

HELLENIC REPUBLIC
MINISTRY OF ECONOMY AND FINANCE

THE 2002 UPDATE OF THE HELLENIC
STABILITY AND GROWTH PROGRAMME:

2002-2006

- *The update of Greece's Stability and Growth Programme is submitted to the European Commission in accordance to the Article 4 of the European Council Regulation 1466/97.*
- *The programme can be found at the web site of the Greek Ministry of Economy and Finance:
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1. Introduction

The second update of the Greek Stability and Growth Programme (SGP) takes place in a period that is characterised by great uncertainties both economic and political. The slowdown of the economic activity in the European Union and the world trade, the fiscal imbalances in some large European economies, the collapse of the stock markets, and the imminent threat for a military attack on Iraq have had a negative impact on consumer and investor confidence.

This update provides for a review of the economic developments in Greece for the period 2001-2002, and projections for the economic developments for the period 2003 - 2006.

Economic activity in Greece was sustained in 2001, with a GDP growth rate of 4.1 per cent. However, the unfavourable economic conditions that prevailed in the world economy, in 2001, and particularly after the events of the September 11, have adversely affected the current economic activity. As a result the GDP growth rate in 2002 is estimated to be at 3.8 per cent. This growth performance still remains higher than the European Union average and it is expected that it will continue in the coming years.

The growth projections for the years 2003-2006 are based on cautious assumptions about the domestic components of economic activity. For the external environment we mainly rely on the Commission's projections up to the year 2004 and on the OECD medium-term projections for the years 2005 and 2006. Although the international economic environment remains highly uncertain, the medium-term prospects of the Greek economy are positive. Buoyant domestic consumption, the resources from the EU's 3rd Community Support Framework and the preparations for the 2004 Olympic Games hosted in Athens are expected to maintain a high level of economic activity. For the period 2003-2006, a robust sustainable growth rate is projected, with continuing fiscal consolidation, and declining public debt as a percent of GDP. Moreover, continued structural reforms and the adopted social insurance and pension system reform are expected to contribute to the long-term sustainability of public finances and growth.

More specifically, it is estimated that the rate of growth of GDP in Greece, in the period 2002-2004, will be significantly higher than the average rate for the rest of the EU member states. For 2003 our projection is that GDP will grow by 3.8 per cent and for the year 2004 by 4.0 per cent. In 2005 GDP is projected to grow by 3.7 per cent and in 2006 by 3.6 per cent, in line with potential output. For the period 2005 – 2006 it is projected that there will be a deceleration in the economic activity because some of the aforementioned contributions to growth will cease to feed in so strongly.

The Greek government's efforts in the field of public finances have yielded very good results over the last eight years. However, following consultations with the Eurostat a significant methodological revision in the statistical treatment of a number of operations took place in the course of 2002. As a result, the general government accounts remained in deficit as compared with a surplus reported previously. Also the debt ratio increased following the recent revisions and reached 107 per cent of GDP in 2001 from a 99.7 per cent that was projected previously. The debt ratio, however, is already on a downward trend, and it will fall below 100 percent of GDP at the end of 2004.

As far as concern the general government balance, the reclassification of some categories of expenditures, like capital injections to public enterprises and debt assumptions, have turned the small recorded surplus in 2001 into a deficit. Also the change in the treatment of privatisation certificates and convertible bonds has contributed to an increase in the general government debt to 107 percent of GDP. Similarly, adjustment has been made for the other years.

The aim of the Greek government, in the context of the Economic and Monetary Union, is to continue its efforts for stability and real convergence. In spite of the unfavourable external economic environment, endogenous forces are to sustain a robust GDP growth, which along with the intensification and expansion of the structural reforms are expected to contribute to the attainment of real convergence with other EU economies.

2. The Greek Economy

Table 1 presents, in a compound form, the main macroeconomic aggregates and projections of the 2002 updated SGP of the Greek economy, for the period 2001-2006, as well as the assumptions used for the external environment. An analysis of these developments and projections are presented in the sections that follow.

Table 1. Growth and Associated Factors

	2001	2002	2003	2004	2005	2006
SELECTED ECONOMIC INDICATORS						
GDP GROWTH AT CONSTANT PRICES	4.1%	3.8%	3.8%	4.0%	3.7%	3.6%
GDP LEVEL AT CURRENT MARKET PRICES (bn euro)	130.9	140.2	150.1	161.1	172.1	183.6
GDP DEFLATOR CHANGE	3.4%	3.2%	3.1%	3.2%	3.0%	3.0%
HCPI CHANGE	3.7%	3.9%	3.9%	3.2%	3.0%	2.9%
EMPLOYMENT GROWTH	-0.3%	0.3%	1.2%	1.2%	1.0%	1.0%
LABOUR PRODUCTIVITY GROWTH	4.4%	3.5%	2.6%	2.8%	2.7%	2.6%
UNIT LABOUR COSTS	0.9%	2.6%	2.3%	2.5%	2.3%	2.3%
GENERAL GOVERNMENT BALANCE	-1.2%	-1.1%	-0.9%	-0.4%	0.2%	0.6%
GENERAL GOVERNMENT DEBT	107.0%	105.3%	100.2%	96.1%	92.1%	87.9%
SOURCES OF GROWTH: PERCENTAGE CHANGES AT CONSTANT PRICES						
1. PRIVATE CONSUMPTION EXPENDITURE	3.2%	3.0%	3.1%	3.2%	3.2%	3.0%
2. GOVERNMENT CONSUMPTION EXPENDITURE	0.5%	1.5%	-1.5%	0.0%	0.0%	0.0%
3. GROSS FIXED CAPITAL FORMATION	5.9%	7.7%	9.5%	7.0%	6.1%	5.1%
4. CHANGES IN INVENTORIES (% GDP)	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
5. EXPORTS OF GOODS AND SERVICES	-1.3%	1.4%	4.6%	7.6%	6.3%	6.3%
6. IMPORTS OF GOODS AND SERVICES	-1.9%	1.9%	4.9%	5.8%	5.2%	4.4%
CONTRIBUTION TO GDP GROWTH						
7. DOMESTIC DEMAND (excluding inventories)	3.7%	4.1%	4.3%	4.0%	3.8%	3.5%
8. CHANGES IN INVENTORIES	0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%
9. EXTERNAL BALANCE OF GOODS AND SERVICES	0.3%	-0.2%	-0.5%	0.0%	-0.1%	0.1%
BASIC ASSUMPTIONS ON THE EXTERNAL ECONOMIC ENVIRONMENT						
	2001	2002	2003	2004	2005	2006
SHORT-TERM INTEREST RATE	4.4%	3.3%	2.8%	3.2%	3.5%	3.6%
LONG-TERM INTEREST RATE	5.0%	4.8%	4.4%	4.7%	5.0%	5.1%
EURO / USD EXCHANGE RATE	0.90	0.94	0.98	0.97	0.97	0.97
WORLD GDP GROWTH, excl. EU	2.2%	3.0%	3.9%	4.2%	4.2%	4.2%
EU-15 GDP GROWTH	1.5%	1.0%	2.0%	2.6%	2.3%	2.3%
WORLD IMPORT VOLUMES, excl. EU	0.0%	3.2%	6.8%	7.4%	7.5%	7.5%
OIL PRICES (USD/ barrel)	24.9	25.5	24.1	22.5	22.5	22.5

2.1 The Greek Economy in 2001-2002

2.1.1 The Greek Economy in 2001

The performance of the Greek economy continued to be positive in 2001, despite the slowdown in the world economy. GDP grew by 4.1 per cent, slowing towards the end of the year, due to sluggishness in export markets. GDP increased by 3.6 per cent in the second semester of 2001, instead of an average 4.6 percent rise in the first six months of the year. All components of the domestic demand were buoyant. The contribution of total domestic demand to change in GDP was 3.8 percentage points, while the external balance of services had also a positive contribution of 0.3 per cent, although exports of goods and services were decreased in real terms by 1.3 per cent as a result of the deteriorating global economic environment.

Table 2: Selected Economic Indicators 2001-2002

	2001		2002	
	SGP2001	SGP2002	SGP2001	SGP2002
1. GDP GROWTH	4.1%	4.1%	3.8%	3.8%
2. GROSS FIXED CAPITAL FORMATION	8.5%	5.9%	9.5%	7.7%
3. REAL UNIT LABOUR COST	-1.2%	-3.0%	-0.6%	-0.4%
4. PRIVATE CONSUMPTION DEFLATOR	3.1%	3.1%	2.8%	3.1%
5. GENERAL GOVERNMENT BALANCE (% GDP)	0.1%	-1.2%	0.8%	-1.1%
6. GENERAL GOVERNMENT DEBT (% GDP)	99.6%	107.0%	97.3%	105.3%
7. UNEMPLOYMENT RATE	10.9%	10.4%	10.5%	10.0%

Note: Lines 5 and 6 contain the adjusted figures after consultation with the Eurostat.

Although the number of employees increased significantly in 2001 (1.7 per cent), total employment fell by 0.3 per cent. The rise in the number of employees was offset by a reduction in the number of the self-employed and of the employment in the agricultural sector. The unemployment rate fell to 10.4 per cent from 11.1 per cent in 2000.

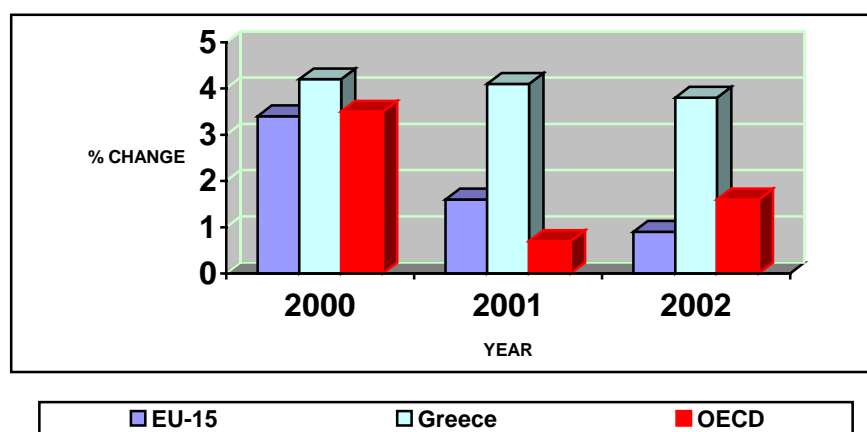
In 2001, inflation increased and remained above the European average. Its differential with the EU average widened to 1.2 points. The national consumer price index (CPI) increased reaching 3.4 per cent from 3.2 per cent in 2000. The higher inflation in Greece is attributed mainly to the stronger growth performance of the Greek economy and to the lagged second-round price effects due to the euro exchange rate depreciation during 2000. According to the OECD, 1¼ percentage point inflation differential between Greece and EU is attributed to the Balassa - Samuelson effect and recent trends in productivity and wages.

The general government balance target set by the 2001 SGP was a surplus of 0.1 percentage points of GDP and was to be fully met. However, after the reclassification of some expenditures this surplus turned out to be a deficit of 1.2 percentage points of GDP. Also because of the new accounting treatment of the securitisation operations and privatisation certificates the general government debt as a percentage of GDP increased to 107.0 percent in 2001 from 106.2 in 2000.

2.1.2 The Greek Economy in 2002

In 2002, GDP is estimated to grow by 3.8 per cent, well above the EU average, with investment and private consumption being the main factors contributing to the economic activity (Graph 1). Quarterly national accounts data showed, for the first semester of 2002, that real private consumption increased by 2.6 per cent and gross fixed capital formation by 10.8 per cent. The value of retail sales exhibited faster growth in the period of January-July 2002 (8.7 per cent) compared with the same period in 2001 (7.9 per cent). Similarly, some other indicators, which can be considered as proxies for the economic activity, support the view for robust growth. Revenues from the value added tax in the January-September period of 2002 increased by 11 per cent and private sector financing, during the same period, remained high, around 22 per cent. Based on the above conjectural indicators, it is projected that, for the whole year, private consumption growth will be 3.1 per cent and investment growth 7.7 per cent.

Graph 1: Real GDP Growth, Greece, EU-15 and OECD

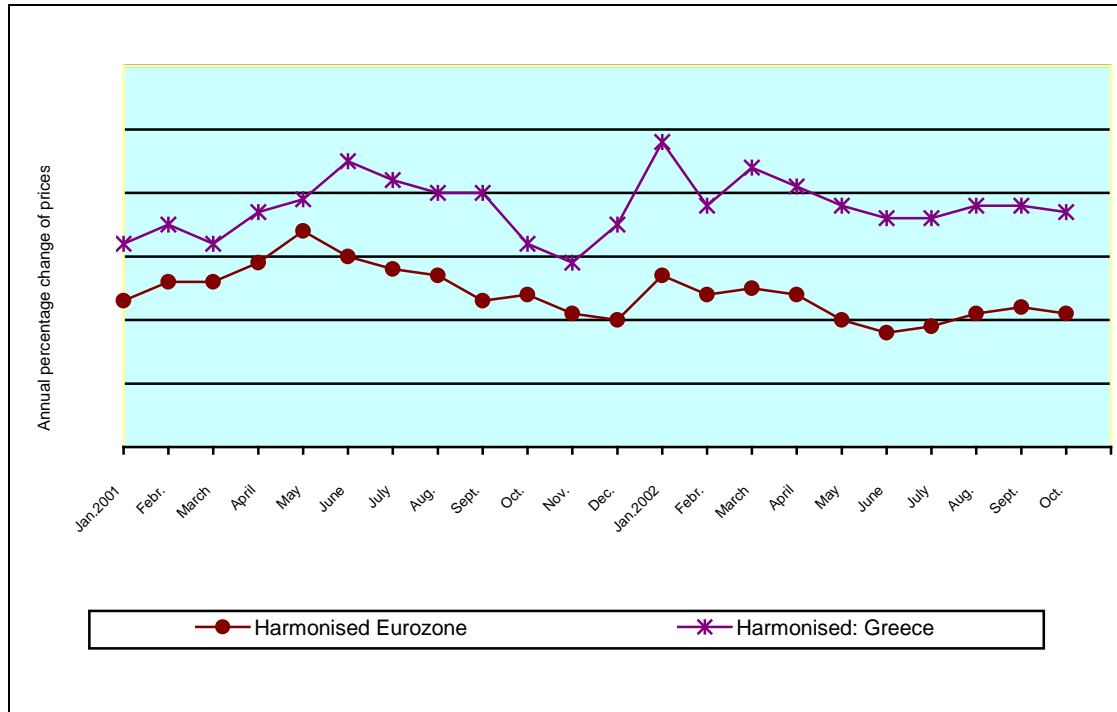


With regard to the external sector, it is estimated that exports of goods and services will increase in real terms by 1.4 per cent and imports by 1.9 per cent and thus, the contribution of the external sector to the GDP growth will be negative by 0.3 percentage points. Balance of Payments (BOP) data published by the Bank of Greece, show that, in the first seven months of 2002, exports and imports of goods, at current prices, declined by 13.5 and 2.4 per cent respectively. A decline is also manifested in the receipts and payments of services (2.0 and 10.6 per cent respectively). The decline in the exports volume is attributed not only to the decline in foreign demand, but also to the limited improvement in competitiveness.

The national CPI is estimated to increase in 2002 by an annual average rate of 3.5 per cent, 0.3 percentage points higher than it was projected in the 2001 SGP. This rate is compatible with an increase of the overall wage rate, including wage drift, by 6.2 per cent and of the nominal unit labour cost by 2.6 per cent. Wage increases in the public sector were marginally higher than inflation. It might be worth mentioning at this point that, for some categories of civil servants, there were additional wage increases, which were not the outcome of government policies but the result of court decisions for the sake of equal treatment of all civil servants. Price increases in Greece remained in 2002 above the European average. This higher inflation is attributed to the stronger growth performance of the Greek economy, but also to some extraordinary factors, such as the bad weather conditions at the beginning of the year and to the change - over to the Euro. According to the latest available data, the CPI

increase in October (12month change) was 3.5 per cent against 4.4 percent in January 2002.

Graph 2: Inflationary Developments



Regarding public finances, the reclassification of certain budget expenditures by the Eurostat reversed the projected general government surplus for 2002, from 0.8 percentage points of GDP, to a deficit of 1.1 percentage points and the general government debt to 105.3 percent of GDP. Tables 3 and 4 present the data of the government budget as it was submitted to the Parliament last year and estimates for outturn in 2002 of the disaggregate central government balance and debt. According to the previous system of accounting the general government balance in 2002 is estimated to be a surplus of 0.4 percent of GDP.

Table 3: Central Government Revenues and Expenditures (million Euro)

	2002 BUDGET		
	BUDGET	ESTIMATE	DIFFERENCE
1. REVENUES	41538	40510	-1028
(a) ORDINARY (NET REVENUE)	37453	37020	-433
<i>of which</i>			
i. DIRECT TAXES	14618	14790	+172
ii. INDIRECT TAXES	20666	20825	+159
(b) PUBLIC INVESTMENT PROGRAM	4085	3490	-595
2. EXPENDITURES	45585	45374	-211
(a) ORDINARY BUDGET	36637	37376	+739
<i>of which</i>			
i. COMPENSATION OF EMPLOYEES	14123	14334	+211
ii. OTHER EXPENDITURE	13563	13942	+379
iii. INTEREST PAYMENTS	8951	9200	+249
(b) PUBLIC INVESTMENT PROGRAM	8948	7898	-1050
3. CENTRAL GOVERN. BALANCE (1-2+3)	-4047	-4864	-817
4. PUBLIC ENTITIES SURPLUS AND ESA ADJUSTMENT	5206	3327	-1879
5. GENERAL GOVERNMENT BALANCE (3+4), % OF GDP	1159 (0.8%)	-1537 (-1.1%)	-2696 (-1.9)

Note1: The data of the Budget is similar to that presented in the Greek Parliament.

Note 2: The main differences in Budget and Estimate data are mainly due to the reclassifications of expenditures after the consultations with the Eurostat and not due to policy slippages.

Table 4: Contributions to Debt Developments (million Euro)

	2002 BUDGET		
	BUDGET	ESTIMATE	DIFFERENCE
1. NET BORROWING REQUIREMENTS	4047	4864	+ 817
2. BURDEN FROM FOREIGN EXCHANGE	58	-40	- 98
3. DEBT ASSUMPTIONS	4124	4452	+ 328
4. MILITARY BORROWING	2230	2660	+430
5. PRIVATISATION PROCEEDS (DEKA)	2215	1932	- 280
6. INCREASE IN DEBT (1+2+3+4-5)	8244	10004	+1760
7. CENTRAL GOVERNMENT DEBT	153981	165842	+11861
8. INTERGOVERNMENTAL DEBT	18107	18094	- 13
9. GENERAL GOVERNMENT DEBT (7-8)	135874	147748	+11874

In 2002 the government has embarked on a major tax reform based on the principles of simplification, transparency, neutrality, and equity. The main goals of this reform is to simplify the quite complex Greek tax system, to redistribute the tax burden from movable to immovable capital assets, to reduce the tax burden of labour, to rationalize

the gift and inheritance taxes, particularly for the business sector, and to reduce the differences in the treatment of the corporate and the non-corporate sectors. To this end, in July, the government brought before the parliament a first bill of the tax reform, which focused on extensive simplifications of tax administration procedures, and in the bookkeeping for small and medium size enterprises. In November, a second bill of the tax reform was submitted to the parliament, with important changes in the personal income tax, the gift and inheritance taxes, and a number of provisions that make the system much simpler and more transparent not only for enterprises but also for all households (a summary of the tax changes is presented in the appendix). The overall cost in terms of tax revenues is estimated in the area of 0,8 to 1,0 percent of GDP, split over the years 2003 and 2004. The government is committed to continue the efforts of further reforming the tax system in the coming years, so as to enhance the competitiveness of the economy, and to further reduce the administrative and compliance costs of the tax system.

Unemployment in Greece is still high, despite the good economic performance of recent years. Some factors explaining this development are the relatively low use of the part-time employment, and the large-scale restructuring that is going on in the Greek economy. Employment growth in 2002 is estimated to be 0.3 per cent and the unemployment rate to fall to 10.0 per cent from 10.4 percent in 2001. According to the Labour Force Survey of the second quarter of 2002, the unemployment rate was 9.6 per cent in 2002 against 10.2 per cent in 2001 and 11.1 per cent in 2000.

2.2 Basic Growth Scenario 2003-2006

Although the international economic environment remains highly uncertain, the medium-term perspectives of the Greek economy are positive. Buoyant domestic demand, the large inflows of funds from the EU's 3rd Community Support Framework and the preparations for the 2004 Olympic Games to be hosted in Athens are contributing to a sustained high level of economic activity. For the period 2003-2006, a robust sustainable growth rate is projected, with continuing fiscal consolidation, and declining public debt as a percent of GDP. Moreover, continued structural reforms

and the adopted social insurance and pension system reform are expected to contribute to the long-term sustainability of public finances and growth.

For the external sector, we assume that markets will develop according to the projections of the Commission and other international organisations. More specifically, we assume that the price of oil will be, on average, around 23.0 USD a barrel for the coming years. The Euro parity to the USD is assumed to remain close to one. After 2003, a return to GDP recovery is expected, while weaker than expected growth and contained inflation are projected to lead to lower interest rates in 2003.

Table 5: Selected Economic Indicators 2003-2006

	2003		2004		2005	2006
	<i>SGP2001</i>	<i>SGP2002</i>	<i>SGP2001</i>	<i>SGP2002</i>	<i>SGP2002</i>	<i>SGP2002</i>
1. GDP GROWTH	4.0%	3.8%	4.0%	4.0%	3.7%	3.6%
2. GROSS FIXED CAPITAL FORMATION	9.9%	9.5%	7.4%	7.0%	6.1%	5.1%
3. REAL UNIT LABOUR COST	-0.4%	-1.2%	0.0%	-0.7%	-0.7%	-0.7%
4. PRIVATE CONSUMPTION DEFLATOR	2.7%	2.7%	2.8%	2.8%	2.6%	2.6%
5. GENERAL GOVERNMENT BALANCE (% GDP)	1.0%	-0.9%	1.2%	-0.4%	0.2%	0.6%
6. GENERAL GOVERNMENT DEBT (% GDP)	94.4%	100.2%	90.0%	96.1%	92.1%	87.9%
7. UNEMPLOYMENT RATE	9.8%	9.1%	9.0%	8.4%	7.7%	7.1%

For 2003-2004 GDP is projected to increase on average by 3.9 per cent, while for the period 2005-2006, GDP growth is projected to be approximately 3.7 per cent annually. Fixed capital formation is expected to increase by an average growth rate of 6.9 per cent for the period 2003-2006, while business investment growth is projected to 8.5 per cent annually. The share of investments to GDP will be at about 26 per cent in 2006 from 23 per cent in 2002. As the other components of GDP is concerned, private consumption in 2003-2006 period is projected to remain strong, above 3 per

cent for each year, while trade balance will be kept constantly above 14 percentage points of GDP.

Employment for the years 2003-2006 is projected to increase as a consequence of high growth rates. The average annual rate of increase in total employment is estimated to be 1.1 per cent. The rise in the employment rate is justified by the fact that migration from the agricultural sector in the urban sector will be much smaller in the coming years, the continuing structural reforms and the implementation of the National Action Plans on employment, which is expected to contribute to higher employment. As a result, unemployment rate is expected to decrease from 10 per cent in 2002 to 7.1 per cent in 2006.

The medium-term outlook for public finances is compatible with the Stability and Growth Pact. In the period 2003-2004, the general government balance is projected to be negative but improving over the period, from -1.1 per cent of GDP in 2002, to -0.9 per cent in 2003 and -0.4 per cent in 2004. In 2005 it is projected a small surplus of 0.2 per cent of GDP, which will be increased in 2006, to 0.6 per cent of GDP. For the whole period, the primary surplus is estimated to range between 4.4 per cent and 5.2 per cent of GDP and it will be progressively increasing. These primary surpluses secure a decline in the general government debt ratio, from 105.3 percent of GDP in 2002, to 87.9 percent in 2006.

For the period 2003-2006, inflation is projected to decline although it will remain above the European average. The average annual rate of increase of the private consumption deflator is projected to be 2.7 per cent, influenced by the high growth rates and the ending of the previous years large under-utilisation of economic resources. The annual average nominal unit labour cost is projected to be 2.3 per cent, which is compatible with an estimated increase of labour productivity by 2.6 per cent annually and an increase in the nominal compensation of employees per head by 5.0 per cent.

3. Economic Policies for 2003 - 2006

Economic policy, in the medium term is oriented towards sustaining the significant improvement of macroeconomic fundamentals, which was accomplished over the previous years, and pursuing real convergence. Furthermore, the need for reducing the public debt, which is still very high, calls for a prudent fiscal policy and higher primary surpluses in the budget. The task might prove to be equally tedious as in the last few years, given that the external prospects are not particularly favourable. Further fiscal consolidation is also expected to contribute to the containing of inflationary pressures, which still persist in the Greek economy. Since monetary policy is the competence of the European Central Bank, budgetary policy has become the main instrument for demand management,

It is true, however, that Greece still needs large investments in the area of infrastructures and public services. Hence, the above task becomes quite demanding, and will be achieved not only with fiscal policy but also with the extending and deepening of structural reforms in all areas suggested by the Broad Economic Policy Guidelines.

3.1 Fiscal Policy and Prospects for 2003-2006

In the context of a strong growth momentum, fiscal policy will have to continue aiming at creating general government surpluses and bringing down the debt/GDP ratio. Although the general government deficit remains within the limits specified by the Maastricht Treaty, even after the reclassification of some government expenditures, fiscal consolidation will be intensified.

In order to contain spending pressures, public management reforms will be implemented not only at the level of central government but also in the areas of local government and public entities, and state enterprises.

The government is about to table before the Parliament a draft law, which enhances the transparency and improves auditing procedures at all levels of public expenditures. This draft law provides also for a code for fiscal stability. This code adopts a kind of “golden rule” according to which the only categories of expenditures, which will be financed through borrowing, will be public investment and acquisition of military equipment.

At the level of general government, total revenues are projected to decline slightly from 45.7 percent of GDP in 2002 to 44.3 percent, while total expenditure is expected to decline from 46.8 percent in 2002 to 43.8 percent in 2006.

Table 6: General Government Budgetary Developments (in national accounts basis)

% of GDP	2001	2002	2003	2004	2005	2006
BALANCE BY SUB-SECTORS						
1. GENERAL GOVERNMENT	-1.2%	-1.1%	-0.9%	-0.4%	0.2%	0.6%
2. CENTRAL GOVERNMENT	-3.9%	-4.7%	-4.3%	-3.7%	-2.9%	-2.3%
3. LOCAL GOVERNMENT	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%
4. SOCIAL SECURITY	2.7%	3.5%	3.3%	3.3%	3.1%	2.9%
GENERAL GOVERNMENT						
5. TOTAL REVENUE	46.1%	45.7%	45.1%	44.5%	44.4%	44.3%
6. TOTAL EXPENDITURE	47.3%	46.8%	46.0%	44.9%	44.2%	43.8%
7. GENERAL GOVERNMENT BALANCE	-1.2%	-1.1%	-0.9%	-0.4%	0.2%	0.6%
8. INTEREST	6.3%	5.5%	5.3%	5.0%	4.8%	4.6%
9. GEN. GOVN. PRIMARY SURPLUS (8-7)	5.1%	4.4%	4.4%	4.6%	5.0%	5.2%
COMPONENTS OF REVENUES / EXPENDITURES						
10. TAXES	24.5%	24.5%	24.2%	24.1%	24.1%	24.0%
11. SOCIAL CONTRIBUTIONS	13.5%	13.6%	13.6%	13.6%	13.7%	13.7%
12. OTHER CURRENT RESOURCES	4.3%	3.7%	3.5%	3.3%	3.1%	2.9%
13. TOTAL REVENUE	46.1 %	45.7%	45.1%	44.5%	44.4%	44.3%
14. GOVERNMENT FINAL CONSUMPTION EXPENDITURE	15.5%	15.4%	14.8%	14.5%	14.3%	14.0%
15. SOCIAL TRANSFERS OTHER THAN IN KIND	15.9%	16.1%	16.2 %	16.1%	16.2%	16.2%
16. SUBSIDIES	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
17. INTEREST PAYMENTS	6.3%	5.5%	5.3%	5.0%	4.8%	4.6%
18. OTHER CURRENT EXPENDITURE	1.1%	1.1%	1.1%	1.1%	1.0%	1.0%
19. GROSS FIXED CAPITAL FORMATION	3.8%	3.7%	3.9%	4.0%	4.0 %	4.0%
20. TOTAL EXPENDITURE	47.3%	46.8%	46.0%	44.9%	44.2%	43.8%

The estimated balance of the general government for the current year will be -1.1 percent of GDP. For the coming years, the deficit will be declining and is expected to turn to surplus by the year 2005 (0.2 percent of GDP) and 2006 (0.6 percent of GDP). At the same time the general government primary balance will fluctuate around 4.4 – 5.2 percent of GDP for the period 2003-2006. It might be worth mentioning that for the years 2002, 2003 and 2004 public expenditures are higher, above the trend by almost 1 percent of GDP, due to the extra expenditure needed for the preparation of

the Olympic Games. In the same period, the general government consolidated public debt will decline, and it is projected to be slightly below 90 percent of GDP in 2006. The medium term target for public debt remains as before, namely to reduce the ratio of public debt to GDP, to around 60 percent. There is no doubt that a more rapid deescalation of the debt to GDP ratio is desirable. However, this would require much higher primary surpluses, which under the present conditions are difficult to achieve. The need to complement by national resources the funds from the 3rd Community Support programme and also the need to improve public administration and the level and quality of social services will demand for higher investment expenditures in the coming years. If, in our calculations, we take out the investment expenditures of the budget, the current primary surplus is in the area of 9 percent of GDP.

Table 7: General Government Debt Developments

% of GDP	2001	2002	2003	2004	2005	2006
GEN. GOVN CONSOLIDATED GROSS DEBT	107.0%	105.3%	100.2%	96.1%	92.1%	87.9%
CHANGE	0.8%	-1.7%	-5.1%	-4.1%	-4.0%	-4.2%
CONTRIBUTION TO CHANGES IN GENERAL GOVERNMENT CONSOLIDATED GROSS DEBT						
PRIMARY SURPLUS	5.1%	4.4%	4.4%	4.6%	5.0%	5.2%
INTEREST	6.3%	5.5%	5.3%	5.0%	4.8%	4.6%
NOMINAL GDP	7.6%	7.1%	7.0%	7.3%	6.8%	6.7%
OTHER FACTORS AFFECTING THE GENERAL GOVERNMENT CONSOLIDATED DEBT						
ADJUSTMENT FACTORS & PRIVATISATION PROCEEDS	7.1%	4.4%	0.9%	2.3%	2.3%	2.1%
IMPLICIT INTEREST RATE (General Government)	6.3%	5.5%	5.4%	5.4%	5.3%	5.3%

The preceding analysis of fiscal developments is on the basis of nominal balances. Equally encouraging are, however, the prospects on the base of cyclically adjusted fiscal balances. Using the potential GDP growth as derived from the production function approach, the 2002 cyclically-adjusted deficit is estimated at 1.5 percent of GDP. Compared to 2001, the cyclically adjusted deficit is reduced by 0.6 percentage points. The balance position will be achieved in 2005.

Table 8. Cyclical Adjusted Budget Balance⁽¹⁾

% GDP	2001	2002	2003	2004	2005	2006
1. GDP growth at constant prices	4.1%	3.8%	3.8%	4.0%	3.7%	3.6%
2. Net borrowing	-1.2%	-1.1%	-0.9%	-0.4%	0.2%	0.6%
3. Interest payments	6.3%	5.5%	5.3%	5.0%	4.8%	4.6%
4. Potential GDP growth	3.3%	3.1%	3.3%	3.3%	3.3%	3.4%
5. Output gap	1.0%	1.2%	1.8%	2.4%	1.2%	1.0%
6. Cyclical budgetary component	0.8%	0.4%	0.6%	0.4%	0.2%	0.6%
7. Cyclically-adjusted balance	-2.1%	-1.5%	-1.6%	-0.8%	0.0%	0.0%
8. Cyclically-adjusted primary balance	4.2%	3.9%	3.5%	4.2%	4.8%	4.6%

(1) Percentages of GDP, the data are based on the estimated potential output growth rates of the European Commission in the Autumn Forecasts 2002

4. Comparison of the 2002 SGP with the 2001 SGP

In the following sections, the deviations between the SGP 2002 and the SGP 2001 are explained.

Table 9: Divergence from the 2001 SGP

% of GDP	2001	2002	2003	2004
REAL GDP GROWTH				
SGP 2001	4.1%	3.8%	4.0%	4.0%
SGP 2002	4.1%	3.8%	3.8%	4.0%
DIFFERENCE	0.0	0.0	-0.2	0.0
GENERAL GOVERNMENT BALANCE				
SGP 2001	0.1%	0.8%	1.0%	1.2%
SGP 2002	-1.2%	-1.1%	-0.9%	-0.4%
DIFFERENCE	-1.3	-1.9	-1.9	-1.6
GENERAL GOVERNMENT GROSS DEBT				
SGP 2001	99.6%	97.3%	94.4%	90.0%
SGP 2002	107.0	105.3	100.2	96.1%
DIFFERENCE	+7.4	+8.0	+5.8	+6.1

Note: The General Government Balance and General Government Gross Debt contain the adjusted figures after the consultations with Eurostat.

1. Real GDP Growth

The outturn for the growth rate of real GDP in 2001 and the estimated outturn for 2002 coincide with the 2001 SGP projections for GDP growth. The 2002 SGP projection for the 2003 GDP growth has been revised downwards, as a result of the continuing slowdown in the European Union, and recovery is expected to start in the second half of the year. For 2004, there is no divergence, for the GDP growth, between the two programmes. However, there are differences between the two Programs concerning the factors influencing the GDP growth. For the whole period, the 2002 SGP projects a slowdown in the domestic demand and the exports of goods and services, which is compensated with by an analogous reduction of the imports of goods and services.

**Table 10: Factors Influencing GDP Growth
(Differences between SGP 2002 and SGP 2001 in growth rates)**

		2001	2002	2003	2004
GDP	SGP 2001	4.1%	3.8%	4.0%	4.0%
	SGP 2002	4.1%	3.8%	3.8%	4.0%
	DIFFERENCE	0.0	0.0	-0.2	0.0
1. PRIVATE CONSUMPTION	SGP 2001	3.1%	2.9%	3.1%	3.1%
	SGP 2002	3.2%	3.0%	3.1%	3.2%
	DIFFERENCE	0.0	+0.1	0.0	+0.1
2. PUBLIC CONSUMPTION	SGP 2001	1.8%	-0.5%	0.7%	0.7%
	SGP 2002	0.5%	1.5%	-1.5%	0.7%
	DIFFERENCE	-1.3	+2.0	-2.2	0.0
3. GROSS FIXED CAPITAL FORMATION	SGP 2001	8.5%	9.5%	9.9%	7.4%
	SGP 2002	5.9%	7.7%	9.5%	7.0%
	DIFFERENCE	-2.6	-1.8	-0.4	-0.4
4. FINAL DOMESTIC DEMAND	SGP 2001	4.0%	3.8%	4.4%	3.9%
	SGP 2002	3.5%	3.8%	4.0%	3.7%
	DIFFERENCE	-0.5	0.0	-0.1	-0.2
5. EXPORTS OF GOODS AND SERVICES	SGP 2001	5.8%	4.8%	6.2%	8.3%
	SGP 2002	-1.3%	1.4%	4.6%	7.6%
	DIFFERENCE	-7.1	-3.4	-1.6	-0.7
6. IMPORTS OF GOODS AND SERVICES	SGP 2001	5.2%	4.6%	6.8%	6.8%
	SGP 2002	-1.9%	1.9%	4.9%	5.8%
	DIFFERENCE	-7.1	-2.7	-1.9	-1.0
7. EXTERNAL BALANCE, (contribution to GDP change)	SGP 2001	-0.28	-0.34	-0.73	-0.21
	SGP 2002	+0.29	-0.25	-0.45	-0.01
	DIFFERENCE	+0.57	+0.09	+0.28	+0.20

2. *General Government Balance*

In the 2001 SGP, the general government balance target for 2001 and 2002 was a surplus of 0.1 and 0.8 percent of GDP respectively. After consultations with the Eurostat and the Greek authorities, the surpluses of 2001 and 2002 are recorded as deficits of 1.2 and 1.1 percent of GDP respectively. These increases in the government deficit are essentially due to the reclassification of some categories of expenditures, like capital injections to public enterprises and debt assumptions. These reclassifications as a consequence have influenced the fiscal balances of the following years.

Before the adjustment, the estimated outturn for the budget balance in 2002 was 0.4 percent of GDP and there was only a small slippage from target (0.8 percent), due to smaller tax revenues, mainly because of the tax cuts which should take place in 2002.

3. *General Government Gross Debt*

In the 2002 SGP, the projected general government consolidated gross debt, for the period 2002-2004, is higher than the targets set by the 2001 SGP. These differences ,between 6 and 8 percentage points of GDP for each year are due to the inclusion in the debt of revenues stemming from

- share-exchangeable bonds „and privatisation certificates;
- securitisation of revenues from 3rd Community support framework
- The smaller general government balances as explained earlier.

It is worth mentioning, however, that to the extent that the share-exchangeable bonds and the privatisation certificates are finally converted into shares, and the securitised revenues materialize, debt will be deescalated more rapidly.

Table 11: Factors Influencing General Government Balance and Debt
(Differences between SGP 2002 and SGP 2001 in growth rates)

		2001	2002	2003	2004
1. TOTAL CURRENT RESOURCES	SGP 2001	9.2%	6.3%	6.3%	6.9%
	SGP 2002	6.0%	6.2%	5.8%	6.2%
	DIFFERENCE	-3.2	-0.1	-0.5	-0.7
of which					
TAXES ON PRODUCTION AND IMPORTS	SGP 2001	6.0%	5.7%	7.2%	7.3%
	SGP 2002	1.7%	6.8%	5.8%	7.0%
	DIFFERENCE	-4.3	+1.1	-1.4	-0.3
TAXES ON INCOME AND WEALTH	SGP 2001	-0.3%	7.0%	5.5%	7.0%
	SGP 2002	+0.3%	8.9%	4.9%	5.5%
	DIFFERENCE	+0.6	+1.9	-0.6	-1.5
SOCIAL CONTRIBUTIONS	SGP 2001	6.8%	7.0%	7.2%	7.3%
	SGP 2002	6.5%	8.0%	7.3 %	7.3%
	DIFFERENCE	-0.3	+1.0	+0.1	0.0
2. TOTAL CURRENT EXPENDITURE	SGP 2001	7.1%	3.9%	6.2%	6.2%
	SGP 2002	3.6%	5.4%	4.8%	5.6%
	DIFFERENCE	-3.5	+1.5	-1.4	-0.6
of which					
GOVERNMENT CONSUMPTION	SGP 2001	10.0%	4.5%	6.0%	6.1%
	SGP 2002	6.3%	6.7%	2.5%	5.5%
	DIFFERENCE	-3.7	+2.2	-3.5	-0.6
SOCIAL TRANSFERS THAN IN KIND	SGP 2001	8.7%	8.2%	8.8%	9.0%
	SGP 2002	4.7%	8.0%	7.7%	7.0%
	DIFFERENCE	-4.0	-0.2	-1.1	-2.0
INTEREST	SGP 2001	-2.0%	-7.9%	-0.8%	-1.8%
	SGP 2002	-2.7%	-5.3%	2.2%	1.9%
	DIFFERENCE	-0.7	+2.6	+3.0	+3.7
3. GROSS FIXED CAPITAL FORMATION	SGP 2001	10.2%	10.0%	9.8%	11.5%
	SGP 2002	8.3%	3.0%	13.0%	9.5%
	DIFFERENCE	-1.9	-7.0	+3.2	-2.0
4. CAPITAL TRANSFERS RECEIVED (% GDP)	SGP 2001	3.5%	3.7%	3.7%	3.7%
	SGP 2002	3.9%	3.8%	3.7%	3.6%
	DIFFERENCE	+0.4	+0.1	0.0	-0.1
5. OTHER CAPITAL EXPENDITURES (% GDP)	SGP 2001	2.7%	2.8%	2.6%	2.5%
	SGP 2002	4.5%	4.7%	4.6%	4.0%
	DIFFERENCE	+1.8	+1.9	+2.0	+1.5
6. PRIMARY SURPLUS (% GDP)	SGP 2001	6.6%	6.4%	6.2%	6.0%
	SGP 2002	5.1%	4.4%	4.4%	4.6%
	DIFFERENCE	-1.5	-2.0	-1.8	-1.4
7. GENERAL GOVERNMENT BALANCE (% GDP)	SGP 2001	0.1%	0.8%	1.0%	1.2%
	SGP 2002	-1.2%	-1.1%	-0.9%	-0.4%
	DIFFERENCE	-1.3	-1.9	-1.9	-1.6
8 GENERAL GOVERNMENT DEBT (% GDP)	SGP 2001	99.6%	97.3%	94.4%	90.0%
	SGP 2002	107.0	105.3	100.2	96.1%
	DIFFERENCE	+7.4	+8.0	+5.8	+6.1
9. NOMINAL GDP GROWTH	SGP 2001	7.4%	6.9%	7.1%	7.1%
	SGP 2002	7.6%	7.1%	7.0%	7.3%
	DIFFERENCE	+0.2	+0.2	-0.1	+0.2

Note: Lines 7 and 8 contain the adjusted figures after the consultations with Eurostat.

5. Alternative Growth Scenario

In this section we present a “less optimistic” scenario and compare its projections with the results of the “baseline” scenario. We assume that some of the downside risks are realised, for example an oil shock, a continued decline of stock exchanges etc. These developments are expressed through the deterioration of the external balance and the decrease in domestic demand. Comparison of the two scenarios is shown in Table 12.

Table 12: Comparison of the Two Alternative Growth Scenarios for the Greek Economy

	Baseline Scenario		Alternative Scenario				
	Annual Average Rates of Change	Annual Average rates of Change	% GDP (except as indicated)		Annual Average rates of Change	% GDP (except as indicated)	
	2002/1995	2006/2002	2002	2006	2006/2002	2002	2006
A. DEMAND AND OUTPUT (CONSTANT PRICES 1995)							
GDP	3.6%	3.8%			3.1%		
PRIVATE CONSUMPTION	2.9%	3.1%			2.8%		
GOVERNMENT CONSUMPTION	1.6%	-0.4%			-0.6%		
GROSS FIXED CAPITAL FORMATION	7.6%	6.9%			5.4%		
TOTAL DOMESTIC DEMAND	3.6%	3.6%			3.0%		
EXPORTS OF GOODS AND SERVICES	7.8%	6.2%			5.1%		
IMPORTS OF GOODS AND SERVICES	6.8%	5.1%			4.4%		
B. PRICES							
PRIVATE CONSUMPTION DEFLATOR	4.2%	2.7%			2.7%		
GDP DEFLATOR	4.6%	3.1%			3.0%		
MERCHANDISE OF EXPORT PRICES	3.3%	2.0%			1.9%		
MERCHANDISE OF IMPORTS PRICES	3.6%	1.6%			1.7%		
C. PRODUCTIVITY, INCOME AND EMPLOYMENT							
LABOUR PRODUCTIVITY	3.2%	2.6%			2.3%		
REAL COMPENSATION PER EMPLOYEE	2.8%	2.3%			2.0%		
NOMINAL UNIT LABOUR COST	3.9%	2.3%			2.4%		
EMPLOYMENT	0.4%	1.1%			0.7%		
UNEMPLOYED	1.9%	-8.0%			-4.1%		
D. PUBLIC FINANCES							
<i>TOTAL CURRENT RESOURCES OF WHICH</i>							
DIRECT TAXES	13.5%	5.9%	41.9%	40.6%	5.2%	41.9%	40.9%
INDIRECT TAXES	9.2%	6.7%			6.0%		
<i>TOTAL CURRENT EXPENDITURE OF WHICH</i>							
SOCIAL TRANSFERS OTHER THAN IN KIND	9.3%	7.2%	38.3%	36.0%	6.9%	38.3%	36.6%
INTEREST	-1.9%	2.3%			2.4%		
GENERAL GOVERNMENT BALANCE			-1.1%	0.6%		-1.1%	0.2%
GENERAL GOVERNMENT DEBT			105.3	87.9%		105.3	91.2%
E. CURRENT EXTERNAL TRANSACTIONS							
TRADE BALANCE			-14.3%	-14.5%		-14.3%	-14.7%
CURRENT EXTERNAL BALANCE			-4.7%	-3.9%		-4.7%	-4.5%

The combined effect of the alternative assumptions on economic activity will result to an average annual GDP growth rate, which will be about 0.7 percentage points lower in the period 2002-2006, compared to the baseline scenario.

The annual average inflation rate, as measured by the private consumption deflator, does not show any significant change compared to the baseline scenario. This can be explained by the fact that, although domestic demand will be lower in the alternative scenario by 0.6 per cent per year and thus its inflationary pressure will be reduced, the assumed higher oil prices compensate for this gain.

As far as public finances are concerned, we maintain in the alternative scenario the same elasticities of government revenue and expenditure to GDP. As a result the general government balance improvement will be smaller in the less optimistic scenario and so the 2006 surplus will be just 0.2 percent of GDP instead of 0.6 per cent. Hence, the general government consolidated gross debt, as a percentage of GDP, will be higher compared to the baseline scenario. This can be explained by firstly by fact that GDP growth rates and, as a consequence, levels will be lower than in the baseline scenario and secondly, because of the lower general government surpluses.

As far as the rest of the macroeconomic variables are concerned, they will be worse off in comparison with the baseline scenario.

6. Fiscal Implications of Population Ageing

Demographic trends are placed in the core of long-term economic policy challenges, as population ageing is proceeding in all EU countries. Alleviating the pressure on age-related spending, without menacing its social sustainability, is the basic prerequisite for a sound macroeconomic performance in the years to come. According to the Eurostat projections, Greece is about to face profound changes in its population structure.

Against this rather adverse demographic background, the acceleration of the social security reform had become imperative. The so-called “second phase” of the social security reform, resulted in the Law 3029/2002 concerning the rationalisation and homogenisation of the pension system as well as the safeguarding of the financial sustainability of IKA (the Fund for most of the private sector employees), up to 2030. The reform focuses on correcting pre-existing structural inadequacies, and preparing

the pension system to meet the challenges that will accompany the retirement of today's workforce. Moreover, this reform attempts to rebuild and consolidate a feeling of trust in the system and in the future of pensions.

The recent pension reform implies a revision of the budgetary impact of the population ageing¹. Therefore, according to the latest projections, pension expenditure is estimated to slightly fluctuate around the current levels till 2015. It then increases gradually to 17.3 per cent in 2030 and up to 22.6 per cent in 2050. These figures² are to some extent lower than those presented in the 2001 Stability and Growth Programme.

Table 13: Long-term Sustainability of Public Finances

% of GDP	2000	2005	2010	2030	2050
Total expenditure	48.9%	44.2%	41.0%	48.5%	49.0%
Old age pensions	12.6%	12.4%	12.2%	17.3%	22.6%
Health care (not-including care for the elderly)	4.8%	5.0%	5.2%	5.9%	6.6%
Interest payments	6.9%	4.8%	1.8%	1.0%	0.5%
Total revenues	47.2%	44.4%	41.5%	48.5%	49.0%
of which: from pensions contributions	7.9%	8.3%	8.4%	9.0%	8.8%
Assumptions					
Labour productivity growth	4.4	2.5	2.5	1.75	1.75
Real GDP growth	4.2	3.7	3.7	0.73	0.85
Participation rate males (aged 20-64)	84.1	84.0	83.4	81.1	82.1
Participation rates females (aged 20-64)	51.1	53.4	55.3	61.0	71.9
Total participation rates (aged 20-64)	67.6	68.7	69.4	71.3	77.1
Unemployment rate	11.1	7.1	7.0	6.7	5.5

Source: European Commission and Ministry of Economy and Finance.

The success of this policy depends on the continuation of high growth rates, the pursuit of the Lisbon strategy for structural reforms, the operational modernisation and the improvement in the quality of services provided for by the social insurance system. Rebuilding confidence and trust is an essential element contributing to the long-term sustainability of the system.

¹ New projections remain adherent to the EPC agreed assumptions concerning key economic parameters.

² No revision has been made for the health care projections.

7. Budgetary Implications of Structural Reforms

In line with the Lisbon spirit, the Greek economic policy agenda comprises the deepening of structural reforms in product, capital and labour markets, so as to sustain a strong economic performance and accelerate the process of convergence with the other EU countries. Structural policy is directed towards the enhancement of productivity, competitiveness and potential of the Greek economy for growth and job creation. Meanwhile, the privatisation programme brings market incentives and discipline to an increasing part of the economy.

Reducing administrative barriers and simplifying the business environment for enterprises, in general, and SMEs, in particular, opening up network utilities, as well as reforming the tax and pension systems are some of the areas where significant initiatives have been taken. A large number of items in the tax reform concerned the simplification of tax administration for SMEs, so as to enhance their role in generating growth and employment.

Table 14: Main Structural Reforms Realised in 2002

Reform of pension system (L3029/2002)	June 2002
Law on corporate governance and internal auditing	September 2002
Parliamentary lodgement of law concerning the application of International Accounting Standards	September 2002
Effective liberalisation of coastal shipping and sea transport	November 2002
Draft law concerning the first wave of tax reform	November 2002

The privatisation programme is being followed with a renewed vigour: the government decided to follow a more proactive approach by introducing new methods of privatisations and by lifting the upper privatisation limit for some companies. In 2001, the total amount raised, either by the State or by public entities

came up to 4.4 billion Euros³, bringing the whole amount raised during the period 1998-2001 up to 11.8 billion Euros. The privatisations completed within 2002, concerned the sale of an additional 67% of the Hellenic Industrial Bank, the acquisition of 49% of the Hellenic Casino of “Mont Parnes” by a strategic partner (the remaining 51% belongs to Hellenic Tourist Properties) and additional offerings of Football Prognostics Organisation (OPAP) and Telecommunications. Revenues raised in 2002 are about 2.25 billion Euros. Admittedly, the continuing deterioration of the Stock exchange has affected the privatisation momentum.

³ Including revenues from privatisation certificates and exchangeable bonds (as depicted in Table 15).

Table 15: Recent Privatisation of State-owned Enterprises, 2001-2002

Company	Method of Privatisation & % sold	Total amount raised (in bn €)	State Control (%)
Licensing for second and third generation mobile telephony (2001)		0.5	
Football Prognostics Organisation (OPAP) (2001)	Initial Public Offering (5.4%)	0.09	94.6
Corinth Canal (2001)	Concession Agreement (100%)	0.03	0
Hellenic Telecommunications Organisation (OTE) IV (2001)	Exchangeable bonds (9%)	1.0	41.7
Salonica Port Authority (2001)	Initial Public Offering (25%)	0.02	74.3
Salonica Water and Sewage (2001)	Initial Public Offering (26%)	0.01	74.5
Skaramaga Shipyards (2001)	Trade Sale (100%)	0.05	0
Public Power Corporation (2001)	Initial Public Offering (16%)	0.46	84
Issuance of Privatisation Certificates ("prometoxa") (2001)		1.94	
Hellenic Industrial Bank (2002)	Trade sale (67%)	0.51	7.8
Hellenic Casino of 'Mont Parnes' SA (2002)	Strategic Investor (49%)	0.12	51
Football Prognostics Organisation (OPAP) (2002)	Additional Offering (19%)	0.51	75.6
Hellenic Telecommunications Organisation (OTE) (2002)	Additional Offering (8%)	0.65	33.7

Source: Ministry of Economy and Finance.

Table 16: Envisioned Privatisations for the forthcoming period

Public Enterprise	Currently under State Control (%)	Method of privatisation & % to be sold	
Hellenic Petroleum	58.2 ⁽¹⁾	Strategic investor	23%
Piraeus Port Authority	100	IPO	25%
Olympic Airways (OA)	100	Divestment	
Hellenic Postal Services (ELTA)	100	- Strategic partner through a rights issue and formation of a 50-50% joint venture in express delivery mail service - IPO	up to 10% up to 25%
Athens Water & Sewage Company (EYDAP)	61	To be determined	10%
Hellenic Stock Exchanges	33	To be determined	33%
Postal Savings Bank	100	To be determined	To be determined
Public Gas Corporation (DEPA)	65 ⁽²⁾	Strategic investor	35%
Hellenic Tourist Properties (ETA)	100	IPO	25%
Agricultural Bank	82.3	To be determined	To be determined
Public Power Corporation	84	Additional Offering	15%

Source: Ministry of Economy and Finance

Notes:

- (1) Currently outstanding an exchangeable bond, representing 9.6% of the company's share capital
- (2) The Public Power Corporation has an option to acquire a 30% stake in DEPA.

8. APPENDIX

SECOND STAGE OF TAX REFORM, November 2002

1. Revision of the tax schedule:

- Reduction of the number of income tax brackets from 5 to 4.
- Granting of a much larger personal allowance and increasing the starting rate from 5% to 15%.
- Increase of the tax-free threshold for taxation (€10000 for salary and wage earners and pensioners, €1000 with one children, €2000 with two children, and €20000 for more).

2. Simplification of the income tax system:

- Abolition of large number of the existing reductions, exemptions, allowances and special treatments of incomes
- Abolition of the tax on imputed rental income arising from owner-occupied dwellings.
- Simplification and rationalisation of the remaining existing reductions, exemptions, allowances and special treatments of incomes.
- Reduction of the number of taxpayers that have to file a tax return.

3. Abolition of most presumptive determination of income:

- Abolition of most general presumptions (i.e. for motorcycles, for passenger cars up to 2000cc, for recreational boats up to 10 meters long).
- Abolition of special presumptions concerning the purchase or establishment of small-medium firms (i.e. acquisition of partnership part).
- Abolition of special presumptions used for professional and construction activities (i.e. purchase of professional equipment).

4. Simplification of tax administration, especially for small and medium firms.

- Abolition of the non-accounting based determination of income.
- Abolition of the non-accounting based determination of income for the self employed.
- Improvement of accounting position and simplification in calculating business operating outcomes:

5. Drastic reduction of the inheritance and gift tax for listed and non-listed companies.

6. Reduction of the property transfer tax on all property transfers that will be subjected to the value-added tax, and substantial reduction of the tax on all other property transfers.

7. Reduction of the inheritance and gifts tax (especially in transfers between parents and children) for first residence.

8. Increase of property taxation for real estate owned by offshore companies.

9. Detailed Tables 2001-2006