



NATIONAL BANK  
OF GREECE

# GREECE:

## ECONOMIC & MARKET ANALYSIS

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### *Tourism: An Olympic year in 2005*



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- Though the past few years have been disappointing for Greek tourism, especially the 2004 “Olympic” year, our analysis suggests that Greek tourism is picking up strongly in 2005.
- The key factors behind the poor performance over the past three years -- a cumulative decline in tourist arrivals of 3.3 per cent -- have been the strong euro, the weak EU economy, heightened global security concerns, and successive years of low-budget marketing.
- To reverse this trend, Greece needs to face the following challenges:
  - Competition is rising, especially from neighboring countries, at a time when Greece is losing price competitiveness.
  - Greece is a mature tourism destination with little room to grow as tourism flows are highly concentrated during the summer.
  - Greece needs to build on the positive impact from the Olympic Games and re-brand itself from a sea and beach resort.
  - Promotion strategies need to be developed in order to showcase Greece’s comparative advantages as a tourist destination, *inter alia*, targeting the crucial US market as well as fast-growing China.
- Looking forward, our analysis suggests that 2005 will mark the beginning of the recovery for Greek tourism, with arrivals projected to increase by 7.5 per cent in 2005 to above 13.5 million (and to over 16 million in 2006), with the impact on economic activity in 2005 estimated at 0.9 per cent, up from 0.5 per cent in 2004 and -1.1 per cent in 2003.
- However, in order for Greek tourism to achieve a sustainable growth over the long run, several important challenges need to be addressed, as price competitiveness continues to deteriorate faster than the upgrade in the quality of offered services, a fact that even a “marketing revolution” cannot overturn for long.

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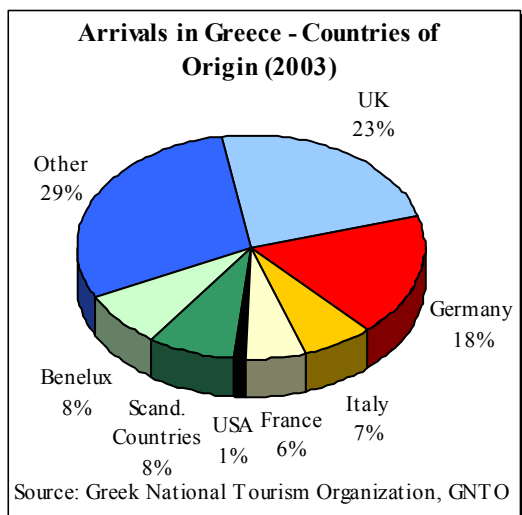
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### ***Greek tourism: Many challenges and opportunities in a rapidly changing market***

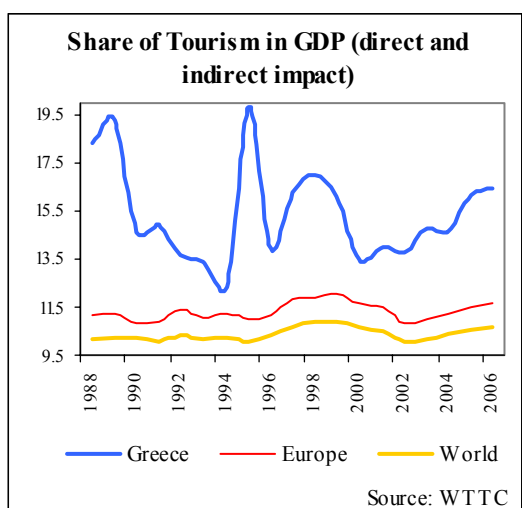
Though the past few years have been disappointing for Greek tourism, especially the 2004 “Olympic” year, preliminary indications suggest that Greek tourism is picking up. Importantly, the revival of the global tourist sector in 2005 raises the growth prospects of countries with a high dependency on this sector, such as Greece. Moreover, local tourism conditions will be assisted by the positive “legacy” impact from the successful hosting of the Olympic Games and supported by the improvement in transport infrastructure, the upgrading of hotel and tourist resorts, and a new energetic promotional campaign.



According to our analysis, 2005 will mark the beginning of the recovery for Greek tourism, with arrivals projected to increase by 7.5 per cent in 2005, following a cumulative decline of 3.3 per cent during the past three years. However, in order for Greek tourism to achieve a sustainable growth over the long run, several important challenges need to be addressed, mainly the issues of price competitiveness, the quality of the services offered, which also comprise the economy’s infrastructure, as well as the problems of its highly seasonal nature.

### ***Tourism is a major sector of the economy...***

Greece ranks 15<sup>th</sup> in the world in tourism, receiving around 13 million tourists in 2004 – about 2 per cent of the world market. It has a relatively high penetration ratio of 1.2 times the total population, when the average ratio of its main competitors – i.e. France, Spain, Italy, Portugal and Turkey - is 0.9 per cent. Most tourists originate from Europe (almost 90 per cent, with the UK and Germany alone accounting for almost 40 per cent of arrivals).



Tourism’s importance for the Greek economy is reflected by the fact that it comprises 16 per cent of Greek GDP and 18 per cent of total employment. About one-half of the economic benefits of the Greek tourism industry arises from the direct export of services and the remainder from the trickle down effect on other sectors. Indeed, tourism receipts were equivalent to €8.8 billion in 2004, lifting Greece to 10<sup>th</sup> place with respect to international tourism receipts. Moreover, earnings from tourism equaled 82 per cent of Greek merchandise exports in 2004 and almost 26 per cent of Greece’s exports of goods and services.

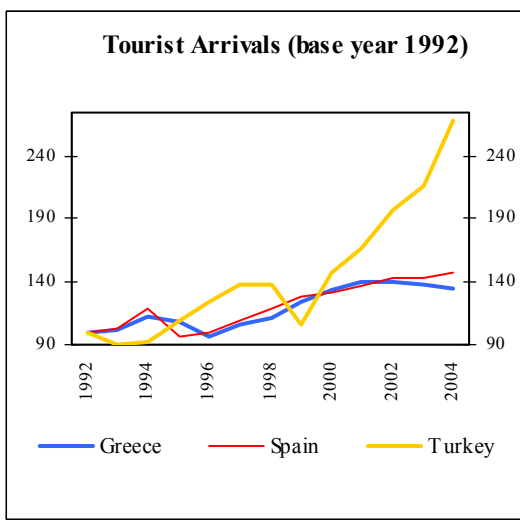
*... that faces several challenges, both internationally...*

The Economic Impact of Tourism			
Share of	Greece	EU	World
GDP	16%	12%	10%
Employment	18%	12%	7%
Investment	11%	9%	9%
Exports	39%	13%	12%

\*Source: WTTC

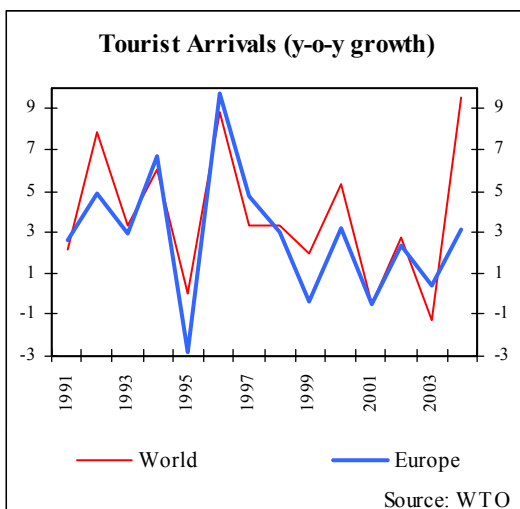
The poor performance of this critical sector of the economy over the past three years is a source of concern. In fact, following a rapid increase in the period 1995-2001 of the order of 30 per cent, tourist arrivals have dropped in Greece during the past three years (by 3.3 per cent per year), compared with a far more rapid expansion in neighboring competitor countries such as Turkey (62 per cent), Egypt (75 per cent) and Croatia (20 per cent) during the same period.

Perhaps even more worrisome, the slowdown in arrivals was accompanied by a decrease in the average price of tourist services, with the exception of 2004 when above-average budget tourists visited Greece for the Olympic Games. In fact, tourism revenues decreased by 14 per cent during 2000-2003 before increasing by 6 per cent in 2004.



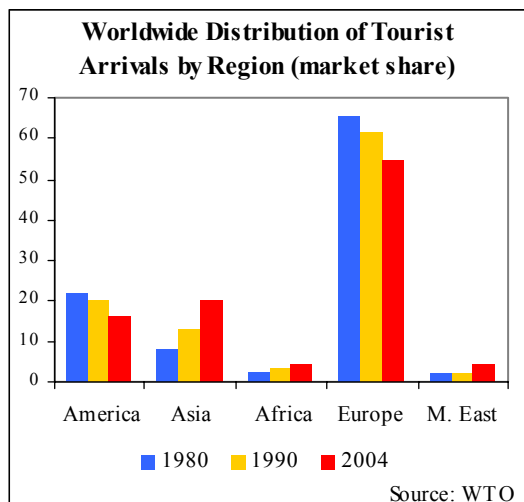
Moreover, receipts per tourist have fallen during the past four years from €780 in 2000 to €648 in 2003 (in 1999 prices) – with the exception of 2004 when they rose marginally to €701 – after having risen from €431 in 1995 and €310 in 1990. In Greece’s main competitors, receipts per tourist have risen during the past four years. For example, in Spain the receipts per tourist rose by 12.3 per cent while in Turkey it rose by 16.2 per cent during the same period.

A key question is whether the decrease in demand, in conjunction with declining per capita prices, reflects a decrease in the quality of services offered, and thus, in competitiveness? If so, it will come to haunt the tourism sector in the form of lower market shares in the years to come.



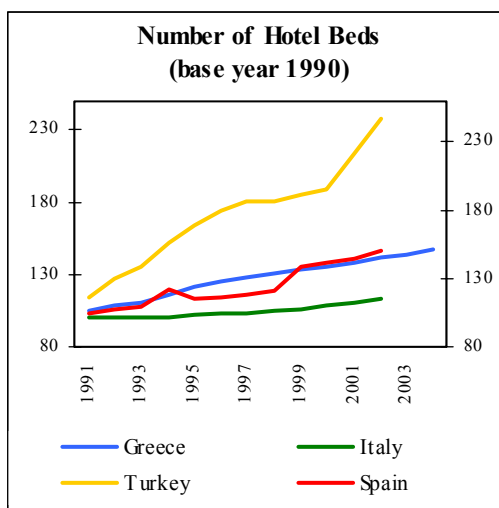
Clearly, an important factor affecting demand was the state of the world tourism market, and more specifically, that of Europe. After three gloomy years of growing challenges, during which demand for tourism globally remained almost flat, it bounced back in 2004 in line with the strongest global GDP growth in decades, resulting in a 10 per cent increase in arrivals over the previous year – the best growth in 20 years. This development has partly counterbalanced the losses of the previous years caused by the joint impact of the Afghanistan-Iraq wars, the continued threat of terrorist attacks, the SARS epidemic and the adverse effects of the economic slowdown.

Moreover, world tourism is witnessing a massive redistribution between traditional and new tourist destinations with ambitious expansion plans and a still huge potential for growth. In particular, Asia and the Pacific are the regions which rebounded most strongly in 2004 (by almost 30 per cent) – albeit over depressed levels of 2003 – absorbing almost half of the 69 million new arrivals worldwide. As regards Europe, the strengthening of the euro against the dollar and the Asian and Caribbean currencies, to which it is tightly linked, has resulted in a shift in demand away from Europe in favor of dollar-based destinations such as the Caribbean and Asia.



Overall, tourist arrivals to Europe -- the world's most mature tourist destination, still attracting more than 55 per cent of international arrivals -- grew by 4 per cent in 2004, only somewhat improved on the 2.3 per cent cumulative growth during the past three years – and absorbed barely ¼ of the 2004 increase in arrivals.

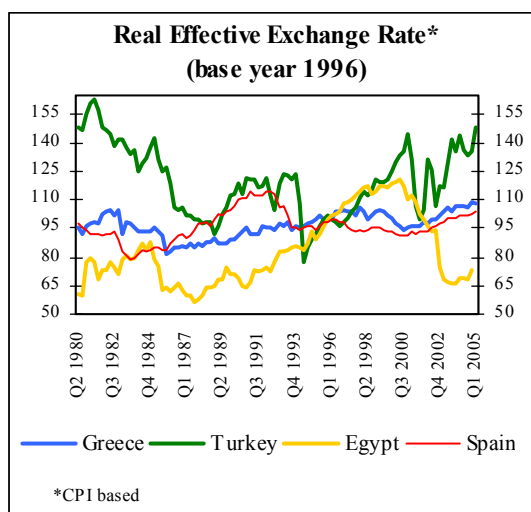
One could argue that the continued decline in tourist arrivals in Greece in 2004, in contrast to Europe as a whole, may reflect the “big events avoidance” argument. Specifically, rather than attracting more visitors, big events tend to disincline tourists from visiting a country – because of the perceived crowds and congestion, as well as higher prices. In addition, a tardy promotion campaign coupled with negative reports on the quality of the Olympic organization and security worries conspired against the Greek tourist industry in 2004.



*... as well as home grown problems*

The disappointing results of the previous years, especially during the Olympic year, point to several domestic challenges facing the Greek tourism industry.

First, competition is rising – especially from other Mediterranean and SEE countries, whose tourism infrastructure as well as their room availability is developing rapidly – at a time when it is losing price competitiveness (mainly due to the strong euro and higher inflation). Specifically, Greece's real effective exchange rate (CPI-based) has appreciated by 15 per cent during the past five years, higher than in Spain (13 per cent), France (6 per cent), Portugal (8 per cent), while in Egypt it depreciated (42 per cent).



The loss in competitiveness is confirmed at the micro level as prices of tourism services have risen sharply during the past five years and far faster than in competitor countries. In particular, prices in hotels and cafes increased by 29 per cent since 2000 (against the EU-average of 19 per cent), while prices of transport services have risen by 33 per cent over the same period (against the EU-average of 18 per cent).

The loss in competitiveness is also confirmed by the World Travel & Tourism Council competitiveness indicators. These indices (by combining price as well as socioeconomic factors, such as infrastructure, environment and technology) are constructed so as to indicate to what extent a country offers a competitive environment for tourism development. With respect to these criteria, the Greek tourism industry ranks relatively low compared with its competitors, especially as regards its price quality trade-off (see table). Overall, it has the lowest ranking among its main competitors, with the exception of Italy.

Tourism Competitiveness Indices (based on economic and social factors)									
	Weight	Greece	Spain	Italy	France	Portugal	Turkey	Croatia	Egypt
Price	0.5	54.4	54.3	47.1	51.3	59.7	84.8	84.2	74.0
Infrastructure	0.1	41.5	46.3	55.7	56.5	44.4	45.7	40.0	53.0
Environment	0.1	75.1	94.8	86.2	80.7	76.9	65.5	83.5	65.0
Technology	0.1	57.3	55.2	66.6	62.6	55.6	25.2	45.4	29.0
Openness	0.1	49.9	47.6	37.0	44.8	48.1	58.5	44.7	44.0
Social	0.1	55.6	57.5	54.0	64.9	47.4	40.1	42.7	41.0
<b>Composite</b>		<b>55.1</b>	<b>57.3</b>	<b>53.5</b>	<b>56.6</b>	<b>57.1</b>	<b>65.9</b>	<b>67.7</b>	<b>60.2</b>
<b>Tourist Arrivals /Population</b>		<b>1.2</b>	<b>1.3</b>	<b>0.7</b>	<b>1.2</b>	<b>1.1</b>	<b>0.3</b>	<b>1.1</b>	<b>0.5</b>

\*Source: WTTC, NBG estimates

Prices of Tourism Services (2000-2005 % change)			
HICP	Hotels, Restaurants & Cafes	Transport	Communi- cations
Greece	28.6	33.0	-17.8
Spain	25.8	30.4	-9.0
Italy	20.5	22.6	-15.7
France	15.2	12.1	-8.0
Portugal	24.5	2.4	-4.2
<b>EU</b>	<b>18.5</b>	<b>18.4</b>	<b>-11.6</b>

\*Source: Eurostat, base year=2000

A second challenge for Greek tourism is the fact that Greece is already a mature tourist destination, with little room to grow, unless it succeeds in lengthening its tourism period. Indeed, the growth rate of Greek tourism during the past decade is lower than the EU average, while it grew faster than the rest of Europe until the beginning of the 1990s.

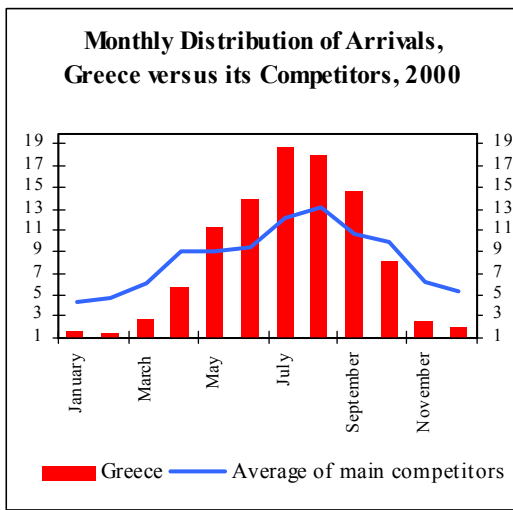
Additionally, arrivals and receipts seem to be strongly correlated with other competitor countries of the euro area (mainly Italy, France, Spain and Portugal), and this relationship has strengthened since the second half of the 1990s, providing evidence that Greek tourism has come to resemble more that of the mature European destinations than the fast growing other

The Profile of the Tourism Product				
Segments	Greece	Italy	Spain	Turkey
Sun and beach	70%	28%	70%	62%
Sightseeing	10%	15%	6%	14%
Urban	6%	19%	7%	7%
Green	6%	8%	8%	7%
Other	8%	30%	9%	10%

\*Source: European Travel Monitor

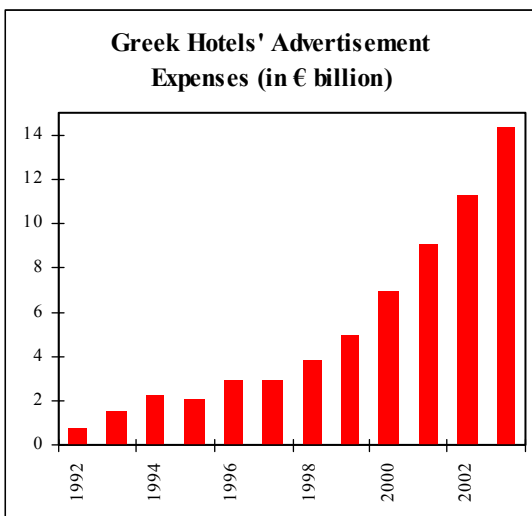
Mediterranean countries. In fact, correlation of the arrivals was 0.25 with Portugal during 1970-1995 and more than doubled to 0.51 during the past ten years, while the correlation with Turkey has weakened from 0.60 to 0.23 for the respective period.

The sun-and-beach based product is clearly going through the maturity phase of its life cycle, and thus is more vulnerable to competition from the more dynamic Mediterranean markets. The reorientation will occur even more rapidly than in the past, since tourism has become highly dependent on a few North European tour operators with the ability to squeeze prices (and who have low levels of loyalty to any one destination), and redirect tourists to other lower-costing destinations as soon as they obtain a critical level of infrastructure.



Furthermore, Greek tourism flows are highly concentrated during the summer season. Even though this is a common issue for all the Mediterranean countries characterized by sun-and-beach tourism, a cross-country comparison highlights a much higher seasonality for Greek tourism. Specifically, 65 per cent of total arrivals in Greece are concentrated from June to September, versus the competitors' average of 45 per cent (see figure). In this context, weaning the industry off its seasonal dependency also seems to be an important challenge.

To this end, and a third challenge for Greece, is to build on the impact from the Olympic Games and continue to upgrade the quality of its tourism services and its infrastructure more generally, so as to re-brand itself from only a sun-and-beach resort to an upscale cultural-tourism magnet, as well as diversify the types of holidays it can offer in areas like spas, conferences or sports, especially golf.



In the buildup to the Games, Greece improved its urban public infrastructure substantially and upgraded the general aesthetics of its main cities. The country also improved its road and railway network, modernized its airports, ports and telecommunication systems, and renovated its rich array of historical monuments and museums. The improved infrastructure (especially in Athens) is also reflected by the fact that 25 hotels opened their doors in the prefecture of Attica in 2004 (a 7 per cent increase), with more than a half being in the 5 star category. This reflects a turnaround in supply, which decelerated progressively from 4.8 per cent in 1990 to 1.1 per

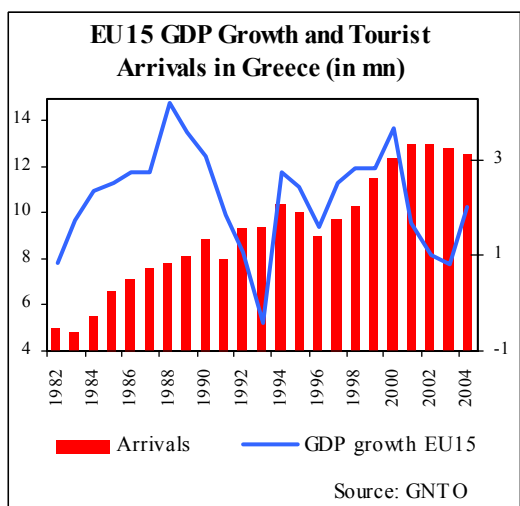
Top Destinations for 2005	
Britain's*	Germany's*
Spain	Spain
France	Italy
<b>Greece</b>	Austria
US	Turkey
Italy	France
Ireland	<b>Greece</b>
The Netherlands	The Netherlands
Portugal	Denmark
Turkey	Croatia
Cyprus	Bulgaria

\* based on tour operators data

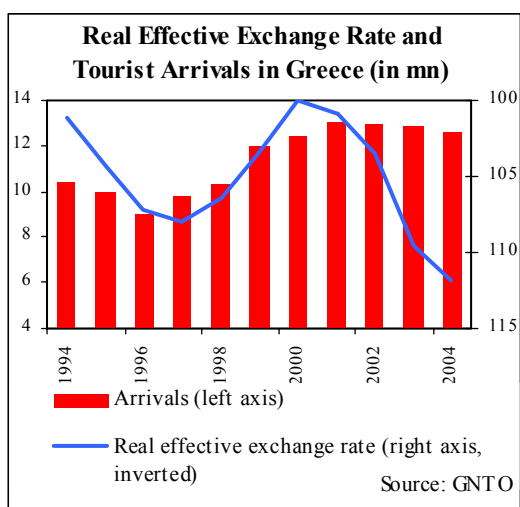
cent in 2000, after having grown by 40 per cent during the past decade.

Fourth, in order to reach out to countries that will change the seasonal nature of Greek tourism and attract higher spending tourists, as well as to capitalize on the publicity offered by the Games, and also its triumph in the European Football Championship and the Eurovision Song Contest, promotion strategies need to be developed in order to showcase Greece's comparative advantages as a tourist destination at an international level.

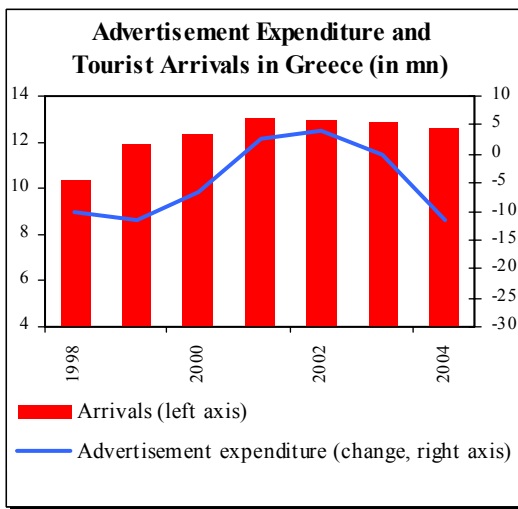
Most importantly, the Government needs to improve its advertising of the tourism industry. The advertising undertaken by the budget has fallen by 51.3 per cent during the past 4 years, and is far below that of competitor countries. For example, Spain spent €176 million and Turkey €117 million on tourism advertising campaigns in 2004. To this end, the Government has already quadrupled the advertising budget for tourism from €7.5 million in 2004 (the lowest level in the past 20 years) to €30 million in 2005. Moreover, the National Tourism Organization (NTO) has announced that it will increase gradually its offices abroad to 72 from 23 currently. Finally, we should note that hotels' advertisement expenses have increased by almost 200 per cent during 1999-2003, reaching €14.4 billion.



Advertising should also target China, as Greece now has approved destination status (ADS) from China, and is gearing up to receive thousands of Chinese tourists in 2005. The Chinese (like the Japanese) are big spenders on travel, with the average spend per trip approaching €2000 versus around €1450 for Americans and €950 for Europeans.



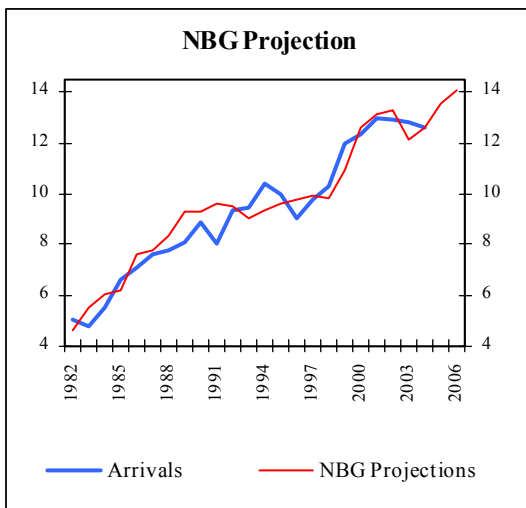
Furthermore, the crucial US market holds huge potential growth in 2005. Note that the US is also a non-mature source market, as 80 per cent of the population has never traveled abroad. As a result, a more aggressive marketing of the Greek tourist product is needed in the US in order to attract first-time overseas travelers. Moreover, large expatriate communities should also be targeted, as there are 1.2 million Greek-Americans in the US alone.



### How much pent-up demand is still in the pipeline?

Rising demand for Greek tourism is confirmed by the first indications coming from the European tour operators. Britain and Germany (the top source countries, accounting for 40 per cent of total arrivals) have voted Greece one of their top ten destinations for 2005 (see figure), while bookings for 2005 are on the rise. In addition, arrivals at Athens airport are already up 8 per cent in the first quarter of the year compared with a year earlier.

Against this background, we have attempted to forecast tourist activity for 2005 based on traditional relationships with economic variables that influence consumer decisions to undertake travel abroad, while we also tried to capture the “Olympics legacy” impact.



To disentangle the income and substitution effects in the demand for tourism services, we use EU GDP (as arrivals from the EU represent near 70 per cent of total arrivals) and the real effective exchange rate. Moreover, in order to capture the promotion effect of the tourist product, we have included in our model advertisement expenditure by the NTO.

Based on time series data for the period 1982-2004, our results suggest an income elasticity of 1.1 for tourist arrivals (i.e. a 1 per cent rise in income of the source countries implies a 1.1 per cent rise in arrivals to Greece). The elasticity with respect to the real effective exchange rate is estimated at  $-1.8$  (i.e. a real appreciation of the trade-weighted exchange rate of Greece by 1 per cent implies a decrease in tourist arrivals by 1.8 per cent). The advertising elasticity for tourism is estimated to be 0.2, which means that a 1 per cent increase in advertising expenditure by the Ministry of Tourism will increase tourist arrivals by 0.2 per cent.

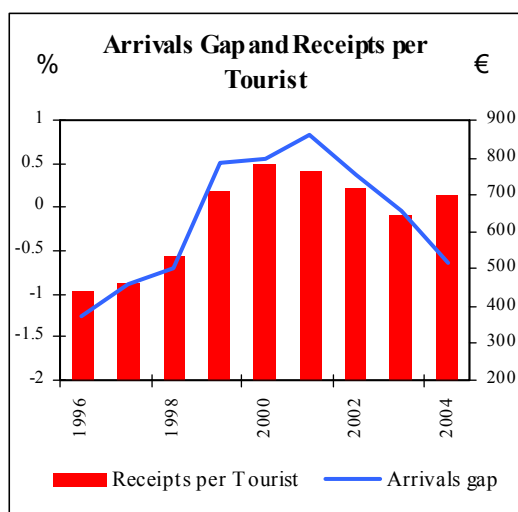
Our estimates confirm that the strong euro, the weak EU-economy and low advertising are the key factors behind the disappointing performance in 2004.

Regarding the “legacy” impact of the Olympic Games, the number of induced international tourists was estimated by applying a profile of percentage increases, in line with the experience in previous Olympic Games’ experience, such as in Barcelona and Sydney, to the base path for tourism derived from

Contribution of Main Factors to Tourist Arrivals in Greece					
	1982-1990	1991-2000	2004	2005	2006
Exch. rate	2.0	-0.6	-4.6	-5.1	1.0
Adv. Exp.	3.1	1.4	-12.6	3.1	-2.3
EU GDP	2.6	2.5	1.2	0.2	1.3
Olympics	0.0	0.5	14.0	9.4	5.0
<b>Arrivals</b>	<b>7.7</b>	<b>3.8</b>	<b>-2.0</b>	<b>7.6</b>	<b>5.0</b>

\*Contribution on y-o-y growth





the above-described underlying economic fundamentals. This methodology suggests that Greece is expected to receive an additional 1.4 million tourists in 2005, compared with 1.8 million additional tourists in 2004.

In view of the large increase in advertising expenditure for tourism and based on our projection that the growth rate of EU GDP is expected to reach 2.0 per cent in 2005 and the real effective exchange rate is expected to appreciate by a further 2 per cent, we expect tourist arrivals to increase by 7.5 per cent in 2005 to above 13.5 million (and to over 14 million in 2006). The impact on activity in 2005 is estimated to be approximately 0.9 per cent, compared with a positive contribution of a half a percentage point in 2004 growth and a negative contribution of 1.1 per cent in 2003.

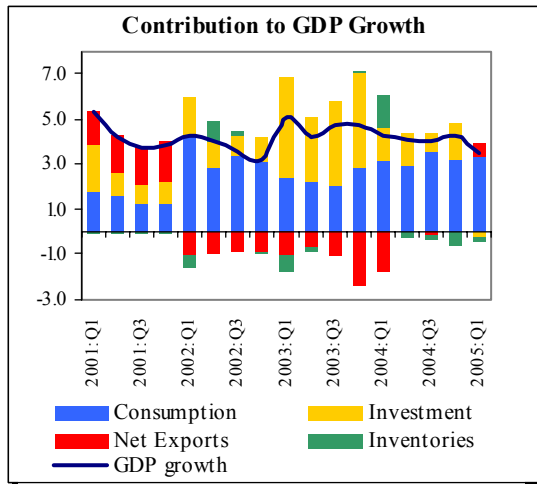
Turning to the prices of tourism services, we constructed an arrivals gap in order to capture the pressure for discounts exerted in periods when arrivals are performing poorly. It is proxied by the deviation of the level of arrivals from their long-run trend (computed by means of a Hodrick-Prescott filter). We find that a larger gap results in a larger hotel discount. At end 2004, the arrivals gap was 0.7 per cent below the long-run trend for arrivals. As a result, tourism receipts are projected to grow by less than tourist arrivals in 2005, as the revenue per tourist is expected to decline further in 2005 – a fact that is also confirmed by the first indications for hotel prices in 2005 by the TUI (one of the largest German tour operators).

Summing up, our analysis suggests that the successful staging of the Olympic Games has vastly improved the country's attractiveness as a destination. However, this will not necessarily be translated into a sustained increase in arrivals, as the price competitiveness of the tourism sector continues to deteriorate faster than the upgrade in the quality of services, a fact that even a "marketing revolution" cannot overturn for long.

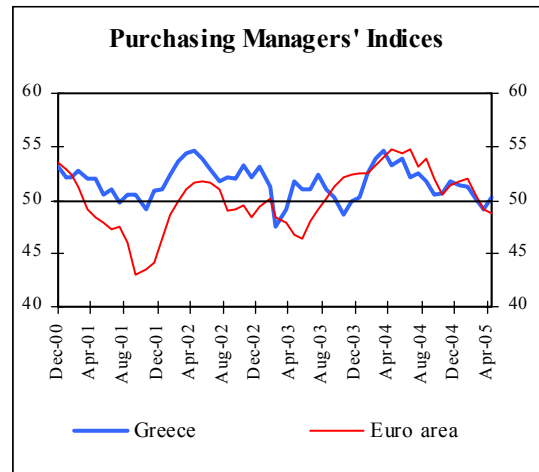
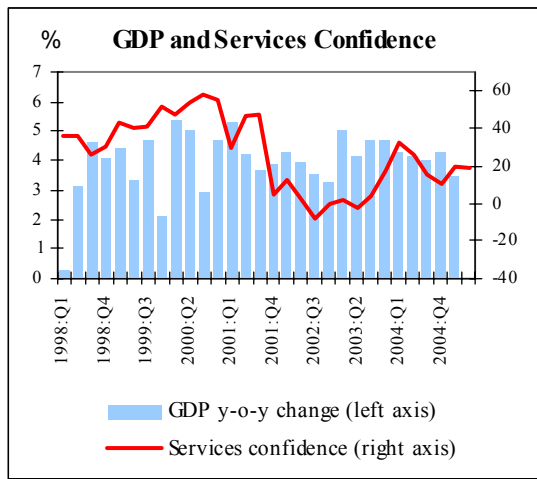
Average Hotel Prices in € (per week)			
Countries	All Inclusive	5* Hotels	4* Hotels
Greece	872	972	767
Turkey	917	1,229	657
Egypt	779	709	645
Tunisia	708	724	554
Portugal	924	1,297	838
Spain	791	904	722
Bulgaria	692	719	589
Morocco	1,028	-	609
Cyprus	910	912	825

\* Prices according to TUI

## GROWTH OUTLOOK



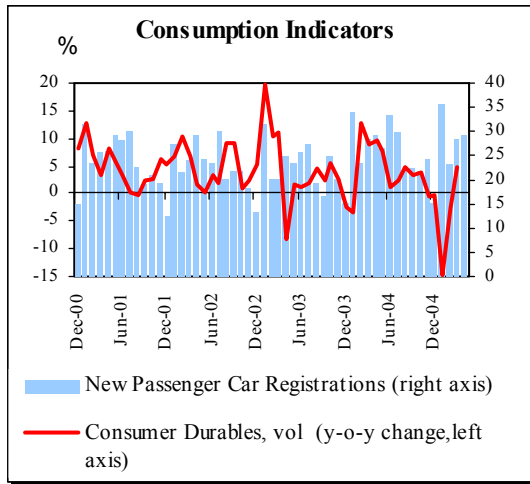
- The economy expanded by 3.5 per cent y-o-y in Q1:2005, with overall domestic demand slowing sharply from 3.8 per cent in Q4:2004 to 2.5 per cent in Q1:2005, as buoyant private consumption (4.0 per cent y-o-y) only partly counterbalanced the significant drag on growth stemming from the declining investment activity (-1.0 per cent y-o-y).
- Moreover, the external sector provided a boost to growth (by 0.6 percentage points) reflecting a deceleration in import growth (to 2.3 per cent in Q1:2005 down from 7.8 per cent in Q4:2004).
- The forward-looking indicators (PMI, Service Confidence) continue to paint a fairly positive picture with respect to the near-term growth prospects, as they seem to stabilize near their five-year average.



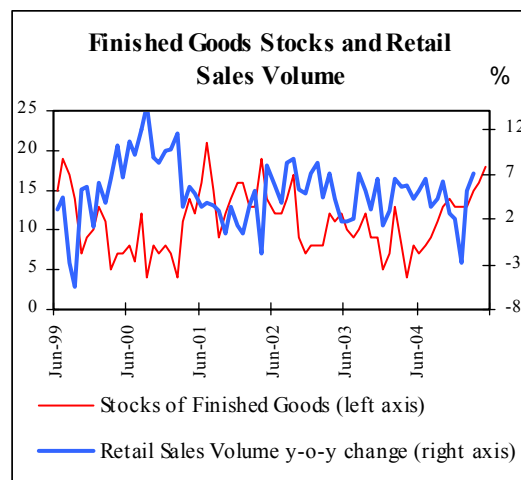
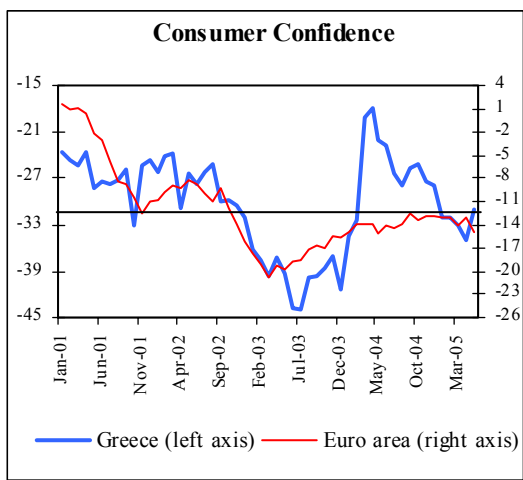
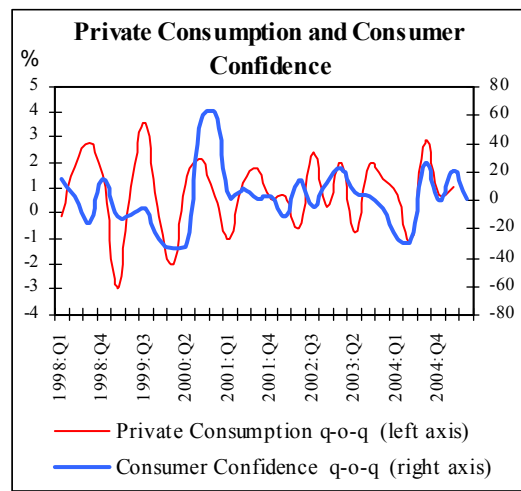
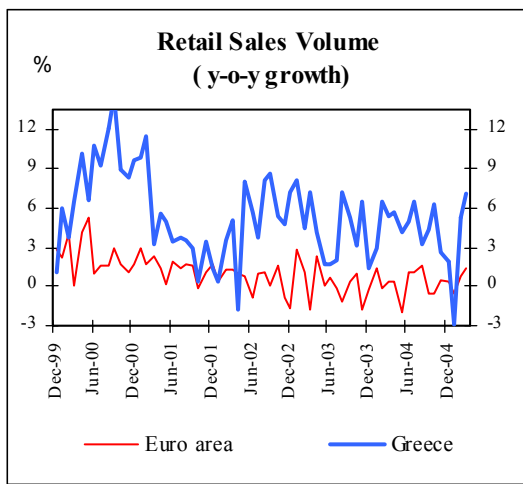
Greece: Growth Outlook												
	2002	2003	2004	2005f	2004				2005			
					Q1	Q2	Q3	Q4	Q1	Q2f	Q3f	Q4f
GDP (per cent y-o-y)	3.8	4.7	4.2	3.0	4.3	4.1	4.0	4.2	3.5	3.4	2.5	2.5
GDP (per cent q-o-q)	...	...	...	...	3.2	-0.6	1.8	-0.1	2.4	-0.7	0.9	-0.1
Domestic Demand (y-o-y)	4.3	5.4	4.2	2.5	5.5	3.7	3.8	3.8	2.5	2.8	2.3	2.4
Final Consumption (y-o-y)	4.0	2.8	3.9	3.0	3.8	3.6	4.4	3.8	4.0	3.0	2.3	2.8
Private Consumption (y-o-y)	3.1	4.0	3.3	3.0	3.3	3.0	3.9	3.2	3.5	3.2	2.4	3.0
Public Consumption (y-o-y)	8.3	-2.3	6.5	2.5	6.1	6.6	6.6	6.6	4.0	2.2	1.7	1.9
Investment (y-o-y)	4.9	15.1	4.8	1.0	5.4	5.2	2.9	5.8	-1.0	1.4	1.5	2.0
-construction*	5.4	11.8	3.9	0.8	...	...	...	...	...	...	...	...
-equipment*	4.6	17.8	5.9	1.8	...	...	...	...	...	...	...	...
Inventories (contribution to GDP)	0.1	-0.2	0.1	0.0	1.3	-0.2	-0.2	-0.6	-0.2	0.2	0.2	-0.2
Net exports (contribution to GDP)	-0.9	-1.3	-0.5	0.2	-1.8	0.0	-0.2	0.1	0.6	0.3	0.0	-0.1
Exports (y-o-y)	-7.7	1.0	9.9	5.4	1.4	12.1	14.1	12.1	6.6	5.3	5.0	4.8
Imports (y-o-y)	-2.9	4.8	8.2	3.0	6.6	8.2	10.1	7.8	2.3	2.8	3.6	3.6

\*Historical data from NSSG, with the exception of the components of fixed investment which are based on MOF data and NBG estimates

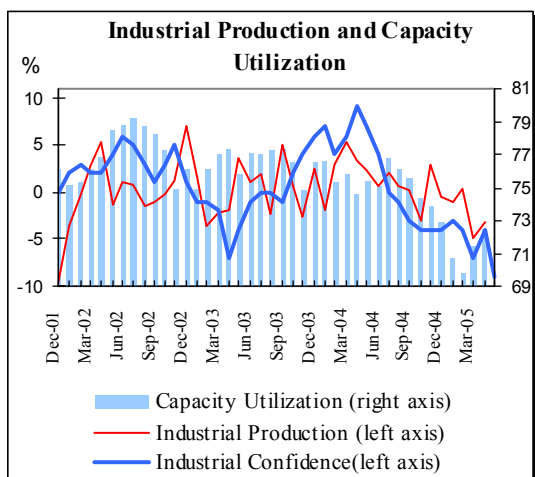
## CONSUMPTION



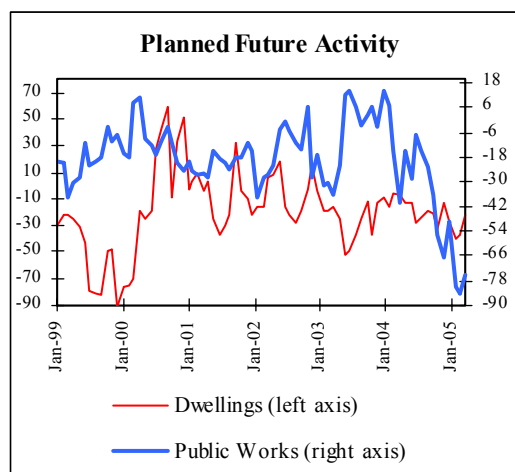
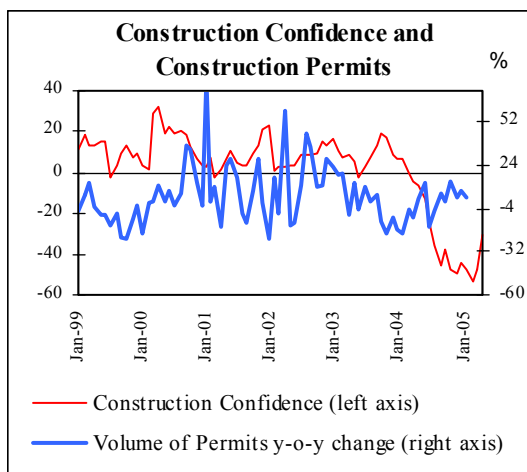
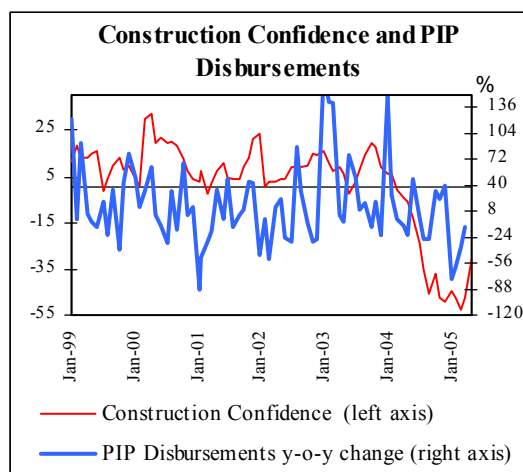
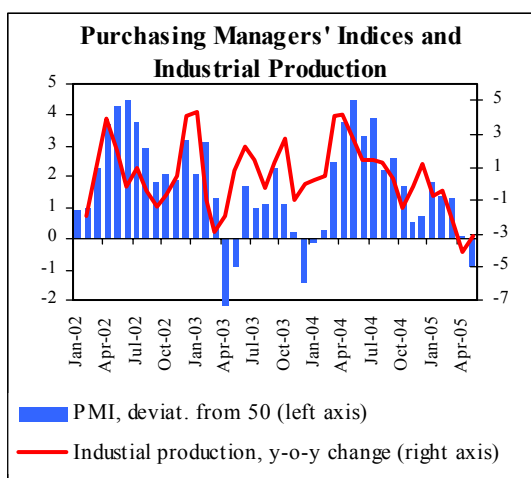
- Consumer spending continues to exhibit impressive dynamism, with retail sales volumes growing at a solid pace (7.1 per cent y-o-y in March) and sales of consumer durables accelerating to 4.9 per cent y-o-y in the same month. Only car sales slowed by -1.1 per cent y-o-y in April, mainly due to adverse base effects.
- Consumer confidence – after six consecutive monthly decreases – has rebounded in May, stabilizing around its five-year average. However, continuing stock rebuilding suggests a moderate easing in consumer demand.



## BUSINESS SECTOR

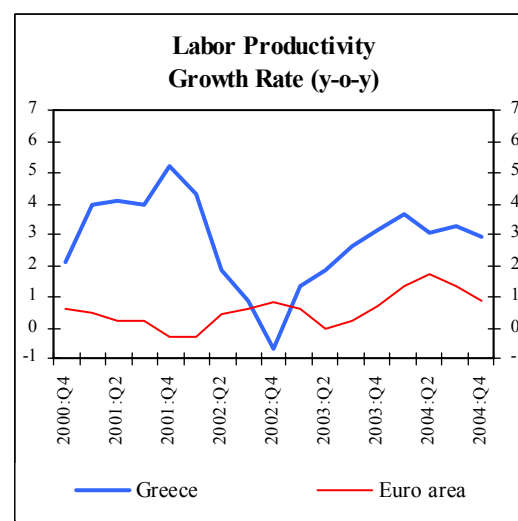
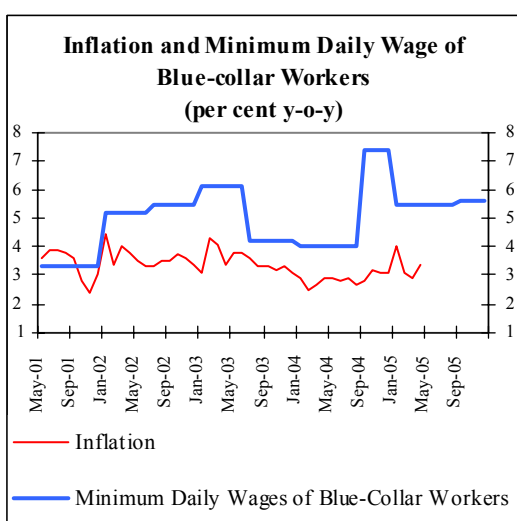
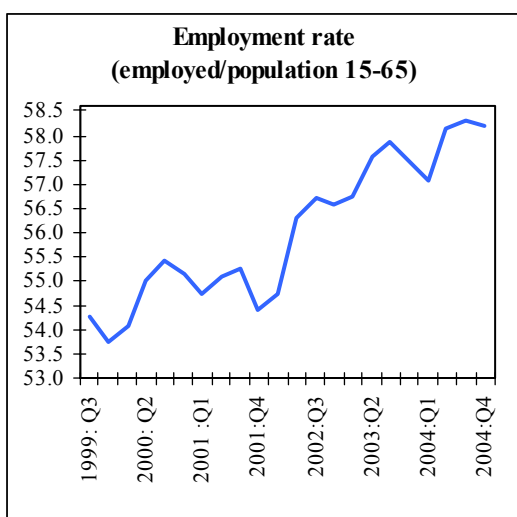


- Business activity continues to weaken, as industrial output fell by 3.2 per cent y-o-y in April, due to contractions in mining and manufacturing output (-13.8 per cent and -3.7 per cent y-o-y respectively). More worryingly, industrial confidence and PMI remain below their 5-year average, whereas capacity utilization dipped in the first four months of 2005 to the lowest level in the past 8 years, indicating that the outlook of the business sector is extremely vulnerable.
- After the free fall since mid-2004, construction confidence has reversed during the past two months in line with the reversal in PIP disbursements – however it still remains at the lowest level of the past 8 years, as the fiscal consolidation effort combined with increasing uncertainty surrounding the post-Olympics era worsen the near-term prospects of the sector.



## LABOR MARKET

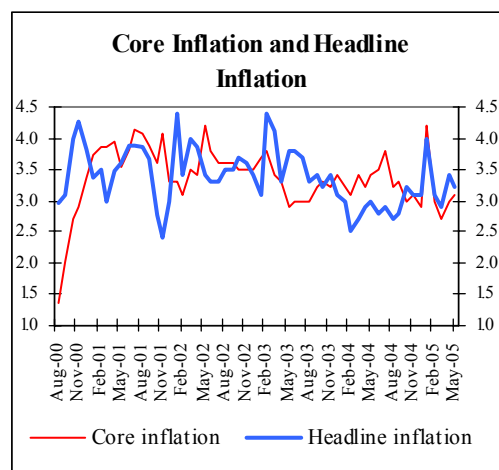
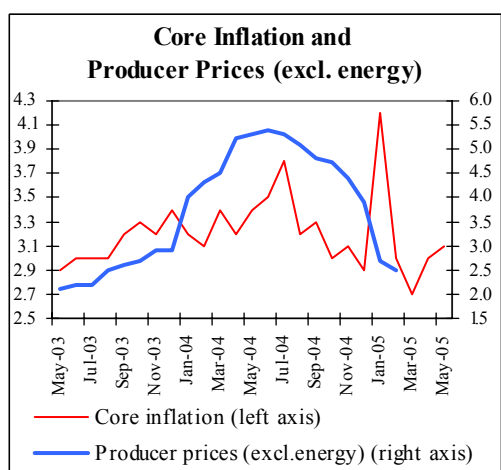
- Unemployment in Greece climbed to 10.4 per cent in the last quarter of 2004, compared with 10.1 per cent in the previous quarter. Long-term unemployment (over a year) posted a slight drop in the October-December period, falling to 55.7 per cent from 57.6 per cent in the July-September period.
- At the same time, the employment rate reversed its rising trend during the year and declined to 58.2 per cent, reaching the level of the second quarter of 2004.
- In the fourth quarter of 2004, employment increased by 1.3 per cent y-o-y, compared with 0.8 per cent y-o-y in Q3:2004.
- The unemployment rate for women is still twice as high as that for men (Q4:2004: 16.1 per cent compared with 6.4 per cent).
- In the last quarter of the year, the growth rate of labor productivity slowed, though remaining at the high rate of 3 per cent and sustaining a pace well above that of the euro area (the differential with the euro area is 2 percentage points).



## INFLATION

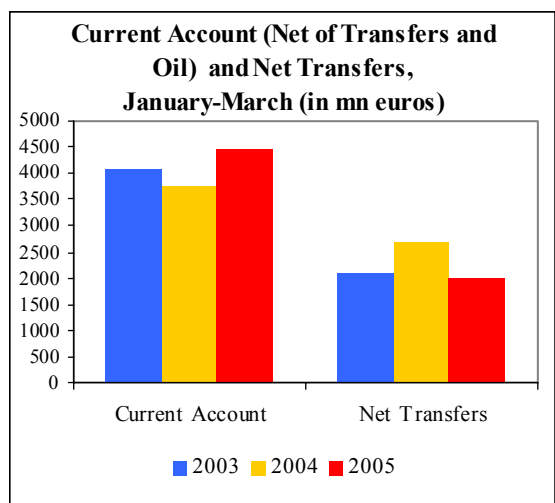
NBG Inflation Projections		
	CPI	Core inflation
Q1:2004 (p.a)	2.7	3.3
Q2:2004 (p.a)	2.9	3.4
Q3:2004 (p.a)	2.8	3.5
Q4:2004 (p.a)	3.2	3.0
<b>Average 2004</b>	<b>2.9</b>	<b>3.3</b>
(1) Oil prices at 38 \$/bbl and \$/€ of 1.24 for average of 2004 (2) Fresh fruit & vegetable prices decline by 12 per cent in 2004		
Q1:2005 (p.a)	3.3	3.3
Q2:2005 (p.a)	3.9	3.3
Q3:2005 (p.a)	3.8	4.1
Q4:2005 (p.a)	3.7	4.3
<b>Average 2005</b>	<b>3.7</b>	<b>3.7</b>
(1) Assuming oil prices at 44 \$/bbl and \$/€ of 1.32 on average for 2005 (2) Assuming fresh fruit & vegetable prices increase by 2 per cent in 2005		

- Headline inflation eased to 3.2 per cent y-o-y in May 2005, from 3.4 per cent in April 2005, despite the increase in core inflation from 3 per cent to 3.1 per cent, due to the decline of fresh fruit and vegetable prices by 12.4 per cent y-o-y, as well as the less intense increase of energy prices.
- Looking forward, we expect both headline and core inflation to increase to 3.7 per cent in 2005, with the final outcome depending to a large extent on profit margin behavior, as companies decide the extent to which they will pass the new VAT rates and the increased oil prices to consumers.

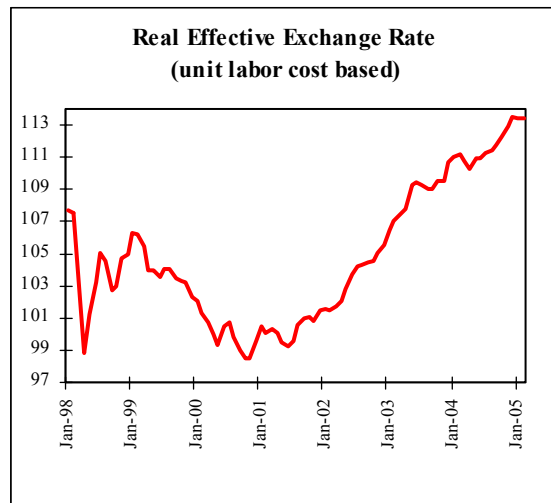
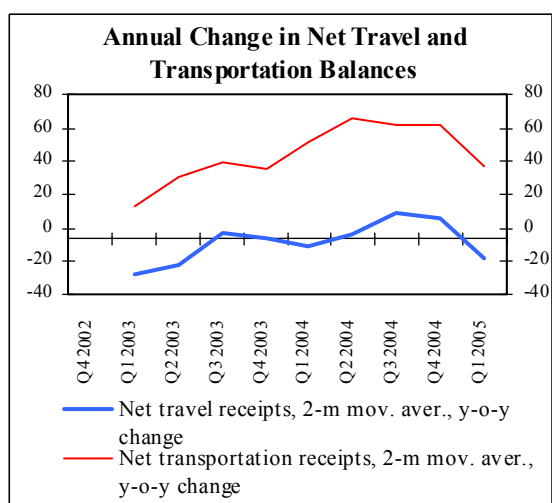


	CPI	Core inflation	Energy prices	Fresh fruit & vegetables	PPI	PPI (excl.energy)
May	2.9	3.4	14.9	-17.4	5.1	5.3
June	2.8	3.5	11.5	-20.9	4.2	5.4
July	2.9	3.8	9.7	-28.1	4.3	5.3
August	2.7	3.2	9.0	-20.2	4.5	5.1
September	2.8	3.3	9.2	-19.4	4.4	4.8
October	3.2	3.0	17.3	-13.6	5.2	4.7
November	3.1	3.1	16.6	-16.2	4.1	4.4
December	3.1	2.9	11.8	-4.1	3.0	3.9
<b>2005</b>						
January	4.0	4.2	10.3	-9.1	3.9	2.7
February	3.1	3.0	16.3	-12.2	4.6	2.5
March	2.9	2.7	18.4	-13.1	5.3	..
April	3.4	3.0	19.7	-11.1	5.1	..
May	3.2	3.1	14.8	-12.4	..	..

## EXTERNAL SECTOR



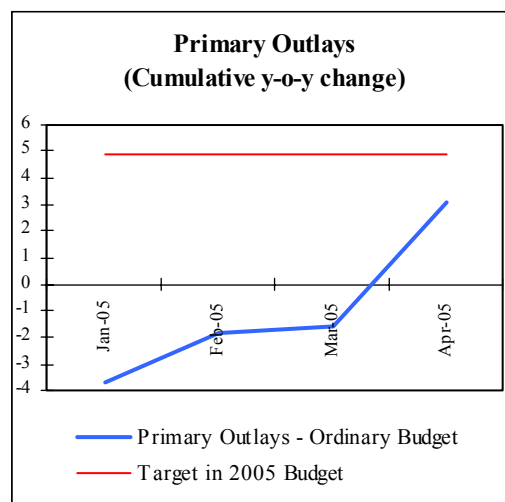
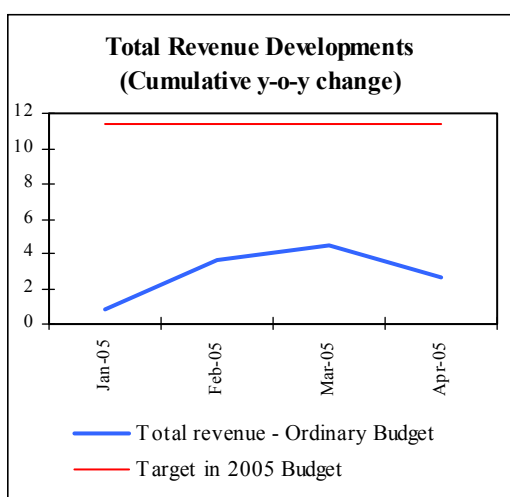
- The current account deficit has widened considerably – by €1.7 billion in Q1:2005 compared with the same period in 2004. The main factors were the substantial widening of the trade deficit (by €0.7 billion, which was mainly due to purchases of ocean-going vessels), the decline in the transfers surplus (by €0.7 billion, mainly due to lower EU transfers) and the widening in the income deficit by €0.4 billion. These were partly offset by the increase in the services surplus by €0.1 billion (as net shipping receipts grew by €0.3 billion).
- The competitiveness of the Greek economy has deteriorated during the past 4 years, as the real effective exchange rate has risen by 15.6 per cent since end-2000.
- Portfolio investment – a key source of financing of the current account deficit during 2004 - turned into a deficit of €1.0 billion in Q1:2005 (mainly due to residents' purchases of foreign bonds) compared with a surplus of €3.8 billion one year ago.



	Balance of Payments (in million EUR)									
	2003	2004	2005f	2003		2004				2005
				Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>Current Account</b>	-8647	-6411	-8429	773	-3628	-2178	-2566	1775	-3442	-3829
Current Account (% of GDP)	-5.6	-3.9	-4.8	0.5	-2.4	-1.3	-1.6	1.1	-2.1	-2.2
Non-oil Trade Balance	-18607	-20961	-23267	-4572	-4909	-4942	-5168	-5241	-5611	-5390
Oil Balance	-4036	-4475	-5370	-815	-1042	-1081	-979	-1384	-1031	-1356
Services Balance	11498	15467	16704	5660	1868	1840	3820	7288	2518	1935
Income Balance	-2597	-2457	-2211	-623	-492	-652	-815	-579	-412	-1031
Transfers, net	5095	6015	5714	1123	946	2657	575	1690	1094	1994
<b>Financial Account</b>	9664	7834	...	221	3645	2248	3099	-631	3119	3636
Foreign Direct Investment, net	545	600	...	-128	1216	525	-178	280	-27	-30
Portfolio Investment, net	12352	14074	...	-149	903	3752	1678	5988	2657	-1014
Other Investment, net	-7624	-9104	...	473	1057	-3060	1222	-6664	-603	4464
Change in Reserve Assets	4409	2611	...	16	357	944	323	155	1189	216
<b>Errors and Omissions</b>	-1016	-1423	...	-993	-17	-70	-539	-1144	323	193

## FISCAL DEVELOPMENTS

- General Accounting Office data showed that public revenues in the first four months of the year lagged considerably behind the annual target of 11.4 per cent, increasing by only 2.6 per cent y-o-y. Public revenues are expected to rebound in June, when most companies will have paid the higher VAT rates introduced in the second quarter of the year (see previous issue).
- During the same period, Ordinary Budget primary expenditure rose by 3.1 per cent y-o-y, against an annual growth target of 4.9 per cent.
- In the January-April 2005 period, Public Investment Budget expenditure declined to €1.3 billion from €2.4 billion in the same period of 2004. At the same time, Investment Budget revenue reached €1.1 billion (2004: €1 billion).
- Following the above-mentioned developments, the budget deficit of the central government declined to €5 billion in the first four months of the year, from €5.6 billion in the same period of 2004, though significantly above (in proportional terms) the end year target of €8.5 billion.



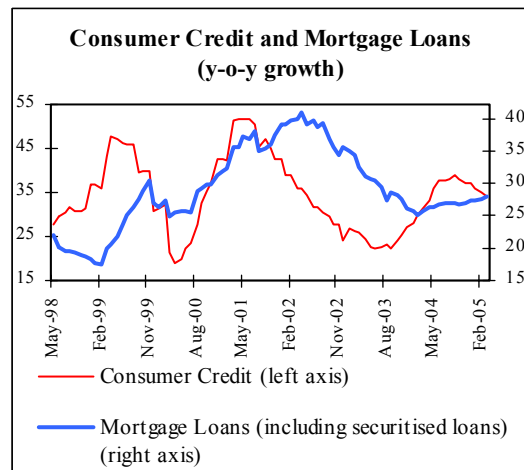
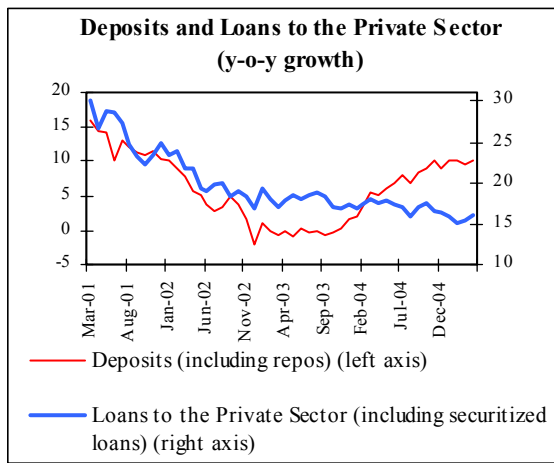
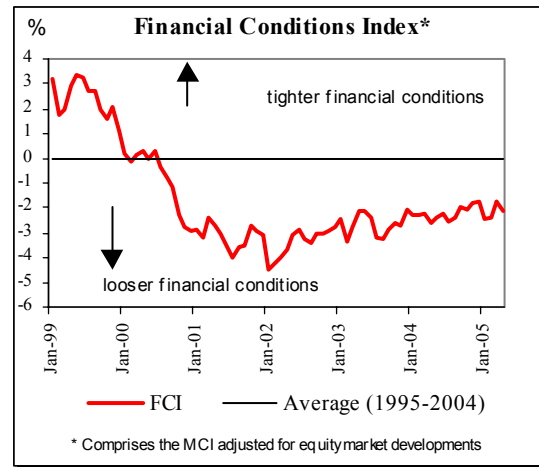
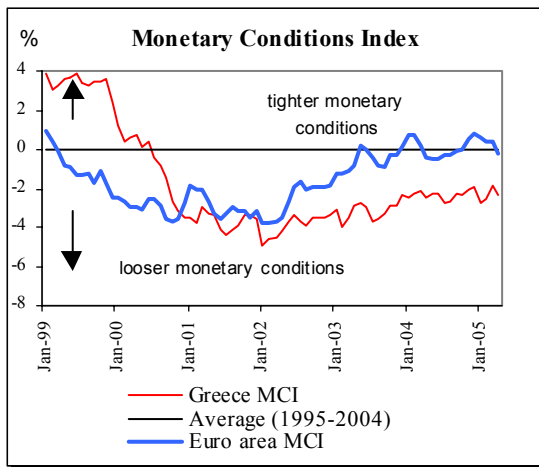
Auctions of Government Bonds						
	Last Issue	Amount (EUR mln)	Spread over corresponding euro rates (bps)	Euro assets swap spread (bps)	Current yield	Estimated share of 2005 new bond issuance (%)
<b>3 - year bond</b>	10-May-05	2380	12	0	2.45	30
<b>5 - year bond</b>	20-Apr-05	5000	13	0	2.83	25
<b>10 - year bond</b>	7-Jun-05	2100	25	13	3.56	25
<b>20 - year bond</b>	14-Oct-03	1200	30	16	3.93	10
<b>30 - year bond</b>	7-Mar-05	5000	33	17	4.10	5
<b>20 - year inflation-linked</b>	27-Jan-04	1250	--	--	1.89	--



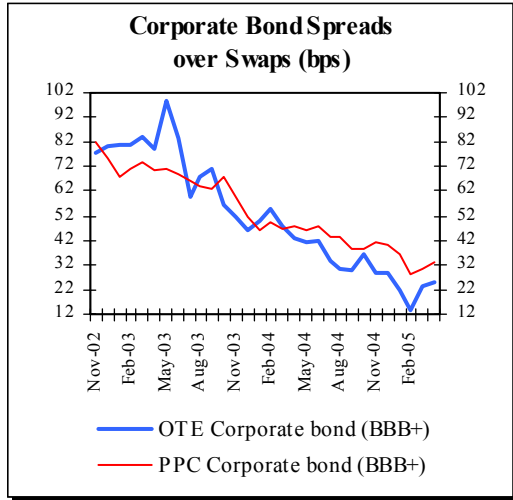
## MONETARY CONDITIONS



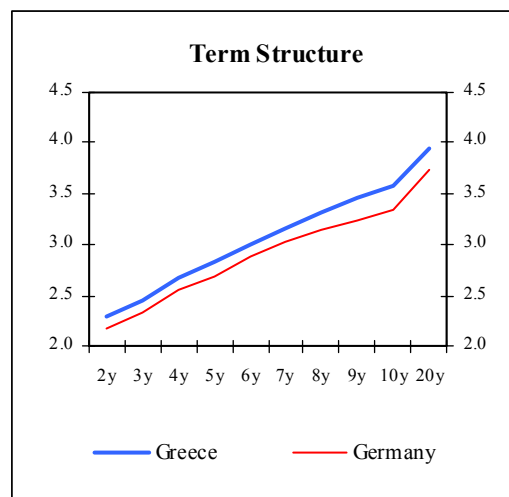
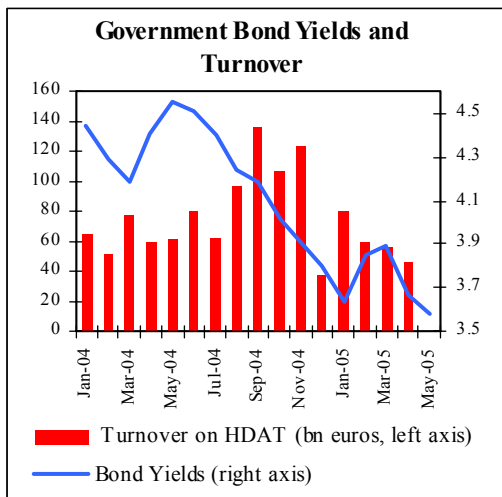
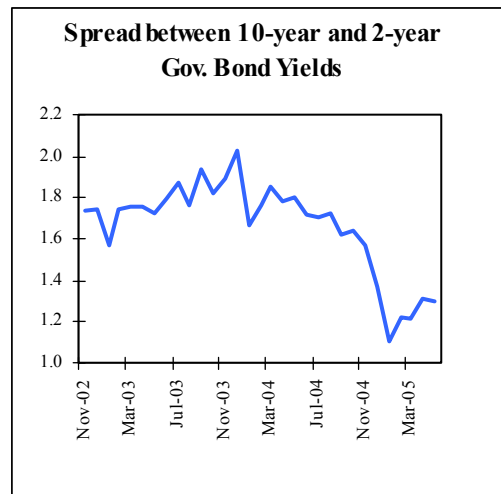
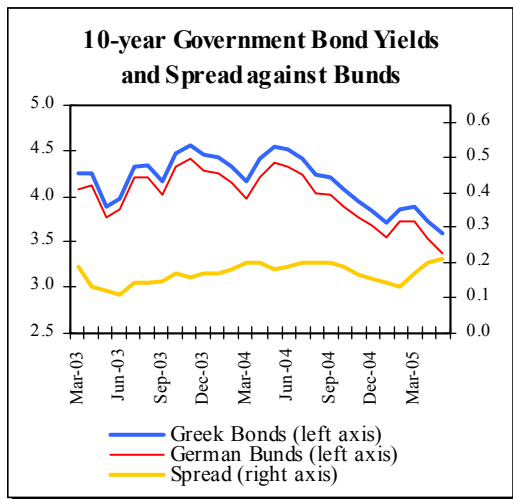
- Overall monetary and financial conditions loosened during the past two months, due to the depreciation of the euro and lower real interest rates, stemming from the rise in inflation.
- Looking forward, we expect inflation to rise due to second round effects from high oil prices and the increase in VAT. Since we expect the ECB to remain in a “wait-and-see” mode throughout 2005, real rates will fall and thus counterbalance the tightening effect of the projected euro appreciation, leaving monetary conditions in Greece broadly stable.
- In part due to the increase in minimum bank provision rates by the BoG on non-performing consumer loans in early-2005, consumer credit has decelerated to 34.4 per cent y-o-y in April 2005 compared with 39.1 per cent in September 2004.



## BOND MARKET

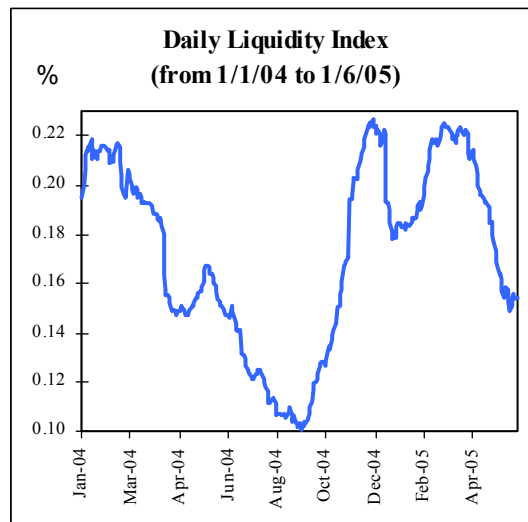
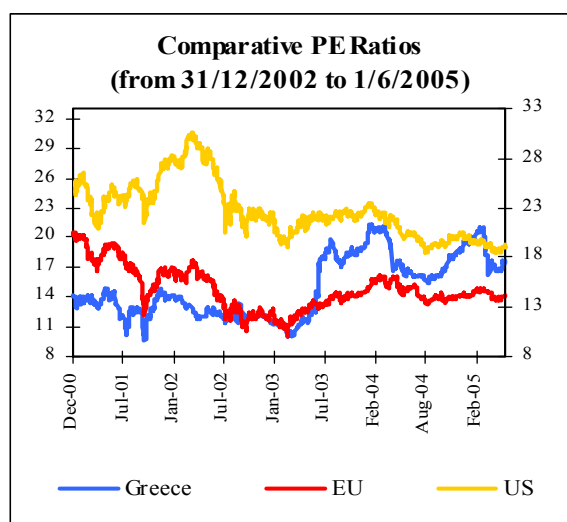
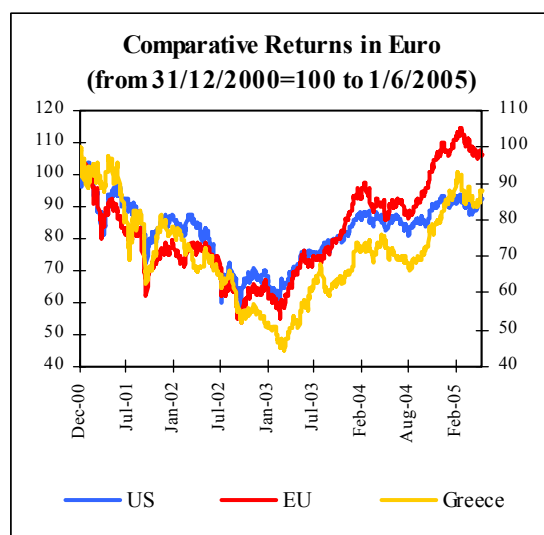
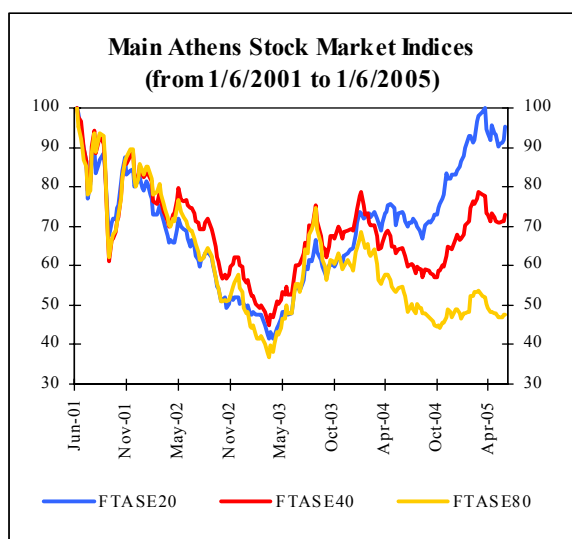


- Turnover on the paperless trading system HDAT decreased to €46.8 billion in April 2005 compared with the 12-month average of €79.0 billion.
- Since March 2005, the yield on the 10-year benchmark government bond has declined by 31 bps to 3.58 per cent, in tandem with euro area bond markets.
- The spread of the 10-year government bond over the benchmark bund increased from 17 bps in March 2005 to 21 bps in May 2005.
- The corporate bond spread over swaps for PPC and OTE widened by 2 bps since March 2005 and stood at 33 bps and 25 bps, respectively, at the end of April 2005.

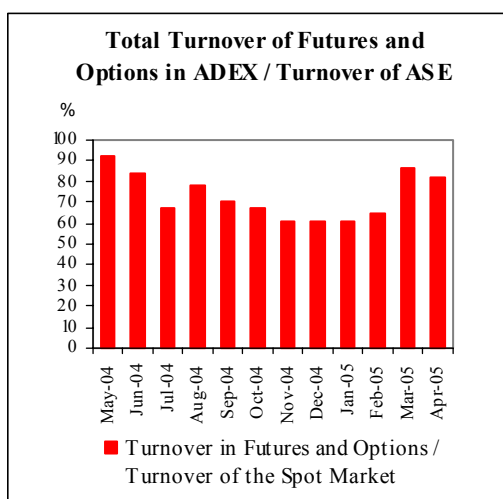


## STOCK MARKET

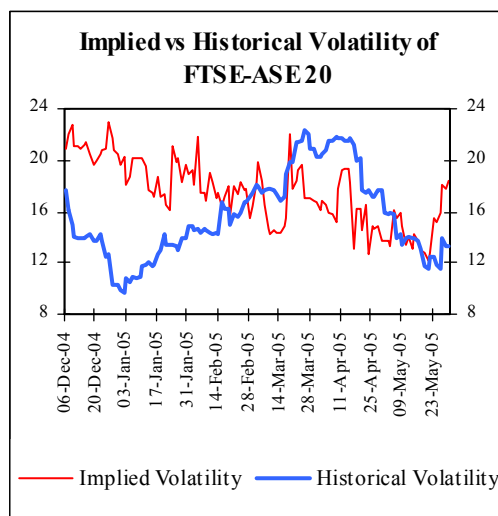
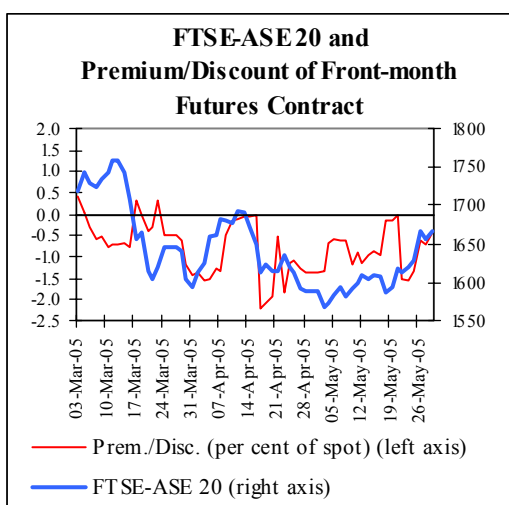
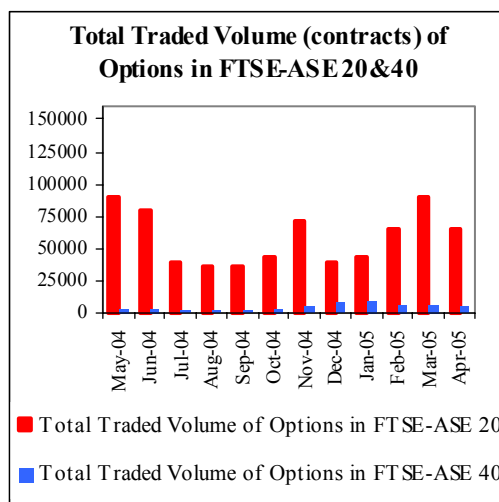
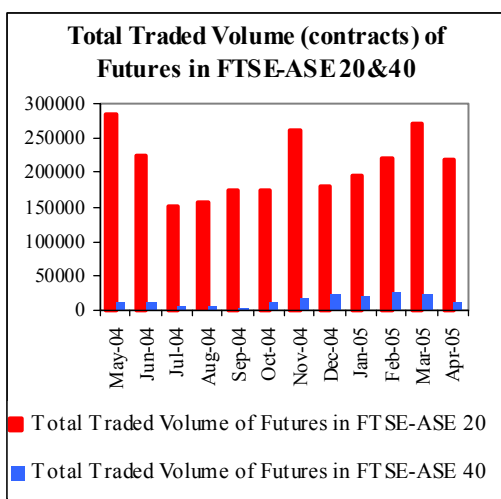
- Since the beginning of the year, the Athens Exchange moved in line with other European markets and outperformed the US market (Greece 7.0 per cent, EU 7.2 per cent, US -0.1 per cent). However, on a year-on-year basis, the Greek market outperformed both the EU and US by 5.1 percentage points and 15.6 percentage points (local currencies), respectively. Large capitalized firms (mainly banks) were the best performers on a y-o-y basis (FT-ASE20: 28.3 per cent, FT-ASE40: 14.1 per cent, FT-ASE80: -11.2 per cent).
- In 2005, P/E ratios remain at the level of the previous year. Thus, at end May, the P/E for the Greek, US and European markets were 17.6, 19.0 and 14.1 points respectively, compared with last year's average of 17.8, 20.6 and 14.6 points.
- During the past two months, the daily liquidity index declined significantly. However, during the past five months annualized liquidity has been 48.5 per cent, which is the highest level since 2000 (liquidity 2004: 41.8 per cent, 2003: 47.6 per cent, 2002: 29.9 per cent, 2001: 40.9 per cent, 2000: 65.9 per cent).
- Since the beginning of the year, the best performing sectors were informatics (28.7 per cent), banks (7.3 per cent) and industrials (7.3 per cent). On the other hand, IT solutions (-17.1 per cent), insurance (-16.0 per cent) and basic metals (-12.8 per cent) were the worst performers.



## DERIVATIVES MARKET

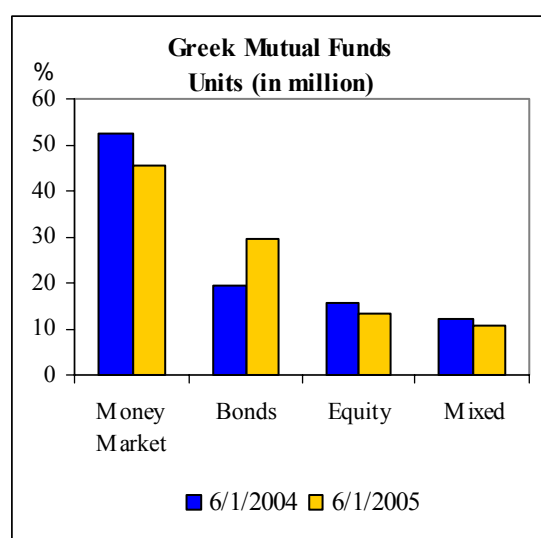
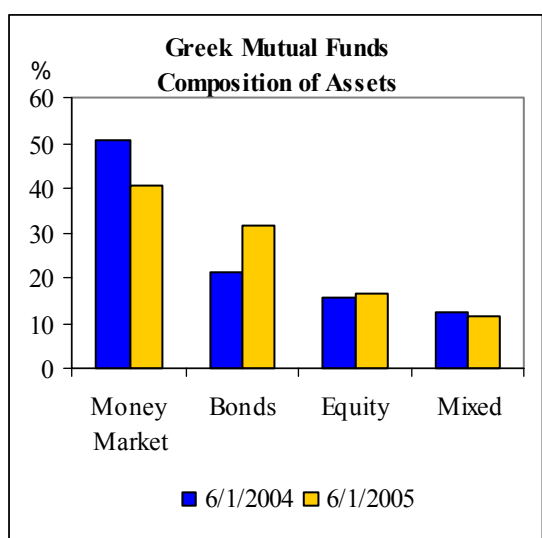


- The derivatives-to-spot traded value ratio increased to 82 per cent in April 2005 from 64 per cent in February 2005, indicating an increase in the need for hedging instruments during the past two months. The ratio increased above its 12-month average of 73 per cent.
- Since mid-March, the front-month futures contract on the FTSE-ASE 20 has been trading at a discount, indicating equity investors' bearish expectations.
- During the past 2 months, the implied volatility of the FTSE-ASE 20 declined from 17 per cent (March-average) to 15 per cent (May-average), indicating increased confidence for stock market valuations.



## MUTUAL FUNDS DEVELOPMENTS

- On a year-on-year basis, Greek mutual funds decreased by €334 million or 1.0 per cent. Money market, and mixed MFs decreased their assets by 20.7 per cent and 10.1 per cent. On the other hand, bond and equity funds increased their assets by 46.4 per cent and 5.5 per cent, respectively.
- On a year-on-year basis, there was a net inflow into bond MFs. However, this was not enough to compensate for the net outflow from the other types of MFs (money markets 15.4 per cent, equity 17.3 per cent and mixed 12.5 per cent, respectively).
- Investments in Greek mutual funds as a percentage of GDP are much lower than for other European countries, indicating that there is room for further development of Greek MFs. Furthermore, the allocation of funds in Greece is significantly biased in favor of money market instruments.



Types of Funds	Assets EUR (in million)			Units (in million)		
	6/1/2004	12/31/2004	6/1/2005	6/1/2004	12/31/2004	6/1/2005
Money Market	16 136.3	15 468.3	12 789.8	3 047.1	2 921.4	2 578.7
Bonds	6 780.2	7 652.4	9 926.4	1 124.0	1 274.1	1 679.1
Equity	4 913.6	5 205.0	5 182.0	919.8	882.2	760.8
Mixed	3 985.8	4 210.8	3 583.6	709.7	741.1	620.9
<b>Total</b>	<b>31 816.0</b>	<b>32 536.5</b>	<b>31 481.9</b>	<b>5 800.6</b>	<b>5 818.8</b>	<b>5 639.4</b>

International Composition (%) of Mutual Fund categories							
Q1:2005	Equity	Bonds	Mixed	Money Market	Total	Total EUR Billions	Total / GDP
<b>Greece</b>	15.4	23.2	10.7	50.7	100	30.6	20.1
Austria	16.9	62.0	9.7	11.4	100	74.3	34.0
France	23.9	18.5	21.4	36.2	100	981.6	63.3
Germany	42.9	32.7	6.4	18.0	100	217.6	10.2
Italy	19.8	40.6	15.8	23.7	100	361.7	27.8
Luxembourg	35.8	36.1	7.4	20.7	100	911.5	--
Portugal	7.6	44.0	7.5	40.8	100	22.1	16.9
Spain	32.4	28.9	13.1	25.5	100	220.7	29.7
Sweden	68.3	6.4	17.2	8.1	100	74.0	29.6
UK	74.1	17.1	7.7	1.1	100	342.8	21.6
<b>Average (excl. Greece)</b>	<b>34.6</b>	<b>28.4</b>	<b>13.3</b>	<b>23.7</b>	<b>100</b>	<b>323.7</b>	<b>38.5</b>

Source : FEFSI, OECD, Datastream, NBG calculations

## STRUCTURAL ISSUES

### **OTE Agreement a Precursor of Labor Market Reform**

Following negotiations that lasted several months, Greece's main fixed-line telecom operator Hellenic Telecommunications Organization (OTE) reached a landmark agreement with the unions on easing the virtually permanent employment status in force to date. According to this agreement, new employees will be hired on open-ended contracts but will not enjoy the status of civil servants as previously. In return, about 6,000 eligible employees will receive a generous voluntary early retirement package. OTE is the first among the formerly state-controlled public utilities to ease its terms of employment and the development is seen a forerunner of changes to come in the public sector itself. The early retirement program could cost as much as €1.5 billion, of which some 20 per cent will be provided from public funds.

### **Privitization Program Revitalized**

The Greek Government has decided to accelerate its privatization program, *inter alia*, so as to revive business confidence. It comprises:

- A 10 per cent stake in OTE Telecom to be sold by the end of August. The Government would retain a blocking minority in the company and would not reduce its holding below 34 per cent.
- A 10 per cent stake in Agricultural Bank will be sold, where the state controls 84.5 per cent.
- The Government is due to sell 17 per cent of its share in the OPAP lottery company to private investors in July, reducing its share to 33.8 per cent.
- The Postal Savings Bank, through a listing on the Athens Exchange (AE), will be partially privatized. The listing will take place at the end of this year or the beginning of the next, but the size of the stake has not yet been specified.
- A share of Athens International Airport will also be listed on the AE.

These sales are expected to raise €1.5 billion in 2005, with the receipts used to reduce the large Government debt.

Greek Economy: Selected Indicators										
	2002	2003	2004				2005			2005
	year aver.	year aver.	Q2	Q3	Q4	year aver.	Q1	Most recent		
<b>Real sector (y-o-y period average, constant prices)</b>										estim.
GDP	3.8	4.7	4.1	4	4.2	4.2	3.5	Q1	3.5	3.0
Domestic demand	4.3	5.4	3.7	3.8	3.8	4.2	2.5	Q1	2.5	2.5
Final Consumption	4	2.8	3.6	4.4	3.8	3.9	4	Q1	4	3.0
Gross fixed capital formation	4.9	15.1	5.2	2.9	5.8	4.8	-1.0	Q1	-1.0	1.0
Exports of goods and services	-7.7	1.0	12.0	14.1	12.1	9.9	6.6	Q1	6.6	5.4
Imports of goods and services	-2.9	4.8	8.2	10.1	7.8	8.2	2.3	Q1	2.3	3.0
<b>Coincident and leading indicators (period average)</b>										
Retail sales volume (y-o-y)	4.5	4.6	5.1	4.7	3.7	4.6	3.2	March	7.1	...
Retail confidence (4-yr. average:5)	4	12	21	16	10	17	9	May	4	...
Car registrations (y-o-y)	-4.2	-2.7	20.8	19.2	3.5	16.3	1.3	April	-1.1	...
Consumer confidence (4-yr. average:-22)	-28	-28	-21	-28	-27	-26	-32	May	-31	...
Industrial production (y-o-y)	0.8	0.3	2.3	0.9	-0.8	1.2	-1.9	April	-3.2	...
Manufacturing production (y-o-y)	-0.1	-0.4	3.1	1.5	-1.3	1.2	-2.9	April	-3.7	...
Capacity Utilization (4-yr. average: 77.3 )	77.1	76.5	75	76.1	73.7	75.2	70.7	April	72.5	...
Industrial confidence (4-yr. average:4.1)	3	0	7	-1	-4	2	-5	May	-9	...
PMI Manufacturing (base=50)	52.8	50.6	53.9	52.2	51.0	52.3	50.9	May	50.2	...
Construction permits (y-o-y)	9.5	1.5	2	-8.3	5.9	-3.4	...	Feb	2.9	...
Construction confidence (4-yr. average:10)	12	9	-8	-35	-34	-21	-48	May	-31	...
PIP Disbursements (y-o-y)	-9.4	19.6	5	-15.2	33.5	20.1	-57.7	April	-11.8	...
Stock of finished goods (4-yr. average:11)	13	9.3	6	9	13	9	14	May	18	...
<b>External sector (period average)*</b>										
Current account balance as % of GDP	-6.2	-5.6	-1.6	1.1	-2.1	-3.9	-2.2	Q1	-2.2	-4.8
Current account balance (EUR mn)	-8571	-8647	-2567	1775	-3442	-6411	-3829	March	-1820	...
Services balance, net (EUR mn)	10755	11498	3820	7288	2518	15467	1935	March	729.5	...
Transfers, net (EUR mn)	5455	5095	575	1690	1094	6015	1994	March	478.5	...
Merchandise exports-- non-oil (y-o-y cum.)*	-5.9	5.6	13.7	13.5	13.0	13.0	7.7	March	24.2	...
Merchandise imports-- non-oil (y-o-y cum.)*	0	-0.2	11.8	12.5	12.8	12.8	10.6	March	12.0	...
<b>Employment</b>										
Unemployment rate	10.3	9.7	10.2	10.1	10.4	10.5	...	Q4	10.4	...
Employment rate (y-o-y)	2.2	2.4	1.0	0.8	1.3	0.9	...	Q4	1.3	...
<b>Prices (y-o-y period average)</b>										
Headline inflation	3.6	3.5	2.9	2.8	3.2	2.9	3.3	May	3.2	3.7
Core inflation	3.6	3.3	3.4	3.5	3.0	3.3	3.3	May	3.1	3.7
Producer prices	2.3	2.3	4.4	4.4	4.1	3.5	4.6	April	5.1	...
Wholesale prices excl.energy	2.3	2.5	5.3	5.0	4.3	4.7	...	Feb	2.5	...
<b>Fiscal policy</b>										
<b>MoF revised 2005</b>										
Government balance/GDP	-3.7	-4.6	...	...	...	-6.1	...	**		-3.5
Government debt/GDP	112.5	109.3	...	...	...	110.5	...	**		108
Revenues--Ordinary budget (cumulative)	5.1	4.2	7.9	4.4	4.8	6.6	3.0	April	2.6	...
Expenditure-- Ordinary budget (cumulative)	5.1	8.7	10.8	11.3	11.2	10.4	-7.0	April	4.7	...
<b>Monetary sector (y-o-y, end of period)</b>										
Deposits (including repos)	-2	1.8	6.9	8.3	9	...	9.5	April	10.2	...
Loans to private sector	16.9	17.2	17.4	17	16.5	...	15.3	April	16.2	...
Mortgage loans (including securitized loans)	35.6	26.2	26.6	26.9	27.2	...	27.9	April	28.1	...
Consumer credit	25.6	33.0	39.1	37.7	35.4	...	33.9	April	34.4	...
<b>Interest rates (period average)</b>										
10-year government bond yield	5.1	4.27	4.32	4.21	3.98	4.21	3.76	May	3.59	...
Spread between 10 year and bunds (bps)	33	16	19	19	18	19	14	May	21	...
<b>Exchange rates (period average)</b>										
USD/euro	0.95	1.13	1.20	1.22	1.30	1.24	1.31	May	1.27	1.32
Real effective exchange rate (1995=100)	103	109	112	110	113	112	113	March	114	...
<b>Stock market (y-o-y end of period)</b>										
ASE capitalization/GDP (per cent)	50	54	51	47.8	56.7	56.7	54.83	May	56.5	...
ASE return	-32.5	29.5	23.2	16.3	23.1	23.1	20.18	May	25.8	...
FTSE 20	-39.5	35.4	31.6	25.1	32.3	32.3	28.4	May	33.2	...
FTSE 40	-32.8	26.8	0.1	-7.7	-21.3	-21.3	-14.4	May	19.4	...

Sources: BoG, NSSG, MoF, ASE,NBG

Note:(\*) In this category the column "year average growth" refers to end year data.

# GREECE

## Economic & Market Analysis

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### NATIONAL BANK OF GREECE

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Note: The Bulletin analysis is based on data up to June 13, 2005, unless otherwise indicated.