

Greece: 2005 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice; and Statement by the Executive Director for Greece

Under Article IV of the the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2005 Article IV consultation with Greece, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on September 19, 2005, with the officials of Greece on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 21, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- staff supplement of December 8, 2005, updating information on recent developments.
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its December 14, 2005 discussion of the staff report that concluded the Article IV consultation
- a statement by the Executive Director for Greece.

The documents listed below have been or will be separately released.

Selected Issues Paper
Financial System Stability Assessment

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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GREECE

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation with Greece

Approved by Ajai Chopra and Juha Kähkönen

November 21, 2005

On September 8–19, 2005, the Article IV mission, comprising Mr. Ford (head), Ms. Banerji, Mr. Gagales (all EUR), Ms. Roehler (FAD) and Mr. Hoelscher (MFD), held discussions with the Bank of Greece (BoG); Ministries of Economy and Finance (MoEF), Development, and Labor; the economic adviser to the Prime Minister; and other government officials. The mission also met with labor, industry, and bank representatives, and with a number of pension funds. Ms. Xafa, Alternate Executive Director, attended the meetings.

An FSAP and a new fiscal ROSC were completed earlier this year, and the data ROSC was updated.

The concluding statement was released, and the authorities have consented to publish the staff report, FSSA, fiscal ROSC, and data ROSC update (Appendix III).

Greece has accepted the obligations of Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions, apart from those resulting from European Council regulations (Appendix I). It subscribes to the SDDS (Appendix II).

The New Democracy party took power in March 2004 with a comfortable parliamentary majority. National elections are due in 2008.

Contents		Page
Executive Summary		3
I. Background		4
II. Policy Discussions		6
A. Economic Outlook		7
B. Fiscal Policy		8
C. Financial Sector		11
D. Competitiveness and Medium-Term Growth		13
E. Data		15
III. Staff Appraisal		15
Boxes		
1. Policy Recommendations and Implementation		6
2. Key Recommendations of ROSC on fiscal Transparency and Technical Assistance on Public Expenditure management and Tax Administration		10
3. FSAP Main Recommendations		12
Tables		
1. Selected Economic Indicators, 1998–2005		19
2. General Government Accounts, 2001–06		20
3. Medium-Term Baseline Scenario, 2004–10		21
4. Medium-Term Staff Policy (Adjustment) Scenario, 2002–10		22
5. The Core Set of Financial Soundness Indicators for Deposit Taking Institutions (1998–Q1 2005)		23
6. The Encouraged Set of Financial Soundness Indicators (1998–Q1 2005)		24
7. Financial System Structure (1998–Q2 2005)		25
8. Doing Business—Selected Indicators, 2005		26
9. Indicators of External and Financial Vulnerability, 1998–2005		27
Figures		
1. Selected Economic Indicators, 1998–2005		28
2. Credit Developments, 1998–2005		30
3. Cyclical Indicators, 1998–2005		31
4. Public Debt Sustainability: Bound Tests		32
5. Labor Market Indicators, 2004		33
Appendices		
I. Fund Relations		34
II. Statistical Issues		36
III. Update on the ROSC+—Data Module		40

EXECUTIVE SUMMARY

Background

- Economic growth, which has been strong for several years, has fallen to an estimated 3½ percent of GDP this year. The fiscal deficit has deteriorated sharply, though it will fall significantly this year and next, in part by resorting to temporary measures. Competitiveness, however, continues to erode.
- The authorities introduced a spate of structural reforms this year, including corporate tax cuts, extended shopping hours, more flexible overtime arrangements, a new competition law, elimination of job tenure at the telecoms firm, simplification of business licensing, and better economic integration of immigrants.

Policy discussions and assessment

- **Fiscal consolidation** is the top priority. The authorities intend to bring the deficit below 3 percent in 2006. Staff supports this, but argues for a multi-year program of durable spending measures to achieve structural budget balance by 2010, after which aging costs begin to rise. Sustained current primary spending restraint would be bolstered by deep reforms to expenditure management and tax administration, as recommended by this year's fiscal ROSC and Fund TA reports.
- **Pension reform** will be needed to avoid explosive public debt. The authorities stand by an election promise not to introduce measures in this term of office; staff argues for a more vigorous public debate to pave the way for eventual reform.
- The FSAP judged the **banking sector** to be generally in good health, although credit growth raised concerns about credit quality, and made a number of recommendations to strengthen supervision and risk management further.
- **Structural reforms** need to be extended to improve productivity and competitiveness. On product markets, the unfinished agenda includes improved tax administration, tax simplification, reduced red tape, modernization of bankruptcy law, liberalization of gas and electricity markets, and privatization. On labor markets, employment protection measures need to be relaxed, and minimum wages should be reduced (implying a change in central bargaining arrangements), at least for sectors under economic stress. The authorities are enthusiastic about product market reform, but are not sanguine about prospects for labor market reform.
- **Data** are adequate for surveillance, but should be strengthened. Fiscal data are still in flux, fiscal financing data should be published, the quarterly national accounts are poor (a new series is to be published next year), banking system data should be more timely, and the statistical office should be given formal independence.

I. BACKGROUND

1. **Real GDP growth has been very strong for several years, but economic imbalances have also developed, notably a sharply deteriorating fiscal position** (Figure 1, Table 1). Growth has been underpinned by a sharp fall in interest rates due to adoption of the euro and subsequent ECB easing, rapid increases in private-sector credit following financial sector liberalization, procyclical fiscal policy, and, most recently, spending on the Olympics games. In addition, strong capital formation, high labor productivity growth, and significant immigration have all contributed to an expansion of aggregate supply. Despite this favorable economic backdrop, the fiscal deficit has widened, reaching 6.6 percent of GDP in 2004, the primary surplus turned into a deficit, and public debt stood at 111 percent of GDP (Table 2).¹ The key reason for the fiscal deterioration was spending: in 2000–04, real primary expenditure grew by 5.9 percent a year on average (5.1 percent excluding the Olympics) in 2000–04.
2. **In 2005, growth is expected to slow to 3½ percent, still well above most other euro-area countries.** The end of Olympic spending and, to a lesser extent, rising oil prices moderated domestic demand, although private consumption remained robust. Export growth fell somewhat, notwithstanding strength in the key shipping and tourism sectors, but import growth also fell after the Olympics-related surge in 2004, leaving, unusually, a very slight positive foreign balance contribution.
3. **The government, in its first budget, implemented substantial consolidation.** This year, staff estimates the deficit will fall to 4.6 percent of GDP, a reduction of 2 percentage points, associated primarily with the end of Olympics spending (accounting for 1¼ percent of GDP, including a sharp fall in public-sector investment), lower interest costs (½ percent of GDP), and lower growth of public sector wage costs and pensions.²

¹ Fiscal data for 1997–2004 were revised up substantially after the “fiscal audit” by the authorities and Eurostat, as described in Box 2 of the 2004 Greece Article IV staff report (Country Report 05/43). As a result, two rating agencies downgraded Greece. Interest rate spreads were little affected, though they have widened slightly in the past year. The figures were revised up again this September, and are still not definitive.

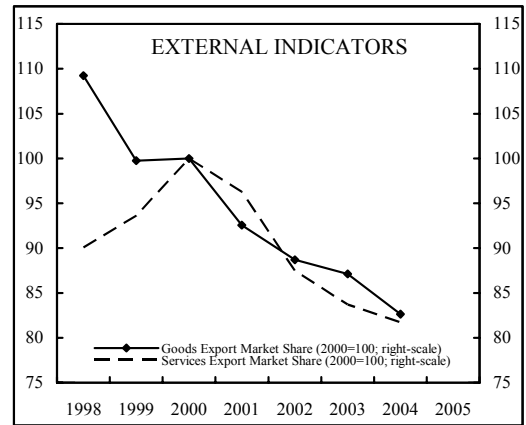
² At the time of the mission, the authorities planned to securitize tax arrears to raise revenue of 1 percent of GDP in 2005 and another 1 percent in 2006. However, they subsequently decided not to include the 2005 exercise in the 2006 budget document pending resolution of technical issues with Eurostat, although some securitization may still take place. A decision on a securitization for 2006 will be made by year-end. This operation involves a special purpose corporation, which receives the proceeds from the state’s collection of back taxes and which bears all the risk in the event of a shortfall.

Greece: General Government Expenditures, 2000–05

	(Percentage change)						Average growth (2000–04)	
	2000	2001	2002	2003	2004	2005	Nominal	Real
	Expenditures	13.7	4.2	6.5	8.3	8.5	1.5	8.2	4.5
<i>Of which:</i> wage bill	7.8	6.4	13.7	5.9	15.5	6.0	9.9	6.0
Consumption	17.1	4.2	12.2	1.5	9.1	6.2	8.8	5.0
Social transfers, excl. those in kind	13.0	11.6	7.5	13.0	5.1	9.9	10.1	6.2
Interest	4.9	-3.9	-6.4	-1.3	8.0	-1.4	0.3	-3.2
Subsidies	-9.4	1.6	5.1	16.1	1.3	-5.8	2.9	-0.7
Other current expenditure	2.4	3.8	6.9	34.4	30.6	-6.8	15.6	11.6
Investment expenditure	21.0	-3.2	3.5	20.0	12.0	-26.0	10.7	6.8
Primary expenditures	15.5	5.8	8.8	9.7	8.5	1.9	9.7	5.9
Primary expenditures (excluding Olympics expenditure)	15.4	5.5	7.1	9.0	7.3	5.0	8.8	5.1
Current primary expenditures	14.5	7.6	9.7	8.0	7.9	7.3	9.5	5.7

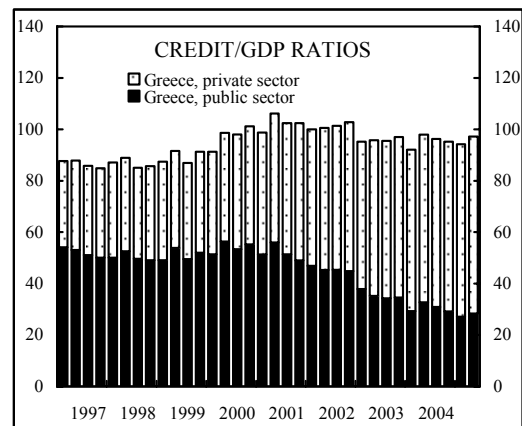
Sources: National Statistical Service; Ministry of National Economy; Bank of Greece; and Fund staff projections.

4. Inflationary pressures persist and competitiveness continues to erode. A persistent inflation differential vis-à-vis the euro area and high unit labor cost increases, due to a positive output gap and a tightening labor market, have resulted in a steady appreciation of the real exchange rate, more than reversing an improvement in the run-up to joining the euro. As a result, export growth has been weak and export market shares have fallen by some 17 percent since 2000. Inward FDI has been chronically weak, suggesting a reticence to invest in Greece.



Source: IMF, *World Economic Outlook*.

5. The Greek banking system has been transformed in the past decade, as private-sector intermediation has displaced holdings of public debt. Commercial banks have benefited from liberalization, privatization, and buoyant economic growth to extend credit aggressively to new clients—particularly households and SMEs (Figure 2). They have also moved into southeast Europe, hitherto relatively underbanked. Rapid credit expansion has raised concerns, however, since the resilience of the system has not been tested by a sharp economic slowdown in growth or higher interest rates. The nonbank financial sector is small and plays only a limited role in financial intermediation.



Source: Bank of Greece, *Bulletin of Conjunctural Indicators*.

Box 1. Greece: Policy Recommendations and Implementation

Fiscal policy. The Fund has called for significant consolidation, and the deficit is being reduced significantly this year and next. A comprehensive fiscal ROSC was done earlier this year. To strengthen fiscal management, the authorities have established task forces to examine the recommendations of FAD technical assistance missions on expenditure management and tax administration.

Pension and health care reform. The Fund urged public dialog to lay the groundwork for early action to deal with the fiscal costs of aging. The government has raised the public profile of this issue, but will not implement reforms in this term of office. Steps have been taken to control hospital spending.

Data. The Fund has for some time called for improvements in data quality, and efforts in this area continue. Nevertheless, historical budget estimates are still under discussion with Eurostat, data for the financing side of the budget are not yet available, and the quarterly national accounts data are of poor quality.

Financial sector. Both banks and the supervisor have strengthened risk management, in line with longstanding Fund recommendations. However, the new insurance supervisor is still not operational. In line with Fund advice, the authorities undertook an FSAP in 2005.

Structural policy. The Fund has urged greater flexibility to improve competitiveness, and significant steps were taken this year in both product and labor markets. The authorities plan further measures in the years ahead.

6. **Structural reform, after languishing for some time, is now underway, and political support for reform appears to be strengthening.** In recent months the government has introduced a number of important measures, including reductions in the corporate tax rate; unified and extended shopping hours; more flexible overtime arrangements; a new law to better integrate immigrants; a new competition law that brings Greece into line with EU standards; a stronger competition authority; further gas and electricity liberalization; and simplification of business licensing procedures, first for industrial companies and subsequently for the commercial sector. While opposition to specific measures remains, the successful implementation of these initiatives suggests increasing public acceptance of the need for reform. Reflecting this mood, the Prime Minister's annual policy address in September and the National Reform Program both emphasized the need to further improve productivity and competitiveness if Greece is to achieve the Lisbon objectives and close the income gap with western Europe.

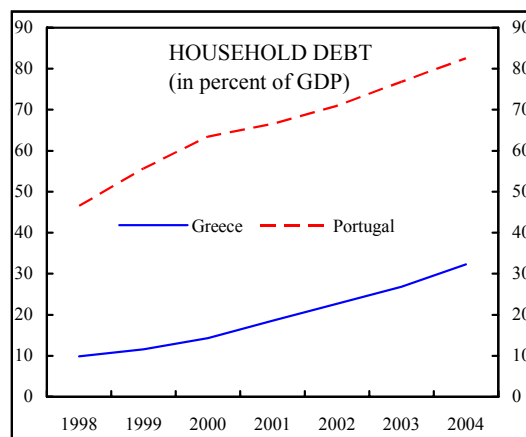
II. POLICY DISCUSSIONS

7. Policy discussions focused on three areas: fiscal consolidation to ensure sustainability, the financial sector, and competitiveness and medium-term growth.

A. Economic Outlook

8. **There was broad agreement on estimated growth in 2005, but the mission was somewhat less optimistic than the authorities for 2006 and beyond.** For 2005, the authorities emphasized that the Greek economy had continued to outperform the euro-area by a significant margin, despite fiscal consolidation. For 2006, the authorities project a small increase in real GDP growth to 3¾ percent, while the staff projects a mild slowdown to 3¼ percent. Both the authorities and staff expect private consumption to remain strong and investment to rebound from its post-Olympic slump. However, the staff was more cautious regarding the contribution of the external sector, where lost competitiveness could take a toll, and the strength of domestic demand, which could be weakened by faltering confidence (Figure 3) and the full-year effect of high oil prices. Beyond 2006, the authorities were optimistic about medium-term growth, pointing to implemented and planned structural reforms and infrastructure improvements. Staff projects a gradual decline in growth to its potential rate of 3 percent³—which is still high by comparison with most European countries—as the effects of euro entry and financial liberalization wear off and competitiveness erodes further.⁴

9. **It was recognized that there are significant risks on both sides of these projections.** Investment could rebound more strongly than expected from its Olympics-induced ripple, although higher interest rates could dampen activity. Growth would also be affected by changes in oil prices or EU economic growth, and by developments in tourism (which has rebounded strongly from two weak years, but is still vulnerable to security concerns) and shipping (also strong, but inherently volatile). The mission raised two medium-term issues: that the erosion of competitiveness might cut potential growth more than already incorporated in the medium-term projections; and that the end of the boom following euro adoption might prove much sharper than anticipated, as occurred in Portugal.⁵ The authorities viewed their structural reform



Source: National authorities.

³ Staff has revised up its estimate of potential growth in light of the continued strength of real GDP, productivity, and investment. See Chapter I of the Greece Selected Issues paper for the 2005 Article IV consultation.

⁴ Owing to competitive losses staff projects weak export growth and, despite slower growth, a continuing large trade deficit.

⁵ See the 2005 Portugal country report 05/375, especially Box 1.

agenda as addressing the key issue of competitiveness. Regarding the Portuguese experience, the authorities conceded resemblances, notably very high credit growth and procyclical fiscal policy during the boom, but stressed important differences, including a much lower ratio of private debt to GDP and the fact that Greece is in a position to benefit from the rapid economic development of southeast Europe.

B. Fiscal Policy

10. **The authorities have made deficit reduction their top priority.** In the context of the EU excessive deficit procedure (EDP), they are committed to lowering the deficit below 3 percent of GDP in 2006, but were concerned to avoid substantial adverse effects on economic growth or social cohesion. For 2005, budget implementation has been strong on the spending side, but revenue collection fell well short of expectations because of a surge in tax evasion, perhaps associated with reforms to the tax inspectorate, designed to curb corruption, which included replacing many employees. The authorities reported that they had begun to take corrective measures, but in the meantime they planned to securitize tax arrears (but see footnote 2) to ensure adequate progress toward the EDP commitment.

11. **The authorities plan further significant consolidation in 2006, although they are relying in part on temporary measures and, at the time of writing, policies for a significant portion of the adjustment were not specified.** The authorities target a deficit of 2.6 percent of GDP in 2006, with measures including a previously announced reduction in the corporate tax rate, the introduction of a VAT on real estate transactions, restraint of the public sector wage bill, and tighter control on the spending of public enterprises and hospitals. However, consolidation also depends heavily on increases in unspecified tax and non-tax revenues, some of which are to be temporary, and in lower infrastructure investment. Staff's baseline estimate for 2006 assumes spending targets are met but excludes the unspecified revenue measures. Together with a lower growth projection, this yields a projected deficit of 3.8 percent of GDP. By contrast, if the measures yet to be announced yield the revenue assumed by the authorities, staff projects a deficit of 2.7 percent of GDP.

Staff Fiscal Projections, 2006 (In percent of GDP)	
<i>Baseline--Includes Specified Measures</i>	
Revenue	41.4
Expenditure	45.2
Overall balance	-3.8
Structural balance	-4.3
<i>Includes Unspecified Measures</i>	
Revenue	42.5
Expenditure	45.2
Overall balance	-2.7
Structural balance	-3.2
excluding temporary measures	-3.8
<u>Memorandum items:</u>	
Unspecified revenue measures	1.1
of which: temporary	0.6

Source: Staff estimates

12. **The mission supported the large fiscal consolidation in 2005–06, but argued durable measures would be needed.** In this context, the mission was critical of securitization and other temporary measures, which do not improve the underlying budget position, and of past resort to tax amnesties, which undermine compliance. Net of temporary measures and adjusted for the cycle, staff projects the deficit would still be about 4¼ percent of GDP in 2006. In the absence of further measures, the outlook is for little narrowing of the

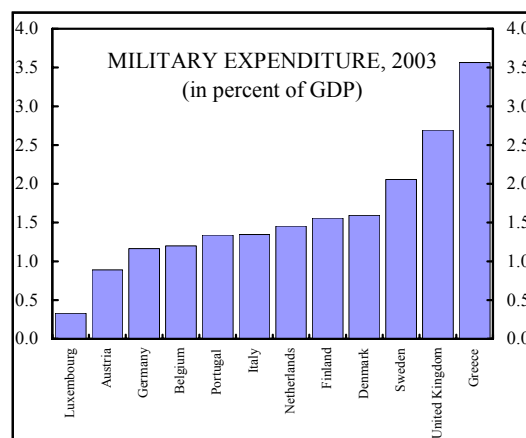
deficit in coming years (Table 3). Given very high levels of public debt, such an outcome would expose the Greek economy to continued risks to debt sustainability in the event of significant interest rate increases and, especially, should economic growth decline sharply (Figure 4).

13. **The mission also argued for continued consolidation to achieve structural budget balance by 2010**, since the costs of population aging are projected to begin to rise steeply shortly after that. This would require structural deficit reductions of about 1 percent of GDP a year, on average (Table 4). Front-loading of consolidation would be desirable to take full advantage of currently buoyant economic growth and because the electoral cycle will make restraint increasingly difficult in 2007–08. Given the authorities' policy to sustain public investment and implement tax reform, priorities supported by staff, current primary spending growth would have to be held to levels well below rates earlier in this decade. Nevertheless, there would still be room for real primary current spending to rise in real terms if the economy grows as in the staff projection and revenue collection remain strong.

14. **The authorities agreed that further, durable measures would be needed in 2007 and beyond to ensure strong public finances.** They emphasized, however, that the 2005–06 deficit reduction was very large and that it would take time to develop and implement more structural measures. Next year, a key focus would be greater control of state-owned enterprises, with a view to reducing the need for subsidies and loan guarantees (see Section D, below). In addition, the authorities were reinforcing tax collection through electronic cross-checking of VAT returns, and planned to step up absorption of EU funds.

15. **The mission also recommended that spending be clearly prioritized, which would be facilitated by a multi-year adjustment strategy and tax and expenditure reform.** Broad areas of possible saving (some of which are in train) include: continued

restraint of public sector wages, which have risen rapidly in recent years; taking advantage of retirements (estimated by the authorities at about 7000 a year) to slim the public service; better control of spending by state-owned enterprises, transport companies, and hospitals; and scaling back high military spending. Ultimately, however, consolidation will require decisions on which programs to contract. Discussion on this point was informed by the results of the TA mission on expenditure management and tax administration and the fiscal ROSC, which identified weaknesses in the current budget



Source: OECD, National Accounts.

system—including a focus on spending lines rather than program objectives, ineffective audit and accounting controls, and lack of transparency—and offered recommendations for improvement (Box 2). The authorities welcomed these initiatives and have already established high-level task forces to review the recommendations. In view of the sweeping

nature of the suggested reforms, the mission urged that the task forces be given strong political backing.

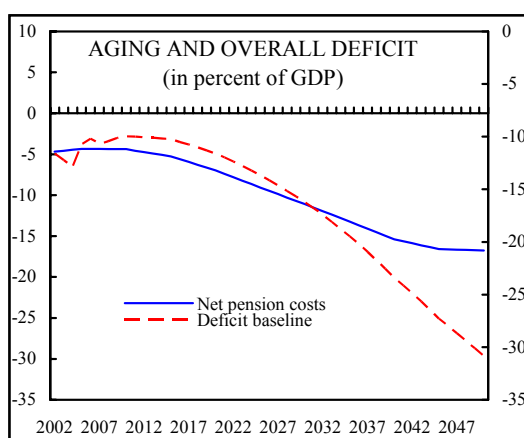
16. **The authorities plan further tax reform, with a view to stimulating economic activity.** The corporate tax rate is to be cut again, to 25 percent, and a real estate tax is under consideration. Reforms to the personal income tax (PIT), to be implemented in 2007–10, are being formulated which provisionally involve reducing the number of brackets, lowering the top rate, and raising the basic exemption. The mission supported such reforms, provided deficit reduction objectives were not compromised. Regarding the PIT, it warned against expecting a very large revenue boost from the elimination of tax brackets, and argued that major gains would arise instead from the simplification of deductions, which would dovetail with tax administration reforms. The authorities concurred, noting that they intended to strictly limit revenue losses from the PIT reform, although the relevant calculations had not been completed.

Box 2. Greece: Key Recommendations of ROSC on Fiscal Transparency, and Technical Assistance on Public Expenditure Management and Tax Administration

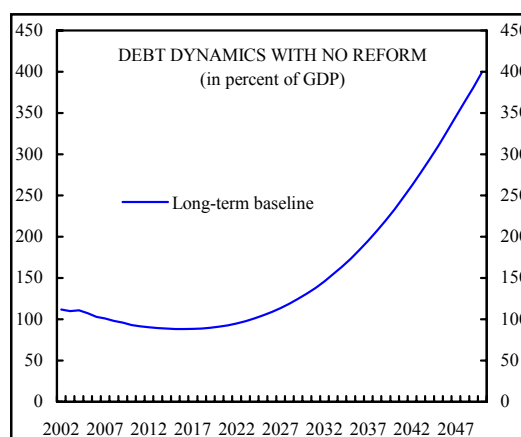
- Fully consolidate budget, including the ordinary and investment budgets, and execute through a more transparent treasury single account.
- Move to programmatic budgeting and a medium term budget framework, supported by comprehensive mid-year reviews and fiscal sustainability analyses.
- Extend management systems to the entire general government, with better defined responsibilities and more complete reporting at the sub-national level and pension funds.
- Begin to move to full accrual accounting.
- Make quasi-fiscal activities more transparent.
- Streamline expenditure controls with greater emphasis over commitments.
- Strengthen the internal financial management in budget institutions to promote accountability.
- Move to ex-post, value-for-money audits, increasing the relevance of the Court of Audit's annual reports and the effectiveness of parliamentary oversight.
- Introduce modern system of self-assessment in tax administration supported by risk-based enforcement, and reduce degree of discretion.
- Return to periodic filing of VAT returns.
- Introduce stronger measures to collect tax arrears.
- Improve accounting and budget management through more effective information technology.

17. **The authorities and the mission agreed that, in the absence of corrective measures, pension and health-care costs threaten longer-term fiscal sustainability.** Spending on these items is set to rise by 10½ percent of GDP between 2010 and 2050, according to 2001 EC estimates (which are in the process of being updated), which would result in an explosive debt-GDP ratio in the absence of corrective action. The authorities

stand by an election commitment not to act in its current term of office, but have begun to prepare the ground by referring the issue to the Economic and Social Council for discussion by social partners. The mission agreed that building political support was a prerequisite to reform. Staff noted that time was running short, however, especially since pension reforms often became fully effective only long after implementation, and urged that a more visible and comprehensive dialog be begun soon. A key part of such a discussion will be updated estimates of aging costs. The National Actuarial Authority has been charged with this task, but has fallen far behind schedule, and the mission therefore recommended that additional resources be provided immediately, including by outsourcing the work. On health care, the authorities have recently improved financial monitoring and procurement systems, while recognizing that additional measures will be needed, including better pricing and costing mechanisms and improved auditing.



Source: IMF staff estimates and projections.



Source: IMF staff estimates and projections.

18. **The mission also laid out a number of reform options, based on experience in other countries.**⁶ Such policies include reducing high replacement rates, running budget surpluses beyond 2010 to reduce public debt more rapidly, raising the effective retirement age, streamlining the highly fragmented system and further unifying entitlement conditions, developing a clear vision on an adequate (but affordable) level of minimum protection, and strengthening sustainability assessments.

C. Financial Sector

19. **The FSAP concluded that the banking system appears profitable and well capitalized, and offered a number of recommendations (Box 3).** Capital positions are

⁶ See Chapter 2 of the Selected Issues paper for the 2005 Article IV consultation.

Box 3. Greece: FSAP—Main Recommendations

Stability-related issues

- Close monitoring of credit risk is critical, particularly regarding lending to new clients and in new regions.
- Develop a more integrated monitoring and reporting system of banks' risk management techniques.
- Bring the Insurance Supervisory Commission (ISC) to operational readiness as soon as possible.
- Develop a more risk-focused, forward-looking approach to financial supervision, including (i) expanding on-site inspection; and (ii) developing supervisory capacity to assess risks.

Key structural issues

- Intensify cooperation with regional supervisors and increase on-site inspections of the Greek banks' subsidiaries in Southeastern Europe.
- Address tax and legal restrictions that create competitive disadvantages (e.g., the 60 basis point charge and labor market rigidities).
- Streamline the legal process for settling disputes concerning debt recovery, to match EU averages.
- Develop more detailed internal BoG procedures for crisis resolution.
- Strengthen the deposit insurance system by (i) establishing funding procedures in case of need; and (ii) ensuring that adequate information on insured deposits is available.

Strengthening supervisory arrangements

- Strengthen legal protection for all financial sector supervisors.
- Develop expertise by supervisory staff in areas where market practices are evolving rapidly (e.g., risk management techniques, and use of capital market funding instruments).
- Establish procedures for effective cooperation among the different regulatory bodies.
- Ensure operational independence of the ISC by isolating staff making decisions that affect the financial condition of insurance firms from industry or political influence.
- Strengthen HCMC accountability by reporting on performance to government and parliament, implementing internal rules on disclosure of conflicts of interest for board members, and establishing a code of conduct for staff.
- Ensure wide adoption of, and compliance with, IFRS by all companies listed on the Athens Stock Exchange.

strong and returns on assets and equity have risen so far this year (Tables 5, 6, and 7). However, bank credit to the private sector has grown very rapidly for several years, raising potential challenges in managing associated risks. Nonperforming loans exceed European averages and are high for the current stage of Greece's economic cycle. Stress tests revealed that bank soundness is not threatened by market risk, but also that banks carry significant unhedged equity and interest rate risks on their banking books. Greek banks have high cost structures and, since profitability is supported by high spreads for consumer lending, intensified competition will pose challenges. In addition, as deposit growth falls short of rapid credit growth, banks are increasingly tapping new, more costly sources of funding. Larger banks are raising funds in euro-area capital markets, but access is limited for smaller banks with lower credit ratings. Finally, the introduction of IFRS may result in one-time

capital charges, as the new standards have tighter rules on assessment of impaired assets, asset valuation and hedging, and recognition of employee benefits (including pension obligations).

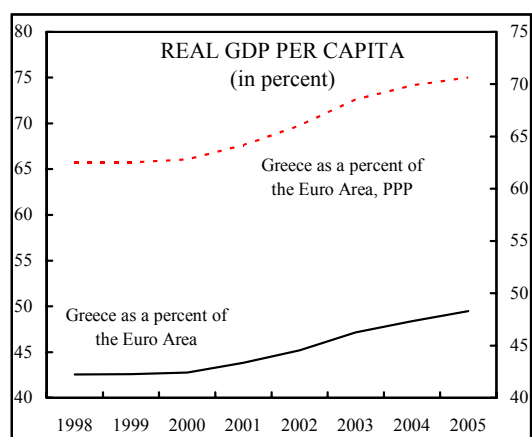
20. **The authorities emphasized that both the BoG and the banks themselves were responding to these risks and challenges.** The BoG has tightened the prudential framework, strengthened provisioning, and improved on-site and off-site inspection. Preparations for the move to Basle II are well underway, and the large banks are developing sophisticated risk management capabilities to manage these new challenges. Preparations in some of the medium-sized banks are lagging however. Also, these techniques are based on historical data that do not reflect experience over a full economic cycle, raising the possibility that credit risk may prove greater than now estimated. Legislation has been put in place for the transfer of bank pensions to the public sector system, although the process is not yet complete.

21. **The nonbank financial sector is not systemically important at present, but the mission argued for strengthened supervision in anticipation of medium-term challenges.** While the capital markets supervisor is gaining credibility and effectiveness, it will face important regulatory challenges as IFRS and stronger auditing standards are implemented. The insurance sector is weak and poorly supervised, and the mission urged that the new supervisory body, which was legislated in February 2004, be made fully operational as soon as possible, and that its independence from the industry be assured. The mission also argued for stronger pension supervision, since existing first-pillar schemes have some of the characteristics of occupational schemes and enjoy explicit or implicit government backing, and second-pillar schemes are likely to become more common. Finally, the authorities and the mission agreed on the need for greater cooperation among supervisory agencies, and the authorities plan to establish a coordinating committee chaired by the BoG.

D. Competitiveness and Medium-Term Growth

22. **The authorities viewed improved competitiveness as key to sustaining medium-term growth and closing the gap in living standards with western Europe.** They

concurred with the mission that a sustained inflation differential and further real exchange rate appreciation threatened medium-term growth, and that therefore wage increases should be no more than productivity increases in Greece plus inflation in the euro area. However, they also viewed competitiveness in the broader sense of the dynamism of product and labor markets. There is clearly scope to improve the Greek business climate, particularly by streamlining business establishment procedures and lowering hiring and firing costs, notably strong employment protection arrangements (Table 8). Similarly, labor market performance is generally



Source: IMF, *World Economic Outlook*.

poor by comparison with other EU countries, with high unemployment rates, including high long-term unemployment, and low participation rates, especially among youth and women (Figure 5).⁷

23. **The mission welcomed the spate of reform measures put in place this year, but argued that more needed to be done to ensure robust medium-term growth.** On product markets, priorities included further efforts to reduce red tape and the petty corruption in nurtures, rapid adoption of a modernized bankruptcy law (now under study by a high-level commission), and faster gas and electricity market liberalization. On the labor market side, the mission called for reform of employment protection and more flexibility regarding the central bargain struck by labor and business to lower minimum wages, at least in sectors facing severe economic pressure (currently, minimum wages are agreed at a central level by the social partners and extended economy-wide by law).⁸ The authorities indicated that they intend to press ahead on the product market side; on labor markets they agreed that further significant measures were desirable, but doubted they would be feasible, at least in the near term.

24. **A key set of reforms involves an overhaul of state-owned enterprises (SOEs).** In the telecoms company, permanent job tenure and guaranteed pay scales were eliminated for new employees, although at the cost of an expensive buy-out of many existing workers. The mission welcomed this measure, and the intention of the government to extend it to other SOEs. In addition, the authorities are strengthening the governance of SOEs by introducing IFRS and closer oversight of their business plans, an initiative the mission also supported, although it saw the main medium-term benefit in terms of preparing SOEs for eventual privatization. The mission pointed out that privatization, beyond raising money to reduce public debt, would contribute to improved product market performance if government control were ended. The authorities largely agreed with this perspective, and reiterated that they plan to continue the privatization process, although it would probably be done gradually in most cases.

25. **Regarding investment, the authorities introduced a new framework law for public-private partnerships (PPPs) and a new investment law.** PPPs falling under the new framework are to be introduced gradually, beginning in 2006, with the expectation that costs will prove lower than the alternative of public provision. The mission warned against undertaking PPPs principally to defer the budgetary costs of investments, and argued that care should be taken in the selection of projects, PPPs should be integrated into the overall public investment strategy, and the full costs, both current and future, should be made

⁷ An important reservation is that these product and labor market statistics refer to the formal economy, and it can be argued that Greece's large gray economy, although undesirable in many respects, enhances flexibility.

⁸ Reducing employment protection and increasing labor bargaining flexibility are also key OECD recommendations (2005 Economic Survey of Greece, Chapter 4).

transparent in the relevant budget documents. The authorities explained that a high-level body at the MoEF would be responsible for deciding which investment projects would be suitable as PPPs, and that the accounting would be fully transparent. The mission, noting that the law covered only smaller projects (although by unanimous decision the interministerial committee implementing the law can bring larger projects under its purview), argued that the same procedures and safeguards should be extended to all projects. The investment law, which is designed to promote regional development, is meant to involve relatively small amounts of money, at least for the next two years, but the mission expressed concern that budgetary costs not get out of hand.

E. Data

26. **Economic data have improved significantly, but further strengthening is warranted in some areas.** The very large revisions to the fiscal numbers for 1997–2004 called into question the reliability of the fiscal data. While the authorities, in collaboration with Eurostat, made marked improvements last year, another revision this September and the fact that some issues are still outstanding suggest that problems remain. Also, comprehensive financing-side data for the general government are still not available, and progress seems limited. The quarterly national accounts estimates are difficult to interpret, since the raw numbers are not available and the seasonally adjusted numbers appear to have a pronounced seasonal pattern. The authorities agreed that their methodology is inadequate and results in incomplete deseasonalization, but reported that a new estimation procedure has been developed, and the new data series were to be published in 2006. More timely banking system data are needed for transparency, a point the authorities agreed with, although they also noted that the shift to IFRS had delayed data releases so far this year. Regarding general data integrity issues, the authorities noted that National Statistical Service intends to adopt the new EU Statistics Code of Practice. The mission argued that credibility would be further bolstered by granting the Service full independence—it is currently part of the MoEF—but there are no plans to do so.

III. STAFF APPRAISAL

27. **Greece has made important progress this year in addressing pressing macroeconomic and structural policy challenges, but imbalances remain severe.** Following relentless rises in the fiscal deficit in recent years, despite high growth and low interest rates, the authorities have been successful in cutting the deficit, largely through spending restraint, and are committed to bringing it below 3 percent of GDP next year. Also, to address Greece's relatively weak productivity and labor market performance, the authorities have implemented important structural reforms. Much remains to be done on both fronts, but building on these initiatives will foster sustainable and healthy public finances and promote the dynamism and competitiveness needed to ensure continued strong economic growth over the medium term.

28. **Following several years of very strong performance, growth seems set to moderate, but should nevertheless continue to compare favorably with that in the euro area.** The economic boom has been fueled by low interest rates, reflecting euro adoption and supportive monetary policy in the euro area, and a procyclical fiscal stance. It has been

financed by rapid private-sector credit growth following financial-sector liberalization. This year, the end of Olympics spending weakened domestic demand, and real GDP growth is expected to fall to a still-robust 3½ percent. The real exchange rate has appreciated in recent years because of a sustained inflation differential, resulting in a worrying loss of competitiveness, and the situation cannot continue indefinitely. In the years ahead, the prospect is for a return to trend growth of about 3 percent, as the stimulus from adoption of the euro fades, and higher oil prices, further erosion of competitiveness, and needed fiscal consolidation restrain demand.

29. **Fiscal consolidation is the top policy priority and the authorities' goal to reduce the deficit below 3 percent of GDP in 2006 is welcome, but more durable measures will be needed.** The consolidation so far in 2005 and planned for 2006 is substantial, and demonstrates resolve to tackle the dire fiscal situation. The authorities appropriately cut spending when the Olympics ended, rather than diverting resources to other uses, and have reduced the growth of the public sector wage bill from very high rates. Current policies also have weakness, however, especially from a medium-term perspective. Temporary expedients, such as securitization, do not improve the underlying budgetary position. For 2006, the effort has tilted toward revenue increases and less infrastructure investment rather than current spending restraint, and additional high-quality measures still need to be specified to meet the deficit objective. More broadly, consolidation efforts will have to shift decisively toward control of current spending, which would be fostered by reforms to budget processes that emphasize strategic planning and program prioritization, and strengthened expenditure management and tax administration.

30. **Fiscal consolidation will need to continue in 2007 and beyond to foster sustainable public finances, especially in view of population aging.** From this perspective, a structural budget balance by the end of this decade would be a prudent objective. Achieving it will require structural deficit reductions of about 1 percent of GDP a year, on average, although some front-loading would be desirable to make as much progress as possible while economic growth is still strong. Since further tax cuts and infrastructure investment are critical to continued growth, adjustment will have to fall on current primary spending growth, which will have to be held to well below the high rates characteristic of recent years. While it is possible to identify broad areas of possible savings—restraining public sector wages, and reducing defense spending, for example—better prioritization of spending programs will be key.

31. **A multi-year fiscal strategy and reforms to budgeting, expenditure management, and tax administration would underpin a program of sustained fiscal consolidation.** The early establishment of high level task forces on expenditure management and tax administration is welcome, and their recommendations will need to receive strong political backing. Key priorities for expenditure management are to focus the budget process on programs (including by integrating the ordinary and investment budgets), streamline spending control, improve auditing, and evaluate program outcomes relative to budgeted objectives. Reform of tax administration should be centered on developing a modern system of assessment supported by risk-based enforcement mechanisms, frequent periodic filing of

VAT returns, improved audit procedures, and stronger measures to collect tax arrears. The tradition of tax amnesties should be abandoned. Progress on both the expenditure and tax fronts will require improved information management and systems.

32. **The long-term fiscal outlook is dominated by rising pension and health-care outlays, and reforms need to be implemented as soon as possible.** Spending on these items will soon begin to rise sharply because of adverse demographics and, in the absence of corrective measures, will eventually result in the explosive growth of the public debt. Public debate on pension reform has already begun, but a highly visible and comprehensive social discussion is needed immediately to explore the key issues and possible solutions, with a view to early implementation of urgently needed reforms. In this regard, the authorities need to bring the National Actuarial Authority up to full strength so it can quickly update long-run projections of the fiscal costs of aging. Health-care reform is also required. Initiatives to improve the procurement process are a welcome step forward, but additional measures will be needed to control costs while ensuring a high level of service.

33. **Liberalization and privatization have resulted in a welcome transformation and expansion of the Greek banking system, but have also raised challenges.** Commercial banks are well capitalized, profitable, and liquid, but the sustained period of rapid credit growth has raised the risk that credit quality may deteriorate rapidly in the event of adverse economic developments. Banks are also relatively small and have high costs, and may thus be vulnerable to intensifying competitive pressures in a rapidly integrating market. The insurance industry is weak and poorly supervised, and the pension sector, while now dominated by government-guaranteed schemes, is likely to see a rise in second-pillar schemes, raising questions of the adequacy of supervision.

34. **In these circumstances, the supervisory framework should be strengthened further.** The BoG should continue to monitor closely the rapid expansion of bank assets, particularly the growth of nonperforming loans, and to improve its capacity to supervise new lines of bank business. In addition, effort should be made to develop risk management capacity more uniformly across banks, and to better integrate it with business operations. An important priority is to make the new insurance supervisor operational, fully resourced, and independent as quickly as possible. Pension supervision should also be strengthened. Across sectors, procedures should be established to ensure effective cooperation among supervisory agencies and to strengthen the legal protection of supervisors.

35. **Improving productivity and competitiveness are vital to raising living standards to those in western Europe.** The priorities of the National Reform Program are appropriate and would contribute importantly to achieving the Lisbon objectives if associated policies are implemented effectively. The recent introduction of a number of structural reforms and the authorities' determination to continue on that course are commendable. Further measures to improve the business climate should be pursued vigorously. Simplification of the tax system, lower tax rates, and an overhauled tax administration will be key in this regard. The reform of business licensing and the planned modernization of bankruptcy law are all welcome, and should be pursued vigorously. Gas and electricity markets are also being liberalized, but a more rapid pace would enhance the economic gains from this process. The strengthened

Competition Authority needs strong political support to implement the new competition law and to tackle uncompetitive activities more aggressively.

36. **Labor markets are also undergoing important reforms, but the pace should be accelerated.** The easing of overtime restrictions will improve flexibility and promote hiring, and the new immigration law will bring workers into the formal economy, to everyone's benefit. Further reforms are needed, however, to spur hiring and prevent job losses. These should include the relaxation of strong employment protection legislation, greater opportunity for opting-out of aspects of the centrally agreed minimum wages, especially in sectors under stress. Preventing further losses in competitiveness will ultimately require wage growth of no more than the sum of productivity growth in Greece and inflation in the euro area.

37. **Plans to reform the SOEs are welcome, and in many cases privatization should be the eventual goal.** Plans to eliminate job tenure and introduce private sector pay scales for new employees, introduce IFRS, strengthen corporate governance, and ensure thorough oversight of business plans will, if successful, improve performance. This, in turn, should reduce the need for subsidies and loan guarantees, thereby promoting fiscal adjustment. However, care should be taken to limit early retirement packages, in order to avoid both the drain on public finances and an "early retirement" culture. In a broader perspective, putting SOEs on a commercial footing should in many cases be considered a first step toward eventual privatization, in order to reduce the burden on the state and increase economic efficiency and dynamism.

38. **The new PPP law is welcome but should be used cautiously and the framework should be extended to large projects.** PPPs, if properly implemented, hold the promise of increasing the efficiency of public investments to the benefit of both the budget and the economy as a whole. However, it will be critical to ensure full transparency of the budgetary implications of the entire life of each project, as well as coherence with the broader budgetary process and public investment priorities. Large investment projects should be brought into the new PPP framework, because the need for careful project selection and transparency apply as much, if not more, to them as to smaller projects.

39. **Economic data are adequate for surveillance, but should be strengthened further.** Fiscal data seem to still be in some flux, and comprehensive financing-side data for the general government would substantially enhance analysis of fiscal developments; better estimates of the quarterly national accounts are important for up to date assessments of the economy; and more timely banking system data would improve transparency and market discipline. Finally, the intention of the National Statistical Service to adopt the new EU Statistics Code of Practice is welcome, but additionally the Service should be given formal independence.

40. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Table 1. Greece: Selected Economic Indicators, 2000–06

	2000	2001	2002	2003	2004 Est.	2005 Proj.	2006
Domestic economy	(Percentage changes, unless otherwise indicated)						
GDP	4.5	4.6	3.8	4.6	4.7	3.5	3.3
Output gap	-0.9	0.0	0.0	0.9	1.8	1.6	1.2
Domestic demand	5.5	2.7	4.5	5.7	4.6	3.1	3.9
Private consumption	2.2	2.9	3.3	4.5	4.4	4.4	4.0
Public consumption	14.8	-1.5	7.3	-2.1	3.9	1.1	0.6
Gross fixed capital formation	10.0	4.9	6.0	13.7	5.7	1.0	5.4
Foreign balance (contribution)	-1.7	1.7	-1.1	-1.4	-0.5	0.1	-1.0
Exports	14.1	-1.0	-7.7	1.0	11.7	6.2	5.9
Imports	15.1	-5.2	-2.4	5.2	9.3	4.0	7.3
Unemployment rate 1/	11.4	10.8	10.3	9.7	10.5	10.0	10.0
Employment	1.4	-0.1	2.2	2.4	0.9	1.1	0.5
Unit labor costs (economy wide)	1.7	2.8	3.0	2.4	3.2	3.3	3.0
Consumer prices (HICP), period average	2.9	3.7	3.9	3.4	3.0	3.6	3.3
GDP deflator	3.4	3.5	4.0	3.5	3.6	3.6	3.3
	(In percent of GDP, settlements basis)						
Current Account	-6.9	-6.2	-6.0	-5.6	-3.8	-3.2	-3.6
Trade balance	-10.9	-9.5	-8.4	-7.2	-6.0	-5.2	-5.5
Export of goods and services	26.4	25.5	22.2	21.1	23.6	24.1	24.7
Export of goods	9.1	8.8	7.3	7.2	7.6	7.0	6.5
Exports of services	17.2	16.8	14.8	13.9	16.0	17.1	18.2
Imports of goods and services	37.2	35.0	30.6	28.3	29.5	29.3	30.2
Balance on capital account	-0.2	5.2	7.4	6.3	4.9	3.2	3.6
Of which: Direct investment inflows	1.0	1.3	0.0	0.4	0.7	0.3	0.4
Portfolio investment inflows	8.2	7.6	9.2	13.7	15.1	11.0	11.5
Change in reserves (- is an increase in reserves)	-2.5	4.7	-1.4	2.9	1.6	0.0	0.0
Public finances (general government) 2/	(In percent of GDP)						
Total revenues	46.7	42.9	43.3	42.5	41.6	41.1	41.4
Total expenditures	50.8	48.9	48.3	48.3	48.3	45.6	45.2
Primary expenditures	42.7	41.7	42.0	42.5	42.6	40.4	40.3
Overall balance	-4.1	-6.1	-4.9	-5.7	-6.6	-4.6	-3.8
Primary balance	4.0	1.2	1.3	0.0	-0.9	0.7	1.1
Structural overall balance	-3.7	-6.1	-5.0	-6.1	-7.4	-5.2	-4.3
Gross debt	114	114	112	109	111	108	105
Memorandum items:							
Nominal effective exchange rate 3/	-6.2	0.7	1.7	3.6	1.1	-0.2	...
Real effective exchange rate (consumer prices) 3/	-6.1	1.0	2.9	4.9	2.1	1.5	...
Real effective exchange rate (manufacturing ULCs) 3/	-3.1	0.5	3.1	4.2	1.9	2.1	...
Nominal GDP (in billions of euros)	122	132	142	154	167	179	191

Sources: National Statistical Service; Ministry of National Economy; Bank of Greece; and Fund staff estimates.

1/ Annual averages. Figures for 2004 not fully comparable with those for previous years because of new sample as of 2004.

2/ Staff estimates for 2006 exclude the impact of planned additional revenue measures which are as yet unspecified. If the authorities' estimate of the impact of these measures are included, the deficit would be 2.7 percent of GDP.

3/ Latest data is for July (real effective exchange rate (consumer prices), nominal effective exchange rate); and September (real effective rate (manufacturing ULC)).

Table 2. Greece: General Government Accounts, 2000–06 (Baseline Scenario)

	2000	2001	2002	2003	2004	2005		2006		
						Authorities' Estimate	Staff Projection	Authorities' Estimate	Staff Projection 1/	
	<i>(Billions of Euro)</i>									
Revenues	56.8	56.5	61.7	65.6	69.6	73.9	73.6	81.4	79.2	
Taxes on production and imports	18.5	19.4	21.0	22.1	23.2	23.8	23.7	25.8	25.7	
Taxes on income and property	13.2	12.5	13.4	13.5	14.7	16.1	16.0	17.6	17.0	
Social insurance contributions	17.0	18.4	21.3	23.7	24.5	26.5	26.5	28.8	28.8	
Other	4.3	5.6	4.4	3.9	3.9	3.8	3.8	5.2	3.6	
Capital transfers	3.9	0.5	1.6	2.4	3.3	3.6	3.6	4.1	4.1	
Expenditures	61.9	64.5	68.7	74.4	80.7	81.8	81.8	86.5	86.5	
of which: wage bill	14.3	15.2	17.3	18.3	21.1	22.4	22.4	23.7	23.7	
Consumption	21.5	22.4	25.1	25.5	27.8	29.4	29.4	30.7	30.7	
Social transfers, excl. those in kind	20.2	22.5	24.2	27.3	28.7	31.6	31.6	34.6	34.6	
Interest	9.9	9.6	8.9	8.8	9.5	9.4	9.4	9.4	9.4	
Subsidies	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Other current expenditure	1.4	1.4	1.5	2.1	2.7	2.5	2.5	2.4	2.4	
Investment expenditure	8.7	8.4	8.7	10.5	11.7	8.7	8.7	9.1	9.1	
of which: Olympics related expenditures	0.1	0.2	1.2	1.7	2.7	0.6	0.6	0.0	0.0	
Overall balance 1/	-5.0	-8.0	-7.0	-8.8	-11.1	-7.9	-8.2	-5.0	-7.3	
Primary expenditures	51.9	54.9	59.8	65.6	71.2	72.4	72.4	77.1	77.1	
Primary balance	4.9	1.5	1.9	0.0	-1.6	1.5	1.2	4.4	2.1	
	<i>(In percent of GDP)</i>									
Revenues	46.7	42.9	43.3	42.5	41.6	41.0	41.1	42.1	41.4	
Taxes on production and imports	15.2	14.7	14.8	14.3	13.9	13.2	13.2	13.3	13.4	
Taxes on income and property	10.8	9.5	9.4	8.8	8.8	9.0	8.9	9.1	8.9	
Social insurance contributions	14.0	14.0	15.0	15.4	14.6	14.7	14.8	14.9	15.1	
Other	3.6	4.3	3.1	2.5	2.3	2.1	2.1	2.7	1.9	
Capital transfers	3.2	0.4	1.1	1.6	2.0	2.0	2.0	2.1	2.1	
Expenditures	50.8	48.9	48.3	48.3	48.3	45.4	45.6	44.7	45.2	
of which: wage bill	11.7	11.5	12.1	11.9	12.6	12.4	12.5	12.3	12.4	
Consumption	17.7	17.0	17.6	16.5	16.6	16.3	16.4	15.9	16.1	
Social transfers, excl. those in kind	16.6	17.1	17.0	17.7	17.2	17.6	17.6	17.9	18.1	
Interest	8.2	7.3	6.3	5.7	5.7	5.2	5.2	4.8	4.9	
Subsidies	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	
Other current expenditure	1.1	1.1	1.1	1.3	1.6	1.4	1.4	1.2	1.3	
Investment expenditure	7.2	6.4	6.1	6.8	7.0	4.8	4.8	4.7	4.8	
of which: Olympics related expenditures	0.1	0.2	0.8	1.1	1.6	0.3	0.3	0.0	0.0	
Overall balance	-4.1	-6.1	-4.9	-5.7	-6.6	-4.4	-4.6	-2.6	-3.8	
Primary expenditures	42.7	41.7	42.0	42.5	42.6	40.2	40.4	39.9	40.3	
Primary balance	4.0	1.2	1.3	0.0	-0.9	0.8	0.7	2.3	1.1	
Structural primary balance	4.4	1.2	1.3	-0.4	-1.7	...	0.0	...	0.6	
Structural overall balance	-3.7	-6.1	-5.0	-6.1	-7.4	...	-5.2	...	-4.3	
Structural overall balance (net of expenditure on Olympics)	-3.7	-5.9	-4.1	-5.0	-5.8	...	-4.9	...	-4.3	
Memorandum items										
Gross debt	114	114	112	109	111	107	108	105	105	
Nominal GDP (in billions of euros)	122	132	142	154	167	180	179	193	191	

Sources: National Statistical Service; Ministry of National Economy; Bank of Greece; and Fund staff projections.

1/ Staff estimates exclude the impact of planned additional revenue measures which are as yet unspecified. If the authorities' estimate of the impact of these measures are included, the deficit would be 2.7 percent of GDP.

Table 3. Greece: Medium Term Baseline Scenario, 2004-10
(Percentage changes, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010
	Projections						
Domestic economy							
GDP	4.7	3.5	3.3	3.2	3.2	3.1	3.0
Output gap	1.8	1.6	1.2	0.9	0.6	0.4	0.0
Domestic demand	4.6	3.1	3.9	3.4	3.4	3.3	3.0
Private consumption	4.4	4.4	4.0	3.7	3.9	3.9	3.7
Public consumption	3.9	1.1	0.6	0.6	0.7	0.8	0.4
Gross fixed capital formation	5.7	1.0	5.4	4.2	3.2	3.0	2.7
Foreign balance (contribution)	-0.5	0.1	-1.0	-0.6	-0.6	-0.5	-0.4
Exports	11.7	6.2	5.9	5.7	5.5	5.3	5.0
Imports	9.3	4.0	7.3	5.6	5.4	5.1	4.7
Unemployment rate	10.5	10.0	10.0	10.0	10.0	10.0	10.0
Employment	0.9	1.1	0.5	0.5	0.5	0.5	0.5
Unit labor costs (economy wide)	3.2	3.3	3.0	3.0	3.0	3.0	3.0
Consumer prices (HICP), end of period	3.1	3.6	3.3	3.0	2.9	2.8	2.7
Consumer prices (HICP), period average	3.0	3.6	3.3	3.0	2.9	2.8	2.7
GDP deflator	3.6	3.6	3.3	3.0	2.9	2.8	2.7
External sector (in percent of GDP)							
Current account (national accounts; settlements basis)	-3.8	-3.2	-3.6	-3.7	-3.8	-3.9	-4.0
Trade balance (in percent of GDP, settlements basis)	-6.0	-5.2	-5.5	-5.4	-5.4	-5.5	-5.5
Exports of goods and services	23.6	24.1	24.7	25.3	25.9	26.4	26.9
Imports of goods and services	29.5	29.3	30.2	30.7	31.3	31.8	32.4
Total transfers	3.6	3.4	3.1	3.0	2.8	2.6	2.5
Net income receipts	-1.5	-1.4	-1.3	-1.2	-1.1	-1.1	-1.0
Capital account	4.9	3.2	3.6	3.7	3.8	3.9	4.0
Direct investment (net)	0.4	0.1	0.2	0.2	0.2	0.2	0.2
Portfolio investment (net)	8.4	7.0	6.8	6.5	6.0	5.7	5.4
Other investment	-5.4	-3.9	-3.4	-3.0	-2.3	-1.9	-1.5
Change in reserves	2	0	0	0	0	0	0
Public finances (general government, in percent of GDP) 1/ 2/							
Total revenues	41.6	41.1	41.4	41.6	41.9	42.1	42.5
Total expenditures	48.3	45.6	45.2	45.3	45.3	45.2	45.2
Primary expenditures	42.6	40.4	40.3	40.4	40.5	40.3	40.5
Interest expenditures	5.7	5.2	4.9	4.9	4.8	4.8	4.8
Overall balance	-6.6	-4.6	-3.8	-3.7	-3.4	-3.0	-2.8
Primary balance	-0.9	0.7	1.1	1.2	1.4	1.8	2.0
Overall balance (excluding Olympics)	-5.0	-4.2	-3.8	-3.7	-3.4	-3.0	-2.8
Structural primary balance	-1.7	0.0	0.6	0.8	1.1	1.6	2.0
Structural overall balance	-7.4	-5.2	-4.3	-4.0	-3.7	-3.2	-2.8
Structural overall balance (net of Olympics expenditure)	-5.8	-4.9	-4.3	-4.0	-3.7	-3.2	-2.8
Real primary spending growth	4.8	-1.8	3.1	3.5	3.4	2.8	3.2
Gross debt	111	108	105	102	100	97	95
Memorandum item							
Nominal GDP (in billions of euros)	167	179	191	203	216	229	242

Source: Fund staff estimates and projections.

1/ Assumes broadly constant ratio of revenue and primary expenditures to GDP as in 2005, and full utilization of EU structural funds.

2/ Staff estimates for 2006 exclude the impact of planned additional revenue measures which are as yet unspecified. If the authorities' estimate of the impact of these measures are included, the deficit would be 2.7 percent of GDP.

Table 4. Greece: Medium-Term Staff Policy (Adjustment) Scenario, 2002–10
(In percent of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
						Proj.			
Total revenues	43.3	42.5	41.6	41.1	41.4	41.6	41.9	42.1	42.5
Total expenditures	48.3	48.3	48.3	45.6	44.1	43.7	43.3	42.9	42.6
Primary expenditures	42.0	42.5	42.6	40.4	39.2	38.8	38.5	38.3	38.1
Interest expenditures	6.3	5.7	5.7	5.2	4.9	4.8	4.8	4.6	4.5
Overall balance	-4.9	-5.7	-6.6	-4.6	-2.7	-2.1	-1.4	-0.8	-0.2
Primary balance	1.3	0.0	-0.9	0.7	2.2	2.8	3.3	3.9	4.3
Structural primary balance	1.3	-0.4	-1.7	0.0	1.7	2.4	3.1	3.7	4.3
Structural overall balance	-5.0	-6.1	-7.4	-5.2	-3.2	-2.4	-1.7	-0.9	-0.2
Memorandum items:									
Gross debt	112	109	111	108	104	100	95	90	86
Real GDP growth	3.8	4.6	4.7	3.5	3.3	3.2	3.2	3.1	3.0
Real primary spending growth	4.5	6.0	4.8	-1.8	0.2	2.3	2.4	2.4	2.6
Real current primary spending growth	5.5	4.3	4.1	3.5	0.0	2.1	2.6	3.5	3.2

Sources: National Statistical Service; Ministry of National Economy; and Fund staff estimates and projections.

Table 5. The Core Set of Financial Soundness Indicators for Deposit Taking Institutions

(1998–June 2005 unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004	June 2005 1/
Regulatory capital to risk-weighted assets 2/ 3/	10.2	16.2	13.6	12.4	10.5	12.0	12.8	12.8
Regulatory Tier I capital to risk-weighted assets 2/ 3/	9.7	15.3	13.5	10.9	8.8	9.8	10.0	10.0
Nonperforming loans net of provisions to capital 2/ 4/	29.3	24.1	23.2	17.4	18.7	16.1	16.3	21.4
Nonperforming loans to total gross loans 2/ 5/	8.7	11.2	7.2	5.6	5.5	5.1	5.4	6.1
Sectoral distribution of loans to total loans 6/ (enterprises and households, domestic and other euro area residents)								
Insurance corporations and pension funds 6/	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other financial intermediaries 6/	0.7	0.4	1.1	2.2	3.2	2.6	2.3	1.5
Non-financial corporations 6/	75.0	72.2	70.5	65.7	60.4	57.7	54.4	52.1
Consumer credit 6/	7.3	8.4	9.3	10.6	11.3	12.3	14.3	15.1
Lending for house purchase 6/	17.0	18.8	18.8	21.0	24.3	26.1	27.6	30.0
Other lending to households and non-profit institutions serving households 6/	0.1	0.2	0.3	0.4	0.6	1.2	1.2	1.2
Return on assets (after taxes; on a non-consolidated basis)	0.7	2.4	1.4	1.0	0.5	0.6	0.5	0.8
Return on equity (after taxes; on a non-consolidated basis)	13.7	28.6	15.4	12.4	6.8	8.9	7.5	15.2
Interest margin to gross income	55.1	44.5	54.5	62.8	72.5	74.4	75	77.6
Non-interest expenses to gross income	62.0	48.0	52.8	58.8	68.1	62.3	62.2	70.7
Liquid assets to total assets 6/	55.2	50.3	46.4	41.1	39.5	37.0	33.4	35.9
Liquid assets to short-term liabilities 6/	62.6	64.6	60.7	53.0	48.7	46.5	43.2	48.4
Net open position in foreign exchange to capital 3/	n.a	n.a	n.a	3.5	7.2	5.8	3.5	3.8

1/ June 2005 figures refer to Greek quoted banks only unless otherwise indicated.

2/ June 2005 figures refer to all banks.

3/ Data on a consolidated basis.

4/ This figure does not include ATEbank (formerly known as the Agricultural Bank of Greece). If ATEbank were included, then the relevant ratios would become 26.5 for 2004 and 25.9 for June 2005.

5/ This figure does not include ATEbank. If ATEbank were included, then the relevant ratios would become 7.0 for 2004 and 7.5 for June 2005.

6/ September 2005 figures refer to all banks on a non-consolidated basis (i.e. commercial, cooperative and foreign branches).

Table 6. Greece: The Encouraged Set of Financial Soundness Indicators
(1998–June 2005 unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004	Q2 2005 1/
Corporate Sector								
Total debt to equity	...	...	...	...	93.4	82.3	76.8	...
Return on equity	...	...	...	...	13.8	14.2	12.7	...
Earnings to interest and principal expenses	...	...	...	...	...	...	...	...
Corporate net foreign exchange exposure to equity	...	...	...	...	...	...	...	...
Number of applications for protection from creditors	2228	2029	1788	1463	1458	1545	2131	962
Deposit-taking institutions								
Capital to assets 2/	6.5	10.6	9.2	8.5	6.9	6.9	6.8	5.0
Geographical distribution of loans to total loans (enterprises and households) 3/								
Domestic 3/	95.3	90.8	93.9	94.7	95.6	96.3	96.6	96.3
Other euro area countries 3/	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Non-euro area countries 3/	4.4	9.1	5.9	5.1	4.2	3.5	3.2	3.5
Gross asset position in financial derivatives to capital 2/	...	...	...	...	195	275	262	227
Gross liability position in financial derivatives to capital	...	...	...	...	...	...	...	...
Large exposures to capital 4/	...	...	...	...	154.1	190.8	123.7	138.8
Trading income to total income 4/	14.8	27.5	17.3	13.1	4.9	4.6	3.2	2.0
Personnel expenses to noninterest expenses 4/	66.8	63.6	61.8	59.8	59.0	58.2	59.6	48.5
Spread between reference lending and deposit rates 2/	9.0	6.7	6.3	6.1	6.1	5.8	5.9	5.8
Spread between highest and lowest interbank rate	...	...	...	...	...	...	...	...
Customer deposits to total (non-interbank) loans 4/	191.1	190.8	176.3	166.0	147.4	135.3	130.6	127.7
Foreign currency-denominated liabilities to total liabilities 4/	34.5	25.7	24.5	16.6	12.8	13.2	12.9	12.9
Net open position in equities in capital 2/	...	...	...	21.5	12.9	10.4	5.8	4.3
Market liquidity								
Average bid-ask spread in the securities market 4/	45.5	23.7	14.0	9.8	9.4	8.2	6.1	7.7
Average daily turnover ratio in the securities market	...	...	...	...	...	...	...	...
Other financial corporations								
Assets to total financial system assets 5/	214.6	197.8	189.6	183.6	213.7	250.7	266.0	...
Assets to GDP 5/	138.9	216.3	196.4	176.2	115.1	125.2	129.9	...
Households								
Household debt to GDP 3/	9.8	11.6	14.3	18.5	22.7	26.8	32.3	35.1
Household debt service and principal payments to income	...	...	...	...	...	...	...	...
Real estate markets								
Real estate prices	...	...	...	...	...	...	...	...
Residential real estate loans to total loans 4/	17.8	19.5	19.9	21.9	24.5	26.2	28.1	30.0
Commercial real estate loans to total loans	...	...	...	...	...	...	...	...

Source: Bank of Greece.

1/ June 2005 figures refer to Greek quoted banks only.

2/ Data on a consolidated basis.

3/ September 2005 figures refer to all banks on a nonconsolidated basis (i.e. commercial, cooperative and foreign branches).

4/ Data on a nonconsolidated basis.

5/ Provisional data for the series 1998–2004.

Table 7. Greece: Financial System Structure (1998–Q3 2005)

	1998	1999	2000	2001	2002	2003	2004	Q2 2005 1/	Q3 2005 1/
Number									
Banks	23.0	20.0	19.0	23.0	24.0	22.0	21.0	21.0	21.0
Private commercial	12.0	10.0	8.0	12.0	12.0	12.0	13.0	13.0	13.0
State-owned	8.0	7.0	7.0	7.0	7.0	6.0	3.0	3.0	3.0
Foreign-owned subsidiaries	3.0	3.0	4.0	4.0	5.0	4.0	5.0	5.0	5.0
Branches of foreign banks	23.0	22.0	22.0	21.0	21.0	20.0	23.0	23.0	23.0
Securities companies	65.0	75.0	90.0	88.0	103.0	98.0	...	...	...
Life insurance companies	22.0	21.0	20.0	18.0	18.0	19.0	...	...	...
General insurance companies	104.0	93.0	90.0	89.0	84.0	81.0	...	...	...
Other credit institutions	14.0	15.0	16.0	17.0	17.0	17.0	18.0	18.0	18.0
Pension funds	...	...	...	...	...	...	...	...	...
Concentration									
Banks 2/	9.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Securities companies 2/	...	...	...	...	...	...	...	...	...
Life insurance companies 2/	...	...	...	...	...	...	...	...	...
General insurance companies 2/	...	...	...	...	...	...	...	...	...
Pension funds 2/	...	...	...	...	...	...	...	...	...
Assets 3/									
Banks	100.2	124.9	145.7	158.7	165.5	174.0	186.6	204.9	217.4
Private commercial	26.1	41.8	43.2	44.8	46.7	52.4	115.6	118.2	128.4
State-owned	69.6	74.4	84.4	92.6	92.1	91.5	40.7	43.4	42.4
Foreign-owned subsidiaries	4.5	8.7	18.1	21.3	26.8	30.1	30.4	43.3	46.6
Branches of foreign banks	16.4	17.9	22.3	17.8	17.4	19.2	23.0	26.6	28.3
Securities companies	...	...	...	...	...	...	...	...	...
Life insurance companies	...	...	...	...	...	...	...	...	...
General insurance companies	5.0	7.2	7.8	7.9	8.4	9.6	...	...	...
Other credit institutions	12.1	12.7	13.6	15.2	16.6	17.7	20.7	22.9	24.2
Pension funds	...	...	...	...	...	...	...	...	...
Deposits 3/									
Banks	76.0	82.7	89.9	98.6	102.9	112.4	125.8	138.2	143.4
Private commercial	18.4	25.4	23.6	25.9	26.9	30.8	69.5	80.2	83.6
State-owned	54.5	53.4	55.9	59.0	59.9	63.2	31.3	32.9	32.0
Foreign-owned subsidiaries	3.1	3.9	10.3	13.6	16.1	18.4	25.0	25.1	27.8
Branches of foreign banks	8.2	7.5	8.5	8.9	8.9	9.5	12.7	15.6	17.1

Source: Bank of Greece.

1/ Provisional data.

2/ Number of institutions with 75 percent of total assets (of all credit institutions operating in Greece).

3/ Euro billion.

Table 8. Greece: Doing Business—Selected Indicators, 2005 1/

	Greece	EU-15 average (excl. Greece and Luxembourg)
Starting a Business		
Number of procedures	15.0	6.5
Time (days)	38.0	22.8
Cost (% of income per capita)	24.6	6.9
Licenses and Permits		
Number of procedures	17.0	13.7
Time (days)	176.0	179.9
Cost (% of income per capita)	71.9	84.0
Closing a Business		
Time (years)	2.0	1.4
Cost (% of estate)	9.0	9.4
Labor indices 2/		
Difficulty of Hiring Index	78.0	35.0
Rigidity of Hours Index	80.0	61.5
Difficulty of Firing Index	40.0	35.4
Rigidity of Employment Index	66.0	44.1
Firing costs (weeks of wages)	68.8	43.0

Source: World Bank, Doing Business 2005.

1/ Indicators do not take account of reforms implemented in 2005.

2/ Unless otherwise indicated, the figures are indices which range from 0 to 100, with higher numbers indicating greater rigidity.

Table 9. Greece: Indicators of External and Financial Vulnerability, 1998–2005 1/

(In percent of GDP, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004	2005	
								Estimates or latest data	Date
External indicators									
Exports (annual percent change, in U.S. dollars)	4.0	-32.0	19.5	1.0	-5.0	27.7	25.3	14.1	Jul-05
Imports (annual percent change, in U.S. dollars)	7.3	-14.2	14.6	-2.5	5.1	22.1	24.1	7.9	Jul-05
Terms of trade (annual percent change)	-1.0	-0.6	-3.7	-1.3	4.6	6.5	5.4	0.6	...
Current account balance (settlements basis)	-3.0	-3.8	-6.9	-6.2	-6.1	-5.6	-3.9	-7.4	Jun-05
Capital and financial account balance	0.0	7.7	11.4	2.3	9.8	4.4	4.6	16.5	Jun-05
<i>Of which</i> : Inward portfolio investment (debt securities etc.)	7.6	5.4	8.1	7.7	9.2	13.5	15.2	11.9	Jun-05
Inward foreign direct investment and other investments	-2.3	3.7	-2.2	-5.0	6.7	-1.8	-1.2	0.9	Jun-05
Official reserves (in U.S. dollars, millions, end of period)	17,458	18,122	13,424	5,154 2/	8,083	4,361	1,191	816	Aug-05
Official reserves in months of imports GS	6.0	6.1	3.9	1.5	2.4	1.1	0.2	0.0	Aug-05
Total external debt	55.4	55.5	73.3	69.6	68.2	...	...	...	...
<i>Of which</i> : General government debt 3/	25.4	26.6	27.7	6.5	3.3	2.2	1.5	...	...
Total external debt to exports GS (ratio)	2.6	2.5	2.3	2.1	2.2	...	...	...	...
External interest payments to exports GS (in percent)	14.3	11.7	10.4	10.4	9.7	16.0	14.5	21.7	Jul-05
External amortization payments to exports GS (in percent)	34.0	12.4	13.2	8.6	15.2	...	...	...	...
Exchange rate (per U.S. dollar, period average) 4/	295.5	305.7	365.4	1.1	1.1	0.9	0.8	0.8	Aug-05
Financial market indicators									
Public sector debt (Maastricht definition) 5/	112.4	112.3	114.0	114.7	112.2	109.3	110.5	108.3	...
Greek contribution to euro area M3 excluding currency in circulation (percent change, 12-month basis)	9.8	5.5	10.4	8.3	-2.1	5.2	8.2	6.3	Jul-05
Private sector credit (percent change, 12-month basis)	15.0	14.2	27.6	24.8	16.9	17.0	15.8	14.0	Jul-05
12-month T-bill yield	12.0	9.4	6.6	4.1	3.5	2.3	2.3	2.2	Aug-05
12-month T-bill yield (real)	6.9	6.6	3.7	0.4	-0.4	-1.0	-0.8	-1.5	Aug-05
Stock market index	2,738	5,535	3,389	2,592	1,748	2,264	2,786	3,232	Aug-05
Share prices of financial institutions	5,799	10,165	7,307	4,788	2,688	4,247	6,129	6,901	Aug-05
Spread of 12-month treasury bill rate with Germany (percentage points, end of period)	6.9	5.4	1.9	0.4	0.5	0.4	0.3	0.3	Aug-05
Spread of 10-year bond with Germany (percentage points, end of period)	4.1	2.0	0.9	0.6	0.5	0.5	0.5	0.4	Aug-05
Financial sector risk factors									
Foreign exchange loans to the private sector (in millions of U.S. dollars) 7/	11,022	11,693	14,225	7,865	6,723	6,983	7,302	7,647	Sep-05
Share of foreign exchange loans in total lending to the private sector 7/	24.3	26.2	27.6	9.7	7.4	5.5	4.6	4.9	Sep-05
Deposits in foreign exchange (in millions of U.S. dollars) 7/	38,611	31,118	35,661	19,603	17,858	22,268	24,815	25,251	Sep-05
Share of foreign deposits in total deposits 7/	35.2	30.9	39.3	21.8	16.3	15.6	14.2	14.4	Sep-05
Share of real estate sector in private credit	17.8	19.5	19.9	21.9	24.5	26.2	28.1	30.0	Sep-05
Commercial banks' return on assets (after tax)	0.8	2.4	1.4	1.0	0.5	0.6	0.5	0.8	Jun-05
Interest rate margin	7.9	6.3	6.2	6.0	5.7	5.7	4.8	4.8	Sep-05
Share of nonperforming loans in total loans 8/	8.7	11.2	7.2	5.6	5.5	5.1	5.4	6.1	Jun-05
Share of nonperforming loans in total assets 9/	2.7	4.0	3.2	2.7	3.0	2.9	3.3	3.9	Jun-05
Risk-based capital asset ratio 10/	10.2	16.2	13.6	12.5	10.6	12.1	12.9	12.8	Jun-05
Regulatory capital to risk-weighted assets 11/	10.2	16.2	13.6	12.4	10.5	12.0	12.8	12.8	Jun-05
Foreign currency debt and banking sector rating									
Standard & Poor's	Mar-97	Dec-98	Nov-99	Mar-01	Jul-02	Jun-03	Nov-04	Nov-04	
Long term	BBB-	BBB-	A-	A	A	A+	A	A	
Outlook	Positive	Positive	Positive	Positive	Positive	Stable	Stable	Stable	
Short term	A-3	A-3	A-1	A-1	A-1	A-1	A-1	A-1	
Moody's	Dec-96	Jul-99	Jan-00	Aug-01	Nov-02	Nov-02	Nov-02	Nov-02	
Bonds and notes	Baa1	A2	A2	A2	A1	A1	A1	A1	
Bank financial strength rating	...	...	D to D+	D+	C-	C-	C-	C-	
IBCA	Jun-97	Oct-99	Jul-00	Jun-01	Jun-02	Oct-03	Oct-03	Oct-03	
Long term	BBB	BBB	A-	A	A	A+	A+	A+	

Sources: Bank of Greece, *Monthly Statistical Bulletin*; data provided by the authorities; and IMF, *International Financial Statistics*.

1/ The interpretation of some indicators is affected by participation in EMU in 2001.

2/ Official reserves declined in 2001 with EMU participation, due in large part to the redefinition of foreign exchange reserves and the fall in foreign exchange reserve requirements for commercial banks.

3/ From 2001, foreign debt includes only liabilities in non-euro area currencies.

4/ Euros per U.S. dollar from 2001.

5/ Data provided by Eurostat.

6/ Data prior to 2001 refer to growth of Greek liquidity measure M4N.

7/ As from 2001, loans and deposits in euro and its national denominations are not included in foreign exchange loans and foreign exchange deposits respectively.

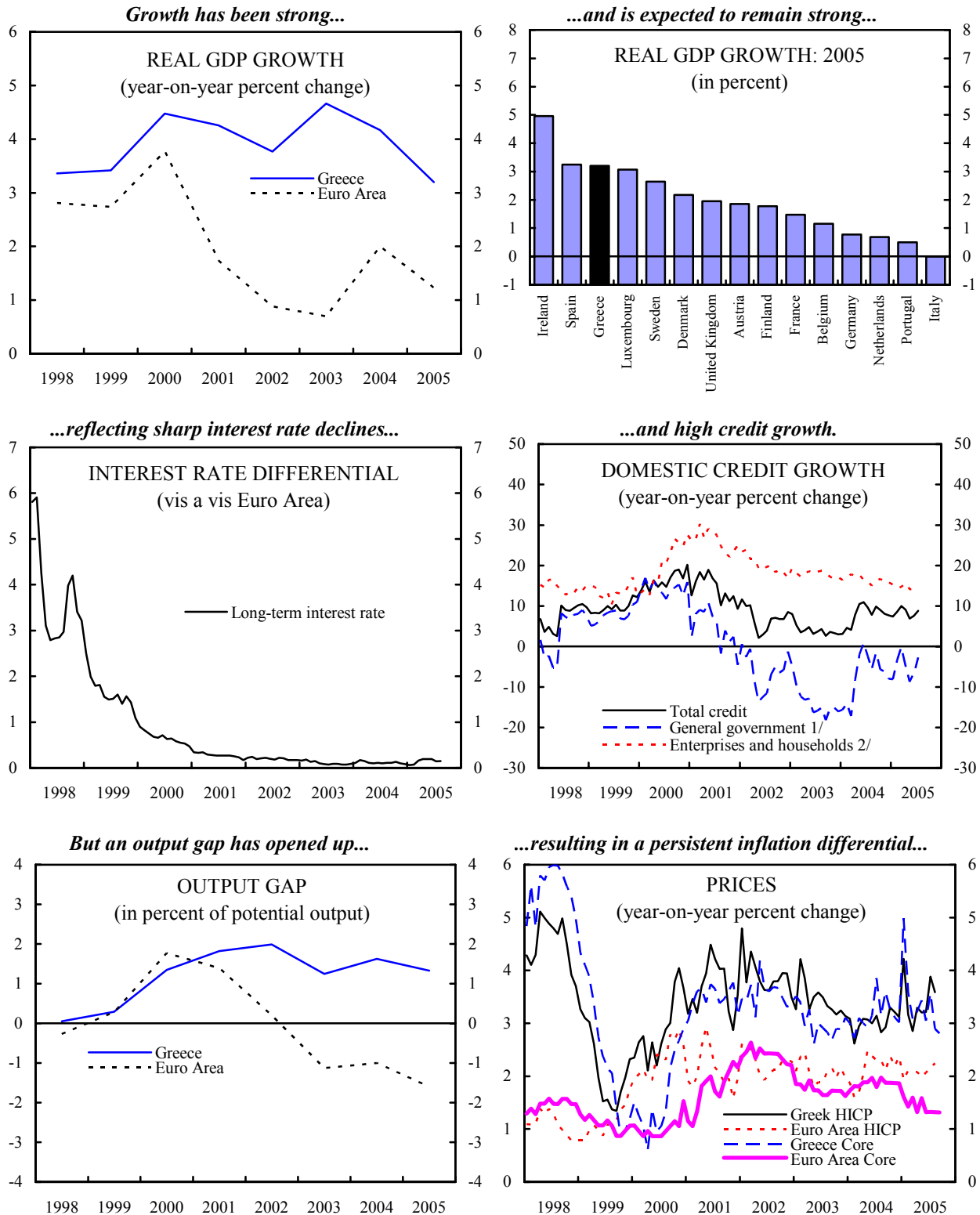
8/ Data refer to all commercial banks incorporated in Greece excluding the Agricultural Bank of Greece. If Agricultural Bank of Greece is included, then the relevant ratios for the past years become 7.3 for 2002, 7.0 for 2003 and 7.1 for June 2004.

9/ Data refer to all commercial banks incorporated in Greece excluding the Agricultural Bank of Greece. If Agricultural Bank of Greece is included, then the relevant ratios for the past years become 4.1 for 2002, 4.3 for 2003 and 4.5 for June 2004. Nonperforming loans are defined as all loans with interest and/or principal payments in arrears for three months or more, and include all loans classified as doubtful by the banks themselves.

10/ Data refer to all banks operating in Greece.

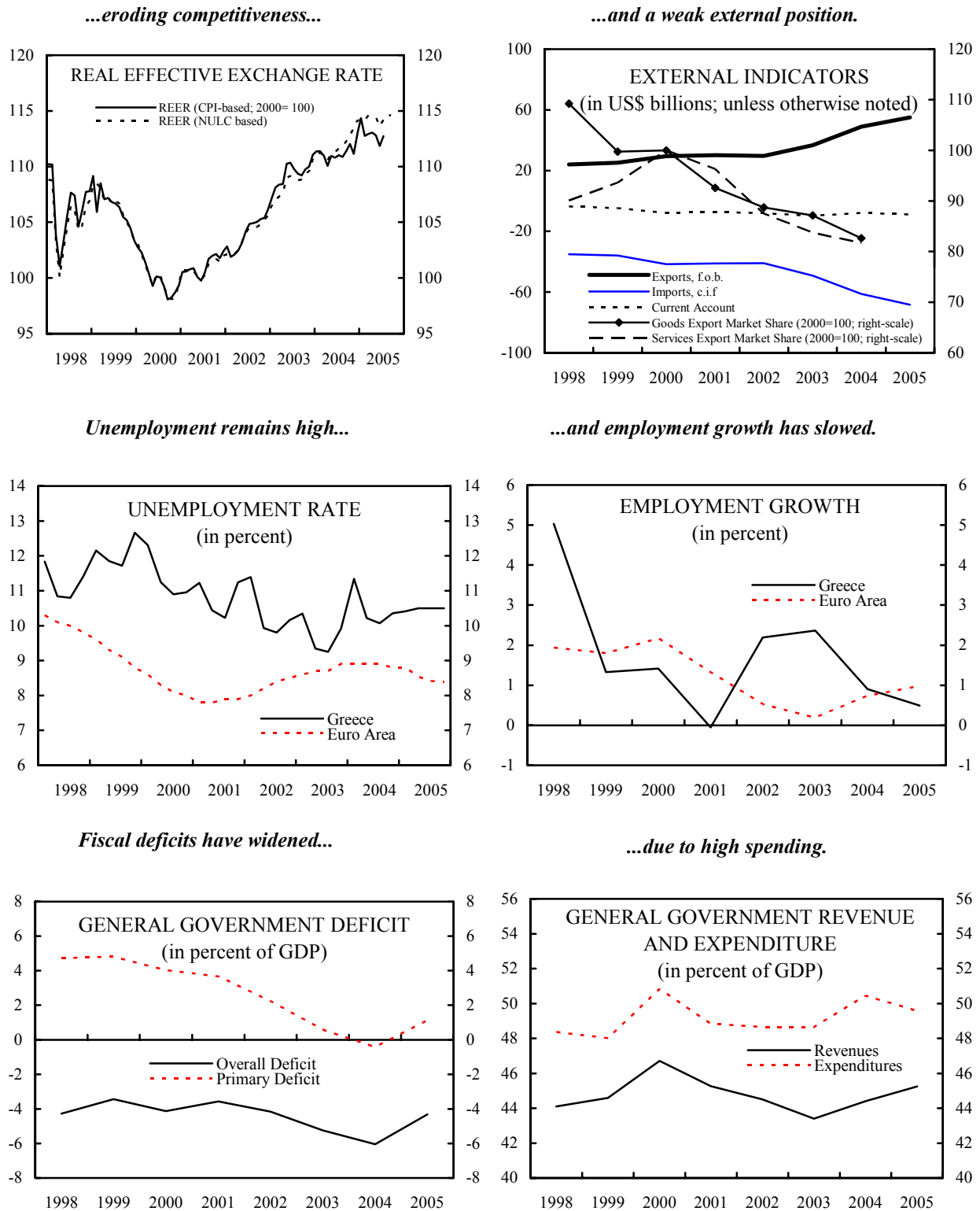
11/ Data refer to all commercial banks incorporated in Greece.

Figure 1. Greece: Selected Indicators, 1998–2005 (Cont.)



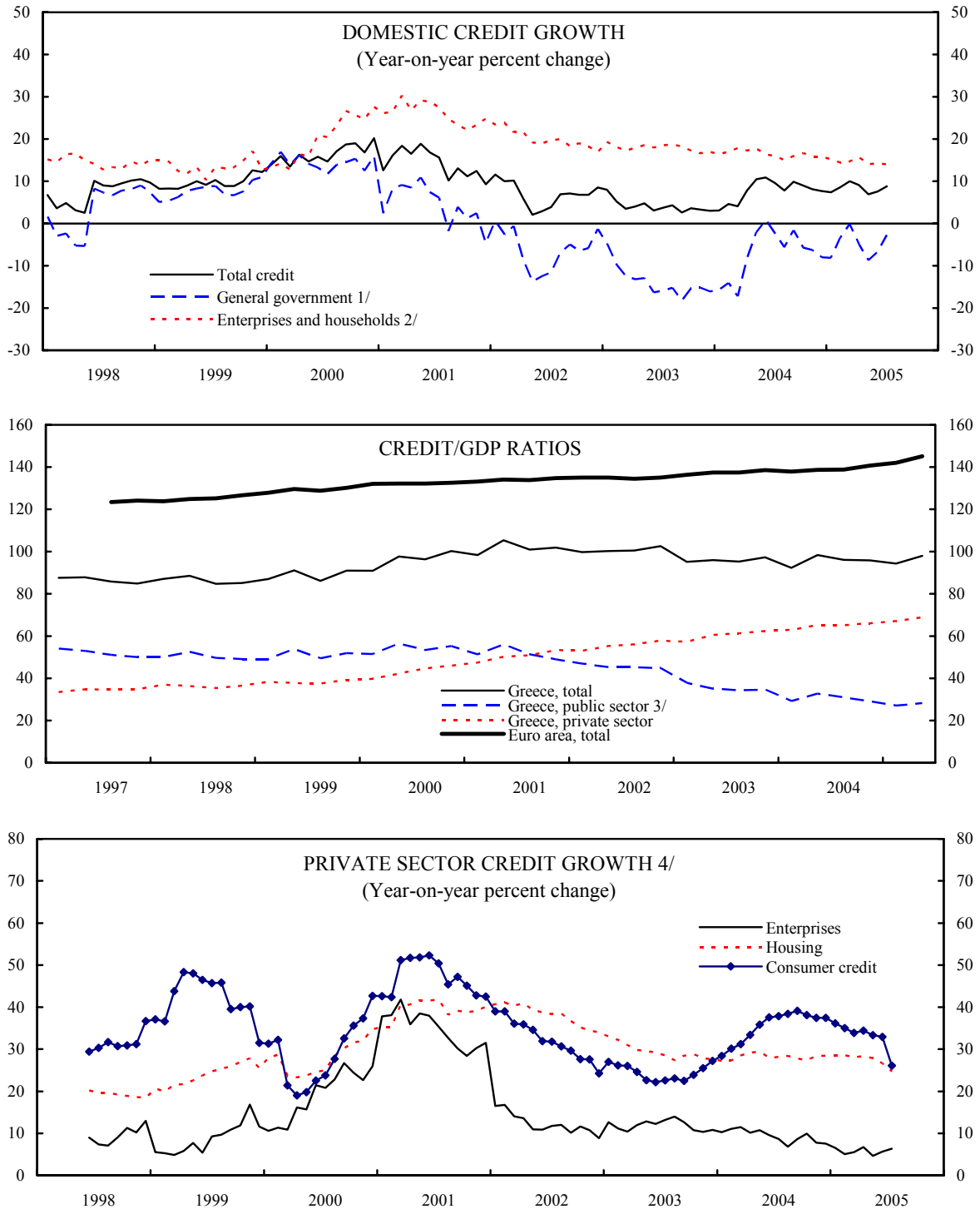
Sources: IMF, *International Financial Statistics*; IMF, *World Economic Outlook*; National Statistical Service of Greece; and Bank of Greece, *Bulletin of Conjunctural Indicators*.

Figure 1. Greece: Selected Indicators, 1998–2005 (Concl.)



Sources: IMF, *International Financial Statistics*; IMF, *World Economic Outlook*; National Statistical Service of Greece; Eurostat; Annual Macroeconomic Database (AMECO); OECD, Economic Outlook Database; and Bloomberg.

Figure 2. Greece: Credit Developments, 1998–2005
(In percent)



Sources: Bank of Greece, *Bulletin of Conjunctural Indicators*, and *Monthly Statistical Bulletin*.

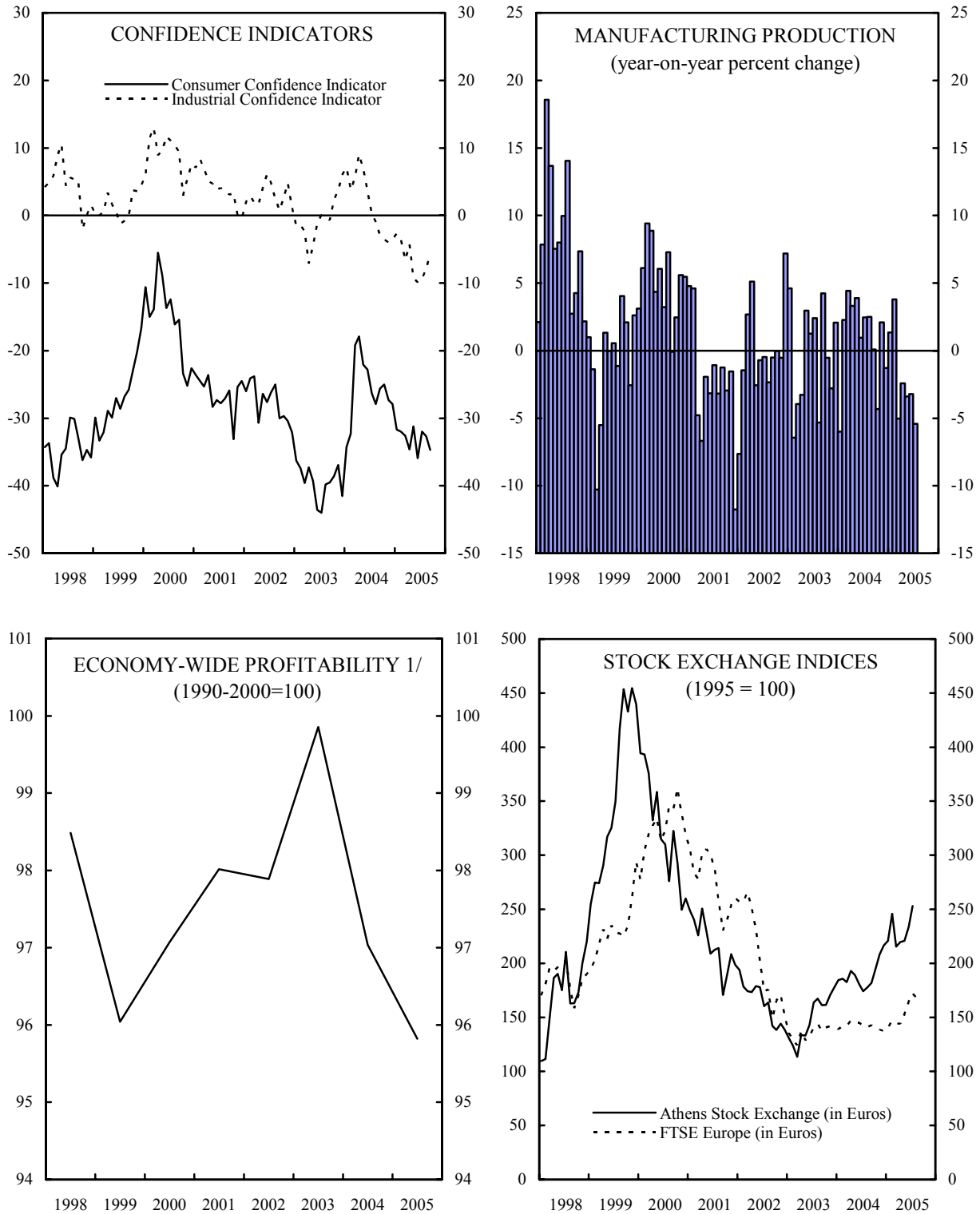
1/ Data prior to 1999 refer to public sector.

2/ Data prior to 1999 refer to private sector.

3/ Excludes banks' holdings of government securities.

4/ Data prior to 2000 refers to commercial bank credit.

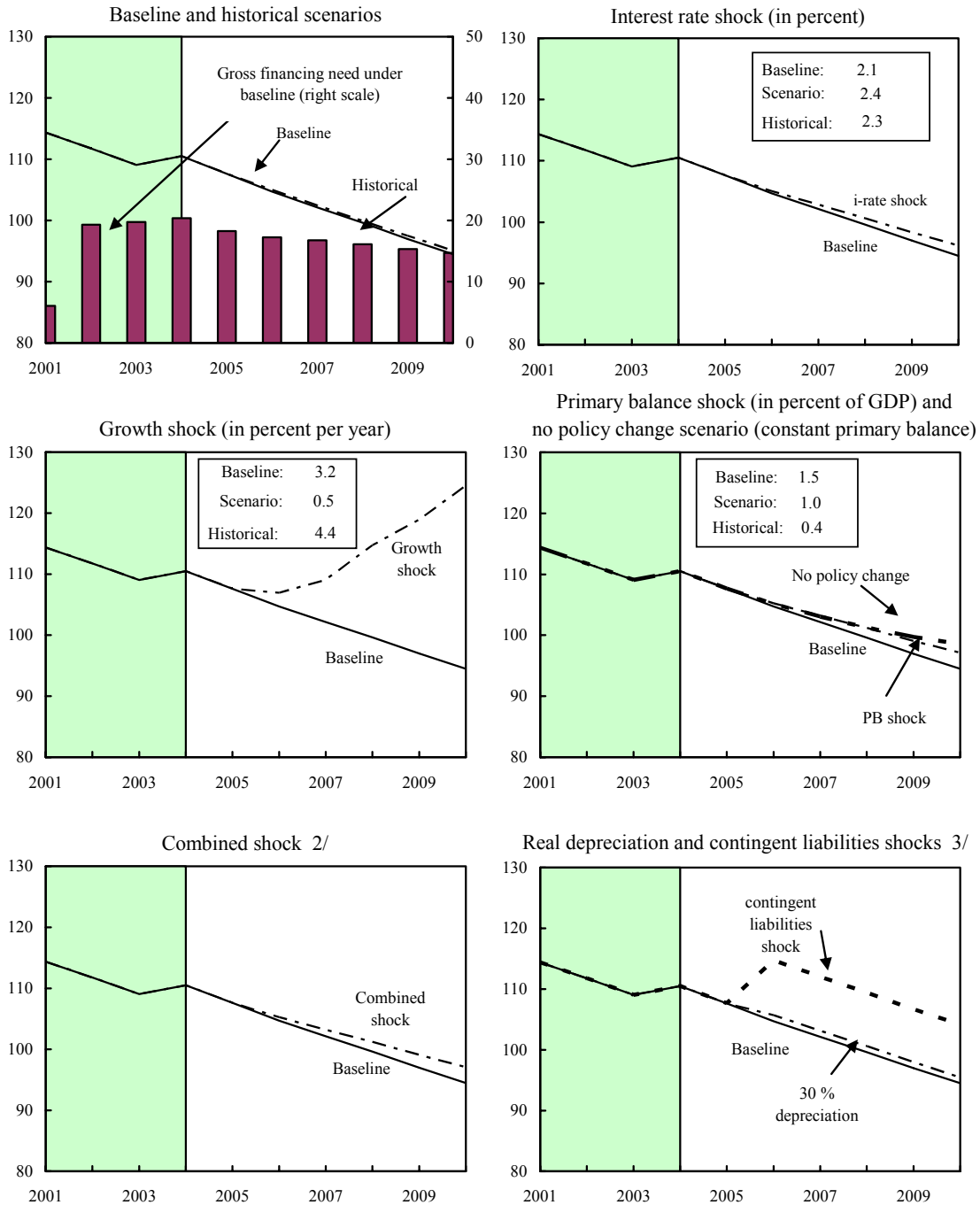
Figure 3. Greece: Cyclical Indicators, 1998–2005



Sources: IMF, *International Financial Statistics*; OECD; and Bloomberg.

1/ Ratio of GDP deflator to economy-wide unit labor costs.

Figure 4. Greece: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



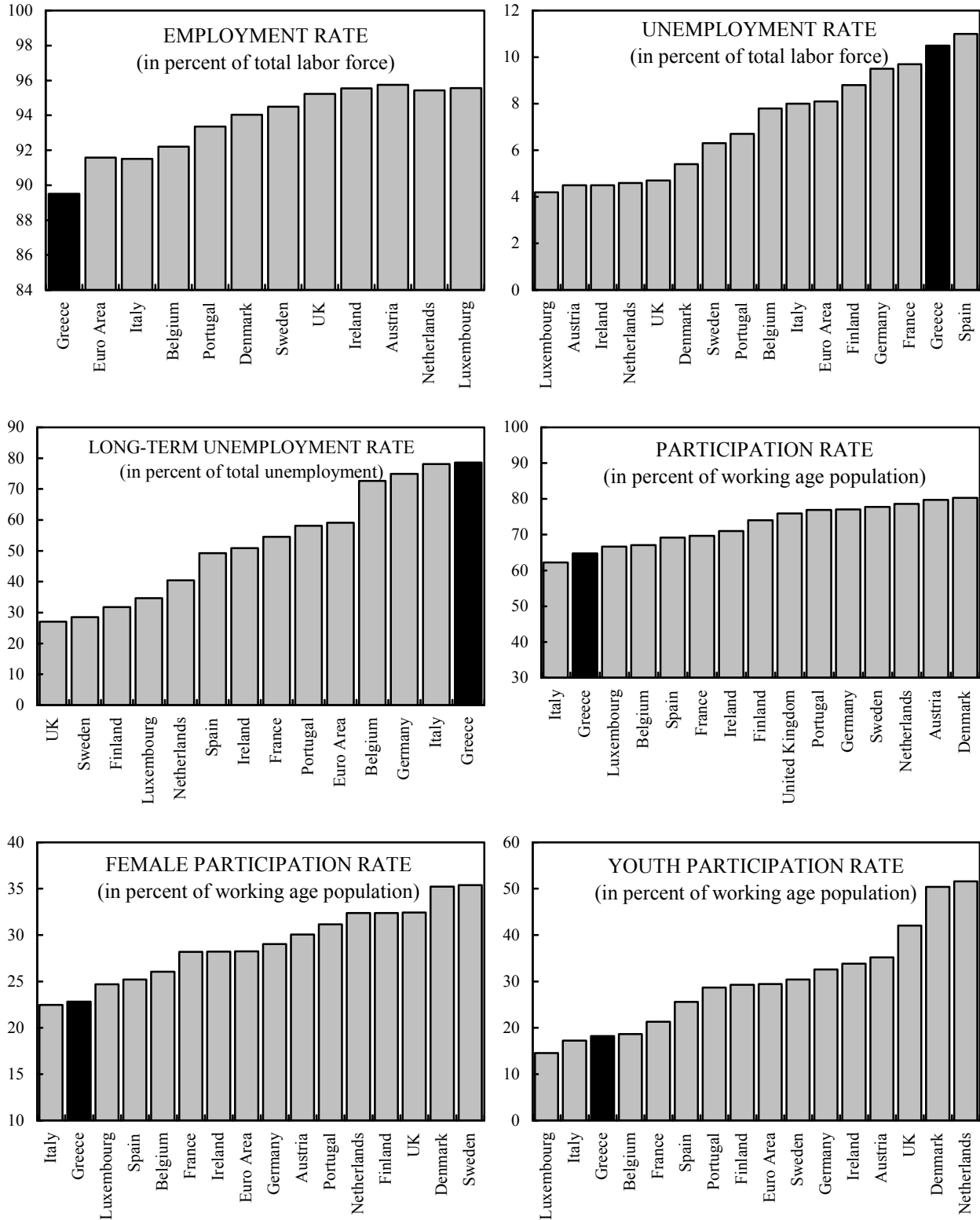
Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 5. Greece: Labor Market Indicators, 2004



Sources: Eurostat; IMF, *World Economic Outlook*; and OECD, *Economic Outlook*.

GREECE: FUND RELATIONS

(As of September 30, 2005)

I. **Membership Status:** Joined December 27, 1945; Article VIII

II. General Resources Account:	SDR Million	% Quota
Quota	823.00	100.00
Fund holdings of currency	619.75	75.30
Reserve position in Fund	203.26	24.70

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	103.54	100.00
Holdings	19.73	19.05

IV. **Outstanding Purchases and Loans:** NoneV. **Financial Arrangements:** NoneVI. **Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs):**

	Forthcoming				
	2005	2006	2007	2008	2009
Principal					
Charges/Interest	0.57	2.25	2.25	2.26	2.25
Total	0.57	2.25	2.25	2.26	2.25

VII. **Implementation of HIPC Initiative:** Not Applicable.VIII. **Exchange Rate Arrangements:**

Greece entered the final stage of European Economic and Monetary Union on January 1, 2001, at a rate of 340.750 Greek drachmas per 1 euro. Greece maintains restrictions on the making of payments for current international transactions vis-à-vis Iraq. These restrictions were notified to the Fund under Decision 144-(52/51) in EBD/90/304, 9/21/90.

IX. **Article IV Consultation:** Greece is on a 12-month consultation cycle; the last Article IV consultation discussions were concluded on May 16, 2003 (EBM/03/45).

X. **ROSCs**

Standard Code Assessment	Date of Issuance	Document Number
Fiscal Transparency	October 6, 1999	CR/99/138
Fiscal Transparency	February 8, 2001	CR/01/52
Fiscal Transparency	March 15, 2002	CR/02/57
Data Module	September 17, 2003	CR/03/318
Data Module Update	December 22, 2004	CR/05/45
Fiscal Transparency	December 22, 2004	CR/05/42

XI. **Technical Assistance:**

Year	Dept.	Purpose	Date
1993	FAD	Treasury Reform	June
1993	MAE	Central Bank Independence in the Context of the Maastricht Treaty	June
1994	MAE	Development of Primary and Secondary Markets in Government Securities	September
2002	STA	Action plan and time frame for SDDS subscription	June
2003	FAD	Tax Policy and Tax Administration Reform	July
2005	FAD	Public Expenditure Management	May
2005	FAD	Tax Administration	July
2005	FAD	Fiscal Transparency	July

XII. **Resident Representative:** None

GREECE: STATISTICAL ISSUES

The economic data of Greece are adequate for surveillance, but should be strengthened further.

Greece has made substantial progress in recent years in statistical methodologies and compilation practices aimed at fulfilling its responsibilities as a member of the European Union and the euro area. Greece subscribed to the Special Data Dissemination Standard (SDDS) on November 8, 2002. It has taken a flexibility option on the periodicity of central government operations data on financing, which are released annually. A data module of the Report on the Observance of Standards and Codes (ROSC) was prepared in 2003, and last updated in 2004.

Despite progress, further improvements are necessary. The quality and coverage of general government public finances and cross-sector data consistency should be improved, and financial accounts of the government should be prepared. Government finance and balance of payments statistics should be brought closer to internationally accepted methodologies. Further progress is needed in providing short-term national accounts data, with reconciliation across datasets for government finance, monetary, and balance of payments statistics. Even though all statistics are readily available to the public, statistical presentations could be improved in most cases to facilitate analysis and understanding. Service to users could be further enhanced by dissemination of more detailed metadata including wider identification of compilers in press releases, and by publicizing contact persons. Most statistics do not provide the public with a clear statement of the revision policy.

National accounts

National accounts produced by the National Statistical Service of Greece (NSSG) and based on the *1995 ESA*, extend beyond the recommended range of annual tables. However, in some cases, there is reliance on old benchmark ratios and estimates of unrecorded activities that are residuals. In addition, quarterly national accounts estimates from the first quarter of 1970 to the third quarter of 2002 rely more on econometric estimation than on actual data.

Balance of payments and external trade

The Bank of Greece (BoG) has been involved for a number of years in a comprehensive revision of balance of payments data on a settlements basis consistent with the fifth edition of the *Balance of Payments Manual (BPM5)*. Data for 1999 were first available under the new system, and estimates for 1997–98 data collected under the previous system were compiled in the new categories.

Balance of payments data on a monthly basis are compiled and widely disseminated. Greece reports quarterly balance of payments data and since 2004, has reported quarterly international investment position (IIP) for publication in the *International Financial*

Statistics (IFS) and the *Balance of Payments Statistics Yearbook*. Greece also disseminates quarterly data on the SDDS prescribed external debt data category and monthly data on the template on international reserves and foreign currency liquidity.

The balance of payments data series presents some departures from *BPM5*, but progress has been made implementing the recommendations of the 2003 data ROSC mission. Preliminary estimates on reinvested earnings have been made based on data obtained from the annual foreign direct investment survey; portfolio investment income for bonds and money market instruments have been recorded on an accrual basis since April 2005; and a more comprehensive presentation for goods and investment income has been implemented in accordance with *BPM5* guidelines. Significant differences remain in comparison to national-accounts-based current account data, with sizable differences in changes (and even in direction) of the current account and its components in recent years.

Government accounts

The NSSG compiles data on general government revenue, expenditure, and deficit on an accrual basis in the context of the 1995 *ESA* Transmission Program and the Excessive Deficit Procedure. The absence of financing data (Greece has a waiver for financial accounts reporting until 2005) impedes elementary checks on data consistency, including reconciliation between the government deficit and debt, and between government statistics and the statistics of other economic sectors. Greece traditionally carries out substantial capital injections, whose nature must be carefully monitored in order to determine the proper statistical treatment (above or below the line).

Monthly data for the central government, which are broadly in line with the 1986 *GFS Manual*, are very aggregated. The reliability and timeliness of the data on other public entities, including social security funds and local governments, are poor.

Monetary accounts

Since Greece's participation in the euro area, monetary statistics have been compiled in accordance with ECB requirements. Data reporting is timely. Large and volatile reporting discrepancies among banks' bilateral positions have lessened from unacceptable levels experienced up to three years ago but some discrepancies remain and further improvements could be made to the accuracy and reliability of the source data used to compile monetary statistics. Cross-checks are made between monetary statistics and other data, but could be more systematic.

Labor market

Since the fall of 1998, a more detailed quarterly labor force survey has been in use, with an enlarged sample size, capable of generating data on an EU-harmonized basis. However, the interpretation of labor market developments continues to be hampered by difficulties in covering immigrants, which constitute, compared with other EU countries,

a relatively large fraction of the Greek labor market. Data on earnings have not been produced since 1998.

Short-term data

The recent publication of quarterly national accounts is an important improvement in this area. However, other high-frequency indicators for economic surveillance (including retail sales, industrial production, wholesale prices, and other indices) are at times based on out-of-date benchmark ratios and reporting delays seriously undermine the usefulness of these data. Source data and statistical techniques could be strengthened for prices, and source data improved for government finance statistics.

Advance release calendars

The NSSG has announced an advance publications schedule for all statistical releases.

IV. GREECE: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(as of November 7, 2005)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶	Memo Items:	
						Data Quality – Methodological soundness ⁷	Data Quality – Accuracy and reliability ⁸
Exchange Rates	10/31/05	10/31/05	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Sept. 05	10/14/05	M	M	M		
Reserve/Base Money	Sept. 05	10/21/05	M	M	M	O, O, O, O	LO, O, O, O, O
Broad Money	Sept. 05	10/14/05	M	M	M		
Central Bank Balance Sheet	Sept. 05	10/14/05	M	M	M		
Consolidated Balance Sheet of the Banking System	Sept. 05	10/31/05	M	M	M		
Interest Rates ²	10/31/05	10/31/05	D	D	D		
Consumer Price Index	Sept. 05	10/7/05	M	M	M	O, O, O, O	O, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Sept. 05	10/31/05	M	M	M	LO, LO, LO, O	LO, O, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Sept. 05	10/31/05	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2005 Q2	8/21/05	Q	Q	Q		
External Current Account Balance	Aug. 05	10/20/05	M	M	M	O, LO, LO, O	O, O, O, O, O
Exports and Imports of Goods and Services	Aug. 05	10/20/05	M	M	M		
GDP/GNP	2005 Q2	8/8/05	Q	Q	Q	O, O, O, O	LO, LO, O, O, LO
Gross External Debt	2005 Q2	9/30/05	Q	Q	Q		

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

⁷ Reflects the assessment provided in the data ROSC (published in October 2003, and based on the findings of the mission that took place during November 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

⁸ Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment, and revision studies.

INTERNATIONAL MONETARY FUND

GREECE

Update on the Report on the Observance of Standards and Codes—Data Module

Prepared by the European Department

November 2005

This note describes developments in data collection, compilation, and dissemination in Greece since the last update of the data module of the Report on the Observance of Standards and Codes (ROSC), which was released in February 2005. It is based on information supplied by the Greek authorities during the 2005 Article IV consultations. For a full description of institutions and practices, and IMF staff recommendations, it should be read in conjunction with the original report and earlier updates.⁹

The original ROSC noted that Greece met the SDDS specifications for coverage, periodicity, and timeliness of data, and of advance release calendars but was using flexibility options for central government financing operations and the international investment position. The report also noted that there was no single agency responsible for compiling comprehensive government finance statistics and there was ample scope for bringing government finance statistics, national accounts, and balance of payments, monetary and price statistics closer to international standards.

Greece continues to observe the SDDS specifications for coverage, periodicity, and timeliness, and has made progress in implementing recommendations in the ROSC. Below are the main recommendations and corresponding actions that were taken in 2005.

General Recommendations

1. The ROSC recommended the establishment of procedures for cross checking consistency among national accounts, government finance, monetary, and balance of payments statistics; the dissemination of statements about revision policy and practice and the undertaking of regular revision studies to assess the accuracy of statistics; the compilation of consistent and comprehensive documentation on concepts and definitions, scope, classification, basis for recording, source data, and statistical techniques; the setting up of the Statistical Council, as envisaged under law, to provide guidance on quality and on improving the serviceability and accessibility of national statistics; and the

⁹ The original report, entitled “Greece: Report on the Observance of Standards and Codes—Data Module” was issued as Country Report 03/318 and is available on the IMF website at <http://www.imf.org/external/pubs/ft/scr/2003/cr03318.pdf>. The first update, issued as Country Report 05/45, is available at <http://www.imf.org/external/pubs/ft/scr/2005/cr0545.pdf>.

institutionalization of regular contacts with users of economic statistics to learn about their data needs.

- In September 2005, a permanent inter-agency working group was set up to check the consistency of net borrowing of the various sectors of the economy in the National and the Financial Accounts. The group comprises representatives from the Ministry of Economy and Finance, the National Statistical Service of Greece (NSSG), the General Accounting Office (GAO), and the Bank of Greece (BoG). It is chaired by the Ministry of National Economy and meets on an ad hoc basis to address issues as they arise.
- Although the statistical infrastructure is geared primarily towards the needs of the national authorities and EU institutions (mainly the Eurostat and the ECB), some effort is made to meet the needs of other users. The dialogue between compilers and users of statistics is not institutionalized and surveys of the statistical needs of non-governmental users are not conducted. However, the NSSG conducts semiannual customer satisfaction surveys. In general, end-users are consulted on an ad hoc basis and often participate during the development of new statistics; and on several occasions they have been instrumental in developing new statistics. Recent examples include BoG statistics on securitized loans and housing loans.
- The revision of the National Statistical Law is underway and is expected to be completed in 2006. The main elements of the revisions are to strengthen the independence, accountability and integrity of the NSSG; enhance the confidentiality policy; and establish a National Statistical Council to provide guidance on improving the quality, serviceability and accessibility of national statistics. The revision of the National Statistical Law will also take into account fully the recommendations of the European Statistical Code of Practice (CoP), put forward by the European Commission.¹⁰
- There are no plans to separate the NSSG from the Ministry of Economics and Finance. The NSSG staff consider that the basic statistical law (Legislative Degree 3627/1956) grants the NSSG sufficient operational independence. Moreover, independence would be strengthened by the Statistical Code of Practice, which the NSSG plans to implement fully over the next three years. Currently, the NSSG has no code of ethics but plans to introduce one in the context of the revision of the National Statistical Law.
- The medium-term statistical work programs of the NSSG and the BoG are not disseminated to the public. Currently, the main priority is to improve the statistical surveys that form the basis of economic statistics. The work program takes also into account initiatives at the EU level and recommendations by Eurostat and the ECB.

¹⁰ See Commission of the European Communities, COM (2005) 217 final, 25.5.2005.

- The NSSG and the BoG disseminate statistical series in text and PDF formats. In 2005, the BoG started posting on its webpage statistical series in spreadsheet format and is making preparations for the dissemination of further series in user-friendly formats.
- In the context of the ECB's project to disseminate national data on a dedicated website, the BoG posts contact persons for all disseminated data (in addition to the general contact address), though only in the metadata section of the website.

National Accounts

2. The ROSC noted the need to improve the short-term source data, reduce the reliance of statistical techniques on outdated ratios and make the data more accessible by providing charts, tables, and an analysis of current developments.
- The preparation of analytic quarterly national accounts is progressing and the first full set of tables (including data on value added and employment by branch of economic activity as well as raw and seasonally adjusted series) is expected to be available by the end of 2006, with data starting from 2000. In this connection, the NSSG has been developing source databanks that would allow the estimation of quarterly GDP from both the expenditure and the production side. In addition, the benchmark year for the national accounts will change to 2000, statistical ratios will be updated accordingly, and the seasonal adjustment methodology is being reconsidered. Currently, the NSSG produces only seasonally adjusted quarterly national accounts that have an inexplicably pronounced seasonal pattern.
 - The NSSG has posted the methodology of compiling national accounts in Greece at <http://www.statistics.gr/MainPage/NationalAccounts/NationalAccountsMethodology.pdf>.
 - The revision calendars for both annual and quarterly national accounts are not publicly available. However, the practice is to produce each year provisional figures for the previous year and final ones for the year before. Currently, owing to workload for the revision of the benchmark year of national accounts, there is a temporary deviation from the above practice and all national account figures since 2000 remain provisional.
 - National accounts press releases include charts but very limited background information. For instance, the release of second quarter 2005 national accounts did not contain any information on the substantial revision of earlier figures. The NSSG is currently reviewing the content and format of its press releases.

Consumer Price Index

3. The ROSC recommended the use of modern techniques for dealing with quality changes and the introduction of statistical sample section methods.

- The revision of the consumer price index (CPI) is expected to have been completed in the beginning of 2006, as originally scheduled. The new index is based on the 2004–05 Household Budget Survey and the weights of the cities are based on the 2001 population census (price data are collected from 25 cities that are considered to be representative of wider geographical areas). Currently the NSSG is working on the composition of the basket. In selecting items for inclusion in the basket, the representative item method is used. Outlets are selected on a judgmental basis by the price collectors in consultation with the central unit. As part of the revision, the NSSG has also been reviewing the data collection process and the quality adjustment techniques, and taking into consideration Eurostat’s regulations and guidelines. At this stage, however, the NSSG is not contemplating the introduction of explicit quality adjustment techniques (hedonics) owing to the high demands that this method would impose on the statistical infrastructure.

Wholesale Price Index

4. The ROSC noted the need to (i) improve the timeliness of source data and weight revisions, (ii) establish a formal process to permit dialogue between compilers and users on a regular basis, such as users’ survey, and (iii) use sampling techniques to cover small enterprises.
 - In the beginning of 2005, the Producer Price Index (PPI) replaced the Wholesale Price Index in line with the practice among EU member states. The NSSG considers that the new index incorporates most of the recommendations made in the ROSC for the WPI.
 - In 2006, the NSSG plans to post on its website detailed tabulations for the PPI and the CPI.

Government Finance Statistics

5. The ROSC recommended (i) the compilation and dissemination of a full set of financial accounts for the general government sector and its sub-sectors; (ii) the compilation and dissemination of monthly financing data for the central government; (iii) the migration to the *GFSM 2001*, with *ESA 95* data as a starting point for the full implementation of the system; (iv) the integration of GFS codes and nomenclature in the Treasury accounting system; (v) the assignment to a single agency the main responsibility for compiling and disseminating a comprehensive and integrated set of government finance statistics, including statistics on financing transactions (i.e., financial accounts); and (vi) the preparation of a periodic publication on government finance statistics.
 - The NSSG revised further the general government debt and deficit figures for 2001–04 to bring in line with EU guidelines the recording of EU transactions and liabilities of hospitals. At the time of the consultations, there remained some pending issues in the recording of EU transactions, the accounts of social security and the amounts of other receivables and payables for the years 2002–04.

- The NSSG is preparing for the migration to *GFSM 2001*, which is planned for 2006, and the dissemination of detailed general government finance statistics, including time series. The project has been delayed by the revision of fiscal accounts. There are no plans to disseminate general government financing data prior to the migration to GFSM 2001.
- The NSSG and the BoG have divided the responsibilities for the collection of statistics and the compilation of financial accounts for Greece. In particular, the NSSG collects the relevant data for the general government and the BoG collects data for all other sectors of the economy and compiles the financial accounts. The collection, checking and processing of quarterly data has already started and the BoG expects to start publishing financial accounts by end-2005.
- In September 2005, the GAO announced an international call for bids to set up an integrated fiscal management information system (<http://www.mof-gl.k.gr/anakoinwseis/rfpf.zip>).
- The transition table from the State Budget to ESA95 is submitted to Eurostat but is not disseminated to the public.

Monetary Statistics

6. The ROSC recommended (i) the increase of staff resources in line with the needs of longer-term statistical work program, including compilation of financial accounts and improving source data; (ii) improvements in the accuracy of source data and the removal of inconsistencies in the reports of other monetary and financial institutions (OMFIs); (iii) the use of consistent terminology and full explanations concerning the inter-temporal comparability of data and their consolidation; (iv) the identification as a memorandum item of data on financial derivatives, accrued interest, and claims on and liabilities to public non-financial corporations.

- The BoG has started collecting statistics for insurance companies, other financial intermediaries, non-financial corporations, local government, and social security funds. These data are in the final checking phase and a complete set of Financial Accounts (both, stocks and flows) is expected to be published by end-2005.
- Further progress was made in 2005 in reducing inconsistencies in the reports of OMFIs. The inconsistencies between data reported by OMFIs and those reported by the BoG on OMFIs' assets and liabilities vis-à-vis the BoG reflect mainly timing differences (float) and are bypassed by using data reported by the BoG and adjusting accordingly figures reported by OMFIs. By increasing pressure on banks to improve the quality of their reports, "other items" of OMFIs were reduced from 2.3% of total assets in 2004 to 1.4 percent in 2005. Regarding assets and liabilities between OMFIs, institutions have been requested to pay greater attention to the timing of their interbank assets and liabilities. As a result, the discrepancy between interbank assets and liabilities has been reduced significantly and currently fluctuates around 2.3 percent of total inter-OMFI assets.

Balance of Payments Statistics

7. The ROSC recommended (i) introducing estimates for reinvested earnings and undistributed branch profits into the balance of payments statistics; and (ii) reporting on an accrual basis of data on interest payments for government debt.

- Since July 2005, transfers are decomposed into current and capital, and the presentation of the current account has been changed accordingly: it now comprises the trade balance, services balance, income account, and current transfers. Capital transfers appear separately in the balance of payments.
- Since April 2005, interest payments/receipts on government debt have been reported on an accrual basis with data as of December 2003.
- The BoG has finalized annual figures of reinvested earnings (for both inward and outward FDI) for 2003 and compiled first estimates for 2004. These data will be incorporated in revised annual balance of payments statistics that are expected to be released by the end of 2005.
- The BoG is currently developing a statistical model for estimating monthly balance of payments indicators.
- The BoG has a medium term objective to disseminate detailed information for main balance of payments items, for instance, a breakdown of goods by product and country, and of travel by country.

INTERNATIONAL MONETARY FUND

GREECE

**Staff Report for the 2005 Article IV Consultation
Supplementary Information**

Prepared by the European Department

Approved by Michael Deppler and Juha Kähkönen

December 8, 2005

1. This supplement updates staff fiscal projections for 2006, based on information received after the staff report was finalized. In addition, the Public Information Notice is attached. This supplement does not change the thrust of the staff appraisal.
2. The authorities, in the draft budget submitted to parliament and in a submission to the EU, both on November 21, reaffirmed their commitment to reduce the deficit to 2.6 percent of GDP in 2006. The information in these documents is consistent with the staff report, but the nature of the unspecified revenue measures discussed in paragraph 11 has been clarified: they are tax revenue enhancements and temporary non-tax revenues. As foreshadowed in the report, staff projects that if the adopted measures produce revenues in line with the authorities' expectations, which appears feasible, the 2006 general government budget deficit will fall to 2.7 percent of GDP.
3. The key aspects of revenue enhancement are measures to combat tax evasion and improvements in collection. These include a campaign to raise public awareness of penalties for tax evasion, more comprehensive cross-checking of invoices, intensified and better targeted audits, improved auditing information systems, and mandatory filing of periodic (every 1 or 3 months, depending on the class of business) VAT returns. Such initiatives are fully consistent with the recommendations of the Fund technical assistance mission on tax administration and, in this connection, the high level task force examining these recommendations has already offered its first proposals to the Minister of Finance. The temporary non-tax measures, accounting for about one-third (0.6 percent of GDP, as indicated in the staff report) of the deficit reduction in 2006, comprise extra dividends from three government-owned financial institutions sale, extension of concession rights, and clearance of fines and licenses by the Telecommunications and Post Commission. Securitization of tax arrears, which had been discussed at the time of the Article IV mission, will not take place in 2005 and has not been included as revenue in the 2006 budget.

Table 1. Greece: Selected Economic Indicators, 2000–06

	2000	2001	2002	2003	2004 Est.	2005 Proj.	2006
Domestic economy	(Percentage changes, unless otherwise indicated)						
GDP	4.5	4.6	3.8	4.6	4.7	3.5	3.3
Output gap	-0.9	0.0	0.0	0.9	1.8	1.6	1.2
Domestic demand	5.5	2.7	4.5	5.7	4.6	3.1	3.9
Private consumption	2.2	2.9	3.3	4.5	4.4	4.4	4.0
Public consumption	14.8	-1.5	7.3	-2.1	3.9	1.1	0.6
Gross fixed capital formation	10.0	4.9	6.0	13.7	5.7	1.0	5.4
Change in stocks (contribution)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance (contribution)	-1.7	1.7	-1.1	-1.4	-0.5	0.1	-1.0
Exports	14.1	-1.0	-7.7	1.0	11.7	6.2	5.9
Imports	15.1	-5.2	-2.4	5.2	9.3	4.0	7.3
Unemployment rate 1/	11.4	10.8	10.3	9.7	10.5	10.0	10.0
Employment	1.4	-0.1	2.2	2.4	0.9	1.1	0.5
Unit labor costs (economy wide)	1.7	2.8	3.0	2.4	3.2	3.3	3.0
Consumer prices (HICP), period average	2.9	3.7	3.9	3.4	3.0	3.6	3.3
GDP deflator	3.4	3.5	4.0	3.5	3.6	3.6	3.3
	(In percent of GDP, settlements basis)						
Current Account	-6.9	-6.2	-6.0	-5.6	-3.8	-3.2	-3.6
Trade balance	-10.9	-9.5	-8.4	-7.2	-6.0	-5.2	-5.5
Export of goods and services	26.4	25.5	22.2	21.1	23.6	24.1	24.7
Export of goods	9.1	8.8	7.3	7.2	7.6	7.0	6.5
Exports of services	17.2	16.8	14.8	13.9	16.0	17.1	18.2
Imports of goods and services	37.2	35.0	30.6	28.3	29.5	29.3	30.2
Balance on capital account	-0.2	5.2	7.4	6.3	4.9	3.2	3.6
Of which: Direct investment inflows	1.0	1.3	0.0	0.4	0.7	0.3	0.4
Portfolio investment inflows	8.2	7.6	9.2	13.7	15.1	11.0	11.5
Change in reserves (- is an increase in reserves)	-2.5	4.7	-1.4	2.9	1.6	0.0	0.0
Public finances (general government)	(In percent of GDP)						
Total revenues	46.7	42.9	43.3	42.5	41.6	41.1	42.5
Total expenditures	50.8	48.9	48.3	48.3	48.3	45.6	45.2
Primary expenditures	42.7	41.7	42.0	42.5	42.6	40.4	40.3
Overall balance	-4.1	-6.1	-4.9	-5.7	-6.6	-4.6	-2.7
Primary balance	4.0	1.2	1.3	0.0	-0.9	0.7	2.2
Structural overall balance	-3.7	-6.1	-5.0	-6.1	-7.4	-5.2	-3.2
Gross debt	114	114	112	109	111	108	104
Memorandum items:							
Nominal effective exchange rate 2/	-6.2	0.7	1.7	3.6	1.1	-0.2	...
Real effective exchange rate (consumer prices) 2/	-6.1	1.0	2.9	4.9	2.1	1.5	...
Real effective exchange rate (manufacturing ULCs) 2/	-3.1	0.5	3.1	4.2	1.9	2.1	...
Nominal GDP (in billions of euros)	122	132	142	154	167	179	191

Sources: National Statistical Service; Ministry of National Economy; Bank of Greece; and Fund staff estimates.

1/ Annual averages. Figures for 2004 not fully comparable with those for previous years because of new sample as of 2004.

2/ Latest data is for July (real effective exchange rate (consumer prices), nominal effective exchange rate); and September (real effective rate (manufacturing ULC)).

Table 2. Greece: General Government Accounts, 2001–06 (Baseline Scenario)

	2000	2001	2002	2003	2004	2005		2006	
						Authorities' Estimate	Staff Projection	Authorities' Estimate	Staff Projection
Revenues	56.8	56.5	61.7	65.6	(Billions of Euro)	73.9	73.6	81.4	81.3
Taxes on production and imports	18.5	19.4	21.0	22.1	69.6	73.9	73.6	81.4	81.3
Taxes on income and property	13.2	12.5	13.4	13.5	23.2	23.8	23.7	25.8	25.7
Social insurance contributions	17.0	18.4	21.3	23.7	14.7	16.1	16.0	17.6	17.5
Other	4.3	5.6	4.4	3.9	24.5	26.5	26.5	28.8	28.8
Temporary revenue measures	...	...	...	...	3.9	3.8	3.8	4.1	4.1
Capital transfers	3.9	0.5	1.6	2.4	...	...	...	1.1	1.1
Expenditures	61.9	64.5	68.7	74.4	3.3	3.6	3.6	4.1	4.1
Of which: wage bill	14.3	15.2	17.3	18.3	80.7	81.8	81.8	86.5	86.5
Consumption	21.5	22.4	25.1	25.5	21.1	22.4	22.4	23.7	23.7
Social transfers, excl. those in kind	20.2	22.5	24.2	27.3	27.8	29.4	29.4	30.7	30.7
Interest	9.9	9.6	8.9	8.8	28.7	31.6	31.6	34.6	34.6
Subsidies	0.2	0.2	0.2	0.2	9.5	9.4	9.4	9.4	9.4
Other current expenditure	1.4	1.4	1.5	2.1	0.2	0.2	0.2	0.2	0.2
Investment expenditure	8.7	8.4	8.7	10.5	2.7	2.5	2.5	2.4	2.4
Of which: Olympics related expenditures	0.1	0.2	1.2	1.7	11.7	8.7	8.7	9.1	9.1
Overall balance	-5.0	-8.0	-7.0	-8.8	-11.1	-7.9	-8.2	-5.0	-5.2
Primary expenditures	51.9	54.9	59.8	65.6	71.2	72.4	72.4	77.1	77.1
Primary balance	4.9	1.5	1.9	0.0	-1.6	1.5	1.2	4.4	4.2
					(In percent of GDP)				
Revenues	46.7	42.9	43.3	42.5	41.6	41.0	41.1	42.1	42.5
Taxes on production and imports	15.2	14.7	14.8	14.3	13.9	13.2	13.2	13.4	13.4
Taxes on income and property	10.8	9.5	9.4	8.8	8.8	9.0	8.9	9.1	9.2
Social insurance contributions	14.0	14.0	15.0	15.4	14.6	14.7	14.8	14.9	15.1
Other	3.6	4.3	3.1	2.5	2.3	2.1	2.1	2.1	2.2
Temporary revenue measures	...	...	...	...	...	...	...	0.6	0.6
Capital transfers	3.2	0.4	1.1	1.6	2.0	2.0	2.0	2.1	2.1
Expenditures	50.8	48.9	48.3	48.3	48.3	45.4	45.6	44.7	45.2
Of which: wage bill	11.7	11.5	12.1	11.9	12.6	12.4	12.5	12.3	12.4
Consumption	17.7	17.0	17.6	16.5	16.6	16.3	16.4	15.9	16.1
Social transfers, excl. those in kind	16.6	17.1	17.0	17.7	17.2	17.6	17.6	17.9	18.1
Interest	8.2	7.3	6.3	5.7	5.7	5.2	5.2	4.8	4.9
Subsidies	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Other current expenditure	1.1	1.1	1.1	1.3	1.6	1.4	1.4	1.3	1.3
Investment expenditure	7.2	6.4	6.1	6.8	7.0	4.8	4.8	4.7	4.8
Of which: Olympics related expenditures	0.1	0.2	0.8	1.1	1.6	0.3	0.3	0.0	0.0
Overall balance	-4.1	-6.1	-4.9	-5.7	-6.6	-4.4	-4.6	-2.6	-2.7
Primary expenditures	42.7	41.7	42.0	42.5	42.6	40.2	40.4	39.9	40.3
Primary balance	4.0	1.2	1.3	0.0	-0.9	0.8	0.7	2.3	2.2
Structural primary balance	4.4	1.2	1.3	-0.4	-1.7	...	...	...	1.7
Structural overall balance	-3.7	-6.1	-5.0	-6.1	-7.4	...	-5.2	...	-3.2
Structural overall balance (net of expenditure on Olympics and temporary measures)	-3.7	-5.9	-4.1	-5.0	-5.8	...	-4.9	...	-3.8
Memorandum items									
Gross debt	114	114	112	109	111	107	108	105	104
Nominal GDP (in billions of euros)	122	132	142	154	167	180	179	193	191

Sources: National Statistical Service; Ministry of National Economy; Bank of Greece; and Fund staff projections.

Table 3. Greece: Medium Term Baseline Scenario, 2004–10

(Percentage changes, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010
	Projections						
Domestic economy							
GDP	4.7	3.5	3.3	3.2	3.2	3.1	3.0
Output gap	1.8	1.6	1.2	0.9	0.6	0.4	0.0
Domestic demand	4.6	3.1	3.9	3.4	3.4	3.3	3.0
Private consumption	4.4	4.4	4.0	3.7	3.9	3.9	3.7
Public consumption	3.9	1.1	0.6	0.6	0.7	0.8	0.4
Gross fixed capital formation	5.7	1.0	5.4	4.2	3.2	3.0	2.7
Foreign balance (contribution)	-0.5	0.1	-1.0	-0.6	-0.6	-0.5	-0.4
Exports	11.7	6.2	5.9	5.7	5.5	5.3	5.0
Imports	9.3	4.0	7.3	5.6	5.4	5.1	4.7
Unemployment rate	10.5	10.0	10.0	10.0	10.0	10.0	10.0
Employment	0.9	1.1	0.5	0.5	0.5	0.5	0.5
Unit labor costs (economy wide)	3.2	3.3	3.0	3.0	3.0	3.0	3.0
Consumer prices (HICP), end of period	3.1	3.6	3.3	3.0	2.9	2.8	2.7
Consumer prices (HICP), period average	3.0	3.6	3.3	3.0	2.9	2.8	2.7
GDP deflator	3.6	3.6	3.3	3.0	2.9	2.8	2.7
External sector (in percent of GDP)							
Current account (national accounts; settlements basis)	-3.8	-3.2	-3.6	-3.7	-3.8	-3.9	-4.0
Trade balance (in percent of GDP, settlements basis)	-6.0	-5.2	-5.5	-5.4	-5.4	-5.5	-5.5
Exports of goods and services	23.6	24.1	24.7	25.3	25.9	26.4	26.9
Imports of goods and services	29.5	29.3	30.2	30.7	31.3	31.8	32.4
Total transfers	3.6	3.4	3.1	3.0	2.8	2.6	2.5
Net income receipts	-1.5	-1.4	-1.3	-1.2	-1.1	-1.1	-1.0
Capital account	4.9	3.2	3.6	3.7	3.8	3.9	4.0
Direct investment (net)	0.4	0.1	0.2	0.2	0.2	0.2	0.2
Portfolio investment (net)	8.4	7.0	6.8	6.5	6.0	5.7	5.4
Other investment	-5.4	-3.9	-3.4	-3.0	-2.3	-1.9	-1.5
Change in reserves	2	0	0	0	0	0	0
Public finances (general government, in percent of GDP) 1/							
Total revenues	41.6	41.1	42.5	42.1	42.3	42.6	42.9
Total expenditures	48.3	45.6	45.2	45.2	45.2	45.1	45.1
Primary expenditures	42.6	40.4	40.3	40.4	40.5	40.3	40.5
Interest expenditures	5.7	5.2	4.9	4.8	4.7	4.7	4.7
Overall balance	-6.6	-4.6	-2.7	-3.2	-2.9	-2.5	-2.2
Primary balance	-0.9	0.7	2.2	1.7	1.8	2.2	2.4
Overall balance (excluding Olympics)	-5.0	-4.2	-3.3	-3.2	-2.9	-2.5	-2.2
Structural primary balance	-1.7	0.0	1.7	1.3	1.5	2.1	2.4
Structural overall balance	-7.4	-5.2	-3.2	-3.5	-3.2	-2.7	-2.3
Structural overall balance (net of Olympics expenditure and temporary revenue measures)	-5.8	-4.9	-3.8	-3.5	-3.2	-2.7	-2.3
Real primary spending growth	4.8	-1.8	3.1	3.5	3.4	2.8	3.2
Gross debt	111	108	104	101	98	95	92
Memorandum item							
Nominal GDP (in billions of euros)	167	179	191	203	216	229	242

Source: Fund staff estimates and projections.

1/ Assumes broadly constant ratio of revenue and primary expenditures to GDP as in 2005, and full utilization of EU structural funds.

Table 6. Greece: Medium-Term Staff Policy (Adjustment) Scenario, 2002–10
(In percent of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
						Proj.			
Total revenues	43.3	42.5	41.6	41.1	42.5	42.1	42.3	42.6	42.9
Total expenditures	48.3	48.3	48.3	45.6	45.2	43.8	43.4	43.0	42.7
Primary expenditures	42.0	42.5	42.6	40.4	40.3	38.9	38.6	38.4	38.3
Interest expenditures	6.3	5.7	5.7	5.2	4.9	4.8	4.7	4.6	4.5
Overall balance	-4.9	-5.7	-6.6	-4.6	-2.7	-1.7	-1.1	-0.4	0.2
Primary balance	1.3	0.0	-0.9	0.7	2.2	3.2	3.7	4.2	4.6
Structural primary balance	1.3	-0.4	-1.7	0.0	1.7	2.8	3.4	4.0	4.6
Structural overall balance	-5.0	-6.1	-7.4	-5.2	-3.2	-2.1	-1.3	-0.6	0.1
Memorandum items:									
Gross debt	112	109	111	108	104	99	94	89	84
Real GDP growth	3.8	4.6	4.7	3.5	3.3	3.2	3.2	3.1	3.0
Real primary spending growth	4.5	6.0	4.8	-1.8	3.0	-0.3	2.4	2.5	2.7
Real current primary spending growth	5.5	4.3	4.1	3.5	3.2	-0.9	2.6	3.6	3.3

Sources: National Statistical Service; Ministry of National Economy; and Fund staff estimates and projections.

**Statement by Miranda Xafa, Alternate Executive Director for Greece
December 14, 2005**

On behalf of my authorities, I would like to thank staff for their high-quality reports and for their close involvement with Greece in the past year. This included, besides the annual Article IV report, two technical assistance missions from FAD, a full fiscal ROSC, and Greece's first FSAP. The authorities are most appreciative of staff's efforts, whose recommendations are an invaluable input in Greece's policy-making process. They share much of staff's analysis, including on the challenges in the years ahead; we therefore limit our remarks to a few key points.

Key challenges

The key challenge is to make significant further progress in fiscal consolidation while sustaining the post-Olympics growth rate beyond the immediate future. The authorities are convinced that fiscal consolidation adds to growth over the medium term, by releasing resources from debt service to the financing of private sector activities and thus "crowding in" private investment. However, they are keen to avoid a vicious circle of low growth/revenue shortfall that would jeopardize the fiscal adjustment effort. They are thus trying to strike the right balance between sustaining domestic demand while pursuing fiscal consolidation efforts. This strategy has paid off so far, as GDP growth remained well above the Euro-area average in 2005 while significant fiscal adjustment was achieved.

Going forward, the authorities are aware of risks to growth but remain more optimistic than staff on the outlook for 2006 and beyond, based on the expectation that supply-side reforms will boost growth. For 2006, the GDP growth forecast underlying budget projections (3.8 percent versus 3.3 percent in staff projections) is partly based on leading indicators pointing to continued strong growth momentum. In particular, building permits have increased sharply in anticipation of the imposition of VAT on new construction as of 2006, and earnings of listed companies have risen strongly in the first 9 months of 2005 partly as a result of a cut in corporate tax rates, while credit growth and retail sales remain strong.

Fiscal adjustment in 2005-06

The authorities' strategy to achieve the needed fiscal consolidation under the EDP has relied almost entirely on spending cuts and growth-enhancing reforms rather than on tax increases. To this effect:

1. **Fiscal adjustment in 2005** amounted to 2.3 percent of GDP, of which 0.4 percentage points from current expenditure reduction, 1.4 pps from investment expenditure reduction (including 1 pp of non-recurrent spending on Olympic Games infrastructure), and 0.5 pps from improvements in the general government accounts. The general government deficit is estimated to have declined from its peak of 6.6 percent of GDP in 2004 (compared with an initial estimate of 5.3 percent) to 4.3 percent in 2005.

2. **Fiscal adjustment in 2006**, based on the 2006 draft budget submitted to Parliament on November 21 (after the staff report was issued), amounts to a further 1.7 percent of GDP, leading to a further decline in the general government deficit from 4.3 percent in 2005 to 2.6 percent in 2006. Within this total, permanent measures would amount to 1.1 percent of GDP, including interest savings of 0.4 percent of GDP as maturing debt is rolled over at lower rates, while one-off measures would amount to 0.6 percent of GDP. The one-off measures consist mainly of higher dividends from state-controlled banks reflecting higher profits, and proceeds of concession rights on roads, airports, and casinos.

Structural fiscal reforms

One-off revenue enhancements obviously cannot substitute for fundamental reform, but they can help gain time until fundamental reforms, which take time to plan and implement, start having a measurable impact. The authorities have an ambitious structural reform agenda in the fiscal area, which hopefully will start bearing fruit in coming years:

1. The authorities invited two technical assistance missions from the Fund earlier this year on **Tax Administration and Public Expenditure Management**. As mentioned by staff, high-level task forces have been formed to follow up on the Fund's recommendations and to propose a reform agenda and timetable by end-December. The authorities' requests for technical assistance and for a full fiscal ROSC signal their strong commitment to enhance the effectiveness and transparency of fiscal management. Most importantly, multi-year budgeting under consideration would replace year-at-a-time decision-making on the fiscal stance by a rules-based system aimed at achieving a zero budget deficit over the medium term. On the revenue side, some of the Fund's recommendations, including obligatory periodic filing of VAT returns, are already being implemented.

2. There is an urgent need to impose **hard budget constraints on public enterprises and entities**. Some enterprises continue to operate while generating losses, defaulting on their debt to banks and accumulating arrears to the tax authorities and social security organizations. Similarly, public entities such as hospitals accumulate arrears to suppliers that are eventually taken over by the government, as was done this year, adding to the public debt. The government has submitted to Parliament a draft law on public enterprises, aimed at increasing their commercial orientation and significantly reducing their reliance on budget transfers. Similarly, efforts are underway to help gain control over the finances of the health care system *inter alia* by centralizing and reforming their procurement practices.

3. Even though the authorities are taking measures to bring the deficit of the general government down to below 3 percent of GDP in 2006, the aging of the population and its impact on pensions imposes further challenges. They therefore agree with staff that, in the absence of corrective measures, **pension and health care costs threaten long-term fiscal sustainability**. As staff notes, the government is not planning legislative reforms during its present term in office, but has invited the Economic and Social Council, representing employers and labor unions, to commission an actuarial study and initiate a public debate that would facilitate public acceptance of eventual reform measures. The authorities invited Fund staff last year to prepare their own pension projections (included in the Selected Issues

paper), and promoted data-gathering and analysis on an ongoing basis by making the recently-created Greek Actuarial Authority operational this year.

Growth-oriented reforms

As experience elsewhere shows, raising potential growth and improving debt sustainability requires action in a number of areas. Despite the economy's strong growth record in recent years, the government is convinced that Greece can do significantly better in unlocking its economic potential and reducing its unemployment rate. It is therefore taking steps to improve the business environment, increase competition, and reduce costs in sectors dominated by the public sector, such as transport, telecoms, energy and health. It is also aiming to make Greece a more attractive destination for foreign direct investment to help fulfill its potential as a regional hub, increase its outward orientation and reap the benefits of rapid advances in technology. To this end, the authorities have:

- Introduced labor market reforms to increase labor market flexibility, including a reduction in overtime pay and more flexible workweek arrangements to accommodate seasonal peaks in demand with lower recourse to overtime.
- Cut corporate taxes from 35 to 25 percent over three years and are planning to reduce personal income taxes in order to align the top marginal income tax rate more closely with the corporate tax rate, thus avoiding tax arbitrage and encouraging compliance.
- Introduced an investment incentives law, in effect since January 2005, providing for tax credits and other investment incentives to promote job creation, skills upgrading, R&D and innovation.
- Introduced legislation governing PPPs, in effect since mid-2005, to facilitate private sector involvement in public investment projects with due attention to the fiscal side of such concessions.
- Taken steps to deregulate product markets and promote competition; shopping hours have been liberalized and the Competition Commission's power to prevent the abuse of dominant positions and the distortion of competition has been strengthened. Draft legislation to deregulate the energy sector will be tabled soon.
- Taken steps to promote diffusion of ICT productivity gains and accelerate investment in broadband networks.

FSAP

The Greek authorities welcomed the FSAP as a unique opportunity to streamline their ongoing efforts to adapt to a rapidly evolving international environment, including the adoption of IFRS, Basel II, and EU directives on financial system integration. The FSAP encouraged a thorough self-assessment of supervisory strengths and weaknesses, and identification of policy priorities. The formalistic incorporation of EU directives and Basel II

mandates would not suffice for the supervisory authorities to stay a step ahead of increasingly sophisticated financial markets and manage the ever-evolving challenges ahead.

Greece's AML/CFT system was in the process of being revamped at the time of the assessment to comply with new global standards, and the revised law was voted by Parliament on November 30, 2005. The authorities acknowledge the contribution of the Fund's recommendations in designing the new framework so as to address administrative weaknesses and maximize its effectiveness in curtailing money laundering and terrorism financing.

The FSAP confirms that the banking system, which accounts for about 80 percent of the financial sector, is well capitalized and profitable. Risk-management systems have improved significantly and stress tests confirm that Greek banks are adequately protected from market and credit risk. As regards the adoption of IFSR, the need for certain state-controlled banks to include unfunded pension liabilities in their balance sheets has been addressed through a capital increase where needed and by the mandatory transfer of a part of these liabilities to the main pension fund, IKA.

Rapid credit growth following liberalization of consumer credit and interest rate convergence in the run-up to EMU is a concern, as it has increased the banking sector's exposure to credit risk. This risk may rise further as the ratio of household debt to GDP catches up with the EU average. However, as the FSAP acknowledges, the Bank of Greece has taken steps to address this concern by raising specific provisions and capitalization levels, mandating risk-management and credit-rating systems in banks, and facilitating the compilation of comprehensive credit information on individual borrowers.



INTERNATIONAL MONETARY FUND

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700 19th Street, NW
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IMF Executive Board Concludes 2005 Article IV Consultation with Greece

On December 14, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Greece.¹

Background

Economic growth has been very strong for several years, underpinned by a large fall in interest rates due to adoption of the euro and subsequent ECB easing, rapid increases in private sector credit following the liberalization of the financial sector, and an expansionary fiscal stance. In 2005, with the end of Olympics spending and an associated sharp fiscal tightening, real GDP growth slowed to an estimated 3½ percent, still strong by international comparison. The long economic expansion has been accompanied by the appearance of macroeconomic imbalances. The fiscal position deteriorated significantly. In 2004, the general government deficit rose to 6.6 percent of GDP, the primary balance shifted into deficit, and public debt stood at 111 percent of GDP. Inflation has been running persistently above the euro-area average, resulting in a gradual but steady erosion of competitiveness and a decline in export market shares. And, despite the extended period of strong growth, labor market performance remains sub-par, with a high unemployment rate and low participation rates.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

In 2005, the authorities implemented substantial fiscal consolidation, reducing the budget deficit to 4.6 percent of GDP on staff calculations. Public sector investment spending contracted with the end of the Olympics, current spending growth slowed sharply, though from high rates, and interest costs fell. The draft 2006 budget contains further measures to bring the deficit to a targeted 2.6 percent of GDP, consistent with Greece's commitments to the EU under the excessive deficit procedure. However, about one-third of the 2006 adjustment consists of temporary measures.

The rising fiscal costs of population aging are the key long-term threat to debt sustainability. Available estimates imply these costs will rise by more in Greece than in any other EU country between now and 2050. In the absence of strong corrective action to put pensions and health care on a sustainable footing, the result will be an explosive path of the public debt.

Economic growth in 2006 and beyond is likely to be moderate compared to the high rates enjoyed in previous years, though it should remain comfortably above the euro-area average. The erosion of international competitiveness, needed fiscal consolidation, and the gradual waning of the effects of euro-area entry and financial liberalization all suggest growth will slow. The outlook depends, however, on developments in Greece's export markets, notably the shipping and tourism sectors, the EU, and on the evolution of the price of oil.

The banking system, which dominates the financial sector, appears well capitalized and profitable. However, several years of rapid growth in private sector lending, albeit from low levels, raises concerns that credit quality may deteriorate unexpectedly should the economy slow substantially or interest rates rise sharply, and non-performing loan ratios are already high for this stage of the business cycle. The Bank of Greece, the supervisor, has responded to risks by strengthening the prudential framework, and commercial banks have also improved their risk management capacity. The insurance sector, though not systemically important, is weak and poorly supervised.

The authorities have recently introduced a number of significant structural measures to improve product and labor markets. These include reductions in the corporate tax rate, unified and extended shopping hours, more flexible overtime, a new competition law and a strengthened competition authority, further liberalization of gas and electricity markets, simplification of business licensing, and a new framework for public-private partnerships. More initiatives are planned, including revision to bankruptcy legislation and changes to management and employment contracts in state-owned enterprises.

Executive Board Assessment

Directors welcomed the extended period of strong economic growth, underpinned by low interest rates following adoption of the euro, rapid credit expansion in the wake of financial sector liberalization, and high investment and productivity growth. As a result, the longstanding gap in living standards between Greece and the euro-area average, while still wide, has narrowed significantly in recent years. Directors also observed, however, that imbalances have built up during the economic boom, with a marked deterioration in the fiscal position and a gradual but steady loss of competitiveness against the euro area as a result of a persistent inflation differential.

Looking forward, Directors agreed that Greece's economic prospects remain promising, especially if structural reforms are implemented vigorously. Nevertheless, growth is likely to moderate somewhat from the high rates seen recently, reflecting the erosion of competitiveness, the waning of the stimulus from euro-area entry and past financial-sector reform, and needed fiscal consolidation.

Against a background of Greece's very high debt level and prospective large aging costs, Directors stressed that fiscal consolidation is the top economic policy priority for Greece. They commended the authorities' substantial reduction of the budget deficit in 2005 and their objective of cutting it further to below 3 percent of GDP in 2006. Directors urged the authorities to implement additional and durable measures to contain current spending and reach fiscal balance by the end of the decade. They considered that strong reforms to expenditure management and tax administration would be essential to achieving this medium-term goal. Key priorities include improving auditing, strengthening information management systems, streamlining the control of spending, better prioritizing expenditure, developing risk-based tax assessment and enforcement, and strengthening measures to collect tax arrears. In addition, a multi-year fiscal framework would enhance fiscal policy planning and credibility. In this connection, Directors welcomed the measures already taken by the authorities, especially to reform tax administration and strengthen revenue collection. They encouraged full and timely implementation of the recommendations of the recent Fund technical assistance missions on tax administration and public expenditure management, as well as the recommendations of the Fiscal Report on the Observance of Standards and Codes. A number of Directors also supported the authorities' decision not to follow through with their plans to securitize tax arrears, emphasizing the one-off nature of such a measure.

Directors noted the projected large increases in pension and health costs owing to population aging, and highlighted the threat this would pose to long-term debt sustainability. While welcoming steps taken to raise awareness of the issue and involve the social partners, Directors called on the authorities to accelerate preparation of pension reforms, in order to ensure their early implementation, including by updating projections of the fiscal costs associated with aging as soon as possible. They also urged that recent reforms to the health care system be followed up to help contain prospective cost pressures.

Directors welcomed the FSAP report's conclusion that commercial banks are well capitalized, profitable, and soundly supervised, and encouraged the authorities to fully implement the report's recommendations. They noted, however, that, after years of rapid credit growth, credit risks might prove unexpectedly high, especially in the event of an economic downturn or a significant increase in interest rates. Moreover, Greek banks are relatively small and have a high cost structure. Given these circumstances, Directors called for continued strengthening of the supervisory framework, close monitoring of bank assets and non-performing loans, and further development of commercial banks' risk management practices. Directors also observed that the insurance sector is weak and poorly supervised, and urged the authorities to make the new insurance supervisor fully operational and independent as soon as possible.

Directors agreed that a key long-term policy challenge is to improve productivity and competitiveness, thereby fostering high economic growth and raising living standards. They commended the authorities on recent structural reforms in the product and labor markets, notably lower corporate tax rates, more flexible shopping hours, easing of overtime

restrictions, a new competition law and a strengthened competition authority, gas and electricity liberalization, and simplification of business licensing. Directors encouraged the authorities to build on this foundation by simplifying the tax system and overhauling tax administration, cutting red tape for businesses, further liberalizing gas and electricity, and ensuring that the competition authority becomes more proactive.

On labor markets, where less reform has taken place despite the chronically high unemployment rate and low participation, Directors called for further easing of hiring and firing restrictions and more flexibility in minimum wages, especially in sectors facing economic pressures. Directors also expressed concern about the medium-term effects of the ongoing loss of international competitiveness. They stressed that, to stem the loss, the social partners will need to limit wage growth to Greek productivity growth and euro-area inflation.

Directors welcomed proposed reforms to state-owned enterprises and the new framework law for public-private partnerships. They judged that better governance of state-owned enterprises and more flexible employment conditions would help to improve service levels, reduce losses, and pave the way for further privatization where appropriate. Public private partnerships could help to foster needed infrastructure investment. Directors emphasized, however, that transparent and full accounting would be central to the proper assessment of current and future fiscal costs of projects, and that large public investment projects should be brought under the framework.

Directors welcomed improvements to economic data, especially to the fiscal data in the wake of last year's fiscal audit carried out by the authorities in cooperation with Eurostat. At the same time, they considered that further strengthening would be desirable. In particular, strengthened reporting of fiscal data, including the publication of financing-side fiscal data, will help increase the credibility of fiscal policy. Also important will be improved quarterly national accounts data, which are under preparation, and formal independence for the statistical service.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Greece: Selected Economic Indicators, 2001–06

	2001	2002	2003	2004	2005 Proj.	2006 Proj.
Real economy (change in percent)						
Real GDP	4.6	3.8	4.6	4.7	3.5	3.3
Final domestic demand	2.7	4.5	5.7	4.6	3.1	3.9
Private consumption	2.9	3.3	4.5	4.4	4.4	4.0
Public consumption	-1.5	7.3	-2.1	3.9	1.1	0.6
Gross fixed capital formation	4.9	6.0	13.7	5.7	1.0	5.4
Foreign balance (contribution)	1.7	-1.1	-1.4	-0.5	0.1	-1.0
Unemployment rate (in percent)	10.8	10.3	9.7	10.5	10.0	10.0
Employment	-0.1	2.2	2.4	0.9	1.1	0.5
Unit labor costs (economy wide)	2.8	3.0	2.4	3.2	3.3	3.0
GDP deflator	3.5	4.0	3.5	3.6	3.6	3.3
CPI (year average)	3.7	3.9	3.4	3.0	3.6	3.3
Public finance (percent of GDP)						
General government balance	-6.1	-4.9	-5.7	-6.6	-4.6	-2.7
General government primary balance	1.2	1.3	0.0	-0.9	0.7	2.2
General government structural balance	-6.1	-5.0	-6.1	-7.4	-5.2	-3.2
General government gross debt	114	112	109	111	108	104
Money and credit (end of year, percent change)						
Domestic credit 1/	9.3	8.5	3.0	7.7	10.1	...
Interest rates (percent)						
Deposit rate 1/	3.3	2.8	2.5	2.3	2.2	...
Government bond yield 1/	5.3	5.1	4.3	4.3	3.5	...
Balance of Payments (in percent of GDP, unless otherwise noted)						
Exports of goods and services	25.5	22.2	21.1	23.6	24.1	24.7
Imports of goods and services	35.0	30.6	28.3	29.5	29.3	30.2
Trade balance	-9.5	-8.4	-7.2	-6.0	-5.2	-5.5
Current account	-6.2	-6.0	-5.6	-3.8	-3.2	-3.6
Exchange rate						
Exchange rate regime					Euro area	
Present rate (December 9, 2004)						
Nominal effective exchange rate (1990=100) 2/	62.4	63.4	65.8	66.4	66.2	...
Real effective exchange rate (1990=100) 2/	108.9	112.1	117.8	119.9	121.3	...

Sources: National Statistical Service; Ministry of National Economy; Bank of Greece; IMF, *World Economic Outlook*; and IMF staff estimates and projections.

1/ Staff estimates. Latest data is for September (domestic credit, deposit rate); October (government bond yield); and August (M3).

2/ As of September 2005.