

Greece: the twelfth Member of the euro-zone

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Statistics in focus

ECONOMY AND FINANCE

THEME 2 – 2/2001

NATIONAL ACCOUNTS

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On January 1st 2001 Greece joined the group of countries that have already introduced the Euro as a common currency. This "Statistics in focus" is intended to provide some key information about Greece, the 12th Member of the euro-zone ⁽¹⁾. We focused on different economic features, looking at underlying dissimilarity as well as similarity with euro-zone figures.

Greece is a fairly small country in terms of area — Greek territory accounts for 5.3% of euro-zone area; of population — Greeks represent 3.5% of EUR-12 population; and also in terms of economic size — Gross Domestic Product (GDP) of Greece makes up 1.9% of total euro-zone GDP.

One would not expect a significant impact on the euro-zone economic figures, but Greece shows specific characteristics, distinguishing it from the 11 countries already making up the euro-zone: the Greek economy stands out as a particularly dynamic economy; indeed during the last 5 years (1995/99) annual GDP growth rates recorded for Greece have been persistently higher than those recorded for the euro-zone as a whole. When GDP per head (in Purchasing Power Standards) is considered, Greece is distinctive again, but this time for having the lowest figure -32% lower than the average EUR-12 figure.

In terms of demand, Greece stands out with a larger share of household consumption in total output — in particular Greek consumption is distinguishable for a greater share of food consumption. As for production in Greece, *trade, transports and communication* play a major role in output while, in contrast to the euro-zone structure, *financial services and business activities* account for a minor share.

Fig. 1. Greece - size of the economy, 1999

	Area		Population		GDP		GDP per head	
	Km ²	% EUR-12	Mio	% EUR-12	Mio curr EUR	% EUR-12	PPS	EUR-12=100
EUR-12	2 495 354	100	301 899	100	6 244 539	100	21 000	100
EL	131 625	5.3	10 522	3.5	117 101	1.9	14 200	68



⁽¹⁾ The euro-zone (EUR-11) consists of the following countries: Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland. Greece joined the euro-zone (EUR-12) on 01.01.2001.

Main characteristics of Greek economy

Household consumption - most important component of Greek expenditure ...

When selecting the main features for describing the Greek economy, we distinguish between the demand side and the production side: for demand, shares of GDP components and the structure of households consumption have been described above; for production, value added by branch of production and cost of labour per unit of product (CLUP) are shown in figure 4.

As already noted, in Greece household consumption has a very important share of total demand: at 72.3% of GDP, this share is the largest recorded among euro-zone countries (15.6 percentage points higher than EUR-12 average, 56.7%). The relative share of Greek household consumption is quite different from other EUR-12 countries; the closest figure is that of Portugal with 66.9% of GDP.

One can also note that investment represents with 23.7% a fairly large share of GDP in Greece.

Tab. 1. Structure of domestic demand, 1999
(as a % of GDP)

	HC	GC	GFCF
EUR-12	56.7	19.8	21.5
EU-15	57.7	19.9	21.1
B	53.2	21.0	21.6
DK	50.7	25.6	20.3
D	57.1	18.9	22.5
EL	72.3	14.3	23.7
E	59.6	17.4	24.4
F	54.3	23.4	19.6
IRL	50.9	13.9	21.4
I	60.1	17.4	19.7
L	44.4	17.5	23.8
NL	49.5	22.6	22.1
A	56.3	19.7	23.2
P	66.9	17.8	25.7
FIN	50.0	20.8	18.7
S	50.1	24.8	17.1
UK	66.9	18.6	19.3

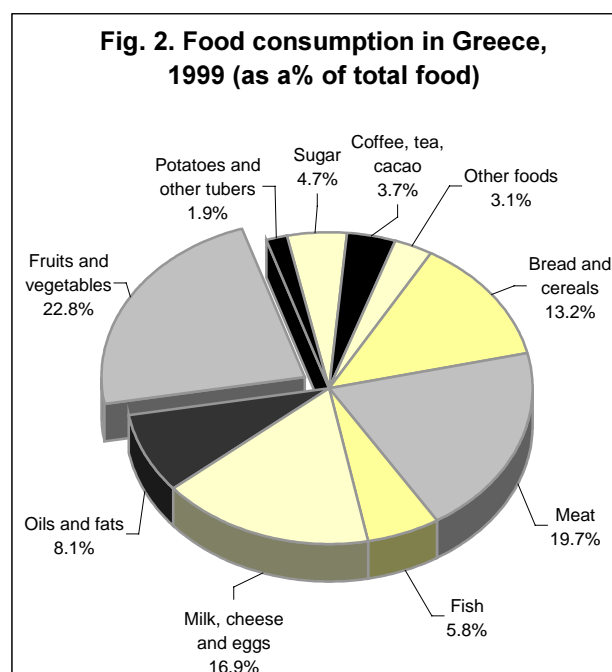
HC: Household consumption.
GC: Government consumption.
GFCF: Gross fixed capital formation.

In more detail, the consumption of Greek households is mainly concentrated on food ⁽²⁾ which takes up more than 20% of total households expenditure (21.3%) — one of the highest shares among EUR-12 countries and 4.3 percentage points higher than the average euro-zone figure (17.0%). The largest item in Greek food expenditure is for *fruit and vegetables* (22.8% of total food consumption) — which is typical of the "Mediterranean diet".

The contrary is found for expenditure on *rent, fuel and power*, which is the largest item in the euro-zone household consumption (19.7% of total consumption): with a 17.8% share. The proportion of expenditure that Greek households devote to *rent, fuel and power* is among the lowest in the euro-zone. Ireland and Portugal show the most similar structure of consumption — with food consumption accounting for the largest part of total expenditure, even more than housing expenses. This structure was evident in all euro-zone countries during the 1980s but recent trends in household expenditure show an increasing share for housing and a reducing share for food.

In general, Greece shows a structure of household consumption that is particularly dedicated to "good living": a large part of expenditure is dedicated to consumption in hotels, restaurants and cafés ⁽³⁾ and to clothing and footwear — for this item Greece records the largest share among euro-zone countries.

Fig. 2. Food consumption in Greece, 1999 (as a % of total food)



⁽²⁾ Food consumption includes beverages and tobacco.

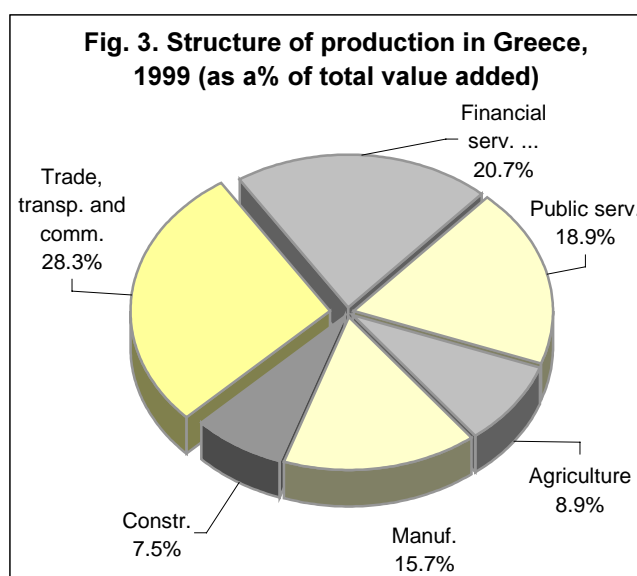
⁽³⁾ Expenditure in restaurants, cafes and hotels is the main item in miscellaneous of goods and services, and in Greece it stands for 76.4% of miscellaneous of goods and services total expenditure.

Trade, transport and communication vs. financial services: two main differences with euro-zone ...

Regarding the structure of production, in Greece the role of *agriculture* ⁽⁴⁾ (8.9% of total value added) and *trade, transport and communication* (28.3%) in total value added is especially important — the relative contribution of these two branches to total value added are the highest in the euro-zone. In particular, the value added in *agriculture* is a much higher share in Greece than in the other 11 euro-zone countries — the next largest share is recorded in Portugal, with only 4.8%. As noted above, the major part of output in Greece is produced in *trade, transport and communication* — continuing a long tradition of this kind of activity. Considering the structure of output in the whole euro-zone, the largest shares are recorded for *financial services and business activities* and for *manufacturing* — Greece stands out with much lower quotas of value added in these branches, especially for *financial services and business activities*.

In order to analyse the system of production, we have calculated the cost of labour for each unit of product

(CLUP) ⁽⁵⁾, i.e. the ratio between remuneration (compensation/employees) and productivity (value added/employment). CLUP shows the relationship between how much each worker costs and the amount they produce, in different branches of production.



Tab. 2. Structure of production, 1999 (as a % of total value added)

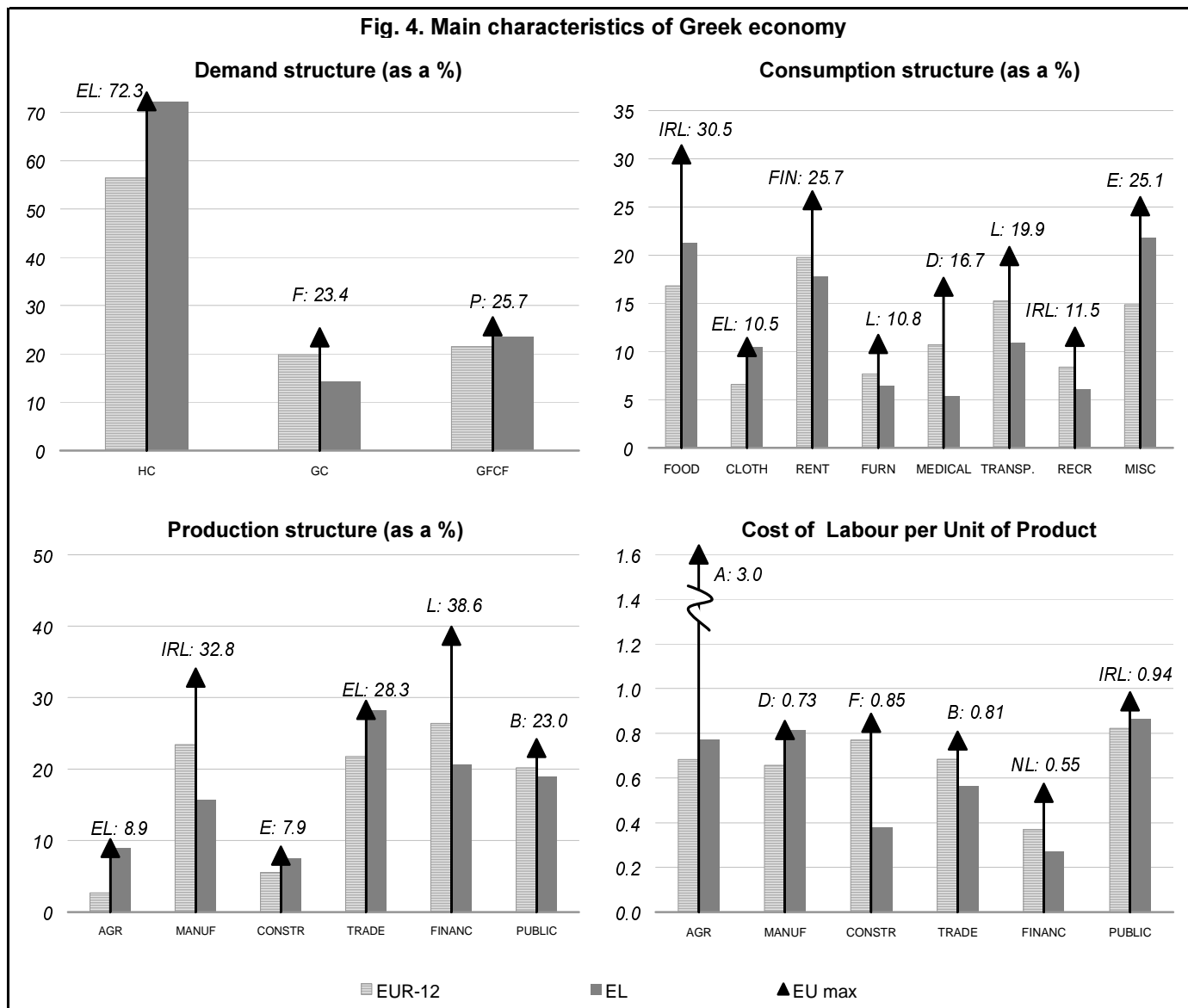
	Agriculture	Manufacturing	Construction	Trade, transp. and comm.	Financial serv. and business act.	Public serv.
EUR-12	2.8	23.3	5.6	21.9	26.3	20.2
EU-15	2.6	23.3	5.4	22.0	26.2	20.4
B	1.8	24.1	4.8	18.5	27.9	23.0
DK	3.7	18.3	4.4	23.8	23.8	26.0
D	1.3	24.1	5.7	17.7	30.4	20.8
EL	8.9	15.7	7.5	28.3	20.7	18.9
E	4.6	22.6	7.9	27.1	17.9	20.0
F	3.3	21.6	4.5	23.3	27.8	19.5
IRL	4.7	32.8	6.1	18.9	19.8	17.8
I	3.4	24.7	4.9	24.8	23.7	18.5
L	0.8	15.2	5.8	22.6	38.6	17.0
NL	3.3	20.9	5.2	24.1	24.8	21.7
A	2.4	24.0	7.8	24.9	21.1	19.8
P	4.8	22.5	7.1	22.9	20.1	22.7
FIN	3.9	30.0	4.6	21.6	19.5	20.3
S	2.2	26.5	4.1	20.4	23.8	23.0
UK	1.6	23.6	4.7	23.2	26.3	20.5

⁽⁴⁾ Agriculture, hunting, forestry and fishing.

⁽⁵⁾ The cost of labour per unit of product (CLUP), or unit labour cost, is the ratio of productivity to remuneration — which in this case includes the gross value added per employment (productivity) and compensation per employee (remuneration). More specifically, the CLUP is the relationship between how much each worker is paid and the amount they produce. As the CLUP is a ratio, it simply provides a dimensionless number. The base value is one, which means that each worker's production is equal to their remuneration. For example if the CLUP thus comes to 0.70, which shows that the cost of labour (remuneration) amounted to 70% of unit production per employee.

Overall, remuneration in Greece is lower than the euro-zone average, for all branches. Also productivity is lower in Greece, except for *financial services and business activities* and *construction*, where the figures are basically equivalent to EUR-12 values. Productivity is also fairly high for *trade, transport and communication* – as noted above, this branch produces nearly 1/3 of

total Greek output. Thus, in Greece the unit labour cost is lower than the overall euro-zone figure for *financial services and business activities*, for *construction* and for *trade, transport and communication*. Conversely, for *manufacturing, public services and agriculture* each unit of product is more expensive if produced in Greece than for the average of the euro-zone.



GDP components: Final household consumption expenditure (HC); Final general government consumption expenditure (GC); Gross fixed capital formation (GFCF).

Household consumption:

- | | |
|---|--|
| 1. Food, beverages and tobacco | 5. Medical care and health expenses |
| 2. Clothing and footwear | 6. Transport and communication |
| 3. Gross rent, fuel and power | 7. Recreation, entert., education and cultural serv. |
| 4. Furniture, furnishings and household equip.and oper. | 8. Miscellaneous goods and services. |

Branches of production (A6):

1. Agriculture, hunting, forestry and fishing.
2. Mining and quarrying; manufacturing; electricity, gas and water supply.
3. Construction.
4. Wholesale and retail trade, repair of motor vehicles...; hotels and restaurants; transport and communication.
5. Financial interm.; real estate, renting and business activities.
6. Public adm. and defence, education; health and social work; other community.

Developments of Greek economy

Investment - a dynamic component ...

In order to give a dynamic picture of the Greek economy and its developments, growth rates have been calculated for GDP and its components, as well as for value added by branch.

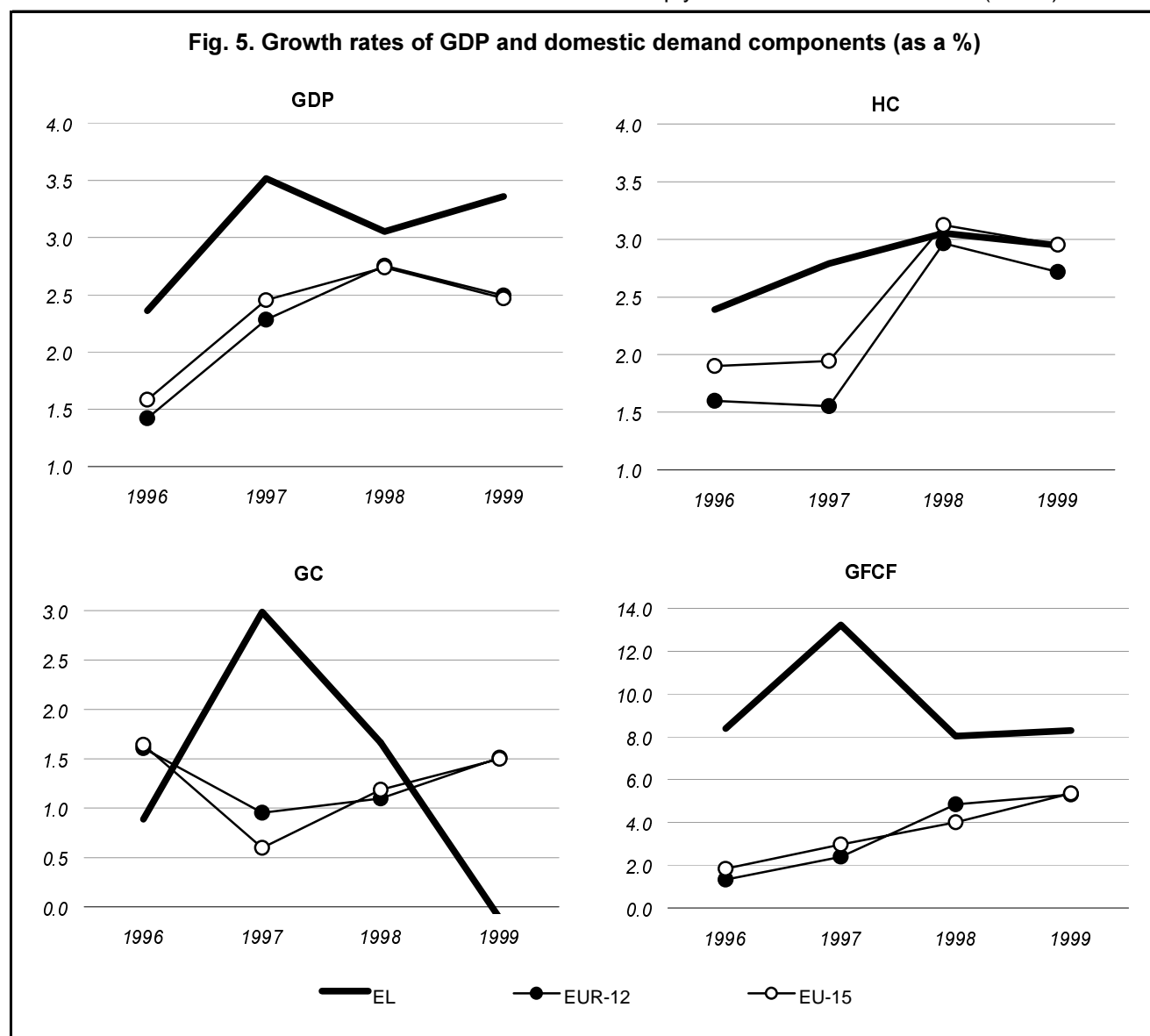
Taking into consideration the last five years period (1995/99), economic growth in Greece sustained rates persistently above those recorded for the whole euro-zone — being roughly one percentage point higher. Only in 1998 did the gap between Greek GDP growth rates and the average growth recorded for the euro-zone narrow, mainly due to a slowdown in Greece.

Considering in detail the expenditure components of GDP, it is remarkable that investment in Greece consistently recorded growth rates much higher than

those recorded for EUR-12: in 1999 investment in Greece rose by +8.3%, and during the considered period (1995/99) this pace of growth has been maintained, with a peak of +13.7% growth realised in 1997. In the euro-zone investment growth also accelerated during the period but the best result was +5.2% in 1999. In Greece investment growth rates were second only to those registered in Ireland — over the period, average growth rates of gross fixed capital formation have been 15.4% in Ireland and 9.5% in Greece.

Household consumption growth was more dynamic in Greece than in the euro-zone during the first part of the considered period but then the two figures converged. By contrast, growth of public consumption reduced sharply and in 1999 came to a halt (-0.1%).

Fig. 5. Growth rates of GDP and domestic demand components (as a %)



Domestic Demand:

HC: Household consumption.

GC: Government consumption.

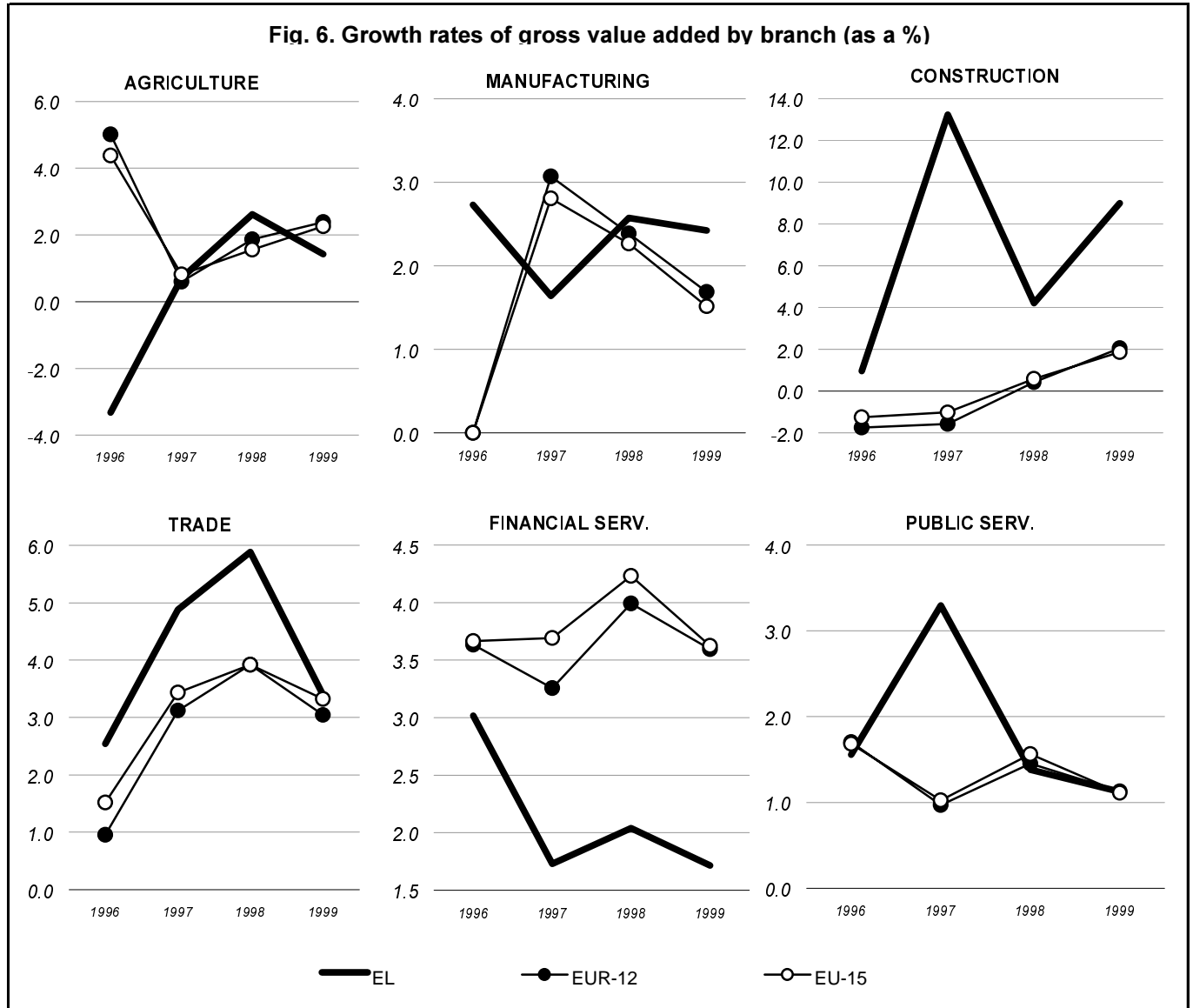
GFCF: Gross fixed capital formation.

Greek financial services and business activities do not follow the euro countries trend...

When considering the growth of output from the production side, Greece shows high rates for *construction*, much higher than the average growth figures recorded for the euro-zone: in 1999 *construction* output grew by +9.0% in Greece and by +2.0% in the euro-zone — this was the best result for EUR-12 growth in this branch over the period (1995/99) (see fig. 6.).

During this period growth has also been much faster in Greece for *trade, transport and communication*, but in 1999 it cut back to +3.4%. A slowdown in 1999 has been evident for all branches in Greece, with the exception of *construction*. A different trend can be noted for *financial services and business activities*, whose total output grew much faster in the euro-zone than in Greece. In this branch, Greece is distinctive both for the share in total output, as already noted, and for growth — both figures were much lower than EUR-12 values.

Fig. 6. Growth rates of gross value added by branch (as a %)



Branches of production:

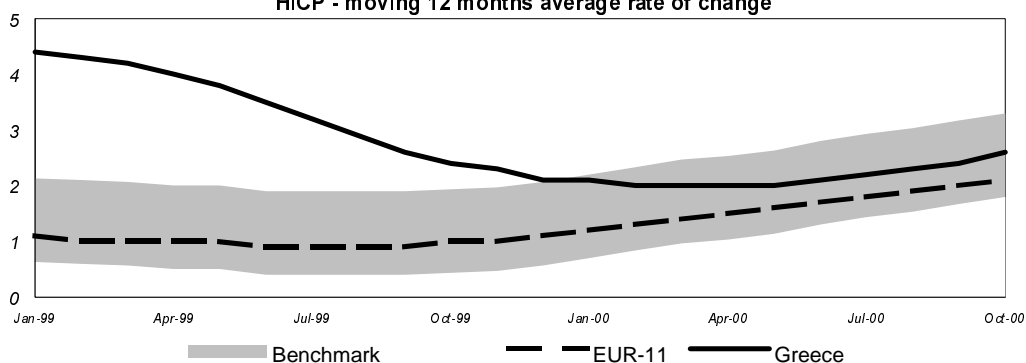
1. Agriculture, hunting, forestry and fishing.
2. Mining and quarrying; manufacturing; electricity, gas and water supply.
3. Construction.
4. Wholesale and retail trade, repair of motor vehicles...; hotels and restaurants; transport and communication.
5. Financial interm.; real estate, renting and business activ.
6. Public adm. and defence, education; health and social work; other community.

Convergence criteria

Since the publication is designed to mark the entry of we illustrate the developments of the indicators that the Greece into the euro-zone in the following figures, have determined the success of the Greek application.

Price stability

HICP - moving 12 months average rate of change



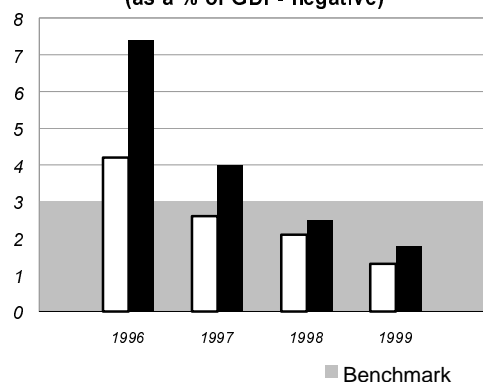
Price Stability:

sustainable and an average rate of inflation, observed over a period of 1 year before the examination, that does not exceed by more than 1½ %points that of, at most, the 3 best performing Member States. Inflation shall be measured by the consumer price index on a comparable basis, taking into account differences in national definitions.

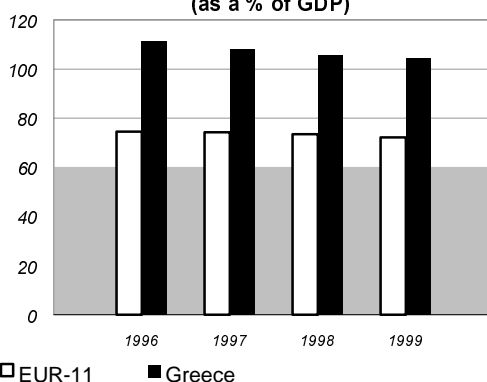
HICP: Harmonised Index of Consumer Prices

Government budgetary position

Deficit (as a % of GDP- negative)



Debt (as a % of GDP)

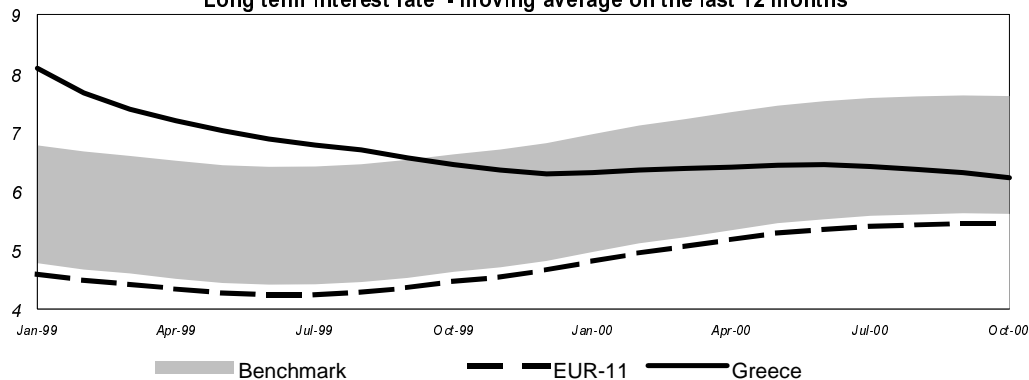


Budgetary position:

Budgetary discipline is to be examined by the Commission on the basis of the following two criteria: whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value (specified as 3%); whether the ratio of government debt to gross domestic product exceeds a reference value (specified as 60%), unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

Interest rates

Long term interest rate - moving average on the last 12 months

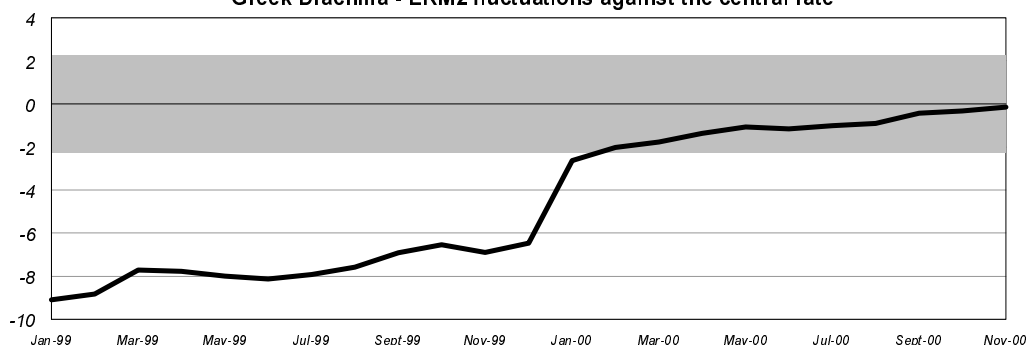


Interest rates:

an average nominal long-term interest rate, observed over a period of 1 year before the examination, that does not exceed by more than 2 %points that of, at most, the 3 best performing Member States. Interest rates shall be measured on the basis of long-term government bonds.

Exchange rate

Greek Drachma - ERM2 fluctuations against the central rate



Exchange rate:

respect of normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System (ERM2) without severe tensions for at least 2 years before the examination.

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