

Brussels, 18 January 2000

## **Commission assesses updated convergence programme of Greece**

***The European Commission today made a recommendation to the Council of Ministers on the updated convergence programme of Greece. The recommendation is made in accordance with the procedures of the Stability and Growth Pact for the monitoring of the economic and budgetary policies of the countries of the European Union (EU). The updated convergence programme of Greece covers the period 1999-2002. It maintains as a central objective the compliance with the convergence criteria which will allow Greece to participate in monetary union from January 2001. The programme projects further improvement in the general government balance which would reach a surplus of 0.2% of GDP in 2002. The debt to GDP ratio would fall below 100% of GDP as from 2001. The Commission concludes that the envisaged medium-term budgetary target since 2000 are in line with the Stability and Growth Pact requirements. The Commission believes the budgetary and structural policy measures announced in the programme to be appropriate and in line with the Broad Economic Policy Guidelines. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the Greek updated convergence programme on 31 January 2000.***

The Commission recommendation was adopted on the initiative of Mr Pedro Solbes Mira, Commissioner responsible for economic, monetary and financial affairs. This recommendation is part of the procedures in the Stability and Growth Pact for surveillance and coordination of national economic and budgetary policies at the level of the European Union.

The Stability and Growth Pact requires countries not participating in the euro zone to present convergence programmes to the Council and the Commission. In accordance with the procedures laid by the Stability and Growth Pact, the Council has to examine each convergence programme based on a assessment prepared by the Commission and the Committee set up by Article 114 (former Article 109c). According to the Stability and Growth Pact, the updates of the convergence programmes, to be presented annually, may also be examined by the Council in accordance with these same procedures.

The convergence programmes, and their updates, aim to demonstrate how countries intend to meet the objectives of the Pact and in particular the medium-term goal of a budget close to balance or in surplus.

The Commission main conclusions are the following :

- The 1999 update of the Greek convergence programme restates the strategy defined by the initial programme in view to achieve the completion of nominal convergence and to allow for Greece entering the euro-zone in 2001. This strategy is also expected to ensure a smooth transition to the common currency. Having achieved nominal convergence, the updated programme expects economic policy to be focused on improving competitiveness within the euro area by strengthening stability and intensifying structural reform. Efforts will concentrate on further pursuing real convergence.
- The updated convergence programme of Greece is based on a macroeconomic forecast showing strong domestic demand and economic growth and medium-term price stability. Consumer prices, as measured by the national index, are projected to increase by an average annual rate of 2.0% in the period 2000-02, down from an estimated 2.5% in 1999.
- Although considerable progress has been achieved on the inflation front, the increase in oil prices is slowing down the process of disinflation at present; in addition, the forthcoming monetary relaxation in the run-up to EMU may imply inflationary pressures, in particular from 2001; in this context, the revaluation of the central rate of the greek drachma as of 17 January 2000 will support further disinflation in Greece.
- The government is committed to continue applying moderate wage increases in the public sector in 2000 and beyond. Appropriate wage developments are of the outmost importance to counter possible inflationary pressures when monetary conditions will ease.
- On 29 November 1999, the Ecofin Council abrogated its decision that an excessive deficit existed in Greece. Further progress in fiscal consolidation is planned and the 1999 updated programme projects government balance to turn into a surplus of 0.2% of GDP in 2002, while the level of the government debt should fall by 6.2 percentage points of GDP from 1999 to 2002. However, the Commission considers that particular effort must be made by Greece to ensure that disinflation acquires a lasting character, in particular in view of the convergence of monetary conditions in Greece to those prevailing in the euro zone.
- The budgetary position of Greece complies with the requirements of the Stability and Growth Pact from 1999.

#### **Key figures of the Greek updated convergence programme**

|  | <b>1998</b> | <b>1999</b> | <b>2000</b> | <b>2001</b> | <b>2002</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Real GDP growth</b> (annual % change)   | 3.7         | 3.5         | 3.8         | 4.1         | 4.3         |
| <b>Gen. Gov. budget balance</b> (% of GDP) | -2.5        | -1.5        | -1.2        | -0.2        | +0.2        |
| <b>Government debt</b> (% du PIB)          | 105.4       | 104.2       | 103.3       | 99.5        | 98.0        |
| <b>Primary balance</b> (% du PIB)          | 6.4         | 7.0         | 6.7         | 7.1         | 7.0         |
| <b>Inflation</b> (Consumption deflator)    | 4.7         | 2.5         | 2.1         | 2.1         | 2.0         |
| <b>Employment</b> (% change)               | 3.4         | 1.2         | 1.3         | 1.4         | 1.5         |
| <b>Unemployment rate</b> (%)               | 10.9        | 10.5        | 10.1        | 9.5         | 8.7         |