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

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The global recovery that started in 2002 is still unfolding, though at a slower pace than expected earlier in the year. Rising oil prices raise the risk of a slowdown in global growth. The pace of activity remains uneven across regions and the recovery appears fragile. Global growth is driven by the U.S. and Asian countries, while in the Euro area growth remains heavily dependent on external demand. In many developing countries, adjustment efforts and structural reforms are bearing fruit. The key to strong economic performance has proven to be fiscal consolidation, reinforcement of market forces, and the removal of obstacles to the efficient allocation of resources.

Greece's growth performance remained robust last year as strong domestic demand compensated for weak exports. Investment spending, underpinned by low interest rates and strong construction activity associated with the Olympic Games, was the major contributing factor. Consumer spending also remained on a rising trend. Labour market conditions improved slightly during the course of 2003, while inflation decelerated; however, the differential vis-à-vis the euro-area average remains at relatively high levels. Economic activity is expected to remain robust in 2004 and 2005. Growth is expected to remain well above the euro-area average, mainly on the back of easy monetary conditions, the recovery of tourism following the successful Olympic games, the faster implementation of the Third Community Support Framework and the revival of world trade.

Fiscal consolidation in the near future remains a key concern of the Greek government. The far-reaching auditing of fiscal accounts launched in March resulted in an upward revision of the general government deficit and debt for the period 2000-04. These revisions, which have been long overdue, have led to an increase in transparency that provides a more solid basis for the assessment of the fiscal policy stance.

We are committed to correcting the current situation as rapidly as possible, aiming at a deficit for next year of 2.8% from a projected 5.3% in 2004. This effort will be based on moderate wage growth for the public sector, the reduction of operating expenditure for Ministries and measures to contain costs and borrowing by public organizations and enterprises. A tax amnesty has also been announced, while significant savings will be achieved through cuts in the military budget and, most notably, through the drastic reduction in Olympics-related expenditure.

Our economic strategy aims at strengthening potential growth, employment and social cohesion. It is a strategy that will promote real convergence between Greece and the more developed economies of the European Union. In parallel with fiscal consolidation, we have launched efforts to improve the competitiveness of the Greek economy by promoting competition, reducing administrative barriers, and cutting corporate taxes while improving tax administration.

The goal we are all pursuing is sustainable, noninflationary growth. The pursuit of this goal is greatly facilitated through international policy coordination and the smooth functioning of international and regional institutions that provide a stable and predictable framework for world trade and financial flows. We must commit ourselves to taking the actions needed to improve the prospects for global growth and prosperity, reduce vulnerabilities, and strengthen our financial systems. At the national level, we need growth-enhancing economic reforms; at the international level, we need to improve the financial architecture; and in our aid commitments, we need to reduce poverty around the world. The coordinated actions of all of us are critical for the achievement of our common goals. Thank you.