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Statement by the Hon. **GEORGE ALOGOSKOUFIS**,
Governor of the Bank for **GREECE**,
at the Joint Annual Discussion

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The global expansion remains on track, with world growth projected to remain above 4% in both 2005 and 2006. Long-term rates are unusually low worldwide and credit spreads are tight. However, downside risks to the global outlook do exist. The high and volatile oil prices pose a significant risk to the sustainability of the global expansion. In addition, growth disparities between major regions have widened, as the expansion continues to be led by the United States and China while growth projections for the euro-area have been revised downwards. These developments underscore the need for a cooperative approach to resolving global imbalances, including more ambitious efforts to remove impediments to long-term growth in Europe.

Greece's economic growth was exceptionally strong last year, underpinned by low interest rates and strong construction activity associated with the Olympic Games. Labor market conditions improved during 2004, as the unemployment rate dropped by almost a full percentage point to 10.4% in the first quarter of 2005. Inflation, however, remained above the euro-area average, thus gradually eroding competitiveness. Growth is expected to remain robust, at 3.6% in 2005 and rise slightly in 2006, despite the high oil prices and weak economic activity in the eurozone. This robust growth performance, well above the euro-area average, is driven by private consumption and investment, exports and tourism. Structural reforms in product and labor markets underlie this performance.

Fiscal consolidation remains one of the government's key priorities. The fiscal audit launched in March 2004 resulted in upward revisions of the general government deficit and debt for the period 1997-2004. These revisions have led to an increase in transparency that provides a solid basis for assessing the fiscal stance. Significant progress has been achieved in 2005, with the deficit of the general government set to decline from above 6% of GDP in 2004 to 3.6% in 2005. The Greek government is committed to correcting the excessive deficit by end-2006 through expenditure restraint in the public sector, measures to contain borrowing by public enterprises and entities, a broadening of the tax base and systematic efforts to tackle tax evasion. The target for 2006 is to further reduce the deficit to 2.8% of GDP.

In parallel with fiscal consolidation, the Greek government is implementing an ambitious agenda of structural reforms, to help increase private investment, employment and potential growth. This agenda includes an acceleration of the privatization process, a new framework for PPPs, and reforms to increase flexibility in the labor market and in retail shopping hours. We are also pursuing efforts to improve the competitiveness of the Greek economy by promoting competition, reducing administrative barriers, and cutting corporate taxes while improving tax administration.

The key to strong economic performance in an environment of intense global competition is downsizing the state sector, building strong institutions, removing obstacles to the efficient allocation of resources and tackling poverty. The pursuit of these objectives is greatly facilitated by international and regional policy coordination. The Fund's lending facilities and global, regional and country surveillance, as well as the Bank's country programs and lending policies, are instrumental in the pursuit of these objectives. We welcome the recent review of the Fund's medium-term strategy, to streamline surveillance and increase focus on the most pressing macroeconomic issues that arise from globalization. We also welcome the Bank's initiatives to reduce global poverty, and strongly support the Bank's continuing presence in Southeastern Europe. We fully endorse the attainment of the Millennium Development Goals by 2015 and the recent G-8 initiative for debt cancellation of eligible countries.