

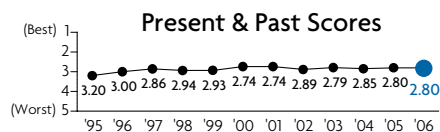


GREECE

Rank: 57

Score: 2.80

Category: Mostly Free



QUICK STUDY

SCORES

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Population: 11,040,650

Total area: 131,940 sq. km

GDP: \$133.9 billion

GDP growth rate: 4.2%

GDP per capita: \$12,128

Major exports: food and beverages, chemicals, textiles, manufactured goods, petroleum products

Exports of goods and services: \$26.1 billion

Major export trading partners: Germany 12.6%, Italy 10.5%, UK 7.0%, France 4.2%

Major imports: manufactured goods, foodstuffs, chemicals

Imports of goods and services: \$38 billion

Major import trading partners: Germany 12.3%, Italy 12.0%, France 6.5%, Netherlands 5.1%

Foreign direct investment (net): \$688 million

Following his center-right party's unexpected sweep in the March 2004 parliamentary elections, new Prime Minister Costas Karamanlis was faced with the task of rescuing Greece's flailing efforts to host the 2004 summer Olympic Games. The games came off as a great success but contributed to a very large budget deficit of 6.1 percent of GDP in 2004—double the limit of 3 percent specified under the European Union's Stability and Growth Pact. Tourism and construction associated with the Olympic Games helped the economy to grow at a rate of 4.2 percent in 2004 following 4.7 percent growth in 2003. However, unemployment and inflation have remained high relative to other countries in the euro zone. Greece's share of handouts from the European Union will fall sharply in 2007. Corruption is still rife within state enterprises, and a corrupt, dysfunctional bureaucracy continues to deter foreign investors. Greece's overall score is unchanged this year.



TRADE POLICY

Score: **2—Stable** (low level of protectionism)

As a member of the European Union, Greece was subject to a common EU weighted average external tariff of 1.3 percent in 2003, down from the 2.4 percent for 2002 reported in the 2005 *Index*, based on World Bank data. According to the World Trade Organization and the U.S. Trade Representative, the EU imposes non-tariff trade barriers through a complex regulatory system and export subsidies. According to the U.S. Department of Commerce, "Agricultural products from non-EU countries are subject to a complicated protection system.... Greece occasionally bans imports of some types of agricultural products that compete with similar domestically produced ones." Based on the revised trade factor methodology, Greece's trade policy score is unchanged.



FISCAL BURDEN OF GOVERNMENT

Score—Income Taxation: **4—Stable** (high tax rates)

Score—Corporate Taxation: **4—Better** (high tax rates)

Score—Change in Government Expenditures: **4—Worse** (moderate increase)

Final Score: **4—Stable** (high cost of government)

According to Deloitte, Greece's top income tax rate is 40 percent. The top corporate tax rate, formerly 35 percent, was cut to 32 percent on income earned in 2005. In 2004, government expenditures as a share of GDP increased 1.9 percentage points to 52 percent, compared to the 0.1 percentage point increase in 2003.



GOVERNMENT INTERVENTION IN THE ECONOMY

Score: **2—Stable** (low level)

The World Bank reports that the government consumed 15.5 percent of GDP in 2003. In the same year, based on data from the central bank, Greece received 0.34 percent of its total revenues from state-owned enterprises and government ownership of property.



MONETARY POLICY

Score: **2–Stable** (low level of inflation)

Greece is a member of the euro zone. From 1995 to 2004, Greece's weighted average annual rate of inflation was 3.13 percent.



CAPITAL FLOWS AND FOREIGN INVESTMENT

Score: **3–Stable** (moderate barriers)

Although Greece officially welcomes foreign investment, it also maintains a number of restrictions. The government restricts both foreign and domestic investment in utilities but has begun to liberalize the telecommunications and energy sectors. The U.S. Department of Commerce reports that "non-EU investors receive less advantageous treatment than domestic or EU investors in the banking, mining, broadcasting, maritime, and air transport sectors (these sectors were opened to EU citizens due to EU single market rules)." According to the June 21, 2005, *Financial Times*, "Obstacles for investors include an inefficient bureaucracy, high tax rates, ill-defined land use and popular resistance to the notion of foreigners benefiting from the development of Greek assets.... Processing of applications has been slow and the issuing of licenses and permits even slower." The International Monetary Fund reports that both residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, real estate transactions, transfers, or repatriation of profits. The IMF reports that investments in border regions are restricted to EU residents.



BANKING AND FINANCE

Score: **3–Stable** (moderate level of restrictions)

The Economist Intelligence Unit reports that in 2003, there were 60 banks, 21 of which were foreign. As a condition of membership in the European Union, the government has liberalized the banking system in ways that facilitate foreign competition and have led to the sale of some public-sector banks. The government has been withdrawing from the banking sector. According to the U.S. Department of Commerce, "A few state-controlled banks dominate the Greek banking industry. Private Greek and foreign banks do, however, comprise an increasingly competitive and generally profitable private sector, holding about 59 percent of the banking system's assets." The same source notes that the state banks have large exposure to state-owned enterprises and are in questionable financial health. The government indirectly controls two large commercial banks: National Bank and Emporiki. According to the Economist Intelligence Unit, the government has sold 11 percent of its stake in the National Bank of Greece, reducing its direct holding to 7.5 percent.



WAGES AND PRICES

Score: **3–Stable** (moderate level of intervention)

The market determines most prices. According to the Economist Intelligence Unit, "the state can control prices [in the petroleum-product market] through mandatory storage requirements and adjustments to excise duties.... Fares for urban transport, inter-urban railways, domestic air travel and domestic ferry transport continue to be set administratively for reasons of social policy." The government also controls the prices of pharmaceuticals and affects agricultural prices through Greece's participation in the Common Agricultural Policy, a program that heavily subsidizes agricultural goods. The minimum wage is set through collective bargaining and legally enforced.



PROPERTY RIGHTS

Score: **3–Stable** (moderate level of protection)

The U.S. Department of Commerce reports that enforcing property and contractual rights through the court system is highly time-consuming. According to the Economist Intelligence Unit, "Contractual agreements can be problematic.... The judiciary is supposed to be non-partisan but tends to reflect the political sensibilities of the government of the day.... In Greece it is wise to seek legal assistance from the outset [instead of when encountering legal difficulties] to avoid pitfalls." Expropriation of property is unlikely.



REGULATION

Score: **3–Stable** (moderate level)

The government is very bureaucratic, and regulations are not fully transparent. According to the U.S. Department of Commerce, "the complexity of government regulations and procedures—and the perceived inconsistent implementation by the Greek civil administration—[are considered] to be the greatest impediment to investing and operating in Greece." The government has created the Hellenic Centre for Investments to answer investors' concerns, but investors still find the bureaucracy burdensome. Labor laws are somewhat rigid; they limit working hours and restrict part-time employment and the dismissal of personnel.



INFORMAL MARKET

Score: **3–Stable** (moderate level of activity)

Transparency International's 2004 score for Greece is 4.3. Therefore, Greece's informal market score is 3 this year.