

Hellenic Republic
Ministry of Finance
General Accounting Office

GOVERNMENT
BUDGET
REPORT
2001

Executive
Summary

January 2001

Preface

On the 1st of November 2000, the government budget for the fiscal year 2001 was submitted to the Greek Parliament.

The 2001 budget signals the beginning of a new era for the country.

Greece's entry into the euro-zone on January 1st 2001 gives new prospects for the development, employment and social welfare.

The steady improvement of the Greek economy is depicted on the trends of the budget basic figures in recent years.

The targets of the 2000 budget are estimated to be achieved and better results are anticipated despite adverse exogenous factors such as the rise of dollar and oil prices.

The general government budget deficit is estimated to fall to 0.8 % of GDP, that is below the initial target of 1.2%, while the central government deficit is estimated to decline to 2.5% of GDP, outdoing the target of 3.1%. Primary surplus is estimated to amount to 5.8% of GDP compared to the initial target of 4.9%.

These results are the combined effect of strong tax receipts and the containment of primary expenditures. The former came from all types of taxes, mainly due to the reduction of tax evasion, the systematic tax auditing, the introduction of information technology and the administrative reorganisation of the Ministry of Finance. The containment

of primary expenditures resulted from their rationalisation.

The 2001 government budget, aiming at enhancing the good performance of the macroeconomic figures, sets the following targets:

- to generate a general government surplus of 0.5% of GDP,
- to restrict the central government deficit to 1.9% of GDP,
- to generate a primary surplus of 5.6% of GDP,
- to bring the public debt below 100% of GDP.

In addition to the above targets the following social and development goals are adopted:

- to support the income of wage earners and pensioners,
- to ensure a more fair distribution of the tax burden,
- to support those who suffered from natural catastrophes,
- to give priority to sectors such as health, education, employment, culture and safety,
- to channel resources to the development investment program of the country,
- to prepare the country for the Olympic Games, that will be held in Athens in 2004.

Macroeconomic developments

In 1999 the economy grew for the fourth successive year at a rate higher than the EU average. During the six years of the application of the 1994-1999 convergence program, GDP expanded, on average by 2.7% compared to 2.4% of EU-15. The strong growth performance, which was accompanied by low inflation and fiscal balance, was brought on by fulfilling the targets of the convergence plan and consistent economic policies. By the end of 1999 Greece had satisfied the fiscal criteria of Maastricht Treaty and the basis for meeting the inflation criterion was laid.

More specifically in 1999 the following results were realised:

- the inflation rate was on average equal to the reference rate (2.1%) to fulfill that criterion,
- the general government deficit as a percentage of GDP fell to 1.8%, below the reference value of 3%,
- the debt to GDP ratio declined to 104.6%, which, despite being far from fulfilling the Maastricht Treaty requirement, exhibits a downward trend substituting for the above target.
- the long run interest rates, between April 1999 and March 2000 reached 6.4%, that is, below the reference value,
- drachma participates in the Exchange Rate Mechanism since the 16th of March 1998 and joined the

ERM II on the third stage of EMU, fulfilling this criterion.

The deceleration of inflation rate and the economic stability were achieved in an adverse economic environment. The increase of oil prices, the decline of euro against dollar and yen, and the exchange rate policy of drachma against euro resulted in the acceleration of the inflation since October 1999.

The convergence of macroeconomic indicators, according to the Maastricht requirements led to the entry of Greece into the euro-zone countries. This development establishes a stable economic environment of low inflation, low interest rates, where the monetary and exchange rate policy is exercised by the European Central Bank. The stability of the country and its participation in the euro led to the upgrading of the credit rating. The new priorities of economic policy include the acceleration of growth, the convergence of living standards to the EU average and the reduction of unemployment. The attempts towards meeting these targets will be assisted by the resources of the Third Support Framework. The inflow of these resources amounting to 25,5 bn euro for the 2000-6 period, coupled with the anticipated satisfactory economic growth of the EU, will bring the growth rate above 5% the following years.

Prices, wage policy and employment

In 1999 the average gross nominal wage per employee increased by 4.8% exceeding the inflation rate by 2.4 per-

centage points. Given that, the labour productivity increased by 4.1%, the unit labour cost fell to 0.6% from 6.4% in 1998. In 2000 the average gross nominal wage is estimated to increase by 4.5%, while the productivity rise of 2.9% will restrain the increase of the unit labour cost to 1.5%.

The inflation rate in December 1999 fell to 2.7% and on average to 2.6%, but since October 1999 has increased steadily reaching 3.1% in September 2000, due to the rise in the world oil prices, while the rate of core inflation remained below 2%. The low core inflation rate indicates, that the rise of dollar and the world oil prices did not affect the prices in general.

During the 1994-99 period of the convergence plan the supply of labour increased substantially from 25,900, annually, in the period 1984-98 to 66,200, due to the rise of women's participation in the labour force, the inflow of foreign workers (though partially registered) and the return to the labour market of citizens encouraged by the favourable economic conditions and the programs for enhancing employment. At the same time the strong recovery created new jobs and the number of employed increased by 37,300 compared to 20,800 in the 1984-93 period, which corresponds to an increase of employment rate of 1.1% against 0.6% in the period 1984-93. However, the unemployment rate climbed to 11.7% in 1999 from 10.1% in 1998. The prospects for the next 5 years are quite favourable for employment, since the measures for employment combined with an anticipated growth of 4.1% in 2000 and 5% in 2001, will result in an increase of em-

ployment by 1.4%, annually, and a reduction of unemployment rate to 10.4%, by the end of 2001.

Monetary policy

The price stability, which has been the primary target of monetary policy for the last five years, was achieved in 1999 when the Maastricht requirement for reducing the inflation rate was met. However the maintenance of a 2% inflation rate is important for monetary stability to provide for economic growth without threatening the country's competitiveness as it enters the euro-zone in 1.1.2001. The exchange rate stability was an intermediate target for the Bank of Greece aimed at drachma's central rate against euro of 340.75.

The Bank of Greece since January 2000 has been reducing gradually the interest rates, in order to achieve the convergence of domestic interest rates to the ones of the euro-zone. The Lombard interest rate fell to 7.5% from 8.25% in 9 months up to September.

Economic policy

The accession of Greece into the euro-zone countries in 1.1.2001 is the result of a seven year attempt to stabilise and develop the economy targeted to lower inflation to the EU levels and promote faster economic growth. Having achieved these, economic policy will be focused, for the current decade, on levelling up the living standards to the EU average and fighting unemployment.

The necessary conditions in meeting these objectives comprise:

- the continuation of fiscal adjustment towards balancing the budget or generating medium term surpluses as required by the stability pact, the policy framework of the EU countries. Expenditure control and its rationalisation will be the priorities,
- the restructuring of the social security system with the purpose to solve the future financing problems of welfare funds which will be achieved through a social dialogue without jeopardising the rights of employees,
- a competitive and viable social security system which will contribute to the rehabilitation of fiscal balance enhancing the competitiveness of the country,
- the continuation of the privatisation program of public enterprises and banks aiming at upgrading their services, ensuring their competitiveness and creating opportunities for international co-operation and alliances,
- the promotion of the competitiveness of private sector by liberating markets and restricting government intervention with priority given to telecommunications and energy, by amending the institutional framework of enterprises, introducing new technology and improving the financial sector in order to channel funds to new and medium size companies.

The macroeconomic targets for 2001 are:

- to achieve a growth rate of 5%,
- to produce a general government surplus of 0.5% after experiencing deficits for a period of 30 years,
- to reduce the debt to 98.9% of GDP.

Structural reforms

The liberalisation of markets and the promotion of competition are the main tools for the utilisation of the necessary development forces for the unhindered course of the country in the euro-zone. The liberalisation of energy and telecommunication markets and the setting up of independent supervisory authorities to ensure their smooth operation are included in the main objectives of the structural reforms. Furthermore, measures to increase the returns on the property of the state have been taken to boost and develop the real estate markets, starting from the real estate of the Hellenic Tourist Organisation.

Concrete progress has been made towards implementing the structural reforms, announced in March 1998. These reforms for the 2000 included:

- the alliance of the Commercial Bank with Gredit Agricole,
- the floatation of the Athens Stock Exchange shares,

- the transfer to the private sector part of the Hellenic Vehicles Industry shares,
- the floatation of COSMOTE shares,
- the floatation of the Agricultural Bank of Greece shares.

The structural reforms for 2001 include:

- the floatation of the Greek Organisation of Football Prognostics shares,
- the floatation of the Organisation of Port of Thessaloniki shares,
- the privatisation of ETVA,
- the alliance of the Greek Telecommunications Organisation with an international Telecommunications Organisation,
- the floatation of the Public Enterprise of Electricity shares in the Athens Stock Exchange and in a European Stock Exchange,
- the privatisation of the Organisation of Piraeus Port,
- the privatisation of the Olympic airways,
- the alliance of the Greek Postal Service with an international partner.

The economic efficiency, the improvement of the quality of services and the reduction of government debt are the motives of privatisation.

Fiscal developments

Fiscal developments in 2000 continue to surpass the expectations. The improvement of the fiscal position contributed significantly to the monetary stability and consequently to the convergence of the Greek economy.

By the end of 2000, the general government deficit is expected to have declined to 0.8% from 1.8% of GDP in 1999. The general government revenue will have amounted to 42.6% of GDP compared to 42.1% of GDP in the previous year, due to the good performance of the ordinary budget revenues that continue outdoing the budget estimations for the third year in a row, despite the tax relieves introduced in 1999. The general government revenue as a percentage of GDP falls behind the EU average by 3 percentage points, however the distance between them keeps narrowing since 1994, when it was above 9 percentage points. This development reflects the broadening of the tax base and the reduction of tax evasion and avoidance.

The general government expenditure is expected to be reduced to 46.4% in 2000 from 47.0% of GDP in 1999 owing to the restriction of current expenditure and interest rate payments, while consumption expenditure is expected to remain at the 1999 levels. On the contrary, social and investment expenditures are expected to increase by 0.1 percentage points of GDP each. The general government expenditure moved towards the EU average while at the same time it was restructured to

increase social and development expenditures.

On average, the deficit, in the 1994-2000 period, was reduced by 10 percentage points of GDP, showing a faster adjustment than the EU-15 of 5.1%.

The debt to GDP ratio is expected to decline for the fourth successive year and reach 103.9%, due to the high primary surplus and the privatisation receipts, despite the appreciation of dollar and yen.

The implementation of 2000 budget

The central government revenue and expenditure are estimated to outdo two basic targets of the current year's government budget. The primary surplus will reach 5.8% of GDP compared to an initial estimate of 4.9% and in 1999. Net deficit will be reduced to 2.5% of GDP against an initial estimate of 3.1% and 3.7% in 1999. These results will be brought on by significant progress on both the expenditure and revenue side. Central government expenditure is estimated to increase by a lower rate than that of the nominal GDP and fall to 33.9% from 34.2% of GDP in 1999 due to reduced interest rate payments. The measures taken to support the low-income groups affected positively the estimated amount of expenditure but were soundly financed through the increased revenue.

The central government revenue is estimated to increase by 10.7% against 1999 amounting to 12,850 bn gdr, 635

bn gdr above the target. It will exhibit, for the seventh year in a row, a higher rate of growth than that of nominal GDP (10.7% against 7.2%) and reach 31.4% of GDP compared to 30.4% in 1999. The components of revenues attributed to these trends are:

- the revenues of public investment program, which will increase by more than twice of GDP, reflecting the high absorption of the EU resources,
- the good performance of tax receipts, the growth of which exceeds that of GDP by 2.8 percentage points.

These developments are quite satisfactory, given that, they occurred in a period of cuts in taxes on passenger cars, oil and income. They confirm, as well, that the attempts of reducing tax evasion in relation to the introduction of the integrated information system TAXIS, and the structural reforms in tax administration have been successful rendering, at the same time, a more fair distribution of the tax burden.

The 2001 budget

The central government revenue will increase by 8.2% and reach 13,905 bn gdr equivalent to 31.5% of GDP, compared to 31.4% of GDP in 2000. This projection is consistent with the recent trends in revenue that show a growth rate higher than that of GDP.

**Central government budget for 2001
in bn gdr**

	Outturn 1999	Budget 2000	Estimate 2000	Budget 2001	Percentage %		
					In progress 2000	00/99	01/00
					(1)	(2)	(3)
ORDINARY BUDGET							
REVENUE (-)	10,59	10,95	11,65	12,600	6.3	10.0	8.2
Tax revenue	9,89	9,93	10,89	11,769	9.6	10.0	8.1
Non- tax revenue and EU	696	1,01	760	831	-25.4	9.2	9.3
Returned resources (-)	1,13	1,13	1,13	1,256	-0.4	0.3	10.8
NET revenue ordinary budget	9,46	9,81	10,51	11,344	7.1	11.1	7.9
PRIMARY EXPENDITURE	7,97	8,40	8,59	9,270	2.3	7.8	7.9
NET primary expenditure	6,84	7,26	7,46	8,014	2.7	9.0	7.4
Salaries and pensions	3,89	4,10	4,23	4,486	3.2	8.8	5.8
Wages	2,29	2,40	2,44	2,600	1.7	8.7	6.3
Other primary expenditure	2,94	3,15	3,22	3,528	2.2	9.3	9.5
Returned resources	1,13	1,13	1,13	1,256	-0.4	0.3	10.8
Tax refunds	300	320	294	324	-7.9	-1.7	9.9
Restitution of revenue in favor of third parties	831	818	839	933	2.5	1.0	11.2
Primary surplus (-)	2,62	2,55	3,03	3,330	19.6	16.6	9.0
Interest payments	3,30	3,22	3,40	3,310	5.6	2.9	-2.6
TOTAL EXPENDITURE (ordinary budget)	10,14	10,48	10,80	11,324	3.6	7.0	4.3
BORROWING REQUIREMENT	684	665	345	-20	-48.1	-49.5	-105.8
Amortization	3,40	4,04	4,14	3,806	2.6	21.8	-8.3
Expenditure to assist earthquake's victims		40	40	20	0.0		-50.0
Gross deficit of ordinary budget	4,09	4,74	4,53	3,806	-4.5	10.9	-16.1
PUBLIC INVESTMENT BUDGET							
REVENUE (-)	1,01	1,16	1,20	1,305	3.4	18.8	8.7
EXPENDITURE	2,23	2,40	2,52	2,780	5.0	12.8	10.3
Acquisition of shares in public enterprises (-)	480	670	640	630	-4.5	33.3	-1.6
Primary surplus	745	570	680	845	19.3	-8.7	24.3
BORROWING REQUIREMENT	1,22	1,24	1,32	1,475	6.5	7.8	11.7
Expenditure to assist earthquake's victims	15	40					
GROSS BORROWING REQUIREMENT		1,28	1,32	1,475	3.1	6.4	11.7
CENTRAL GOVERNMENT BUDGET							
REVENUE (-)	11,60	12,11	12,83	13,905	6.1	10.7	8.2
PRIMARY EXPENDITURE	9,72	10,13	10,41	11,420	3.4	7.7	9.0
Primary surplus (-)	1,87	1,98	2,37	2,485	19.6	26.7	4.6
Interest payments	3,30	3,22	3,40	3,310	5.6	2.9	-2.6
DEFICIT (In national accounts base)	1,43	1,23	1,03	825	-17.0	-28.3	-19.5
Amortization payments	3,40	4,04	4,14	3,806	2.6	21.8	-8.3
Acquisition of shares in public enterprises	480	670	640	630	-4.5	33.3	-1.6
Expenditure to assist earthquake's victims		80	40	20	-50.0	159.7	-50.0
GROSS DEFICIT	5,33	6,02	5,83	5,281	-2.9	9.8	-9.8
Surplus of public entities and other adjustments (ESA 95)	756	760	700	1,035	-7.9	-7.4	47.9
NET DEFICIT OF GENERAL GOVERNMENT (+ deficit,-surplus)	672	475	325	-210	-31.6	-51.7	-164.6
GDP (revised)	38,14	40,48	40,90	44,180	1.0	7.2	8.0

Source: Ministry of Finance

**Central government budget for 2001
as percentage of GDP**

	Outturn 1999	Budget 2000	Estimate 2000	Budget 2001
ORDINARY BUDGET				
REVENUE (-)	27.8	27.1	28.5	28.5
Tax revenue	25.9	24.5	26.6	26.6
Non- tax revenue and EU	1.8	2.5	1.9	1.9
Returned resources (-)	3.0	2.8	2.8	2.8
NET revenue ordinary budget	24.8	24.2	25.7	25.7
PRIMARY EXPENDITURE	20.9	20.7	21.0	21.0
NET primary expenditure	17.9	17.9	18.2	18.1
Salaries and pensions	10.2	10.1	10.4	10.2
Wages	5.9	5.9	6.0	5.9
Other primary expenditure	7.7	7.8	7.9	8.0
Returned resources	3.0	2.8	2.8	2.8
Tax refunds	0.8	0.8	0.7	0.7
Restitution of revenue in favor of third parties		2.0	2.1	2.1
Primary surplus (-)	6.9	6.3	7.5	7.5
Interest payments	8.7	8.0	8.3	7.5
TOTAL EXPENDITURE (ordinary budget)	26.6	25.9	26.6	25.6
BORROWING REQUIREMENT	1.8	1.6	0.8	0.0
Amortization	8.9	10.0	10.1	8.6
Expenditure to assist earthquake's victims	0.0	0.1	0.1	0.0
Gross deficit of ordinary budget	10.7	11.7	11.1	8.6
PUBLIC INVESTMENT BUDGET				
REVENUE (-)	2.6	2.9	2.9	3.0
EXPENDITURE	5.9	5.9	6.2	6.3
<i>Acquisition of shares in public enterprises (-)</i>	1.3	1.7	1.6	1.4
Primary surplus	2.0	1.4	1.7	1.9
BORROWING REQUIREMENT	3.2	3.1	3.2	3.3
Expenditure to assist earthquake's victims	0.0	0.1	0.0	
GROSS BORROWING REQUIREMENT		3.2	3.2	3.3
CENTRAL GOVERNMENT BUDGET				
REVENUE (-)	30.4	29.9	31.4	31.5
PRIMARY EXPENDITURE	25.5	25.0	25.6	25.8
Primary surplus (-)	-4.9	-4.9	-5.8	-5.6
Interest payments	8.7	8.0	8.3	7.5
DEFICIT (in national accounts base)	3.7	3.1	2.5	1.9
Amortization payments	8.9	10.0	10.1	8.6
Acquisition of Shares in public enterprises	1.3	1.7	1.6	1.4
Expenditure to assist earthquake's victims		0.2	0.1	0.0
GROSS DEFICIT	14.0	14.9	14.3	12.0
Surplus of public entities and other adjustments (ESA 95)	2.0	1.9	1.7	2.3
NET DEFICIT OF GENERAL GOVERNMENT (+ deficit,-surplus)	1.8	1.2	0.8	-0.5

Central government expenditure will fall to 33.3% of GDP from 33.9% in 2000, while total expenditure excluding interest rate payments, will rise by 9% and amount to 25.8% of GDP against 25.6% in 2000. The growth rate of the net primary expenditure of the ordinary budget falls behind the one of the total primary expenditure of the government budget, while the growth rate of investment expenditure is projected to reach 10.3%. The containment of the net primary expenditure reflects the continuation of the fiscal policy stabilisation stance, while the investment expenditure robust growth reinforces development and employment.

The projections of central government revenue and primary expenditure will produce a primary surplus of 5.6% of GDP, which will contribute to the restriction of public sector borrowing requirements.

Having fulfilled fiscal convergence and the entry into the euro-zone in 1.1.2001, the economic policy will be focused on maintaining stability, promoting at the same time, development and employment. Fiscal policy will constitute the only means available to the government, since monetary policy will be exercised by the European Central Bank. Nevertheless, fiscal policy will be constrained by the rules of the stability pact that require balanced budgets or surpluses. The 2001 budget measures, which aim at increasing the disposable income of low-income groups, of families with three children or more and of farmers and at promoting business activity and work incentives include:

- for the low income earners
 - increase of untaxed income to 2,4000,000 GDR,
 - indexation of tax scale by 5%,
 - increases in allowances for disabled persons,
 - exemption for low income earners of the national insurance contributions,
 - increases in the complementary allowance of pensioners,
 - increase in the lower pensions granted by the National Insurance Organisation
- for families with three children or more:
 - increases in income tax deductions,
 - increases in tax deductions of the income from the owner occupied houses,
 - increase of the threshold beyond which, the amount paid for the purchase of first dwelling or of land for building a dwelling is taxable,
 - tax deductions of the purchase of a 2000 cc car,
- for farmers:
 - increase in the pensions granted by the Farmers Insurance Fund,
 - increase to 50% of the return of the tax paid for fuel,
 - increase in the tax exemptions for the transfer of real estate,
- for enterprises:
 - reductions in the tax rates for the general, limited partnership and unlisted companies,
 - reduction of the upper tax rate of individual income to 42.5%

- and 40%, for incomes earned in 2000 and 2001, respectively,
- tax incentives for the merging of companies,
 - abolition of the tax on banking activities,
 - deduction of the taxable income of the firms insurance contributions,
 - abolition of certain stamp duties.
- for the promotion of new technology:
 - deduction from the taxable income of the expenditure for the purchase of personal computers and software and the internet subscription,
 - substitution of the purchase of computers for low income families.
- duced to the decline of the debt to GDP ratio such as:
- the effective management of public debt through restructuring the outstanding debt with the issuance of new debt instruments,
 - the lengthening of the average maturity and smoothing the payments of debt servicing, not only throughout the year, but in the following years, which reduces the budget burden of debt servicing,
 - the reduction of the debt cost servicing with the use of financial instruments including interest rate swaps, extension of swaps, etc
 - the decline of the share of foreign borrowing to total borrowing below 20%,
 - the restriction of loan guarantees, which the government extend to public entities, to 3% of the ordinary budget expenditure,
 - the upgrading of the stock exchange which, will be brought on by the effective operation of the primary market and the electronic secondary market for government titles, and the operation of the electronic market for repos, and futures for the ten year government bonds,
 - the acceleration of the privatisation program, the proceeds of which not only reduce debt, but increase the efficiency overall and lower the budget grants to the enterprises involved.

Public debt

The fast deceleration of the general government debt continues to be the basic target of the government policy. Since fiscal policy will bear the burden for sustaining economic stability after the entry into the euro-zone, public debt becomes a key factor for the country's fiscal indicators, while its restriction releases resources for the financing of other sectors of the economy.

The debt to GDP ratio fell by 7 percentage points during the 1996-1999 period due to the generation of the primary surpluses and the increases in the proceeds of the privatisation program. Besides these factors, certain policies con-

**Composition of central government debt
(in bn)**

	1995 GDR	1996 GDR	1997 GDR	1998 GDR	1999 GDR	2000* GDR	2000* Euro
1. Domestic debt	25,38	29,01	30,7	32,40	33,82	35,77	105.00
Treasury bills	8,42	10,01	6,8	5,32	3,07	1,48	4.35
(public sector)	2,33	2,80	1,9	1,45	1,34	547	1.61
(private sector)	6,08	7,20	4,8	3,87	1,73	933	2.74
Bonds	12,80	14,74	19,5	22,64	26,26	29,75	87.31
(Different bonds)	8,02	11,18	16,2	19,82	24,52	28,45	83.49
(Consolidated)	4,77	3,56	3,3	2,82	1,74	1,30	3.82
Bank of Greece	3,86	3,94	4,0	4,10	4,16	4,23	12.43
Military	298	305	324	327	309	311	0.91
2. Foreign debt	6,59	7,23	8,3	9,15	10,19	11,63	34.14
Loans	5,67	6,37	7,4	8,32	8,94	9,74	28.60
Military	920	856	877	830	1,25	1,88	5.54
3. Debt of central government(1+2)	31,98	36,24	39,0	41,55	44,01	47,41	139.14
(% of GDP)	117.4	121.1	118.2	115.8	115.4	115.9	
4. Intragovernmental debt(-)	2,37	2,92	3,2	3,71	4,11	4,89	14.37
Debt of general government(3-4)	29,60	33,32	35,8	37,83	39,90	42,51	124.77
% of GDP	108.7	111.3	108.3	105.5	104.6	103.9	
GDP	27,23	29,93	33,1	35,87	38,14	40,90	

* Estimates

Source: Ministry of Finance

The general government debt in 2000 is estimated to increase to 42,515 bn gdr from 39,903 bn gdr in 1999, equal to 103.9% and 104.6% of GDP, respectively. By the end of 2001, it is projected to reach 43,694 bn gdr or 98.9% of GDP.

Evolution of the public debt

The outstanding debt of the central government in 1999 reached 44,014 bn gdr from 41,552 bn gdr in 1998, while its ratio to GDP fell slightly to 115.4% from 115.8% in 1998. By the end of 2000, public debt is estimated to increase by 3,398 bn gdr and amount to 47,412 bn gdr, equivalent to 115.9% of GDP, due to exchange rate movements and the assumption of debt caused from the failure of public entities to repay guaranteed loans. Domestic debt is estimated to fall to 75.5% of the total debt by the end of 2000 compared to 76.8% in 1999. In line with the attempts to restructure debt, the share of short-term titles (treasury bills), declined from 66.2% in 1990 to 9.1% in 1999 and it is expected to decline further to 4.1%. On the contrary, the share of medium term titles (bonds) increased from 26.1% in 1990 to 77.7% in 1999, and it is estimated to reach 83.2% in 2000. This restructuring resulted in lengthening the residual maturity of negotiable domestic debt and the rising of the duration index of drachma denominated debt from 0.7 years in 1996 to 3.1 years in 2000. The latter constitutes a measure of the frequency of refinancing the debt, which affects the cost of its service and consequently the budget expenditure. Attempts have been made to re-

duce the cost of servicing the outstanding domestic debt. The deceleration of interest rates and the effective management of debt contributed to this. The share of the negotiable domestic debt with a relative high interest rate was reduced, in the first 6 months of 2000, from 80.7% to 66%. The convergence of domestic rates to the ones of the euro-zone by the end of 2000, along with the reduction of the share of titles with variable interest rates are expected to reduce the share of high cost servicing debt further. Public sector borrowing requirements, that contribute to the volume of debt, are estimated to fall to 4.1% of GDP in 2000 and to 3.3% of GDP in 2001 from 10.2% in 1995.

Loan guarantees

Loan guarantees have been used extensively to finance public sector entities. The failure of the latter to repay such loans and the subsequent assumption of the responsibility to repay them by the government contributed significantly to the debt increase. Attempts have been made to restrict and rationalise the extension of such loans, by adopting a law in compliance with the relevant 87 and 88 articles of the EC Treaty. The outstanding loan guarantees fell to 5.7% of GDP in 2000 from 19.1% of GDP in 1990, while the extended loan guarantees were reduced to 0.9% of GDP in 2000 from 3.9% of GDP in 1990 and the assumption of debt declined to 0.3% in 2000 from 2.9% in 1990. Loan guarantees are granted with regard to the solvency of the borrower and the purpose of their use.

The Ministry of Finance reduced the cost of this kind of loans that have been granted in the past by refinancing them with more favourable terms or readjusting their interest or the surcharge margin.

A new criteria system for assessing the extension of loan guarantees is under consideration and it will be based on:

- promoting social and economic goals,
- enhancing developments in regions with low living standards and unemployment,
- completing projects that, are co-financed by the European Development Bank and the European Development Fund,
- the ability of the borrowers of servicing the cost of loans by their own revenues,
- the credibility of the borrowers and assumption of risk by credit institutions.

Servicing of public debt

Debt servicing expenditures including interest payments, accommodated outlays, and amortisation payments, had an upward trend up to 1996 due to the debt increases and the high cost of domestic and the short-term borrowing. This trend stabilised after 1996. However, debt servicing expenditures are expected to increase in 2000 to 7,657.2 bn gdr from 6,352.7 bn gdr in 1999 due

to the exchange rate differences and the rise of foreign currencies interest rates by 2 percentage points.

Interest rates

The Maastricht criterion of interest rates convergence which requires the interest rates to be no higher than 2 percentage points of the average long term rates of the three best performing countries of the euro-zone, concerning price stability, has been fulfilled since the beginning of 1999.

Long-term interest rates in March 2000 reached 6.4%, that is 0.8% lower than the benchmark of 7.2%. The spread between 10 year government bonds and the corresponding ones of the euro-zone in the Jan.-Aug. 2000 period was 0.8%. The factors that contributed to the convergence of interest rates were the deceleration of inflation rate and the improvement in fiscal position. The spread between the domestic short-term interest rates and the ones of the euro-zone fluctuated around 3.5 percentage points showing a trend towards convergence. By the end of the current year the complete convergence will be achieved.

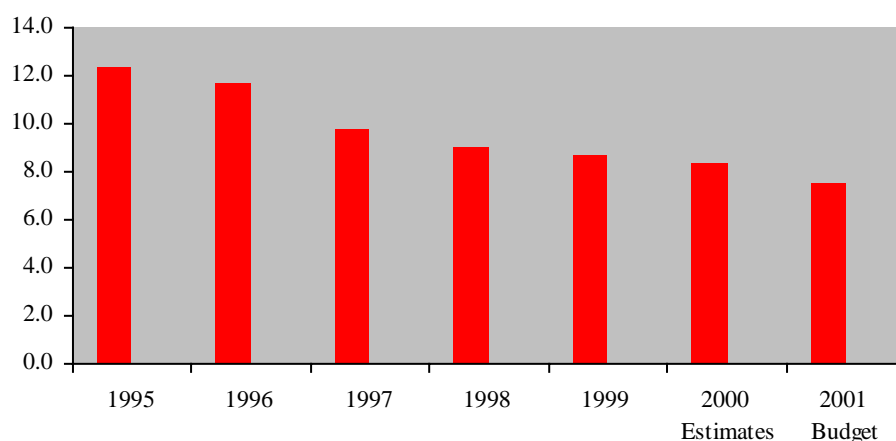
**Expenditure of servicing debt of central government
(in bn)**

	Amortisation payments			Interest payments			Accommodated expenditures			Total
	Exchange	GDR	Subtotal	Exchange	GDR	Subtotal	Exchange	GDR	Subtotal	
			(1)			(2)			(3)	(1+2+3)
1984	35.8	6.6	42.4	51.9	111.7	163.6	0.9	1.3	2.2	208.2
1985	58.1	8.5	66.6	71.7	168.4	240.1	2.6	1.4	4.0	310.7
1986	84.9	38.0	122.9	89.6	205.7	295.3	1.1	1.9	3.0	421.2
1987	167.4	93.7	261.1	97.9	310.0	407.9	1.7	3.0	4.7	673.7
1988	137.6	14.4	152.0	117.6	431.2	548.8	1.4	4.2	5.6	706.4
1989	129.7	75.7	205.4	145.5	484.9	630.4	1.7	7.0	8.7	844.5
1990	181.4	157.2	338.6	155.2	1,007	1,163	2.3	10.6	12.9	1,511
1991	244.1	677.2	921.3	185.7	1,246	1,432	4.5	11.3	15.8	2,360
1992	524.4	1,65	2,182	211.9	1,192	1,404	6.4	17.7	24.1	3,611
1993	477.0	1,12	1,604	235.8	1,886	2,122	8.9	37.0	45.9	3,771
1994	551.6	1,88	2,440	311.0	2,752	3,063	9.0	89.9	98.9	5,601
1995	665.0	2,02	2,694	413.7	2,686	3,100	8.8	95.9	104.7	5,891
1996	645.5	2,85	3,497	430.4	2,854	3,285	15.9	99.4	115.3	6,891
1997	1,041	2,41	3,457	459.3	2,542	3,001	9.8	94.9	104.7	6,561
1998	1,209	2,08	3,299	553.8	2,519	3,073	9.5	48.5	58.0	6,431
1999	913.9	2,23	3,152	522.1	2,643	3,165	6.3	28.3	34.6	6,331
2000*	1,553	2,82	4,377	666.7	2,586	3,253	9.0	17.0	26.0	7,631

* Estimates

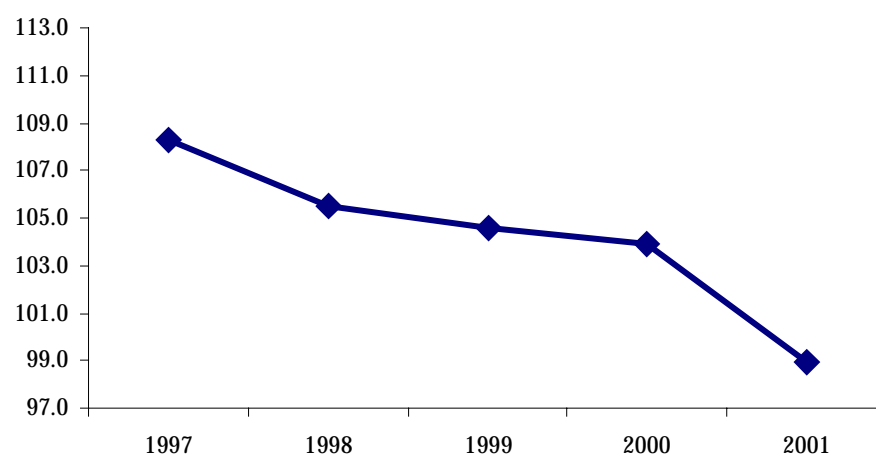
- (1) It does not include expenditure of financing military debt etc.
- (2) It does not include the repayments of treasury bills of private sector

**Interest payments
(% of GDP)**



**Borrowing requirement of central government
(in bn gdr)**

	Budget 2001
Net deficit	825
Amortization payments	3,806
Acquisition of shares in public enterprises	630
Expenditure to assist earthquake's victims	20
Total	5,281
Deficit financing	
Foreign borrowing	400
Domestic borrowing	4,881
Total	5,281

**Debt of general government
(as % of GDP)**

**Net deficit of central government
(in national accounts base)
(as % of GDP)**

