OECD ECONOMIC SURVEYS

GREECE

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1993

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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Publié également en français.

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BASIC STATISTICS OF GREECE[1]

THE LAND

Area (1 000 sq. km)	132.0	Major urban areas, 1981 census (thousands):	
Cultivated area (1 000 sq. km)	39.2	Greater Athens (including Piraeus)	3 027
		Salonika	872

THE PEOPLE

Population (thousands)	10 269	Total employment (thousands)	3 768
Number of inhabitants per sq. km	78	by sector (per cent):	
Net natural increase (thousands)	7	Agriculture	22.5
		Industry and construction	27.5
		Other activities (mainly services)	50.0

PRODUCTION

Gross national product, 1992 (billion Drs)	14 795.2	GNP at factor cost (billion Drs)	11 058.4
GNP per head (US$)	6 825	by origin (per cent):	
Gross fixed investment:		Agriculture	16.3
		Mining, manufacturing and energy	20.8
Per cent of GNP, 1992	18.1	Construction	6.6
Per head (US$)	1 273	Services	56.3

THE GOVERNMENT

General government current expenditure, 1992 (per cent of GNP)	45.4	Composition of Parliament (number of seats):	
		New Democracy	152
General government current revenue, 1992 (per cent of GNP)	39.8	Panhellenic Socialist Movement (PASOK)	124
		Coalition of the Left	21
		Independent	2
		Ecologists	1
		Total	300
		(Last general election: April 1990)	

FOREIGN TRADE

Exports of goods and invisible receipts (per cent of GNP)	31.6	Imports of goods and invisible payments (per cent of GNP)	33.8
Gross earnings as a per cent of GNP:		Main imports (per cent of total commodity imports):	
Tourism	3.7		
Emigrant remittances	3.0	Mineral fuels, lubricants	12.9
Shipping	2.5	Manufactured goods	21.5
Main exports (per cent of total commodity exports):		Machinery other than transport equipment	13.5
Textiles and clothing	24.3	Food and live animals	10.5
Food and live animals	22.5	Transport equipment	15.3
Crude oil and derivatives	11.0		
Iron and steel	5.7		
Beverages and tobacco	5.3		
Aluminium	2.8		

THE CURRENCY

Monetary unit: Drachma	Currency units per US$, average of daily figures:	
	Year 1992	190.47
	May 1993	217.64

1. Data cover 1991 unless otherwise specified.

Note: An international comparison of certain basic statistics is given in an annex table.

This Survey is based on the Secretariat's study prepared for the annual review of Greece by the Economic and Development Review Committee on 21st June 1993.

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After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 7th July 1993.

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The previous Survey of Greece was issued in September 1992.

Introduction

Greek economic performance since the end of the 1970s has been particularly disappointing with slow GDP growth (1½ per cent yearly) and high inflation (18 per cent on average). Structural impediments, inefficiency in government machinery and inappropriate policies resulted in broad stagnation in manufacturing output and sizeable losses in export market shares. Unsustainably high public sector deficits (nearly 14 per cent of GDP on average) played an important role in the deterioration in the longer-term trends. The consequent marked increase in public sector debt (to 116 per cent of GDP in 1992) and of external indebtedness (to some 30 per cent of GDP), together with the narrowing of the industrial base, has led to a reorientation of policies since 1991, with the emphasis on both fiscal retrenchment and structural reforms.

Macroeconomic policies have been progressively tightened since 1991. The public sector borrowing requirement (PSBR) declined by almost one-third, to 10.9 per cent of GDP in 1992. In addition to improvements in the underlying tax and spending trends, privatisation receipts and interest capitalisation contributed importantly to the reduction in the deficit, but because of the use of interest capitalisation in previous years, no reduction in the PSBR is likely in 1993. However, the general government primary surplus is expected to increase in 1993. Even though this development goes in the right direction, additional tightening will be required in the coming years in order to achieve the Convergence Plan's PSBR target of 0.2 per cent of GDP in 1998. The monetary policy stance has also been restrictive, with real lending rates to the business sector continuing at the high level of 13 to 14 per cent in 1992 and early 1993. Wide-ranging structural reforms have been introduced in the financial, labour and goods markets, and further progress is expected in 1993, especially in the financial sector and in the liberalisation of capital movements.

The structural and macroeconomic adjustment policies initiated in 1991 are gradually bearing fruit. Following ten years of a large negative growth differential, GDP grew at a modest 1¼ per cent in 1992, roughly in line with the EC average. Furthermore, this growth was broadly based, with a surge in productive investment being the main dynamic component, and the real foreign balance stopped being a drag on output for the first time since 1987. However, as a result of public enterprise restructuring and faster labour force growth due to immigration, the unemployment rate increased to 9¼ per cent in 1992 from a rate that had been broadly stable at 7½ per cent since 1982. Underpinned by a slowdown in wage growth, disinflation continued, with the increase in the GDP price deflator falling to 14½ per cent in 1992, despite significant indirect tax hikes. Adversely affected by speculative tensions in foreign exchange markets last autumn, the current balance of payments deficit rose to 2¾ per cent of GDP in 1992, but was largely covered by private foreign investments.

Tight policies, recession in the major Greek export markets, and the adverse effects of the Balkan crisis, will impinge on activity in 1993, so that a small deceleration in GDP growth, to some 1 per cent, is expected. The increase in slack will maintain unemployment on an upward trend, but, at the same time, could contribute to bringing inflation down to around 12 per cent by the end of 1993. Sluggish domestic demand and a small improvement in relative unit labour costs will boost net export growth, which, combined with the unwinding of speculative positions, should make for a small decline in the current external deficit to 1¾ per cent of GDP. On the assumption that the policy stance is not eased, confidence is likely to improve further and, reinforced by the upturn in OECD Europe, is projected to lead to faster GDP growth in 1994. The gradual de-escalation in wage growth is also likely to resume, so that, for the first time for 20 years, consumer price inflation may fall to below the 10 per cent mark before the end of 1994. Overall, it seems that the Greek economy is in the process of overcoming the structural and macroeconomic imbalances of the 1980s, which caused near stagnation in manufacturing production and sizeable losses in export market shares.

Part I of the Survey analyses the major features and causes behind the disappointing trends in the manufacturing sector and the unsatisfactory export performance. Part II discusses the structural reforms which have been put in place in recent years, and the measures designed to lift bottlenecks, which have contributed to the strong stagflation tendencies of the Greek economy throughout the 1980s. Macroeconomic policies in 1992 and 1993 and budget outcomes are examined in Part III. Developments in the real economy, in inflation and the balance of payments in 1992, as well as the OECD projections for 1993, are presented in Part IV. Finally, the Conclusions underline the need for continuing structural reforms in order to achieve the goals of the Convergence Programme, 1993-98, of a marked reduction in the PSBR and inflation.

I. Inadequate industrial adjustment and weak competitiveness

Taking advantage of the dynamic effects of the rapid expansion of world trade, Greece achieved impressive GDP and export growth records up to the second half of the 1970s. During the 1980s, however, the Greek economy stagnated. After the second oil shock Greece isolated itself from the mainstream of industrial developments and the globalisation process; it failed to adjust its production structures, and its export trade specialisation in low value-added products intensified. Increased state intervention and the continuous devaluation of the drachma further aggravated distortions.[1] The increasing imbalance between sheltered and tradeable sectors has considerably reinforced the external constraint on growth. And, in contrast to other new members, Greece was unable to reap the full benefits of joining the EC; trade creation effects were small, while the sizeable EC transfers were not used to boost growth potential.

Earlier OECD Surveys of Greece have analysed the poor overall economic performance since 1979, in particular the deleterious effects of increasing public sector inefficiency and the crowding-out effects of the high public sector borrowing requirement (PSBR) on growth.[2] This chapter will focus on the unsatisfactory competitiveness of the Greek economy by examining the disappointing developments in manufacturing and the inter-related unfavourable trade patterns.

Overview

Greece's economic development has been retarded by historical factors.[3] However, after 1950 important transformations took place in the economy and in society, made possible by the high GDP growth of 6.3 per cent yearly between 1954 and 1979. Greek per capita GDP jumped from one-quarter of the OECD average in the mid-1950s to almost one-half in 1979 (Table 1). Despite this

Table 1. **Selected economic development indicators**

Annual percentage change

	GNP		Fixed investment			
			Total		Machinery and equipment	
	1960-79	1979-91	1960-79	1979-91	1960-79	1979-91
Greece	**5.6**	**1.3**	**6.7**	**–0.8**	**9.1**	**1.4**
Portugal	5.6	2.9	5.2	3.3	..	..
Spain	5.6	2.8	6.7	4.3	6.9	6.6
EC	4.0	2.1	3.9	2.3	5.1	3.8
OECD	4.2	2.6	4.6	2.6	5.9	4.8

	Labour productivity		Exports [1] (per cent of GDP)				Per capita income [2] OECD = 100			
	1960-79	1979-91	1960	1979	1980	1991	1960 [3]	1970	1979	1991
Greece	**6.6**	**0.8**	**9.1**	**17.5**	**20.9**	**22.7**	**30**	**41**	**47**	**44**
Portugal	5.0 [3]	1.8	17.5	27.1	27.4	32.1	33	42	47	52
Spain	5.3	2.4	10.1	14.6	15.4	17.0	50	64	65	72
EC	3.7	1.6	19.0	26.7	26.5	28.1	87	89	90	92
OECD	3.0	1.4	11.2	18.5	19.4	18.8	100	100	100	100

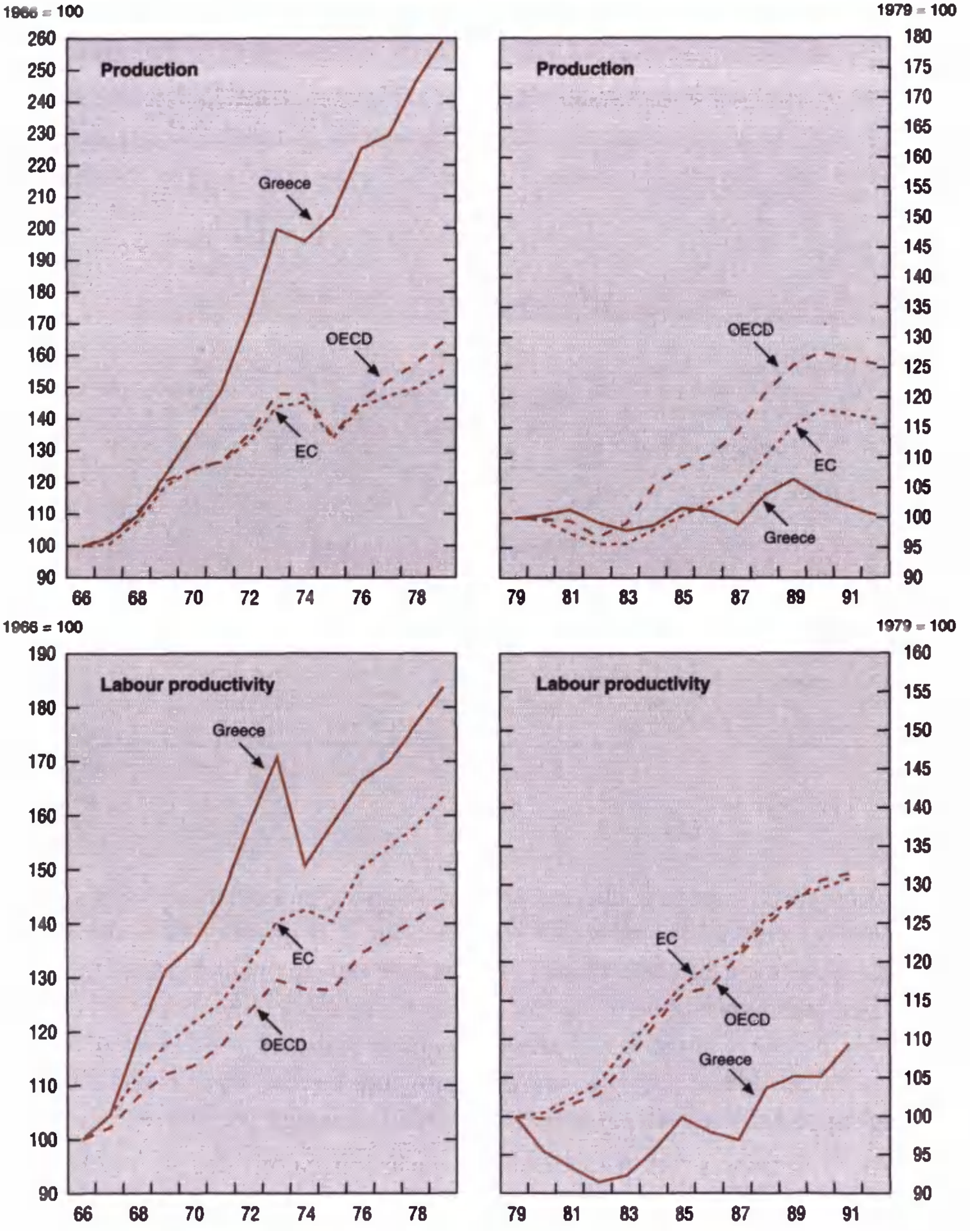
1. Goods and services.
2. On the basis of current purchasing power parities.
3. Estimates.

Sources: OECD, *Historical Statistics*, 1960-1990 and OECD *National Accounts*.

marked progress, Greece continued to have a narrow industrial base and a large inefficient agricultural sector, which accounted for 18 per cent of GDP and 30 per cent of employment in 1980. However, economic development process stalled in the 1980s, and output growth was not only considerably below that of its OECD economic partners, but it was achieved at the expense of a substantial rise in external indebtedness.[4] Despite foreign borrowing, Greece's per capita national income slipped to only 44 per cent of the OECD average in 1991.

The long process of manufacturing expansion culminated in 1979 when manufacturing output reached 20 per cent of GDP (Diagram 1).[5] The share fell to 17 per cent in 1991-92, reflecting unsatisfactory trends in both volume and price. Furthermore, heavily subsidised ailing industries, which in other OECD countries

Diagram 1. **MANUFACTURING PRODUCTION AND PRODUCTIVITY**



Sources: OECD, *Main Economic Indicators*, *Historical Statistics* and OECD estimates.

tended to disappear during the 1980s, increased their share in output over this period. Excluding such "non-economic" production, the trend rate of manufacturing production is even weaker than indicated in Diagram 1. The fact that the economic development process has gone off track since 1979 is highlighted, not only by the stagnation in manufacturing production, compared with a long-term trend growth rate of almost 10 per cent before 1979, but also by the expansion of the underground economy and the low productivity sheltered sectors, notably the public sector. According to a study by the Centre of Economic Planning and Research, the underground economy, mainly concentrated in the services sector, represents almost one-third of total domestic output, and has expanded since the end of the 1970s.[6] These developments were at the expense of the tradeable sectors, with the result that after doubling in ten years to 17½ per cent of GDP in 1979, and then rising to 21 per cent in 1980, the share of exports of goods and services in GDP has increased very little since, despite Greece's joining the EC in 1981. Meanwhile, in the rest of the EC the share continued to grow, reaching an average of 28 per cent of GDP in the early 1990s.

The institutional and policy background

To a large extent, the deterioration in Greece's relative position can be ascribed to the policies followed during the 1980s.[7] The Government aimed at raising the purchasing power of workers and protecting them from dismissal. Quasi-mandatory wage rises were imposed in almost all sectors and wage indexation was introduced in 1982.[8] Up to 1984 lay-offs, even for economic reasons, were very difficult and required approval by the Ministry of Labour, which was not granted easily. After 1984, this very strict system was eased somewhat and firms could theoretically dismiss up to 2 per cent of their personnel per month without government authorisation. However, authorisations for dismissals in excess of 2 per cent continued to be subject to long procedural delays until recently. While the social targets, at which these policies were aimed, were largely missed due to the resulting economic stagnation, they, together with government protection for ailing and inefficient firms, gave workers a false sense of job security, and the aggressive labour union movement often obstructed management efforts to improve productivity. In public utilities and in the banking sector, the influence of the strong labour unions with narrow group interests also grew, leading to continuous disruptive strikes. The situation started to change in the second half of the 1980s, and in the last year or so, after the closure of a number of firms, labour relations have improved markedly in private business, so that now strikes are rare. However, in public utilities and state-controlled banks, though labour union militancy has been diminishing, disruptive strikes continue, adversely affecting the business climate.

Moreover, direct State intervention in the productive sector increased markedly in the 1980s (Table 2). The State took over, mainly through the state-controlled banks, a number of enterprises, including some successful large-sized export-oriented ones. But in the majority of cases the motivation was to prevent the closure of ailing industries and to preserve employment. Prices and profits were regulated. Market signals were further distorted by heavy subsidies, which compounded the high degree of effective protection. At the beginning of the 1980s, the rate of protection for manufacturing goods produced in Greece (con-

Table 2. **State aid to manufacturing**

	Per cent of value added		ECU per person employed	
	1986-88 [1]	1988-90	1986-88 [1]	1988-90
Belgium	4.3	4.1	1 606	1 665
Denmark	1.9	2.1	593	634
Germany	2.7	2.5	994	984
Greece [2]	**24.3**	**14.6**	**2 983**	**1 502**
Spain	6.8	3.6	1 749	936
France	3.8	3.5	1 437	1 380
Ireland	6.4	4.9	2 114	1 734
Italy	6.2	6.0	2 139	2 175
Luxembourg	2.3	2.6	988	1 270
Netherlands	3.1	3.1	1 215	1 327
Portugal	2.2	5.3	302	758
United Kingdom	2.6	2.0	770	582
EC average	4.0	3.5	1 325	1 203

1. Estimates subject to a margin of error.
2. Greece's figures are relatively high first because they include sizeable subsidies to exports, which were phased out at the end of 1990, and second, because equity participation was also very important in the 1980s, before the privatisation and the closing down of problematic firms got underway in the early 1990s.

Source: EC, Directorate General for competition, *Third Survey on State aids in the European Community in the manufacturing and certain other sectors*, July 1991.

sisting of tariffs, quotas, advance payments for imports and indirect taxes discriminating against imported goods) was between 20 and 25 per cent, and there were also generous subsidies for manufactured exports. The adhesion treaty provided for a long transition period (up to 1991) and in 1987, the degree of import protection was still almost 15 per cent, while effective subsidies for exports amounted to 16 per cent of their value. In addition, the Government developed various investment incentives and subsidies to ailing sectors. Even though sharply declining after 1987, state aid to manufacturing per person employed was 1 502 ecus (14.6 per cent of value-added) per year, on average, in the period 1988-90 – placing Greece fourth in the EC, at one-quarter above the EC average. Included in this assistance are state equity participation and loans made by many state-controlled banks to firms, even though it was known in advance that some firms would be unable to service them.[9] Since 1990, export subsidies and the discriminatory regulatory taxes on imports have been abolished and subsidies to ailing firms reduced.

Macroeconomic policy also held back the expansion of industry. The persistently high PSBR, which rose from some 5 per cent of GDP at the end of the 1970s to about 20 per cent ten years later, crowded out the private sector. Given the public sector's privileged access to loanable funds, the private sector has been continuously deprived of needed capital for expansion. Up to 1986 banks were obliged to earmark 75 per cent of their deposits for lending to the public sector at low interest rates. A gradual phasing out of these obligatory investment ratios was initiated in 1986, but about two-thirds of the increase in overall liquidity has continued to be taken up by the public sector to finance its deficit. The residual is rationed among private borrowers through excessively high interest rates (real short-term borrowing rates have been 11½ per cent on average since 1987), which were reflected in the heavy burden of financial charges in industry's total operating expenditure. In addition to discouraging investment, high real interest rates affect the tradeable sectors more adversely than the sheltered sectors, which can pass high debt servicing costs into prices more easily. Within the tradeable sectors, industry is more affected because capital is tied up for longer periods than in the services sector, where the turnover of borrowed funds is faster and fixed costs usually represent a lower proportion of total costs. Furthermore, a shortage of funds seems to be an important obstacle to an increase in industrial output over the short term, contributing in turn to the under-utilisation of capacity and to high fixed costs per unit of output.[10]

The frequent policy changes and the well-known shortcomings of the Greek bureaucracy have made it difficult for firms to plan ahead and to concentrate on their business activities. Stop-go policies, influenced by the electoral cycle, have been the rule since the end of the 1970s.[11] They have destabilised industry more than other sectors, and, coupled with big changes in the rate of the effective depreciation of the drachma, have particularly hurt the export-oriented industrial sectors. The lack of transparency of the bureaucracy, coupled with the lack of clear rules, exacerbates uncertainty. This uncertainty was one of the principal factors behind the low foreign direct investment in Greece during the 1980s – probably less than $2 billion, compared with $6½ billion in Portugal and $46 billion in Spain. For a medium-income country with a low national saving rate (about 15 per cent of GDP in the second half of the 1980s) insufficient foreign direct investment not only means slower growth compared with other recipients of foreign direct investment, but also delay in the diffusion of modern technology and know-how in the economy as a whole, and in particular in industry. Furthermore, Greek industry could not benefit from the strong stimulus to inter-industry transactions that usually follows the establishment of new foreign plants, which tend to gradually substitute domestic intermediate inputs for imported ones.

In addition to these factors related to the policies put in place during the 1980s, certain structural characteristics of the Greek economy have also weighed on industrial performance. Among these, the small size of enterprises has played an important role: less than one half of manufacturing employment is in establishments with 20 persons or more. Even large-scale manufacturing establishments (employing 100 people or more) are relatively small, with an average of 278 employees compared with 384 in Sweden and over 600 in Portugal.[12] Small firms are disadvantaged in two respects: they lack the necessary financial resources to fund research and development (R&D), and their access to capital markets is limited. Even allowing for differences in per capita income, business expenditure on R&D in Greece has been unduly low [two-thirds less than in Spain and Belgium, about four-fifths less than in Denmark, about nine-tenths less than in France, Germany and the United Kingdom (Table 3)]. Greece's capital market is also very narrow and, even though there has been a marked increase in

Table 3. **Research and development expenditure in the business entreprise sector (BERD)**

	EC Shares, per cent				Greek BERD 1989	
	BERD 1980	BERD 1990	GDP 1985		US$ million	Per cent of value added
Germany	36.8	35.0	24.5	Manufacturing	46.8	0.56
France	20.3	21.9	20.7	Electronics	5.8	..
U.K.	24.8	20.3	18.2	Chemicals	4.0	
Italy	7.7	10.7	16.5	Rubber and plastics	1.8	0.54
Netherlands	4.5	4.2	5.3	Petroleum refining	0.8	
Spain	1.7	3.3	6.2	Non-ferrous metals	1.4	..
Belgium	3.1	2.9	3.2	Stone, clay and glass	2.3	0.37
Denmark	0.8	1.2	2.3	Fabricated metals	10.4	1.33
Ireland	0.2	0.3	0.7	Food, beverages and tobacco	1.5	0.01
Portugal	0.1	0.1	0.8	Textiles and clothing	0.4	0.02
Greece[1]	**0.05**	**0.1**	**1.3**			

1. Greece's share in the EC GDP was 1 per cent in 1990.
Source: OECD, *Business Enterprise Expenditure on R&D in OECD Countries* , 1992.

the number of companies quoted on the Stock Exchange in the last few years, very few of these are industrial companies. The great majority of industrial firms are small and family run, and only large firms with a good profit record attract outside investors. Furthermore, in contrast to most OECD countries, the tax regime discourages mergers between firms, contributing to low capital stock utilisation and higher running costs.

Another long-standing feature is the infrastructure deficiency which considerably raises the costs of business transactions. In addition to the underdeveloped railway system, up until the early 1990s only a few kilometres of highways existed and the improvement in the ordinary road network was not sufficient to cope with the rapidly growing traffic. Greece's outdated telecommunications network is also a large handicap for business. In many districts firms had to wait for up to two years to be connected, and disruption and interference during calls, though diminishing, are still frequent. For a country on the periphery of the EC a lack of adequately developed transport and telecommunication links constitutes a great disadvantage.

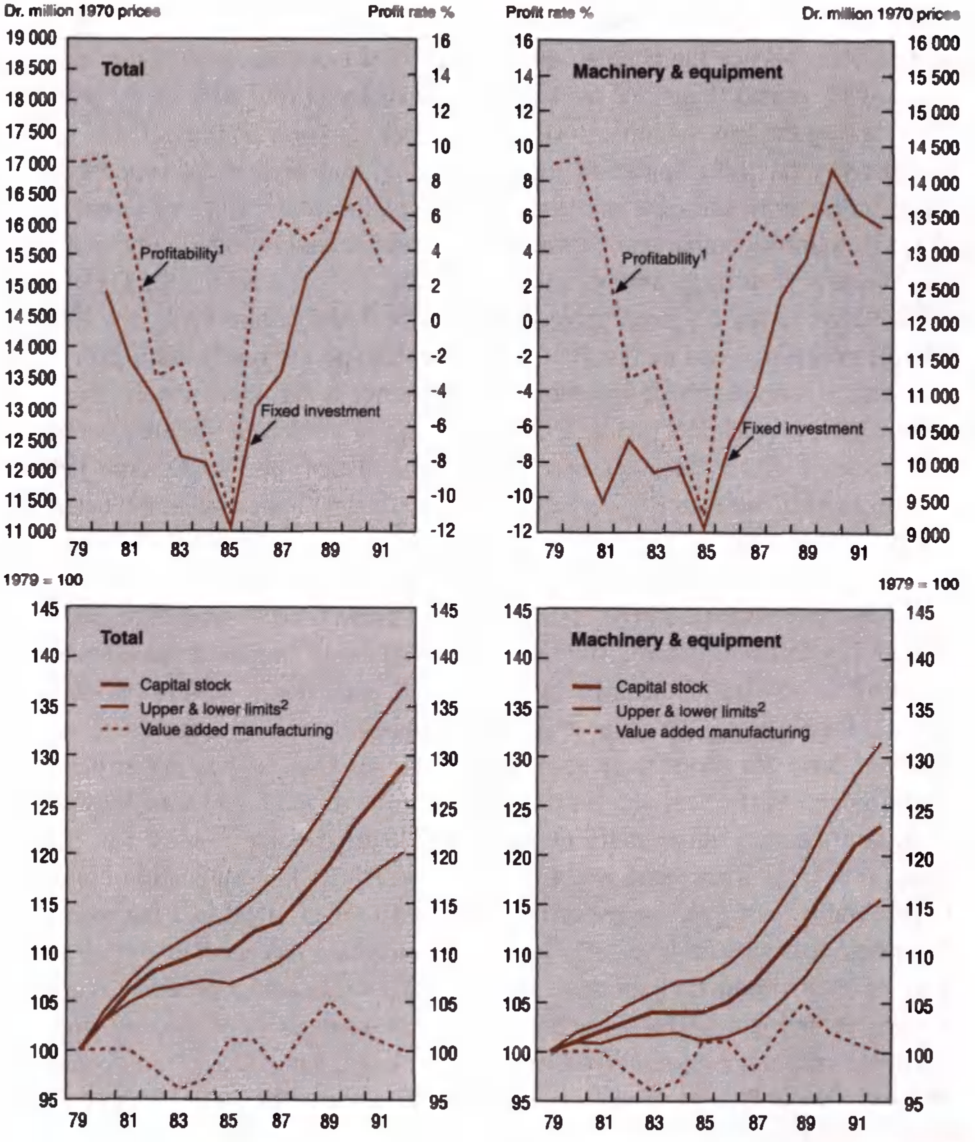
The deteriorating competitiveness of industry

Domestic trends

This combination of inappropriate policies and unfavourable structural factors has led to a marked deterioration in profitability and potential output. Given the deficiencies in Greek statistics and the very large weight of the self-employed, it is difficult to estimate what the evolution of enterprise profits has been in terms of national accounts.[13] Nevertheless, it is clear that they deteriorated sharply in the three years to 1982 when wage rises in industry averaged some 30 per cent, or a real increase close to 6 per cent yearly. These rises were far above those in competing countries and they occurred during a period of slack in the wake of the second oil crisis and of falling labour productivity, coupled with a small deterioration in the terms of trade. The consequent marked widening of the real wage gap, which was also due to the obstacles to firing redundant labour, considerably boosted the wage bill, and up to 1985 the situation was broadly unchanged. The 1986-87 Stabilisation Programme reversed these rises.[14] This, together with the spillover effects from the acceleration of GDP growth in the OECD area and subdued world commodity prices, led to a marked recovery in the rate of return in manufacturing during the second half of the 1980s (after having been strongly negative in the period 1982-85). Nonetheless, in 1989 it was still well below its level at the end of the 1970s and much less than the return on financial assets.

In line with profitability trends, there was a marked fall in manufacturing investment during the period 1981 to 1987. Reflecting rising profitability and the improved business climate following the 1986-87 Stabilisation Programme, investment grew strongly, and in 1988 exceeded its previous peak (Diagram 2). As a result of the shortfall in investment during most of the 1980s, the growth of potential output in manufacturing has been considerably reduced – from about 10 per cent per year between 1969 and 1979 to around 2 per cent since then.[15] However, the decline in investment in manufacturing in the 1980s was less pronounced than in the rest of the private business sector, where the 1980 peak was exceeded only in 1990. Since the mid-1980s investment has been concentrated on expanding capacity in dynamic sectors such as food and beverages. Investment in a few declining branches, for example textiles and clothing, has also been relatively high. This is mainly defensive investment aimed at improv-

Diagram 2. MANUFACTURING INVESTMENT, CAPITAL STOCK AND PROFITABILITY



1. Profits on equity before taxes.
2. Upper (lower) limit corresponds to capital stock evolution under the assumption of 1 per cent higher (lower) annual accumulation.

Sources: OECD estimates; direct submission by national authorities; and Icap.

ing the quality and range of products.[16] The relatively good investment performance of the above four branches has been stimulated by investment incentives under the Development Law 1262/82, which favour labour intensive industries, and projects outside the Greater Athens Area. The latter, because of the lack of a local, well trained industrial workforce, are usually in low technology sectors.[17] Even taking the lower limit of estimated capacity growth, it is clear that capital productivity has been unsatisfactory, suggesting that investment support policy has been far from adequate as regards resource allocation, even on its own terms. A cross-country comparison shows that in Greece capital productivity growth in the business sector has always been below that of the averages for OECD and OECD Europe (by 0.9 percentage points yearly in the period 1960-79), and that the difference widened markedly to 1¾ percentage points yearly after 1979. Even allowing for measurement problems, the difference is significant, suggesting that Greece's relative capital productivity performance worsened, not only compared with its own past trends, but also *vis-à-vis* the rest of the OECD. And judging from composite indicators (profitability, output, etc.) it appears that the deterioration was more marked in manufacturing than in the rest of the business sector.

Low investments, a high effective rate of protection, as well as a reluctance or inability to develop cross-border links with foreign firms – a prerequisite for enabling small-sized industries in small-sized countries to follow world-wide technical progress – explain why the composition of manufacturing output changed little for more than 15 years (Table 4). Greece's output structure is characterised by the very small share of medium-high and high-technology industries, and the very large share of traditional low-technology industries; if anything, this large share increased further in the 1980s. This stagnation compares unfavourably, not only with the industrialised OECD countries, but also with countries at a similar level of development which succeeded in the 1980s in moving their production structure towards high value-added products requiring greater technological effort. The most significant changes in production structure have occurred among sectors within the same broad categories. Traditional light industry output fell somewhat as a result of a marked decline in the textiles, clothing and footwear industries. This decline was considerably steeper than in the rest of the OECD, despite heavy public support. In contrast, there was a marked expansion in the food, beverage and tobacco industries, reflecting the changing pattern of private consumption and improved technology. However, it

Table 4. **Manufacturing production**

	Average annual growth [2]		Greek output shares [1]				
	1980-91		1970	1980		1991	
	Greece	OECD	Current prices	Current prices	Constant prices [3]	Current prices	Constant prices [3]
Food, beverages and tobacco	2.2	1.9	20.8	18.4	19.0	24.8	22.9
Textiles	–1.3	–0.7 [4]	14.1	16.6	17.6	11.3	14.9
Clothing [5]	–2.8	..	9.4	8.6	8.9	5.6	6.4
Footware	–4.7	..	..	..	..	..	..
Wood and wood products	–2.6	0.6	6.2	5.4	4.0	3.0	2.8
Paper, printing and publishing	1.7	3.2	4.6	4.9	4.0	8.7	5.1
Chemicals and chemical products [6]	2.1	2.7	11.2	11.5	12.8	17.7	16.1
Non-metallic minerals	–1.1	0.5	7.6	8.9	8.8	7.2	7.5
Basic metals	0.2	0.2	7.4	5.6	6.1	4.3	6.1
Metal products and machinery	–1.3	3.6	12.8	10.9	11.8	8.0	9.9
Transport equipment [7]	–0.6	..	5.3	6.9	4.6	7.9	5.6
Miscellaneous	..	..	2.6	1.9	2.4	1.9	2.6

1. National accounts basis.
2. Based on manufacturing production indices.
3. 1970 prices.
4. Textiles, clothing and footwear.
5. In output shares, footware is included.
6. Plastics, pharmaceuticals, petroleum refineries, etc.
7. The large weight of this sector is partly due to the inclusion of a large number of automobile repairing establishments as well as shipyards.

Sources: National Accounts of Greece, and OECD, *Indicators of Industrial Activity*, 1993.

should be noted that even for these products the increase in production was broadly comparable to the OECD average and that Greece's income-elasticity of demand for domestic production of these goods was only one-sixth of that for imports, mainly from OECD countries.[18] This indicates that even in these dynamic sectors performance is not altogether satisfactory.

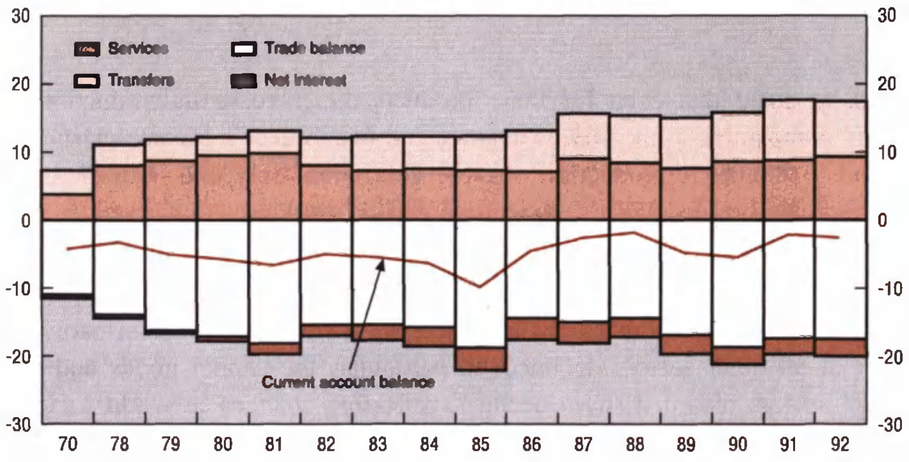
In line with trends in the OECD area as a whole, output of chemicals, plastics, pharmaceutical products and paper increased, sometimes sizeably. The output of all other sectors declined; in particular, the capital goods and metal product sectors recorded sharp declines, reflecting changes in world trade patterns, sluggish investment in Greece and insufficient modernisation. The narrowness of the industrial base was also underlined by the small range of capital goods. According to a 1984 UNIDO Survey, Greece produced only 57 capital goods compared with the 140 produced by a typical medium to high income country, and, moreover, production was concentrated on "simple" products with a low degree of technical complexity. And, contrary to other medium to high income countries, Greece did not increase its range of capital goods' products after 1981.

Import penetration and export performance

The deteriorating competitiveness of the industrial sector was mirrored in the growing trade imbalance (Diagram 3). Despite slower GDP growth than in partner countries, the trade and services external deficit has been 8 per cent of GDP on average since 1980. And it is thanks to the growing EC transfers that the overall current balance of payments deficit was markedly lower and, moreover, on a downward trend after 1990.

Overall, import growth over the decade has been moderate, considering the reduction in protection since joining the EC in 1981, as well as the growing consumption orientation of the Greek economy and the rising preference for

Diagram 3. **THE CURRENT ACCOUNT**
Per cent of GDP



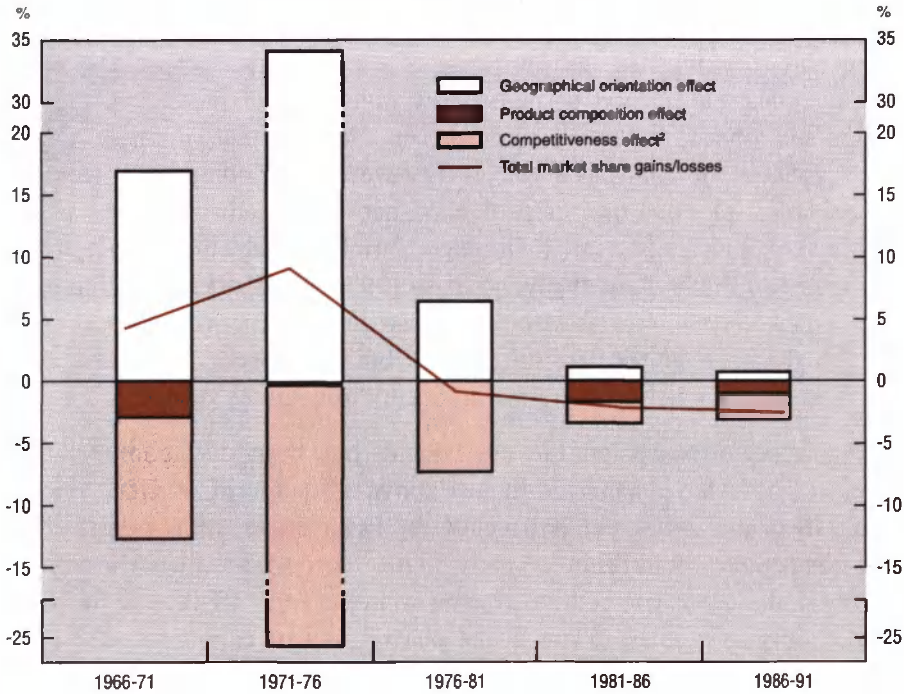
Sources: Bank of Greece, Balance of Payments and OECD estimates.

internationally known trade marks. In 1992, total imports of goods represented about 25 per cent of GDP, roughly the level to be expected given the size and per capita income of Greece. Manufacturing import penetration was about 44 per cent, in part reflecting the narrow range of domestic production. Despite the almost complete elimination of particularly high rates of protection, the food, beverage and tobacco industries succeeded in adapting, and continued to make healthy profits in the 1980s as a whole. However, facing competition from low-wage countries, clothing and in particular shoes and leather incurred sizeable domestic market losses and saw their output shrink dramatically (output of shoes fell by over two-thirds in the twelve years to 1992 and import penetration rose to nearly 90 per cent), compared with the fast expansion experienced up to the late 1970s. In the case of textiles, the Multi-Fibre Agreement moderated import penetration, and has helped marginal producers to continue operating.[19]

Export performance, on the other hand, has been disappointing. Greek exports of goods have stagnated at just above 10 per cent of GDP since the second half of the 1970s, one-half below the EC average and two-thirds below that of comparable countries in the early 1990s. Export performance deteriorated markedly in the 1980s and continued to do so in the early 1990s, and this can be attributed only to a small extent to the phasing out of export subsidies. After doubling its OECD market share in ten years, to 0.4 per cent in 1980, Greece has been losing market shares since. This contrasts sharply with Portugal and Spain, which had approximately the same share as Greece in 1980, but made large overall market share gains thereafter, especially in medium and high technology sectors. Weak export performance cannot be explained by slow geographical market growth: a relatively large share of Greek exports went to fast-expanding markets, namely those in the EC with which Greece traditionally had strong trading links, even before joining the EC (see Diagram 4 and Annex I). In the 1980s, this ensured a continuous, though sharply diminishing, positive geographical orientation effect on export growth. However, this has been more than offset by the negative product composition effect and, more importantly, by adverse competitive factors.

Greece is disadvantaged in the areas of quality, marketing and distribution factors *vis-à-vis* other OECD European countries because of their longer industrial tradition and their closeness to the big markets. Cost developments have also dampened Greek export growth. The high and increasing cost of capital associ-

Diagram 4. **DECOMPOSITION OF MANUFACTURING EXPORT MARKET SHARE GAINS/LOSSES**[1]

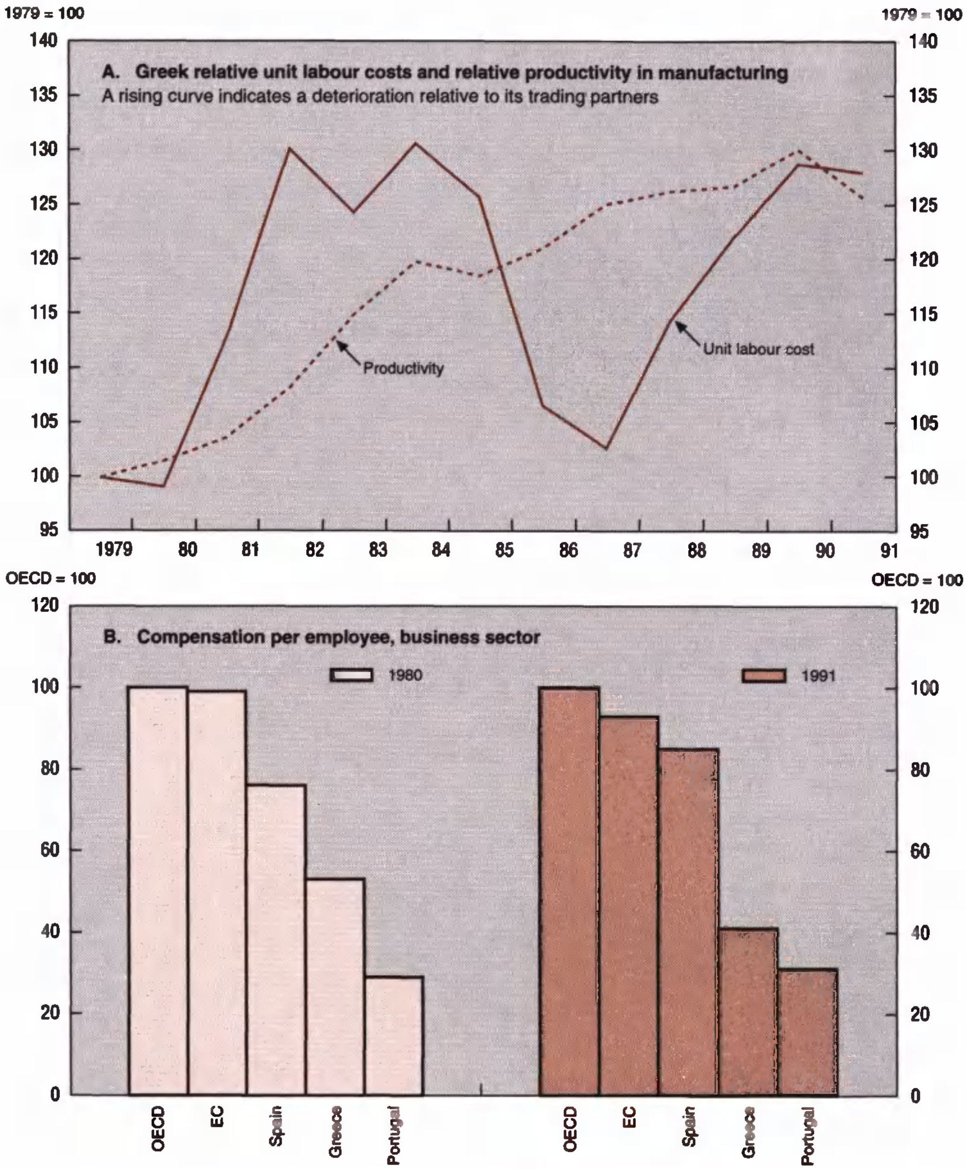


1. Five year moving averages at annual percentage changes. Analysis based on export values.
2. Competitiveness effect is the residual incorporating all other factors, such as price, quality, marketing and distribution, as well as trade-distorting policies and random shocks.

Sources: OECD Foreign Trade database and OECD estimates.

ated with the crowding out effects and the growing under-utilisation of the capital stock has contributed importantly to the deterioration in external competitiveness since the end of the 1970s. Relative unit labour costs also increased markedly in the 1980s as a whole (Diagram 5). The large fluctuations recorded during this period are mainly the result of the uneven rate of effective depreciation of the drachma.[20] Taking the period 1979-91 as a whole, the steep nominal wage increases in manufacturing were roughly offset by the depreciation of the drachma, so that in a common currency Greek relative wage levels in the manufacturing sector were at the same level at the beginning as at the end of the

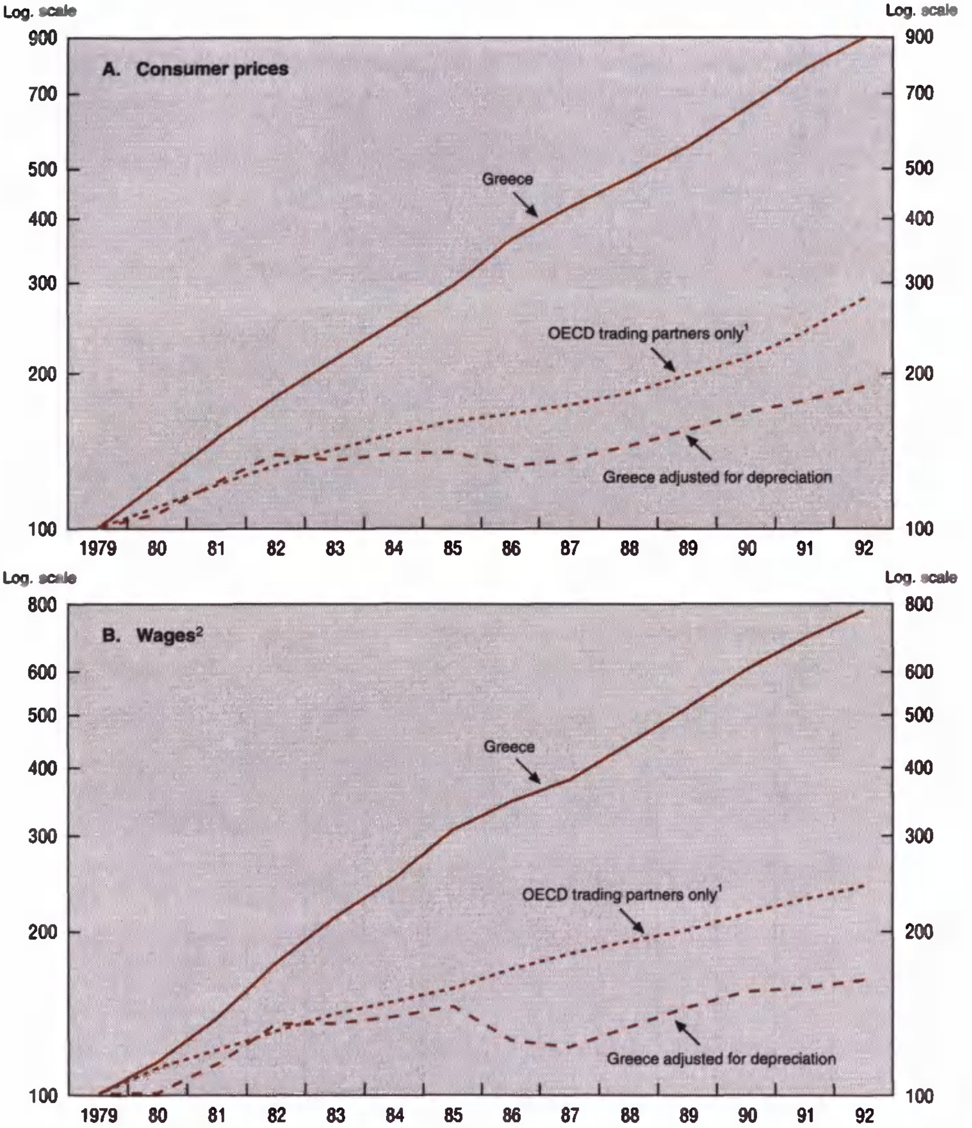
Diagram 5. **RELATIVE UNIT LABOUR COSTS AND RELATIVE WAGE LEVELS**[1]



1. The relative unit labour cost calculations include OECD and non-OECD countries, whereas the compensation per employee refers only to OECD countries. All data are in a common currency.

Source: OECD estimates.

Diagram 6. **RELATIVE CONSUMER PRICES AND WAGE TRENDS**
1979 = 100



1. Non-OECD trading partners (Hong Kong, South Korea, Taiwan and Singapore) used for calculating relative unit labour costs are excluded.
2. Compensation per employee in the private sector.

Source: OECD estimates.

period. And in the business sector as a whole, where wage growth was somewhat slower than in manufacturing, Greek relative wage levels, in a common currency, declined from 55-56 per cent of the OECD and EC averages in 1979-80 to 42-45 per cent in 1990-91. Greece regressed compared with almost all OECD countries, and the largest declines were against Spain, Ireland and Portugal. The sizeable effective depreciation of the drachma over this period also contributed to keeping the growth of consumer prices, in a common currency, below that of the main OECD trading partners. In fact, relative prices in the service sector and especially in tourism, probably declined between 1979 and 1991 (Diagram 6).

The deterioration in relative unit labour costs between the end of the 1970s and early 1990s is, therefore, fully explained by the poor productivity trend in Greek manufacturing compared with its trading partners. In 1990, labour productivity was only 6 per cent above its 1979 level, (*i.e.* an increase of ½ per cent yearly), whereas in its partners it was 38 per cent higher (an increase of 3 per cent yearly). And although productivity recovered in 1991 and 1992, spurred on by restructuring and the rapid extension of part-time and temporary employment, the gap remains very wide. In addition to labour-market rigidities and organisation inefficiencies, the slow productivity growth in the 1980s is also explained by the growing impact of disexternalities – the lack of decentralisation, heavy bureaucracy, deficiencies in the financial system, and inadequate infrastructure.

Overall, the weak export performance of Greek industry more generally is probably better explained by the structure of output than by the evolution of unit labour costs. Exports are mainly concentrated in "declining" industries, low to medium technology sectors and resource and labour based industries, a pattern opposite to that of the OECD average, where the share of scale intensive, specialised supplies and science based commodities is increasing (Table 5 and Diagram 7).[21] This export structure is best illustrated in Table 6. In terms of revealed comparative advantage in the OECD area, Greece is among the first three in the low technology and labour intensive groups of industry and near the bottom in the high technology group. Furthermore, countries comparable to Greece, like Portugal, Ireland and Spain, although starting from a better base, saw their revealed comparative advantage in low technology sectors decline during the 1980s, with a corresponding increase in high and/or medium technology sectors. In Greece the opposite occurred, with the apparent comparative advantage in the low technology and labour intensive sectors further increasing.

Table 5. **Export composition**[1]

	Per cent of merchandise exports[2]	Contribution to net exports[3]
Food, beverages and tobacco[4]	30	–3
of which:		
Fruit and vegetables	14	8
Tobacco	4	2
Raw materials and chemicals	17	–28
of which:		
Petrol and derivatives	7	–8
Manufactured goods	50	–70
of which:		
Textile yarns	6	–5
Clothing and apparel	20	11
Footwear and leather articles	2	–2
Iron and steel	5	–4
Non-ferrous metals	4	0
Electrical machinery	1	–5
Other	2	2
Total	100	–

1. Average for 1989-91.
2. Based on US$ figures.
3. Net exports as a per cent of the trade balance (a minus sign indicates a deficit).
4. Including animal oils and fats.

Source: OECD, Foreign trade database.

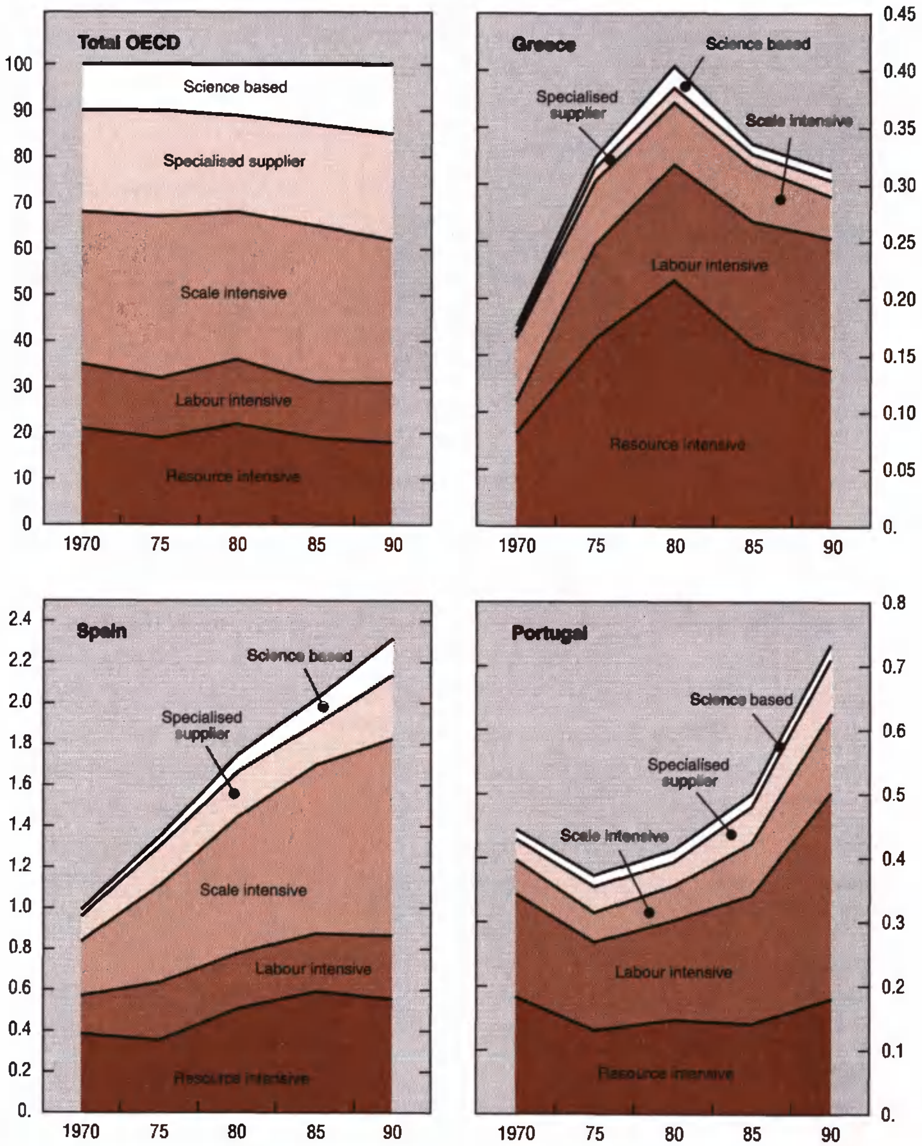
The income elasticity of demand for most of these products is very low, so that they face relatively sluggish demand, and supply from low-wage non-OECD countries has tended to grow quickly. Both these factors contribute to a decline in relative prices for these goods. As regards resource-based exports, Greece has a distinct advantage in only a few products (*e.g.* aluminium and cement) because of the availability of raw materials and proximity to many OPEC countries, so that Greek exports succeeded in holding their position during the prolonged crisis after 1979.

The dualism in Greek industry

However, these poor overall results should not detract from the dynamism of many private sector firms. Indeed, Greek manufacturing industry is composed of two distinct sub-groups – dynamic private firms, with very high profit rates,

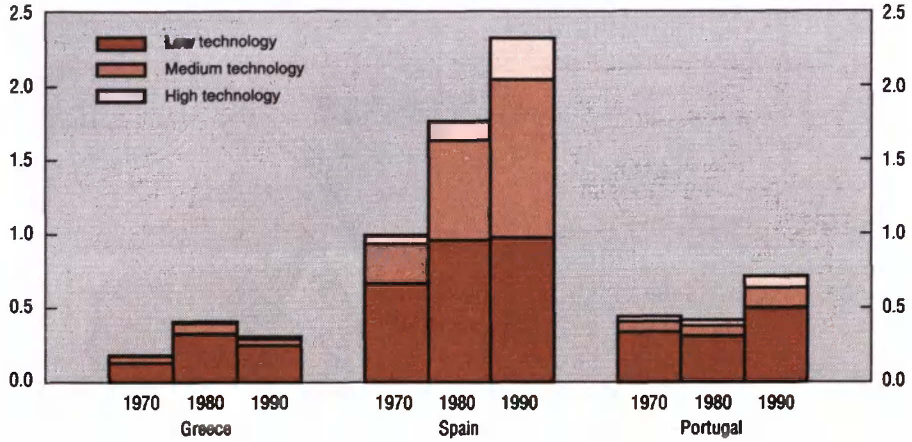
Diagram 7. **EXPORT MARKET SHARE TRENDS**
A. INDUSTRIES CLASSIFIED BY FACTOR CONTENT

OECD = 100



Sources: OECD, Statistical Analysis and Foreign Trade databases, 1992.

Diagram 7. **EXPORT MARKET SHARE TRENDS**
B. INDUSTRIES CLASSIFIED BY TECHNOLOGY CONTENT
OECD = 100



Sources: OECD, Statistical Analysis and Foreign Trade databases, 1992.

Table 6. Revealed comparative advantage[1]

	1970	1979-81	1990
Food, drink and tobacco	298	255	310
Textiles, footwear and leather	230	403	574
Petroleum refining	81	368	352
Stone, clay and glass	118	379	289
Basic metal industries	295	151	207
Ferrous metals	286	122	167
Non-ferrous metals	313	218	271
Low technology industries	174	210	252
Medium technology industries	60	37	33
High technology industries	15	21	18
Resource intensive industries	221	251	250
Labour intensive industries	115	198	294
Scale intensive industries	96	42	39
Specialised supplier industries	10	18	18
Science based industries	35	26	18

1. Only commodity groups with above average comparative advantage are shown.

Note: Revealed comparative advantage is calculated by taking the ratio of product *i* to the total countries' manufactured exports and dividing it by the ratio of total OECD exports of product *i* to the total OECD manufactured exports.

Source: OECD, *Industrial Policy in OECD countries, 1992.*

and ailing (mainly state-controlled) firms, cumulating losses year after year (Table 7).[22] The ratio is now about three to one, but it was less than two to one in the first half of the 1980s. The lean but dynamic private sector has had a rate of return on equity of more than 20 per cent on average since 1986 (still one-quarter lower than the average profit rate of Greek private trading companies). In addition to being fairly efficient in keeping production costs low, thus maintaining high operating surpluses throughout the 1980s, healthy private companies have succeeded in reducing their debt/equity ratios, so that financial charges have been equivalent to a little over 20 per cent of their operating surpluses since the mid-1980s. Many of these healthy firms, especially the large ones, have managed to raise venture capital in Greece, to develop links with foreign firms (including in the last few years equity participation by foreign investors) and, since the second half of the 1980s, to borrow in foreign currencies at relatively low interest rates, avoiding the excessively high domestic interest rates that burdened so many small and/or ailing private companies. They have managed to have high self-financing ratios, enabling them to maintain investment in modernisation on a steep upward path throughout the 1980s, thereby ensuring the expansion of their capacity.

On the other hand, the disappointing manufacturing trends so far can be explained by the many ailing firms with an important weight in manufacturing. In 1991, they still accounted for one-quarter of total employment in firms with 10 employees or more, and their capital stock represented almost two-fifths of the total, underlining their high capital intensity. Moreover, their losses are very high (Dr 218 million per firm compared to Dr 86 million profits per profit-making firm in 1991). On the whole these firms had steeply rising gearing ratios, about six times higher than profitable private firms in the 1980s. In fact, structural losses are concentrated in a limited number of firms. Of the some 1 000 loss-making firms, only 200 are responsible for 90-95 per cent and of those, 20 account for nearly two-thirds of total losses. The other 800 or so firms (most privately owned) have relatively small overall losses, mainly because their considerable financial charges outweigh their operating surpluses. These charges have been dramatically increased by the widening of the gap between real interest rates and productivity growth, which is currently probably the largest in the OECD area.

Almost all heavy loss-making firms are state-controlled (including those controlled or owned through state-controlled banks), and most of them are not

Table 7. **Profitable and loss-making firms**

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Firms (thousand)	2 680	2 860	3 074	3 176	3 157	3 113	3 166	3 263	3 337	3 465	3 783	3 792	3 808
Profitable	1 699	1 795	1 933	1 741	1 840	1 877	2 018	2 259	2 305	2 331	2 811	2 809	2 822
Loss-making	981	1 065	1 141	1 435	1 317	1 236	1 148	1 004	1 032	1 134	972	983	986
Persons employed (thousand)[1]	322	320	323	291	300	300	289	280	287	294	296	286	263
Profitable												204	192
Loss-making												81	71
Profit rate (%)[2]	8.0	7.8	5.4	–4.7	–3.5	–13.6	–11.7	–0.4	2.4	1.1	5.1	4.9	1.4
Profitable	17.5	19.6	19.7	14.6	17.4	19.0	24.1	27.3	21.3	18.8	21.2	21.1	22.8
Loss-making[3]	–28.0	–43.7	–57.3	–33.5	–63.7	–3 771	–	–	–84.0	–80.0	–98.6	–	–
Debt/equity ratio	2.7	3.3	3.4	2.8	3.3	5.4	6.9	5.8	3.3	2.6	2.6	2.6	2.8
Profitable	2.4	2.5	2.5	2.2	2.2	2.9	3.3	2.9	1.5	1.8	1.4	1.5	1.5
Loss-making[4]	4.1	6.4	6.8	3.8	6.4	299.0	–	–	11.2	6.4	7.9	124.0	–
Dr. billion													
Total profits or losses of all firms	13.1	14.4	12.0	–15.3	–11.7	–38.5	–30.8	–1.6	15.7	9.6	45.5	51.4	15.7
Losses of loss-making state firms	–	–	–8.3	–16.0	–48.1	–52.4	–55.7	–48.9	–16.4	–24.3	–29.8	–44.9	–
Profits of other firms[4]	–	–	20.3	0.7	36.4	13.9	24.9	47.3	32.1	33.9	75.3	96.3	–

1. Totals: source Icap; Breakdown (profitable/loss-making): source FGI.
2. Rate of return on equity.
3. For the years 1985, 1986, 1990 and 1991, equity (including reserves) was almost zero.
4. Including private loss-making firms.

Sources: Federation of Greek Industries (FGI) and Icap.

viable in their present form.[23] In 1991 the 10 biggest manufacturing loss-making firms, with losses amounting to over 1 per cent of GDP, were all state controlled. In addition to the negative influence of the general factors discussed above, state-controlled firms suffered from lack of competent management, proper auditing and transparency. In Greece there is not a body of efficient public sector managers. Political patronage generally plays a role in the appointment of members of governing boards and top executives and, until recently, the remuneration of top personnel was generally low, making it difficult to attract competent private sector managers to State firms.

To sum up, the mediocre performance of Greek industry since the end of the 1970s seems to be due essentially to the distortions created by excessive government intervention in the functioning of markets and the crowding-out effects of high public sector deficits. However, the mere fact that an important part of the productive sector has been able to adapt to this difficult environment demonstrates the dynamism of private firms. But even these private firms are concentrated in low and medium technology sectors, with a large proportion of them still in ''declining'' branches. Moreover, it could be argued that the crawling depreciation policy aimed at keeping wage levels low in a common currency may have discouraged the modernisation of Greek industry and the reorientation of production away from the labour-intensive sectors. In these sectors, competition from the low-wage eastern and central European countries is likely to intensify in the future, making it even more difficult to limit losses in export and domestic market shares. In order to maintain a competitive edge, and *pari-passu* reverse the widening *per-capita* income gap *vis-à-vis* the OECD average, Greece needs to move its production to high value-added products – as Spain, Portugal and Ireland successfully did in the 1980s. The implementation of the wide-ranging structural reforms discussed in Part II should instil new dynamism and stimulate productivity growth. This should also strengthen confidence and attract foreign investment. Without this investment, it will be difficult for a small country like Greece, with a low national saving rate (15 per cent of GDP in 1992) and an insufficiently developed technical base, to achieve the needed restructuring of output.

II. Broadly-based structural adjustment policies in the 1990s

As suggested in Part I, the main reason for the poor overall performance of the economy since the end of the 1970s has been inappropriate polices, which have particularly affected the tradeable sector. Expansionary fiscal policies, together with extensive public sector intervention in the functioning of financial, labour and product markets, reinforced structural distortions during the 1980s. In 1990, recognising that a different approach was required, the new Government, in addition to tightening the macroeconomic policy stance, placed emphasis on structural adjustment. Over the last few years important reforms have been introduced to deregulate markets, and the positive effects have started to flow, contributing to the improvement in Greece's macroeconomic performance relative to the rest of the OECD in 1992. However, significant further progress in reducing inflation stickiness and fiscal imbalances will be needed to restore a high rate of growth.

Financial liberalisation

Following 40 years during which the strictly regulated system suppressed market forces, financial liberalisation began in the mid-1980s as a part of the Stabilisation Programme. The process has continued since then and has been intensified over the last year or so, because of the need to adjust speedily the rules governing financial institutions and operations in the light of plans for European economic and monetary integration and the entry of the drachma into the ERM (initially planned for 1993).

An important move with far reaching consequences is the phased elimination by 1 January 1994 of monetary financing of the budget deficit, so that the public sector will no longer have recourse to Bank of Greece low-interest, short-term loans. In addition, banks' obligatory investment ratio (as a per cent of the increment in deposits) in government paper was gradually reduced from 40 per cent in 1990 to 15 per cent in October 1992, and it was completely eliminated in May 1993. Since 1991 most of the banks' compulsory holdings in Treasury bills have been converted into negotiable medium and long-term government bonds. As a result, the outstanding balance of compulsory bank holdings of Treasury bills fell to less than 4 per cent of bank deposits at the end of 1992 and to 0.4 per cent in May 1993. The public sector's privileged access to scarce financial resources has, therefore, been drastically reduced, forcing it to compete on equal terms with the private sector. This should not only lead to a better allocation of overall resources, but also make the administration – which will have to pay higher interest on its borrowed funds – more conscious of the widespread distorting effects of high public sector deficits. This should, *ceteris paribus,* leave some room for the banks to lower their lending rates to the private sector, thereby providing support to the recovery. The 3 per cent tax on bank-loan contracts was abolished in June 1993 and it is planned to abolish the 8 per cent tax on bank turnover in January 1994. These taxes were passed on to borrowers, thereby raising considerably the effective cost of loans. The revenue loss from the abolition has been incorporated in the Convergence Programme, but no specific offsetting measures have yet been announced.

The authorities also announced that the obligation on banks to earmark funds for loans to small and medium-sized industry – already reduced from 10 per cent of the increment in deposits in 1991 to 7 per cent in July 1992 and 2.5 per cent in March 1993 – is to be abolished in July 1993. Furthermore, consumer credit has been largely liberalised since 1992. Although most interest rates had been freed by 1992 (applying to about 90 per cent of loans to the private sector), the authorities continued to fix the minimum deposit rate as a tool to influence both the level and the structure of interest rates. However, in view of the rapid development of the capital market, coupled with the growing sophistication of financial operators, and the increasing array of money market instruments, the Bank of Greece decided that the minimum deposit rate was no longer necessary and abolished it in early 1993. These measures greatly enhance the powers of the banks in managing their portfolios, and this, together with the growing number of small, but dynamic, banks should contribute to creating a more competitive environment over the medium term. However, for this to happen some institutional obstacles, such as the lack of a clearing channel for inter-bank transfers, need to be overcome.[24]

Another important measure was the 1992 Banking Law, which incorporated the EC banking directives. In particular, banks can no longer accrue interest (and show it on the revenue and asset sides of their balance sheets) on loans not serviced for more than 12 months, and cannot grant new loans to finance overdue interest. This will not only increase transparency, but it will also bring pressure to bear on both banks and firms to increase financial discipline. Moreover, the minimum capital requirement for the creation of a new bank has been set at twice the capital requirement fixed by the Second Banking Directive – thus underlining the authorities' goal of promoting a sound financial system. However, the transition to a more transparent and better operating financial system overall is likely to take some time. This is because some state banks seem to have difficulties in complying with the 8 per cent capital/asset ratio and/or with the requirement that no more than 60 per cent of their capital be held in participation in non-financial assets and of that no more than 15 per cent in one single firm.

Also in line with Greece's EC commitments, the authorities have decided to move rapidly to liberalise capital movements.[25] At the beginning of 1992 forward foreign exchange operations, swaps, etc. were liberalised and many banks quickly started to offer their services in this area. In July 1992 the Bank of Greece abolished all remaining restrictions on the transfer abroad of funds pertaining to current external transactions. In mid-1992 capital movements for the acquisition of real estate and long-term financial assets abroad were also freed. A further bold move was the complete liberalisation of all medium and long-term capital movements with EC countries in March 1993 and there are plans for extending these measures soon to non-EC countries as well. In order to avoid strong speculative forces developing in periods of turmoil on foreign exchange markets, such as happened in the autumn of 1992, controls on some short-term capital operations have been maintained. However, as has been the case in other OECD countries, well-informed financial institutions, companies and individuals are able to circumvent the regulatory framework. The physical export and import of currencies is also regulated, partly in order to guard against money laundering.

So far the lifting of restrictions on capital movements has not led to any significant increase in recorded capital outflows. But, as the appropriate instruments and channels are created and the public becomes aware of the new possibilities, recorded capital outflows might increase in periods of uncertainty. However, as there has always been a sizeable illegal capital flight, the liberalisation will allow a large part of it to come into the open, and, by improving confidence, may lead to lower overall capital outflows. The associated greater transparency should strengthen confidence in the Greek economy, simplify transactions, and reduce costs.[26]

On the other hand, given a high public sector borrowing requirement, high inflation and high net external liabilities, the liberalisation of capital movements, coupled with deregulation in the domestic financial market, makes the conduct of monetary policy more demanding. This is all the more true as overall liquidity is increasing rapidly as a result of the growing sophistication of financial operators, new institutions and the commercialisation of new assets with a high degree of liquidity, such as Repos (repurchases of Treasury bills). Responding to this challenge, the Bank of Greece is putting in place a number of market-oriented instruments – a discount facility for commercial paper and a Lombard-type facility to provide liquidity using government paper as collateral. Parallel to the growing reliance on open market operations, the Bank of Greece has raised the penalty interest rate on banks' overdrafts held with it, in order to strengthen banks' self-discipline in managing their portfolios. The primary reserve requirement continues to be held at the high level of 9 per cent of deposits, of which one-half is in non-interest bearing accounts with the Bank of Greece.

Reducing labour market rigidities

Up to 1990, the Government routinely intervened in labour relations and in particular in the wage bargaining process, thereby producing widespread distortions. Direct government interference in private sector firms, by the setting of quasi-mandatory wage increase norms, combined with the Automatic Indexation Scheme, led to a marked reduction in wage differentials in the 1980s and unwarranted wage increases. The institutional environment changed in 1990 and a new open approach to labour relations has been developing since, enhancing labour market flexibility.

Free collective bargaining is now the rule, and all private sector wage settlements since 1991 have been concluded without government interference.[27]

Arbitration is no longer obligatory and the independence of arbitration mechanisms has been strengthened. Furthermore, without abolishing the centralised bargaining process at the national level, a new law opened the way for collective settlements at the sectoral and firm levels.[28] Even though intermediate wage bargaining systems may have an inflationary bias, because individual sectors and firms tend to regard the national settlements as a floor, this system allows the free interplay of economic forces, whereas before uniform wage rises irrespective of a firm's financial condition eventually led to financial problems causing job destruction. Greek firms immediately took advantage of the new system, and the number of settlements at the firm level doubled from just over one-fifth of total settlements in 1990 to almost two-fifths in 1991 and 1992 on average. This has been associated with increasing wage differentiation between firms, with many profitable firms granting wage increases as much as 20 per cent above those at the national level.

Labour market flexibility in other areas has also improved in the last few years. Impediments to part-time work have been considerably reduced, and, after many years of restrictions, a fourth work-shift is now permitted, thus enabling firms to operate continuously. It seems that, because of slack demand, not many firms have as yet introduced this fourth shift, but when demand picks up, this possibility should contribute to raising capital productivity – an area where Greece had the worst record in the OECD in the 1980s. In the period 1987-91, mainly because of repeated and massive strikes in public utilities and banks, Greece had by far the worst strike record in the EC (940 days lost per 1 000 workers, compared with an unweighted average of 150 in the EC). For this reason a strike law imposing strict limits and sanctions on wildcat strikes, in particular in public utilities, was introduced in 1991. However, these sanctions have rarely been applied so far, so that, although on a downward trend, the strike record in public utilities continues to be bad. In 1992, the excessively high winter months' allowance regularly paid to construction workers was considerably reduced. Furthermore, the harmonisation of pension schemes (see below) and the lengthening of the work period giving right to a pension should contribute to making the labour market more flexible. An important remaining rigidity is the rule that limits lay-offs without government authorisation to a maximum of 2 per cent of the work force per month. This hampers labour market flexibility and reduces companies' margin of adjustment in periods of sudden demand changes.

However, government authorisation for laying-off redundant labour in excess of 2 per cent per month is now obtained considerably more easily than in the past.

Contrary to the trend in most other European countries, the maximum period of entitlement to unemployment benefits was extended. However, at 12 months, this is still below the average. Although this may have a small positive incidence on unemployment, it eases genuine hardship. People who are laid off by ailing firms are offered the choice between attending special, one-year, re-training courses while continuing to receive full pay, or becoming self-employed and receiving a lump sum equivalent to one year's pay. In the last few years, greater emphasis has been laid on training programmes (in part financed by the EC) for low to middle skilled personnel.

Deregulation in goods and services markets

Up to a few years ago, public sector intervention in markets for goods and services was very important. Traditionally, the Government not only fixed the prices of many products, but also established profit margins, maintained barriers to entry and ceded relatively easily to demands from organised lobbies to impede the functioning of market forces. However, in line with EC regulations, the legal framework promoting competition has improved considerably recently and there are signs that a more competitive environment is gradually being established. In 1992 controls on profit margins were abolished and at the same time almost all price controls, with the exception of those on pharmaceuticals and a couple of unimportant products and service items, were lifted. In August 1992 price setting for oil products and imports of crude oil and derivatives was completely liberalised. Initially this was followed by some price increases, but in the course of 1992 prices fell. The pre-tax price differential for standard oil products between Greece and some of its EC partners was narrower in early 1993 than it was before the measures, suggesting market forces have started to work. In 1992 the bakery trade was deregulated, and the Government announced that in 1993 it would send legislation to Parliament abolishing restrictions on freedom of entry and free competition between trades and professional organisations.[29] In 1992 shopping hours were effectively freed, as the right to remain open was extended to Saturday afternoons and, in tourist areas, to Sunday as well. Moreover, in the last few years the number of supermarkets, including foreign ones, has expanded considerably, instilling a competitive spirit in the wholesale and retail trade fields. Furthermore, the monopoly of the Post Office on express mail has been abolished, and that of the Hellenic Telecommunications Organisation (OTE) has also been curtailed by allowing the entry of private companies to the areas of high-value added products and the provision of mobile telephones. Olympic Airways' monopoly on domestic flights has also been partly lifted. On the other hand, despite the favourable environment due to a fall in free market rents since mid-1992, the plan for complete liberalisation of apartment rents by mid-1993 has been postponed, in order to re-examine its exact terms and the lease system which will replace controls.

Public sector consolidation

The public sector expanded considerably in the fifteen years to 1990. In particular, the growth of employment was very rapid, so that total employment in the wider public sector (including utilities, firms and banks under state control) accounted for almost 30 per cent of total dependent employment in 1990. Overstaffing, wage levels and wage increases above the economy-wide average over this period put a heavy burden on public finances, while, at the same time, the quality of public utilities' services and the products of state-controlled firms continued, with few exceptions, to be relatively poor. Immediately after its formation in April 1990, the Government announced its intention to reduce drastically the size of the public sector, cut the large subsidies to public utilities and firms, and, with the aim of improving efficiency, reorganise both the central administration and public agencies.[30] The Convergence Programme, 1993-1998, targeted a reduction in employment in the wider public sector to be achieved by replacing only one out of every two retired employees.

Privatisation and restructuring of state controlled firms

With the aim of reducing public sector borrowing requirements and restructuring ailing firms, privatisation has been an important policy objective since 1990. Parallel to this, the authorities made plans to liquidate non-viable firms, and to sell, if possible, the parts of these firms (units and equipment) which could be operated commercially. However, progress has been uneven on both fronts, and more than three years after the policy was initiated there is still a long way to go. The principal reasons for the slow implementation are: over-optimistic assessments of the commercial worth that certain firms presented, together with the inherent difficulties of disposing of a large number of firms, especially in a period during which share prices have been falling; the lack of clearly established rules, deficiencies in the administration and heavy bureaucracy; the reluctance of state agencies to be divested of companies they control and their unwillingness to co-operate; and the opposition of labour unions.

The Special Secretariat for Denationalisation and the Industrial Reconstruction Organisation (IRO) are the principal agencies overseeing and co-ordinating the privatisation and restructuring operations. Nearly all the enterprises under the jurisdiction of the IRO have now been liquidated or sold, and its task was virtually concluded by Spring 1993. The state-controlled banks also sold 15 of the 69 firms they controlled.[31] Given serious production inefficiencies and high financial liabilities, the receipts from the sale of the majority of these firms were low. In addition, some profitable small banks have been privatised in the last couple of years.

Up to the end of 1992 the gross sales' value of privatised (including liquidated) companies amounted to Dr 160 billion (1 per cent of GDP), of which Dr 130 billion came from the sale of the cement company AGET, one of the biggest cement exporting companies in Europe. However, the public sector's net receipts in 1992 were considerably smaller than the sales' value, because: firstly, buyers of certain companies did not pay the whole price immediately; secondly, part of the proceeds was used to pay overdue liabilities to state-owned banks, social security agencies and private creditors; and, thirdly, part of the AGET shares sold by the IRO were bought by the National Bank of Greece.

The Government has also embarked on an extensive privatisation of public utilities and has announced the sale of hotels and other tourist facilities, owned by the National Tourism Organisation. There are also plans to sell licences for the creation of private marinas and nine casinos. Mainly because of labour opposition to reorganisation plans and repeated strikes disrupting everyday life in Athens, the Government dissolved the overstaffed Athens Bus Company, which employed 8 000 people, and sold its assets to individual drivers in 1992. Two licences for mobile telephones were granted in the summer of 1992, and the Government plans to partially privatise OTE during 1993, by selling shares both to the wider public and to a strategic partner, who would also take over the management of the company. In addition to considerable receipts, the Government expects that the partial privatisation, together with more efficient management, will significantly improve the Greek telecommunications' network.

Stricter budgetary control mechanisms are gradually being put in place in the firms, and especially public utilities, remaining under state control. In addition, under a recent law, the Minister of National Economy can impose an upper limit on the wage bill of individual public enterprises, and, in order to force compliance, the law provides for the dismissal and heavy fining (up to one year of salary) of top managers. For 1992 the wage bill of public enterprises as a whole was practically frozen, which implied labour shedding. Ex-post a small increase in the wage bill seems to have taken place. Furthermore, in order to improve efficiency most public enterprises have started using outside consultants and auditors to establish the true value of their assets and liabilities. Finally, in order to ease the constraint of the existing high public sector deficits on investment, the Government has announced that it will contract-out certain infrastructure projects, including power generating units. With few exceptions, these projects are still on the drawing board. However, as discussed in Part III, this has not prevented the public sector from appreciably increasing investment spending since 1991 in order to ease some of the infrastructural bottlenecks. The emphasis has been placed on improving the transport and communications networks, and work has already started on the following projects: the Athens Metro, the Athens airport, motorways connecting northern and southern Greece, the extension of ports in Western Greece, digitalisation of the telecommunications network, etc. EC funds under the Delors II package will finance a large part of these projects so that their budgetary costs will be light.

Restructuring of the public sector should lead to a marked reduction in its size. As a result of privatisation or liquidation, employment in the wider public sector had decreased by almost 18 000 people up to the end of 1992 – 8 000 due to the privatisation of the Athens Bus Company and 5 200 due to the sale or closure of IRO firms. The present privatisation, liquidation and restructuring plans will affect another 25 000 people, but given the slow rhythm of realisation of the plans so far, it is difficult to predict when the whole process will be terminated.

Fiscal retrenchment

As has been repeatedly concluded in OECD Surveys of Greece, the large public sector deficits and public sector inefficiency are the prime causes of the stagflation since the end of the 1970s. The unsustainable public sector deficits are the result both of the narrow tax base and excessive spending. The narrow tax base reflects widespread tax evasion, mainly by self-employed people and small businesses, which, moreover, seems to have increased in the last fifteen years or so. Despite the 26 per cent growth in real personal incomes during the 1980s, personal income tax receipts are still at the low level of 4½ per cent of GDP, which is less than half the OECD and EC averages. Over the last few years the Government has presented a number of plans and introduced measures to curb tax evasion, but these have clearly been inadequate to deal with the seriousness of the problems, particularly as some of the measures were either withdrawn or not fully implemented, giving the impression of a lack of resolve.[32] The imperfections in the tax administration are well known and highlighted by the sizeable increase in uncollected tax arrears from Dr 140 billion in 1990 to Dr 450 billion at the end of 1992 (3 per cent of GDP).[33]

Pension reform

Overstaffing and pension costs are the main causes of high public sector spending, and the Government has announced plans to tackle both these problems. Important changes to the pension system have been introduced, despite strong opposition by organised labour and certain categories of the population, in particular employees in the wider public sector who enjoyed overgenerous privileges. In 1990 pension expenditure was over 15 per cent of GDP, 50 per cent above the OECD average, and it was growing by about 0.3 per cent of GDP yearly. In addition to the generosity of pensions in the wider public sector (e.g. pensions commenced after 17 to 25 years of service irrespective of the age of the pensioner, and pensions often exceeding the last wage), large categories of the population receiving, admittedly low, pensions never contributed to pension funds (farmers, immigrants from Eastern Europe, etc.) Furthermore, the ratio of contributors to pensioners was very low – 2.2 for total population and 2.7 excluding farmers – in 1990. Moreover, because of the unfavourable demographic trends, these ratios are projected to decline rapidly to 1.6 and 2 respectively in 2000.[34]

A first Pension Law, which corrected some of the most blatant excesses of the system and provided a pause in the upward pension/GDP trend, was passed in 1990. A new Pension Law aimed at making the pension system sustainable over the long term and limiting the government subsidy to one-third of pension expenditure was passed in September 1992. The new measures will be phased in from 1993 to 2007, so as not to hurt those near retirement age, and women recruited before 1982 will continue to enjoy favourable treatment. The principal measures are:

- for public sector employees, the minimum period of work giving right to pension on retirement is raised from 32½ years to 35 years, and for those who have worked for more than 25, but less than 35 years, the minimum age for receiving a pension is raised from 60½ to 65;
- civil servants will start paying contributions for primary pensions (3 per cent in 1993, rising to 6.7 per cent in 1995); in the rest of the public sector minimum contribution rates are set for employers at 22 per cent and employees at 11 per cent;
- contribution rates to the Social Insurance System (IKA) covering the private sector are raised for employers from 12.5 to 13.3 per cent and for employees from 5.8 to 6.7 per cent. The primary pension to earnings ratio is reduced from 80 to 70 per cent;
- a levy of 1 per cent was imposed on pensions of Dr 100 000 per month rising progressively to 5 per cent for pensions of Dr 400 000 and above;
- in contrast to the above stricter norms, for the uninsured the pensionable age was lowered from 68 to 65 and the pension raised appreciably.

The new system is not likely to produce significant savings on the expenditure side for several years: the transition period is long; the less generous pension entitlements under the new system may induce people to advance retirement; and uninsured people's pension rights have been increased. However, as a result of the significant reduction in real average pensions over the last couple of years, pension expenditure may stabilise or even fall below 15 per cent of GDP over the medium term, instead of continuing to rise. But, an appreciable increase in revenues is likely to accrue following the rise in pension contribution rates. Including the 1993 increase in contribution rates for health and for unemployment benefits – by 1 percentage point each – overall social security revenues are officially projected to be 15 per cent higher in 1993 and 33 per cent higher in

2007 (the end of the transition period) than they would have been before the measures. In total, the net extra revenues are expected to reduce the central government budget deficit by slightly less than 1 per cent of GDP and to improve the wider public sector's financial balances by between $1\frac{1}{4}$ and $1\frac{1}{2}$ per cent of GDP in 1993.

Overstaffing and public sector efficiency

In contrast to the progress on the pension front, little seems to have been done to tackle overstaffing and inefficiency. The goal was to reduce employment in the wider public sector by 10 per cent, to replace only one-half of the civil servants who retire and to significantly reduce the number of fixed-term employees. However, the number of civil servants has fallen only marginally since 1990. In the wider public sector there was a marked decline in employment, reflecting privatisation and liquidation of ailing firms, so that total public sector employment has fallen by more than 8 per cent in the last two years. Immediately after it was formed in 1990, the Government recognised that public sector inefficiency not only weighs heavily on public finances, but has also become an important obstacle to growth, and important reforms, including a new civil service code, were announced. Selective policies and measures were introduced (see: *OECD Survey of Greece, 1991/1992*). However, in many areas announced reforms have been implemented only partially or not at all. Problems such as the creation of new modern organigrams for ministries, better promotion assessment methods so as to stop quasi-automatic promotion, increased differentiation in remuneration so as to attract skilled and competent personnel and motivate existing civil servants, greater horizontal mobility, decentralisation of certain units from Athens to regional centres, etc. have not yet been addressed in an adequate manner.[35] In order to improve efficiency, plans for transferring a large number of civil servants from one ministry or public body to another were made three years ago, and some moves have taken place recently, but these were considerably fewer than were originally envisaged. Likewise, the pace of implementation of the announced fusion or abolition of the 3 000 public legal entities, many of which have no real function, is very slow.

III. Tightening of macroeconomic policies

The Medium-term Adjustment Programme, 1991-93, had very optimistic targets, the achievement of which called for a drastic tightening of the macroeconomic policy stance and the speedy introduction of structural reforms. Even though many of the policies announced in 1991 and 1992 went in the right direction, the overall pace of implementation was too slow, particularly regarding reforms aimed at curbing tax evasion. In mid-1992 the Government recognised that without tightening fiscal policy further, there would be large deviations from the budgetary goals, which would, in turn, risk undermining progress in other domains. The Government therefore introduced a fiscal package in August 1992, mainly containing indirect tax increases. This succeeded in restoring the PSBR to a downward path, but at the expense of temporarily reversing the disinflation trend.

With a view to meeting the Maastricht Treaty's strict criteria, in December 1992 the Government presented a Convergence Programme, 1993-1998, the principal goals of which are a marked decline in the PSBR, to 0.2 per cent of GDP, and in inflation, to 4 per cent, in 1998 (Table 8). According to the Convergence Programme tax rates will remain unchanged, but the tax base will be broadened by curbing tax evasion, and overstaffing in the public sector will be reduced by strengthening controls on hiring. In addition to budgetary discipline, the success of the Programme depends on wage moderation. It was also stated that deviations from the nominal targets will not be accommodated, and will trigger a tightening of fiscal and monetary policy. The Convergence Programme incorporates an ambitious GDP growth target (3½ per cent yearly), led by an expansion of public and private sector investment (10.4 per cent and 9.2 per cent yearly respectively). A small fall in the unemployment rate, to 7.7 per cent, and a turn-around in the current external balance, to a surplus of 0.5 per cent of GDP, in 1998 have also been projected.

Table 8. **The Convergence Programme 1993-98**

	1993	1994	1995	1996	1997	1998
	Annual growth rates					
GDP market prices	2.0	3.0	3.5	4.0	4.0	4.0
Fixed investment	6.3	8.8	11.0	10.5	10.3	10.4
Non-farm GDP (factor cost)	2.5	3.2	3.8	4.6	4.3	4.3
Unemployment [1]	9.8	10.0	9.5	9.0	8.3	7.7
Private consumption deflator	12.6	7.5	6.0	4.5	4.4	4.0
Conpensation per employee [2]	10.5	9.4	7.7	6.2	6.0	5.9
	Per cent of GDP					
Current account balance	-2.1	-1.8	-1.4	-0.7	-0.2	0.5
General Government						
Net borrowing [3]	8.6	7.0	4.4	1.6	0.8	0.2
Primary surplus [4]	5.1	6.3	7.3	7.7	8.1	8.2
Debt	107.5	105.3	100.5	94.3	87.5	80.6
Public sector debt	116.7	113.6	108.0	101.2	94.2	87.3

1. Per cent of labour force.
2. All economy.
3. On an accrual basis.
4. Positive if surplus, negative if deficit.
Source: Ministry of National Economy.

Fiscal policy

Budgetary developments in 1992

The 1992 Budget aimed at reducing the PSBR from 15½ per cent of GDP in 1991 to 9¼ per cent in 1992, by both restraining the growth of expenditure and increasing tax revenues. On the expenditure side, the objective was a decline in real terms in the public sector wage bill and social expenditure, resulting from real wage and pension cuts and falling public sector employment. On the revenue side, the authorities expected that, following the lowering of tax rates under the 1992 Tax Reform, coupled with an improvement in tax administration, the tax base would be broadened, leading to an appreciable growth in tax receipts.[36] The Government also expected sizeable proceeds from privatisation.

Large tax shortfalls occurred in the first half of 1992, making realisation of the budgeted deficit reduction impossible. The reasons for the shortfalls were threefold: intended improvements in the tax administration, including among other measures the installation of an efficient computerised system to make cross-checking possible, were considerably behind schedule; the anti-tax fraud measures and sanctions introduced were rarely or very imperfectly applied; and taxpayers did not respond as well as the authorities had expected to the lowering of the tax thresholds and rates by filing more honest income tax declarations. In order to compensate for the tax shortfall and to pave the way for the EC VAT harmonisation requirements, the Government introduced the following measures in August 1992:

- an increase of nearly 100 per cent in the special tax on automotive fuels and of almost 50 per cent on heating oil;
- sizeable increases in excise taxes on alcoholic drinks and tobacco;
- an increase in the withholding tax on interest receipts from bank deposits, from 10 per cent to 15 per cent;
- the 36 per cent VAT rate was abolished and the products transferred to the 18 per cent VAT rate, while many products were transferred from the 8 per cent to the 18 per cent VAT rate; the special taxes on cars and motor-cycles were also raised.

The net tax yield of the package is estimated at Dr 190 billion (1¼ per cent of GDP) in 1992 and Dr 550 billion (3¼ per cent of GDP) in 1993, of which about one half comes from the increases in oil taxes.

Thanks to these extra taxes the Central government shortfall in tax revenues for 1992 as a whole was considerably smaller than in 1991 (Table 9). Likewise, even though less than budgeted, privatisation proceeds were sizeable in 1992 for the first time – the two main operations representing 1 per cent of GDP. The central government expenditure overrun was limited and was exclusively due to interest payments higher than budgeted, because interest rates were higher than had been forecast. All the other current spending categories, as well as capital spending, were within budget limits for the second year running. The increase in civil servants' wages was around 10 per cent on average, and in pensions 8½ per cent, which, even though higher than announced early in the year, entailed a real income fall of 4¼ per cent and 5½ per cent respectively.[37] Government employment may have also declined by more than 1 per cent. As a result of these changes, the general government accounts showed a primary surplus for the first

Table 9. **Budget plans and outcomes**

Drachmae billion, administrative basis

	1988	1989	1990	1991		1992		1993
	Outcome			Budget	Outcome[1]	Budget	Outcome[1]	Budget
CENTRAL GOVERNMENT								
Current expenditure	2 573	3 297	4 299	4 832	4 875	5 281	5 350	6 618
Salaries	952	1 206	1 501	1 697	1 695	1 919	1 870	2 051
Goods and services	157	184	198	264	242	326	320	472
Grants and subsidies	737	928	1 045	1 118	1 076	1 124	1 168	1 353
Tax refunds	84	140	161	220	185	240	238	150
Interest[2]	554	730	1 271	1 143	1 497	1 344	1 552	2 250
Transfers to the EC	89	108	123	190	181	229	202	276
Reserve	–	–	–	200	–	50	–	65
Current revenue	1 929	2 126	2 878	4 210	3 661	4 715	4 585	5 940
Direct taxes	520	581	822	1 167	1 024	1 281	1 190	1 510
Indirect taxes[3]	1 266	1 391	1 877	2 462	2 379	2 951	2 918	3 618
Non-tax revenue	143	154	180	582	258	484	476	812
Capital expenditure, net	316	372	373	430	474	535	534	693
of which: Investment	281	339	361	–	502	–	727	975
Net borrowing requirement	960	1 543	1 794	1 057	1 688	1 101	1 299	1 372
(per cent of GDP)	(12.7)	(17.5)	(17.0)	(8.3)	(13.2)	(7.1)	(8.7)	(7.9)
PUBLIC ENTITIES[4]								
Net borrowing requirement	51	88	163	230	250	223	224	109
PUBLIC ENTERPRISES								
Investment	244	349	356	–	413	–	642	846
Net borrowing requirement	9	97	177	54	59	79	89	79
PSBR	1 020	1 728	2 215	1 336	1 997	1 403	1 612	1 560
(per cent of GDP)	(13.5)	(19.6)	(21.0)	(10.4)	(15.6)	(9.3)	(10.9)	(9.0)
Memorandum items: (per cent of GDP)								
PSBR on a cash basis	15.8	18.0	18.6	–	15.8	–	9.2	–
General government on a national accounts basis[5]								
Primary balance	–5.9	–8.3	–6.1	–	–2.8	–	0.5	4.5
Net lending, accrual basis	–13.7	–16.6	–18.1	–	–15.4	–	–12.8	–10.7
allowing for capitalised interest	–13.7	–16.6	–18.1	–	–14.4	–	–9.5	–9.5

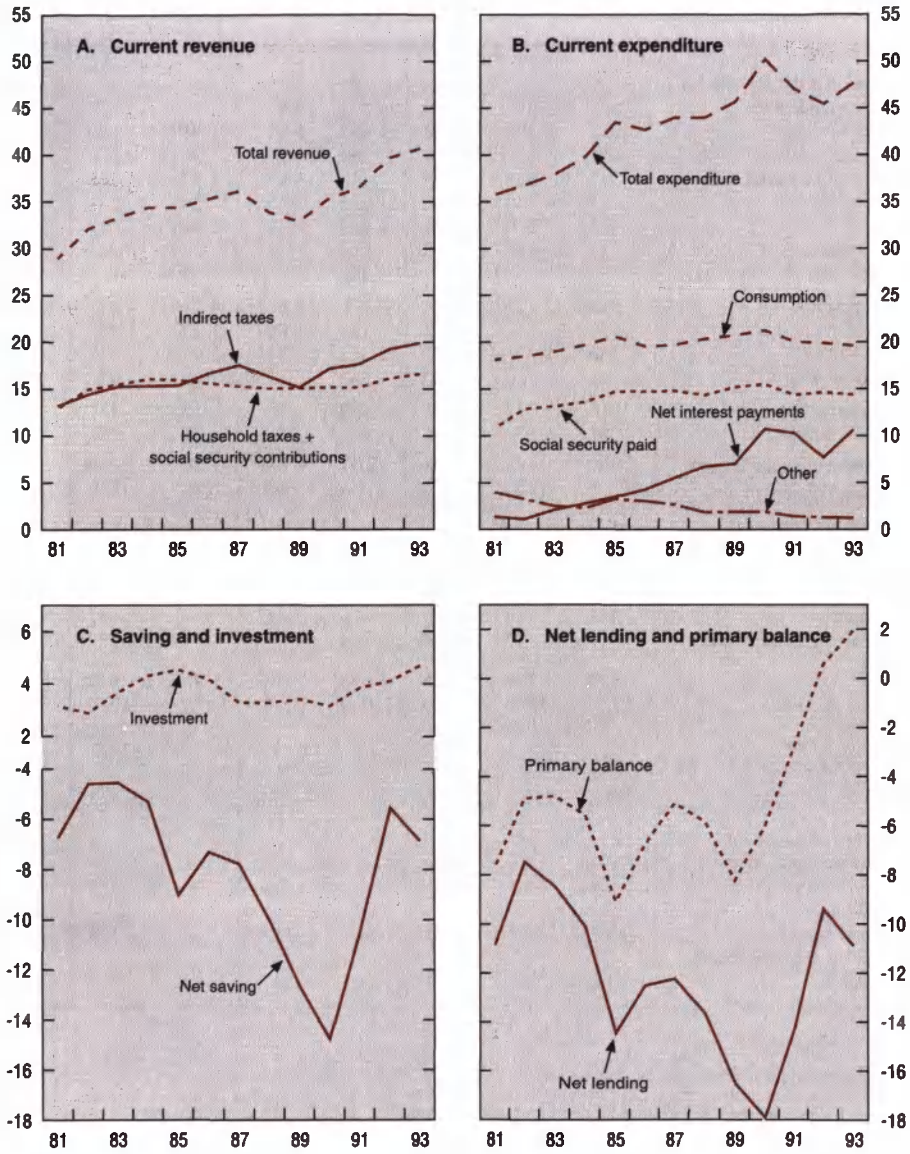
1. Provisional.
2. Actual interest payments.
3. Of which taxes on oil from 1988 to 1992 in the following order in billion, Dr 192, Dr 128, Dr 214, Dr 385, Dr 573.
4. Mainly social insurance funds and local authorities.
5. For 1993, official estimates were revised in June 1993.

Note: The 1991 outcome and 1992 budget figures are not those presented in the budget document. They have been revised to take into consideration recent fiscal measures.

Source: Data submitted by the national authorities.

Diagram 8. **GOVERNMENT RECEIPTS AND EXPENDITURE**[1]

Per cent of GDP



1. General government, national accounts basis, capitalised interest excluded.

Source: OECD estimates.

time, equivalent to $\frac{1}{2}$ per cent of GDP in 1992, compared with primary deficits of $2\frac{3}{4}$ per cent in 1991 and of $6\frac{3}{4}$ per cent on average between 1988 and 1990. The overall Central government budget deficit fell from $13\frac{1}{4}$ per cent of GDP in 1991 to 8.7 per cent in 1992. However, more than one half of this fall was due to debt rescheduling, and in particular to interest capitalisation.[38] Allowing for this and privatisation proceeds, the decline in the government deficit between 1991 and 1992 was approximately $1\frac{1}{4}$ per cent of GDP, underlining the difficulties of reducing high structural deficits.

The borrowing requirement of the social security funds also declined a little, to $1\frac{1}{2}$ per cent of GDP in 1992, despite broadly unchanged government subsidies. On the one hand, receipts grew relatively fast (18 per cent) as a result of previous years' increases in contribution rates and bases, and on the other, there was a marked slowdown in pension expenditure, which more than offset the faster growth in health expenditure, so that the growth of non-interest spending decelerated to about 15.5 per cent in 1992. Even though the limits imposed by the Ministry of National Economy were exceeded, the wage bill of public enterprises increased considerably less than inflation, contributing to turning their operating deficit into a surplus in 1992. This, together with higher government subsidies, largely compensated for the 55 per cent increase in investment expenditure, so that their borrowing requirement increased very little. In total, the PSBR declined to 10.9 per cent of GDP in 1992, the lowest level since 1981, and the general government deficit declined to 9.5 per cent (Diagram 8).[39] However, the increase in the overall public sector debt was significantly higher, reflecting an increase in the governments' share in the equity of financial institutions, and new loans to problematic firms and to farm agencies.

Acquisitions of government paper by private investors financed over 70 per cent of the PSBR, a somewhat larger share than in 1991. Banks were, for the first time, net sellers of government paper, reflecting the phasing out of the obligatory investments in government paper. However, this was more than offset by bank loans, so that banks' contribution to the PSBR financing was slightly positive. The marked increase in Bank of Greece financing in 1992 was mainly due to the government drawing FEOGA funds (from its accounts with the Bank of Greece), which would normally have been disbursed in 1991 – hence the low 1991 financing ratio (Table 10). It is also Bank of Greece policy to build an adequate portfolio of government securities for open market operation purposes.

Table 10. **Financing of the public sector borrowing requirement**

Per cent of total

	1988	1989	1990	1991	1992[1]
Domestic financing	96.5	86.9	87.9	87.5	88.9
Banks	66.7	58.0	29.9	14.5	2.2
Loans and credit	19.4	15.8	13.7	12.8	19.5
Securities	47.3	42.2	16.1	17.0	–17.4
Non-bank residents	31.2	18.9	43.1	68.0	71.1
Treasury bills	21.7	3.5	30.9	67.8	67.7
Bonds	9.5	15.4	12.2	0.2	3.4
Bank of Greece advances	–1.4	10.0	14.9	5.0	15.6
External financing	3.5	13.1	12.1	12.5	11.1

1. Provisional data.
Source: Bank of Greece.

Despite the reduction in the government deficit, public sector debt continued to increase markedly in 1992, reaching 116 per cent of GDP, due to the assumption by the central government of previously unrecorded indebtedness. In order to increase the transparency of government accounts since 1991 the Government has assumed not only guaranteed debt of certain public enterprises, but also unguaranteed debt of other institutions controlled by it (Table 11). When central government debt guarantees and military debt are included, total indebtedness is

Table 11. **Public sector debt**

Per cent of GDP

	1989	1990	1991	1992	1998 Convergence Programme target
Central government	76.3	88.7	95.9	101.4	81.6
Public entities	9.6	6.5	5.0	4.1	0.5
General government	85.9	95.2	100.9	105.5	80.6
Public enterprises	18.3	15.1	12.4	10.6	5.2
Total[1]	104.3	110.4	113.3	116.2	87.3
of which: Foreign debt	30.7	28.7	30.0	28.5	21.1

1. Excluding military debt.
Source: Convergence Programme 1993-1998.

probably closer to 125 per cent of GDP, of which nearly one-third is owed to foreigners. The total public sector debt is one of the highest in the OECD and its servicing represents a heavy burden, especially when real interest rates are high, as has been the case in recent years. Interest payments on foreign debt amounted to 2¾ per cent of GDP in 1992, – more than the current balance of payments deficit – and total interest payments to about 11½ per cent of GDP.

The 1993 Budget

The 1993 Budget aims at raising the government primary surplus to 4½ per cent of GDP, so as largely to cover the marked increase (45 per cent) in interest payments, following near stability in 1992. This reflects the fact that, after two years of interest capitalisation, interest will start to be paid in 1993 on the higher debt; as a result government interest payments will probably exceed 30 per cent of total government expenditure (13 per cent of GDP) in 1993. General government net lending was budgeted to fall to 8.8 per cent of GDP, and the PSBR to 9 per cent (in June 1993 this was revised to 9.5 per cent and around 10 per cent respectively).

For the third year running, strict limits on wages and pensions have been imposed. The increase in basic wages has been set at 4 per cent, but the growth in average pay is likely to be 12 per cent in 1993 as a whole.[40] The increase in average pensions paid directly by the government will be smaller (6.6 per cent). As a small reduction in government employment is also planned, the rise in the total government wage and pension bill is budgeted to be less than 10 per cent. The other spending categories are planned to grow faster than nominal GDP; in particular investment expenditure is forecast to increase by 34 per cent, to over 5 per cent of GDP in 1993, one of the highest ratios in the OECD area. In total, government primary expenditure is planned to grow by 18 per cent, almost one-third faster than nominal GDP. Reflecting the strict limits on pensions, spending by the Social Security System is again budgeted to grow slowly, so that total general government expenditure may grow at about the same rate as nominal GDP. General government spending may, therefore, stabilise in 1993 at the high level of 50 per cent of GDP (the average of the previous five years) and primary expenditure may decline marginally to just under 38 per cent of GDP.[41]

The budgeted deficit reduction is also based on a growth in total government revenues of 30 per cent in 1993. In addition to the non-indexation of tax thresholds and rates, the Government expects sizeable receipts from a reduction in tax evasion, as a result of increased efforts in this direction. Direct taxes are budgeted to increase by 25 per cent, much faster than nominal GDP. In order to speed up the collection of tax arrears and encourage companies and the public to make honest tax declarations hereafter, the Government announced that everybody who files a new tax form before the end of March 1993 presenting undeclared taxable income from previous years will not be penalised, no interest will be charged, and the Government will accept the declaration. At the same time, the Government announced that people and companies who do not take this opportunity will face strict scrutiny to verify taxable income, and heavy penalties will be imposed if they are found guilty of tax fraud. However, the extra tax revenue collected under this scheme seems to have fallen considerably short of official expectations, as was the case in previous voluntary amnesty schemes to encourage honest tax declarations.

The 1993 Budget does not provide for new indirect tax increases. However, a 25 per cent increase in indirect tax receipts is projected, mainly as a result of the August 1992 tax increases. In addition, the Government expects a marked increase in non-recurrent receipts, mainly proceeds from the privatisation of OTE (Dr 330 billion, 2 per cent of GDP), and in EC transfers to finance infrastructure investment. Similarly, a marked growth in social security receipts is budgeted following the increase in contribution rates and the fact that, under the recent pension law (see Part II), civil servants and pensioners will start paying social security contributions as from 1993. This, combined with a cut in real average pensions, will again lead to a large fall in the Social Security system deficit. The operating surplus of public enterprises is budgeted to grow appreciably in 1993, mainly as a result of real wage compression combined with employment cuts, and the privatisation of the loss-making Athens Urban Transport Company in 1992.

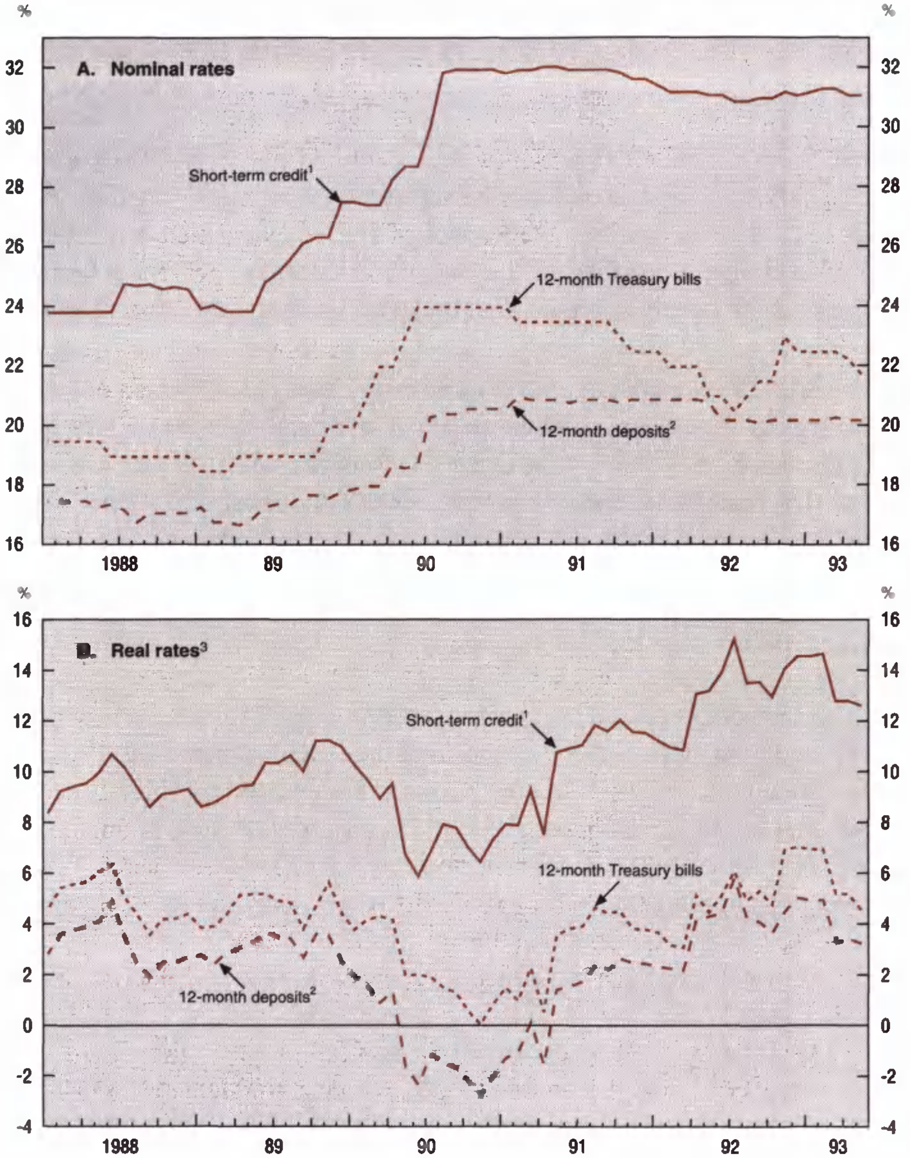
Government revenue trends in the first four months of 1993 suggest that the tax targets for 1993 as a whole will probably not be realised, even if there is an acceleration in tax collection in the remaining part of the year. It seems that the loss of revenue from the 1992 Income Tax Reform is considerably larger than was initially estimated and, the revenue gains from the reduction in tax evasion are much smaller, mainly due to the deep-rooted deficiencies in tax administration, which ensure immunity for most tax evaders. After the 1993 Budget was voted, the Government announced that the strict limits on pensions and wages may be selectively relaxed for categories who have experienced a marked fall in real incomes, and pressure is building on the Government to ease the enforcement of the hiring rules it has set. As interest rates are also turning out to be higher than had been assumed, debt servicing costs are likely to be larger than budgeted. Furthermore, GDP growth will probably be significantly less than the 2 per cent officially forecast and will be accompanied by higher unemployment. This suggests that the cyclical component of the budget deficit will increase, instead of declining as implied in the Budget. In total, the general government deficit is likely to be much higher than budgeted, with the PSBR continuing to exceed 10 per cent of GDP.

As a result, the debt/GDP ratio is likely to increase again, instead of meeting the Convergence Programme's target of broad stabilisation in 1993. This means that greater emphasis will need to be put on fiscal consolidation in order to put the debt/GDP ratio on its targeted path to achieve the level of 80.6 per cent of GDP in 1998.

Monetary policy

Monetary policy remained restrictive overall in 1992 in order to fight inflation and limit the depreciation in the exchange rate to somewhat less than inflation differentials *vis-à-vis* trading partners. Encouraged by the fall in inflation and in order to ease the burden of high interest rates on its own finances and on the private sector, the Government initiated a small fall in interest rates on government paper in the first half of 1992. However, following the exchange rate turmoil of last autumn, market sentiment regarding future interest trends was affected, so that demand for government paper slackened, and interest rates on 12-month Treasury bills rose again to 22.5 per cent, the level prevailing up to the end of 1991 (Diagram 9). This occurred despite a fall in inflation by 3½ percentage points between end-1991 and end-1992. In order to counteract speculative pressures against the Drachma during the autumn turmoil in exchange rate markets, the Bank of Greece interest rate applied to banks' overdrafts was temporarily raised to 40 per cent. This led to a steep, parallel rise in interbank and Repo rates (the latter reached 38 per cent at the end of September 1992). These rises, together with a surge in interest rates on eurodrachmas (to 800 per cent) for

Diagram 9. **INTEREST RATES**



1. Including the bank turnover tax.
2. Provisional figures for April and May 1993.
3. Nominal rates deflated by consumer prices. Provisional figures for 1993.

Source: Bank of Greece.

a short period following a drain on liquidity by the Bank of Greece, contributed to limiting the outflow of capital and maintaining an orderly depreciation of the drachma in this difficult period. Markets calmed in the following months, permitting a small fall in interest rates on government paper and a much larger one in the interbank market in early 1993. Bank short-term lending rates (including taxes and commissions) have continually exceeded 31 per cent since mid-1990. The downward inflation trend led to an increase in real rates (effective borrowing costs) to about 13¼ per cent on average in 1992, and they remained broadly stable in the first half of 1993.

Credit expansion slowed to 9.8 per cent in 1992, as credit growth to the public sector nearly halved to less than 4 per cent. This was made possible by the lower PSBR, coupled with the rising share financed by direct purchases of government debt by individuals and firms.[42] Domestic credit to the private sector grew by 17 per cent, which is slightly faster than in 1991 and 1990 and somewhat above the target range of 14-16 per cent (Table 12). This higher growth is explained by the substitution of domestic drachma loans for direct borrowing in foreign currencies by firms during the period of exchange rate uncertainty between August and early November.[43] In this period some firms may also have borrowed for speculative reasons, and the significant acceleration in domestic credit to the trade sector in 1992 may not be unrelated. The continuing decline in share prices and the related difficulties in raising new share capital through the Athens Stock Exchange (Dr 14 billion compared with Dr 61 billion in 1991) have also obliged firms to lean more on bank credit in 1992. The effect of the tensions in exchange markets is best highlighted by the significantly lower volume of new loans in foreign exchange granted by domestic banks in the second half of 1992 (Dr 3 billion compared with just below Dr 50 billion on average in the preceding two half years). This was despite the fact that, even allowing for the trend rate of depreciation, interest rates on foreign currency loans were almost 10 percentage points lower than on drachma loans.

M3 grew by 15 per cent, exceeding the upper limit of its target range of 9-12 per cent, but the growth of M4, the wide measure of money supply (including direct purchases of Treasury bills by the non-financial private sector) decelerated to 19.7 per cent in 1992, implying a small decrease in the velocity of circulation (Diagram 10). There was a marked growth again in Repos at the expense of private sector deposits. This was concentrated in the last four months

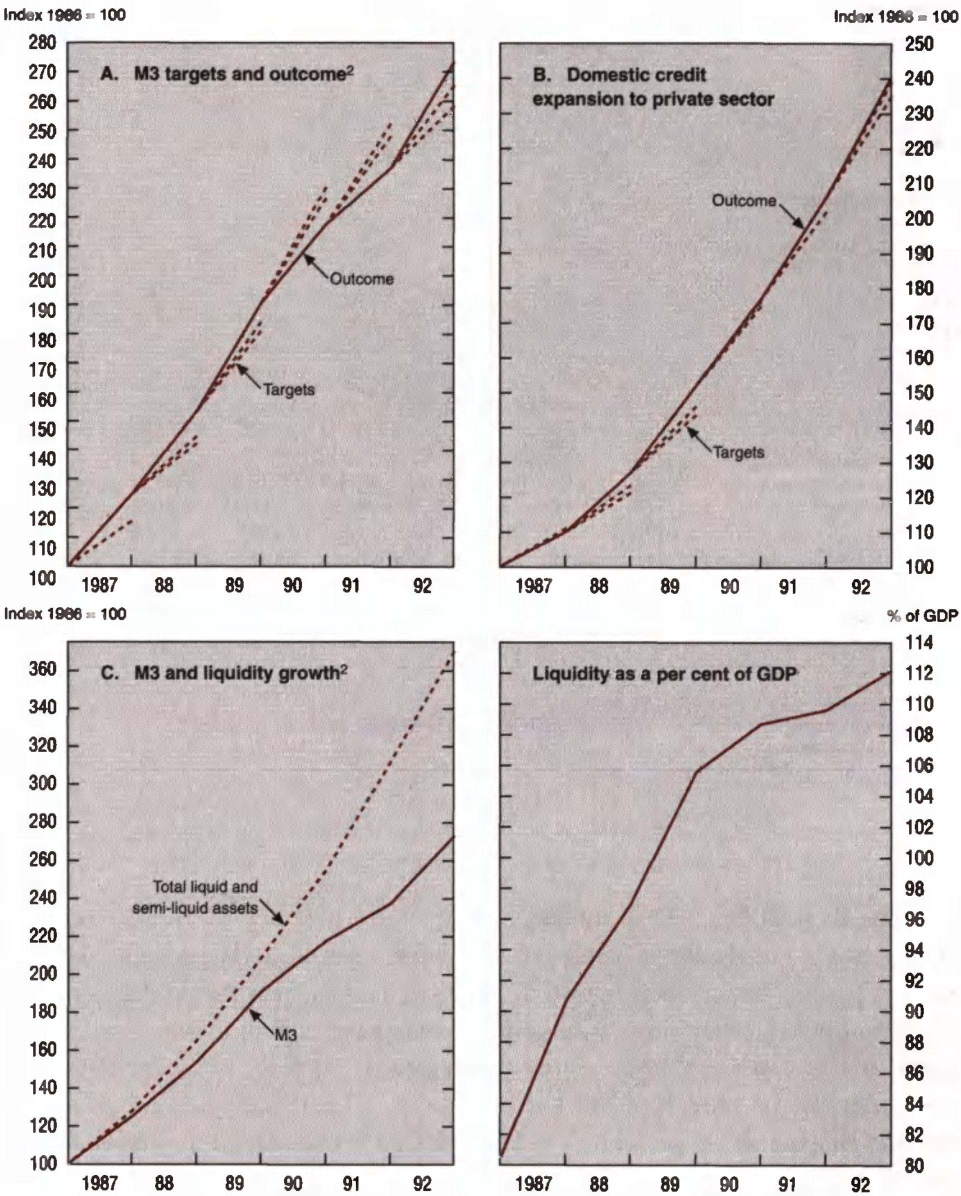
Table 12. **Domestic credit expansion**

	1992[1] Drachmae billion	1987	1988	1989	1990	1991	1992[1]
		Annual percentage change					
Total monetary system claims on:[2]							
Private sector	6 525	10.1	15.3	19.7	16.4	16.4	17.1
of which:							
Bank credit	6 010	9.8	15.2	20.7	16.5	16.4	17.1
of which:							
Agriculture	1 228	16.2	14.8	14.3	19.8	12.2	19.0
Manufacturing and mining	1 762	6.7	10.5	13.7	10.2	20.4	12.3
Small-scale industry	466	9.7	15.6	12.2	10.7	4.0	7.5
Trade	827	1.4	19.2	50.3	36.0	24.6	32.8
Housing	867	11.7	17.4	34.2	14.0	10.9	11.5
Public sector, net[3]	6 846	22.8	25.1	26.9	17.3	6.4	3.7
General government	6 524	22.7	28.5	29.7	17.9	7.3	5.0
of which:							
Central government	6 593	19.1	24.8	29.9	17.9	4.1	3.6
Public enterprises	322	23.4	9.0	11.4	13.4	–1.7	–17.3
Domestic credit expansion	13 371	16.3	20.3	23.6	16.9	10.8	9.8
Memorandum item:							
Monetary Programme's target: Domestic credit expansion to private sector		11	10-12	13-15	15-16	14	14-16

1. Provisional data.
2. Loans, shares, bonds, bills and securities held by financial institutions.
3. Net of public sector deposits with financial institutions and excluding loans in foreign exchange.
Source: Bank of Greece.

of 1992, because of the August increase (from 10 per cent to 15 per cent) in the tax rate on interest revenues from deposits with banks, and the increase in the Repo yield (which are not taxed) in the last four months of the year (Table 13). The private sector's quick response to the above changes underlines the acute sensitivity of the private sector to changes in yields and the growing sophistication of the Greek financial market. However, the high degree of market sensitivity to internal and external shocks highlights the considerably narrower room for manœuvre of monetary policy. A high interest rate differential *vis-à-vis* foreign markets is necessary to ensure orderly conditions in the exchange market, especially following the liberalisation of capital movements.

Diagram 10. **MONETARY TARGETS AND LIQUIDITY TREND**[1]



1. Figures for 1992 are provisional.
2. New definition of M3 as from 1992.

Sources: Bank of Greece and OECD estimates.

Table 13. **Monetary indicators**

	1992[1] Drachmae billion	1988	1989	1990	1991	1992[1]
		Annual percentage change				
Currency in circulation	1 431	17.0	31.8	19.9	8.0	14.0
Sight deposits	558	9.0	24.4	42.5	15.6	14.5
M1	1 989	14.9	30.0	25.2	10.1	14.1
Saving deposits	5 915	27.4	26.0	14.4	12.2	11.0
Time deposits	2 053	18.0	16.4	6.4	-0.7	2.1
Deposits excluding sight deposits	8 968	24.5	23.2	12.1	8.8	8.8
Repos + bank bonds	1 696	27.4	25.1	33.5	58.7	66.3
M3[2]	12 653	23.2	24.2	15.3	12.3	15.0
M4[3]	16 166	27.1	23.6	22.2	23.2	19.7
		Change in drachmae, billion				
Private sector deposits	9 526	1 099.1	1 330.7	943.5	732.4	796.0
Private sector holdings						
Government paper	3 996	375.0	303.0	849.3	1 370.4	971.0
Bank bonds	719	82.7	96.5	112.7	4.8	120.0
Repos	977	–	–	48.5	372.4	556.0
Total liquid and semi-liquid assets	16 649	1 662.1	1 961.4	2 147.7	2 573.1	2 622.0
(per cent change)		(29.0)	(26.5)	(22.3)	(22.5)	(18.7)
GDP at market prices	15 062					
(per cent change)		(20.7)	(16.5)	(19.6)	(21.4)	(16.0)

1. Provisional data.
2. Includes private sector holdings of Bank bonds and Repos.
3. M3 plus direct purchases by private sector of Treasury bills and government bonds up to 1 year.
Source: Bank of Greece.

The Bank of Greece has announced that monetary policy will remain restrictive in 1993, and though a small fall in interest rates is envisaged, this will be roughly parallel to the deceleration in inflation. This reflects the prudent attitude of the authorities in the light of ongoing financial and capital movement deregulation, which considerably increases the degree of liquidity of financial assets. The target for the growth of M3 has been set at 9-12 per cent and for domestic credit expansion at 6-8 per cent, but, as in 1992, domestic credit expansion to the private sector is expected to grow faster, 13-15 per cent. These targets are based on the Government's forecasts for 1993 – a nominal GDP growth of 14.6 per cent, inflation falling to 10 per cent at the end of 1993 and a PSBR of no more than 9 per cent of GDP. Moreover, the Bank of Greece has warned that a PSBR higher than forecast will lead to an increase in interest rates because of the stronger public sector demand. This would lead to slower credit expansion in the private sector. However, in the first four months of 1993 the growth of M3 and of credit to the private sector were at about the upper limit of their target range. Exchange-rate policy has been tightened since September 1992, when the authorities announced that the pace of depreciation of the drachma *vis-à-vis* the ecu in 1993 would be considerably slower than hitherto. Indeed, the drachma depreciated by only 2 per cent *vis-à-vis* the ecu during the first five months of 1993, compared with 4 per cent during the same period in 1992. In effective terms the depreciation of the drachma was 3 per cent during the first five months of 1993, bringing the 12-month depreciation to 7.9 per cent compared with 9.1 per cent at the end of 1992.

IV. Economic developments in 1992 and prospects in 1993

Developments in 1992

In contrast to the increasing slack in OECD Europe in 1992, GDP in Greece grew at almost its – admittedly low – long-term trend rate of 1½ per cent.[44] This is only slightly lower than projected in last year's Economic Survey of Greece. The difference is mainly explained by a smaller contribution of the real foreign balance, partly due to higher imports resulting from speculative transactions stemming from fears of a devaluation of the drachma during the turmoil in foreign exchange markets last autumn. The tighter macroeconomic policy stance had no significant dampening effect on the real economy: the reduction in the PSBR was largely based on variables without adverse demand effects, such as EC transfers, privatisation proceeds and interest capitalisation; the negative mechanical demand impact of stricter macroeconomic policies was largely offset by their positive effects on confidence, highlighted by the relatively high level of domestic private business investment and foreign investments in Greece; the policy induced squeeze on real household disposable income was more than offset by a fall in the saving rate; and tighter policies left a large part of the economy – the underground economy – unscathed (Table 14).

The real economy

All household income components recorded a sizeable fall in real terms in 1992: total wages, because of moderate public sector wage rises; social security receipts, because of the fall in the real average pension; and farm incomes, because of the limited rise in farm prices, in line with EC policy. Nonetheless, private consumption increased by 1.3 per cent in 1992, leading to a marked fall in the saving rate. To a large extent, the increase in consumption is accounted for by

Table 14. **Demand and output**

Real annual percentage change

	GDP shares 1991	1987 / 1980	1988	1989	1990	1991	1992
Private consumption	70.0	1.9	3.1	4.3	2.1	1.6	1.3
Government consumption	19.9	2.6	5.8	2.8	-0.7	1.1	-0.4
Gross fixed investment	18.6	-3.3	8.9	10.1	9.4	-4.4	1.2
Final domestic demand	108.5	1.1	4.3	4.9	2.8	0.6	1.0
Stockbuilding [1]	1.8	-0.5	2.0	-0.9	-1.7	1.8	0.3
Total domestic demand	110.3	0.6	6.3	3.9	1.1	2.3	1.3
Exports of goods and services	22.7	5.7	9.1	1.3	0.9	16.4	8.0
Imports of goods and services	33.2	7.1	8.0	10.8	12.0	13.2	5.8
Foreign balance [1]	-10.5	-0.5	-0.1	-3.1	-3.8	-0.7	0.0
Error of estimate [1]	0.2	1.0	-1.8	2.5	1.6	1.6	-0.1
GDP at market prices	100.0	1.1	4.5	3.5	-1.0	3.2	1.3
GNP at market prices	99.6	0.6	4.7	3.2	-0.4	3.4	1.3
GDP at factor cost [2]	100.0	1.2	4.9	3.7	-1.5	3.4	0.9
Agriculture, etc.	16.3	-0.4	6.5	1.0	-15.3	17.4	-1.6
Non-agricultural sectors	83.7	1.5	4.6	4.1	0.5	1.7	1.3
of which:							
Manufacturing	16.7	-0.3	4.5	2.2	-2.6	-0.8	-1.6
Services	56.3	2.2	3.9	4.8	1.4	2.7	2.3

1. Change in per cent of previous year's GDP.
2. Data for 1992 are estimates submitted by the national authorities.

Sources: National Statistical Service of Greece, *Provisional National Accounts of Greece*, 1992; and OECD estimates.

a further surge in car purchases, related to the tax incentives to replace polluting old cars with those having catalytic converters. Government consumption declined moderately, while government investment grew at a robust 11.5 per cent and public enterprise investment by 4.6 per cent.

Underpinned by high profit rates in previous years, as well as rising foreign direct investment, private business investment also grew by 2¼ per cent in 1992. The increase was concentrated in investment in machinery and equipment, while investment in buildings and construction probably declined a little. This steep rise in a period of uncertain sales prospects is explained by the efforts made by many firms to modernise with the single EC market and the prospective intensification of competition in mind. Including a slightly negative unchanged inventory accumulation, total domestic demand grew by 1.3 per cent in 1992. The contribution of the real foreign balance was broadly neutral, giving a GDP growth of 1.3 per cent. Excluding the volatile farm output, the growth of GDP decelerated from 1.7 per cent in 1991 to 1.3 per cent in 1992, with the expansion in services' output, in particular tourism related services, again being the main dynamic element. The continuing marked growth in public utilities (electricity, water and sewage) again boosted GDP. In contrast, manufacturing output continued to shrink, for the third year running, bringing the cumulative decline since 1989 to 5 per cent.

The officially estimated increase, of nearly 2 per cent, in total employment is surprisingly strong, given moderate GDP growth, lay-offs by ailing firms, the decline in the labour-intensive construction industry, and the reduction in employment in government and the rest of the wider public sector (Table 15). Reflecting the lifting of impediments to part-time employment and greater labour

Table 15. **Labour market trends**

	1991 Thousand	1987/1982	1988	1989	1990	1991[1]	1992[1]
		Annual percentage change					
Population	10 200	0.4	0.2	0.3	1.0	0.6	½
Working age population	6 638	0.9	1.1	0.6	1.9	1.0	½
Unemployment rate (per cent)	(7.7)	(7.4)	(7.7)	(7.5)	(7.0)	(7.7)	(9¼)
Labour force[2]	3 934	0.9	2.0	0.2	0.8	-1.7	3¾
Employment	3 632	..	1.7	0.4	1.3	-2.3	2
Agriculture	807	-0.8	0.1	-4.3	-4.4	-9.4	-1½
Industry	1 001	-0.3	-1.1	1.5	2.1	-3.0	..
of which: Manufacturing	699	1.2	-1.3	1.1	0.7	-2.9	..
Services	1 825	2.0	4.4	2.4	4.0	1.5	..
Employees		..	2.8	2.1	1.2	-0.8	¼
Public sector[3]		..	-1.1	6.3	-5.2	-0.7	-4
Private sector		..	4.2	1.1	7.0	-1.6	1½

1. Provisional figures.
2. Participation rates in 1980, 1985 and 1990 were in per cent: 58.7, 59.6 and 60.9 respectively.
3. Includes general government, public enterprises and state owned banks, but firms, in which public bodies hold a minority of shares although effectively controlling them are excluded.
Sources: Data submitted by the national authorities and OECD estimates.

market flexibility in general, part-time and temporary employment has increased considerably in recent years, particularly in 1992 to meet the seasonal demand of the tourism sector.[45] Another explanation for the recorded sizeable employment growth is the growth of immigrant labour, mainly from Albania and to a lesser extent from the other central and eastern European countries. These workers are mainly in the underground economy, have unskilled jobs, work intermittently, and receive very low remuneration, but have equally low productivity. Most of them work in farm and construction activities or are domestic servants. These different factors explain the paradox of the decline in apparent labour productivity in the economy as a whole in 1992, while other indicators show marked productivity growth in many organised tradeable sectors and in the wider public sector.

Immigration also explains the exceptionally strong growth in the total labour force of little above 3¾ per cent in 1992, compared with a trend rate of ¾ per cent yearly during the previous ten years.[46] Reflecting the growing divergence between supply of, and demand for, labour, recorded unemployment rose to 9.2 per cent in 1992, the highest level for a very long time and 1½ percentage points above the average since the end of the 1970s. The unemployment rate for young people (below 25 years) and for women increased further from an already high level, reaching about 30 per cent and 16 per cent, respectively, towards the end of 1992. The mounting unemployment problem is evident, not only in the rapid growth of unemployment in the "fragile" categories, but also in socio-professional categories (*e.g.* industrial and construction workers) which had been relatively secure. Moreover, unemployment is now spreading across the country, whereas traditionally it was concentrated in urban areas, and in particular in the Athens area which has had a rate of unemployment nearly 50 per cent above the national average in the last few years.

Inflation and incomes

After reaching a peak of 23¼ per cent in the last quarter of 1990, consumer price inflation gradually fell to 13½ per cent, year-on-year, in July 1992, and all indicators pointed to a further fall during the second half year (Table 16). But, because of the sharp indirect tax increases in August, the direct mechanical impact of which is estimated at 2½ per cent, consumer price inflation crept up and has since fluctuated at around 15½ per cent. However, this should not mask

Table 16. **Prices**

Annual percentage change

	1986/1980	1988	1989	1990	1991	1992	1992 Dec.
Price deflators							
(national accounts basis)							
GDP at factor cost	19.6	15.2	14.4	19.3	15.9	12.9	..
GDP at market prices	19.9	15.6	12.7	20.4	17.6	14.5	..
Private consumption	19.9	14.3	14.8	19.2	18.7	14.9	..
Consumer prices	21.1	13.5	13.7	20.4	19.5	15.9	14.4
Wholesale prices, total	21.1	10.1	13.4	15.9	16.7	11.3	12.8
Locally-produced goods:							
For domestic consumption							
Primary goods	19.7	9.8	15.9	23.1	23.0	1.7	–7.0
Industrial goods	20.1	10.3	12.2	18.4	17.7	14.8	17.2
For exports	19.7	10.6	16.5	6.7	10.7	6.4	14.2
Imported finished goods	23.7	9.2	12.5	12.5	14.6	12.6	14.0
Cost of materials, buildings	20.4	9.6	16.5	17.1	18.7	11.8	14.9
Memorandum item:							
Effective exchange rate	–13.9	–2.5	–6.2	–6.4	–10.0	–7.8	–9.1

Sources: Data submitted by the national authorities and OECD estimates.

the improvement in inflation performance in 1992 as a whole, which is underlined by the marked deceleration of the GDP price deflator, from 17.6 per cent in 1991 to 14.5 per cent in 1992. As in many other OECD countries, the very small increase in food prices was a major factor behind the lower inflation in 1992. The decline in commodity prices also contributed importantly, highlighted by the fall in the wholesale prices of domestic primary goods of 7 per cent in the year to end-1992. By contrast, the deceleration in the growth of service prices was small, mainly because of increases in rents and the prices of certain public utility services (*e.g.* transport, telecommunications and water) of about 20 per cent during the year.

Thanks to a smaller effective depreciation of the drachma than in 1991, the price rise for imports of goods fell to 8.9 per cent, damping consumer price inflation in 1992. The increase in the other major cost components was again relatively strong in 1992 as a whole. The recorded growth in non-farm business sector unit labour costs accelerated, to 13 per cent in 1992 (Table 17).[47] Debt-servicing charges seem to have risen a little, but this was broadly offset by a slight fall in business profits, mainly in the trade sector, with the exception of car importing companies which had record profits in 1992. Profits in private manufacturing industry also fell, but, reflecting the liquidation of a few heavy loss-making state-controlled firms, the profit rate in total manufacturing was broadly unchanged in 1992.

On the basis of the national accounts, wage growth in the wider public sector (excluding banks) was nearly 12 per cent in 1992 and in the private sector

Table 17. **Wages and labour costs**[1]

Annual percentage change

	1987	1988	1989	1990	1991	1992[2]
Average earnings[3]						
Total	11	18	19¾	22	14	11¾
Government	12½	21½	19½	27	11½	10
Banking	9¼	17½	25½	20	16½	16¼
Private sector	10¼	20	19¾	18½	16	13¾
of which:						
Manufacturing[4]						
Salaries	8¼	27	20	21	18	15½
Weekly wages	9¾	18½	20½	19½	16¾	14¾
Retail trade	9	18	16	15½	14¾	17½
Minimum wages	10	17	19	17	14¾	11
Unit labour cost, business sector (non-farm)	12	15¼	14	19	11½	13
of which:						
Manufacturing	11	20	17½	21	10½	11½
Memorandum items:						
Real average earnings[5]						
Total	–4	3	4	2¼	–4	–2¾
Government	–2¾	6	4	6½	–6	–4¼
Private (including banks)	–4¾	4½	4½	–1½	–2¼	–1

1. The figures refer to non-agricultural sectors.
2. OECD provisional estimates.
3. Estimates for non-agricultural sector, excluding earnings from abroad.
4. Plants with ten workers or more.
5. Deflated by the consumer price deflator.

Sources: *Annual Report of the Governor of the Bank of Greece; data submitted by the national authorities and OECD estimates.*

just over 13 per cent, but to a large extent this was due to the rapid increase in the share of low paid immigrant workers. In the private non-farm business sector proper, wage growth was closer to 15 per cent, considerably exceeding the wage increase implied under the National Wage Settlement for 1991-92, which was signed in early 1991. This Settlement provided for an increase in basic wages of 5.4 per cent on 1 January 1992 and 4 per cent on 1 July 1992, which, combined with adjustment for the overshooting of the 1991 inflation target, wage drift and the carry-over from 1991, would have entailed an increase in average wages of barely 13 per cent in 1992 as a whole. In fact, wage settlements at the branch level, by professions and by firms, were generally higher than the National Wage Settlement, as reflected in wage increases of between 15 and 18 per cent in mining, in manufacturing, in banks, in insurance companies, and in retail and wholesale trade.

The balance of payments

After the marked narrowing in 1991, the current account deficit rose a little in 1992 (Table 18). However, this seems to have been largely the result of leads and lags and to some capital flight towards the end of the year due to exchange rate uncertainty, so that the underlying deterioration was small. Allowing for these speculative moves, as well as some interest payments pertaining to earlier years paid in 1992, and a delay in recording certain EC transfers, the current external deficit was barely 2 per cent of GDP in 1992, rather than the 2.7 per cent recorded in Table 17. This compares with an average of about 4¾ per cent of GDP throughout the 1980s.[48]

On a customs basis, export volumes increased by 7.2 per cent and import volumes by 4.7 per cent. The faster net export growth was more than offset by a deterioration in the terms of trade. Except for EC transfers, all other invisible receipts grew markedly in 1992, and tourism earnings were particularly strong, reflecting, in part, the low 1991 level due to the Gulf war. Even though invisible payments grew one-third faster, the invisible surplus increased further because the level of invisible payments is much smaller than that of receipts. The largest item on the payments side is interest payments, and its rapid growth in 1992 is explained both by retroactive payments pertaining to earlier years and by the high interest rates abroad in 1991 and most of 1992. Anticipating a possible devaluation of the drachma during the last four months of 1992, it seems that many

Table 18. **Current balance of payments**[1]

US$ million

	1987	1988	1989	1990	1991	1992
Trade balance	–6 942	–7 631	–9 120	–12 328	–12 308	–13 893
Oil balance	–1 816	–1 377	–1 692	–2 233	–2 034	–1 649
Non-oil balance	–5 126	–6 254	–7 428	–10 094	–10 273	–12 243
Exports	5 069	5 446	5 593	5 904	5 939	5 383
Imports	10 196	11 699	13 022	15 998	16 212	17 626
Net invisible receipts	5 723	6 674	6 547	8 766	10 787	11 815
Credits	8 566	10 099	10 281	13 041	15 354	17 265
Tourism	2 268	2 396	1 976	2 587	2 567	3 272
Shipping	1 193	1 380	1 375	1 762	1 774	1 993
Migrant remittances	1 379	1 727	1 394	1 828	2 165	2 432
Net EC transfers	1 665	1 935	2 602	2 901	4 034	4 058
Other receipts	2 061	2 661	2 934	3 963	4 814	5 510
Debits	2 843	3 425	3 734	4 275	4 567	5 451
of which:						
Interest payments[2]	1 537	1 684	1 794	1 902	2 014	2 370
Current balance	–1 219	–957	–2 573	–3 562	–1 520	–2 078
Memorandum items: (per cent of GDP)						
Non-oil trade balance	–11.1	–11.9	–13.7	–15.2	–15.0	–15.8
Trade balance	–15.1	–14.4	–16.8	–18.6	–17.8	–17.9
Invisibles' balance	12.5	12.6	12.0	13.2	15.6	15.2
Current-account balance	–2.6	–1.8	–4.7	–5.4	–2.2	–2.7

1. Data are on a settlement basis.
2. Including dividends and profits.

Sources: Bank of Greece, *Monthly Statistical Bulletin* and data submitted by the national authorities.

Greeks bought foreign exchange in advance of their travel abroad, taking advantage of the lifting of controls on invisible payments. The heightened speculative movements and the greater capital flight in 1992 are also reflected in the fourfold increase in the value of errors and omissions, which reached a negative $922 million, or nearly one-half of the current account deficit.

The combined higher current account deficit and errors and omissions were largely covered by private capital inflows, but there was also a loss in foreign exchange reserves, mainly in the last four months of the year (Table 19). Private capital inflows increased little, although their composition changed considerably. In contrast to earlier years, it seems that in 1992 there was a significant reduction

Table 19. **The external capital account**

US$ million

	1987	1988	1989	1990	1991	1992[1]
Current account	–1 219	–957	–2 573	–3 562	–1 520	–2 078
Errors and omissions	233	83	–526	–157	–235	–922
Total deficit	–986	–874	–3 099	–3 719	–1 755	–3 000
Non-debt capital inflows, net	1 422	1 618	1 636	2 255	2 151	2 443
Entrepreneurial[2]	330	542	489	799	1 110	1 672
Real estate investment	675	896	740	991	1 082	1 082
Deposits in foreign currencies	440	125	551	617	140	–24
Other long-term capital	–23	55	–124	–152	–181	–287
Basic balance of payments	436	744	–1 463	–1 464	396	–557
(per cent of GDP)	(0.9)	(1.4)	(2.7)	(–2.2)	(0.6)	(–0.7)
Debt-creating capital flows, net	379	413	1 131	1 507	1 273	366
(per cent of GDP)	(0.8)	(0.8)	(2.1)	(2.3)	(1.9)	(0.5)
Suppliers' credit	205	193	124	440	327	437
Commercial banks	–118	18	–47	–25	34	22
Public sector	292	202	1 054	1 092	912	–93
of which:						
Bank of Greece	–264	466	751	118	175	1 648
Central government	850	–145	256	936	687	–1 773
Public enterprises	–237	–80	111	81	51	39
Balance of payments						
(– = increase)	816	1 157	–333	44	1 670	–191
Change in reserves	–819	–1 190	341	–51	–1 662	194
Clearing accounts	3	33	–8	7	–8	–3
Memorandum item:						
Net public sector borrowing less change in reserves (per cent of GDP)	(–1.1)	(–1.9)	(2.6)	(1.6)	(–1.1)	(0.1)

1. Provisional data.
2. The entrepreneurial capital as published in the Bank of Greece accounts includes borrowing by companies. These sums were very small prior to 1988 but have risen fast since then.

Sources: Bank of Greece, *Monthly Statistical Bulletin* and data submitted by the national authorities.

in new foreign loans to Greek firms, while the share of direct investment, mainly in existing firms, increased markedly. To a large extent, this improvement in the composition of foreign investment seems to be the result of foreign participation in the privatised cement company AGET and capital inflow for the mobile telephone system. Because of the unfavourable profit and personal income trends in OECD countries, foreign investment in real estate fell marginally, and there was a net withdrawal of foreign exchange deposits held in Greek banks, mainly by Greeks living abroad. The public sector's outstanding net foreign indebtedness increased marginally in 1992. Faced with substantial debt repayments in 1992 ($5.4 billion, up from $3.6 billion in 1991), the authorities preferred to reduce their net foreign exchange borrowing, at the expense of a small reduction in foreign exchange reserves.

Short-term prospects

The macroeconomic policy stance remains tight in 1993. High real interest rates will impinge on growth and contribute to easing inflationary pressures. Even though the ambitious budget goal of a reduction in the PSBR to about 9 per cent of GDP in 1993 is unlikely to be realised, the fiscal policy stance will continue to move towards restriction overall, and a further marked increase in the general government primary surplus is projected. Growing slack in Greece's OECD trading partners, especially Germany which is the biggest market for Greek exports, and increasing competition from the low labour cost central and eastern European countries suggest that the international environment for growth will continue to be unfavourable. However, following the opening of the Balkan markets, Greek exports to this area seem to have grown rapidly, thus mitigating the effects of the intensified competition from central and eastern Europe in Greece's traditional EC export markets. The ongoing gradual easing in interest rates in the OECD area will have little impact on the real economy and on the high debt servicing charges of the Greek public sector (public sector external debt was 28½ per cent of GDP in 1992) in 1993, but considerably more in 1994.

An inevitable, but unfavourable, consequence of the August 1992 indirect tax increase is its boost to inflation, which will continue to have an effect in 1993. In 1993 a corrective 2.4 per cent pay adjustment (1.4 per cent in January and 1 per cent in July) was given to cover the overshooting of the inflation target for 1992. Furthermore, the National Wage Settlement for 1993 (signed in June) provides for increases in the minimum wage – 4 per cent in January and 7 per cent in July 1993. This, together with the carryover from 1992 and higher social security contributions, suggests that the increase in compensation per employee in the private sector will be about 13¾ per cent in 1993 as a whole. This, coupled with a recovery in productivity, is projected to bring the growth in non-farm business sector unit labour costs down to 12½ per cent in 1993. This slowdown, possibly a small profit squeeze, and food price moderation, as well as recently announced controls on school fees after excessive price rises since 1991, could further dampen domestic inflation tensions in the course of 1993. In addition, exchange rate policy is geared to bringing about a small real appreciation of the drachma (measured by the private consumption deflator) and OECD inflation is subdued, so that the 12-month increase in consumer prices may drop from 15½ per cent in the first four months to around 12 per cent at the end of 1993 (Table 20).[49] On these assumptions the GDP price deflator is projected to rise by 13¾ per cent in 1993, ¾ of a percentage point slower than in 1992 and the

Table 20. **Current trends**

	Annual percentage change							
	1991	1992	1992 Dec.	1993[1] Jan.	Feb.	March	April	May
Retail sales, volume	–7.5	–1.3	5.9	0.6	–5.3	3.0	–6.7	..
Passenger car registrations	34.0	14.9	25.6	–6.4	..	..	..	..
Cement consumption	0.0	0.6	37.2	–17.6	–21.0	–3.3	–10.6	5.6
Manufacturing production	–0.9	–1.3	–3.1	–7.7	–2.5	–4.0	–2.6	..
Consumer prices	19.5	15.9	14.4	14.5	14.5	16.4	16.2	16.4[2]
Wholesale prices	16.7	11.3	12.8	13.1	13.5	13.2	13.0	12.7
Price of construction materials	18.7	11.8	14.9	14.1	15.9	16.5	16.5	16.1
Bank deposits	9.3	9.4	9.4	7.7	7.4	5.8	4.5	3.7
Money supply, M3[3]	12.3	15.0	15.0	13.6	12.9	12.9	12.1	11.6
Bank credit to private sector	16.4	17.1	17.1	16.4	16.2	16.2	15.8	14.0
Effective exchange rate	–10.0	–7.8	–9.1	–8.8	–8.2	–9.0	–8.6	–7.9
Drachma/ECU rate	–10.8	–8.7	–10.0	–11.6	–9.5	–10.5	–9.8	–8.3

	US$ billion			
	1991	1992	1992 January-April	1993 January-April
Trade balance	–12.3	–13.9	–4.4	–3.8
of which:				
Non-oil balance	–10.3	–12.2	–3.7	–3.4
Invisible balance	10.8	11.8	3.3	3.3
Current external balance	–1.5	–2.1	–1.1	–0.5

1. Provisional data.
2. The 12-month inflation in June 1993 was 15.8 per cent.
3. Including Repos according to the new definition of M3 used by the Bank of Greece.
Source: Data submitted by the national authorities.

consumer price deflator to rise by slightly less than 14 per cent, one percentage point less than in 1992.

The expected decline in real terms in the public sector wage bill and in pensions, as well as in farm incomes, could be more than offset by continuing strong growth in property income, mainly interest payments, so that real household disposable income is expected to grow a little. Consumption expenditure is projected to slow down, reflecting a sharp drop in private car purchases after the withdrawal of the fiscal incentives for the replacement of polluting cars. But, given that all cars are imported, there will not be any significant adverse impact on domestic output from the deceleration in private consumption. General government consumption is projected to grow slowly, but marginally faster than budgeted, mainly because the policy of replacing only one out of every two civil servants who retire is unlikely to be fully implemented.

General government investment is budgeted to increase by nearly 20 per cent in 1993, but in the rest of the public sector investment is planned to increase only very little, giving an increase in total public sector investment of 11 per cent. Given the normal implementation shortfalls when investment rises rapidly, the budgeted level is unlikely to be attained. Accordingly, total public sector investment is projected to grow by no more than 9 per cent in 1993, which, nonetheless, still makes it the main element of support to activity. Responding with a lag to the declining trend in profits since 1991 and to high real interest rates, as well as the greater difficulties in raising low-cost foreign loans (due to the higher premiums resulting from uncertainty in foreign exchange markets) and venture capital at home, business investment may shrink in 1993. Housing investment will continue to fall, but at a decelerating rate. Final domestic demand may, therefore, grow by around 1 per cent in 1993, and, including a lower rate of inventory accumulation, total domestic demand by 0.9 per cent (Table 21).

Despite a small improvement in relative unit labour costs, the weakening of world trade trends makes it likely that export growth will decelerate in 1993. But, reflecting the slower growth of demand components with a high import content, import growth is also projected to decelerate so that the contribution of the real foreign balance to output should again be broadly neutral. GDP may, therefore, grow by 0.9 per cent in 1993, accompanied by a small rise in unemployment. Drought and the two year olive oil cycle point to a small decline in farm output. Likewise, manufacturing output is expected to fall, with almost all of the GDP

Table 21. **The short-term outlook**

	1992	1993	1994
	Annual percentage change		
Private consumption	1¼	¾	1¾
Government consumption	–½	½	¾
Gross fixed investment	1¼	2¼	2¾
Stockbuilding (contribution to GDP)[1]	¼	–0	0
Total domestic demand	1¼	1	1¾
Exports of goods and services	8	3½	6
Imports of goods and services	5¾	2¼	5
Foreign balance (contribution to GDP)[1]	0	0	–¼
GDP at constant prices	1¼	1	1½
Productivity, total	–1	1¼	1½
Business sector (non-farm)	–¾	1¼	1
GDP deflator	14½	13¾	11¼
Private consumption deflator	15	14	11
Unit labour costs, business sector (non-farm)	13	12½	10½
of which:			
Manufacturing	11½	9¾	8½
Total employment	2	–½	¼
Unemployment rate (per cent)	(9¼)	(10¼)	(11)
Private sector real disposable income[2]	–4	1¼	1¾
Private sector saving rate[2]	(15¼)	(15¾)	(15¾)
	Per cent of GDP		
General government			
Primary balance	½	2	2½
Net lending			
Accrual basis	–12¾	–12¼	–9½
Allowing for capitalised interest[3]	–9½	–11	–11½
Current external balance	–2¾	–1¾	–2

1. Change in per cent of previous year's GDP.
2. Including saving of corporations.
3. Reflecting interest capitalisation, the deficit (net lending) on an accrual basis is projected to exceed net lending based on actual interest payments up to 1993, but the opposite will be the case in 1994.

Sources: Data submitted by the national authorities for 1992 and OECD projections for 1993 and 1994.

growth coming from the service sector and construction activity, boosted by the big infrastructure projects underway.

The positive swing in net trade volumes, the unwinding of earlier speculative movements, higher EC transfers (including those budgeted for 1992 but received in 1993) and a small decline in interest payments, point to a decline in the current payments deficit to about $1¼ billion, or 1¾ per cent of GDP. This should be broadly covered by non-debt-creating capital inflows (mainly capital inflows for real estate investment and direct investments). Foreign portfolio investment is also expected to rise if the partial privatisation of OTE is realised before the end of 1993, as planned. In total, the basic balance of payments will probably turn into a surplus in 1993.

On the assumption that the policy stance does not change, greater efforts are made to reduce tax evasion, structural reforms are speeded up, and the de-escalation in wage settlements resumes, there should be a further reduction in macroeconomic imbalances and structural distortions in 1994. The business climate should, therefore, improve and, helped also by the recovery in OECD Europe and rising profits, GDP growth is projected to accelerate, led by a pick up in private business investment and continuing rapid growth in public infrastructure investment. Nonetheless, unemployment might rise because of immigration and the structural decline in farm employment. On the assumption that wage growth moderates to around 11½ per cent, reflecting rising unemployment and profit squeeze, inflation could fall below the 10 per cent mark in the second half of 1994, for the first time for more than 20 years. Faster growth in domestic demand, notably business investment in machinery and equipment with a high import component, would lead to a small deterioration in the real foreign balance. But thanks to higher EC transfers under the Cohesion Fund, the current account deficit could stabilise at 2 per cent of GDP. As in the past, this could be roughly covered by private capital inflows.

The OECD projections for 1993 and 1994 are less optimistic than the Convergence Programme's goals for these two years, reflecting the delays in implementing the structural policies, in particular those aimed at increasing public sector efficiency and budgetary consolidation – two goals which are closely interdependent. Moreover, there are certain risks attached to these projections. Some of them are related to developments in the OECD area as a whole. In particular slower growth in OECD and higher interest rates than presently projected by the OECD would depress activity in Greece. On the domestic front, there is the risk that as general elections approach (the latest date is April 1994) policies may be relaxed, as they have been regularly in the past. The positive short-term effects on real demand would be small, but the long-term costs in terms of eroding confidence, exacerbating inflation and undermining the balance of payments, could be considerable. Indeed, if the fiscal slippage is allowed to develop, wage growth does not moderate and publicly controlled prices are not kept in check, there is an upside risk for inflation and downside risk for GDP growth.

V. Conclusions

Underpinned by a tightening of macroeconomic policies and by structural reforms, the Greek economy entered a period of adjustment in 1991, after more than 10 years of very low growth and large and rising imbalances. Progress has been significant, as illustrated by the marked declines between 1990 and 1992 in the public sector borrowing requirement (PSBR) (from 21 per cent of GDP to 10¾ per cent), in inflation (from 19½ per cent to 15 per cent) and in the current balance of payments deficit (from 5¼ per cent of GDP to 2¾ per cent). On the basis of a continuation of present policies, further improvement is expected over the next eighteen months. Reinforced by growing confidence, economic policies have also started to have a positive effect on the real economy. Despite an unfavourable international environment, the growth of GDP was 1¼ per cent in 1992, nearly the growth rate over the 1980s, and, according to OECD projections, it is is likely to be around 1 per cent in 1993, above that of OECD Europe.

Despite these achievements, the Greek economy is still in a difficult situation. With a PSBR at over 10 per cent of GDP, a public debt of 116 per cent of GDP and inflation at around 12 per cent at the end of 1993, Greece is still very far from achieving the Maastricht criteria. Moreover most of the recent gains could be quickly reversed. Though easing, inflation expectations remain strong, as highlighted by the slow progress in reducing inflation in the first half of 1993, and, as seen in the past, speculative tensions might gather force rapidly if confidence declined. In addition, a large part of the 1992 fall in the PSBR is the result of non-recurrent receipts and one-off measures, notably privatisation and debt rescheduling. Thus, considerable further progress in stabilising the economy is required if Greece is to participate fully in the European economic and monetary union in the second half of the 1990s. To this end, the Government has prepared a Convergence Programme, 1993-1998, fixing demanding targets for 1998: inflation to fall to 4 per cent and the PSBR virtually to zero, with the government debt/GDP ratio declining by over one-quarter to 80 per cent in 1998. Though these targets are ambitious, it is essential that the Government follows announced policies through and builds upon improved credibility.

Given the detrimental effects of a high PSBR, budgetary consolidation is the prime goal of the Convergence Programme. In the public sector, wages and pensions were cut in real terms, so that the wage bill has remained within budget limits in the last couple of years. This contributed to achieving a primary surplus in the government accounts for the first time in 1992, but, as the Government recognises, this aspect of policy cannot be continued indefinitely. Instead, considerable savings should be made over the medium term by reducing overstaffing; although a start has been made in this direction, the stated objective of replacing only one out of every two civil servants who retire is not being fully implemented. Containing government consumption becomes all the more urgent as, from 1993, the Government will have to face the counterpart of the debt rescheduling operations of earlier years, with the result that interest payments will grow fast in 1993 and 1994. In addition, plans for improving the deficient infrastructure entail rising capital expenditure over the medium term. As for the Government's intention of involving private capital in financing infrastructure, since only very few contracts have been concluded so far, the budgetary relief from this source is not likely to be important.

On the revenue side, an important step was the 1992 Pension Law, aimed at spreading the financing burden more evenly across socio-professional categories and, more importantly, raising social security contributions. As a result, the deficit of the pension account – on a rising trend up until now – is expected to decline as a percentage of GDP from 1993 onwards, but it will still remain much higher than in OECD countries generally. In addition, the Government has announced a series of plans to deal with tax evasion, an important factor behind the shortfall in revenues and the high budget deficit. Policies to broaden the tax base, mainly by combating tax evasion, were reviewed in the OECD Survey of Greece, 1991/1992. Doubts were expressed then about the effectiveness of incentives and, indeed, the increase in tax revenues from a reduction in tax evasion again fell short of plans in 1992 and 1993. Policies have been imperfectly implemented and few tax evaders have been penalised. Furthermore, owing to the inefficiency of the tax collection authorities, which is an important factor behind the extensive tax evasion, no major results have appeared so far. Admittedly, combating tax evasion is a long-term task requiring changes in mentality and behaviour, but, unless a serious start is made now, it will be difficult to reduce the PSBR to the levels targeted for 1995 and later years.

A reduction in the PSBR is also necessary in order to ease the heavy burden carried by monetary policy in combating inflation over the last few years. Real lending interest rates have been extremely high over a long period, recently running at around 14 per cent, discouraging investment and further aggravating the cash flow problems of heavily indebted firms. Prospects for lowering real interest rates are not very promising, although the announced abolition of the special tax on bank operations in 1994 will reduce the effective cost of borrowing. Given the sizeable external debt and strong inflation pressures, especially in a context of domestic financial deregulation and liberalisation of capital movements, the Bank of Greece will have to follow a very prudent interest rate policy and its ability to significantly reduce the wide interest rate differential *vis-à-vis* foreign markets will depend on further reducing the PSBR and inflation. High real interest rates have contributed to maintaining confidence in the value of the drachma and a relaxation of the restrictive monetary policy stance would be premature.

In late 1992 the authorities announced that the rate of depreciation of the drachma in 1993 would be significantly less than in the recent past. While it is clear that a stable nominal exchange rate is unrealistic when inflation is excessively high, the exchange rate needs to be managed so as to impose necessary discipline on economic agents to improve efficiency and restrain cost increases responsible for the wide inflation differential. Indeed, no deceleration in wage growth between 1992 and 1993 is likely, although a significant moderation is projected for OECD Europe. An *ex-ante* exchange rate policy with a pre-announced rate of depreciation, while it would reduce the room to pursue discretionary policy, would reinforce confidence in the Government's anti-inflation posture and provide clearer signals to the private sector. Given the Government's objective of the drachma joining the ERM, a marked acceleration in the pace of disinflation is necessary, and a restrictive *ex-ante* exchange rate policy could make an important contribution to this end.

A tight exchange rate policy, involving *ex-ante* targets, should not be detrimental to competitiveness. As examined in Part I, the poor performance of the tradeable sectors since the end of the 1970s, reflected in the stagnation of manufacturing production and the sizeable losses in export market shares, is essentially due to deep-rooted structural and institutional factors and inappropriate policies over a considerable period. These all contributed to further depressing already low labour and capital productivity. Unless marked improvements in these two key determinants for economic growth are made, the widening per capita income gap *vis-à-vis* the rest of the OECD will be difficult to reverse permanently.

Past policies often attacked the symptoms rather than the causes. Regarding external competitiveness, during the 1980s the drachma depreciated more than was warranted by the high inflation and wage growth differentials *vis-à-vis* OECD partners. However, the consequent lowering of the Greek wage level on the OECD scale not only failed to improve export performance, but by easing the pressure on enterprises to increase efficiency and move production towards high and medium-technology products, it may have also adversely affected productivity trends and export performance over the long term. Moreover, by strengthening inflation expectations, continuous devaluations create an unstable environment which affects the tradeable more than the sheltered sectors. Despite this unfavourable environment, a small, but dynamic, corporate sector managed to attain high profit rates and a good export record, and appropriate macroeconomic and structural policies would greatly facilitate the expansion both of this sector and the rest of the economy.

Immediately after it was formed in April 1990, the Government embarked on an extensive programme of structural reforms aimed at lifting impediments to growth, and the first favourable effects have started to materialise. Reflecting the growing weight of ailing firms (one-quarter of corporate industrial firms, most of which are under public sector control), industrial restructuring has been an important plank of the Government's structural policy. Some profitable firms were privatised and a number of non-viable industrial firms were liquidated. Emphasis has been placed on partial privatisation of public utilities, and it is expected that the sale of shares in OTE (the telecommunications monopoly) will take place during 1993. However, privatisation has been implemented relatively slowly up to now, and the relevant rules have not yet been clearly established, which suggests that further delays may occur over the next eighteen months or so.

The abolition of the wage-price indexation system, the end of government interference in wage bargaining in the private sector, deregulation of part-time and temporary employment, as well as the possibility of a fourth work-shift, the liberalisation of shopping hours, and the lifting of price and profit margin controls, have all contributed importantly to the better functioning of labour and product markets since 1991. However, there are still regulations which need to be reviewed, in particular the 2 per cent per month ceiling on the laying off of redundant labour, and rent controls on medium and small sized apartments. As the public has become more aware of the difficult problems facing the Greek economy, industrial relations in the private sector have improved considerably and strikes have become rare. In the public sector, and particularly in public enterprises, the improvement has been less marked. Disruptive strikes continue, though diminishing in number and intensity, and the excessive power of the largely politicised labour unions with narrow group interests has contributed to delaying the necessary public sector reforms, so that efficiency in the public sector and in the government machinery proper has not improved significantly in recent years. It is increasingly recognised that these inefficiencies are an important obstacle to growth, retarding the development of the dynamic private corporate sectors.

Financial liberalisation has progressed rapidly in recent years. The phasing out of the public sector's privileged access to bank loans and the complete reliance on financial markets for financing the budget deficit as from 1994 should lead to a better allocation of financial resources. A new, equally important development is the removal of controls on medium and long-term capital movements in March 1993. Controls on some short-term capital movements will remain until mid-1994, but experience shows that once capital liberalisation reaches an advanced stage, remaining controls are largely ineffective. These policies will gradually reinforce competitive forces, thus contributing to lowering both financial transaction costs and lending rates. In addition to borrowers, who will probably be the main beneficiaries of financial deregulation, asset holders have also started to acquaint themselves quickly with the widening range of investment instruments, so that they will be able to have more balanced portfolios in line with their liquidity needs. But all these factors would increase overall liquidity further, from an already high level, and this would necessitate an active monetary policy operating mainly through open market operations – a new development in Greece.

To sum up, considerable progress has been achieved in reducing macroeconomic imbalances and structural distortions in the last few years. However, both the PSBR and inflation are still far too high, and what has been accomplished so far is only a first step towards convergence with the European Community. Implementing stabilisation policies is becoming more difficult, as Europe is in recession and Greece is entering a pre-electoral period. Nevertheless, relaxation in the policy stance would risk fuelling inflation expectations and undermining the progress achieved so far in the real economy; any tendency towards slippage in fiscal consolidation should therefore be countered by additional measures. Similarly, announced structural policies aimed at improving the functioning of the economy have to be implemented in full. At this stage, policy credibility is very important, all the more so because, following the recent liberalisation of financial markets and capital movements, shocks could spread very quickly to all sectors, particularly the external one. It is, therefore, imperative that the authorities maintain a restrictive macroeconomic policy stance and step up the pace of structural reforms, notably those aimed at facilitating fiscal consolidation and improving public sector efficiency, as defined in Greece's Convergence Programme.

Notes and references

1. Between 1979 and 1992 the annual rate of growth of Gross National Income was 1.3 per cent, one-half that of the OECD average, and inflation was 18 per cent, three times the OECD average.

2. OECD *Economic Surveys – Greece 1990/1991,* Part I "Mounting Imbalances"; and *1991/1992,* Part II "The Changing Role of Government and Structural Reforms".

3. The Greek independent state was consolidated within its present frontiers in 1945, after a liberation process lasting over 100 years. Between 1939 and 1949 Greece experienced two devastating wars, World War II and the civil war.

4. It could be argued that the modest growth of GDP in the 1980s has been financed by foreign borrowing, as the increase in value at constant prices of the public sector external debt broadly matched the increase in GDP. The consequent rise in debt-servicing costs will continue to depress national disposable income growth over the long term.

5. Output denotes value added and the data are derived from GDP at factor cost in the National Accounts, and production figures are gross production incorporating inputs from other sectors. Data concerning the manufacturing sector are published with long delays (*e.g.* the Annual Industrial Survey for the year 1985 was published in 1993). They are neither complete, nor are all series equally reliable. The analysis in the text and the tables uses either output and/or production data, according to their availability and reliability.

6. To some extent, this is also mirrored in the marked rise in the number of self-employed and family workers in the non-farm sectors between 1981 and 1991, with the result that they now account for over 26 per cent of total non-farm employment – a very high figure for an OECD country.

7. This part of the Survey focuses on the period between 1979 and 1991. Even though there was a trend deterioration in macroeconomic performance and growing structural distortions, this period was not homogeneous. Between 1986 and 1991 economic performance, though remaining disappointing, was better than it had been up to 1985. This was due to the favourable macroeconomic effects of the 1986-87 Stabilisation Programme, coupled with some deregulation of financial, product and labour markets, and the spillover effects from the acceleration in GDP growth and weakening inflation in the OECD area. Post-1985 there was also an improvement in the manufacturing sector. However, this was less significant than the improvement in other OECD countries whose manufacturing sector had suffered in the early 1980s, and it did not compensate for earlier negative trends.

8. Even when mandatory wage increases were not imposed, the Government established wage norms, which were closely observed because of the Government's leverage over the compulsory arbitration courts settling wage disputes.

9. Non-performing loans, mainly to agricultural cooperatives, in the portfolio of the Agricultural Bank alone were the equivalent of about 2½ per cent of GDP in 1992. The National Bank of Greece, the Hellenic Industrial Development Bank and some smaller state-owned banks still have large sums blocked in non-performing loans.

10. In a survey on the likely positive effects of EC economic and monetary unification, a question was asked concerning the main obstacles to the growth of output. Eighty-one per cent of industrialists named the shortage of short-term capital as the main obstacle. See *Greek Industry,* J. Politis, Institute of Economic and Industrial Research (IOBE), Athens, 1992.

11. Not only have stop-go macroeconomic policies (*e.g.* sizeable real increases in wages and the PSBR, followed by almost equally large cuts) been an important destabilising factor since the end of the 1970s, but the development laws, which establish incentives for new investments, and fiscal laws have also been changed regularly, contributing to the creation of an unstable business environment.

12. In manufacturing as a whole the average number of people employed per establishment was 4.7 in Greece, 5.2 in Portugal, 8 in Sweden, 14 in Spain, 17 in Germany, 29 in Belgium, 34 in the United Kingdom, 34 in Denmark, 68 in Austria and 86 in the Netherlands.

13. Previous OECD Surveys have frequently drawn attention to the serious deficiencies in Greek statistics and their limited usefulness in policy decision making and for research purposes. For example, the national accounts do not include data on the corporate sector. Furthermore, delays in publication are too long and presentation of the data is inadequate.

14. After rising by 22 per cent yearly in 1983-85, wages rose by 11 per cent on average in 1986-87, giving a cumulative decline of 14 per cent in real terms. In the following three years the rate of increase in compensation per employee in industry accelerated back to nearly 22 per cent on average and real wage increases again exceeded productivity growth.

15. The 2 per cent is based on an estimated growth of net capital stock. But, because of the uncertainties regarding, on the one hand, the lifetime of capital stock and the changes in the capital/output ratio, in particular after oil price shocks, and, on the other, the size of investments by state firms in non-economical capacity doomed to disappear as a result of the recent restructuring, the margin of error in estimating the growth of capacity is large. For this reason, in addition to the central estimate (bold line) an upper and a lower limit is shown in Diagram 2.

16. Even in 1989, 1990 and 1991, years of marked growth in total fixed investment, business surveys suggested that the principal motivations for new investment were to replace equipment in order to improve production efficiency and to produce new goods (IOBE, *Survey of Manufacturing Investment, 1989-91*).

17. In the period 1982-88, investment in food sectors accounted for over 30 per cent of all investments under Law 1262/82, followed by textiles with a 14 per cent share, and clothing, etc. with 8½ per cent. (Data derived from J. Hassid and G. Katsos, *European integration and Greek industry,* IOBE, Athens, 1992.)

18. According to J. Hassid and G. Katso, *op. cit.*, in the 1980s the income elasticities of demand for imports and for domestic production were: for food 5.4 and 1.3 respectively; for drinks 12.6 and 2.3 respectively; and for tobacco 12.2 and –0.2 respectively.

19. Data have been derived from a recent study of the Centre of Economic Planning and Research (KEPE), *Dynamic promotion of exports and possibilities for import substitution.*

20. In particular, following the devaluation of the drachma by 15 per cent and wage moderation under the 1986-87 Stabilisation Programme there was a marked, but temporary, improvement, which, however, was again quickly reversed due to excessive real wage increases.

21. It is interesting to note that seven products accounted for 76 per cent of manufacturing exports in 1990-91. The share of clothing alone was 38 per cent, followed by textiles – 11.5 per cent, cement – 9 per cent, iron and steel – 8 per cent and aluminium – 6 per cent.

22. Companies with 10 workers or more are examined here and the data is drawn from Icap (a private consulting and market research company) and the Federation of Greek Industries.

23. In 1991 the first ten biggest loss-makers were all state owned – Halkis Cement Company, Piraiki Patraiki Cotton MFG, Greek Powder and Cartridge Co., the Hellenic Arms Industry, Asbestos Mines of Northern Greece, Piraiki Patraiki Spinning & Weaving Mills, LARCO, Elinda, Hellenic Shipyards, Eleusis Shipyards – and their combined losses amounted to 1 per cent of GDP, but allowing for soft loans and other indirect aid the real losses are considerably higher. In addition, there is a relatively large number of food industries controlled by cooperatives which continue to incur heavy losses and are supported mainly by the Agricultural Bank of Greece.

24. In Greece, there are many obstacles to transferring funds from one bank to another, so that often cash must be physically taken from one bank to the other. A Commission was created a couple of years ago to supervise the setting up and operation of a clearing institution for the transfer of funds among banks. However, nothing has materialised yet because of disagreements between large big and small banks over the sharing of the costs and benefits arising from the operation of such an institution.

25. Following agreement with the EC under the 1988 Directive on capital movements liberalisation, Greece has been allowed to retain controls on short-term capital movements until June 1994.

26. In the last few years, because of the return of confidence, the black market premium for exporting capital was relatively small, not more than 3 per cent above the official exchange rate. However, in the past, and in particular in periods of falling confidence and great uncertainty when the supply of foreign exchange was low and demand high, the premium reached 15 per cent. In turn, such a high premium reduced the incentive to export capital.

27. However, because of the urgent need to achieve budget consolidation and restructure both public sector companies and utilities, this clause was suspended in public sector enterprises.

28. Employers with a work force of 50 or more now have the right to participate in the wage bargaining process, whereas before only elected representatives were authorised to participate in the negotiations.

29. In accordance with the above commitment, the auditing profession was liberalised in 1992.

30. For a more detailed analysis of the deficiencies in the administration and the public sector in general, and for plans for improving its functioning see: *OECD Survey of Greece, 1991/1992,* Part III, "The Changing Role of Government and Structural Reforms".

31. The principal state-controlled banks in order of importance (in terms of firms they control) are: the National Bank of Greece, the Agricultural Bank, the Hellenic Industrial Development Bank and the Commercial Bank.

32. For a description of the 1992 tax reform and the measures to curb tax evasion see the sections on "The 1992 Budget" (Part I) and the section on "Tax reform and anti-tax fraud measures" (Part III), *OECD Economic Survey of Greece, 1991/1992.*

33. The Greek Government commissioned a study by the IMF on the Greek tax system and proposed reforms – *Greece: Strengthening Tax Administration* – which was circulated at the end of November 1992.

34. The ratio projections have been taken from the IMF study, on *Greece – Pension reform,* July 27, 1992.

35. In the early 1990s, the real take home pay of the most senior and well-qualified civil servants was only double that of the most junior and unskilled, compared with almost five times as high at the end of the 1970s. Moreover, the highest paid 10 per cent of civil servants have markedly lower wages than corresponding personnel in the private and in the rest of the wider public sector.

36. See *OECD Economic Survey of Greece, 1991/1992,* Part I, section on "The 1992 Budget" for the 1992 Tax Reform, and Part III, section on "Tax reform and anti-tax fraud measures", for the measures against tax fraud and evasion.

37. Including certain allowances for teachers and professors and health related expenditure, the overall wage bill per person employed increased by almost 12 per cent in 1992.

38. Sizeable amounts of interest payments were shifted from 1991 and 1992 to 1993 and later because of: the conversion of banks obligatory investments in Treasury bills to negotiable bonds, with a grace period of two years during which interest payments are capitalised; and the diminishing share of Treasury bills, where interest is prepaid, and the corresponding rising share of bonds, where interest is paid after one year, in the portfolios of the private non-bank sector.

39. The PSBR and general government deficits, including interest capitalisation, were roughly 3 percentage points higher.

40. In addition to the seniority payments, the carry-over from 1992, and the increase in basic wages, the Budget proposes the granting of the second instalment (Dr 8 000) of the special allowance to two-thirds of government employees, a selective wage increase for judiciary personnel, and a doubling of the family allowance.

41. In the second quarter of 1993 additional expenditure on certain items (*e.g.* farmers' pensions) were announced, but the Government intends to offset these rises by cutting other expenditure.

42. Including interest payments shifted to later years as a result of government debt rescheduling, overall domestic credit expansion was 11.7 per cent, broadly the same rate as in 1991.

43. Loans in foreign currencies granted by domestic banks, which had been increasing rapidly up to the first half of 1992, are included in domestic credit, whereas direct borrowing from abroad by firms is not.

44. Because of significant official revisions, the national account and other figures in the OECD Survey of Greece differ from those included in the *OECD Economic Outlook No. 53*, July 1993.

45. If employment in these two categories is translated into full-time equivalent employment, total employment growth would probably have been smaller than officially reported.

46. The difference between the trend increase in the labour force and the officially estimated 1992 increase corresponds roughly to the 100 000 new illegal immigrants reported by government officials. The figure represents the increase in illegal immigrants for 1992 as whole and is a yearly average. The number of illegal immigrants is considerably larger than this in periods of peak labour demand by farmers, builders and tourism firms.

47. In 1992, the measured growth in non-farm business sector unit labour costs was affected by two opposing factors – the marked rise in employment of low productivity immigrant labour and the closure of ailing firms with low productivity. Though these two factors roughly cancel out in all sectors combined, in manufacturing proper, the second factor exaggerates the genuine deceleration in relative unit labour costs.

48. It should be noted that since 1990 a small, but rapidly increasing part of export earnings, is first deposited in drachma convertible accounts and then withdrawn. The last operation is counted as an invisible earning, because there is no breakdown of the items and operations pertaining to these accounts, and the majority of withdrawals are made by shipping and tourism offices. For this reason the export earnings from trade published by the Bank of Greece underestimate the level and, more importantly, the growth of real earnings from goods' exports in the last two years (but this does not affect the current account).

49. The decline in the year-on-year consumer price inflation will be evident after August 1993, when the effect of the sizeable August 1992 indirect tax increases disappears and the slowdown in the effective rate of depreciation of the drachma during the first five months of 1993 (2.9 per cent compared with 4.2 per cent in the corresponding period of 1992) works through to the retail price index.

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Annex I

Supplementary statistics on the manufacturing and trade sectors

Table A1. **Comparative manufacturing trends**

	Manufacturing output Per cent of GDP			Manufacturing employment Per cent of total labour force		
	1960	1980	1991	1960	1980	1991
Greece	**16.3**	**19.5**	**16.8**	**12.9**	**19.3**[1]	**19.4**[2]
Portugal	29.5	30.0	28.2[2]	20.8	26.0	25.0
Spain	25.0	27.7	18.7	22.6	25.5	21.7
EC	..	28	24[2]	27	28	23
OECD	..	25	22[2]	28	24	21

	Value added per person employed[3] in US$ (US = 100)		Producer prices Annual percentage change[4]
	1981-83	1988-89	1981-92
Greece	**41.7**	**44.8**	**15.6**
Spain	49.9	..	16.8
Italy	54.5	80.9	17.5
United Kingdom	48.8	61.8	16.3
France	71.7	96.8	15.9
Belgium	63.6	86.2	15.4
Germany	69.7	88.2	17.6
United States	100.0	100.0	16.3

1. 1981.
2. 1990.
3. Because of differences in data sources the figures indicate an order of magnitude only.
4. Producer price indices converted into Greek drachmae using current exchange rates.

Sources: OECD *National Accounts; Labour Force Statistics; Main Economic Indicators; Industrial Structure Statistics*, 1993 and *The OECD STAN database for industrial analysis*, 1992.

Table A2. **Weights of manufacturing production, 1985**

Total manufacturing = 100

	Greece	Portugal	Spain	United Kingdom	Italy	France	Germany	United States
Food, beverages & tobacco	21.8	13.1	12.6	12.9	8.2	14.2	8.6	12.0
Textiles, clothing and leather	21.3	22.8	17.2	6.7	17.3	7.6	4.4	5.3
Wood, wood products	2.1	5.9	3.4	2.8	5.6	3.2	3.4	3.9
Paper and paper products	5.7	5.2	10.9	10.1	5.7	6.8	4.8	11.5
Chemicals, associated products	17.1	16.2	16.3	16.8	13.7	18.1	16.6	15.0
Non-metallic mineral products	7.9	8.8	4.6	4.6	5.4	5.8	3.4	2.9
Basic metals	6.8	4.5	9.8	4.8	6.0	8.5	5.6	4.4
Metal products, etc.	16.9	23.5	25.1	41.1	36.8	35.9	52.6	42.0
Other manufacturing	0.5	0.0	0.0	0.0	1.4	0.0	0.7	2.9

Source: OECD, *Indicators of Industrial Activity*, 1993.

Table A3. **Trade by destination**

	Greek exports				Greek imports			
	1970	1979-81	1985	1990-91	1970	1979-81	1985	1990-91
Total OECD	68.5	58.2	69.6	78.4	81.6	66.1	63.2	79.5
EC	53.6	47.4	54.2	63.6	50.9	45.5	48.2	62.2
of which:								
Germany	20.2	18.4	20.1	22.9	18.6	16.3	17.0	20.0
Italy	10.0	8.9	11.3	16.7	8.4	9.0	9.4	14.8
United States	7.5	6.6	8.1	5.7	5.9	4.8	3.2	4.0
Other OECD	7.3	4.2	7.2	9.1	24.8	15.7	11.9	13.3
Middle East	2.9	15.1	10.0	4.3	3.8	9.7	15.5	4.8
Africa	3.1	11.1	6.9	3.7	3.5	12.5	9.7	4.0
COMECON	16.6	9.9	7.1	4.6	5.2	6.1	7.7	4.3
Other	8.9	5.7	6.5	8.9	5.9	5.6	3.9	7.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: OECD, Foreign Trade database.

Table A4. **Concentration of exports and export/import ratio**

Commodity	SITC code	Exports				Export/import ratio	
		1979-81		1990-91		1979-81	1990-91
		Total	Manufacturing	Total	Manufacturing		
Food, beverages & tobacco, animal & vegetable oils, etc.	0+1+4	27.2		30.0		1.31	0.86
Crude materials, inedible, except fuels	2	7.9		5.5		0.57	0.48
Mineral fuels, lubrifiants and petroleum products	3	12.5		8.2		0.26	0.38
Manufacturing	5+6+7+8	52.1	100.0	54.0	100.0	0.39	0.30
Total trade		100.0		100.0		0.46	0.40
Vegetables and fruit	5	15.5		14.0		28.13	4.99
Cereals and cereal preparations	4	3.2		4.0		1.27	1.06
Olive oil	4235	0.6		3.0		–	3.35
Beverages	11	1.0		1.2		2.78	0.47
Tobacco and tobacco manufactures	12	4.3		4.4		8.95	2.90
Textile fibres	26	1.0		1.9		0.21	1.10
Metalliferous ores and metal scrap	28	3.0		1.6		2.72	1.17
Petroleum products	334+335	12.4		7.2		3.88	1.12
Leather, leather products & furs, travel goods, handbags, etc.	61+83	2.0	3.8	1.0	1.8	0.58	0.29
Textile yarn, fabrics, related products	65	10.1	19.3	6.2	11.5	1.84	0.43
Cement, etc.	661	5.2	9.9	3.3	6.1	85.73	30.80
Iron and steel	67	5.8	11.1	5.0	9.2	0.60	0.45
of which:							
Aluminium	684	3.9	7.4	3.4	6.3	10.78	3.11
Articles of apparel and clothing accessories	84	8.1	15.6	20.5	38.0	9.24	3.76
Footwear	85	1.8	3.5	0.5	1.0	7.05	0.39
Total of above		77.9	70.6	77.2	73.9	2.35	1.32

Source: OECD, Foreign Trade database.

Table A5. **Privatisation Plans**

	Number of firms		Sold 1992	To be liquidated	To be privatised
	end 1991	end 1992			
IRO	60	49	11	33	5
National Bank of Greece	12	9	2	3	4
Commercial Bank of Greece	11	8	3	3	2
Agricultural Bank of Greece	36	31	5	10	16
Hellenic Industrial Development Bank	26	21	5	11	5
State controlled firms	25	23	2	0	21
Total	170	141	28	60	53
Employees (thousand)	–	–	12 021	5 741	18 818
of which:					
Urban transport company	–	–	8 000	–	–
IRO	13 664	4 209[1]	–	–	–

1. 4 106 people in the first quarter of 1993, most of whom work in one company (Athens paper mills) still under IRO ownership.

Source: Ministry of National Economy.

Annex II

Calendar of Main Economic Events

1992

January

A forward foreign exchange market starts to operate for the first time.

The Government announces new fiscal measures:

i) personal income tax rates are lowered, with the top marginal rate falling from 50 to 40 per cent;

ii) corporation tax rates are unified and lowered to 35 per cent from 42-50 per cent;

iii) measures, including strong penalties, are introduced to fight tax evasion;

iv) public sector basic wages are frozen, but special allowances are increased substantially, moderating the fall in real wages, and pensions are raised by only 6 per cent.

The Bank of Greece sets the growth targets for 1992 – at 9-12 per cent for M3 and 7-9 per cent for domestic credit, banks' compulsory investment ratios in Treasury bills are reduced from 30 to 25 per cent of new deposits, and additional significant phased reductions are announced. Limits on credit cards and foreign exchange for travelling abroad are doubled to ECU 600 and 1400 respectively. The interest rate on convertible drachma deposits is liberalised.

February

The ceiling for overrun on current account deposits is raised from Dr 50 000 to Dr 200 000 per depositor.

The 12-month Treasury bill interest rate is lowered from 22.5 to 22 per cent.

Property tax valuations for real estate in Athens are increased by 60-160 per cent.

The AGET-Heracles state cement company, the largest European cement exporter, is sold to an Italian company and the National Bank of Greece.

May

The 12-month Treasury bill interest rate is lowered to 21 per cent.

Following the petroleum price liberalisation in March, all remaining price controls (except those on pharmaceuticals, baby food and certain fruit and vegetables) and controls on "excessive profits" are lifted.

June

The minimum lending rate for short-term bank loans is reduced from 20 to 18 per cent.

Commercial and land mortgage banks and the Agricultural Bank may provide foreign exchange loans for the purchase of Greek real estate by foreign residents.

July

Banks' compulsory investment ratios into Treasury bills are reduced from 25 to 20 per cent of new deposits, and for loans to small-sized firms from 8 to 7 per cent.

The 12-month Treasury bill interest rate is lowered to 20.5 per cent.

EC participation in approved regional development projects is increased from 60 to 70 per cent. The corresponding extra financing accruing to Greece is estimated at ECU 273 million (Dr 70 billion).

Restrictions on entry to the auditing profession are abolished.

August

The 12-month Treasury bill interest rate is raised to 21 per cent.

The state monopoly on oil-refining is abolished and all marketing activities are deregulated.

In order to redress the fiscal slippage, significant increases are announced in taxes on petrol and derivatives, on interest income from bank deposits, and VAT is reformed (an 8 per cent tax on water charges is introduced, the rate applying to raw materials and industrial equipment is raised from 8 to 18 per cent, and the top 36 per cent rate is abolished).

The public bus company for the Athens area (EAS) is dissolved and its assets transferred to eight new private urban transport co-operative enterprises, mainly owned by former EAS staff.

A new banking law is passed: incorporating the Second EC Banking Directive, forbidding banks to accrue interest on non-performing loans, providing for the phasing out of monetary financing of the public sector deficit, partly liberalising consumer credit, allowing the opening of foreign exchange accounts without it being necessary to reveal the source of funds, forbidding the Minister of Finance from representing all public sector bodies (*e.g.* pension funds) in the shareholder meetings of state-controlled banks, and raising the minimum capital for the operation of banks to Dr 4 billion.

September

In order to prevent speculation against the drachma, the 12-month Treasury bill interest rate is raised to 21.5 per cent, the interest rate for banks' overdrafts with the Bank of Greece is raised in two steps to 30 per cent and 40 per cent, and short-term (3 month) forward foreign exchange transactions are forbidden.

The compulsory investment ratio for loans to small-sized firms is reduced from 7 to 6½ per cent.

The Social Security bill aimed at reducing the deficit, notably the pensions' account deficit, is presented, raising contributions considerably and lowering benefits somewhat.

Exporters are allowed to engage in forward operations in exchange markets.

October

The banks' compulsory investment ratio into government paper is reduced to 15 per cent.

The Bank of Greece injects liquidity and lowers the overdraft rate to 35 per cent to prevent further rises in bank lending rates, thus engineering a fall in the interbank overnight rate from 40 to 35 per cent.

Shopping hours are almost fully liberalised.

November

The Bank of Greece reinstates short-term forward foreign exchange operations.

Commercial banks' funds earmarked for loans to small firms are lowered from 6½ per cent to 5 per cent of increases in deposits.

Greece becomes the ninth EC country to sign the Schengen accord aiming at ending intra-EC border controls of its members, at the same time tightening immigration controls for non-EC countries.

Banking hours are extended to 17.00 hours, banks open on Saturdays, and basic services are also allowed on Sundays in tourist resorts.

The 12-month Treasury bill rate is raised to 23 per cent.

The 1993 Budget is presented to Parliament on 30 November. It aims at achieving a primary surplus of 5 per cent of GDP, up from an estimated 2 per cent in 1992, and reducing the central government borrowing requirement to 7.9 per cent of GDP.

December

The 12-month Treasury bill rate is lowered to 22.5 per cent.

The Government's Convergence Programme, 1993-1998, aimed at meeting the Maastricht treaty requirements, is presented to Parliament.

The Delors Package No. 2, approved at the Edinburgh EC summit, allocates Greece ECU 20 billion (4 500 billion drachma) for the period 1993-99 (its share in the Structural Fund is 22 per cent and in the Cohesion Funds 16 per cent).

Export firms are allowed to use their foreign exchange proceeds for re-export operations.

1993

January

Foreign trade formalities on intra-EC trade are simplified, relieving traders from the charges and long custom delays.

The Government announces that all remaining restrictions on long-term capital movement and many of those on short-term movements within the EC will be removed by mid-1993.

The Bank of Greece announces that all commercial banks must submit statements periodically regarding their financial position, including the claims and commitments of foreign branches.

The tax on cigarettes is raised by 25 per cent.

The real estate tax is replaced by an annual municipal rate set between 0.25 per cent and 0.35 per cent of the official estimated value of the property.

March

The ceiling on credit card debits is raised by one-third, to Dr 300 000, and the same limit is set for personal loans.

The minimum interest payable by banks on saving deposits is freed.

Commercial banks' earmarked funds for loans to small firms are reduced to 2.5 per cent of the change in deposits.

April

The 12-month Treasury bill rate is lowered to 22.25 per cent.

The conversion of export proceeds into drachmae is no longer obligatory.

Commercial banks are allowed to re-discount bills and commercial paper with the Bank of Greece.

May

The Bank of Greece completely abolishes commercial banks' compulsory investment into government paper.

The 1993 general collective labour agreement is signed:

- minimum wages are raised by: 4 per cent, effective 1 January and by 7 per cent, effective 1 July 1993; and an additional 2.4 per cent correction for the 1992 inflation overrun is granted;
- as from 1 September 1993 an additional social security contribution of 0.5 per cent paid by employers and of 0.2 per cent paid by employees will be levied to finance unemployment related programmes;
- vocational training leave is now obligatory in all firms employing 50 persons or more (previously 100 persons or more) and the age of students qualifying is lowered from 18 to 15 years;
- marriage leave is increased to five days, and maternity leave to 16 weeks from 15 weeks.

Capital movements with EC countries are further liberalised. Companies are allowed to borrow in foreign exchange without restrictions. All forward transactions of more than three-month's duration are now allowed. Investment abroad in financial derivatives is now permitted, as is investment in foreign securities with a maturity of less than one year. Only a few restrictions on short-term (3 month) capital movements remain.

June

The 3 per cent tax on bank-loan contracts is abolished.

STATISTICAL ANNEX

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Table A. **National product and expenditure**

Billion drachmae

	1983	1984	1985	1986	1987	1988	1989	1990	1991[1]	1992[1]
	At current prices									
Consumers' expenditure	2 053.6	2 461.4	3 025.5	3 718.9	4 331.9	5 104.5	6 114.1	7 438.0	8 970.0	10 440.5
Government current expenditure	579.4	742.8	942.1	1 067.2	1 224.8	1 529.5	1 818.4	2 220.8	2 548.2	2 926.6
Gross fixed capital formation[2]	624.0	702.9	880.4	1 018.1	1 074.7	1 318.4	1 690.3	2 071.7	2 380.7	2 674.6
Change in stocks	49.2	36.3	102.9	75.0	28.3	145.4	148.5	29.1	236.2	267.7
Exports of goods and services	609.5	824.6	977.6	1 233.1	1 536.8	1 800.9	2 018.8	2 279.1	2 905.6	3 438.1
less: Imports of goods and services[2]	925.4	1 139.1	1 513.5	1 703.3	1 993.4	2 290.7	2 810.3	3 445.3	1 580.0	4 897.9
Net factor income from the rest of the world	30.4	1.9	–33.8	–67.8	–63.3	–56.7	–85.2	–46.1	–50.4	–51.7
Statistical discrepancy	88.9	176.7	202.9	105.7	69.0	–36.9	–155.2	–47.6	15.1	–2.7
Gross national product at market prices	3 109.6	3 807.6	4 584.0	5 446.9	6 208.6	7 514.5	8 733.5	10 499.9	12 759.0	14 795.2
Gross domestic product at market prices	3 079.2	3 805.7	4 617.8	5 514.8	6 271.9	7 571.2	8 818.7	10 546.0	12 802.4	14 847.3
	At 1970 prices									
Consumers' expenditure	339.4	345.2	358.7	361.0	363.2	374.3	390.5	398.5	405.0	410.3
Government current expenditure	77.4	79.8	82.3	81.6	82.3	87.1	89.5	88.9	89.9	89.5
Gross fixed capital formation[2]	83.0	78.3	82.4	77.2	73.3	79.8	87.9	96.1	91.9	93.0
Change in stocks	6.1	3.8	10.1	8.8	2.3	12.7	7.9	–1.5	8.4	10.2
Exports of goods and services	83.5	97.6	98.9	112.8	130.7	142.6	144.4	145.7	169.6	183.2
less: Imports of goods and services[2]	115.1	115.4	130.1	135.1	157.4	170.1	188.4	211.0	238.8	252.5
Net factor income from the rest of the world	3.7	0.2	–3.8	–7.0	–6.1	–5.2	–7.0	–3.5	–2.8	–2.7
Statistical discrepancy	3.2	1.4	3.8	7.8	17.4	8.2	21.7	30.8	39.5	37.2
Gross national product at market prices	481.3	490.9	502.3	507.2	505.7	529.4	546.5	544.2	562.7	569.9
Gross domestic product at market prices	477.6	490.7	506.0	514.2	511.8	534.6	553.5	547.7	565.5	572.6

1. Provisional data.
2. Excluding ships operating overseas.

Sources: National Statistical Service of Greece, *Provisional National Accounts of Greece,* 1992; and data submitted by national authorities.

Table B. **Gross fixed capital formation**[1]

Million drachmae

	1983	1984	1985	1986	1987	1988	1989	1990	1991[2]	1992[2]
	At current prices									
Total	624 000	702 900	880 370	1 018 098	1 074 694	1 318 384	1 690 311	2 071 698	2 380 742	2 674 591
Dwellings	163 012	152 214	178 072	248 326	286 869	329 292	403 443	554 730	559 669	558 510
Other buildings	73 480	87 741	96 281	124 848	140 934	195 073	220 864	267 353	293 840	317 085
Other construction and works	132 849	173 972	235 420	245 508	214 657	265 806	336 834	375 986	531 358	620 447
Transport equipment	65 942	64 849	90 364	89 966	89 971	94 230	143 310	216 072	249 959	291 068
Machinery and other equipment	188 717	224 124	280 233	309 450	342 263	433 983	585 860	657 557	745 916	887 481
Private sector	408 700	416 850	505 300	633 578	733 889	919 419	1 176 100	1 507 453	1 611 573	1 747 433
Public sector	215 300	286 050	375 070	384 520	340 805	398 965	514 211	564 245	769 169	927 158
	At 1970 prices									
Total	83 000	78 300	82 360	77 234	73 315	79 831	87 873	96 139	91 895	92 969
Dwellings	21 124	17 083	17 097	19 399	20 044	20 691	21 742	24 646	20 912	18 650
Other buildings	9 529	9 848	9 241	9 752	9 849	12 257	11 901	11 878	10 980	10 587
Other construction and works	15 396	15 962	17 883	14 737	11 812	12 603	13 699	13 194	15 785	16 414
Transport equipment	11 207	9 081	10 354	8 569	7 351	6 645	8 840	11 261	11 009	11 859
Machinery and other equipment	25 744	26 326	27 785	24 777	24 259	27 635	31 691	35 160	33 209	35 459
Private sector	56 000	48 570	49 670	50 525	52 436	58 335	64 027	73 412	65 943	64 803
Public sector	27 000	29 730	32 690	26 709	20 879	21 496	23 846	22 727	25 952	28 166

1. Data exclude investment in ships operating overseas.
2. Provisional data.

Sources: National Statistical Service of Greece, *Provisional National Accounts of Greece*, 1992; and data submitted by national authorities.

Table C. **Income and expenditure of households and private non-profit institutions**

Billion drachmae, current prices

	1983	1984	1985	1986	1987	1988	1989	1990	1991[1]	1992[1]
Wages and salaries of non-agricultural branches	1 287.3	1 574.5	1 962.7	2 212.5	2 480.2	3 006.8	3 628.7	4 389.7	4 973.6	5 557.1
Agricultural income	439.1	562.1	677.7	742.8	816.7	1 030.7	1 214.0	1 274.7	1 756.7	1 787.7
Income from property and entrepreneurship[2]	794.0	953.9	1 161.7	1 487.1	1 775.1	2 258.5	2 614.7	3 500.6	4 175.8	4 566.2
Net current transfers from government	399.6	511.6	670.3	802.6	918.1	1 074.6	1 324.1	1 614.9	1 818.3	2 145.4
Net current transfers from the rest of the world	82.4	103.9	110.3	137.2	186.4	245.0	225.8	272.0	393.5	447.1
Income of households and private non-profit institutions	3 002.4	3 706.0	4 582.7	5 382.3	6 176.3	7 615.7	9 007.3	11 051.8	13 117.8	14 503.5
less: Direct taxes	138.2	183.1	207.8	252.7	278.1	348.0	341.1	459.7	511.7	711.5
Social security contributions	334.3	423.3	523.6	600.9	672.2	783.7	977.8	1 127.0	1 419.0	1 665.8
Disposable income	2 529.9	3 099.6	3 851.4	4 528.7	5 226.0	6 484.0	7 688.4	9 465.1	11 187.1	12 126.2
Consumption	2 053.6	2 461.4	3 025.5	3 718.9	4 331.9	5 104.5	6 114.1	7 438.0	8 970.0	10 440.5
Saving	476.4	638.2	825.9	809.9	894.1	1 379.5	1 574.3	2 027.1	2 217.1	1 685.7
Memorandum items:										
Consumption by main components[3] (per cent of total private domestic consumption)										
Food, beverages and tobacco	41.1	40.8	39.3	38.8	38.8	38.4	38.4	38.0	37.3	36.6
Clothing and shoes (including repairs)	8.0	8.3	8.6	9.0	9.1	9.4	9.3	9.0	8.7	8.1
Rent	11.6	11.4	10.9	10.7	11.3	11.7	11.4	11.6	12.5	12.9
Durable household goods	8.6	8.4	8.4	8.3	8.6	8.5	8.4	8.3	8.0	7.8
Other	30.7	31.1	32.8	33.2	32.2	32.0	32.5	33.1	33.5	34.6

1. Provisional data.
2. Including saving of corporations 1982-86.
3. Based on direct estimate of private consumption; includes non-residents' expenditure and excludes residents' expenditure abroad.

Sources: National Statistical Service of Greece, *Provisional National Accounts of Greece*, 1992; and data submitted by national authorities.

Table D. **Government revenue and expenditure**

Billion drachmae, current prices

	1983	1984	1985	1986	1987	1988	1989	1990	1991[1]	1992[1]
Central government										
Current revenue	562.1	732.8	878.3	1 143.9	1 365.5	1 523.1	1 622.2	2 287.3	2 908.7	3 694.0
Direct taxes	154.8	208.3	236.7	307.9	346.7	410.4	422.3	605.8	761.0	970.0
Indirect taxes	410.9	520.7	632.4	829.5	1 013.7	1 141.1	1 231.3	1 698.2	2 136.1	2 630.0
Other	–3.5	3.8	9.2	6.4	5.1	–28.4	–31.3	–16.6	11.6	94.0
Current expenditure	728.9	935.7	1 262.3	1 446.7	1 799.6	2 291.5	2 829.1	3 798.1	4 301.8	4 596.5
Goods and services	423.0	529.8	664.7	737.9	850.1	1 037.8	1 241.8	1 510.1	1 711.0	1 996.0
Interest on public debt	103.0	162.3	238.8	295.2	407.9	549.4	631.2	1 164.0	1 433.1	1 386.3
Transfers and subsidies	202.9	243.6	358.8	413.6	541.6	704.3	956.1	1 124.0	1 157.7	1 214.2
Saving	–166.8	–202.9	–384.0	–302.8	–434.2	–768.5	–1 206.8	–1 510.8	–1 393.0	–902.5
General government										
Current revenue	1 021.5	1 303.1	1 581.3	1 938.1	2 255.3	2 556.5	2 888.9	3 714.6	4 655.3	5 886.4
Direct taxes	168.0	226.3	259.0	335.7	378.2	449.1	461.1	645.0	802.7	1 011.5
Households	138.2	183.1	207.8	252.7	278.1	348.0	341.1	459.7	511.7	711.5
Business	29.8	43.3	51.2	83.1	100.2	101.1	120.0	185.3	291.0	300.0
Indirect taxes	465.4	578.9	705.0	910.9	1 091.4	1 227.7	1 324.4	1 792.3	2 248.7	2 840.8
Social security contributions	334.3	423.3	523.6	600.9	672.2	783.7	977.8	1 127.0	1 419.0	1 665.8
Other	53.9	74.6	93.7	90.5	113.5	96.2	125.4	150.3	185.0	368.3
Current expenditure	1 163.7	1 508.0	2 001.3	2 345.6	2 747.9	3 323.5	4 013.9	5 280.0	6 005.6	6 722.0
Consumption	579.4	742.8	942.1	1 067.2	1 224.8	1 529.6	1 812.4	2 220.8	2 548.2	2 926.7
Interest payments	113.0	173.3	247.0	316.4	448.9	592.1	728.7	1 262.5	1 482.1	1 485.1
Transfers and subsidies	471.3	591.9	812.2	962.0	1 074.3	1 201.8	1 472.8	1 796.7	1 975.3	2 310.2
Business	66.3	76.5	137.6	153.8	152.1	122.0	143.6	176.2	151.0	155.0
Households	399.6	511.6	670.3	802.6	918.1	1 074.6	1 324.1	1 614.9	1 818.3	2 145.4
Rest of the world	5.4	3.9	4.3	5.6	4.1	5.2	5.1	5.6	6.0	9.8
Net saving	–142.2	–204.9	–420.0	–407.0	–492.7	–767.0	–1 125.0	–1 565.4	–1 350.3	–835.6
EC transfers	4.5	5.6	7.4	7.8	30.0	43.0	48.0	81.9	106.0	169.0
Net capital transfers (–)	14.7	23.0	27.5	60.0	67.0	73.0	90.0	95.0	115.0	141.0
Fixed investment (–)	111.1	162.1	208.0	227.6	201.7	243.2	296.0	326.4	485.5	600.8
Net lending	–263.4	–384.4	–648.0	–686.8	–731.4	–1 040.2	–1 463.0	–1 904.9	–1 844.8	–1 408.4

1. Provisional data.

Sources: National Statistical Service of Greece, *Provisional National Accounts of Greece*, 1992; and data submitted by national authorities.

Table E. **Industrial production**

1980 = 100

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[1]
Industrial production, total	101.3	103.6	107.2	106.9	105.5	110.8	112.8	110.1	108.9	107.4
Mining and quarrying	161.4	178.2	182.6	184.7	181.5	188.8	179.5	173.8	171.8	160.6
Manufacturing	97.2	98.5	101.0	100.3	98.3	103.2	105.6	102.6	101.7	100.4
Food, beverages and tobacco	107.7	115.1	121.5	113.6	107.2	117.0	126.6	119.9	127.1	133.7
of which: Tobacco	114.2	107.1	119.3	110.3	94.7	99.8	92.2	112.3	113.9	108.3
Food	107.0	117.6	120.6	109.1	103.7	114.8	126.7	112.6	123.3	133.0
Other manufacturing	94.9	94.9	96.5	97.7	96.3	100.2	101.2	98.9	96.2	93.1
of which: Textiles	92.0	92.0	95.5	102.0	104.0	101.3	99.1	95.4	86.8	79.4
Chemicals	105.4	114.0	121.6	115.7	116.3	125.8	132.4	133.3	126.8	122.5
Non-metallic minerals	91.2	92.8	90.4	93.3	95.2	99.5	95.6	100.0	88.3	84.5
Basic metals	90.5	92.5	94.0	90.2	87.5	98.0	97.9	99.3	100.6	102.7
Metal products	101.8	100.7	89.7	96.3	82.0	90.5	83.8	74.4	73.6	74.6
Consumer goods industries	104.3	106.2	110.0	110.5	108.1	112.0	115.8	107.1	104.1	104.5
Durable	94.6	87.4	97.4	101.5	89.2	81.1	84.9	75.3	81.2	81.7
Other	105.2	108.0	111.4	111.6	110.1	115.3	119.1	110.4	107.7	105.5
Capital goods industries	82.9	81.6	81.2	79.3	76.3	83.7	82.9	92.1	92.1	92.0

1. Provisional data

Sources: National Statistical Service of Greece, *Monthly Statistical Bulletin*; OECD, *Main Economic Indicators*; and data submitted by national authorities.

Table F. **Prices and wages**

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 [1]
Consumer prices (1988 = 100)										
Total	43.5	51.6	61.5	75.7	88.1	100.0	113.7	136.9	163.6	189.5
of which: Food	47.0	55.6	66.4	79.9	90.0	100.0	119.2	144.3	172.2	196.4
Alcoholic beverages and tobacco	39.5	47.1	54.0	65.3	75.6	100.0	115.7	146.7	176.8	218.2
Clothing and footwear	36.0	45.4	55.5	69.6	84.7	100.0	114.6	134.4	156.5	178.4
Housing	47.4	54.4	63.7	76.9	88.2	100.0	110.0	136.1	172.0	201.8
Durable goods and household supplies	41.2	49.1	59.1	76.8	91.5	100.0	110.4	127.5	149.5	167.9
Transport and communication	50.2	56.0	65.5	82.9	92.4	100.0	106.8	134.9	161.1	193.8
Wholesale prices (1980 = 100)										
Total	176.9	212.3	255.2	298.0	327.2	360.2	408.6	473.7	553.0	615.7
Finished products of local production for home consumption	176.0	206.3	245.3	292.8	319.6	352.1	397.6	474.3	563.2	631.2
Primary production	181.2	215.4	258.8	288.4	321.1	352.7	408.7	503.1	619.1	629.4
Industrial production	174.9	204.2	241.2	293.8	319.2	352.0	395.0	467.8	550.5	631.6
Finished products of foreign origin	180.7	223.9	281.1	348.8	391.6	427.8	481.1	541.7	620.6	699.0
of which: Agriculture	115.0	149.2	190.6	196.0	180.3	202.2	250.6	267.4	361.5	367.6
Livestock	174.9	212.3	255.4	318.7	356.3	383.6	433.3	476.8	513.7	594.5
Petroleum refinery	205.4	235.8	305.3	271.5	250.4	295.6	377.6	439.6	514.1	529.9
Exported products of local primary and industrial production	176.7	224.9	269.7	274.7	300.6	332.5	387.4	413.4	457.8	487.1
of which: Agriculture	138.3	177.4	233.6	256.3	289.4	309.1	323.4	359.4	429.3	479.3
Livestock	133.0	160.0	210.9	238.9	233.2	247.7	274.0	287.2	300.9	303.6
Manufacture of textiles	173.0	227.6	274.2	315.3	368.9	394.6	440.0	519.7	580.0	662.3
Chemical industries	183.7	242.7	300.9	292.4	264.2	321.6	427.8	421.2	475.9	442.2
Extraction of non-metallic minerals	211.5	273.8	358.6	434.4	474.6	497.0	546.3	612.8	652.5	706.1
Wages (1985 = 100)										
Hourly earnings in manufacturing [2]	66.1	83.5	100.0	112.7	123.6	146.3	176.4	210.5	245.7	279.0

1. Provisional data.
2. Wage earners in entreprises employing at least 10 persons.

Sources: National Statistical Service of Greece, *Monthly Statistical Bulletin; and OECD, Main Economic Indicators.*

Table G. **Foreign trade by commodity group**

US$ million

	1984	1985	1986	1987	1988	1989	1990	1991	1992[1]
Exports, fob	4 864.1	4 536.1	5 649.8	6 524.3	5 306.9	7 543.2	8 020.6	8 663.0	9 524.9
Food and live animals	1 070.7	967.2	1 247.8	1 357.4	940.2	1 567.9	1 627.7	1 922.3	2 002.2
Beverages and tobacco	225.1	207.3	286.9	364.7	290.6	368.7	443.6	493.2	641.3
of which: Tobacco, unmanufactured	183.1	149.9	213.5	275.9	224.1	254.6	312.1	345.4	502.4
Crude materials, inedible, except fuels	349.5	336.5	331.6	430.6	324.3	523.2	456.7	455.7	418.3
Mineral fuels, lubricants	492.2	546.4	370.7	436.3	275.2	410.4	588.0	773.4	518.0
Animal and vegetable oils and fats	183.6	94.0	206.3	211.2	73.9	355.6	302.5	222.2	511.7
Chemicals	193.1	183.6	186.1	203.2	207.5	300.1	314.9	338.0	371.6
Manufactured goods classified chiefly by material	1 447.4	1 304.9	1 548.3	1 709.1	1 490.0	1 913.9	1 889.6	1 952.5	2 092.3
of which: Leather and leather products	73.4	68.5	121.1	150.9	93.7	89.1	75.3	84.8	94.9
Textiles	468.0	413.9	549.4	629.8	460.3	494.4	500.1	533.3	502.6
Iron and steel	316.4	292.5	310.7	264.6	268.9	457.9	415.0	412.4	447.7
Aluminium	171.1	142.2	131.3	205.1	213.2	264.9	279.3	287.2	..
Machinery and transport equipment	123.3	132.3	165.2	176.9	170.1	248.7	337.5	372.3	469.9
Miscellaneous manufactured articles	745.0	753.2	1 239.9	1 598.7	1 321.8	1 627.6	1 864.5	1 935.5	2 267.3
of which: Clothing	610.6	627.6	1 086.1	1 444.0	1 204.2	1 471.3	1 675.2	1 749.6	2 047.4
Footwear	60.6	60.1	74.2	73.7	43.6	55.4	59.0	32.7	43.1
Imports, cif	9 610.9	10 137.9	11 319.4	12 927.1	11 988.3	16 102.9	19 701.4	21 650.1	22 470.3
Food and live animals	1 106.9	1 164.3	1 681.3	2 153.3	1 830.4	2 230.8	2 506.9	2 379.3	2 729.6
Beverages and tobacco	71.0	79.2	101.5	142.6	152.8	243.2	323.7	366.5	463.7
Crude materials, inedible, except fuels	561.3	580.6	699.5	772.6	726.3	841.2	954.1	945.7	745.8
Mineral fuels, lubricants	2 628.6	2 996.5	2 006.3	1 788.0	610.3	1 037.3	1 530.5	2 097.3	2 292.7
of which: Petroleum, crude	2 247.8	2 618.1	1 634.5	1 496.8	462.4	781.5	997.2	1 368.9	2 200.2
Petroleum products	214.3	277.8	214.1	219.5	111.2	201.7	456.1	623.7	
Animal and vegetable oils and fats	10.3	16.7	35.5	74.3	57.8	51.2	81.4	190.5	72.6
Chemicals	861.6	870.7	1 187.4	1 422.5	1 417.9	1 710.0	2 068.1	2 238.7	2 471.2
Manufactured goods classified chiefly by material	1 520.0	1 614.1	2 159.1	2 664.9	2 647.1	3 644.7	4 306.3	4 300.9	4 149.2
Machinery and transport equipment	2 470.0	2 401.7	2 930.2	3 164.5	3 622.0	4 967.1	6 120.4	7 124.1	7 119.2
of which: Road motor vehicles	468.9	574.8	702.2	805.4	777.6	1 240.4	1 981.0	2 417.0	3 105.9
Aircraft	22.7	44.8	64.7	16.7	14.8	70.7	109.9	324.5	..
Ships and boats	723.5	556.3	568.7	558.0	696.4	805.1	527.1	886.1	822.1
Other machinery and equipment	1 254.9	1 225.9	1 594.7	1 784.4	2 133.2	2 850.9	3 502.5	3 496.5	..

1. Provisional data.

Sources: OECD, Foreign Trade Statistics, Series C; and data submitted by national authorities.

Table H. **Foreign trade by area**

US$ million

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[1]
					Exports, fob					
Total	4 413.2	4 815.7	4 549.9	5 648.4	6 526.2	5 446.5	7 567.1	8 085.5	8 680.8	9 524.6
OECD Total	2 821.7	3 371.1	3 196.8	4 408.8	5 401.2	4 345.1	6 086.9	6 420.9	6 770.8	7 323.8
OECD Europe	2 486.1	2 854.1	2 720.6	3 901.9	4 812.6	3 876.1	5 475.5	5 772.6	6 113.9	6 754.4
EC	2 358.2	2 660.0	2 497.8	3 626.7	4 398.6	3 532.1	4 990.8	5 202.6	5 533.3	6 109.6
Germany	901.2	959.4	947.9	1 369.5	1 619.5	1 395.9	1 623.5	1 792.5	2 078.5	2 204.7
France	327.9	405.8	361.3	536.2	562.1	471.3	664.3	777.1	656.0	688.1
Italy	599.0	660.5	512.7	763.8	1 057.2	770.1	1 535.5	1 384.0	1 454.0	1 713.8
United Kingdom	215.0	298.3	317.5	385.7	537.8	421.5	558.6	587.7	592.8	602.5
Other OECD Europe	128.0	194.0	222.8	275.2	414.0	344.1	484.7	570.0	580.6	644.8
North America	289.4	432.2	402.7	440.3	489.7	370.9	480.5	498.9	528.7	433.7
COMECON	308.9	273.5	294.6	244.1	246.9	209.5	348.4	342.6	431.3	568.4
OPEC	689.0	571.8	438.6	411.7	289.2	284.6	284.1	318.0	321.4	322.9
Other	585.6	588.6	608.8	559.5	538.4	578.2	797.8	935.1	1 089.1	875.8
					Imports, cif					
Total	9 500.3	9 434.9	10 163.6	11 351.0	13 151.9	12 284.1	16 102.5	19 717.2	21 491.2	22 469.4
OECD Total	6 383.0	6 298.6	6 526.6	8 447.4	9 832.7	9 836.2	12 952.5	16 020.3	16 832.4	17 898.9
OECD Europe	5 278.6	5 215.5	5 440.9	7 289.9	8 830.4	8 528.3	11 212.8	14 003.4	14 362.5	15 851.8
EC	4 708.6	4 740.5	4 967.8	6 661.0	8 029.2	7 736.7	10 075.3	12 697.6	12 957.0	14 426.7
Germany	1 696.6	1 688.1	1 797.5	2 448.2	2 934.0	2 531.5	3 244.2	4 104.0	4 169.9	4 612.6
France	652.8	659.8	656.4	913.5	1 019.7	982.2	1 106.1	1 595.9	1 668.2	1 810.2
Italy	849.0	923.8	954.2	1 308.3	1 642.3	1 786.9	2 416.4	3 038.3	3 054.6	3 301.7
United Kingdom	393.7	375.2	386.5	469.6	634.5	610.4	935.7	1 040.3	1 149.8	1 256.9
Other OECD Europe	570.0	475.0	473.1	629.0	801.2	791.5	1 137.5	1 305.8	1 405.4	1 425.1
North America	384.6	308.8	352.4	380.2	403.0	527.4	623.3	792.2	985.0	883.0
COMECON	456.3	690.3	692.2	546.6	637.0	598.8	647.6	787.4	973.4	902.4
OPEC	2 041.3	1 788.8	2 260.3	1 367.5	1 211.3	366.7	792.6	1 129.1	1 575.3	1 607.9
Other	619.1	655.7	684.3	989.4	1 451.8	1 474.0	1 698.7	1 768.2	2 102.2	1 177.2

1. Provisional data.

Sources: OECD, Foreign Trade Statistics, Series A; and data submitted by national authorities.

Table 1. **Balance of payments, OECD basis**

US$ million

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[1]
Exports, fob	4 106	4 394	4 293	4 513	5 614	5 933	5 994	6 365	6 797	6 009
Imports, fob[2]	8 400	8 624	9 346	8 936	11 112	12 005	13 377	16 543	16 909	17 613
Trade balance	–4 294	–4 230	–5 053	–4 423	–5 500	–6 072	–7 383	–10 178	–10 112	–11 604
Invisibles, net[3]	2 416	2 098	1 777	2 747	4 279	5 111	4 809	6 616	8 590	9 523
of which: Travel, net	814	974	1 060	1 340	1 761	1 663	1 160	1 498	1 552	2 082
Transportation, net	41	–142	–320	–300	–409	–343	–516	–545	–688	..
Migrant remittances	912	898	774	942	1 334	1 675	1 350	1 774	2 115	2 366
Receipts in convertible drachmae	411	372	451	596	1 135	1 327	1 494	2 242	2 765	3 047
Current balance[4]	–1 876	–2 130	–3 276	–1 772	–1 219	–957	–2 573	–3 562	–1 520	–2 081
Long-term capital	2 110	1 773	2 768	2 153	1 357	1 480	2 027	2 910	3 483	..
Basic balance	232	–359	–508	381	138	523	–546	–652	1 963	..
Short-term capital, including errors and omissions	–408	152	292	–491	202	544	–272	–16	–293	..
Balance on non monetary transactions	–176	–207	–218	–16	366	1 024	–892	–578	1 518	..
Private monetary institutions short-term capital	276	338	77	286	440	125	550	618	141	..
Balance of official settlements	100	131	–141	270	806	1 149	–342	40	1 659	..
Change in reserves (+ = increase)	100	131	–141	270	806	1 149	–342	40	1 660	..
Gold	0	8	17	–320	–100	94	13	6	15	..
Currency assets	67	127	–150	596	906	1 053	–377	54	1 645	..
Reserve position in IMF	32	–5	–7	–6	0	2	22	–20	0	..
Special Drawing Rights	1	1	–1	0	0	0	0	0	0	..

1. Provisional data.
2. Original figures for imports are on a cif basis. They are adjusted to fob basis by deduction of 11.5 per cent representing the estimated cif-fob margin.
3. Services debits include 11.5 per cent of imports as an approximation of the freight content of imports not recorded in original figures.
4. Includes receipts in convertible drachmae for services rendered.

Sources: Bank of Greece, *Monthly Statistical Bulletin;* IMF Balance of payments statistics; and data submitted by national authorities.

Table J. **Money and banking**

Billion drachmae, end of period

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 [1]
					1. Money					
1. **M1** (2+3)	535.7	651.6	797.5	879.7	1 046.5	1 202.3	1 517.8	1 880.8	2 105.2	2 378.3
2. Currency in circulation	342.6	400.8	505.3	541.4	628.9	735.5	969.3	1 162.0	1 255.5	1 431.3
3. Sight deposits	193.1	250.8	292.2	338.2	417.6	466.9	548.4	718.8	849.7	947.0
4. Private	106.7	141.8	169.8	197.4	218.1	237.7	295.6	421.4	487.4	558.2
5. Public entities	71.2	86.6	98.3	120.0	164.5	173.3	184.0	245.6	286.3	295.8
6. Public enterprises	15.1	22.5	24.1	20.9	35.0	55.8	68.8	51.7	76.0	93.0
7. **Quasi-money** (8+9+12)	1 763.8	2 315.7	2 961.3	3 589.3	4 545.0	5 656.6	6 960.9	7 800.0	8 493.7	9 279.5
8. Savings deposits	1 167.3	1 542.6	1 974.0	2 401.4	3 021.3	3 849.8	4 852.5	5 549.2	6 228.9	6 915.3
9. Time deposits	534.9	702.2	901.9	1 087.2	1 403.5	1 658.1	1 939.3	2 055.9	2 040.1	2 071.7
10. Private	527.8	693.1	888.3	1 073.2	1 385.1	1 634.8	1 902.2	2 024.1	2 010.5	2 052.6
11. Public entities	7.1	9.1	13.6	14.0	18.3	23.4	37.1	31.7	29.5	19.1
12. Other deposits [2]	61.6	70.8	85.4	100.7	120.3	148.6	169.1	194.9	224.7	292.5
13. Bank bonds	77.1	127.4	184.6	266.0	302.1	384.7	481.2	594.0	598.7	718.7
14. Repos	0.0	0.0	0.0	0.0	0.0	0.0	0.0	48.5	420.9	978.6
15. **M3** (2+4+8+10+13+14)	2 221.5	2 905.7	3 722.0	4 479.5	5 555.5	6 842.5	8 500.9	9 799.3	11 001.9	12 654.8
16. Treasury bills	0.0	0.0	10.2	23.3	171.9	412.3	467.9	1 017.4	2 384.2	3 308.7
17. Bonds up to one year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	144.6	122.7	204.3
18. **M4** (15+16+17)	2 221.5	2 905.7	3 732.2	4 502.8	5 727.4	7 254.8	8 968.8	10 961.3	13 508.8	16 167.7
Memorandum items:										
Total private deposits in drachmae	1 836.4	2 416.5	3 099.1	3 821.2	4 701.4	5 811.7	7 146.5	8 109.5	8 865.8	9 690.5
Total private deposits in foreign exchange	510.4	693.2	940.0	1 063.7	1 204.5	1 501.6	1 870.2	2 240.1	2 701.4	3 445.0
Total public sector deposits	270.8	312.0	343.1	370.0	446.1	506.7	668.3	777.6	875.7	1 014.2
of which: Deposits of public entities (Law 1611/50)	137.0	147.5	152.9	157.6	164.0	174.4	259.2	317.7	343.3	422.3

	2. Banking									
Total bank lending	1 922.0	2 357.8	2 852.4	3 403.6	3 862.7	4 558.8	5 614.9	5 925.9	6 442.6	7 681.0
1. By sector:										
Private sector	1 591.3	1 914.6	2 274.5	2 580.2	2 749.7	3 176.3	3 917.2	4 457.1	5 134.7	6 010.4
Agriculture	325.7	412.7	495.6	587.1	682.1	782.8	767.1	919.2	1 031.6	1 227.5
Manufacturing and mining	774.7	927.0	1 108.5	1 227.4	1 232.5	1 378.9	1 697.4	1 764.6	2 002.5	2 227.7
Short and medium term	497.4	590.5	707.8	774.0	764.2	860.3	1 114.5	1 148.0	1 326.5	1 531.8
Long term	277.3	336.6	400.7	453.4	468.3	518.6	582.9	616.6	676.0	695.9
Trade	122.2	143.9	170.1	192.3	195.0	232.5	367.5	499.7	622.7	827.2
Housing	213.5	258.7	306.8	352.6	393.7	462.2	615.4	701.5	777.7	866.9
Other	155.2	172.3	193.5	220.8	246.4	320.0	469.8	572.1	700.2	861.1
Public sector	330.7	443.2	577.9	823.5	1 113.1	1 382.5	1 697.7	1 468.9	1 307.9	1 670.6
Public enterprises	205.2	294.2	363.9	464.1	586.6	666.1	793.9	636.9	497.4	507.6
Public entities	95.6	143.1	214.8	353.6	492.1	644.6	781.8	676.1	633.9	866.4
Government purchasing agencies	29.9	5.9	–0.9	5.8	34.4	71.8	122.0	155.8	176.6	296.6
2. By lending institution:										
Bank of Greece	11.8	11.4	13.4	13.7	6.8	7.2	9.3	8.8	7.5	4.3
Commercial banks	877.0	1 076.1	1 284.9	1 543.8	1 706.0	2 008.1	2 479.1	2 659.4	2 862.8	3 424.2
Special credit institutions	1 033.2	1 270.3	1 554.1	1 846.1	2 149.9	2 543.5	3 126.6	3 257.7	3 572.3	4 252.5

1. Provisional data.
2. Excluding deposits of public entities according to Law 1611/50.
Sources: Bank of Greece, *Monthly Statistical Bulletin;* and data submitted by national authorities.

Table K. **Structure of output and indicators of performance**

	1970	1980	1987	1988	1989	1990	1991[1]	1992[1]
	Share of GDP							
A. Structure of output (1970 prices)								
Agriculture, forestry and fishing	18.2	14.5	12.9	13.2	12.9	11.0	12.5	12.1
Mining and quarrying	1.4	1.5	1.8	1.9	1.9	1.9	1.7	1.8
Manufacturing	19.1	21.3	19.2	19.2	18.8	18.6	17.9	17.4
of which: Food, drink and tobacco	3.6	4.1	4.0	4.1	4.3	4.0	4.2	4.4
Textiles	2.7	3.8	3.5	3.3	3.1	3.1	2.7	2.5
Chemical and allied trades	2.1	2.7	2.8	3.1	3.2	3.1	2.9	2.8
Stone, clay and glass	1.4	1.9	1.6	1.6	1.5	1.6	1.3	1.3
Metal manufacture, engineering and electric goods	2.4	2.5	1.9	1.9	1.9	1.7	1.8	1.8
Construction	8.9	6.3	5.2	5.4	5.4	5.8	5.4	5.2
Electricity, gas and water	2.0	3.3	4.1	4.1	4.2	4.1	4.3	4.5
Traded services[2]	22.1	24.3	26.3	26.6	26.8	27.7	27.8	28.6
Non-traded services[3]	21.5	22.1	24.3	23.7	23.9	24.6	24.4	24.0
Other	6.8	6.6	6.3	6.1	6.1	6.4	6.0	6.4
	Share of total investment							
B. Economic performance (1970 prices)								
Agriculture, forestry and fishing	10.6	6.7	5.5	5.6	5.3	5.2	5.1	6.2
Mining and quarrying	2.1	5.9	2.9	2.6	2.2	1.9	1.9	2.1
Manufacturing	14.2	16.1	18.4	19.0	17.9	18.6	17.1	16.6
Electricity, gas and water	7.2	7.2	7.5	7.6	8.0	7.4	7.7	8.0
Traded services[4]	36.7	34.2	37.4	38.5	40.7	40.7	44.2	44.3
Non-traded services[5]	29.1	30.0	28.3	26.8	25.8	25.8	24.0	21.7

1. Provisional data.
2. Transportation and communication, wholesale and retail trade, banking, insurance and real estate.
3. Ownership of dwellings, public administration and defence, health and educational services.
4. Transport and communication, and other service industries.
5. Dwellings and public administration.

Sources: National Statistical Service of Greece, *Provisional National Accounts of Greece*, 1992; and data submitted by national authorities.

Table L. **Public sector**

	1975	1980	1985	1988	1989	1990	1991	1992[1]
Budgetary indicators: General government accounts								
(% of GDP)								
Primary receipts (excluding interest)	24.7	27.9	32.2	32.5	31.3	33.8	34.9	37.2
Primary expenditure (excluding interest)	19.5	30.7	43.4	39.7	41.1	41.3	39.2	39.1
Primary budget balance	5.3	–2.9	–11.2	–7.2	–9.8	–7.5	–4.3	–2.0
Net interest	1.0	–0.1	–3.3	–6.5	–6.8	–10.5	–10.1	–7.5
General government budget balance	6.3	–2.9	–14.5	–13.7	–16.6	–18.1	–14.4	–9.5
Memorandum item:								
Saving	0.7	–0.1	–9.1	–10.1	–12.8	–14.8	–10.5	–5.6
Structure of expenditure and taxes (% of GDP)								
General government current expenditure	26.4	30.3	43.3	43.9	45.5	50.1	46.9	45.3
Transfers	7.3	9.1	14.6	14.3	15.1	15.4	14.2	14.5
Subsidies	2.5	2.4	3.0	1.6	1.6	1.7	1.2	1.0
Tax receipts	24.7	27.9	32.2	32.5	31.3	33.8	34.9	37.2
Personal income tax	2.7	4.3	4.5	4.6	3.9	4.4	4.0	4.8
Corporate taxes	1.0	1.2	1.1	1.3	1.4	1.8	2.3	2.0
Social security contributions	6.7	9.0	11.3	10.3	11.1	10.7	11.1	11.2
Consumption taxes	14.3	13.4	15.3	16.2	15.0	17.0	17.6	19.1
of which: Value added tax[2]	..	..	..	7.9	8.1	9.1	9.4	..
Tax rates (%)								
Income tax as a percentage of total tax	15.2	19.8	17.4	18.3	16.7	18.1	18.0	18.3
Personal income tax elasticity	1.2[3]	1.6	0.6	1.1	–0.1	1.5	0.6	3.2
VAT rate[2]	..	..	..	16.0	16.0	18.0	18.0	18.0
Public sector debt								
billion drachmae (end-period)								
Total[4]	..	674	3 929	7 495	9 152	11 666	14 577	17 542
(% of GDP)	..	39.4	85.1	99.6	104.3	111.6	113.8	118.2
General government	..	494	2 889	6 034	7 545	10 068	12 978	15 932
Public entreprises	..	180	1 040	1 461	1 607	1 598	1 599	1 610
Domestic	..	500	2 247	5 044	6 454	8 631	10 723	13 243
External	..	174	1 682	2 451	2 698	3 035	3 854	4 299
(in million US dollars)	..	3 727	11 227	16 454	17 219	19 034	21 932	23 400

1. Provisional data.
2. Introduced on 1st January 1987.
3. 1976 figure.
4. Medium and long-term only.

Sources: OECD estimates and data submitted by national authorities.

BASIC STATISTICS:
INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period[1]	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland
Population													
Total	Thousands	1990	17 085	7 718	9 967	26 620	5 141	4 986	56 420	63 232	10 140	255	3 503
Inhabitants per sq. km	Number	1990	2	92	327	3	119	15	103	254	77	2	50
Net average annual increase over previous 10 years	%	1990	1.5	0.2	0.1	1	0	0.4	0.5	0.3	0.5	1.1	0.3
Employment													
Total civilian employment (TCE)[2]	Thousands	1990	7 850	3 412	3 726	12 572	2 638	2 457	21 732	27 946	3 677	126	1 115
Of which : Agriculture	% of TCE		5.6	7.9	2.7	4.2	5.6	8.4	6.1	3.4	24.5	10.3	15
Industry	% of TCE		25.4	36.8	28.3	24.6	27.5	31	29.9	39.8	27.4	30.2	28.6
Services	% of TCE		69	55.3	69	71.2	66.9	60.6	64	56.8	48.2	59.5	56.4
Gross domestic product (GDP)													
At current prices and current exchange rates	Bill US $	1990	294.1	157.4	192.4	570.1	129.3	137.3	1 190.8	1 488.2	66	5.9	42.5
Per capita	US $		17 215	20 391	19 303	21 418	25 150	27 527	21 105	23 536	6 505	22 907	12 131
At current prices using current PPP's[3]	Bill US $	1990	271.7	127.4	163	510.5	85.2	82.2	980.4	1 151.6	74.3	4.1	37.2
Per capita	US $		15 900	16 513	16 351	19 179	16 570	16 487	17 376	18 212	7 323	16 158	10 627
Average annual volume growth over previous 5 years	%	1990	3.1	3.1	3.2	3	1.5	3.4	2.9	3.1	1.7	2.7	4.4
Gross fixed capital formation (GFCF)	% of GDP	1990	22.9	24.3	20.3	21.4	17.7	26.3	21.2	21.2	19.7	19.4	19.1
Of which: Machinery and equipment	% of GDP		9.7	10.1	10.4	7.2	8.1	10	9.7	9.8	8.7	6.2	9.3
Residential construction	% of GDP	1990	4.8	4.6	4.3	6.8	3.7	7.1	5.2	5.6	5	4.4	4.2
Average annual volume growth over previous 5 years	%	1990	2.4	4.6	9.5	5.8	0.8	4.8	5.8	5.2	2.3	2.1	4.4
Gross saving ratio[4]	% of GDP	1990	19.7	26	21.8	17.4	18	23.1	21	25.2	13.8	16	23.4
General government													
Current expenditure on goods and services	% of GDP	1990	17.3	18	14.3	19.8	25.2	21.1	18	18.4	21.2	18.8	15.7
Current disbursements[5]	% of GDP	1990	34.9	44.9	53.1	44	56.5	37.5	46.2	42.6	50.9	31.5	49.9 (87)
Current receipts	% of GDP	1990	35.1	46.7	49.5	41.6	56.1	41.2	46.5	43.4	34.7	34.9	43.7 (87)
Net official development assistance	Mill US $	1990	0.34	0.25	0.45	0.44	0.93	0.64	0.79	0.42	0.07	0.03	0.16
Indicators of living standards													
Private consumption per capita using current PPP's[3]	US $	1990	9 441	9 154	10 119	11 323	8 639	8 602	10 482	9 841	5 298	9 824	5 886
Passenger cars per 1 000 inhabitants	Number	1989	570	416	416	613	370	439	494	526	234	488 (85)	278
Telephones per 1 000 inhabitants	Number	1989	550 (85)	540	500 (88)	780 (88)	880 (88)	620 (85)	610 (85)	680 (88)	360 (88)	525 (83)	265 (85)
Television sets per 1 000 inhabitants	Number	1988	217	484 (89)	255	586	526	486	399	379	175	306	260
Doctors per 1 000 inhabitants	Number	1990	2.3	2.1	3.4	2.2	2.7 (87)	1.9	2.6 (89)	3 (89)	3.3 (89)	2.8 (89)	1.5 (88)
Infant mortality per 1 000 live births	Number	1990	8.2	7.8	7.9	7.2 (89)	7.5 (89)	6.1 (89)	7.2	7.5 (89)	9.1 (89)	5.9	7.6 (89)
Wages and prices (average annual increase over previous 5 years)													
Wages (earnings or rates according to availability)	%	1990	5.6	5	3	4.3	6	8.2	3.7	4.2	16	..	5.6
Consumer prices	%	1990	7.9	2.2	2.1	4.5	3.9	5	3.1	1.4	17.4	20.2	3.3
Foreign trade													
Exports of goods, fob*	Mill US $	1990	39 813	40 985	118 291[7]	127 334	34 988	26 583	216 157	409 620	8 014	1 589	23 796
As % of GDP	%		13.5	26	61.5	22.3	27.1	19.4	18.2	27.5	12.2	27.1	56
Average annual increase over previous 5 years	%		11.9	19.1	17.1	7.8	15.6	14.3	16.5	17.6	11.8	14.2	18.1
Imports of goods, cif*	Mill US $	1990	38 907	48 914	120 330[7]	116 561	31 647	26 950	225 260	344 454	19 831	1 648	20 687
As % of GDP	%		13.2	31.1	62.5	20.4	24.5	19.6	18.9	23.1	30.1	28.1	48.7
Average annual increase over previous 5 years	%		11	18.6	16.5	8.8	11.8	15.3	16.8	16.9	14.1	12.7	15.7
Total official reserves[6]	Mill SDR's	1990	11 432	6 591	8 541[7]	12 544	7 445	6 779	25 851	47 729	2 398	307	3 672
As ratio of average monthly imports of goods	ratio		3.5	1.6	0.9	1.3	2.8	3	1.4	1.7	1.5	2.2	2.1

	Units	Reference period[1]	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States
Population															
Total	Thousands	1990	57 647	123 540	382	14 951	3 379	4 241	9 859	38 959	8 559	6 796	56 473	57 411	251 523
Inhabitants per sq. km	Number	1990	191	327	147	366	13	13	107	77	19	165	72	235	27
Net average annual increase over previous 10 years	%	1990	0.2	0.6	0.5	0.6	0.7	0.4	0	0.4	0.3	0.6	2.4	0.2	1
Employment															
Total civilian employment (TCE)[2]	Thousands	1990	21 123	62 500	189	6 268	1 472	1992	4 474	12 578	4 508	3 563	19 209	26 577	117 914
Of which : Agriculture	% of TCE		9	7.2	3.2	4.6	10.6	6.5	17.8	11.8	3.3	5.6	47.8	2.1	2.8
Industry	% of TCE		32.4	34.1	30.7	26.3	24.6	24.8	34.8	33.4	29.1	35	19.9	29	26.2
Services	% of TCE		58.6	58.7	66.1	69.1	64.8	68.8	47.4	54.8	67.5	59.5	32.3	68.9	70.9
Gross domestic product (GDP)															
At current prices and current exchange rates	Bill US $	1990	1 090.8	2 940.4	8.7	279.1	44	105.7	59.7	491.2	228.1	224.8	108.4	975.1	5 392.2
Per capita	US $		18 921	23 801	22 895	18 676	13 020	24 924	6 085	12 609	26 652	33 085	1 896	16 985	21 449
At current prices using current PPP's[3]	Bill US $	1990	919.7	2 179.9	7.3	234.8	45.8	68	82	457.3	144.6	142.1	189.7	911.8	5 392.2
Per capita	US $		15 953	17 645	19 282	15 708	13 564	16 033	8 364	11 738	16 896	20 911	3 318	15 882	21 449
Average annual volume growth over previous 5 years	%	1990	3	4.6	4.3	2.7	0.4	1.6	4.6	4.5	2.1	2.8	5.9	3.2	3
Gross fixed capital formation (GFCF)	% of GDP	1990	20.2	32.2	25.3	21.5	19.8	18.8	26.4	24.6	20.7	27.1	22.7	19.2	16.1
Of which: Machinery and equipment	% of GDP		10	13.7	11	10.7	9.9	6.8	13.1	8.1	8.9	9.1	11.7 (87)	8.5	7.8 (89)
Residential construction	% of GDP	1990	5.2	6.1	5	5.1	4.8	2.8	4.5	5	5.5	17.9[9]	5.8 (87)	3.4	4.4 (89)
Average annual volume growth over previous 5 years	%	1990	4.3	9	11.7	5.1	2.7	–2.8	10.4	11.7	4.9	6	4.7	5.8	2.7
Gross saving ratio[4]	% of GDP	1990	19.3	34.6	60.9	25.4	16.1	24.1	26.6	22.1	17.3	33	22.2	15.6	14.4
General government															
Current expenditure on goods and services	% of GDP	1990	17.3	9.1	16.3	14.8	16.7	21	16.7	15.2	27.1	13.3	19.4	19.9	18.1
Current disbursements[5]	% of GDP	1990	48.1	26.2	45 (86)	51.7	..	51.6	39.3	35.5 (88)	59.1	30.7	..	38.1	34.6 (89)
Current receipts	% of GDP	1990	42.1	34.6	52.9 (86)	49.5	..	56.2	37.6	36.3 (88)	63.9	34.2	..	40	31.8 (89)
Net official development assistance	Mill US $	1990	0.32	0.31	0.29	0.94	0.22	1.17	0.23	0.16	0.9	0.31	..	0.27	0.21
Indicators of living standards															
Private consumption per capita using current PPP's[3]	US $	1990	9 866	10 122	11 017	9 241	8 475	8 174	5 278	7 326	8 748	11 933	1992	10 051	14 465
Passenger cars per 1 000 inhabitants	Number	1989	458	455	546	399	549	459	181	347	462	479	37	449	748
Telephones per 1 000 inhabitants	Number	1989	510 (88)	555 (85)	413 (85)	660 (88)	720 (88)	622 (84)	220 (88)	396 (87)	889 (83)	880 (88)	120 (88)	524 (84)	650 (84)
Television sets per 1 000 inhabitants	Number	1988	419	589	250	478	296	350	160	380	395	408	172	435	812
Doctors per 1 000 inhabitants	Number	1990	1.3 (89)	1.6 (88)	1.9 (88)	2.5	1.9 (89)	3.1	2.9	3.7 (89)	3.1 (89)	2.9 (89)	0.9	1.4 (89)	2.3
Infant mortality per 1 000 live births	Number	1990	8.5	4.6 (89)	9.9	6.9	8.3	7.9 (89)	11	7.8 (89)	5.9	7.3	6.5 (89)	7.9	9.2
Wages and prices (average annual increase over previous 5 years)															
Wages (earnings or rates according to availability)	%	1990	6.1	3.7	..	1.7	8.1	8.7	..	8.2	8.2	..	..	8.5	2.6
Consumer prices	%	1990	5.7	1.3	1.7	0.7	9.4	6.2	11.3	6.5	6.2	2.5	53.7	5.9	4
Foreign trade															
Exports of goods, fob*	Mill US $	1990	170 330	287 358	..[8]	131 778	9 533	33 905	16 338	55 289	57 422	63 847	12 836	185 710	393 812
As % of GDP	%		15.6	9.8	..	47.2	21.7	32.1	27.4	11.3	25.2	28.4	11.8	19	7.3
Average annual increase over previous 5 years	%		16.6	10.2	..	14	10.6	11.2	23.5	18	13.7	18.4	9.9	12.9	13.1
Imports of goods, cif*	Mill US $	1990	181 863	235 407	..	126 215	9 458	27 218	24 874	87 373	54 659	69 811	22 224	225 327	494 842
As % of GDP	%		16.7	8	..	45.2	21.5	25.7	41.7	17.8	24	31	20.5	23.1	9.2
Average annual increase over previous 5 years	%		14.8	12.6	..	14.1	9.6	11.9	26.5	24	14	17.8	14.2	15.5	7.4
Total official reserves[6]	Mill SDR's	1990	44 232	55 179	..	12 289	2 902	10 777	10 182	36 008	12 644	20 541	4 252	25 201	50 791
As ratio of average monthly imports of goods	ratio		2.9	2.8	..	1.2	3.7	4.8	4.9	4.9	2.8	3.5	2.3	1.3	1.2

* At current prices and exchange rates.
1. Unless otherwise stated.
2. According to the definitions used in OECD Labour Force Statistics.
3. PPP's = Purchasing Power Parities.
4. Gross saving = Gross national disposable income minus Private and Government consumption.
5. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.
6. Gold included in reserves is valued at 35 SDR's per ounce. End of year.
7. Including Luxembourg.
8. Included in Belgium.
9. Including non-residential construction.
10. Federal Government Statistics.

Sources: Population and Employment: OECD Labour Force Statistics.
GDP, GFCF, and General Government: OECD National Accounts, Vol. I and OECD Economic Outlook, Historical Statistics.
Indicators of living standards: Miscellaneous national publications.
Wages and Prices: OECD Main Economic Indicators.
Foreign trade: OECD Monthly Foreign Trade Statistics, series A.
Total official reserves: IMF International Financial Statistics.

August, 1992

EMPLOYMENT OPPORTUNITIES

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The Economics Department of the OECD offers challenging and rewarding opportunities to economists interested in applied policy analysis in an international environment. The Department's concerns extend across the entire field of economic policy analysis, both macro-economic and micro-economic. Its main task is to provide, for discussion by committees of senior officials from Member countries, documents and papers dealing with current policy concerns. Within this programme of work, three major responsibilities are:

- to prepare regular surveys of the economies of individual Member countries;
- to issue full twice-yearly reviews of the economic situation and prospects of the OECD countries in the context of world economic trends;
- to analyse specific policy issues in a medium-term context for theOECD as a whole, and to a lesser extent for the non-OECD countries.

The documents prepared for these purposes, together with much of the Department's other economic work, appear in published form in the *OECD Economic Outlook, OECD Economic Surveys, OECD Economic Studies* and the Department's *Working Papers* series.

The Department maintains a world econometric model, INTERLINK, which plays an important role in the preparation of the policy analyses and twice-yearly projections. The availability of extensive cross-country data bases and good computer resources facilitates comparative empirical analysis, much of which is incorporated into the model.

The Department is made up of about 75 professional economists from a variety of backgrounds and Member countries. Most projects are carried out by small teams and last from four to eighteen months. Within the Department, ideas and points of view are widely discussed; there is a lively professional interchange, and all professional staff have the opportunity to contribute actively to the programme of work.

Skills the Economics Department is looking for:

a) Solid competence in using the tools of both micro-economic and macro-economic theory to answer policy questions. Experience indicates that this normally requires the equivalent of a PH.D. in economics or substantial relevant professional experience to compensate for a lower degree.

b) Solid knowledge of economic statistics and quantitative methods; this includes how to identify data, estimate structural relationships, apply basic techniques of time series analysis, and test hypotheses. It is essential to be able to interpret results sensibly in an economic policy context.

c) A keen interest in and knowledge of policy issues, economic developments and their political/social contexts.

d) Interest and experience in analysing questions posed by policy-makers and presenting the results to them effectively and judiciously. Thus, work experience in government agencies or policy research institutions is an advantage.

e) The ability to write clearly, effectively, and to the point. The OECD is a bilingual organisation with French and English as the official languages. Candidates must have excellent knowledge of one of these languages, and some knowledge of the other. Knowledge of other languages might also be an advantage for certain posts.

f) For some posts, expertise in a particular area may be important, but a successful candidate is expected to be able to work on a broader range of topics relevant to the work of the Department. Thus, except in rare cases, the Department does not recruit narrow specialists.

g) The Department works on a tight time schedule and strict deadlines. Moreover, much of the work in the Department is carried out in small groups of economists. Thus, the ability to work with other economists from a variety of cultural and professional backgrounds, to supervise junior staff, and to produce work on time is important.

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