HELLENIC REPUBLIC

MINISTRY OF NATIONAL ECONOMY AND FINANCE

THE 2000 STABILITY AND GROWTH PROGRAMME: 2000 – 2004*

DECEMBER 2000

*The programme can be found at the web site of the Greek Ministry of National Economy: www.ypetho.gr

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I. Introduction

The Greek government's main objective is the continuous enhancement of economic performance and the improvement of the citizens' standard of living. The economic policy strategy for attaining these objectives involves a two-handed approach; on the one hand maintaining a stable macroeconomic environment and, on the other hand, ensuring the proper functioning of markets and addressing cases of market failure.

The European Council in Feira on the 19th of June congratulated Greece on the convergence achieved over recent years, as a result of "sound economic and financial policies"[1] and welcomed the decision that Greece will join the Eurozone on the 1st of January 2001.

This decision marks a new start for Greece; having achieved fiscal consolidation, economic policy will now focus on pursuing the goals of high and sustainable growth and employment.

This, first Stability and Growth Programme (SGP) for Greece, is in conformity with the framework outlined in the Council declaration of the 1st of May 1998 and outlines our policies and targets up to 2004. The Programme has been prepared in conjunction with the annual national budget proposal for 2001, submitted to Parliament in early November, and are in compliance with the 2000 Broad Economic Policy Guidelines. The main economic variables are discussed in the text, whereas detailed tables are provided in the Annex.

II. Overview of developments in the Greek economy during 1999

Developments in the Greek economy during 1999 were marked by the achievement of nominal convergence. By the end of 1999, as illustrated in Table 1, Greece had achieved 4 out of the 5 criteria for adopting the common currency. The fifth criterion, a two-year period of participation in the

[1] Feira Council conclusions.

Exchange Rate Mechanism (ERM), was satisfied in March 2000.

Table Error! Unknown switch argument.**: *Progress on the Maastricht criteria, 1996-99***

Criterion	*1996*	*1997*	*1998*	*1999*
Inflation (HICP, %)	7.9	5.4	4.5	2.1
Reference value	*2.5*	*2.7*	*2.2*	*2.1*
Long-term interest rates (%)	14.5	9.9	8.5	6.3
Reference value	*9.1*	*8.0*	*6.6*	*6.8*
General government deficit as a % of GDP	7.4	4.0	2.5	1.8
General Government debt as a % of GDP	111.3	108.3	105.5	104.6

Notes: 1.The reference value for inflation is the average rate of inflation of the three EU Member States with the lowest rate of inflation plus 1.5 percentage points. 2. The reference value for long-term interest rates is the average of interest rates of the three best performing EU Member States in terms of price stability plus 2 percentage points.

Tables 2 - 4 provide more details on the performance of the Greek economy during 1999. In 1999, growth was again higher than the European Union (EU) average. The slight deviation from the original target for growth, set in the 1998 update of the convergence programme, was in part due to the adverse consequences of the Kosovo war. The fiscal consolidation effort that started a few years before continued with the same vigour in 1999 resulting in a better than expected outcome for the general government balance. In 1999, the general government deficit as a per cent of GDP fell to 1.8% from 2.5% in 1998. As indicated in Table 4 the improvement in the general government balance between 1998 and 1999 was primarily due to increased government revenues and reduced interest payments.

The private consumption deflator fell from 4.5% in 1998 to 2.4% in 1999. The anti-inflationary incomes policy in the public sector and a moderation in the rate of increase of the nominal compensation of employees per head contributed to the substantial fall in the rate of inflation.

Lower inflation and fiscal consolidation in turn led to a substantial reduction of the yield on 10-year government bonds, from 8.5% on average in 1998 to 6.3% on average in 1999. The spread with the Bunds narrowed substantially, being less than 120 basis points by the end of 1999.

Table Error! Unknown switch argument.**:*Main economic indicators: targets and outcomes for 1999***

Economic Indicators	1999	
	Target	**Outcome**
1. GDP growth (%)	3.7	3.4
2. Gross Fixed Capital Formation (% change)	12.2	7.3
3. Unit Labour Cost (% change)	1.5	0.6

Note:The figures in the first column refer to the targets set in the June 1998 update of the Greek convergence programme (CP98).

Table Error! Unknown switch argument.**: *Convergence and fiscal indicators :targets and outcomes for 1999***

Indicator	***1999***	
	Target	**Outcome**
1. Prices (private consumption deflator, % change)	2.5	2.4
2. Harmonised consumer price index (%change)	-	2.1
3. Primary surplus (% GDP)	-	5.8
4. Yield on 10-year government bonds (%, year average)	-	6.3
5. Spread with Bunds (year average, in basis points)	-	179
6. Interest payments (% GDP)	-	7.6
7. Public sector balance (general government, % GDP)	-2.1	-1.8
8. Debt (general government, % GDP)	105.8	104.6

Notes: 1.The figures in the first column refer to the targets set in the June 1998 update of the Greek convergence programme (CP98). 2. The target for interest payments, and as a result the primary surplus, are not quoted for 1999 since these variables are now calculated on a consolidated basis.

Table Error! Unknown switch argument.**: *General government balance: a breakdown of the change in 1999***

	% of GDP		Annual change in GDP percentage points
	1998	**1999**	**1999**
1. Government revenues	40.1	42.1	2.0
2. Capital transfers received	3.5	3.1	-0.4
3. Government current expenditure (excluding interest payments)	32.3	32.6	0.2
4. Capital expenditure (of which Gross fixed capital formation)	5.9 (3.8)	6.9 (4.3)	0.9 (0.5)
5.Interest payments	7.8	7.6	-0.3
6.Government balance as a % of GDP	-2.5	-1.8	0.7

Note: Deviations in the figures quoted in the last column from the difference between the preceding two columns are due to rounding.

III. Economic prospects for 2000-2004

III.A. The performance of the Greek economy during 2000

In 2000, for the fifth consecutive year, growth is expected to be above the EU average, and to exceed the target set in the 1999 update of the convergence programme (CP99). This is mainly due to higher than expected private consumption and investment. Investment, public and private, accounts for over 24% of GDP in 2000 and remains the engine of growth.

Tables 5 and 6 present the targets and estimates of the main economic and fiscal performance indicators. The fiscal consolidation effort continued in 2000 and, as a result, the general government balance is estimated to be better than initially targeted. Thus, the performance of the budget for the first ten months of the year indicates that the general government deficit will be

0.8% of GDP compared to a deficit target of 1.2% of GDP. Table 7 presents a breakdown of the general government balance and the changes since 1999. The improvement by one GDP percentage point in the deficit since 1999 is due to an increase in revenues, as well as a fall on both current expenditure and interest payments. Regarding the general government debt, receipts from privatisation have been used towards lowering the debt. The estimate of the ratio of general government debt to GDP for the year, however, deviates slightly from the original target due to, *inter alia*, the sharp appreciation of the dollar.

Table Error! Unknown switch argument.**:** ***Main economic indicators: targets and estimates for 2000***

	2000	
Economic Indicators	***Target***	***Estimate***
1. GDP growth (%)	3.8	4.1
2. Gross Fixed Capital Formation (% change)	8.6	9.3
3. Unit Labour Cost (% change)	2.0	1.5

Note: The figures in the first column refer to the targets set in the December 1999 update of the Greek convergence programme (CP99).

Table Error! Unknown switch argument.**:** ***Inflation and fiscal indicators :targets and estimates for 2000***

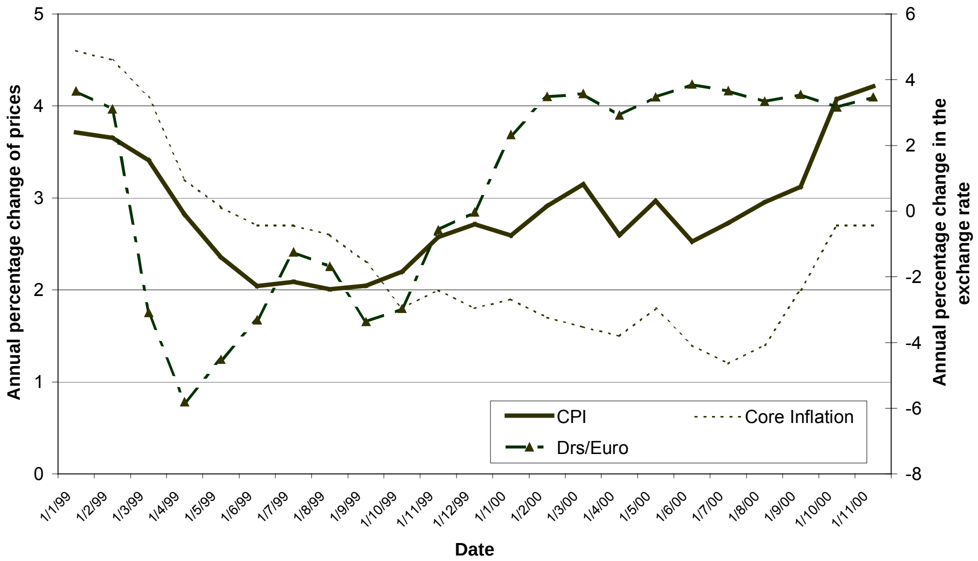
Indicator	***2000***	
	Target	**Estimate**
1. Prices (private consumption deflator, % change)	2.1	2.7
2. Harmonised consumer price index (% change)	-	2.8
3. Primary surplus (% GDP)	-	6.5
4. Yield on 10-year government bonds (%, year average)	6.0	6.1
5. Spread with Bunds (year average, in basis points)	80	85
6. Interest payments (% GDP)	-	7.2
7. Public sector balance (general government, % GDP)	-1.2	-0.8
8. Debt (general government, % GDP)	103.3	103.9

Notes: 1.The figures in the first column refer to the targets set in the December 1999 update of the Greek convergence programme (CP99). 2. The target for the interest payments, and as a result the primary surplus, are not quoted for 1999 since these variables are now calculated on a consolidated basis. 3. The spread of the yields of the 10-year Greek government bonds with those on the Bunds refers to the whole year and includes an estimate for December.

The inflation rate target set last year has been exceeded, primarily due to the substantial increase in the price of oil. Core inflation, on the other hand, which excludes the prices of fuel and vegetables, has been at or below 2.0% since October 1999, as can be seen from Figure 1, and has only recently increased above 2.0%. Inflation has also been influenced by the depreciation of the drachma towards its central parity. Figure 1 plots the annual core inflation rate for the period January 1999 to November 2000 together with the headline inflation rate and the annual percentage change in the euro/drachma exchange rate.[2] The Figure suggests that movements in the headline inflation are positively associated with those in the euro/drachma exchange rate. The increase in inflation this year, however, is likely to be recognised as a temporary phenomenon. This is so, since the drachma has by now practically converged to its central rate with the euro, which is the irrevocable rate of exchange between the two currencies, while the price of oil is unlikely, according to most international organisations, to increase further. The increase in inflation has not been substantial, however, given the monetary easing that took place this year. The 14-day main refinancing rate of the Bank of Greece has been reduced by 500 basis points from 10.75%, at the end of 1999, to 5.75% on the 12th of December 2000. The moderate impact on inflation, despite the substantial monetary easing, is mainly due to the fact that Greek households are net creditors and thus the lowering of interest rates has had a negative income effect.

[2] The exchange rate is measured in terms of drachmas per euro. A positive sign indicates a depreciation of the drachma while a negative sign indicates an appreciation.

Figure 1: Inflation developments



Additionally, increases in unit labour costs have been moderate increasing by about 1.5% in 2000. This increase in unit labour costs results from the two-year agreement signed in the private sector in May and from productivity increases. For 2000, the increase in the minimum wage is 4.2% while there is no catch-up clause.

Table Error! Unknown switch argument.**: *General government balance: a breakdown of the change in 2000***

	% of GDP		*Annual change in GDP percentage points*
	1999	**2000**	**2000**
1. Government revenues	42.1	42.6	0.4
2. Capital transfers received	3.1	3.0	-0.1
3. Government current expenditure (excluding interest payments)	32.6	32.3	-0.2
4. Capital expenditure (of which gross fixed capital formation)	6.9 (4.3)	6.8 (4.4)	-0.1 (0.2)
5. Interest payments	7.6	7.2	-0.3

6. Government balance as a % of GDP	-1.8	-0.8	1.0

Note: Deviations in the figures quoted in the last column from the difference between the preceding two columns are due to rounding.

Regarding external transactions the current account balance for 2000 has turned out worse than expected, mainly due to the deterioration in the trade balance. This deterioration is, to a great extent, a result of the rise in the price of oil, the appreciation of the dollar and the increase in the imports of capital goods and raw materials. This deterioration does not, however, reflect a weakening in the competitiveness of the Greek economy. The increased competitiveness of the Greek economy is verified by a number of other indicators such as the increase in the annual productivity growth rate and the deceleration in the rate of increase of the unit labour cost.

III.B. Medium term forecasts: 2001-2004

The medium-term prospects of the Greek economy are very favourable. For the four-year period 2001-2004, Greece will have growth rates of over 5% together with a low inflation rate and a fiscal position compatible with the Stability and Growth Pact. The recently released Autumn forecasts of the European Commission and the OECD, broadly agree with these expectations.

Our baseline simulation scenario for the period 2001-2004, is presented in Tables 8 and 9 while detailed figures are given in the Annex. The growth rate forecasts take into account the developments in the international environment as predicted by the European Commission, the IMF and the OECD. These forecasts suggest a healthy external environment with rates of growth of around 3% for the OECD and the Eurozone countries. The price of oil is assumed here to fall from its current high levels and to be on average 25$ per barrel in the next 4 years. Finally, the euro is assumed to appreciate and to be on average at a par with the dollar in the medium-term.

Table Error! Unknown switch argument.**: *Selected economic indicators for 2001-2004***

	2001		2002		2003	2004
Economic Indicators	*CP99*	*SGP00*	*CP99*	*SGP00*	*SGP00*	*SGP00*
1.GDP growth (%)	4.1	5.0	4.3	5.2	5.5	5.5
2.Gross Fixed Capital Formation (% change)	9.2	11.7	9.8	12.6	12.0	10.0
3.Unit Labour Cost (% change)	1.5	1.5	1.4	1.4	1.8	2.2

Note: CP99 stands for the targets set in the 1999 update of the Convergence Programme while SGP00 stands for the targets set in the current stability and growth programme.

Table Error! Unknown switch argument.**: *Inflation and fiscal indicators for 2001-2004***

	2001		**2002**		**2003**	**2004**
	CP99	*SGP00*	*CP99*	*SGP00*	*SGP00*	*SGP00*
1. Private consumption deflator (% change)	2.1	2.3	2.0	2.2	2.3	2.4
2.Primary surplus (% GDP)	-	7.0	-	7.3	7.3	6.8
3.Implicit interest rate (%)	6.7	6.9	6.3	6.2	5.9	5.6
4. Interest payments (% GDP)	-	6.5	-	5.8	5.3	4.9
5. Public sector balance (general government, % GDP)	-0.2	0.5	0.2	1.5	2.0	2.0
6. Debt (general government, % GDP)	99.5	98.9	98.0	96.0	90.5	84.0

Note: 1. CP99 stands for the targets set in the 1999 update of the Convergence Programme while SGP00 stands for the targets set in the current stability and growth programme. 2. The target for the interest payments, and as a result the primary surplus, are not quoted for 1999 since these variables are now calculated on a consolidated basis. 3. The implicit interest rate corresponds to the central government debt and is defined as the ratio of the central government's interest payments over the average of its debt for years t and (t-1).

Investment will remain the most important component of domestic demand, with the share of gross investment in GDP increasing from around 24% in 2000 to around 30% in 2004. Such an increase in investment is feasible due to the decrease in interest rates and the funding received through the 3rd

Community Support Framework (3rd CSF). The total funding through the framework of the 3rd CSF, taking into account both the public and the private sector contributions, amounts to 51.3 billion euro for the period 2000-2006. The substantial investment expenditures up to 2004 are also necessary due to the infrastructure needs of the 2004 Olympic games.

Private consumption, however, will also increase at an average annual rate of over 3.5% per year as a result of, *inter alia*, the recent tax changes.

The contribution to growth of the external balance of goods and services is expected to remain negative for the period 2001-2004 despite the increased rate of growth of exports. This is mainly due to the acceleration in the imports of equipment.

Fiscal policy in the period 2001-2004 will continue to be prudent resulting in an increasing general government surplus and a lower debt. In 2001, the general government will record a surplus, of the order of 0.5% of GDP, for the first time in over twenty years. This surplus will increase steadily to 2.0% of GDP in 2004. These targets satisfy the medium term objective of the Stability and Growth Pact (SGP) by a very large margin. Due to the low sensitivity of the Greek deficit to the economic cycle, the Commission estimates that a deficit target of 1.4% of GDP and below, is in compliance with the medium term objective.[3] The Commission's Autumn forecasts of the cyclically adjusted deficit for the period up to 2002 are much better than this threshold. Table 10 presents a breakdown of the change in the general government balance for 2001-2004. The improvement in the general government balance, as indicated in the Table, is brought about despite a lowering of government revenues and is due to a fall in current government expenditures and interest payments. It has to be noted that the government revenue figures for 2001 do not include the expected revenues from the auction for the Universal Mobile Telephone Services (UMTS) licences.

[3] "Some operational aspects for Member States implementation of the Stability and Growth Pact" (Commission document I/399/98-EN of the 17th of June 1998).

Regarding taxation, the tax law recently ratified by Parliament reduces personal and corporate income tax rates. The total cost of this tax package, which is included in the figures above, is 345 billion drachmas spread through the period 2001-2003. The cost of the package is around 0.4% of GDP for 2001, 0.25% of GDP in 2002 and less than 0.1% of GDP in 2003. The measures aim to alleviate the tax burden, to increase business activity and labour supply and thus boost economic activity. The principal measures included in the bill are presented in Box 1.

Box 1:Main measures of the November 2000 tax package

1. Indexation of tax brackets by 5% for 2001.
2. Indexation of tax brackets, based on the consumer price index, every 2 years.
3. Reduction of the highest tax rate from 45.0% to 42.5% for income earned in 2001 and to 40.0% for income earned in 2002.
4. Increase in tax credits for families with 3 or more children.
5. Expenses for the purchase of a personal computer and internet subscription are partly deductible from taxable income.
6. The reduction of the corporate tax rate for non-listed societe anonymes from 40.0% to 37.5% for 2001 and to 35.0% for 2002.
7. Abolition of the special tax on banking activities (ΕΦΤΕ) from the 1st of January 2001.
8. Abolition of a number of taxes that the state collects for third parties (earmarked taxes) and of a number of stamp duties.

Table 11 presents the breakdown of the general government balance into central government and public entities. As the figures suggest the fiscal improvement is the result of an amelioration of central government finances while the surplus of public entities is actually showing a slight decrease.

Table **Error! Unknown switch argument.**: ***General government balance: a breakdown of the change for 2001-2004***

	2001		**2002**		**2003**		**2004**	
	% GDP	*Change in pp*	*% GDP*	*Change in pp*	*% GDP*	*Change in pp*	*% GDP*	*Change in pp*
1. Government revenues	42.5	*-0.1*	42.4	*-0.1*	41.9	-0.5	41.4	*-0.5*
2.Capital transfers received	3.2	*0.2*	3.1	*-0.2*	3.0	-0.1	2.8	*-0.2*
3. Government current expenditure (excluding interest payments)	32.0	*-0.4*	31.3	*-0.7*	30.7	-0.6	30.3	*-0.4*
4. Capital expenditure (of which Gross fixed capital formation)	6.7 (4.5)	*-0.1 (0.0)*	6.9 (4.5)	*0.2 (0.0)*	6.9 (4.6)	-0.0 (0.1)	7.1 (4.7)	*0.2 (0.1)*
5. Interest payments	6.5	*-0.7*	5.8	*-0.7*	5.3	-0.5	4.9	*-0.4*
6. Government balance	0.5	*1.3*	1.5	*1.0*	2.0	0.5	2.0	*-0.1*

Note: pp = percentage points. Please see note to Table 7, which presents information on the same variables for 1999 and 2000.

Table **Error! Unknown switch argument.**: ***General government balance: sectoral decomposition for***

2001-2004

	2001		**2002**		**2003**		**2004**	
	% GDP	*Change in pp*	*% GDP*	*Change in pp*	*% GDP*	*Change in pp*	*% GDP*	Change in pp
1.Balance of the ordinary budget	0.0	*0.8*	1.6	*1.6*	2.7	*1.1*	3.6	*0.9*
2.Balance of the public investment programme	-1.9	*-0.2*	-2.0	*-0.1*	-2.2	*-0.2*	-2.7	*-0.5*
3. Balance of the state budget	-1.9	*0.6*	-0.4	*1.5*	0.5	*0.9*	0.9	*0.4*
ESA adjustment (amortisation of armed forces debt, capitalised interest etc)								
4. Balance of the state budget (on a National Accounts basis)	-2.0	*1.3*	-0.7	*1.3*	0.1	*0.8*	0.2	*0.1*
5. Balance of public entities (local authorities, social security funds, hospitals)	2.4	*-0.1*	2.2	*-0.2*	2.0	*-0.2*	1.8	*-0.2*
6. General government balance	0.5	*1.3*	1.5	*1.0*	2.0	*0.5*	2.0	*0.0*

Note: pp = percentage points. Deviations of the sum of the components from the last row, which presents the general government balance, are due to rounding.

On the public debt front, the significant improvement of the general government budget combined with lower interest payments and the continuation of the government's privatisation programme is expected to lead to a gradual reduction of the general government debt to 84% of GDP in 2004. The privatisation programme for 2001 includes the list of companies presented in Table 12 below.

The government's incomes policy for 2001 will continue to be anti-inflationary. The budget report announced an increase of public sector salaries, excluding seniority payments, of 2.2%. For the year 2001, public sector staff costs will increase by 5.8% as a result of maturity payments, the increase of pensions to former public sector employees and the increase of public employment in certain essential services (health, education, defence). The public sector wage bill is expected to grow by around 5% annually in the period 2002-2004. The wage agreement signed in the private sector sets average wage increases at 3.3% for 2001. The agreement contains a catch-up clause, which will be triggered if average inflation for 2001 exceeds 2.3%. According to the agreement any additional increase due to the catch-up clause will be paid in 2002. The overall position of employees, however, will improve further due to the tax and benefits packages of the last 2 years.

With significant medium-term productivity growth increases, and provided there is no considerable wage drift, the agreement should lead to moderate wage increases and to increases in unit labour costs similar to those in the other Eurozone countries.

The government acknowledges that in the era of centrally decided monetary policy the importance of fiscal policy in combating inflation increases. Thus, if growth turns out lower than expected, due to for example a lower rate of investment or a higher price for oil, then the fiscal outlook will not worsen. To achieve this result the government will place increased emphasis on the efficient allocation of government expenditures. The detailed figures of this more pessimistic growth scenario are presented in the Annex.

An additional policy instrument against inflation is the implementation of structural reforms and especially the liberalisation of markets. In 2001 the telecommunications and electricity sectors will be liberalised. The products of both industries are used as inputs in all areas of economic activity. As a result the anticipated reduction in prices from liberalisations will be felt throughout the economy.

As a result of the significant growth rate, the healthy fiscal outlook, low inflation and structural reforms, both in product and labour markets, employment is expected to increase and unemployment to fall. The unemployment rate is projected to fall from an estimated 11.3% for 2000 to 7.5% in 2004.

A brief overview of the structural reforms underway is given next.

IV. Structural reforms

The success of macroeconomic policies depends on, *inter alia*, the smooth functioning of individual markets: the goods, services, capital and labour markets. For this reason a number of structural reforms have been undertaken to improve the functioning of these markets and more reforms are planned for the next few years.

IV.A. Goods and services markets

The government's privatisation programme continues with a number of companies prepared for privatisation. Table 12 presents the details on the companies to be privatised as well as the method for privatisation. The companies involved belong to the banking sector and the utilities. Furthermore, in early 2001 the telecommunications and electricity markets will be liberalised while coastal shipping will be liberalised in 2002.

Table Error! Unknown switch argument.**: Privatisation programme 2000-2001**

COMPANY	% TO BE PRIVATISED	*METHOD OF PRIVATISATION*
AGRICULTURAL BANK	20-25%	INITIAL PUBLIC OFFERING.
SALONICA PORT AUTHORITY	20-25%	INITIAL PUBLIC OFFERING
PIRAEUS PORT AUTHORITY	20-25%	CREATION OF PORT MANAGEMENT SUBSIDIARY/PRIVATISATION OF THE MANAGEMENT COMPANY THROUGH PUBLIC OFFERING
FOOTBALL PROGNOSTICS ORGANISATION	10%-20%	INITIAL PUBLIC OFFERING
HELLENIC INDUSTRIAL BANK	An additional at least 26%	STRATEGIC PARTNER
PUBLIC POWER CORPORATION	To be determined	PUBLIC OFFERING
OTE	15-20%	STRATEGIC ALLY
OLYMPIC AIRWAYS	65%	STRATEGIC INVESTOR
SALONICA WATER & SEWAGE	20-25%	BREAK UP IN TWO ENTITIES: LAND & PLANTS AND OPERATIONS MANAGEMENT /CONCESSION AGREEMENT/PRIVATISATION THROUGH STOCK EXCHANGE OF THE SERVICES ENTITY
POSTAL SERVICES	15%-25%	STRATEGIC ALLY IS SOUGHT IN ORDER TO DEVELOP THE EXPRESS DELIVERY MAIL SERVICE
CORINTH CANAL	CONCESSION CONTRACT	CONCESSION CONTRACT
HELEXPO	30% and management	STRATEGIC PARTNER
HELLENIC PETROLEUM	To be determined	STRATEGIC ALLY

For privatisations and liberalisations to be successful the appropriate regulatory framework has to be in place. To this effect the government has upgraded the role of the Competition Committee and of the Regulatory Authorities in the telecommunications and energy sectors. In this section we report briefly on developments in the telecommunications and energy sectors and present the main changes in the Competition Committee.

(a) Telecommunications

Since last year, important developments have taken place in the telecommunications sector mainly, in preparation of the liberalisation of the fixed voice telephony services as from January the 1st 2001.

The main changes and activities in the sector in the last year are the following:

1. A law establishing the framework for the new fully liberalised telecommunications market has been ratified by parliament. The purpose of the new law is to update the existing legislative framework, to liberalise and develop the telecommunications sector, to harmonize the Greek legislation with EU law and to ensure effective consumer protection. In view of the full-liberalisation of the telecommunications sector, the law enhances the role of the telecommunications sector regulatory authority, the *National Telecommunications and Post Commission* (EETT). *EETT* is an independent body, both administratively and financially, with the aim of monitoring and regulating the telecommunications market. The duties of EETT involve conducting competitions for the so-called *special licenses* as well as granting, renewing, modifying, suspending, extending or revoking these licenses.
2. An auction procedure has been completed recently for fixed wireless access individual licenses (LMDS).[4] The Individual Licences awarded in the auction will enable the licensees to develop a Fixed Wireless Access public telecommunications network and provide public fixed telephony service.
3. The state is now in a position, following the enactment of law 2843/2000, to sell more than 51% of its share in the Hellenic Telecommunications Organisation (OTE). Thus, the state is currently looking for a strategic ally for OTE.
4. The auction for the Universal Mobile Telephone Services (UMTS) will take place around April 2001.

(b) Energy sector

[4] Local Multipoint Distribution Services.

The basic thrust of the overall energy policy of the government is to increase competition in all major energy markets; electricity, gas and fuel and to promote the efficient use of energy and the use of renewable resources. The electricity sector will be liberalised as from the 19th of February 2001 while changes are also planned, in the medium term, in the gas sector.

In view of the forthcoming liberalisations an independent regulatory authority for the energy sector (Regulatory Authority for Energy, RAE) has been established.[5] This is an administratively and financially independent regulatory authority under the supervision of the Minister of Development. The duties of RAE are to monitor the operation of the energy market and to propose, to the authorities, the enactment of measures to protect competition and consumers' interests. RAE delivers opinions on the granting or otherwise of licences to firms to enter the electricity sector, monitors the licensing procedures and the operations of the licensees. Regarding tariffs, the Minister of Development asks RAE's opinion on the tariffs to be offered by the licensees for supplying electricity.

An additional objective of RAE is the establishment of a forward market for energy, which it would supervise, in order to smooth out fluctuations in energy prices.

(c) Competition Committee

The role of the Competition Committee (CC) has been upgraded following the enactment of Law 2837 in August this year. The law assigns a more pro-active role to the CC by allowing the latter to deliver opinions on its own initiative and not just on demand. The law provides also for the cooperation of the CC with the Independent Regulatory Authorities operating in specific sectors, such as the telecommunications and energy sectors. If asked by these authorities, the CC delivers opinions on competition issues in these sectors and has the sole responsibility for the implementation of the competition law in those cases. Finally, the law introduced important organisational changes to the CC in order to make its operation more effective. These include granting financial independence to the CC in addition to the existing administrative independence and increasing the upper limit on the number of staff employed.

IV.B. Labour Market

Full-employment ranks high on the government's agenda. Thus, an array of measures are being introduced to deal with shortcomings in the labour market. In addition to the active labour market policies, described in National Action Plan for Employment, a number of other measures have been either enacted or are included in a bill to be ratified by Parliament. The measures aim to affect both labour supply and labour demand.

The measures affecting *labour supply* include: the abolition of employees' pension contributions for those employees paid at the minimum wage[6] and the payment of an income subsidy, for a period up to one year, to the previously long-term unemployed, when they take up a part-time job working at least 4 hours daily. The measures affecting *labour demand* include a reduction in employers' social security contributions by 2 percentage points for those employees paid at or below 200000 drs monthly[7], an increase in the pay of those part-time workers paid at the minimum wage and working for less than 4 hours daily, an increase in overtime pay, a reduction of those overtime hours, that are at the employers' discretion, from 8 to 3 and a lowering of weekly working time from 40 to 38 hours in those firms that decide, with the employees' consent, to make use of the annualisation of working time.

IV.C. Social security reform

The reform of the social security system, in light of the adverse demographics

[5] Law 2773/1999 and 2837/2000
[6] This measure is effective from 2000.
[7] This is around 25% higher than the minimum wage.

forecast for the medium-term, is on the agenda for 2001. The government has commissioned an in depth study of the Greek social security system by *Government Actuaries*. The study will be completed in early 2001 while in the first 6 months of the year measures will be introduced following a dialogue with the social partners.

V. Conclusions

The entrance of Greece in the Eurozone from January 2001 marks the start of a new era for Greece by creating the right conditions for sustainable growth. These conditions although necessary for healthy economic activity are not sufficient. To ensure that the Greek economy remains dynamic and competitive in the new economic environment, we will pursue a prudent fiscal policy, and undertake all the necessary structural reforms to improve the functioning of markets and increase the potential output of the economy so as to ensure high rates of growth with low inflation.

ANNEX

1. Alternative growth scenario

In this section we outline our projections for the main macroeconomic aggregates under slightly different assumptions on some variables than those used for our basic scenario. Table 13 presents the annual rates of growth of the main macroeconomic variables under the baseline scenario and under the more pessimistic scenario outlined here.

We assume that at the start of our forecast period the price of oil is 20% higher than our initial assumptions and that the export of services turn out less than expected.

Table Error! Unknown switch argument.**: Comparison of the two growth scenaria**

MACROECONOMIC AGGREGATES - FORECASTS

		Baseline scenario			Alternative scenario		
	Average annual rates of change	Average annual rates of change	% of GDP, except as indicated		Average annual rates of change	% of GDP, except as indicated	
	2000/1995	2004/2000	2001	2004	2004/2000	2001	2004
A. Demand and output							
(Volume in constant 1995 prices)							
GDP	3.3%	5.3%			4.4%		
Private consumption	2.9%	3.6%			3.3%		
Government consumption	1.2%	0.7%			0.6%		
Gross fixed capital formation	8.9%	11.6%			9.2%		
Total domestic demand	3.8%	5.1%			4.3%		
Exports of goods and services	8.3%	9.4%			7.9%		
Imports of goods and services	8.6%	7.6%			6.4%		
B. Prices							
Private consumption deflator	4.6%	2.3%			2.4%		
GDP deflator	5.0%	2.7%			2.7%		
Merchandise export prices	3.7%	2.3%			2.4%		
Merchandise import prices	3.7%	2.1%			2.5%		
C. Productivity, income and employment							
Labour productivity	2.6%	3.5%			2.9%		
Real compensation per employee	2.7%	2.9%			2.9%		
Nominal unit labour cost	4.7%	1.7%			2.4%		
Employment	0.6%	1.7%			1.5%		
Unemployment rate (% of labour force)	10.8%	8.9%	10.4%	7.5%	9.5%	10.6%	8.5%
D. Public finance							
Total current resources	11.9%	7.4%	42.5%	41.4%	6.8%	42.5%	41.7%
of which							
Direct taxes	16.9%	6.4%			5.8%		
Indirect taxes	11.1%	6.9%			6.3%		
Total current expenditure	6.6%	4.9%	38.5%	35.1%	4.9%	38.6%	36.2%
of which							
Social transfers other than in kind	9.6%	7.3%			7.3%		
Interest	-0.4%	-2.2%			-2.2%		
General government balance	-3.3%	1.5%	0.5%	2.0%	1.5%	0.5%	2.0%
General government debt			98.9%	84.0%		99.5%	86.5%
E. Current external transactions							
Exports of goods (volume)	4.6%	6.4%			6.4%		
Imports of goods (volume)	7.0%	7.3%			6.1%		
Trade balance	-14.2%	-15.6%	-15.2%	-16.0%	-15.5%	-15.4%	-15.6%
Current balance	-3.1%	-3.6%	-3.8%	-3.4%	-3.8%	-3.9%	-3.7%
Memorandum items							
GDP Euro zone	2.5%	2.7%			2.7%		
Euro / USD	-6.5%	-0.5%			-0.5%		
Drs / Euro	-2.3%		340.75	340.75		340.75	340.75
Oil price (USD per barrel)	19,7*		25	25		30	25

* Average price of the period. The corresponding change was 11%

Due to the changes in these assumptions the growth rate will turn out lower in each year of the period 2001-2004 compared to the baseline scenario. The rate of inflation, as measured by the consumer price deflator, on the other hand will be about 0.3 percentage points higher than in the baseline scenario up to 2002 while for 2003 and 2004 it will be the same as in the baseline scenario.

Public sector revenues will be lower by about 1.4% on average in the period 2001-2004 and social transfer expenditures will be about 0.2% higher on average in the period 2002-2004. The government, however, is determined to meet the general government surplus targets presented in the main text. The main way for achieving these targets will be to cut down on investment expenditures. More specifically, in this scenario the annual general government investment expenditure will amount to around 95% of the general government annual investment expenditure under the baseline scenario. This will ensure that the surplus of the general government as a percentage of GDP remains the same in this alternative scenario as in the baseline scenario. The debt of the general government will remain unchanged compared to the baseline scenario in absolute amount but will fall slightly as a % of GDP due to the lower growth rate.

The combined effect of the above changes on the growth rate will be for an average annual GDP growth rate about 0.9 percentage points lower in the period 2001-2004 compared to the baseline scenario.

2. Detailed tables 1999-2004 (Based on ESA 1995)

Table **Error! Unknown switch argument.:*Use and supply of goods and services (at constant 1995 prices)***

Table **Error! Unknown switch argument.**:***Further analysis of fixed investment (at constant 1995 prices)***

Table **Error! Unknown switch argument.**:***Use and supply of goods and services (value at current prices)***

Table **Error! Unknown switch argument.**: ***Percentage change in implicit price deflator***

Table **Error! Unknown switch argument.**:***Employment and unemployment***

Table **Error! Unknown switch argument.**:***Unit labour costs***

Table **Error! Unknown switch argument.**:***Income and expenditure of private sector and public enterprises (non-general government)***

Table **Error! Unknown switch argument.**:***Resources and expenditure of general government (%GDP)***

Table **Error! Unknown switch argument.**: ***Resources and expenditure of general government (% change)***

Table **Error! Unknown switch argument.**:***External Transactions account of the nation***

Table **Error! Unknown switch argument.**: ***The finance of gross domestic capital formation***