OECD ECONOMIC SURVEYS

GREECE

1996

4

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- 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 (1994)

THE LAND

Area (sq. km)	131 957	Major urban areas, 1991 census	
Cultivated area (sq. km)	39 290	(thousand inhabitants)	
		Greater Athens (including Piraeus)	3 073
		Greater Thessaloniki	978

THE PEOPLE

Population (thousands)	10 426	Total employment (thousands)	3 789.6
Number of inhabitants per sq. km	79.0	By sector (per cent):	
Net natural increase (thousands)	6.0	Agriculture	20.8
		Industry and construction	23.6
		Other activities, mainly services	55.5

PRODUCTION

Gross national product, GNP (billion Dr)	24 271.3	Gross fixed investment	
GNP per head (US$)	9 610.1	Per cent of GNP	19.5
		Per head (US$)	1 873.1

THE GOVERNMENT

General government (per cent of GNP)		Composition of Parliament (number of seats):	300
Current expenditures	43.7	Panhellenic Socialist Movement (PASOK)	169
Current revenue	35.1	New Democracy (ND)	109
		Political Spring (POLA)	11
		Communist Party (KKE)	9
		Independents	2
		Last general elections: October 1993	

THE CURRENCY

Monetary unit: Drachma	Currency units per US$, average of daily figures:	
	Year 1995	231.6
	May 1996	243.1

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 10th June 1996.

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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 1st July 1996 .

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The previous Survey of Greece was issued in March 1995.

Introduction

Compared with the situation at the beginning of the decade, economic performance improved considerably in 1995 although further improvements in the macroeconomic situation are still required. Perhaps the most significant signal of the economy's recovering health has been the halving of inflation during this 5 year period, even if at 9 per cent it remains far above the EU average of 3 per cent. The sustainability of the recovery is largely based on the progress made in reducing the fiscal imbalances, with the general government deficit declining from 16 per cent of GDP to 9¼ per cent, including an improvement in the primary balance by about 10 per cent of GDP. With the private sector increasingly convinced of the sustainability of the situation, and encouraged by the prospects of support from the Community Support Framework II (CSF II), output growth accelerated to 2 per cent in 1995, led by investment, compared with an annual average of ¾ per cent during 1990-94. In addition, private industry has commenced a restructuring effort which has, however, resulted in a short-term upward creep in the unemployment rate. The investment boom has contributed to a deterioration in the external current account in 1995, though it remains in a sustainable position. Based on this momentum, the growth outlook for 1996-97 is positive, but with risks surrounding the pace of disinflation – as wage pressures have emerged – and thus on the external side.

Progress has been largely due to perseverance in the implementation of macroeconomic policy. The "hard drachma" policy has contributed to disinflation and has permitted a reduction in interest rates. However, monetary policy management has become increasingly difficult as the credibility of the exchange rate policy has induced capital inflows attracted by the wide interest rate differential. Fiscal consolidation has been founded on widening the tax base, with direct tax receipts increasing by 2 per cent of GDP during 1992-95. Though the fiscal effort has produced a primary surplus of nearly 4 per cent of GDP, this surplus is still not sufficient to achieve a distinct reversal in the dynamics of a debt stock exceeding 110 per cent of GDP. A much larger effort will be needed to reach the convergence programme target of a general government deficit of 4.2 per cent of GDP in 1997, and in this regard the 1996 Budget target is only moderately ambitious.

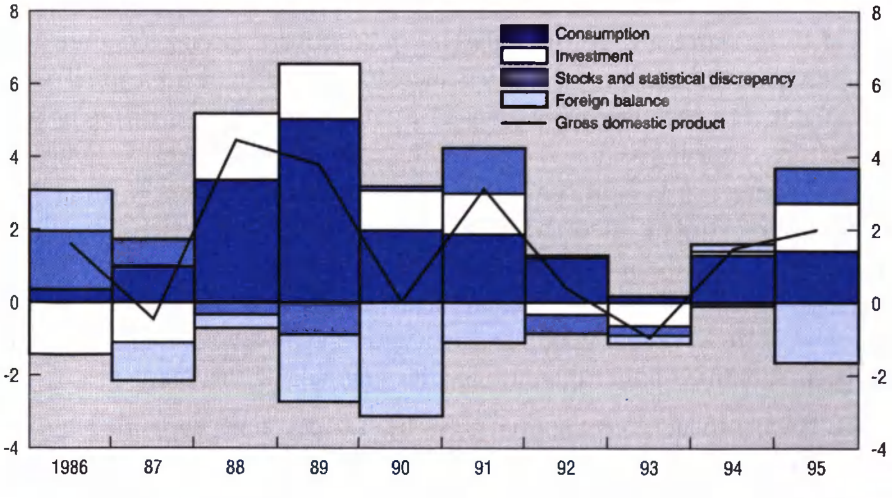
Sustainable fiscal consolidation will require the implementation of further structural reform, especially in the area of public sector management. The authorities are making strides to improve tax administration, but have only recently begun to focus on measures which will squeeze more out of their current primary expenditures. Regarding the other key areas of structural reform, a consolidation of the progress already achieved in financial markets is on-going, while the labour market has only recently become an issue of concern, as the unemployment rate breached the 10 per cent barrier in 1995. This neglect partly reflects the specific economic setting, whereby half the labour force is self-employed. Nevertheless, there is an increasing awareness of the need to improve the institutional framework. Despite the advancements achieved by the reforms at the turn of the decade, the labour market continues to impede the disinflation process and to deter the integration of youth into the labour market.

Chapter I of the Survey reviews economic developments since Greece's previous *Economic Survey* and presents the short-term projections. Chapter II discusses the implementation of fiscal and monetary policies within the framework of the convergence programme, and structural policies in the areas of financial and public sector reforms. The following chapter (Chapter III) provides a follow up review of the reform of the Greek labour market following the recommendations contained in the *OECD Jobs Study*. Conclusions are presented in Chapter IV.

I. Recent trends and short-term prospects

In contrast to most EU countries, Greece's economic growth gained momentum in 1995. While economic activity in 1994 was supported chiefly by private consumption, the recovery strengthened in 1995 and became largely investment-led, with a boost from both public and private investment. Though the consequent surge in imported investment goods resulted in net exports acting as a large drag on growth, output expanded by 2 per cent in volume terms surpassing the expectations contained in the convergence programme (Figure 1). Furthermore, it was only marginally below the EU average compared with an average half as

Figure 1. **CONTRIBUTIONS TO REAL GDP GROWTH**



Source: Ministry of National Economy.

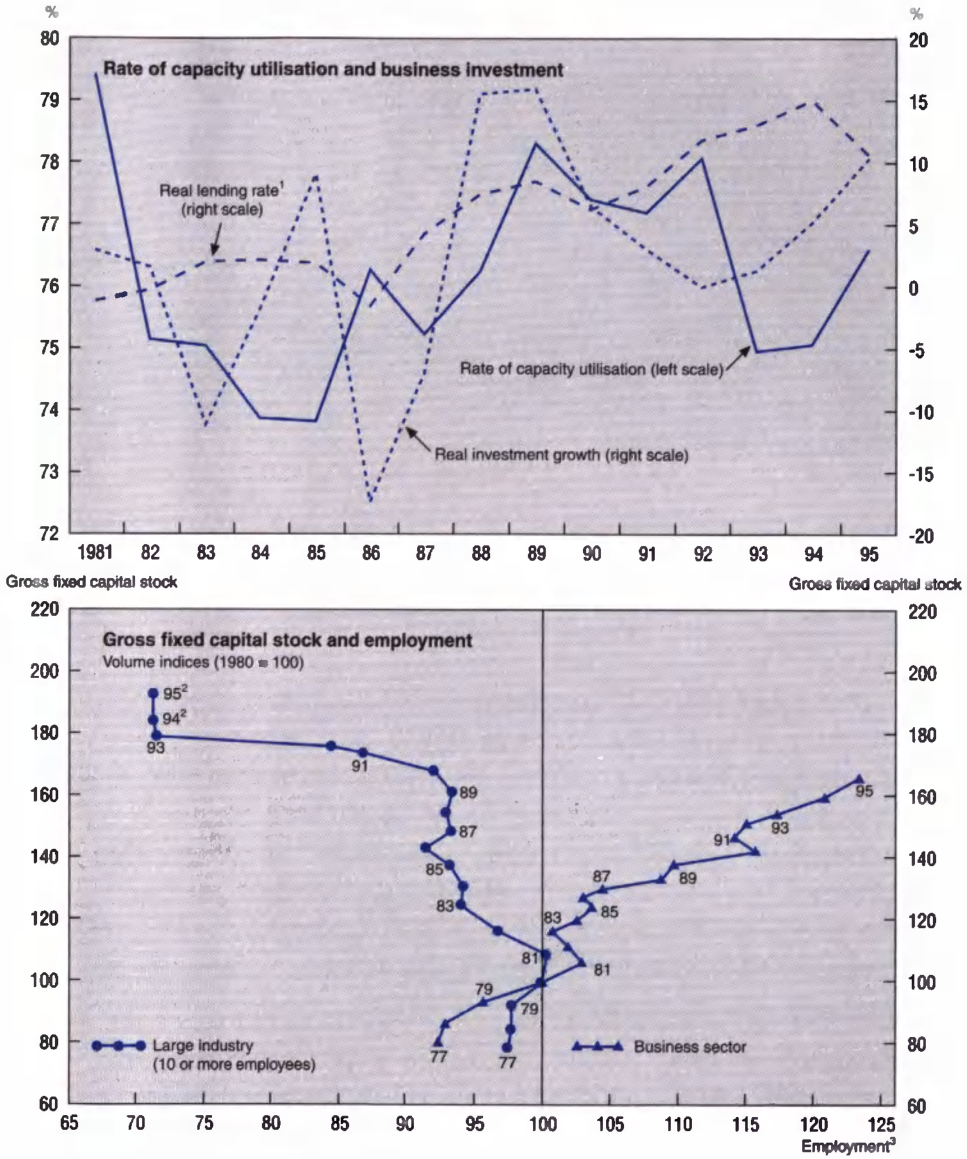
large during 1990-94.[1] However, the economic recovery has not been sufficiently strong to prevent the unemployment rate from rising. Despite the growing slack in the labour market, wages have accelerated and, largely as a result, inflation overshot the official target. Reflecting the growth of total domestic demand and losses in external competitiveness, the current account suffered a sizeable reversal in 1995, but was broadly covered by capital inflows, originating mostly with the private sector.

Demand and output gained momentum

The acceleration in economic growth was mainly driven by firms' demand. Private investment surged in 1995, prompted by healthy profits accumulated over the past 4-5 years. Their source has been a cumulative decline in real labour costs of more than 10 per cent between 1990 and 1993 and – in large firms – labour shedding. Though wages recovered in 1994 and 1995, liberalised borrowing conditions and a decline in financial costs – largely reflecting the impact of recent structural reforms in the financial sector – had compensating effects.[2] Thus, the financial situation of firms remains fairly positive. The boom in business investment also reflected better demand prospects (as shown by an increase in order books) accompanied by a gradual rise in the capacity utilisation rate over the 1994-95 period (Figure 2, upper panel). Rationalisation investment, as opposed to investment aimed at enlarging productive capacity, continued to be more prevalent in large firms, which increased their stock of capital and cut employment. For the business sector as a whole, however, a different picture emerges. Investment has mainly served to enlarge productive capacities, with parallel increases in capital stocks and in employment (Figure 2, lower panel). Business investment also benefited from increased subsidies through Law 2234/94, with the investments covered accelerating to about Dr 500 billion (2 per cent of GDP) during 1995 compared with Dr 90 billion during 1994.[3] This disbursement trend should continue into 1996 as applications for Dr 700 billion have been submitted under this law for the first half of the year.

In 1995, private consumption grew by 1.6 per cent, supported by strong increases in real wages which appears to have offset the slowdown in other traditional sources of income (Figure 3). First, the disposable income of the self-employed – who account for about half of total employment in Greece – may

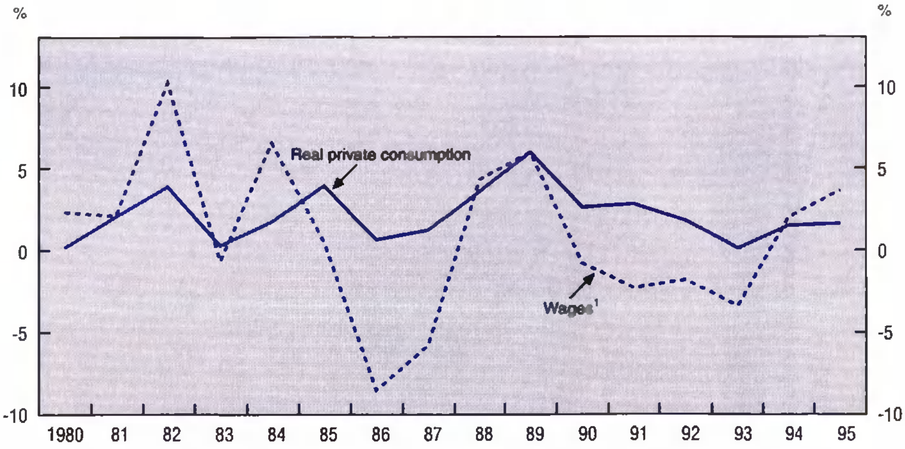
Figure 2. **INVESTMENT**



1. Deflated by the private consumption deflator.
2. OECD estimates.
3. Non-farm employment.

Source: Ministry of National Economy, Bank of Greece, Annual Industrial Survey of the National Statistical Service of Greece and OECD, *Main Economic Indicators*.

Figure 3. **PRIVATE CONSUMPTION AND WAGES**
Percentage changes



1. Real hourly earnings of workers in manufacturing.
Source: Ministry of National Economy, Bank of Greece and OECD, *Main Economic Indicators.*

have witnessed less buoyant growth because of an increase in the effective tax burden arising from the 1995 implementation of the presumptive taxation system on their incomes. Second, non-labour income has been negatively affected by reduced interest payments in real terms on Government securities, and weak agricultural income. Regarding the path of consumption growth, monthly data on the volume of retail sales and new car registrations suggest an acceleration in private consumption during 1995, and consumer confidence indicators point to a further improvement early in 1996.

Over the year as a whole, housing investment remained very weak, and the cumulated decline during 1991-95 approached 25 per cent in real terms. Such a contraction came after a prolonged and sizeable boom in construction activities stretching back several decades. Apart from the stock-adjustment effect, several specific factors were also at play, the most important ones being: the high level of real interest rates (long-term real borrowing rates hovered around 13 per cent on average over the period 1990-95), the introduction of housing-linked criteria for evaluating taxable incomes, and the implementation of the requirement to establish the source of funds used to purchase real estate property. However, a housing recovery may have begun in the second half of 1995: construction permits have picked-up and other indicators such as cement consumption also point to an improvement. The most likely impetus to residential housing has been the growth in wage-earners' income. Housing investment seems also to be benefiting from the increased competition between banks which led to a significant decline in mortgage rates and a nearly 20 per cent increase in housing loans during 1995. The introduction of mortgage loans with a fixed interest rate for the first 3-7 year period in October 1995 may have provided an additional boost to housing investment. The gradual relaxation of rent controls has permitted the housing market recovery to be reflected in an increase in rents, which rose by 2½ per cent in real terms in 1995.

Public sector demand accelerated briskly, with a rate of growth in real terms passing from below 1 per cent to 2½ per cent in 1995. The rise in public consumption, mainly driven by growth in employment and wages, remained broadly in line with GDP in 1995. In contrast, public investment accelerated significantly – increasing by 6.5 per cent in real terms – for the most part supported by the second package of Community Support Framework (CSF II) funds.[4] In 1995, CSF II funds accounted for around 40 per cent of total public investment, with projects centred in the transport, energy and telecommunications sectors.[5] The implementation of public investment projects has suffered from delays due to administrative constraints and Greece has absorbed only about 55 per cent of targeted CSF funds in the two-year period 1994-95, despite increasing the utilisation rate during 1995. The improved performance during the second year has resulted, *inter alia,* from the introduction of new legislation broadening the eligible investments and improving administration. Progress has been the slowest in the areas where structural funds have not been extensively allocated in the past (*e.g.* the health and environment sectors, and industry).

Overall, total domestic demand grew by 3.3 per cent in real terms in 1995 following three years of near stagnation, and at a significantly faster pace than the EU average.[6] In this context, GDP growth accelerated from 1.5 to 2.0 per cent despite the large negative contribution of net exports. With a surge in imported investment goods, net exports' contribution to GDP growth turned from slightly positive to a negative 1¾ percentage points in 1995. Supply-side developments mirrored those on the demand side. The secondary sector joined the service sector as the main source of output growth, in contrast with preceding years when only the service sector was expanding while industry and agriculture were contracting or stagnating. Industrial production rebounded in 1994, after four consecutive years of decline, and strengthened further in 1995, rising by 1.3 and 1.8 per cent, respectively. The improvement in industrial production in 1995, which was concentrated in the investment goods sector, reflects the composition of domestic demand, but also the ongoing repositioning of Greek manufacturing industry to take advantage of export opportunities in the Balkans and other East European countries. Construction activity bottomed out in 1995, with the acceleration in public works offsetting weak residential construction so that overall a modest, but positive, growth was recorded after several years of contraction. Stagnant agricultural output – arising from reduced areas of cultivation (especially for grain) and a poor fruit crop – also contained output growth.

Employment creation improved slightly but unemployment rose

Employment growth did not fully reflect the acceleration in output, as firms attempted to improve productivity. Total employment grew at 0.9 per cent, somewhat slower than in 1994 but faster than in other European countries. In industry in particular, the revival in activity was accompanied by employment cuts – albeit at a diminishing rate as the profitable firms show signs of having completed the bulk of their restructuring – with employment in manufacturing remaining stable after a significant decline in the early 1990s (Table 1). Most job losses occurred in the construction sector and may reflect the increased use of illegal workers. In the service sector, job creation was strong but less buoyant than in preceding years with the number of civil servants increasing by an estimated 1.4 per cent.[7] The number of non-agricultural self-employed continued to increase, with no clear indication of whether this development corresponds to an increase in activity or to disguised unemployment. Overall labour productivity increased by about 1 per cent in 1995, after three consecutive years of decline, with that in industry increasing more rapidly than those of other sectors.

Despite an increase in the participation rate, the growth of the labour force remained modest because of stability in the working age population (aged 15-64 years old). However, the reliability of estimates in this area remains low, especially since they include migration flows and thus could partly reflect sea-

Table 1. **Labour market: recent developments**

Annual percentage changes[1]

	1993	1994	1995
Civilian labour force	2.1	1.8	1.3
Unemployment rate	9.7	9.6	10.0
Total employment	1.0	1.9	0.9
of which:			
Agriculture	–1.6	–0.5	–1.0
Industry	–10.0	–0.5	–0.9
Services	7.9	3.9	2.4
Dependent employment	2.2	1.9	2.1

1. Except for the unemployment rate.
Source: National Statistical Service of Greece.

sonal illegal workers. The unemployment rate climbed to a historic high of 10 per cent in 1995, a level which nevertheless remains slightly lower than the EU average. The rise in unemployment was broadly distributed across the population by age and by education level. It was however higher in rural than in urban areas, in line with diverging developments by sector of activity. Seasonally adjusted data suggest a recent reversal in the rising trend of unemployment, with the number of registered unemployed declining slightly over the last four months to March 1996.

Slow progress in disinflation

Improvement in the economic climate and healthy profits were the main reasons for businesses not resisting wage claims in 1995 despite the steadily decelerating path for wages included in the national collective agreement, which have shadowed restrictive public sector wage norms. The increase in the minimum wage arising from the national collective agreement, which serves as a reference for the whole economy, was fixed at 9.4 per cent in 1995, compared with 12.6 per cent in 1994 (Table 2). Nevertheless, the increase in compensation per employee in the private sector reached 13½ per cent in 1995 according to national account estimates. Thus, for the second year in a row, and despite poor productivity gains, wage increases considerably exceeded inflation, as measured

Table 2. **Prices and wages**

Percentage changes

	1990	1991	1992	1993	1994	1995
Prices						
Price deflators						
GDP deflator	20.6	20.2	14.5	14.0	10.8	9.3
Private consumption deflator	19.9	19.7	15.0	13.7	10.8	9.3
Consumer prices						
Period average	20.4	19.5	15.8	14.4	10.9	9.3
End of period	22.9	18.0	14.4	12.1	10.8	8.1
Wholesale prices						
Total	15.9	16.7	11.3	11.9	8.7	7.8
of which:						
Exports	6.7	10.7	6.4	11.3	8.7	10.2
Imports	12.5	14.6	12.6	12.2	9.2	7.0
Industry	18.4	17.7	14.7	13.5	7.4	8.1
Wages						
Total wage bill (national accounts)[1]	21.6	14.4	10.6	11.0	14.0	14.9
Unit labour cost (national accounts)[1, 2]	21.6	11.0	10.2	12.1	12.3	12.7
Manufacturing, blue collar	19.3	16.7	13.7	10.5	13.2	13.7
Civil servants	26.9	10.6	11.7	12.2	9.4	12.8
Banks[3]	19.9	16.5	1.4	19.1	17.5	13.1
Public enterprises	28.2	14.5	7.5	9.7	18.8	10.2
Minimum wage, blue collar	17.1	14.4	11.3	12.0	12.6	9.4
Memorandum item:						
Effective exchange rate	–9.1	–11.8	–8.3	–9.2	–7.1	–3.5

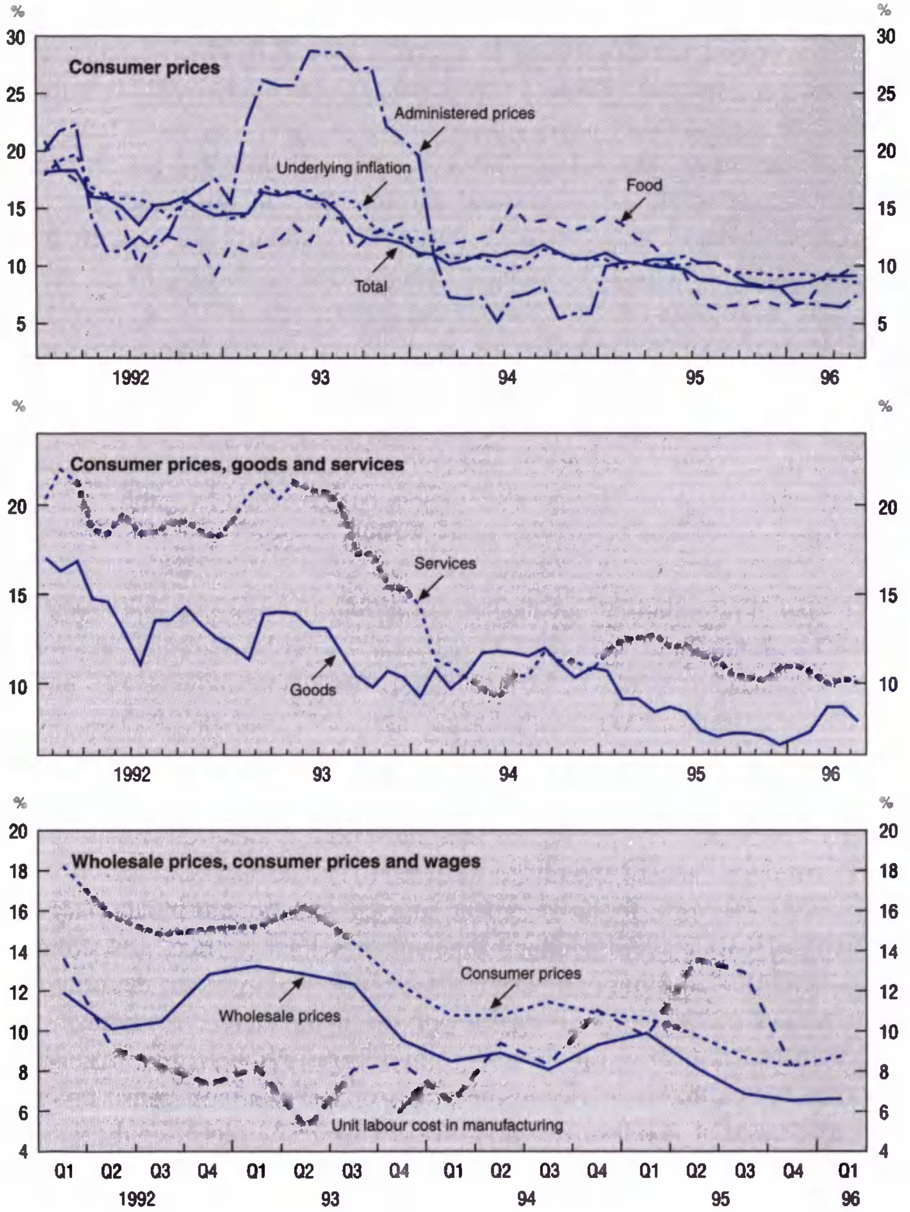
1. Estimate for 1995.
2. Total compensation of salaried employees divided by real GDP.
3. October on October rates of change.

Source: Bank of Greece.

by the consumer price index (CPI). Over the two years 1994-95, real compensation per employee in the private sector rose by about a cumulated 6½ per cent, which was partly a reaction to the decline of over 10 per cent experienced during the four preceding years. However, the pick-up in productivity, especially in the second half of the year, permitted unit labour costs (national accounts basis) to increase by an estimated 12½ per cent – slightly faster than in 1994 – yet about 3 per cent in real terms compared with 1½ per cent in 1994.[8]

In spite of wage pressures, inflation (as measured by the CPI) continued to decline in 1995 – for the fifth year in a row – and has dropped to single digits for the first time since the early 1970s. The 12-month CPI rate reached 8.1 per cent in December, compared with 10.8 per cent one year earlier (Figure 4).

Figure 4. **PRICES AND WAGES**
Change over corresponding period of previous year



Source: Bank of Greece and OECD Secretariat.

Nevertheless, it fell short of the government target of 7 per cent and the improvement in the underlying inflation rate (excluding energy and food products) remained inferior to that recorded by the headline rate during 1995 (9.1 per cent). The CPI benefited from declining food prices arising from favourable weather conditions but also from enhanced monitoring to ensure improved competition in food distribution and from increased food imports. Reflecting these factors, food price increases more than halved during the year. At the same time, there were opposing forces acting on price-cost margins. On the one hand, the limited depreciation of the drachma *vis-à-vis* the ECU by about 3 per cent, by holding back import prices, helped to contain the progression of the CPI. Firms' financial costs were also restrained by the significant decline in Greek interest rates combined with a facilitated access to foreign-currency denominated borrowing. On the other hand, the substantial increase in unit labour costs contrasted with, and probably offset, these favourable developments. Additional pressures on the CPI arose from public utility prices and rents. Following only limited increases in 1994, administered prices for goods and services provided by public enterprises and entities were raised by 9.8 per cent in 1995.

The headline inflation rate accelerated during the first five months of 1996, with the 12-month increase in the CPI reaching 9.1 per cent in May. The rebound in inflation largely reflects transient factors including indirect tax increases (annual vehicle registration fees, tobacco sale prices, and excise taxes on alcoholic beverages and petroleum products), oil price developments on international markets and the impact of bad weather on food prices.[9] The last two factors explain why the underlying rate has continued on a gradual downward path (to 8.5 per cent during the 12-months to May 1996) and settled below the rise in the headline CPI. In April, the government adopted specific anti-inflationary measures, fixing an explicit ceiling on gasoline and diesel pump prices and at the same time reducing the consumption tax on these products. However, the progression in unit labour costs may well be one of the main factors hindering a more decisive disinflation progress. The decomposition of the CPI into goods and services indicated that increases in the prices of services have consistently been higher that those of goods since early 1995. This development could reflect the higher labour intensity of services, which makes them more sensitive to labour costs than goods, or the fact that the hard-drachma policy forces the price of goods, which are more exposed to foreign competition than services, to be in line with world prices. Such a shift in relative prices may induce a shift in resources from tradable to non-tradable activities – and thus impact on trade performance – and, within the tradable sector, from labour to capital intensive activities – with negative impacts on employment.

A weakened but sustainable current account deficit

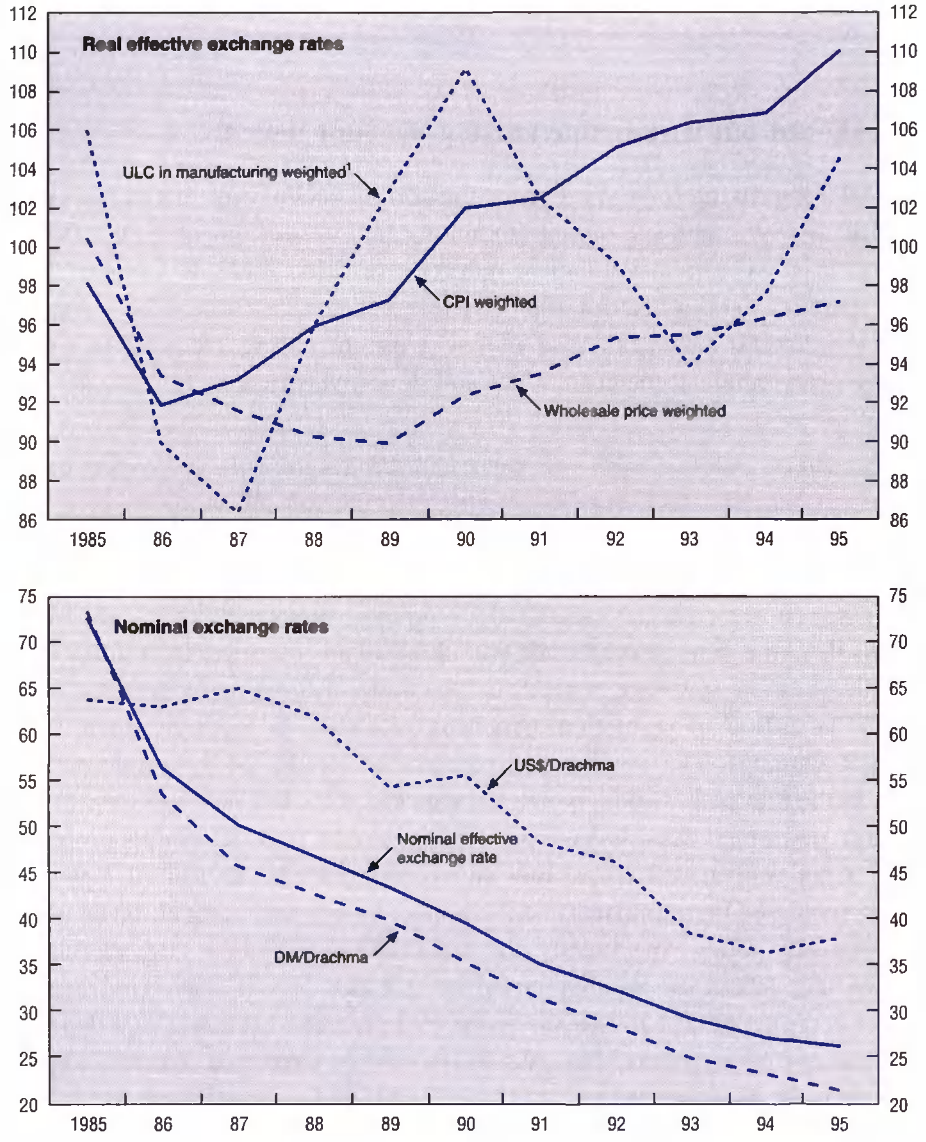
After improving for several years, the current account suffered a pronounced reversal in 1995, with the deficit amounting to 2.5 per cent of GDP after near balance in 1994. This development reflects a growing trade deficit and, despite rising EU transfers, a deteriorating invisible balance, as the tourist season was poor and interest payments rose in line with increasing recourse to external markets. Nevertheless, the current account deficit was financed by private sector capital inflows.

Measured export growth was weak in 1995 despite enlarged export markets in Central and Eastern European countries. Reflecting the recovery in industry and these new export markets, industrial goods were the most buoyant component of exports.[10] However, it is generally accepted that the balance of payments data – which are on a payments basis – under-estimate exports, especially as regards drachma-denominated trade with the Balkan countries. In addition, financial liberalisation may have exacerbated the under-estimation of export revenues, due to the lifting of regulations requiring exporters to repatriate their foreign currency earnings. The weak export outcome also reflected the economic slowdown in the European Union, which remains Greece's largest trading partner, the embargo on former Yugoslavia, a poor tourist season (tourist receipts dropped by about 7 per cent in real terms after an exceptionally good year in 1994 while Greeks increased their tourism) and the impact on external competitiveness of the hard-currency policy. Specifically, the real effective exchange rate, measured by relative unit labour costs, appreciated by 3.9 per cent in 1994 and again by 7.1 per cent in 1995.[11] Movements in the real effective exchange rate depend on the choice of price deflator; however in the case of Greece, a deteriorating trend in relative prices is attested to by all three main indicators (Figure 5).

Meanwhile, merchandise imports were buoyant, increasing by 23 per cent in dollar terms in 1995.[12] The highest rate of increase was recorded for imports of machinery and transport equipment (around 30 per cent in dollar terms) – which

Figure 5. **EXCHANGE RATES**

1983 = 100



1. Bank of Greece estimate in 1995.

Source: Bank of Greece.

account for one quarter of total merchandise imports – largely reflecting the investment-led pattern of economic growth in 1995. Imports of consumer goods rose at a significantly slower pace (approximately 6 per cent in real terms), but still more than three times as fast as private consumption. In addition to the deterioration of the balance on trade and tourism, the investment income deficit also weakened. Payments for interest, dividends and profits surged by approximately 30 per cent in dollar terms, owing to the build-up in both public and private external debt during 1994-95. On the other hand, among the other important invisible items, shipping and migrant remittances recorded an improved surplus, with the former reflecting the recovery in the international shipping market. Net EU transfers also mitigated the weakness in the other components of the current account, and registered a 15 per cent increase in dollar terms in 1995, though they remained broadly stable as a percentage of GDP (4.3 per cent) reflecting the appreciation of the exchange rate in real terms.

The capital account surplus broadly matched the current account deficit, and the Greek private sector was responsible for a larger part of the net capital inflows than in previous years. Entrepreneurial capital inflows, comprising mostly short-term borrowing by Greek firms but also foreign portfolio investment in government securities and the interbank market, recorded a sharp acceleration in 1995, almost doubling in dollar terms as compared with 1994 (Table 3).[13] The boom in foreign borrowing by Greek firms reflected high interest rate differentials and the abolition of the remaining short-term capital controls in May 1994. The credibility of the hard-currency policy also played a role. The rise in entrepreneurial capital was also financed by domestic banks extending loans in foreign currency, following the partial reduction in commercial banks' requirement to redeposit all foreign exchange deposits with the Bank of Greece.[14] The public sector net external borrowing was significantly reduced in 1995, down to US$0.8 billion from US$3.1 billion in 1994. However, the gross borrowing remained high, as the central government rolled over increasingly large amortisation payments.[15] Thus the overall balance, after registering a large surplus in 1993 and 1994, was in small surplus, and foreign exchange reserves stood at the high level of US$15.7 billion at the end of 1995 – which corresponds to almost 8 months of current year imports – up from US$15.4 billion in 1994. Reflecting public and subsequently private sector recourse to lower-cost international markets, both the debt to GDP ratio and the debt service ratio have been on a rising

Table 3. **Balance of payments**

Million US dollars

	1991	1992	1993	1994	1995
Trade balance	–12 309	–13 894	–12 581	–13 523	–17 146
(per cent of GDP)	(–13.8)	(–14.2)	(–13.7)	(–13.8)	(–15.0)
Oil balance	–2 034	–1 650	–1 414	–1 337	–1 739
Non-oil balance	–10 275	–12 244	–11 168	–12 186	–15 407
Exports	5 937	5 382	4 501	4 613	5 292
Imports	16 212	17 626	15 668	16 799	20 699
Invisible balance (net)	10 787	11 814	11 865	13 401	14 295
Credits	15 354	17 265	17 023	18 767	20 770
of which:					
Tourism	2 567	3 272	3 335	3 905	4 136
Shipping	1 774	1 993	1 920	1 957	2 190
Migrant remittances	2 165	2 432	2 431	2 657	3 071
Net EU transfers	4 034	4 058	4 085	4 307	4 968
Debits	4 567	5 451	5 158	5 366	6 475
of which: Interest payments, dividends and profits	2 014	2 370	2 086	2 102	2 683
Current balance	–1 522	–2 080	–716	–122	–2 850
(per cent of GDP)	(–1.7)	(–2.1)	(–0.8)	(–0.1)	(–2.5)
Capital account (net)	3 424	2 809	4 400	6 904	3 162
Private sector	2 513	2 902	1 626	3 785	2 342
Entrepreneurial	1 350	2 038	1 981	2 757	5 396
of which: Loans	..	..	309	1 222	2 338
Real estate	1 082	1 082	946	956	1 040
Other long-term capital	–181	–287	–618	348	–847
Deposits in foreign currencies	140	–24	46	60	–2 116
Commercial banks and suppliers' credits	419	508	–351	311	555
Amortisation	–297	–415	–379	–647	–1 687
Public sector	911	–92	2 774	3 118	820
Medium and long-term					
Bank of Greece	1 906	2 912	3 915	0	0
Central government	1 469	534	1 229	4 738	4 108
Public enterprises and banks	796	654	632	1 054	623
Amortisation	–2 287	–4 113	–3 437	–3 456	–4 756
Suppliers' credits	–3	–8	–11	3	0
Short-term (net)	–970	–71	446	779	845
Errors and omissions	–235	–922	–663	–415	–342
Balance of payments	1 667	–193	3 021	6 367	–30
Memorandum items:					
Reserves (stock at year end)	6 046	5 588	8 694	15 432	15 736
Months of current year imports	3.9	3.2	5.6	9.2	7.7

Source: Bank of Greece.

trend since the early 1990s.[16] In 1995, the debt to GDP ratio declined slightly, reflecting the reduced access of the public sector to external borrowing and the appreciation of the exchange rate in real terms (Table 4).

Table 4. **External debt and debt service**

Million US dollars

	1990	1991	1992	1993	1994	1995
	External debt					
Public and publicly guaranteed debt	22 043	24 300	23 851	26 564	33 092	34 174
Long-term	20 907	23 555	23 362	25 118	30 478	30 737
of which:						
Central government	4 098	5 285	4 145	3 310	7 798	10 733
Public enterprises	6 089	6 347	6 267	6 203	7 619	7 353
Short-term	954	566	318	1 287	2 454	3 277
of which: Central government	801	492	283	1 287	2 112	2 957
Suppliers' credits	182	179	171	159	160	160
Private non-guaranteed						
Suppliers' non guaranteed credits	2 327	2 656	3 094	2 676	2 942	3 469
Total external debt	24 370	26 956	26 945	29 240	36 034	37 643
	Debt service					
Interest payments	1 824	1 936	2 262	1 984	1 986	2 490
Public sector	1 733	1 812	2 159	1 803	1 857	2 233
Private sector	91	124	103	181	129	257
Amortisation	2 323	2 584	4 528	3 816	4 103	6 443
Public sector[1]	2 171	2 287	4 113	3 437	3 456	4 756
Private sector[2]	152	297	415	379	647	1 687
Total debt service	4 147	4 520	6 790	5 800	6 089	8 933
Memorandum items:						
Debt to GDP ratio	26.5	26.3	27.1	31.4	33.5	30.6
Debt service ratio[3]	25.1	25.0	35.3	32.3	30.9	41.4
Private[2]	1.5	2.3	2.7	3.1	3.9	9.0
of which: Interest payments	0.6	0.7	0.5	1.0	0.7	1.2
Public	23.7	22.6	32.6	29.2	27.0	32.4
of which: Interest payments	10.5	10.0	11.2	10.0	9.4	10.3

1. Data have been revised to contain only payments on medium and long-term debt.
2. Includes short-term debt.
3. Calculated as debt service as a percentage of the sum of exports of goods, invisible receipts less net EU transfers.

Source: Bank of Greece.

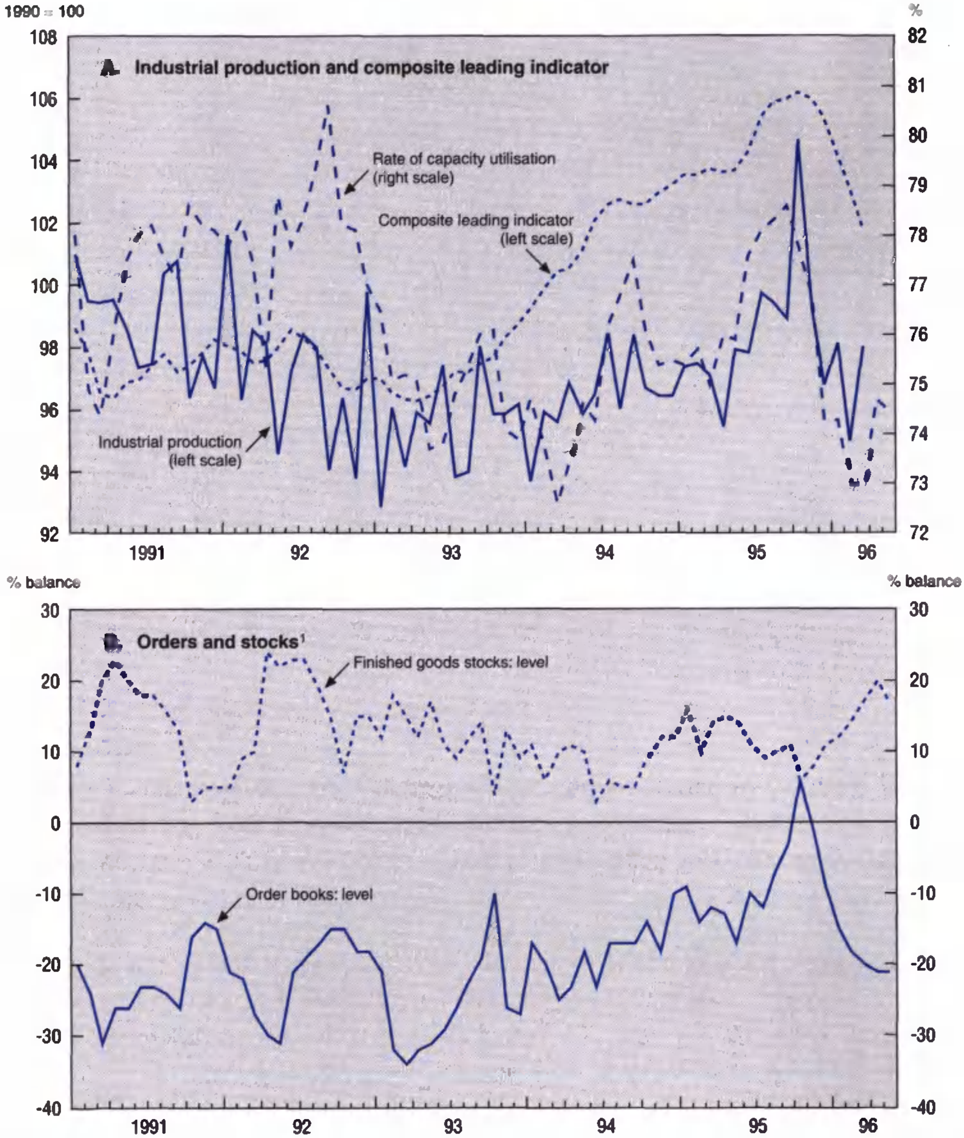
The economic outlook for 1996-97

Progress in reducing the main macroeconomic imbalances over the past few years has led to a boost in economic confidence. However, during the last months of 1995 and the first part of 1996, conjunctural indicators suggest some weakening in economic activity, as both the rate of increase of industrial production and the rate of capacity utilisation have registered sharp declines. Other leading indicators, such as order books and stock levels, have also reversed (Figure 6). This may be due to the effect of the deceleration in economic activity in Europe generally. Nevertheless, private construction activity has registered a strong recovery and the underlying factors point to sustained growth, while the policy environment is not expected to be constraining. Budgetary policy is expected to be broadly neutral, and despite the envisaged tightness of monetary policy, the competition-induced reduction in bank lending rates will play a positive role. In addition, an enhanced implementation of the CSF II will also provide a boost to output growth.

Output is thus projected to increase by slightly over 2 per cent in both 1996 and 1997, with investment expected to be the main source of growth (Table 5). The projections for private business investment are based on the high rate of return on capital in conjunction with the continued need to rebuild the capital stock after the recession. Firms' profits remain healthy despite the rapid increase in unit labour costs, as these have been partly offset by a reduction in real borrowing rates. Moreover, the recovery in residential construction has picked up strongly following the market's long recession and the liberalisation of commercial and residential rents, as evidenced by a 5-year high in the number of permits issued for private dwelling construction recorded in early 1996. Investment by the public and private sector is also being boosted by an improved utilisation of funds under the CSF II programme, which should continue as further efforts are being undertaken to improve absorption.[17] Thus investment's share of GDP (constant prices) is projected to reach 26¾ per cent in 1997 compared with 22¼ per cent in 1994. The recovery of consumer imports during the second half of 1995 suggests that consumption demand is also picking up. Household consumption should be supported by real wage increases, which should however be smaller than in 1994-95. Further inducements to consume should arise from ongoing financial deregulation which facilitates the development of consumer credit, and the envisaged reduction in real interest rates which

Figure 6. **INDUSTRIAL PRODUCTION AND BUSINESS INDICATORS**

Results of business surveys



1. Per cent, balance of replies.

Source: OECD, *Main Economic Indicators.*

Table 5. **The short-term outlook**

	1995	1996	1997
	Annual percentage change		
Private consumption	1.6	1.9	2.2
Government consumption	1.4	0.5	0.5
Gross fixed investment	5.8	9.5	9.2
Stockbuilding and statistical discrepancy [1]	1.0	0.0	0.0
Total domestic demand	3.3	3.3	3.5
Exports of goods and services	1.8	5.5	6.0
Imports of goods and services	6.2	7.8	8.4
Foreign balance [1]	–1.7	–1.6	–1.8
GDP at constant prices	2.0	2.2	2.3
GDP deflator	9.3	7.6	6.4
Private consumption deflator	9.3	7.8	6.5
Unit labour costs	12.7	9.8	7.3
Total employment	0.9	0.7	1.0
Unemployment rate (per cent)	10.0	10.2	10.4
	Per cent of GDP		
General government			
Net primary balance	3.7	3.9	4.0
Net lending	–9.2	–8.0	–6.8

1. Contribution to GDP, calculated as the change in per cent of previous year's GDP.
Source: Ministry of National Economy and OECD projections.

should diminish incentives for financial savings. Partly counterbalancing developments in private consumption, public consumption is expected to be weak. In total, domestic demand growth is expected to remain at 3 per cent during 1996-97.

Inflation should continue to decline but at a more gradual pace, and in 1997 – at 6½ per cent – it is still expected to be much higher than a European average projected to be 2¼ per cent. The maintenance of the "hard drachma" policy should continue to pull inflation down. On the other hand, the pressure from wages is likely to remain strong. The recent national collective agreement has set a path for wages which will be, on average, 2 percentage points higher than the official target for inflation. Specifically, for 1996 the agreement contains minimum wage increases of 7½ per cent (3½ per cent in January and 4 per cent in

July) compared with the official target for inflation of 5 per cent during the year, and for 1997 wage increases of 2 percentage points above the official 1997 target for inflation.[18] Further pressure on prices may arise from increased profit margins in the context of relatively sustained domestic demand. Real wage increases are expected to lead to continued labour shedding so that productivity growth may strengthen to about 1½ per cent – almost in line with real wage growth – compared with nearly flat productivity during 1990-94. However, relative unit labour costs are projected to suffer a further deterioration, though at a diminishing rate compared with 1995.

Net exports are projected to continue to be a large drag on output growth. Export growth is expected to rebound in 1996 as tourism is marked by the recovery of lost markets following the end of hostilities in former Yugoslavia which largely blocked tourist access to Greece by land routes. However, traditional exports are expected to continue to lose market share due to the real appreciation of the drachma. Counteracting these effects, Greek exports are making large inroads in new Balkan markets, while the effect of Turkey's customs union with the EU is hard to assess. The continued strength of domestic demand – especially of investment – and the shift of the relative prices of domestic to imported goods should keep import growth at a relatively high rate. The external current account is projected to weaken somewhat, though it should remain below 3 per cent of GDP. The large interest rate differential with partner countries, as well as the increasing sophistication of the financial and entrepreneurial sectors in an open international environment should permit private sector capital inflows to finance the current account deficit.

The projections face some important downside risks. The main exogenous risk to the projections involves a weaker than expected recovery in Greece's European trading partners. Regarding domestic sources of risk, the most important concerns the pace of disinflation. Wage pressures are still clearly strong, and wage drift has become difficult to assess in a period of economic recovery and firm profits. Too fast an increase in wages could have a negative impact on employment and/or external competitiveness. It would also make a reduction in interest rates more difficult and thus limit fiscal consolidation. There is also risk regarding the implementation of fiscal policy. Failure to reach fiscal targets would undermine credibility and begin to affect private sector confidence.

II. Macroeconomic and structural policies

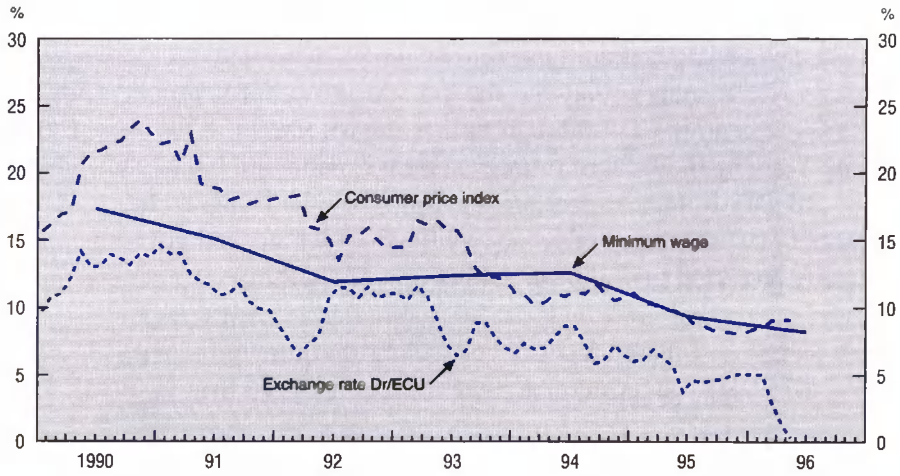
The main policy orientation of the Government is defined in the most recent (1994-99) convergence programme. It aims for a sustainable recovery of the Greek economy to a position where it is an equal partner in a common European market and competitive internationally.[19] The cornerstone of the programme is fiscal consolidation sufficient to attain the Maastricht treaty criterion for the general government deficit of below 3 per cent in 1998. So far, a strong effort has been sustained and the convergence programme fiscal targets generally met. The general government primary balance has improved by 5 per cent of GDP during the past two years and the resulting primary surplus – of nearly 4 per cent – stands among the highest in Europe. The rapid primary balance adjustment, supported by tight monetary and – until recently – incomes policy, has facilitated the achievement of a reduction in inflation and subsequently in interest rates. These developments bring closer the prospect that a virtuous circle could develop whereby further fiscal consolidation is facilitated by declining interest servicing on government debt. However, at end-1995 fiscal imbalances still remain large and substantial further progress is needed: the underdeveloped revenue base in conjunction with past fiscal slippage have left a general government budget deficit near to 9 per cent of GDP, interest payments to service the Government debt equal to 35 per cent of general government current revenues, and the debt to GDP ratio remains above 110 per cent.

The Government's strategy for attaining fiscal consolidation accepts that a broadly adequate tax rate structure is in place and aims to widen the tax base, especially through improved collection efficiency. Regarding expenditure, the Government has limited room for further expansion and intends to balance its social priorities with efforts to control spending inefficiencies. It places special emphasis on controlling the behaviour of public enterprises and other public agents which benefit from the public purse. Their soft budget constraints have forced the Government to take over large amounts of debt, and have partly offset the consolidation efforts at the level of central government. The 1996 budget targets – though in line with the convergence programme – are only moderately ambitious and the Budget does not foresee the implementation of any significant new measures. It aims to enlarge the general government primary surplus by about 1½ per cent of GDP through further improvements in tax administration, while maintaining the level of primary current expenditure broadly unchanged as a share of GDP. In the environment envisaged by the Budget whereby inflation and interest rates continue to decline rapidly, the 1996 general government deficit is officially projected to decline to 7.4 per cent of GDP from 9.3 per cent in 1995. However, these conditions may not be realised as interest rates may be higher than projected, and there are risks concerning the primary balance. In general, meeting the budget target may be more difficult in 1996 than in 1995.

A situation of fiscal slippage would further complicate the conduct of monetary policy. Monetary policy has aimed to reduce inflation mainly through the maintenance of a hard drachma policy in conjunction with a moderately tight monetary stance. However, increasing capital mobility following the 1994 capital market liberalisation is reducing the effectiveness of monetary policy, and straining the Bank of Greece's capacity to sterilise the inflows. Moreover, this policy can not be sustained over a long period if it is not supported by significant progress in disinflation. In this respect, the 1995 incomes policy based on public sector wage norms has been relatively ineffective, as the public sector wage bill exceeded inflation. Moreover, these norms are having a dwindling influence as evidenced by the rapid increase in private sector wages in 1995 and the generous national collective agreement for 1996 (Figure 7).

The Greek economy suffers from structural rigidities in several critical areas, which have in part resulted in Greece's low output growth over the past two decades. Another major pillar of the 1994-99 convergence programme is accordingly the implementation of structural reform, so as to facilitate "real" convergence of the economy towards the European standard at the same time as "nominal" convergence occurs. Progress has been achieved mostly in liberalising financial markets, a topic covered in the previous *Survey*. The rigidities of the labour market are reviewed in a special chapter, while this chapter covers the other aspects of structural reform pursued since the previous *Survey,* namely measures to improve public administration, inclusive of public enterprises. Fur-

Figure 7. **NOMINAL ANCHORS**
Percentage changes



Source: Bank of Greece and OECD Secretariat.

ther progress in this field will be necessary not only for fiscal adjustment but to allow the opportunity provided by CSF II – whose implementation rate in the past has been poor – to be fully exploited by Greece.

Fiscal policy[20]

The implementation of the 1995 Budget

The main objective of the 1995 Budget was to build on the successful outturn of 1994 and, in line with the 1994-99 convergence programme, achieve a further 2 per cent of GDP increase in the primary surplus of general government. With the expectation that real interest rates would decline from the high rates registered during the defence of the exchange rate in mid-1994 and that inflation, as measured by the CPI index, would decline by nearly 4 percentage points to 7 per cent during the year, the deficit of general government was targeted to decline from 13.1 per cent of GDP in 1994 to 10.7 per cent of GDP in 1995.[21]

Table 6. **General government accounts**[1]

Per cent of GDP

	1990	1991	1992	1993	1994	1995	1996 Official
Current revenue	32.1	32.8	33.6	34.3	35.8	36.8	38.2
Direct taxes	5.5	5.5	5.3	5.6	6.8	7.3	7.5
Households	3.8	3.8	3.7	3.8	4.7	5.1	. .
Business	1.7	1.7	1.6	1.7	2.1	2.3	. .
Indirect taxes	13.2	13.8	14.8	14.3	14.1	13.5	13.9
Social security contributions	11.7	11.2	11.1	12.1	12.0	12.3	12.4
Other	1.7	2.2	2.4	2.4	3.0	3.7	4.3
Current expenditure	41.7	39.3	40.7	42.7	44.7	43.3	42.8
Consumption	15.3	14.4	13.7	13.8	14.0	14.1	14.2
Wages	12.7	11.6	11.0	11.0	10.8	10.9	11.0
Non-wages	2.6	2.8	2.7	2.7	3.2	3.3	3.1
Interest payments	10.2	9.4	11.7	12.8	14.2	12.9	12.4
Transfers and subsidies	16.2	15.5	15.3	16.1	16.5	16.2	16.2
Business	1.2	0.6	0.5	0.6	0.5	0.5	0.4
Households	15.4	15.2	15.2	15.7	16.3	15.9	16.0
Rest of the world	–0.4	–0.3	–0.5	–0.2	–0.3	–0.1	–0.1
Net saving	–9.6	–6.5	–7.1	–8.3	–8.8	–6.5	–4.6
Net capital transfers[2]	3.8	1.9	2.1	2.9	0.5	–0.1	–0.1
Fixed investment	2.8	3.1	3.1	2.9	2.8	2.8	2.9
Net lending	–16.1	–11.5	–12.3	–14.2	–12.1	–9.2	–7.4
Primary balance	–6.0	–2.1	–0.6	–1.4	2.1	3.7	5.1
Memorandum item:							
Net lending							
Central government	–18.7	–13.9	–14.3	–15.8	–14.2	–11.3	. .
Social security and hospitals	2.9	2.3	1.9	1.5	1.9	1.8	. .
Regional government and other public entities	–0.3	0.1	0.1	0.2	0.2	0.3	. .

1. On a national accounts basis.
2. Includes transfers from EU to support the investment budget.

Source: Ministry of National Economy.

Most of the burden of adjustment was to be borne by the central government, while the surplus balances of the other levels of general government – comprising mainly the regional governments and the social security funds – was to remain broadly unchanged at almost 1 per cent of GDP.

The main instrument of fiscal policy was the introduction of a series of measures to enhance revenues. Most importantly, income tax brackets were not

Table 7. **Budget plans and outcomes**

Billion drachmas

	1993	1994		1995		1996
	Outcome	Budget	Outcome	Budget	Estimates	Budget
	Administrative basis					
CENTRAL GOVERNMENT						
Current expenditure	6 857	8 329	8 251	8 846	8 860	9 572
(Per cent of GDP)	32.5	36.0	34.7	34.9	33.5	32.9
of which:						
Salaries and pensions	2 039	2 273	2 269	2 537	2 578	2 844
Goods and services	418	479	460	508	523	593
Grants and subsidies	1 104	1 226	1 230	1 294	1 405	1 485
Interest	2 334	3 316[1]	3 340	3 355	3 355	3 355
Transfers to the EU	273	290	309	352	315	385
Restitution of revenues to third parties	295	356	355	397	417	469
Current revenue	4 971	6 060	5 862	6 935	6 730	7 710
(Per cent of GDP)	23.6	26.2	24.7	27.4	25.4	26.5
Direct taxes	1 355	1 739	1 773	2 220	2 137	2 415
Indirect taxes	3 189	3 775	3 462	4 008	3 845	4 466
Non-tax revenue	426	546	627	707	748	829
Transfers from the EU	105	105	142	167	95	145
Investment budget balance	–439	–616	–498	–585	–620	–600
Transfers from the EU	272	374	288	451	400	575
Budget balance	–2 325	–2 885[1]	–2 887	–2 496	–2 752	–2 462
(Per cent of GDP)	–11.0	–12.5	–12.2	–9.8	–10.4	–8.5
Primary deficit	9	431	453	859	603	894
(Per cent of GDP)	0.0	1.9	1.9	3.4	2.3	3.1
PUBLIC ENTITIES[2, 3]	–58	–131	9	–173	–26	–94
(Per cent of GDP)	–0.3	–0.6	0.0	–0.7	–0.1	–0.3
Public entities[3]	–660	–904	–747	–857	–817	–951
(Per cent of GDP)	–3.1	–3.9	–3.1	–3.4	–3.1	–3.3
PUBLIC ENTERPRISES[2]	–72	–66	–15	–75	–50	–58
(Per cent of GDP)	–0.3	–0.3	–0.1	–0.3	–0.2	–0.2
Public enterprises	–755	–845	–931	–1 085	–965	–1 191
(Per cent of GDP)	–3.6	–3.7	–3.9	–4.3	–3.6	–4.1
Memorandum items:						
Debt assumptions and equity purchases	3 842[4]	..	1 155[5]	..	113	..
Capitalised interest	359	..	119	..	133	..
Increase in Government reserves	380	..	163	..	..	..
Total	4 581	..	1 437	..	246	..
(Per cent of GDP)	21.7	..	6.0	..	0.9	..

Table 7. **Budget plans and outcomes** *(cont.)*

Billion drachmas

	1993	1994		1995		1996
	Outcome	Budget	Outcome	Budget	Estimates	Budget
	Cash basis					
Central government[6]	–3 069	..	–3 022	..	–3 076	..
(Per cent of GDP)	–14.5	..	–12.7	..	–11.6	..
Public entities	295	..	517	..	502	..
Public enterprises	6	..	–205	..	–9.1	..
Public sector deficit	–2 768	..	–2 710	..	–2 584	..
(Per cent of GDP)	–13.1	..	–11.4	..	–9.8	..

1. Includes the Dr 462 billion falling due on the last day of the year (a holiday) which in the original 1994 budget presentation was pushed into 1995.
2. Including receipt of grants and EU funds.
3. Only the 7 most important entities.
4. Includes Dr 3 019 billion arising from the Government's settlement of its outstanding accounts with the Bank of Greece according to the Maastricht treaty.
5. Includes the Government takeover of military debt amounting to Dr 924 billion.
6. Includes capitalised and accrued interest amounting to Dr 360 billion in 1993, Dr 259 billion in 1994 and Dr 107 billion in 1995.

Source: Ministry of Finance.

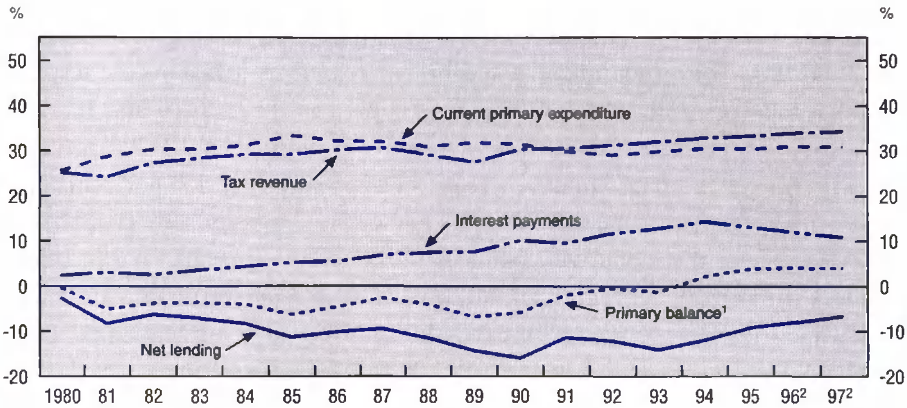
adjusted for inflation (for the fourth consecutive year), the highest marginal rate was raised from 40 to 45 per cent, and presumptive taxes were newly imposed on the self-employed (farmers, liberal professionals, and unincorporated entrepreneurs).[22] Furthermore, the incentives for the collection of back taxes introduced during the second half of 1994 were continued (and would have a full year's effect). Finally, the 1995 Budget incorporated substantial non-tax revenues and planned to introduce measures to reduce tax evasion through improved tax administration.[23] Primary current expenditure was budgeted to grow broadly in line with nominal GDP, reflecting mostly wage increases, and the recruitment of new civil servants – including the re-hiring of previously released civil servants as required by judicial decision.[24] The budget also reflected the Government's social priorities and contained increases in various benefits (including family benefits, teachers' benefits, and overtime pay for policemen), resources for the re-instatement of pensions to members of the national resistance, and increased subsidies to agriculture and to the areas affected by the 1994 earthquakes (Grebena, Kozani and Aigion).[25]

The target for the 1995 general government budget was met by a comfortable margin – the outturn was an estimated 9.2 per cent of GDP compared with the convergence programme target of 10.7 per cent, and the primary surplus increased to 3.7 per cent of GDP (Tables 6 and 7).[26] However, the amelioration of the primary balance was about ½ per cent of GDP smaller than anticipated and the overall overperformance of the budget relative to the convergence programme somewhat less than these numbers indicate. First, the budget experienced revenue shortfalls (albeit from an ambitious target) which were more than compensated for by much larger than anticipated savings on interest payments, as the decline in domestic interest rates was larger than projected and the instruments applied to the deficit financing were less costly (see below). The reduction in the average 12-month Treasury bill rate from 19 per cent in 1994 to 15.5 per cent in 1995, permitted interest payments on the government debt to decline by 1½ per cent of GDP, approximately 1 per cent of GDP more than envisaged. Second, proper national accounting during 1995 led to the detection of additional receipts amounting to approximately 1 per cent of GDP per annum starting from 1992, which derived from the 1990-92 reforms to the social security system.[27] After adjusting for this one-time improvement, the deficit would have overperformed by approximately ½ per cent of GDP compared with the convergence programme target.[28]

Despite the measures introduced by the Government, the continued weakness of tax collection meant that general government tax revenues registered only a small increase in their share of GDP (Figure 8). For the most part, this development reflects the continued underperformance of VAT receipts, which has been a common phenomenon in most other EU countries following the introduction of the common customs area in 1993. With VAT collection no longer undertaken at the border, evasion of VAT is considered to be easier under the new destination principle of payment. However, the lower receipts may also reflect the sources of output growth and the composition of trade. Investment receives privileged tax treatment and Greece's trade is increasingly concentrated towards other EU countries, which may also result in more favourable tax treatment for such imports. The presumptive tax is estimated by the authorities to have enhanced revenues (contributing to an increase in household income taxes and to a rebalancing of the structure of personal income taxes between employment income and other sources of personal income), though they acknowledge

Figure 8. **MAIN COMPONENTS OF THE GENERAL GOVERNMENT BUDGET**

Per cent of GDP



1. Net lending excluding interest payments.
2. OECD projections.

Source: OECD Secretariat.

that it is difficult to disentangle the effects of bracket creep, the presumptive tax, and the higher than anticipated nominal GDP and wage growth. In the event, even though corporate taxes performed well on the back of high enterprise profits, especially for the large public enterprises such as the national telephone company (OTE), overall income tax receipts achieved only a small improvement in their share of GDP, as tax receipts from interest income declined significantly due to lower interest rates and the expanded use of derivative instruments. The Government considers the delays in the implementation of the measures to reduce tax evasion and improve tax administration to be the main reason for the tax revenue shortfalls. Partly compensating for this tax shortfall, the sharp recovery in real wages, the small increase in employment, as well as increases in social security contribution rates in the public sector, produced a surge in social security contributions. Finally, the performance of non-tax revenue exceeded expectations, and increased by 0.6 per cent of GDP, due to large dividends from the Bank of Greece and public enterprises, especially OTE, interest revenue from the government's high reserves, and the yield from publicly-run games of chance.

In line with the overall budgetary strategy, current primary expenditures remained constant as a share of GDP in 1995. The composition of expenditures became more skewed towards government wages in 1995, while social security outlays contracted as a share of GDP (in part reflecting the high increase registered in 1994). The government wage bill increased at a fast pace, despite the restrained incomes policy (pay increases of 3 per cent in January and July, and a catch-up of 0.8 per cent), mainly as a result of a more than 10 000 increase in civil servants (an average annual increase of approximately 1½ per cent) and an increase in wages per head of about 13 per cent. The wage bill growth would have been greater if productivity bonuses introduced during the year in selective ministries (reportedly averaging about 20 per cent per person) had been included in the wage bill. Developments in expenditures were also influenced by governmental policy decisions during the year as well as several unexpected factors. Farmers' pensions were increased in the latter part of the year[29] and early retirement benefits were provided as part of the restructuring of Olympic Airways. In addition, prior to the implementation of new legislation devolving restricted powers to the Prefectures (Regional Self-Governance – Second Degree), the Government cleared outstanding liabilities.[30] Finally, two unexpected judicial decisions will have long-term repercussions on the budget. The courts decided that the Government had to grant retroactive salary benefits to civil servants who had been discriminated against in the early 1990s by not receiving salary bonuses given to other classes of civil servants, and subsequently to judges whose salary had not increased as required by law.[31]

Regarding capital expenditures, public investment expenditure, with support from CSF II resources, experienced a marked increase during 1995; however, an increasing share of such investment expenditure is falling outside the general government budget. In contrast, the downward trend experienced by net capital transfers since 1990 continued, and this item declined by 0.6 per cent of GDP in 1995. The main factor behind this development has been the decline in debt assumptions, which derives from the large outstanding stock of government guarantees (equivalent to 8.5 per cent of GDP at end-1995). For the most part, they were issued to public enterprises in the 1980s, and are currently being called (an average of 1½ per cent of GDP per year during 1990-95, though at a diminishing rate). The issuance of new guarantees has also declined during the past few years, yet it still remains substantial. New legislation introduced in 1995 aims to control the moral hazard problems stemming from these guarantees (see below).

The overall public sector borrowing requirement (PSBR) was broadly in line with the general government deficit as the public enterprises registered a marked improvement during 1995 and ended the year with smaller financing requirements. Though the public enterprises are reputed to have weak accounts, which are available with long lags, their performance appears to have the same roots as for the private sector, namely the pick-up in economic activity and the reduced financing costs. Reinforcing these factors, wage awards in public enterprises were below those in the rest of the economy – rising by 10 per cent compared with 13½ per cent in the private sector, after rising by 19 per cent in 1994 – and their administered prices rose broadly in line with inflation.

The financing of the PSBR altered significantly during 1995 compared with previous years. With the rapid development of a secondary market for government paper, the Government turned increasingly to the non-bank public to meet its financing needs, and continued the gradual reduction in its recourse to banks' resources. The Government also faced a difficult choice between the use of domestic and the lower cost foreign-currency denominated funds (to which it had turned frequently in 1993-94, both through the issuance of foreign currency linked domestic debt as well as external debt). Such financing has resulted in a build-up in foreign-currency denominated debt to approximately one quarter of total central government debt, and its use increases liquidity to the economy. Specifically, after including the Government's over-financing of the deficit in order to build up its reserves, about 70 per cent of the 1995 financing requirement was met by the sale of government securities to the non-bank public, about 20 per cent from external sources, and only about 10 per cent from the banking system.[32] Reflecting a combination of both demand and supply factors, there was a marked increase in the sale of 3, 5 and 7 year bonds relative to shorter term Treasury bills. This compositional change lengthened the maturity structure of the Government's debt, which had been quite short (abstracting from the effect of bonds issued at the time of share-capital increases).[33] Government bonds carry coupons which float with the 12-month Treasury bill – thus leaving the Government's exposure to interest rate risk unaffected – but reduce the debt servicing in the short run, by pushing interest payment forward.[34]

The significant progress in reducing the deficit fell short of permitting the stabilisation of the debt to GDP ratio. During 1995, the debt of general government according to the Maastricht definition increased from 110.4 to 111.7 per cent of GDP, with the debt of the overall public sector an estimated 9 per cent of GDP higher (Table 8). In addition to the deficit reduction, significant progress has been achieved in reducing the various "below the line" factors leading to a debt build-up, including the issuance of restructuring bonds at the time of equity participation in public entities and state-owned banks, which have averaged a couple of percentage points annually. In 1995, the main "below the line" item

Table 8. **Public sector debt**

Billion drachmas

	1990	1991	1992	1993	1994	1995
Central government	10 328	13 473	16 969	24 078	27 910	31 782
Domestic	8 249	10 707	13 630	19 596	22 522	26 110
of which:						
Treasury bills	4 833	4 974	5 601	5 766	7 533	8 422
Government bonds	1 904	4 035	6 017	9 551	10 438	12 804
of which:						
Rescheduled	626	2 766	4 220	5 397	5 179	5 291
Foreign currency denominated	849	939	976	1 702	1 879	1 574
Bank of Greece	1 090	1 214	1 347	3 444	3 622	3 866
Other	422	484	665	835	929	1 018
External	2 079	2 766	3 339	4 482	5 388	5 672
Local authorities	58	63	71	80	87	90
Social insurance organisations	533	434	343	369	221	220
Other	106	112	118	96	96	94
Inter-governmental debt	419	555	794	1 031	2 091	2 609
General government debt	10 606	13 527	16 707	23 592	26 223	29 576
Domestic	8 517	10 751	13 358	19 100	20 825	23 898
External	2 089	2 776	3 349	4 492	5 398	5 679
Public enterprises [1]	1 641	1 621	1 790	2 021	2 486	2 410
Public sector debt [2]	12 247	15 148	18 497	25 613	28 709	31 986
Memorandum items:						
Debt as a per cent of GDP						
Central government	78.6	83.0	90.9	114.1	117.5	120.0
General government	80.7	83.3	89.4	111.8	110.4	111.7
Public sector [2]	93.2	93.3	99.0	121.4	120.9	120.8

1. Break in series in 1992.
2. Public enterprises inter-governmental debt has not been excluded from total debt.

Source: Ministry of Finance.

included the bond issued for the first tranche of a share capital increase for the Industrial Development Bank (ETVA) amounting to 0.5 per cent of GDP.

1996 fiscal policy

Fiscal policy in 1996 builds on the strategy conceived over the past two years. The three-pronged approach encompasses the consolidation of reforms regarding revenue enhancement, a further increase in public sector and human capital investment through a more rapid and efficient implementation of the EU-supported CSF II programme, and meeting social priorities through a more efficient use of resources. The Budget was framed in a favourable macroeconomic environment. Output growth was projected to accelerate to 2.5 per cent from 2 per cent in 1995. Inflation, as measured by the CPI, was projected to decline to 5 per cent during 1996 from 8.1 per cent during 1995, and thereby permit the benchmark 12-month Treasury bill to average 12 per cent in 1996 (implying a decline from 13.9 per cent at end-1995 to near 10 per cent at end-1996). Under these conditions, and the proposed policies, the fiscal policy objective is to increase the general government primary surplus to over 5 per cent of GDP from an estimated 3.7 per cent in 1995, and obtain a general government deficit of 7.4 per cent of GDP compared with an estimated 9.2 per cent in 1995.[35]

The improvement in the primary balance is again envisaged to originate from revenue enhancement. The five main sources are: *i)* another year of bracket creep as tax brackets are maintained constant in nominal terms, *ii)* a revaluation of the objective criteria (pertaining to real estate) – used for the determination of income tax – which have been held constant for three years, *iii)* an increase in excise taxes on alcohol and energy products, as well as tobacco prices and annual car registration fees, *iv)* further increases in non-tax revenue, especially dividends from public enterprises, the new casinos, and the Bank of Greece, as well as fines on illegal housing and profits from publicly-sponsored gambling, and *v)* the implementation (delayed from 1995) of measures to fight tax evasion. These five sources of revenue enhancement are estimated to yield about 1 per cent of GDP and raise the ratio of tax revenue to GDP to 34 per cent. In addition, the effort to collect on outstanding tax cases will be continued and expanded to the case of real estate inheritance taxes.

On the expenditure side, the 1996 Budget aims to keep current primary expenditure a constant share of GDP for the third consecutive year. Despite the tight civil servant incomes policy (increases of 2.5 per cent in January and July, along with a 2 per cent catch-up component for the deviation between the realised and initially projected inflation during 1995), the general government wage bill is envisaged to increase faster than inflation (11.5 per cent compared with the authorities' assumption of 7.3 per cent for the private consumption deflator). To offset these outlays, the Government envisages cuts in discretionary current spending, arising mostly from an approximately 5 per cent reduction in real terms in the purchase of goods and services. A large part of the savings is expected to occur with the rest of general government as the central government budget aims to curtail their transfers, especially to the multitude of public entities not responsible for the critical social areas of education and pensions.[36]

Budgetary difficulties could be larger in 1996 than in 1995, as several unfavourable factors are emerging. The stubbornness of inflation is reducing the likelihood of the interest rate assumption of the budget being observed as Treasury bill rates have averaged over 13 per cent through June, and every 1 percentage point deviation from the budget assumption of 12 per cent would add approximately 0.3 per cent of GDP to interest expenditure in 1996, which on an annual basis will result in an expenditure increase of 0.8 per cent of GDP. Adding further to the interest payment obligations, during the first five months of 1996 the Government has been replacing maturing foreign-currency denominated debt with more expensive drachma denominated debt. Pressure on the expenditure side may also arise from extended use – although off budget – of productivity bonuses for personnel in selective ministries, as well as from the potential for increased defence spending. In view of the extension of such bonuses to an increasing larger number of ministries, the Government announced its intention in late May 1996 to introduce a new higher salary pay scale for civil servants starting in 1997, while at the same time eliminating many bonuses. In addition, the Government has awarded a complementary allowance to low income old-age pensions, starting from mid-1996, which is estimated to cost 0.06 per cent of GDP in 1996 and 0.12 per cent of GDP on an annual basis. To counteract the mounting pressures on the Budget, the Government also announced in late May, 13 measures which aim to improve control of public agencies expenditures (see Annex I). The main measures comprise *i)* a reduction in the number of civil servants by limiting, over a three year period, hirings (excluding teachers) to 30 per cent of retirements, *ii)* at the time of 1997 Budget, the elimination of public entities whose initial purpose has been accomplished, those whose services are no longer needed, or ones too costly to maintain, and *iii)* forcing public entities to submit three-year programmes which achieve substantial reductions in transfers from the State Budget. Finally, in an effort to improve transparency, special accounts currently operating outside the Budget will be brought into the Budget. In contrast to developments on the expenditure side of the Budget, the revenue objectives have been so far observed in nominal terms despite small policy changes. First, in an effort to dampen inflation, the Government has temporarily reduced fuel consumption taxes, which should have a marginal effect on the 1996 Budget if lifted as expected in July. Second, the Government has revoked a private casino license, which implies the loss of dividends and necessitates the repayment of the license fee. Counteracting these two factors is the unbudgeted non-tax revenue from the sale of a transmission licence for a third mobile telephone system to OTE. Overall, the preliminary data for the first five months of 1996 indicates that total revenues to the state budget increased by approximately 15 per cent, which is in line with budget expectations.

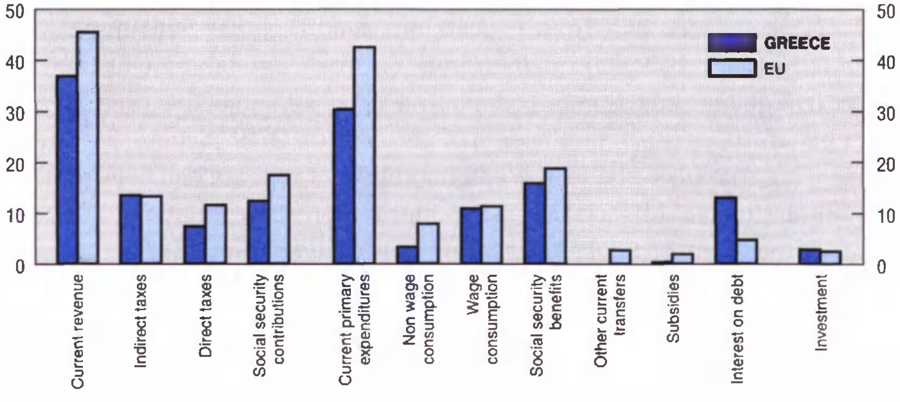
Medium term fiscal adjustment

Since 1990, large strides have been made in reducing fiscal imbalances, and the cumulative primary balance improvement was extended to 10 per cent of GDP in 1995. One half of the fiscal consolidation has come from revenue enhancement and one half from expenditure cuts. Progress with respect to the former reflects a broadening of the direct tax base through a reduction of tax evasion (*e.g.* the introduction of presumptive taxes and objective criteria) as well as bracket creep, and has produced a 2 per cent of GDP increase in direct tax revenues. It also reflects the increased importance of non-tax revenues (2 per cent of GDP) and increased social security contribution rates following the pension reforms (1 per cent of GDP). Regarding expenditures, the bulk of the savings (almost 4 per cent of GDP) consists of reduced capital transfers, albeit from the high level attained in the early 1990s. These transactions represent the government's payment on called guarantees, the bulk of which had been issued to public enterprises in the second half of the 1980s. During this five year period, current primary expenditure contracted only marginally as a share of GDP (by 1 per cent), due mostly to the decline in real terms of civil service pay (which has started to recover recently in line with private sector developments). The fruit of these efforts was a primary surplus of 3.7 per cent of GDP in 1995, which is high compared with other EU countries. However, the primary surplus is offset several times over by interest payments on the government debt equivalent to 13 per cent of GDP, compared with an average for the EU about one-third as high (Figure 9).

Based on announced policies, and reflecting more caution than the authorities regarding the short-term yield from tax administration, the OECD Secretariat forecasts that the primary surplus will remain near 4 per cent of GDP in 1997 compared with the authorities' current projections of 5.7 per cent.[37] With projections for real interest rates to remain near 5 per cent and annual output growth near 2 per cent, a primary surplus of about 3½-4 per cent should suffice to stabilise, but not to achieve a distinct reversal in the debt to GDP ratio from the level of about 110 per cent of GDP. To avoid the adjustment fatigue that would necessarily arise from a drawn-out adjustment effort, a clear (and sustained) turnabout in the debt dynamics would be required, which would initially

Figure 9. **THE STRUCTURE OF THE GENERAL GOVERNMENT BUDGET: A COMPARISON WITH THE EU**

As a per cent of GDP, 1995



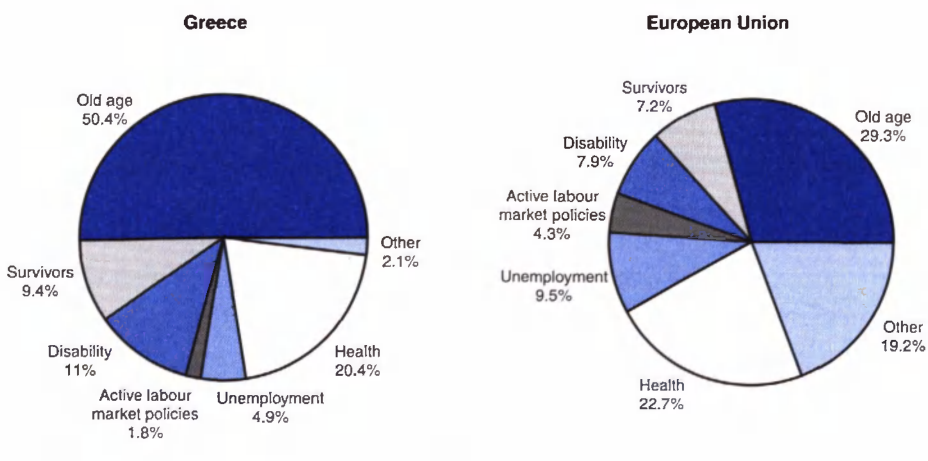
Source: OECD Secretariat.

require a primary surplus a few percentage points of GDP above the current one. Achieving such a position rapidly would provide the added advantage of reducing the inflation and risk premia on the government debt, and thus accelerate the adjustment process. Under these circumstances, what options are available to achieve additional and timely fiscal consolidation?

On the revenue side of the budget, a comparison with other EU countries indicates that the revenue base is weaker. Moreover, the collection of back taxes, which has been a significant revenue source over the past two years (almost 1 per cent of GDP) will probably be depleted in 1996. However, the potential for improvement appears to rest mostly with collection efficiency rather than raising tax rates. Greece's largest source of revenue is indirect taxes, with approximately half originating from VAT and half from diverse consumption and other transaction taxes. The emphasis on reducing ingrained inflationary expectations restrains further recourse to raising indirect tax rates. In addition, their yield is already at the EU average and the standard VAT rate of 18 per cent is comparatively high. Of course, collection efficiency would clearly be beneficial, especially as regards VAT on imported goods where evasion is widespread. The second largest source of revenue is social security contributions. Again the room to raise rates is limited since the contribution rates are already at the EU average, and with unemployment becoming an increasingly larger problem, raising them further could be counterproductive (see Chapter IV). The largest shortfall with respect to the EU average concerns direct taxes, and personal income taxes in particular. For the most part, the lower yield reflects tax evasion, especially by the self-employed. Moreover, the tax rate schedule is below the EU average as the typical production worker faces a marginal rate of 5 per cent and owes personal income taxes equivalent to about ½ per cent of gross income.[38] However, raising personal income tax rates before reducing tax evasion would perpetuate the unfair tax burden existing between the salaried and self-employed. An alternative approach would be to enhance direct taxes through the reduction in the host of tax expenditures which apply to personal and corporate incomes.[39]

Hard choices have to be faced on the expenditure side of the budget. On the one hand, investment expenditure needs to be expanded in order to co-finance the CSF II programme critical for alleviating the structural constraints in the Greek economy. On the other, current primary expenditures are already below the EU average in order to compensate for the weak revenue base combined with the high interest payments. With discretionary spending (non-wage government consumption plus subsidies) constituting a small share of current primary expenditures (15 per cent), the choice of areas where savings can be introduced is limited, suggesting a need to cut entitlements in order to achieve sustainable expenditure reduction. The social security system at first glance appears to provide a level of services near the EU average; however, its decomposition reveals that over 50 per cent of these expenditures are directed to old-age pensions, compared with half as much in the other EU countries (Figure 10), while the age distribution in Greece is slightly younger.[40] This evolution reflects the fact that the pension system remains among the most generous in the EU, with the after-tax replacement ratio exceeding 100 per cent.[41] The pension reforms undertaken at the beginning of the 1990s are estimated to have granted a reprieve to the financial position of the social security system to about the end of the decade.[42] Thereafter, unfavourable demographic trends will create additional pressure on old-age pensions and health expenditure, and the increasing unemployment rate – following from the current restructuring of the economy – will

Figure 10. **SOCIAL EXPENDITURE**
1993



Source: OECD, Social expenditure statistics of OECD Members countries.

necessitate additional expenditures on active and passive unemployment benefits. Under these conditions, with the determination of a fundamental reform strategy likely to take time to formulate, short term savings in this area could be achieved through a strict application of the overall nominal cap which legislation requires to be imposed on total pension receipts, but so far has not been implemented.[43] Regarding personnel expenditure, neither the number of general government employees nor their per capita wage is generous compared with the EU average (though below average wage benefits are compensated by other perks, including improvident pension benefits for the current generation of civil servant pensioners). However, acknowledging the difficulty in measuring productivity in non-market services, that of Greek general government employees is considered to be below that of their counterparts in the EU, partly due to their misallocation between ministries as well as between levels of government. Gradual savings in this area could be obtained through a strict application of a ceiling on hiring; a 1 per cent reduction in civil servants is estimated to produce savings of about 0.1 per cent of GDP per year.

The effort to restructure entitlement benefits should be complemented by measures to achieve short-term budgetary savings. The primary candidate appears to be an improved performance by public institutions and enterprises. In addition, the transfers from the central government to the rest of general government are large, and include transfers to a plethora of small state organisations, whose original purpose may no longer be necessary (*e.g.* several agriculture-related bodies, and small social assistance institutions). Along similar lines, many public entities automatically receive fees which are not controlled by the budget (so called third party taxes and expenditures which amount to 1.5 per cent of GDP). Since certain of the counterpart expenditures may also no longer be required, eliminating these automatically earmarked transfers could bring about budgetary saving and eliminating the fee altogether would permit a reduction in the effective tax burden. Pressure on expenditure may also arise from the recent creation of autonomous levels of regional government, which may duplicate the services provided by central government. Regarding public enterprises, their improved management would not only reduce the need for direct budgetary subsidies but would also reduce the need to finance their accumulated deficits as is now done through debt consolidations and debt assumptions. These transactions have contributed importantly to the build up of government debt over the years, as they have averaged several percentage points of GDP per year. In the end, the sale of government assets in the form of full or partial privatisations may be essential to bring down the debt level and hence achieve smaller deficits in the future. Such an approach would have the additional benefit of exposing sheltered enterprises to competitive forces and more modern methods of operation, especially if large strategic investors are permitted to manage the firms. It would also reduce the size of Government to more manageable proportions.

Monetary policy

1995: Objectives and outturn

The primary objective of monetary policy in 1995 was to achieve a further substantial reduction in inflation, while at the same time supporting the envisaged upswing in economic activity. The specific inflation target, as set by Government, was a reduction in the 12-month rate of consumer price inflation to 7 per cent by end-year, compared with 10.8 per cent at end-1994. The main element of the Bank of Greece's disinflationary strategy consisted of the continued use of a ''hard drachma'' as the economy's nominal anchor, whereby the depreciation of the exchange rate is less than the inflation differential with Greece's trading partners, and places downward pressure on domestic inflation through the importation of world prices. To support the exchange rate, the Bank of Greece aimed to contain liquidity to a level compatible with the projected increase in aggregate expenditure. Consistent with this strategy and the objectives of monetary policy, the two intermediate targets of monetary policy announced for 1995 comprised a pre-announced 3 per cent downward crawl of the exchange rate against the Ecu during the year (compared with an expected inflation differential of about 5 per cent), and broad money growth (M3) in the range of 8-11 per cent, also during the year. In view of the enhanced international capital mobility following the liberalisation of short-term capital movements in mid-1994, as well as the steady deregulation of the banking system over the past several years, the Bank of Greece announced the intention of monitoring developments using a broader liquidity indicator. Thus, the 1995 monetary programme also contained a range for the growth of M4 (comprising M3 plus government securities held by the non-bank public with a maturity of no more than one year) of 11-13 per cent during the year. Finally, based on official projections for developments in the balance of payments and the budget, the expansion of total credit of the banking system consistent with the growth of M3 was announced to be in the range of 6-8 per cent during 1995.

The evolution of circumstances during 1995 posed – for the second year in a row – a larger than initially expected challenge to monetary policy. Liquidity creation from the external accounts was substantially higher than expected as a result of the increased credibility of the hard drachma policy. A large competition-induced reduction in domestic bank lending rates added further to liquidity. In addition, monetary policy was challenged by the increased instability of the monetary aggregates, reflecting the use of derivative instruments and the switch in the portfolio composition of asset holders, especially to longer-term instruments. In response, the Bank of Greece had to resort first to sterilisation operations and subsequently to more radical instruments of monetary control, including changing reserve requirements, as greater capital mobility reduced the effectiveness of raising intervention rates.

The credibility of the exchange rate policy was first boosted following the successful defence of the drachma in May 1994 in advance of the capital market liberalisation. In conjunction with the high interest rate differential, large external capital inflows were attracted to Greece, and forced the Bank of Greece into substantial sterilisation operations, especially during the fourth quarter of 1994. The capital inflows strengthened in 1995. In view of the continued credibility of the exchange rate anchor, firms exhibited a preference for foreign-currency denominated credits as their interest cost was much lower and they also provided tax advantages.[44] The Bank of Greece reacted to the excess liquidity creation through sterilisation operations which averaged about Dr 850 billion during the first half of 1995, and cost an estimated Dr 70 billion (¼ per cent of GDP).

Partly as a continuation of the process of financial liberalisation but also to satisfy the demand for foreign-currency denominated credits by firms, and thus to stem the capital inflows, the Bank of Greece reduced the requirement that commercial banks re-deposit foreign currency deposits at the central bank. On 28 April 1995, this requirement was reduced to 70 per cent of foreign currency deposits, effectively providing commercial banks with approximately Dr 500 billion, partly in expectation that firms' demand for foreign currency denominated credits (future credits or repayment of existing credits intermediated by domestic financial institutions) could be met through resources of residents, thereby preventing a build-up in external debt. However, the reduction in the re-deposit requirement was also a large source of liquidity.

At the same time, commercial banks developed the use of various derivative instruments to satisfy firms' thirst for foreign-currency denominated credits. Their side-effect was to increase the instability of the monetary aggregates. The most common derivative instrument, the synthetic swap, effectively swapped drachma bank deposits for foreign-currency ones. The transaction provided the intermediary domestic bank with foreign-currency denominated resources which it could on-lend to domestic firms.[45] Such asset transformations led to reductions in the monetary aggregates, which diminished their usefulness as indicators of liquidity.[46]

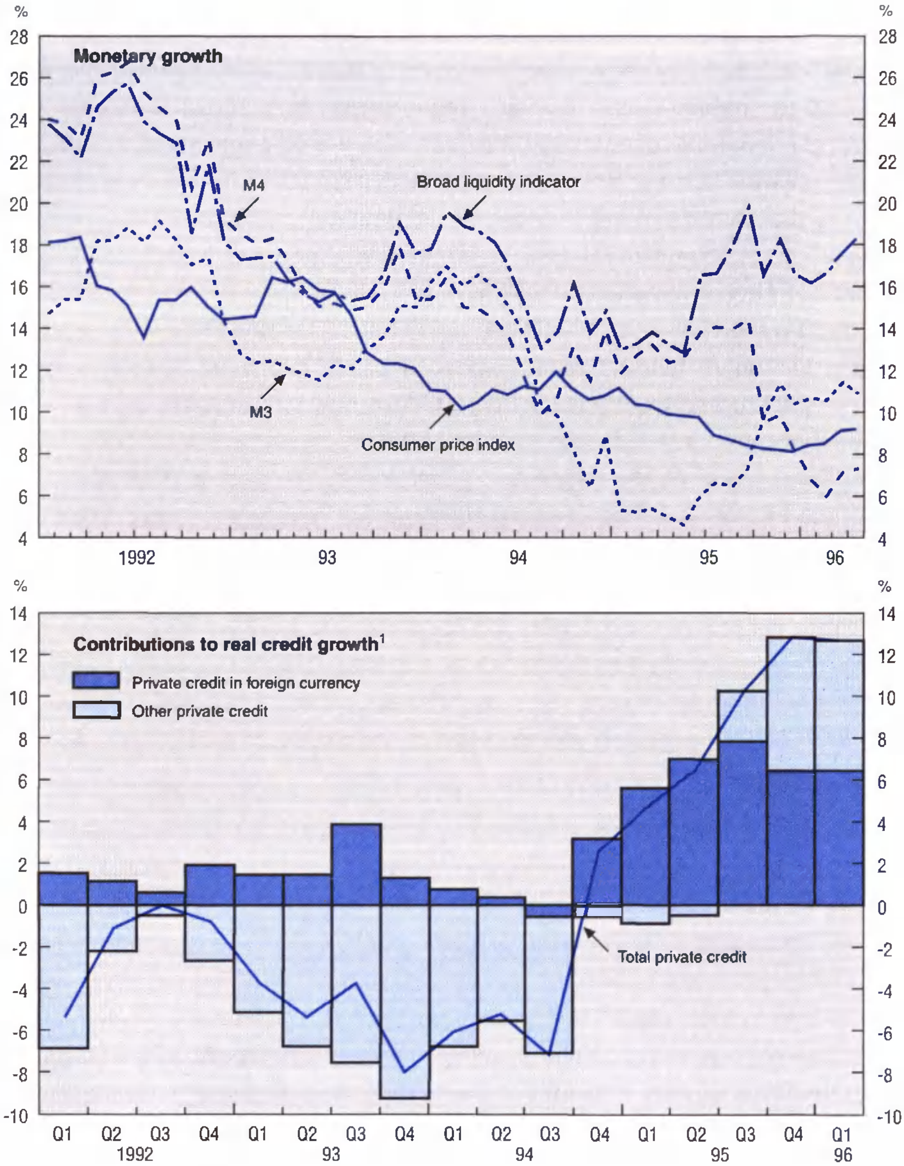
In response to the continued excess liquidity in the banking system, and in an attempt to check the use of the derivative products, the Bank of Greece introduced a gradual increase in reserve requirements from 9 to 11 per cent between August and October 1995 and broadened their coverage to include liabilities to non-residents (a necessary transaction in the creation of the synthetic swap) with a maturity up to two years, including drachma and foreign-currency deposits, and loans from financial institutions. This measure is estimated to have absorbed in total at least some Dr 400 billion of liquidity from the banking system, dampened the demand for synthetic swaps, and permitted the Bank of Greece to unwind its sterilisation operations.[47]

The variability and thus the interpretation of the monetary aggregates were also affected by portfolio shifts towards longer-term maturities. Following the extension of the 15 per cent interest withholding tax to repo transactions in April 1994, asset holders' preferences turned to tax-less government securities. During 1995, commercial banks sold sizeable amounts of government paper through the secondary market to the non-bank private sector (which necessitated the broadening of the definition of M4).[48] However, the interpretation of the development of even the broader measure of liquidity was affected by the increased demand for securities with maturities over one year, reflecting their relatively higher yield.[49] The above developments led to the understatement of liquidity developments by M3 and M4. Though the two monetary aggregates increased, respectively, by 10.4 and 8.3 per cent during 1995, a broader concept of liquidity (as measured by M3 plus private non-bank holdings of government paper of all maturities) increased by 16.7 per cent during 1995 (Figure 11, upper panel).[50] The tax advantage of government securities is probably increasing the relative liquidity properties of the longer term instruments, perhaps making the broader measure a useful additional indicator.

The main sources of liquidity were the demand for credit from the private sector and the public sector financing requirement. In contrast to developments in 1994, the external accounts for the year as a whole contributed negatively to liquidity creation during 1995. The gradual deterioration in the current account following the investment-led increase in the demand for imports, and the release of 30 per cent of commercial bank re-deposits of foreign currency deposits with the Bank of Greece broadly offset the increased recourse to external borrowing by firms. Private sector credit, encouraged by the approximately 6 percentage points reduction in lending rates, expanded by 12 per cent in real terms during 1995 (Figure 11, lower panel). Foreign-currency denominated credits contributed most of the increase during the first half of the year before tapering off after the implementation of the measures to discourage the use of derivative instruments, and by end-year had contributed about half the increase in private sector credit.[51] Though the bulk of loans were extended to enterprises, consumer and housing loans were also notably buoyant, with the latter reflecting the introduction of new instruments, especially the first mortgage loan which contains a fixed interest payment for the first 3-7 years of the loan. The public sector's financing requirement, though smaller than in previous years, remained significant. It accounted for approximately 70 per cent of the increase in the above-described broader definition of financial assets.

Despite the difficulties of assessing monetary conditions arising from the various developments described above, the Bank of Greece's monetary policy stance remained relatively tight throughout the year. In addition to the increased reserve requirements, the Bank of Greece's intervention rate was reduced in line with inflation; the one month deposit rate in the interbank market declined from 17.8 per cent in December 1994 to 15.2 per cent in December 1995 leaving real interests above 7 per cent.[52] The headline interest rates (rediscount and lombard rates) though mostly of symbolic importance, were decreased commensurably, though in several discrete steps during the year. As a result of Bank of Greece interventions in the interbank market, base money growth was contained to 3 per cent during the year.[53] The Treasury's aggressive reduction of the yield on the benchmark 12-month Treasury-bill rate by more than inflation – from

Figure 11. **MONEY AND CREDIT**
End of period, 12 month per cent change



1. Deflated by the consumer price index.
Source: Bank of Greece.

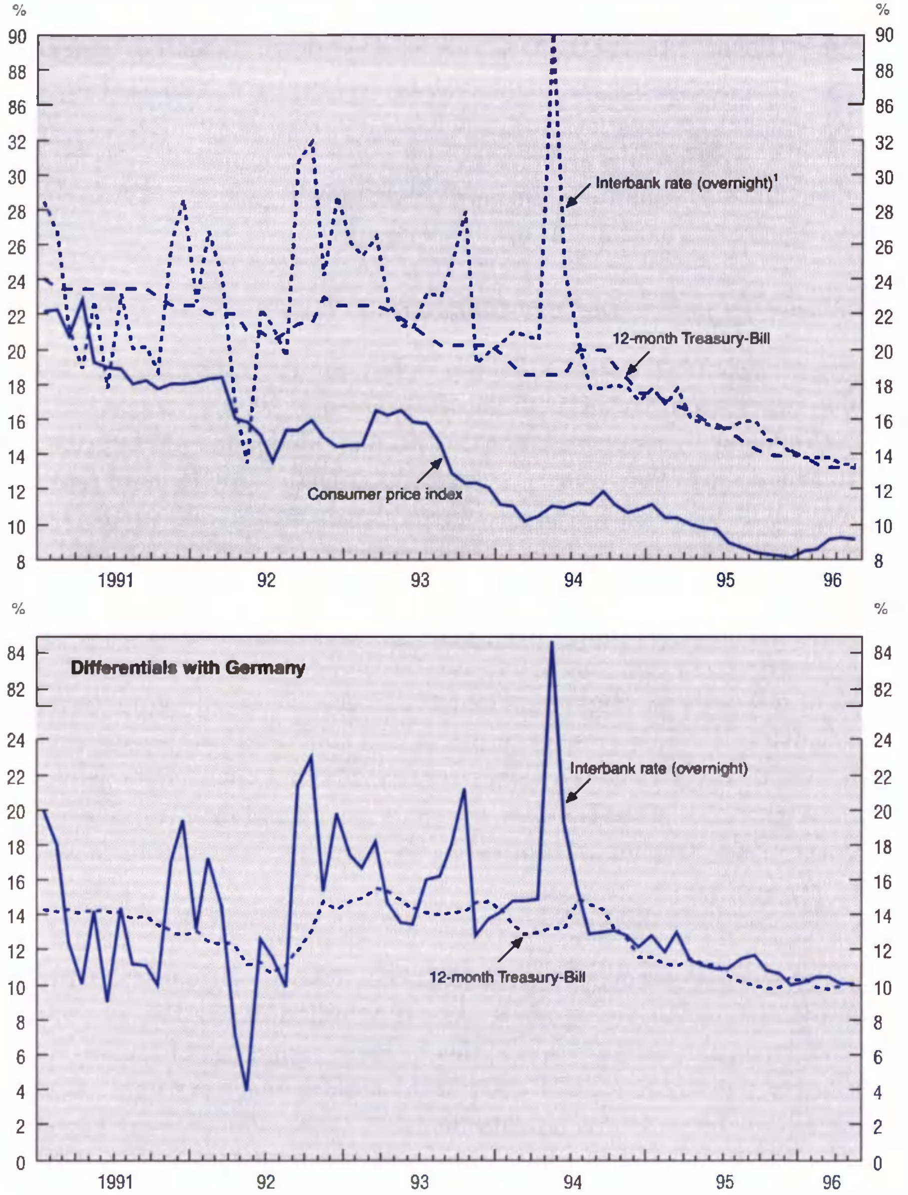
17.5 per cent at end-1994 to 13.9 per cent at end-1995 – resulted in a divergence between interbank rates and the interest rate on Treasury bills in the last quarter of the year (Figure 12), and the Government drew down its reserve denominated in foreign currency during the final month of the year, which injected substantial liquidity into the economy following the loans' conversion into drachma. Reflecting the inflation differential and country risk, interest rate spreads with Deutschemark-denominated securities remained high, albeit reduced. They currently exceed 10 per cent (unadjusted for tax treatment).

1996 monetary policy and developments

The primary objective of monetary policy for 1996 remains the continued reduction in inflation. In line with the Government's 1994-99 convergence programme, inflation – as measured by the consumer price index – is targeted to fall to 5 per cent during 1996. Consistent with this objective, the Bank of Greece has announced two intermediate targets. First, the exchange rate of the drachma *vis-à-vis* the Ecu will remain broadly stable during the year, though small deviations could be allowed to occur depending on economic or market circumstances. Many market participants have interpreted this intermediate target as a depreciation of about one per cent during the year. Second, M3 is targeted to grow within a range of 6-9 per cent. The target range has been increased by one percentage point relative to 1995, in view of the decreased confidence in the stability of the demand for this aggregate. Developments in M4 and total credit will remain privileged indicators of the stance of monetary policy and their respective growth rates during 1996 have been estimated by the Bank of Greece to be in the range of 9-12 per cent and 5-7 per cent.

The pressures on monetary policy continued during the first four months of 1996. The external accounts re-emerged as a source of liquidity, with gross official reserves increasing by about US$ 400 million during this period (about 7 per cent on an annualised basis).[54] This increase would have been larger had if not been for the Government's decision to replace maturing foreign-currency denominated debt with drachma-denominated debt, though the international reserves of the banking system have not been greatly affected as most of this debt was held domestically. At the same time private sector credit has accelerated further and increased by 21 per cent, with foreign-currency denominated credits – after having slowed down during the second half of 1995 – accounting for over

Figure 12. **INTEREST RATES**



1. Bank of Greece overnight rate.

Source: Bank of Greece, Deutsche Bundesbank and OECD Secretariat.

80 per cent of the quarterly credit expansion. As a result, the 12-month increase in total credit was 7 per cent compared with the 1996 target range of 5-7 per cent. The counterpart development has been a 11 per cent expansion in M3 compared with the target range of 6-9 per cent. The Bank of Greece has responded to these developments, and the rebound in inflation during the first months of 1996, by "hardening" further the drachma; during the first 5 months of 1996, the drachma has appreciated by about 7½ per cent against the Ecu on an annualised basis. Moreover, the Bank of Greece's contractionary open market position increased by Dr 400 billion during the 4-month period, representing about 10 per cent of end-1995 base money. With the banking system flush with liquidity and the Treasury bill interest rate and Bank of Greece overnight intervention rate set at 13.3 per cent and 13.4 per cent, respectively, interbank interest rates hovered around 13.5 in May, after briefly rising above 14 per cent. To dampen the demand for credit, especially for foreign-currency denominated borrowing, the Bank of Greece introduced measures in early June to tighten liquidity. Reserve requirements were raised by an additional one percentage point to 12 per cent, effective from June 1996, and the base on which reserve requirements are imposed was extended to include all new (including renewed) bank liabilities *vis-à-vis* non residents, independent of their maturity. In addition, reserve requirements were imposed on mortgage banks, which had been previously excluded from such a requirement, with the rate set at 2 per cent for June 1996 and increasing to 4 per cent in July. These measures are expected to initially absorb Dr 150 billion of liquidity from the banking system and gradually increase the cost of foreign currency denominated credit as more bank liabilities *vis-à-vis* non residents are included in the base on which reserve requirements are imposed. Finally, non-interest terms for consumer credit were temporarily tightened.[55]

Structural policies

Financial market reform continues to be the domain in which structural reform has the largest momentum, and the policy perseverance has started to bear fruit. Increased competition between banks permitted a 3 percentage point reduction in lending-deposit rate spreads during 1995, and contributed to the acceleration in output growth. The Government's structural policies are also focused on the introduction of reforms to improve the efficiency of the public sector, with a special focus on the control of public expenditures and the reduction of tax evasion. In part reflecting the difficulty of this undertaking, progress in these areas so far has been circumscribed.

Building on the successes in financial market reform since 1988 – when liberalisation began with the freeing of interest rates – further progress was achieved during 1995.[56] First, Greece continued to comply with EU regulations concerning financial markets, and passed legislation establishing a Bank Deposit Guarantee System in July 1995. Thus, starting from 1 January 1996, participating credit institutions contribute to the Deposit Guarantee Fund according to a diminishing marginal rate. The system would guarantee personal deposits up to ECU 20 000 per person per bank.[57] Second, the Government has undertaken a gradual recapitalisation of the development bank (ETVA) – whereby Dr 493 billion will be provided over the 5 year period 1995-99 – in an effort to conform with the objective that all credit institutions observe the BIS capital adequacy ratios, and to continue the endeavour to re-establish the viability of the specialised state-owned banks.[58] Third, new managers at the largest state-owned banks have initiated programmes to rationalise their banks' portfolios, in accordance with regulations on banks' equity participation in non-financial enterprises.

Significant advances have also been made with respect to the development of securities markets. First, the dematerialisation of government securities was achieved during 1995, which should greatly assist the development of the nascent secondary market in government paper. Another step that will greatly improve the functioning of the secondary market for government paper was the introduction of a electronic book-entry bond trading system in May operated by the Bank of Greece. Subsequently, approximately 15 per cent of the new issues of bonds and one-half of new issues of Treasury bills were issued in book-entry form.[59] Second, multi-price auctions for government floating rate bonds were re-introduced during 1995, though infrequently relied on. A related next step concerns the development of the primary and secondary markets through the establishment of a system of primary dealers, which would include institutional investors as well as commercial banks. Though the development of the market for government paper has continued to make large strides, the discrimination against corporate paper – on which interest is taxable – may be stifling the development of this market, critical for supporting future private investment. However, hesitation in the introduction of a withholding tax on government paper also reflects the existence of several institutional obstacles.[60] Another area where delays have occurred concerns the Government's intention to privatise the small state-controlled banks. Though the Bank of Crete has been restructured (at a cost of Dr 38 billion), its sale has for technical reasons taken longer than foreseen, as has been the sale of the Bank of Central Greece, the Bank of Attici and the Bank of Macedonia and Thrace.

During 1995, the Government introduced regulations to increase the effectiveness of public expenditures and enhance revenues. Regarding expenditure, the most important legislation tightened the eligibility conditions for receiving a government borrowing guarantee. This law also requires that an annual limit on government-issued guarantees be determined by the council of ministers (with a maximum limit of 3 per cent of ordinary budget expenditures), and that issuance of such a guarantee be unanimously agreed to by a committee comprising the economic ministries and the ministry concerned. In a further effort to control the use of the public purse, many new decrees were issued during 1995 which enlarge the government's control of expenditure. *Inter alia*, these include the requirement that public enterprises and entities who receive transfers from the state budget submit to the government budget proposals prior to the formulation of the state budget, as well as an upgrade of verification procedures for the use of budget resources. A second aim of Government is to achieve cost savings. To this end, a State Treasury was created whose objective will be to manage the government's reserves in a more efficient manner. The implementation of the above-mentioned 13 measures announced in late May 1996 should facilitate both Government objectives. Looking forward, the Government intends to achieve cost savings on health care through the introduction of legislation to lower pharmaceutical prices (which are administratively set) and to achieve a more effective control of prescriptions. Another important concern of the authorities relates to the efficient utilisation of CSF II resources, especially in view of the unsatisfactory project completion record under the first four-year CSF, and the difficulties encountered absorbing funds during the first year of CSF II. To address these concerns, during 1995 the Government introduced several reforms aiming to enhance project verification procedures both at the planning and implementation stages (see Box 1).

The Government's efforts to reduce tax evasion – which were planned for 1995 but have been delayed to 1996 – aim to improve control and

Box 1. **The Second Community Support Framework**

The Second Community Support Framework, (CSF II) is designed to facilitate convergence with the EU partners through a programme centred on upgrading the economy's infrastructure, stimulating private-sector industrial – and more generally productive – investment, as well as supporting programmes in the areas of health, education and training which aim to improve human capital. A supplementary objective is to create employment opportunities. The programme envisages disbursing ECU 29.7 billion (at 1994 prices) over the six-year period 1994-99, which is equivalent to 36 per cent of GDP. Grant disbursements from the EU Structural Funds are to amount to ECU 14 billion, and the remainder of the resources are to come from the Greek budget (ECU 7.1 billion) and the private sector (ECU 8.6 billion). The disbursement pattern is back-loaded, with EU disbursements initially projected to increase from ECU 1.9 billion in 1994 to ECU 2.2 billion in 1996, and to reach ECU 2.8 billion in 1999. All EU funds must be committed to projects prior to 1999, and disbursed prior to 2001. The CSF II is supported by the Cohesion Fund which is envisaged to provide an additional ECU 3.1 billion, of which ECU 2.6 billion from the EU.

Most of the CSF II funds are aimed at infrastructure (47 per cent) with the remainder directed at human resources (16 per cent) and industry/agriculture (37 per cent). Infrastructure development targets mostly transportation (26 per cent) and includes several mega-projects: the airport at Spata, the Patra-Athenes-Thessaloniki highway, the Egnatia highway (cutting horizontally across northern Greece), the Rio-Antirio bridge, the Athens and Thessaloniki metros, a railway network upgrade and a natural gas project. The Cohesion Fund is targeted one-half to transportation projects and one-half to environment projects.

The impact of the CSF II program will depend on macroeconomic developments, but the EC has estimated that SF (including the cohesion funds and community initiative transfers) will transfer an annual average of 3.7 per cent of GDP, and will account for 10.5 per cent of gross fixed capital formation over the financing period. About one quarter of the SF are expected to be transformed into imports. The CSF II's contribution to output growth is estimated to be about one per cent annually (and one-half from the SF). Moreover, implementation of the CSF II programme is expected to create 55 000 new jobs.

The strategy for implementing CSF II has been based on lessons learned from the first CSF 1989-93 programme. Co-financing from the SF was ECU 7.2 billion (at 1989 prices), which supported additional investment by the public and private sector of ECU 13 billion and ECU 1.5 billion, respectively. By end-1995, virtually the totality of the available funds had been used. The main disappointments were the failure of the aid scheme for industry to improve competitiveness and the poor quality of the training

(continued on next page)

(continued)

schemes, including an inadequate relevance to the needs of enterprises and the employment market.

During 1994, the absorption capacity under CSF II was below expectations, and only 40 per cent of the planned resources were disbursed. It improved to over 60 per cent in 1995, with disbursements over two years approaching ECU 4 billion (equivalent to 4 per cent of GDP), with about half from the SF. To improve resource utilisation, many new measures were introduced during 1995 and early 1996, *inter alia*, *i)* a unit for Organisation and Implementation (MOD) whose objective is to review each project's plan to follow resource disbursement, and suggest corrective measures to ensure the pace of implementation, *ii)* a special unit of control whose responsibility is the co-ordination among different projects (Greek Investment Centre), *iii)* curbing the right to revise project contracts which previously led to under-bidding and subsequently to project delays following cost over-runs, and *iv)* the required use of project managers and syndication in large projects.

verification. Control will be enhanced through the creation of a tax police (Forces Against Economic Crime). Verification will be based on the introduction of a multi-tiered system of audit centres whereby the successively higher levels audit higher income claims, and randomly check the audits of the immediately lower level centres. In addition, tax centres throughout the country will be linked by computers, which will permit cross-checking of claims. A similar computer system will be introduced at customs points.

Poor public enterprise performance is reflected in their large (pre-transfer) deficits, which are of the order of 3½ per cent of GDP, and the provision of services which are not generally considered satisfactory. The main loss makers have been the public transport companies (trains, buses, and airline). The 1994 restructuring plan agreed with the European Commission for Olympic Airways, one of the main transgressors, has provided mixed results. Despite registering profits for the first time in 20 years, the Commission has held up the second tranche (Dr 23 billion) of a three-tranche capital injection totalling Dr 54 billion (US$225 million) to consider whether there existed excessive Government intervention, including through provision of funds for staff early retirement.[61] As a first step towards addressing the poor situation, generally in the public enterprises, Parliament passed legislation in June 1996 which would transform public enterprises to *Sociétés Anonymes*, require managers to design medium-term programmes, and provide managers with performance contracts based on these programmes. Thus, managers would be evaluated according to their ability to attain the objectives contained in contracts which would be mutually agreed with the Government and which would also set certain other conditions (such as pricing, the wage bill, and employment practices).

The Government has proceeded cautiously with the privatisation facet of its strategy for improving the efficient operation of public enterprises, in part due to employment considerations. Some progress has been achieved in the sale of enterprises which do not offer public services, while the results have been disappointing regarding public utilities. Regarding the former, ten firms have been sold over the past two years, including Greece's second largest privatisation (after the AGET Heracles Cement company) during 1995. This operation was for the Cassandra Gold Mines, which were sold to TVX Gold for Dr 60 billion, and included assurances regarding future investment and job guarantees. Though five of these ten firms have been from the Industrial Reconstruction Organisation (IRO) umbrella, the sale of the remaining firms and the dissolution of IRO is being hampered by legal problems.[62] Government delay has also resulted from the bankruptcy (and re-take-over by IRO) of two recently privatised firms (Kavalla Plastics and Eleusis Shipyards). The employment consequences of privatisation have also resulted in the sale of 49 per cent of the large Scaramanga shipyards to the workers of the firm, when suitable buyers could not be found. In an effort to regain support for the privatisation process and to signal a change in policy, a small amount (8 per cent) of the national telephone company, OTE, was sold on the Athens stock exchange in April 1996, raising approximately Dr 128 billion (equivalent to US$550 million); and a similarly small offering of the national petroleum company (DEP) is envisaged for late 1996 or early 1997.

III. Implementing the OECD Jobs Strategy

Introduction

The unemployment rate in Greece has increased from about 2 per cent in the mid-1970s to above 10 per cent in 1995 – practically catching up to the situation of the other European countries. The accelerated rise in the unemployment rate during the 1990s has raised concerns about the functioning of the labour market, especially as Greece has yet to undergo many of the structural transformations already experienced by most OECD countries. The important labour market reforms undertaken in the early 1990s have addressed several inadequacies, most importantly regarding the wage formation process. Despite the acknowledged accomplishments of the reforms to date, it is generally recognised that additional measures are required, and with this objective in mind the Government is currently evaluating a package of new reforms. With labour market reform at a critical juncture, this chapter – the first opportunity for an OECD *Survey* to review the Greek labour market – discusses several aspects of labour and product markets which the *OECD Jobs Study* identified as leading to important rigidities in many other countries. The analysis of the Greek case, it should be borne in mind, is constrained in many points by the insufficient adequacy and consistency of the data, especially prior to 1981.[63]

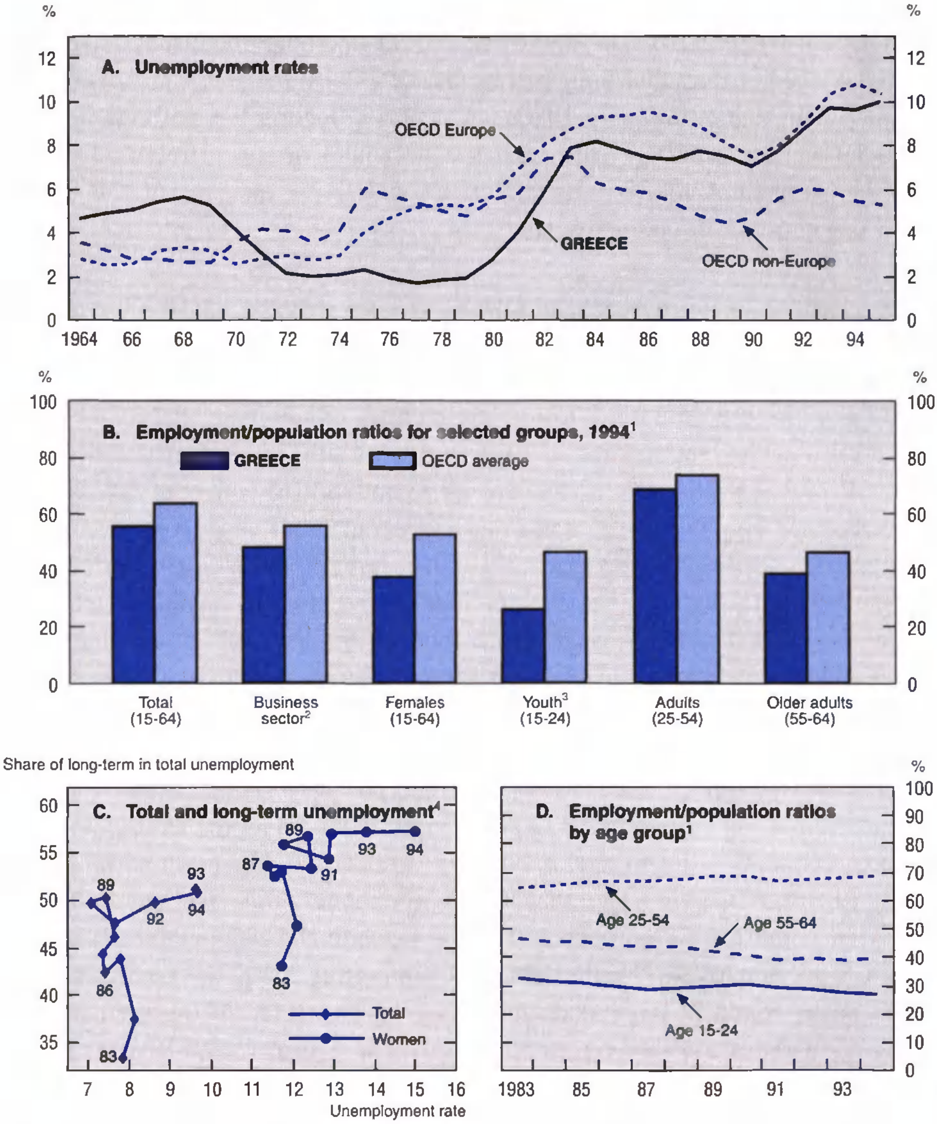
The institutional setting surrounding the Greek labour market reflects several distinguishing characteristics of the economy. Specifically, about half of total employment is made up of the self-employed – split roughly equally between agriculture and other sectors – and the vast majority of firms are very small economic units with few employees, who are often of the same family. Partly as a result, but also arising from cultural factors, there exists a strong family support system in place, which serves as a social safety net. The institutional framework in Greece has accommodated these factors, and may assist in perpetuating them.

For example, the unemployment benefit system is ungenerous by international comparison, as unemployment has only recently been recognised as a serious problem. Thus benefits do not provide the disincentive to work embodied in the official support systems of many other countries. For the same reason, not much use has been made of active labour market policies. On the other hand, core employment – that of the head of household – is protected by several aspects of the institutional framework. This feature of the system tends to create an excluded periphery of long-term unemployed from the low end of the wage distribution, comprised mostly of women and youth. During the period 1975-85, the support for core employment also included large real wage increases which exceeded productivity growth. Though real wages have subsequently adjusted, the indexation system has resulted in a compression of the distribution of wages, which further reduced the employment prospects of those on the periphery especially as non-wage labour costs have increased dramatically in recent years. The public sector, through its extensive recruitment, has often attempted to act as a shield against unemployment, but in this manner has introduced several distortions into the labour market. The generosity of civil service pension benefits – which have nonetheless been reduced over the past few years – has resulted in a large demand for public sector employment. The focus on public sector employment has also had unfavourable effects on the educational system, with many new graduates lacking the skills demanded by the private sector.

Labour market and employment performance

Recent developments in the labour market reflect experience and characteristics that for the most part are not unique to the Greek case. An important distinction is, however, the very poor output growth rate recorded over the past two decades, which stands at about half that of the European average and reflects the extent of the economy's structural rigidities, including in the labour market. The unemployment rate increased in two bursts, corresponding in both cases to a combination of negative demand and supply shocks to the labour market (Figure 13). First, in the early 1980s, the second oil shock had hit Greece at a time when wage concessions were reflecting the 1975 return to democratic government, and the recession in Europe was resulting in the return of workers from central and northern Europe. Second, in the early 1990s, a sustained period

Figure 13. **EMPLOYMENT AND UNEMPLOYMENT**



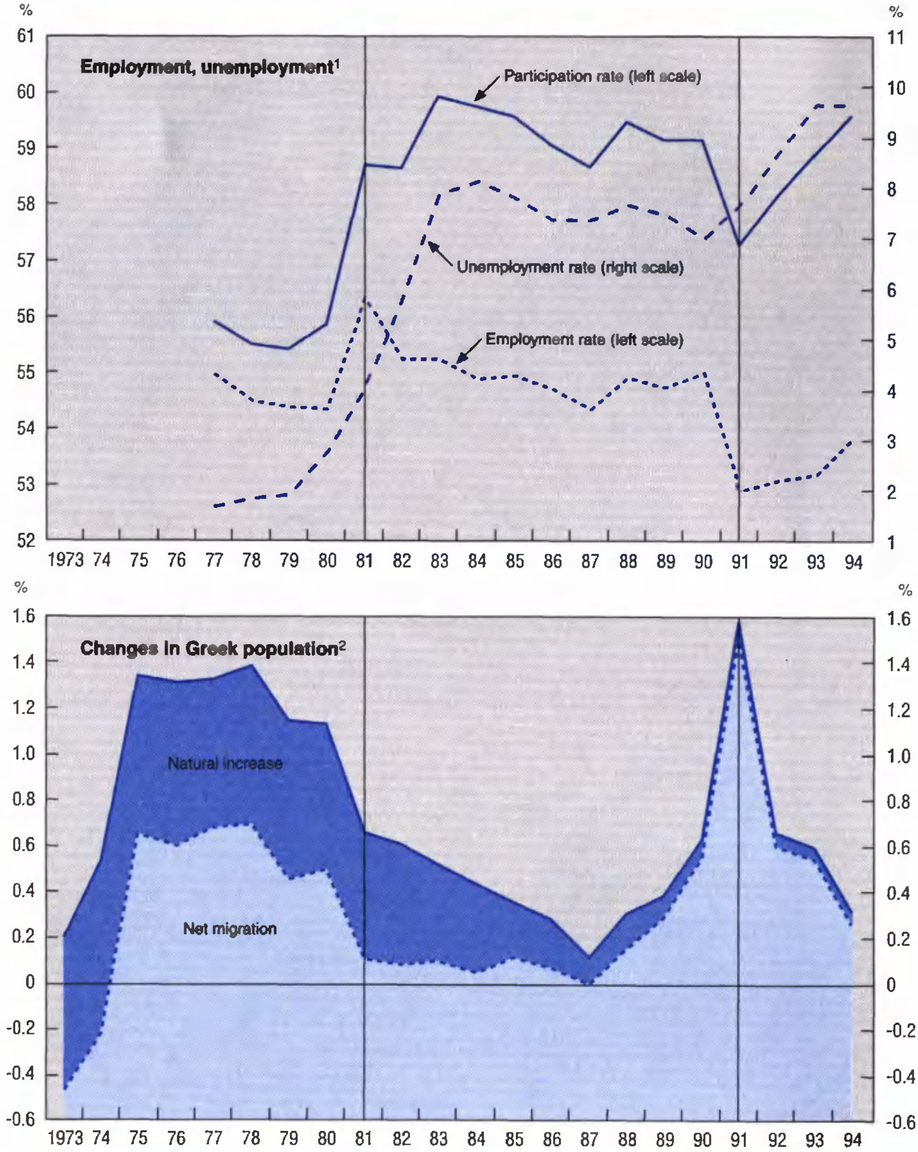
1. Defined as the percentage of each population group that is employed.
2. Business sector employment as a per cent of working age population.
3. The minimum age for youth differs across countries (either 14, 15 or 16), therefore, any comparison with the OECD average should be made with care.
4. Long-term unemployment is defined as individuals looking for work for one year or more.

Source: OECD, *Labour Force Statistics* and *Main Economic Indicators*.

of economic consolidation coincided with an inflow of immigrants, many of Greek origin, following the fall of communism in Eastern Europe and the former Soviet Union (Figure 14). The rate of growth of unemployment may have been somewhat steadier than that indicated by the data, with the sharp increase in the unemployment rate in the early 1980s and 1990s reflecting the calibration of the annual labour force survey data with the decennial census. However, such a distortion would not significantly affect the underlying analysis of the factors behind the increase in unemployment.

In addition to the macroeconomic shocks, the underlying structure of the economy is experiencing change characteristic of development, and this is likely to continue over the medium term. First, the importance of the agricultural sector is declining (Figure 15). As a result, agricultural employment has fallen from about a third of the labour force in 1981 to about a fifth in 1995. The downward trend will probably continue if the economy continues to converge towards the OECD average employment in agriculture of about 6 per cent. Further contraction is already apparent as the share of youth remaining in the agricultural sector stands at below 15 per cent. Second, the industrial sector has begun to undertake the shake-out already experienced by many other OECD countries, as adjustment is made to a new generation of products and techniques. As a partial consequence of this restructuring effort, manufacturing industry shed 21 per cent of its employees between 1981 and 1995, with most of the consolidation occurring in large enterprises during the 1990s.[64] Further job losses may arise from the consolidation of the large number of small firms, again under the assumption that the Greek economy will continue to converge towards the European norm. In this regard, Eurostat data indicate that Greek economic units average only two employees – the lowest number in Europe – while the comparable European average is six employees. Further evidence supporting the potential for consolidation can be found in large scale industry (firms with ten or more employees according to the *Survey of Greek Industry*), where firms with 10-19 workers comprise about 20 per cent of employment, and account for less than 12 per cent of sectoral value added, while firms with more than 100 employees comprise 46 per cent of employment and about 60 per cent of value added. Though this disparity could be partly explained by unrecorded output, it also reflects the inefficiency of small, often family-run operations. Finally, employment in the construction industry has fallen by 14 per cent since 1981 as a result of the long

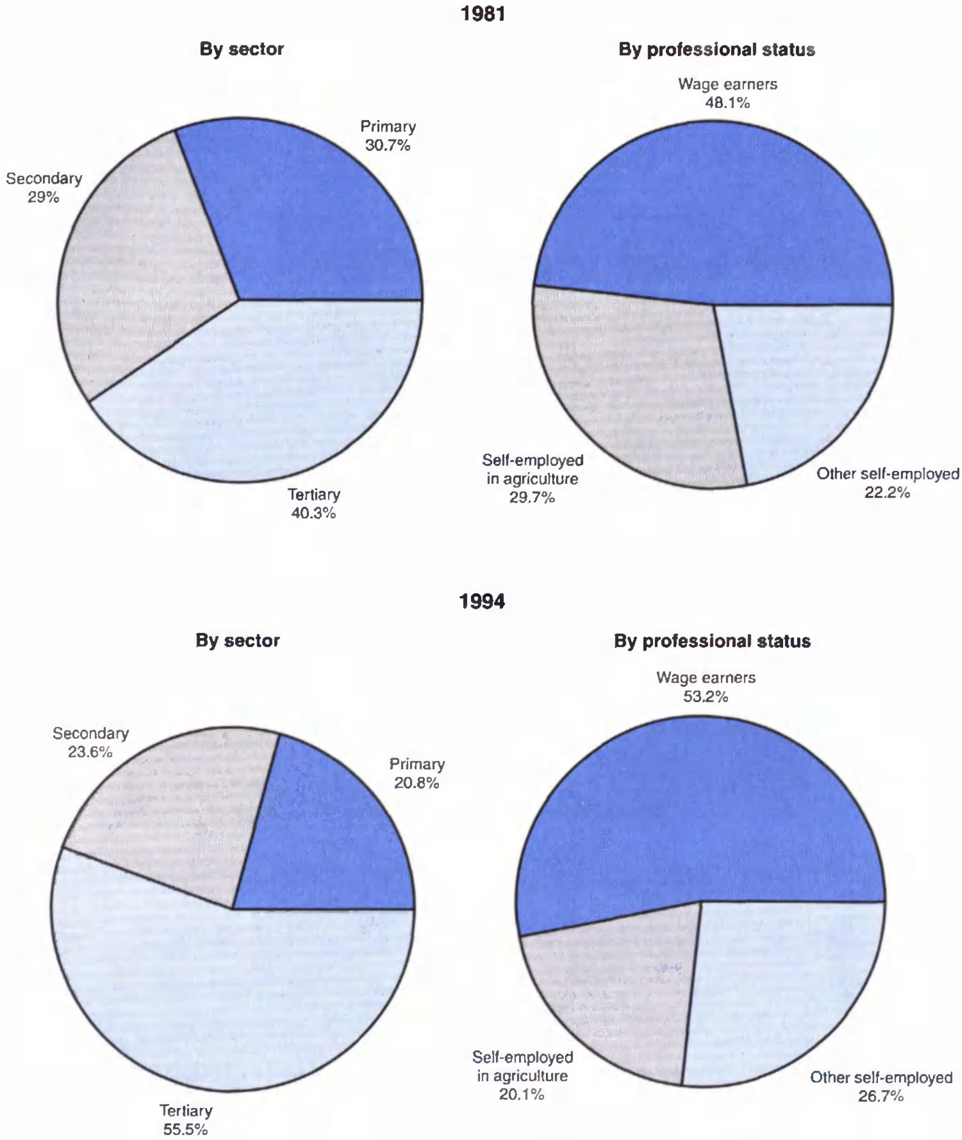
Figure 14. **LABOUR SUPPLY AND DEMAND**



1. Estimates computed from the annual labour force survey. The figures are completed or revised following the last census results (1971, 1981 and 1991).
2. Adjusted figures in line with the census taken in 1981 and 1991.

Source: OECD, *Labour Force Statistics.*

Figure 15. **STRUCTURE OF EMPLOYMENT**



Source: National Statistical Service of Greece.

depression of the housing market, with saturated demand after a long-lasting boom and, more recently, changes in tax legislation partly to blame.

Nevertheless, employment growth has averaged over 0.5 per cent per year since 1981, mainly due to the annual average growth of 3 per cent in service-sector employment. The most buoyant components of the service sector have been trade (including hotels and restaurants), which could be linked to the increased importance of tourism in the economy, and financial services – reflecting the significant liberalisation undertaken in this area. However, a large part of this employment creation, especially prior to 1990, has been in the public sector where employment has increased at an average annual rate of about 2 per cent – over three times as high as the business sector – and currently accounts for 27 per cent of salaried workers according to government data (Table 9).[65] The increase of public sector employment understates recruitment since, prior to 1990, generous public servant pension plans provided easy conditions for retirement. As a result, the ratio of civil servant pensioners to serving civil servants is approximately one in 1995, compared with a ratio half that size in the private sector. Employment is also supported by Government through more indirect routes. For example, in the past it has provided financial assistance to many firms, including those controlled by the state-owned banks.

The changing sectoral composition of the economy, especially the enhanced role of the public sector and the shift to the relatively more protected service sector, has probably contributed to the progressive slowing in output growth and labour productivity over the past three decades. Specifically, the growth of output and productivity in the non-agricultural sector has fallen, respectively, from 9 and 6 per cent during 1961-73, and 6 and 2 per cent in 1974-79, to 2 and ½ per cent in 1980-95.[66] Regarding individual sectors, productivity growth in industry has remained relatively high and stable, while that in agriculture has been rising as employment in this sector has fallen, and that in services has declined dramatically. The latter phenomenon could be related to the expanded role of the public sector – and the resulting increase in under-employment – as well as by the development of a large underground economy. The presence of sizeable unrecorded activity (emanating from recorded employment) is facilitated by the large number of self-employed, with the non-agricultural self-employed (including family employment) having increased their share in total employment from 22 per cent in 1977 to 27 per cent in 1994. The existence of a sizeable unrecorded

Table 9. **Civilian employment**

	Thousands			Percentage share	Annual percentage change	
	1981	1991	1995	1995	1981-91	1991-95
Total civilian employment	3 529.3	3 632.4	3 823.8	100.0	0.3	1.7
By sex						
Male	2 423.2	2 406.8	2 452.2	64.1	–0.2	0.6
Female	1 106.0	1 225.7	1 371.6	35.9	3.5	3.8
By sector						
Agriculture	1 082.9	806.5	781.9	20.4	–2.9	–1.0
Industry	1 022.8	1 000.6	887.1	23.2	–0.2	–3.9
Services	1 423.6	1 825.3	2 154.8	56.4	2.5	5.7
By professional status						
Wage earners, total	1 699.0	1 930.5	2 060.1	53.9	1.3	2.2
Agriculture	35.0	30.4	39.3	1.0	–1.4	8.9
Industry	749.3	689.9	608.7	15.9	–0.8	–4.1
Services	914.7	1 210.2	1 412.1	36.9	2.8	5.3
Public sector	477.1	567.9	566.1	14.6	1.7	–0.8
of which: General government	283.3	373.7	385.1	9.8	2.8	0.0
Dependent private sector	1 221.9	1 362.6	1 494.0	39.8	1.1	3.4
Other (self-employed and unpaid family workers)	1 830.3	1 701.9	1 763.7	46.1	–0.7	1.2
of which: Agriculture	1 047.9	776.1	742.7	19.4	–3.0	–1.5

Source: Ministry of National Economy.

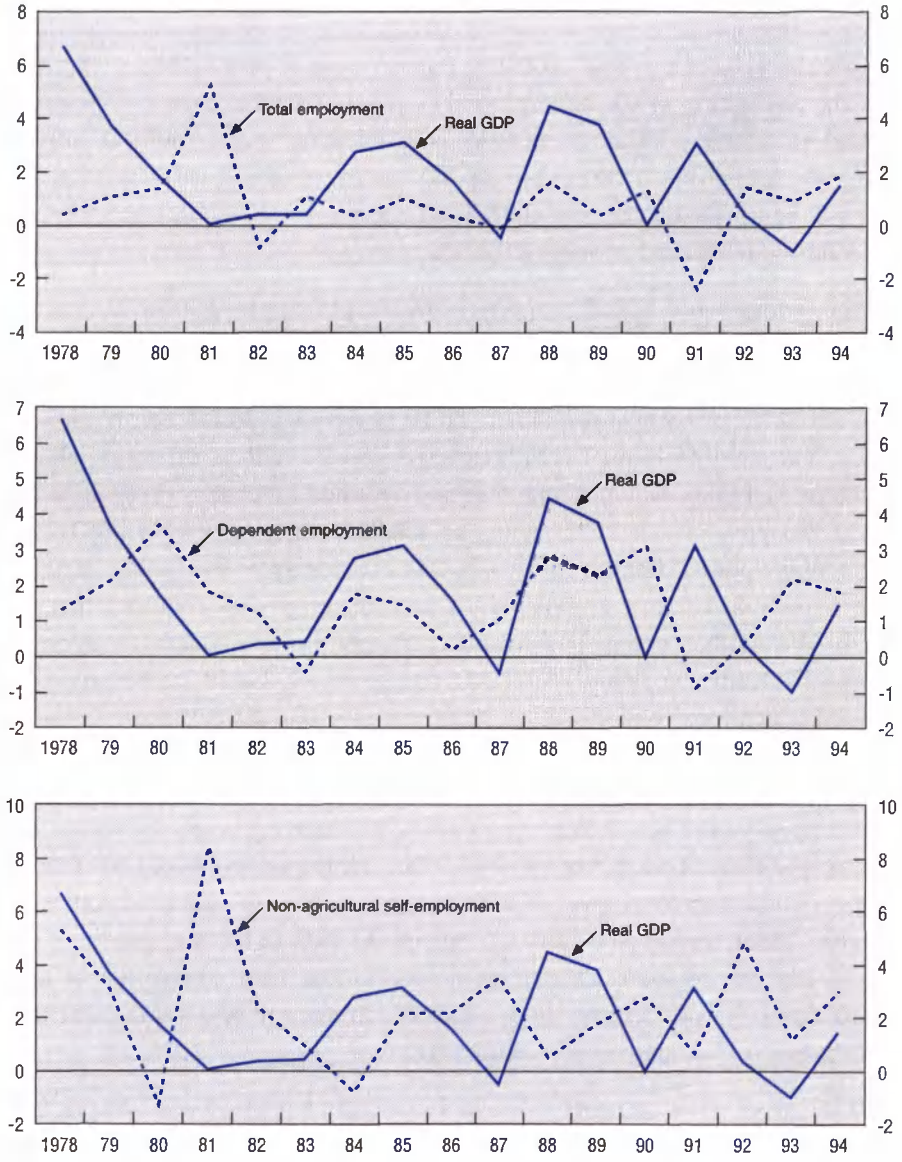
economy is supported by the fact that, in contrast to most other countries, total employment growth does not exhibit a high degree of correlation with GDP growth whereas dependent employment growth does. However, this observation could also be consistent with the hypothesis of under-employment – especially in the agricultural sector – and probably reflects both aspects (Figure 16). In the event, the absorption of the underground economy into the formal economy may not lead to much additional recorded job creation since multiple job-holdings – which are reportedly common though the formal evidence is sparse – frequently comprise first jobs in the formal economy and second and subsequent jobs in the underground economy.

The labour force has also experienced a rapid compositional change, comprising more prime-age women, and fewer men from both extremes of the age spectrum. The overall participation rate has remained broadly stable since 1981, and at about 62 per cent it remains over 10 percentage points below the OECD average. The stability in the overall participation rate reflects offsetting elements. On the one hand the male participation rate declined by over 8 percentage points to about 80 per cent in 1995, with the rate for older males falling by about 15 percentage points. For the most part, this event reflects the fading importance of the agricultural sector and generous pension eligibility requirements, especially in the public sector. The overall participation rate was also affected by withdrawals from the labour force by youth, which could be linked to their enhanced educational opportunities but potentially also reflects the fact that they have become discouraged by poor employment prospects. In the event, the youth participation rate has fallen from 44 per cent in 1981 to 37 per cent in 1994, 17 percentage points below the OECD average.[67] Moving counter to these developments, the participation rate of women has increased markedly over the past 15 years. Their improved level of education as well as the introduction of more egalitarian institutions (especially as regards divorce rights and public day-care centres), has helped increase their participation rate from about 40 per cent in 1981 to almost 45 per cent in 1995, a rate which nevertheless remains below the OECD average of about 60 per cent.

Analysis of developments in the labour supply has also been complicated by the arrival of a large number of the immigrants from the former communist block, most of whom work without permits. Reliable data on the number of illegal immigrants is obviously difficult to obtain, but estimates suggest about

Figure 16. **OUTPUT GROWTH AND EMPLOYMENT**

Percentage changes



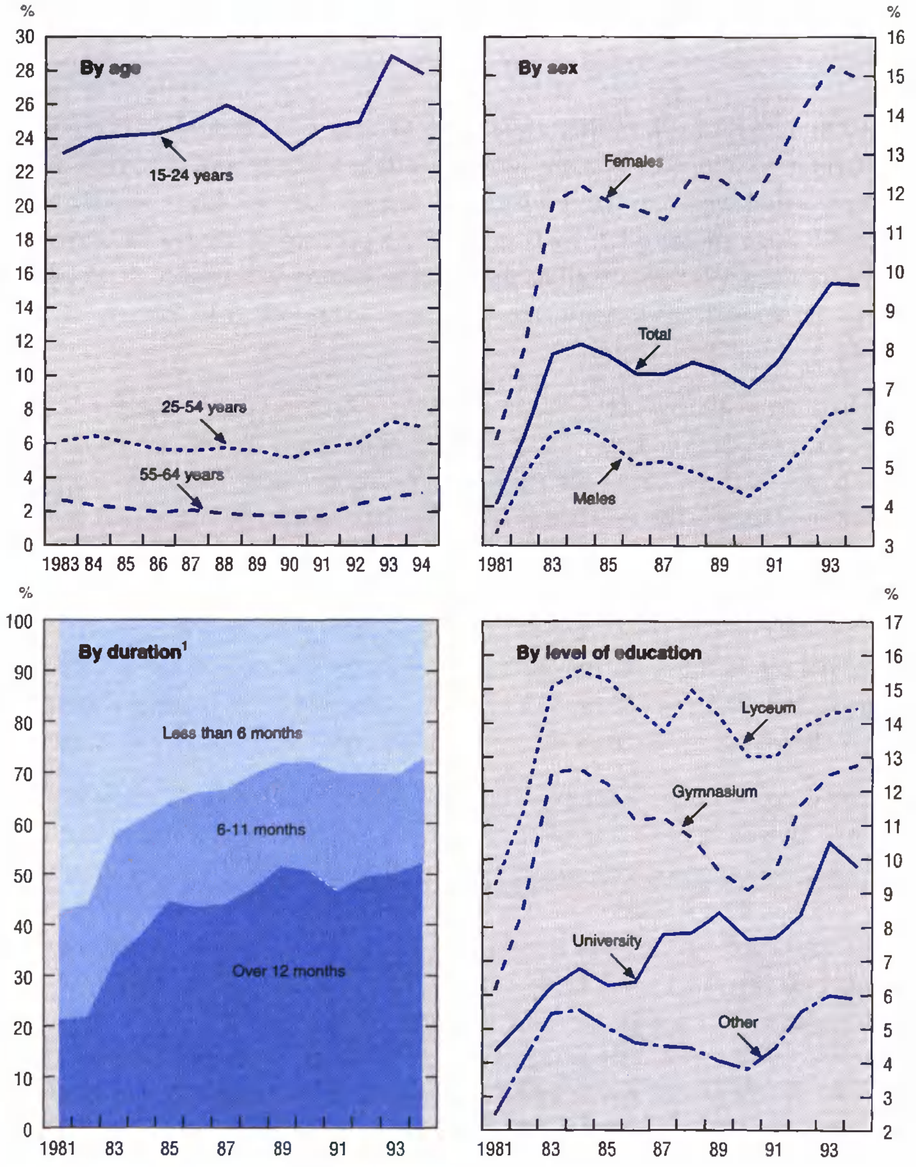
Source: OECD Secretariat.

half a million, a large share of which originated from Albania. Supporting the plausibility of this estimate, official records indicate that 200 000 to 250 000 illegal Albanian workers have been expelled annually since 1990. The effect of the illegal workers on the labour market is uncertain as the extent to which they crowd out legal employment is not clear. Survey data have indicated that the illegal immigrants work mostly as household help, agricultural workers, and in construction.[68] Competition with the local labour force reportedly arises only in the construction sector, as the reservation wage for local labour is higher than the ''market'' wage in the other two sectors. The pick-up in measured agricultural productivity since 1990, as well as the sharp reduction in recorded 1995 employment in the construction sector, are both reportedly linked to the use of illegal workers.

The size of the labour force is likely to increase in the near future. First, despite a drastic decline in the natural rate of population growth, which has fallen to nearly one-half net births per 1 000 persons in the early 1990s, the population may not decrease in the near term as Greece has become a country of immigration as opposed to its past as a country of emigration. Second, the participation rate of women is likely to continue to converge to the OECD average. Third, the participation rate for youth and the older population should increase if hidden unemployment in the form of youth not entering the labour force becomes less prevalent, and if retirement conditions are tightened in order to relieve the budget of expenditure pressures from the pension system.

The composition of unemployment has become increasingly skewed against economic outsiders, who are increasingly concentrated at the lower end of the wage distribution, probably signalling the existence of a poorly functioning labour market. The deviation between the unemployment rate of prime-age men (4 per cent), and the unemployment rate for women (15 per cent) and youth (29 per cent) (Figure 17 and Table 10), are high compared to the OECD average, and consistent with a high share of long-term unemployed (52 per cent). Reinforcing the evidence of market segmentation in favour of insiders, the unemployment rate for heads of households stands near 2 per cent. Moreover, OECD studies indicate that Greece has the lowest rates of both inflow to and outflow from the ranks of the unemployed among the OECD Member countries, as well as one of the lowest shares of dismissed workers in total unemployment (35 per cent).[69] Also discouraging for the young, their improved educational skills do not

Figure 17. **UNEMPLOYMENT PATTERNS**
As a percentage of labour force in each group



1. Per cent of total unemployment.
Source: Centre of planning and economic research and OECD Secretariat.

Table 10. **Cross-country comparison of the labour market**

Percentages

	OECD		EU		Greece		Spain		Italy		Portugal	
	1985	1994	1985	1994	1985	1994	1985	1994	1985	1994	1985	1994
Unemployment rate												
Total	7.9	8.0	10.9	11.3	7.8	9.6	21.2	23.9	10.3	11.3	8.1	6.7
Males	7.4	7.6	9.6	10.1	5.6	6.5	19.6	19.5	6.9	8.7	6.1	5.8
Females	8.7	8.5	12.9	13.0	11.7	14.9	25.0	31.4	16.7	15.6	11.0	7.8
Youth unemployment rate[1]												
Total	16.6	15.3	23.2	21.6	23.9	29.1	43.8	42.8	33.9	32.4	19.5	14.1
Males	16.2	15.5	21.3	20.9	17.4	20.6	39.3	37.4	28.0	29.1	15.3	12.0
Females	17.0	15.0	25.4	22.6	31.7	38.8	51.0	50.1	40.9	36.5	24.6	16.7
Long-term unemployment rate												
Total	35.3	34.5	54.0	49.0	44.6	52.1	56.7	56.1	66.3	61.5	53.7	43.3
Males	34.4	34.7	53.7	47.4	34.8	42.5	53.9	49.6	64.1	59.6	48.3	42.3
Females	33.5	35.0	54.3	50.7	53.2	59.0	62.0	62.9	68.0	63.3	58.1	44.4
Participation rate												
Total	71.0	73.3	65.6	67.6	62.0	61.4	58.8	61.8	58.6	58.2	71.8	70.8
Males	84.9	83.7	81.6	78.9	83.5	79.7	83.0	78.0	77.2	73.9	85.8	81.3
Females	57.3	63.0	50.0	56.3	42.2	44.2	34.8	45.8	40.6	42.7	58.8	61.0
Youth[1]	58.3	54.8	54.8	48.2	40.6	37.0	55.0	49.1	43.8	38.5	63.8	46.1
Old (55-64)	49.3	49.9	40.5	38.9	46.1	40.7	42.7	36.8	23.5	19.2	47.7	47.8
Employment structure												
Agriculture	8.7	6.7[2]	8.6	5.6[2]	28.9	20.8	18.3	9.8	11.2	7.5[2]	23.9	11.5
Industry	31.1	28.4[2]	33.8	31.3[2]	27.4	23.6	31.7	30.1	33.6	33.0[2]	33.9	32.8
Services	60.2	64.9[2]	57.6	63.1[2]	43.7	55.5	49.9	60.2	55.2	59.6[2]	42.2	55.7
Professional status												
Wage earners	83.7	85.6[2]	80.7	82.6[2]	49.3	53.2	68.3	73.3	70.3	70.8[2]	67.7	72.2
Self employed in agriculture	4.9	3.2[2]	6.4	3.8[2]	27.7	20.1	12.9	6.7	7.0	4.5[2]	19.7	10.2
Other self employed	11.4	11.2[2]	12.9	13.5[2]	23.0	26.7	18.8	20.0	22.7	24.7[2]	12.6	17.5

1. Aged 15 to 24 except for Greece 14 to 24.
2. 1993.

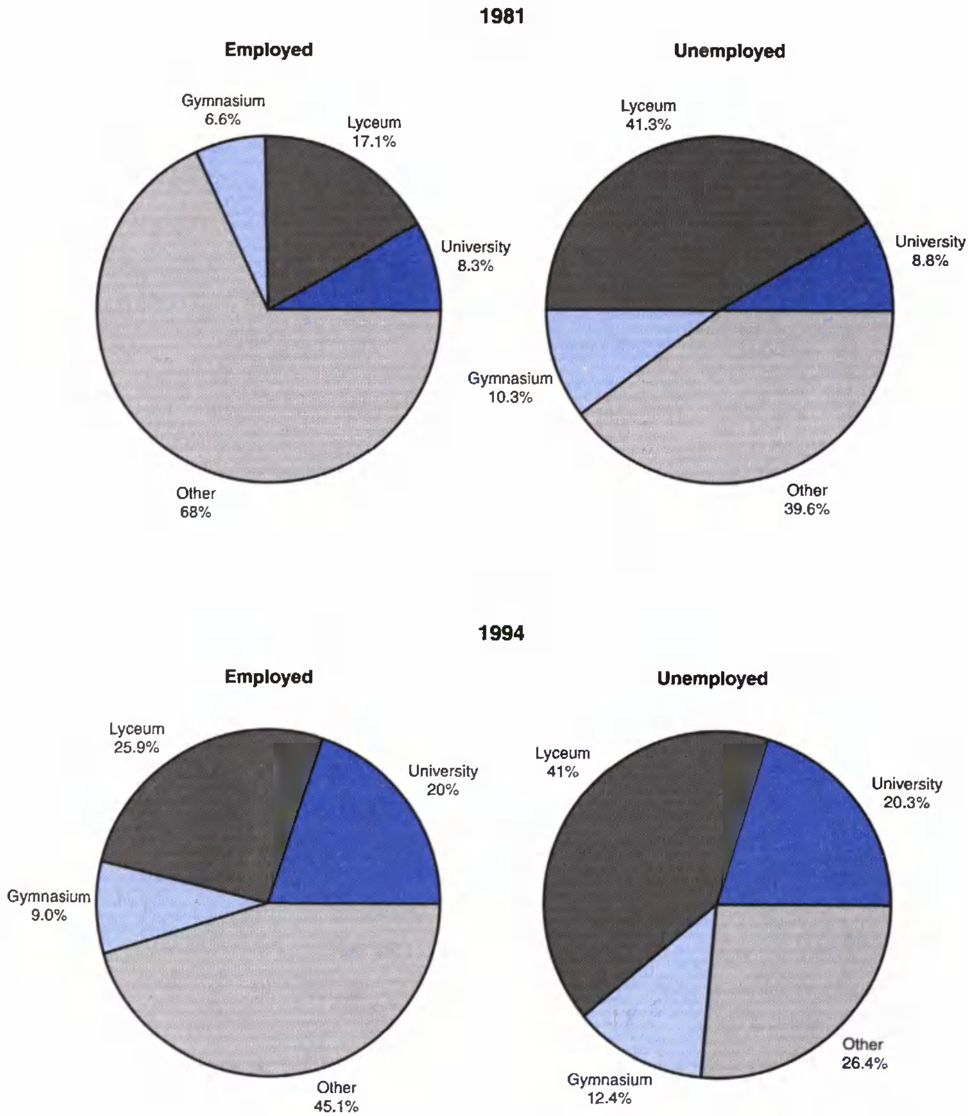
Source: National Statistical Service of Greece and *OECD Labour Force Statistics.*

appear to have greatly improved their employment prospects, though this phenomenon may be due more to the protection of older workers than discrimination against youth. Specifically, the employment rate of the higher educated (university and secondary level) fell from 92.3 per cent in 1981 to 87.6 per cent in 1994. Meanwhile their proportion in total employment increased from 25 to 45 per cent between 1981 and 1994 – due primarily to the entry of younger members into the work force – while their corresponding share in total unemployment increased from 50 to 60 per cent; the commensurate ratios for university degree holders experienced parallel increases during this period (from 8 to 20 per cent) (Figure 18). Regarding the geographic distribution of unemployment, the unemployment rate is higher in urban areas reflecting the depopulation of the rural areas as agricultural employment declines. As a result, the regional disparity in unemployment is high and there exist deep pockets of unemployment where large industry has shut down (*e.g.* Chalkis, Lavrio, Patra, and Volos).

Though the data limitations and the evolving nature of the economy may reduce the accuracy of an estimate of the structural unemployment rate, several indicators suggest a marked increase between 1975 and 1995. Both the Okun curve (unemployment rate compared with the rate of industrial capacity utilisation) and Beveridge curve (unemployment rate compared with the – albeit problematic – OAED vacancy rate) appear to have shifted outwards, which would indicate a greater degree of inflexibility and mismatching of labour demand and supply (Figure 19). In addition, the incidence of long-term unemployment has risen in Greece independent of the business cycle, suggesting a rise in the structural rate of unemployment.

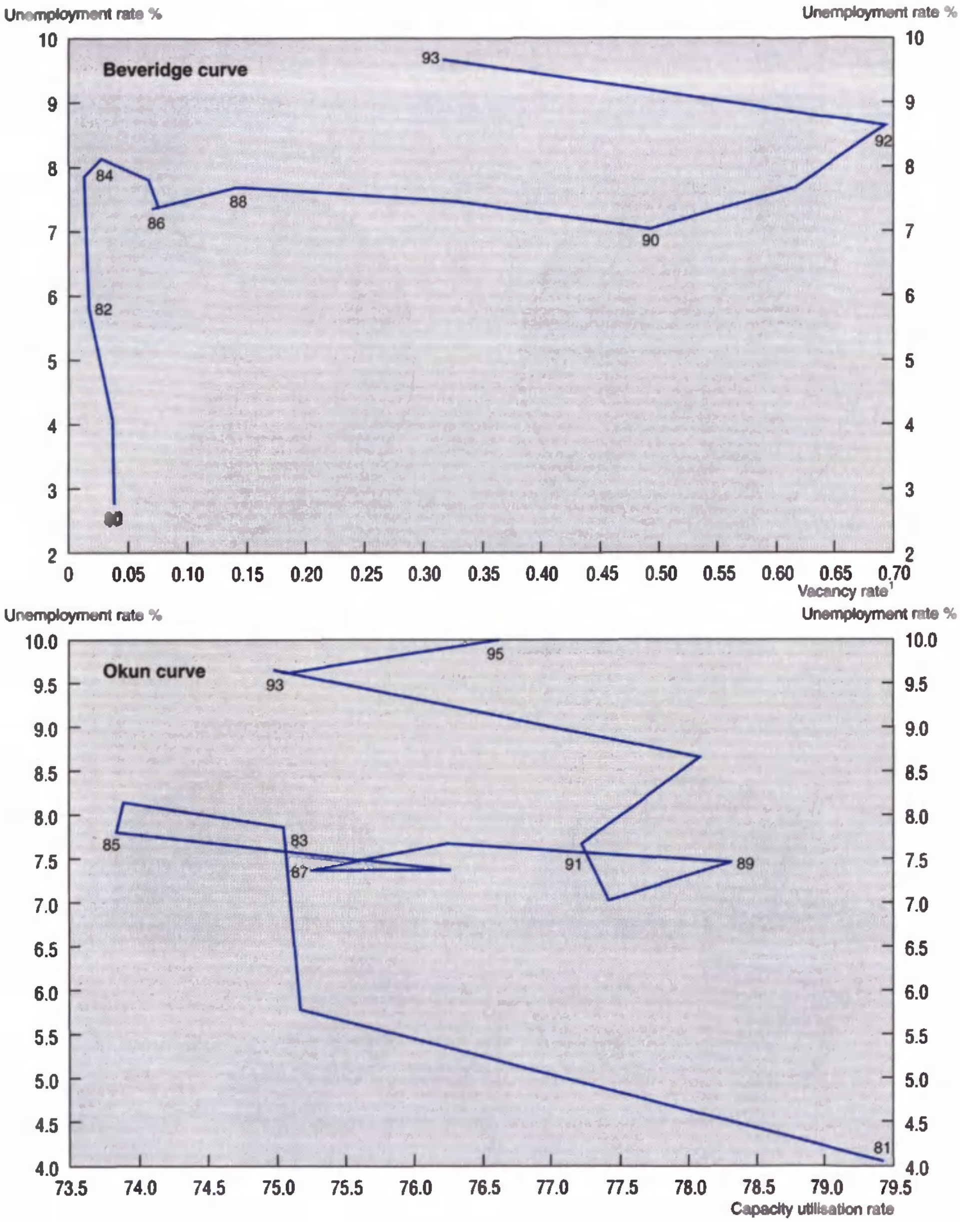
Real wage developments unrelated to productivity growth and unresponsive to the large and rising unemployment provide a further indication of the existence of labour market rigidities and insider/outsider discrimination. Reflecting periods of wide swings in real wages, often related to political rather than economic developments, labour's share in business sector value added has experienced three swings, each of some 15 per cent, in the past three decades (Figure 20).[70] The large drop in labour's share during the 1990s probably reflects the original misalignment of real wages relative to their "equilibrium", and was facilitated by the increased flexibility in the wage formation process following the implementation of the 1990 labour market reforms (see below) and the implementation of a strict incomes policy for civil servants. The rising level of unemployment

Figure 18. **EMPLOYMENT AND UNEMPLOYMENT BY LEVEL OF EDUCATION**



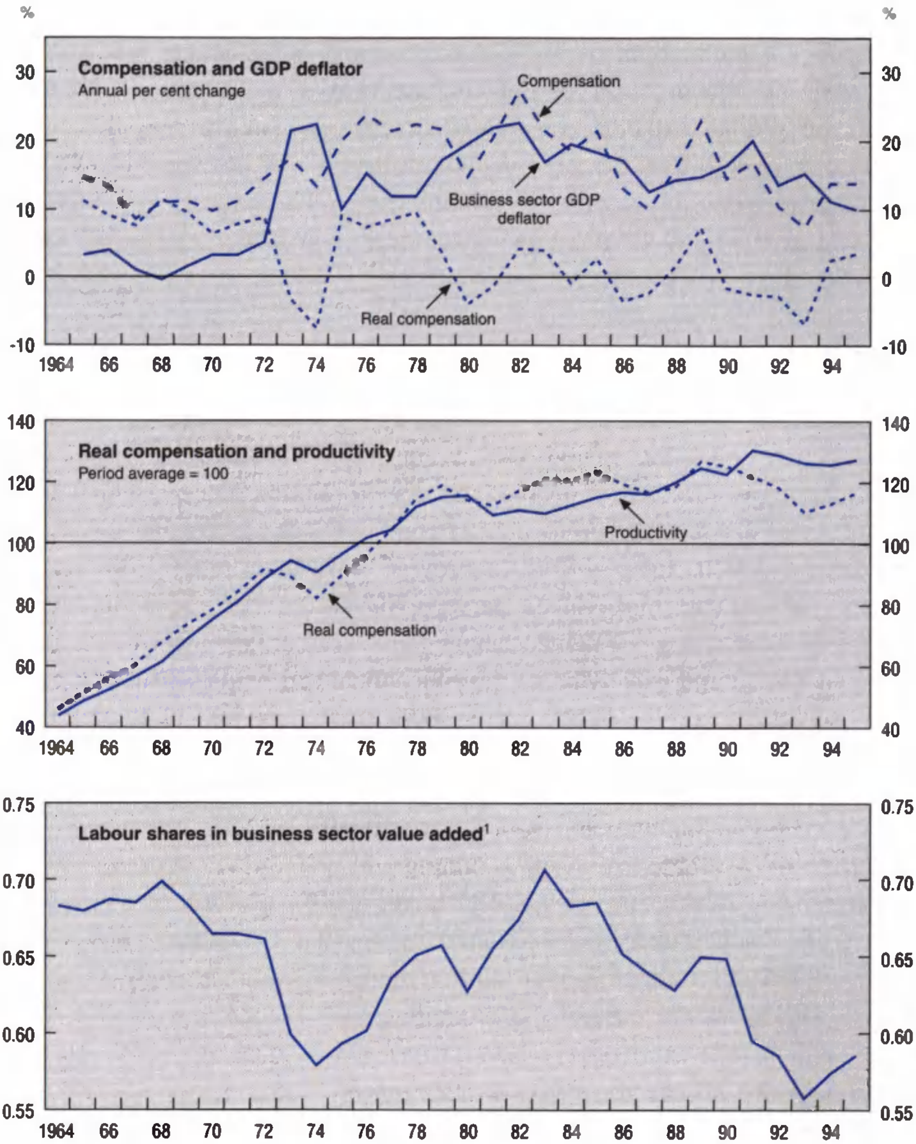
Source: National Statistical Service of Greece.

Figure 19. **BEVERIDGE AND OKUN CURVES**



1. Vacancies as a per cent of the labour force.
Source: OECD Secretariat.

Figure 20. **BUSINESS SECTOR: REAL WAGE, PRODUCTIVITY AND LABOUR SHARES**



1. Calculated by imputing a wage compensation to self-employed equal to average compensation for wage earners.
Source: OECD Secretariat.

has also played a role. Nevertheless, real wages increased again in 1995, despite the high and rising rate of unemployment. With the strength of the recovery assured, real wages in the private sector rebounded by about 4 per cent despite the 10 per cent unemployment rate. The large swings in real wages may also have influenced investment, with periods of real wages being associated with a squeeze on profits and thus constrained investment. Such a course of events would be consistent with the large decline in the ratio of investment to GDP (in constant price terms), from 27 to 20 per cent during the period 1975 to 1993, and its revival in 1994 and 1995 following the decline in labour's share of output.

Policy requirements

The Greek labour market has failed to adjust to the exogenous shocks and the competitive pressures of the past two decades. The main distortions in the labour market prior to 1990 concerned the wage formation process, which did not take sufficient account of labour market conditions, and pervasive government interventions which, in an effort to provide short-term relief from requisite economic adjustments, introduced perverse incentives into the economy, and encouraged *inter alia* a segmented labour market, an enlargement of the underground economy, and a skewing of the educational and employment preferences of the young towards the public sector. Poor results, as well as the escalating costs, made these policies unsustainable, and led to the reform effort in the 1990s. Despite the important contributions of these reforms, the recent accelerated rise of the unemployment rate to above 10 per cent at a time when further comprehensive restructuring of the economy will be required, suggests the need for a significant further improvement in labour-market adjustment mechanisms. Against this background, this section describes the recommendations of the *OECD Jobs Study* to ease labour-market rigidities, enhance competition, and improve the knowledge base of the economy.

Enhancing the ability to adjust and to adapt

The wage formation system

Radical improvements were made to the wage formation system in the early 1990s, which alleviated rigidities in what had been perhaps the most distortionary element of the labour market. For a 10 year period following the return to democratic rule, and albeit from wage levels that had been kept for the most part low by the military junta, large minimum wage increases which did not correspond to the economic fundamentals were basically prescribed by the Government. In addition, from 1981 to 1989 the Government aimed to redistribute income through a policy of narrowing wage differentials, further distorting minimum wages. The most important contributions of the 1990 reforms were the abolition of an automatic indexation mechanism and the decentralisation and broadening of the collective bargaining process. Despite their short period of implementation, which moreover has coincided with a slowdown in economic activity, the reforms have been considered a success. Labour relations have become far more harmonious, with a decreased incidence of strikes, and a reduced recourse to compulsory arbitration. At this juncture, the evidence suggests that the narrow dispersion of wages – despite a widening during the 1990s – is more of a problem than the level of the average wage, and that future reform efforts should focus on this aspect of the wage formation process. Recent developments, whereby wages have accelerated at a time of high and increasing unemployment, imply that wage rigidities nevertheless persist at the aggregate level.

To understand the source of the current compression of the distribution of wages, and to appreciate the extent of the reform effort to date, it is useful to review the wage formation process briefly. During the period 1982-90, wage increases in both the private and public sector were determined through an automatic indexation system (ATA). This system went through various modifications, in line with government incomes policy but, in general, it indexed wages to price inflation, with a proportionally less than full indexation for higher incomes.[71] Over and above the momentum it provided to inflation, the regressivity of the ATA system resulted in a high ratio of minimum to average wages and the compression of relative wages.[72] In addition, changes in the ATA system led to large swings in real wages, depending on the Government's income policy stance (which was traditionally linked to the electoral cycle).[73] While the ATA system aimed to decrease income inequality, it discriminated against high wage and salary earners, as opposed to the self-employed who were not covered. It thus provided incentives, especially for higher qualified individuals, to work as self-employed or in the underground economy. In addition, the universal coverage of the system, in an environment of relatively high and variable inflation, created high uncertainty for employers' labour costs and thus disincentives to hire and invest. Finally, in view of its general tendency for wage compression, the ATA system distorted incentives regarding education, training, and work effort.

The subsequent reform of the collective bargaining process was as important as the abolition of the ATA system. Like many other European countries, Greece has a multi-tiered system of collective agreements, with the broader agreements acting as floors for the narrower ones. Nevertheless, the system is relatively centralised as the negotiations for minimum wages, which are determined by the national collective agreement, set the tone for the narrower collective agreements, and these negotiations are undertaken with representatives from each of the two social partners (labour and the employers). Under the previous legislation (effective from 1955 to 1990), labour disputes – which were conducted at the national and regional level since firm-specific ones were not permitted – were subject to compulsory mediation administered by special arbitration courts with a President from the judiciary and members representing the social partners and government. With the courts' decisions based on a simple majority, the verdicts usually reflected government policy, and were subsequently applied across the relevant sector. The new system replaced the special arbitration courts with a more flexible system, whereby in the event of a dispute the parties may voluntarily choose mediation, with compulsory arbitration available in the event mediation fails or if arbitration is initially desired by either party.[74] There exists an asymmetry under the legislation. In the event of negotiations at the national, regional or sector level, if the employers have rejected the mediators' offer, the employees have the recourse to compulsory arbitration, while if the employees are the ones to refuse the mediator's offer, the employers do not have the same right.[75] Mediators and arbitrators are chosen by common agreement or are appointed at random from the body of newly created mediators/arbitrators (Organisation of Mediators and Arbitrators, OMED) whose 11 member governing board includes representatives from social partners and academia in an effort to assure its neutrality.[76] The new system applies to negotiations at all levels, and for the first time explicitly recognises the right of individual firms with 50 or more employees to negotiate agreements directly with their employees. Nevertheless, a collective agreement which covers 51 per cent of the employed in a sector can be extended to the remainder of the sector, though this provision is apparently infrequently exercised except in the banking sector.

Some three years after its introduction, the new system of negotiation of collective agreements appears to have reduced the share of agreements resolved through arbitration. Specifically, during the 35 year tenure of the 1955 legislation, slightly over 50 per cent of collective agreements required the intervention of the special arbitration courts. During the short period of the new system's existence (from 1992), only about 10 per cent of collective agreements have been decided by arbitration, and these decisions reportedly follow market wage trends. Finally, firms have taken advantage of the right to negotiate agreements with their workers, with over 120 such agreements in 1995, comprising 44 per cent of all agreements.[77] Under the new system of negotiations, three out of the last four national collective agreements have covered two years rather than one, which has been an uncommon occurrence for Greece and is considered a sign of the reform's success.

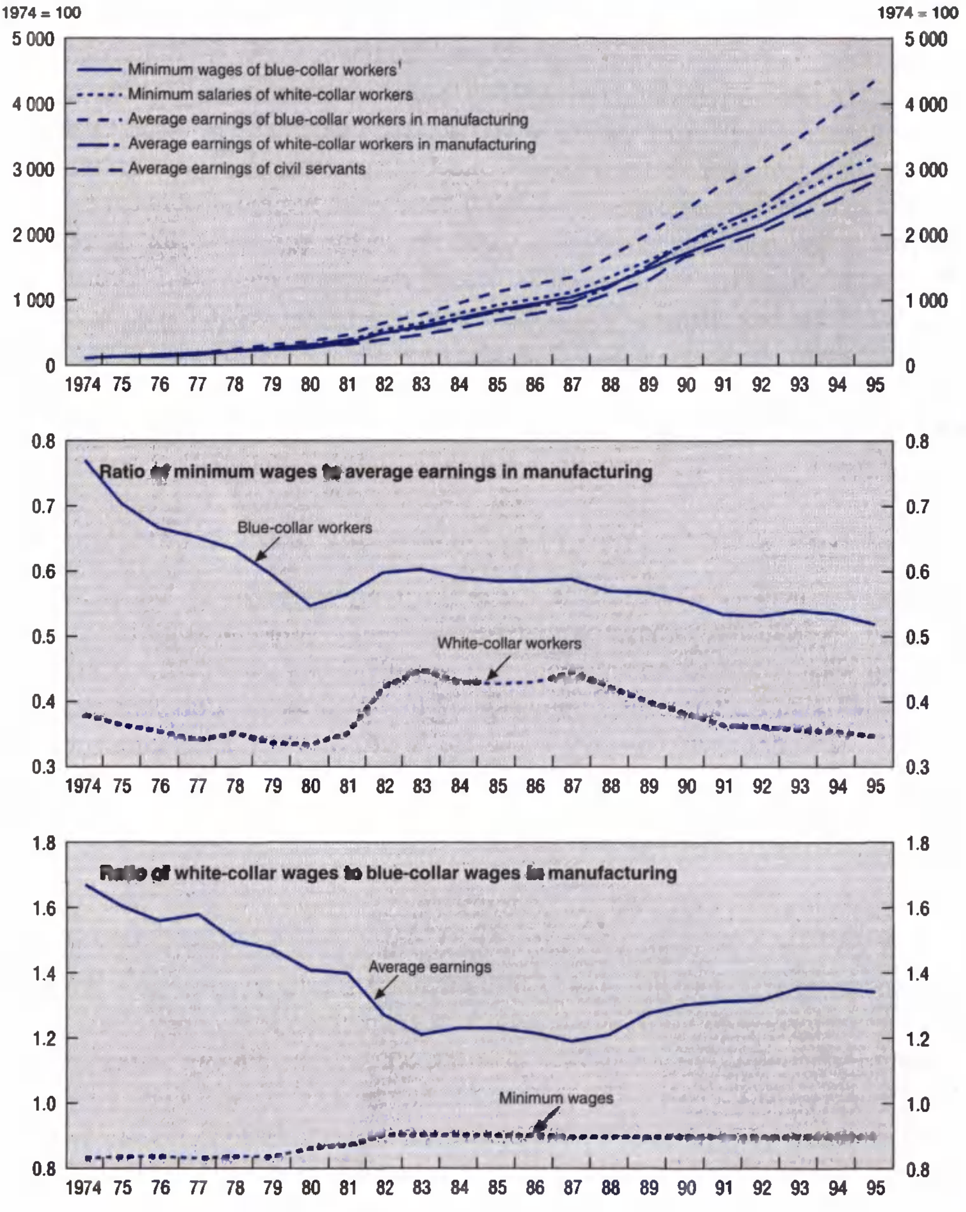
Another indication of more harmonious labour relations is provided by the sharp decline in the incidence of strikes. From one of the worst strike records in Europe, the number of hours lost to strikes has dropped from an annual average of about 10 million during 1985-89 to 2 million during 1992-94, and 0.7 million in 1995, with many involving public sector workers. Moreover, the decline in union density since 1985 may also be signalling a less militant and politicised labour market environment. Nevertheless, the trade unions remain powerful, and are sustained by political affiliations, as well as favourable strike and lockout legislation. Strike legislation was revised in 1983, requiring a majority of workers in public enterprises to vote for a strike rather than the union leadership, but the legislation was repealed in 1988.[78] In addition, 1982 legislation prohibited entrepreneurs from locking out striking workers, except in a few cases.

Despite the withdrawal of the Government from direct participation in the negotiation of the national collective agreement, the ratio of the minimum to the average wage is high in Greece compared with the standard of other European countries. Following a 46 per cent increase in entry level minimum wages in 1982, the ratio of the minimum to the average wage jumped to nearly 60 and more than 40 per cent, respectively, for blue and white collar workers in the manufacturing sector. Though the ratio subsequently fell somewhat during the

1980s and the first half of the 1990s – reflecting a period when the minimum wage declined in real terms – it remains above 50 per cent for blue collar workers (Figure 21).[79] These averages are relatively high compared with other European countries. On the estimate that approximately 50 per cent of the work force is blue collar, the ratio for the economy as a whole is over 45 per cent for an entry level worker. The national collective agreement provides higher minimum wages for workers with more experience.[80] Thus, if an adjustment is made for legislated bonuses, the minimum wage increases by about 35 per cent, and the resulting ratio of the minimum to the average wage increase to some 60 per cent for a married worker with some 10 years' experience, compared with broader averages of 50 per cent in France, 30 per cent in Portugal, and 35 per cent in Spain. Moreover, though no data exist on the number of workers receiving the minimum wage (adjusted for statutory seniority bonuses), the Centre of Planning and Economic Research (KEPE), estimates that the share could be as high as 30 per cent in the industrial sector (similar to an estimate provided by the Federation of Greek Industrialists) and much higher than this in labour intensive industries and for certain groups of workers, such as women.[81] Two other pieces of evidence that suggest that the minimum wage may be above the level consistent with lower skilled workers being able to find work are: *i)* the fact that the illegal workers are not competing for most of the jobs sought by Greek workers, and *ii)* the increase in the non-employment rate for young persons (less than 30 years old) following the large minimum wage increase in 1982; *i.e.* their non-employment rate increased from 67 to 70 per cent during 1983-87 at a time when the overall non-employment rate was falling.[82]

Though data on the distribution of wages do not exist in Greece, there exist several indicators which support the occurrence of narrowing wage differentials during the period 1975-85, which has subsequently shown only slow signs of reversal. It would be surprising if such an event had not occurred, in view of the underlying bias of the ATA mechanism.[83] In the event, the ratio of the average white to blue collar wage declined from about 1.7 in 1974 to about 1.2 in the period 1980-86, before rising to 1.3 in mid-1995. Another such indication is the fact that the deviation between the average wage per sector of industry (NACE sectors 20-39, for the firms employing ten or more persons) narrowed as indicated by the fall in the Gini coefficient from 0.16 in 1980 to 0.134 in 1987, before subsequently rising back up to 0.165 in 1992.[84]

Figure 21. **MINIMUM WAGES AND AVERAGE EARNINGS**



1. Between 1974 and 1977, the minimum wage only covers male workers.
Source: Bank of Greece.

Despite the acknowledged successes of the reforms, especially in terms of fewer hours lost to strikes as a result of the partial decentralisation of the wage determination process, the Government, and the political process more generally, maintain a large role in the private-sector wage-formation process. Wage awards for civil servants, which precede the private sector negotiations, are considered a minimum benchmark for the national collective agreement.[85] Moreover, the Government has traditionally provided catch-up clauses for the difference between projected and actual inflation, a practice which the private sector agreements often copy. Finally, the representatives of the trade unions are affiliated to individual political parties, which often complicates the negotiations by linking them to political developments. Looking forward, several features of the wage formation system may become increasingly problematic as the economy develops, most importantly the possibility for administrative extensions and the asymmetric treatment of employers and employees in the bargaining process.

Increasing the flexibility of employment and working time

It is difficult to gauge the degree of flexibility in the Greek labour market. Though several surveys have provided evidence of severe inflexibilities, it is not clear to what extent economic agents are actually constrained by the legislation. The small size (in terms of employees) of the majority of firms and the large share of self-employed probably reduce the degree to which legislation is in fact abided by. Nevertheless, the existence of such legislation could be constraining the creation of larger firms or contributing to the development of the underground economy.

The reforms during the early 1990s did not alter employment protection legislation, which is frequently cited as being among the strictest in the OECD.[86] Moreover, the cost and difficulty of firing workers is often reported as a principal reason enterprises do not hire workers during a pick-up in economic activity or resort to subcontracting and pay for overtime work.[87] The binding nature of these rules may, in part, explain the pick-up in the hours of activity during a period when industry was reducing the number of employees, as well as the low job loss rates, the high incidence of long-term unemployment, and the difficulties of new labour market entrants. Current legislation requires relatively high severance payments for white collar workers and relatively less generous payments for blue collar workers. The compensation increases proportionally over time, thus biasing the degree of protection towards the older workers.[88] The other main form of employment protection arises from limits on collective dismissals, which are limited to 2 per cent of the labour force per month for firms with more than 50 employees, with the approval of the Ministry of Labour required for dismissals which exceed the limit.[89] Though the theoretical annual limit appears high (about one quarter of the work force) industrialists have argued that the repeated use of the annual limit would lead to labour unrest. To bypass these stringent requirements, firms reportedly offer package separation payments equivalent to 25-30 months' salary per employee. Such offers only arise in large firms as collective dismissal limits do not apply to firms with fewer than 20 employees and such firms are estimated to employ 30-35 per cent of the total number of wage and salary owners in Greek manufacturing.[90] Employment protection is also undertaken through the requirement that large industrial firms (defined as those with more than 50 employees) hire up to 8 per cent of their labour force from the socially underprivileged (handicapped, veterans) compared to an EU average of 3 per cent.

The labour market reforms of the early 1990s increased the flexibility of working time, most importantly by institutionalising part-time work and permitting firms to use a fourth shift. New legislation aimed to eliminate the disincentives to using part-time work, whose share was among the lowest in the OECD – approximately 4 per cent compared to an average of 18 per cent in the OECD. It provided for contributions proportional to earnings, but for contributions no smaller than those corresponding to earnings equal to 30 per cent of the minimum wage. The previous legislation required contributions to be equivalent to that of a full-time worker. Part-time workers have the right to the same protection as full-time workers as regards severance payments, rights to minimum pension, and unemployment benefits (after the minimum contribution and working periods, respectively). Although several years have passed since the introduction of the new legislation, part-time work has not increased noticeably. The answer may lie in the low share of women part-time workers, which could perhaps be explained by the low overall participation rate of women in the Greek labour force, and thus reflect the more gradual modernisation of the Greek economy.[91] Nevertheless, survey data indicate that part-time work is held in low esteem and most part-time workers (of whom most are men) would move to a full-time job if one became available. The share of fixed-term contracts is quite high in Greece, comprising 18 per cent of total salaried employment compared with the EU average of 9 per cent. Such contracts – though their duration is not limited – are constrained to two renewals and can only be used for temporary or emergency needs. Though information is incomplete, such contracts are not common in the private sector, with the majority offered by the public sector to teachers and other seasonal workers (*e.g.* forest guards during the summer months).

The use of overtime work is highly regulated in Greece, especially for the industrial sector, and the introduction of a fourth shift – which permits 24 hour operations – sought to alleviate this constraint.[92] Overtime is limited to one hour per day (and 8 per week but the daily limit is binding) with a cumulative half-year limit of 15 hours for industry.[93] This limit applies to weekly overtime in excess of 48 hours (the statutory working week); extra-work falling within 40-48 hours per week is at the firm's discretion. For overtime work, there is a legislated 25 per cent premium, which increases to 100 per cent for overtime in excess of the cumulative limit.[94] The degree to which the regulations are enforced is unclear, with the *de jure* limits on overtime reportedly not very binding, especially for smaller firms. The results from the *1995 EU Ad Hoc Labour Market Survey* support the benefits obtained from the introduction of a fourth shift as operating hours in Greek industry have increased from 64 hours per week in 1989 to 88 hours per week in 1994. Moreover, the number of industrial firms operating in shifts increased from 52 to 86 per cent over the same period. Though the introduction of the new shift certainly helped generate this outcome, economic activity also picked up rapidly during this period.[95]

The structure of the economy and data limitations inhibit a conclusive analysis of the extent of labour mobility, and the existing evidence is partial and mixed. On the one hand, studies have indicated that inter-sector labour mobility and turnover rates are among the lowest in the EU, which could be partly accounted for by agriculture's relative importance in the economy.[96] Hindrances to labour mobility could arise from difficulties in transferring pension rights among the large number of funds and the loss of sizeable seniority bonuses.[97] The housing market could also be a factor. Greeks apparently place a premium on home ownership – it is among the highest in the EU – and property is relatively expensive in Greece, especially in the urban centres, and housing finance has been until recently relatively underdeveloped. On the other hand, social security data from the largest pension fund (IKA) indicate a healthy turnover rate of about

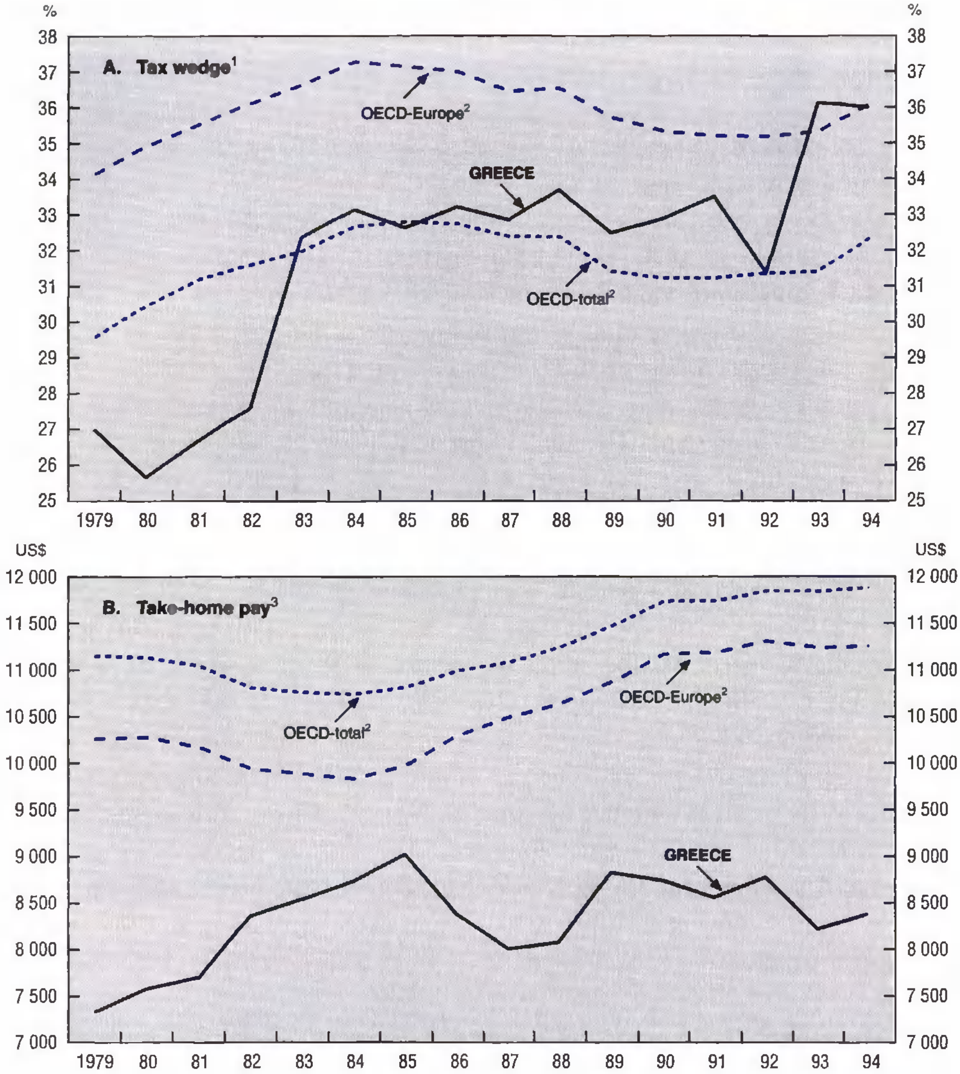
600 000 per year for approximately 2 million contributors. Finally, Greeks have historically appeared mobile, as witnessed by the recourse to emigration and to work in northern European countries.

Taxes and benefits

Taxation is not generally considered a cause of labour market rigidity, but when combined with wage rigidity, it has often been linked to unemployment. Such a case can be made in Greece, where despite the elimination of the wage indexation system in 1990, wage rigidities remain. The combination of a relatively high minimum wage and a heavy tax burden on employment may be contributing to a concentration of unemployment at the lower end of the wage distribution. The tax wedge in Greece has increased rapidly over the past decade, *inter alia* reflecting the policy responses to expenditure pressures from an overly generous pension system. The tax wedge (excluding consumption taxes) rose from 27 per cent of gross earnings in 1974 to 46 per cent of gross earnings in 1995 – approximately equal to the OECD-Europe average, but much higher than the total OECD average – with employers shouldering most of the burden (Figure 22).[98] During this period, unemployment for the less skilled, including youth, has increased rapidly, though this occurrence could be linked to other phenomena. Industrialists cite non-wage labour costs as one of the main reasons for not hiring additional employees (*1995 EU Ad Hoc Labour Market Survey*). The regressivity of social security taxes may also deter employment. Social security contributions are subject to a ceiling, so that low productivity workers are effectively taxed at a higher rate than high wage earners. This tax bias results in some substitution of the latter for the former and the incentive to use more overtime. The degree of tax bias is reflected in the income ceiling for social security contributions being slightly more than twice the earnings of the average productive worker.[99]

A variety of *ad hoc* regulations contribute to the high non-wage labour costs. Payroll taxes include a 1 per cent contribution on gross salaries, levied on the employer, for compensation to be paid to employees called for reserve duty in the armed forces (the contribution rate increases to 2 per cent for firms in the vicinity of Athens). In the industrial sector, employers pay a 1 per cent contribution for occupational hazards. Payroll taxes also include contributions to the Organisation for Labour Housing (1.75 per cent of gross wages) and Labour

Figure 22. **TAX WEDGE AND TAKE-HOME PAY OF AN AVERAGE PRODUCTION WORKER**



1. Tax wedge is defined as the ratio of personal income tax plus employee's and employer's contributions over total employee's compensation.
2. Excluding Portugal, Greece, Iceland, Luxembourg, Turkey.
3. Deflated by private consumption price index (1985 = 100) and converted to US dollar using 1985 purchasing power parities.

Source: Bank of Greece and OECD, *The Tax Benefit Position of Production Workers,* 1979-1994.

Centre (0.5 per cent of gross wages) which were originally designed, respectively, to provide resources for housing projects and a variety of personal and cultural services for workers.

The Greek unemployment benefit system is among the least generous in the OECD, and is not likely to create incentives to remain unemployed (the unemployment trap). Both the duration of unemployment benefits and the statutory replacement ratio are low compared with other OECD countries.[100] The duration of benefits ranges from 5 to 12 months, with eligibility following 125 days of contribution in the past 14 months (excluding the last two months). The statutory replacement ratio is 50 per cent for white collar workers and 40 per cent for blue collar workers, with the minimum level of benefits equal to two-thirds of the minimum wage. However, on account of increasing financial deficits of the agency responsible for distributing unemployment benefits (Manpower Employment Organisation, OAED), benefits have been set at a flat rate of Dr 2 710 per day in 1996 plus 10 per cent for each family member, independent of income.[101] These benefits are below 50 per cent of the 1996 entry-level minimum wage. However, benefits are to be increased by 10 per cent on 1 July 1996, and would subsequently reach 52 per cent of the entry-level minimum wage. Moreover, a form of unemployment assistance which exists is also not generous.[102] Reflecting these characteristics of the benefits system, approximately 20 per cent of the unemployed receive unemployment benefits, and total unemployment benefits amount to less than 1 per cent of GDP.[103] Under these conditions, an extended family network supports the unemployed, which society rarely appears to permit to be a head of household.

In addition, OAED provides special benefits to several categories of unemployed. Seasonal workers are eligible for minimum unemployment benefits after 100 days' work in the past 12 months. The short qualification period allows them to receive unemployment benefits every year and, thus, constitutes a subsidy to seasonal and regional industries, such as tourism. In addition, youths aged 20-29 who have not had prior work experience are eligible to receive five months of unemployment benefits equivalent to Dr 25 000 per month (about 20 per cent of the monthly minimum wage) if they have been unemployed for more than one year.

Over the past two decades, the public sector has not only acted as the main source of employment creation, it has also reduced the labour force through the encouragement of early retirement, especially in the public sector. There has been a marked improvement in policies more recently. Regarding public sector employment, the Government introduced new recruitment rules in 1994 which aim to make recruitment requirements more precise, while containing an explicit bias towards the socially disadvantaged. More importantly, the 1990 pension reform introduced a gradual tightening of retirement privileges in the public sector, equalising them with the private sector by 1997 for women and 2004 for men. The most onerous part of the system was men's right to retire with full pension rights after 25 pensionable years and women after 20 years (mothers of underage children after 15 years), compared with 35 years in the largest private pension plan, IKA.[104] Nevertheless, certain categories of public sector employees maintain privileged pension options. For example, the Government has introduced voluntary early retirement schemes, usually aimed at specific public enterprises (*e.g.* ETBA and OTE), which provide economic incentives to retire early.[105] Despite the introduction of these reforms, a civil service position is still considered desirable, due to its job security, certain salary advancement, and other perks.

Prior to the reform of the pension system in 1990 and 1991, the labour supply was reduced through abuse of the invalidity pension system. Invalidity pensions were often used to replace old age pensions when the eligibility criterion for the latter could not be fulfilled. The reforms raised the degree of invalidity required to receive full or partial invalidity pension, spelled out the medical criteria for each level of disability, and tightened the verification procedures. Following the reforms, the share of invalidity pensions in new pensions declined from 26 per cent in 1989 to 15 per cent in 1995.

Active labour market policies

Though expenditure on active labour market programmes is the lowest in the OECD – standing at about 0.5 per cent of GDP – it has increased during the past few years and now stands at about two-thirds of the expenditure on passive programmes (unemployment benefits). Most active labour market programmes are run by OAED and are funded by payroll taxes, transfers from the budget, and funds from the EU's social fund. OAED's expenditures are split relatively evenly between training programmes and employment subsidies. There are three main training programmes; an apprenticeship programme, centres and institutes for vocational training (KETEK), and intra-enterprise training programmes.[106] These three training programmes cover some $1\frac{1}{2}$ per cent of the work force, and are well regarded – though none are accredited – and graduates reportedly find work following the termination of their training. Moreover, the Ministries of Labour and Education also administer their own vocational training programmes. In addition to the public training programmes, EU funds have been used to set up centres of professional training (KEK), often linked to individual enterprises. However, their success has been mixed, with several of the 1 000 KEK under the first four year community support programme not providing the services advertised. With the risk that some Dr 1.3 trillion available under the second four year community support programme might be squandered, this situation has recently led to the passage of new legislation to accredit and grade KEK according to the success of their graduates.

OAED runs several employment subsidy programmes. The two most important ones concern: *i)* 9-month wage subsidy, ranging from about one-half to 100 per cent of the minimum wage, with a commitment by the employer to keep the worker for three more months, and *ii)* lump-sum payments to unemployed setting themselves up as self-employed (youth, long-term unemployed, and unemployed from areas with unemployment pockets). To be eligible under the first programme, firms must not have reduced their work force during the previous three months, which is intended to reduce the likelihood of moral hazard problems. The two programmes cover some 30 000 individuals (2 per cent of salary earners), with over two-thirds under the wage subsidy programme. Two recent studies indicate that both programmes have had negligible effects on unemployment.[107] Under the first programme, very few of the enterprises created new positions, while under the second programme, very few of the newly created enterprises owed their existence to the subsidy.

In addition to these other activities, OAED also runs the only officially sanctioned placement office, with private ones not permitted. Survey data indicate that job placement by employment offices in Greece is the lowest in the EU. Most workers surveyed responded that their job had been found through acquaintances and less than 10 per cent by the employment office, despite the increasing number of vacancies listed with OAED.[108]

Product market competition

A series of interventionist governments, spanning several decades, have left Greece with a large public sector and inflexible structures in product markets. To the extent that this structure permits the provision of above market wages, they may contribute to lower employment. Nevertheless, considerable progress has been made over the past several years in improving product market competition, especially in the private sector. Currently most prices are determined by the market, with pharmaceuticals one of the main exceptions. Controls on profit margins have been abolished. Shopping hours were effectively freed in 1993, when the right to remain open was extended to Saturday afternoon, and on Sundays in tourist areas (which comprise the majority of Greece).[109] Since 1993 commercial and residential rents are also being gradually liberalised. More recently an independent competition committee was established which will rule on merger proposals, subject to the approval of the Ministers of National Economy and Commerce.[110] Product market competition has been greatly improved by the sustained process of financial liberalisation, which replaced credit rationing with a market based system of credit allocation. Foreign direct investment has also contributed to increased competition and enhanced innovation, particularly in recent years when the capital account has been gradually liberalised, eliminating almost all constraints to inward foreign direct investment and relegating project approvals to commercial banks.[111]

Considerably less progress has been achieved in improving corporate governance in the public enterprises, which is providing inappropriate incentives to the private sector. Public enterprises have often exploited soft budget constraints or in many cases their monopolistic power to grant wage awards that have exceeded productivity. In oligopolistic situations dominated by inefficient public enterprises (*e.g.* petroleum refineries and banking) more efficient private firms are profiting from the high margins rather than expanding their output. At the same time, the high output prices of these enterprises raise the input costs of firms in the private sector. Recognising the problem, legislation has been passed in June 1996 which would provide managers of public enterprises with more independence through the introduction of more precise management contracts. The use of privatisation as a method for improving corporate governance in public enterprises has been used cautiously. Though the number of firms under the umbrella group of problematic enterprises (IRO) has been reduced substantially, the only other major privatisation initiative has been the national telephone company (OTE) in April 1996.

Increasing the knowledge base, efficiency and innovative capacity

Upgrading skills and competence

Over the longer term, economic development will depend critically on the quality of education received by Greek youth. Over the past two decades, the educational system has made great strides. Illiteracy has been basically eliminated among young people and Greece has one of the highest pupil retention rates in the EU, with over 90 per cent of students attaining upper secondary schooling. Nevertheless further progress can be achieved in several areas, notably in reducing the educational system's centralised and over-legalistic tendencies, with most decisions being made in the Ministry of Education. Efficiency gains will be necessary because presently public expenditure on education is relatively low – about 4.2 per cent of GDP, with an additional 2.3 per cent spent by the private sector – and current economic conditions are likely to preclude any significant increases from the state purse. In this regard, the educational system, at all levels, would benefit from a better developed system of evaluating educational standards that concentrated upon the quality and relevance of education to both the individual's and the economy's needs.

The high level of unemployment among university graduates, amounting to some 8 per cent, though in part indicative of some of the above-mentioned labour market rigidities, signals a potential problem in the skill mix supplied by the educational system compared with the economy's needs. The likelihood of such a mismatch is also supported by frequently cited demands from the business sector for more highly qualified employees. Another factor explaining the mismatch may be the low use of vocational training. Though the proportion of upper-secondary school students enrolled in vocational and technical education increased from the lowest in the OECD in 1979 (18.5 per cent) to over one-third in 1993, enrolment in vocational or technical studies is usually a second choice for students relative to university studies. The introduction of institutes for higher vocational training (IEK) in 1992, nevertheless, appears to have increased the prestige of vocational and technical training.[112] However, the IEKs operate outside the formal education system, as holders of IEK diplomas do not have access to institutions of higher education (AEI) and Institutions of Technological

Education (TEI). Regarding the choice between private and public sector technical schools, employers reportedly prefer graduates from the private ones, which are apparently more responsive to the new skill requirements of the growing service sector.

Higher education suffers from a public-sector mentality, perhaps due to the public sector's monopoly of higher level education in Greece.[113] Too many students' efforts peak upon entry, reflecting the high probability that graduation will eventually occur as assessment is largely unrigorous, the fact that education is a free good, and the belief that the signal their degree provides will be sufficient for them to find a job, most likely in the public sector. In addition, professors are low paid, and as they attain tenure positions early, often seek to earn additional income in jobs outside the university, which deters a broadening of the curriculum. Two revealing statistics are that one in three university students is enrolled but does not participate in classes, and that the share of university graduates employed in the broader public sector is in the range of 60 to 80 per cent, albeit many of them as educators. The probability of the public sector as eventual employer may also be biasing the choice of degrees, with humanities degrees exhibiting a marked increase over the past twenty years to 45 per cent of total degrees.

Technology and innovation

In addition to an educated work force, economic development will require the absorption of new technologies and the ability to innovate successfully, especially in light of the opening of the economy to international competition following entry into the EU. The record to date appears deficient as Greece's share of OECD manufacturing output, especially in medium-technology sectors such as chemicals, fell between 1980 and 1993, and its revealed comparative advantage is becoming increasingly skewed towards low-tech exports. Moreover, lower-technology products such as textiles and food products, which account for three-quarters of manufacturing output and half of manufacturing employment, are coming under intense international competition. Acknowledging that Greek firms are more likely to import new technology, the low share of spending on R&D – the lowest for OECD countries even after adjusting for per capita income – nevertheless suggests a low absorption of new technology. Greece spends 0.5 per cent of GDP on R&D compared with the OECD average of 2.3 per cent. Another indication of poor absorption of new technology is the fact that though Greek tax legislation provides for faster depreciation of R&D investment than for other types of investment (3 instead of 5 years), apparently this incentive is not used by enterprises. Perhaps even more telling, industry (including public enterprises) undertakes only 26 per cent of the country's research effort and 22 per cent of the financing, compared, respectively, to 67 and 59 per cent in the OECD as a whole. Most of the research is funded through the Government, and carried out in the university sector, whose links with the economy remain weak. However, Government policy aims to stimulate innovation in industry, partly through the use of EU structural funds. In this regard, the Operational Programme for Research and Technology (EPET II) will give priority to industry-oriented research and technology transfer. At the same time, the programme for Advancing Industrial Research (PAVE) will continue to provide 50 per cent of funding for selected industrial projects.

Recent policy actions

In view of the large increase in unemployment, the current Government considers labour market reform a top priority. On the basis of a special report, finalised in March 1995, the Government has elaborated a "new structural policy for employment" containing the following measures which aim to facilitate job search, improve the quality of the labour force, provide incentives for the hiring of the unemployed, and introduce measures to alleviate unemployment for youth and in areas with higher than the national average unemployment rate:

- computerise the operations of OAED, including all its regional centres, so as to be able to monitor labour market conditions;
- consolidate the system of employment incentives and unemployment benefits through the introduction of a system of multiple-use vouchers, thereby increasing the flexibility of the system by permitting the unemployed to choose to apply the money value of the voucher to either training, a wage subsidy, or unemployment benefits;
- introduce an employment card for all workers, including immigrants, possession of which will be a requirement for legal employment;

- increase the participation of enterprises in the vocational training system, by permitting firms with 150 employees to participate (previously the limit was 300 employees);
- enhance the professional and regional mobility of the employed and the unemployed, through retraining schemes and the provision of transportation allowances;
- introduce early retirement schemes for the aged unemployed; and
- introduce specific incentives for hiring the unemployed, especially the young, in areas of high unemployment (*e.g.* provision of a higher value multi-use voucher).

The total cost of the programme is estimated to be Dr 220 billion (0.8 per cent of GDP) but is expected to be covered from funds from existing employment programmes. Implementation of the programme is envisioned to begin during the third quarter of 1996, with pilot programmes to test the multiple-use voucher and employment card.

The above-described June 1996 law on public enterprises could provide the basis for a hardening of their budget constraints, and may thus have a positive effect on product market competition and labour market performance in the medium-term. As regards the wage formation process, the new legislation provides for public enterprises' management to reach an agreement with the Government regarding increases in the total wage bill, which could limit the practice whereby wage awards are not in line with productivity and thus provide inappropriate signals to the private sector.

Recently adopted actions in the area of technology and innovation which are relevant to employment include:

- new initiatives to stimulate innovation in industry and build research networks, which are being channelled through the Operational Programme for Research and Technology (EPET II) with an allocated budget of ECU 580 million (1994-99);
- technology diffusion across industry, which is to be promoted by new programme brokers ("Technomisites") or specialised counsellors as well as by new schemes on Technology Performance Financing and Best Practice Benchmarking;
- new industry-oriented research institutes which are being established in the fields of textiles and food processing, transportation and marine

research. The Operational Programme for Industry (OPI) (1994-99) includes funding for schemes for the technological upgrading of smaller firms.

Assessment and scope for further action

The reforms implemented by the authorities over the past few years have increased the flexibility and reduced several distortions in the labour market. The withdrawal of the Government from direct participation in the annual negotiation of the national collective agreement and the recourse to independent mediators and arbitrators has markedly increased social peace and reduced the dead-weight economic loss resulting from the plethora of strikes. The liberalisation of shift work and night and weekend work has led to substantial employment flexibility, as has the liberalisation of shopping hours and commercial rents. Nevertheless, the development of the economy as it begins to move towards the income levels of other OECD countries suggests a prolonged transition period, which will be facilitated by a more flexible and agile labour market (Box 2).

The Greek economy suffers from a dualism created by the interventionist activity of the public sector. On the one hand, the self-employed and the underground economy attempt to evade the infringing and bureaucratic arm of the centre. On the other hand, public sector employees, especially in the broader public sector, are protected from market realities. Meanwhile, private sector dependent employment and profitable firms bear the brunt of adjustment. A necessary but not sufficient condition to sustain any reform strategy under these conditions is that this dualism be diminished, and all employees and employers, including the public sector, bear the burden of adjustment equally. Equity considerations should be viewed in a more dynamic dimension, with future job creation given a larger weight relative to the short-term costs of adjusting to changing market conditions.

Components of the new wage formation system appear to work more adequately subsequent to the 1990s reforms, especially as concerns the determination of the wage of the average worker. However, in view of the high share of unemployed who have been left on the periphery, the distribution of wages could be widened by permitting minimum wages, especially for certain categories of workers such as youth or persons with low qualifications or experience, to fall

Box 2. **The OECD Jobs Study Strategy: Synopsis of recommendations for Greece**

The OECD Jobs Study outlines a strategy to reduce unemployment and improve the ability of OECD economies to cope with structural change. Following a review of Greece's labour market and employment performance, this chapter identifies the need for Greece to move ahead in the following areas.

Increase wage and labour cost flexibility

In view of the high share of unemployed who have been left on the periphery, the distribution of wages should be widened by permitting minimum wages, especially for certain categories of workers such as youth or persons with low qualifications or experience, to fall further relative to the average wage.

To further improve wage flexibility, the wage bargaining process should be decentralised from the sectoral and regional level to the firm level. An "opt out" clause should be introduced into the national collective agreement which would permit firms undergoing difficult financial circumstances to be exempt from the national agreement and to negotiate bilaterally with workers.

As the practice of an inflation catch-up clause for civil servants tends to be copied and added to higher wage settlements in the rest of the economy, it would be better to eliminate the explicit catch-up clause, and leave inflation adjustments to be an element of the following year's budget.

Non-wage labour costs have increased substantially in recent years and in combination with the high wage floor created by the minimum wage, are reducing the employment opportunities for low-skill workers. The regressivity of the payroll system could be reduced by raising the current maximum contribution limit, while using the revenue gains to reduce contribution rates, especially for the more vulnerable members of the labour force such as the young or those lacking skills or experience.

Reform employment security provisions

The limit on dismissals (for firms with more than 20 employees) makes firms reluctant to hire, and these administrative limits should be abolished.

Similarly, the level and progressivity (with respect to experience) of mandated severance payments for white collar workers also makes firms reluctant to hire. The discrimination between the mandated severance payments for white and blue collar workers should be narrowed by reducing payments for white collar workers.

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Increase working time flexibility

Additional labour market flexibility should be obtained by permitting limits and payment premiums for overtime hours to be determined in individual collective agreements rather than imposed nationally.

The transferability of pensions should be promoted in order to enhance labour mobility.

Reform unemployment and related benefit systems

To improve the flexibility of the labour market, unemployment benefits could be increased from their current exceptional low level towards their statutory level, thereby facilitating the elimination of monthly firing limits, and thus reducing the cost of hiring, especially for persons on part-time contracts.

Expand and enhance active labour market policies

Active labour market policies have proven most successful when applied to training rather than providing wage subsidies for employing unemployed workers. In view of the large share of long-term unemployed, labour market policies should develop programmes to address this segment of the labour force, especially as it comprises many young people who are in danger of distancing themselves from employment opportunities. In addition, the use of the two large employment subsidy schemes could be curtailed in view of their limited effectiveness in creating additional employment.

Irrespective of improving efficiency of OAED, the existence of parallel for-profit job placement agencies – provided adequate safeguards, such as the payment of the placement fee by the employer, are in place – could only improve the process of matching employers and employees.

Improve labour force skills and competencies

The IEK have proven successful as attractive and accredited higher level vocational education centres and their use should be expanded. Moreover, control over public vocational training programmes should be consolidated under one ministry.

At pre-university levels, a devolution of authority and improved evaluation would provide teachers with incentives to break out of the learn-by-rote system. Equity and efficiency considerations for university level education suggests the gradual tightening of time limits on students earning a degree.

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Technology and innovation

To facilitate the absorption of new technologies and the ability to innovate successfully, the links between universities and enterprises regarding research topics and funding should be strengthened.

Enhance product market competition

Further liberalisation in several sectors where currently there exist public sector monopolies or oligopolies would lower input costs to enterprises and, thus, promote employment.

While acknowledging the potential improvement from the June 1996 legislation concerning the reform of public enterprises, its effectiveness will depend on a firm implementation, so that inappropriate signals are not provided to the private sector through overly generous wage awards and worker protection schemes. Privatisation of public enterprise needs to be continued.

further relative to the average. The experience of other countries has shown that a widening distribution for wages does lead to employment creation. Further decentralisation of the wage bargaining process from the sectoral and regional to the enterprise level would also be useful, especially during this period of economic transition where, for example, some two-thirds of industrial enterprises are reportedly in good health while the other third are fighting to maintain viability. Under these circumstances, and with a relatively high structure of minimum wages, an "opt out" clause could be introduced into the national collective agreement, which would permit firms in difficult financial circumstances to be exempt from the national agreements and negotiate bilaterally with their workers.

The wage decisions by Government traditionally provide a floor for the other sectors of the economy. The inflation catch-up clause admittedly provides relief to civil servants whose salaries underpin the Government's usually optimistic annual inflation target. Nevertheless, this practice is copied and added to higher wage settlements in the rest of the economy. In this situation, it would be better to eliminate the explicit catch-up clause, and let inflation correction be a component of the following year's budget. The wage agreements of public enterprises also have provided poor examples to the private sector. The new legislation concerning the reform of public enterprises – especially the clause requiring the Government to agree with management on the public enterprise wage bill – should, if implemented consistently, harden their budget constraints and reduce their monopolistic behaviour. More fundamentally, of course, their status as publicly-owned enterprises and the lack of competition in the sectors they operate should be addressed.

Non-wage labour costs have increased substantially in recent years in an attempt to finance the overly generous pension benefits granted to the current generation of pensioners. A comprehensive reform of the pension system should be undertaken within the next few years and should consider shifting the burden more equitably between generations. Meanwhile, the regressivity of the payroll tax system could be reduced by raising the current maximum contribution limit, while using the revenue gains to reduce contribution rates, especially for the more vulnerable members of the labour force, such as youth or those lacking skills or experience. In addition to these costs, payroll taxes have been burdened by several small *ad hoc* contributions which, if eliminated, could reduce non-wage labour costs by several percentage points in aggregate.

The unemployment benefits system is not generous relative to other OECD countries – especially as benefits have been reduced to significantly below their statutory level – and is, thus, not likely to be providing disincentives to the unemployed regarding job obtainment. However, the system may be reducing the flexibility of the labour market by creating incentives for social partners to protect existing workers, thereby perpetuating insider-outsider divisions. To improve labour market flexibility, unemployment benefits could be increased towards their statutory level – for workers who have contributed for an adequate time period – thereby facilitating the elimination of monthly firing limits, and thus reducing the cost of hiring, especially for persons on part-time contracts. However, the regulations permitting seasonal workers to have annual access to unemployment benefits is probably perpetuating seasonal unemployment and should be reconsidered. Consideration should also be given to reducing the scope of the two large employment subsidy schemes, whose limited results resemble the experience in other countries. A more effective use of limited public resources would be to replace these programmes with ones which place more emphasis on training and placement services for youth, the low skilled and the long term unemployed who are in danger of distancing themselves from employment opportunities. Finally, irrespective of the improvement made to the efficiency of OAED, the existence of parallel for-profit job placement agencies – provided that adequate safeguards, such as payment of the placement fee by the employer, are in place – could only improve the process of matching employers and employees.

Employment protection legislation has not protected workers from losing their jobs, as the recent labour shedding occurring in industry corroborates. It has only resulted in larger separation payments from firms attempting to avoid the administrative hassles linked to collective dismissals and a resulting hesitancy to hire during economic upswings. These payments could be further weakening the financial position of a firm or appropriating resources which would be otherwise targeted for investment or labour. Legislation should be introduced to eliminate the need of Government's approval for collective dismissals which could result, directly or indirectly, in a higher availability of resources for employment creation. In addition, the discrimination between the mandated separation payments for blue and white collar workers, as well as in the degree of progressivity of the separation payments between experienced and inexperienced workers, should be narrowed by reducing payments for white-collar workers.

The flexibility of the labour market has been enhanced by the introduction of an extra shift. Additional flexibility could be obtained by permitting the limits and payment premium for overtime hours to be by agreement between employers and employees rather than imposed nationally. If employers and employees agree, the additional profits earned by a firm from an enhanced capacity could be shared with the workers, and could eventually lead to additional employment. Labour mobility may be hampered by the difficulty in transferring pension rights among the hundreds of pension funds when changing jobs. A comprehensive reform of the pension system should consider the consolidation of these many funds. In the meantime, reforms enhancing the portability of pensions across funds should be introduced.

The implementation of the envisaged package of ambitious new reforms through the "new structural policy for employment" will require a substantial and co-ordinated effort. However, once implemented, they could improve the flexibility of the labour market. A cautious approach on some aspects of the package may, nevertheless, be necessary to avoid the creation of additional levels of state bureaucracy, poor longer-term incentives for workers and employers through excessive subsidisation, and too large a call on the budget. In addition, the experience of other European countries has shown that excess reliance on an early retirement scheme burdens the budget while raising the old age dependency ratio.

A well functioning product market will support more employment. The strengthening of competition should reduce wage premia and expand output over the medium term and thus create more employment; however, opening some activities to competition can initially lead to job losses, especially when market power has been used to overstaff. Further liberalisation and privatisation can occur in several sectors where there currently exist public sector monopolies or oligopolies. Exposing firms to competition could have the additional advantage of improving corporate governance in public enterprises. In this regard, while acknowledging the potential improvement from the June 1996 legislation concerning the reform of public enterprises, its effectiveness will depend on a firm implementation so that inappropriate signals are not provided to the private sector, through overly generous wage awards or generous worker protection schemes. The Government has provided inappropriate signals when it continues to prop up ailing firms, as in the case of IRO. Moreover, the bankruptcy laws in Greece are very time-consuming, outdated, and prevent a firm's easy exit from the market. These delays are costly and are eventually borne, in part, by labour as well as capital. An efficiently operating market requires firms to be able both to enter and exit easily.

The economy's demand for more high-skilled workers suggests a growing need for a better trained and educated labour force. The progress already made in developing active labour market policies should facilitate the changing requirements for the transition from school to work. Public awareness about the efficient use of scarce resources has resulted in new legislation regulating the quality of the training programmes being supported. Nevertheless, further improvements could be made in promoting efficient utilisation, by directing a larger share to training rather than to subsidies and consolidating control, presently divided over several ministries, under one ministry. In this regard, the success of the IEK as attractive and accredited higher level vocational education centres should be expanded. Analogously to the recommendations regarding training, the links between universities and enterprises regarding research topics and funding should be strengthened.

The educational system has had a history of good yet sporadic results, despite the interventions of Government. At the pre-university levels, the devolution of authority and improved evaluation would provide teachers with the incentives to break out of the learn-by-rote system. University level education appears to suffer from the fact that it is too much a public good. On equity and efficiency grounds, time limits on students earning a degree could be gradually tightened and assessment procedures strengthened. The provision of universities with greater freedom regarding the allocation of their budgets could enhance the commitment of both teachers and students to the education process, *inter alia*, by alleviating staffing restrictions and releasing funds for improving facilities. In addition, curtailment of public sector employment would diminish the prospects of the public sector as the employer of first resort for university students which distorts students' educational choices and efforts, creating mismatches between the demands of the private sector and the skills of graduates.

IV. Conclusions

Compared with the situation prevailing at the start of the decade Greece has made undeniable progress, but more remains to be done to overcome the remaining macroeconomic disequilibria. Output has accelerated, led by private and public investment, though it has been insufficient to prevent a gradual increase in unemployment. An even stronger pick-up in domestic demand, coupled with a deterioration in competitiveness, has put pressure on the external current account, although this has been covered through transfers from the EU and foreign capital inflows. Despite the reduced slack in the economy, inflation has come down to below 10 per cent, yet Greece clearly remains an outlier in this respect in relation to the European average, and renewed wage pressures are not reassuring. Monetary and fiscal policy have played important roles in moving the Greek economy towards stabilisation. The exchange rate anchor has held strong and the public sector deficit has been significantly reduced with the primary balance improving by about 10 per cent of GDP over the five year period. Fiscal consolidation has been facilitated by a widening of the direct tax base, but deficit reduction has more recently been achieved by a lower interest servicing cost on the debt. Nevertheless, more progress is needed to achieve a distinct reversal of the debt dynamics resulting from a particularly high level of debt.

The prospects for output growth are favourable. Recent conjunctural indicators are mixed, which could be associated with the generalised slow-down in Europe, but business and consumer confidence remain high, and the climate for enterprise profits continues to be favourable as reduced financial costs have partly compensated for the recent strong rebound in wage costs. In this environment, and with the support of the EU structural funds, output growth on the order of 2 to 2½ per cent could be sustained – a pace which would be superior to the European average. Official forecasts are for an even faster growth. The investment-led recovery should strengthen the process of Greece's "real convergence" with the European partners. It may, nevertheless, not be sufficient to prevent the continued increase in unemployment arising from the restructuring currently pursued by enterprises. Furthermore, there are risks of an abatement of the disinflationary progress. Monetary and exchange rate policy continue to restrain prices but there exists a risk of excessive wage pressures. The national collective agreement foresees minimum wage increases beyond the official inflation objective for both 1996 and 1997, while the 1995 wage outcome suggests that drift could be significant. If these pressures result in wage awards much in excess of projected inflation, external competitiveness would be affected. Moreover, the policy of gradual interest rate reductions would be endangered, and thus, the prospects for deficit consolidation. Such developments would probably force firms to compensate for their increased financial and wage costs by productivity gains, resulting in a reduction in employment.

In this environment, monetary policy must remain stringent. The policy followed since the early 1990s of pursuing a ''hard drachma'' while also paying attention to targets for the monetary aggregates has proven successful in promoting disinflation. The monetary authorities have gained credibility following the consistent application of these policies, including the withstanding of the 1994 crises, and the broad adherence to the exchange rate and intermediate targets. The use of the exchange rate as a nominal anchor has assisted in alleviating inflationary expectations and, thus, in a gradual reduction in interest rates, as well as spreads with international interest rates. The cost of credit has been reduced by an even larger amount due to the positive effects of financial market reform, which has strengthened competition and resulted in a sizeable fall in bank spreads. The Government's recently announced intention to grant independence to the central bank during 1996 will strengthen further the credibility of monetary policy.

The growing credibility of exchange rate policy poses a dilemma as the conduct of monetary policy has been rendered more difficult. The high interest differential is attracting large capital inflows from abroad as well as recourse to foreign-currency denominated domestic credits, both of which are creating excess liquidity for the economy. The magnitude of these flows are stretching the Bank of Greece's sterilisation capacity and forced a turn to the more radical policy of raising reserve requirements. To moderate the capital inflows, more short-term variability could be introduced around the central exchange rate objective, though the magnitude of the nominal interest spread with international markets (of about 10 per cent) limits the potential usefulness of such a policy. Over time, budget consolidation will be crucial for reducing the burdens on monetary policy. In the short run, Treasury operations need to be conducted so as to minimise direct and indirect liquidity creation. In particular, so as not to add to the existing excess liquidity, the Treasury should limit its recourse to external financing and maximise domestic non-bank financing. While such a policy may appear to raise the interest servicing of the debt, it would help stem liquidity creation, contribute directly to disinflation, and lessen the need for costly sterilisation operations. The cost of such operations, in any event, only reduces the central bank's dividend transfer to the budget. Monetary policy has also been complicated by instability in the monetary aggregates, which has been increased by the distortions arising from the non-taxability of interest on government paper. Acknowledging that there are technical difficulties embodied in a move to a taxable system, a speedy transition would yield substantial benefits, including the development of a market for corporate paper.

Monetary policy – irrespective of its accomplishments – cannot carry the full weight of the disinflation strategy. Its effective application depends on the support provided by incomes policy and fiscal rectitude. The former weakened in 1995 and a fiscal policy based only on revenue enhancement would soon reach its limits. If the policy mix is not further improved and supported by structural reform, the "hard drachma" policy will lead to an appreciation of the real exchange rate which, if pursued for too long, could create problems for external competitiveness and result in a growth-reducing shift of resources into the sheltered sectors. The solution must, therefore, rest with a more ambitious fiscal policy supported by more active structural reform.

Undeniable progress has been accomplished in redressing public finances, with revenue enhancement the main force behind the primary balance improvement achieved since the beginning of the decade. Nevertheless with a debt-to-GDP ratio near 110 per cent, the general government deficit (including interest payments) is still over 9 per cent of GDP. In this context, the 1996 Budget, which aims to reduce the general government deficit to 7.4 per cent of GDP, should have been more ambitious and should have introduced additional measures to reduce primary expenditures. Deficit reduction is primarily founded on an amelioration of tax collection and a reduction in interest payments, while current primary expenditures continue to retain their share of GDP. Further cause for concern comes from the risks of slippage arising from the delayed implementation of measures to improve tax collection as well as from the slower-than-envisaged reduction in Treasury bill interest rates. Moreover, further expenditure pressures could arise from civil service wage claims and recently announced increases in some pensions.

The attainment of the more ambitious 1997-98 convergence programme targets – a general government deficit of 4.2 per cent of GDP in 1997, on the way to observing the Maastricht deficit criterion in 1998 – will require the introduction of important new measures. However, the fiscal options remain limited. Tax rates are already close to European averages and increasing indirect taxes has the additional repercussion of aggravating inflation expectations. Thus, the fight against tax evasion, which in large part results from the existence of an underground economy, must be intensified as fiscal leakage is estimated to be quite large. In view of the inherently long time required to defeat tax evasion systematically, measures such as presumptive taxation can be effective, but are undoubtedly second-best options. Further relief can be sought from a reduction in the multitude of tax expenditures. On the expenditure side of the budget, the investment effort is welcome in view of the economy's need for improved infrastructure, while the cost to the budget is diminished by structural fund co-financing. The EU structural funds, which represent inflows equivalent to over 3 per cent of GDP per year until 1999, provide Greece a unique opportunity. To take full advantage of it – and acknowledging the progress achieved during 1995 in this area – the capacity to utilise the structural funds efficiently could be improved further.

With further revenue enhancement likely to occur slowly and investment expenditure sure to rise, the burden of fiscal consolidation will have to be borne by current primary expenditures. In the medium term, the adjustments must be centred in the two expenditure items that comprise 85 per cent of current primary expenditures, namely personnel and social security. Cuts in the wage bill must go together with improving the productivity of government employees, including through their improved allocation, while reducing their number. The recent decision to replace only one out of three retiring employees is a right step in that direction. Regarding social security benefits, Greece is generous in pensions, which provides little room for the development of other social policies. When in search of cuts to overall expenditure, this situation suggests the need to redesign the pension system so that the primary aim becomes the protection of the most vulnerable members of society, and thus casts its net more narrowly, but more efficiently. In the short run, savings will need to be found from a more efficient management of the broader public sector, including the elimination of services that were once necessary, but have now become almost obsolete. In this respect, the Government announced a series of measures in late May which should improve control of public agencies' expenditures. Acknowledging the potential improvement from the June 1996 legislation concerning the reform of the public enterprises and the rationalisation efforts at state-owned banks, there remains much to be done to improve efficient operations in the broader public sector which has been an important source of the debt build-up. In this regard, the introduction of the private sector into the management of public enterprises could play a pivotal role. The most obvious method would be to accelerate the privatisation process, although the current experimentation with build-operate-transfer (BOT) type operations may also prove to be useful. In addition to improving enterprises' efficiency by exposing them to market forces, privatisation would also result in a reduction in the overwhelming debt burden, and thus the interest servicing costs (which as a per cent of GDP are the highest among all OECD countries). Recourse to privatisation could provide the additional benefit of reducing the overall size of the public sector to more manageable proportions. In this regard, the partial privatisation of the public telecommunications company (OTE) could serve as a catalyst. A reduction in the high level of interest payments will depend essentially on progress on disinflation as little more can be expected from further reductions in real interest rates which are already close to the European average.

With public sector reform the key to structural adjustment in Greece, a better functioning labour market is equally necessary to reduce the high structural unemployment rate, and to also make fiscal consolidation less costly in terms of employment. Apart from the 1990 reform, scant attention has been paid to the functioning of the labour market, as the overall unemployment rate was below the EU average. Moreover, unemployment affected mainly the young, for which the support of the enlarged family provided a safety net. Reflecting the modest official preoccupation with the labour market, the level of expenditures on active and passive labour market policies has been low. However, the recent rise in the unemployment rate to 10 per cent in 1995 has brought the labour market to the forefront of policy debate and a "new structural policy for employment" has been initiated. The rigidities in the labour market are reflected in a dualism, where the unemployment rate for heads of household is low, while youth – and the less qualified more generally – have problems entering the labour market (the youth unemployment rate stands at 30 per cent, with more than half being long-term unemployed). Worker qualifications are also proving to be a constraint to employment in an economy in full transition, with workers affected by industrial restructuring facing re-entry problems. The pressures on the labour market are likely to intensify. Judging from the small size of enterprises and the considerable role of self-employed in the economy, the transformation process appears to be just beginning. In addition, the agricultural sector (which still represents over 20 per cent of employment) continues to diminish, women are accelerating their entry into the labour force (with the female participation rate still well below the European average) and migrant flows have reversed with the arrival of immigrants of Greek origin and illegal workers. Thus the potential labour supply in the years to come means that Greece faces important labour market challenges.

The analysis of Chapter III (Implementing the OECD jobs study) suggests that one of the main problems has been the wage formation system. Until the beginning of the 1990s, it was particularly rigid and combined centralised negotiations, a high minimum wage, and full indexation for lower incomes. Considerable progress has been achieved since the beginning of the 1990s with the elimination of automatic indexation and the withdrawal of Government from interventions in the private sector wage negotiation process. However, the use of inflation catch-up clauses in Government wage agreements – introduced to make incomes policy more acceptable – have had spillover effects on private sector negotiation, and implies that a degree of indexation is still in place. Furthermore, although there is evidence of some widening in the 1990s, the distribution of wages remains narrow due to the existence of a high minimum wage (60 per cent of the average wage for a worker with 10 years' experience), which applies to a significant share of dependent employment. This feature – in conjunction with high non-wage labour costs common to many European countries – constitutes an entry barrier to persons having low productivity, in particular the young entering the labour market.

It is difficult to gauge the degree to which the labour market is effectively constrained by job protection legislation in an economy dominated by small enterprises. The principal problems appear to be the high severance costs and restrictions on mass layoffs for firms with twenty or more employees. With dismissals limited to 2 per cent of the firm's labour force per month, and relatively high severance payments for white collar workers, it is not uncommon for enterprises – with a view to maintaining social peace – to prefer to negotiate more generous severance package deals reaching 25 to 30 months' salary per worker. Such effects are likely to deter firms from hiring and thereby to contribute to labour market segmentation. Regarding working time flexibility, the introduction of a fourth shift in 1990 permitted a better utilisation of installed capital, but limits on overtime hours are generally considered constraining by employers. Labour market flexibility would be improved through additional recourse to part time and fixed-term contracts. These options are legally permitted – though the conditions on the latter are strict – but are barely used by the private sector.

In contrast to the situation observed in a number of other OECD countries, unemployment benefits are very low and hardly constitute a disincentive to job search. However, this situation creates other distortions – and in particular reinforces dualism. Social partners are induced to protect the employment of the head of household to the detriment of new entrants in the labour market. At least until the 1990s reform, there was a tendency to develop other mechanisms to maintain the income of the potentially unemployed. One important channel has been through the lenient provision of pensions, which benefits an exceptionally high number of persons in Greece, and which explains to a large extent the low participation rate. To finance these pensions, social security contributions have been raised rapidly and are now very close to the European average. The increases in rates, and their regressive structure, have had important effects on employment, in particular on the less qualified category of workers for whom wages are constrained by the floor of the minimum wage. Finally, over and above social security contributions, several regulations contribute to non-wage labour costs, including the requirement that 8 per cent of a firm's hiring be taken from the socially underprivileged (which is more than twice the EU average) and a variety of additional payroll taxes to support labour-related public institutions. To compensate for high labour costs, the authorities have resorted to employment subsidies, which are, however, proving ineffective in creating permanent employment.

In addition to enhanced recourse to pensions, a second response by the public sector to the unemployment problem has been the substitution of private sector employment with public sector recruitment. During the period 1981-90, general government employment grew at three times the rate of private-sector dependent employment. Moreover, wage decisions by Government traditionally provide a floor for private sector wage growth, while the soft budget constraints at public enterprises produce inappropriate incentives to the private sector in the form of wage increases (or other benefits) in excess of productivity. The attractiveness of public sector employment has also influenced the education paths of students. These are too often oriented toward general studies and do not match the qualification requirements of the private sector. This problem is aggravated by weak vocational and technical training, despite the progress recently made in this area through the introduction of higher-level vocational schools (IEK). The public sector also dispenses the bulk of R&D expenditure, but transfers most such funds to universities which have few links with firms.

Conscious that the functioning of the labour market remains unsatisfactory despite the reforms introduced at the beginning of the decade, in 1995 the Government presented an ambitious programme to facilitate job search and placement and improve the training of the unemployed, which will replace existing arrangements. A main component of the programme is the introduction of a voucher system whereby the unemployed have the flexibility to apply the value of their voucher towards training, a wage subsidy, or unemployment benefits. It also aims to link all the regional centres of the state employment agency (OAED) by computer. The programme's future impact is difficult to gauge as it still remains at a developmental stage and it may prove complex to operate. The programme places more emphasis on improving the management of the current unemployment situation than on responding to critical problems underlying unemployment.

In this regard, the *Survey's* analysis suggests that the labour market rigidities could be reduced with the implementation of the following reforms. A reduction of the level of minimum salaries (especially for certain categories of workers, such as youths or persons with low qualifications or experience) would facilitate entry of low productivity workers into the labour market and social partners should consider such a move. Reducing the high non-wage labour costs for workers at the low end of the wage distribution would constitute a move in the same direction. This cost reduction could be accomplished either through a reduction of the regressivity of social security contributions, cuts in *ad hoc* payroll taxes or preferably by a reduction in public expenditure, most importantly with an overhaul of the pension system. Employment opportunities would also be improved to the extent that enhanced product market competition, especially in the service sector, reduces firms' input costs and reduces the likelihood of rent-sharing spilling over into general wage levels. Another approach would be to enhance decentralised wage bargaining, *i.e.* shifting it more towards the individual enterprise level from the sectoral and regional ones. At the same time, the introduction of an ''opt out'' clause into the national collective agreement for firms undergoing difficult financial circumstances should be considered. To improve the flexibility of the labour market, unemployment benefits – for workers who have contributed for an adequate time period – could be increased from their current exceptional low level towards their statutory level thereby facilitating the elimination of monthly firing limits, and thus reducing the cost of hiring, especially for persons on part time contracts. At the same time, the targeting of active labour market polices should be improved, and aimed at segments of the long-term unemployed who are most likely to regain the ranks of the employed. This should be achieved mainly through training. The new active labour market policy also relies on employment subsidies which will have to be more effective than was the case under the previous schemes, if they are to help create additional employment. To further facilitate employment turnover, the role of placement offices could be enhanced through the legalisation of for-profit private placement offices to support the job currently done by the public monopoly placement office provided that adequate safeguards, such as payment of the placement fee by the employer, are in place. Working time flexibility could be improved by negotiating at the firm level the rearrangement of working time on an annual basis, while leaving average working hours unchanged. To improve labour force skills and competencies, the structural funds earmarked for education should be geared more to support vocational and training schools. At the same time the system should be made more effective through the consolidation of the various government vocational training institutions presently under the control of different ministries. To facilitate the absorption of new technologies and the ability to innovate successfully, the links between universities and enterprises regarding research topics and funding should be strengthened.

Considerable progress has been achieved in reducing the macroeconomic disequilibria. This has helped to create an improved environment of confidence and thereby provided an additional impetus to the recovery in economic activity. To the same effect, the structural funds and the opening of the Balkan and CIS markets provide Greece a unique opportunity to undertake investments which would sustain a higher output growth rate and enable progress to be made towards "real" convergence with the European partners. Nevertheless, risks remain present and in particular as regards the potential for an acceleration of inflation. In the absence of a better policy mix there is the risk of slippage, which would undermine the existing positive mood of confidence; if it were to be lost, confidence would be difficult to re-establish. An enhanced effort to achieve a sustainable reduction in the public deficit would necessarily go together with a more ambitious structural policy, notably regarding the reform of the public sector and the acceleration of the privatisation process. In this regard, a parallel introduction of reforms to increase the flexibility of the labour market would support the adjustment effort by improving job opportunities. Social partners have a critical role to play in the adjustment effort needed to improve labour market functioning and to bring down inflation. A successful effort in 1996 would provide momentum towards the achievement of the outer year targets of the convergence programme.

Notes

1. National accounts have been fully revised for the period 1988-91 and data discussed hereafter for the period 1992-95 are preliminary estimates by the Ministry of National Economy. This exercise has resulted in an upward revision in the level of GDP by about 2.5 per cent. New national accounts use chain-weights and include a decomposition of the private sector into households and enterprises (up to 1991 only).
2. See OECD (1995), *Economic Survey of Greece* for details on the process of financial reform.
3. Law 2234/94 (which amends Law 1892/90) forms the basis for industrial policy. It provides grants, interest rate subsidies, tax-free discounts, and entitlement to accelerated depreciation for qualifying investments, with more attractive terms for projects undertaken in special regions of the country (*e.g.* Thrace). The 1994 amendment (Articles 23*a* and 23*b*) broadened the activities qualifying for grant assistance, *inter alia,* for the implementation of medium-term business plans costing Dr 1-5 billion (35 per cent grant) and industrial upgrading (40 per cent grant).
4. Under the so-called "Delors Package II", Greece is expected to receive from the Community Support Framework over the period 1994-99 approximately ECU 14 billion from structural funds as well as ECU 2.6 billion from the Cohesion Fund, and ECU 1.5 billion from other EU initiatives (at constant 1994 prices).
5. In September 1995, Parliament approved a 5-year contract for Dr 600 billion to build the new Athens International Airport at Spata. This project is considered to be the largest public work undertaken in Greece in the past 20 years. In January 1996, an agreement was signed for the 7-year project to build the Dr 210 billion Rio-Antirio bridge. Both are build-operate-transfer (BOT) projects and provide the respective consortiums with 30 year and 35 year concessions.
6. Total domestic demand includes stockbuilding and the statistical discrepancy, which were sizeable in 1995.
7. The number of civil servants increased by 3½ per cent during the year.
8. According to the Bank of Greece estimates, the increase in unit labour costs slowed to 10½ per cent in 1995 from 12 per cent in 1994.
9. Excise tax increases consisted of: diesel fuel (7.7 per cent), petrol (6.7 per cent), beer (60 per cent), and certain alcohol spirits (100 per cent). Annual car registration fees were raised by 35 per cent on average, and tobacco product sale prices by 10 per cent. Regarding administrative prices, the main increase was a 10 per cent tariff hike for the national telephone company (OTE). No other public utility price increases are expected to occur in 1996.

10. During 1995, industrial exports – which constitute about one-half of total exports – increased 27 per cent in value terms including an increase of 40 per cent to non-EU countries (of which the Balkan countries form the largest share).

11. Estimates of the Bank of Greece.

12. While acknowledging the weakness in the unit value estimates, this value increase represents an increase somewhat greater than 10 per cent in volume terms.

13. Entrepreneurial capital includes direct investment, portfolio investment, and private sector borrowing.

14. Foreign-currency denominated lending by domestic banks enters into the balance of payments accounts since these accounts, as currently compiled by the Bank of Greece, are based on the currency of transaction rather than a resident versus non-resident breakdown; a new formulation based on the latter methodology is envisaged to be introduced in early 1997.

15. As from 1 January 1994, the Bank of Greece ceased engaging in foreign borrowing on behalf of the Government following the harmonisation of Greek law with the provisions of the Treaty on European Union. Subsequently, the Government has borrowed in international markets on its own account, for the most part, through bond issues aimed at the Euro-dollar and Samuri segments of the market.

16. The two ratios are affected, respectively, by movements of the exchange rate in real terms and the under estimation of export receipts.

17. The Bank of Greece's indicator tracking disbursements under the public investment programme implies a significant improvement in disbursements during 1995.

18. The agreement also contains an inflation catch-up clause, which will be triggered in 1996 (and the catch-up awarded at the beginning of 1997) if inflation exceeds $6\frac{1}{2}$ per cent during 1996 and in 1997 if inflation exceeds the official inflation target.

19. Introduction to the 1996 Budget.

20. Discussion of the budget is handicapped by accounting differences that arise between the presentation of the budget on a national accounts and on an administrative basis. The Budget is drawn up on a mixture of cash and accrual accounting bases, while the convergence programme is presented on a national accounts basis. Among the differences are the treatment of armed forces amortisation payments, debt assumptions, and interest payments, including capitalised interest. Acknowledging the differences between the two presentations, the discussion of the Budget in this *Survey* is undertaken only on a national accounts basis.

21. The budget submission for 1995 contained a central government deficit target of 9.8 per cent of GDP compared to an outturn of 12 per cent of GDP in 1994. The primary deficit, at this level of government, was projected to improve by $1\frac{1}{2}$ per cent of GDP.

22. For farmers, the tax base depends on the crop and the size of land being cultivated. For the latter two categories of self employed, the tax base was set according to several factors, including the national minimum wage, 6 per cent of imputed rent of the commercial property, the location, the number of years of operation, the type of university degree (for liberal professionals) and the sector. These measures were expected to yield Dr 220 billion (0.9 per cent of GDP).

23. Revenue enhancement was expected from several other sources. The implementation of the final increase in pension contribution rates for civil servants scheduled by the early 1990's reform. A full year's effect from: *i)* the May 1994 increase in the corporate income tax rate from 30 to 35 per cent for domestic firms not listed on a stock exchange, and *ii)* the May 1994 extension of the 15 per cent withholding tax to Repos and to dividends from mutual funds. Non-tax revenues were expected from the sale of casino licenses to the private sector, the first year of a profit transfer from the Bank of Greece following the regularisation of the Government's accounts with the Bank of Greece, receipts from the introduction of a new publicly administered game of chance (Lotto), and the fee on airline passengers to finance the Spata airport.

24. The court's decision required the re-hiring of individuals hired in the run-up to the 1993 parliamentary election, and who were subsequently released.

25. A 1991 pension reform had tightened the eligibility to a pension for members of the national resistance and their families.

26. On an administrative basis, the central government deficit improved from 12.1 per cent in 1994 to 10.3 per cent in 1995. Part of the difference between the presentation of the deficits on an administrative and on a national accounts basis can be explained by the non-inclusion on an administered basis presentation of government non-cash coverage of guarantees; these amounted to 0.7 per cent of GDP in 1994 and only 0.2 per cent of GDP in 1995. In addition, the central government Budget does not take account of capitalised and accrued interest in its presentation (amounting to about 1 per cent of GDP in 1994 and 0.5 per cent of GDP in 1995).

27. The accounts of the social security funds failed to capture interest income arising from the operating surplus that followed the reform. Also, on the payment side, the accounts failed to record payments for medical services, which had been raised substantially – but from a very low base – by the reforms. Moreover, the change in accounting principles required by the Maastricht Treaty for social security reserves resulted in a downwards revision of the general government debt by nearly 4 per cent of GDP in 1994.

28. This adjustment would entail revising down the 1994 general government deficit outturn from 13.1 per cent of GDP to 12.1 per cent of GDP and, the 1995 budget target from 10.7 per cent of GDP to 9.7 per cent of GDP.

29. Farmers' pensions were increased by Dr 4 000 per month from September 1995 (0.1 per cent of GDP on an annual basis).

30. The legislation devolving power to the prefectures comprises part of the Government's strategy to promote decentralisation. Under the new system, the head of the prefecture would be elected, the council of the prefecture would approve a budget, which would be submitted to the central government. The prefectures have not yet been granted the right to raise taxes but have their own earmarked sources of income; and receive grants from the respective ministries. The prefectures will be allowed to borrow resources after receiving permission from the state.

31. With the cost for these civil servant bonuses amounting to Dr 160 billion (0.5 per cent of GDP), the Government decided to pay only Dr 15 billion in 1995 and provide the rest in instalments over the period 1996-2000. Regarding judges' pay, which law required to be at

least at the level of that of doctors at the national health institutes, the total liability was Dr 63 billion and the payments will be made during the period 1996-2000.

32. During 1995, the Government built up its reserve in foreign exchange from Dr 462 billion at end-December 1994 to Dr 814 billion at end-November before converting Dr 442 billion of these resources (approximately 13 per cent of the monetary base) into drachma during December to meet its financing needs.

33. These bonds are usually of long maturity and have been issued by the Government to state-owned banks to compensate for non-performing assets or to cover guarantees that have been called. In addition, the Government's outstanding accounts with the Bank of Greece were also converted to long-term bonds (and loans).

34. Under the Greek budget system and in line with European practices, interest on Treasury bills is charged to the Government's accounts at the time of issue while a bond's coupon payment is charged at the time of payment.

35. The comparable objectives of the central government (on an administrative basis) are an increase in the primary surplus from an estimated 2.3 per cent of GDP in 1995 to 3.1 per cent in 1996, and a reduction in the overall central government deficit to 8.5 per cent of GDP from an estimated 10.4 per cent of GDP in 1995. These targets do not include: *i)* capitalised interest and accrued interest estimated to be of the order of Dr 150 billion, and *ii)* the government's acceptance of called guarantees amounting to Dr 124 billion unpaid from 1994, and an estimated Dr 50 billion unpaid from 1995. Moreover, interest to commercial banks amounting to Dr 200 billion was rescheduled.

36. The extent of the adjustment outside the central government is reflected in the fact that the primary improvement at the level of central government is budgeted to be 0.9 per cent of GDP, leaving an improvement of ½ of one per cent of GDP for the rest of general government (see footnote 20).

37. The 1994-99 convergence programme contains the smaller target for the general government primary balance of 5.1 per cent of GDP for 1997. The current target for the general government deficit remains almost unchanged at 4.1 per cent of GDP as the convergence programme has more optimistic interest rate assumptions.

38. Nevertheless, the highest marginal tax bracket is 45 per cent. OECD (1995), *The Tax/Benefit Position of Production Workers 1991-1994.*

39. A government-sponsored study has indicated that besides traditional tax expenditures such as for mortgage interest, personal income deductions from taxable income can be made for health care expenditures, private insurance costs, 30 per cent of rent for a primary residence, 40 per cent of expenditure on private tutoring, 30 per cent of legal expenses, 30 per cent of children's student living costs, and 30 per cent of expenditure on goods and services. Corporations can deduct advertising costs and 2 per cent of total expenditure (without justification) from taxable income. In addition, certain occupations can deduct large shares of their gross income from taxable income.

40. Specifically, the old age dependency ratio in Greece is 21 per cent compared to 21.5 per cent in the EU countries on average, while the total dependency ratios are 49.2 and 48.7 per cent, respectively.

41. Eurostat (1993) *Old age replacement ratios.*

42. The main reforms affecting the private sector comprise an increase in contribution rates and the retirement age. Eligibility requirements for invalidity pensions were also tightened.

43. To verify total pension receipts will necessitate the introduction of identification numbers for pensioners to cross-check across pension funds. This requirement could be temporarily substituted by the national identity card number.

44. The 4 per cent special tax on bank transactions (EFTE) is applied on a credit's interest cost. Thus the tax is significantly reduced on foreign currency denominated credits.

45. The incentive for the drachma-denominated deposit holder to participate in the synthetic swap was the opportunity to share with the intermediary bank the benefits from the avoidance of the domestic 15 per cent withholding tax as well as the 9 per cent reserve requirement. The synthetic swap takes advantage of the fact that withholding taxes in foreign countries (even if higher than the domestic one) are applied on a lower interest rate. Moreover, reserve requirements were not imposed on non-resident liabilities.

46. The synthetic swap replaces a domestic deposit with the foreign bank's foreign currency deposit. The former obviously comprises part of the monetary aggregates, while the latter would not as it is a deposit between financial intermediaries, and would comprise part of "other items (net)" in the consolidated balance sheet of the banking system.

47. At end-September 1995, the Bank of Greece's intervention in the interbank market had turned from a contractionary position of nearly Dr 1 trillion into a net expansionary position of almost Dr 100 billion.

48. In view of the increased importance of the secondary market, the definition of M4 was revised during 1995. Previously, M4 only contained primary-market purchases by the non-bank public of government securities with a maturity of no more than one year.

49. Coupon payments on government three, five and seven-year bonds are calculated as a pre-determined spread over the interest rate on the 12-month Treasury-bill at the begining of the coupon period. Heightened demand for this longer term paper is linked to the fact that these spreads had remained fixed, respectively, at 100, 150 and 200 basis points despite the downwards path in Treasury-bill rates during 1995. They were adjusted down by 50 basis points in early 1996.

50. The growth rate of M3 exceeds that of M4 during 1995 due to the sharp fall in the former at end-1994, following the taxation of repo transactions. During 1994, the growth rate of the respective monetary aggregates was 8.8 and 13.9 per cent.

51. The share of foreign currency denominated credits in total private sector credits increased from 13.5 per cent at end-1994 to 17.4 per cent at end-1995.

52. During 1995, the Bank of Greece placed increased emphasis on the auction of one-month interbank deposits as the instrument for conducting open market operations, as well as the auction of 14 day repos. The one-month (multi-price) auction was introduced in May and the (multi-price) auction of 14 day repo instruments in June 1995. A one-month deposit facility had been introduced in November 1994, but its interest rate was administratively determined. Prior to the introduction of the more flexible instruments, the Bank of Greece's principal form of intervention was conducted through the setting of the interest rate on its overnight facility.

53. The growth rate of base money probably understates the tightness of monetary policy, since the increase and broadening of reserve requirements, though contractionary, inflated base money.

54. The increase of gross official reserves in "flow terms" was probably larger in view of the appreciation of the US dollar against most other currencies.

55. Non-interest consumer credit terms were tightened through the imposition of the requirement that *i)* private individuals' financing can not exceed 65 per cent of an expenditure on the basis of supporting documentation and *ii)* loans to private individuals without supporting documentation can be provided by only one credit institution.

56. A special chapter of the 1995 *Survey* contains a review of the financial reforms implemented over the past years.

57. The Fund's initial capital of Dr 3 billion was contributed by the Bank of Greece (60 per cent) and the commercial banks (40 per cent). The contribution schedule ranges from 0.125 per cent for deposits up to Dr 50 billion to 0.025 per cent for deposits above Dr 1 750 billion. These contribution rates could change once the reserve attains a level comparable with other guarantee systems.

58. The Agricultural Bank is the only financial institution which has been provided a longer transition period in order to observe the 8 per cent Cooke ratio (ETVA and the Postal Savings Bank are exempt from this requirement). The Government is currently deciding on a Dr 55 billion recapitalisation of the Agricultural Bank. It is also considering exercising the option on its holding (Dr 102 billion) of the convertible bond issued by the National Bank of Greece in 1991, and subsequently selling the equity to private investors. Since 1990, the Agricultural Bank, ETVA, and the National Mortgage Bank have received bonds for capitalisations and debt assumptions amounting to Dr 656 billion, Dr 463 billion and Dr 46 billion, respectively, amounting to over 4 per cent of 1995 GDP in total.

59. One reason for the low demand for paperless bonds was the unavailability of the option to strip (separate and trade independently) the coupon from the principal. The availability of this option for paperless issues was introduced in August and first occurred in October 1995. Since the bonds carry floating rates, only the coupon for the current period is known and can be stripped. The framework for all coupons to become stripped coupons is also expected to be introduced shortly.

60. Most importantly, to prevent coupon washing, bilateral tax treaties with some countries would need to be modified, and the double taxation of repos and mutual funds would need to be prevented. The taxation of government paper may also lead to revenue losses for the government budget as government paper is only taxless for individuals while the corporate income tax stands at 35 per cent and the withholding tax would only be 15 per cent.

61. The restructuring plan, on the financial side, comprised the Government debt take-over of Dr 260 billion, the obligation settlement of Dr 167 billion, the conversion of Dr 64 billion of Government loans to equity as well as the capital injection (some 2 per cent of GDP in total), while on the operational side, workers accepted a two-year wage freeze and a reduction in total employment exceeding 10 per cent.

62. During 13 years of operation, IRO has controlled 74 firms, of which 10 have been sold, 7 operating firms remain in its portfolio, about 40 fims are in various stages of liquidation,

and the remainder have been liquidated. In view of the delays in terminating liquidation procedures, new legislation was approved in early 1996 whereby the current group of liquidations would be released and the process taken over by IRO.

63. Regarding employment and unemployment data, the main sources are the decennial census and the annual labour force survey. The latter is calibrated with the more complete census data every decade *e.g.* 1981, 1991. Moreover, prior to 1981, the annual labour force survey only covered urban and semi-urban areas, distorting the comparability with subsequent surveys. An additional data source is the annual industrial survey which covers firms with ten or more employees. Finally, the public agency responsible for administering unemployment benefits and active labour market policies (the Manpower Employment Agency, OAED) has data on registered employees, which comprise about half the active population. These data are considered less reliable indicators of the overall employment situation though its monthly availability provides a more up-to-date view of developments. This chapter uses labour force survey data from 1981 onwards and the census data. In order to obtain an historical perspective for some of the broader aggregates, the *OECD Labour Force Statistics* are used. The data on wages are far weaker. Annual sectoral data according to NACE (General Classification of Economic Activities of the European Communities) are available, but no data exist on the distribution of wages.

64. Total employment in the industrial sector declined by only 5 per cent, following adjustments for the reclassification of certain activities.

65. This figure excludes public employees in the many small profitable pension funds and hourly-contracted workers. Moreover, annual labour force survey data suggest the share of employees in the broader public sector amount to about 40 per cent of salaried workers. However, the survey data could be overstating employment in the public sector due to survey bias; public servants are less prone to evade survey participation.

66. Glytsos, Nicholas (1995), "Human Capital" in *2004: The Greek Economy at the Threshold of the 21 Century*, ed. by Andreas Kintis, Ionic Bank, Athens.

67. The low youth employment rate is also affected by the long (2 year) military service required for all Greek males.

68. Lianos, T.P., Sarris A., and Katseli L.T., (1995), "The Impact of Illegal Immigration on Local Labour Markets: The Case of Northern Greece", CEPR Workshop, Halkidiki 14-16 September 1995.

69. OECD (1995), *Employment Outlook*, Paris.

70. Labour's share in business sector value added inputs a wage compensation to self-employed equal to the average compensation for wage earners. The calculation is especially sensitive to this assumption in the case of Greece due to the importance of the self-employed in total employment.

71. For example, during the period 1984-87 full adjustment was provided for the portion of salary up to Dr 50 000 per month, a 50 per cent adjustment for the portion Dr 50 000-75 000 per month, and a 25 per cent adjustment for the portion Dr 75 000-100 000 per month. No adjustment was provided to salaries above Dr 100 000 per month. Despite the relatively high inflation in Greece during this period, these limits were adjusted infrequently, accelerating

the process of wage compression: the first threshold was increased to Dr 60 000 per month only in 1987.

72. There are separate minimum wages for blue and white collar workers.

73. The ATA system went through three distinct stages. In the period 1982-85, the ATA system provided for an automatic adjustment to wages three times per year (January, May and September), with the size of the adjustment based on the CPI inflation that had taken place since the preceding adjustment. In the period 1986-87, the ATA system was used to implement a tough income policy, with wage increases consistent with the government's inflation target. During this period, wage increases excluded the impact of changes in import prices (which were increasing faster than domestic prices due to the devaluation of the drachma). Despite an automatic catch-up at the end of the year in the event actual inflation exceeded the forecast, the lag in the adjustment and the exclusion of the effect of the devaluation permitted a 14 per cent reduction in real wages over the two year period. With the relaxing of income policy in 1987, wage increases in the private sector far exceeded targeted inflation, while civil servants retained an indexation system. At the same time, for both the private and the public sector agreements, the timing of the catch-up was shortened to the end of every four month period and the effect of imported inflation was no longer subtracted from the increase granted to incomes (for incomes below the first threshold).

74. Labour and employers cannot be forced into arbitration by third parties. Under the new law, unilateral recourse to compulsory arbitration is possible if one of the two sides refuses mediation. In the event one side refuses the mediators' offer, unilateral recourse to compulsory arbitration again is possible, but only for negotiations at the firm level.

75. According to the 1990 law, conditions for recourse to arbritation can be fixed by collective agreement, which would then supercede the law's other provisions.

76. Additional assurance of the neutrality of OMED mediator/arbitrators arises from the fact that they are not public servants, and are subject to renewable three year contracts.

77. Unfortunately no data exists regarding the number of workers covered by these agreements.

78. More stringent strike rules were again introduced in 1990, but were partly repealed in 1994.

79. Based on wage data from the annual survey of large scale industry, the ratios are slightly higher, and indicate a ratio of near 100 per cent for women blue collar workers in 1981, which subsequently declined to 80 per cent.

80. The national collective agreement requires workers to receive minimum seniority bonuses; white collar workers receive a 10 per cent seniority bonus (relative to the entry level minimum wage) every three years up to 9 years of service, while blue collar workers receive 5 per cent increases every 3 years up to 12 years of service. The bonuses only have an effect on earnings in the event wages are below the prescribed minimum. There also exists a 10 per cent marriage bonus.

81. KEPE (1996), *Recommendations for Corrective Policy for Industry and Employment*, Athens.

82. Nevertheless, it is difficult to draw strong conclusions based on this last development as a conjunction of regime changes occurred in the early 1980s.

83. Specifically, the wages of a low salary earner who only received the minimum increases conferred by the ATA system during the period of its existence would have theoretically received cumulative increases of 246 per cent (*ceteris paribus*) while under the same assumptions a very high salary earner would have received wage increases of only 73 per cent. Moreover, the deviation would be even larger on an after-tax basis, since the low-wage earners fall in the lowest tax bracket which carries a zero marginal tax rate. This calculation obviously abstracts from the fact that with cumulative inflation almost equal to the wage increases of the low-salary earner, high-salary earners, especially in the private sector, would have certainly received wage increases above the minimum. Reflecting the disadvantaged position of civil servants, their after-tax salary differentials between the top and bottom grades shrunk from a ratio of 4 to 1 to 2 to 1 between 1980-90.

84. The Gini coefficient widened to 0.146 in 1989 and surpassed its 1989 level in 1992 when it reached 0.165. The widening of wage dispersions during the final two years of the ATA system may be related to the introduction of new upper limits on salaries for managerial positions in the public sector which provided the traditional signal to the private sector.

85. The government decision regarding civil service pay is contained in the annual budget, which is passed before the end of the year while the representatives of labour and enterprises begin their negotiations in January or February of the following year, with agreements retroactive to the first day of the year.

86. GRUBB and WELLS (1990), *OECD Economic Studies* No. 21.

87. Result of IOBE survey conducted for the EU's 1995 *Ad Hoc* Labour Market Survey, and reported in *Greek Economy*, (1995) No. 8.

88. For white collar workers, severance payments increase proportionally with the period worked up to 24 months' salary for 24 years of service, while for blue collar workers, compensation increases proportionally up to 100 days' salary for 20 years' service. Moreover, an increasing number of professions are apparently becoming classified as white collar (*i.e.* salaried).

89. For firms with 20-50 employees, the monthly limit is five workers. The federation of industrialists has suggested that the discontinuity at 50 be eliminated with the 2 per cent monthly limit applying to firms with 250 or more employees.

90. Existing legislation permits firms facing economic difficulties to temporarily layoff workers (for up to 3 months per year) at half-pay, with OAED providing an additional small wage supplement. Little recourse has so far been made of this provision.

91. The share of male part-time workers is near, while that of women, far below the respective EU average.

92. At the same time, legislation permitted night and weekend work.

93. For commercial activities, the overtime limit is 60 hours per semester.

94. Overtime in excess of the cumulative limit is illegal under the civil but not penal codes, which may explain why this limit is less binding.

95. The 1990 legislation permited collective agreements (including firm level accords) to set an increased work schedule for a period up to 3 months (up to 9 hours per day and 48 hours per

week) to be followed by a reduced work schedule, with the average weekly hours for the six-month period not to exceed 40 hours. In such an event, no overtime pay is due.

96. EU (1994), *Employment in Europe.*

97. There exist over 300 pension funds in Greece and transferring pension rights among them, though legally possible, is bureaucratically difficult and time consuming.

98. In 1995, the employees paid 16.4 per cent and the employers 28.4 per cent of a worker's gross salary in social security contributions, while the personal income tax for the average married production worker was 0.5 per cent of gross income.

99. The ceiling corresponds to the imputed income of the highest (28th) social security class, which was Dr 18 890 per day for the first semester of 1996 equivalent to Dr 472 200 per month, and is adjusted in line with pensions. The OECD's estimate for the monthly earnings for the average productive worker at end-1995 is Dr 216 530 per month.

100. OECD (1995), *Jobs Study,* Paris.

101. Due to the financial difficulties of OAED, unemployment benefits had been frozen at their 1989 level until 1994, when they were raised by a cumulative 40 per cent in the following two year period. In 1992, the payroll taxes used to finance OAED were raised and currently stand at 4 per cent of gross earnings, of which 1.33 per cent is paid by the employee.

102. Supplementary unemployment benefits are provided for three months following the expiration of the normal benefits, but at the reduced rate of 15 days out of a total of 25 days per month. In addition, unemployed workers who have not met the requisite working period, but have worked 60 days in the past year are eligible to receive (after a three month waiting period) three lump sum payments equivalent to 15 days earnings at the minimum wage.

103. OAED also distributes family allowances, which depend negatively on the level of income and positively on the number of children. In 1993, 312 600 workers received family allowances totalling Dr 12 billion.

104. The early retirement regulations under IKA appear to be fair, with a 0.5 per cent reduction in benefits for every month of early retirement up to five years. Exceptions exist for certain categories of workers, such as employees in heavy and unhealthy employment, or mothers with underage children (who receive full pension at 55 years of age).

105. In addition, special early retirement incentives were provided to the employees of Olympic Airways and the two shipyards, Scaramanga and Eleusina in the context of their restructuring.

106. An apprenticeship programme for youths aged 15-18 years old, provides 4-6 months' training for some 14 000 participants. Centres for accelerated vocational training (KETEK), provide 2 to 6 months' vocational training to some 6 500 unemployed aged 16-46 years old. Intra-enterprise training programmes provide opportunities to some 37 500 trainees annually, with OAED compensating employers for up to one-third of the wage for a maximum of 400 hours of employment or training. The internal training program (administered by ELKEPE) is financed with a payroll contribution rate of 0.45 per cent.

107. DEDOUSOPOULOS, REPPAS, TATSOS, TRIANTAFILIDOU, (1994) Pantion University Athens, *Evaluation of programme subsidising employees for the creation of new jobs,* and

CHARATSIS and PETRAKI-KOTTI, (1992) University of Athens, *Research Study evaluating the implementation of OAED programmes for new self-employed.*

108. EU (1993), *Employment in Europe.*

109. The Government may be backsliding on the issue of opening hours, as it re-imposed opening hours on petrol stations in March 1996.

110. The February 1995 legislation established a general merger control procedure (threshold annual turnover ECU 50 million or market share of 25 per cent). In addition it re-organised the control mechanism for competition enforcement, whereby two control stages are provided. In the first stage, the competition committee takes a decision based on competition criteria and in the second stage, the Ministers of National Economy and Commerce can decide to permit mergers disallowed by the committee. The committee also has the power to levy fines and introduce provisional measures.

111. Restrictions remain on the purchase of non-entrepreneurial real-estate in border regions, which account for 20 per cent of the land. In addition, some sectoral restrictions exist – for which licensing is required – in mining, air and maritime transport, fisheries, and broadcasting.

112. Institutes for professional training (IEK) which provide vocational training for graduates of the Lyceum, with graduates receiving accreditation (recognised throughout Greece and the EU) after four semesters of study.

113. OECD (1996), *"Educational Policy Review: Greece"*, Examiner's Report, Paris.

Annex I

May 1996 measures to control expenditure

On May 31 1996, the Council of Ministers approved a set of 13 measures aimed mainly at controlling public expenditures. The measures are as follows:

1) For a three year period, reduce the number of civil servants through legislation constraining new hirings (excluding teachers) to 30 per cent of retirements. In addition, intra-sectoral employee transfers will be facilitated;
2) Creation of standing committee which will, in a short period of time, inventory the public entities whose initial purpose has been accomplished, those which have overlapping responsibilities and could be merged, as well as those whose services are no longer important or are too costly to maintain. Examination of the option to transfer such public entities to public enterprises and to enterprises owned jointly by the public and private sector. The results of this inventory will form part of the 1997 State Budget;
3) Review the situation linking budgetary receipts to third-party public entities (excluding regional governments) and examine the option of financing their activities through transfers from the State Budget;
4) Bring into the State Budget special accounts which are currently off-budget;
5) Introduce conditions under which entities receiving grants from the State Budget can borrow from domestic capital markets;
6) Institutionalise the requirement that all public institutions receiving transfers from the State Budget submit three-year work programmes which achieve substantial reductions in such transfers through the exploitation of their assets and cuts in their expenditures;
7) Introduce legislation permitting public sector entities to exploit their real estate assets;
8) Introduce Presidential decrees which complete the creation of a special class of inspectors to audit *i)* public services and public entities, *ii)* other entities which receive transfers from the State, and *iii)* public enterprises;
9) Provide the Ministry National Economy the ability to hire management consultants so as to evaluate the organisation and functioning of public entities, including an evaluation of their expenditures;

10) Introduce institutional constraints to the voting of legislation or issuing of directives initiating expenditures not included in the Budget,

11) Strengthen the institutional framework requiring public institutions, receiving transfers from the State or the European Union, to submit the requisite financial data to the two economic ministries in the context of their budget approval;

12) Encounter the future need to create new public entities in a manner which will not burden the public sector;

13) Submission of expenditure cut proposals by ministries in the context of the preparation of the 1997 budget.

Annex II

Chronology of main economic events

1994

November

The Government postponed the 25 per cent partial privatisation of the state telecommunications company OTE.

The Bank of Greece lowered the rediscount rate and the Lombard rate by 100 basis points to 20.5 per cent and 24 per cent, respectively.

Banks are no longer allowed to invest in Treasury bills as part of their interest-bearing compulsory deposits with the Bank of Greece.

December

In a renegotiated agreement, the Government awarded the contract to build and operate a new airport for Athens to the original consortium, but with the State retaining a 55 per cent majority stake – instead of the original 40 per cent – for 30 years, after which the State will acquire the remainder.

The central government incomes policy for 1995 provided for nominal wage increases of 3 per cent on 1 January and 1 July 1995, and included a catch-up payment in the event inflation exceeds 6 per cent during 1995.

Parliament approved the 1995 budget forecasting a central government deficit of 9.8 per cent of GDP. The primary surplus was projected at 3.4 per cent of GDP in 1995.

1995

January

From 1 January, the sources of income for the purchase of property would have to be declared to the tax authorities.

National collective agreement increased entry-level minimum wage in the private sector by 4 per cent on 1 January and 1 July, and included a catch-up clause in the event inflation exceeded 8 per cent.

February

The Bank of Greece announced its monetary policy for 1995; M3 growth was fixed at 7-9 per cent, and the target for the depreciation of the drachma against the Ecu was set at 3 per cent.

Legislation approved which established independent Competition Committee to rule on merger proposals.

March

The Bank of Greece lowered the overdraft rate by 200 basis points to 28 per cent.

Cassandra Gold Mines and its gold were sold to TVX Gold Inc. of Canada for Dr 11 billion (US$47 million) and US$204 million, respectively. The agreement was finalized in December 1995.

April

The requirement that commercial banks re-deposit all foreign currency deposits at the Bank of Greece was reduced to 70 per cent.

European Commission approved financing for the Spata airport.

Agreement reached between privately-held Hellenic Motor Oil and Aramco for the latter to acquire 50 per cent of the former for US$400 million. This operation constituted one of the largest foreign direct investments ever undertaken in Greece.

European Commission ruled to fully protect Greek feta cheese against imitator products by prohibiting the addition of special ingredients.

May

Bank of Greece introduced auctions for one-month repo instruments.

Bank of Greece's paperless trading system for government securities began operations.

June

Bank of Greece introduced 14 day repo instruments to be sold by auction.

Bank Guarantee Fund created to guarantee deposits of the banking system, it began operations on 1 January 1996.

Olympic Airways received first tranche of capital increase (Dr 19 billion equivalent to US$80 million) under the European Commission-approved restructuring agreement.

European Commission-approved Rio-Antirio bridge project.

July

A gradual increase in reserve requirements from 9 to 11 per cent was introduced between August and October 1995 and the base was broadened to cover liabilities (up to 2-years maturity) to non-residents, including drachma and foreign currency deposits, and loans from financial institutions.

The Bank of Greece announced cuts in its re-discount, Lombard and overdraft rates by 100 basis points to 19.5 per cent, 23 per cent and 27 per cent, respectively.

The Government and Hochtief AG from Germany signed a full agreement on the building, managing and operation of Spata airport. The contract is estimated to be worth Dr 600 billion (US$2.6 billion)

August

Mortgage banks are permitted to lend for working capital needs of enterprises up to 5 per cent of the total outstanding credit.

The Bank of Greece announced cuts in its re-discount and Lombard rates by 100 basis points to 18.5 per cent and 22 per cent, respectively.

Termination of operations of Kavalla Plastics, which was privatised in 1992.

Eleusis shipyards, privatised in 1992, reverts back to IRO.

September

Parliament approved Spata airport project.

Russia and Greece signed an agreement to build an oil pipeline linking the Bulgarian Black Sea port of Burgas with the Greek port of Alexandroupolis

Agreement signed whereby Scaramanga shipyards will be 51 per cent owned by ETVA and 49 per cent by the workers. The agreement called for voluntary retirements of 600 workers. The shipyard will receive a capital injection of Dr 4.4 billion (US$19 million) to be raised from workers pay over 2 years (Dr 1 billion), from ETVA (Dr 1.2 billion) and the State (Dr 2.2 billion). The agreement needs to be approved by the European Commission, *inter alia*, because of the approaching EU Directive deadline on ending state subsidies to the shipping industry. The State will need to take over about Dr 90 billion (US$380 million) in debts.

The value of real estate objective criteria in Attiki (used to calculate income tax), were raised by an average of 70 per cent from 2 October.

October

Parliament approved bill to restructure ETVA, including a Dr 500 billion (US$2.1 billion) recapitalisation, to be undertaken over the period 1995-99.

November

The 1996 budget was presented to Parliament: the target for the central government deficit was set at 8.5 per cent of GDP, while the primary surplus was projected at 3.1 per cent of GDP.

European Commission granted a nine month extension, until October 1996, during which time the Government can provide assistance to Scaramanga Shipyard.

Chalkis cement company sold to Calcestruzzi of Italy for Dr 36 billion (US$128 million).

December

The Government announced its incomes policy for 1996, which provides for nominal wage increases in the public sector equal 2.5 per cent on 1 January 1996 and 2.5 per cent on 1 July 1996, and includes a catch-up payment in the event inflation exceeds 5 per cent during 1996.

The Bank of Greece announced cuts in its re-discount and Lombard rates by 50 basis points to 18 per cent and 21.5 per cent, respectively.

Credit institutions are permitted until 1998 to use part of their reserves for their required contributions to the Bank Guarantee Fund.

Agreement reached whereby Alpha Credit Bank and the Biolignit Company would purchase the state-owned Skalistiris mining group for Dr 1.3 billion (US$5.5 million).

1996

January

New Government is formed under the premiership of Mr. Simitis.

Rio-Antirio bridge project contract worth Dr 210 billion (US$900 million) signed with consortium, including French GTM.

A restructured Bank of Crete was formally re-opened with a capitalisation of Dr 38 billion (US$160 million) from the Government and Dr 100 billion from the performing assets of the previous Bank of Crete.

Commercial banks are permitted to issue mortgage loans with floating interest rates.

As part of the natural gas project, Russia and Greece sign agreement under which the former will build two hydroelectric power stations; one in Sykia and the other at Pefkofyto. The two projects are estimated to cost Dr 17.8 billion (US$68 million) and take almost four years to complete.

Sale of Macedonian Textiles to a private investor for Dr 200 million (US$850 000), who will also take over debts totaling Dr 1.9 billion (US$8 million).

February

Remuneration on required redeposits at the Bank of Greece of foreign exchange deposits was reduced from 1.8 per cent to 1.6 per cent from March 1996 and 1.4 per cent from July 1996 and for non-required redeposits from 0.8 to 0.7 per cent from July 1996.

Bank of Greece introduced reserve averaging.

The third attempt to privatise Peiraiki-Petraiki fails, as the December 1994 bid to sell the firm to Evritania Textiles for Dr 6.8 billion (US$29 million) is annulled.

March

The public gas corporation (DEP) signed a Dr 6.5 billion (US$26 million) agreement with the PromGaz of Russia to construct a 24 kilometer pipeline to carry natural gas to Keratsini and Aspropyrgos in the greater Athens area. This agreement follows the main pipeline agreement signed with a Russian consortium in 1991.

The national collective agreement between representatives of employees and employers in the private sector provided for increases in the entry-level minimum wage of 3½ per cent on 1 January and 4 per cent on 1 July, and included a catch-up clause in the event inflation during 1996 exceeds 6½ per cent.

Sale of 8 per cent of the national telephone company (OTE) for Dr 128 billion (US$550 million).

Chalips Metal Works privatised for Dr 3.6 billion (US$15 million).

April

The Bank of Greece announced cuts in its re-discount rate and Lombard rates by 50 basis points to 17.5 per cent and 21 per cent, respectively and 100 basis point cuts in its overdraft rate to 26 per cent.

Government decided to revoke a license (costing Dr 11 billion, equivalent to US$47 million) granted to the Athens casino group in March 1995.

May

Government presented to Parliament a bill on the restructuring of public enterprise management, including their conversion to *Sociétés Anonymes* and the use of management contracts.

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STATISTICAL ANNEX AND STRUCTURAL INDICATORS

Table A. **National product and expenditure**

Billion drachmas

	1990	1991	1992	1993	1994	1995[1]
	At current prices					
Private consumption	9 627.7	11 851.4	13 877.3	15 800.6	17 770.1	19 733.5
Government consumption	2 007.0	2 337.9	2 561.6	2 910.9	3 315.8	3 747.0
Gross fixed capital formation[2]	3 027.1	3 650.2	4 037.1	4 364.1	4 730.7	5 344.6
Change in stocks and statistical discrepancy	–39.5	153.0	124.2	163.5	212.8	422.1
Exports of goods and services	2 209.8	2 620.7	3 112.4	3 422.7	3 987.6	4 360.5
less: Imports of goods and services[2]	3 689.0	4 382.7	5 034.6	5 555.6	6 261.2	7 123.3
Net factor income from the rest of the world	105.1	196.5	192.0	409.0	515.5	600.0
Gross national product at market prices	13 248.2	16 427.0	18 870.0	21 515.2	24 271.3	27 084.4
Gross domestic product at market prices	13 143.1	16 230.5	18 678.0	21 106.2	23 755.8	26 484.4
	Constant prices of previous year					
Private consumption	7 071.3	7 269.3	7 400.2	7 407.6	7 518.7	7 639.0
Government consumption	1 390.1	1 369.2	1 358.3	1 367.8	1 382.8	1 402.2
Gross fixed capital formation[2]	2 211.6	2 317.8	2 285.4	2 221.4	2 232.5	2 362.0
Change in stocks and statistical discrepancy	–19.2	101.3	46.4	20.2	9.4	105.4
Exports of goods and services	1 704.9	1 768.0	1 921.8	1 933.4	2 082.2	2 119.7
less: Imports of goods and services[2]	2 840.4	3 010.8	3 158.4	3 193.1	3 324.0	3 530.1
Gross domestic product at market prices	9 518.3	9 814.8	9 853.7	9 757.3	9 901.6	10 098.2

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

Source: Data submitted by national authorities and OECD estimates.

Table B. Gross fixed capital formation[1]

Billion drachmas

	1990	1991	1992	1993	1994	1995[2]
	At current prices					
Total	3 027.1	3 650.2	4 037.1	4 364.1	4 730.7	5 344.6
Dwellings	1 116.2	1 111.1	1 094.4	1 196.9	1 194.5	1 236.2
Other construction	851.8	1 295.0	1 444.0	1 529.3	1 662.6	1 894.0
Equipment	1 059.1	1 244.1	1 498.7	1 637.9	1 873.6	2 214.4
Private sector	2 451.6	2 887.7	3 132.2	3 347.6	3 631.8	4 081.6
Public sector	575.5	762.5	904.9	1 016.5	1 098.9	1 263.0
	Constant prices of previous year					
Total	2 570.2	3 172.9	3 599.3	3 923.5	4 386.7	5 006.3
Dwellings	927.1	937.6	975.4	1 057.3	1 106.0	1 152.1
Other construction	707.5	1 092.9	1 287.0	1 351.0	1 539.4	1 765.1
Equipment	935.6	1 142.4	1 336.9	1 515.2	1 741.3	2 089.1
Private sector	2 084.5	2 518.2	2 792.7	3 015.3	3 368.3	3 825.8
Public sector	485.7	654.7	806.6	908.2	1 018.4	1 180.5

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

Source: Data submitted by national authorities.

Table C. **Income and expenditure of private sector**[1]

Billion drachmas, current prices

	1990	1991	1992	1993	1994	1995[2]
Wages and salaries of non-agricultural branches	4 693.2	5 369.2	5 938.3	6 591.6	7 514.4	8 634.0
Entrepreneurial and property income	7 220.5	9 010.3	10 801.1	12 927.3	14 698.7	15 655.6
Net current transfers from government	2 018.2	2 468.7	2 848.5	3 321.7	3 875.1	4 198.9
Net current transfers from the rest of the world	438.8	572.3	649.6	808.1	886.3	932.0
Income of households and private non-profit institutions	14 370.7	17 420.5	20 237.5	23 648.7	26 974.5	29 420.5
less: Direct taxes	719.3	903.1	991.0	1 174.7	1 607.0	1 941.2
Social security	1 534.9	1 823.2	2 085.0	2 655.9	2 843.8	3 262.6
Disposable income	12 116.5	14 694.2	17 161.5	19 818.1	22 523.7	24 216.7
Consumption	9 627.7	11 851.4	13 877.3	15 800.6	17 770.1	19 733.6
Saving	2 488.8	2 842.8	3 284.2	4 017.5	4 753.6	4 483.1

1. Includes households, non-profit institutions and enterprises.
2. Provisional data.

Source: Data submitted by national authorities.

Table D. **Government revenue and expenditure**

Billion drachmas, current prices

	1990	1991	1992	1993	1994	1995[1]
Central government						
Current revenue	2 878	3 661	4 588	4 971	5 862	6 730
Direct taxes	822	1 024	1 192	1 355	1 773	2 137
Indirect taxes	1 877	2 379	2 924	3 189	3 462	3 845
Other	179	258	472	426	627	748
Current expenditure	4 299	4 874	5 374	6 857	8 251	8 843
Goods and services	198	242	325	418	460	523
Interest on public debt	1 271	1 496	1 559	2 334	3 340	3 331
Transfers and subsidies	2 830	3 136	3 490	4 105	4 452	4 990
Saving	–1 421	–1 213	–786	–1 886	–2 389	–2 113
General government						
Current revenue	4 220	5 336	6 289	7 251	8 515	9 752
Direct taxes	719	903	991	1 175	1 607	1 941
Households	496	621	685	812	1 110	1 341
Business	223	282	306	363	497	600
Indirect taxes	1 738	2 247	2 769	3 018	3 344	3 576
Social security contributions	1 535	1 823	2 085	2 556	2 844	3 263
Other	228	362	444	502	720	973
Current expenditure	5 475	6 392	7 610	9 013	10 614	11 464
Consumption	2 007	2 338	2 562	2 911	3 316	3 747
Interest payments	1 335	1 529	2 190	2 698	3 381	3 418
Transfers and subsidies	2 133	2 526	2 858	3 404	3 917	4 299
Business	163	101	98	119	108	123
Households	2 017	2 469	2 849	3 322	3 875	4 200
Rest of the world	–47	–44	–88	–37	–66	–23
Net saving	–1 255	–1 057	–1 321	–1 761	–2 099	–1 712
Net capital transfers (–)	494	311	396	617	121	–29
Fixed investment (–)	368	502	584	613	657	750
Net lending	–2 118	–1 870	–2 300	–2 992	–2 876	–2 433

1. Provisional data.
Source: Data submitted by national authorities.

Table E. **Industrial production**

1980 = 100

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Industrial production, total	105.5	110.8	112.8	110.1	108.9	108.0	104.7	106.1	108.0
Mining and quarrying	181.5	188.8	179.5	173.8	171.9	160.6	150.5	148.6	143.8
Manufacturing	98.3	103.2	105.6	102.6	101.7	100.6	97.1	98.2	100.3
Food, beverages and tobacco	107.2	117.0	126.6	119.9	127.1	135.0	133.5	137.3	142.0
of which: Tobacco	94.7	99.8	92.2	112.3	113.7	108.5	107.2	124.0	137.4
Food	103.7	114.8	126.7	112.6	123.8	134.9	131.6	130.2	132.8
Other manufacturing	96.3	100.2	101.2	98.9	96.1	93.1	89.2	89.7	89.6
of which: Textiles	104.0	101.3	99.1	95.4	86.7	79.3	74.3	73.9	69.9
Chemicals	116.3	125.8	132.4	133.3	126.8	122.6	127.4	129.9	144.0
Non-metallic mineral products	95.2	99.5	95.6	100.0	88.3	84.5	84.7	87.2	88.8
Basic metals	87.5	98.0	97.9	99.3	100.6	102.7	97.6	102.4	107.3
Metal products	82.0	90.5	83.8	74.4	73.6	74.8	68.5	67.0	70.1
Consumer goods industries	108.1	112.0	115.8	107.1	104.1	103.0	102.4	104.6	105.6
Durable	89.2	81.1	84.9	75.3	81.0	81.7	88.7	88.5	87.2
Other	110.1	115.3	119.1	110.4	107.7	105.8	103.8	106.4	106.9
Capital goods industries	76.3	83.7	82.9	92.1	92.1	92.1	84.5	83.2	88.6

Source: National Statistical Service, *Monthly Statistical Bulletin* and OECD, *Main Economic Indicators*.

Table F. **Prices and wages**

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Consumer prices (1988 = 100)									
Total	88.1	100.0	113.7	136.9	163.6	189.5	216.8	240.5	262.8
of which: Food	90.0	100.0	119.2	144.3	172.2	196.4	221.3	249.8	272.9
Alcoholic beverages and tobacco	75.6	100.0	115.7	146.7	176.8	218.2	258.2	304.8	324.6
Clothing and footwear	84.7	100.0	114.6	134.4	156.5	178.4	198.0	218.0	239.6
Housing	88.2	100.0	110.0	136.1	172.0	201.8	233.7	258.3	283.4
Durable goods and household supplies	91.5	100.0	110.4	127.5	149.5	167.9	182.7	198.9	215.7
Transport and communication	92.4	100.0	106.8	134.9	161.1	193.8	230.3	243.3	258.4
Wholesale prices (1980 = 100)									
Total	327.2	360.2	408.6	473.7	553.0	615.7	689.1	748.7	807.2
Finished products of local production for home consumption	319.6	352.1	397.6	474.3	563.2	631.2	706.9	767.0	824.7
Primary production	321.1	352.7	408.7	503.1	619.1	629.4	663.7	754.3	792.5
Industrial production	319.2	352.0	395.0	467.8	550.5	631.6	716.7	769.9	832.0
Finished products of foreign origin	391.6	427.8	481.1	541.7	620.6	699.0	783.9	856.1	915.9
of which: Agriculture	180.3	202.2	250.6	267.4	361.5	367.6	446.0	468.4	449.4
Livestock	356.3	383.6	433.3	476.8	513.7	594.5	659.5	704.9	714.1
Petroleum refinery	250.4	295.6	377.6	439.6	514.1	529.9	583.9	586.7	614.5
Exported products of local primary and industrial production	300.6	332.5	387.4	413.4	457.8	487.1	542.3	589.3	649.4
of which: Agriculture	289.4	309.1	323.4	359.4	429.3	479.3	480.1	520.6	618.2
Livestock	233.2	247.7	274.0	287.2	300.9	303.6	293.5	321.4	397.5
Manufacture of textiles	368.9	394.6	440.0	519.7	580.0	663.2	752.1	824.2	916.8
Chemical industries	264.2	321.6	427.8	421.2	475.9	442.2	527.1	574.6	608.8
Extraction of non-metallic minerals	474.6	497.0	546.3	612.8	652.5	706.1	785.6	865.0	967.2
Wages (1985 = 100)									
Hourly earnings in manufacturing[1]	123.6	146.3	176.4	210.5	245.7	279.4	308.8	349.1	397.9

1. Wage earners in enterprises employing at least 10 persons.

Source: National Statistical Service, *Monthly Statistical Bulletin and OECD, Main Economic Indicators.*

Table G. **Foreign trade by area**

US$ million

	1988	1989	1990	1991	1992	1993	1994
				Exports, f.o.b.			
Total	5 446.5	7 567.1	8 085.5	8 680.8	9 541.2	8 455.7	9 480.8
OECD Total	4 355.8	6 105.6	6 448.3	6 814.0	7 392.7	5 919.5	6 396.7
OECD Europe	3 886.7	5 492.6	5 795.5	6 150.8	6 799.6	5 365.8	5 737.0
EU	3 726.0	5 258.1	5 508.8	5 852.8	6 448.7	4 997.4	5 379.4
of which: Germany	1 395.9	1 623.5	1 792.5	2 078.5	2 205.6	2 013.7	1 990.2
France	471.3	664.3	777.1	656.0	689.2	526.0	505.7
Italy	770.1	1 535.5	1 384.0	1 454.0	1 718.2	1 125.1	1 305.7
United Kingdom	421.5	558.6	587.7	592.8	660.5	484.7	557.3
Other OECD Europe	160.8	234.5	286.7	298.1	350.9	368.3	357.7
North America	370.9	480.5	498.9	528.7	436.0	417.9	503.5
CEEC[1]	198.9	331.3	319.7	394.4	572.7	602.3	853.7
OPEC	284.6	284.1	318.0	321.4	320.9	312.1	377.6
Other	578.1	796.2	930.7	1 082.8	1 172.1	1 531.7	1 808.9
				Imports, c.i.f.			
Total	12 284.1	16 102.5	19 717.2	21 491.2	23 146.8	21 920.0	21 459.8
OECD Total	9 878.5	13 029.6	16 110.5	16 964.9	18 463.0	17 007.3	16 927.6
OECD Europe	8 568.6	11 281.3	14 064.4	14 467.9	15 990.4	14 568.2	15 318.6
EU	8 170.7	10 738.9	13 400.3	13 739.1	15 286.9	13 794.2	14 561.9
of which: Germany	2 531.5	3 244.2	4 104.0	4 169.9	4 675.0	3 713.2	3 513.6
France	982.2	1 106.1	1 595.9	1 668.2	1 814.5	1 731.7	1 730.6
Italy	1 786.9	2 416.4	3 038.3	3 054.6	3 290.4	3 068.0	3 575.5
United Kingdom	610.4	935.7	1 040.3	1 149.8	1 277.4	1 333.0	1 331.8
Other OECD Europe	397.9	542.5	664.0	728.8	703.6	774.0	756.7
North America	527.4	623.3	792.2	985.0	902.0	883.4	744.4
CEEC[1]	558.5	579.1	726.4	868.0	860.3	362.9	544.8
OPEC	366.7	792.6	1 129.1	1 575.3	1 595.6	1 495.3	1 146.7
Other	1 471.9	1 690.1	1 739.0	2 075.1	2 156.2	3 019.7	2 838.0

1. Central and Eastern European countries.

Source: OECD, *Foreign Trade Statistics*, Series A.

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

US$ million

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Exports, f.o.b.	5 612	5 933	5 994	6 365	6 797	6 009	5 035	5 219	5 783
Imports, f.o.b.	11 112	12 005	13 377	16 543	16 909	17 612	15 592	16 588	20 292
Trade balance	–5 500	–6 072	–7 383	–10 178	–10 112	–11 603	–10 557	–11 369	–14 509
Invisibles, net	4 277	5 114	4 822	6 641	8 539	9 463	9 810	11 223	11 645
of which: Tourism, net	1 761	1 663	1 160	1 498	1 552	2 084	2 331	2 780	2 812
Transportation, net	–409	–343	–516	–545	–688	–604	–298	–404	–737
Migrant remittances	1 334	1 675	1 350	1 774	2 115	2 366	2 360	2 576	3 071
Receipts in convertible drachmas	1 135	1 327	1 494	2 242	2 765	3 012	2 290	2 640	2 810
Current balance[1]	–1 223	–958	–2 561	–3 537	–1 573	–2 140	–747	–146	–2 864
Long-term capital	1 387	1 438	1 941	2 975	3 587	2 191	5 351	6 668	4 750
Basic balance	164	480	–620	–562	2 014	51	4 604	6 522	1 886
Short-term capital, including errors and omissions	199	556	–264	–14	–485	–218	–1 630	–216	198
Balance on non-monetary transactions	363	1 036	–884	–576	1 529	–167	2 974	6 306	2 084
Private monetary institutions short-term capital	440	125	550	618	141	–24	46	60	–2 115
Balance of official settlements	803	1 161	–334	42	1 670	–191	3 020	6 366	–31
Change in reserves (+ = increase)	806	1 194	–342	50	1 662	–194	3 016	6 366	–31
Gold	–316	226	36	74	42	128	–26	–45	–8
Currency assets	906	1 053	–377	54	1 645	–314	2 940	6 360	–36
Reserve position in IMF	–13	4	0	0	0	0	0	12	0
Special Drawing Rights	0	0	0	0	0	0	0	45	0

1. Includes receipts in convertible drachmas for services rendered.

Source: IMF balance of payments statistics and Bank of Greece, *Monthly Statistical Bulletin.*

Table I. **Money and banking**

Billion drachmas, end of period

	1987	1988	1989	1990	1991	1992	1993	1994	1995[1]
					1. Money				
1. **M1** (2 + 3)	1 046.5	1 202.3	1 517.8	1 880.8	2 105.2	2 357.1	2 687.6	3 299.4	3 661.3
2. Currency in circulation	628.9	735.5	969.3	1 162.0	1 255.5	1 410.1	1 512.0	1 687.7	1 844.7
3. Sight deposits	417.6	466.9	548.4	718.8	849.7	947.0	1 175.5	1 611.7	1 816.6
4. Private	218.1	237.7	295.6	421.4	487.4	558.2	711.7	1 105.9	1 285.4
5. Public entities	164.5	173.3	184.0	245.6	286.3	295.8	370.2	388.1	414.4
6. Public enterprises	35.0	55.8	68.8	51.7	76.0	93.0	93.6	117.7	116.8
7. **Quasi-money** (8 + 9 + 12)	4 545.0	5 656.6	6 960.9	7 800.0	8 493.7	9 279.5	9 978.4	12 166.7	13 953.4
8. Savings deposits	3 021.3	3 849.8	4 852.5	5 549.2	6 228.9	6 915.3	7 709.7	8 811.5	10 445.2
9. Time deposits	1 403.5	1 658.1	1 939.3	2 055.9	2 040.1	2 071.7	1 958.3	3 008.2	3 124.5
10. Private	1 385.1	1 634.8	1 902.2	2 024.1	2 010.5	2 052.6	1 943.9	2 994.2	3 119.2
11. Public entities	18.3	23.4	37.1	31.7	29.5	19.1	14.4	14.0	5.3
12. Other deposits[2]	120.3	148.6	169.1	194.9	224.7	292.5	310.3	347.0	337.3
13. Bank bonds	302.1	384.7	481.2	594.0	598.7	673.7	703.5	838.4	575.0
14. Repos	0.0	0.0	0.0	48.5	420.9	978.6	1 893.9	317.8	96.0
15. **M3** (2 + 4 + 8 + 10 + 13 + 14)	5 555.5	6 842.5	8 500.9	9 799.3	11 001.9	12 588.5	14 474.8	15 755.5	17 401.5
16. Treasury bills	171.9	412.3	467.9	1 017.4	2 384.2	3 308.7	3 904.4	4 981.7	5 466.7
17. Bonds up to one year	0.0	0.0	0.0	144.6	122.7	204.3	187.8	412.8	42.8
18. **M4** (15 + 16 + 17)	5 727.4	7 254.8	8 968.8	10 961.3	13 508.8	16 101.5	18 567.0	21 150.0	22 911.0
Memorandum items:									
Total private deposits in drachmas	4 701.4	5 811.7	7 146.5	8 109.5	8 865.8	9 690.5	10 555.3	13 126.3	15 081.5
Total private deposits in foreign exchange	1 204.5	1 501.6	1 870.2	2 240.1	2 701.4	3 445.0	4 117.4	4 439.0	4 977.0
Total public sector deposits	446.1	506.7	668.3	777.6	875.7	1 010.5	1 137.0	698.6	734.2
of which: Deposits of public entities (Law 1611/50)	164.0	174.4	259.2	317.7	343.3	422.3	494.2	0.0	0.0

Table I. **Money and banking** *(cont.)*

Billion drachmas, end of period

	1987	1988	1989	1990	1991	1992	1993	1994	1995[1]
					2. Banking				
Total bank lending	3 862.7	4 558.8	5 614.9	5 925.9	6 442.6	7 164.5	7 558.2	8 287.5	10 026.2
1. **By sector**									
Private sector	2 749.7	3 176.3	3 917.2	4 457.1	5 134.7	5 828.2	6 008.9	6 824.7	8 326.8
Agriculture	682.1	782.8	767.1	919.2	1 031.6	1 121.0	841.0	899.7	1 031.0
Manufacturing and mining	1 232.5	1 378.9	1 697.4	1 764.6	2 002.5	2 200.0	2 191.3	2 437.9	2 788.5
Short and medium term	764.2	860.3	1 114.5	1 148.0	1 326.5	1 526.3	1 518.6	1 725.2	2 059.5
Long term	468.3	518.6	582.9	616.6	676.0	673.7	672.7	712.7	729.0
Trade	195.0	232.5	367.5	499.7	622.7	825.9	1 042.9	1 231.8	1 584.8
Housing	393.7	462.2	615.4	701.5	777.7	857.9	929.6	1 020.6	1 219.1
Other	246.4	320.0	469.8	572.1	700.2	823.3	1 004.2	1 234.6	1 703.4
Public sector	1 113.1	1 382.5	1 697.7	1 468.9	1 307.8	1 336.3	1 549.2	1 462.8	1 699.4
Public enterprises	586.6	666.1	793.9	636.9	497.3	432.4	497.4	543.1	580.0
Public entities	492.1	644.6	781.8	676.1	633.9	610.6	713.6	621.7	664.2
Government purchasing agencies	34.4	71.8	122.0	155.8	176.6	293.4	338.3	298.0	455.2
2. **By lending institution**									
Bank of Greece	6.8	7.2	9.3	8.8	7.5	4.3	3.9	4.9	14.1
Commercial banks	1 706.0	2 008.1	2 479.1	2 659.4	2 862.8	3 277.0	3 836.5	4 483.4	5 739.1
Specialised credit institutions	2 149.9	2 543.5	3 126.6	3 257.7	3 572.3	3 883.2	3 717.8	3 799.2	4 273.0

1. Provisional data.
1. Excluding deposits of public entities according to Law 1611/50.

Source: Bank of Greece and its *Monthly Statistical Bulletin*.

Table J. **Public sector**

	1990	1991	1992	1993	1994	1995[1]
	Per cent of GDP					
Budgetary indicators:						
General government accounts						
Primary receipts (excluding interest)	30.4	30.6	31.2	31.9	32.8	33.2
Primary expenditure (excluding interest)	38.1	34.9	34.2	35.7	33.7	33.1
Primary budget balance	–7.7	–4.3	–3.0	–3.8	–0.9	0.0
Net interest	–8.4	–7.2	–9.3	–10.4	–11.2	–9.2
General government budget balance	–16.1	–11.5	–12.3	–14.2	–12.1	–9.2
Memorandum item:						
Saving	–9.6	–6.5	–7.1	–8.3	–8.8	–6.5
Structure of expenditure and taxes						
General government current expenditure	41.7	39.3	40.7	42.7	44.7	43.3
Transfers	15.0	14.9	14.8	15.6	16.0	15.8
Subsidies	1.2	0.6	0.5	0.6	0.5	0.5
Tax receipts	30.4	30.6	31.2	31.9	32.8	33.2
Personal income tax	3.8	3.8	3.7	3.8	4.7	5.1
Corporate taxes	1.7	1.7	1.6	1.7	2.1	2.3
Social security contributions	11.7	11.2	11.1	12.1	12.0	12.3
Consumption taxes	13.2	13.8	14.8	14.3	14.1	13.5
of which: Value added tax	7.3	7.4	7.7	7.4	7.3	..
	Per cent					
Tax rates						
Income tax as a percentage of total tax	18.0	18.2	17.0	17.4	20.6	22.1
Personal income tax elasticity	2.0	1.2	0.6	1.1	2.6	2.3
Value added tax rate	18.0	18.0	18.0	18.0	18.0	18.0

1. Provisional data.

Source: Data submitted by national authorities and OECD estimates.

BASIC STATISTICS

BASIC STATISTICS:

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period[1]	Australia	Austria	Belgium	Canada	Denmark	Finland
Population								
Total	Thousands	1994	17 840	8 031	10 124	29 251	5 206	5 088
Inhabitants per sq. km	Number	1994	2	96	332	3	121	15
Net average annual increase over previous 10 years	%	1994	1.4	0.6	0.3	1.6	0.2	0.4
Employment								
Total civilian employment (TCE)[2]	Thousands	1994	7 680 (93)	3 737	3 724 (92)	13 292	2 508	2 015
of which: Agriculture	% of TCE	1994	5.3 (93)	7.2	2.6 (92)	4.1	5.1	8.3
Industry	% of TCE	1994	23.7 (93)	33.2	27.7 (92)	22.6	26.8	26.8
Services	% of TCE	1994	71 (93)	59.6	69.7 (92)	73.3	68.1	64.9
Gross domestic product (GDP)								
At current prices and current exchange rates	Bill. US$	1994	331.6	198.1	227.9	544	146.7	97.2
Per capita	US$	1994	18 588	24 670	22 515	18 598	28 181	19 106
At current prices using current PPP's[3]	Bill. US$	1994	327.9	162.3	204.2	596.7	107	82.5
Per capita	US$	1994	18 382	20 210	20 166	20 401	20 546	16 208
Average annual volume growth over previous 5 years	%	1994	2.2	2.5	1.6	1.1	1.9	–1.6
Gross fixed capital formation (GFCF)	% of GDP	1994	21.4	24.8	17.4	18.7	14.8	14.3
of which: Machinery and equipment	% of GDP	1993	9.8	8.7	7.8	6.2	7.2	5.90
Residential construction	% of GDP	1993	5.2	6.3	4.6	6.1	2.9	3.7
Average annual volume growth over previous 5 years	%	1994	0.8	3.7	0.4	–0.1	–2.8	–12.9
Gross saving ratio[4]	% of GDP	1994	16.8	25.3	22	16	17	16.6
General government								
Current expenditure on goods and services	% of GDP	1994	17.5		15	20.2	25.3	22.4
Current disbursements[5]	% of GDP	1993	36.9	48.4	55.3	49	61.1	58.9
Current receipts	% of GDP	1993	33.5	48.6	50.1	43	58.3	52.5
Net official development assistance	% of GNP	1993	0.34	0.31	0.41	0.46	1.03	0.76
Indicators of living standards								
Private consumption per capita using current PPP's[3]	US$	1993	10 803	10 546	12 090	11 863	10 042	8 814
Passenger cars, per 1 000 inhabitants	Number	1990	430	382	387	469	311	386
Telephones, per 1 000 inhabitants	Number	1991	464	432	410	586	577	544
Television sets, per 1 000 inhabitants	Number	1991	480	478	451	639	536	501
Doctors, per 1 000 inhabitants	Number	1993	2.2 (91)	2.3	3.7	2.2	2.8 (92)	2.6 (92)
Infant mortality per 1 000 live births	Number		6.1	6.5	8	6.8	5.4	4.4
Wages and prices (average annual increase over previous 5 years)								
Wages (earnings or rates according to availability)	%	1994	3	5.5	3.7	3.3	3.5	4.8
Consumer prices	%	1994	3	3.4	2.8	2.8	2.1	3.3
Foreign trade								
Exports of goods, fob*	Mill. US$	1994	47 363	44 881	137 259[7]	165 358	41 850	29 514
As % of GDP	%	1994	14.3	22.7	60.2	30.4	28.5	30.4
Average annual increase over previous 5 years	%	1994	5	6.7	6.5	7.1	8.3	4.9
Imports of goods, cif*	Mill. US$	1994	49 731	55 071	126 006[7]	148 297	35 932	23 091
As % of GDP	%	1994	15	27.8	55.3	27.3	24.5	23.8
Average annual increase over previous 5 years	%	1994	4	7.2	5	5.4	6.1	–1.3
Total official reserves[6]	Mill. SDRs	1994	7 730	11 523	9 505[7]	8 416	6 203	7 304
As ratio of average monthly imports of goods	Ratio	1994	1.9	2.5	0.9	0.7	2.1	3.8

	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Mexico
Population									
Total	57 960	81 407	10 430	267	3 571	57 190	124 960	398	93 010
Inhabitants per sq. km	106	228	79	3	51	190	331	153	47
Net average annual increase over previous 10 years	0.5	2.9	0.5	1.1	0.1	0	0.4	0.8	2
Employment									
Total civilian employment (TCE)[2]	21 781 (93)	35 894	3 790	138	1 168 (93)	20 152 (93)	64 530	162 (91)	32 439
of which: Agriculture	5.1 (93)	3.3	20.8	9.4	12.7 (93)	7.5 (93)	5.8	3.7 (91)	25.8
Industry	27.7 (93)	37.6	23.6	26.1	27.7 (93)	33 (93)	34	31.5 (91)	22.2
Services	67.2 (93)	59.1	55.5	65.2	59.7 (93)	59.6 (93)	60.2	64.8 (91)	52.1
Gross domestic product (GDP)									
At current prices and current exchange rates	1 328.5	1 832.3	73.1 (93)	6.2	52	1 017.8	4 590	10.6 (92)	371.2
Per capita	22 944	27 826	7 051 (93)	23 199	14 550	17 796	36 732	27 073 (92)	3 991
At current prices using current PPP's[3]	1 111.8	1 601.7	118	5.1	54.3	1 068.4	2 593.7	11.7	673.3
Per capita	19 201	24 325	1 450	19 271	15 212	18 681	20 756	29 454	7 239
Average annual volume growth over previous 5 years	1.1	2.6	1.4 (93)	0.6	4.7	1	2.1	4.1 (92)	3
Gross fixed capital formation (GFCF)	18.1	18.5	17.4 (93)	15.2	15.1	16.4	28.6	20.4 (93)	20.7
of which: Machinery and equipment	8.10	7.5	7.8	3.9	6.3	7.4	11.5	..	9.4
Residential construction	4.9	6.5	3.6	4.4	4.1	5.3	5.4	..	4.9
Average annual volume growth over previous 5 years	–1	0.8	2.7 (93)	–4	1	–2.3	1.4	6.5 (92)	7.7
Gross saving ratio[4]	19	21	15.5 (93)	16.9	19.5	18.8	31.2	60.2 (92)	15.1
General government									
Current expenditure on goods and services	19.6	17.7	19.1 (93)	20.6	16	17.1	9.8	17.1 (92)	11.8[9]
Current disbursements[5]	51.5	45.6	51.2	34.9	..	53.2	26.9	..	..
Current receipts	46.8	45.7	40.2	35.9	..	47.1	32.9	..	..
Net official development assistance	0.66	0.44	..	..	0.15	0.42	0.27	0.34 (92)	..
Indicators of living standards									
Private consumption per capita using current PPP's[3]	11 395	10 733	6 367	11 546	7 750	11 029	11 791	15 545	4 853
Passenger cars, per 1 000 inhabitants	413	480[8]	169	464	228	478	282	470	85
Telephones, per 1 000 inhabitants	511	420[8]	413	527	300	400	454	511	70
Television sets, per 1 000 inhabitants	407	556[8]	197	319	276	421	613	267	148
Doctors, per 1 000 inhabitants	2.8	3.2 (92)	3.8 (92)	3	1.7 (92)	1.7 (91)	1.7 (92)	2.1 (92)	1
Infant mortality per 1 000 live births	6.5	5.8	8.5	4.8	5.9	7.3	4.5 (92)	8.5 (92)	18
Wages and prices (average annual increase over previous 5 years)									
Wages (earnings or rates according to availability)	3.5	5.2	14.6	..	4.6	5.9	2.4	..	5.3
Consumer prices	2.5	3.3	16.2	6.3	2.7	5.2	2	3.1	16.1
Foreign trade									
Exports of goods, fob*	235 337	422 243	8 958	1 628	34 125	189 802	396 149	..	60 882
As % of GDP	17.7	23	11.5 (93)	26.3	65.7	18.6	8.6	..	16.4
Average annual increase over previous 5 years	5.6	4.4	3.4	2.7	10.5	6.2	7.6	..	21.7
Imports of goods, cif*	220 508	376 566	21 111	1 464	25 812	167 690	274 916	..	79 346
As % of GDP	16.6	20.6	30.1 (93)	23.6	49.7	16.5	6	..	21.4
Average annual increase over previous 5 years	3.5	6.9	5.4	0.7	8.1	1.9	5.5	..	25.5
Total official reserves[6]	17 986	52 994	9 924	201	4 189	22 102	86 214	..	4 301
As ratio of average monthly imports of goods	1	1.7	5.6	1.6	1.9	1.6	3.8	..	0.7

	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States
Population										
Total	15 382	3 526	4 337	9 900	39 150	8 781	6 994	60 573	58 375	260 651
Inhabitants per sq. km	377	13	13	107	78	20	169	78	238	28
Net average annual increase over previous 10 years	0.6	0.8	0.5	–0.1	0.2	0.5	0.7	2.1	0.3	1
Employment										
Total civilian employment (TCE)[2]	6 631	1 560	1970 (93)	4 372	11 760	3 926	3 772	19 664	25 044 (93)	123 060
of which: Agriculture	4	10.4	5.6 (93)	11.5	9.8	3.4	4	44.8	2.2 (93)	2.9
Industry	23	25	23.1 (93)	32.8	30.1	25	28.8	22.2	26.2 (93)	24
Services	73	64.6	71.3 (93)	55.7	60.2	71.6	67.2	33	71.6 (93)	73.1
Gross domestic product (GDP)										
At current prices and current exchange rates	334.3	51.2	103.4 (93)	87	482.4	196.6	257.3	130.7	1 019.5	6 649.8
Per capita	21 733	14 513	23 984 (93)	8 792	12 321	22 389	36 790	2 157	17 468	25 512
At current prices using current PPP's[3]	285.9	57.3	95.3	122	531.7	153	167.4	319.3	1 030.2	6 649.8
Per capita	18 589	16 248	21 968	12 335	13 581	17 422	23 942	5 271	17 650	25 512
Average annual volume growth over previous 5 years	2.3	2.5	2.1 (93)	1.4	1.5	–0.3	0.5	3.6	0.8	2.1
Gross fixed capital formation (GFCF)	19.3	20	22 (93)	25.7	19.8	13.7	22.8	24.5	15	17.2
of which: Machinery and equipment	8.6	9.3	..	..	5.7	5.7	7.5	10.3	7.3	7.7
Residential construction	5.1	4.9	..	..	4.1	4	14.9[10]	9.1	3.1	4
Average annual volume growth over previous 5 years	0.4	5.8	–3.93	2.7	–1.2	–7.6	–0.4	5.1	–2.1	4.6
Gross saving ratio[4]	24.4	20.7	21.9 (93)	24.2	18.8	13.7	29.3	22.5	13.5	16.2
General government										
Current expenditure on goods and services	14.2	14.7	22.1 (93)	17.2	16.9	27.3	14.1	11.7	21.6	16.4
Current disbursements[5]	55.4	..	..	..	43.7	67.3	36.7	..	42.7	35.8
Current receipts	54.5	..	..	..	40.1	59	36	..	36.8	31.7
Net official development assistance	0.88	0.22	1.23	0.36	0.32	1.33	0.49	..	0.34	0.19
Indicators of living standards										
Private consumption per capita using current PPP's[3]	10 726	9 266	9 826	7 780	8 412	9 240	13 730	3 617	10 942	16 444
Passenger cars, per 1 000 inhabitants	356	440	378	260	307	418	441	29	361	568
Telephones, per 1 000 inhabitants	477	436	515	273	340	687	603	143	445	553
Television sets, per 1 000 inhabitants	485	443	423	187	400	468	406	175	434	814
Doctors, per 1 000 inhabitants	2.5 (90)	2	3.2 (92)	2.9	4.1	3	3	0.9	1.5 (92)	2.3 (92)
Infant mortality per 1 000 live births	6.3	7.3	5	8.7	7.6	4.8	5.6	52.6	6.6	8.5 (92)
Wages and prices (average annual increase over previous 5 years)										
Wages (earnings or rates according to availability)	3.2	2.1	4	..	7.2	5.4	..	..	6.7	2.8
Consumer prices	2.8	2.5	2.7	9	5.6	5.7	3.9	73	4.6	3.6
Foreign trade										
Exports of goods, fob*	155 084	12 169	34 645	17 072	73 129	61 122	70 467	18 456	205 170	512 627
As % of GDP	46.4	23.8	30.9 (93)	19.6	15.2	31.1	27.4	14.1	20.1	7.7
Average annual increase over previous 5 years	7.6	6.5	5	6.1	10.5	3.4	6.4	9.5	6.1	7.1
Imports of goods, cif*	139 800	11 859	27 345	25 967	92 182	51 730	68 126	22 976	227 026	663 256
As % of GDP	41.8	23.2	23.3 (93)	29.9	19.1	26.3	26.5	17.6	22.3	10
Average annual increase over previous 5 years	6.1	6.1	2.9	6.6	5.2	1	3.2	37.9	2.8	7
Total official reserves[6]	23 655	2 540	13 033	10 627	28 475	15 929	23 790	4 911	28 094	43 350
As ratio of average monthly imports of goods	2	2.6	5.7	4.9	3.7	3.7	4.2	2.6	1.5	0.8

* At current prices and exchange rates.
1. Unless otherwise stated.
2. According to the definitions used in OECD *Labour Force Statistics*.
3. PPPs = 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 SDRs per ounce. End of year.
7. Data refer to the Belgo-Luxembourg Economic Union.
8. Data refer to western Germany.
9. Refers to the public sector including public enterprises.
10. Including non-residential construction.

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*.

November 1995

EMPLOYMENT OPPORTUNITIES

Economics Department, OECD

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 microeconomic. 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 the OECD 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 80 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 microeconomic and macroeconomic 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 extensive 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 with strict deadlines. Moreover, much of the work in the Department is carried out in small groups. 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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