Mission Concluding Statements for 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998

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Describes the preliminary findings of IMF staff at the conclusion of certain missions (official staff visits, in most cases to member countries). Missions are undertaken as part of regular (usually annual) consultations under Article IV of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, and as part of other staff reviews of economic developments.

Greece - 2000 Article IV Consultation

Conclusions of the IMF Mission

Athens

November 20, 2000

1. The Greek economy has made remarkable progress in recent years, leading to euro-area entry at the beginning of 2001. This reflects foremost stability-oriented policies, whose benefits are visible in many fields: notably, inflation and interest rates have fallen to historically low levels; output growth has exceeded the euro-area average for several years; and the public finances have improved markedly. However, monetary union also adds urgency to addressing the substantial remaining economic policy challenges—concerning economic stabilization and, critically, structural reforms, where renewed vigor is called for to reduce high unemployment and achieve more dynamic economic growth.

2. The discussions took place amid some uncertainty about near-term economic prospects, related in part to developments in the world economy, with an assessment also hampered by profound weaknesses in Greece's high frequency data. In all, we expect a further acceleration in economic activity and average GDP growth around 4 percent for 2000/01—with upside potential for 2001, notably if the euro-entry related decline in interest rates were to lead to a stronger acceleration in credit growth and domestic demand. With domestic demand growth expected to outstrip supply—and also on account of higher oil prices—the external current account deficit is set to widen markedly in 2000 to one of the largest deficits among industrial countries. Moreover, there are risks of a further widening in the deficit in the period ahead, notably if the euro were to appreciate sharply. While the implications of the external current account are changing with monetary union, it is likely to remain a useful, though less proximate, indicator of internal imbalances, and the sizable expected deficits raise some concerns that need to be taken into account in domestic

policymaking.

3. Stability-oriented monetary policy has been at the center of disinflation. In light of pending euro participation, its impact has more recently, however, become increasingly limited. Nevertheless, the relatively gradual reduction in official interest rates by the Bank of Greece has been a prudent strategy considering the overall economic environment, including remaining concerns about inflation. Indeed, as in the euro area, inflation has risen in recent months, albeit from low levels, reflecting foremost the sharp increase in world oil prices and the weakness of the euro (and thus the drachma)—and in Greece also the waning effects of earlier indirect tax cuts. More of concern are some signs that core inflation has begun to accelerate as well, and estimated labor cost increases—considerably above those in the euro area—are not fully matched by higher productivity growth. Looking ahead, we are not entirely persuaded that the social partners sufficiently recognize the need for domestic wage developments to take into account developments in the euro area, and for second-round effects of higher oil prices to be avoided; but assuming that this will be achieved, we expect inflation to decelerate considerably toward the euro-area average in the second half of 2001.

4. With future monetary policy being set by the European Central Bank, the principal burden of domestic stabilization policies rests on fiscal policy. Indeed, fiscal policy is squarely set to meet this task in 2000, when the large easing in monetary conditions and robust growth called for a tightening of the fiscal stance beyond the original budget target. The announced lowering of the deficit target was, therefore, most welcome; and it would be timely to use any additional revenue overperformance this year for further deficit reduction.

5. For 2001, domestic stabilization concerns (related in part to the lagged impact of EMU-related monetary easing) and the need for a decisive reduction in the very high public debt call for a further strengthening of the fiscal stance. The 2001 Budget target of a general government surplus of ½ percent of GDP (excluding receipts from universal mobile telephone licenses) should be sufficient to achieve a broadly adequate policy mix. It is worth underscoring that the budget targets a *surplus*—for the first time in decades, and a dramatic turnaround from the double-digit deficits recorded until just five years ago. We see, however, some risks to securing this surplus target, including a relatively high economic growth assumption—coupled with a sizable increase in noninterest public expenditure (apace with the assumed high GDP growth). These risks suggest cautious budget implementation, especially during the early part of the year—leaving room for expenditure cuts if, for example, GDP growth were to fall short of budgetary assumptions. Fiscal policy's stabilization role could be met by allowing the full play of automatic stabilizers on the revenue side. Some additional tightening on the expenditure side would be called for, however, if signs of macroeconomic imbalances were to become more pronounced, including a further acceleration in inflation and substantial widening of the external current account deficit.

6. Over the medium-term, maintaining on average over the cycle the general government surplus, excluding interest payments, at roughly the 2001 level (i.e., around 7 percent of

GDP) should result in a broadly adequate reduction of public debt ahead of the most adverse fiscal impact of population aging. Around this target, there is sufficient room—and, indeed, a useful role—for allowing the full and symmetric play of automatic fiscal stabilizers. The adequacy of the above target—which would imply sizable and rising budget surpluses over time—presumes that sufficient progress is made in addressing pending old-age related fiscal pressures, notably on pensions and health care (see below). It also assumes that future debt assumptions by the state will be curtailed and privatization receipts accrue largely to the state for public debt reduction.

7. The key economic policy challenge is to take full advantage of the present propitious juncture, presented by monetary union but also by the easing of political tensions in the region. This will foremost require major structural reforms—in the fiscal area as well as in labor, product, and financial markets—and we are encouraged by several important initiatives that are underway. Nevertheless, market participants often seem unconvinced that a critical mass of reforms is imminent. Moreover, compared to many of your partner countries, we are struck by what often seems like a mutual sense of mistrust among the social partners—and a mistrust of market forces. This may undermine the search for mutually beneficial outcomes, pushing the burden on further government intervention and legislated solutions. In our view, overcoming this environment of mistrust and implementing decisive structural reforms hold out the promise of accelerating convergence in living standards to average EU levels; on the other hand, delays, within the now more integrated economic environment, could risk a repeat of the poor growth performance that followed EU entry.

8. If fiscal policy is to play its role in supporting rapid and durable convergence in living standards, public expenditure reform will be critical—an area where limited progress in the past has crowded out important productive expenditure priorities and pushed the burden of fiscal consolidation onto rising revenues. While steps are needed in various fields, our focus this year was primarily on two areas:

· Public administration reform: It is encouraging that past reforms had some success in restraining employment growth in parts of the public sector, although we note that, overall, general government employment has continued to rise. Moreover, expected civil servant wage and employment growth well above economy-wide averages in 2000 illustrates the need for more decisive steps. There is also a widespread perception, and evidence, that many segments of the public sector remain highly inefficient. Against this background, we welcome some initiatives underway to streamline the sector, for example through the consolidation and elimination of a number of public entities. But the room for efficiency gains is vast—the experience in some countries suggests, inter alia, the potential usefulness of fixed-term, performance-based contracts for senior public service managers—and improvements should be feasible concurrent with expenditure savings. The savings would in part have to come from wage restraint; but a reduction in public sector employment should also be targeted, taking full advantage of savings from new technologies, outsourcing, and attrition, redeploying employees to the areas of greatest need. Some of the savings could also be used to attract more of the skills needed for an effective public administration.

· Pension and health care: Plans to undertake a fundamental review of the pension system are welcome, and reforms are urgently needed to prevent a sharp rise in social security contributions or in public pension expenditures, which would leave little room for other policy priorities. With unfunded liabilities estimated to be among the highest for industrial countries, a key focus has to be on placing the public pension system on a sound footing; in addition, building on reform lessons from several other countries, consideration should be given to introducing supplementary pension alternatives outside the public pension system. Similar to pensions, the health care system is likely to be severely affected by the pending aging of the population. Containing future expenditure growth while providing effective coverage will require decisive steps to raise the efficiency of the health care system, as well as incentives for efficient usage.

The government's plan to establish a multiyear budgeting framework should provide a useful vehicle for implementing these public expenditure reforms. In particular, it would allow for a clear prioritization of expenditure needs, be they in the social area, for public investment, or related to the Olympics, within a well-defined overall expenditure envelope.

9. Decisive expenditure restraint is a prerequisite if further fiscal consolidation is to be achieved without a continued rise in the revenue burden. Since the mid-1990s, revenues (in terms of GDP) have increased more rapidly in Greece than in any euro-area country, and we found a wide recognition of the tax system's importance for competitiveness, foreign direct investment, and ultimately economic growth. Against this background, the 2001 Budget includes welcome tax cuts in several areas, although we note that the overall revenue burden (as a share of GDP) is to remain broadly unchanged. This reflects expected further improvements in tax administration, where impressive gains in recent years have resulted in a more equitable and efficient tax system. Nevertheless, the plans for unchanged revenues (in terms of GDP), at a time when most partner countries in Europe are planning sizable tax reductions, raises concerns about relative growth prospects in Greece. It would be preferable if, as a rough guidepost, tax reductions in Greece were keeping broadly apace with those in the euro-area, with additional expenditure savings safeguarding the deficit objective.

10. The poor performance of the labor market is disheartening, with unemployment rates among the highest in the EU. While data inadequacies hamper an assessment of recent developments, we found a broad consensus that past reform steps, albeit welcome, have not led to the hoped for turnaround, in particular for the segments most affected by very high unemployment rates (the young and women) and for the long-term unemployed.

11. Against this background, it may be useful to consider a broad partnership, targeted at easing employment entry for the most disadvantaged segments of the labor market. Such a partnership could involve the social partners as well as the state, and cover several elements: (i) increasing the cooperation between the private sector and the educational system—aimed at improving job market matching; (ii) allowing for increased wage

differentiation for all job market entrants—combined with adequate safeguards for minimum family income levels; (iii) strengthening on-the job training—including through an apprenticeship program that could benefit from adequate wage differentiation for participants during the period of skill acquisition; (iv) a reduction in the relatively severe firing restrictions and sometimes overly bureaucratic hiring regulations—which hamper employment chances especially for new market entrants; and (v) a limited expansion of well-targeted state support, combined with increased attention to monitoring and evaluating its effectiveness. Such state support may not only cover active labor market programs and educational reform—with added emphasis on developing the skills needed in the new economy—but also, in the context of the planned broader tax reform, consideration to expand reductions in social security contributions for the weakest segments of the labor market. However, it will be important that the various reform steps become well integrated and not entangled in bureaucratic constraints or overly stringent consensus requirements, elements that limited the impact of earlier initiatives. We would hope that the government's recently announced labor market proposals could ultimately incorporate some of the above considerations—avoiding increases in effective labor costs and strengthening labor market incentives.

12. The slow progress in deregulating product markets and strengthening competition over the past two decades is likely to have retarded real income convergence. The government's resolve in undertaking important initiatives in these areas is most welcome, including the further liberalization of the telecommunications market, partial liberalization of the electricity sector, additional privatizations, and some regulatory reforms. While these steps should raise economic efficiency, economic growth could benefit further from more decisive initiatives in several areas. We note in particular the need to ease the administrative burden and streamline the regulatory business environment. The planned simplification of administrative rules, including one-stop shops, should be helpful in this regard—and could also facilitate foreign direct investment inflows, with potentially beneficial effects on the introduction of new technologies and management practices. With respect to privatization, following through with recently announced more ambitious plans (including the sale of majority stakes in important sectors) should strengthen corporate efficiency and competition.

13. On competition policy and deregulation, we welcome recent measures to reinforce the role of the competition authority—which now needs to vigorously pursue its mandate. With respect to deregulation, we regret that steps have oftentimes been limited to meeting minimum requirements of EU directives (and frequently with extensive derogations). Instead, we would encourage a more proactive approach, seeking to reap the full benefits of market forces within a well-defined regulatory framework. Notably, in the electricity sector, true competition may require breaking up the power generation capacity of the incumbent vertically integrated former monopoly, and consideration should also be given to creating separate ownership of the national grid. Moreover, the regulatory authority should be fully independent with adequate capacities, in line with those planned for the telecommunications authority. Like electricity, the gas and transport sectors would also

benefit from accelerated deregulation; and we welcome the plans for reviewing access restrictions to the liberal professions.

14. The financial sector is in the midst of far-reaching restructuring, and monetary union will further accelerate its transformation. In banking, mergers and several privatizations have facilitated a strengthening of balance sheets, and intensifying competition has narrowed interest rate spreads, adding to strong credit growth. At the same time, many banks and other financial institutions are entering new business areas. Other financial markets have also expanded—with notably the stock market becoming an important source for corporate funds.

15 With a rapidly evolving financial sector and strong credit expansion, bank supervision and regulation will have to focus increased attention on banks' risk management and internal control policies and practices, as well as on systematically monitoring the leverage of marginal household and corporate borrowers. To identify institutions engaged in riskier lending—which should be subject to stricter capital or provisioning requirements—it would be useful to regularly undertake scenario analysis and stress testing, as proposed recently by the Basel Committee on Banking Supervision. This should cover an economy- or industry-wide downturn, market-risk events, and changes in liquidity conditions. Market discipline could also be enhanced through more public disclosure, including of banks' credit risk management and control policies and practices; in any case, there should be regular public disclosure of nonperforming loans. As the boundaries between different market segments become increasingly blurred, it will also be important to strengthen coordination among the different financial market supervisors; setting up regular consultation meetings and procedures would be a useful step. Consideration should also be given to further divestiture of the state's still large direct and indirect presence in the banking sector; while not unlike in some other countries in Europe, the present structure may not be the most conducive to furthering competition and financial innovation.

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16. Near-term economic prospects in Greece are among the most favorable in recent decades, owing much to the determined implementation of stability-oriented policies. Extending the same vigor that has characterized the pursuit of monetary union to structural reforms and the remaining stabilization task should lay the foundation for securing your aspirations—and the international community's expectation—for rapid growth in Greek living standards.

από κ. Ράπανο

«Οι βραχυχρόνιες οικονομικές προοπτικές της Ελλάδας είναι από τις καλύτερες που είχε η χώρα τις τελευταίες δεκαετίες και οι οποίες οφείλονται στην αποφασιστική εφαρμογή πολιτικών που απέβλεπαν στη σταθεροποίηση. Η επέκταση του σφρίγους αυτού, που χαρακτήρισε το στόχο της νομισματικής ένωσης, στις διαρθρωτικές μεταρρυθμίσεις και στα εναπομείναντα θέματα σταθεροποίησης, θα θέσει το θεμέλιο για τη διασφάλιση των φιλοδοξιών σας – και την προσδοκία της διεθνούς κοινότητας – για γρήγορη βελτίωση του βιοτικού επιπέδου των Ελλήνων.»

Διεθνές Νομισματικό Ταμείο, Νοέμβριος του 2000