

1991/1992

OECD ECONOMIC SURVEYS

GREECE

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GREECE

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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BASIC STATISTICS OF GREECE

THE LAND

Area (1 000 sq. km)	132.0	Major urban areas, 1981 census (1 000):	
Cultivated area (1 000 sq. km) 1989	39.3	Greater Athens (incl. Piraeus)	3 027
		Salonika	872

THE PEOPLE

Population, 1989 (thousands)	10 033	Total employment, 1990 (thousands)	3 677
Number of inhabitants per sq. km	76	by sector (per cent):	
Net natural increase, 1989 (thousands)	-8	Agriculture	24.5
		Industry and construction	27.4
		Other activities (mainly services)	48.1

PRODUCTION

Gross national product, 1990 (billion drachma)	10 523.2	GNP at factor cost, 1990 (billion drs)	9 256.8
GNP per head (US \$), 1990	6 629	by origin (per cent):	
Gross fixed investment:		Agriculture	15.4
Per cent of GNP, 1990	19.5	Mining, manufacturing and energy	20.6
Per head (US \$), 1990	1 295	Construction	6.9
		Services	57.1

THE GOVERNMENT

General government current expenditure. 1990 (per cent of GNP)	49.5	Composition of Parliament (No. of seats):	
General government current revenue, 1990 (per cent of GNP)	34.1	New Democracy	152
		Panhellenic Socialist Movement (PASOK)	124
		Coalition of the Left	21
		Independent	2
		Ecologists	1
		Total	300
		Last general election : 8.4.1990	

FOREIGN TRADE

Exports of goods and invisible receipts 1991 (% of GNP)	30.3	Imports of goods and invisible payments, 1991 (% GNP)	29.5
Tourism earnings, gross, 1990 (% of GNP)	3.6	Main imports, 1990	
Emigrant remittances, gross, 1990 (% of GNP)	3.1	(% of total commodity imports):	
Shipping earnings, gross, 1990 (% of GNP)	2.5	Mineral fuels, lubricants (3)	7.8
Main exports, 1990		Manufactured goods classified chiefly by material (6)	21.9
(% of total commodity exports):		Machinery other than transport equipment (7-78-79)	17.7
Textiles and clothing (65 + 84 + 85)	27.9	Food and live animals (0)	12.7
Food and live animals (0)	20.3	Transport equipment (78 + 79)	13.3
Crude oil and derivatives (33)	7.2		
Iron and steel (67)	5.2		
Beverages and tobacco (1)	5.5		
Aluminium (684)	3.5		

THE CURRENCY

Monetary unit: Drachma		Currency units per US \$, average of daily figures:	
		Year 1990	182.06
		April 1992	191.62

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 1992.

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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 2nd July 1992.

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The previous Survey of Greece was issued in June 1991.

Introduction

1991 was again a difficult year for the Greek economy. The international environment was unfavourable, but progress in dealing with the serious structural impediments to growth was also slow. However, buoyed by a sharp upturn in agricultural production GDP grew by 1.8 per cent. Reflecting policy tightening, all domestic demand components were subdued, but exports surged, also helped by the good harvest. Slow growth and the beginning of business restructuring led to a marked rise in the unemployment rate to just over 8 per cent, which is, however, still below the OECD European average. Cost inflation eased, but, with inflation expectations remaining strong, the twelve-month consumer-price inflation rate stuck at about 18 per cent between mid-1991 and March 1992, before falling to 15.8 per cent in May 1992. The balance of payments improved markedly in 1991; the current deficit more than halved to 2 per cent of GDP and, boosted by rising confidence, long-term capital inflows surged, moving the basic balance of payments into surplus.

The policy stance was restrictive overall, largely thanks to monetary and incomes policies. The cost of bank borrowing by the private sector rose further in 1991, from its already high level, peaking at some 13 per cent in real terms towards the middle of the year. The public sector borrowing requirement (PSBR) in cash terms declined to just below 16 per cent of GDP in 1991 (from the 1990 historical high of 18½ per cent), indicating serious shortfalls in the implementation of the fiscal side of the "Medium-term Adjustment Programme", which had projected a PSBR of 13 per cent of GDP for 1991. The 1992 Budget remains restrictive, despite an important reform of personal taxation entailing a revenue loss of over 1 per cent of GDP on a full-year basis. The emphasis has now been put on widening the tax base by reducing tax evasion and on real wage cuts in the wider public sector, where average wage levels are higher than in the rest of the economy. Monetary policy is also set to remain tight in 1992. As in the public

sector, private sector wages are expected to decline again in real terms in 1992, roughly in line with the 1991-92 two-year national collective wage agreement.

The government has also embarked on a programme of structural adjustments, which is expected to gather momentum in 1992. However, the unbalanced policy mix, reflected in very high interest rates and the crowding-out of private sector activity, will continue to put a brake on the pace of recovery. Though the disinflation process has already resumed, inflation will still remain high in the next eighteen months, thereby adversely affecting growth. To sum up, the OECD projections show an improvement in macroeconomic performance in 1992 and 1993, but this is still insufficient to start closing the wide gap vis-à-vis Greece's more advanced EC partners.

Part I of the Survey analyses macroeconomic policies in 1991 and the deviations on the fiscal side from the Medium-term Adjustment Programme. In this Part the Budget, monetary targets and incomes policies for 1992 are also presented, accompanied by a succinct assessment of the issues and the measures proposed. Economic developments in 1991 and the OECD projections for 1992 and 1993 are discussed in Part II. Part III examines the new policies and institutions announced or already put in place to deal with public sector inefficiency and tax evasion, which are important impediments to growth. Competition policy and financial deregulation are also reviewed in this Part. The Conclusions summarise the main problems facing the Greek economy, which are responsible for its disappointing performance for more than ten years, and also stress the need for more rigorous macroeconomic policies than have been implemented in the last two years, and for speeding up structural adjustment.

I. Macroeconomic policies in 1991 and 1992

Constraints and policy issues

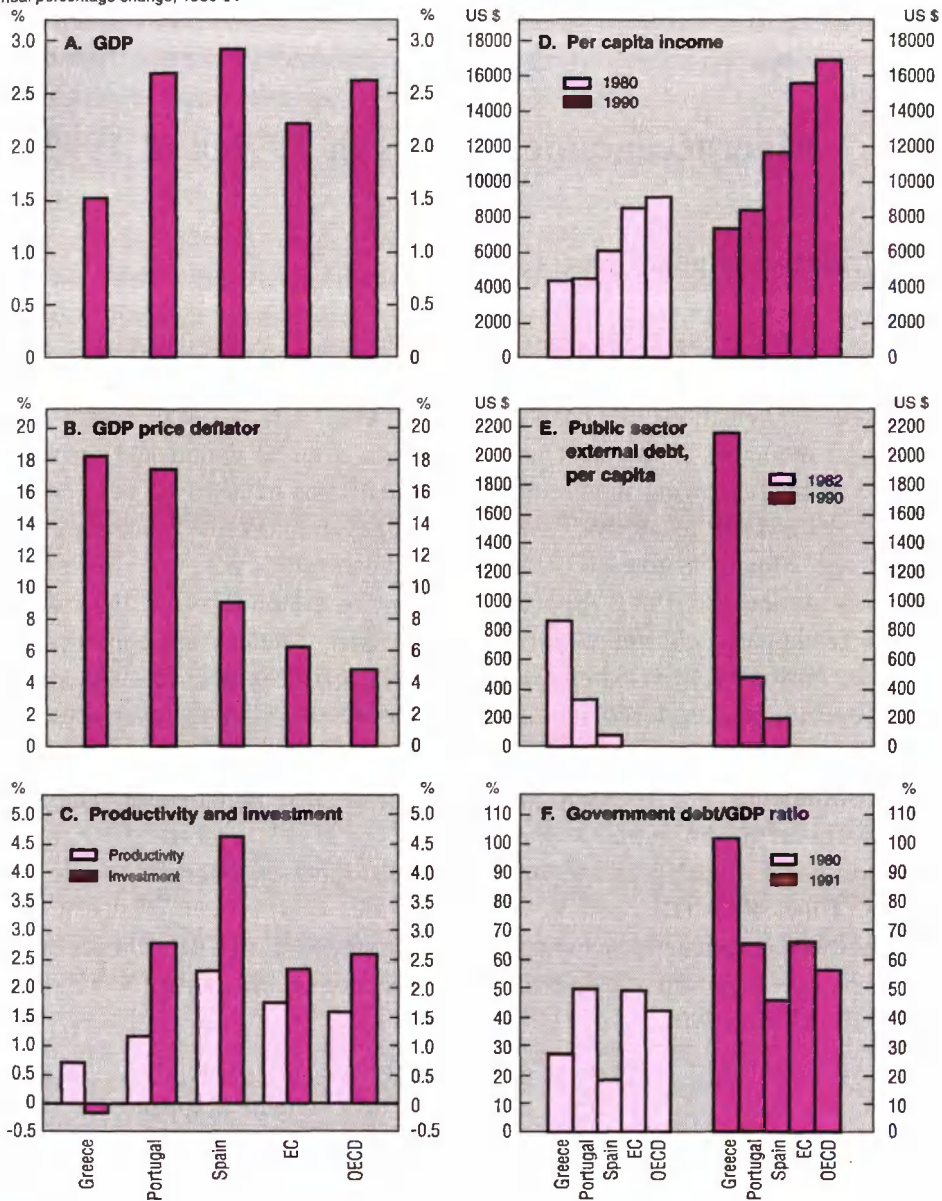
Greece ended the 1980s plagued by macroeconomic imbalances and structural problems. When the New Democracy party formed a new government after the April 1990 elections, the economy seemed to be getting out of control, with inflation running at 23 per cent and the current external deficit and the PSBR (public sector borrowing requirement) at annual rates of nearly 7 per cent and 22 per cent of GDP respectively, while output began to decline reflecting falling confidence. Moreover, foreign creditors, who financed the meagre growth of the economy during the 1980s, appeared hesitant to continue providing external finance to support a consumption-oriented economy¹. Under these conditions the room for manoeuvre was extremely limited in the early summer of 1990, and the new government introduced stabilisation measures in order to reverse the disturbing trends and boost confidence.

Towards the end of 1990 the government also prepared an ambitious "Medium-term Adjustment Programme, 1991-93" to deal with the macroeconomic imbalances and structural impediments responsible for the stagflation of the 1980s (Diagram 1)². The authorities were concerned that if rapid progress was not made in reducing high inflation and the PSBR, Greece would not be in a position to participate fully in the economic and monetary integration of the EC in the 1990s.

The Adjustment Programme's top priority was the reduction of the oversized public sector and the high public sector deficits, which appeared to be the main causes of the disappointing economic performance in the 1980s (see: OECD Survey of Greece, 1990/1991, Chapter I. Mounting Imbalances). The establishment of a rapid disinflation course and improving the fragile balance of payments position also ranked high in the Adjustment Programme (Table 1). The

Diagram 1. THE WIDENING PROSPERITY GAP

Annual percentage change, 1980-91



Source: OECD estimates.

Table 1. The medium-term adjustment programme, 1991 to 1993

	1985-89 average	1990	1991	1990	1991	1992	1993	1992	1993
		Outcome		Initial 1991 Programme (February 1991)				Official revisions (May 1992)	
				Annual per cent change					
GDP	2.1	-0.1	1.8	0.8	0.9	1.6	3.5	2.5	2.5
Investment	1.6	5.7	1.6	5.2	4.9	7.2	9.0	5.1	7.4
Percentage point difference between volume exports and imports	-2.5	-11.0	3.2	-5.4	3.6	1.5	0.5	4.5	0.8
Unemployment rate (per cent)	(7.5)	(7.0)	(8.2)	(7.7)	(8.7)	(9.0)	(8.8)	(9.0)	(9.4)
M3	20.9	15.3	11.8	14.3	13.0	10.1	8.3	9-12	..
Credit expansion	19.7	16.9	10.6	16.9	12.2	8.4	6.6	7-9	..
GDP price deflator	15.0	20.5	19.5	19.7	17.1	14.3	9.8	14.4	9.6
Consumer prices (end of period)	16.8	22.9	18.0	22.8	16.6	12.4	7.0	12.0	
Per cent of GDP									
PSBR, cash basis ¹	15.9	18.5	15.7	19.5	13.0	6.7	3.1	11.0	
Central government deficit	12.7	17.2	13.6	17.0	10.4	5.0	1.5	7.6	
of which: primary deficit		5.0	1.8	5.4	-1.9	-6.4	-8.3	-1.7	
Trade balance	-19.8	-18.6	-17.8	18.5	-18.1	-18.1	-17.8		
Invisible surplus	14.0	13.2	15.6	13.1	12.9	14.5	14.8		
Current account balance	-4.7	-5.4	-2.2	-5.4	-5.2	-3.6	-3.0		

1. On an accrual basis the PSBR fell from 20.9 per cent in 1990 to 18.0 per cent in 1991.

Sources: OECD estimates and data provided by the national authorities.

Adjustment Programme provided for strict macroeconomic policies and microeconomic reforms. These were expected to have short-term deflationary effects which would quickly be more than offset by the growth-dividends over the medium term associated with the improvement in supply responsiveness of the economy. International institutions and foreign financial intermediaries supported the Adjustment Programme. The EC agreed to provide a new loan of ECU 2.2 billion and disbursed the first tranche (ECU 1 billion) in March 1991.

Despite the prospect of sizeable real income losses for large categories of the population in 1991 and 1992, on the whole the Adjustment Programme was well received by the public. The increasing debate on the deleterious effects of extensive tax evasion has begun to influence public opinion in favour of drastic

measures against it. In addition, for the first time labour unions voluntarily agreed to an employers' proposal for a two-year wage pact, entailing large real income cuts. There is a growing awareness that the expansionary income-support and consumption-oriented policies followed during most of the 1980s resulted not only in disappointingly low real GDP growth, but also in excessively high public sector debt, the servicing costs of which absorb considerable resources (interest payments alone represent about 14 per cent of GDP) at the expense of investment and living standards³. Moreover, there is a lassitude following the stop-go policies of the 1980s, which had important destabilising social and economic effects and depressed the weak underlying growth rate of the Greek economy⁴.

The previous OECD Economic Survey of Greece endorsed the Adjustment Programme, but questioned the possibility of achieving the ambitious targets, especially the fiscal consolidation and privatisation goals for 1991, without more determined action. Progress indeed turned out to be disappointing in these two areas. In other areas the Adjustment Programme was more successful: in particular, there was a marked improvement in the balance of payments and inflation also fell. The situation in these two areas is, however, still fragile and the improved trends are, to some extent, the result of once-off measures and growing slack associated with real wage cuts. A few structural reforms were also introduced in 1991 (see Part III).

In view of the slippages in the implementation of the Adjustment Programme in 1991, especially with regard to fiscal consolidation, it was decided to extend it by one year to 1994. In order to meet the Maastricht treaty targets the government has begun to elaborate a "convergence plan". In June 1992 a major tax reform package providing for much lower tax rates for large categories of taxpayers and entailing relatively large losses in tax revenue was passed by Parliament. The government expects to largely cover these losses by inducing people to stop evading taxes and by the favourable supply-side effects that lower tax rates are expected to have on economic growth. Furthermore, in order to offset the tax revenue losses pertaining to 1992, the Government imposed an extraordinary tax levy on buildings and froze basic wages of public sector employees.

In 1992 the strategy changed from that of the initial Adjustment Programme indicating a shift in priorities:

- First, fiscal consolidation, which was considered as the key to the success of the Adjustment Programme, seems no longer to be the main short-term goal. The 1992 fiscal policy not only does not provide for the recuperation of the tax shortfalls in 1991, but some of the fiscal measures entail sizeable revenue losses, which may be offset by an increase in the tax base and the aforementioned measures pertaining to 1992.
- Second, reducing overmanning in the public sector ranked high in the objectives of the Adjustment Programme not only in order to bring down the deficit but also to increase public sector efficiency. However, except for public enterprises, little was done in this area, and prospects for 1992 are not very encouraging. The authorities now place the emphasis on real wage cuts to reduce the deficit, with the reduction of overmanning apparently relegated among its priorities.
- Third, in contrast to 1991 when front-loading was considered an essential element of the Adjustment Programme, a more gradual approach has been adopted in 1992. Furthermore, some of the recent measures simply shift the necessary adjustment into the future, and the related short-term benefits are likely to be at least matched by rising costs in 1993 and beyond.
- Fourth, in 1991 the authorities expected that the progressive pick-up in activity would be largely supported by a lowering of real interest rates and the release of loanable funds to the private sector consequent upon the sharp reduction of the PSBR. Given the prospective slower pace of budgetary consolidation, policy makers now seem to be relying mainly on the dynamic effects of the cuts in tax rates to boost activity. However, there is much uncertainty about the dynamic effects of very low income tax rates such as those decided on in June 1992 – especially in the case of Greece, which suffers from important structural deficiencies and macroeconomic imbalances⁵.

The anti-inflation strategy now depends principally on the rapid de-escalation of nominal wage increases – implying real wage cuts – in conjunction with a tight monetary policy stance. The two-year wage pact in the private sector (expiring at the end of 1992) and the imposition of low wage increases in the public sector will – as analysed below – contribute to a significant reduction in inflation in 1992, and to a further small decline in 1993. At the same time, lower

inflation would allow the effective nominal interest rate on public debt to be reduced, thereby leading in 1993 to the first decline for a long time in the ratio of public sector interest payments (on an accrual basis) to GDP. This would contribute importantly to bringing down the PSBR. Partly reflecting economic slack, the basic balance of payments should remain in surplus. These more positive trends are welcome in signalling the beginning of better performance, but a sustained recovery can only be achieved if the PSBR also falls to manageable levels and continuity in policy engenders confidence in the medium-term outlook.

Fiscal policy

Budgetary developments in 1991

The 1991 Budget proved to be too optimistic, with the PSBR on a cash basis falling only to just below 16 per cent of GDP (and an estimated 17½ per cent on an accrual basis), compared with the 13 per cent targeted (Table 2)⁶. Certain targets were unrealistic given the difficulties in implementing the privatisation plans and the well-known deficiencies of the tax collection system and deep-rooted tax evasion practices. But the authorities also appeared hesitant to push all announced policies vigorously and to speed up the introduction of the strict anti-tax-fraud measures and penalties prefigured in the Adjustment Programme. Revenue shortfalls were responsible for the higher deficit outturn, while expenditure on a cash basis, after changes in recording procedures, met budget targets. The small deviations of GDP growth and inflation from official projections did not significantly affect Budget implementation.

Almost all important revenue items experienced sizeable shortfalls in 1991. The growth in total central government receipts reached 27 per cent (compared with 46 per cent budgeted), and 22 per cent excluding the bonus from the unforeseen sharp fall in imported oil prices after the Gulf War, which the authorities did not pass on to consumers (taxes on hydrocarbons almost doubled in 1991). Taxpayers paid little heed to the government's advice to declare their true revenues, and even a scheme designed to induce taxpayers to settle tax arrears on very favourable terms failed to produce significant yields⁷. As a result, personal taxation revenue grew at less than one-half the budgeted rate. Similarly, reflecting extensive VAT fraud, indirect taxes (apart from tax receipts from

Table 2. Budget plans and outcomes
Drachmae billion, administrative basis

	1988	1989		1990		1991		1992
	Outcome	Budget	Outcome	Budget	Outcome	Budget	Outcome ¹	Budget
Central government								
Current expenditure	2 811	3 362	3 513	4 680	4 657	5 900	5 869	6 694
Salaries	952	1 086	1 206	1 437	1 501	1 697	1 686	1 919
Purchases of goods and services	157	210	181	218	196	264	230	326
Grants and subsidies	749	756	918	1 061	1 027	1 097	1 054	1 124
Servicing of public debt	792	1 010	945	1 568	1 630	2 211	2 496	2 757
of which: interest ²	554	50	639	70	1 176	1 143	1 555	1 344
Reserve	—	50	—	70	—	200	—	50
Other	160	250	263	326	304	431	403	518
Current revenue	1 929	2 310	2 126	2 970	2 878	4 210	3 660	4 715
Direct taxes	520	616	581	820	822	1 167	1 022	1 281
Indirect taxes ³	1 266	1 532	1 391	1 958	1 877	2 462	2 368	2 951
Non-tax revenue	143	162	154	192	180	582	270	484
Capital expenditure, net:	316	341	372	360	373	430	485	535
of which: Investment	281		339		361			
Gross borrowing requirement	1 197	1 392	1 756	2 070	2 153	2 120	2 695	2 514
Net borrowing requirement	1 045	1 173	1 551	1 698	1 794	1 422	1 743	1 101
Public entities⁴								
Net borrowing requirement	51	109	88	184	163	230	250	
Public enterprises								
Net borrowing requirement	9	20	97	72	177	54	70	
PSBR	1 105	1 302	1 738	1 954	2 215	1 706	2 207	
(Per cent of GDP)	(14.7)	(15.1)	(19.8)	(18.4)	(20.9)	(13.3)	(17.2)	
Memorandum item:								
PSBR on a cash basis	1 201	1 370	1 595	1 750-2 050	1 957		2 018	1 312
(Per cent of GDP)	(16.0)	(15.9)	(18.2)	(16.5-19.3)	(18.5)		(15.7)	(8.7)

1. Provisional.

2. Excluding interest (Dr 114 billion and Dr 320 billion) due to the rescheduling of debt in 1991 and 1992.

3. Of which taxes on oil from 1988 to 1991 in the following order in billion, Dr. 192, Dr. 128, Dr. 214, Dr. 385.

4. Mainly social insurance funds and local authorities.

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

Source: Direct submission by the national authorities.

hydrocarbons) and transaction taxes also grew markedly more slowly than anticipated. The 1991 Budget also included considerable receipts (7 per cent of the total) from privatisation and the sale of land bonds⁸. However, plans in this area also failed to materialise and privatisation revenues were small.

The growth of central government expenditure on a cash basis fell below that of nominal GDP for the first time since 1987, and was, moreover, slower than forecast in the 1991 Budget. However, this moderation was partly due to the shifting of cash interest payments to 1992 and 1993 following the conversion of Treasury bills (on which interest is paid at issue and recorded in the same year) held by banks to medium-term government bonds (on which interest is paid and recorded at twelve and eighteen-month intervals). The concomitant saving in 1991 was Dr 120 billion, 1 per cent of GDP. Reflecting the strict income policy of the administration, the growth of the wage bill slowed markedly to well below the growth of nominal GDP. Likewise, reflecting the withdrawal of pension rights for certain categories and a marked decline in real average pensions, expenditure for pensions for civil servants and a few other categories paid directly by the central government budget (and not by the Social Insurance System) recorded the lowest rate of growth for the last fifteen years⁹.

The operating deficit of the Social Insurance System (SIS) remained stable in 1991 at $3\frac{3}{4}$ per cent of GDP, thanks to an increase in pensions less than inflation, an increase in social security contribution rates, and capitalisation of interest due in 1991¹⁰. Their combined effect roughly offset a $4\frac{1}{2}$ per cent increase in the number of pensioners and higher spending on health. Though declining in real terms, the sizeable transfers from the government ordinary budget helped to keep the net borrowing requirement of the SIS at just over 1 per cent of GDP, slightly above the 1990 level. Reflecting real wage cuts and falling employment, the operating deficit of Public Enterprises decreased markedly in 1991, but somewhat less than planned largely due to the postponement, from January to April 1991, of the increase in public utility tariffs. However, reflecting cuts in the investment plans of the Public Power Corporation and the decision by Olympic Airways to lease and not buy new aircraft – as had been the usual practice up to then – the growth of capital expenditure slowed, so that the borrowing requirement of Public Enterprises fell markedly.

The share of the PSBR financed by non-bank residents increased considerably to 68 per cent in 1991, reflecting the attractiveness of high yield Treasury

Table 3. The public sector borrowing requirement and its financing

	1988	1989	1990	1991
	Drachmae billion			
PSBR on a cash basis (per cent of GDP)	1 201 (16.0)	1 595 (18.2)	1 957 (18.5)	2 018 (15.7)
of which:				
Central government budget	1 056	1 440	1 836	1 910
Central government funds ¹	49	80	96	38
Public entities	48	-8	-89	41
Public enterprises	47	82	115	28
	Per cent of total			
Domestic financing	96.5	86.9	87.9	87.5
Banks	66.7	58.0	29.8	14.6
of which:				
Loans and credit	19.4	15.8	13.7	12.7
Securities	47.3	42.2	16.1	1.8
Non-bank residents	31.2	18.9	43.1	68.0
Treasury bills	21.7	3.5	30.9	67.7
Bonds	9.5	15.4	12.2	0.3
Bank of Greece advances	-1.4	10.0	15.0	5.0
External financing	3.5	13.1	12.1	12.5

1. Mainly the petroleum account and the agricultural account.

Source: Bank of Greece.

bills (see monetary section) (Table 3). This permitted a reduction in Bank of Greece advances and commercial bank credits, both as a share of the PSBR and in absolute values.

The 1992 Budget

Reflecting hesitancy, fiscal measures accompanying the 1992 Budget were finalised in June 1992¹¹. Moreover, certain measures included in the Budget voted at the end of 1991 or announced later were modified recently. The initial Budget goal was to reduce the PSBR to less than 10 per cent of GDP by halving the central government borrowing requirement to below 8 per cent of GDP. It is planned to achieve this by maintaining expenditure growth well below, and fiscal receipts well above that of nominal GDP. In addition, privatisation proceeds, estimated at around 1 per cent of GDP, have also been included in the budget.

A major tax reform was announced in January 1992 and passed by Parliament in June 1992. The personal taxation system was simplified and personal income tax schedules were significantly modified, in particular the top marginal rate was lowered from 50 per cent to 40 per cent. At the same time it was announced that all tax exemptions and most tax deductions would be abolished¹². However, at the time of writing it is difficult to assess the impact of this measure as many tax exemptions still exist. The new tax schedules entail a small increase in the tax burden for those with earnings below the economy-wide average. By contrast, the tax burden has been reduced substantially for those with incomes above the average. For those with earnings just over twice the average the reduction in taxes is estimated at around one-half, entailing a rise in real disposable income of almost one-fifth. Furthermore, when compared with the old system the new tax schedules disadvantage larger families.

The company tax rate on profits was also reduced to a uniform 35 per cent from 42 to 50 per cent, depending on the legal form of the company and whether or not it is introduced on the Stock Exchange. This 35 per cent applies both to undistributed and distributed profits, which are not taxed again as personal income. The reduction in the tax burden of households and companies is expected to result in a revenue loss of around Dr 140 billion on a full-year basis (1 per cent of GDP). In order to mitigate this loss, an extraordinary tax on houses and commercial buildings, estimated to yield about Dr 60 billion, was imposed in 1992. The Government also expects that the lower tax rates will induce a considerable number of people to be more open about their true incomes than before. Furthermore, the anti-tax-fraud drive (see Part III Structural Reforms), including stiffer penalties and improved efficiency in tax administration, is expected to start bearing fruit in 1992. This will boost tax receipts on current incomes and speed up the collection of tax arrears already assessed but not collected. In total, despite the statutory reductions in tax rates, direct taxes are budgeted to increase by as much as 25 per cent in 1992 – about 8 percentage points more than nominal income.

Indirect tax receipts are also budgeted to increase at almost the same rate as direct taxes, reflecting the containment of VAT tax evasion and higher taxes on hydrocarbons, tobacco and alcoholic drinks (partly in order to harmonise with EC levels). Total tax receipts are, therefore, officially forecast to rise by as much as 25 per cent, and because of an even faster rise in non-tax revenues (largely

reflecting privatisation receipts and EC transfers) the growth of total central government revenues is budgeted to attain 29 per cent. This would raise central government tax receipts to over 28 per cent of GDP from 26.5 per cent in 1990.

Ordinary expenditure by the Central Government is budgeted to rise by 14 per cent, and by 7 per cent when debt amortisation is excluded – the lowest rates for a very long period¹³. This marked deceleration in the rate of growth is largely due to the sizeable cuts in real wages and pensions (see income policy below) and to lower interest payments resulting from the conversion of Treasury bills held by banks to medium and longer-term bonds, coupled with the capitalisation of interest due. About Dr 450 billion (3 per cent of GDP) in interest payments in cash will be saved in this way in 1992.

Reflecting the modest increases in pensions (average pensions are budgeted to increase by 6 per cent in the course of 1992, following somewhat higher increases in 1991) and in expenditure by the Organisation for Employment, total expenditure by the Social Insurance System is also budgeted to decelerate, contributing to a small fall in its operating deficit. However, as this is forecast to be broadly offset by a real reduction in subsidies and transfers from the central government budget and the EC, the borrowing requirement of the Social Insurance System is budgeted to rise marginally to a little over 1.5 per cent of GDP in 1992. The proposed severe real wage cuts in the wider public sector are forecast to turn around the traditionally large operating deficits of the Public Enterprises to a small surplus in 1992. This and a substantial increase in central government transfers and, to a lesser extent, in EC transfers are budgeted to outweigh the sizeable growth of investment, making for a small decline in the Public Enterprises' borrowing requirement.

In the light of the last few years' record and delays in introducing the anti-tax fraud measures the 1992 Budget seems to be optimistic, and tax revenues especially are likely to rise less than budgeted. However, the difference between outcomes and targets is likely to be smaller in 1992 than in the last two years. Much of this improvement, however, will result from shifting some expenditure to later years. Accordingly, the deficit on a cash basis (retained in the Budget) will be considerably smaller than on an accrual basis. It also seems that more serious efforts to curb tax evasion are being made this year. Moreover, additional savings have been made since the Budget was passed, for example, through shelving planned wage increases; the impact of this measure on expenditure is,

however, likely to be partly offset by the non-implementation of the plans for recruiting only one civil servant when two retire.

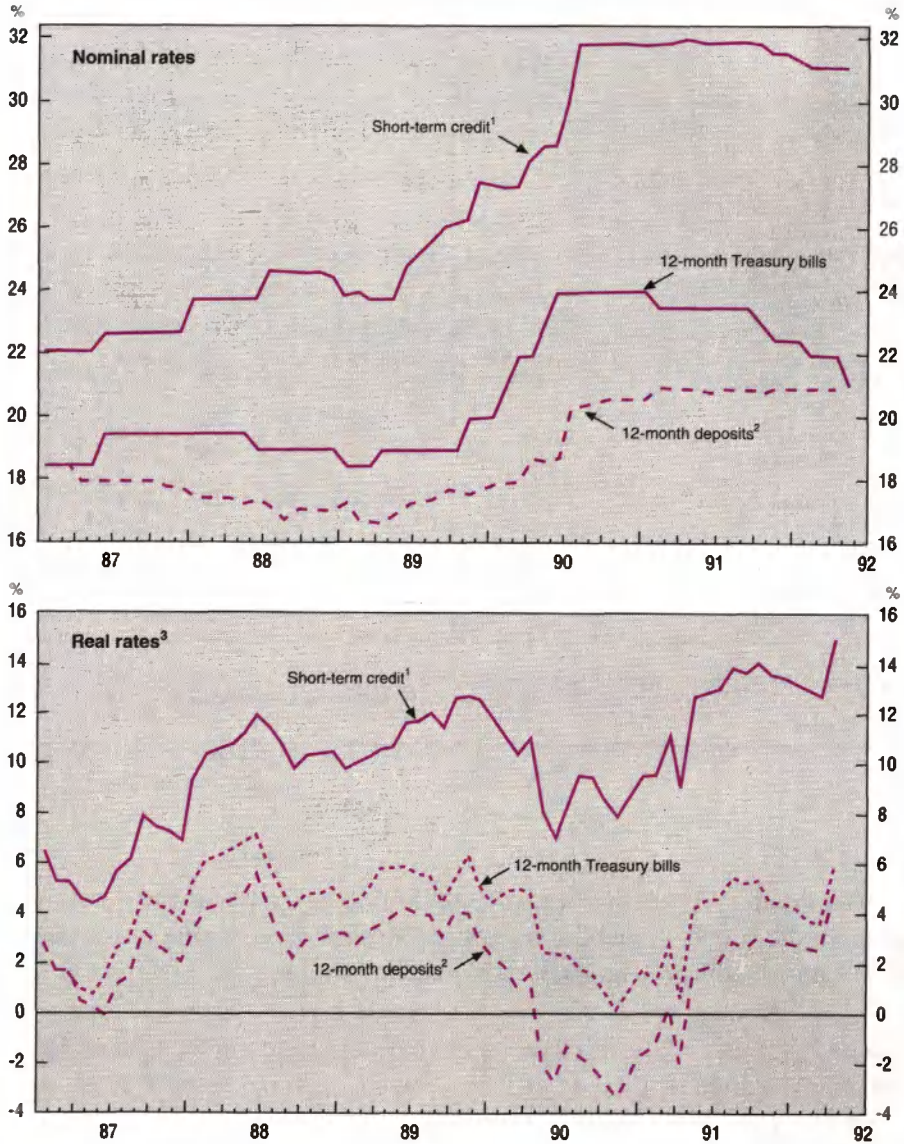
Monetary policy

Monetary conditions in 1991

The sizeable PSBR and the higher than budgeted outturn have continued to bear heavily on monetary conditions in 1991. In order to counter the inflationary effects of the public sector deficits and maintain confidence in the Drachma, the Bank of Greece was obliged to pursue very restrictive monetary policy, considerably more so than would normally have been warranted by the weak domestic real trends and business conditions. This has been reflected in very high nominal lending interest rates, which, combined with the decline in inflation, have led to an increase in real rates from their already high level (Diagram 2). In 1991 the Bank of Greece did not ease the liquidity shortages of financial institutions, so that a number of them were obliged to use their overdraft facility with the Bank of Greece, paying an interest rate of around 28 per cent, and to borrow heavily from the interbank market, thereby pushing interbank rates up to nearly 30 per cent twice in 1991, one-third above the average level in 1990-91¹⁴. Likewise, yields on government paper have remained high, and they rose in real terms (during 1991 the interest rate on Treasury bills fell by just over 1 percentage point against 5 points for inflation).

High interest rates continued to curb demand for Drachma credit, but total credit expansion was less affected, as an increasing proportion (just over one-third compared with one-fifth in 1990) of domestic bank loans to the private sector were in foreign currencies. These carry an interest rate about 20 percentage points lower than that for domestic currency loans, and 10 percentage points lower when allowing for the trend depreciation of the Drachma. Excluding interest arrears, mainly to the Agricultural Bank of Greece by cooperatives and farmers, the growth of domestic new credit to the private sector was just over 15 per cent, slightly down from the previous year (Table 4). This, together with the marked slowdown in domestic credit expansion to the public sector, brought the growth of total domestic credit down to 10.6 per cent in 1991, below the target and nearly one-half the average growth rate of the previous ten years.

Diagram 2. **INTEREST RATES**



1. Including the transaction tax.

2. Provisional figures for March and April.

3. Nominal rates deflated by consumer prices.

Source: Bank of Greece, *Monthly Statistical Bulletin*.

Table 4. Domestic credit expansion

	1991 ¹ Drachmae billion	1985	1986	1987	1988	1989	1990	1991 ¹
		Annual percentage change						
Total monetary system's claims on ² :								
Private sector	5 589	18.8	15.9	10.1	15.3	19.7	16.4	15.7
of which:								
Bank credit	5 179	18.8	15.6	9.8	15.2	20.7	16.5	16.2
of which:								
Agriculture	1 032	20.1	18.5	16.2	14.8	14.3	19.8	12.2
Manufacturing & mining	1 613	18.6	14.5	6.7	10.5	13.7	10.2	19.8
Small-scale industry	434	23.8	18.2	9.7	15.6	12.2	10.7	4.0
Trade	621	18.2	13.0	1.4	19.2	50.3	36.0	24.2
Housing	776	18.6	14.9	11.7	17.4	34.2	14.0	10.5
Public sector, net ³	6 500	35.5	25.2	22.8	25.1	26.9	17.3	6.5
General government	5 918	36.5	24.4	22.7	28.5	29.7	17.9	7.0
of which:								
Central government	5 761	29.7	17.1	19.1	24.8	29.9	17.9	3.8
Public enterprises	582	30.8	29.4	23.4	9.0	11.4	13.4	1.4
Domestic credit expansion	12 089	26.2	20.3	16.3	20.3	23.6	16.9	10.6
Memorandum items:								
Monetary Programme's target:								
Domestic credit expansion to private sector		18.0	15.0	11.0	10-12	13-15	15-16	14.0

1. Provisional data.

2. Loans, shares, bonds, bills and securities held by financial institutions.

3. Net of public sector deposits with financial institutions and excluding loans in foreign exchange.

Source: Bank of Greece.

The deceleration in credit expansion affected all parts of the public sector. Net domestic credit to public enterprises showed a very small rise due to a Dr 80 billion reduction in interest payments following the assumption by the Central Government of Dr 625 billion of overdue government-guaranteed loans at the end of 1990¹⁵. The deceleration in credit expansion to the Central Government, which started in 1990, is explained by the ongoing financial liberalisation, the introduction of new assets and the increasing role of interest rates in association with the greater market response to changes in relative prices of assets. Reflecting the policy of raising interest rates to realistic levels, the yield on government paper has been higher than the interest rate on time deposits with financial institutions since 1989. The yield gap further widened in 1991 following

the imposition of a 10 per cent tax on interest revenues from deposits, but not from government paper. This has led to a sizeable shift of private non-bank financial investments into government paper, reducing *pari-passu* the government's recourse to bank credit. Direct purchases of government paper by the non-bank private sector reached Dr 1 370 billion in 1991 (Dr 850 billion in 1990 and Dr 340 billion on average in 1988-89), double the amount of new bank credits to the government, so that the latter stopped being the main source of government finance, as had been the case throughout the post-War period. This

Table 5. Monetary indicators

	1991 ¹ Drachmae billion	1985	1986	1987	1988	1989	1990	1991 ¹
		Annual percentage change						
Currency in circulation	1 252	26.1	7.2	16.1	17.0	31.8	19.9	7.8
Sight deposits	487	19.8	16.2	10.5	9.0	24.4	42.5	15.6
M1	1 739	24.4	9.4	14.6	14.9	30.0	25.2	9.9
Saving deposits	6 229	28.0	21.7	25.8	27.4	26.0	14.4	12.2
Time deposits	2 011	28.2	20.8	29.1	18.0	16.4	6.4	-0.7
M3-M1	8 240	28.0	21.4	26.8	24.5	23.2	12.1	8.8
M3 (Old Definition) ²	9 979	27.3	19.1	24.7	22.9	24.2	14.2	9.0
M3 (New Definition) ³	10 954	28.1	20.4	24.0	23.2	24.2	15.3	11.8
M4 (New Definition) ⁴	13 461	28.4	20.6	27.2	27.1	23.6	22.2	22.8
		Change in Drachmae, billion						
M3 (Old Definition)	9 979	759.1	676.1	1 039.9	1 204.4	1 561.9	1 137.2	822.1
Private sector holdings:								
Government paper	3 025	10.2	23.1	169.3	375.0	303.0	849.3	1 370.4
Bank bonds	554	57.2	81.4	36.1	82.7	96.5	112.7	-39.4
Repos	421	-	-	-	-	-	48.5	372.4
Total liquid and semi-liquid assets:	13 979	826.5	780.6	1 245.3	1 662.1	1 961.4	2 147.7	2 525.5
(Per cent change)		(28.4)	(20.9)	(27.6)	(29.0)	(26.5)	(22.3)	(22.0)
GDP at market prices ⁵	12 863							
(Per cent change)		(21.3)	(19.4)	(13.5)	(20.3)	(16.6)	(20.4)	(21.7)

1. Provisional data.

2. The annual Monetary Programme's M3 growth target was 19.8 per cent in 1986, 15.4 per cent in 1987, 14-16 per cent in 1988, 18-20 per cent in 1989, 19-21 per cent in 1990 and 14-16 per cent in 1991.

3. M3 (Old Definition) plus private sector holdings of Bank Bonds and Repos.

4. M3 (New Definition) plus direct purchases by private sector of Treasury bills and government bonds up to 1 year.

5. Revised data.

Source: Bank of Greece.

also explains why, despite the PSBR being significantly higher in 1991 than budgeted for, its financing did not pose many problems, and because it was financed by the non-bank public it was less inflationary than in the past¹⁶. There was, however, some crowding-out of the private sector, contributing to sluggish activity in 1991.

The shift in favour of government paper and away from deposits with banks (the latter grew by 9 per cent in 1991, one-half the annual rate in the previous five years) was reflected in a marked deceleration in the growth of M3 to 9 per cent in 1991 (Table 5), well below the target-range of 14-16 per cent. However, M3 gives a misleading picture as it excludes the very liquid assets (mainly government paper, including Repos), which saw a marked expansion in 1990 and in particular in 1991. Including these assets, overall liquidity grew at the high rate of 23 per cent, broadly the same as in 1990 (Diagram 3).

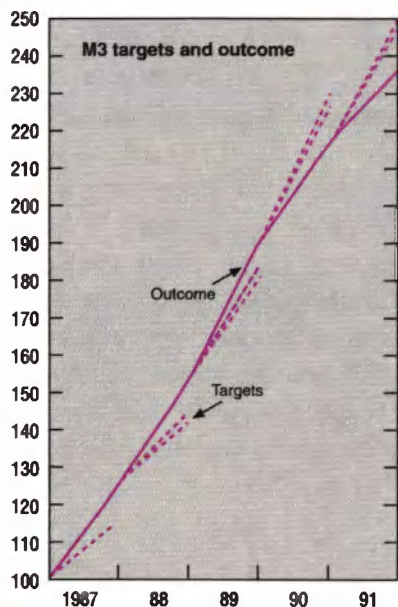
Monetary targets for 1992

In order to analyse monetary developments better, the Bank of Greece decided to broaden the definition of M3, which remains the principal monetary target, and also to monitor the private sector's holdings of government paper. In addition to currency in circulation and private sector deposits with banks, M3 now includes Treasury bill Repos and bank bonds, which constitute the monetary liabilities of the banking system. Furthermore, reflecting the growing expansion of short-term government paper, a new monetary aggregate – M4 – was introduced. This is a better measure of overall liquidity, as it also includes Treasury bills and government bonds with maturity of up to one year. The secondary market for Treasury bills and bonds is still small, but it is growing rapidly.

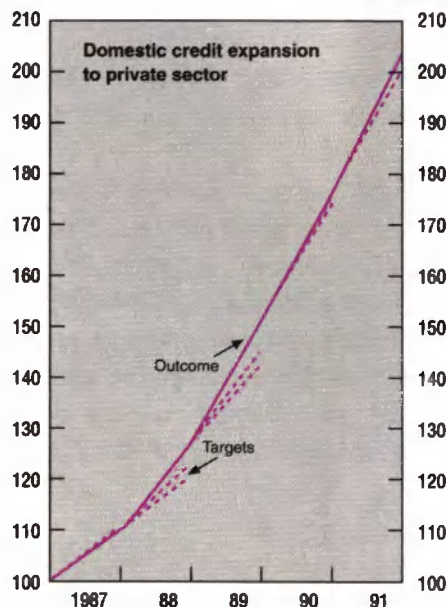
The M3 target range has been set at 9 to 12 per cent for 1992, with a corresponding domestic credit expansion of 7 to 9 per cent, which is consistent with the official inflation target of 12 per cent. On this basis and on the assumption that the PSBR will not exceed the budget level and that at least three-quarters of it will be financed by direct private non-bank purchases of government paper, domestic credit expansion to the private sector is expected to attain 14 to 16 per cent. The domestic credit expansion projections do not include the accrued interest (around Dr 450 billion) owed to banks by the public sector following the conversion of short term public sector debt to longer-term bonds,

Diagram 3. MONETARY TARGETS AND LIQUIDITY TREND¹

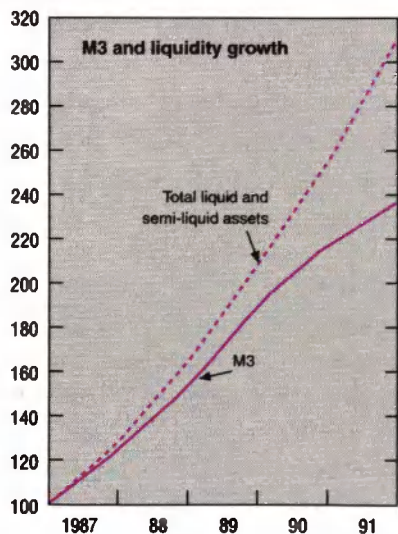
Index 1986 = 100



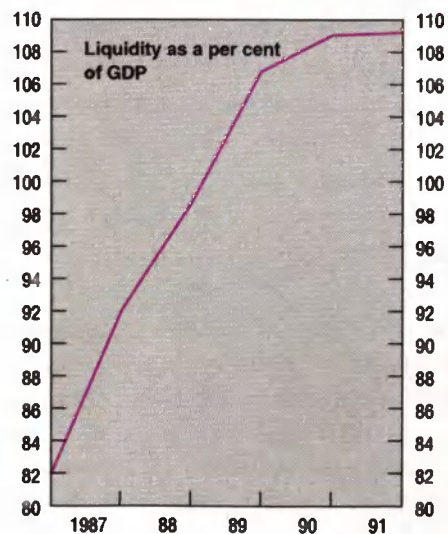
Index 1986 = 100



Index 1986 = 100



% of GDP



1. Figures for 1991 are provisional.

Source: Bank of Greece and OECD estimates.

discussed above. The Bank of Greece also intends to follow M4 closely, though no specific target has been set.

The Bank of Greece announced that it will continue to follow a high real interest rate policy, in order to damp domestic inflation and maintain favourable balance of payments conditions. The wide margin on domestic interest rates over interest rates in the Euro-markets adjusted for the trend devaluation of the Drachma has contributed to strengthening confidence and stimulating sizeable inflows of foreign funds from abroad in recent years¹⁷. These funds have eased somewhat the tight credit conditions for the private sector. Given the extreme sensitivity of the balance of payments to confidence considerations, the authorities prefer to err on the side of prudence. This is all the more important, as the ongoing foreign exchange liberalisation under EC directives should reinforce the external constraint on monetary policy¹⁸. Exchange rate policy is set to remain non-accommodating in 1992 as an important element in meeting the inflation target.

Incomes and prices policies

The deregulation in labour and product markets, including the abolition of mandatory incomes policy and administrative price fixing, were important goals of the new government. In 1991 the automatic wage indexation system (the ATA, which frequently also applied to private sector employees) was abolished. Responding positively to an employers' proposal, labour unions agreed to wage moderation and, for the first time, many unions signed a national collective two-year wage agreement for private sector employees covering 1991 and 1992. Wage settlements were around 13½ per cent in 1991, much lower than prospective inflation. The government set out guidelines for somewhat lower wage increases in public enterprises. However, because of the seniority-related wage drift and tolerance vis-à-vis unwarranted increases, the average wage growth in public enterprises attained almost 16 per cent in 1991 as a whole. For central government employees wages continued to be fixed in the budget, and, in line with the Adjustment Programme, basic wage rises were limited to 8 per cent in 1991, paid in two equal instalments in January and July. The increase was roughly the same in proportionate terms for all categories and grades, thus reversing the policy of compressing the wages of senior personnel in the public

sector under the ATA system. However, reflecting the carry-over from 1990, special adjustments and seniority-related wage drift, wage increases for central government employees seem to have reached about 12 per cent in 1991.

In view of the significant budget overruns in 1991, the government hardened its policies in early 1992, imposing very strict limits on public sector wage increases in 1992, which are considerably tougher than those incorporated in the 1992 Budget presented in November 1991. The budgeted 4.7 per cent increase in basic wages in 1992 as a whole (3 per cent in January and 3 per cent in July) was withdrawn, but the government decided to implement its promise to give the special adjustment (Dr 9 000 per month) to the remaining categories of central government employees who did not obtain it in 1989-90. This, together with the seniority-related wage drift (about 2½ per cent) and the carry-over from 1991, is estimated to lead to a growth in average earnings of just less than 9 per cent in 1992. Likewise, in March a decree was passed forbidding increases in basic wages in public enterprises and banks (which were earlier planned to be about 8 per cent), but because of the carry-over and wage drift (mainly related to seniority) the increase in average wages in the rest of the public sector is expected to be over 8 per cent. The government considered that the vast majority of employees of public enterprises, with real earnings significantly above the economy-wide average level (and higher than civil servants' wages), would benefit considerably from the tax reform so that they did not need nominal wage increases as well. Indeed, without the freeze, the 1992 increase in real disposable earnings in the public sector was estimated at about 5 per cent.

In order not to reinforce inflation tensions in a period of still high price increases and growing uncertainty due to the Gulf War, the government postponed the annual increases in the prices of public utilities from January to April 1991. However, reflecting the new policy orientation for public utility prices to better reflect costs and the easing of inflation tensions after the Gulf War, the increase in their prices was again relatively high, making for a cumulated increase of over 50 per cent in the two years to end-1991, more than one-third faster than the increase in other consumer items excluding the impact of higher indirect taxes. The government decided not to pass on to consumers the reduction in imported oil prices after the Gulf War. The liberalisation of prices also gathered momentum in 1991. For 1992, the aim is to limit the increase in public utility prices to around 8 to 9 per cent on average (including 15 per cent for the

Post Office and Olympic Airways) and the increases were grouped in the first few months of the year. It is considered that this increase will more than cover the growth of the wage bill. Moreover, with a view to putting downward pressure on measured inflation, the government has also imposed low rises for certain prices still under government control.

II. Economic developments in 1991 and short-term prospects

Economic developments in 1991

All planks of policy were restrictive in 1991, and the less favourable international environment also adversely affected the Greek economy. Yet, in sharp contrast to the growth profile in the OECD area, GDP swung from a small decline in 1990 to 1¾ per cent growth in 1991. This is largely explained by the large fluctuations in agricultural output (which recorded a 10 per cent rise in 1991 following two bad harvests in 1989 and 1990). The growth of non-agricultural GDP declined from 1¼ per cent in 1990 to ¾ per cent in 1991. However, given the fiscal tightening, restrictive monetary policy and real wage declines a small drop in non-agricultural GDP could have been expected. The better performance is explained, first, by a marked rise in EC and emigrant transfers from abroad¹⁹; second, by the recovery in confidence, following the fall in 1989 and part of 1990 associated with the prolonged pre-electoral period; and third, by the fact that the underground economy (called *para-economia* in Greece) is very extensive, more so than in other comparable OECD countries, and is considerably less affected by restrictive policies than the open economy, at least in the short-term²⁰.

Demand and output²¹

Apart from the sizeable fall in the wage bill in real terms, reflecting real wage cuts and to a lesser extent employment cuts, all other household income components grew at the same rate as, or faster than, inflation in 1991. Particularly important was the rebound in income from agriculture and net private transfers from abroad. But other non-wage personal incomes also grew steeply, reflecting higher interest receipts, rents and profits. Household real disposable income grew

by nearly 1 per cent in 1991, down from 3½ per cent on average in the previous couple of years. Private consumption continued to rise, mainly reflecting private car purchases induced by the fiscal advantages offered for withdrawing old cars and replacing them with new less polluting ones (Table 6). Demand for other goods was subdued.

Government consumption fell somewhat in 1991, due to spending cuts in goods and services. By contrast, after dropping in 1990, government investment expanded sharply (by about 18 per cent) in 1991, thus making good part of the large cumulated losses since 1986. The increase in investment by public enterprises was 4½ per cent, so that total public sector investment grew by about 10 per cent, considerably more than the Adjustment Programme's forecasts.

Table 6. Demand and output
Real annual percentage change

	Per cent of total in 1990	1986 1980	1987	1988	1989	1990	1991
Private consumption	71.4	2.1	1.0	3.5	4.3	2.0	1.2
Government consumption	21.1	2.9	0.9	4.7	4.2	-0.2	-0.7
Gross fixed investment	19.5	-3.0	-5.1	8.9	10.0	5.7	-2.0
Final domestic demand	111.9	1.7	0.1	4.5	5.1	2.2	0.4
Stockbuilding ¹	0.3	-0.4	-1.3	1.9	-1.2	-1.2	2.3
Total domestic demand	112.2	0.9	-1.1	6.3	3.9	1.1	2.5
Exports of goods and services	21.5	4.1	16.0	9.0	1.3	0.8	16.4
Imports of goods and services	32.6	5.6	16.6	8.0	10.8	11.9	13.2
Foreign balance ¹	-11.1	-0.5	-0.1	-0.1	-3.1	-3.9	-0.7
Error of estimate ¹	-1.2	-0.9	1.4	-2.2	2.5	2.7	-0.2
GDP at market prices	100.0	1.4	-0.7	4.1	3.5	-0.1	1.8
GNP at market prices	99.6	0.7	-0.5	4.3	3.2	0.6	1.9
GDP at factor cost	100.0	1.5	-0.6	4.5	3.7	-0.4	1.8
Agriculture, etc.	15.4	0.4	-4.1	6.6	0.8	-11.9	10.1
Non-agricultural sectors	84.6	1.7	0.1	4.2	4.2	1.3	0.7
<i>of which:</i>							
Manufacturing	16.3	0.1	-2.4	4.5	2.2	-2.6	-1.3
Services	57.1	2.5	0.8	3.3	4.7	1.6	1.6

1. Change in per cent of previous year's GDP.

Source: National Statistical Service of Greece, *Provisional National Account of Greece*, 1990, and OECD estimates.

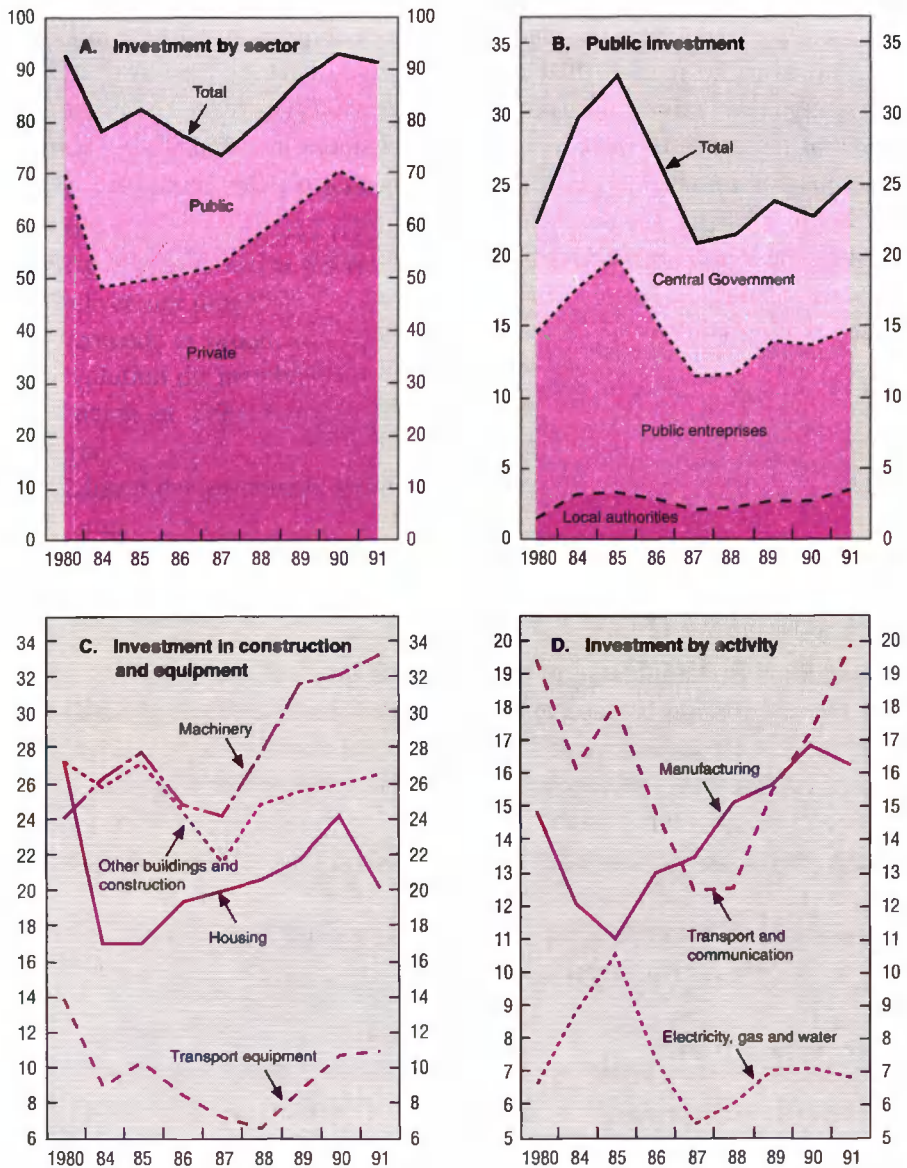
By contrast, private investment declined by 6 per cent in 1991 due to a fall in residential investment (Diagram 4). High real interest rates, higher taxes on housing, and the justification of the sources of finance for the acquisition of houses (see Part III) explain the marked decline in housing investment in 1991. It should, however, be recalled that residential investment in 1991 was still at a relatively high level (above the average of the previous ten years). After the sharp increases of the previous three years private business investment also seems to have shrunk somewhat. The growing slack since early 1990, high interest rates and delays in finalising the tax measures and a policy framework have adversely affected business investment. Overall profit rates in the corporate sector appear to have increased further, largely due to a surge in the profits of financial institutions and trading companies. In the manufacturing sector profit rates may have fallen, but this is due to bigger losses by the state-controlled persistent loss-making firms. Profits in healthy firms seem to have been less affected by the slack, permitting them to maintain high self-financing investment ratios. There seems to have been sizeable involuntary stockbuilding both at the factory and retail levels, and the rebound in agricultural output added to the inventory accumulation. Accordingly, after being negative in 1989 and 1990, the contribution of stockbuilding to output became strongly positive in 1991, more than explaining the growth of GDP.

In addition to the increase in total domestic demand, the negative contribution of the real foreign balance to GDP declined markedly from the high 1989 and 1990 levels. Reflecting weak domestic demand, exports recovered from their depressed 1990 levels. The acceleration in import growth was relatively small²². The rebound in agricultural production, continuing growth of public services and electricity production (due to cold weather) explain most of the GDP growth on an output basis. Construction showed a particularly marked decline (5½ per cent), followed by manufacturing (1¼ per cent, making for a cumulative fall of almost 4 per cent in two years).

Labour market trends

Employment reacted with a lag to the end of the expansionary phase in early 1990, showing a continuing small growth during the first three quarters of 1990. However, the employment response to the growing slack at the end of 1990 and early 1991 seems to have been stronger than past experience would have sug-

Diagram 4. **INVESTMENT TRENDS¹**
Drachmae billion at 1970 prices



1. 1990 and 1991 figures are provisional.
Ministry of National Economy, *National Accounts of Greece*.

gested. Probably, behaviour is adjusting as economic agents become conscious that the rules of the game are gradually changing and the economy is entering a prolonged phase of non-accommodating policies, during which firms will have to rely on their own efforts and efficiency gains and no longer on subsidies, fiscal exemptions, bank loans at low interest rates and devaluations to bail them out. This is particularly noticeable in manufacturing industry where, in addition to the lay-offs in state controlled problematic enterprises, private sector companies seem to have reduced hoarded labour. As a result, dependent employment in manufacturing may have decreased by about 5 per cent, one of the largest falls for a long time (Table 7)²³. In other sectors the changes in employment were small, and in some services employment may have actually increased a little, thereby limiting the fall in dependent employment in the private sector as a whole to a little over 1 per cent in 1991.

Dependent employment in the public sector was broadly stable between 1990 and 1991. However, this masks two divergent developments, a decline in

Table 7. Labour market trends

	1990 Thousand	1986 1982	1987	1988	1989	1990	1991
		Annual percentage change					
Population	10 140	0.4	0.2	0.2	0.3	1.1	..
Working age population	6 784	0.9	0.6	0.6	0.6	1.9	0.1
Unemployment rate (%)	(8.1)	(7.4)	(7.4)	(7.6)	(7.4)	(7.0)	(8.2)
Labour force ¹	3 999	1.1	-0.1	2.0	0.2	0.8	-0.4
Employment	3 677	0.7	-0.1	1.7	0.4	1.2	-1.7
Agriculture	900	0.4	-5.4	0.1	-4.3	-4.2	-6.1
Industry	1 006	-0.2	-0.5	-1.1	1.5	-0.5	..
Manufacturing	704	1.6	-0.3	1.4	-1.5	0.7	-5.0
Services	1 771	1.5	3.6	4.4	2.3	2.4	..
Employees		0.8	1.1	2.8	2.1	1.2	-0.6
Public sector ²	587	3.8	1.4	-0.1	6.5	-2.7	..
General government	380	3.2	1.1	1.4	4.0	-1.0	1.2
Public enterprises		2.8	0.3	-2.5	6.4	-3.8	..
Banks		5.3	2.0	2.4	3.3	-4.8	1.9
Private sector		-0.8	1.1	4.5	0.4	1.1	..

1. Participation rates in 1980, 1985 and 1989 were in per cent: 58.7, 59.6 and 59.2 respectively.

2. Excluding firms in which public bodies hold a minority of shares but are effectively controlled by these public bodies.

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

employment in local authorities and public enterprises and entities offset by a rise in the central government. Reflecting the sell-off and closure of a number of "problematic" enterprises, total employment in public enterprises declined by approximately 11 000 in the course of 1991 (2 per cent of total public sector employment). Towards the end of 1990 there were massive lay-offs in the central government of personnel with fixed-term contracts (engaged mostly in 1989), who were considered to be redundant and not recruited in accordance with strict criteria. The government also announced that its goal was to replace only one out of two employees who retire, so as to meet the Adjustment Programme's objective of a 10 per cent reduction in public sector employment by 1993. The non-replacement of half of the retired civil servants would have led to a decline of 1½ to 2 per cent in total central government employees. However, the most recent data show a 2 per cent rise in central government employees in 1991, due to an increase in fixed-term contract personnel and, to a lesser extent, permanent civil servants.

In addition to the decline in dependent employment, there was a marked decrease in the number of self-employed in agriculture in 1991, reflecting an ageing population and increasing pension coverage. The decline in total employment led to a marked increase in the rate of unemployment to 8¼ per cent in 1991, from a stable rate of around 7¼ per cent in the previous eight years. As was to be expected in a period of growing slack, categories with the highest rates of unemployment (such as young age groups – 27 per cent – and women – 13½ per cent) also recorded the steepest increases. Likewise, unemployment growth was faster in Athens and Salonica, where unemployment rates are over 10 per cent as against 6.5 per cent in the rest of the country.

Inflation stickiness

Even though slower than in 1990, the growth of compensation per private sector employee at 16 per cent in 1991 as a whole remained very high. However, this figure was influenced by the carry-over from 1990 and the July 1991 one percentage point increase in social insurance contribution rates paid by employers, and, therefore, masks the significant improvement achieved in the course of 1991. In effect, broadly in line with the 1991-92 collective agreements, the growth of private sector wages declined to a little over 13 per cent during 1991,

which is the third lowest rate in the last fifteen years (Table 8)²⁴. Average wages fell by 3 per cent in real terms in 1991 as a whole.

There was also a turn-around in labour productivity in the business sector (excluding agriculture) from a large negative growth in 1990 to a small positive one in 1991. The productivity swing was particularly impressive in manufacturing (from 1 per cent decline in 1990 to 4 per cent increase in 1991). As a result there was a marked deceleration in business sector unit labour costs, in particular in manufacturing from 21 per cent in 1990 to just over 12 per cent in 1991. However, these figures considerably overstate the short-term favourable impact

Table 8. Wages and labour costs

Annual percentage change

	<u>1985</u> 1980	1986	1987	1988	1989	1990	1991 ¹
Average earnings²							
Total	22¼	12¼	11	20½	19½	22¼	15
Government	23½	14½	12½	21½	19½	27	11½
Banking	22½	10	9	26¼	19	24¼	
Private sector	21¼	11¼	10¼	20	19¾	18½	16
of which:							
Manufacturing ³							
Salaries	21¾	8½	8¼	27	20	21¾	18
Weekly wages	24¼	12½	9¾	24	20¾	19¼	16¾
Retail trade		11	9	18	16	15½	14¾
Minimum wages	25¾	10¾	10	17	19	17	14½
Unit labour cost, business sector (excluding agriculture)	21¾	11¼	12	15¼	14	20¼	15¼
of which:							
Manufacturing	24	12	12	17½	19¼	21¼	12½
Memorandum items							
Real average earnings ⁴							
Total	2	-8	-4	5½	4	2	-3
Government	2	-6	-2½	6¼	4	6	-6
Private (incl. banks)	1¾	-9	-4¾	5½	4¼	-¾	-2¼

1. OECD provisional estimates.

2. Estimates for non-agricultural sector, excluding earnings from abroad (Bank of Greece).

3. Plants with ten workers or more.

4. Deflated by the consumer price deflator.

Note: The figures refer to non-agricultural sectors.

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

on inflation of the deceleration of unit labour costs: the faster productivity growth in manufacturing in 1991 is to a large extent the result of the closure of loss making plants and lines of production, whose products were sold at prices considerably below cost and, therefore, their withdrawal had practically no effect on prices. Allowing for this factor, the growth of underlying unit labour costs in manufacturing, influencing price formation, may have fallen to only 14 per cent²⁵. This figure is also more in line with the increase in the wholesale price indices for domestically produced industrial goods of 17 per cent for home consumption and probably of less than 10 per cent for exports.

Import prices continued to exert a damping effect on inflation in 1991, but less so than in 1990, mainly because of a somewhat larger effective depreciation of the Drachma in 1991 (11 per cent compared with 9 per cent in 1990). However, after the summer of 1991, reflecting the world-wide disinflation, the increase in import prices slowed markedly so that the year-on-year increase fell to 10 per cent at the end of 1991 and excluding oil to 13 per cent, compared with domestic inflation of about 19 per cent. The other cost elements do not seem to have softened inflation. Corporate profit margins, which usually come under pressure in a period of slack, remained at about the same levels as in 1990. Other costs (for example financial costs) and taxes rose fast, so there does not seem to have been a significant relief for prices from total non-wage business costs in 1991. Furthermore, income in the non-corporate sector, mainly that of small entrepreneurs and the self-employed, seems to have risen fairly fast, reflecting their tendency to at least maintain real income levels, especially when inflation expectations remain strong. This, combined with rising rents, contributed importantly to the inflation stickiness in the 18 per cent range after mid-1991.

After peaking at 23 per cent at the end of 1990 (mainly accounted for by the increase in indirect taxes and oil prices), consumer price inflation declined in the following two quarters, before stabilising at just over 18 per cent from mid-1991 onwards. Because of the skewed profile, the decline in inflation between 1990 and 1991 as a whole was minimal; in particular domestic inflation measured by the GDP deflator fell by only 1 percentage point to 19½ per cent in 1991 (Table 9). Excluding administered prices of utilities and petrol prices and rents, also largely influenced by policy, price increases in all other items during 1991 were roughly the same (at around 18 per cent) as during 1990. This highlights the stickiness of inflation in a period of slack and decelerating labour costs, attributa-

Table 9. Prices
Annual percentage change

	1986 1980	1987	1988	1989	1990	1991	1991 Dec.
Price deflators (national accounts basis)							
GDP at factor cost	19.6	13.0	15.2	14.7	18.9	17.9	..
GDP at market prices	19.9	14.3	15.6	12.8	20.5	19.5	
Private consumption	19.9	15.7	14.3	15.1	19.7	18.5	..
Consumer prices	21.1	16.4 ¹	13.5	13.7	20.4	19.5	18.0
Wholesale prices, total	21.1	9.8	10.1	13.4	15.9	16.7	12.5
Locally-produced goods:							
For domestic consumption							
Primary goods	19.7	11.4	9.8	15.9	23.1	23.1	15.3
Industrial goods	20.1	8.7	10.3	12.2	18.4	17.7	14.0
For exports	19.7	9.4	10.6	16.5	6.7	10.7	3.8
Imported finished goods	23.7	12.3	9.2	12.5	12.5	14.6	13.1
Cost of materials, buildings	20.4	9.8	9.6	16.5	17.1	20.4	15.2
<i>Memorandum item:</i>							
Effective exchange rate	-13.9	-10.6	-2.5	-6.3	-6.4	-11.1	-9.7

1. VAT was introduced in January 1987 inflating the CPI by an estimated 3.1 percentage points in 1987 as a whole.

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

ble to the short-term effects of price liberalisation in conjunction with market imperfections (see Part III) and possibly to the persistence of strong inflation expectations.

Balance of payments

1991 saw a marked improvement in the balance of payments, with the current deficit more than halving to \$1.5 billion, and falling in relation to GDP to almost 2 per cent from 5½ per cent in 1990; together with that of 1988 following the Stabilisation Programme, this is the lowest ratio of the last 25 years (since the end of the 1960s the average deficit has fluctuated around 5 per cent of GDP). The trade deficit remained practically stable in 1991, but invisible receipts continued to grow rapidly, though at a slower pace than in 1990, bringing the surplus to \$10¾ billion, by far the highest ever recorded (Table 10)²⁶.

Table 10. **Current balance of payments**

\$ million

	1986	1987	1988	1989	1990	1991
Trade balance	-5 686	-6 942	-7 631	-9 120	-12 328	-12 308
Oil balance	-1 274	-1 816	-1 377	-1 692	-2 233	-2 034
Non-oil balance	-4 412	-5 126	-6 254	-7 428	-10 094	-10 273
Exports	4 001	5 069	5 446	5 593	5 904	5 939
Imports	8 412	10 196	11 699	13 022	15 998	16 212
Net invisible receipts	3 914	5 723	6 674	6 547	8 766	10 852
Credits	6 512	8 566	10 099	10 281	13 041	15 354
Tourism	1 834	2 268	2 396	1 976	2 587	2 567
Shipping	1 001	1 193	1 380	1 375	1 762	1 774
Migrant remittances	983	1 379	1 727	1 394	1 828	2 165
Net EC transfers	1 392	1 665	1 935	2 602	2 901	4 034
Other receipts	1 302	2 061	2 661	2 934	3 963	4 814
Debits	2 598	2 843	3 425	3 734	4 275	4 567
of which: Interest payments ¹	1 354	1 537	1 684	1 794	1 902	2 014
Current balance	-1 772	-1 219	-957	-2 573	-3 563	-1 520
Memorandum items:						
(per cent of GDP)						
Non-oil trade balance	-11.2	-11.1	-11.9	-13.7	-15.2	-15.0
Trade balance	-14.4	-15.1	-14.4	-16.8	-18.6	-17.8
Invisibles' balance	9.9	12.5	12.6	12.0	13.2	15.6
Current-account balance	-4.5	-2.6	-1.8	-4.7	-5.4	-2.2

1. Including dividends and profits.

Note: Data are on a settlement basis.

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

The small decline in the trade deficit (on a balance of payments basis) is attributable to the smaller net oil import bill, consequent upon the fall in the oil price. The non-oil trade deficit posted a small rise, because of a level effect as the value of exports is about one-half that of imports. Merchandise non-oil exports appear to have risen sharply in 1991, largely due to the strong growth of exports of food and drinks, reflecting the upturn in agricultural production²⁷. Manufactured exports also grew relatively rapidly in real terms, but considerably less in value, as exporters held back price increases to boost sales in foreign markets so as to compensate for the sluggishness in domestic purchases. On a balance of payments basis, import volumes decelerated in 1991 following a marked growth in 1990, also boosted by speculative imports associated with rumours of a

possible devaluation. If it were not for the surge in car imports (to replace polluting old cars) and a few high value-added consumer goods (TVs, photographic equipment, etc.) non-energy import volumes would have actually been flat in 1991. Weak private consumption and business investment are responsible for the improved trade trends in 1991. Relative unit labour costs in tradeable sectors also fell, but this probably did not have much impact on trade volumes in 1991. First, this fall is largely due to the recorded fast productivity growth, which, however as discussed above, overstates the actual growth. Second, the lagged impact of the previous years' sizeable growth in relative unit labour costs (8 per cent a year between 1987 and 1990) would have outweighed the 1991 fall.

Affected by the Gulf crisis in the early part of the year and by the Yugoslav crisis during the high season, recorded tourism receipts practically stagnated in 1991, but "true" receipts seem to have grown somewhat. The same applies to shipping receipts, which seem to have actually grown a little in 1991²⁸. The surplus of net services grew further, reaching \$6¼ billion or just over 9 per cent of GDP, which is one of the largest in the OECD. Furthermore, transfers also rose markedly, largely official EC transfers, contributing two-thirds to the rise in the invisible surplus in 1991. As a result transfers accounted for 28 per cent of total (including goods) current foreign exchange receipts in 1991.

The smaller current external deficit was fully covered by private investment in 1991, for the first time for three years (Table 11). Real estate investment, mainly by Greeks living abroad, increased markedly further, thus maintaining the first place that it has traditionally occupied in private investment. Foreign business investment (included in the entrepreneurial capital in Table 11) also grew significantly in 1991, but this mainly reflects acquisitions by foreign firms of existing Greek companies as well as portfolio investment. In contrast to Spain and Portugal, direct investments for new projects probably were very small and the increase does not seem to have been large. In 1991 there was also a steep rise in long-term borrowing by Greek companies from abroad, as companies took advantage of the low interest rates abroad. This item seems to be the most important category in the entrepreneurial capital inflows shown in the balance of payments and has probably also experienced a rapid increase in the last couple of years. The surplus of the basic balance of payments permitted a reduction in official foreign net indebtedness. However, in 1991 the public sector continued to be a gross borrower. Accordingly, total public sector gross debt rose to \$23¾ bil-

Table 11. **External capital account**

\$ million

	1986	1987	1988	1989	1990	1991
Current account	-1 772	-1 219	-957	-2 573	-3 562	-1 520
Errors and omissions	-81	233	83	-526	-157	-235
Total deficit	-1 853	-986	-874	-3 099	-3 718	-1 755
Non-debt capital inflows	987	1 422	1 618	1 633	2 255	2 151
Entrepreneurial ¹	262	330	542	469	799	1 110
Real estate investment	463	675	896	740	991	1 082
Deposits in foreign currencies	286	440	125	551	617	140
Other long-term capital	-24	-23	55	-124	-152	-181
Basic balance of payments	-866	436	744	-1 464	-1 464	396
(% of GDP)	(-2.2)	(0.9)	(1.4)	(-2.7)	(-2.2)	(0.6)
Debt-creating capital inflows	1 109	380	414	1 131	1 507	1 274
(% of GDP)	(2.8)	(0.8)	(0.8)	(2.1)	(2.3)	(1.9)
Suppliers' credit	-36	205	193	124	440	327
Commercial banks	-115	-118	18	-47	-25	34
Public sector	1 259	292	202	1 054	1 092	913
of which:						
Bank of Greece	237	-264	466	751	118	175
Central government	781	850	-145	256	936	687
Public enterprises	106	-237	-80	111	81	51
Balance of payments	243	816	1 157	-333	44	1 670
Change in reserves						
(- = increase)	-276	-819	-1 190	341	-51	-1 662
Clearing accounts						
(+ = decrease)	33	3	33	-8	7	-8
Memorandum item:						
Net public sector borrowing less change in reserves						
(% of GDP)	(2.5)	(-1.1)	(-1.9)	(2.6)	(1.6)	(-1.1)

1. The entrepreneurial capital as published in the Bank of Greece accounts includes borrowing by companies. These sums were very small prior to 1988, but since then have been rising fast. On the basis of rough estimates, these sums were around \$150 million in 1988 and 1989, \$270 million in 1990 and close to \$500 million in 1991.

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

lion at the end of 1991, up by \$1½ billion on 1990 (Table 12). However, this was more than offset by an increase in foreign exchange reserves to \$6 billion at the end of 1991, one-half above the average level in 1989-90.

Table 12. **Public sector external debt**
US dollars, million

	1980	1985	1987	1988	1989	1990	1991
Medium and long term	4 204	11 794	18 208	17 387	18 380	20 682	22 922
Central government	493	923	3 452	3 128	3 567	4 064	5 034
Local government	0	0	0	40	65	65	56
Public entities ¹	1 342	4 614	5 945	5 567	5 376	5 895	6 140
Central Bank	1 943	5 265	7 255	7 237	7 823	9 039	9 822
Other banks	400	882	1 503	1 386	1 543	1 616	1 599
Other loans publicly guaranteed	22	106	52	29	7	2	1
Short term	-43	1 253	148	156	252	1 166	569
Government						1 013	495
Central bank	-43	918	107	63	63	39	64
Public entities	0	335	41	93	189	114	10
Suppliers' credit	227	231	297	210	198	182	179
Total	4 388	13 278	18 562	17 753	18 830	22 030	23 670
Per cent of GDP	(11.9)	(42.5)	(37.4)	(35.0)	(34.1)	(33.2)	(33.1)
Total debt servicing	759	1 845	3 382	3 588	3 307	3 904	5 364
of which:							
Interest payments	352	1 083	1 385	1 528	1 649	1 733	1 812
Debt servicing ratio	(8.2)	(19.3)	(23.8)	(22.4)	(22.2)	(21.4)	(26.1)
of which:							
Interest payments	(3.8)	(11.3)	(9.8)	(9.5)	(10.1)	(8.9)	(8.8)
Interest payments (per cent of GDP)	(0.9)	(3.2)	(3.0)	(2.9)	(3.0)	(2.6)	(2.6)

1. Mainly public enterprises

Source: Data submitted by national authorities.

Short-term prospects

The outlook for 1992

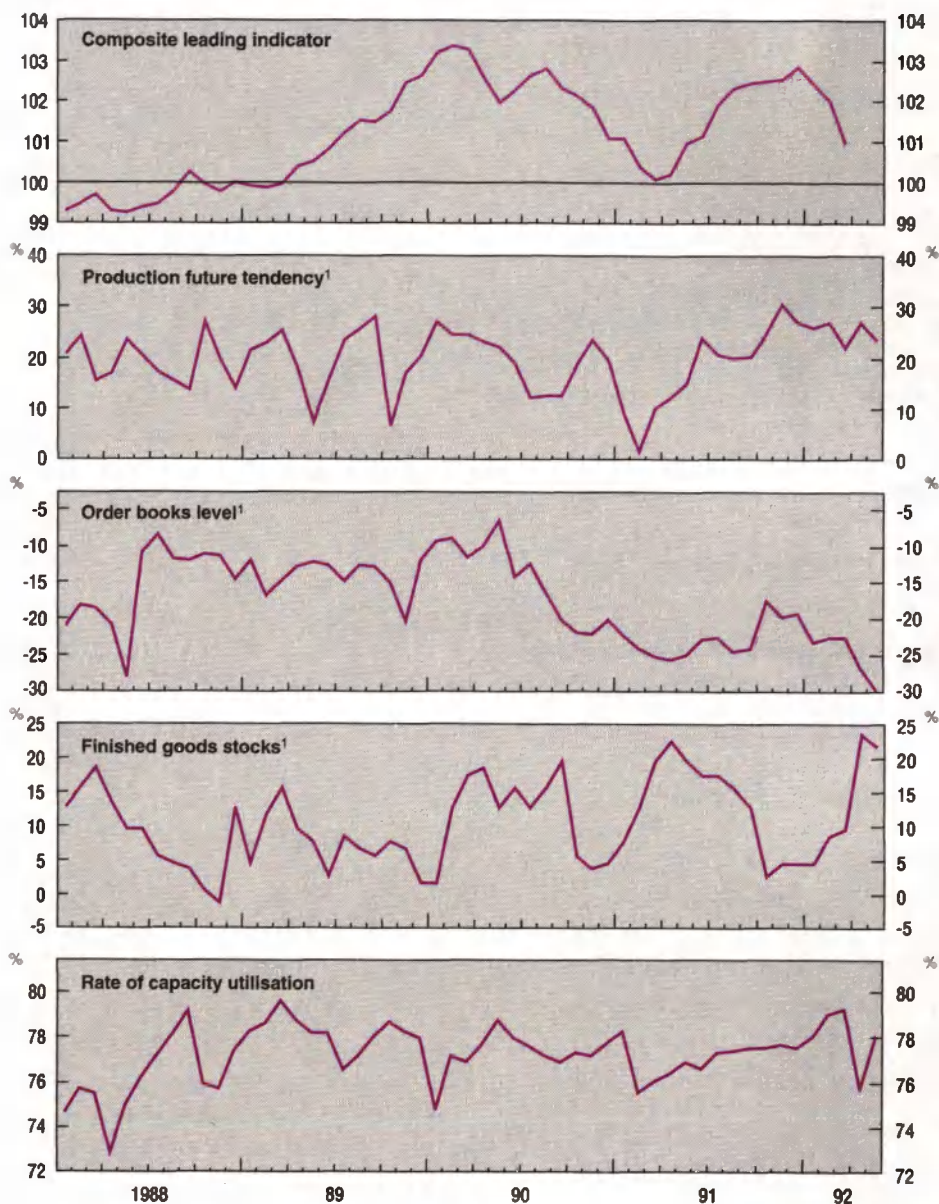
Stabilisation policies usually bear heavily on output and employment in the short run. However, the depressive effect on activity of restrictive policies will be considerably less in 1992 than the global fiscal and monetary indicators suggest. First, more than one-half of the 7 per cent of GDP decline in the PSBR projected

by the government will have practically no restrictive demand impact as it is accounted for by rising EC transfers, once-off privatisation receipts from abroad and the reduction in cash interest payments to banks, following the debt rescheduling (see Part I). Second, because consumers tend to maintain their standard of living in the short term by adjusting their saving rate, the contraction of demand stemming from the marked real decline in the wage bill and in social security payments is also expected to be small. And, on the other hand, there is likely to be a boost to consumption by households benefiting from the sizeable tax-induced growth of real disposable income and the lifting of restrictions on consumer credit. Third, as in 1991, tight monetary policy should dampen domestic demand, but because of the possibility of borrowing at a lower cost from abroad and the privileged treatment of medium and small-sized firms and agricultural cooperatives the restrictive effect of monetary policy may not be very pronounced.

In a number of other respects, the economic environment is not very favourable either. Delays in introducing coherent structural policies have affected policy credibility and, together with labour strife in the wider public sector by unions resisting the real wage cuts and privatisation, have reinforced uncertainty in the early months of 1992. As a result, in particular, of the lack of firmness in the fiscal area, inflation pressures have persisted in the early part of 1992 and will also impinge on the real economy in 1992 as a whole. Instability and conflicts in Greece's northern neighbours has also put a dent in the positive business climate (Diagram 5). In addition to these unfavourable developments, Greece is one of the few OECD countries whose export market growth is projected to decelerate in 1992, reflecting the slowdown in two important markets for Greece (Germany and OPEC account for 37 per cent and 6 per cent respectively of Greek manufactured exports) (Table 13). This, coupled with transport difficulties through the Balkans and Eastern Europe, will exert a depressive effect on exports²⁹. These adverse conditions will particularly affect Macedonia, which during the 1980s was the Greek region with probably the best overall development performance and the largest export market gains, especially in Germany.

The national two-year wage agreement for 1991-92 provided for basic wage rises of 5.4 per cent in January 1992 and 4 per cent in July 1992. However, the growth in compensation per private sector employee is expected to be about 14 per cent in 1992 as a whole, reflecting the small carry-over from 1991, the

Diagram 5. **BUSINESS SURVEYS**



1. Per cent balance of replies.

Source: OECD, *Main Economic Indicators*.

Table 13. **Main assumptions for 1992 and 1993**

Per cent change over previous year

	1990	1991	OECD projections ¹	
			1992	1993
External sector				
OECD import price of crude oil (\$ per barrel)	(21.3)	(18.4)	(17.1)	(17.4)
Primary commodity prices (1987 = 100)	(115.0)	(108.7)	(110.0)	(113.0)
Export price of OECD manufactures (1987 = 100)	(115.3)	(114.5)	(117.0)	(120.0)
Effective exchange rate	-6.4	-11.1	-8.8	-7.6
Market growth of manufactures				
OECD	5.7	4.3	6.1	7.1
Greece	7.7	6.4	5.5	6.4
Domestic sector				
Compensation per employee, total	22.2	15.8	12.9	11.5
Business sector	18.8	16.5	14.1	11.5
Labour force growth	0.8	-0.4	0.3	0.1
Short-term interest rates	27.5	29.5	25.0	20.6
General government real fixed investment	-5.6	18.6	4.0	5.0

1. Embodied in OECD *Economic Outlook*, No. 51.

Source: OECD estimates.

corrective adjustment already given for the overshooting of the 1991 inflation target, and the effect of the rise in social security contribution rates in mid-1991. Moreover, many profitable firms have granted wage increases above the norms. The decline in private sector wages in real terms may reach 1 per cent in 1992, and in the total economy 2 per cent, which, together with a further fall in dependent employment, should make for a contraction in the wage bill of 3½ per cent in real terms. The fall in social security transfers to households in real terms will be even greater, fully explained by a 7 per cent real fall in the average pension. Property income is likely to be the only component of personal income to show real growth due to high and rising real interest rates, and also because of the shift from deposits to higher yield government paper, and to rising rents

because of the partial rent liberalisation coupled with the upward adjustment of the "objective" values of buildings³⁰. The decline of household real disposable income is expected to be of the order of 1½ per cent, but, for the reasons discussed above, private consumption is projected to rise again a little (Table 14).

Public sector final expenditure will also lend support to activity. Government consumption may show only a small rise, but government investment is

Table 14. The short-term outlook

Annual percentage change

	1991	1992	1993
Private consumption	1.2	1.3	1.6
Government consumption	-0.7	0.5	0.0
Gross fixed investment	-2.0	2.3	5.7
Stockbuilding (contribution to GDP) ¹	2.3	-0.6	0.1
Total domestic demand	2.5	0.8	2.1
Exports of goods and services	16.4	5.0	5.8
Imports of goods and services	13.2	1.8	4.3
Foreign balance (contribution to GDP) ¹	-0.7	0.8	0.0
GDP at constant prices	1.8	1.7	2.2
Productivity, total	3.1	2.6	3.0
Business sector (excluding agriculture)	0.6	2.6	2.5
GDP deflator	19.5	14.8	11.0
Private consumption deflator	18.5	15.2	11.4
Unit labour costs, business sector (excluding agriculture)	15.3	11.2	8.8
of which:			
Manufacturing	12.6	10.7	9.0
Total employment	-1.7	-1.0	-0.9
Unemployment rate	8.2	9.4	10.3
Current external balance (per cent of GDP)	(-2.2)	(-1.6)	(-2.4)
General government savings (per cent of GDP)	(-12.5)	(-10.4)	(-8.5)
General government financial balance (per cent of GDP) ²	(-16.1)	(-13.9)	(-11.9)
Private sector real disposable income ³	0.9	-1.5	0.4
Private sector saving rate ³	(20.7)	(18.4)	(17.5)

1. Change in per cent of previous year's GDP.

2. Deficit on a national accounts basis, which includes interest payments due but not disbursed. The latter are excluded from the deficit on a cash basis.

3. Including saving of corporations.

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

expected to show stronger growth, albeit less than in 1991. Likewise, a marked expansion in investment, mainly in utilities (including transport), by public enterprises is officially projected. Investment by private companies may also rise a little in 1992 as a whole (Diagram 6). However, if the international situation improves, the introduction of tax reforms and of structural policies is not further delayed, so that credibility is restored, and interest rates start declining, the recovery may gather momentum towards the end of the year³¹. For the same reasons as in 1991, housing investment is expected to decline.

Final domestic demand may rise by $1\frac{1}{4}$ per cent in 1992 but because of a markedly slower inventory accumulation than in 1991, the growth of total domestic demand may decelerate to $\frac{3}{4}$ per cent in 1992. After the exceptionally fast expansion in 1991 and also because of the adverse factors mentioned above, the growth of export volumes is projected to slow in 1992. Likewise, because of excessive stock levels of imported goods at the end of 1991, the rate of import volume growth is likely to decelerate and remain below that of exports, so that the contribution of the real foreign balance is projected to be positive in 1992, after having been negative for five years. The growth of GDP may, thus, be around $1\frac{3}{4}$ per cent again in 1992, with the growth of non-agricultural production edging up to $1\frac{3}{4}$ per cent from $\frac{3}{4}$ per cent in 1991. Despite the closure of some ailing firms, manufacturing production may show a modest growth. The restructuring effort in many branches and slow GDP growth make for a small fall in dependent employment in 1992, for the second consecutive year. Agricultural employment should continue on a downward trend, so that unemployment is expected to rise further³².

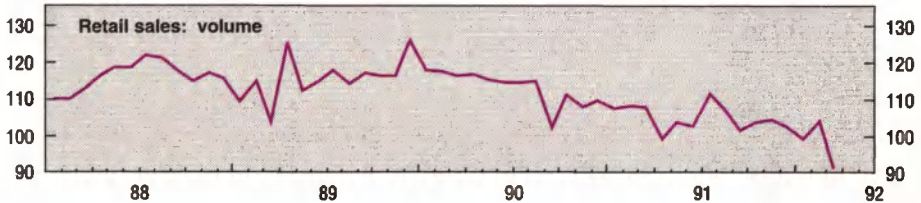
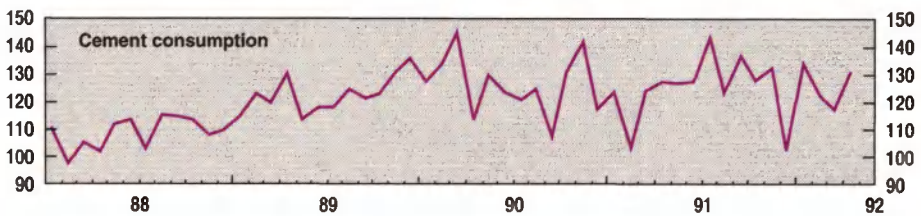
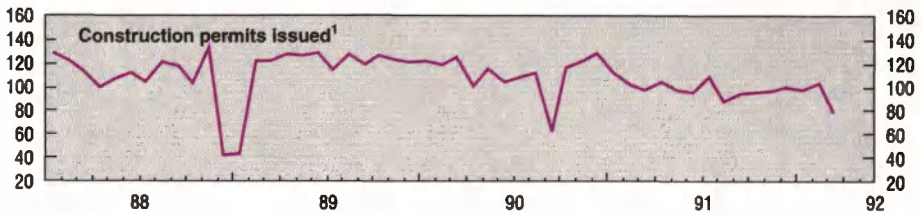
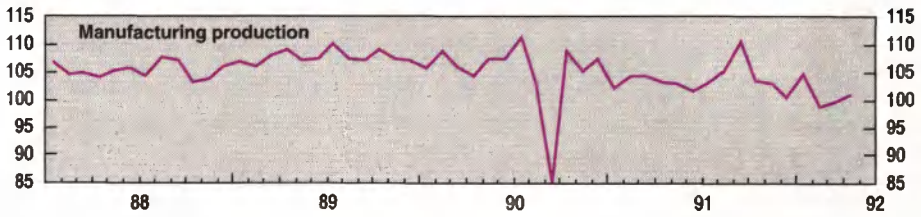
After remaining at a plateau of 18 per cent for nine months, inflation resumed its downward trend in April 1992 (Table 15)³³. As the year progresses, wage moderation, faster productivity gains and low import price rises should be increasingly felt. These, together with the growing slack, should eventually influence economic agents' behaviour, so that the 12-month increase in consumer prices could fall to below 14 per cent by the end of 1992, over 4 percentage points down in one year.

The balance-of-payments deficit shrank in the early part of the year. Both merchandise non-oil exports and non-oil imports show a marked decline in proportionate terms in value (and probably in volume). However, because imports are three times as large as exports the trade deficit did not decline. In the

Diagram 6. **CONJUNCTURAL INDICATORS**

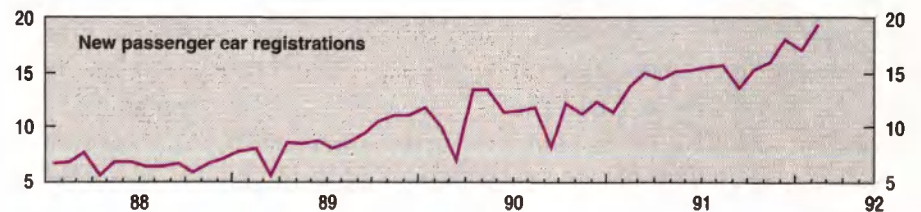
1987 = 100

1987 = 100



Thousand

Thousand



1. Provisional figures from November 1990 to March 1992.

Source: OECD, *Main Economic Indicators*.

Table 15. **Current trends**
Per cent change over a year earlier

	1990	1991	1991 ¹ Dec.	1992 ¹				
				Jan.	Feb.	Mar.	Apr.	May
Retail sales, volume	-2.9	-7.5	-7.2	-6.8	-0.5	-16.4	..	..
Passenger car registrations	30.0	34.0	51.5	54.8	..	..		
Cement consumption	3.3	0.0	-13.1	8.6	18.6	-5.3	3.5	..
Industrial production	-2.4	-1.0	-5.4	2.2	-0.1	-1.3	..	..
Manufacturing production	-2.9	-0.9	-5.4	0.9	-2.7	-3.9	..	..
Consumer prices	20.4	19.5	18.0	18.1	18.2	18.3	16.0	15.8
Wholesale prices	15.9	16.7	12.5	12.2	11.9	11.6	10.4	..
Price of construction materials (1990 = 100)	16.1	18.7	13.4	11.8	11.5	11.2	9.8	8.4
Money supply, M3 ²	15.3	11.8	11.8	13.8	14.1	14.8	17.5	..
Bank credit to private sector	16.5	16.2	16.2	17.4	16.2	13.1	13.9	..
Effective exchange rate	-6.4	-11.0	-9.7	-8.3	-8.2	-6.5	-5.9	-6.2
	1990	1991		1991 Jan.-Apr.		1992 Jan.-Apr.		
				\$ billion				
Trade balance	-12.3	-12.3		-4.5		-4.4		
<i>of which:</i>								
Non-oil balance	-10.1	-10.3		-3.7		-3.8		
Invisible balance	8.8	10.8		2.5		3.3		
Current external balance	-3.6	-1.5		-2.0		-1.1		

1. Provisional data.

2. Including Repos according to the new definition of M3 used by the Bank of Greece.

Source: Data submitted by the National authorities.

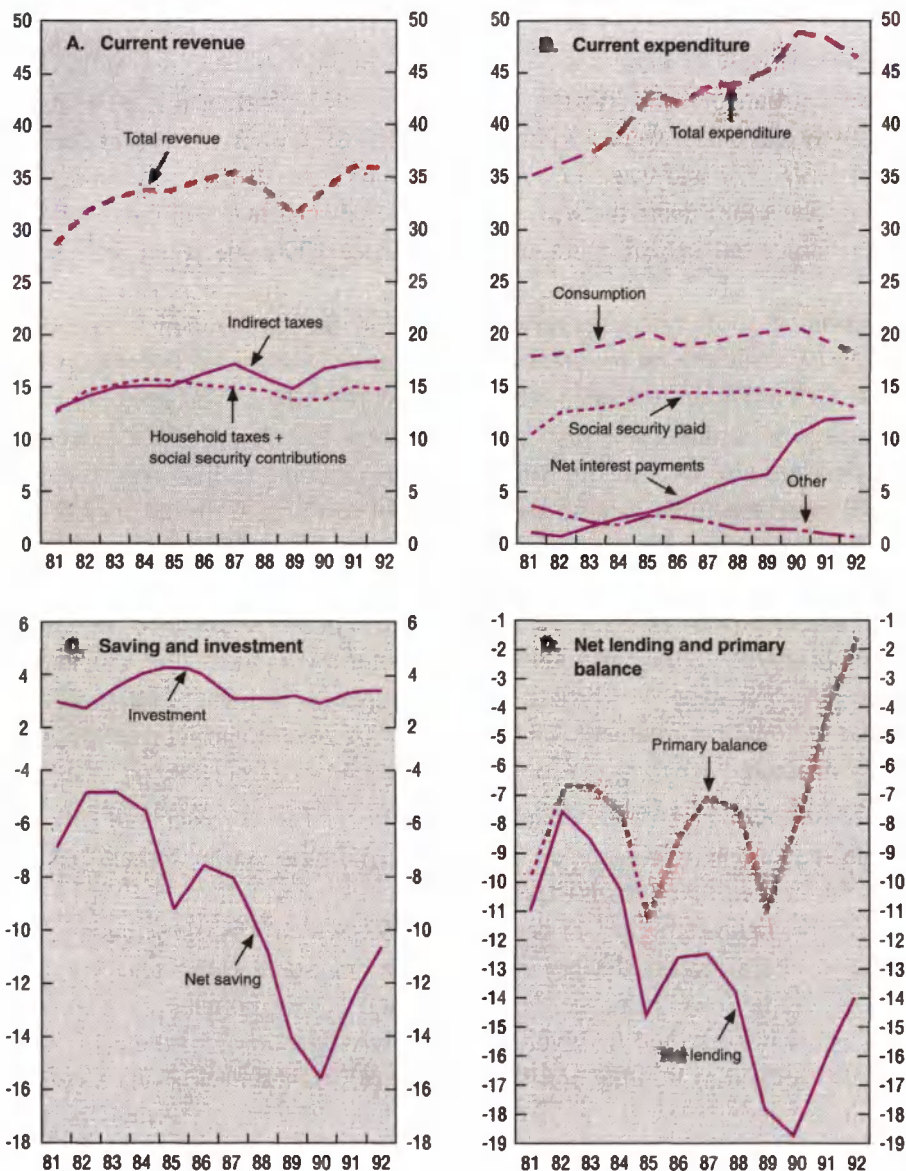
course of the year these trends are expected to be reversed, Nonetheless, because of the smaller oil bill the trade deficit is not likely to rise much in 1992 as a whole. After the 1991 buoyancy, a smaller increase in the invisible surplus is likely. In total, the current external deficit may decline further both in absolute values and in relation to GDP. Rising foreign investments, supported by faster privatisation, should again more than cover the current deficit, yielding a continuing basic balance of payments surplus. Even though this should lead to a small fall in public sector foreign net indebtedness, the public sector will remain an important gross borrower in international capital markets in order to pay the amortisation of past loans.

Prospects for 1993

The pace of budget consolidation will be an important determinant for economic developments in 1993. It is assumed that the policy stance will remain restrictive. However, there are a number of unfavourable factors in 1993 that suggest that budget consolidation will be more difficult than this year. After a cumulative real fall of some 12 per cent in 1991-92, further significant decreases in civil servants' basic wages are difficult to envisage, all the more so now that there are plans for raising the wages of senior civil servants. Similarly, following an even larger fall in real average pensions since 1990, the room for lowering them further is small. Reflecting the capitalisation of interest payments and the conversion of short to longer-term public debt, the government succeeded in reducing net cash interest payments of the Central Government from 9.1 per cent of GDP in 1990 to an estimated 8.9 per cent in 1992. However, not only has the possibility of shifting interest payments into the future been practically exhausted, but also as from 1993 interest, corresponding to just over $\frac{1}{2}$ per cent of GDP, will start to be paid on the higher debt resulting from the capitalisation since 1990. However, on an accrual basis, incorporated in the OECD projections, the ratio of the general government's net interest payments to GDP should fall from the 1992 peak of 12.4 per cent to 11.7 per cent in 1993 due to the favourable effect of the fall in inflation³⁴. Contrary to most OECD countries, Greece does not expect to benefit from the "peace dividend" because of the troubled regional environment. Therefore, cuts in government consumption will be very difficult.

For the reasons enumerated above, it will be difficult to achieve additional sizeable reductions in government current expenditure (on an accrual basis). It should be recalled that current expenditure is expected to fall from 49 per cent of GDP in 1990 to an estimated 45 per cent in 1992, which was the same level as at the turn of 1988, before the pre-election spending spree (Diagram 7). Current spending can be lowered further in 1993 only if severe policies are applied. In particular, priority should be given to reducing overmanning at the central government level and to limiting entitlements and raising the age at which pensions are paid. However, there are no detailed plans yet concerning the revision of the pension laws and there does not seem to be a resolve to reduce overmanning. There is more hope on the revenue side: the anti-tax fraud measures are likely to show greater results in 1993 and there are also plans for substantial increases in

Diagram 7. EVOLUTION OF GOVERNMENT RECEIPTS AND EXPENDITURE¹
Per cent of GDP



1. National accounts basis.

Source : OECD estimates.

EC transfers to finance the investment budget. The OECD projections assume that announced policies will to a large extent be implemented and some severe measures will be introduced. On these assumptions, the government deficit on a national accounts basis may fall to 12 per cent of GDP and, helped by privatisation proceeds, the PSBR to 11 per cent of GDP in 1993, the lowest level since the end of the 1970s³⁵.

The monetary policy stance is expected to stay tight, and exchange rate policy to remain non-accommodating. The restrictive demand impact of the fiscal and monetary policy stance is expected to be stronger in 1993, partly because households are expected to start becoming sensitised to the cumulative fall in real disposable income since 1991. Though easing compared with 1991-92, incomes policy is expected to remain restrictive, which, together with soft labour market conditions should contribute to moderating wage claims. In total, real wages are expected to be broadly stable.

The external environment is expected to improve in 1993. Export market growth is projected to accelerate and the situation in the Balkans is assumed to ameliorate, facilitating trade and tourism expansion. More importantly, the decline in public sector deficits, falling inflation, the progress in the privatisation area and structural reforms are expected to give a strong boost to confidence. Confidence is particularly important in the case of Greece, because a substantial part of total savings of individuals and of companies with international ramifications (such as shipping companies) are held in foreign countries. When confidence is high there has always been a considerable inflow from abroad both of financial and entrepreneurial capital, not only by the above categories but also by foreign companies³⁶. An increase in this flow of funds can supplement insufficient domestic savings, as well as providing entrepreneurial capital accompanied by modern technology and management, thereby helping the Greek economy to restore a strong growth path, which it had for over a quarter of a century up the end of the 1970s.

The first positive effects of improved confidence are expected to show up in a marked increase in business investment. Helped also by productivity gains, GDP growth may, therefore, edge up to over 2 per cent in 1993. Wage moderation and improved efficiency are expected to bring inflation down to below 10 per cent by the end of 1993, the lowest level since 1973. The recovery of activity, driven by buoyant investment with its high import content, should lead

to a small increase in the current external deficit. But, as this may be more than covered by autonomous (non-debt creating) capital inflows, the basic balance of payments is likely to remain in surplus.

III. The changing role of government and structural reforms

Immediately after its formation in April 1990 the new government announced that it would introduce far-reaching structural reforms aimed at deregulating markets and improving the efficiency of the public sector. The authorities expected that the positive effects of these reforms, reinforced by budget consolidation, would show up quickly in sustained rapid growth of GDP, led by investment, and a significant fall in inflation. However, because the pace of reform was slow and the forecast budget consolidation was not achieved, results up to now have been considerably less than officially expected and desired. Furthermore, as in many other countries, the reform process started at the easiest end, ignoring the inter-relationships among different areas of reform. Indeed, as experience in the OECD area has shown, eliminating outdated regulations and freeing markets before establishing a modern institutional environment and new rules of conduct may have short-term perverse effects. In Greece this is highlighted by the surge in prices of certain items following the lifting of price controls in 1991-92 (see below).

Public sector efficiency and tax reform

The government has set itself two main goals – public sector efficiency and the reform of public sector finances in order to reduce public deficits. These goals are being pursued simultaneously, because the realisation of one depends to a great extent on the realisation of the other. Good plans have often failed because the administration has not been able to realise them, and for this reason the planned tax reform also may not produce its full yield. On the other hand, greater financial resources are needed to raise the low pay scales for senior and qualified civil servants, so as to attract well-functioning personnel and encourage effi-

ciency³⁷, prerequisites for a competent administration. Expenditure cuts designed to reduce public deficits also need to be evaluated better than in the past, when overall efficiency considerations were not sufficiently taken into account. This explains the high overall costs going hand in hand with the low standards of public services, which no doubt contributed significantly to the disappointing growth performance of the 1980s. In Greece in some sectors public and private systems are not complementary, but superimposed, so that there is duplication involving a waste of resources at the national level. To a great extent these systems have developed because of the malfunctioning of the public sector.

Education is typical of this parallel system. In principle, education is provided free of charge by the state (even textbooks are free). Judging by pupil-teacher ratios and public sector education expenditure per pupil in relation to per capita GDP, Greek standards are only slightly lower than the average OECD country, and higher than some countries at a comparable level of development. However, this positive picture masks the real situation. Most pupils at both state and private schools who aspire to post secondary education attend evening courses in specialised private institutions, where they are taught more intensively the same lessons they are already supposed to have learned at school. This makes the private education network one of the most extensive in the OECD and families effectively incur high costs. Likewise, health care is, in principle, free of charge. However, because of the sub-standard quality of services offered by many state health institutions and the common practice of under-the-counter payments not only to private doctors, but also to those belonging to the National Health System, costs borne by families are considerably higher than shown in the official statistics. The lower the quality of services offered by the state the stronger the market position of the private education system and of doctors and the higher the fees charged.

There are also large problems in the transport area. The policy of cutting investment to reduce public expenditure has resulted in the worst possible combination: a defective public transport system which encourages more people to use their private cars, causing significant external diseconomies. The number of passengers using public transport in the Athens area has fallen from about 1 million in the early 1960s and 850 thousand in the early 1970s to little more than 500 thousand today, in spite of a growth in population of some 60 per cent over the period. Conversely, the number of private cars increased markedly (by

7 per cent per annum in the 1980s) leading to traffic congestion, resulting in considerable loss of working time, waste of capital and energy, and a marked increase in pollution³⁸. Similarly, partly because of insufficient investment, telecommunications in Greece are in a poor condition (up until 1990 there was a wait of over five years on average to obtain a line – but this has been reduced in the last couple of years – and there is frequent interference during calls). Admittedly, charges are low. However, if the external diseconomies are considered – the hours lost trying to make a call, the large number of operators and secretaries needed to make telephone calls and the disincentive for new business to settle in Greece because of the telecommunication deficiencies – the direct and indirect costs are considerably greater than the extra expenditure required to make the network efficient. The government has embarked on a large scale programme to improve the telecommunications system and the transport network, and selected measures have also been taken in the education field.

The inefficiencies of the government administration proper is a recurrent theme in OECD Surveys, and in the last few years in Greece itself it has increasingly been recognised as an important obstacle to the resumption of rapid self-sustained growth. Up to now, the governing party has appointed “political” friends in search of a job to positions in the public sector and even managerial posts are sometimes filled on political rather than merit criteria. The situation deteriorated markedly in the 1980s in the wake of badly conceived reforms and a corporatist ideology developed both in the labour union movement and in professional organisations. Moreover, the character of government intervention in the economy has changed in the last fifteen years, further exacerbating distortions. Before, intervention was mainly indirect – subsidies, licences, price and income controls – and was the legacy of the post-War period, when the state supported the emerging market forces of a narrowly-based economy. However, since the mid-1970s the state has increasingly assumed the role of entrepreneur, a task for which it was not prepared.

The extension of public sector activities into areas that were previously the domain of the private sector was not only dictated by economic considerations in the first half of the 1980s, when the Socialist government nationalised certain companies considered to be of a strategic importance for the economic development of Greece³⁹. But more frequently, companies facing financial difficulties were brought under state control to maintain them in operation and to safeguard

employment. The absence of a tradition of public sector managers, the lack of effective supervision by an independent authority, immoderate recruitment on political criteria and the tendency to restrict investment expenditure in order to meet the growing wage bill aggravated the situation of these firms. Accordingly, with few exceptions, they became permanent loss-makers – even those that could have recovered in the upswing of the second half of the 1980s.

The reorganisation of the administration

In 1983 a law was passed which crippled government machinery. It abolished the hierarchy and sapped co-ordination between divisions, even within the same ministry, undermined the authority of senior and competent personnel and made the administration even more liable to political pressure than before. The major defects were: first, the abolition of the general directors (permanent civil servants) at the top of the civil service hierarchy and their replacement by political appointees as “special secretaries” and a multitude of “counsellors”; second, the participation of all personnel from the different administrative units or from the politicised labour union cells in the “councils” responsible for appointments to supervisory posts (e.g. directors, heads of sections), thus making the incumbents subject to pressure; third, the decoupling of pay and promotion from functions and responsibilities; and fourth, the great weight in recruitment given to the so-called “social” criteria (number of children, family income, preference for people coming from distant regions, etc.). Furthermore, a cap was put on high salaries in the civil service, causing a fall in the after tax wage ratio between high and low categories to barely 2, irrespective of age and seniority, from almost 5 at the end of the 1970s⁴⁰. This has demotivated senior personnel and young educated recruits aspiring to make a career in the civil service, and has also led to a severe shortage of professional and trained personnel.

Since 1990 three major laws dealing with the reorganisation of the administration and of the public sector in general have been passed, and in the Adjustment Programme a recruitment policy was enunciated. These laws aimed at correcting some of the glaring deficiencies, while a new civil service code, which will address the remaining problems in the administration and the civil service, is being prepared. However, some of the recent measures have been only partly implemented, and the preparation of the civil service code is dragging. To some

extent these delays are due to the opposition of vested interests within the administration, but it also seems that the authorities have not succeeded in overcoming the strong inertia in the system or in bringing about the required political consensus for making radical reforms.

A step towards simplifying procedures and delegating authority was the marked reduction (by about four-fifths on average) in the number of signatures required for each document, even when co-signed by different ministries. This has helped to speed up procedures and to improve relations between the administration and the individual, who in the past had a long wait while all the signatures, often from different departments, were collected (frequently by himself). The government agent taking the decision has become accountable for his action, whereas before his name could be lost in the large number of signatories. The administration is now obliged to respond to an enquiry and take a decision within a reasonable time limit and monetary compensation is provided if it is exceeded. There are no reports of major cases of compensation, because procedures have become faster, but also because people avoid engaging in lengthy procedures against the state, which has a reputation of being obstructive, as it can temporise by not complying with court decisions.

The posts of general directors were re-established in 1991, and the holders were given wide powers, including the ability to sign certain documents on behalf of Ministers, liberating the latter from non-essential functions. The appointment of new general directors is proceeding slowly, partly reflecting the shortage of appropriate personnel. Although general directors are chosen from career civil servants, they receive three-year contracts that may be renewed only twice, whereas before 1982 such positions were permanent and were normally the culmination of a successful civil servant's career. There has not been much progress in the linking of grade, responsibilities and pay. Promotion to the higher grades continues to depend on length of service, without sufficient reference to performance, and employees are promoted to higher grades irrespective of whether they will exercise the corresponding function or not. The "councils" responsible for appointments to supervisory positions continue to operate, but, with the aim of restricting the influence of labour union cells and making the councils less politicised, since 1990 their Presidents have been judicial functionaries. There has been some improvement in pay scales, so that personnel with university education and/or in posts of responsibility, receive somewhat higher

pay than before, but the increase in wage differentials is considered to be insufficient to reverse demotivation and the shortage of high quality candidates⁴¹.

In 1987, a body of public administration "controllers" was established, but did not really become operational. In 1990 the new government decided to activate the controllers and extend their functions by making them responsible for investigating citizens' complaints against the government, and for evaluating the efficiency of government departments and making appropriate recommendations. Although making a better start than in 1987, the controllers have dealt with only a few cases so far. One important innovation was the possibility of moving public sector employees (including those working in para-government agencies) without their consent, from one department, agency or institution to another, if the decision for such a move was taken prior to April 1992. This was designed to deal with the problem of overmanning in the public sector as a whole and, at the same time, to fill the gaps in certain ministries. Originally more than ten thousand people were expected to be transferred in this way, but up to the end of 1991 only three thousand had actually moved (including those who moved because of the closure of a couple of state agencies). This project appears to have been relegated in the government's priorities list, and the emphasis now seems to be on encouraging voluntary transfers only⁴².

The new government has considerably modified recruitment procedures and criteria. For all posts requiring formal education above the compulsory level examinations will be required, with education qualifications playing a much greater role than before. For the rest, ability tests have been introduced, and although social criteria still apply, these will weigh considerably less than in the past. This new system seems comprehensive and ambitious as far as permanent employees are concerned. Measures were also introduced to narrow the loophole often used by individual ministers to recruit a large number of people as fixed-term contract personnel, for whom recruitment procedures are simplified. Some of these people were ostensibly engaged for seasonal work or for a definite period, but, over time, a few of them obtained the status of permanent civil servants, while the rest, by renewing contracts regularly or obtaining an unlimited term contract, effectively enjoyed almost the same advantages as permanent civil servants. There were 34 000 officials with fixed-term contracts in 1991, i.e. 15 per cent of the number of permanent civil servants. Despite the new measures, the number of fixed-term contract personnel increased in 1991, partly because the

fixed-term contracts of many people were converted into unlimited-term contracts, purportedly because they fell into the category of "people with special needs", mainly disabled people⁴³.

There is a government commitment to monitor recruitment better in 1992 and to observe the ratio of one replacement for two retirees, and fixing the ratio at one to three is also being considered. Thus, 15 000 to 20 000 posts should be liberated in 1992. In addition to reducing overmanning, this will give the government the possibility of following a more active transfer policy. Though still in its preparatory stage, the civil service code is planned to promote vertical, horizontal and geographical mobility and to motivate personnel so as to improve overall efficiency. It is envisaged that attention will be given to training and re-training, with the latter becoming in certain cases a prerequisite for promotion. A committee has also been set up to find solutions regarding 4 500 legal entities, some of which have no content and simply exist to provide work and income to their boards and staff. There are plans for closing or merging 3 000 legal entities.

Tax reform and anti-tax fraud measures

The public sector's financial situation is worse than had been estimated in last year's EDRC examination of Greece, requiring even greater efforts to ameliorate the financial balances than previously thought. First, because of the slow progress in reducing the PSBR, and more importantly because of a better evaluation of certain disguised items, the debt of the public sector in 1991 is now estimated at 113 per cent of GDP and, including state credit guarantees and other items, the wider public sector's debt is estimated at just over 130 per cent of GDP, 30 percentage points above the previous estimate (Table 16). Second, the abolition of banks' obligatory investment ratios, meaning that a much greater proportion of public debt than before will have to be raised on market conditions, together with the large future claims on financial resources for rolling over the sizeable debt maturing in 1993 and later years will make for a continuing high real interest rate over the longer term. Third, reflecting the many and sometimes contradictory statements regarding tax reform and anti-tax evasion measures in the last couple of years, as well as the light sentences for tax evaders, policy credibility regarding the severity and continuity of the anti-tax fraud policy has not yet been established⁴⁴. In the tax reform proposals of January 1992 all tax

Table 16. **Public sector debt**

Drachmae billion

	1985	1986	1987	1988	1989	1990	1991
Central Government							
Total	2 674	3 230	4 046	5 383	6 699	9 382	12 331
Domestic	1 646	1 943	2 575	3 704	4 828	7 303	9 565
<i>of which:</i>							
Bank of Greece ¹	466	466	498	497	495	484	473
Treasury bills	1 120	1 389	1 870	2 828	3 504	4 833	4 974
External	1 028	1 287	1 471	1 679	1 871	2 079	2 766
Public entities							
Total	215	354	492	651	846	686	643
Domestic	215	354	492	645	835	676	633
External	0	0	0	6	10	10	10
General Government	2 889	3 584	4 538	6 034	7 545	10 068	12 974
(Per cent of GDP) ²	(62.6)	(65.0)	(72.5)	(80.2)	(86.0)	(95.3)	(100.9)
Public enterprises							
Total	1 040	1 174	1 284	1 462	1 608	1 598	1 589
Domestic	386	489	615	695	791	652	521
External	653	685	668	766	817	946	1 068
Total Public sector	3 929	4 758	5 822	7 495	9 152	11 666	14 563
(Per cent of GDP) ²	(85.1)	(86.3)	(93.0)	(99.6)	(104.3)	(110.4)	(113.2)
Domestic	2 247	2 785	3 682	5 044	6 454	8 631	10 719
External	1 681	1 972	2 139	2 451	2 698	3 035	3 844
(External, in million US dollars)	(11 227)	(14 151)	(16 909)	(16 454)	(17 219)	(19 034)	(21 967)
Other debt ³				2 400	2 800	3 200	2 700
Total wider public sector				9 895	11 952	14 866	17 263
(Per cent of GDP) ²				(131.5)	(136.2)	(140.7)	(134.2)
Memorandum items:							
Public sector deposits	375	395	496	634	746	904	1 025
(Per cent of GDP) ²	(8.1)	(7.2)	(7.9)	(8.4)	(8.5)	(8.6)	(8.0)

1. Medium and long-term only.

2. Revised data.

3. Military debt, Central government debt guarantees, debt of agricultural cooperatives and ailing companies.

Sources: 1992 Budget and data provided by the National authorities.

exemptions were to be abolished, but subsequently a few were maintained in the law passed by Parliament in June, thus reducing both the psychological and real impact of this reform. Given the above unfavourable conditions and starting from much higher levels than previously estimated compliance with the strict criteria set by the Maastricht treaty – a government deficit of no more than 3 per cent of GDP and government debt declining towards the ceiling of 60 per cent of GDP – is going to be a considerably harder task than was generally recognised even a year ago.

Reflecting concerns about future fiscal trends and in view of the disappointing tax yields in 1990 and 1991, the government now seems to be putting much greater emphasis than before on restricting tax evasion. Already a number of measures have been introduced and controls on tax statements of households and companies have increased since the turn of 1991, so that tax yields are likely to start rising in 1992. On the expenditure side important savings can be achieved over the medium term, but less over the short term, given the large number of inelastic spending categories in a period of slow growth.

In order to assess personal taxable incomes better an important anti-tax-avoidance measure, introduced in 1991, is the requirement to justify sources of finance when buying expensive items (e.g. houses, cars, boats). However, this measure leaves one important loophole, as funds used to buy government securities and shares traded on the Athens Stock Exchange are excluded, so that tax evaders can first buy securities and use the interest or profits earned on them to finance the purchase of expensive items, without being required to justify their source of funds. Likewise, the recent measure allowing Greek residents to have bank accounts in foreign exchange without justifying the sources of the funds will not facilitate the anti-tax fraud controls. Monitoring external signs of wealth (cars, motor-boats, house servants, second houses, etc.) has been used for some time, but it has not proved to be an effective anti-tax fraud instrument because the imputed income thresholds were generally very low, so that most people escaped the tax net. The government raised some of these thresholds in May 1992, thus making them more effective. The government has, for the first time, started checking income tax statements using evidence obtained from other sources. Applications for electricity connections submitted to the Public Power Corporation have shown that thousands of people in high income categories with large residences have declared in their tax returns that their residence is smaller than it actually is – therefore, paying less tax.

The government is still considering the best way to tax the numerous categories of professionals and small entrepreneurs, who are among the biggest tax evaders. According to 1991 tax returns, the declared income of professionals, merchants and industrialists derived from their work was almost one-half the average income declared by wage earners. In order to deal with this unbelievable situation, the government announced at the end of 1991 plans to apply “objective” criteria (e.g. years of practice, number of staff employed, location and size

of office or shop, etc.) in combination with a minimum “professional” tax for each category. Professionals strongly opposed the new method of taxation and the plans were modified. Nonetheless, new measures, which are likely to improve control mechanisms over the incomes of these categories, have been included in the recent anti-tax fraud bill. Farmers, another big category of tax evaders, are also expected to be better controlled under the recent bill. Henceforth, many will be obliged to file a tax statement and certain types of withholding taxes will be applied for the first time, mainly to those with large farms. However, as these measures have not yet been applied, it is difficult to assess their potential effectiveness.

The “objective” value of real estate was raised considerably last year, from 10 per cent for poor to 100 per cent for high income districts, and the “objective” value system was extended to many more cities besides Athens and Salonica. This will permit the state to raise more taxes than before on real estate transactions and on rent incomes. However, because of the depressed state of the real estate market the extra tax revenues are likely to be small in 1992, but should get progressively bigger as the economy recovers in 1993 and later years. In order to force all car owners to pay circulation fees, as from 1991 tax stickers have to be affixed to car windshields, but because fines are light and controls insufficient it seems that many motorists are still not complying. In the building trade, where tax evasion is notoriously extensive, no application for electricity connection to new buildings will be accepted unless the owner has provided to the tax office receipts for disbursements, on which taxes have been paid, corresponding to the approximate cost of the building. This measure will also help in limiting the extensive social security contribution fraud by construction workers⁴⁵.

The authorities also intend to rely considerably on cross-checking to identify tax evaders and for this reason a major effort to computerise tax offices has been undertaken. According to plans, customs’ departments, which are particularly important for vetting VAT on imports, are expected to be fully computerised by the end of 1992. Computerisation of tax offices is proceeding at a somewhat slower pace. However, about 125 tax offices, mainly in large cities, are expected to be computerised in 1992 – starting with those dealing with companies and high income categories – and almost all tax offices by the end of 1993. Since the mid-1980s successive governments have introduced plans obliging firms to

install cash registers in their shops, so that tax inspectors can easily check transactions. Progress in this area has been slow. In order to accelerate the implementation of this programme regular checks are now carried out by inspectors to identify shops that have not yet installed cash registers and to check that the shops which have also use them.

Privatisation and problematic firms

State controlled companies in competitive sectors (excluding utilities) represent a relatively large proportion of the firms in many branches of the economy, especially banking and manufacturing. Moreover, the largest firms (large even by European standards) in some dynamic branches, such as textiles and cement, were brought under state control in the 1980s. Employment in the state controlled business sectors is estimated at more than 15 per cent of total dependent employment, excluding government and utilities. The great majority of these companies are regular loss makers. However, for a large number of firms and financial institutions it is difficult to estimate the exact size of the losses, and published figures most likely underestimate them⁴⁶. Many of these belong to the so-called "problematic" firms, but there are other ailing institutions and companies which have not been included in this group, but which have long stopped servicing their debt (for example, cooperatives, which owe considerable sums to the Agricultural Bank of Greece). Most of the companies belong to the Organisation for Reconstruction of Enterprises (IRO) and the rest to the National Bank of Greece, to the Agricultural Bank of Greece, to the Hellenic Industrial Development Bank (ETBA), etc.

In 1990 the government announced an extensive privatisation programme, which it expected to start implementing almost immediately, and its 1991 Budget included sizeable receipts from privatisation. However, it underestimated the difficulties and the privatisation programme got a real start only in March 1992. This delay is explained by *i*) legal obstacles, partly due to the claims of the previous private owners (before the firms were brought under state control); *ii*) administrative deficiencies and lack of proper co-ordination between the different public bodies responsible for privatisation; *iii*) overestimation of the market value of the firms, which, for certain firms including their debts, was negative; *iv*) the hesitation of the government to press ahead given the popular

belief – influenced in some cases by the inflated asset and income accounts presented by the board of the individual firms – that a low price corresponded to a sell-off to foreigners of valuable Greek assets; and v) strong political and labour union opposition, reflecting the fear that an inevitable restructuring of privatised firms would lead to job cuts.

In 1991 19 companies were privatised or liquidated, the great majority of which were small industrial firms, with a few in the service sector, including a small bank. Some of the privatised firms were profitable or breaking even so that their sale did not pose many problems. Most of the new owners are Greek companies, some of them in the same business, and only four were bought by foreign investors. Data on selling prices, the time-table of payments and the actual cash receipts after paying creditors and other overdue payments are not yet available. However, judging by their unfavourable gearing ratios and their old capital equipment, most of these companies could not have fetched a high price and, as payment for some of them will be spread over a number of years, the cash receipts in 1991 have been insignificant. A few non-viable firms, which had remained in operation over a long period while accumulating debt, closed in 1991. Just over one-third of the dismissed workers joined government sponsored retraining schemes, about half obtained special redundancy payments to help them become self-employed and the rest continued to receive their monthly wage for 12 consecutive months.

The government decided to speed up the privatisation process in 1992. Two of the largest enterprises under state control have been privatised so far in 1992. In March the cement company AGET Heracles, the largest European cement exporter and a very profitable firm, was partly privatised and the proceeds from the sale are likely to reduce the PSBR by about $\frac{1}{2}$ per cent of GDP in 1992⁴⁷. In April an agreement was reached to sell the loss-making Eleusis Shipyard to an important shipping concern, but all the proceeds from this sale have been earmarked for paying debts to foreign and domestic banks and to social insurance funds. There is a list of about 70 firms to be privatised and as many to be liquidated over the next few years. However, it should be noted that only a few firms will close completely. Most of the liquidated assets are expected to be bought by other firms, so that a large proportion of the capital stock will be used again. Most of the firms on the list are industrial firms, but there are also a few financial firms and some in other services. Some of the firms to be privatised are

viable, but most of them are loss-making with large debts. The assets of liquidated firms will also be sold at very low prices and receipts will be largely used to pay overdue debts to banks, social insurance funds and suppliers.

Total cash receipts are likely to be very small, considerably less than the optimistic expectations when the privatisation programme was enunciated. However, there will be sizeable benefits for the economy as a whole and for public finances in particular over the longer-run. Privatisation followed by new management and an injection of new capital and new technologies should instil dynamism into moribund companies, contributing to expanding GDP and exports and making jobs viable, which were condemned to disappear in the absence of restructuring. The impact on public finances will also be important. On the expenditure side, there will be some reduction in subsidies. But the benefits will be considerably more important on the revenue side. Because of the inability of ailing firms to pay, foregone taxes and social security contributions have reached large amounts. Healthy firms will be in a position to pay company taxes and social security contributions and wage earners will pay income tax.

The Ministry of Finance, wishing to raise funds quickly, also included in the privatisation plans for 1991 the sale of land bonds, giving holders the right to acquire plots of land at a later date, and the sale of numerous small islands, mainly to foreigners. The market response was very weak for the land bonds and the Ministry of Finance also quickly withdrew its other plan. Likewise, earlier plans for partly privatising Olympic Airways have been dropped, reflecting the small interest shown by foreign companies in acquiring a loss-making and overmanned company before restructuring has even started⁴⁸. In contrast, plans to partially privatise the Telecommunication Company (OTE) have been maintained, but will be implemented gradually, beginning in the second half of 1992. OTE is a profit-making company, but urgently in need of considerable funds to finance its modernisation programme. Raising equity is particularly appropriate in a period of high interest rates. In the same vein, and also because government finances are overstretched, contracting-out is envisaged for some of the main infrastructure investment projects that have started or are planned to be started in 1993 (the Athens Metro, the new Athens Airport – Spata, the Rio-Antirio bridge linking mainland Greece with the Peloponnese, and highways).

Government intervention in markets and competition policy

Government intervention in markets has been a tradition in Greece. The Ministry of Commerce had large discretionary powers to fix prices, profit margins, quotas, to grant licences and to establish marketing boards and monopolies for some products. Likewise, financial markets were tightly regulated for almost 40 years. There has been a very gradual move towards liberalisation during the last twenty-five years, but there have also been cases where controls were re-imposed, for example, on rents in the second half of the 1970s, and on certain prices in the first half of the 1980s. The first important liberalisation measures were taken in 1986-87, in conjunction with the Stabilisation Programme. After a pause, deregulation has gathered speed again since mid-1990, in line with the present government's political platform.

In August 1991, it was announced that all remaining price controls and market interventions, including the fixing of profit margins for various trades and products – which was recognised to be a dubious undertaking – would be abolished by 1992, and to this end a law was presented in Parliament in May 1992. Products with a weight of a little over 9 per cent in the consumer price index have been freed over the past two years. At present administratively fixed prices account for nearly 8 per cent and controlled prices for just over 5 per cent of consumers' expenditure (Table 17). Including many food products, whose prices are fixed under the EC agricultural policy, and business rents still under control, which do not enter directly into the consumer price index, the prices of about one-fifth of products and services are in one way or another controlled. However, it is probable that many of the controlled prices are not very different from their market equilibrium, so that the above ratio exaggerates both the degree of effective control exercised, as well as the extent of the effective liberalisation in the last couple of years.

Deregulation has not yet led to greater competition, and on several occasions in the last twelve months the government threatened to take sanctions against trades because of unjustified price increases. Last summer market prices of fresh fruit and vegetables surged, as did school fees in October 1991 after being deregulated. The liberalisation of bread and flour prices has been going on for some time now. The government, concerned by the important psychological impact of the price of bread, continues to fix only the price of standard white

Table 17. **Controlled prices**

Freed prices since 1990		Administratively fixed prices as of April 1992	
Per thousand of the consumer price index			
Flour	2.25	Water supply	3.96
Bread	11.86	Electricity	24.03
Sugar	2.27	Street cleaning fees	3.52
Cooking gas	1.48	Pharmaceuticals	6.79
Heating oil	17.53	Radio-TV fees	1.45
Tuition fees,		City bus fares	5.04
Private schools	12.53	Other fares (air, train, bus, etc.)	7.93
Institute of foreign languages	9.70	Telecommunications, post, etc.	13.81
Petrol	35.01	Hospital expenses	10.61
Lubricants	1.06		
Total	93.69	Total	77.19
Directly controlled prices as of April 1992			
Per thousand of the consumer price index			
House rents			44.76
Taxi fares			6.42
Other			2.00
Total			53.18

Source: Direct information from Greece and OECD prices.

Source: Direct information from Greece and OECD prices.

bread, despite the fact that its weight in the total household food basket is very small compared with other higher quality types of bread. In February 1992 the association of bakers announced an increase in prices of the other qualities of bread of 22 per cent, which brought the year-on-year rise in bread prices to over 30 per cent in March 1992. The government proclaimed these increases illegal as they reflected oligopolistic arrangements, and submitted to Parliament a bill lifting barriers to entry for bakeries, but the bakers' association succeeded in blocking it. The liberalisation of the oil market at the beginning of 1992 was followed by a steep increase in prices (more than 5 per cent in two months at the retail level), instead of the easing in prices that could have been expected, given price developments in international oil markets.

These incidents underline the deficiencies in competition policy arrangements, the power of organised trades and firms occupying a dominant position, and the difficulties of breaking strong inflation expectations after almost twenty

years with a rate of inflation at about 18 per cent. Competition policy is essentially the responsibility of the Ministry of Commerce. The Directorate for Market Research and Competition examines the cases where anti-competitive behaviour is suspected and then forwards the cases on which a ruling has to be made to the Competition Committee. This Committee has a consultative role and advises the Minister of Commerce on the sanctions to be taken, but the Minister takes the decisions and issues the orders. As a last resort there is the Administrative Court of Appeals to which interested parties can apply.

Judging from results so far this system has not functioned efficiently. To some extent this is due to shortcomings in the legal and institutional framework: first, despite the improvements in 1991, there is still scope for making competition laws more efficient, but more importantly, competition policy should be directed towards monitoring market structures; second, there is a great shortage of qualified personnel to analyse firms' accounts and pierce through opaque and complex operations; third, there is no tradition of institutions imposing discipline on markets, as consumers' associations do in many advanced OECD countries; and, fourth, the Ministry of Commerce, often bowing to pressure from organised interests, shows excessive leniency. The few sanctions imposed, because they are very light, do not have a dissuasive effect⁴⁹.

There is a large number of organised trades and professions enjoying a privileged status. Furthermore, reflecting strong corporatist tendencies in Greek society, their power has increased considerably, as has that of the public sector labour unions. In the 1980s, yielding to the pressure of professional associations wishing to raise the revenues of their members, laws were passed requiring the signatures of lawyers on contracts above a certain value and of engineers on plans for small construction work that could be planned and executed by sub-engineers. Privileges are enjoyed by trade associations in other fields, where there are barriers to entry, the operations of their members are regulated and restrictions on similar activities by other trades have been imposed. For example, not only is it forbidden to establish a bakery within a short distance of an existing bakery, thus rendering part of the clientele virtually captive, but there are also restrictions on other shops (including small supermarkets), which could very well sell bread⁵⁰. The trade association of petrol station operators is so powerful that not only is price competition practically non-existent but the same strict opening hours have been fixed for all stations, so that in the evening and at night only

very few stations are open, and the driver who has erred in his calculations may find himself stranded until the morning. In some other activities collusive behaviour is more discreet, but not necessarily less effective, while in a few sectors entry fees into the profession are so high (mainly for obtaining licences) that they inflate considerably the fees charged in these sectors⁵¹.

In 1977 strict rent controls on residences and commercial premises, including temporary freezing of rents, were imposed. The average increase in controlled rents was 7½ per cent a year between 1977 and 1991, compared with 18 per cent for the GDP price deflator. As a result, there has been a considerable redistribution of income from house owners to tenants and from proprietors of commercial premises to business, in turn resulting in sizeable losses of tax revenues. In order to forestall rent controls, owners impose exorbitant rents on new tenants and, moreover, often get several months' rent in advance. By restricting the supply of housing and commercial premises and by aggravating distortions in many sectors, rent controls have reinforced rather than eased inflation tensions, as was originally intended by the legislator when rent controls were imposed.

The government announced its intention to deregulate rents completely, but facing strong opposition from vested interests, it has opted for a phased liberalisation. In 1990 rents were freed for new apartments (including houses), for large apartments of more than 140 square metres, or with a value of more than Dr 30 million, houses to be "preserved" for their architectural or historic value, and apartments bought with foreign exchange by Greeks living abroad. The major part of the market was not affected by the liberalisation, but certain adjustments were made with a view to narrowing the wide gap between controlled and market rents⁵². The intention is to liberalise apartment rents completely by mid-1993. A law concerning commercial premises was passed in April 1992. This allows controlled business rents to be raised to 6 per cent of the "objective" value of the commercial premise by May 1993. However, in most cases the "objective" value is below the market value of the asset. Leases of more than 20 years under the controlled system (which also forbade evictions) will automatically be terminated at the end of August 1994, and shorter period leases at the end of August 1995⁵³. This would help to eliminate distortions and bring downward pressure on the exorbitant rents for new buildings, as well as on real estate prices in the prized parts of commercial streets and business districts.

However, like other structural reforms of this type, the disinflationary effects of rent deregulation take time to show up.

Despite deregulation and the gradual internationalisation of Greek financial markets, competition, though increasing, is still limited, particularly as regards bank loan terms. The authorities have condemned the oligopolistic price fixing, and would have liked to bring lending rates down to prop up the real economy. To a large extent this situation is explained by the dominant position of the state-controlled financial institutions. The National Bank and the Commercial Bank account respectively for almost one-half and one-fifth of all bank loans. Including specialised institutions (e.g. the Agricultural Bank, the Mortgage Bank and the Industrial Development Bank), state-controlled financial institutions account for more than four-fifths of total credit. Many are inefficient as they have high operating and capital costs, reflecting overmanning, bureaucratic attitudes inimical to modernisation and a shortage of highly-skilled professionals to promote new financial products with high value added and a relatively large fraction of their portfolios consists of non-performing loans. Furthermore, they have been affected by strikes, reflecting the corporatist mentality of the strong labour unions. Accordingly, these banks, mostly engaged in retail banking, are obliged to maintain a big spread between interest rates on deposits and loans (more than 11 percentage points in 1991).

State-controlled banks have many branches covering the whole territory, and this gives them an advantage over the many private foreign and domestic banks, which cannot build an extended network quickly. As, moreover, a clearing mechanism for transfer of funds by means of a simple order from one bank to another does not exist in Greece, the extended network of state banks further reinforces their dominant position⁵⁴. Private banks, conscious that they cannot gain market shares quickly, prefer to benefit from the large interest rate spread established by the state-controlled banks. Thus, in contrast to most of the latter, private banks with low operating costs have sizeable profits and extend their market shares gradually by offering better services to clients, including financial products with a high value added, some of which were unknown in Greece a few years ago. However, competition between private banks for medium to high income customers and healthy firms is tense and growing, as the size of this market is limited and the number of banks is increasing. A draft law was presented in June 1992 abolishing the right of the Ministry of Finance to

represent recognised pension funds at the annual general meetings of banks. As the Minister of Finance will no longer be able to exercise the voting rights of these funds, the control of the state over financial institutions should diminish considerably in the future.

Financial liberalisation

Financial liberalisation has been an important objective of the Bank of Greece in the last few years, both in order to improve the functioning of financial markets and resource allocation and to put pressure on the government to reduce its huge deficits, by cutting off its privileged sources of finance. Banks' obligatory investment ratio in Treasury bills was cut from 40 per cent of the increment of deposits (not the outstanding stock) to 35 per cent in February 1991 and to 30 per cent in July 1991. Three further cuts in this investment ratio are planned for 1992 (in February – already made – July and October), so that the investment ratio will be at 15 per cent by the end of 1992 and will be completely abolished by mid-1993. At the same time banks were offered the option of converting their obligatory holdings of Treasury bills into negotiable bonds at varying maturities (3 to 8 years) with an interest rate pegged to the 12-month Treasury bill, thus making them very attractive (Table 18). The Bank of Greece has maintained the primary reserve ratio at the high 9 per cent level (of which half is non-interest bearing), for liquidity control purposes.

In the last two years additional measures have been taken to reduce the public sector's privileged access to bank finance. First, the obligation on banks to earmark 9 per cent of the increment in deposits to finance public enterprises and entities was abolished, and henceforth only some entities (mainly insurance funds) will have the right to borrow from the existing earmarked funds which corresponded to 9 per cent of the outstanding deposits in April 1991. Second, the proportion of deposits (new and outstanding balances) earmarked for loans to small and medium-sized manufacturing companies was reduced from 10 to 8 per cent in January 1992 and to 7 per cent in July 1992. Because of the low interest rates attached to such loans, and the high cost of handling them, banks never fully used the earmarked funds, preferring instead to invest in government paper. However, in order to ensure that the funds are used for their intended purpose,

Table 18. **Restructuring of government debt**

Government bonds ¹	Value (drachmae billion)	Interest rate
1. September 1991		
i) 3-year bonds	405.2	2 eighteen-month coupons pegged to the interest rate of 3-month T.B.
ii) 5-year bonds	679.4	Pegged to the interest rate of 12-month T.B.
2. October 1991	286.4	Pegged to the interest rate of 12-month T.B.
6-year bonds		
3. November 1991	53.3	Pegged to the interest rate of 12-month T.B.
6-year bonds		
4. December 1991	75.2	Pegged to the interest rate of 12-month T.B.
7-year bonds		
5. January 1992	21.0	Pegged to the interest rate of 12-month T.B.
8-year bonds		

1. Substitution of freely negotiable government bonds for banks' obligatory holdings of Treasury bills.

Source: Bank of Greece data.

the Bank of Greece has decided that, as from mid-1992, they can no longer be invested in government paper.

Following the conversion of Treasury bills into negotiable government bonds, banks' obligatory investment in Treasury bills fell to Dr 570 billion (10 per cent of deposits) in December 1991 compared with Dr 2 258 billion (40 per cent) in August 1991. Banks now have more diversified portfolios. This move has increased considerably the banks' flexibility and made open market operations possible, but, at the same time, the Bank of Greece now has to control better the channels through which banks and public sector financial institutions obtain liquidity (e.g. overdrafts on their account with the Bank of Greece, the possibility given to specialised institutions not to reclaim overdue loans). Another development in 1991 was the marked expansion of Repos of Treasury bills (see Part I above), further broadening the scope for open market operations, which up to the end of the 1980s were practically impossible because of the narrowness of the government securities' market. From Dr 50 billion at the end of 1990 Repos reached almost Dr 400 billion in early 1992. The yield on Repos was on average above the interest rate at issue, explained by the fact that 1991

Repos were not included in calculating the primary reserve requirement and interest from Repos was not taxed. In 1992 the Bank of Greece decided to include Repos for calculating the primary ratio, so that the net yield is likely to diminish. However, Repos are expected to continue expanding given that they are a very liquid instrument (most Repos are between one and two months), and very attractive as long as the interest rate on deposits remains low.

In order to reduce the advantages that public sector specialised financial institutions traditionally enjoyed over banks, the subsidies on the interest rate on deposits with the Agricultural Bank of Greece and on bonds issued by the Hellenic Industrial Development Bank were abolished. Furthermore, in order to reduce the interest rate subsidy applicable to long-term bank loans to small and medium-sized industry, the interest rate was raised to that of the 12-month Treasury bills, i.e. an increase of almost 4 percentage points. Following these measures the interest rates of about 90 per cent of total credits are now determined by banks, while the remaining subsidies on lending rates, mostly ranging between 1 and 4 percentage points, concern loans to agriculture, to small and medium-sized firms, and for the acquisition of a first residence. The objective is gradually to put on an equal footing both public sector specialised financial institutions and banks, as well as all loan recipients.

External transactions were also liberalised in 1991 and 1992, so that all current account transactions both with EC and non-EC countries are now free. A partial liberalisation of capital movements concerning outward investments in securities and real estate was made in 1991. Complete liberalisation may be delayed until the public deficit reaches manageable levels. Another important measure, with a large psychological impact but which also reduced bureaucracy, is the abolition of all *ex ante* foreign exchange controls by the Bank of Greece. Moreover, in June Parliament passed a law allowing Greek residents to have bank accounts in foreign exchange. The funds can either be brought in from abroad or deposited in foreign currency without their source having to be revealed.

IV. Conclusions

The severe worsening of macroeconomic imbalances and structural rigidities towards the end of the 1980s has started to bear on Greece's policy orientation. It is increasingly recognised that stimulative policies operated in the way that they were in Greece during most of the 1980s served to undermine the previously strong growth potential of the Greek economy. A level of wages and pensions higher than the economy could afford, combined with extensive tax evasion and immoderate recruitment in the wider public sector have moved the economy off track, and have also bred rather lax work attitudes in the wider public sector. Corporatist attitudes have also developed, largely reflecting the tendency of the authorities to cede relatively easily to organised groups. Taking advantage of this situation, professional associations and labour unions have often blocked modernisation efforts and managed to obtain high incomes for their members that were more a 'rent' than a payment for productive work. Conflicting claims and a high PSBR have contributed to maintaining inflation at an average of about 18 per cent since 1981. As a result, after having recorded the highest GNP growth rate, next to Japan, in the OECD for about 25 years, Greece fell to the bottom place at the beginning of the 1980s and has remained there since. At the same time, the public sector debt reached one of the highest levels in the OECD area (113 per cent of GDP), representing a heavy burden for the economy in the future.

The new government formed after the April 1990 elections initially took measures to arrest the deteriorating budgetary trends and at the end of that year presented an ambitious Medium-term Adjustment Programme, 1991-93. The Adjustment Programme fixed optimistic targets, notably for reductions in the rate of inflation to 8 per cent and in the PSBR to 3 per cent of GDP by 1993; this called for a drastic tightening of the macroeconomic policy stance. In conjunction with this, market-oriented structural reforms were initiated, in order to boost the

supply responsiveness of the economy. Considering that the reduction of the PSBR and of the oversized public sector is the key to breaking the vicious circle of stagflation, the Adjustment Programme's top priority was budget consolidation. Front loading, as in the Stabilisation Programme of 1986-87, was an essential element of the Adjustment Programme, because quick results boost confidence regarding the future, thus making it easier for households and business to accept the sacrifices involved. In fact, despite the prospective sacrifices, the business community and labour unions supported the Adjustment Programme.

The new policies and rising confidence contributed to reversing the previous disturbing trends. The PSBR on a cash basis, which had reached 18½ per cent of GDP in 1990, fell to 15.7 per cent in 1991, in part helped by interest capitalisation (on an accrual basis the PSBR was probably 17½ per cent of GDP in 1991) – still by a considerable margin the largest deficit in the OECD area. Inflation fell from its peak of almost 23 per cent to about 18 per cent at the end of 1991, and to 15.8 per cent in May 1992. The amelioration in the balance of payments was even more noticeable: the current deficit narrowed by more than one-half to \$1½ billion and the basic balance recorded a small surplus compared with large deficits in the previous two years. Despite these improvements, economic performance is unsatisfactory. Except for the balance of payments, the outcome in the other main areas in 1991 fell short of the Adjustment Programme's targets, and the budget deviation was particularly large (about 4 percentage points above the PSBR target of 13 per cent of GDP). Given the pivotal role of budgetary consolidation, the much worse than expected outcome also partly explains the non-realisation of the other real and inflation objectives.

The improvement in underlying conditions is expected to continue, but it is difficult to estimate the pace at which this will be realised, as much depends on whether the authorities take firmer action than hitherto. At the time of writing the final version of the tax reform package and the accompanying measures of the 1992 Budget have just been passed by Parliament. The OECD projections for 1992 and 1993 are based on optimistic assumptions, as they incorporate some policies announced but not yet implemented, and an associated expectation of increasing confidence. The PSBR in relation to GDP and the inflation rate are each projected to fall to about 10 per cent by the end of 1993, and the basic balance of payments to remain in surplus. At the same time, GDP growth is expected to pick up in 1993, driven by investment, thereby also beginning to

boost the potential growth rate. However, realisation of these forecasts crucially depends on speeding up budgetary consolidation.

Indeed, failure in the fiscal area for the second consecutive year would undermine confidence in the authorities' resolve to introduce strong measures capable of bringing Greece out of its present difficulties. Under these conditions it is essential not only to introduce the necessary measures, but also to implement them promptly. As the election date approaches, implementation may become more difficult; and the risk that people may be discouraged and stop supporting reforms, because they cannot see the light at the end of the tunnel, should not be disregarded.

Reducing the PSBR should remain the principal goal, but, at the same time, all concerned should become aware that the task will not be an easy one. The speed at which the PSBR, as a per cent of GDP, is projected to decline in the present period should not be taken as indicative of future trends. To a great extent the projected reduction between 1990 and 1992 is due to one-off measures (e.g. extraordinary taxes, real wage and pension cuts), to interest capitalisation (which relieves momentarily the cash PSBR by putting off the adjustment to a later stage, possibly at a higher real cost), to rising EC transfers, privatisation proceeds and to the disinflation-induced fall in interest payments. With regard to the first four factors combined, there is a limit to how much they can contribute to lowering the PSBR and it seems that this limit will be reached before long. As for the fall in interest payments as a per cent of GDP as inflation drops, this benefit will disappear once inflation stabilises at a relatively low level, and subsequently may well rise somewhat, as has been the case in other high inflation countries with large outstanding debts. Accordingly, even after the elimination of the large inflation component of interest rates, hopefully by the mid-1990s, interest payments of the general government may return to about 10 per cent of GDP, and of the total public sector to around 13 per cent of GDP, one of the highest levels among OECD countries.

This indicates the size of the adjustment in the primary balance required to bring the overall general government deficit to 3 per cent of GDP, in line with the Maastricht Treaty obligations. Shifting the primary balance from an estimated deficit of almost 2 per cent of GDP in 1992 to a surplus of at least 7 per cent of GDP by 1997 would be no mean feat. For one thing, expenditure on some items is likely to rise over the longer term in order to alleviate important economic,

social and infrastructure deficiencies, as well as to upgrade pay scales for senior civil service positions in order to attract competent personnel. This additional constraint, together with the troubled situation in Greece's region of the globe, which appears to mean that there is little prospect of a peace dividend, leaves the government with relatively few options. On the expenditure side, emphasis has to be placed on reducing overmanning in the wider public sector. Results in this area have been very disappointing so far, as total government employment has actually continued to increase instead of diminishing, as expected in the Adjustment Programme. After the temporary pause (following the 1990 pension reform) the upward trend in the ratio of pension expenditure to GDP (already at the high level of about 15 per cent) is likely to resume in 1994. The Committee of experts assigned to make proposals for the next phase of the pension reform has finalised its work, and it is to be hoped that effective measures will be taken rapidly to remedy the deficiencies in the pension system. Appropriate policies would help to reduce the oversized public sector, which is one of the government's principal goals and one which other important political and economic interests appear to have come to share recently.

After unnecessarily long delays given the critical situation of public finances, further tax reform measures and new anti-tax fraud measures were passed by Parliament in June 1992 and the tax authorities seem to be more active in their fight against tax evasion since the turn of 1991. Curbing tax evasion is all the more necessary as the planned reductions in direct tax rates are expected to produce revenue losses. The anti-tax fraud and avoidance measures already introduced or planned go in the right direction, provided they are fully implemented. With regard to the broadening of the tax base, many tax exemptions have been retained, contrary to earlier statements, thereby decreasing somewhat the impact of the measures. For example, on present plans it appears that farmers will continue to enjoy privileged tax treatment. The fairness of a reformed tax system, by alleviating the disproportionate tax burden carried up to now by wage earners, is a prerequisite for its success, and this can be achieved only if other categories start to pay their due share. Likewise, it is important to introduce greater automaticity and undisputed criteria into the tax evaluation system, thus restraining the wide discretionary powers of tax inspectors. Moreover, for the system to be efficacious, tax evaders must be treated with the appropriate severity, as intended in the new law, and not pardoned as has often been the case

– even in the recent past. Policy credibility is an important factor in creating a new climate that would make people gradually change their behaviour. However, for this to happen the rules of the game have to be clear and the risk of punishment for tax evaders high enough to have a dissuasive effect. More even handed tax enforcement would bring economic activity that is now underground into the open, thereby helping to restore better conditions for the expansion of the tradeables' sector. This would not only contribute to raising the underlying rate of growth, but also put a cap on the substantial increases in liquidity which, if allowed to continue, could undermine stabilisation efforts as well.

Fiscal consolidation is also urgent in order to relieve monetary policy, which for some time now has been carrying the brunt of the anti-inflation drive. High interest rates have helped to restore confidence but the associated crowding-out effects have made the restoration of a strong growth path more difficult. The ongoing financial reforms are also likely to keep real interest rates high in the short term. The speeding up of the abolition of banks' compulsory investment ratios in government securities and the introduction of Repos will contribute to increasing considerably the flexibility of the Greek financial system. Both banks and non-bank residents now have significantly more diversified assets than before, and for this reason they have become more receptive to changes in the relative prices of financial assets. The growing amounts in negotiable government securities in the hands of the private sector and of banks have made it possible for the Bank of Greece to move to a system of indirect controls, essentially through open market operations, where previously direct interventions (including changes in the obligatory investment ratios, open-ended overdrafts and specific directives) were the rule. This, combined with the gradual lifting of exchange controls (some controls on capital transactions were lifted in 1991 and all controls on current transactions in 1992), signifies that for monetary policy to be effective it will have to take market expectations increasingly into account. In these circumstances, downward interest rate adjustments are difficult in the absence of significant progress both on the inflation and budget fronts.

Bringing inflation down to the level of its EC partners is also a necessary stepping stone towards joining the Exchange Rate Mechanism of the EMS, planned for 1993. Stringent incomes policy in place since 1991 will contribute to achieving rapid progress in this area. However, it is essential that incomes policy be conducted in the context of the continuation of the anti-inflation monetary

policy stance. The credibility of monetary policy and its effectiveness in reducing inflation can be enhanced by relying more on the exchange rate as a nominal anchor for expectations. This should help all economic agents to become conscious of the high costs entailed in excessive wage increases in relation to the exchange rate target, thus contributing both to wage moderation and to improving competitiveness.

Parallel with its efforts on the fiscal front, the Government has turned its attention to the government machinery proper. As discussed in Part III, ill-conceived reforms in the 1980s have considerably reduced the efficiency of the administration, to the point that it now constitutes an important impediment to the economic development of the country. Certain reforms which were introduced in 1991 have started to make an impact, but a considerably smaller one than their authors expected. This is because some reforms have been only partly implemented, a few reforms were by-passed so that old questionable practices continued, while others cannot produce their full effect without complementary measures, which are planned to be introduced in the Civil Service Code, now under preparation. It is to be hoped that this more comprehensive reform will soon be ready and will address the real issues, even if it is likely to be opposed by the powerful public sector unions. Hierarchy and authority have to be re-established; the politicised labour unions have to cease playing a role in the administrative functions of each ministry and other public bodies, and instead concentrate on their traditional role of protecting the interests of their members; merit and educational qualifications must be recognised better by giving higher remuneration and posts of responsibility to competent civil servants; training in conjunction with greater horizontal mobility within the public sector must be improved; and last but not least, more efficient co-ordination between individual government agencies (including ministries) and an upgrading of the supervisory role of the ministries responsible for across-the-board reforms are needed to ensure that decisions taken are implemented at all levels.

The government has taken courageous deregulation measures in many fields. Price and profit margin controls on different products and services were abolished in the last couple of years. However, reflecting the absence of an effective competition policy and oligopolistic conditions in some markets and given strong inflation expectations, the freeing of prices was sometimes followed by unjustifiable price increases. This underlines the need to overhaul competition

policy and move towards monitoring market structures. First, there is a need to establish clear rules and criteria; second, the public bodies responsible for competition policy need to be better staffed and given greater powers; and third, sanctions should be increased to make them effective. Furthermore, the state should encourage the setting up of organised consumers' associations, which, as in other OECD countries, can play an important role in strengthening market forces and discipline. The gradual abolition of rent controls is a belated but welcome step and is expected to eliminate gradually the many distortions in the real estate market.

The oligopolistic practices in the banking sector also need to be dealt with by introducing more competition. The decreasing but still large interest rate spread between deposit and lending rates (recently of the order of 11 percentage points) first, penalises both depositors and borrowers; second, results in excessively high real borrowing costs, disadvantaging investment and industry compared with trade, thus depressing the already low rate of potential output growth; and third, by making it possible for inefficient banks to show profits, it retards the adjustments needed to put them on a sound basis. In addition to bringing pressure to bear on the state-controlled banks to increase efficiency, the authorities should aim at promoting competitive conditions, for example, by quickly setting up more modern clearing mechanisms for transfers of funds and by adapting legislation in order to facilitate the use of cheques.

After a very slow start in 1990 and 1991, privatisation seems to be on course in 1992. Some earlier plans, which had little chance of success, have been withdrawn and efforts now seem to be concentrated on selling companies in which interest has been shown by Greek and foreign entrepreneurs. Already, in the early spring of 1992 two important companies were sold, a profit-making cement firm, and a loss-making, but viable and potentially very profitable, restructured shipbuilding firm with a good management. Negotiations have advanced for the sale of a few other firms, most of them viable but loss-making because of bad policies over the years. The government also ordered the liquidation of some companies for which there is no buyer in prospect. There are also plans for the partial privatisation of the profitable Organisation of Telecommunications (OTE) (the state monopoly in the telecommunications area), but, because of the large amounts involved, the floating of shares will be gradual, starting in 1992. In the same vein, the government is considering contracting-out some of

the major infrastructure projects in the pipeline. Even though cash receipts from privatisation will probably be small (except for OTE), the economy-wide benefits are expected to be substantial and more permanent. Privatisation will also contribute to re-industrialising the Greek economy following ten years of decline.

In 1990 the government succeeded in bringing under control an explosive economic situation and in 1991, aided also by structural adjustment policies and a return of confidence, macroeconomic performance improved, but less than had been planned under the Medium-term Adjustment Programme. The short-term prospects are for continuing improvement, with both the PSBR and inflation falling further. However, the situation will continue to be critical. In 1993 Greece will still have high inflation and a high government deficit, and the wide development gap with its OECD partners will most likely increase further. At the same time Greece will have to face what probably is its most important challenge for half a century: meeting the strict criteria set by the Maastricht treaty. Under these conditions, only a determined and sustained effort by all economic agents will be able to lift the obstacles to the meaningful participation of Greece in the European integration process. The Greek government has to speed up the reform process and take firm action, especially in its own domain – fiscal consolidation and public sector efficiency – where it has greater powers and responsibilities. It is also important for the government to show greater resolve in dealing with vested interests. Restoring policy credibility by implementing consistent policies should also stimulate substantial capital inflows from abroad, as has been the case in previous periods of high confidence, thereby assisting the adjustment process.

Notes and references

1. As the increase in GDP (value at constant prices) between 1980 and 1990 was less than the increase in the public sector external debt over this period, it could be argued that the modest growth was fully financed by foreign borrowing. This of course excludes dynamic effects, which are difficult to estimate. On the one hand, demand determined econometric models would show a positive impact of these funds on activity. On the other hand, if models incorporating supply effects existed, they would probably show a negative impact. In effect, if foreign borrowing had been a constraint behavioural patterns would have changed and appropriate policies probably would have been introduced in the first half of the 1980s, as was the case in other OECD countries.
2. Hereafter to be called the Adjustment Programme. The Programme was finalised in February 1991.
3. Allowing for the depreciation of the Drachma, interest payments account for 17 per cent of GDP. In 1981 the corresponding figure was some 6 per cent of GDP.
4. Stop-go policies have been the rule since 1980. Fiscal and income stimuli unrelated to efficiency considerations were quickly reversed in the face of the worsening inflation, balance of payments and public sector deficits. As a result Greece is the OECD country with probably the largest real wage and PSBR (accrual basis) fluctuations in the 1980s and early 1990s:

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
<i>Real wages</i>												
% change	-1	+1	+2	-1	+4	+2	-8	-4	+6	+4	2	-3
<i>PSBR % of GDP</i>												
Level	8	14	13	11	15	18	14	13	15	20	21	18
Change	+2	+6	-1	-2	+4	+3	-4	-1	+2	+5	+1	-3

5. Because of the high PSBR, there is a serious risk that economic agents will consider the cuts as temporary, to be reversed later or to be compensated by measures in other areas, so that the negative expectations concerning the future policy course may outweigh the small short-term impact on activity of tax cuts.
6. At the time of writing the public sector accounts on an accrual basis were not yet available.
7. The scheme was designed to induce tax payers to settle over 7 million cases, where an assessment of taxes due in previous years (up to ten years) had not been made. The supplementary tax corresponded to approximately 1.5-2.0 per cent of the taxable base, but

considerably less in real terms allowing for past high inflation. It could be argued that the very generous treatment, as neither fines nor interest was applied on tax arrears, was taken as an additional sign that crime pays, inducing people to continue evading taxation. This may explain the small tax yield of the scheme.

8. The receipts from privatisation and the sale of land bonds (giving right to a plot of land to be acquired two to three years after the purchase of the bond) were included as current revenues in the ordinary budget of the central government, which is on an administrative basis. Although these receipts reduce the net borrowing requirement, on a national accounts basis they are considered as a sale of assets and do not affect the general government deficit (net lending).
9. Early in 1989 a law was passed granting pension rights to resistance fighters of the Second World War, almost all of whom already had another pension (mainly farmers' pensions). However, the scheme left the door open to many abuses and many people, who if criteria were strict could not be eligible, succeeded in obtaining a pension. The new government revoked this right, so that the number of resistance pensioners fell from 56 000 people in 1990 to 200 at the end of 1991.
10. In July 1991 total social security contribution rates (in per cent) paid by employees rose from 14.35 to 14.85 and by employers from 23.95 to 24.95. The basic social security rates to IKA (the Social Insurance Fund for private-sector employees) were raised in per cent from 10.75 to 11.25 and from 20.35 to 21.35 respectively.
11. The 1992 Budget was presented in November 1991 and voted at the end of December, but the initial proposals for tax reform affecting fiscal developments in 1992 were announced in January 1992, presented to Parliament in May and voted in mid-June 1992.
12. Under a law passed in 1988 people could deduct from their taxable incomes expenditure on various consumer items (e.g. shoes, clothing, durables) in addition to expenditure on items (such as medical expenses, insurance premiums and mortgage payments for the first residence), which are deductible in many other countries as well. The latter three deductions were not abolished by the recent law.
13. The 1992 Budget figures presented in Table 2 have been revised to take account of the new measures announced in the first half of 1992, i.e. after the Budget was voted.
14. The Bank of Greece made, however, two exceptions by easing the tight liquidity position of the Agricultural Bank and of the Hellenic Industrial Development Bank (ETBA), state owned banks with serious cash-flow difficulties and considerable bad loans.
15. As the government did not have the cash to pay the sums owed to banks, it issued a 10-year bond with an interest rate pegged to the three-month Treasury bill rate and with a three-year grace period at the end of which interest due will be capitalised. The banks acquired the bonds, so that the transaction did not involve cash payments. In a sense, this operation was a book keeping transaction, as all parties belong in the wider public sector.
16. In addition to the direct purchases of government paper, the domestic private non-bank sector also bought Treasury bill Repos (mostly with 1 and 2 months maturity) amounting to Dr 360 billion in 1991 (Dr 40 billion in 1990, when the Repo market started functioning), thus also indirectly financing the government deficit. The yield on Repos was around 24 per cent in 1991, much higher than that obtained on bank deposits. This was because Repos were

not subject to reserve requirements (as from February 1992 they are subject to the primary reserve requirement) in contrast to bank deposits which are subject both to the primary and secondary reserve requirements (see Part III, Financial section). Repos are exempt from the 10 per cent withholding tax applied on interest receipts on deposits with banks.

17. The importance of confidence and of high yields on financial assets for the balance of payments was briefly discussed in the OECD Survey of Greece, 1990/91, in the section on "Growing external imbalances" in Chapter III.
18. Under the EC directives capital liberalisation will have to be introduced by the end of 1992, but Greece has the possibility of retaining foreign exchange controls on short-term capital movements up to the end of 1995.
19. Reflecting a steep rise in transfers, real gross national disposable income rose by 2.2 per cent in 1991, compared with 1.9 per cent for GNP.
20. An indicator of the size of the underground economy is the number of employers, self-employed and family aids. In Greece they account for 50 per cent of total employment compared with 30 per cent for Italy and Portugal and 28 per cent for Spain, and about 15 per cent in a typical OECD country.
21. The Greek data base is very narrow, and, moreover, many of the published series suffer from important shortcomings, making the analysis of trends difficult, which must also be an important handicap for the Greek authorities in the preparation of policies. Furthermore, official statistics are published with very long delays, and often the presentation of the few available series required for assessing current trends is incomplete, making the examination of the annual profile of the relevant series impossible. Some of the main problems encountered are presented in Annex I.
22. The changes in trade volumes described in the text are those published in the official Greek national accounts. However, as discussed in Annex I, these do not seem to reflect accurately actual changes in 1991.
23. On the basis of business surveys covering the largest firms, the decline in dependent employment in traditional sectors, such as textiles, clothing, footwear, metallurgy and transport industries was between 7 and 8 per cent in 1991.
24. These agreements provided for wage increases in January and July of 1991 and of 1992 in the following order (in per cent): 7, 5.6, 5.4 and 4.
25. This is a rough estimate, based on the following assumptions. Productivity growth in manufacturing firms still in operation about 3 per cent, which is an optimistic assumption in a period of weak activity. The increase in wages in problematic firms and generally ailing firms planned to be closed in 1991 and 1992 is lower than in the healthy firms remaining in operation. Furthermore, the former firms generally do not pay the full amount of social insurance contributions. Accordingly, the recorded growth of average compensation per employee in 1991 may understate the actual increase by around 1/2 to 1 percentage point.
26. The balance of payments data shown in official documents are in US dollars, and the analysis in the draft Survey of trade, invisibles and capital account developments in value are also based on the US dollar value figures as published by the Bank of Greece. Customs data in Drachmae are unreliable and are not used.

27. A growing part of receipts from goods' exports (though in absolute values the sums are still small) are not sent in foreign exchange directly to exporters (in which case they would appear as revenues from exports in the trade account), but are paid in convertible Drachmae. And as the "convertible Drachma accounts" is in the invisibles' account (because the largest amounts refer to receipts from services), the goods' export receipts underestimate somewhat the true merchandise export revenue growth in recent years.
28. The tourism and shipping figures shown in the table on the current account understate the true receipts from these categories, as a large and rising proportion of receipts are in convertible Drachmae. This explains largely the fast rise in the revenues under the "withdrawals of Drachma convertible accounts".
29. The conflicts in Yugoslavia have greatly disrupted Greek exports. Hungary and the CSFR, taking advantage of their geographical position, have imposed steep rises in transit taxes making Greek exports even more costly than before.
30. The "objective" value (introduced in 1983) is the value calculated by the tax authorities, on the basis of certain parameters (e.g. age of the building, the neighbourhood, the floor on which the apartment is situated, if it is a building in a corner, etc.). The "objective" value is adjusted at irregular intervals by the authorities, but remains generally lower than market values, but higher than the value declared by the buyer. However, this system has permitted the raising of considerably more tax than before, when the value of a real estate transaction was under-recorded, often with the connivance of tax officials who were bribed.
31. At the end of 1991 investment intentions were optimistic, but as past experience has shown these are gradually scaled down through the year unless both the international and domestic situation markedly improve, which was not the case up to the time of writing.
32. The self-employed outside agriculture may be the only category to register slight growth. However, as in past periods of weak activity, the growth of this category reflects less the choice of a large number of people and more the difficulties in finding a salaried job.
33. About half of the decline in the year-on-year consumer price inflation from 18.3 per cent in March 1992 to 15.8 per cent in May 1992 is explained by the steep rise in administered prices in April 1991.
34. Interest payments as a proportion of GDP will be subject to opposite forces over the medium term. On the one hand, the effective real interest rate is likely to rise: first, because of the phasing out of the privileged channels of finance a growing proportion of the public sector debt will be financed at market rates; and, second, because of the failure to reduce the PSBR at the pace planned in the 1991-93 Adjustment Programme, the public sector's claims on financial resources will continue to be substantial, putting upward pressure on real interest rates. On the other hand, in high inflation countries interest rates are also high in order to compensate for the inflation-induced loss of the real value of the borrowed capital. Accordingly, as inflation falls the weight of the latter component in interest rates declines, causing a decline in interest rates. And if the fall in interest rates is steeper than the rise in the debt, there is a fall in interest payments as a per cent of GDP. If inflation declines rapidly the latter effect will become increasingly important over the medium-term, but will be less so in 1993, mainly due to the lagged response of interest rates to the fall in inflation.
35. On a cash basis the PSBR may fall to some 10 per cent of GDP.

36. The last period of optimism was between 1975 and 1978, just before the second oil shock. During this period inflows of foreign exchange (including current transfers, shipping receipts, financial and real capital) by Greeks amounted to nearly 10 per cent of GDP a year. These considerable sums, which supplemented domestic savings, permitted Greece to bring the rate of growth of GDP to 5½ per cent a year, double that of OECD Europe. It should also be noted that part of this capital is entrepreneurial capital, which brings know-how, introduces modern technology and management, and therefore has a big impact on productivity and efficiency as well. For a succinct analysis of the role in the economic development of Greece in the 1960s and 1970s of the sizeable support provided by Greeks from abroad see: *OECD Economic Survey of Greece*, July 1978, "The role of external inflows". The *OECD Economic Survey of Greece*, 1990/1991 (Part I, section "Weak internal and external constraints") briefly comments on the diminished role of these external funds in the 1980s, when confidence fell.
37. In order to increase their incomes some public sector employees have a second undeclared job. Absenteeism is also an important problem.
38. Car emissions increased considerably over this period, and they are now responsible for three-quarters of the total pollutants load currently produced.
39. In most cases nationalisation took place via the state controlled banks, which imposed a capitalisation of overdue debts or interest, so that the banks became the majority shareholders. Nationalisation was, therefore, achieved without immediate cost to the state purse. However, as criteria were not uniform, a few loss-making companies were bought at a price considerably above the market price (e.g. the Skaramanga shipyards).
40. Wages of unskilled and low to medium-level civil servants are higher than similar private sector wages. By contrast, remuneration of educated, trained and senior level personnel in the private sector may be as high as three to four times that of corresponding civil servants. In most public utilities and state controlled banks the average wage level, especially that of the senior personnel, is considerably higher than that of civil servants.
41. Education pay allowances and function pay allowances have risen somewhat (e.g. a civil servant appointed to a General Directorship post gets an increase of about 20 per cent). On the other hand, the basic pay increases were proportional in the last two years and almost all employees got a flat increase of Dr 18 000, further narrowing the pay differential.
42. As was to be expected, compulsory transfers raised opposition. A notorious case is the prolonged strike by cleaning personnel in one hospital, protesting against plans to move excess personnel to another hospital not far away, claiming that they had an "acquired right" to work (by implication less than normal hours) in the first hospital. In the end, only those who volunteered to do so were moved. Initially it was envisaged to move excess personnel from other ministries to the Ministry of Finance to increase the number of tax inspectors, but because of the opposition of the latter this plan did not materialise.
43. There have been reported abuses in the screening of applicants, so that many people who did not really belong to this special category benefited. In March 1992, in order to stop the controversies regarding appointment under the "people with special needs" category, a law was passed legalising the appointments under this scheme. A rare example of sanctions for

abusive use of power was the dismissal of the director of the Post Office in 1991 because of illegal recruitment, including athletes, under the scheme for disabled persons.

44. The public's distrust of the tax administration and the belief that the anti-fraud measures will not be applied in full were manifested again in early 1992 when people filed their tax statements for 1991. On a voluntary and no questions asked basis, the government invited people to declare any assets and their corresponding values in their tax statements, thus, giving them the right to liquidate these assets in the future to buy "expensive" items, so exempting them from the obligation to justify the sources of their funds. Only 9 per cent of those who filed tax statements took advantage of this offer.
45. Because 100 working days in the year suffice to obtain full social security coverage, construction workers rarely declare more than 100 days of work, even if they have done double that.
46. The balance sheets and accounts of a few firms are not complete or are published with long delays. Some firms receive subsidies and, therefore, their real situation is blurred; there have been repeated cases of capitalisation of overdue interests and conversion of debt to equity; liabilities, notably to the social security system are not always complete; bad and dubious loans by certain companies, including a few state banks, are not properly recorded in their accounts.
47. A complex deal was concluded between the National Bank of Greece and the Italian Calcestruzzi. The first acquired 34.2 per cent of the shares; and the second bought 35.7 per cent and effectively took over the management of the company.
48. The government would also like to privatise the urban public transport system in the Greater Athens Area and in the absence of private buyers it has offered the transport system to the employees free of charge. The latter, however, preferring to continue to receive subsidies rather than become shareholders, have refused the offer.
49. Despite the fact that the price list issued by the Greek Trade Union of Men and Women Hairdressers in 1991 was found to constitute anti-competitive behaviour, no fine was imposed, but simply the verdict was the withdrawal of the list. In 1991, the "Greek Bottling Company SA (3E)", after the acquisition of another company, was found to have contravened the anti-competition laws, including the abuse of its dominant position (60 per cent of the soft drink and fruit juices' market). Eventually a light fine was imposed and the acquisition was ratified.
50. Some shops have a licence to sell bread, but usually sell special kinds of higher quality breads and only if there is a minimum shop space allocated exclusively for the sale of bread. The latter condition has been imposed ostensibly on hygiene grounds, but it is actually aimed at increasing costs, so that selling bread is not very profitable.
51. Conditions for oligopolistic behaviour exist in a number of sectors and periodically behaviour by firms in these sectors suggests that there may have been collusion (e.g. pharmacies, private schools, the meat and livestock trade, cement production, canning).
52. Rents to be increased in two instalments so as to attain 5 per cent of the "objective" value of the apartment and 7 per cent for new contracts. Furthermore, it was decided to increase rents by an additional 12 per cent in July 1991 and 8 per cent in July 1992.

53. The law provides for the eviction of tenants by giving them a large premium (80 months' rent), but tenants can refuse to move if they offer to lift the rent to 10 per cent of the "objective" value. Moreover, the law provides for a minimum period of 6 years for new leases, with the possibility of a three-year extension.
54. Alongside the clearing mechanism for cheques, the authorities plan to establish a new clearing mechanism to make the transfer of funds from one bank to another by a simple order possible.

Annex

Statistical problems

Greek statistical series are relatively few compared to other OECD countries, many of them are unreliable, some are published with long delays and their presentation is such that it gives no clear view of trends. This represents a serious handicap for users and especially for the government which has to formulate policies based on these defective data. The OECD has often drawn the Government's attention to this problem, but so far there has been no improvement¹. In order to demonstrate the seriousness of the problem some of the issues are discussed below.

National accounts data at constant prices are still based on 1970 prices and weights, and given the large transformations in the Greek economy since then this basis is no longer representative of today's Greek economy. Lately, the industrial production index was rebased to 1980 and is, therefore, a more reliable indicator.

The expenditure-based GDP in the National Accounts includes a large statistical discrepancy, which sometimes accounts for more than the change in the overall GDP. For example, in 1990 the contribution of the statistical discrepancy to GDP amounted to 2.7 percentage points while the actual growth of GDP was 0.5 per cent, i.e. the contribution of the statistical discrepancy accounted for more than five times the growth of GDP. This suggests that the changes in most if not of all the GDP components presented were wrong. To some extent this is explained by the underground economy. In addition, export and import data included in the National Accounts are based in part on customs' statistics, which do not seem to accurately reflect the real situation. There are very large discrepancies in the global values of merchandise trade between the balance of payments on a cash basis presented by the Bank of Greece and the transaction basis data presented by the National Statistical Service (N.S.S.). For example, in 1991 when domestic demand stagnated the Greek National Accounts showed an unreasonably large increase – 13 per cent – in merchandise import volumes. Furthermore, the intra-year figures are distorted: there was a decrease of 0.2 per cent between January and October 1991 over a year earlier, more than offset by a 120 per cent increase in November 1991 and a 48 per cent increase in December of 1991 over year earlier figures.

The above differences are also reflected in the unusually large difference (3 percentage points) in the current balance of payments deficit as a per cent of GDP in 1991 between the Bank of Greece data (2.1 per cent) and the national accounts data (5.1 per cent).

The series of income-based GDP are also incomplete. The most important problem concerns the "Consolidated appropriation account for households and private non-profit institutions". The largest item, after that of wages and salaries, is the "income from property and entrepreneurship accruing to households" category, which includes income from self-employment, rent, interest receipts, other revenues from real and financial investments, profits of small business, corporate profits both of large private and public companies. A disaggregation into its different components, though difficult, is possible and would be extremely useful to all concerned. In particular, sufficient data exist to estimate corporate profits and interest receipts, so that policy makers could start monitoring these very important aggregates.

There are also very large differences between the PSBR on an accrual basis and on a cash basis (for example it represented 3 per cent of GDP in 1991). Moreover, some of the data presented in the national accounts tables, which are in principle on an accrual basis, are in effect on a cash basis. A reconciliation of the series is possible and desirable, especially as it concerns an aggregate that is at the centre of all discussions and the evolution of which would have a marked impact on overall economic developments over the medium-term.

Data concerning total dependent employment and its composition between the public sector and the private sector on the one hand, and within the public sector on the other, are difficult to reconcile with average wage data and the national wage bill. Moreover, the government wage bill also includes expenditure on civil servants' pensions and some other categories. To the extent that both the level and the change in the wage and average pension, as well as the number of civil servants and retired civil servants, differ significantly, the global wage bill data does not permit the evaluation of the factors behind the changes.

The *Monthly Statistical Bulletin* of the N.S.S. is published with very long delays (the January 1992 volume was published in May 1992) and many of the series, some of particular interest to economists, refer to developments that took place a year or even two years before publication. For example, the Bulletin published in May 1992 gave the monthly earnings of industrial workers up to the second quarter of 1991, employment in manufacturing up to August 1991, unemployment up to October 1989, industrial production up to October 1991, government revenues up to September 1990, etc. The *Monthly Statistical Bulletin* of the Bank of Greece is also published with long delays, but the series presented are usually more up to date than those of the N.S.S.

A few years ago the Ministry of National Economy began publishing more up-to-date selected statistical series than the afore-mentioned publications. However, from the way the series are presented it is not possible to obtain a good overview of the profile of developments and, therefore, they are of limited use.

1. A detailed analysis of some of the problems involved were made in the OECD Economic Survey of Greece, 1983-84, Annex I.

STATISTICAL ANNEX

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Table A. National product and expenditure

Billion drachmae

	1981	1982	1983	1984	1985	1986	1987	1988	1989 ¹	1990 ¹
At current prices										
Consumers' expenditure	1 383.1	1 734.2	2 053.6	2 461.4	3 025.5	3 718.9	4 346.9	5 143.4	6 175.7	7 542.5
Government current expenditure	368.6	471.2	579.4	742.8	942.1	1 067.2	1 224.8	1 507.5	1 803.3	2 229.1
Gross fixed capital formation ²	456.4	513.5	624.0	702.9	880.4	1 018.1	1 074.7	1 318.4	1 689.6	2 055.3
Change in stocks	64.3	29.8	49.2	36.3	102.9	75.0	28.3	130.8	107.1	142.9
Exports of goods and services	422.4	473.0	609.5	824.6	977.6	1 233.1	1 536.8	1 800.9	2 018.8	2 279.1
less: Imports of goods and services ²	556.1	738.3	925.4	1 139.1	1 513.5	1 703.3	1 993.4	2 290.7	2 810.3	3 445.3
Net income from the rest of the world	59.0	57.8	30.4	1.9	-33.8	-67.8	-63.4	-56.6	-85.2	-46.1
Statistical discrepancy	-88.4	91.2	88.9	176.7	202.9	105.7	40.5	-83.9	-206.8	-234.4
Gross national product at market prices	2 109.1	2 632.4	3 109.6	3 807.6	4 584.0	5 446.9	6 195.1	7 469.8	8 692.2	10 523.1
Gross domestic product at market prices	2 050.1	2 574.7	3 079.2	3 805.7	4 617.8	5 514.7	6 258.5	7 526.4	8 777.4	10 569.2
At 1970 prices										
Consumers' expenditure	325.9	338.5	339.4	345.2	358.7	361.0	364.7	377.7	393.8	401.8
Government current expenditure	73.6	75.3	77.4	79.8	82.3	81.6	82.3	86.2	89.9	89.7
Gross fixed capital formation ²	85.8	84.1	83.0	78.3	82.4	77.2	73.3	79.8	87.8	92.8
Change in stocks	10.3	5.8	6.1	3.8	10.1	8.8	2.3	11.8	5.5	-1.2
Exports of goods and services	83.3	77.3	83.5	97.6	98.9	112.8	130.8	142.6	144.5	145.7
less: Imports of goods and services ²	100.9	108.0	115.1	115.4	130.1	135.1	157.4	170.1	188.4	211.0
Net factor income from the rest of the world	10.5	8.2	3.7	0.2	-3.8	-7.0	-6.1	-5.2	-7.0	-3.5
Statistical discrepancy	-4.2	2.6	3.2	1.4	3.8	7.8	14.8	3.6	17.0	31.9
Gross national product at market prices	484.3	483.9	481.3	490.9	502.3	507.2	504.6	526.4	543.1	546.2
Gross domestic product at market prices	473.8	475.6	477.6	490.7	506.0	514.2	510.7	531.6	550.1	549.7

1. Provisional data.

2. Excluding ships operating overseas.

Source: Ministry of National Economy, *National Accounts of Greece*.

Table B. Gross fixed capital formation

Million Drachmae

	1981	1982	1983	1984	1985	1986	1987	1988	1989 ¹	1990 ¹
At current prices										
Total	456 350	513 500	624 000	702 900	880 370	1 018 098	1 074 694	1 318 384	1 689 597	2 055 385
Dwellings	126 373	135 292	163 012	152 214	178 072	248 326	286 869	329 292	403 443	534 627
Other buildings	68 547	61 368	73 480	87 741	96 281	124 848	140 934	195 073	221 768	280 886
Other construction and works	98 932	98 556	132 849	173 972	235 420	245 508	214 657	265 806	335 991	375 983
Transport equipment	49 045	78 217	65 942	64 849	90 364	89 966	89 971	94 230	142 917	206 025
Machinery and other equipment	113 453	140 067	188 717	224 124	280 233	309 450	342 263	433 983	585 478	657 864
Private	334 850	360 000	408 700	416 850	505 300	633 578	733 889	919 419	1 175 386	1 491 140
Public	121 500	153 500	215 300	286 050	375 070	384 520	340 805	398 965	514 211	564 245
At 1970 prices										
Total	85 750	84 100	83 000	78 300	82 360	77 234	73 315	79 831	87 839	92 820
Dwellings	21 452	20 398	21 124	17 083	17 097	19 399	20 044	20 691	21 741	24 151
Other buildings	11 636	9 252	9 529	9 848	9 241	9 752	9 849	12 257	11 948	12 689
Other construction and works	17 269	14 061	15 396	15 962	17 883	14 737	11 812	12 603	13 665	13 194
Transport equipment	12 445	16 427	11 207	9 081	10 354	8 569	7 351	6 645	8 816	10 732
Machinery and other equipment	22 948	23 962	25 744	26 326	27 785	24 777	24 259	27 635	31 669	32 054
Private	63 495	60 300	56 000	48 570	49 670	50 525	52 436	58 335	63 993	70 026
Public	22 255	23 800	27 000	29 730	32 690	26 709	20 879	21 496	23 846	22 794

Note: Data exclude investment in ships operating overseas.

1. Provisional data.

Source: Ministry of National Economy, *National Accounts of Greece*.

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

Billion Drachmae, current prices

	1981	1982	1983	1984	1985	1986	1987	1988 ¹	1989 ¹	1990 ¹
Wages and salaries of non-agricultural branches	831.4	1 069.4	1 287.3	1 574.5	1 962.7	2 204.3	2 473.6	3 003.2	3 617.4	4 369.0
Agricultural income	313.8	405.8	439.1	562.1	677.7	742.8	816.6	1 030.7	1 214.0	1 349.9
Income from property and entrepreneurship ²	602.0	668.5	794.0	953.9	1 161.7	1 495.4	1 768.3	2 203.0	2 599.6	3 504.6
Net current transfers from government	218.5	326.6	399.6	511.6	670.3	802.6	918.1	1 109.0	1 327.7	1 537.5
Net current transfers from the rest of the world	60.3	70.2	82.4	103.9	110.3	137.2	186.4	245.0	225.8	272.0
Income of households and private non-profit institutions	2 026.0	2 540.5	3 002.4	3 706.0	4 582.7	5 382.3	6 163.0	7 590.8	8 984.5	11 033.0
less: Direct taxes	75.2	118.4	138.2	183.1	207.8	252.7	278.1	347.4	340.7	459.7
Social security contributions	186.7	262.4	334.3	423.3	523.6	600.9	672.2	782.5	888.0	1 026.1
Disposable income	1 764.0	2 159.7	2 529.9	3 099.6	3 851.3	4 528.7	5 212.7	6 461.0	7 755.8	9 547.2
Consumption	1 383.1	1 734.2	2 053.6	2 461.4	3 025.5	3 718.9	4 346.9	5 143.5	6 175.7	7 542.5
Saving	381.0	425.5	476.3	638.2	825.8	809.8	865.8	1 317.5	1 580.1	2 004.7
<i>Memorandum item:</i>										
Consumption by main components ³ (per cent of total private domestic consumption)										
Food, drinks, tobacco	41.4	41.2	41.1	40.8	39.3	38.8	38.5	38.1	38.3	37.9
Clothing, shoes (including repairs)	8.9	8.5	8.0	8.3	8.6	9.0	9.1	9.3	9.2	8.8
Rent	11.9	11.7	11.6	11.4	10.9	10.7	11.3	11.6	11.3	11.5
Durable household goods	8.1	8.1	8.6	8.4	8.4	8.3	8.6	8.4	8.4	8.2
Other	29.8	30.6	30.7	31.1	32.8	33.2	32.5	32.6	32.8	33.6

1. Provisional data.

2. Including saving of corporations.

3. Based on direct estimate of private consumption; includes non-residents' expenditure and excludes residents' expenditure abroad.

Source: Ministry of National Economy, *National Accounts of Greece*.

Table D. Government revenue and expenditure

Billion drachmae, current prices

	1981	1982	1983	1984	1985	1986	1987	1988 ¹	1989 ¹	1990 ¹
Central government										
Current revenue	340.8	471.6	581.4	762.3	901.2	1 174.6	1 395.1	1 558.5	1 662.9	2 333.4
Direct taxes	86.3	139.6	154.8	208.3	236.7	307.9	346.7	410.4	422.3	605.8
Indirect taxes	240.6	323.5	410.9	520.7	632.4	829.5	1 013.7	1 141.1	1 231.3	1 698.2
Other	13.9	8.4	15.8	33.3	32.1	37.2	34.8	7.0	9.3	29.4
Current expenditure	512.4	622.8	748.2	965.2	1 285.2	1 477.4	1 829.3	2 327.0	2 869.6	3 843.9
Goods and services	282.2	358.3	432.0	540.8	675.7	751.0	863.4	1 051.2	1 259.1	1 526.1
Interest on public debt	65.3	66.6	103.0	162.3	238.8	295.2	407.9	549.4	631.2	1 164.0
Transfers and subsidies	165.0	197.9	213.2	262.1	370.7	431.2	558.0	726.4	979.3	1 153.9
Saving	-171.7	-151.3	-166.8	-202.9	-384.0	-302.8	-434.2	-768.5	-1 206.7	-1 510.6
General government										
Current revenue	590.8	823.5	1 021.5	1 303.1	1 581.3	1 938.1	2 255.3	2 549.3	2 778.7	3 584.1
Direct taxes	96.0	151.0	168.0	226.3	259.0	335.7	378.2	448.5	460.7	645.0
Households	75.2	118.4	138.2	183.1	207.8	252.7	278.1	347.4	340.7	459.7
Business	20.8	32.6	29.8	43.3	51.2	83.1	100.2	101.1	120.0	185.3
Indirect taxes	267.4	366.7	465.4	578.9	705.0	910.9	1 091.4	1 224.2	1 314.4	1 785.4
Social security contributions	186.7	262.4	334.3	423.3	523.6	600.9	672.2	762.5	888.0	1 026.1
Other	40.7	43.4	53.9	74.6	93.7	90.5	113.5	114.0	115.6	127.6
Current expenditure	730.4	943.3	1 163.7	1 508.0	2 001.3	2 345.2	2 747.9	3 331.2	3 998.0	5 210.9
Consumption	368.6	471.2	579.4	742.8	942.1	1 067.2	1 224.8	1 507.6	1 803.3	2 229.1
Interest payments	65.3	66.6	113.0	173.3	247.0	316.4	448.9	592.1	722.8	1 262.5
Transfers and subsidies	296.6	405.4	471.3	591.9	812.2	961.5	1 074.3	1 231.5	1 471.9	1 719.3
Business	76.3	75.7	66.3	76.5	137.6	153.8	152.1	122.0	143.6	176.2
Individuals	218.5	326.6	399.6	511.6	670.3	802.6	918.1	1 104.4	1 323.1	1 537.5
Rest of the world	1.8	3.1	5.4	3.9	4.3	5.1	4.1	5.2	5.2	5.6
Net saving	-139.6	-119.8	-142.2	-204.9	-420.0	-407.0	-492.6	-781.9	-1 219.3	-1 626.8
Net capital transfers	6.5	10.7	14.7	23.0	27.5	60.0	67.0	73.0	90.0	95.0
Fixed investment	63.5	72.7	111.1	162.1	208.0	227.5	201.7	243.2	296.0	326.4
EC transfers	..	5.8	4.5	5.6	7.4	7.8	30.0	43.0	48.0	81.9

1. Provisional data.

Source: Ministry of National Economy, *National Accounts of Greece*.

Table E. **Industrial production**
1980=100

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Industrial production, total	100.7	101.6	101.3	103.6	107.1	106.2	104.5	110.8	112.8	110.1
Mining and quarrying	100.4	148.3	161.4	178.2	182.6	184.5	181.4	188.8	179.5	173.8
Manufacturing	100.7	98.6	97.2	98.5	101.0	100.3	98.3	103.2	105.6	102.6
Food, beverages and tobacco	104.2	105.7	107.7	115.1	121.5	114.8	107.2	117.0	126.6	119.9
Of which:										
Tobacco	94.0	105.3	114.2	107.1	119.3	119.3	94.7	99.8	92.2	112.5
Food	106.1	105.8	107.0	117.6	120.6	109.1	103.7	114.8	126.7	113.2
Other manufacturing	99.9	97.1	94.9	94.9	96.5	97.1	96.4	100.2	101.1	98.9
Of which:										
Textiles	100.5	93.8	92.0	92.0	95.5	102.0	104.0	101.3	99.1	95.1
Chemicals	97.9	98.0	105.4	114.0	121.6	115.7	116.3	125.8	132.4	133.3
Non-metallic minerals	95.8	94.5	91.2	92.8	90.4	93.3	95.2	99.5	95.6	100.1
Basic metals	92.4	83.0	90.5	92.5	94.0	90.2	87.5	98.0	97.9	99.3
Metal products	100.5	102.9	101.8	100.7	89.7	96.3	82.0	90.5	83.8	74.4
Consumer goods industries	107.1	104.3	104.3	106.2	110.0	110.5	108.1	112.0	115.8	107.1
Capital goods industries	88.2	86.6	82.9	81.6	81.1	79.7	75.5	83.7	82.9	92.1

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

Table F. Prices and wages

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Consumer prices (1988=100)										
Total	29.9	36.2	43.5	51.6	61.5	75.7	88.1	100.0	113.7	136.9
Of which:										
Food	32.9	39.8	47.0	55.6	66.4	79.9	90.0	100.0	119.2	144.3
Alcoholic beverages and tobacco	27.0	33.3	39.5	47.1	54.0	65.3	75.6	100.0	115.7	146.7
Clothing and footwear	23.1	29.4	36.0	45.4	55.5	69.6	84.7	100.0	114.6	134.4
Housing	35.2	41.7	47.4	54.4	63.7	76.9	88.2	100.0	110.0	136.1
Durable goods and household supplies	27.2	32.8	41.2	49.1	59.1	76.8	91.5	100.0	110.4	127.5
Transport and communication	36.0	41.5	50.2	56.0	65.5	82.9	92.4	100.0	106.8	134.9
Wholesale prices (1980=100)										
Total	125.4	146.9	176.9	212.3	255.2	298.0	327.2	360.2	408.6	473.7
Finished products of local primary and secondary production for home consumption	124.9	147.4	176.0	206.3	245.3	292.8	319.6	352.1	397.6	474.3
Local primary production	127.5	154.9	181.2	215.4	258.8	288.4	321.1	352.7	408.7	503.1
Local industrial production	124.5	145.7	174.9	204.2	241.2	293.8	319.2	352.0	395.0	467.8
Finished products of foreign origin	125.5	145.6	180.7	223.9	281.1	248.8	391.6	427.8	481.1	541.7
Of which:										
Agriculture	107.4	101.5	115.0	149.2	190.6	196.0	180.3	202.2	250.6	267.4
Livestock	135.3	147.6	174.9	212.3	255.4	318.7	356.3	383.6	433.3	476.8
Manufacture of petroleum and coal derivatives	149.2	170.2	205.4	235.8	305.3	271.5	250.4	295.6	377.6	439.6
Exported products of local primary and industrial production	127.2	145.6	176.7	224.9	269.7	274.7	300.6	332.5	387.4	413.4
Agriculture	116.5	122.0	138.3	177.4	233.6	256.3	289.4	309.1	323.4	359.4
Livestock	118.9	129.4	133.0	160.0	210.9	238.9	233.2	247.7	274.0	287.2
Manufacture of textiles	118.4	132.7	173.0	227.6	274.2	315.3	368.9	394.6	440.0	519.7
Chemical industries	135.9	151.1	183.7	242.7	300.9	292.4	264.2	321.6	427.8	421.2
Extraction of non-metallic mineral products	140.8	169.1	211.5	273.8	358.6	439.4	474.6	497.0	546.3	612.8
Wages (1985=100)										
Hourly earnings in manufacturing ¹	41.5	55.3	66.1	83.5	100.0	112.7	123.6	146.3	176.4	210.5

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

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

Table G. Foreign trade by commodity group

US \$ million

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Exports, fob	4 296.6	4 412.2	4 864.1	4 536.1	5 649.8	6 524.3	5 306.9	7 543.2	8 020.6
Food and live animals	949.7	971.1	1 070.7	967.2	1 247.8	1 357.4	940.2	1 567.9	1 627.7
Beverages and tobacco	227.9	237.0	225.1	207.3	286.9	364.7	290.6	368.7	443.6
Tobacco, unmanufactured	191.7	192.5	183.1	149.9	213.5	275.9	224.1	254.6	312.1
Crude materials, inedible, except fuels	286.4	295.4	349.5	336.5	331.6	430.6	324.3	523.2	456.7
Mineral fuels, lubricants	462.4	305.6	492.2	546.4	370.7	436.3	275.2	410.4	588.0
Animal and vegetable oils and fats	82.5	252.4	183.6	94.0	206.3	211.2	73.9	355.6	302.5
Chemicals	209.5	188.5	193.1	183.6	186.1	203.2	207.5	300.1	314.9
Manufactured goods classified chiefly by material	1 287.8	1 330.9	1 447.4	1 304.9	1 548.3	1 709.1	1 490.0	1 913.9	1 889.6
Leather and leather products	72.6	77.3	73.4	68.5	121.1	150.9	93.7	89.1	75.3
Textiles	429.7	436.5	468.0	413.9	549.4	629.8	460.3	494.4	500.1
Iron and steel	173.3	191.3	316.4	292.5	310.7	264.6	268.9	457.9	415.0
Aluminium	135.3	150.3	171.1	142.2	131.3	205.1	213.2	264.9	279.3
Machinery and transport equipment	197.2	152.7	123.3	132.3	165.2	176.9	170.1	248.7	337.5
Miscellaneous manufactures	575.2	640.6	745.0	753.2	1 239.9	1 598.7	1 321.8	1 627.6	1 864.5
Clothing	456.8	526.2	610.6	627.6	1 086.1	1 444.0	1 204.2	1 471.3	1 675.2
Footwear	52.0	50.0	60.6	60.1	74.2	73.7	43.6	55.4	59.0
Imports, cif	10 012.1	9 501.2	9 610.9	10 137.9	11 319.4	12 927.1	11 988.3	16 102.9	19 701.4
Food and live animals	1 145.1	1 119.6	1 106.9	1 164.3	1 681.3	2 153.3	1 830.4	2 230.8	2 506.9
Beverages and tobacco	67.4	71.6	71.0	79.2	101.5	142.6	152.8	243.2	323.7
Crude materials, inedible, except fuels	599.7	585.5	561.3	580.6	699.5	772.6	726.3	841.2	954.1
Mineral fuels, lubricants	2 873.0	2 608.2	2 628.6	2 996.5	2 006.3	1 788.0	610.3	1 037.3	1 530.5
Petroleum, crude	2 707.0	2 369.5	2 247.8	2 618.1	1 634.5	1 496.8	462.4	781.5	997.2
Petroleum products	95.6	121.1	214.3	277.8	214.1	219.5	111.2	201.7	456.1
Animal and vegetable oils and fats	16.8	13.1	10.3	16.7	35.5	74.3	57.8	51.2	81.4
Chemicals	784.9	794.8	861.6	870.7	1 187.4	1 422.5	1 417.9	1 710.0	2 068.1
Manufactured goods classified chiefly by material	1 566.7	1 577.8	1 520.0	1 614.1	2 159.1	2 664.9	2 647.1	3 644.7	4 306.3
Machinery and transport equipment	2 557.9	2 361.4	2 470.0	2 401.7	2 930.2	3 164.5	3 622.0	4 967.1	6 120.4
Road motor vehicles	721.6	570.3	468.9	574.8	702.2	805.4	777.6	1 240.4	1 981.0
Aircraft	30.1	13.6	22.7	44.8	64.7	16.7	14.8	70.7	109.9
Ships and boats	502.6	529.0	723.5	556.3	568.7	558.0	696.4	805.1	527.1
Other machinery and equipment	1 303.5	1 248.5	1 254.9	1 225.9	1 594.7	1 784.4	2 133.2	2 850.9	3 502.5

Source: OECD, Foreign Trade Statistics, Series C.

Table H. Foreign trade by area
US \$ million

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Exports,fob										
Total	4 257.0	4 298.0	4 413.2	4 815.7	4 549.9	5 648.4	6 526.2	5 446.5	7 567.1	8 085.5
OECD-Total	2 436.6	2 606.6	2 821.7	3 371.1	3 196.8	4 408.8	5 401.2	4 345.1	6 086.9	6 420.9
OECD Europe	2 002.0	2 169.7	2 486.1	2 854.1	2 720.6	3 901.9	4 812.6	3 876.1	5 475.5	5 772.6
EC	1 896.9	2 054.4	2 358.2	2 660.0	2 497.8	3 626.7	4 398.6	3 532.1	4 990.8	5 202.6
Germany	802.5	831.4	901.2	959.4	947.9	1 369.5	1 619.5	1 395.9	1 623.5	1 792.5
France	286.3	299.2	327.9	405.8	361.3	536.2	562.1	471.3	664.3	777.1
Italy	301.8	376.0	599.0	660.5	512.7	763.8	1 057.2	770.1	1 535.5	1 384.0
United Kingdom	211.5	204.9	215.0	298.3	317.5	385.7	537.8	421.5	558.6	587.7
Other OECD Europe	105.1	115.2	128.0	194.0	222.8	275.2	414.0	344.1	484.7	570.0
North America	388.2	387.9	289.4	432.2	402.7	440.3	489.7	370.9	480.5	498.9
Ex-COMECON	327.3	324.2	300.8	266.4	286.0	238.2	242.6	204.6	329.8	324.7
OPEC	2 436.6	2 606.6	2 821.7	3 371.1	3 196.8	4 408.8	5 401.2	4 345.1	6 086.9	6 420.9
Other	699.4	688.5	593.8	595.7	617.5	565.4	542.8	583.1	816.4	953.1
Imports,cif										
Total	8 788.7	10 025.7	9 500.3	9 434.9	10 163.6	11 351.0	13 151.9	12 284.1	16 102.5	19 717.2
OECD-Total	5 973.3	6 447.2	6 383.0	6 298.6	6 526.6	8 447.4	9 832.7	9 836.2	12 952.5	16 020.3
OECD Europe	5 010.2	5 285.9	5 278.6	5 215.5	5 440.9	7 289.9	8 830.4	8 528.3	11 212.8	14 003.4
EC	4 551.5	4 777.2	4 708.6	4 740.5	4 967.8	6 661.0	8 029.2	7 736.7	10 075.3	12 697.6
Germany	1 780.7	1 744.5	1 696.6	1 688.1	1 797.5	2 448.2	2 934.0	2 531.5	3 244.2	4 104.0
France	575.5	706.2	652.8	659.8	656.4	913.5	1 019.7	982.2	1 106.1	1 595.9
Italy	855.0	918.8	849.0	923.8	954.2	1 308.3	1 642.3	1 786.9	2 416.4	3 038.3
United Kingdom	435.6	364.7	393.7	375.2	386.5	469.6	634.5	610.4	935.7	1 040.3
Other OECD Europe	458.7	508.7	570.0	475.0	473.1	629.0	801.2	791.5	1 137.5	1 305.8
North America	488.5	467.8	384.6	308.8	352.4	380.2	403.0	527.4	623.3	792.2
Ex-COMECON	534.9	492.9	437.9	680.3	689.7	490.0	627.2	594.9	640.2	775.1
OPEC	1 087.2	2 287.8	2 041.3	1 788.8	2 260.3	1 367.5	1 211.3	366.7	792.6	1 129.1
Other	1 192.5	797.0	637.6	665.7	686.8	1 046.0	1 461.7	1 477.9	1 706.1	1 780.4

Source: OECD, Foreign Trade Statistics, Series A.

Table 1. **Balance of payments, OECD basis**
US \$ million

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Exports, fob	4 772	4 141	4 106	4 394	4 293	4 513	5 612	5 933	5 994	6 365
Imports, fob ¹	10 149	8 910	8 400	8 624	9 346	8 936	11 112	12 005	13 377	16 543
Trade balance	-5 377	-4 769	-4 294	-4 230	-5 053	-4 423	-5 500	-6 072	-7 383	-10 178
Invisibles, net ²	2 969	2 877	2 416	2 098	1 777	2 747	4 277	5 114	4 822	6 641
of which: Travel, net	1 520	1 153	814	974	1 060	1 340	1 761	1 663	1 160	1 498
Transportation, net	203	294	41	-142	-320	-300	-409	-343	-516	-545
Migrant remittances	1 057	1 016	912	898	775	942	1 334	1 675	1 350	1 774
Receipts in convertible drachmae	438	371	411	372	451	596	1 135	1 327	1 494	2 242
Current balance ³	-2 408	-1 892	-1 878	-2 132	-3 276	-1 676	-1 223	-958	-2 561	-3 537
Long-term capital (excl. spec. trans.)	1 589	1 239	2 110	1 773	2 766	2 151	1 387	1 438	1 941	2 975
Basic balance	-819	-653	232	-359	-510	475	164	480	-620	-562
Short-term capital, including errors and omissions	389	418	-408	152	292	-491	202	544	-272	-16
Balance on non monetary transactions	-430	-235	-176	-207	-218	-16	366	1 024	-892	-578
Private monetary institutions										
short-term capital	272	122	276	338	77	286	440	125	550	618
Balance of official settlements	-158	-113	100	131	-141	270	806	1 149	-342	40
Use of IMF credit	-76	-17	0	0	0	0	0	0	0	0
Miscellaneous official accounts	52	17	0	0	2	0	0	0	0	0
Allocation of SDR's	24	0	0	0	-2	0	0	0	0	0
Change in reserves (+ = increase)	-158	-113	100	131	-141	270	806	1 149	-342	40
a) Gold	4	1	0	8	17	-320	-100	94	13	6
b) Currency assets	-215	-129	67	127	-150	596	906	1 053	-377	54
c) Reserve position in IMF	0	0	32	-5	-7	-6	0	2	22	-20
d) Special Drawing Rights	-23	0	1	1	-1	0	0	0	0	0

1. Original figures for imports are on a cif basis. They are adjusted to fob basis by deduction of 10 per cent representing the estimated cif-fob margin.

2. Services debits include 10 per cent of imports as an approximation of the freight content of imports not recorded in original figures.

3. In line with official changes, from 1974 the current account deficit has been revised to include receipts in convertible Drachmae for services rendered.

Sources: OECD estimates.

Table J. Money and banking

Million Drachmae, end of period

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
A. Money										
1. M1 (2+3)	385 927	471 236	535 729	651 589	797 449	879 692	1 046 463	1 202 325	1 517 764	1 880 821
2. Currency in circulation	260 457	300 165	342 607	400 759	505 260	541 446	628 868	735 472	969 318	1 162 041
3. Sight deposits	125 470	171 071	193 122	250 830	292 189	338 246	417 595	466 853	548 446	718 780
4. Private	74 800	89 565	106 744	141 773	169 810	197 370	218 118	237 721	295 648	421 447
5. Public entities	39 759	50 688	71 231	86 556	98 314	119 959	164 508	173 331	184 021	245 624
6. Public enterprises	10 911	30 818	15 147	22 501	24 065	20 917	34 969	55 801	68 777	51 709
7. Quasi-money (8+9+12)	1 102 916	1 443 141	1 763 831	2 315 690	2 961 294	3 589 304	4 544 988	5 656 569	6 960 893	7 799 956
8. Savings deposits	747 642	968 630	1 167 315	1 542 619	1 973 986	2 401 404	3 021 269	3 849 822	4 852 456	5 549 242
9. Time deposits	310 605	421 809	534 875	702 236	901 882	1 087 203	1 403 467	1 658 143	1 939 299	2 055 854
10. Private	303 640	414 736	527 792	693 119	888 323	1 073 244	1 385 144	1 634 765	1 902 233	2 024 127
11. Public entities	6 965	7 073	7 083	9 117	13 559	13 959	18 323	23 378	37 066	31 727
12. Other deposits ¹	44 669	52 702	61 641	70 835	85 426	100 697	120 252	148 604	169 138	194 860
13. Bank bonds	30 578	48 311	77 070	127 400	184 623	266 012	302 065	384 723	481 204	593 950
14. Repos	0	0	0	0	0	0	0	0	0	48 501
15. M3, new definition (2+4+8+10+13+14)	1 417 117	1 821 407	2 221 528	2 905 670	3 722 002	4 479 476	5 555 464	6 842 503	8 500 859	9 799 308
16. Treasury bills	0	0	0	0	10 185	23 283	171 898	412 314	467 932	1 017 360
17. Bonds up to 1 year	0	0	0	0	0	0	0	0	0	144 594
18. M4 (15+16+17)	1 417 117	1 821 407	2 221 528	2 905 670	3 732 187	4 502 759	5 727 362	7 254 817	8 968 791	10 961 262
<i>Memorandum items:</i>										
Total private deposits in Drachmae	1 156 756	1 506 116	1 836 415	2 416 505	3 099 123	3 821 243	4 701 358	5 811 663	7 146 454	8 109 512
Total private deposits in foreign exchange	265 966	347 491	510 402	693 170	939 981	1 063 734	1 204 488	1 501 557	1 870 243	2 240 052
Total public sector deposit of which:	171 131	225 372	270 753	311 974	343 080	370 028	446 131	506 678	668 263	777 606
Deposits of public entities according to Law 1611/50	90 010	104 479	136 997	147 454	152 909	157 628	164 043	174 384	259 213	317 658

B. Banking

Total bank lending	1 277 873	1 625 645	1 921 981	2 357 825	2 852 419	3 403 638	3 832 720	4 558 791	5 614 893	5 925 913
By sector										
Private sector	1 084 069	1 352 807	1 591 302	1 914 644	2 274 499	2 580 151	2 719 657	3 176 313	3 917 239	4 457 052
Agriculture	199 806	256 975	325 732	412 712	495 577	587 104	652 057	782 788	767 118	919 162
Manufacturing and mining	541 391	667 937	774 667	927 030	1 108 545	1 227 447	1 232 535	1 378 885	1 697 417	1 764 570
Of which:										
Short-and medium-term	359 339	443 555	497 398	590 474	707 820	774 042	764 191	860 315	1 114 535	1 148 006
Long-term	182 052	224 382	277 269	336 556	400 725	453 405	468 344	518 570	582 882	616 564
Trade	95 426	114 952	122 215	143 944	170 080	192 263	194 973	232 490	367 495	499 662
Housing	126 758	174 660	213 493	258 707	306 757	352 582	393 687	462 185	615 448	701 546
Other	120 688	138 283	155 195	172 251	193 540	220 755	246 405	319 965	469 761	572 112
Public sector	193 804	272 838	330 679	443 181	577 920	823 487	1 113 063	1 382 478	1 697 654	1 468 861
Public enterprises	136 070	175 535	205 226	294 173	363 940	464 088	586 621	666 090	793 897	636 935
Public entities	29 908	67 940	95 567	143 089	214 843	353 612	492 067	644 618	781 777	676 093
Government purchasing agencies	27 826	29 363	29 886	5 919	-863	5 787	34 375	71 770	121 980	155 833
By lending institution										
Bank of Greece	26 486	16 954	11 767	11 447	13 416	13 721	6 832	7 189	9 280	8 848
Commercial banks	634 279	776 784	877 018	1 076 086	1 284 859	1 543 831	1 706 004	2 008 078	2 479 060	2 659 391
Special credit institutions	617 108	831 907	1 033 196	1 270 292	1 554 144	1 846 086	2 119 884	2 543 524	3 126 553	3 257 674

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

Source: Bank of Greece, Monthly Statistical Bulletin.

Table K. Structure of output and indicators of performance

	1970	1980	1985	1986	1987	1988	1989 ¹	1990 ¹
	Share of GDP							
A. Structure of output (1970 prices)								
Agriculture, forestry and fishing	18.2	14.5	13.5	13.6	12.9	13.2	12.9	11.4
Mining and quarrying	1.4	1.5	1.8	1.8	1.8	1.9	1.9	1.9
Manufacturing	19.1	21.3	19.9	19.6	19.2	19.2	19.0	18.5
<i>of which:</i>								
Food, drink and tobacco	3.6	4.1	4.5	4.2	4.0	4.1	4.3	4.1
Textiles	2.7	3.8	3.3	3.5	3.5	3.3	3.1	3.1
Chemical and allied trades	2.1	2.7	2.9	2.8	2.8	3.1	3.2	3.1
Stone, clay and glass	1.4	1.9	1.5	1.6	1.6	1.6	1.5	1.6
Metal manufacture, engineering and electric goods	1.4	1.3	1.1	2.2	1.9	1.9	1.9	1.7
Construction	8.9	6.3	5.0	4.9	5.0	5.2	5.2	5.5
Electricity, gas and water	2.0	3.3	3.8	3.8	4.1	4.1	4.2	4.7
Traded services ²	22.1	24.3	25.9	26.3	26.4	26.4	26.6	27.2
Non-traded services ³	21.5	22.1	23.7	23.8	24.3	24.0	24.1	24.5
Other	6.8	6.6	6.3	6.2	6.3	6.2	6.2	6.4
	Share of total investment							
B. Economic performance (1970 prices)								
Agriculture, forestry and fishing	10.6	6.7	9.2	6.3	5.5	5.6	5.3	5.1
Mining and quarrying	2.1	5.9	4.5	2.4	2.9	2.6	2.2	2.0
Manufacturing	14.2	16.1	13.4	16.9	18.4	19.0	17.9	18.2
Electricity, gas and water	7.2	7.2	12.9	9.6	7.5	7.6	8.0	7.7
Traded services ⁴	36.7	34.2	38.0	38.6	37.4	38.5	40.7	40.0
Non-traded services ⁵	29.1	30.0	22.0	26.2	28.3	26.8	25.8	27.1

1. Provisional data.

2. Transportation and communication, wholesale and retail trade, banking, insurance and real estate.

3. Ownership of dwellings, public administration and defence, health and educational services.

4. Transport and communication and other service industries.

5. Dwellings and public administration.

Source: National Statistical Service of Greece, Provisional Accounts of Greece.

Table L. Public sector

	1975	1980	1985	1986	1987	1988	1989	1990
Budgetary indicators: general government accounts								
(% of GDP)								
Primary receipts (excluding interest)	24.7	27.9	32.2	33.5	34.2	32.6	30.3	32.5
Primary expenditure (excluding interest)	19.5	30.8	43.4	42.0	41.2	41.6	42.6	41.0
Primary budget balance	5.3	-2.9	-11.2	-8.5	-7.0	-9.0	-12.3	-8.5
Net interest	1.0	-0.1	-3.3	-4.1	-5.4	-6.4	-6.9	-10.5
General government budget balance	6.3	-3.0	-14.5	-12.6	-12.4	-15.4	-19.2	-19.0
<i>Memorandum item:</i>								
Saving	0.7	-0.1	-9.1	-12.6	-7.9	-10.2	-13.9	-16.3
Structure of expenditure and taxes (% of GDP)								
General government current expenditure	26.4	30.3	43.3	42.5	43.9	44.3	45.6	50.2
Transfers	7.3	9.1	14.6	14.7	14.7	14.8	15.2	15.3
Subsidies	2.5	2.4	3.0	2.8	2.4	1.6	1.6	1.7
General expenditure:								
Education	1.9	2.2	3.0	2.8	2.8	2.9	...	...
Health	1.1	1.7	2.0	2.2	2.2	2.3	...	...
Tax receipts	25.5	29.4	35.1	36.9	37.3	34.7	33.3	36.5
Personal income tax	2.3	4.4	4.9	4.9	4.7	4.9	4.4	5.3
Corporate taxes	0.9	1.1	1.0	1.5	1.7	1.4	1.5	2.1
Social security contributions	7.5	9.7	12.5	12.0	11.6	10.8	10.5	10.4
Consumption taxes	11.9	12.1	15.0	16.8	17.8	16.1	15.0	16.7
of which: Value added tax ¹	...	...	...	...	8.0	8.0	8.1	9.2
Tax rates (%)								
Income tax as % of total tax	13.3	19.4	17.5	17.6	17.5	18.4	18.3	20.4
Income tax elasticity	1.5 ²	1.6	0.7	1.1	0.7	1.0	0.3	1.9
VAT rate ¹	...	...	...	...	16.0	16.0	16.0	...
Public sector debt, in Drs. bn. (end-period)								
Total	...	674	3 929	4 758	5 822	7 495	9 152	11 666
(as % of GDP)	...	39.4	85.1	86.3	93.0	99.6	104.3	111.6
General government	...	494	2 889	3 584	4 538	6 034	7 545	10 068
Public enterprises	...	180	1 040	1 174	1 284	1 461	1 607	1 598
Domestic	...	500	2 247	2 785	3 682	5 044	6 454	8 631
External	...	174	1 682	1 973	2 140	2 451	2 698	3 035
(in million US dollars)	...	3 727	11 227	14 151	16 909	16 454	17 219	19 034

1. Introduced only since 1st January 1987.

2. 1976 figure.

Sources: OECD, Revenue Statistics of OECD Member countries and Secretariat estimates; direct submission to the OECD.

BASIC STATISTICS:
INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

Units	Reference period ¹	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia	
Population																											
Total	Thousands	1989	16 833	7 624	9 938	26 248	5 132	4 964	56 160	61 990	10 033	253	3 515	57 525	123 120	378	14 849	3 343	4 227	10 337	38 888	8 493	6 723	55 255	57 236	248 762	23 690
Inhabitants per sq. km	Number	1989	2	91	326	3	119	15	102	249	76	2	50	191	326	145	364	12	13	112	77	19	163	71	234	27	93
Net average annual increase over previous 10 years	%	1989	1.5	0.1	0.1	1.0	0.0	0.4	0.5	0.1	0.5	1.1	0.4	0.2	0.6	0.4	0.6	0.6	0.4	0.5	0.5	0.2	0.6	2.4	0.2	1.0	0.8
Employment																											
Total civilian employment (TCE) ²	Thousands	1989	7 725	3 342	3 670	12 486	2 610	2 460	21 484	27 208	3 671	140	1 077	20 833	61 280	181	6 065	1 461	2 014	4 377	12 260	4 466	3 518	16 771	26 457	117 342	..
Of which: Agriculture	% of TCE		5.5	8.0	2.8	4.3	5.7	8.9	6.4	3.7	25.3	10.0	15.1	9.3	7.6	3.3	4.7	10.3	6.6	19.0	13.0	3.6	5.6	50.1	2.1	2.9	..
Industry	% of TCE		26.5	37.0	28.5	25.7	27.4	30.9	30.1	39.8	27.5	30.7	28.4	32.4	34.3	31.5	26.5	25.4	25.3	35.3	32.9	29.4	35.1	20.5	29.4	26.7	..
Services	% of TCE		68.0	55.1	68.7	70.1	66.9	60.2	63.5	56.5	47.1	59.3	56.5	58.2	58.2	65.2	68.8	64.3	68.1	45.7	54.0	67.0	59.3	29.5	68.4	70.5	..
Gross domestic product (GDP)																											
At current prices and current exchange rates	Bill US \$	1989	282.4	126.5	153.0	545.5	106.2	115.5	958.2	1 189.1	54.2	5.2	33.9	865.8	2 869.3	7.0	223.7	41.7	90.2	45.3	380.3	189.9	177.2	79.1	837.5	5 132.0	81.8
Per capita	US \$		16 800	16 603	15 393	20 783	20 685	23 270	17 061	19 182	5 399	20 516	9 644	15 051	23 305	18 613	15 063	12 503	21 341	4 623	9 711	22 360	26 350	1 432	14 642	20 629	3 454
At current prices using current PPP's ³	Bill US \$	1989	240.4	102.1	135.0	506.7	74.9	74.6	818.0	929.0	72.8	4.0	31.6	799.7	1 934.4	6.5	203.6	38.2	69.4	72.1	401.2	131.7	119.0	247.4	820.6	5 132.0	..
Per capita	US \$		14 304	13 407	13 587	19 305	14 594	15 030	14 565	14 985	7 253	15 870	8 984	13 902	15 712	17 192	13 709	11 446	16 422	7 360	10 244	15 511	17 699	4 481	14 345	20 629	..
Average annual volume growth over previous 5 years	%	1989	3.9	2.7	2.6	3.9	2.0	4.0	2.7	2.6	2.2	3.1	3.2	3.1	4.5	4.4	2.4	0.8	2.2	4.3	4.2	2.3	3.0	5.1	3.8	3.6	..
Gross fixed capital formation (GFCF)	% of GDP	1989	25.5	24.0	19.1	22.2	18.2	27.6	20.8	20.5	18.5	18.7	18.4	20.2	31.0	24.1	21.8	21.0	27.5	26.2	24.0	21.2	27.6	22.8	19.6	16.6	14.5
Of which: Machinery and equipment	% of GDP		10.7	10.2	9.5	7.5	8.0	10.9	9.3	8.0	5.1	9.9	10.6	13.0	10.9	10.6	10.5	9.4	9.8 (86)	8.5	9.6	9.5	11.7 (87)	9.4	7.8	..	
Residential construction	% of GDP		5.4	4.7	4.1	7.4	4.2	7.7	5.1	5.3	4.6	4.3	3.6 (88)	4.8	6.1	4.3	5.5	4.9	4.1	4.8 (86)	4.9	5.2	18.1 ⁹	5.8 (87)	3.8	4.4	..
Average annual volume growth over previous 5 years	%	1989	6.1	4.6	7.5	8.1	3.5	6.3	5.3	3.5	1.3	1.6	0.5	4.1	8.1	7.8	5.7	3.2	0.2	8.9	11.1	6.5	6.7	4.6	6.9	3.9	..
Gross saving ratio ⁴	% of GDP	1989	22.5	26.0	20.9	19.9	17.4	25.6	21.3	26.5	14.7	16.6	19.7	20.2	34.2	60.9	24.3	17.4	24.8	26.0	22.1	18.7	34.0	24.0	15.4	15.6	..
General government																											
Current expenditure on goods and services	% of GDP	1989	16.4	18.1	14.4	18.7	25.1	19.8	18.3	18.7	21.6	19.07	15.4	16.8	9.2	16.0	15.3	16.4	21.0	16.1	15.1	26.0	12.9	16.0	19.4	17.9	14.4
Current disbursements ⁵	% of GDP	1989	32.1	44.9	53.3	41.6	56.0	35.1	46.2	41.6	47.7	32.1	49.9 (87)	47.1	25.6	45.0 (86)	51.7	..	50.9	40.4 (86)	35.5 (88)	57.3	29.9	..	37.6	34.6	..
Current receipts	% of GDP	1989	34.2	46.1	48.5	39.6	57.4	39.9	46.5	44.6	31.8	36.6	43.7 (87)	41.1	33.3	52.9 (86)	50.1	..	54.9	37.6 (86)	36.3 (88)	64.1	34.1	..	39.7	31.8	..
Net official development assistance	% of GNP	1989	0.38	0.23	0.43	0.43	0.88	0.57	0.75	0.41	0.07	0.04	0.16	0.39	0.32	0.26	0.97	0.23	1.05	0.18	0.06	0.88	0.33	..	0.31	0.17	..
Indicators of living standards																											
Private consumption per capita using current PPP's ³	US \$	1989	8 258	7 434	8 486	11 225	7 705	7 766	8 733	8 120	5 026	9 447	5 079	8 577	9 068	9 534	8 133	7 007	8 224	4 683	6 443	8 090	10 181	2 768	9 154	13 768	1 638*
Passenger cars, per 1 000 inhabitants	Number	1988	435 (87)	370	349	454 (86)	321	344	394	457	130	488	210 (87)	408	241	443	348	490	388	190 (87)	263	400	419	20 (83)	318	559	129 (87)
Telephones, per 1 000 inhabitants	Number	1987	550 (85)	525	478	780	864	617 (85)	608 (85)	650	413	525	265 (85)	488	555 (85)	425 (86)	639	697	622 (84)	202	396	890 (83)	856 (86)	91	524 (84)	650 (84)	154 (86)
Television sets, per 1 000 inhabitants	Number	1986	472	323	301	546	386	372	332	379	174	306	216	255	585	253	327	358	348	157	322	393	411	165	534	813	176
Doctors, per 1 000 inhabitants	Number	1989	2.3 (86)	2.1	3.3 (88)	2.2 (88)	2.7 (88)	2.0	2.6	3.0	3.2 (88)	2.7 (88)	1.5 (88)	1.3 (88)	1.6 (88)	1.9 (88)	2.4	1.9	2.5 (87)	2.8	3.7	3.1	2.9	0.8	1.4 (88)	2.3 (88)	1.8 (86)
Infant mortality per 1 000 live births	Number	1989	7.9	8.3	8.6	7.2 (88)	7.5	6.1 (88)	7.5	7.5	9.9	5.3	7.6	8.9	4.6	9.9	6.8	10.8 (88)	8.3 (88)	12.2	7.8	5.8	7.3	6.5 (88)	8.4	9.7	24.8 (88)
Wages and prices (average annual increase over previous 5 years)																											
Wages (earnings or rates according to availability)	%	1989	5.3	4.7	2.9	3.9	6.0	7.6	3.9	4.1	16.1	..	6.1	6.9	3.3	..	2.1	9.2	9.0	15.6	8.8	7.9	..	..	8.4	2.7	220.8
Consumer prices	%	1989	7.8	2.2	2.4	4.3	4.3	4.9	3.6	1.3	17.1	23.7	3.7	6.2	1.1	1.8	0.7	11.2	6.6	12.6	6.9	5.6	2.1	50.6	5.3	3.6	210.2
Foreign trade																											
Exports of goods, fob *	Mill US \$	1989	37 191	32 448	100 081 ⁷	117 154	28 113	23 279	179 192	340 987	7 595	1 429	20 782	140 596	274 266	.. ⁹	107 760	8 883	27 145	12 722	43 408	51 592	51 683	11 557	153 121	363 811	13 363
As % of GDP	%		13.2	25.7	65.4	21.5	26.5	20.2	18.7	28.7	14.0	27.5	61.3	16.2	9.6	..	48.2	21.3	30.1	28.1	11.4	27.2	29.2	14.6	18.3	7.1	16.3
Average annual increase over previous 5 years	%		10.0	15.6	14.0	6.2	12.0	11.5	13.0	14.7	9.5	14.2	16.6	13.9	10.1	..	10.4	10.2	7.5	19.6	13.3	11.9	14.8	10.1	10.3	10.8	9.8
Imports of goods, cif *	Mill US \$	1989	40 981	38 902	98 586 ⁷	114 288	26 721	24 537	186 159	269 403	16 200	1 407	17 490	152 910	209 763	..	104 224	8 822	23 630	18 842	70 971	49 113	58 464	15 793	197 806	473 211	14 802
As % of GDP	%		14.5	30.8	64.4	21	25.2	21.2	19.4	22.7	29.9	27.1	51.6	17.7	7.3	..	46.6	21.1	26.2	41.6	18.7	25.9	33.0	20.0	23.6	9.2	18.1
Average annual increase over previous 5 years	%		12.7	14.7	12.2	9.2	10.0	14.5	13.2	12.0	11.0	10.8	12.5	12.7	9.0	..	10.9	7.4	11.2	18.9	19.8	13.2	14.7	7.8	13.5	7.8	8.6
Total official reserves⁸																											
As ratio of average monthly imports of goods	ratio	1989	10 486	6 543	8 192 ⁷	12 217	4 868	3 889	18 728	46 196	2 453	257	3 087	35 551	63 887	..	12 562	2 303	10 490	7 573	31 554	7 274	19 234	3 638	26 456	48 358	3 147
			3.1	2.0	1.0	1.3	2.2	1.9	1.2	2.1	1.8	2.2	2.1	2.8	3.7	..	1.4	3.1	5.3	4.8	5.3	1.8	3.9	2.8	1.6	1.2	2.6

* At current prices and exchange rates.

1. Unless otherwise stated.

2. According to the definitions used in *OECD Labour Force Statistics*.

3. PPP's=Purchasing Power Parities.

4. Gross saving = Gross national disposable income minus Private and Government consumption.

5. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.

6. Gold included in reserves is valued at 35 SDR's per ounce. End of year.

7. Including Luxembourg.

8. Included in Belgium.

9. Including non-residential construction.

Sources: Population and Employment: OECD Labour Force Statistics.

GDP, GFCF, and General Government: OECD National Accounts

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 micro-economic. Its main task is to provide, for discussion by committees of senior officials from Member countries, documents and papers dealing with current policy concerns. Within this programme of work, three major responsibilities are:

- to prepare regular surveys of the economies of individual Member countries;
- to issue full twice-yearly reviews of the economic situation and prospects of the OECD countries in the context of world economic trends;
- to analyse specific policy issues in a medium-term context for 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 75 professional economists from a variety of backgrounds and Member countries. Most projects are carried out by small teams and last from four to eighteen months. Within the Department, ideas and points of view are widely discussed; there is a lively professional interchange, and all professional staff have the opportunity to contribute actively to the programme of work.

Skills the Economics Department is looking for:

- a) Solid competence in using the tools of both micro-economic and macro-economic theory to answer policy questions. Experience indicates that this normally requires the equivalent of a PH.D. in economics or substantial relevant professional experience to compensate for a lower degree.
- b) Solid knowledge of economic statistics and quantitative methods; this includes how to identify data, estimate structural relationships, apply basic techniques of time series analysis, and test hypotheses. It is essential to be able to interpret results sensibly in an economic policy context.

- c) A keen interest in and knowledge of policy issues, economic developments and their political/social contexts.
- d) Interest and experience in analysing questions posed by policy-makers and presenting the results to them effectively and judiciously. Thus, work experience in government agencies or policy research institutions is an advantage.
- e) The ability to write clearly, effectively, and to the point. The OECD is a bilingual organisation with French and English as the official languages. Candidates must have excellent knowledge of one of these languages, and some knowledge of the other. Knowledge of other languages might also be an advantage for certain posts.
- f) For some posts, expertise in a particular area may be important, but a successful candidate is expected to be able to work on a broader range of topics relevant to the work of the Department. Thus, except in rare cases, the Department does not recruit narrow specialists.
- g) The Department works on a tight time schedule and strict deadlines. Moreover, much of the work in the Department is carried out in small groups of economists. Thus, the ability to work with other economists from a variety of cultural and professional backgrounds, to supervise junior staff, and to produce work on time is important.

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