

Greece starts slowly in euro-zone

After a smooth landing in the euro-zone on January 1, Greece is starting the year with modest expectations.

Brokers in Athens are making comparisons with Portugal, still underperforming the euro-zone market by a wide margin after two years as a member of the single currency.

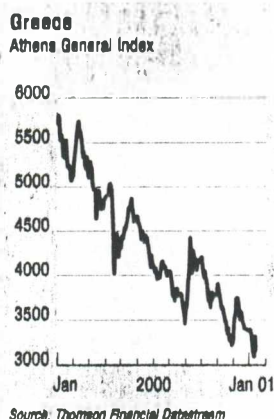
Hopes that retail investors would rush back to the Athens stock exchange after interest rates plunged to euro-zone levels have proved unfounded. Small savers are busy transferring funds into repos - fixed-term repurchase agreements - money market funds, or European equity funds.

The bull market ran out of steam after Greece was accepted last May as the 12th member of the euro. The Athens general index was down 41.5 per cent at the end of the year.

After losing 1.38 per cent in the first two weeks of 2001, the index dropped 4 per cent yesterday to close at 3,167.

"There's a severe shortage of liquidity," says Joanna Telioudi, analyst at HSBC Pantelakis Securities in Athens. "Retail investors made heavy losses last year, especially in small capitalisation stocks, and they don't feel at all confident about the market."

Average daily turnover halved last year to \$384m.



This month trading volume, now quoted in euros, has averaged €190m. Few brokers predict a quick recovery. Greek institutions are starting to invest elsewhere in Europe, while emerging market funds are moving out in preparation for Greece's promotion to developed market status in June.

"The emerging market funds are still selling and the developed market funds haven't arrived yet. It's a process of self correction that will continue," says Yannis Tegopoulos of EFG Eurobank-Ergasias.

Greece's banks and telecoms companies, which make up 50 per cent of the general index, have led the decline. The banks, with average price-to-book values of 2.8 against the European average of 1.9, still appear

over-valued. Telecoms companies, though trading at a discount to western European peers, have been affected by the sector's weakness. However, Greece's prospects for attracting fresh funds as a developed market are still uncertain. Analysts say Athens accounted for as much as 10 per cent of investment by emerging market funds. But its weighting in the MSCI index of developed market funds may be only 0.5 per cent.

"It's not clear at this point whether active fund managers will be seriously interested in Greece. There are comparatively few companies with a European-sized market capitalisation," says Ms Telioudi.

Yet Greece's economic fundamentals look healthy, with the economy set to grow this year by 5 per cent, against 4.5 per cent last year. After a spurt caused by high international oil prices, the headline inflation rate slowed to 3.9 per cent in December. This year, the budget is projected to show a surplus as a result of shrinking debt service payments and increased tax revenues. "Price earnings ratios are at a significant discount to the rest of Europe. But Greece has made big strides in improving competitiveness in the run-up to euro entry. So there's some good value in the market," says Stephen

Watson, head of research at NBSI in London.

Yannis Papantoniou, the economy minister, has pledged to speed structural reforms. A search is under way for an investor to buy a stake in OTE, a move that would reduce the state's shareholding below 51 per cent. The government is also offering an equity stake of up to 65 per cent in Olympic Airways, the loss-making state carrier, which is being restructured ahead of privatisation.

The outlook for stability in the Balkans, where Greek companies are the biggest investors, has improved with the emergence of a democratic government in Serbia. Although Greece's rapprochement with Turkey has slowed in recent months, as problems resurfaced over Cyprus, the business climate is still positive.

Greek companies, including cement and metals producers, food processors and consumer goods manufacturers, have acquired subsidiaries in the Balkans through privatisation deals.

Greece's biggest banks have also made acquisitions in Romania, Bulgaria and Macedonia. Several companies listed in Athens are planning to float subsidiaries on the Turkish and Romanian stock exchanges.

Kerin Hope