

**Hellenic Republic**  
**Ministry of Finance**  
**General Accounting Office**

**GOVERNMENT**  
**BUDGET**  
**REPORT**  
**2002**

**Executive**  
**Summary**

**December 2001**

## I. Overview of the Greek economy

### 1. Introduction

The entrance of Greece in the euro area from the January 2001 implies a change of the framework within which the country's economy operates. Monetary policy is decided by the ECB and the only means available for achieving macroeconomic policy objectives is the fiscal policy. The latter must be in line with the framework of the Stability and Growth Pact to ensure the efficiency of economic policy for maintaining and enhancing stability and development.

The main benefit from the country's accession to the euro area is the removal of exchange risk making thus the country less vulnerable to adverse external effects. Greece is a small open economy which, despite the fact that has one of the strongest currencies in the world, is affected to a great extent by the developments in the EU and the rest of the world. Decisions on macroeconomic policy must be taken in the context of the country's commitment to EU and the prospects of the global economic environment.

The uncertainties of the economic outlook, in particular in the economies of USA and Japan increased after the terrorist attacks on September 11<sup>th</sup>. The impact on the economy of these attacks is difficult to be assessed.

### 2. Economic policy

The accession of Greece into the euro area was the result of a consistent and efficient policy that began in 1994 in compliance with the targets set out in the updated convergence program. The targets of the program were fulfilled and an annual growth rate higher by 0.5% than the program's forecast was realized.

The targets of fiscal policy as a member of EMU are:

- to maintain macroeconomic stability by continuing to generate general government primary surpluses,
- to reduce the debt of the general government to 50% of GDP by 2010,
- to continue the structural changes and reinforce the competitiveness of the economy,
- to enhance the social cohesion.

The economic and social policy will be targeted towards accelerating growth, full employment and improving the quality of life. The attempt in implementing these targets will be assisted by the resources of the 3rd Community Support Framework (CSF) of € 51,357.3 mil., the highest package the country has ever managed. These funds coupled with the increase in private and public investments financed by national resources will raise the growth rate to above the EU-15 average contributing thus to a fast real convergence with the EU-15 average.

### 3. Output

The growth of the economy was higher than the 2000 forecast and reached 4.3% against 3.4% in 1999, 1 percentage point higher than the EU-15 and euro area average. The buoyant growth was supported by a fast increase in investment of 7.8% against 6.2% in 1999 and exports of goods and services of 18.9% against 8.1% in 1999.

In 2001 the growth rate is forecast to decelerate slightly to 4.1%, mainly due to the slowdown of the growth rates of USA and euro area. However, the growth rate stands 2 percentage points above the EU-15 average in 2001 from 0.9 percentage points in 1999, contributing to a faster real convergence. The factors expected to contribute to the impetus of growth are the rise of in-

vestment by 8.5% the inflows of the resources of the 3rd CSF and projects for the Olympic Games.

#### 4. Wages, prices and employment

Real wages in 2001 are expected to rise by the 2.3% twice as the EU-15 average, compared to 2.2% and 0.5% of EU-15 annually in the 1994-2000 period. This increase corresponds to 70% of the GDP increase for the 1994-2001, against 24% of the EU average. Real expenditure per pensioner is expected to rise by 2.7% in 2001 against 2.4% in the 1994-2000 period. Total expenditure for social security is expected to reach 25.2% of GDP compared to 24.6% and 24.2% in 2000 and 1999, respectively.

In 2000 inflationary pressures accelerated due to oil prices and dollar appreciation against euro and drachma, raising the CPI on average by 3.2% compared to 2.6% in 1999. Inflation (harmonized CPI) rose to 2.9% from 2.1% in 1999, showing a lower rate of increase than that of the euro area which accelerated by 1.2 percentage points.

The upward pressures maintained in the first months of 2001, but are expected to ease by the end of the year due to lower import prices excluding fuel. The deflator of private consumption is expected to rise by 3.1% due to the limited increase of labor cost to 2.2%, the restraining of public consumption expenditure, the liberalization of the so called "closed" professions and the significant fall in the fuel index.

The strong growth in 2001 will lead to an employment increase of 0.8% and a reduction of unemployment rate to 10.9% from 11.4% in 2000 and 12% in 1999.

#### 5. Monetary policy

The Bank of Greece applies the monetary policy the governing council of ECB has formulated since the January 1st 2001. The ECB decides on the reference level of M3, the basic interest rates, the supply of liquid reserves to banks with the main objective to maintain price stability in the euro area. In May 2001 the interest rates of central banks of the euro area were 3.5% on deposits, 4.5% on main refinancing operations and 5.5% on marginal refinancing. These rates fell to 2.75%, 3.75% and 4.75% in September, respectively.

#### 6. Fiscal developments

The fiscal position improved further in 2000 and 2001 underpinning the establishment of the conditions that ensure economic stability. The general government balance registered a deficit of 1.1% of GDP in 2000 from 1.8% in 1999 and is expected to yield a surplus of 0.1% of GDP in 2001. The improvement of the budget position is the result of the reduction in interest payments and the increase of the general government primary surplus to 6.6% in 2001 from 6.2% in 2000. The reduction of the general government deficit from 10% of GDP in 1994 to 1.1% in 2000 was achieved despite the increase of expenditure for social transfers from 14.6% of GDP over the 1990-94 period to 16.3% in 2000. The corresponding figure for the EU-15 fell to 16.4% of GDP in 2000 from 17.3% in 1995. Apart from that the defense expenditure increased to 4.9% in 2000, more than double of the EU and NATO average.

The consolidated debt of General Government continues its downward trajectory and is estimated to be reduced to 99.6% of GDP in 2001 from 102.7% of GDP in 2000 and 103.9% in 1999. The gradual reduction of interest rates for the public sector borrowing, the increase in primary surpluses and the acceleration of growth were the factors

that contributed to the improvement of the Debt GDP ratio.

## 7. Prospects

Macroeconomic conditions will remain favorable for the economic activity in 2002. The driving forces will continue to be the increased public and private investment. In contrast, the foreign sector is expected to have a negative impact resulting in a deceleration of the growth rate to 3.8%. Economic activity will be supported by the further expansion of structural changes. The private consumption deflator is expected to fall to 2.8%, while the general government surplus will increase to 0.8% of GDP from 0.1% in 2001 and the debt will be reduced to 97.3% of GDP.

## II. The implementation of 2001 government budget

The basic aggregates of the government budget are estimated to be lower than the budget targets due to the adverse international economic environment.

The surplus of the general government is expected to be 0.1% of GDP and the primary surplus of central government 5.3% of GDP. The improvement of macroeconomic fundamentals contributed to the fulfillment of the objectives of fiscal policy.

The basic objectives set out in the 2001 budget were:

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

In addition, budget 2001 set out additional goals to promote growth, social cohesion, restructure revenue and expenditure, aiming at:

- supporting the income of wage earners and pensioners,
- ensuring a fairer distribution of the tax burden,
- backing the high priority sectors such as health, education, employment, culture and security,
- increasing investment expenditure and securing the necessary resources for implementing the development and investment programs,
- preparing the Olympic Games in 2004.

### 1. The implementation of the 2001 ordinary budget

The ordinary budget will be implemented with a small deviation from the revenue forecast. Revenue is estimated to show a shortfall of € 293 mil., while expenditure will exceed the budget target by € 16 mil. resulting in a deficit of € 251 mil.

#### *Revenue*

The good performance of recent years is expected to continue and ordinary budget revenue is estimated to rise by 7.1% against 2000 and reach € 36,684.79 mil. (net revenue 7%). The strong revenue growth is the result of the economic activity, the attempts to fight tax evasion, the modernization of the departments of the Ministry of Finance and the improvement of the tax system, despite the tax cuts of the last three years. The computerization of tax offices the expansion of the Tax Information System and the systematic controls of the National, Regional and Local Auditing Centers contributed to the efficient calculation of the taxable income and a more equitable tax burden.

The objective of tax policy and the tax cuts enacted in 2001 were:

- to improve the distribution of tax burden in favour of low and medium income classes mainly through indexation and raising the threshold of tax free income,
- to extend incentives aiming at increasing the supply of labour and encouraging new investments to accelerate growth and real convergence with EU,
- to support families with two or more children to ease the demographic problem,
- to enhance regional development by supporting farmers,
- to simplify the tax system by abolishing taxes with high administrative cost and low proceeds.

Direct tax revenue is estimated to reach 10.4% of GDP in 2001 from 6.3% in 1992, while revenue from indirect taxation is estimated to fall slightly to 15.3% in 2001 from 15.4% in 1992. The direct taxes increased to 41% of total taxes in 2001 from 29% in 1992. The increase of ordinary budget revenue resulted from the broadening of the direct taxes base and the reduction of tax evasion.

Direct tax revenue is expected to be equal to € 13,640.50 mil. in 2001 and fall short of the budget forecast by 4.7% arising from lower revenue of corporate income tax and interest tax on deposits. The former is mainly due to the increased yield of corporate income tax in 2000 against 1999 that led to increased tax advance payments, which were offset in the current year. In addition, the low performance of the Stock Exchange had an adverse impact on the profits of securities firms. The reduction of interest rates

and the shift of investment to repos that were exempted from taxation, will cause the expected shortfall in the revenue from income taxes on households and interest taxes on deposits. Revenue from income taxes on households and property taxes is expected to be higher than the budget forecast.

Revenue from indirect taxes is expected to reach € 19,621.42 mil. or increase by 5.4% in 2001, lower by 3% than the budget forecast. The short fall is due to the low proceeds from the taxes on the stock exchange transactions arising from their low volume and the reduction of the tax rate on these transactions by 50%.

### ***Expenditure***

Ordinary budget expenditure is estimated to increase by 4.7% and reach € 35,985.32 mil., in 2001 while primary expenditure is estimated to increase by the same rate as GDP or 7.4% against 2000.

Expenditure for salaries and pensions is estimated to reach € 13,261.1 mil. in 2001, € 180 mil higher than the budget forecast due to recruitment of policemen and teachers and higher than forecast retirements respectively. Operating expenditure is estimated to be € 10,114.33, lower by € 211.65 mil. compared to the budget forecast, despite the additional payment of fuel allowance which was not included in the budget forecast. Interest payments are estimated to fall to 7.4% of GDP in 2001 from 8.2% and 8.6% in 2000 and 1999 respectively.

## **2. The implementation of the 2001 Public Investment Program (PIP)**

The PIP is expected to be implemented without any deviation from the forecasts. More than 1,100 projects are included in the 3<sup>rd</sup> CSF projects of the PIP. € 8,158.47 mil. will be absorbed, 9.9% higher than in 2000, of which € 5,575.94 mil. or 68% will be

granted to projects co-financed from the EU and € 2.582,54 mil. or 32% to projects financed from national resources.

### **III. The 2002 Government Budget**

#### **1. The targets of fiscal policy**

The targets of the 2002 budget are set in light of the advantages that arise from the circulation of the new currency on January 1<sup>st</sup> of 2002 and include:

- price stability,
- reduction or/and removal of the exchange risk,
- reduction in the cost of financing the economic activity,
- facilitation of the markets liberalization.

After the entry into the euro area, the framework for exercising fiscal policy is defined by the broad guidelines of the Stability and Growth Program.

The priorities of economic policy are the acceleration of growth and the improvement of competitiveness. The tools available, after the entry into the EMU, for achieving these goals are the Public Investment Program and the reassessment of public expenditure and tax policy.

The characteristics of the 2002 budget are fiscal discipline, expenditure prioritization, a fair tax system and promotion of structural changes.

The surplus of the general government balance is estimated to increase to 0.8% of GDP in 2002 from an estimate of 0.1% in 2001 and a deficit of 1.1% in 2000.

The debt is estimated to fall to 97.3% of GDP in 2002 from an estimate of 99.6% in 2001 and 102.7% in 2000 mainly due to the pri-

mary surpluses and the privatization proceeds.

The improvement in fiscal position is expected to be brought about from the decline of current operating expenditure and debt interest payment as a percentage of GDP. The containment of expenditure reflects the medium term objective to reduce the size of government with the aim to raise productivity and reduce the burden of financing the state.

The 2002 budget includes additional resources for social objectives, the continuation of the projects related to the preparation for the Olympic games and the realization of the 3<sup>rd</sup> Community Support Framework. The allocation of more resources to these sectors is considered necessary for maintaining and increasing growth, strengthen social cohesion and facilitate the creation of jobs.

The 2002 budget aiming at consolidating economic stability and improving the fiscal aggregates will continue :

- the expansion computerization of the tax system,
- the tax reforms,
- the fight of tax evasion,
- the establishment of a climate of fiscal discipline,
- the control of public expenditure improving the transparency rules,
- the containment of primary expenditure,
- the application of contemporary techniques of debt management,
- the modernization of public administration.

Net total revenue of government budget is expected to increase by 5% and reach € 41,538 mil. and be equal to 29.8% of GDP in 2002 against 30.3% in 2001.

In 2002 total expenditure of government budget is estimated to increase by 3,3% substantially lower than the nominal GDP in-

crease. Ordinary budget expenditure (excluding amortization) is estimated to increase by 1.8% while Public Investment Program Expenditure is forecast to increase by 9.7% reflecting the attempts to restrict consumption expenditure, improve the management of resources and boost development and employment, in line with the Stability and Growth Pact. In 2002 net primary ordinary budget expenditure is estimated to increase by 5.6% slightly higher than the increase of primary expenditure of 5.4% and fall to 17.7% of GDP from 17.9% in 2001 against 19.8% and 20.1% of total primary expenditure in 2002 and 2001 respectively. Expenditure of central government budget is estimated to fall to 32.7% of GDP in 2002 from 33.8% and 34.4% in 2001 and 2000 despite the increase of expenditure of the public investment program to 6.4% of GDP in 2002 from 6.2% and 6.1% in 2001 and 2000, respectively. Central government primary surplus is forecast to fall to 4.9% from 5.3% in 2001, while the deficit of central government is estimated to fall to 1.5% from 2.1% in 2001.

## 2. The 2002 Ordinary Budget

The forecast of the 2002 ordinary budget aggregates are based on the estimates on the development of the Greek economy, the impact of the terrorist attacks on September 11<sup>th</sup>, the guidelines of the stability pact and the need to fulfil the government commitments.

### **Revenue**

Total ordinary budget revenue is estimated to increase by 6.1% and reach € 38,920 mil. while net revenue (total minus tax returns) is estimated to amount to € 37,453 mil. and show an increase of 4.8%.

The revenue forecast is based on the forecast of GDP growth and improvement of the tax administration.

The 2002 budget sets out further reforms to the tax system in addition to those enacted in recent years, the objectives of which are:

- to accelerate growth in the wake of the recent international developments,
- to boost the disposable income of tax payer,
- to promote the competitiveness of enterprises,
- to raise employment,
- to restrict red tape,
- to reduce the administration cost of the tax system.

The new measures include:

- increase in the threshold of tax free income by 20% and abolition of the lower tax rate of 5% for the wage earners,
- reduction of tax rate for limited and unlimited companies by up to 2.5% in proportion to the increase of the number of their employees,
- the imposition of a 7% tax on the income from repos,
- a tax reduction by 50% on fuel oil,
- abolition of the stamp duty on certain categories of transactions.

### **Expenditure**

Total ordinary budget expenditure (excluding amortization) is projected to increase by € 36,637 mil. or 1.8% and fall to 26.2% of GDP from 27.6% in 2001. Net primary expenditure (total primary expenditure minus returned resources) is expected to increase by 5.6% substantially lower than the rate of increase of previous year of 7.7%.

Interest payments are estimated to be reduced by 7.9% enabling new resources to be released for implementing government's social and development goals, while maintaining its restrictive fiscal stance. The additional steps taken to implement the social policy include:

- increase of the pension of farmers and the complementary allowance for pensioners by € 14.67 per month,
- increase of the disabled persons allowance by 5%,
- increase in unemployment benefit by 5%,
- provision of unemployment benefits for long term unemployed,
- extension of family allowance to both spouses.

### 3. The 2002 Public Investment Program

The payments of the public investment program are estimated to increase by 9.7% and reach € 8,947.91 mil. from € 8,158.47 mil. in 2001. The amount of € 6,192.22 mil. is distributed to projects co-financed from the structural funds of EU and € 2,755.69 mil. to projects financed from national resources. The resources from the EU for the 2000-2006 period are estimated to be € 26,027 mil. against € 21,900 mil. in the 1993-99 period, while the national and private resources will amount to € 21,900 mil. Total resources for the 3rd Community Support Framework (CSF) ECU initiatives and Cohesion Fund, which constitute the largest per capita package among the European countries, will reach € 50,684 mil. The aim of the funds is to promote development, employment and social cohesion. The resources from the community support framework are expected to raise the country's living standard to above 80% of the EU average in 2006 from 70% in 2001 and 60% in the 1980s. The amounts of funds raised for investment and projects are the highest in the country's modern history and the total resources available to development by 2006 are estimated to range between 5% and 6% of GDP. The target of the third community support framework, which is a complete development project, is to ensure that the country will successfully face the current and future competition of the international and enlarged European environment.

The contribution of the private sector to the 3rd CSF is expected to increase, relative to the 2<sup>nd</sup> one. The financing through loans is estimated to increase by 12.3% against 4.1% due to the needs of the national program for the Olympic Games. 70% of the appropriations will finance projects that are part of the community programs

## IV. Fiscal policy instruments

The tools the Ministry of Finance has been using to achieve the fiscal policy targets and increase the efficiency of fiscal management include securitization, and privatization.

### *Securitization*

In 2000 the Ministry of Finance raised € 740 mil. from the securitization of future dividends from the Consignment Deposits and Loans Fund and € 650 mil. from the State Loteries. These proceeds were used to reduce the public dept.

In 2001, the amount of € 2,000 mil was raised from the securitization of future flows from the EU for the financing of the 3rd CSF.

By the end of 2001 the securitization of the revenue from EUROCONTROL is expected to raise € 355 mil.

### *Structural changes- Privatization*

Privatization is an important element of the government's economic policy aiming at retaining and enhancing the competitive advantages of the economy. Privatization is the key factor for the adaptation of public enterprises to the new competitive environment, ensuring their future and enhancing the prospects of their employees and creating new jobs. The privatization program places emphasis on securing the state's interests, maximum yield and employment.

Incentives for the continuous improvement of the productivity and profitability are given by offering shares to the public enterprises personnel. In this framework the state has assumed responsibility to ensure the necessary resources to the insurance funds to offset the loss of revenue from the property of the privatized enterprises.

Since the last quarter of 2000 the following structural changes in public enterprises have taken place:

- the public offering of the Football Prognostics Organization,
- the public offering of the Agricultural Bank,
- the concession of the operation of the Corinth Canal,
- the public offering of the Salonica Port Authority,
- the public offering of Salonica Water and Sewage company,
- the transfer of 53,841,600 shares of the Hellenic Telecommunication Organization (OTE) with the aim to reduce the participation of state to its share capital to below 51% in compliance with the law 2843/2000,
- the sale of Skaramagas Shipyards.

The reforms scheduled to be undertaken in 2002 are:

- the public offering of the Hellenic Power Corporation with its listing to the stock exchange,
- the alliance of the postal services ELTA with an international strategic partner,
- the public offering of Piraeus Port Authority,
- the privatization of Olympic Airways,
- the privatization of ETVA,
- the sale of 15-30% of Hellenic Petroleum (ELPE) to a strategic investor,
- the sale of Public Natural Gas Corporation (DEPA) to one or more strategic partners.

## V. Public debt

The fast deceleration of debt through the weakening of the dynamics of the debt increase has been the basic target of the government policy. In the new economic environment after the country's entrance to euro area the reduction of debt continues to be the key factor for stability and development. At the same time its reduction frees up resources that can contribute to increasing employment, business activity and improving the economic growth and social welfare.

The debt to GDP ratio fell by 8.6% percentage points during the 1996-2000 period from 111.3% to 102.7%. It is expected to fall to 99.6% in 2001 and 97.3% in 2002.

The targets of the debt policy include:

- the establishment of benchmark bonds with high liquidity to ensure increased tradability in the euro area market,
- the lengthening of the debt maturity and smoothening of the maturities in the next years aiming at reducing the annual budget burden of debt servicing and increasing the average period of its refinancing,
- the reduction in the interest payment from 9.7% in 1997 to 7.4% in 2001 and a forecast of 6.4% in 2002. The fast deceleration of interest rates, the refinancing of debt with low cost with the purpose to reduce the part of debt that born high interest rates,
- the internal restructuring of outstanding debt aiming at reducing the exchange rate risk and improving the composition of the state's portfolio,
- the modernization of the electronic primary and secondary market of government securities by upgrading the Primary Dealers' Regulation and the establishment of active repos and future markets in order to increase the competitive-

ness and the effectiveness of these markets,

The overall progress in fiscal finances has been broadly recognized by the international rating organizations which led to the upgrading of the country's credibility.

The outstanding debt of general government is estimated to reach € 135,874 mil. in 2002, compared to an estimate of € 130,048 mil. in 2001.

The debt of central government is estimated to reach € 153,981 mil. in 2002 compared to a forecast of € 145,737 mil. in 2001. The increase in debt is mainly due to the borrowing requirements of the government budget and the implementation of extended military procurements.

The share of central government debt in euro zone currencies is estimated to increase to 94.4% in 2001 from 92.2% in 2000, thus reducing the exchange rate risk and further stabilizing the central government debt in euro terms.

As far as the Greek government securities concern, the continuing attempts to reduce the share of short term government securities (treasury bills) combined with an increase in the share of medium-and-long term bonds led to a substantial restructure of the redemption schedule of debt expressed in euro area currency. The residual maturity of the outstanding government securities was 5.6% on 30/6/2001 compared to 3.9% on 31/12/1998. The fix rate bonds account for the 72% while the floating rate bonds for 28%. The largest volume of floating rate bonds will be redeemed in 2003 reducing thus the sensitivity of debt to the abrupt changes of interest rates and the fluctuation of debt servicing expenditure. The duration and modified duration risk reached 4.0 and 3.8 respectively, approaching the euro area average. The full effect of this restructuring on the budget expenditure

for interest payments will be realized in the coming years.

Interest payments are estimated to be € 9,279.53 mil. in 2001 compared to € 9.499,07 mil. in 2000.

### ***The Greek government securities markets***

The average monthly turnover of Greek securities in the secondary market increased to € 198 bn in the first semester of 2001 compared to € 71 bn in the corresponding period of 2000. The factors which contributed to these developments are:

- the participation of Greece to EMU and the elimination of exchange risk regarding the euro area currencies,
- the upgrading of the country's credibility from A- to A for long-term borrowing by Standard & Poor's and FITCH,
- the deceleration of growth rates in USA and to a lesser extent in Europe,
- the build up of expectations concerning interest rates cuts and as a result the anticipation of increased profits from the rise in the prices of fixed income securities,
- the fall in the prices in international Stock Exchanges and subsequently the Athens Stock Exchange that turned investors to safer investments and increased demand of government securities which are exposed to zero risk compared to shares or other financing investments.

### ***Primary market***

The upgrading of the primary market aimed at institutional amendments as well as improvements in the efficiency, transparency and competitiveness.

According to the new regulation, credit institutions not established in Greece are now allowed to act as Primary Dealers. Since 1/1/2001 the number of credit institutions participating as primary dealers increased to 15 of which 10 are international. The role of

the Committee of Primary Dealers' Control and Supervision was further upgraded to ensure the efficiency and transparency of the market.

The objectives of the qualitative reforms were:

- the establishment of benchmark bonds,
- the promotion of Greek bond to final investors in the eurobond market (broadening of the investor base),
- the increase of competitiveness and attractiveness of Greek bonds.

### ***Secondary market***

The steps taken to modernize the Electronic Secondary Market (HDAT) in 2001 are:

- the ability of having remote access in HDAT by international credit institutions, with no establishment in Greece,
- the installation of a software on May 2001 allowing the automatic quoting of prices. The system follows up the movements in the European markets and adapts automatically the prices quoted in HDAT,
- the introduction of a new scale for bid/ask spreads since 21/5/2001, for the prices quoted in HDAT. This is expected to facilitate the trading of different positions along the yield curve and contribute to an increased liquidity,

These measures resulted in the substantial increase of the trading volume in HDAT that amounted to a monthly average of € 20.3 bn over the 7 months of 2001 compared to € 4.9 bn in the same period of 2000.

### ***Repo market***

The repo market drive has been strong since the abolition of a 15% tax on repo agreements for domestic investors. In addition, an electronic buy/sell back repo market operates since 6/9/1999, supported by HDAT. An efficient repo market is of prime importance for the government securities market since repo and reverse repo are the main in-

struments for hedging open positions on bonds.

### ***Bond futures market***

The operation of a bond futures market was organized by the Athens Derivative Exchange and started operating in January 2000. However, due to the lack of interest for the Greek bond futures by the domestic participants, it was suspended in June 2001.

### ***Borrowing objectives and debt management policy***

The borrowing in 2002 will continue to focus on 3, 5, 10, and 20 year issues, which will amount to 90% of total borrowing. The rest 10% will include issues of treasury bills and strategic issues that cover existing investment needs.

The debt management policy will focus on the achievement of an optimum modified duration of the state's portfolio, resulting in the best possible balance between exchange rate risk and the medium term cost of debt servicing. This will be achieved with the use of interest rate swaps (IRS).

### ***Privatization certificates***

The implementation of the privatization program has been assisted by the issuance of privatization certificates:

- On August 3, € 800 mil. Hellenic Tourist Properties Certificates were issued. They are exchangeable for shares of the Hellenic Tourist Properties SA or any of its subsidiaries.
- On October 2001 € 1,700 mil. privatization certificates were issued, exchangeable for shares of all companies offered for sale by the State by way of privatization.

**Central Government Budget for 2002**  
**(in mil euros)**

	Outturn	Budget	Estimate	Budget	Percentage %		
	2000	2001	2001	2002	In progress	01/00	02/01
	(1)	(2)	(3)	(4)	(3:2)	(3:1)	(4:3)
<b>Ordinary Budget</b>							
<b>Revenue</b>	<b>34,257</b>	<b>36,977</b>	<b>36,684</b>	<b>38,920</b>	<b>-0.8</b>	<b>7.1</b>	<b>6.1</b>
Tax revenue	32,303	34,539	33,262	35,284	-3.7	3.0	6.1
Non- tax revenue and EU	1,954	2,438	3,422	3,636	40.4	75.1	6.3
Tax refunds (-)	865	949	949	1,467	0.0	9.8	54.6
<b>Net Revenue</b>	<b>33,393</b>	<b>36,028</b>	<b>35,734</b>	<b>37,453</b>	<b>-0.8</b>	<b>7.0</b>	<b>4.8</b>
<b>Primary expenditure</b>	<b>24,463</b>	<b>26,255</b>	<b>26,271</b>	<b>27,686</b>	<b>0.1</b>	<b>7.4</b>	<b>5.4</b>
Net primary expenditure	21,708	23,407	23,375	24,675	-0.1	7.7	5.6
Salaries and pensions	12,406	13,081	13,261	14,123	1.4	6.9	6.5
Wages	7,202	7,643	7,845	8,379	2.6	8.9	6.8
Other primary expenditure	9,302	10,326	10,114	10,552	-2.0	8.7	4.3
Returned resources	2,755	2,848	2,896	3,011	1.7	5.1	4.0
Primary surplus (-)	8,930	10,722	10,412	11,234	-2.9	16.6	7.9
Interest payments	9,914	9,714	9,714	8,951	0.0	-2.0	-7.9
<b>Total expenditure</b>	<b>34,377</b>	<b>33,121</b>	<b>33,089</b>	<b>33,626</b>	<b>-0.1</b>	<b>-3.7</b>	<b>1.6</b>
Borrowing requirement	984	-2,907	-2,645	-3,827	-9.0	-368.7	44.7
Amortisation	13,859	11,168	12,446	20,320	11.4	-10.2	63.3
Expenditure to assist earthquake's victims	71	59	59		0.0	-17.1	
<b>Public Investment Budget</b>							
Revenue (-)	3,265	3,830	3,830	4,085	0.0	17.3	6.7
Expenditure	7,421	8,158	8,158	8,948	0.0	9.9	9.7
Primary expenditure	5,729	6,310	6,310	7,040			
Acquisition of shares in public enterprises (-)	1,692	1,849	1,849	1,908	0.0	9.2	3.2
Borrowing requirement	4,156	4,328	4,328	4,863	0.0	4.1	12.4
<b>Central government budget</b>							
Net revenue	36,658	39,858	39,564	41,538	-0.7	7.9	5.0
Primary expenditure	30,192	32,565	32,581	34,726	0.0	7.9	6.6
Primary surplus	6,466	7,293	6,983	6,812	-4.3	8.0	-2.5
Interest payments	9,914	9,714	9,714	8,951	0.0	-2.0	-7.9
<b>Deficit</b>	<b>3,448</b>	<b>2,420</b>	<b>2,730</b>	<b>2,139</b>	<b>12.8</b>	<b>-20.8</b>	<b>-21.7</b>
Surplus of public entities and other adjustments	2,161	3,037	2,832	3,298	-6.8	31.1	16.5
<b>General government balance</b>	<b>1,287</b>	<b>-617</b>	<b>102</b>	<b>-1,159</b>	<b>-83.5</b>	<b>-107.9</b>	<b>1041.5</b>
<b>(+ deficit,-surplus)</b>							
Amortisation payments	13,859	11,168	12,446	20,320	11.4	-10.2	63.3
Expenditure to assist earthquake's victims	71	59	59		0.0	-17.1	
GDP (revised)	121,517	129,655	130,547	139,574	0.7	7.4	6.9

Source: Ministry of Finance

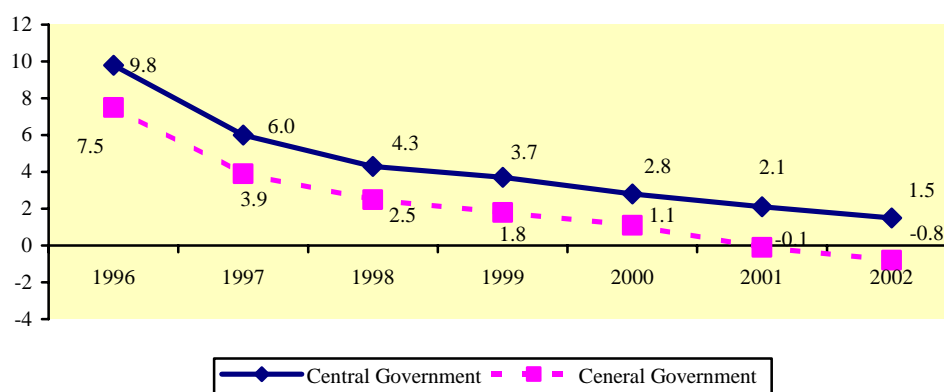
**Central government budget for 2002  
as percentage of GDP**

	<b>Outturn 2000</b>	<b>Budget 2001</b>	<b>Estimate 2001</b>	<b>Budget 2002</b>
	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>
<b>Ordinary budget</b>				
<b>Revenue</b>	<b>28.2</b>	<b>28.5</b>	<b>28.1</b>	<b>27.9</b>
Tax revenue	26.6	26.6	25.5	25.3
Non- tax revenue and EU	1.6	1.9	2.6	2.6
Tax refunds (-)	0.7	0.7	0.7	1.1
<b>Net revenue</b>	<b>27.5</b>	<b>27.8</b>	<b>27.4</b>	<b>26.8</b>
<b>Primary expenditure</b>	<b>20.1</b>	<b>20.3</b>	<b>20.1</b>	<b>19.8</b>
Net primary expenditure	17.9	18.1	17.9	17.7
Salaries and pensions	10.2	10.1	10.2	10.1
Wages	5.9	5.9	6.0	6.0
Other primary expenditure	7.7	8.0	7.7	7.6
Returned resources	2.3	2.2	2.2	2.2
Primary surplus (-)	7.3	8.3	8.0	8.0
Interest payments	8.2	7.5	7.4	6.4
<b>Total expenditure</b>	<b>28.3</b>	<b>25.5</b>	<b>25.3</b>	<b>24.1</b>
Borrowing requirement	0.8	-2.2	-2.0	-2.7
Amortization	11.4	8.6	9.5	14.6
Expenditure to assist earthquake's victims	0.1	0.0	0.0	0.0
<b>Public Investment Budget</b>				
Revenue (-)	2.7	3.0	2.9	2.9
Expenditure	6.1	6.3	6.2	6.4
Primary expenditure	4.7	4.9	4.8	5.0
Acquisition of shares in public enterprises (-)	1.4	1.4	1.4	1.4
Borrowing requirement	3.4	3.3	3.3	3.5
<b>Central government budget</b>				
Net revenue	30.2	30.7	30.3	29.8
Primary expenditure	24.8	25.1	25.0	24.9
Primary surplus	5.3	5.6	5.3	4.9
Interest payments	8.2	7.5	7.4	6.4
<b>Deficit</b>	<b>2.8</b>	<b>1.9</b>	<b>2.1</b>	<b>1.5</b>
Surplus of public entities and other adjustments	1.8	2.3	2.2	2.4
<b>General government balance (+ deficit,-surplus)</b>	<b>1.1</b>	<b>-0.5</b>	<b>-0.1</b>	<b>-0.8</b>
Amortization payments	11.4	8.6	9.5	14.6
Expenditure to assist earthquake's victims	0.1	0.0	0.0	

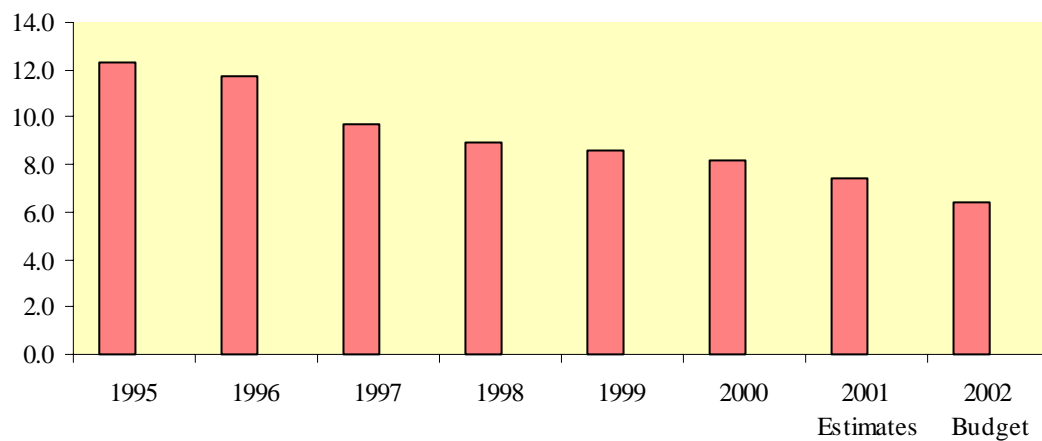
**Borrowing requirement of Central Government  
(in mil. euro)**

	<b>Budget 2002</b>
Net deficit	2,139
Amortization payments	20,320
Acquisition of shares in public enterprises	1,908
<b>Total</b>	<b>24,366</b>
Deficit financing	
Foreign borrowing	1,200
Domestic borrowing	23,166
<b>Total</b>	<b>24,366</b>

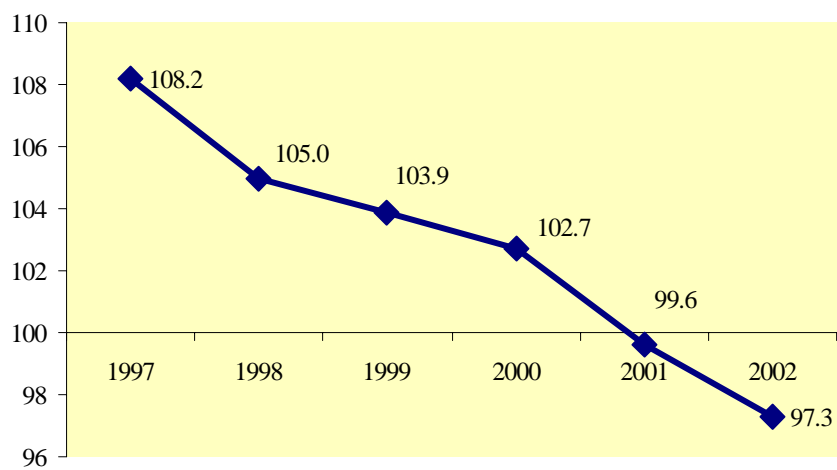
**Net deficit of central government and general government balance  
(as % of GDP)**



**Interest payments  
(% of GDP)**



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



**Revenue of the ordinary budget  
(in million euros)**

	2000	2001		2002	2001	Changes %	
	Outturn	Budget	Estimates	Budget	Estimates/ Budget	2001/00	2002/01
<b>I. Direct taxes</b>	<b>13,682.44</b>	<b>14,318.42</b>	<b>13,640.50</b>	<b>14,617.75</b>	<b>-4.7</b>	<b>-0.3</b>	<b>7.2</b>
<b>Income taxes</b>	<b>11,612.98</b>	<b>12,061.63</b>	<b>11,366.10</b>	<b>12,073.37</b>	<b>-5.8</b>	<b>-2.1</b>	<b>6.2</b>
(on households)	(5,411.23)	(5,546.59)	(6,001.47)	(6,465.15)	(8.2)	(10.9)	(7.7)
(on corporations)	(5,033.70)	(5,106.38)	(4,305.21)	(4,578.14)	(-15.7)	(-14.5)	(6.3)
(other)	(1,168.05)	(1,408.66)	(1,059.43)	(1,030.08)	(-24.8)	(-9.3)	(-2.8)
<b>Property taxes</b>	<b>462.25</b>	<b>465.15</b>	<b>501.83</b>	<b>535.58</b>	<b>7.9</b>	<b>8.6</b>	<b>6.7</b>
<b>Taxes for third</b>	<b>5.09</b>	<b>2.93</b>	<b>2.93</b>	<b>2.93</b>	<b>0.0</b>	<b>-42.3</b>	<b>0.0</b>
<b>Tax arrears</b>	<b>752.50</b>	<b>909.76</b>	<b>833.46</b>	<b>997.80</b>	<b>-8.4</b>	<b>10.8</b>	<b>19.7</b>
<b>Other direct taxes</b>	<b>849.62</b>	<b>878.94</b>	<b>936.17</b>	<b>1,008.07</b>	<b>6.5</b>	<b>10.2</b>	<b>7.7</b>
<b>II. Indirect taxes</b>	<b>18,620.50</b>	<b>20,220.98</b>	<b>19,621.42</b>	<b>20,666.18</b>	<b>-3.0</b>	<b>5.4</b>	<b>5.3</b>
<b>Transaction taxes</b>	<b>12,527.39</b>	<b>13,684.52</b>	<b>12,763.02</b>	<b>13,577.40</b>	<b>-6.7</b>	<b>1.9</b>	<b>6.4</b>
VAT	10,069.83	10,946.44	10,873.07	11,782.83	-0.7	8.0	8.4
On domestic and EU	8,759.19	9,567.13	9,479.09	10,315.48	-0.9	8.2	8.8
(on hydrocarbon oils)	(998.20)	997.80	968.45	(997.80)	(-2.9)	(-3.0)	(3.0)
(on tobacco products)	(412.67)	(440.21)	(454.88)	(498.90)	(3.3)	(10.2)	(9.7)
(others)	(7,348.32)	(8,129.13)	(8,055.76)	(8,818.78)	(-0.9)	(9.6)	(9.5)
On imports except EU	1,310.64	1,379.31	1,393.98	1,467.35	1.1	6.4	5.3
(on hydrocarbon oils)	(34.61)	(36.68)	(42.26)	(42.26)	(15.2)	(22.1)	(0.0)
(on tobacco products)	(1.81)	(1.47)	(1.76)	(1.76)	(20.0)	(-2.8)	(0.0)
(others)	(1,274.22)	(1,341.16)	(1,349.96)	(1,423.33)	(0.7)	(5.9)	(5.4)
Other transaction taxes	2,457.56	2,738.08	1,889.95	1,794.57	-31.0	-23.1	-5.0
Capital transfers	1,417.09	1,673.37	889.21	1,041.82	-46.9	-37.3	17.2
Stamp duty	817.19	944.39	887.75	661.78	-6.0	8.6	-25.5
(for OGA)	(133.36)	(159.94)	(146.74)	(110.05)	(-8.3)	(10.0)	(-25.0)
On banking	161.31	46.96	32.28	0.00	-31.3	-80.0	-100.0
Other	61.97	73.37	80.70	90.98	10.0	30.2	12.7
<b>Consumption taxes</b>	<b>5,509.53</b>	<b>5,928.10</b>	<b>6,239.18</b>	<b>6,391.78</b>	<b>5.2</b>	<b>13.2</b>	<b>2.4</b>
Turnover tax	158.38	161.41	190.76	220.10	18.2	20.4	15.4
On vehicles	657.38	598.68	694.64	739.55	16.0	5.7	6.5
(on passenger cars)	(611.88)	(548.79)	(643.29)	(683.79)	(17.2)	(5.1)	(6.3)
On hydrocarbon oils	2,198.81	2,384.45	2,233.31	2,384.45	-6.3	1.6	6.8
Other consumption taxes	2,011.63	2,201.03	2,187.23	2,356.57	-0.6	8.7	7.7
(on tobacco products)	(1,757.78)	(1,895.82)	(1,910.49)	(2,057.52)	(0.8)	8.7	7.7
(on alcohol, beer)	(253.01)	(304.48)	(275.86)	(298.17)	(-9.4)	(9.0)	(8.1)
Road duties	329.01	413.79	721.94	463.68	74.5	119.4	-35.8
Other	154.32	168.75	211.30	227.44	25.2	36.9	7.6
<b>Indirect taxes for third</b>	<b>67.33</b>	<b>68.97</b>	<b>41.09</b>	<b>41.09</b>	<b>-40.4</b>	<b>-39.0</b>	<b>0.0</b>
<b>Tax arrears</b>	<b>181.69</b>	<b>195.16</b>	<b>214.23</b>	<b>258.25</b>	<b>9.8</b>	<b>17.9</b>	<b>20.5</b>
<b>Other indirect taxes</b>	<b>112.58</b>	<b>104.18</b>	<b>135.00</b>	<b>155.54</b>	<b>29.6</b>	<b>19.9</b>	<b>15.2</b>
<b>Duties and special contribution</b>	<b>221.98</b>	<b>240.06</b>	<b>228.91</b>	<b>242.11</b>	<b>-4.6</b>	<b>3.1</b>	<b>5.8</b>
(for EU)	(215.53)	(232.72)	(221.57)	(234.78)	(-4.8)	(2.8)	(6.0)
<b>Tax revenue (I + II)</b>	<b>32,302.94</b>	<b>34,539.40</b>	<b>33,261.92</b>	<b>35,283.93</b>	<b>-3.7</b>	<b>3.0</b>	<b>6.1</b>
<b>III. From EU</b>	<b>133.93</b>	<b>170.80</b>	<b>170.21</b>	<b>201.03</b>	<b>-0.3</b>	<b>27.1</b>	<b>18.1</b>
<b>IV. Other non tax revenue</b>	<b>1,820.19</b>	<b>2,267.06</b>	<b>3,251.65</b>	<b>3,435.07</b>	<b>43.4</b>	<b>78.6</b>	<b>5.6</b>
<b>Non tax revenue (III + V)</b>	<b>1,954.12</b>	<b>2,437.86</b>	<b>3,421.86</b>	<b>3,636.10</b>	<b>40.4</b>	<b>75.1</b>	<b>6.3</b>
<b>Total</b>	<b>34,257.06</b>	<b>36,977.26</b>	<b>36,683.79</b>	<b>38,920.03</b>	<b>-0.8</b>	<b>7.1</b>	<b>6.1</b>
<b>Tax refunds</b>				<b>1,467.35</b>			
<b>NET revenue</b>				<b>37,452.68</b>			

**Composition of ordinary budget reveue  
(in million euros)**

<b>Year</b>	<b>Direct taxes</b>	<b>Indirect taxes</b>	<b>Total</b>	<b>EU revenue</b>	<b>Other</b>	<b>Total</b>
1992	3,499.05	8,579.60	12,078.65	248.28	1,137.20	13,464.13
1993	3,977.70	9,359.65	13,337.35	307.85	943.21	14,588.41
1994	5,204.40	10,158.47	15,362.87	415.85	1,423.92	17,202.64
1995	6,258.55	11,254.29	17,512.84	252.38	1,978.87	19,744.09
1996	6,797.07	12,618.93	19,416.00	258.55	1,995.60	21,670.15
1997	8,120.62	14,186.06	22,306.68	130.59	2,412.03	24,849.30
1998	10,539.69	15,402.49	25,942.18	99.78	1,833.31	27,875.27
1999	11,866.47	17,179.46	29,045.93	135.88	1,905.50	31,087.31
2000	13,682.47	18,620.40	32,302.87	133.82	1,820.10	34,256.79
2001	13,640.50	19,621.42	33,261.92	170.21	3,251.65	36,683.78
<b>Per cent of total expenditure</b>						
1992	26.0	63.7	89.7	1.8	8.4	100.0
1993	27.3	64.2	91.4	2.1	6.5	100.0
1994	30.3	59.1	89.3	2.4	8.3	100.0
1995	31.7	57.0	88.7	1.3	10.0	100.0
1996	31.4	58.2	89.6	1.2	9.2	100.0
1997	32.7	57.1	89.8	0.5	9.7	100.0
1998	37.8	55.3	93.1	0.4	6.6	100.0
1999	38.2	55.3	93.4	0.4	6.1	100.0
2000	39.9	54.4	94.3	0.4	5.3	100.0
2001	37.2	53.5	90.7	0.5	8.8	100.0
<b>Per cent of GDP</b>						
1992	6.3	15.4	21.6	0.4	2.0	24.1
1993	6.3	14.9	21.2	0.5	1.5	23.2
1994	7.3	14.2	21.5	0.6	2.0	24.1
1995	7.8	14.1	21.9	0.3	2.5	24.7
1996	7.7	14.4	22.1	0.3	2.3	24.7
1997	8.4	14.6	22.9	0.1	2.5	25.6
1998	10.0	14.6	24.5	0.1	1.7	26.4
1999	10.5	15.2	25.8	0.1	1.7	27.6
2000	11.3	15.3	26.6	0.1	1.5	28.2
2001	10.4	15.0	25.5	0.1	2.5	28.1

**Tax revenue by category (%)**

	Direct taxes	Indirect taxes	Total
1992	29.0	71.0	100.0
1993	29.8	70.2	100.0
1994	33.9	66.1	100.0
1995	35.7	64.3	100.0
1996	35.0	65.0	100.0
1997	36.4	63.6	100.0
1998	40.6	59.4	100.0
1999	40.9	59.1	100.0
2000	42.4	57.6	100.0
2001	41.0	59.0	100.0

**Composition of public debt (2000-2002)  
(million euro)**

	2000	2001*	2002**
<b>A. Debt in euro area currencies</b>	<b>128,308.15</b>	<b>137,611.14</b>	<b>146,644.45</b>
1. Treasury Bills	4,666.18	2,406.45	1,995.60
2. Greek Government Bonds	87,568.60	100,308.14	111,492.58
3. Bank of Greece	11,527.51	10,984.59	9,561.26
4 Loans	24,545.86	23,911.96	23,595.01
<b>B. Debt in other than euro area currencies</b>	<b>10,876.01</b>	<b>8,126.19</b>	<b>7,336.46</b>
Loans	10,876.01	8,126.19	7,336.46
<b>C. Central government Debt</b>	<b>139,184.16</b>	<b>145,737.33</b>	<b>153,980.91</b>
As % of GDP	114.5%	111.6%	110.3%
<b>D. Intergovernmental Debt</b>	<b>14,421.13</b>	<b>15,688.92</b>	<b>18,107.12</b>
<b>General Government Debt (C-D)</b>	<b>124,763.03</b>	<b>130,048.41</b>	<b>135,873.79</b>
As % of GDP	102.7%	99.6%	97.3%
GDP	121,517	130,547	139,574

\* Estimates

\*\* Forecasts