HELLENIC REPUBLIC
MINISTRY OF NATIONAL ECONOMY
AND FINANCE
CHAIRMAN OF THE COUNCIL
OF ECONOMIC ADVISERS

ECONOMIC POLICY AND BUDGETARY STANCE

14 March 1998

A. Short and Medium Term Budget Prospects

The government is committed to the general government deficits included in its updated convergence programme, i.e. 2.4% of GDP in 1998 and 2.1% in 1999. The targets to be adopted thereafter in the next convergence programme according to Treaty requirements will be consistent with the principles of the Stability and Growth Pact.

For 1998 in particular, the government decided to introduce further expenditure cuts in order to strengthen the adjustment effort.

(1) A reduction of 0.3% of GDP of state subsidies to the corporate sector. In particular, these concern investment grants to the private sector, as well as direct and indirect (that is, through debt assumption) grants to public corporations.

(2) A reduction of 0.4% of GDP of the deficit of the public investment budget, as a result of higher private sector participation in the construction and financing of public sector projects, through methods such as the Private Financial Initiative (PFI) and Build-Operate-Transfer (BOT).

(3) Further savings of the order of 0.3% of GDP for 1998 and 1% of GDP in 1999 and thereafter as a result of measures concerning social security reform (see below).

It is reminded that key elements in 1998 budget implementation are :

- a restrictive wage policy (2.5 percent increase) implying a real wage freeze
- a strict recruitment policy (one new recruitment for every five civil servants leaving service, with the exception of education , health, and the defence sectors where the corresponding ratio is 1 : 1)
- the modification of the system of granting state guarantees to public corporations borrowing through the introduction of strict conditionality clauses
- the introduction of a re-imbursement list in order to curb pharmaceutical and health care expenses
- the introduction of new, discrete tax measures (0.8 percent of GDP)
- the full activation of the tax-police

The results in the first two months of the current year indicate that primary expenditure is on track, while tax revenue grows at twice the rate assumed in the budget. The primary general government surplus is targeted at 6.0 percent of GDP for the current year and 6.5 percent of GDP for 1999. Government consumption is targeted to remain frozen in real terms in 1998 and to decline by 0.5 percent in real terms in 1999.

Key elements of medium to long-term budgetary and state-sector reform include :

- the reduction of government consumption in real terms
- the reduction of the wage bill as a percent of GDP through (a) the same recruitment policy as the one adopted in the 1998 budget and (b) a strict wage policy based on expected inflation.
- the merger and/or the elimination of hundreds of local authorities. The relevant bill has already been voted
- the merger and/or the elimination of one hundred and seventy public organisations (such as hospitals, social security funds etc). The relevant bill has already been voted
- the introduction of part-time work in the public sector and the gradual elimination of over-time work (legislation to be voted in early May 1998)

- the modification of the legal status of public organisations into public corporations or joint stock companies in order to be able to compete more flexibly in the market place. The relevant bill has already been voted.

In the event of unforeseen circumstances which might put the general government deficit targets at risk, the government is committed to take the necessary action to secure the fulfillment of its targets.

B. Wages and labour market flexibility

The government has already set a nominal wage norm in 1998 by granting wage increases of 2.5 percent in the general government sector, that is equal to expected inflation by the end of the year. The government will ask the social partners in the corporate sector to use this wage norm as a guideline in wage bargaining.

The government has also decided to introduce a series of measures in order to make the labour market more flexible. These include :

(a) annualization of working time, which allows more flexible use of working hours without extra costs
(b) introduction of part-time work in the public sector
(c) strengthening the local and company level of the wage bargaining process

(d) elimination of restrictive labour practices in public corporations to ensure higher flexibility and productivity (the Parliament has already voted the relevant framework).

Legislation enacting the above measures will be introduced in early May 1998.

C. Privatisation

Twelve public corporations and three or possibly four state-controlled banks have been scheduled for privatisation, including the transfer of management in certain cases, in 1998, 1999 and 2000. Since the beginning of the current year, the Athens Stock Exchange and the Duty Free Shops have been privatised, following the second tranche of the Hellenic Telecommunication Organisation last year.

The corporations which will follow in the current year, in 1999 and in the year 2000 are : The Public Petroleum Corporation, a third tranche of the Hellenic Telecommunication Organisation, the Corinth Canal, the International Exhibition Center in Thessalonika, the National Property Organisation, the Athens and Thessalonika Water Supply Companies, the Horseracing Organisation, the Pireaus and Thessalonika Harbours, Olympic Catering and Olympic Tourism.

The three state-controlled banks are :

- The Bank of Crete, the Bank of Central Greece and the Bank of Macedonia-Thrace. A fourth medium-sized bank may also be privatised, the decision depending on a technical analysis which is currently under preparation.

The timetable for these privatisations is as follows :

The three state controlled banks mentioned above, as well as the Public Petroleum Corporation, the third tranche of the Hellenic Telecommunication Organisation, the Athens Water Supply Company, the National Property Organisation, the Thessalonika International Exhibition Center, the Corinth Canal, the Olympic Catering and Olympic Tourism will be privatised in 1998 and early 1999. The rest will be privatised in 1999 and early 2000.

Expected average proceeds from privatisation are of the order of 0.8 - 0.9 percent of GDP per year, although these proceeds will be skewed towards the early years and 1998 in particular, since the bulk of privatisations will occur in the current year.

The privatisation programme will continue after the year 2000 with more public corporations and state controlled banks which are now under restructuring.

D. Social Security reform

- The first phase of social security reform consists of the following measures : (a) penalties to contain the widespread evasion of social security contributions, (b) the legitimisation of illegal foreign workers and the payment of their social security contributions (c) the merger of various complementary social security funds (d) measures to contain administrative, pharmaceutical and diagnostic costs (e) measures which impose limitations on the ability of pensioners to be employed and (f) the partial liberalisation of surplus fund management.

- The second phase includes (a) the consolidation, among social security funds, of the retirement age-limits, the "replacement ratios" (that is the ratio of pensions to earnings) and other crucial parameters in order to secure the long-term viability and social justice of the system, (b) the introduction of complementary fully-funded occupational schemes along with the existing pay-as-you-go social security system and the existing private insurance schemes.

The first phase of social security reform will be implemented via legislation to be voted in May 1998. Certain items of the second phase, such as the equalisation of treatment between sexes and social security funds will also be implemented in May 1998. For the time-table concerning the rest, the government will be able to commit itself as soon as technical preparations and the relevant social dialogue currently under way are completed.

E. Restructuring of loss-making public corporations

The restructuring of loss-making public corporations (mainly in the transport, post-office and defence sectors) , has already started in the context of law 2914/1996. It includes :

•The appointment of high quality international management

•The appointment of high quality management consultants to design restructuring plans

•The elimination of restrictive labour practises in order to increase productivity and competitiveness

•The transfer of surplus personnel to other areas of the public sector with excess personnel demand (local authorities, public hospitals etc)

•The formation of strategic alliances with domestic or foreign firms.

It should be stressed in this context that the government has already undertaken most of the debts of the loss-making public corporations which are now part of the general government debt. Hence the restructuring of loss-making corporations from now on entails more benefits than costs for the budget, in the form of a reduction of grants, a reduction in state guarantees, eventual privatisation revenue etc.