

**THE GREEK EQUITY MARKET: AN EMERGING MARKET
WITH STRONG PROSPECTS**

Notes for a Speech

by

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ASE: Market Highlights of 1997

- X The ASE General Stock Composite Index rose in 1997 from 933.48 points in December 96 to 1974.14 points on October 8, 97, following the announcement that Greece was awarded the 2004 Olympics, a rise of 93%, a record high.
- X Since the Asian crisis hit in the end of October, the ASE Index fell, but closed the year at 1479.6, up 58.6% in GRD terms for 1997, and 36.2% in USD terms.
- X Compared to other stock markets in the world, Greece's performance in USD terms ranked 7th in the world, ahead of the USA, Canada and the MS Index of World Markets
- X The value of shares traded on the ASE in 1997 was 3.0 times higher than the value of shares traded in 1996, rising to 5.9 trillion GRD (US\$21.5 billion) from GRD 2 trillion in 1996
- X The market capitalization of the Greek market rose GRD 10 trillion (US\$ 36.5 billion) in 1997, up from GRD 6 trillion in 1996, a 64% increase.
- X The number of stocks traded on the ASE in 1997 increased to 227, up from 129 in 1992. Many more new listing are expected in 1998 with the partial privatization of state owned utilities
- X The profits of Greek companies listed on the ASE rose by 31% in 1997 based on the first 6 months of 1997.
- X Funds under management with Greek mutual funds increased 64% during the first 9 months of 1997, reaching GR 6.2 trillion, a level 1/3 of M3 and 19% of GDP. 60% of these funds are placed in money markets, 36% in bond markets and only 4% in equities. Since the proportion invested in Greek equities is so low, a large amount is expected to be reinvested in the stock market as interest rates fall and the stock market matures.

ASE: Institutional Reforms and Improvements

- X The ASE was converted from a government agency to a corporation and 40% of its capital was placed with private institutional investors. As an independent organization the XAA, A.E. is in a better position to make decisions and manage
- X In June, 1997 an additional US\$1.2 billion of OTE was successfully floated on the market while in November, ETE with its rights issue successfully boosted its capital base and its number of shareholders
- X In September, 1997, the ASE in conjunction with the Financial Times and the London Exchange launched a new index of the Athens market, the FTSE-ASE-20 Index, which consists of the 20 companies which are highly liquid and have a large capitalization. These two characteristics make the index a vehicle for derivatives trading which is planned to begin in 1998. Dow Jones has recently created a similar index, the Dow Jones Global Greece. These two indices give a clear signal that a trading activity on the ASE is expected to expand.
- X The legal framework was created to establish an Athens Futures Exchange with the introduction of futures and options on the Greek market. The FTSE-ASE-20 will serve as the basis for the new stock index futures instrument within the first 6 months of 1998. The launching of the new index in conjunction with the development of a futures (derivative) market on the FTSE will reduce the market risk and volatility of the Greek stock market and will boost significantly the liquidity of the market. The current reforms also aim to establish a secondary fixed income (bond) market for the trading of bonds, a development which will further boost the maturity and liquidity of the market.

Economic and Financial Developments

- X The rate of growth of Greek GDP in 1997 is estimated to reach 3.4%, up from 2.6% in 1996 and well above the 2.6% EU average. For 1998 and 1999, Greek GDP is expected to grow by 3.4% and 3.2% respectively according to the OECD, well above the EU average.
- X Fixed capital investment in Greece increased by 11.7% in 1997, up from 9.4% in 1996 and well above the 2.4% EU average. For 1998 and 1999, capital investment is forecast to grow by an additional 11.0% and 9.9% respectively according to the OECD, well above the EU average.
- X The budgetary deficit of the Greek government fell to 4.2% of GDP in 1997, down from 7.6% in 1996. The financing requirements of the Greek state will fall in 1998 to GRD 867 billion in 1998, down from GRD 1.05 trillion in 1997 and GRD 3.3 trillion in 1994. For 1998 and 1999, the Greek budgetary deficits are forecast to fall further to 2.4% and 2.1% of GDP, more or less in line with the European Union average. This is going to be the first time in nearly 20 years that Greece is going to be in line with its EU partners.
- X In 1997, the government debt to GDP ratio fell for the first time in 20 years to 107.3% from 112.6% in 1996. The EU average debt ratio stood at 77.7% in 1997 while the Canadian ratio stood at 96.7%. It is forecast to fall to 104.1% in 1998 and 101.6% in 1999, well above the EU average of 75.4%.
- X Greek inflation as measured by the CPI reached a twelve month low rate of 4.7% in December, 1997, the lowest rate in 25 years.
- X Consumer inflation for all of 1997 averaged 5.6%, down from 8.2% in 1996, 10.9% in 1994 and 20.4% in 1990. Inflation is forecast to continue falling in 1998 and 1999. The OECD forecasts that it will average 4.5% and 3.5% in 1998 and 1999, while the Greek government forecasts it will fall further, to 3.7% in 1998 and 2.5% in 1999. By 1999, Greek inflation will be more or less in line with that of its EU partners.
- X The Greek current account deficit in 1997 reached -4% of GDP, up slightly from -3.7% in 1996, well below the EU average. It is forecast to grow to -4.5% and -5.1% of GDP in 1998 and 1999 well below the EU average. There are two main reasons for this. First, the "hard drachma" policy has maintained the value of the Greek Drachma above the EU average, while all other South European countries (Italy, Spain and Portugal, not to mention Turkey) have depreciated their

currencies. This has undermined the competitiveness of Greek exports on world markets. Second, the investment boom currently underway in Greece coupled with the fact that Greek growth will surpass its EU partners means that it is sucking in a lot of imports, especially of capital goods such as machinery and equipment.

- X The Greek Drachma in 1997 depreciated by 15.4% against the USD (284.8 GRD/USD in December, 1997 vs. 246.7 in December 1996) and 8.3% against the CAD (194.9 GRD/CAD vs. 180.0), but **appreciated** marginally against the DM, (158.1 GRD/DM on January 2, 1998).
- X Against the CAD the GRD depreciated 11.4% in 1997 (based on average values for the year), the first time it did so since 1973. Between 1990 and 1997, the GRD depreciated 44.8% against the CAD, an average rate of decline of 6.4% during this period.
- X Greek interest rates continued to drop in step with the drop in the rate of inflation during the first nine months of 1997 reaching 9.5% in September, 1997 (12-month Greek Treasury Bills). However, when the Asian financial currency spread to Europe it forced Greek monetary authorities to raise interest rates to defend the Greek Drachma against a speculative attack. Greek short-term rates shot up to 75% at one point while the rates on 12 month government paper were pushed up to 11.4% in December. Although nominal interest rates have begun to decline since the November crisis subsided, real interest rates in Greece have reached 6.6%, the highest since mid-1994.
- X Real interest rates in Greece have jumped from 4 percentage points in September to 6.6 percentage points (on an ex-post basis) in December, 1997, the highest real interest rates in the EU. In effect, the Greek economy is forced to pay a premium above world rates to maintain currency stability, just like Canada did throughout the early 1990s. However, given the progress being made in reducing the rate of inflation, in reducing the budgetary deficits, in absorbing EU structural funds and in modernizing its financial system, both nominal and real rates will fall during the course of 1998.

STOCK MARKET PERFORMANCE IN 1997
GLOBAL RANKING OF MARKETS
In US Dollar Terms

1.	RUSSIA	110.2	
2.	TURKEY	86.8	
3.	HUNGARY	53.6	
4.	MEXICO	51.6	
5.	PORTUGAL	47.8	
6.	SWITZERLAND	46.6	
7.	GREECE	36.2	
8.	ITALY	36.2	
9.	BRAZIL	34.4	
10.	COLOMBIA	32.1	
11.	CHINA	30.7	
12.	GERMANY	26.5	
13.	ISRAEL	25.7	
14.	DENMARK	23.7	
15.	SPAIN	22.9	
16.	USA	22.8	
17.	NETHERLANDS	20.8	
18.	BRITAIN	20.6	
19.	VENEZUELA	20.0	
20.	WORLD*	13.8	
21.	BELGIUM	9.6	
22.	CANADA	7.7	
	SWEDEN	7.7	
	INDIA	7.7	
23.	FRANCE	7.0	
24.	ARGENTINA	5.8	
25.	TAIWAN	-0.9	
26.	AUSTRIA	-2.3	
27.	CHILE	-5.9	
28.	SOUTH AFRICA	-10.7	
29.	AUSTRALIA	-11.9	
30.	POLAND	-16.8	
31.	HONG KONG	-20.2	
32.	CZECH REP.	-27.7	
33.	JAPAN	-29.5	
34.	SINGAPORE	-43.1	
35.	PHILIPPINES	-61.7	
36.	MALAYSIA	-69.1	
37.	SOUTH KOREA	-70.2	
38.	INDONESIA	-73.3	
39.	THAILAND	-75.9	

*Morgan Stanley Capital International Index