

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

**GOVERNMENT**  
**BUDGET**  
**REPORT**  
**2003**

**Executive**  
**Summary**

**December 2002**

## I. Overview of the Greek economy

The Greek economy is part of the EMU for the second year. It operates in a common monetary environment, which is defined by the ECB. Its economic policy framework is based upon the Stability and Growth Programme and the broad Economic Policy guidelines. This framework determines the country's position in the international economic environment. Adherence to this policy framework has resulted in macroeconomic stabilization, a strong growth performance, which consistently has outpaced that of the EU as a whole, and a steady but continuous increase of per capita GDP, all leading to a gradual real convergence with the more advanced European economies.

The steady growth of the recent years has not been significantly affected by the slowdown of the international economic activity. In 2001 the rate of growth was over 4% for the second consecutive year.

In 2002 GDP is estimated to increase by 3.8% higher than the EU-15 of 1%, while investment, which will continue to be the basic factor of its growth, is estimated to increase by 7.7%. In particular, private investment is estimated to increase by 9.1%, while private consumption by 3%. The balance of goods and services is expected to have a negative contribution to the increase of GDP of 0.25% in 2002 against a positive contribution of 0.29% in 2001.

The estimates for the strong performance are based on:

- The assumption that the factors that contributed to the high growth will continue to affect positively the economy in the medium term. They include the infrastructure projects for the preparation of the Olympic games and the resources of the 3<sup>rd</sup> Community Support Framework.

- The fall of interest rates and the maintenance of the borrowing of the private sector at relatively high levels.
- The measures for the tax cuts in the enterprises and the increase in the threshold of untaxed income, the abolition of stamp duty that release resources, boost investment and consumption and accelerate growth.
- The maintenance of high levels of sales and net profits of the listed enterprises despite the low performance of the ASE.
- The improvement of the leading economic indicator of O.E.C.D and the Economic sentiment indicator of E.U that refer to Greece.

The maintenance of high growth rates is expected to create new jobs and reduce the unemployment rate to 10%.

### Wages, inflation

The average gross salaries in 2002 are expected to rise by 6.2% in nominal terms and by 3% in real terms resulting in an improvement in the position of employees in relation to the E.U average in units of constant purchasing power. This was possible due to large productivity gains in recent years. The average wage improved by 12 percentage points in the last 8 years reaching the 80% of the E.U average. Expenditure for pensions is expected to rise to 12.5% of GDP in 2002 from 11% in 1995, while average pension in 1996-2001 increased in real terms by 2.8%, annually. For 2002 pensions in real terms is estimated to increase by 5.5%.

The annual change of CPI in September 2002 increased by 3.5% compared to 3.6% and 3.1% in 2001 and 2000, respectively. The

harmonized CPI rose to 3.8% in September 2002.

The upward trend is due to the adverse weather conditions in December 2001 and the first months of 2002 as well as the change over to euro.

### **Monetary policy**

Monetary developments in Greece in 2002 showed a significant deceleration of M3, which is the local component of the euro area's M3. The growth rate of Greek M3 decelerated to 1.7% in August 2002 from 4.7% in the fourth quarter of 2001. The annual growth rate of M3 was lower than that of the euro area and on average was equal to the 1/3 of that rate. This difference reflected lower credit expansion in Greece than in the euro area, which was the result of the limited growth of credit to general government in the period of January-August of 2002 compared to the same period of 2001. Total credit expansion decelerated significantly in the first eight months of 2002 and the year on year rate was limited to 6.9% in August 2002 against 9.3% at the end of 2001. This development was mainly the result of limited growth of credit to general government but also of the deceleration of credit expansion to enterprises and households. In particular, bank credit to enterprises and households rose by 20% annually in August 2002 against 24.8% in December 2001.

In general deposit rates followed a downward trend converging with the euro area rates. Saving deposit rates fell in the first eight months of 2001 by 0.3 percentage points to 1.4% in August 2002.

Average rates on time deposits increased by 0.2 percentage points and reached 2.6% in August 2002.

Reductions were also recorded in lending rates. Specifically, the average rate on short-

term loans was reduced to 7.2% in August 2002 against 2001 in December 2001. The rate on long-term loans was lowered by 0.20 percentage points to 7.5% in August 2002 against 7.7% in December 2001. Regarding the rates on households a fall was recorded in the fixed rates of housing loans to 4.9% in August 2002 from 5.4% in December 2001, while the average rate on consumer loans was reduced to 12.5% from 12.6% in December 2001.

### **Fiscal developments**

The general government balance is expected to yield a deficit of 1.1% of GDP in 2002 from 1.2% in 2001 and 1.8% in 2000, equivalent to an improvement in the budgetary position of 0.7%. The balance of general government in E.U is expected to generate a deficit of 1.8% in 2002 against a surplus of 1% of GDP, corresponding to a deterioration of 2.8 percentage points.

The consolidated debt of General Government continues its downward trajectory, despite its revision due to the inclusion of privatization certificates, exchangeable bonds and securitization according to the Eurostat's decision. It is estimated to reach 105.3% of GDP in 2002 against 107% of GDP in 2001.

### **Prospects**

The Greek economy is expected to grow by 3.8% in 2003. Investment will remain the main contributing factor to the GDP growth and is expected to increase by 9.5%. Private sector investment is estimated to increase by 9.3%. The increase in the profitability of enterprises in recent years, above the euro zone average levels contributed to the increase in investment. According to the European Commission estimates, the productivity of capital will increase by 2.3% in 2003. Private consumption is estimated to increase by 3.1% and imports of goods and

services by 4.9%. Exports of goods and services are estimated to increase by 4.6% and the current account deficit will reach 4.8% of GDP. Employment is estimated to increase by 1.2% and unemployment rate will be reduced to 9.1%. The deflator of private consumption is expected to decelerate by 0.4 percentage points to 2.7%, while the CPI will be reduced to 2.5% in December 2003 from 3.3% in 2002. The factors that are expected to contribute to this development are the favorable external factors, the deceleration of labor cost by 0.3% percentage points and the reduction of oil prices by 5.5%.

The general government deficit in 2003 will be reduced to 0.9% of GDP and the debt/GDP ratio is estimated to fall by 5.1 percentage points to 100.2% from 105.3%.

## II. The implementation of 2002 Government budget

The basic aggregates of the government budget are estimated to diverge to a small extent from the budget targets, despite the adverse economic environment.

The deficit of the central government is expected to be 3.5% of GDP, 0.5% lower than the 2001 deficit.

The 2002 budget was successfully implemented exclusively in euros, a fact that is a landmark for the fiscal history of the country. Aiming at the consolidation of fiscal stability, it set out the following basic objectives:

- to continue the generation of primary surpluses,
- to contain and control expenditure,
- to reduce further the public debt,
- to boost employment, entrepreneurship and development.

In addition, the 2002 budget pursued specific developmental and social targets such as:

- the support of the income of wage earners and pensioners,
- the backing of high social priority sectors such as health, education, employment, security and of households with low income,
- the securing of the necessary resources for implementing the developmental and investment programs,
- the continuation of the preparation of the Olympic Games in 2004.

In 2002 a change in the estimate of the general government deficit on a national accounts basis took place, following a reclassification of certain fiscal aggregates from Eurostat in collaboration with the National Statistical Service of Greece. The reclassification is due to the fact that ESA 95 that is in force since 2000, does not adequately depict certain economic transactions on a national accounts basis, a fact that does not ensure the comparability of data between the member states. The reclassification was agreed with the Eurostat and refers to the capital transfers to public corporations, fall of guarantees, securitization, privatization certificates and exchangeable bonds.

## The implementation of the 2002 ordinary budget

### Revenue

The ordinary budget revenue is estimated to increase by € 2,397 million or 6.6% compared to the 2001 outturn and reach € 38,970 million.

The strong revenue growth is the result of the high GDP, reduction of tax evasion and the broadening of the tax base, despite the tax rate reductions on several taxes and the

abolition of some taxes over the last three years.

Direct tax revenue is estimated to reach 10.5% of GDP in 2002 from 6.3% in 1993, while revenue from indirect taxation amounts to about 15% of GDP for the period 1993-2002. As percentage of total tax revenue, direct tax revenue is estimated to increase to 41.5% in 2002 from 29.8% in 1993, while indirect tax revenue is estimated to fall to 58.5% from 70.2%, reflecting the more equitable distribution of the tax burden.

In 2002, direct tax revenue is expected to increase by 8.9% compared to the outturn of 2001, and amount to € 14,790 million, exceeding the budget forecast by 1.2% or € 172 million. Its share to total ordinary budget revenue is estimated to increase to 38% against 27.3% in 1993.

Revenue from income taxes on households is expected to exceed the budget forecast by € 180 million or 2.8% due to the increase in the declared incomes.

Revenue from tax arrears is expected to exceed the budget forecast by € 367 million or 36.8% due to settlements that refer to the 1993-2001 period.

Revenue from corporate income tax is estimated to fall short of the budget forecast by € 278 million or 6.1% due to the reduction in the tax rate, the lower than expected profits and the low performance of the stock exchange market.

Revenue from indirect taxes is expected to reach € 20,825 million or increase by 6.8% in 2002, higher by 0.8% than the budget forecast. Revenue from consumption taxes is estimated to be higher than the budget forecast by € 173 million or by 2.7% due to higher revenue from tobacco taxes and road duties.

Revenue from transaction taxes is estimated to be lower than the budget forecast by € 262 million or 1.9% arising from the low proceeds of the stock exchange transactions.

### *Expenditure*

Ordinary budget expenditure (excluding amortization payments) is estimated to increase by 4.7% and reach € 37,476 million, higher by 840 € million than the budget forecast, arising from an estimated overrun of both primary expenditure of € 591 million and interest rate payments of € 249 million.

Expenditure for salaries and pensions is estimated to reach € 14,334 mil., € 211 mil. higher than the budget forecast due to:

- new recruitment,
- payments for a new allowance to teachers, adjustments to the wages of security and armed forces and
- higher than forecast retirements.

Grants to social security funds and medical care expenditure are estimated to be € 4,669 million, 116 million higher than the budget forecast due to the increased needs for medical care and additional payments to the OGA (Farmers' Insurance Fund). Operating expenditure is estimated to be € 6,169 million, an overrun of € 170 million, arising from:

- compensating farmers for the loss of their crops due to adverse weather conditions,
- granting allowances to long-term unemployed,
- supporting households of disadvantaged regions,
- the preparation of the Olympic games and
- the participation of armed forces to peace keeping missions.

### The implementation of the 2002 Public Investment Program (PIP)

The 2002 PIP ensured the smooth financing for paying up the projects of the 2<sup>nd</sup> CSF and the accession of projects to the 3<sup>rd</sup> CSF. The projects of the Olympic Games were included in total in the 2002 PIP. € 7,898 million will be absorbed, 0.7% higher than in 2001, of which € 4,750 million will be granted to projects co-financed from the E.U and € 3,148 million to projects financed from national resources.

## III. The 2003 Government Budget

### 1. The targets of fiscal policy

The targets of the 2003 budget are set in line with the framework of the Stability and Growth Pact and include:

- the maintenance of the stability conditions,
- the sustainability of fiscal consolidation,
- the financing of the social system and tax reforms.

After fulfilling the target of fiscal convergence, the entry into the euro area and the successful introduction of the new currency, Greece will continue strengthening the economy in order to face the challenges from the world competition and remove the consequences of the adverse external effects. The economic and social convergence with EU will continue until the achievement of these goals which will be brought about by:

- boosting competitiveness, productivity and investment activity,
- enhancing the structural reforms,
- focusing on social cohesion, and increasing employment,
- liberalizing further the markets.

The reforms undertaken in order to achieve the targets refer to:

- upgrading of mechanisms to fight tax evasion,
- upgrading, improvement and simplification of tax system,
- systematic assessing of primary expenditure in relation to achieving certain goals,
- promoting changes for increasing the effectiveness of the expenditure control procedure,
- backing those sectors that contribute to the economic development,
- adopting of modern techniques of public debt management,
- improving the public services.

The deficit of the central government as percentage of GDP is estimated to remain at the 2002 levels (3.5%). The Public Investment Program, the projects of the 3<sup>rd</sup> CSF and the Olympic Games will contribute to the maintenance of high growth rates, increase in employment and enhancement of social cohesion.

The primary fiscal results and the proceeds from the privatizations will continue to be the main factors towards the reduction of the Debt-GDP ratio to 100.2%.

### 2. The 2003 Central Government Budget

Net total revenue of government budget is expected to increase by 6.1% and reach € 43,000 million and be equal to 28.6% of GDP in 2003 from 28.9% in 2002.

In 2003 total expenditure (excluding amortization) of government budget is estimated to increase by 6.5%, lower than the nominal GDP increase of 7%. Ordinary budget expenditure (excluding amortization) is estimated to increase by 5.1% while Public In-

vestment Program Expenditure is forecast to increase by 12.9% reflecting the emphasis put in investment expenditure for promoting growth and development. The attempts to restrict consumption expenditure will continue through prioritizing. In 2003 primary ordinary budget expenditure is estimated to increase by 6% against an increase of 8.4% in 2001 and fall to 20% of GDP from 20.2% in 2002. Expenditure of government budget is estimated to fall to 32.2% of GDP in 2003 from 32.4% and 32.7% in 2002 and 2001 despite the increase of expenditure of the public investment program to 5.9% of GDP in 2003 from 5.6% in 2002. Ordinary budget primary surplus is forecast to fall to 5.9% from 6.2% in 2002.

#### **a. Ordinary Budget**

##### ***Revenue***

The forecast of the 2003 ordinary budget aggregates are based on the estimates of the nominal growth of GDP, the effects of controls and tax settlements and reforms.

The estimates of the 2003 budget revenue reflect the changes brought about by the tax reforms, since a number of amendments will affect the 2004 revenue.

Total ordinary budget revenue is estimated to increase by 5.3% or € 2,080 million and reach € 41,050 million, while net revenue (total minus tax refunds) is estimated to amount to € 38,900 million and show an increase of 5.1%.

Direct tax revenue is estimated to reach € 15,510 million or increase by 4.9%, while indirect tax revenue is estimated to increase by 5.8% and reach € 22,035 million.

##### ***Tax reforms***

Within the year 2002, the first stage of the tax system's reform was completed, in order to satisfy the general demand for its improvement.

Concrete measures were adopted after the proposals of the Committee for the reform of the tax system and the results of the social dialogue on the subject were studied, taking into account the need for formulating a simpler and more equitable tax system.

The basic directions of the new tax system are:

- simplification of the tax system,
- improving tax equity through a more just distribution of the tax burden,
- supporting families, especially those with many children,
- fostering entrepreneurship and improving competitiveness of the Greek products,
- promoting employment and combating unemployment,
- reducing the administrative cost of the tax system,
- combating tax evasion, thereby widening the tax base.

The measures promoting modern organizational methods and technologies for small and medium enterprises are:

- complete abolition of the attestation procedure as regards computerized items thereby reducing the volume of attested company documents by 70%,
- abolition of the attestation procedure as regards a number of computerized books and lists reducing thereby the volume of attested prints by 80%,
- submission of aggregate lists electronically.

The measures aiming at simplifying VAT, and tax register include:

- extension of the tax period to three months (from two) for those enterprises keeping books of income and expenses. The measure affects 800,000 enterprises and will result in 1,600,000 less visits to the tax offices.
- abolition of the obligation to file zero and credit VAT returns and of all respective sanctions. The measure affects 400,000 cases.

The measures aiming at the simplifications and reductions in the tax system of inheritance, parental benefits and transfer of immovable property include:

- additional tax-free amount of €300,000 for the inheritance from spouses and under age children,
- the exemption from tax, when parents inherit their child, property or assets that were transferred to the deceased in the past by the surviving parents themselves,
- in case of parental benefit or inheritance of immovable property by the spouse or children, when the property in question constitutes first house, the granting of the same allowance as the respective tax allowance granted when such property is bought,
- from now on, the granting more than once of tax allowance for the acquisition of first house, provided that the beneficiary will pay the amount of the tax allowance granted to him in the past,
- the introduction of a uniform tax of the transfer of all shares of listed companies, regardless of the legal cause of the transfer (inheritance, gift, parental benefit).
- the introduction of a uniform independent tax for the transfer of non-listed

shares, in the cases where the transfer takes place between persons of 1<sup>st</sup> and 2<sup>nd</sup> degree of kinship,

- the introduction of a uniform independent tax in the transfer of all kinds of firms (except limited comp.) between persons of 1<sup>st</sup> and 2<sup>nd</sup> degree of kinship.

### *Income tax reforms*

The aims of income tax reforms are to support the wage earners, pensioners, families, simplify the taxation of medium and small companies, grant incentives for increasing employment, improve tax equity, boost development and social prosperity.

The reforms of income on households are:

- increase in the threshold of tax free income to € 10,000 for wage earners and pensioners and to € 8,400 for the other tax payers,
- granting of an additional tax free amount of € 1,000 for one child and 2,000 for two children,
- granting of an additional tax free amount of € 10,000 to families with three children,
- modification of the system of tax deductions for family expenses due to rent of first house, rent paid for children away on studies, private tutorials and interest on housing loans,
- abolition of tax of own occupied houses and introduction of a high presumption of income for luxurious abodes,
- increase to € 1,000 of the tax allowance for expenses on life premiums and abolition of the 3.6% stamp duty on insurance payments paid by the insured persons,
- abolition of a number of presumptions of income relating to small and medium range of incomes, whereas presumptions concerning high incomes were raised,

- reduction of the number of taxpayers that have to file a tax return (taxpayers whose income falls below the exemption limits as well as those having income from one employment source will not have to submit tax returns) .

The measures for the small and medium enterprises and self-employed are:

- abolition of the non-accounting determination of profits,
- improvement of the accounting situation of companies by writing off bad debts and new amortization rates,
- increase in the amount of insurance premiums that are exempted from taxation which are paid from the companies and the self employed for the collective life insurance of their personnel,
- harmonization of the taxation of limited and unlimited companies for the remuneration of their associates-members of their board of directors,
- increase of the tax free amount of compensation due to dismissal.

The reforms for the large companies include:

- reduction of tax rate for non listed companies to 35% from 37.5%,
- reduction of up to 2.5% of the tax rate applied to the income of companies that will promote employment,
- introduction of incentives for mergers as well as for scientific and technological research.

Apart from the above, a number of out of date provisions of the income tax legislation were abolished. Moreover, necessary legislative and administrative measures were introduced that are designed to render the use of the off shore company type as a medium

for doing business or investing in Greece non profitable.

### *Expenditure*

Total ordinary budget expenditure (excluding amortization) is projected to reach € 39,385 million or increase by 5.1% substantially lower than the increase of nominal GDP, indicating the continuation of attempts towards the rationalization of fiscal management. It is estimated to fall to 26.2% of GDP from 26.7% and 27.3% in 2002 and 2001, respectively. Primary expenditure is expected to increase by 6% against 8.4% in 2002 while as a percentage of GDP will fall to 20% from 20.2%.

Interest payments are estimated to fall to 6.3% of GDP from 6.6% and 7.4% in 2002 and 2001, respectively. These reductions will release resources for implementing government's social and development goals. It is estimated that the additional funds needed to implement the social policy will include:

- an increase of 82.3% in the grant of IKA (Social Insurance Fund) for the financing of the reforms of the pension system
- an increase of 5.6% of the grant to OGA (Farmers' Insurance Fund) to cover the increase of farmers' pensions by € 14.67 per month,
- an increase by € 14.67 of the complementary allowance for pensioners per month,
- an increase in pensions of seamen.

Apart from these funds, € 35 million will be allocated to cover the needs for the Greek presidency of EU and € 30 million to cover natural catastrophes.

### *Budgetary reforms*

The fiscal adjustments that are necessary for the fulfillment of the medium term socio-economic targets must place emphasis on prioritizing and improving the evaluation of ordinary budget expenditure ensuring at the same time transparency during the different stages of budgeting and interconnection with government objectives. In line with these issues the Ministry of Economy and Finance is looking to develop a pilot project aiming at preparing in parallel with the existing budget an alternative budget based on program activity. The purpose is to convert the education ministry budget from a line to program budgeting.

### *Pension system reforms*

The main strategy of the recent 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, the recent reform attempts to rebuilt and consolidate a feeling of trust in the system and in the future of pensions. At the heart of the policy is the new Law 3029/2002 the key initiatives of which aim at addressing current problems:

- By placing emphasis on pension adequacy, both in preventing poverty in old age, and in protecting the purchasing power of pensions. These actions are supported by upgrading direct services to the aged, such as Help at Home Programme.
- By promoting uniform treatment for all and social justice, through curbing system fragmentation and eliminating discrimination against younger workers who began work after 1.1.1993.
- By categorically securing the financial autonomy of IKA until 2030. This is attained by the creation of a reserve fund, the function of which is to exploit the greater financial leeway during the cur-

rent decade in order to guarantee the payment of pensions after 2015.

- By creating a stable legislative framework, through the adoption of a definite stance on the major issues while leaving room for manoeuvre and flexibility on other issues.
- By facilitating the introduction of new instruments that add credibility and flexibility to the system, such occupational pensions.
- By distinguishing auxiliary from primary pensions, through the creation of separate auxiliary Funds, which, with the passage of time, will tend to be transformed towards the direction of funding.
- By achieving a satisfactory balance among the basic principles of social insurance through the process of social dialogue with the representatives of the two sides.
- By releasing the Funds providing lump-sum separation payments from organizational restrictions of the Government sector.
- By creating the potential for the voluntary pairing of auxiliary with occupational insurance.
- By the establishment of the National Actuarial Authority, as an institution possessing credibility and commanding general acceptance, which will submit an annual report and will conduct special enquiries on specific issues, focusing in particular on matters regarding the financial standing and viability of all the social insurance organizations (Primary pension Funds, Auxiliary Pension Funds, Occupational Funds).

The success of the reforms depends on the continuation of the rapid course to real convergence with the E.U., the pursuit of Lisbon strategy, and the acceleration of functional modernization and the improvement in the quality of the services provided by the

social insurance system. Those three parallel actions set in motion the developmental employment and social reserves and thereby strengthen the policy towards social insurance per se. Rebuilding confidence and trust will allow the system once again to play a role in the virtuous circle between social improvement and economic advance. Participation in such a social insurance system, by leading to expectations of an adequate pension, can create the preconditions of viability that, in turn, allow those expectations to be met.

### **b. Public Investment Program**

The payments of the public investment program are estimated to increase by 12.9% and reach € 8,918 million in 2003 of which € 5,770 million is distributed among projects co-financed from the structural funds of E.U and € 3,148 million among projects financed from national resources. The resources from the E.U for the 2003 are estimated to cover 45% of the payments of the PIP. Emphasis is placed on financing projects and activities of the 3<sup>rd</sup> CSF indicated by the ratio of co-financed to national financed resources, which for the period 1993-2003 is estimated to be 2 to 1. The payment of P.I.P. in 2002 amounted to € 7,898 million.

## **III. Privatization**

The privatizations completed in 2002 are:

- the public offering of 16% of the Public Power and its listing to the stock exchange,
- the privatization of ETVA by transferring 57.78% of its shares to Piraeus Bank,
- increase by 2.37% of the stake of Credit Agricole, strategic partner of Commercial Bank,

- privatization of Skaramaga shipyards by trade sale to joint-venture HDW-Ferrostahl,
- additional offering of 8% of Hellenic Telecommunications OTE,
- additional offering of 19% of Football Prognostics Organization.

Revenues raised in 2002 are about € 2,479 million.

The privatizations envisioned for the forthcoming period include:

- initial Public offering of Piraeus port Authority of 25% and listing in the ASE,
- transfer of the 58% of the shares of Olympic Catering to a strategic partner,
- transfer of 40% of the shares Duty Free Shops to a strategic partner,
- sale of 10% of the shares Hellenic Postal Service to a strategic partner and formation of a 50-50% joint venture in express delivery mail service,
- additional offering of 15% of Public Power Corporation,
- transfer of 23% of Hellenic Petroleum to a strategic partner
- initial public offering of 25% of Hellenic Tourist Properties and listing in the ASE,
- 33.4% private placement of Hellenic Stock Exchange,
- the sale of Public Natural Gas Corporation (DEPA) to a strategic partner.

## **IV. Public Debt**

The debt to GDP ratio is expected to be put on a downward trend benefiting from the growth dividend and the continuation of the implementation of the privatization program, while the use of modern debt management techniques in relation to the favor-

able international conditions (low interest rates, increase of euro/dollar parity) contributed further to the restructuring of debt and the weakening of the dynamics of debt increase.

The inclusion in the debt of the privatization certificates, securitization (ABS) and the exchangeable bonds as a result of the recent decisions of Eurostat has by no means affected the overall fiscal burden or the implementation of the current fiscal policy, since it just concerns the accounting handling of broadly publicized obligations which are in any case already assumed by the state, resulting from the use of modern financial instruments broadly accepted in the international capital markets. Besides, the same accounting rules were applied to almost all the EU countries resulting to the increase of their debt levels as well.

### **Composition of central and general government debt**

The general government debt as a percentage of GDP is expected to fall to 100.2% in 2003 from 105.3% and 107% in 2002 and 2001, respectively and reach € 150,430 million.

The debt of central government is estimated to reach € 171,054 million in 2003 (114% of GDP) compared to a forecast of € 165,842 million in 2002 (118,2% of GDP). The nominal increase of debt is mainly due to the borrowing requirements of the government budget and the implementation of extended military procurements.

The euro denominated central government debt is estimated to increase to 96.8% in 2002 from 94.5% in 2001, 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 share of short term government securities (treasury bills) is estimated to fall

to 1% in 2002 against 1.6% in 2001 while the share of medium-and-long term government bonds reached 76.2%. The residual maturity of the outstanding government securities (GG Bonds and T-Bills only) was 5.9% on 30/09/2002 compared to 3.9% on 31/12/1998. The fixed rate bonds account for the 84% while the floating rate bonds for 16%. The main volume of floating rate bonds is expected to mature by the end of 2004. On 30/6/02, the duration and modified duration reached 4.5 and 4.3 respectively, approaching the euro area average.

Interest payments are estimated to be € 9,400 million in 2003 (6.3% of GDP) compared to € 9,200 million in 2002 (6.6% of GDP).

The non-euro currency debt accounts only for 3,2% (end 2002) of the total debt, as a result of the cross currency swap activity of the last 3 years. It mainly consists of USD (60.1%), CHF (19.2%), JPY (15.4%) and GBP (5.3%).

The outstanding military debt is estimated to reach € 6,856 million (4.9% of GDP) by the end of 2002, compared to € 6,547 million in 2001 (5.0% of GDP), having an average residual maturity of about 4 years.

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

The adverse economic conditions prevailing in the international environment during the year combined with the imminent renewal of the USA activity against international terrorism resulted in the weakening of the US and European stock markets and the shift in investors' preferences towards less risky investment vehicles and mainly to the safety of fixed income markets.

Bond markets have significantly benefited from investors' risk averse attitude, showing increased volumes of issuance and transac-

tions and higher prices in all segments of maturity.

The average daily turnover of Greek government securities in the secondary market (including the OTC market) during the first 9 months of 2002, increased to € 18,934 million compared to € 9,864 million in the same period of 2001.

### **Primary market**

The upgrading of the primary market was further pursued. The Primary Dealer's Regulation has been revised and the number of Primary Dealers has increased to 18, of which 13 are international credit institutions (11 of them having no establishment in Greece) and 5 are domestic. In addition, increased powers were vested in the Committee of Primary Dealers' Supervision and Control, ensuring the effective control of the operation of the market and transparency of the system.

Borrowing was conducted via benchmark bonds and treasury bills. According to the new issuing policy adopted in 2002, all new benchmark bonds having maturity above 3 years are initially issued through syndication and further tapped by auctions. Only the 3-year benchmark bond (due 21/6/2005) and of course T-Bills were issued through auctions.

There were three syndicated issues in the year 2002:

- a 5 bn 10-year bond issue in January (due 18/5/2012)
- a 4 bn 5-year bond issue in February (due 19/4/2007) and
- a 3.5 bn 20-year bond issue in April (due 22/10/2022).

### **Secondary market**

The significant measures undertaken during the last two years led to an increased volume of transactions in the Electronic Secondary Market (HDAT). The average monthly turnover during the first 9 months of 2002 reached € 46.3 billion compared to € 21.7 billion in the same period of 2001. The majority of trades concerns fixed interest rate bonds. Domestic Primary Dealers have absorbed 50.8% of the primary issuance volume and 44.7% of the turnover in HDAT.

At the same time, extended buy-backs of high coupon bonds and non-tradable debt were concluded, aiming at the retirement of such issues, the refinancing of debt at a lower cost and the reduction of interest payments. During the first nine months of 2002, the Ministry of Economy and Finance bought back bond of nominal value € 1.5 billion by OTC operations.

Moreover, the Bank of Greece, in its capacity as manager of HDAT, announced that it is implementing the New Central System of HDAT ("HDAT-NCS"), which is envisaged to go in production in January 2003.

HDAT-NCS, has the following characteristics:

- The system architecture that is fully compatible with the use of auto-quoting systems requiring quick response times, will accommodate "unlimited" number of quotes and minimize delays in order acceptance.
- HDAT-NCS architecture, access mode, user interface and new functionalities, allow convergence with the services of other systems (e.g., EuroMTS) and facilitate surveillance, administration and trading of the GGBs.
- The new user interface establishes a friendlier end user environment and

provides more new possibilities, regarding its linking with other systems.

- New functionalities are added for further market growth as well as for the development of new markets (e.g., corporate bonds).

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

The borrowing in 2003 will continue to focus on the 3, 5, 10 and 20 year issues, thus creating more liquidity in the basic segments of the yield curve. These issues will account for 90% of the total borrowing, while the rest 10% will include issues of treasury bills and strategic issues that will cover existing investment needs.

After the cross currency swap activity of the last 3 years, the foreign currency element of the Greek debt is now negligible. Therefore the main target of liability management during 2003 is to achieve interest payments reduction and manage the duration taking into account the shape of the yield curve.

The steepness of the curve during the first nine months of 2002 especially between 6-month euribor and 8 - 10 years euro swap rates gave great opportunities for carrying benefit at substantial risk-reward levels.

During 2002 an amount of around € 8 billion Floating Rate Notes (FRN) expired thus reducing the floating component of total debt. An amount of around € 6 billion from the outstanding debt has been converted into floating, partly replacing the matured FRNs. The target has been to maintain duration - that would otherwise increase due to the big fixed rate bonds component- within a range 3.5 to 4.5. This range of duration corresponds to around a 25%/75% floating to fixed rate debt.

**Central Government Budget for 2003**  
(€ million)

	Outturn 2001	Budget. 2002	Estimate 2002	Forecast 2003	Change %		
					2003 in progress	02/01	03/02
					(3:2)	(3:1)	(4:3)
	(1)	(2)	(3)	(4)			
<b>Ordinary Budget</b>							
Revenue	36,573	38,920	38,970	41,050	0.1	6.6	5.3
Tax revenue	33,083	35,284	35,615	37,545	0.9	7.7	5.4
Non-tax revenue and EU	2,991	3,002	2,885	3,205	-3.9	-3.5	11.1
Non recurring revenue	499	634	470	300	-25.9	-5.8	-36.2
Tax refunds (-)	949	1,467	1,950	2,150	32.9	105.5	10.3
<b>Net revenue</b>	<b>35,624</b>	<b>37,453</b>	<b>37,020</b>	<b>38,900</b>	<b>-1.2</b>	<b>3.9</b>	<b>5.1</b>
<b>Primary expenditure</b>	<b>26,076</b>	<b>27,686</b>	<b>28,276</b>	<b>29,985</b>	<b>2.1</b>	<b>8.4</b>	<b>6.0</b>
Salaries and pensions	13,186	14,123	14,334	15,130	1.5	8.7	5.6
Wages	7,811	8,383	8,508	9,006	1.5	8.9	5.9
Grants to social security funds and medical care	4,365	4,553	4,669	5,560	2.5	7.0	19.1
Operating expenditure	5,538	5,999	6,169	6,097	2.8	11.4	-1.2
Returned resources	2,987	3,011	3,105	3,199	3.1	3.9	3.0
Primary surplus	9,548	9,767	8,744	8,915	-10.5	-8.4	2.0
<b>Interest payments</b>	<b>9,711</b>	<b>8,951</b>	<b>9,200</b>	<b>9,400</b>	<b>2.8</b>	<b>-5.3</b>	<b>2.2</b>
<b>Total expenditure</b>	<b>35,788</b>	<b>36,637</b>	<b>37,476</b>	<b>39,385</b>	<b>2.3</b>	<b>4.7</b>	<b>5.1</b>
Deficit	-164	816	-456	-485	-155.9	178.7	6.4
Amortization	12,777	20,320	20,771	21,626	2.2	62.6	4.1
<b>Public Investment Programme</b>							
Revenue	2,795	4,085	3,490	4,100	-14.6	24.9	17.5
Expenditure	7,842	8,948	7,898	8,918	-11.7	0.7	12.9
Deficit	-5,047	-4,863	-4,408	-4,818	-9.4	-12.7	9.3
<b>Central Government Budget</b>							
Revenue	38,419	41,538	40,510	43,000	-2.5	5.4	6.1
Expenditure	43,630	45,585	45,374	48,303	-0.5	4.0	6.5
<b>Central Government Deficit</b>	<b>-5,211</b>	<b>-4,047</b>	<b>-4,864</b>	<b>-5,303</b>	<b>20.2</b>	<b>-6.7</b>	<b>9.0</b>
Surplus of public entities and other adjustments (ESA 95)	3,645		3,327	3,935		-8.7	18.3
<b>General Government balance</b>	<b>-1,566</b>		<b>-1,537</b>	<b>-1,368</b>		<b>-1.8</b>	<b>-11.0</b>
GDP (revised))	130,926	139,574	140,249	150,091	0.5	7.1	7.0

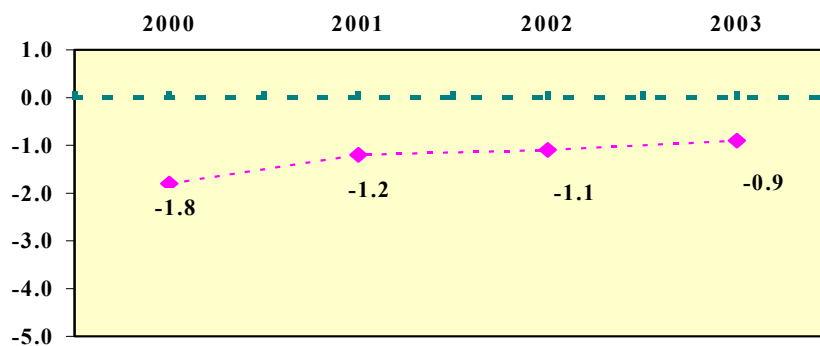
Source: Ministry of Economy and Finance

**Central Government Budget for 2003**  
(% of GDP)

	Εκτέλεση 2001	Προϋπ/σμός 2002	Εκτίμηση 2002	Πρόβλεψη 2003
	(1)	(2)	(3)	(4)
<b>Ordinary Budget</b>				
Revenue	27.9	27.9	27.8	27.4
Tax revenue	25.3	25.3	25.4	25.0
Non-tax revenue and EU	2.3	2.2	2.1	2.1
Non recurring revenue	0.4	0.5	0.3	0.2
Tax refunds (-)	0.7	1.1	1.4	1.4
<b>Net revenue</b>	<b>27.2</b>	<b>26.8</b>	<b>26.4</b>	<b>25.9</b>
<b>Primary expenditure</b>	<b>19.9</b>	<b>19.8</b>	<b>20.2</b>	<b>20.0</b>
Salaries and pensions	10.1	10.1	10.2	10.1
Wages	6.0	6.0	6.1	6.0
Grants to social security funds and medical care	3.3	3.3	3.3	3.7
Operating expenditure	4.2	4.3	4.4	4.1
Returned resources	2.3	2.2	2.2	2.1
Primary surplus	7.3	7.0	6.2	5.9
<b>Interest payments</b>	<b>7.4</b>	<b>6.4</b>	<b>6.6</b>	<b>6.3</b>
<b>Total expenditure</b>	<b>27.3</b>	<b>26.2</b>	<b>26.7</b>	<b>26.2</b>
Deficit	-0.1	0.6	-0.3	-0.3
Amortization	9.8	14.6	14.8	14.4
<b>Public Investment Programme</b>				
Revenue	2.1	2.9	2.5	2.7
Expenditure	6.0	6.4	5.6	5.9
Deficit	-3.9	-3.5	-3.1	-3.2
<b>Central Government Budget</b>				
Revenue	29.3	29.8	28.9	28.6
Expenditure	33.3	32.7	32.4	32.2
<b>Central Government Deficit</b>	<b>-4.0</b>	<b>-2.9</b>	<b>-3.5</b>	<b>-3.5</b>
Surplus of public entities and other adjustments (ESA 95)	2.8		2.4	2.6
<b>General Government balance</b>	<b>-1.2</b>		<b>-1.1</b>	<b>-0.9</b>

Source: Ministry of Economy and Finance

**Balance of General Government on a NA basis  
(% of GDP)**



**Borrowing requirements of central government  
(€ million)**

	Budget 2003
Net deficit	5,303
Amortization payments	21,626
<b>Total</b>	<b>26,929</b>
Deficit financing	
Foreign borrowing	2,000
Domestic borrowing	24,929
<b>Total</b>	<b>26,929</b>

Source: Ministry of Economy and Finance

**Revenue of the ordinary budget  
(€ million)**

	2001	2002		2003	Changes		
	outturn	budget	estimates	budget	(3)/(2)	(3)/(1)	(4)/(3)
	(1)	(2)	(3)	(4)			
<b>I DIRECT TAXES</b>	<b>13,585</b>	<b>14,618</b>	<b>14,790</b>	<b>15,510</b>	<b>1.2%</b>	<b>8.9%</b>	<b>4.9%</b>
1. Income tax	11,326	12,073	11,915	12,505	-1.3%	5.2%	5.0%
(On households)	6,156	6,465	6,645	6,990	2.8%	7.9%	5.2%
(On corporations)	4,172	4,578	4,300	4,505	-6.1%	3.1%	4.8%
(Other)	998	1,030	970	1,010	-5.8%	-2.8%	4.1%
2. Property taxes	507	536	545	480	1.7%	7.5%	-11.9%
3. Tax arrears	840	998	1,365	1,475	36.8%	62.5%	8.1%
4. Other direct taxes	912	1,011	965	1,050	-4.5%	5.8%	8.8%
<b>II INDIRECT TAXES</b>	<b>19,498</b>	<b>20,666</b>	<b>20,825</b>	<b>22,035</b>	<b>0.8%</b>	<b>6.8%</b>	<b>5.8%</b>
1. Transaction taxes	12,580	13,577	13,315	14,270	-1.9%	5.8%	7.2%
1.1 V.A.T.	10,732	11,782	11,785	12,755	0.0%	9.8%	8.2%
(On hydrocarbon oils)	978	1,040	1,028	1,090	-1.2%	5.1%	6.0%
(On tobacco enterprises)	462	501	512	555	2.2%	10.8%	8.4%
(Other)	9,292	10,241	10,245	11,110	0.0%	10.3%	8.4%
1.2 Other transaction taxes	1,848	1,795	1,530	1,515	-14.8%	-17.2%	-1.0%
Capitals transfers	850	1,042	805	870	-22.7%	-5.3%	8.1%
Stamp duty	876	662	640	565	-3.3%	-26.9%	-11.7%
2. Consumption taxes	6,321	6,392	6,565	6,925	2.7%	3.9%	5.5%
2.1 Turnover tax	207	220	235	255	6.8%	13.5%	8.5%
2.2 On vehicles	642	740	690	740	-6.8%	7.5%	7.2%
2.3 On hydrocarbon oils	2,278	2,384	2,360	2,460	-1.0%	3.6%	4.2%
2.4 Other consumption taxes	2,211	2,357	2,435	2,650	3.3%	10.1%	8.8%
2.5 Road duties	753	464	595	555	28.2%	-21.0%	-6.7%
2.6 Other	230	227	250	265	10.1%	8.7%	6.0%
4. Tax arrears	208	258	585	470	126.7%	181.3%	-19.7%
5. Other indirect taxes	389	439	360	370	-18.0%	-7.5%	2.8%
(For E.U.)	199	235	210	220	-10.6%	5.5%	4.8%
<b>TAX REVENUE (I+II)</b>	<b>33,083</b>	<b>35,284</b>	<b>35,615</b>	<b>37,545</b>	<b>0.9%</b>	<b>7.7%</b>	<b>5.4%</b>
<b>III FROM E.U.</b>	<b>113</b>	<b>201</b>	<b>220</b>	<b>181</b>	<b>9.5%</b>	<b>94.7%</b>	<b>-17.7%</b>
<b>IV OTHER NONTAX REVENUE</b>	<b>3,377</b>	<b>3,435</b>	<b>3,135</b>	<b>3,324</b>	<b>-8.7%</b>	<b>-7.2%</b>	<b>6.0%</b>
<b>NONTAX REVENUE (III+IV)</b>	<b>3,490</b>	<b>3,636</b>	<b>3,355</b>	<b>3,505</b>	<b>-7.7%</b>	<b>-3.9%</b>	<b>4.5%</b>
<b>TOTAL</b>	<b>36,573</b>	<b>38,920</b>	<b>38,970</b>	<b>41,050</b>	<b>0.1%</b>	<b>6.6%</b>	<b>5.3%</b>
<b>TAX REFUNDS</b>	<b>949</b>	<b>1,467</b>	<b>1,950</b>	<b>2,150</b>	<b>32.9%</b>	<b>105.5%</b>	<b>10.3%</b>
<b>NET REVENUE</b>	<b>35,624</b>	<b>37,453</b>	<b>37,020</b>	<b>38,900</b>	<b>-1.2%</b>	<b>3.9%</b>	<b>5.1%</b>

**Composition of ordinary budget revenue  
(€ million)**

<b>Year</b>	<b>Direct taxes</b>	<b>Indirect taxes</b>	<b>Tax revenue</b>	<b>EU revenue</b>	<b>Other non-tax revenue</b>	<b>Total revenue</b>
1993	3,978	9,360	13,338	308	943	14,589
1994	5,204	10,158	15,362	416	1,424	17,202
1995	6,259	11,254	17,513	252	1,979	19,744
1996	6,797	12,619	19,416	259	1,996	21,671
1997	8,121	14,186	22,307	131	2,412	24,850
1998	10,540	15,402	25,942	100	1,833	27,875
1999	11,866	17,179	29,045	136	1,906	31,087
2000	13,682	18,620	32,302	134	1,820	34,256
2001	13,585	19,498	33,083	113	3,377	36,573
2002*	14,790	20,825	35,615	220	3,135	38,970
<b>Per cent of total revenue</b>						
1993	27.3	64.2	91.5	2.1	6.4	100.0
1994	30.3	59.1	89.4	2.4	8.2	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	6.5	100.0
1999	38.2	55.3	93.5	0.4	6.1	100.0
2000	39.9	54.4	94.3	0.4	5.3	100.0
2001	37.1	53.3	90.4	0.3	9.3	100.0
2002*	38.0	53.4	91.4	0.6	8.0	100.0
<b>Per cent of GDP</b>						
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	11.2	15.3	26.6	0.1	1.5	28.2
2001	10.4	14.9	25.3	0.1	2.6	27.9
2002*	10.5	14.8	25.4	0.2	2.2	27.8

**Central and General Government Debt**  
(€ million)

	2000	2001	2002*	2003**
<b>A. Euro Zone Debt</b>	<b>128,308</b>	<b>137,383</b>	<b>151,223</b>	<b>160,379</b>
1. Treasury bills	4,666	2,261	1,630	1,480
<i>(held by the public sector)</i>	2,688	1,473	690	540
<i>(held by the private sector)</i>	1,978	788	940	940
2. Government Bonds <i>Auctions and other issues</i>	87,568	100,363	112,774	124,356
<i>Bonds</i>	84,663	98,293	110,878	123,007
<i>Consolidated loans</i>	2,905	2,070	1,896	1,349
3. Bank of Greece	11,528	10,985	9,605	9,060
4. Syndicated and other loans in euro	24,546	23,774	27,214	25,483
<b>B. Non Euro Zone Debt</b>	<b>10,876</b>	<b>8,544</b>	<b>5,289</b>	<b>3,047</b>
Loans in non euro zone currency	10,876	8,544	5,289	3,047
<b>C. Total central government debt (A+B)</b> (without ESA95 adjustments)	<b>139,184</b>	<b>145,927</b>	<b>156,512</b>	<b>163,426</b>
<b>(as % of GDP)</b>	114.4%	111.4%	111.6%	108.9%
<b>D. ESA95 adjustments</b> (Privitization certificates, securitization, convertible bonds)	<b>4,424</b>	<b>9,911</b>	<b>9,330</b>	<b>7,628</b>
<b>(as % of GDP)</b>	3.6%	7.6%	6.6%	5.1%
<b>E. Total central government debt (C+D)</b> (with ESA95 adjustments)	<b>143,608</b>	<b>155,838</b>	<b>165,842</b>	<b>171,054</b>
<b>(% GDP)</b>	118.0%	119.0%	118.2%	114.0%
<b>F. Intergovernmental debt and other adjustments</b>	<b>-14,427</b>	<b>-15,791</b>	<b>-18,094</b>	<b>-20,624</b>
<b>G. General Government Debt (E+F)</b>	<b>129,181</b>	<b>140,047</b>	<b>147,748</b>	<b>150,430</b>
<b>(% GDP)</b>	106.2%	107.0%	105.3%	100.2%
GDP	121,652	130,926	140,249	150,091

\* Estimates

\*\* Provisional Data

**General Government Debt as % of GDP**

