GREEK CAPITAL MARKETS

The Greek capital market was undeveloped until the decade of the 1990s. Today it consists of a medium-sized stock market, a burgeoning growing mutual fund industry and an expanding investment trusts sector. The Treasury bond market, which used to be solely and mandatorily supported by banks, is now widely used by the non-bank public and Greek bonds now participate in the EuroMTS secondary trading system. Corporate bonds, virtually unused till now, look set to be the next product for development. Following the introduction of Greece into the EU's Economic and Monetary Union (EMU), the stock market stands poised to be upgraded from emerging to mature market status. There is, however, a large question mark over whether this will provide the necessary fillip to end the bear market that has prevailed for the past 17-months. There is also the issue of whether Greek investors might, now that forex risk has been eliminated, seek to diversify their portfolios by buying shares in foreign companies listed on other euro-zone exchanges. The Greek authorities are seeking to upgrade the Athens stock market to full European standards to keep Greek investors at home and to attract foreign investors here. Athens will likely soon participate in one of the broader exchange alliances now forming within the euro-zone.

According to an old maxim, Greece is a poor country of rich people.

As recently as a decade ago the black economy was estimated to account for a third to a half of GDP, depending upon whose figures one was to believe.

Some of the untaxed funds were spirited abroad or invested in property but a good proportion were squandered on luxury moveables and wasteful consumption

The growth in the 1990s of an organised bond market and a properly functioning stock exchange has drawn much of that money out of the underground and into the mainstream economy where it is now productively invested and beginning to be taxed.

The results are evident in the improved macroeconomic and fiscal performance.

The government is intent on pursuing high levels of GDP growth for the next decade in hopes of bringing the Greek standard of living up to the EU average.

Success will depend in large measure on continued enhancement of capital market functions.

Growth on the stock exchange will provide the funding for necessary investments; it will also provide households with the necessary income to consume the output of those investments.

Development of a well-functioning bond market, will provide the government with funds at a minimum cost thus freeing up budget resources for more productive capital and social investments.

The Athens Stock Exchange was the second best performing market in the world during 1998 and 1999. But throughout 2000 there was a prolonged bear run which affected corporate profitability and left many small traders locked into positions that they could not liquidate without heavy losses.

If this continues it will put a brake on growth prospects. The authorities are doing all that they can by way of structural reforms to prevent it happening.

Extensive legislative changes are being made to bring the operations of the stock exchange up to international standards. Negotiations are in train with a number of other exchanges and groups of exchanges to incorporate Athens so that it becomes part of a broader global market.

Conversely, the authorities are trying to upgrade the Thessaloniki Stock Exchange Centre so that it becomes a magnet for trading activity from other Balkan countries thus making Greece a regional hub.

The Athens Derivative Exchange (XPA) is cautiously expanding its range of products and gradually increasing its volume. Margin trading is supposed to be introduced this month (March) which should help improve turnover.

The number of mutual funds is constantly growing although the volume of funds under management declined during 2000 because of the reduction in market capitalisation.

Investment trusts, traditionally limited to equities, are to be expanded with the development of closed end funds based on property and shipping assets.

A late 2000 decision by the government to afford tax relief to individuals locking for three years into investments in mutual funds should promote sales.

With the entry of Greece into the EU's Economic and Monetary Union on January 1, 2001, the Greek capital market became part of the broader investment universe of the euro-zone.

The Athens Stock Exchange immediately went over to trading in euros despite not having to do so until next year.

The index company FTSE conferred developed market status on Greece at the beginning of 2001. Morgan Stanley Capital International (MSCI) has announced that it will do so as of May 31.

These developments provide opportunity for increased foreign portfolio investment.

But the end to foreign exchange risk also broadens horizons for Greek investors and allows them more readily to contemplate investing on other European exchanges.

The use of the common currency will facilitate comparisons about companies' relative worth.

The capital market authorities are embarked upon a programme of reforms designed to make company reporting standards more transparent and its listing requirements more rigorous with a view to ensuring that the market secures its new mature status in practice as well as in name.