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# GREECE

## An "IGETOR" Country report

Political and Economic Situation of the country and trends

(Update 10/3/2005)

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### *Previous Reports*

30/11/2004

1. *Political Scene*
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3. *Outlook*

#### 1. *Political Scene*

##### *Foreign:*

-The Greek foreign policy priorities (Cyprus, Turkey and Balkans) seem to be out of the international agenda of interest. E.U. traditionally avoids radical measures and USA has less immediate concern in the area.

-The UN's plan for ending three decades of conflict and reuniting Cyprus has been rejected by the island's Greek-Cypriot majority-to the anger of the world powers that backed the plan. The Turkish-Cypriot northern part of the island will be unable to join the European Union but measures are taken to help their economy. Annan's plan remains the only backed by USA possible solution.

-The Greek-Turkish relationship issues even under E.U. perspective continue to evolve slowly. The Turkish candidature in the European Union is a key issue but Turkey remains prisoner of its retrogressive past and structure.

-Romania and Bulgaria with a very mature approach pay attention only to their development and their entrance in the E.U. family. So they contribute to the construction of a prosperous and attractive zone.

##### *Internal:*

-Prime Minister C.Karamanlis is in front of a huge financial and economic problem of the country which certainly is the heritage of the PASOK administration but he is obliged to face it. No radical economic measure is taken up to now.

-The new president of the Greek Republic symbolizes the national unity but it is of minor importance compared to the real problems of the economy.

-The major opposition party, PASOK, continues its restructuring and finds little by little a new identity and orientation.

-The readjustment of the key figures in the State Finance, especially deficit and debt, provoked a strong interest of the European partners, thus reducing the governmental possible measures and actions.

#### 2. *Economy*

- Economy officially placed under EU deficit supervision after finance ministers agreed in Brussels to give the government until the end of 2006 in order to lower its deficit to eurozone limits.

-The European Commission estimates that Greece's 2004 deficit may top 5.5 percent of GDP, while the government has unofficially admitted that it may be above 6 percent. As for the growth rate, the Commission has expressed fears that it will be below 3.3 percent of GDP for 2005 whereas the government has predicted a figure of 3.9 percent. The whole operation is extremely difficult seeking high rate of growth

government will be asked to adopt extra deficit-cutting measures in addition to those in its 2006 budget. Greece has the highest public deficit in the eurozone. PASOK had carefully disguised the huge debts and mammoth deficits. For over two decades, policy-makers have watched almost gormlessly as public deficits and the foreign debt grew. They have failed to boost faltering productivity, hammer out a long-term growth strategy, promote a fair redistribution of wealth, or put the brakes on the growing number of people slipping under the poverty line.

-Greece's current account deficit showed a substantial improvement in 2004, as a considerable widening of the trade deficit was mostly offset by a large increase in the services surplus (notably from shipping), a rise in the transfers surplus, and a small decrease in the income account deficit, according to data published by the Bank of Greece.

-At the end of 2004, Greece's reserve assets came to 2.0 billion euros, compared to 4.6 billion at end-2003.

Some characteristic figures estimated:

-The G.D.P. growth should increase this year (2005) by a 2,7 %, instead of 4,2 % in 2004.

-Unemployment will be close to 12% end 2005 worst than in 2004.

-Total Public debt estimated to 122,5% of G.D.P.

-Deficit is estimated close to 6% of G.D.P. for the year 2004.

-A.S.E. (Athens Stock Exchange) is stabilized around 3000 of the A.S.E. index, despite odd macroeconomic figures.

-Inflation is estimated close to 3.5% end of 2005. Greece's EU-harmonized consumer inflation jumped to 4.2 percent year-on-year in January from 3.1 percent in December, as National Statistics Service (NSS) data showed. The NSS said headline consumer inflation picked up to 4.0 percent in January, a 22-month high, without the benefit of winter sales to save prices.

### 3. Outlook

-Olympic Games was a matter of priorities, great sport, great television but Olympic bills, pity about the misspent billions - and that hangover will last for years. Overall, Greek and (modestly) other European Union taxpayers have spent \$300m helping to run the games, nearly \$1.5 billion keeping them secure, and some \$7 billion preparing facilities for them. In all, that means near 5% of 2003 Greek GDP, roughly \$800 for every single inhabitant, pensioner or babe, taxpayer or not. Other estimations advance even at a level of 10,9 to 12 billion euros.

-“Competitiveness and growth” is the new name of the game. For a real growth, the economy's potential must get free, there must be investments and an outwards-looking attitude, EU investment subsidies must be fully utilized and, of course, the private sector has to respond accordingly.

-Greece will remain the strongest and most stable country in South Eastern Europe in both political and economic terms.

-An effort to Greek tourism could lead to recover a part of the lost market. A new period is opening with particular optimism regarding investments, as thanks to the new investment incentives law and the new government measures the country is becoming very attractive.

Additional facts and data:

Greek Economy Forecasting						
	Development		Deficit		Inflation	
	2004	2005	2004	2005	2004	2005
<b>Government</b>	3,70%	3,90%	5,30%	2,80%	3,10%	2,90%
<b>European Union</b>	3,80%	3,30%	5,50%	3,60%	3%	2,90%
<b>OECD</b>	3,80%	3,20%	5,30%	3,50%	3,10%	3,4%
<b>IMF</b>	3,90%	3%	3,40%	3,50%	3%	3,30%

World Economy Forecasting (rate of development)					
	OECD			IMF	
	2004	2005	2006	2004	2005
<b>USA</b>	4,40%	3,30%	3,60%	4,30%	3,50%
<b>Euro-zone</b>	1,80%	1,90%	2,50%	2,20%	2,20%
<b>Japon</b>	4,00%	2,10%	2,30%	4,40%	2,30%

Stockexchange Forecasting (in units)					
	Dow Jones	FTSE 100	DAX	CAC 40	NIKKEI
<b>End 2005</b>	11.275	5.000	4.550	4.100	13.000
<b>End 2006</b>	11.250	5.250	4.700	4.100	14.000

Comparison of two scenarios of the Greek economy development						
	Basic scenario Yearly changes			Alternative scenario Yearly changes		
	2005	2006	2007	2005	2006	2007
<b>A. Demand and product (constant prices 1995)</b>						
GDP	3,90%	4,00%	4,20%	3,30%	3,30%	3,30%
Private consumption	3,50%	3,40%	3,40%	3,30%	3,10%	3,10%
Public consumption	1,50%	1,00%	0,80%	1,50%	0,70%	0,70%
Gross investment of fixed capital	4,10%	5,60%	6,30%	3,30%	4,10%	4,60%
Total National demand	3,50%	3,60%	3,80%	3,10%	3,10%	3,10%
Exports goods and services	6,20%	6,40%	7,00%	5,00%	5,00%	5,00%
Imports goods and services	4,10%	4,20%	4,70%	3,70%	3,70%	3,90%
<b>B. Prices</b>						
Private consumption disinflation	2,90%	2,80%	2,70%	2,80%	2,70%	2,60%
GDP disinflation	3,30%	3,20%	3,00%	3,10%	3,00%	3,00%