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1) The Greek economy is among the fastest -growing economies in the Eurozone and yet its budget deficit as a percentage of GDP is getting bigger. In this context, shouldn't fiscal policy be stricter to help bring the public debt-to-GDP ratio to much lower levels?

ANSWER: The general government deficit is under control. Greece made enormous progress in the last 8 years in consolidating its public finances and bringing the deficits down from over 10% of GDP to around 1% - 1,5%. Greece gained credibility in its economic policy and is unwilling to lose it. The years 2003 and 2004 are special, however. These two years are absorbing most of the cost of the Olympic games. The games are financed through public funds and they are putting pressure on the budget. This is revealed in the primary surplus, which will temporarily decline to 2.1% of GDP from earlier levels of 3% and higher. Thanks to low interest rates, however, the effect on the deficit will be small, bring it to 1,4% of GDP in 2003 and 1,2% of GDP in 2004. If I may add, the cost of the Olympic games will be recouped after 2004, when many of the construction projects will be privatized. So the temporary dent on the deficits now automatically lead to temporary surpluses in the years 2005 and 2006. It follows that the target of much lower general government debt-to-GDP ratio will be achieved as well.

2)The Greek government is accused of taking measures (excessive pay rises in the public sector, the hiring of 30.000 people and grant other benefits to special interest groups such as farmers etc) which will lead to permanent increases in primary expenditure, making fiscal consolidation more difficult in the years ahead. What do you answer to these critics?

ANSWER: This year there is an irrational hype about the government's so-called "social package", which is regularly announced every year during the inauguration of the Thessaloniki fair in September. This package included policies that redistribute income to those who need it the most, e.g. pensioners, farmers, single-family parents, etc. The cost to the budget from this redistribution policy is minor, about 0,6% of GDP. As far as pay rises are concerned, these cover the effects of inflation and part of the productivity increase. They are, indeed, quite prudent. Because these regular increases were announced as being part of the "package", they caused confusion and resulted in over-blown estimates of the expenditure side of the budget by individuals who do not dig into the numbers carefully.

3*) Recently, the leader of the leftist Coalition accused the government of double book- keeping, citing the existence of some 87 accounts not recorded in the budget? Doesn't it make the fiscal policy even more laxist?*

ANWER: This whole discussion preys on the naivety of the public and is intended for superficial political gains in view of the forthcoming elections. Indeed, there are special accounts. Every government has them. These accounts are created for administrative purposes. They are mainly in the ministries, as well as in the universities and other research centers. Their creation provides for more transparency and easier public scrutiny, not less, as their sources and uses of funds can be traced more easily. The money involved is part of the budget and they do count in the general government surplus/deficit according to EuroStat rules. EuroStat acknowledges their existence.

4) Do you agree that fiscal imprudence represents the greatest threat to Greece's future economic growth? If so, what do you think should be done?

ANSWER: I do not agree. Greek policy makers now understand very well the importance of fiscal prudence and macroeconomic stability. During the last 3.5 years I have spent next to politicians, I have seen an amazing transformation in the way some of the ministers are thinking about economic matters. Whereas at the start of the present 4-year period they were thinking of ways to divide the “surplus”, now they are worried about the sources of growth 4 years into the future! PASOK has its economic charter out which calls for a gradual reduction of the debt-to-GDP ratio and, more importantly, a balanced policy on supply and demand. I believe investment will continue to serve as a driver for economic growth in many years to come. Fighting bureaucracy is probably the biggest challenge ahead. If we succeed, we will observe a lot of foreign investment into Greece as well.

5) What do you answer to those who say that a good deal of privatization proceeds have not gone into reducing public debt but used instead for other purposes?

ANSWER: This is another debate, which is entirely motivated by political considerations and prey on a lack of understanding of basic accounting and finance. The question itself is either naïve or cynical. We all know that money is fungible. Privatization receipts in 2003, for example, are estimated to be approximately €3bn. On the other hand debt transactions are enormous, approximately 10 times bigger, as old debt matures and is replaced by new bond issues and as new debt is being created – I remind you that the absolute size of debt is increasing, but its ratio w.r.t. GDP is declining because nominal GDP is increasing at a faster rate. The point is that you cannot judge as to where the privatization money is going simply by looking at some accounting transactions. It is true that the money the flowed into a designated “privatization account” also flowed out to finance mostly transactions that are relation to the privatization policy. But this proves nothing about one’s fiscal policy. For example, one can fix this specific “privatization account” and borrow from other accounts. So what? If our privatization receipts are, say, 2% of GDP and the debt-to-GDP ratio is falling by more than that, why does anybody ask the question?

6) Other EU countries with better than Greece's public pension systems appear to take measures to reduce their systems' uncovered future liabilities. Yet, Greece appears not to be acting and even taking measures worsening the parameters of the pay-as-you go system. Should not this be a cause for concern?

ANSWER: Our system is sustainable for the next 30 years. Let me remind some the changes we instituted during the last 3 years, which reduce the future liabilities of the pension system. First, we increased the retirement age to 65 years. Second, we reduced the size of the pension to equal 70% and not 80% of the employee salary. Third, the base salary on which the pension was calculated used to be the last salary of the employee. This has changed to the average of the best 5 years among the last 10 years of work. This base is on average lower than the last month's salary. Fourth, we reduced the cases of many "special pensions" that siphoned money out of the system. Fifth, we allowed for fully funded extra private pensions to take hold among professional groups. Sixth, we instituted an independent Pension Agency, which is responsible for following the developments of the pension system and raising a flag whenever its long-term sustainability is affected by other policies. Pension policy is not easy. We have taken important measures and we need to do more.