foreign direct investment, legislation concerning new labour market policies, and the acceleration of the absorption of European Union structural funds, are expected to produce favourable results in the coming years. The focus of structural policies is on the following:

1. Partial privatization of profitable public corporations .
2. Labour market and pension system reform based on social consensus.
3. Granting statutory independence to the Bank of Greece.
4. Creating new schemes for the financing of public works, with increased participation of the private sector.
5. Rigorous application of recently adopted legislation for curbing public expenditure and improving the efficiency of the public sector.
6. Introducing legislation to further modernize capital and money markets and strengthen the supervisory powers of the Capital Market Committee.
7. Restructuring the portfolios of the large state-controlled Banks.

Greece's economic prospects are further enhanced by the opening of trade and investment opportunities as a result of the transition of its Balkan and Black Sea

neighbours to democracy and market economies. The Greek Government actively promotes increased international cooperation by encouraging the creation of joint ventures aimed at improving economic structures in the region.

The 1998 budget is now under consideration. The Government aims at a public deficit to GDP ratio of less than 3 percent which will satisfy the Maastricht Treaty criterion for entering the Economic and Monetary Union. Tight budget, incomes and monetary policies ensure the continuation of nominal convergence while continued investment expansion, both private and public - partly financed by the European Union - as well as the pursuit of structural policies lay the basis for robust growth of output for the years to come.