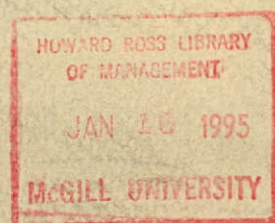


BANK OF GREECE

REPORT
OF
GOVERNOR YANNIS P. BOUTOS
FOR THE YEAR 1993



ATHENS 1994





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ATHENS 1994

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**to the sixty-first
Annual Shareholders' Meeting
held on 27 April 1994**

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I. RECENT DEVELOPMENTS IN THE GREEK ECONOMY AND FUTURE ECONOMIC POLICY

1. GENERAL ECONOMIC DEVELOPMENTS

In 1993, economic aggregates were characterised by positive and negative developments. On the positive side, the rate of inflation decreased substantially. On the negative side, some basic economic aggregates deviated from the targets set at the beginning of the year. Deviations from targets occurred in public sector deficits and the public debt, the deceleration of inflation and the rate of economic growth, resulting in a worsening of the overall economic situation.

Regarding fiscal adjustment, not only was there a large deviation from the targets for 1993, but also the progress that was made in 1992 in reducing the public sector deficit was reversed. The net Public Sector Borrowing Requirements (PSBR), on a cash basis, overshot the corresponding forecasts of the Greek economy's Convergence Programme submitted to the Community in March 1993 by about 4 percentage points of GDP¹ and rose to 11.4 per cent of GDP from 7.5 per cent in 1992. It should be noted that the PSBR in 1993 would have been higher by about 1.7 percentage points of GDP, had the sum concerning interest payments due in 1993 not been capitalised and deferred to subsequent years.

As analysed below, the substantial widening of the PSBR is mainly due to the shortfall in tax revenue. According to available data, the shortfall in tax revenue for 1993 is estimated at 980 billion drachmas. In addition, ordinary budget outlays overshot forecasts by 325 billion drachmas. These deviations are partly due to the general elections, which had an unfavourable effect on public revenue and contributed to the increase in outlays, owing to the rise in pre-election grants. These deviations are also partly due to the fact that tax revenue was overestimated and outlays were underestimated in the budget for 1993.

¹ The national accounts data mentioned in this Report are based on the national accounts system employed by the National Statistical Service of Greece (NSSG) in the last decades. According to Directive 89/130 EEC, the NSSG has undertaken the task of revising Greek national accounts and harmonising them with the new European System of Integrated Economic Accounts. The aggregates regarding the PSBR, the public debt and the current account balance have been recorded as a percentage of GDP, on the basis of revised NSSG data and the corresponding Ministry of National Economy estimates for GDP at current market prices.

The growth of the PSBR, in conjunction with the increased cost of borrowing and the weakening of economic activity, resulted in a fast rise in the public debt. The public debt rose to 119.6 per cent of GDP at the end of 1993 (from 93.3 per cent in 1992), also because the following extra items are included in its definition: (a) Claims of the Bank of Greece on the government, regarding the total balance of the three government accounts with the bank: i) the current receipts and payments account, ii) the oil products account, and iii) foreign exchange valuation differences, which were converted on 31st December 1993 into 30-year loans to the government; (b) Bond issues through which the government rescheduled the accumulated debts of the Agricultural Bank and the National Mortgage Bank and increased the capital of the Hellenic Industrial Development Bank (ETBA).

Under the prevailing economic conditions of high real interest rates and slow rate of growth, the worsening of fiscal deficits and the increase in public debt in 1993 make particularly difficult the stabilisation of the public debt as a percentage of GDP and disrupt the implementation of the convergence programme of the Greek economy towards the economies of the other EU member states.

Regarding inflation, despite the recorded deceleration, there was a considerable deviation from the target set for 1993. During the year, the consumer price index rose by 12.1 per cent, whereas the aim was for a deceleration of inflation to no more than 10 per cent by year-end. The twelve-month rate of inflation, which had started to fall in the last months of 1992, accelerated substantially in the first half of 1993 and exceeded 16 per cent in the second quarter of the year. The twelve-month rate of inflation started to decelerate again in June. The deceleration was even faster in August, a time when the August 1992 increase in indirect taxes ceased to affect the twelve-month rate of inflation. The deceleration is partly due to temporary factors, such as the imposition of price controls, an increase in subsidies and a postponement of normal increases in public utility rates. Excluding these temporary factors, inflationary pressures continued to be strong, despite the decline in real incomes and the deceleration of inflation internationally. The twelve-month rate of inflation gradually fell to 10.2 per cent in March 1994, a level which is 2 percentage points lower than the corresponding level at the end of 1993. Although the downward trend of inflation is clear over the last months, it should be stressed that, for inflation to decrease further, it is necessary to continue the effort of controlling the basic factors that fuel inflation, mainly the high public deficits and the large and increasing public debt.

The widening of the PSBR contributed to the acceleration of total credit expansion and the increase in monetary aggregates at rates higher than targeted. In 1993, total credit, which is credit extended to the public and the private sector from domestic and foreign sources, increased by 13.2 per cent, compared with a targeted rate of 6-8 per cent and an actual rate of 11.6 per cent in 1992. Moreover, broad money (M3) grew by 15.2 per cent, compared with a targeted rate of 9-12 per cent and an actual rate of 14.4 per cent in 1992. The annual growth rate of broad money (M3) was kept within the monetary programme limits in the first eight months of 1993, but it accelerated in the last four months of the year, mainly because of the substantial increase in the PSBR during the latter period, which was financed to a large extent by foreign borrowing.

The faster increase in broad money, compared with the monetary programme target, should not be interpreted as an easing of monetary control. Monetary policy retained its restrictive stance, which is reflected in the considerable rise in real interest rates during the year. The nominal interest rate on one-year Treasury bills fell gradually to the level of 20.25 per cent in August 1993 from 22.50 per cent in December 1992. This nominal rate remained unchanged until December 1993 and was about 8.2 percentage points higher than current inflation.

The large fiscal deficits, the high rate of inflation and the fact that expectations of an abatement of economic imbalances and restoration of a climate of confidence did not materialise had a serious unfavourable impact on investment and productive activity and led to economic stagnation. GDP, at constant prices, remained unchanged in 1993 (1992: increase of 0.9 per cent), while government estimates at the beginning of the year had forecast a growth rate of 2 per cent. At the same time, the decline in industrial output continued for the fourth consecutive year and became steeper. In particular, the general industrial production index fell by 2.9 per cent in 1993, compared with a drop of 0.9 per cent in 1992. The prolonged economic stagnation, along with an influx of refugees, led to a rise in unemployment, which has become a major problem. According to provisional NSSG data, the total number of unemployed rose to 9.8 per cent of the labour force in 1993.

The weakening of economic activity, although undesirable, had a favourable impact on the balance of payments. The 1993 current account deficit relative to the 1992 current account deficit declined by \$1,362 million and reached the level of \$716 million. As a percentage of GDP, it was restricted to the historically low level of 0.8 per cent, compared with a level of 2.2 per cent

in 1992. The improvement in the current account is due not only to the deterioration in economic activity, but also to the reduced expenditure for net fuel imports (fuel imports minus oil-product exports). The reduction in fuel expenditure occurred primarily because of a drop in crude oil prices internationally (particularly in the second half of 1993) and because of a reduction in the expenditure for car imports, which fell to \$567 million from \$911 million in 1992.

Net private capital inflow declined by \$1,277 million in 1993. Nevertheless, it overshot the current account deficit and, as a result, the basic balance of payments recorded a \$247 million surplus, compared with a \$98 million deficit in 1992. The favourable development in the basic balance, together with the large public sector net borrowing, resulted in an increase in foreign exchange reserves, which rose to \$8,694 million at the end of 1993, compared with \$5,588 million in 1992. These favourable balance-of-payments developments do not imply that the serious structural problems of, particularly, the trade balance have been mitigated. Characteristically, the total trade deficit remained high as a percentage of GDP, at a time when the growth rate of total final expenditure of the economy fell substantially and industrial output declined. The trade deficit reflects, to a significant extent, the slow and insufficient adjustment of Greece's productive and organisational structure to changing domestic and international conditions; as a result, domestic production fails to meet domestic demand and exports stagnate.

It is therefore concluded that the efforts made to stabilise and adjust the Greek economy in recent years had limited and — as regards certain aggregates — only temporary results. The progress made towards mitigating economic disequilibria not only proved inadequate to ensure appropriate conditions of recovery, but was also reversed in the crucial sector of fiscal adjustment, which was the central goal of the 1990-1993 economic stabilisation programme. As a result, Greece's participation in the process of European economic and monetary unification is becoming increasingly difficult. The main reason for the difficulties encountered by the Greek economy are, as repeatedly mentioned, the high fiscal deficits. Chronic public sector deficits have caused a continuous and fast rise in the public debt — not only in absolute terms, but also as a percentage of GDP — and an increase in debt servicing expenditure, which has become a serious destabilising factor. High public deficits and the large and increasing public debt keep inflation and interest rates at high levels, thus impeding the recovery of investment. These developments, in conjunction with the relative loss of competitiveness of

Greek products, contribute to economic stagnation, which, in turn, makes it more difficult to reduce public deficits.

The above unfavourable developments and the constraints on the economy feed each other in a vicious circle. Thus, in order to restore economic stability and improve economic prospects, this circle must be broken by drastically reducing the public deficits. Without such a drastic reduction, economic stabilisation, which is a prerequisite for the country to get out of the economic crisis, is impossible.

According to the budget for 1994, the new government which took office last October has set as its principal economic policy aims the further deceleration of inflation and the reduction in the public deficit as a percentage of GDP, in order to create the prerequisites for setting the economy on a path of steady growth.

Experience in recent years has shown that, under conditions of high real interest rates and a slow rate of economic growth, the stabilisation of the public debt/GDP ratio, even at its present level, requires large primary budget surpluses. The realisation of such large primary budget surpluses requires great efforts and a long time, particularly because of the severity of accumulated structural problems. In view of the particularly unfavourable initial conditions of the total public sector debt, the restoration of fiscal balance makes necessary the implementation of a new and credible medium-term fiscal consolidation programme. The measures taken by the government and its aim to reduce the PSBR in 1994 are merely a first step towards fiscal adjustment.

2. ECONOMIC ACTIVITY AND INFLATION

The expansionary push given by rising public deficits did not lead to a corresponding increase in total final expenditure and domestic output. Quite the opposite, the serious deterioration of fiscal imbalances actually strengthened those factors that slow down the growth rate of private consumption and investment. Thus, the rate of increase in total final expenditure fell from 2.3 per cent in 1992 to 1 per cent in 1993 and GDP stagnated. The most important factors that slowed down economic growth were high and persistent inflation, inflationary expectations, high real interest rates and the uncertainty created by them regarding the future course of the economy. Furthermore, consumer demand was significantly affected by the same policy of wage

restraint that was pursued in previous years, the increase in workers' social security contributions, and the fiscal drag.

GDP stagnated in 1993. On the basis of national accounts data, the increase in domestic expenditure (0.8 per cent, similar to the increase in 1992) was fully offset by the deterioration of the economy's real external balance. Private consumption had an expansionary effect on domestic expenditure, but at a rate appreciably lower than a year earlier (it increased by 1 per cent in 1993, as opposed to 1.7 per cent in 1992). A small increase (1 per cent) was also recorded in public consumption. According to some estimates, the small increase in private consumption is accounted for by the corresponding rise in real disposable personal income and does not reflect a further fall in the average propensity to save. Available data indicate that real disposable personal income grew as a result of the increase in real income from property and private business activity, which more than offset the decline in real disposable income of farmers, wage and salary earners and pensioners. The decline in wage earners' real disposable income was due to the restrictive incomes policy pursued in 1993 as in previous years, the changes made in the social security system, and the fiscal drag.

Domestic expenditure was negatively affected by total fixed asset formation, which fell by 0.6 per cent, compared with a rise of 1.2 per cent in 1992. The decrease in fixed asset formation reflects the decline in public investment by an estimated 5.7 per cent, compared with an increase of 8.5 per cent in 1992. Considering that investment by public enterprises recorded an appreciable increase, the decline in public investment stemmed from a curtailment in government investment which was the outcome of expenditure cuts aimed at reducing the borrowing requirements of the public sector. By contrast, private investment grew by a mere 1.6 per cent in 1993, following a decrease of 1.7 per cent in 1992. This development reflects the rise in business investment and the fact that private housing investment continued to fall for the third consecutive year, although at a significantly lower rate than in 1992.

The reluctance of business undertakings to carry out new investment over the last three years has been partly due to high real interest rates, which are mainly the result of large public deficits. However, this reluctance should also be attributed to low profitability in several branches of industry and to continuing uncertainty regarding the growth rate of domestic and foreign demand, particularly at a time when international economic conditions are still unfavourable. Another important inhibiting factor seems to be the uncertainty regarding the effectiveness of economic policy in reducing public defi-

cits and restoring stable economic conditions. Similar negative effects stemmed from frequent changes in economic policy, which prevented the establishment of a climate of confidence.

On the supply side, two of the three major sectors of economic activity accounted for the slowdown in economic growth. Specifically, the rate of increase in income from services decelerated to 1.7 per cent from 2.3 per cent in 1992. Moreover, the gross domestic product of the secondary sector decreased by 2.6 per cent compared with a fall of 0.8 per cent in 1992. A particularly alarming decline occurred in gross manufacturing output for the fourth consecutive year. It was only partly due to the slackened domestic demand. Furthermore, it reflected the difficulties faced by Greek industry in coping with foreign competition, which prevails even in the domestic market, where import penetration has shown an upward trend over the last 15 years. Finally, gross agricultural product decreased by 1.9 per cent (1992: -1.6 per cent). The development of the agricultural sector is still hampered by serious structural problems.

Sluggish economic activity had unfavourable repercussions on the labour market. According to provisional data from the relevant NSSG survey, total employment declined by 1.4 per cent in 1993, chiefly reflecting a decrease in the number of people employed in the secondary sector, as well as the downward trend of employment seen in the primary sector in recent years. The fall in the number of people who have jobs in the secondary sector was due to the ongoing recession and the closure of certain ailing firms, particularly in manufacturing. Labour supply also fell in 1993, mainly reflecting a decrease in the population of working age and, perhaps, a lower participation rate. Labour supply declined less than employment, however, causing the unemployment rate to rise by about one percentage point to the level of 9.8 per cent.

The annual inflation rate, which had started to slow down in the last months of 1992, resumed its upward trend in the first five months of 1993. The consumer price index rose by 5.8 per cent in the January-May period and by 16.4 per cent in the twelve-month period ending in May 1993, compared with a 14.4 per cent rise during 1992.

The acceleration of inflation in the January-May period was mainly due to two extraordinary factors: (i) substantial increases in the rates charged by some public utilities and other public entities, in order to reduce their borrowing requirements, and (ii) adverse weather conditions in the early months of 1993, which led to a considerable rise in the prices of agricultural products. The twelve-month inflation rate fell slightly in June and July 1993 and started

to show a steady downward trend in August, when the effect of the tax measures taken in August 1992 was exhausted. The twelve-month rate thus dropped to 12.1 per cent in December 1993.

The deceleration of inflation by 2.3 percentage points in 1993 is not so significant, particularly because it took place at a time when incomes policy remained relatively tight, the depreciation of the drachma was still limited and demand-side pressures abated substantially. Moreover, the containment of inflation was achieved, to some extent, by such means as the reintroduction of price controls (freezing of tuition fees, setting of a ceiling on the price of gasoline in certain regions), the continuation of subsidies (urban transport in the Athens area) and the deferment of increases in certain public utility rates (Public Power Corporation), which do not ensure a sustained deceleration of inflation. Consequently, when the favourable effect of these extraordinary factors is exhausted, the slowdown of inflation may prove short-lived if there is a relaxation of efforts to mitigate the pressures exerted by basic demand and cost factors.

Available data show that the inflationary impact of prices of imported goods weakened significantly in 1993. Specifically, import prices rose by 11.5 per cent between the last quarters of 1992 and 1993 (last quarter 1991/1992: 13.9 per cent). The continuing drop in the prices of crude oil and raw materials in the world market, as well as the slower, relative to 1992, decline in the average effective exchange rate of the drachma in 1993, contributed to this development. Moreover, following its significant increase in 1992, indirect taxation had a reduced impact on inflation during 1993.

These favourable effects on inflation were partly offset by the stronger pressures exerted by labour costs. Provisional estimates by the Bank of Greece show that in 1993 the rate of increase in average pre-tax earnings for the whole economy (excluding agriculture) was higher than the corresponding increase in 1992 by roughly one percentage point. Unit labour cost in the non-agricultural sector accelerated even faster than average pre-tax earnings (about 13 per cent in 1993, compared with about 9.5 per cent in 1992), mainly because of an increase in employers' social security contributions, which, along with a corresponding rise in employees' contributions, became necessary in order to deal with the deficits of social insurance funds.

The main reason for the persistence of inflation continued to be the strengthening of inflationary expectations which led to price rises, particularly in the non-traded goods and services sectors, where competitive pressures are generally weaker. The strengthening of inflationary expectations contributed

to the prolongation of the inflationary process and to the maintenance of high inflation. It is worth pointing out that the prices of services included in the consumer price index rose by 15.2 per cent throughout 1993, while the prices of goods rose by only 10.2 per cent. Furthermore, the rapid spread of the underground economy in recent years seems to have reduced the effectiveness of the economic policy instruments that are used to combat inflation.

The slow deceleration of inflation is also associated with the lack of a credible policy for fast fiscal adjustment. The serious deviations of fiscal aggregates from the targets undermined the confidence of economic agents and had unfavourable repercussions on inflationary expectations and the inflationary process. It is, therefore, obvious that, in order to mitigate inflationary expectations and ensure a sustained downward trend of inflation, the central aim of economic policy should be to restore fiscal balance.

3. DEVELOPMENTS IN EXTERNAL TRANSACTIONS

Developments in the balance of payments were generally favourable in 1993. The current account deficit was reduced to \$716 million in 1993 from \$2,078 million in 1992. As a percentage of GDP, it fell to 0.8 per cent (from 2.2 per cent in 1992), which is the lowest figure since the beginning of the 1970s. Net private capital inflow declined by 44 per cent in 1993 but substantially exceeded the current account deficit by \$910 million. Errors and omissions, which, almost as a whole, stem from unrecorded private capital movements, were again negative last year, falling, however, to \$662 million from \$922 million in 1992.

These developments in the current account and private capital movements, in conjunction with the decline in negative errors and omissions, resulted in a \$247 million surplus in the basic balance of payments in 1993, compared with a \$98 million deficit in 1992. This surplus together with net public sector foreign borrowing (\$2,774 million) led to a substantial increase in Greece's foreign exchange reserves which, without gold reserves, rose to \$7,380 million at the end of 1993 from \$4,412 million at the end of 1992. If gold reserves, valued at 65 per cent of the average market buying price in December, are added, foreign exchange reserves amounted to \$8,694 million at the end of 1993, compared with \$5,588 million at the end of 1992.

According to provisional data, public sector foreign debt rose to \$26.9 billion at the end of 1993 from \$23 billion at the end of 1992. This rise

stemmed almost entirely from net foreign borrowing, while the contribution of valuation adjustments was limited. The external public debt rose to 36.8 per cent of GDP in 1993 from 31.6 per cent in 1992. However, net external public debt (debt minus foreign exchange reserves) recorded a smaller increase (from \$17.4 billion in 1992 to \$18.2 billion in 1993).

The improvement in the current account balance in 1993 stemmed almost entirely from the drop in the visible trade deficit, as the invisible trade surplus was only slightly higher than last year (increase of a mere 0.4 per cent). The decline in the visible trade deficit was caused by a \$261 million reduction in the oil account deficit that resulted from the drop in world crude oil prices at the beginning of 1993, as well as the \$1,051 million decline in the non-oil trade deficit.

The non-oil import bill fell by 11.1 per cent, while export receipts declined by 16.2 per cent. Despite the faster drop in non-oil exports, the overall deficit decreased because non-oil export receipts represent around 30 per cent of the import bill.

The drop in the non-oil import bill is partly due to the decline in the volume of imports and partly to the fall in dollar prices. The reduction in the volume of imports is mainly due to the stagnation of domestic demand and, to a limited extent, to import substitution. It is worth noting that about one third of the non-oil import bill stemmed from the sharp decline in private passenger car imports after the lapse, at the end of March 1993, of the incentive scheme for purchase of low-pollution motor cars.

As regards the decline in non-oil commodity export receipts, export statistics on a settlements basis underestimate the actual value of exported commodities, owing to the liberalisation of exchange controls. Under the present foreign exchange regime, exporters are allowed, under certain conditions, to deposit part of their receipts in foreign exchange accounts and use the balance of these accounts, without prior conversion into drachmas, to repay their debts in foreign exchange. At the same time, exporters can be paid in drachmas.

The stagnation of the invisible trade surplus resulted from a reduction in both receipts (-1.4 per cent) and payments (-5.4 per cent). Net EU transfers, which were growing at high rates in the first nine months of 1993, reached \$4,085 million for the whole year, rising by a mere 0.7 per cent relative to 1992 transfers. The slow growth of EU transfers during the last quarter of 1993 was due to the substantial delay in regular inflows. These inflows were realised in January 1994, thus raising that month's transfers to double those recorded in January 1993 (\$1.2 billion). Excluding net EU transfers, invisible

receipts declined by 2 per cent in 1993, while the invisible trade surplus remained virtually unchanged.

The reduction in invisible receipts stemmed from withdrawals out of convertible drachma deposits, namely the item which includes receipts chiefly related to travel and other items which cannot be specifically allocated. Travel receipts, emigrants' remittances and transport receipts remained virtually unchanged, while other invisible receipts increased, though at a considerably lower rate than in 1992. These developments are partly attributable to the unfavourable conditions that continued to prevail in the world economy, and partly to capital flights caused by the upheaval in foreign exchange markets and the unusual pressure on the drachma in September and October 1993. To a considerable extent, however, these developments reflect the appreciation of the US dollar against the drachma.

Regarding invisible payments, it should be noted that the decline is entirely due to the drop in interest payments. Public sector interest payments in particular fell to \$1,803 from \$2,158 in 1992.

The decline in net private capital inflow stemmed mainly from suppliers' credit and "other capital" and, to a lesser extent, from the drop in entrepreneurial capital and capital for investment in real estate. In particular, repayments of suppliers' credit exceeded acceptances by \$417 million in 1993, whereas in 1992 acceptances had exceeded repayments of suppliers' credit by \$437 million. The largest part (67 per cent) of the decline in net private capital inflow is attributed to this development. The drop in import payments seems to be the main reason for the decline in foreign suppliers' credit in 1993. Moreover, "other capital" recorded a large net outflow, for the second consecutive year. It should be noted that net outflows of "other capital" rose steeply in the September-October 1993 period, while a net inflow has been observed since the end of October. This inflow is related mainly to the improvement in the economic climate, following the policy statement of the new government, which set the deceleration of inflation as a priority of economic policy.

The above developments indicate that the improvement in the balance of payments is, to a considerable extent, attributable to cyclical factors, since the stagnation of domestic demand and the weakening of economic activity are the underlying reasons for the decline in the import bill and the maintenance of invisible payments (excluding interest) roughly at their 1992 level.

Apart from the decline in domestic demand, other factors that contributed to the improvement in the balance of payments in 1993 were: (a) the substantial drop in crude oil prices, which resulted in a reduction in the oil

account deficit and (b) the decline in interest rates abroad, which kept interest payments at relatively low levels. At the same time, the decline in interest rates abroad widened the differentials between domestic and foreign interest rates and led to a weakening of expectations of a drachma devaluation, thus resulting in a fall in foreign exchange outflows. On the other hand, the slow recovery in industrial — mainly European — countries, along with the crisis in the former Yugoslavia, had an unfavourable effect on the balance of payments. Lastly, expectations of a drachma devaluation during the run-up to the general election of October led to capital flights, which mainly affected invisible transactions and private capital inflows.

On the basis of these facts, it should be pointed out that, despite favourable developments in 1993, the balance of payments is still a factor inhibiting the attainment of a satisfactory growth rate in the medium-term. The economy's structural weaknesses remain, particularly in manufacturing, and are reflected mainly in the large trade deficits. The previous discussion suggests that the improvement in the balance of payments could be reversed, since it is mainly due to domestic cyclical economic conditions and the favourable effects of extraordinary factors. In addition, uncertainty about the long-term prospects of invisible transactions and of developments in capital movements still exists, mainly owing to the rise in foreign debt.

It has been stressed in previous Bank of Greece Reports that a sustainable external balance presupposes that serious domestic imbalances have been remedied and that economic stability and a climate of confidence are established. This calls for, among other things, an acceleration of fiscal adjustment and a continuation of the restrictive stance of monetary policy. The tackling of the structural problem in the balance of payments, mainly the trade balance, requires an expansion of investment and a restructuring and broadening of the productive base, in order to enhance the economy's export orientation and promote import substitution.

The Bank of Greece, in line with the principal target of combatting inflation, continued in 1993 to pursue a non-accommodating exchange rate policy. This policy was implemented with considerable flexibility, without deviating from its annual target. It took into account not only the pressures that prevailed in the foreign exchange market during periods of uncertainty and expectations of a drachma devaluation, but also developments in the parities of certain currencies, particularly the US dollar and the yen.

Before the October general election was called, markets had shown sufficient confidence in the government's commitment to an anti-inflationary foreign

exchange policy. From the beginning of 1993 through the end of August, the drachma depreciated against the ECU by 3.6 per cent, compared with 6.9 per cent in the first eight months of 1992. The depreciation of the drachma's effective exchange rate between the beginning and the end of the first eight months of 1993 did not decelerate, compared with the corresponding period of 1992, owing to the considerable appreciation of the US dollar and the yen in international money markets. Nevertheless, in September 1993, and particularly after the announcement of the general election, pressures appeared in the foreign exchange market and continued through October. To mitigate these pressures, the Bank of Greece had to intervene in the foreign exchange market and boost interest rates in the drachma interbank market and the Euromarket, in order to make speculation with the drachma more costly. Net Bank of Greece foreign exchange sales rose to the equivalent of \$2,070 million during the September-October period. From the end of October, after the announcement of the new government's economic stabilisation policy, pressures in the foreign exchange market began to abate, because expectations of a drachma devaluation weakened and a climate of confidence was gradually restored.

The drachma's depreciation in 1993 did not fully offset the inflation differential between Greece and its trading partners, despite unfavourable conditions in foreign exchange markets. The drachma's effective exchange rate depreciated between the beginning and the end of 1993 by 7.8 per cent, compared with 10.1 per cent in 1992, while the drachma depreciated by 6.6 per cent against the ECU (1992: 9.9 per cent). At average levels, the drachma depreciated faster than between the beginning and the end of the year: the effective exchange rate index depreciated by 9.2 per cent in 1993, while the drachma depreciated by 8 per cent against the ECU.

The non-accommodating stance of exchange rate policy led to a further slight appreciation of the drachma's real exchange rate, which is estimated, at average levels, at 1.3 per cent on the basis of consumer prices and at 0.7 per cent on the basis of wholesale prices. The drachma's real appreciation was larger in relation to the currencies of the other EU member states. In contrast, the drachma's effective exchange rate index, on the basis of unit labour cost in manufacturing, improved for the third consecutive year, owing to the limited rise in wages and, mainly, because of the improvement in productivity. The productivity improvement is estimated to have stemmed partly from the winding-up of a number of overindebted industrial firms, most of which were overstaffed.

4. PUBLIC DEFICITS AND THEIR FINANCING

Fiscal developments in 1993 were marked by a reversal of the progress made towards reducing public deficits in the 1991-1992 period and by a serious deterioration in the basic fiscal aggregates. As already mentioned, the net PSBR in 1993, on a cash basis, was about four percentage points higher than the government forecasts in the Convergence Programme and reached 11.4 per cent of GDP, compared with 7.5 per cent in 1992, while the public sector's debt reached 119.6 per cent of GDP. If obligations associated with the armed forces' debt and guarantees called in during 1993 are added, the total debt of the public sector, which comprises the central government, local authorities, social security funds and public enterprises, came close to 130 per cent of GDP at the end of 1993.

Half of this large increase in the public debt was due to the conversion into formal debt of long-standing cumulative obligations of the State to the Agricultural Bank, the Mortgage Bank and the Bank of Greece and the increase in the share capital of ETBA. Regarding the Bank of Greece, this conversion was necessary, owing to the abolition, as from 1st January 1994, of the privileged access of the public sector to the banking system, as envisaged for all European Union member states under article 104 of the Maastricht treaty. Specifically, by an agreement between the State and the Bank of Greece, obligations totalling 3,019 billion drs were converted into long-term loans maturing in thirty years. These obligations concern the cumulative deficit (827 billion drs) in the State's current account with the Bank of Greece, the deficit in the oil account (150 billion drs), as well as the outstanding balance (2,042 billion drs) in the foreign exchange valuation differences account. The obligations of the State to the Agricultural Bank and the Mortgage Bank were converted into two bond issues of 500 billion drs and 30.3 billion drs respectively, while the share capital of ETBA was increased through a bond issue of 205 billion drachmas.

It should be noted that the above conversion of the State's obligations, in particular those concerning the Bank of Greece, leads only to an increase in public debt and does not imply new borrowing in 1993.

The servicing of the debt of the central government, including the debt of the armed forces (interest and amortisation payments) reached 4,041 billion drs in 1993. Specifically, outlays for interest payments (including capitalised interest to be paid in subsequent years) rose to 12.9 per cent of GDP in 1993, from 11.3 per cent in 1992. In 1993, these outlays represented 47 per cent of revenue and 33.5 per cent of net expenditure under the ordinary budget.

The main reason for the deterioration of public deficits in 1993 was the increase in the deficit of the central government; which, on a cash basis, rose to 13.0 per cent of GDP in 1993, after falling by 3.9 percentage points to 8.6 per cent in 1992. Moreover, the borrowing requirements of the central government in 1993 would have been 1.7 percentage points of GDP higher, if interest payments due in 1993 had not been capitalised and deferred to subsequent years.

The measures aimed at increasing revenue under the 1993 budget proved insufficient to prevent the considerable growth of central government borrowing requirements. The revenue of the ordinary budget, although favourably influenced by tax increases that were decided in August 1992, rose by 8.1 per cent only, compared with a budget forecast of 29.5 per cent. This shortfall in revenue is estimated at roughly one trillion drachmas and one third of it is due to delays in the implementation of the privatisation programme in 1993. The remaining shortfall is due to the fact that budgeted revenue from the curbing of tax evasion and the collection of tax arrears and overdue debts to the State was not realised; the change in the collection system of VAT on imports from the European Union as from 1st January 1993; and the significant loss of revenue owing to the reform in personal and corporate income tax decided in spring 1992. The shortfall is also due to the fact that sluggish economic activity had a stronger than expected negative impact on the growth of revenue.

Further to the large shortfall in revenue, no effort was made in the early months of 1993 to curtail public expenditure. On the contrary, pay rises in spring 1993 went beyond official incomes policy and, in the run-up to the general election, additional outlays for grants and subsidies were approved. In total, there was an overrun of 247 billion drs in primary expenditure and 78 billion drs in interest expenditure under the ordinary budget. These overruns, in conjunction with the shortfall in revenue, imply that, if it had not been decided to cut the public investment programme by 245 billion drs, the overrun in the budget deficit would have been 1.3 trillion drachmas. The overrun in primary expenditure and the large shortfall in revenue resulted not only in eliminating the primary surplus budgeted for 1993 (4.2 percentage points of GDP) but also in turning it into a primary deficit amounting to 0.5 per cent of GDP.

A sharp rise was recorded in the PSBR from August 1993 onwards. The usual year-end accumulation of expenditure was higher in 1993 than in previous years, for two main reasons: first, there were time lags in the realisation of

budget expenditure in the first eight months of the year, as a result of which 41.4 per cent of budgeted expenditure was left for disbursement in the last quarter of the year, compared with an average 38.4 per cent in the three-year period 1990-1992; second, in the April-June 1993 period, the government decided to grant allowances and other benefits to several categories of civil servants, payable as from July, September or October, thus burdening expenditure for the last four months of the year. By contrast, over the same four months, only 35.2 per cent of total budgeted revenue was realised, while the corresponding average figure in the 1990-1992 period had been 39.7 per cent. Moreover, the increase in revenue throughout the year was considerably slower than projected. It is worth mentioning that, in the eight-month period January-August 1993, budget revenue grew by a mere 16.7 per cent (compared to a forecast of 29.6 per cent), whereas in the last four months of the year revenue declined by 1.8 per cent in comparison with the same period of 1992. This development was expected and was due to the fact that, in the last four months of 1993, the August 1992 tax measures had lost their favourable effect on the growth rate of revenue. Besides, in the last four months of 1992, revenue had risen by 74 billion drs, chiefly owing to a surcharge on real estate, as well as the sale of rights on mobile telephone services.

The cash surplus of social security and welfare funds, local authorities and other public entities increased compared with 1992. It should be noted that in recent years a considerable part of overdue obligations of the Social Insurance Fund (IKA) and the Seamen's Pension Fund (NAT) was settled by the issue of economic consolidation bonds, while part of the deficits of certain organisations was financed by grants out of the government budget. The increase in the cash surplus of public organisations was also due to other factors, such as the settlement by the central government of state-guaranteed loans of IKA and NAT and the increase, compared with 1992, in the revenue of certain social security funds, which was due to the increase in contributions.

Public enterprises continued to run a cash surplus in 1993, although less than in the previous year. The surplus reflects the fact that the overdue obligations of certain public enterprises were rescheduled through the issue of economic consolidation bonds. It also reflects the settlement by the central government of some state-guaranteed loans of certain public enterprises, particularly of the Hellenic Arms Industry (EBO).

The sale of government paper in the domestic non-bank market did not encounter serious difficulties during the January-August 1993 period, given

that borrowing requirements were relatively modest and the government was able to lower successively the interest rates on its securities from the end of April. During the above period, interest rates on twelve-month Treasury bills were lowered by 2.25 percentage points and those on three-month and six-month Treasury bills by 1.5 percentage points. Real interest rates on government securities fell even more, as inflation accelerated in the first half of 1993.

In the last four months of the year, however, despite the new government's efforts to contain the public deficit, financing the deficit became more difficult. Total additional borrowing by the central government amounted to 303 billion drs, of which 152 billion stemmed from the need to create a cash reserve to finance, on a daily basis, cash deficits in the current account of the State with the Bank of Greece, after the abolition, as from 1st January 1994, of the monetary financing of fiscal deficits and of the privileged access of the State to the credit system, as envisaged in the Treaty on European Union.

The need for larger sales of government paper in the domestic non-bank market made it necessary to keep interest rates at high levels in the September-December 1993 period, despite the gradual slowdown of inflation. In particular, interest rates on twelve-month Treasury bills remained at the level they had reached at the end of August 1993, while rates on three-month and six-month Treasury bills were raised by half of one percentage point at the end of September and remained at that level until the end of the year.

Net government borrowing (new issues minus redemptions) by the sale of securities in the domestic non-bank market reached 1,050 billion drs in 1993, compared with 970 billion in 1992, and financed 44.3 per cent of the PSBR, compared with 71.2 per cent in 1992.

Difficulties in obtaining the required resources through the sale of securities in the domestic non-bank market, along with the high cost of credit, led the government to increased borrowing from foreign sources and the banking system. For the first time in recent years, about 32.3 per cent of the net PSBR was financed by foreign borrowing and the remainder by domestic sources. Moreover, the public sector's borrowing from the credit system rose to 580 billion drs in 1993, from 28 billion in 1992, covering 24.5 per cent and 2.1 per cent respectively of the total PSBR. Finally, in 1993 there was no new net borrowing from the Bank of Greece and, in addition, a small part of the public sector's obligations to the Bank of Greece was settled.

In 1993, the maintenance of high interest rates on government securities was necessary not only for the financing of the increased PSBR from the

domestic non-bank market but also for the refinancing of the public debt, most of which is still short-term debt. It is worth noting that, while net borrowing through the sale of Treasury bills and bonds for financing part of the net PSBR reached 2,109 billion drs in 1993, sales of government paper yielded a total amount of 8,588 billion drachmas.

The foregoing data suggest that, owing to the short average maturity of the public debt, about three fourths of total financial resources obtained by the public sector from the money and capital markets are used to refinance the existing debt and only one fourth to meet current net borrowing requirements. The need to finance high current public deficits and refinance about two fifths of the public debt every year has been a major factor in the maintenance of high interest rates.

Given the high real interest rates and the stagnation of the Greek economy, prospects of an unfavourable development in the public debt are strengthened and the stabilisation of the public debt/GDP ratio is postponed. It is obvious that, without considerable primary surpluses in the government budget, the public debt and expenditures for servicing it, as a proportion of GDP, will keep rising at high rates. High borrowing requirements will raise interest rates and the cost of public sector borrowing, thus further increasing the public debt. If this process continues, the stabilisation of the public debt/GDP ratio will become extremely difficult, if not impossible. Such a development would entail a considerable risk, because it would lead to a rise in real interest rates in order to enable the financing of public deficits and the refinancing of the public debt.

5. MONETARY AND CREDIT DEVELOPMENTS

Monetary policy in 1993 was aimed, as in the immediately preceding years, at a further deceleration of inflation and at ensuring equilibrium in the basic balance of payments. These aims had to be achieved under the constraints imposed by the ongoing process of liberalisation of capital movements and deregulation of the banking system. At the same time, monetary policy had to be conducted under unfavourable economic conditions, especially in the second half of the year. In particular, monetary policy had to deal with pressures in the foreign exchange market during the EMS crisis at the end of July and the pressures which built up during the September-October period, owing to the climate of uncertainty that prevailed in the run-up to the general election.

Monetary policy also had to offset pressures due to large overruns in the PSBR, compared with budget forecasts.

The 1993 targets for broad money (M3) and total credit expansion provided for a deceleration in these aggregates, compared with 1992. However, both broad money (M3) and total credit expansion rose faster than in 1992, and much faster than targeted. In particular, broad money (M3) increased by 15.2 per cent during 1993, compared with an increase of 14.4 per cent in 1992 and a targeted increase of 9-12 per cent. It should be noted that the twelve-month growth rate of M3 was contained at 12.1 per cent in August 1993, but started accelerating in September. This acceleration in the last four months of 1993 resulted from the faster than targeted credit expansion to the public sector and the increased financing of public deficits by foreign borrowing. It also reflected a substantial shift of private investment from government paper to repurchase agreements (repos). The substitution of repos for government securities was mainly due to the rise in the interest rates offered by the banks on repos, particularly after the considerable increase in interbank rates in September and October, when the Bank of Greece had to intervene in the interbank foreign exchange and drachma markets to dampen pressures on the drachma, which were caused by uncertainty regarding the upcoming elections.

The fact that the growth rates of these aggregates overshoot the respective targets is not an adequate criterion for assessing the stance of monetary policy. This is mainly because, as noted in previous Reports, the relationship between monetary aggregates and final monetary policy targets has been destabilised in recent years, owing to the introduction of new products, the deregulation of the banking system and the liberalisation of capital movements. The Bank of Greece therefore uses other complementary indicators of the monetary policy stance. Among them, the level of real interest rates is the most representative indicator for assessing the restrictiveness of the monetary policy pursued in 1993. It should be noted that real interest rates rose by up to two percentage points during 1993, because nominal rates either remained virtually unchanged or were slightly lower in the last months of the year (as in the case of rates on lending to the private sector), without fully offsetting the deceleration of inflation (as in the case of Treasury bill rates). The restrictive stance of monetary policy is also indicated by the widening of the differential between domestic and foreign interest rates, following the substantial decline in nominal and real rates in many European countries.

The broader monetary aggregate, M4, which is used as a complementary liquidity indicator and comprises — in addition to M3 — investment by

individuals and private firms in government paper with an initial maturity of up to one year, increased in 1993 at a lower rate than in 1992 (16.9 per cent, 1992: 19.2 per cent). It should be noted that the twelve-month growth rate of M4 had fallen to 14.8 per cent in August 1993 but started rising in September 1993, though more slowly than the growth rate of M3. This development is due to the fact that the substitution of repos for government paper affected the growth rate of M3 only, whereas this substitution was internalised in M4.

Total credit expansion to the private and the public sector accelerated from 11.6 per cent in 1992 to 13.2 per cent in 1993, while the aim had been to slow it down to 6-8 per cent. This acceleration reflects the substantial credit expansion to the public sector, whereas credit expansion to the private sector decelerated significantly.

Credit expansion to the public sector rose to 13.6 per cent from 8.5 per cent in 1992. As mentioned previously, this increase was due to the enlargement of central government borrowing requirements, which reached 2,702 billion drachmas in 1993, compared with a budget estimate of about 1,370 billion. To a considerable extent, however, this increase was due to the fact that the financing of the public deficit by foreign borrowing rose to 765 billion drachmas in 1993 from 152 billion in 1992, while the growth rate of financing by the domestic credit system remained at 1992 levels (11.5 per cent).

Credit expansion to the private sector decelerated to 11.9 per cent from 17.1 per cent in 1992, remaining lower than the target range for 1993 (13-15 per cent). The maintenance of high nominal interest rates on lending to the private sector in 1993 resulted in a rise of around two percentage points in real rates and forced firms to raise more funds from the non-bank market. It should be noted, however, that the deceleration of credit expansion to the private sector was also due to technical factors, namely the provisions of Law 2076/1992, which requires banks not to reckon interest on loans that are non-performing for over a year. Including interest on non-performing Agricultural Bank and National Mortgage Bank loans, the rate of credit expansion to the private sector rose to 14.8 per cent.

Developments in 1993 indicate that monetary policy partly offset the unfavourable impact of high fiscal deficits, whose financing absorbed the bulk of domestic savings. The financing of these deficits rendered inevitable the maintenance of high nominal and real interest rates, which contributed to both a weakening of inflationary pressures and an improvement in the balance of payments and, consequently, to the support of a non-accommodating exchange rate policy. These developments indicate that it is possible to

achieve further progress in reducing inflation in 1994, provided that the upward trend of the public deficit/GDP ratio is reversed.

6. MACROECONOMIC POLICY ORIENTATIONS

The large deviations of major economic aggregates from the targets set at the beginning of 1993 and the worsening of economic imbalances, particularly in the fiscal sector, forced the new government which took office after the general election of 10th October 1993 to set as the central goal of its macroeconomic policy the stabilisation of the economy and, more specifically, the reduction of public deficits and inflation and the creation of appropriate conditions to enable the economy to embark on a path of steady growth.

In line with these principal aims, fiscal policy will bear the brunt of stabilisation, because, as is generally accepted, large public deficits and the high and increasing public debt are the main source of destabilising effects. The budget for 1994 encompasses a government commitment to take effective measures to reduce the net PSBR/GDP ratio. Similarly, monetary and exchange rate policies will retain their non-accommodating stance, with wage policy moving along the same lines. In greater detail, these four basic elements of macroeconomic policy for 1994 are as follows:

6.1 *Fiscal policy*

The government has set it as a top economic policy priority to reverse the upward trend of the public deficit/GDP ratio and proceed to fiscal consolidation. It has already taken a number of measures in this direction.

The large deviation of public deficits from budget forecasts in 1993 and the fast rise in the public debt/GDP ratio make it particularly difficult to restore fiscal balance in 1994 and the next few years. The maintenance of high real interest rates and slow economic growth make the stabilisation of the public debt/GDP ratio problematic. Under these circumstances, for this ratio to first stabilise and then start falling gradually, it is necessary to achieve high primary surpluses in the government budget, so as to comply with one of the basic criteria for participation in EMU. If these surpluses are not realised, the stabilisation of the public debt/GDP ratio will soon be almost impossible.

As stated in the Introductory Report on the Budget for 1994, the central government deficit is forecast to be reduced by about one percentage point of GDP, while the primary deficit, which corresponded to half of one percentage point of GDP in 1993, is expected to turn into a surplus corresponding to 1.9 per cent of GDP in 1994. The reduction of the central government deficit/GDP ratio in 1994 is forecast to stem from both the containment at 13.3 per cent of the growth rate of ordinary budget expenditure (net of amortisation payments), compared with 29.2 per cent in 1993, and a 22.2 per cent increase in revenue, compared with 8.1 per cent in 1993. The cut in the growth rate of expenditure reflects a decrease in outlays for wages and pensions and a substantial slowdown of the growth rate of the other primary outlays to 6.4 per cent in 1994 (1993: 31.5 per cent), while interest payments for servicing the central government debt, which correspond to 36.3 per cent of total expenditure, are forecast to rise by 22.6 per cent.

The increase in revenue will be the result, to a considerable extent, of a number of measures to curb tax evasion, widen the tax base and increase collection of tax arrears. Under a recently enacted law, a first effort is made to cope with tax evasion by determining imputed incomes and widening the tax base, which will lead to an improvement in the allocation of the tax burden and contribute to the partial collection of lost revenue. Apart from the imputation of the incomes of many professional groups, the new law provides for the taxation of interest on repos and of mutual fund dividends and profits, and for the lifting of banking secrecy only with respect to the tax authorities. The same law also restores the system of itemised tax deductions on the basis of expenditure receipts, and the taxpayer's obligation to declare his source of funds and his real property. The law also makes it mandatory for all people over 25 years of age to submit an income tax return. At the same time, sanctions for failure to pay VAT and due debts to the government become stricter.

The new law and those enacted at the beginning of 1994 (Laws 2187/1994 and 2198/1994) include the whole spectrum of measures mentioned in the Introductory Report on the Budget. However, most of the provisions of the new law will come into force in 1995. Only the taxation of interest on repos and of mutual fund dividends and profits, as well as the stricter sanctions for failure to pay VAT or due debts to the government and the regulations concerning the repayment of these debts (Law 2198/1994) may yield substantial amounts of revenue in 1994.

There is considerable scope for increasing revenue by curbing tax evasion and the underground economy and by broadening the tax base. Evasion

of both direct and indirect taxes has increased considerably in recent years. The income elasticity of tax revenue fell to 0.58 in 1993, while its long-term value is estimated at 1.15. It is therefore clear that, to achieve the increase in tax revenue budgeted for 1994, strong efforts will be required to curb tax evasion and broaden the tax base. Tax exemptions and widespread tax evasion and avoidance have an unfavourable impact on the performance of the tax system, violate the principle of equal sacrifice and undermine social cohesion.

The efficiency of the tax system can be raised through the more effective taxation of incomes earned by farmers, professionals and self-employed persons, better staffing of local tax offices, improved data processing systems, intensive tax audits, mandatory use of cheques for payments above a certain amount, cross-checking of tax data and strict sanctions on those guilty of tax evasion. The measures included in the new tax law, particularly those aimed at broadening and enhancing the objective criteria for the taxation of farmers, professionals and self-employed are a first but important step in this direction and can contribute significantly to an increase in revenue.

Apart from increasing and restructuring revenue, it is necessary to contain and/or curtail public expenditure. Outlays for wages and pensions must not exceed budget forecasts. Subsidies and grants must be drastically reduced and their approval should be effected by transparent procedures demonstrating their advisability in economic and social terms. Furthermore, the reduction of red tape, as well as the restructuring and efficient operation of the civil service would leave considerable scope for expenditure cuts, without limiting or reducing the quality of the services offered.

Difficulties might be faced in attaining the targets set regarding the borrowing requirements of public organisations and, in particular, social security funds, because the adjustment of insurance contributions has ceased to have a positive effect on revenue, while the growth rate of grants out of the ordinary budget is expected to fall to 16.4 per cent from 35.1 per cent in 1993. Moreover, the gradual decline, since the beginning of 1994, of nominal interest rates on government debt, though helping to contain ordinary budget expenditure for interest payments, it reduces the yields on the financial assets of the public organisations that recorded a surplus and leads to increased net borrowing requirements of these organisations.

The fact that the major social security funds (Social Insurance Fund - IKA, Farmers' Social Insurance Fund - OGA, Seamen's Pension Fund - NAT) continue to run large deficits, in conjunction with the financing of these deficits by borrowing, worsens the problem over time. Only the restoration of

financial balance in these funds would be a satisfactory solution. The collection of contributions in arrears must be a central goal. Moreover, measures should be taken to improve the system of assessment and collection of contributions. In addition, long-term measures have to be taken to cope with the structural problems of Greece's social security system, which stem from the ageing of the population and the increase in per capita hospitalisation costs. It is particularly worth examining the possibility of supporting the social security system further by introducing reserve-funded pension schemes (*quid pro quo*), by creating more jobs for the elderly and by broadening the financial base of the public health system.

Lastly, public enterprises, after the improvement recorded in their operating accounts in the last two years, should be able to contain their borrowing requirements in 1994 as well. The policy aimed at restraining the growth of operating expenditure and increasing revenue must continue this year too. It should be sought to increase operating surpluses, so as to secure financial resources which, along with borrowed funds and resources from the European Regional Development Fund, will enable public enterprises to execute larger investment programmes that will contribute towards improving and expanding Greece's economic infrastructure.

As mentioned below, during 1994, it is planned to finance a considerably larger, compared with previous years, part of the total PSBR by resorting to the domestic non-bank money and capital market. Recourse to the domestic non-bank market is necessary to control the credit system's liquidity and contain domestic credit expansion and money supply within the limits set by the monetary programme. The realisation of such borrowing presupposes that the government offers securities with competitive yields, compared with other types of investment.

6.2 Monetary policy

The central goal of monetary policy for 1994 is a further deceleration of inflation. The downward trend of inflation observed since autumn 1993 must continue. A substantial and steady slowdown of inflation in 1994 and the coming years is a prerequisite for boosting investment and economic activity and for Greece's entry into a phase of sustainable economic growth; it is also necessary for the country's participation in the process leading to EMU.

The completion of the deregulation of the banking system, the lifting of the last remaining restrictions on capital movements and, generally, the integration of EU financial markets are radically changing the operating conditions of the Greek credit system and are imposing further constraints on the conduct of monetary policy.

Monetary and credit policy targets for 1994 have been set at levels considered to be consistent with the desired deceleration of inflation and with the other related macroeconomic aggregates, which are determined by the economic policy decisions of the government. Specifically, monetary targets were set on the assumption that nominal GDP will grow by 12.3 per cent, while inflation, on the basis of the Consumer Price Index, will fall below 10 per cent by the end of 1994.

Regarding broad money (M3), the aim is to lower its growth rate for 1994 to 8-11 per cent, a range which is consistent with government goals and forecasts. Given, however, the uncertainty about the degree of diversification of savers' portfolios (substitution of repos for short-term government paper), the Bank of Greece will continue to monitor the broader monetary aggregate M4, which comprises M3 and domestic non-bank holdings of government paper of up to twelve months' maturity. It should be pointed out that, under the conditions expected to emerge after the planned full liberalisation of capital movements, the rate of growth of monetary aggregates will be affected, to a greater extent than previously, by developments in the basic balance of payments. Consequently, these aggregates must be assessed in the light of the need to support the exchange rate of the drachma and ensure external balance.

On the basis of the aim of containing the growth rate of M3 at 8-11 per cent, of the forecast that the basic balance of payments will improve further, as well as of certain estimates about the other resources of the banking system, it is expected that total credit expansion will fall to 6-8 per cent in 1994 from 13.2 per cent in 1993. The abolition of monetary financing and the prohibition of the public sector's privileged access to the credit system have forced the government to resort increasingly to domestic non-bank money markets in order to finance a larger part of its borrowing requirements. Moreover, the containment of the M3 growth rate at 8-11 per cent entails the need to curb the public sector's foreign borrowing to the level required for financing the balance-of-payments deficit. If the public sector's foreign borrowing were to exceed this limit significantly, it would become difficult to control the money supply effectively, and this could have unfavourable repercussions on inflationary expectations and inflation.

Credit expansion to the private sector is estimated not to exceed 11 per cent, which is only slightly lower than in 1993. This rate presupposes that the PSBR will be contained at budgeted levels and its larger part will be financed by direct government borrowing from the domestic non-bank market. It should be noted, however, that the business sector has access to the non-bank capital market and foreign financial markets, particularly in the EU member states, which are already financing a considerable part of the sector's borrowing requirements. The Bank of Greece will monitor changes in loans denominated in foreign currencies, so as to have a global view of credit to the private sector and be able to contain liquidity within limits consistent with the attainment of monetary targets.

After the full abolition of restrictions on bank portfolios, special credit regulations and the last remaining administrative restrictions on interest rates, the control of liquidity and credit expansion is exercised mainly through Bank of Greece interventions in the money markets and the adjustment of interest rates on bank borrowing from the Bank of Greece. Consequently, interest rate policy is a basic means of attaining monetary and credit policy targets and ensuring the non-accommodating stance of exchange rate policy.

Regarding the aims of monetary policy in the home market, interest rate policy must be consistent with the containment of monetary and credit expansion within the limits that have been decided. As inflation falls and inflationary expectations abate, it will become possible, in principle, to lower nominal interest rates further. It should be made clear, however, that lower nominal rates do not necessarily entail a decrease in real rates, which must remain consistent with the attainment of monetary and credit targets.

After the full liberalisation of capital movements in mid-1994, the possibilities of conducting an autonomous interest rate policy serving exclusively domestic aims will be considerably reduced. Interest rates will largely reflect supply and demand conditions in money and foreign exchange markets, which are affected by a number of factors, such as expectations regarding inflation and the exchange rate of the drachma, the level and structure of the public debt, and changes in interest rates in international money markets. Therefore, to the extent that monetary policy is called upon to support the drachma's parity, interest rate policy must take into account the new conditions that will emerge after the lifting of the remaining restrictions on capital movements and help avoid pressures in foreign exchange markets due to unfavourable economic developments.

It has been noted repeatedly that the reduction in real interest rates is hindered not only by the enormous public deficits but also by the pressures exerted in money markets by the refinancing of that part of the public debt which is short-term. Therefore, the possibility of a faster reduction in nominal rates, which will correspond to a drop in real rates, will hinge on future progress in reducing public sector deficits.

Undoubtedly, high real interest rates discourage investment and inhibit economic recovery. It is, therefore, reasonable for the business sector to be looking forward to a reduction in real rates. Moreover, a cut in interest rates on government borrowing would reduce budget expenditure for interest payments and would thus make it easier to reduce the deficit. Nevertheless, under prevailing economic conditions and given the large fiscal deficits, the Bank of Greece has limited scope for intervention in order to lower the general level of interest rates. An easing of monetary policy would result in rekindling inflation and worsening the balance of payments, while at the same time the gap between the supply of, and demand for, financial resources would widen and could lead to even higher interest rates. The reduction in real rates will be achieved faster and at a smaller economic and social cost, if the containment of fiscal deficits keeps pace with the targeted deceleration of monetary expansion and if fiscal and monetary policies are implemented with consistency and credibility.

6.3 *Wage policy*

The wage policy decided for 1994 is set within the framework of general anti-inflationary policy. The harmonisation of wage policy with overall economic policy, particularly with the desired reduction in public deficits and the monetary policy pursued, is necessary for a faster deceleration of inflation at a lower economic and social cost. Without this policy mix, the deceleration of inflation would be slower and might entail a worse macroeconomic performance, i.e. a decline in production and a larger increase in unemployment.

The attainment of the government objective of reducing inflation further in 1994 implies the need to contain the growth rate of nominal wages at a level that would appreciably lower the growth rate of unit labour cost. At the same time, however, it should be stressed that it is not a sound solution for wage policy to continue for a long time to bear a disproportionately large part of the burden for the achievement of economic stabilisation. The continuous

decline in real wages¹ over the last three years cannot go on, not only because it has created social injustices and inequalities but also because it conflicts with the effort to increase productivity. For these reasons, along with the containment of the growth rate of nominal wages, a faster improvement in productivity is necessary, while it is also imperative to implement, consistently and without deviations, the fiscal policy decided by the government, particularly as regards the reduction in fiscal deficits.

In the context of the wage policy for 1994, the government has stipulated pay rises for civil servants, which offset the forecast rate of inflation. Civil servants' earnings and pensions were raised by 5 per cent in January, while a further 5 per cent rise has been decided for July. At the same time, it has been decided to give a corrective pay rise in January 1995, if inflation exceeds 10 per cent in 1994. These rises are consistent with the Budget for 1994, which provides for an 11.2 per cent increase in outlays for civil servants' earnings and pensions. The earnings of employees in the rest of the public sector will be set by free collective bargaining, which is already in progress. In the context of this bargaining, the government has directed the parties concerned to take into account the economic situation of each public enterprise and the burden imposed on the wage bill for 1994 by pay rises in the last months of 1993, so that both parties will agree to pay rises for 1994 which would not conflict with the aim of reducing inflation.

Pay rises for private sector employees will also be set by collective bargaining and are estimated not to exceed by far the corresponding pay rises for civil servants. A two-year National General Collective Labour Agreement has already been signed, providing for an 11.8 per cent rise in minimum wages during 1994, compared with 14 per cent during 1993. For 1995, the agreement provides for an increase in minimum wages equal to the inflation forecast which will be included in the Introductory Report on the Budget for 1995. It also provides for a corrective pay rise, in case the twelve-month rate of inflation in December 1994 exceeds the corresponding increase in minimum wages. The recent two-year agreement on pay rises for bank employees includes similar provisions.

It is therefore estimated that the wage policy decided for 1994, combined with the fact that, in compliance with Law 2084/1992, there will be no new

¹ According to certain estimates, the average pre-tax earnings of civil servants declined by around 10 per cent between 1990 and 1993 and their average disposable income by 12 per cent, while real earnings and disposable income of all wage earners dropped by 8 per cent and 10 per cent respectively, over the same period.

increase in employers' social security contributions in 1994, will lead to a deceleration, compared with 1993, in the growth rate of unit labour cost in the non-agricultural sector. Thus the effect on cost and prices will be correspondingly smaller.

6.4 Exchange rate policy

As in the immediately preceding years, and particularly in the present circumstances, when the further reduction in inflation is a primary economic and monetary policy target, exchange rate policy is aimed at containing inflationary pressures and expectations and at imposing economic discipline, so as to favourably affect the behaviour of economic entities and, consequently, developments in cost and prices. This implies that the depreciation of the drachma during 1994 will not fully offset the inflation differentials between Greece and competitor countries, particularly the member states of the European Union. The consistent implementation of fiscal and wage policies decided by the government for 1994, as well as the conduct of a flexible interest rate policy, which is the basic means of supporting the exchange rate of the drachma, are of crucial importance for the success of non-accommodating exchange rate policy, particularly at a time when Greece is proceeding to the full liberalisation of capital movements.

The medium-term goal of exchange rate policy must be to strengthen the Greek currency by lowering inflation, in order to achieve a gradual deceleration of the depreciation of the drachma over the next few years, the final objective being to stabilise the parity of the drachma against the other European currencies. Lowering domestic inflation to a level close to the Union average and, in general, achieving economic convergence between Greece and the other EU member states are prerequisites for the drachma to join the ERM of the EMS and for Greece to fulfil its obligations under the Maastricht treaty and thus be able to participate in the process leading to EMU.

It has been pointed out that the conduct of an exchange rate policy which does not fully offset inflation differentials between Greece and its competitors has caused a decline in the competitiveness of domestic products and has, therefore, contributed to the widening of the trade deficit, while at the same time holding back economic recovery. The Bank of Greece has repeatedly expressed the view that, under prevailing conditions, the most appropriate method to improve competitiveness and expand the economy is to reduce domestic production cost and, at the same time, carry out the structural and

organisational adjustments required to boost productivity and exports. The aim should be to gradually bring the real exchange rate of the drachma to a level that would ensure external balance in the long run, while enabling the attainment of a satisfactory and sustainable rate of economic growth.

The effort to improve competitiveness through a faster depreciation of the drachma would entail considerable risks, particularly under today's circumstances, and would be ineffective. Given the favourable outturn of the balance of payments and the increase in foreign exchange reserves, a faster depreciation of the currency is neither advisable nor necessary. If a policy of fast depreciation were adopted, it would lead to an acceleration of inflation, at a time when inflation is actually subsiding. As a result, much of the improvement in competitiveness due to the depreciation of the drachma would be lost. It has been stated repeatedly that a policy of nominal exchange rate adjustment can be an effective means of improving competitiveness only to the extent that it may lead to a decrease in real incomes, mainly real wages. This presupposes that the rise in prices due to the depreciation of the currency would not be followed by a corresponding rise in nominal incomes, particularly nominal wages, to maintain their purchasing power.

These remarks point to the constraints involved in using the depreciation of the currency as a means of enhancing competitiveness, particularly under present circumstances. The intention of the Bank of Greece is for exchange rate policy to retain its anti-inflationary stance in 1994.

It should be noted that the relatively fast depreciation of the drachma in the first quarter of 1994¹ was due to the appreciation of the yen in international money markets and should not be interpreted as a change in the exchange rate policy that will be pursued.

7. DEREGULATION OF THE BANKING SYSTEM AND LIBERALISATION OF CAPITAL MOVEMENTS

7.1 Deregulation and supervision of the credit system

The unification of financial markets in the European Union, the start of stage two of Economic and Monetary Union on 1st January 1994, and the imple-

¹ The drachma depreciated by 2.1 per cent against the ECU in the first three months of 1994. Moreover, the drachma's effective exchange rate fell by 2.5 per cent in the same period, while the drachma depreciated by 6.7 per cent against the yen.

mentation of article 104a of the Maastricht treaty, which abolishes monetary financing of fiscal deficits and the public sector's privileged access to the credit system, have established new conditions and caused radical changes in the operating regime of the Greek banking system. Complete deregulation of the credit system and liberalisation of capital movements from the administrative rules and restrictions in force since the 1950s are therefore imperative. Moreover, it is essential to expand the functioning of money and capital markets, improve their efficiency and, at the same time, provide the prerequisites for the Bank of Greece to increase the scope and variety of money and foreign exchange market intervention instruments in order to improve the effective conduct of monetary policy.

During 1993 and over the early months of 1994, the process of deregulating the credit system and liberalising interest rates, which started in the mid-1980s, was virtually completed. After the abolition of the requirement on commercial banks to invest part of their deposits in Treasury bills and of the administratively determined minimum interest rate on savings deposits, banks can now allocate their liquid assets and determine their lending and deposit rates freely. At the same time, after the almost complete deregulation of the credit system, banks have the option to extend credit to almost every branch or sector of activity at freely negotiable interest rates and on their own terms; they can also offer a series of new products and services. The few restrictions still in force concern the financing of investment in securities and consumer credit. Following the recent raising of credit ceilings, however, restrictions on consumer credit are no longer of any practical significance.

The almost full abolition of administrative restrictions and regulations and the liberalisation of interest rates, as well as the fact that credit institutions may now expand their activities into fields which, until recently, were the exclusive domain of specialised credit institutions or commercial banks, have established a new regime in the credit system. Having strengthened the forces of competition, they offer possibilities which, if properly exploited, will enable Greek credit institutions to survive in the highly competitive environment that will emerge from the integration of financial markets in the European Union.

An important step towards the complete deregulation of the banking system was the abolition, as from 1st May 1993, of the requirement on commercial banks to invest part of their deposits in Treasury bills. The proportion of new deposits earmarked for this purpose was gradually reduced from 40 per cent at the end of 1990 to 15 per cent at the end of 1992 and to zero on 1st

May 1993. Along with the gradual abolition of the compulsory investment ratio, banks were offered the option to convert the relevant holdings into negotiable medium-term government bonds. By the end of March 1994, banks had converted 2,065 billion drs, representing nearly all of their compulsory investment in Treasury bills, into negotiable medium-term government bonds. The abolition of the banks' compulsory investment in Treasury bills has increased the yields of the savings resources they manage and reduced the cost of the loans they can offer in the Greek market.

The prohibition of any privileged access of the broader public sector to the banking system, as from 1st January 1994, implies that banks are no longer required to earmark a certain amount of the capital they had already accumulated for this purpose until 1st April 1991, when the requirement on new deposits was abolished, in order to finance public organisations and enterprises. After the abolition of the banks' compulsory investment in Treasury bills and the prohibition, as from the beginning of 1994, of the monetary financing of fiscal deficits, the public sector will have to meet its borrowing requirements exclusively through the money and capital markets. As a result, the Ministry of Finance has to set interest rates on the securities it offers at competitive levels, in order to attract the required funds. The prohibition of monetary financing of fiscal deficits also contributes to a further development of money and capital markets, which will allow the Bank of Greece to use more flexible and effective policy instruments to control liquidity and influence interest rates.

On 1st July 1993, the requirement that commercial banks earmark a percentage of their new deposits for the financing of small and medium-sized manufacturing firms was also abolished. Another restriction on banks' portfolio management has thus been lifted. The Bank of Greece estimates that the removal of this restriction will not reduce the number of loans extended to small and medium-sized manufacturing firms, because a considerable part of old deposits earmarked for this purpose has not yet been absorbed by these firms. As from 31st December 1993, 390 billion drs of earmarked funds have accumulated, yet only 274 billion drs have been used for loans to small and medium-sized manufacturing firms. It should be noted that the above requirement imposed a substantial burden on banks, because interest rates on these loans were lower than market rates on loans of the same risk class and, moreover, the unused balances of earmarked funds had to be deposited in a non-interest bearing account with the Bank of Greece. For example, when banks were given the option to invest their unused balances in ETBA bonds

and government paper, they seemed reluctant to grant loans to small and medium-sized manufacturing firms. In these circumstances, if the privileged financing of small-scale manufacturing by the banking system is still considered advisable, then the relevant economic burden ought to be borne directly by the government budget.

Apart from the abolition of compulsory investment ratios, credit institutions were allowed in early March 1993 to set freely the interest rates they offer on savings deposits, which account for about two thirds of total drachma deposits. After the abolition of minimum interest rates on savings deposits, credit institutions are now free to adjust their deposit and lending rates according to changes in money and capital market conditions. Another hindrance to the development of competitive conditions in the credit system has therefore been lifted. The introduction of innovations and of special deposit accounts by certain banks, as well as the relative diversification in deposit and lending rates between individual banks, suggest an emerging strengthening of competition among credit institutions. Nevertheless, it should be noted that some types of loans (certain housing loans, medium- and long-term loans to small scale manufacturing, loans to farmers, earthquake victims and people living in border areas) are still subsidised by the government budget.

Finally, in January 1994, the Bank of Greece proceeded to an effective deregulation of consumer credit. Total consumer credit by one and the same credit institution was set at 8 million drs per person, although specific ceilings still apply to certain types of consumer loans. Control over consumer credit, in terms of both quality and quantity, will be exercised, as for other categories of loans, by means of the general interest rate level and bank supervision regarding risk evaluation.

The Bank of Greece, in the context of its efforts to enhance the effectiveness of its market intervention instruments, has started using, to the extent allowed by the breadth and depth of money and capital markets, policy instruments in order to control liquidity and influence interest rates. These instruments are similar to those used by other central banks in the European Union. A significant step in this direction was the activation, as from mid-1993, of the bills and notes rediscount mechanism and the introduction of a new type of central bank lending to commercial banks on collateral of government paper. The use of these two refinancing facilities aims at limiting Bank of Greece interventions in the interbank market and reducing interest rate fluctuations. Changes in official lending rates signal the direction in which the Bank of Greece wants interest rates to move. It should be noted that credit institu-

tions may still resort to borrowing from the Bank of Greece in the form of overdrafts on their current accounts with it, in order to cover exceptional liquidity shortages. However, owing to the high penalty rate on overdrafts, such borrowing may be unprofitable.

The existence of sufficiently broad and deep money and capital markets is a prerequisite for the improvement and more frequent use of market intervention instruments by the Bank of Greece. In recent years, significant progress has been made towards the development of these markets. The Bank of Greece is making every possible effort to contribute to a further deepening and expansion of money and capital markets. It intends to step up the development of these markets by accepting more categories of securities for open market operations, by facilitating the creation of a secondary market for government securities and by improving selling methods. The development of the primary and secondary market for government paper is desirable, not only because it will strengthen monetary control instruments, but also because it will contribute to a more efficient management of the public debt. Moreover, the establishment of an active secondary securities market of sufficient depth, particularly in the context of the full liberalisation of capital movements over the coming months, will contribute to the unhindered and efficient operation of the foreign exchange market, as well as to the development of the forward market and other markets for financial derivatives designed to hedge against foreign exchange risks and other risks arising from market instability.

The development of a sufficiently broad and deep secondary securities market, which will operate competitively, depends on the introduction of a modern system of settlements, as well as the issue of government securities in computerised book-entry form, so as to ensure the speed, transparency and safety of transactions in securities. Significant progress has recently been made in this direction. The Bank of Greece has provided the necessary infrastructure for an automated settlements system, while preparations for the issue of government securities in computerised book-entry form have been completed.

The full deregulation of the credit system, the development of money and capital markets, the expansion of the banks' activities into new operations, the supply of new banking products and, particularly, the expansion of foreign exchange transactions increase the risks to which banks are exposed and necessitate a strengthening of the role of the Bank of Greece, which is responsible for the prudential supervision of the banking system.

Following the harmonisation of Greek legislation with Community law regarding the supervision and control of financial institutions, substantial

changes have been made in recent years in the institutional underpinnings of the supervisory powers of the Bank of Greece, enabling it to exercise effective supervision of domestic credit institutions. Law 2076/1992, consistent with the Second Banking Directive, has introduced provisions governing the terms and conditions concerning the establishment and operation of a credit institution in Greece, the control of large participations in the financing of companies that are not financial institutions by setting ceilings on such financing, both per company and for the total sum of the large participations of a credit institution. Moreover, the Bank of Greece has issued a series of decisions adopting certain regulations on the operation of credit institutions, which are included in other EU Directives and concern: (a) the adoption of a uniform definition of equity, (b) the assessment and monitoring of the solvency of credit institutions and (c) the imposition of limits on large financing and lending of each bank. Over the coming months, a deposit insurance system will be established, and the Directive concerning the capital adequacy of investment banks and credit institutions for protection against market risks will be transposed into Greek law. These regulations are aimed at the creation of an effective prudential supervisory system, safeguarding the solvency of these institutions and the stability of the financial system.

7.2. Liberalisation of capital movements

Following the mid-1992 abolition of all foreign exchange controls and restrictions on current transactions, decisive steps were taken in 1993 towards the full liberalisation of capital movements. Presidential Decree 96/1993, by which Greek law was harmonised with the provisions of Council Directives 88/361/EEC and 92/122/EEC on capital movements, has lifted existing restrictions on capital movements between residents of Greece and residents of other EU member states, with the following exceptions: (i) operations carried out by residents with foreign financial institutions in current and deposit accounts with original maturity of less than one year; (ii) financial loans and credits with original maturity of less than one year; (iii) personal loans with original maturity of less than one year; and (iv) physical import or export of banknotes. These restrictions on capital movements will be in force until 30th June 1994, while the complete liberalisation, as from 1st July 1994, of all transactions relating to capital movements to and from European Union member states has already been announced.

The same Presidential Decree (96/1993) lifts all restrictions on capital movements to and from third countries outside the European Union and allows the Bank of Greece to maintain regulations on certain cases of capital movements to and from these countries. A series of Bank of Greece Governor Decisions, issued on 7th May 1993, simplified the procedures of granting foreign exchange for transactions between residents and non-residents. Moreover, some major types of foreign exchange transactions between residents in the domestic foreign exchange market were liberalised, while certain transactions on financial derivatives were also permitted. In addition, the institutional framework of drachma accounts of non-residents with domestic credit institutions and foreign exchange transactions between residents and non-residents was defined.

Apart from the above measures, the Bank of Greece Governor Decision 2227/1993 extended the liberalisation to non-EU countries, as required by Presidential Decree of 23rd March 1993. The only exceptions were transactions relating to personal loans, sureties, guarantees and rights of pledge from residents to non-residents. Restrictions vis-à-vis non-EU countries were also maintained on: (i) direct investment in Greek border regions, maritime transport and acquisition of mining rights; (ii) investment in real estate in Greek border regions; (iii) participation in new or existing enterprises if engaged in radio and/or television broadcasting and air transport.

The complete liberalisation of capital movements and the unification of financial markets in the European Union create new conditions and possibilities, which, if properly utilised, can be beneficial for Greece. The abolition of all remaining restrictions on short-term capital movements, such as short-term deposits and loans, will strengthen the forces of competition and contribute to the further development and modernisation of money and capital markets and, consequently, to the more efficient channelling and allocation of financial resources, to improved quality of financial services and to reduced cost of bank intermediation. At the same time, it will enable borrowers — enterprises as well as individuals — to choose from a variety of sources, instruments and currencies, thus lowering the cost of financing. It is self-evident that the full liberalisation of capital movements will also offer non-residents the possibility to invest in Greece, thus helping attract capital and investment, provided that a favourable economic environment is restored in Greece. The composition of investors' portfolios will now depend on the relative net yields of alternative investment instruments, on foreign exchange risks and on the other parameters of portfolio management.

On the other hand, the full liberalisation of capital movements will radically change the way the credit system works and will further limit the capability of the Bank of Greece to conduct an autonomous monetary policy, particularly an interest rate policy that would not take into account changes in international interest rates and economic conditions abroad. Furthermore, the liberalisation will leave more room for speculative pressures on the foreign exchange market, especially at a time when fiscal policy and interest rate policy are not in harmony with the corresponding policies in the rest of the Union.

8. EUROPEAN MONETARY INTEGRATION AND THE ROLE OF THE BANK OF GREECE

The year 1993 was marked by important developments, which will decisively affect the process of European unification. The Treaty on European Union came into force on 1st November 1993. According to its provisions, the second stage of Economic and Monetary Union (EMU) started on 1st January 1994. The second stage will last until the end of 1996 — provided that the necessary prerequisites are in place for transition to the third and final stage of EMU — or until the end of 1998 at the latest. During the second stage, cooperation and coordination among central banks will be promoted by the creation of a new, independent central monetary authority, the European Monetary Institute (EMI), which started to operate at the beginning of 1994, and by the institutional establishment of the independence of national central banks, which will continue to conduct monetary policy during this transitional period. During this period, progress is also expected to be made towards the attainment of the economic convergence goals among EU member states, in order to enable transition to the final stage of EMU within the time-limits set by the Maastricht treaty. It is hoped that the creation of the Cohesion Fund and the increase in financial resources supplied via the Structural Funds to the less developed regions will contribute to the achievement of a higher degree of economic cohesion between the member states and regions of the Union. Moreover, the implementation of the economic programme set out in the White Paper on Growth, Competitiveness and Employment is expected to promote the recovery of economic activity and create new jobs, particularly in those member states which are in an unfavourable phase of the business cycle and face a serious unemployment problem.

The EMI is the precursor of the European Central Bank, which will be established and start to operate at the inception of the final stage of monetary union, as provided by the Treaty.

The primary aim of the EMI will be to further promote coordination of national monetary policies, as well as to monitor the functioning of the Exchange Rate Mechanism of the EMS, in order to ensure price stability, which is an indispensable prerequisite for transition to the third stage of EMU. Moreover, the EMI will facilitate the use of the ECU and oversee the development of this currency as well as the smooth functioning of the ECU clearing system. At the same time, the EMI will carry out the preparatory work for the establishment of the European System of Central Banks, the conduct of the single monetary policy and the creation of a single currency by the end of the process leading to monetary union. To this end, the EMI must specify by the end of 1996 at the latest the regulatory, organisational and logistical framework for the operation of the European System of Central Banks. In this context, special emphasis has been given to the formulation of an appropriate strategy, the conceptual underpinnings of the single monetary policy and the method of its implementation, including the choice of the appropriate instruments for the conduct of this policy, as well as to matters concerning the creation of a consistent statistical data base, the development and integration of payments systems in the common monetary area, the printing and issuance of ECU banknotes, the harmonisation of accounting rules and practices employed by the national central banks and the establishment of reliable information systems. Finally, the EMI has taken over the administration of the EMS mechanisms (very short-term financing, short-term support and issuance of the ECU in the context of implementation of the EMS Agreement) from the European Monetary Cooperation Fund, which ceased to exist at the beginning of the second stage. In addition, the EMI is authorised to hold and manage foreign exchange reserves as an agent for, and at the request of, national central banks. This function is governed by rules ensuring that EMI transactions shall not interfere with national monetary and exchange rate policies.

Although the conduct of monetary policy remains within the field of competence of national central banks during the second stage, further emphasis is given to the promotion of central banks' coordination by the creation of the EMI at this stage, so as to enhance the effectiveness of monetary policy in the EU member states. The realisation of the single market and, in particular, the full liberalisation of capital movements and the fast integration of finan-

cial markets have further increased the need for cooperation and coordination in the conduct of monetary policy in the EU member states.

On the other hand, the suspension of two currencies from the ERM in September 1992 and the widening of the fluctuation band of most of the currencies participating in the ERM to ± 15 per cent in August 1993 (with the exception of the German mark and the Dutch guilder which remained in the old, narrow band of ± 2.25 per cent) gave member states more room for monetary autonomy and broadened the possibilities to set interest rates on the basis of internal economic conditions and aims. In this new environment, monetary policy coordination in the context of the EMS becomes more difficult, because of the different conditions prevailing in the member states and the pressures experienced by a number of countries with inappropriate policy mixes. The conduct of a stricter monetary policy for further reducing inflation in certain member states conflicts with the aim to cut interest rates in low inflation countries with sluggish economic activity. Monetary policy coordination will continue to be difficult, inasmuch as national economic conditions differ substantially. However, as long as there are strong inflationary pressures in a number of countries, the main aim of monetary policy will inevitably be to attain and maintain price stability.

The effectiveness of monetary policy hinges, to a significant extent, on sufficient support from fiscal policy. The improvement in the fiscal and monetary policy mix is imperative and will require considerable adjustments, particularly in countries like Greece, where public deficits are very large, in order not only to create the prerequisites for the promotion of a satisfactory and constant rate of economic growth, but also to meet the requirements for economic convergence stemming from the Treaty on European Union. As shown by economic and exchange rate developments in the last two years, it is necessary to make substantial progress in this direction, so as to restore EMS credibility and achieve economic convergence at the rate required for the successful completion of the process leading to EMU.

Although the widening of the fluctuation band of the currencies participating in the ERM has increased the national central banks' room for manoeuvre and contributed to the abatement of pressures in the foreign exchange market, it has not eliminated existing constraints on the conduct of an independent domestic economic policy. As mentioned above, the completion of the single market has increased the interdependence of member states' economies and has, therefore, made cooperation and monetary policy coordination necessary in the context of the EMI.

All the central banks of the Union agree that the ultimate goal of monetary policy must be to attain and maintain price stability. Nevertheless, they have not yet agreed on the way monetary cooperation can be promoted. One of the methods proposed, which is compatible with the new and looser exchange rate regime, is that national central banks announce monetary targets consistent with the convergence of inflation rates and, at the same time, the EMI announces an overall monetary target for the Union, which will aim at medium-term price stability. This method of monetary coordination is constrained by the fact that, during the second stage, national central banks are allowed to conduct their own independent monetary policy. On the other hand, a possible return of the ERM currencies to the old, narrow band (± 2.25 per cent) would, under suitable conditions, make monetary policy coordination easier in the context of the EMS, by limiting the room for manoeuvre of national central banks. Nevertheless, the narrowing of ERM fluctuation bands is not considered advisable nor does it seem possible in the near future, prior to the elimination of the causes underlying the recent ERM crisis.

A basic factor for enhancing the credibility and effectiveness of monetary policy in this transitional stage of monetary union is the institutional independence of national central banks. According to articles 108 and 109e(5) of the Treaty on European Union, during the second stage each member state must set in motion the necessary process for establishing central bank independence. This process must be completed by the time the European System of Central Banks is founded.

Independence of central banks implies that they will have autonomy in the formulation and implementation of monetary policy for attaining and maintaining price stability and that they will act without being subject to political pressure to adopt a short-term policy whose objectives would be incompatible with the safeguarding of long-term monetary stability. National central banks will continue to support overall economic policy for achieving high rates of economic growth, provided that price stability — which is the national central banks' primary concern — is not jeopardised.

Central bank independence, apart from being legally established, must be based on a generally acceptable view that the authorities responsible for the formulation and implementation of monetary policy are not subject to political influence, which could undermine the attainment of price stability. Moreover, if monetary policy is to be effective, decision-making must be thorough and the implementation of decisions must have a long-term perspective. Furthermore, the institutional establishment of central banks' independence

requires, at the same time, democratic accountability and transparency in the conduct of monetary policy. Only under these conditions will monetary authorities be able to gain the general recognition and prestige required for enhancing the credibility of monetary policy.

It is therefore evident that radical changes are called for in the institutional and operational framework of the Bank of Greece, in order to harmonise the Bank's Statute with the Treaty on European Union and ensure its institutional independence in formulating and implementing monetary policy. In this context, the Bank of Greece has already proposed a bill to the government, according to which the Bank becomes independent of the government with regard to the formulation and conduct of monetary policy. On the basis of the generally accepted belief that price stability is a prerequisite for the attainment of satisfactory and sustainable economic growth rates, the proposed bill stipulates the safeguarding of price stability as a primary objective of the Bank of Greece. This does not mean that monetary policy will be pursued without taking into account the other economic policy goals, since the proposed Statute specifies that the Bank of Greece will support the general economic policy of the government, provided that the attainment of the Bank's primary objective is not undermined.

It is characteristic of the Bank's independence that the proposed Statute provides that, in the exercise of its responsibilities, the Bank of Greece will act without seeking or taking instructions from the government or any other political authority, while the government and other authorities must not seek to influence the Bank of Greece. The Bank's independence is also ensured by the way in which members are appointed in a new authority, the Monetary Policy Council, which will be responsible for the formulation and conduct of monetary policy.

While the institutional safeguarding of the Bank's independence is a substantial prerequisite for the formulation and conduct of an effective monetary policy, the new institutional framework ensures democratic accountability to Parliament. A major element of this accountability is the obligation of the Governor of the Bank of Greece to submit the annual report on monetary policy and on its effects to Parliament and to the Cabinet and to present himself before a parliamentary committee, when requested, to brief it about matters falling within the Bank's field of competence. Democratic accountability is enhanced by a provision, according to which the Minister of National Economy can participate, without the right to vote, in Monetary Policy Council meetings.

As already mentioned, in the second stage of the monetary union, the Bank of Greece will, apart from the conduct of monetary policy, remain exclusively competent for its other basic functions, namely the pursuit, in cooperation with the government, of exchange rate policy, the management of foreign exchange reserves, the supervision of the banking system, the control of the smooth operation of payment systems and the issuance of banknotes. At the same time, the Bank will be authorised to act as an agent of the government in contracting public sector loans from abroad and managing the public debt. Performing these functions effectively presupposes, among other things, the modernisation and restructuring of the Bank's services and retraining of its personnel.

Apart from changes in the institutional and operational framework of the Bank of Greece, its independence in the conduct of monetary policy will be enhanced by the abolition of monetary financing of the public sector by the Bank of Greece, in compliance with article 104 of the Treaty on European Union, which came into force at the beginning of 1994. Moreover, the government and the Bank have signed an agreement for converting 3,037 billion drachmas of government obligations to the Bank into long-term loans with a maturity of 30 years, a fact which contributes to the strengthening of the Bank's balance sheet. The settlement of the government's obligations from foreign exchange valuation differences has resolved a problem which remained pending for many years and impeded the conduct of monetary policy.

In addition to ensuring its institutional independence in the second stage of EMU, the Bank of Greece will proceed to modernise market intervention instruments and upgrade the means of supervising the banking system. Furthermore, the Bank deems necessary the prompt development of the interbank payments system and the prevalence of favourable conditions of banking competition. The Bank will contribute substantially to the attainment of these goals, which are indispensable prerequisites for the effective conduct of monetary policy and the smooth functioning of the banking system.

II. ECONOMIC ACTIVITY

1. EXPENDITURE, PRODUCTION AND NATIONAL INCOME¹

1.1 General developments

The stagnation of economic activity in 1993 was combined with a small deceleration of inflation and an increase in the rate of total unemployment.

TABLE II.1
GROSS DOMESTIC PRODUCT
(1970 prices)

Sector	1989 (billion drs)	Annual change (%)				Contribution to the increase in GDP			
		1990	1991	1992 ¹	1993 ²	1990	1991	1992 ¹	1993 ²
Primary	63.2	-15.4	17.4	-1.6	-1.9	-2.0	1.9	-0.2	-0.2
Secondary	149.9	-1.1	-0.2	-0.8	-2.6	-0.3	-0.1	-0.2	-0.8
(Mining and quarrying)	(9.4)	(-2.0)	(-4.3)	(2.3)	(-5.6)	(0.0)	(-0.1)	(0.1)	(-0.1)
(Manufacturing)	(93.2)	(-2.6)	(-0.7)	(-1.6)	(-3.0)	(-0.5)	(-0.1)	(-0.3)	(-0.5)
(Electricity, gas and water)	(20.6)	(-2.5)	(8.0)	(4.6)	(2.2)	(-0.1)	(0.3)	(0.2)	(0.1)
(Construction)	(26.7)	(5.6)	(-3.2)	(-3.7)	(-4.2)	(0.3)	(-0.2)	(-0.2)	(-0.3)
Tertiary	281.9	1.4	2.7	2.3	1.7	0.8	1.6	1.3	1.0
GDP	495.0	-1.5	3.4	0.9	0.0	-1.5	3.4	0.9	0.0
(non-agricultural)	(431.8)	(0.6)	(1.7)	(1.3)	(0.3)				
Net income from abroad	-7.0								
Gross national income	488.0	-0.8	3.6	0.9	...				

¹ Provisional data.

² Estimates.

Source: NSSG, National Accounts, for 1989-1992. For 1993, estimates by the Directorate of Macroeconomic Analysis and Programming of the Ministry of National Economy.

According to provisional estimates by the Ministry of National Economy, GDP at factor cost remained unchanged in 1993, compared with a 0.9 per cent increase in 1992 (Table II.1). This development reflects the decrease

¹ The national accounts data of this chapter are based on the national accounts system used by the NSSG over the last decades. In compliance with Directive 89/130/EEC, the NSSG has already undertaken to revise these data and harmonise them with the European System of Integrated Economic Accounts. So far, the detailed results of this revision have been announced only for 1988 and show that GDP at current market prices is 20 per cent higher than the amount calculated according to the previous system. Regarding the years after 1988, the Directorate of Macroeconomic Analysis and Programming of the Ministry of National Economy has made provisional estimates of certain basic aggregates (at current prices) on the basis of the new system: according to these, GDP for 1993 (at current market prices) is revised upwards by 23 per cent.

in income from secondary production (for the fourth consecutive year) and primary production, which, however, was offset by the rise in income from the tertiary sector. Account should also be taken of the effect of the tight economic policy on final demand, though only monetary and exchange rate policies eventually had a restrictive effect, whereas fiscal policy had an expansionary impact.

TABLE II.2
GROSS EXPENDITURE OF THE ECONOMY
(1970 prices)

	1989 (billion drs)	Annual change (%)				Contribution to the increase in GDP			
		1990	1991	1992 ¹	1993 ²	1990	1991	1992 ¹	1993 ²
Consumption	485.2	2.1	2.5	1.4	1.0	1.9	2.2	1.2	0.9
(Private)	(395.7)	(2.3)	(2.2)	(1.7)	(1.0)	(1.7)	(1.6)	(1.2)	(0.7)
(Public)	(89.5)	(1.3)	(3.5)	(0.0)	(1.0)	(0.2)	(0.6)	(0.0)	(0.2)
Gross fixed capital formation	87.9	9.4	-4.4	1.2	-0.6	1.5	-0.8	0.2	-0.1
(Private)	(64.0)	(14.5)	(-10.2)	(-1.7)	(1.6)	(1.7)	(-1.4)	(-0.2)	(0.2)
(Public)	(23.9)	(-4.7)	(14.5)	(8.5)	(-5.7)	(-0.2)	(0.6)	(0.4)	(-0.3)
Changes in stocks and statistical discrepancies ³	24.4	3.8	6.2	5.7	5.8	-0.6	2.5	-0.5	0.1
Gross expenditure of the economy	597.5	2.6	3.6	0.8	0.8	2.8	4.0	0.9	0.9
Balance of goods and services (net balance) ³	-44.0	-11.8	-12.6	-12.3	-13.0	-3.8	-0.7	0.0	-0.9
(Imports of goods and services)	(188.4)	(12.0)	(13.2)	(5.7)	(3.4)	(-4.1)	(-5.1)	(-2.4)	(-1.5)
(Exports of goods and services)	(144.4)	(0.9)	(16.4)	(8.0)	(1.9)	(0.3)	(4.4)	(2.4)	(0.6)
GDP (market prices)	553.5	-1.1	3.3	0.9	0.0	-1.1	3.3	0.9	0.0

¹ Provisional data.

² Estimates.

³ As a percentage of the previous year's GDP in the columns of annual changes.

Source: NSSG, National Accounts, for 1989-1992. For 1993, estimates by the Directorate of Macroeconomic Analysis and Programming of the Ministry of National Economy.

The growth rate of total consumption and investment expenditure decelerated further in 1993. However, the gross expenditure of the economy (including changes in stocks and statistical discrepancies) rose by 0.8 per cent, i.e. at the same rate as in 1992 (Table II.2). This was due to the substantial decrease in public investment (after the rise in 1992), which, however, was more than offset by the increase in consumption and private investment. Private consumption increased, though at a decelerating rate, while it is estimated that private investment also recorded a small increase. Business investment grew for the second consecutive year, while housing investment

decreased, though less than in 1992. The contribution of private consumption to the increase in domestic expenditure was therefore crucial, but smaller than in 1992.

Available data show that the small increase in consumption, together with the equally small decline in total gross fixed capital formation, led to a negligible decrease in the share of investment in GDP (1992: 16.3 per cent, 1993: 16.2 per cent). Moreover, the contribution of the external sector to the change in GDP in 1993 was strongly negative, despite the slower growth rate of imports of goods and services, owing to the steeper deceleration of the growth rate of exports of goods and services (on a national accounts basis). Therefore, the deficit in the real external balance of goods and services rose to 13 per cent of GDP in 1993 from 12.3 per cent in 1992, on a national accounts basis.

1.2 Developments by category of expenditure

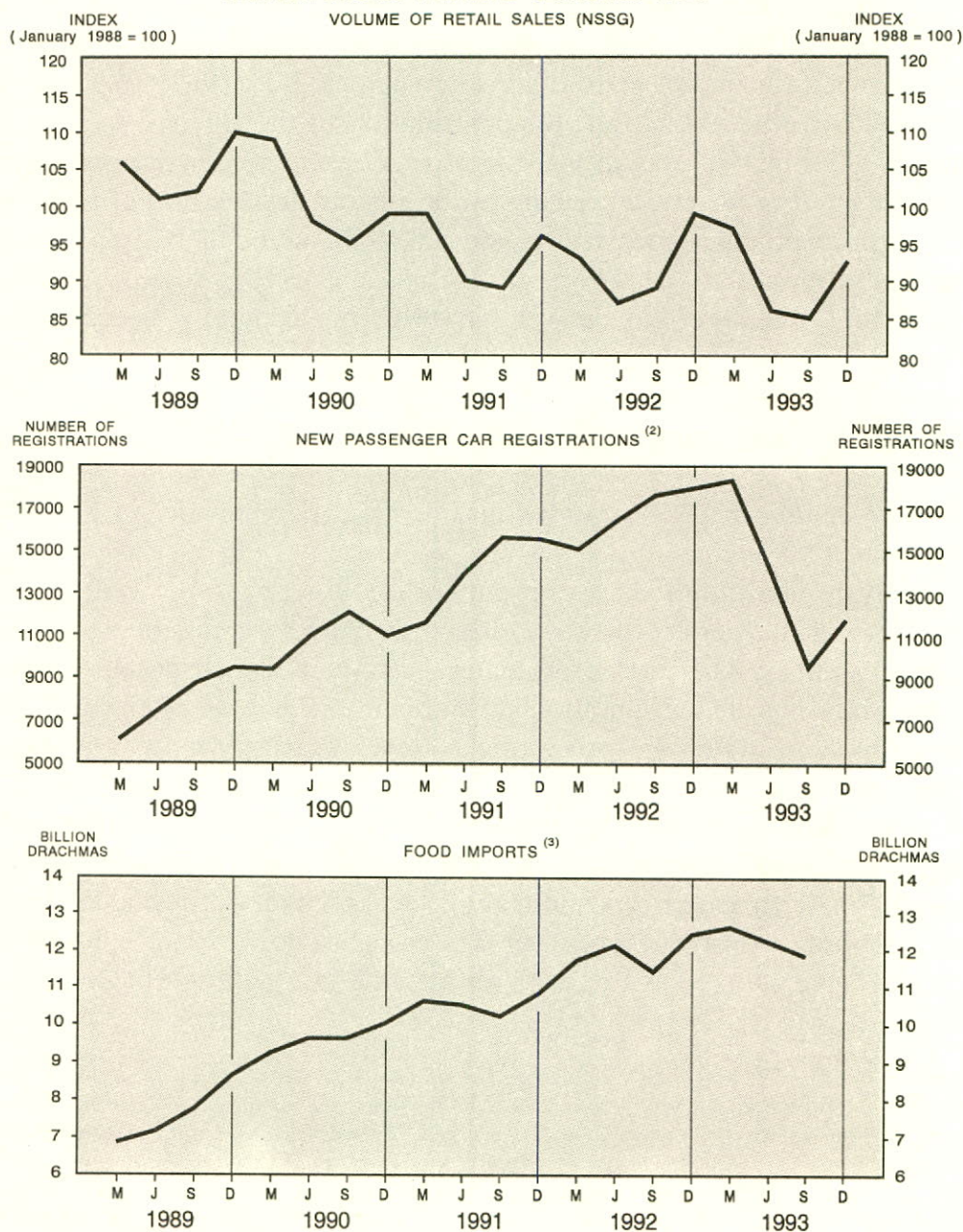
In greater detail, changes in individual demand components in 1993 were as follows:

Private consumption, at constant prices, rose by 1 per cent in 1993, compared with 1.7 per cent in 1992, a fact attributable to an almost commensurate — according to certain estimates — rise in real disposable personal income. Since private consumption grew at almost the same rate as disposable personal income at constant prices, the average propensity to save did not fall further in 1993.

The deceleration of the growth rate of private consumption reflects changes in certain individual indicators (Chart II.1). Expenditure for the purchase of private passenger cars and other goods declined. According to available data, the number of private passenger cars brought into circulation during 1993 fell by 25.7 per cent, compared with an increase of 16.6 per cent in 1992.¹ At

¹ As stated in last year's *Report*, the large increase in purchases of private passenger cars was related to the incentives offered for withdrawing conventional technology cars, and continued until the end of the first quarter of 1993 (twelve-month growth rate: 21.5 per cent), in view of the lapse of these incentives by 31st March 1993. After that date, car purchases dropped — sharply at first but more moderately during the last four months of 1993, following the introduction of a bill stipulating a considerable cut in the special consumption tax as of 1st September 1993, as well as the extension, until the end of the year, of the tax incentives for the withdrawal of conventional technology cars by those who possessed the relevant supporting documents. It should also be noted that there was a positive response to the introduction of factoring in the car market, as some commercial banks are trying to enter this market by employing this method. However, it is not yet clear whether consumers have accepted this means of financing, because of its relatively high cost.

CHART II.1

INDICATORS OF PRIVATE CONSUMPTION ⁽¹⁾

(1) End-of-quarter data, six-month moving average.

(2) Number of passenger cars first brought into circulation.

(3) Foreign exchange data deflated by the corresponding wholesale price index (base-year 1988).

the same time, the downward trend of retail sales volume (which had started in the second quarter of 1990 but seemed to come to a halt in the second half of 1992 and the first quarter of 1993) continued. As a result, retail sales fell by 3.6 per cent, compared with no change in 1992. This development was due to reduced sales in all categories of products except "clothing and footwear".

According to provisional estimates by the Ministry of National Economy, developments in factor incomes in 1993 led to an increase in nominal, pre-tax personal income, at a faster rate than in 1992. The year under review was marked by redistributive tendencies within this aggregate. In particular, agricultural income grew at a rate substantially slower than inflation, owing to the decline in agricultural production and the small rise in producer prices. The increase in nominal income from wages and salaries is estimated by the Ministry of National Economy to have been less than inflation. The rise, however, in employees' social security contributions and fiscal drag led to an even steeper drop in workers' real disposable income. Conversely, income from private property and entrepreneurship grew much faster than inflation (see also Chapter III).

On the basis of data concerning the execution of the budget, public consumption, at constant prices, recorded a small increase of 1 per cent in 1993. This was the outcome of the increase in expenditure on goods and services, together with the small increase, on an average annual basis, in employment in the civil service (see Section 5 of this Chapter).

Total gross fixed capital formation (Table II.3), at constant prices, fell by 0.6 per cent in 1993, entirely owing to the substantial decline in public investment (-5.7 per cent). The growth of private investment was limited (1.6 per cent) and is estimated to have been due to increased business investment, which, however, was largely offset by declining housing investment for the third consecutive year.

The decrease in public investment was due to the substantial cut in the public investment programme, owing to difficulties in financing the public deficit. It should be noted that the considerable reduction in public investment in 1993 slowed down the process of improving infrastructure in order to increase productivity.

The continuing drop in private housing investment is related to the decline in capital inflows for real estate investment (1993: \$946 million, 1992: \$1,082.4 million) and the low demand for housing loans, mainly because of high interest rates on non-subsidised loans. The decline in private housing investment is also related to the cyclical fluctuation of building activity,

which, however, is estimated to be bottoming out. According to NSSG data, the volume of new housing, on the basis of building permits, went up during the 1988-1990 period and fell considerably in the 1991-1992 period, recording a decrease of only 2.5 per cent in 1993 (Chart II.2). Lastly, the containment of disposable personal income over the last four years and the wider array of investment alternatives available to savers are estimated to have reduced demand for dwellings and to have led to a deceleration of housing investment.

TABLE II.3
GROSS FIXED CAPITAL FORMATION
(1970 prices)

	1989 (million drs)	Annual change (%)				Average annual rate (%)	Percentage composition	
		1990	1991	1992 ¹	1993 ²	1989-1993	1990	1993 ²
A. By type of capital good								
1. Construction	47,342	5.0	-4.1	-4.2	-4.1	-1.9	51.7	47.4
Dwellings	21,742	13.4	-15.2	-10.8	} -2.5	} -4.1	25.6	} 30.8
Other buildings	11,901	-0.2	-7.6	-3.6			12.4	
Other construction and works	13,699	-3.7	19.6	4.0	-7.0	2.7	13.7	16.5
2. Equipment	40,531	14.5	-4.7	7.0	2.8	4.7	48.3	52.6
Transport equipment	8,840	27.4	-2.2	7.7	2.8	8.4	11.7	13.2
Machinery & other equipment	31,691	10.9	-5.5	6.8	2.8	3.9	36.6	39.4
B. By type of purchaser								
1. Private	64,027	14.7	-10.2	-1.7	1.6	0.7	76.4	71.2
Dwellings	21,071	13.6	-15.4	-10.7	-2.2	-4.3	24.9	19.1
Other	42,956	15.2	-7.7	2.3	3.2	2.9	51.5	52.1
2. Public	23,846	-4.7	14.2	8.5	-5.7	2.7	23.6	28.8
C. Total	87,873	9.4	-4.4	1.2	-0.6	1.3	100.0	100.0

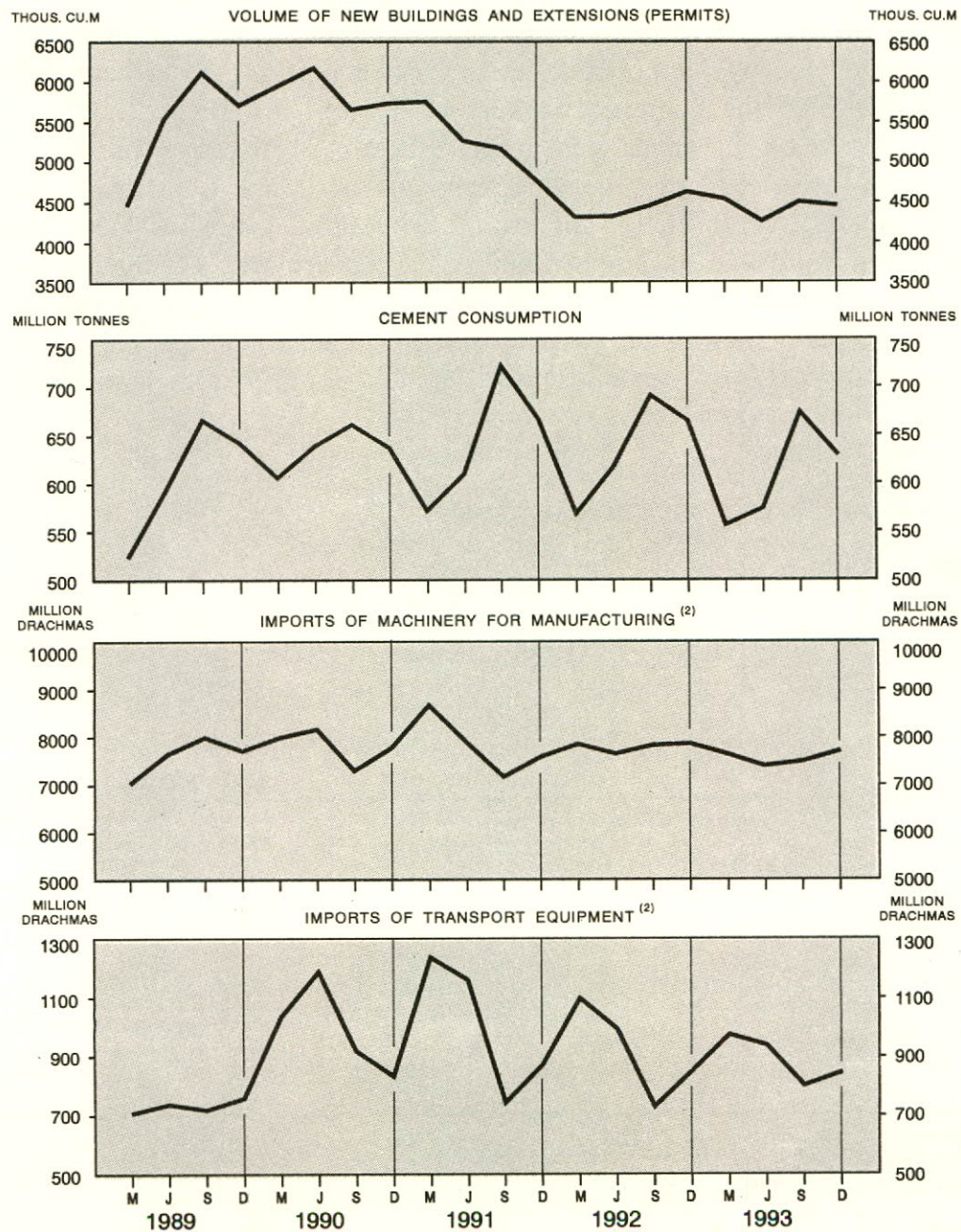
¹ Provisional data.

² Estimates.

Source: 1989-1992: NSSG, National Accounts, for 1989-1992. For 1993, estimates by the Directorate of Macroeconomic Analysis and Programming of the Ministry of National Economy.

The boost to private business investment is associated with favourable expectations concerning the functioning of the European Union as from 1st January 1994, as well as with the agreement to finance the Greek economy out of the European Structural Funds through the Regional Development Plan proposed for the 1994-1999 period. It is also associated with expectations of a decline in the cost of lending to business firms and with the containment of labour cost. Business investment expanded also owing to venture capital inflow, which remained high (1993: \$1,981.2 million, 1992: \$2,038.1 million).

CHART II.2

MAIN INDICATORS OF INVESTMENT ACTIVITY ⁽¹⁾⁽¹⁾ End-of-quarter data, six-month moving average.⁽²⁾ Foreign exchange data deflated by the corresponding wholesale price index (base-year 1980).

The increase in the volume of investment in machinery and transport equipment decelerated substantially (1993: 2.8 per cent, 1992: 7 per cent). On the basis of NSSG data, the value of machinery imports rose by 16.1 per cent in the January-September 1993 period, compared with 20.8 per cent in the corresponding period of 1992. At the same time, the volume of investment in construction fell by 4.1 per cent, as confirmed by the 6.2 per cent drop of cement sales in the domestic market.

As a result, the investment in machinery/total investment ratio rose to 52.5 per cent in 1993 from 48.3 per cent in 1990, while the share of investment in construction fell. This shift of investment programmes towards machinery is positive, as it contributes to the modernisation of the productive apparatus. However, it should not be overlooked that the expansion of investment in construction, including investment in material infrastructure, sets in motion a process of self-sustained growth aimed at improving the productivity of the whole economy.

2. AGRICULTURAL PRODUCTION

Agricultural production declined slightly for the second consecutive year. The relatively small increases in certain arable and tree crops did not offset decreases in other crops. Moreover, livestock production eventually made a

TABLE II.4
ACREAGE OF BASIC ANNUAL CROPS
(Thous. hectares)

Crop	1979/80 ¹	1989	1990	1991	1992	1993 ²	Percentage change between two-year periods 1979/80 & 1992/93
Soft wheat	7,254	3,750	3,220	2,932	3,267	3,123	-56
Durum wheat	2,225	5,150	6,900	7,250	6,192	5,936	172
Maize	1,425	2,000	1,993	2,299	1,957	1,983	38
Alfalfa	2,050	1,457	1,420	1,432	1,408	1,421	-31
Tomatoes for processing	235	212	222	224	168	195	-23
Tobacco	913	825	762	830	1,015	862	3
Cotton	1,388	2,800	2,680	2,330	3,212	3,550	144
Sugar beet	370	488	443	393	499	462	30

¹ Two-year average.

² Provisional data.

Source: Ministry of Agriculture.

negative contribution, owing to reduced meat output, despite increased milk production (Table II.5).

The decline in plant production was the combined outcome of the drop in yields (except maize, cotton and sugar beet) and the favourable effect of arable crop restructuring. This effect, however, was relatively small, because acreage under cotton, maize and tomatoes for processing expanded at the expense of acreage under tobacco, durum wheat, sunflower and sugar beet (Table II.4). Since the area of cultivable land and, more or less, crop yields are given, the restructuring of crops and agricultural output emerges as the most important determinant of future increases in the agricultural output and

TABLE II.5
PRODUCTION OF BASIC AGRICULTURAL PRODUCTS
(Thous. tonnes)

Products	1979/80 ¹	1989	1990	1991	1992	1993 ²	Percentage change between two-year periods 1979/80 & 1992/93
Soft wheat	2,142	875	680	978	879	828	-60
Durum wheat	522	1,130	1,100	2,239	1,423	1,251	156
Maize	982	1,700	1,800	2,328	1,976	2,121	109
Alfalfa	2,123	1,522	1,460	1,495	1,479	1,506	-30
Tobacco	122	126	123	154	187	136	32
Cotton (natural)	336	830	663	680	818	1,008	172
Tomatoes for processing	1,476	1,400	1,090	1,177	966	1,093	-30
Sugar beet	2,120	3,500	2,760	2,730	3,059	2,901	41
Olive oil	266	320	167	330	304	285	11
Lemons	160	189	169	173	176	146	1
Oranges	410	932	819	762	987	847	124
Apples	271	264	349	186	385	383	42
Peaches	336	641	772	719	1,122	1,130	68
Meat, total	504	519	524	527	543	527	6
Milk, total	1,698	1,779	1,803	1,783	1,805	1,851	8

¹ Two-year average.

² Provisional data.

Source: Ministry of Agriculture.

income. This is because producer prices, which had contributed to the substantial rise in agricultural income over the last decade, will increase in the future at much lower rates, owing to (i) the effort for economic convergence (gradually slower depreciation of the drachma, falling deficits) and (ii) the provisions of the revised Common Agricultural Policy as well as the GATT agreements, which stipulate a reduction in the institutional prices of basic agricultural products and, generally, in agricultural support expenditure. Extensive restructuring and upgrading of agricultural output must become

TABLE II.6
PRODUCER PRICES AND INPUT PRICES

Percentage changes in producer prices					
Groups, items	1989	1990	1991	1992	1993
Cereals and rice	18.7	11.4	9.5	6.9	4.2
Bulbs and roots	21.8	-0.3	-4.8	-6.1	27.4
Fresh vegetables	15.5	36.5	10.2	8.2	4.4
Fresh fruit	25.1	19.1	33.2	-20.8	10.9
Citrus fruit	6.9	20.3	25.2	1.7	-10.7
Dried fruit and nuts	11.1	13.8	23.3	4.8	10.2
Wine	18.2	26.2	26.9	8.7	1.8
Seeds	12.3	17.5	13.4	6.5	-4.5
Pulses	36.5	33.0	8.0	12.8	4.3
Olives and oil products	20.1	30.3	40.4	-12.4	6.2
Industrial crops	22.0	18.8	13.2	11.3	5.8
Fodder plants and hay	38.0	4.6	6.1	14.6	18.9
Cut flowers	7.9	33.3	47.0	36.3	4.1
VEGETABLE PRODUCTION	16.3	22.7	20.9	1.1	6.5
Meat	18.1	10.3	12.4	16.2	2.3
Poultry	20.8	23.3	15.2	7.6	6.1
Milk	24.2	24.2	4.8	11.2	20.6
Eggs	6.6	16.8	32.9	0.0	3.9
Other livestock products	12.0	5.9	-11.9	14.1	8.9
LIVESTOCK PRODUCTION	18.8	15.8	10.8	12.3	8.6
GENERAL INDEX	17.0	20.7	18.1	4.1	7.1
Percentage changes in input prices					
Groups, items					
Seeds	14.8	22.4	16.7	9.3	-1.1
Animals for rearing and reproduction	18.8	20.2	11.1	8.5	9.2
Energy - lubricants	1.5	34.4	39.2	23.2	21.9
Fertilisers	0.1	15.9	30.8	31.6	-0.7
Pesticides	9.4	7.4	13.1	3.7	4.2
Animal feed	18.7	14.2	19.6	5.2	13.6
Agricultural tools and supplies	10.2	12.9	14.1	10.6	6.5
Maintenance and repair of machinery	20.5	15.6	17.7	13.5	12.4
Maintenance and repair of buildings	17.7	19.6	17.6	11.2	10.6
Other expenses	11.4	24.4	18.8	11.2	11.7
GENERAL INDEX	11.6	19.4	24.3	14.3	12.8

Source: NSSG.

basic goals, if production and agricultural income are to increase. The level of the Community's contribution will continue to be an important incentive for the attainment of these goals, because structural outlays are not included in agricultural support expenditure, whose reduction has been decided in the context of the GATT agreements.

The decrease in total meat output reflects reduced production in all categories, though especially of pork and poultry. This decrease was obviously due to the drop in domestic consumption, along with import penetration in the case of white meat, particularly pork. On the other hand, total milk output increased significantly. The increase is connected with the dairy industry's demand for fresh milk, as a result of strong consumer demand for fresh milk products.

The rate of increase in producer prices (7.1 per cent) was, for the second consecutive year, much lower than the corresponding average rate (18.6 per cent) of the 1989-1991 period. This was mainly due to the relatively small increases in the prices of almost all plant products, particularly olive oil, fresh vegetables, cereals and wine. Moreover, the producer prices of livestock products, with the exception of white meat, rose faster than plant product prices for the second consecutive year, mainly owing to the sharp rise in milk prices, as a result of strong demand by the dairy industry (Table II.6).

The prices paid by farmers for basic inputs in 1993 rose slightly slower than in 1992. Although the rate of increase was nearly half the 1990-1991 average (12.8 per cent as against 21.8 per cent), it remained higher than the rate of increase in producer prices for the second consecutive year. This development, which had a negative impact on farmers' income, was mainly due to a steep rise in fuel and lubricant prices, because of taxation. On the other hand, the further drop in agricultural employment had a favourable effect on income per capita of the farming population.

3. SECONDARY PRODUCTION

3.1 General developments

According to provisional estimates by the Ministry of National Economy, income from secondary production fell significantly (-2.6 per cent) in 1993, for the fourth consecutive year (Table II.1). This was mainly due to the decline in the construction industry's output (-4.2 per cent) and in total

industrial production (-2.2 per cent). The decline in industrial production was caused by the substantial drop in mine and quarry output (-5.6 per cent) and in manufacturing output (-3 per cent), whereas output from public utilities (water supply-electricity-gas) increased, though at a lower rate than in 1991 and 1992.

The drop in the construction industry's output was primarily due to the considerable decline in public sector construction activity and, to a lesser extent, in private building activity. The decrease in industrial production related to the stabilisation policy pursued, which had a restraining effect on domestic demand. The general industrial production index (compiled by the NSSG), which covers the entire sector, fell for the fourth consecutive year (-2.9 per cent). The reduction in industrial output was also connected with the recession in OECD countries, in most of which manufacturing output fell during the last two years and particularly in 1993.

Developments in industry were as follows by branch of activity:

3.2. Manufacturing

3.2.1 General developments

The manufacturing output index (compiled by the NSSG) fell by 3.2 per cent in 1993, compared with a drop of 1.3 per cent in 1992. Moreover, according to the monthly survey carried out by the Economic and Industrial Research Institute (IOBE), the business expectations index (incorporating production prospects and estimates of the level of stocks and of total demand) fell by 1.8 per cent in 1993, compared with a 1.7 per cent rise in 1992.

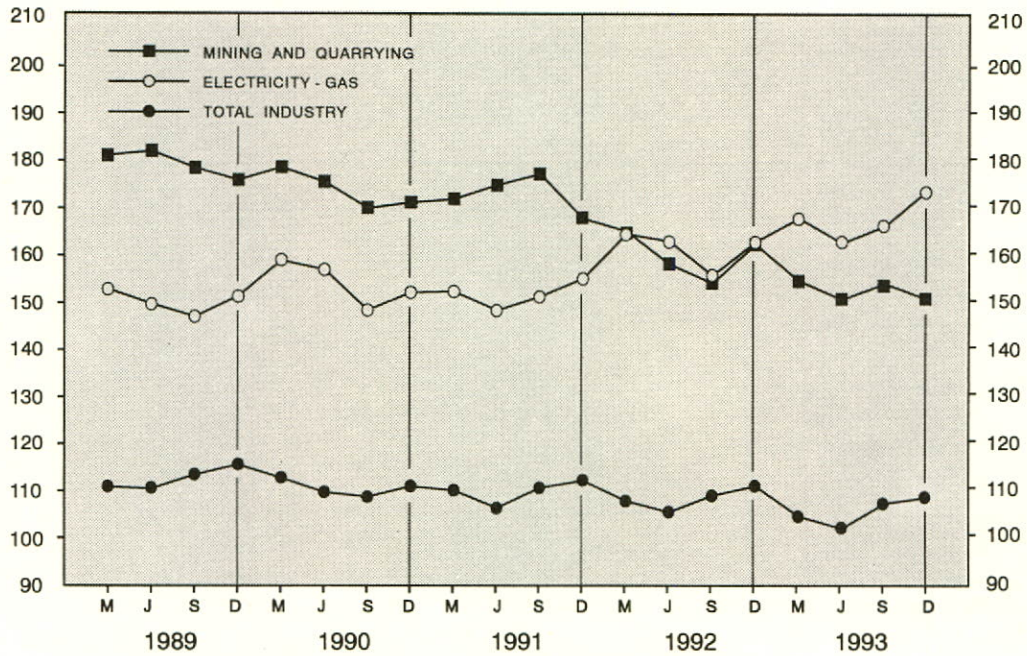
The 3 per cent decline in manufacturing output may be attributed to slack domestic demand and the substitution of imported for domestic products, as shown by the increase in import penetration (share of value of imports in total domestic demand). Conversely, export performance (share of exports in domestic production) improved, mainly owing to the increase in exports of manufactured products.

The improvement in exports of manufactures in 1993 stemmed entirely from the penetration of non-EU markets, particularly of Eastern Europe, and concerned mainly consumer durables and non-durables. According to NSSG data, the value of exports of manufactured products to EU countries (categories 5-8 of the Standardised International Trade Classification) rose by 9.7 per

CHART II.3

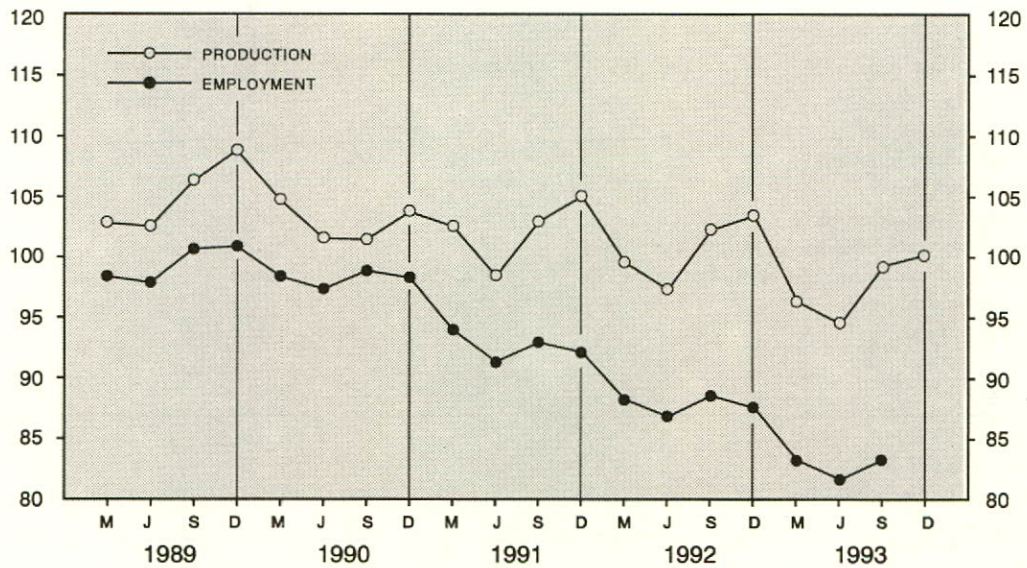
INDUSTRIAL PRODUCTION ⁽¹⁾

(1980 = 100)



PRODUCTION AND EMPLOYMENT IN MANUFACTURING ⁽¹⁾

(1980=100)



(1) End-of-quarter data, six-month moving average.

cent in the January-September period of 1993 (compared with the same period of 1992), as against a 27.3 per cent increase in the value of corresponding exports to non-EU countries. In addition, Greek industry appears to be losing export shares in the EU market, because the Union's global imports of

TABLE II.7
INDUSTRIAL PRODUCTION
(Annual percentage change)

	1989	1990	1991	1992	1993
TOTAL	1.8	- 2.4	- 1.0	- 1.0	- 2.9
Manufacturing	2.3	- 2.8	- 0.9	- 1.3	- 3.2
a. Consumer non-durables	3.4	- 7.3	- 2.5	- 2.1	- 1.6
b. Consumer durables	4.7	-11.3	7.9	0.6	8.5
c. Capital goods	- 0.9	11.0	0.0	- 0.1	- 8.2
Manufacturing industries					
Food	10.4	-11.1	9.5	7.8	- 1.1
Beverages	7.4	0.7	- 0.3	4.2	3.0
Tobacco	- 7.6	21.8	1.4	- 4.9	- 1.1
Textiles	- 2.1	- 3.8	- 9.0	- 8.5	- 6.5
Footwear and clothing	- 5.3	- 5.9	0.6	- 4.4	3.2
Wood and cork	14.8	0.5	2.2	- 3.1	- 8.2
Furniture	- 0.4	- 4.5	- 9.3	- 2.9	- 0.9
Paper	0.1	- 7.4	7.6	2.1	- 7.0
Printing and publishing	- 1.0	- 7.2	- 8.2	- 2.9	- 5.6
Leather	- 9.2	-15.9	- 6.6	2.7	- 5.6
Rubber and plastics	14.6	- 8.9	- 5.1	-10.3	- 3.7
Chemicals	5.3	0.7	- 4.9	- 3.4	4.0
Petroleum and coal products	3.2	2.2	-11.1	14.3	- 9.4
Non-metallic minerals	- 4.0	4.6	-11.8	- 4.2	0.3
Basic metals	0.0	1.4	1.4	2.0	- 5.0
Metallurgical products	- 7.3	-11.3	- 1.0	1.3	- 8.2
Machinery and appliances, excluding electrical	23.4	- 6.7	- 2.4	- 0.6	-10.8
Electrical machinery and appliances	8.5	- 5.0	12.8	1.7	9.1
Vehicles	- 1.5	6.5	9.6	- 0.3	-20.4
Miscellaneous	1.8	4.4	31.5	-53.5	-36.5
Mining and quarrying	- 4.9	-3.2	- 1.2	- 6.5	- 6.2
Electricity and gas	4.2	2.7	- 1.8	7.4	2.6

Source: NSSG.

manufactures are growing faster. At the same time, Greek export shares in other markets are increasing substantially, a fact relating to the dynamic penetration of the Balkan market. The expansion of this market provides an

outlet (similarly as Middle Eastern markets did in the past) for many export-oriented domestic industries and compensates, to some extent, for the erosion of the competitiveness of Greek industrial firms in European Union markets.

On the supply side, as analysed in Chapter III, there are indications that profit margins in manufacturing decreased, because industrial product prices rose slower than the basic production cost components. Regardless, however, of actual profit performance, manufacturing investment is estimated to have risen, reflecting expectations of a medium-term improvement in profitability as well as stronger competition in the domestic and the international market. Lastly, the increase in manufacturing investment, in conjunction with the drop in production, led to a further reduction in the rate of capacity utilisation, as suggested by, among other things, the decrease in electric power demand for industrial use (January-October 1993: -3.1 per cent).

3.2.2 Developments by industry

According to the production indices compiled by the NSSG, consumer goods production declined (-1.6 per cent) for the fourth consecutive year, whereas production of consumer durables grew at a substantially faster rate (1993:8.5 per cent, 1992: 0.6 per cent). Lastly, capital goods production decreased substantially (-8.2 per cent, Table II.7 and Chart II.4).

The fall in consumer goods production was due to the sluggishness of domestic demand, though the trend is not uniform across individual industries. The retail sales volume index shows that demand for food, which largely determines consumer goods demand, fell by 2.5 per cent. Sales of "miscellaneous goods" recorded a sharp drop (-5 per cent), whereas clothing and footwear sales continued to grow significantly (4.9 per cent).

In the food and beverages industries, the drop in domestic sales was offset by an improvement of about one percentage point in export performance, owing to increased exports — data for the January-September period — and the drop in production volume (-1 per cent). In contrast, import penetration increased, though the growth rate of imports was appreciably lower than in 1992. Consequently, competitiveness in the food and beverages industries deteriorated, despite substantial investment over recent years for modernising and restructuring production (Table II.8).

Import penetration in the textile and clothing-footwear industries increased slightly, because of the considerable decline in import volume and

TABLE II.8
IMPORT PENETRATION AND EXPORT PERFORMANCE
IN MAIN BRANCHES OF MANUFACTURING

Branches ¹	Annual percentage changes				Import penetration ²	Export performance ³
	Current prices		1980 prices			
	Imports	Exports	Gross production value	Gross production value		
Food-beverages (20, 21)						
1991	9.2	6.8	32.6	7.7	22.6	13.4
1992	23.8	50.2	24.6	7.2	23.0	16.1
1992 (January-September)	21.3	31.5	24.8	7.5	21.2	13.6
1993 (January-September)	13.8	14.6	8.6	-1.0	22.2	14.4
Textiles, clothing-footwear (23, 24, 29)						
1991	12.3	21.0	6.7	-6.1	50.7	55.3
1992	16.7	19.5	4.7	-6.6	58.2	63.1
1992 (January-September)	15.7	6.5	4.2	-7.0	53.8	57.5
1993 (January-September)	-1.1	16.5	6.2	-4.9	55.4	63.1
Rubber, chemicals (30, 31)						
1991	21.5	22.0	12.7	-5.0	45.1	10.7
1992	15.4	15.8	2.2	-5.7	48.5	12.1
1992 (January-September)	19.2	4.4	0.1	-6.6	47.1	10.8
1993 (January-September)	20.3	37.1	16.8	2.4	48.4	12.6
Non-metallic minerals (33)						
1991	15.3	14.2	11.3	-11.8	19.3	18.3
1992	23.8	30.6	6.1	-4.2	22.7	22.5
1992 (January-September)	37.3	28.5	5.0	-5.8	21.1	20.9
1993 (January-September)	10.3	7.6	9.1	-0.8	21.2	20.7
Basic metals and metallurgical products (34, 35)						
1991	13.9	16.8	14.3	0.4	45.1	28.4
1992	-12.3	17.8	8.3	1.7	40.8	30.9
1992 (January-September)	-8.3	17.2	6.8	0.9	39.1	28.3
1993 (January-September)	16.0	1.5	4.2	-6.4	41.5	27.6
Machinery and appliances (36, 37)						
1991	11.7	21.2	25.4	8.0	73.9	20.6
1992	18.8	32.7	10.1	1.0	76.4	24.9
1992 (January-September)	20.8	20.8	14.6	4.7	75.7	23.9
1993 (January-September)	16.1	32.4	16.9	7.4	76.4	27.0
Vehicles (38)						
1991	42.1	43.1	21.6	9.5	69.2	1.9
1992	33.2	24.7	17.3	-0.3	71.9	2.1
1992 (January-September)	35.3	28.7	16.5	1.8	70.4	1.9
1993 (January-September)	9.9	169.7	-5.8	-18.4	74.3	5.5
Manufacturing (total) ⁴						
1991	19.4	20.9	17.6	-0.9	42.9	23.4
1992	13.3	15.8	12.0	-1.3	43.5	24.2
1992 (January-September)	18.3	12.6	11.2	-1.1	42.3	23.1
1993 (January-September)	16.9	17.3	9.7	-3.6	44.4	24.7

¹ The two-digit code numbers of branches are in brackets.

² Ratio of value of imports over the value of apparent consumption.

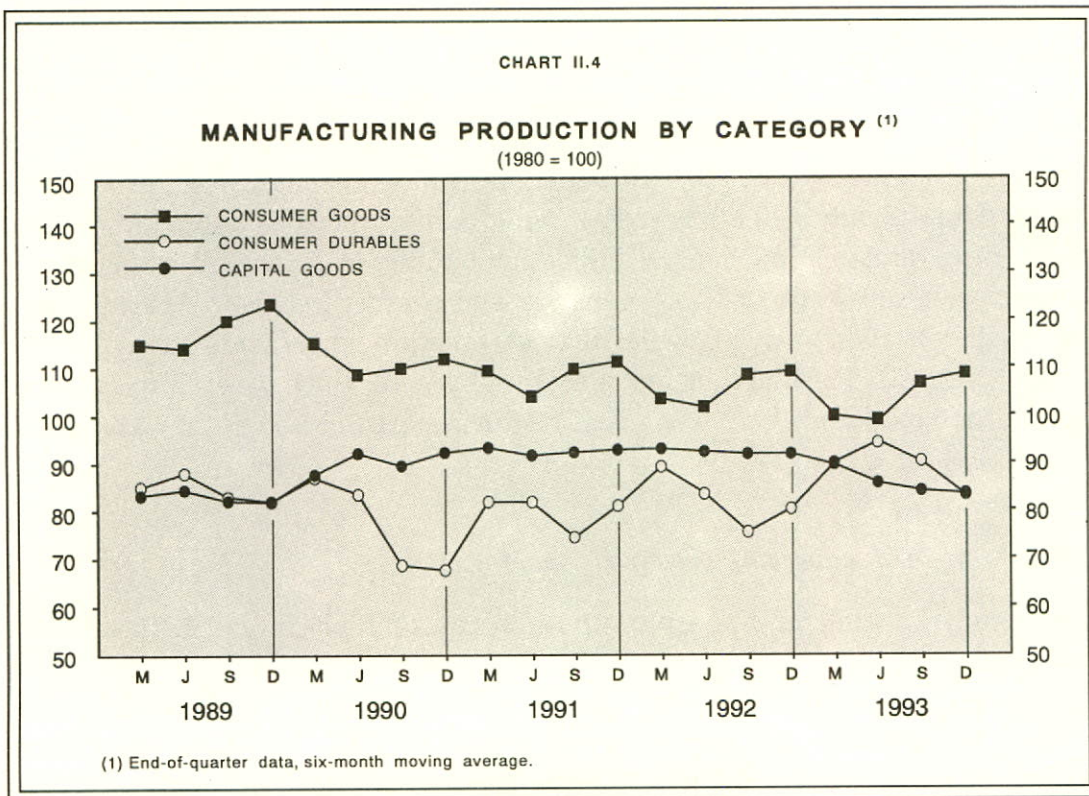
³ Ratio of value of exports over gross value of production at current prices.

⁴ Including oil.

Source: Calculations based on NSSG data.

production (-4.9 per cent). At the same time, export expansion led to an improvement of about 5.5 percentage points in export performance. Nevertheless, stronger international competition requires an improvement in the competitiveness of exports and relates to the modernisation of the production process, which should be oriented towards flexible specialisation.

The considerable increase in consumer durables production may be attributed to the improvement in export performance, since domestic demand



declined (furniture - household equipment: -2.9 per cent). It should be noted that the machinery - appliances industries' output, which includes durable consumer goods, increased (7.4 per cent) and their competitiveness improved, as shown by the rise in export performance and the marginal increase in import penetration. The larger sales in foreign markets offset sluggish domestic demand, which was due to the decline in building activity and the limited rise in disposable personal income.

The substantial decline in total capital goods output was due to domestic demand conditions (it should be recalled that the growth rate of investment in machinery decelerated), but was also related to the limited ability of the capital goods industry to meet domestic and foreign demand requirements. The behaviour of individual capital goods industries varied in 1993, depending on the relative position of each industry in the domestic and the foreign markets.

In particular, production volume in metallurgy fell, on the basis of data for the January-September period, by 6.4 per cent and the industry's competitiveness deteriorated (i.e. export performance fell and import penetration rose because of increased imports). In the chemicals - plastics - rubber industries there was a rise in production volume (2.4 per cent) as well as in export performance, whereas their domestic market position worsened (increased import penetration). In the non-metallic minerals industry, production declined marginally (-0.8 per cent), while export performance and import penetration remained unchanged, a fact attributable to the varied behaviour of a number of sub-sectors of the industry. The competitiveness of certain sub-sectors therefore improved, while that of others deteriorated. Lastly, in the vehicles industry, production fell substantially (-18.4 per cent), import penetration increased and there was a fast rise in exports, although they are still at a very low level.

3.3 Mining and quarrying - electricity and gas

The volume of mine and quarry output fell considerably in 1993, for the fifth consecutive year. According to NSSG data, mining activity declined by a substantial 6.2 per cent in 1993 (Table II.9 and Chart II.3). In certain sub-sectors, however, developments were different. Specifically, lignite production retained its slightly upward trend, while the downward trend of the last four years in bauxite production was reversed, boosted by demand from Eastern Europe. Moreover, chrome and manganese ore production recovered, as did magnesite production, which, however, remained at low levels, owing to a continuous decline in recent years. Quarry and building materials output fell, because of the decline in construction activity for the third consecutive year. Lastly, developments in the other sub-sectors — particularly in iron and nickel ores — continued to be unfavourable.

The relevant NSGG index points to a 2.6 per cent increase in electricity and gas output (Table II.7 and Chart II.3), which was slower than in 1992 (7.4

per cent). This increase stemmed entirely from the power industry (2.7 per cent), since gas production fell (-1.9 per cent). Public Power Corporation (DEH) data confirm that electricity production rose by 2.7 per cent, i.e. to 34,361 GWH from 33,457 GWH in 1992.

In the first ten months of 1993, electric power demand for commercial and agricultural uses rose by 9.4 and 29.1 per cent respectively, whereas power demand for domestic and industrial uses fell by 2.1 and 3.1 per cent respectively. The decline in energy demand for industrial use stemmed from certain plants which are big consumers of electric power (-7.4 per cent), whereas demand by other industrial firms increased slightly (1.7 per cent). Lastly, electric power imports rose considerably in 1993 (by 13 per cent, according to

TABLE II.9
PRODUCTION OF MINERALS AND ORES
(Annual percentage change)

	1989	1990	1991	1992	1993
<u>TOTAL</u>	- 4.9	- 3.2	- 1.2	- 6.5	- 6.2
Lignite	4.0	0.0	- 0.1	1.1	1.5
Bauxite	- 1.0	-1.7	-15.3	- 2.3	5.6
Iron and nickel ores	21.9	4.8	- 1.3	-14.3	-29.9
Chrome and manganese ores	6.7	-16.5	-40.3	-89.3	- 1.9
Oil wells and extraction of natural gas	-17.3	- 8.7	0.9	-16.7	-19.2
Quarry and building materials	9.4	3.9	- 2.4	4.1	- 2.0
Sulfur compounds, barytes	-1.8	5.6	10.5	-10.8	- 9.3
Magnesite	-16.8	-23.6	-16.8	-20.0	8.1

Source : NSSG.

annual figures), compared with a decrease in the previous two years. At the same time, electric energy exports dropped significantly (by 20 per cent, according to annual figures) for the second consecutive year. Greece's autonomy in electric power was therefore reduced, as shown by the net imports/sales ratio for the first ten months of 1993 and 1992 (2.7 per cent and 2 per cent respectively).

4. SERVICES

Income from services in 1993 grew at a slower rate (1.7 per cent) than in both previous years (1992: 2.3 per cent, 1991: 2.7 per cent). Nevertheless, the

continuing fall in secondary production since 1990 led to further rise in the share of the tertiary sector in GDP, from 57 per cent in 1989 to 60 per cent in 1993. As a result, the tertiary sector's share is approaching the level attained by the major industrial countries.¹

The rise in income from services in 1993 was due to both market and social services (Table II.10). Specifically, income from transport-communications grew slower than in 1992, owing to stagnation in telecommunications, whereas income from transport increased. According to Greek Telecommunications Organisation (OTE) data, the volume of telephone calls

TABLE II.10
INCOME FROM SERVICES
(1970 prices)

	1989 (million drahmas)	Annual percentage change				Average annual rate (%)	Percentage composition	
		1990	1991	1992 ¹	1993 ²		1990	1993 ²
A. Market services	212,987	2.1	2.8	4.0	1.7	2.8	76.0	77.4
Transport - communications	55,594	0.2	2.0	5.6	1.9	3.2	19.5	20.0
Commerce	62,410	0.6	3.5	0.0	1.0	2.9	21.9	28.3
Banking - insurance etc.	14,853	11.2	11.7	11.7			5.8	
Housing	49,750	3.0	2.9	2.5	1.9	2.4	17.9	18.0
Miscellaneous services	30,380	2.5	-2.3	7.7	2.8	2.7	10.9	11.0
B. Social services	68,897	-0.6	2.3	-3.2	1.7	0.2	24.0	22.6
Public administration - defence	44,857	-1.5	2.5	-6.2	...	...	15.5	...
Health - education	24,040	1.2	2.0	2.3	...	...	8.5	...
Services (total)	281,884	1.4	2.7	2.3	1.7	2.2	100.0	100.0

¹ Provisional data.

² Estimates.

Source: NSSG, National Accounts, for 1989-1992. For 1993, estimates by the Directorate of Macroeconomic Analysis and Programming of the Ministry of National Economy.

remained unchanged in 1993, compared with a considerable rise (9 per cent) in 1992. Moreover, according to Olympic Airways (OA) data, passenger transport continued to grow substantially (passenger-kms 1993: 8.8 per cent, 1992: 17.3 per cent). In contrast, the volume of goods carried by the Hellenic Railways Organisations (OSE) fell by 6.9 per cent in the

¹ See last year's *Report*, page 59.

January-September period of 1993, compared with the corresponding period of 1992.

The increase in total income from trade and banking - insurance (albeit at a rate lower than in 1992) seems to have stemmed entirely from banking - insurance, whereas income from trade is estimated to have decreased. This development reflects the drop in retail sales volume and the substantial deceleration in the growth rate of import and export trade (at constant prices). The estimated rise in income earned by banks, which have been very active in recent years, is related to the deregulation of the banking system as well as to the enlargement of banks' turnover, which is expected to increase further over the coming years, owing to prospects of an expansion of their operations in the Balkans.

Income from housing at constant prices (which virtually tallies with changes in the volume of rented and owner-occupied houses) continued to increase in 1993, though at a slower pace than in previous years, because of the sharp decline in housing investment in 1991-1992. By contrast, the ongoing increase in housing demand, together with market deregulation, led to a further rise in rents. In fact, the rent index rose by 21.6 per cent in 1993 (average annual rate), i.e. 7.2 percentage points more than the general consumer price index.

The deceleration in the growth rate of income from miscellaneous market services in 1993 relates to the small rise in tourism, mainly owing to the continuing upheaval in the former Yugoslavia. The relative containment of demand for tourist services was due to the smaller number of foreign tourist arrivals with respect to 1992, while domestic tourism improved slightly, mainly because of the small increase in real disposable personal income. According to National Tourism Organisation (EOT) data, the number of nights spent by foreigners in Greek hotels rose by 0.6 per cent in 1993 (1992: 21.4 per cent) and that of nights spent by Greeks by 1 per cent. Tourist arrivals increased by 1.6 per cent in 1993, while travel receipts rose by 3.1 per cent in real terms, which means that expenditure per tourist (hence, arrivals of tourists with higher incomes) increased. This estimate is corroborated by an EOT sample survey of luxury to third class hotels in greater Athens in the April-October period of 1993; according to this survey, the number of nights spent in luxury and first class hotels rose by 7 per cent, while those spent in second and third class hotels fell by 2.9 per cent.

Lastly, the rise in income from social services is related to the increase in public consumption at constant prices.

5. EMPLOYMENT - UNEMPLOYMENT

According to provisional data from the NSSG's annual labour force sample survey,¹ total employment fell by 1.4 per cent in the second quarter of 1993, compared with the same quarter of 1992, while it had increased by 1.4 per cent in 1992 (Table II.11). Specifically, employment in urban and semi-urban areas fell by 0.5 per cent in 1993 (1992: +1.7 per cent), while employment in rural areas fell by 3.7 per cent (1992: +0.7 per cent).² It is estimated that employment has been positively affected by the ongoing expansion of the private tertiary sector in communications, transport, household services and tourism. This expansion, however, decelerated substantially and was thus unable to offset the continuing unfavourable developments in manufacturing. Moreover, the public sector's effect on employment was virtually neutral.

In detail, the monthly index of employment in manufacturing fell by an average of 6 per cent in the January-November period of 1993, compared with the same period of 1992. Therefore, the considerable decline observed in both previous years (1992: -4.9 per cent, 1991: -6.2 per cent) continued, owing to the gradual decrease in manufacturing production since 1990 and the closure of a number of big "ailing" firms.

According to data from the Introductory Report on the Budget, the total number of tenured and temporary civil servants as well as the number of employees in the security forces rose by 4.2 per cent from October 1992 to October 1993, compared with a decrease of 5.4 per cent from October 1991 to October 1992. However, if it is taken into account that this increase was partly due to the fact that the Ministry of Health and Welfare took up, as of 1st January 1993, the wage bill of personnel working in Health Centres and Health Stations, which was *already* employed in the public sector, the true increase in employment (October on October) is limited to 1.6 per cent. Correspondingly, the true increase in average annual employment is estimated at 0.2 per cent (Ministry of Finance quarterly data) and is due to recruitments in the second half of 1993, especially during the period immediately preceding the general election last October.

¹ The NSSG survey covers only the second quarter of each year. Consequently, rates of change in various aggregates do not accurately reflect developments for the entire year. In addition, as regards 1993, rates of change referred to in the text have been obtained by comparing provisional 1993 data with provisional (not final) 1992 data. This limits (without eliminating) errors in provisional data. Rates of change for 1992 were of course obtained by comparing final data for 1992 with final data for 1991.

² Employment in agriculture fell by 4.4 per cent (1992: 0 per cent).

According to data provided by the Ministry of National Economy, employment in public enterprises and the principal social security and welfare funds¹ rose by 3.4 per cent from December 1992 to December 1993, compared with a substantial decline in 1992. The decrease in employment in public

TABLE II.11
POPULATION, LABOUR FORCE AND EMPLOYMENT

	1992 (in thous.)	Annual percentage change				
		1989	1990	1991	1992	1993
Population (aged 15–64 years) ¹	6,640.2	0.6	1.9	1.0	0.1	–0.5 ⁵
Participation rate ¹		61.5	60.9	59.3	60.8	...
Labour force ¹	4,034.3	0.2	0.8	–1.7	2.6	–0.7 ⁵
Employment: ¹	3,684.5	0.4	1.3	–2.3	1.4	–1.4 ⁵
– Primary production ¹	806.7	–4.3	–4.4	–9.3	0.0	–4.4 ⁵
– Secondary production ¹	1,000.0	1.9	2.0	–3.0	0.0	...
– Tertiary production ¹	1,877.8	2.1	3.9	1.6	2.9	...
Unemployment (as a percentage of labour force) ¹	349.8	(7.5)	(7.0)	(7.7)	(8.7)	(9.8) ⁵
Employment in:						
– Manufacturing ¹	698.8	–1.5	0.7	–2.9	0.0	...
– Construction ¹	246.3	2.5	5.7	–2.7	0.2	...
– Banks ²	53.0	3.3	–4.8	1.9	–0.5	0.0
– Civil service ³	294.5	7.0	–2.0	2.5	–5.4	4.2
– Public enterprises and entities ⁴	146.4	1.7	–6.3	–2.3	–8.0	3.4

¹ NSSG, Labour Force Surveys. Changes from second quarter to second quarter.

² Estimates obtained from banks.

³ Ministry of Finance (introductory report on the budget): changes October on October. For 1993, the true increase in average annual employment is estimated at 0.2 per cent (see text).

⁴ Ministry of National Economy: changes December on December. Average annual employment fell by 1.7 per cent in 1993, owing to the impact of the closure of the Urban Transport Corporation in mid-1992.

⁵ Provisional data from Labour Force Survey (NSSG): the percentage changes are derived from comparison with the provisional data of 1992.

enterprises and organisations in 1992 had been affected by the closure (privatisation) of the Urban Transport Corporation (EAS), which resulted in about 8,000 layoffs, while the rise in employment in 1993 was due to, among

¹ These data concern public enterprises monitored by the Ministry of National Economy, as well as social security funds and public entities. Figures refer to December 31st of each year and do not include seasonal personnel or those paid on an hourly basis.

other things, recruitments or changes in employment status which affected around 6,000 Public Power Corporation (DEH) employees during the run-up to the general election. However, average annual employment in public enterprises and organisations fell by 1.7 per cent in 1993, owing to the impact of the closure of the EAS in mid-1992. Net of this impact, average annual employment increased by 0.9 per cent.¹ Employment in banking remained unchanged.

Employment in the construction industry is estimated to have fallen in 1993. Employment in building trades was adversely affected by the large decrease in construction activity in the public sector, while private building activity continued to decline, though much slower than in 1992. Nevertheless, Social Insurance Fund (IKA) data indicate that employment in the building trades increased in 1993.²

According to provisional data from the NSSG's annual labour force sample survey, the labour force decreased by 0.7 per cent in the second quarter of 1993 (compared with the same quarter of 1992), whereas it had increased significantly in 1992. This decrease was confined to rural areas, where the labour force fell by 3.1 per cent. The ongoing contraction of the agricultural labour force is estimated to be related to either retirements or internal migration, mainly of small-time farmers. Nevertheless, the labour force in urban and semi-urban areas remained unchanged in 1993 (+0.1 per cent), possibly owing to the reduced number of immigrants from Albania, which seems to have offset the impact of internal migration. However, total population (persons older than 14) also decreased (by 0.5 per cent) for the first time in the last decade. As this decrease was a little smaller than that in the labour force, it is concluded that the rate of participation in the labour force fell slightly, a phenomenon observed during periods of rising unemployment.³ The decrease in employment was faster than that in the labour force and the rate of unemployment thus rose to 9.8 per cent in 1993, according to provisional data from the NSSG survey (1992: 8.7 per cent). The number of unemployed also increased to 397,000.

¹ In public enterprises only, average annual employment declined by 2.5 per cent; not counting the closure of EAS, it rose by 0.6 per cent.

² This increase is partly attributed to the fact that Law 2081/1992 indirectly provided construction workers with an incentive to declare their previously unrecorded employment to IKA. Increased controls (aimed at curbing contribution avoidance) also led to a rise in registered (or declared) employment.

³ High unemployment discourages those looking for a job and makes them withdraw from the labour force.

It is estimated that the rise in total unemployment led to the expansion of long-term unemployment (people left jobless for more than 12 months). The same phenomenon was observed in 1992, when the number of long-term jobless persons rose to 172,391 (1991: 140,200).

Regarding the regional distribution of unemployment, a high rate was observed in urban areas in 1993 (Table II.12). Specifically, in the Athens area, the rate of unemployment reached 12.1 per cent of the labour force, while

TABLE II.12
LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT: 1992-1993
(In thousand persons)

	Labour force		Employment		Unemployment		Unemployment rate	
	1992	1993	1992	1993	1992	1993	1992	1993
ALL AREAS	4,034.3	4,053.1	3,684.5	3,656.1	349.8	397.0	8.7	9.8
Men and women								
– aged under 25 years	544.8	547.2	398.4	381.3	146.4	165.9	26.9	30.3
– aged 25 years or more	3,489.5	3,505.9	3,286.1	3,274.8	203.4	231.1	5.8	6.6
Men	2,541.2	2,553.5	2,403.2	2,397.1	137.9	156.4	5.4	6.1
– aged under 25 years	293.1	295.9	239.4	235.2	53.7	60.7	18.3	20.5
– aged 25 years or more	2,248.1	2,257.6	2,163.8	2,161.9	84.2	95.7	3.7	4.2
Women	1,493.2	1,499.6	1,281.3	1,259.0	211.9	240.6	14.2	16.0
– aged under 25 years	251.7	251.3	158.9	146.1	92.8	105.2	36.9	41.9
– aged 25 years or more	1,241.5	1,248.3	1,122.4	1,112.9	119.1	135.4	9.6	10.8
Areas								
Urban areas	2,426.0	2,546.1	2,262.4	2,239.6	263.6	306.5	10.4	12.0
– Greater Athens	1,364.0	1,357.5	1,223.4	1,193.1	140.6	164.4	10.3	12.1
– Greater Thessaloniki	337.5	331.4	306.2	294.0	31.3	37.4	9.3	11.3
– Other	824.4	857.2	732.8	752.5	91.6	104.7	11.1	12.2
Semi-urban areas	451.6	475.5	411.5	438.6	40.1	36.8	8.9	7.8
Agricultural areas	1,056.7	1,031.6	1,010.6	977.9	46.1	53.7	4.4	5.2

Source: NSSG, Labour Force Survey, 1992: (2nd quarter) final data, 1993: (2nd quarter) provisional data.

jobless people accounted for 41.4 per cent of the country's total number of unemployed. Still, it is worth noting that the highest unemployment rate (12.2 per cent) was observed in the "other" urban areas (except Athens and Thessaloniki), reflecting the employment crisis in the declining industrial areas of the country.

Among the various population groups, higher than average rates of unemployment were recorded by women (16 per cent), people of both sexes

below 25 years of age (30.3 per cent) and women below 25 years of age (41.9 per cent).

Available data from the Manpower Employment Agency (OAED) do not, however, show an expansion of unemployment. The registered unemployment rate fell to 7.1 per cent in 1993 (1992: 7.6 per cent), while the number of registered jobless decreased by 4.8 per cent. This decline does not indicate a labour market recovery: it is most probably due to the stricter control by OAED of the actual unemployment status of persons receiving benefits. It is characteristic that the number of layoffs remained high (1993: 20,033 layoffs per month, compared with 20,013 layoffs per month in 1992), while the number of recruitments *fell* slightly (1993: 44,614 per month, 1992: 45,133 per month). Youth unemployment also remained high: according to OAED data, the share of jobless youths (below 25 years of age) in the total number of unemployed was 59.2 per cent in 1993 (1992: 59.5 per cent). The rate of unemployment also rose in the rest of the European Union to 10.5 per cent in 1993 from 9.4 per cent in 1992.

The continuous rise in unemployment in Greece and the other member states of the European Union over the last few years is a serious social problem. The government, apart from the overall economic policy and the pursuit of goals referred to in the "White Paper",¹ is taking other measures, too. Specifically, it plans to create 50,000 new jobs through OAED's programmes (regarding subsidisation of employment, self-employment and training-employment). It is sought to create additional jobs by curbing overtime employment in the private and the public sector.² The government is contemplating the formulation of a national plan for industrial reconstruction, growth and social support in "declining areas"; this plan will be financed from special EU resources and will include measures to support the jobless in the transitional stage until new jobs are created.³ Lastly, the government has announced that unemployment benefits (which had remained unchanged since the end of 1989) would be raised by 30 per cent as of 1st January 1994.⁴

¹ *Growth, competitiveness, employment*, "White Paper" of the European Commission, December 1993.

² Ministry of Labour Circular No. 1054/13 January 1994.

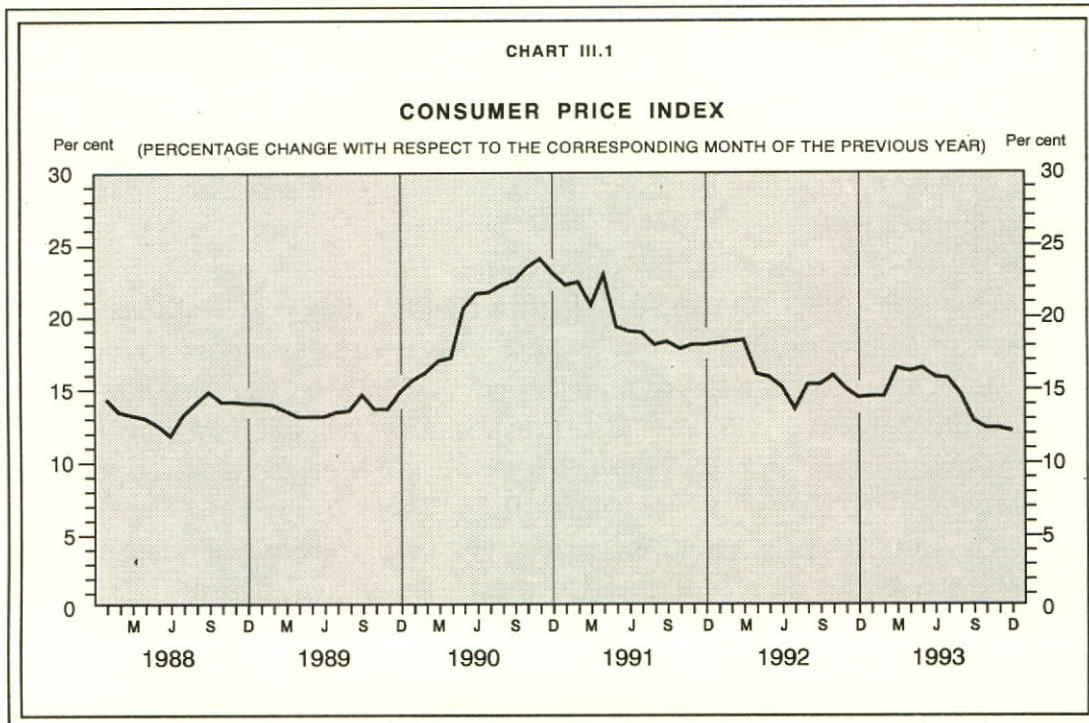
³ Statements by the Minister of Industry to the daily press, 23 February 1994.

⁴ According to revised (final) OAED data, the expenditure for ordinary and special unemployment benefits rose to 0.8 per cent of GDP in 1992 from 0.6 per cent in 1990 (current market prices). This rate is higher in the other member states of the European Union (cf: Bank of Greece, *Economic Bulletin*, November 1993, footnote 24, page 21).

III. PRICES, WAGES AND BUSINESS PROFITS

1. PRICES

Consumer prices began to fall in the last two months of 1992, with the rate of inflation dropping from 15.9 per cent in October to 14.4 per cent in December (Chart III.1). The downward trend was reversed, however, in early 1993, and by May the twelve-month rate of inflation rose to 16.4 per cent. It then resumed its fall, especially as of August, when the effect of the tax measures



taken in August 1992 was exhausted. This was also the result of various special factors, which are described below. Inflation was eventually contained at 12.1 per cent during 1993 from 14.4 per cent in 1992 and 18 per cent in 1991. At average annual levels, the rate of inflation showed a slower deceleration than during the year and was 14.4 per cent, compared with 15.8 per cent in 1992.

The acceleration of inflation in the first five months of 1993 was mainly due to increases in vegetable prices, which were affected by unfavourable weather conditions at the beginning of the year and by changes in the market inspection regime. It was also due to the fact that 65 per cent of the total annual impact of higher public utility rates manifested itself during the same five-month period.

The deceleration of inflation that was eventually recorded in 1993 was smaller than expected. This was partly due to: (i) the 16.3 per cent increase in vegetable prices during the year, compared with a 17.4 per cent drop in 1992, (ii) the larger increase in public utility rates during the year (on average, 21.1 per cent in 1993, compared with 17.6 per cent in 1992), which stemmed mainly from substantial adjustments in hospitalisation fees at public hospitals (and private clinics) as well as in rates charged by the Hellenic Telecommunications Organisation (OTE), and (iii) the slightly faster increase in rents during the year (1993: 20.5 per cent, 1992: 18.8 per cent), following their gradual liberalisation.

The first two of the above points are confirmed by the acceleration, during 1993, of the growth rate of the special sub-indices "food" (13.8 per cent, compared with 9.3 per cent in 1992) and "health-personal care" (17.5 per cent, 1992: 15.1 per cent). In the other categories of goods and services, price increases during 1993 were smaller than in the previous year, with the exception of "durable consumer goods", where price increases were around 1992 levels, and "miscellaneous goods and services". Moreover, the fact that certain public utility rates and rents rose faster than in 1992 resulted in a considerably larger increase in the prices of services than in those of goods (15.2 per cent, compared with 10.2 per cent) (Chart III.3).

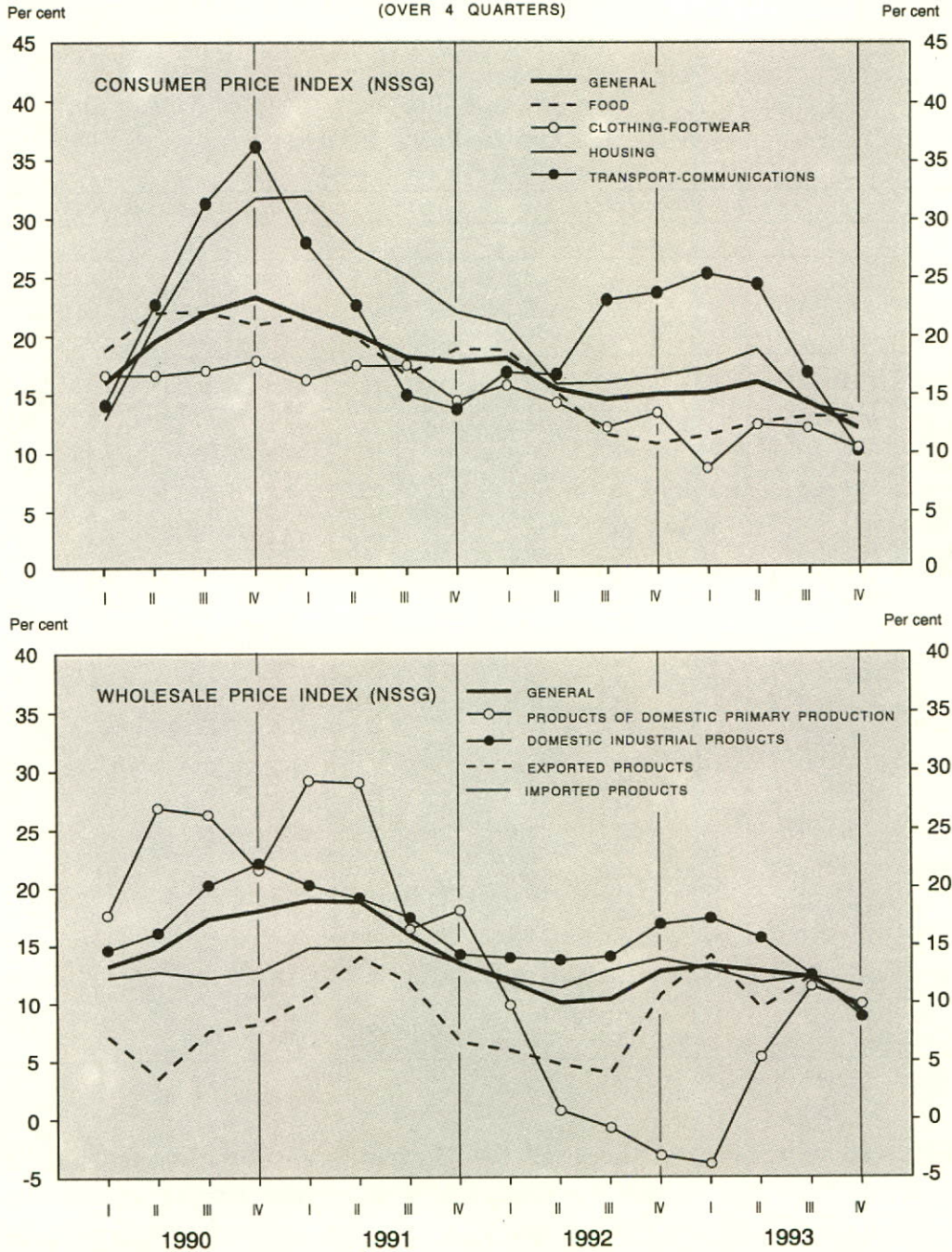
The faster rise (by about 3.5 percentage points) in non-agricultural unit labour cost (see Section 2 of this Chapter) contributed significantly to the deviation from the initially targeted rate of inflation. It should be pointed out, however, that the strengthening of inflationary expectations after the worsening of fiscal imbalances was the main reason why inflation decelerated less than expected. In contrast, the fact that the rate of inflation *did* decelerate in 1993 is explained, on the cost side, by the increase in indirect taxes per unit of output, which was appreciably smaller than in 1992, as well as by the slightly smaller increase in import prices,¹ and, on the demand side, by the considerable drop in wage earners' disposable income, which resulted in a very notice-

¹ The deceleration of the rate of increase in import prices was larger between the beginning and the end of 1993 than at average levels.

CHART III.2

CHANGES IN PRICES

(OVER 4 QUARTERS)



able decline in retail sales volume (-3.6 per cent). The deceleration of inflation was also due to certain special factors, such as the freeze on tuition fees in private schools, foreign language and crammer schools; the postponement of increases in certain public enterprises' rates (Public Power Corporation

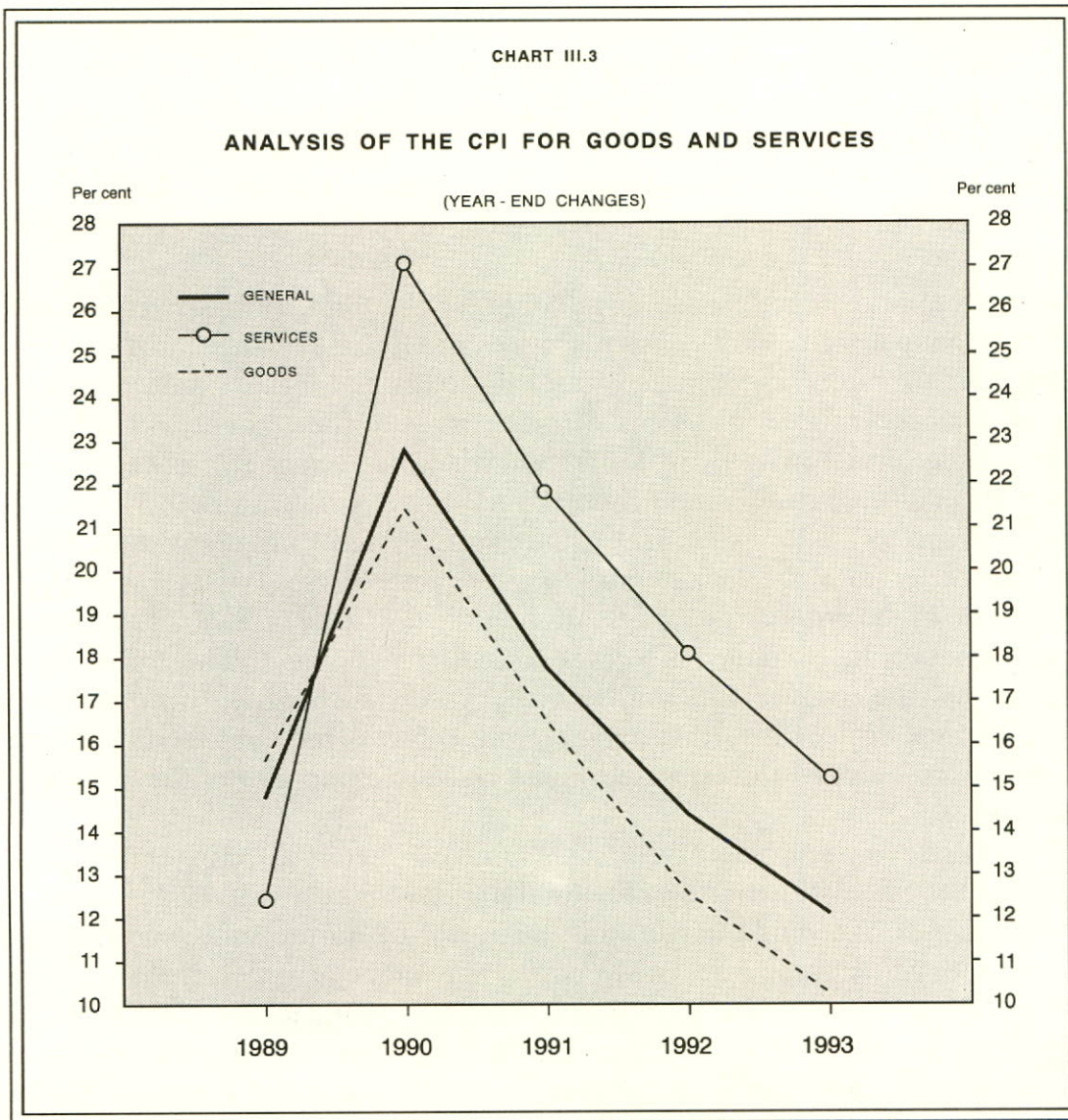
TABLE III.1
ANNUAL RATE OF PRICE INCREASES
(Percentage change in average levels)

Years or Quarters	Consumer Price Index (NSSG)						Wholesale Price Index (NSSG)				
	GENERAL INDEX	Sub-indices					GENERAL INDEX	Sub-indices			
		Food	Clothing and footwear	Housing	Transport and communi- cations	Other goods and services		Final domestic products for home consumption	Exported products	Imported products	
								Primary	Industrial		
1983	20.2	18.0	22.3	13.7	20.9	24.4	20.4	17.0	20.0	21.4	24.1
1984	18.4	18.3	26.2	14.8	11.7	19.8	20.0	18.9	16.8	27.3	23.9
1985	19.3	19.5	22.1	17.0	16.8	19.7	20.2	20.1	18.6	19.9	25.5
1986	23.0	20.3	25.4	20.8	26.6	24.2	16.8	11.4	21.3	1.8	24.1
1987	16.4	12.6	21.7	14.6	11.4	20.4	9.8	11.4	8.7	9.5	12.3
1988	13.5	11.1	18.1	13.4	8.3	15.7	10.1	9.8	10.3	10.6	9.3
1989	13.7	19.2	14.6	10.0	6.8	12.6	13.4	15.9	12.2	16.5	12.5
1990	20.4	21.1	17.2	23.7	26.3	17.7	15.9	23.1	18.4	6.7	12.5
1991	19.5	19.3	16.5	26.4	19.4	18.4	16.7	23.0	17.7	10.7	14.6
1992	15.9	14.1	14.0	17.3	20.3	16.0	11.3	1.7	14.7	6.4	12.6
1993	14.4	12.7	11.0	15.8	18.8	15.0	11.9	5.4	13.5	11.3	12.2
1990 a	16.2	18.9	16.8	13.1	14.3	15.2	13.3	17.7	14.7	7.2	12.3
b	19.7	22.1	16.8	21.1	22.8	17.1	14.7	27.0	16.2	3.6	12.8
c	22.1	22.2	17.2	28.3	31.3	18.1	17.4	26.4	20.3	7.7	12.3
d	23.4	21.1	18.0	31.7	36.1	20.1	18.1	21.6	22.2	8.3	12.8
1991 a	21.7	21.7	16.4	31.9	28.0	18.0	19.0	29.3	20.3	10.6	14.9
b	20.3	20.0	17.6	27.5	22.7	18.0	18.9	29.1	19.2	14.1	14.9
c	18.3	16.8	17.6	25.2	15.1	19.1	16.0	16.5	17.5	11.8	15.0
d	17.9	19.0	14.6	22.1	13.9	18.6	13.5	18.1	14.3	6.7	13.5
1992 a	18.2	18.9	15.9	21.0	17.0	18.0	11.9	9.9	14.0	6.0	12.2
b	15.6	15.3	14.4	16.0	16.8	15.9	10.1	0.8	13.8	4.8	11.4
c	14.7	11.7	12.3	16.1	23.1	14.5	10.4	-0.7	14.1	4.0	12.9
d	15.1	10.9	13.5	16.6	23.7	15.6	12.8	-3.1	16.9	10.8	13.9
1993 a	15.2	11.6	8.8	17.3	25.3	16.2	13.2	-3.8	17.5	14.2	13.0
b	16.1	12.7	12.5	18.8	24.4	16.5	12.8	5.3	15.7	9.6	11.8
c	14.4	13.2	12.2	14.2	16.9	15.2	12.3	11.4	12.5	12.4	12.4
d	12.2	13.2	10.5	13.3	10.3	12.5	9.5	10.0	8.9	9.3	11.5

(DEH), Hellenic Post Office (ELTA), urban transport) along with the subsidisation of certain public utilities (fares of private urban transport companies); the conclusion of "gentlemen's agreements" (whereby the government aimed at restraining increases in the prices of a wide range of consumer

goods); and the setting, towards the end of the year, of a maximum price for gasoline sold in the provinces.

The tendency of inflation to fall during 1993 was stronger in wholesale prices, with the index (WPI) dropping by 3.7 percentage points (to 9.1 per cent



from 12.8 per cent in 1992). The slowdown reflected the smaller rise in all sub-indices, except “domestic primary products for home consumption”, the

prices of which rose by a substantial 11.4 per cent during 1993, compared with a fall of 7 per cent in 1992. Price increases in this category were particularly large in plant products (19.8 per cent, compared with -18.6 per cent in 1992), owing to unfavourable weather conditions, but were also affected by producer prices, which rose by 7.1 per cent (1992: 4.1 per cent).

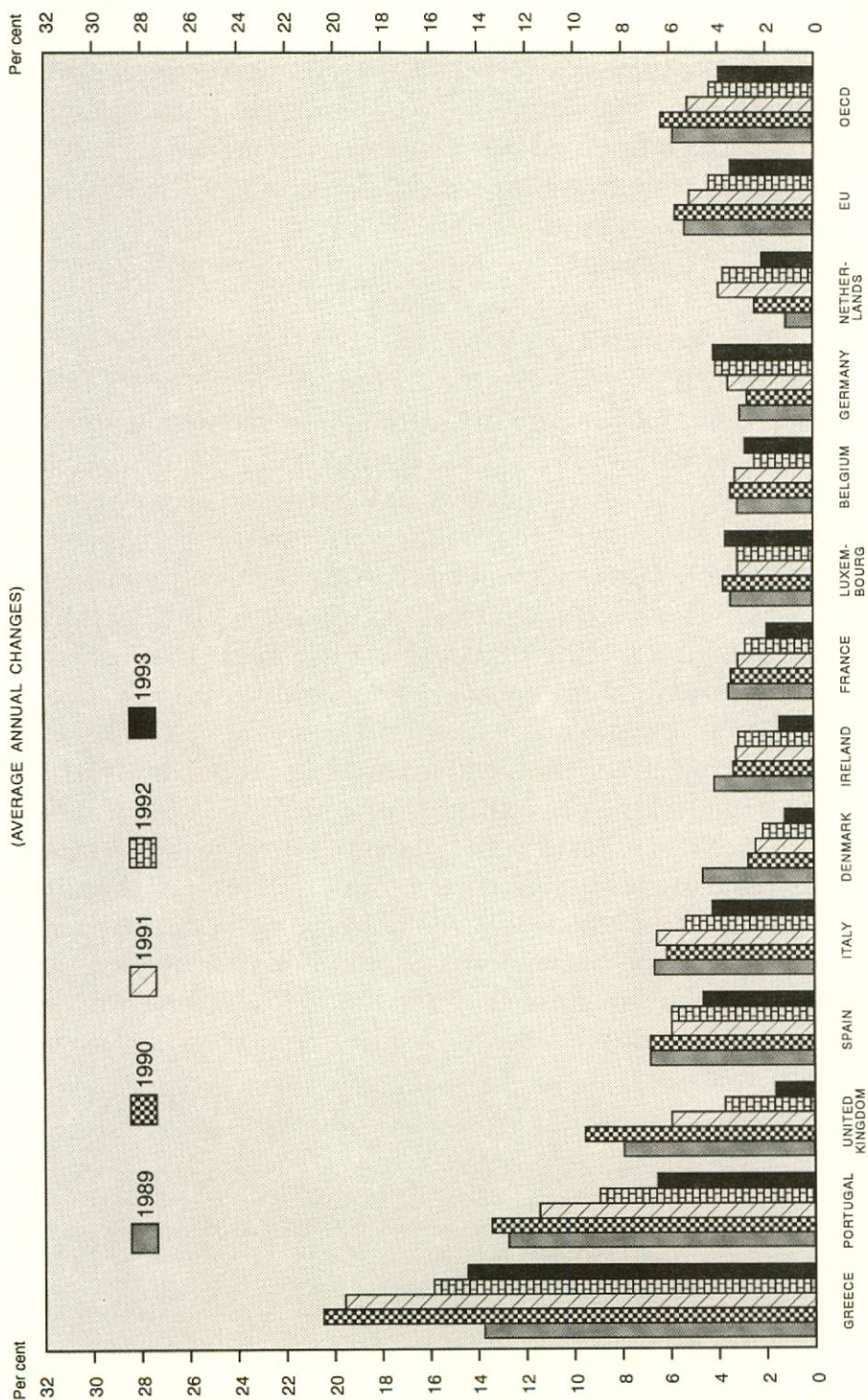
NSSG data indicate that the deceleration of the WPI stemmed mainly from the significantly slower rise in fuel prices, compared with the steep rise recorded in 1992, when these prices were liberalised and indirect taxes on fuel were raised, in compliance with the August 1992 measures. In particular, the WPI for fuel rose by 0.8 per cent during 1993, compared with 35.7 per cent in 1992. Net of fuel price increases, the slowdown in the WPI during 1993 was considerably smaller (10.1 per cent, compared with 10.6 per cent in 1992).

Despite the deceleration of inflation for the third consecutive year, the average annual increase of consumer prices in Greece remains equal to more than four times the average increase in the other European Union countries (14.4 per cent, as against 3.4 per cent). In most of these countries, inflation decelerated further in 1993, with the result that the average rate of increase in the CPI in all European Union countries fell to 3.4 per cent in 1993 from 4.3 per cent in 1992. More specifically, the average rate of inflation in the three EU countries with the lowest rates was 1.4 per cent in 1993 (Chart III.4). Since one of the criteria for participation in the last stage of EMU is that price increases must be contained at a level exceeding by no more than 1.5 percentage points the average inflation rate of the three countries with the best performance, it is evident that a very strong effort is required for the further convergence between the Greek economy and the economies of the other EU member states.

For 1994, regarding developments in basic factors affecting inflationary trends, it is forecast that non-agricultural unit labour cost will rise less than in 1993 (Section 2 of this Chapter) and there will be no pressure from indirect taxes and agricultural prices. Moreover, the monetary and exchange rate policy stance will remain restrictive, aiming at lowering inflation further. It is therefore reasonable to be optimistic that the downward trend of inflation will continue, particularly if favourable results are soon achieved in the fiscal sector.

The rate of inflation started to decelerate substantially from the beginning of 1994. In the first quarter, the CPI rose by a mere 2.5 per cent, compared with 4.2 per cent in the corresponding 1993 quarter, with the result

CHART III.4
CONSUMER PRICE INDEX IN EU AND OECD COUNTRIES
(AVERAGE ANNUAL CHANGES)



that the twelve-month inflation rate fell to 10.2 per cent in March 1994 from 12.1 per cent in December 1993.

It should be noted, however, that the downward trend of inflation in the first quarter of 1994 was also due to more favourable weather conditions than in 1993, which had a downward effect on some food prices, as well as to a delay in adjusting public utility rates, which, in 1993, had been raised from the beginning of the year.

2. WAGES AND SALARIES IN 1993¹

The deceleration of the rates of increase in nominal earnings and unit labour cost that had started in 1991 did not continue in 1993, despite the restrictive incomes policy initially announced and pursued. This was mainly due to deviations from the above policy in the public sector, because of the electoral cycle, and to the burdening of labour cost by the new provisions concerning social security.² However, the rate of increase in nominal earnings remained lower than inflation for the third consecutive year. It is estimated that, in 1993, average gross pre-tax earnings rose by about 13 per cent in the non-agricultural sector (compared with 11.5-12 per cent in 1992) and the total wage bill³ ("compensation of employees") increased by 13-13.5 per cent (compared with 10.5-11 per cent in 1992), while the rate of increase in unit labour cost accelerated faster⁴ (1993: about 13 per cent, 1992: about 9.5 per cent).⁵ Nevertheless, while the decrease in gross pre-tax earnings was small (about 1 per cent) in real terms, the corresponding decrease in wage earners' average disposable income was appreciable (it may have reached 6.5-7 per cent, according to a rough estimate). This divergence resulted from the increase in employees' social security contributions, as well as from fiscal drag.

¹ For the national accounts data included in this Chapter, see footnote 1, page 51.

² Increase in employers' contributions to employees' social security funds, Law 2084/1992.

³ In addition to earnings, the national accounts aggregate "compensation of employees" comprises employers' contributions to employees' social security funds, civil servants' pensions and workers' net income from abroad; it is also affected by changes in employment.

⁴ This is measured by the ratio of the compensation of employees (in nominal terms) to the non-agricultural GDP at factor cost and 1970 prices.

⁵ These estimates differ from those made by the NSSG (for 1992) and the Ministry of National Economy (for 1993), according to which the "compensation of employees bill" increased by 11.7 per cent in 1992 and 1993, while unit labour cost rose by 10.4 per cent in 1992 and 11.4 per cent in 1993 (Table III.2).

These cost-side developments, therefore, hindered a fast deceleration of inflation. On the demand side, however, they had an anti-inflationary effect, as they contributed to the slackening of consumer demand. It should also be taken into account that the increase in social security contributions (of both employees and employers) conduced directly to the improvement in the results of social security funds. Without this improvement, the increase in the net public sector borrowing requirements would have been larger and inflationary pressures stronger.

Incomes policy¹ provided for a 4 per cent rise in civil servants' earnings as of 1st January 1993 and the doubling of family allowances as of 1st July 1993. With regard to the employees of major public enterprises and organisations, it was announced that collective bargaining should respect the ceilings set by ministerial decisions on the relevant wage bills.² Lastly, regarding the private sector and banks, it was stated that free bargaining would be allowed, but the government called on social partners to take into account the objective of a further deceleration of inflation. Nevertheless, additional provisions for certain categories of civil servants³ were announced in the first half of 1993, while collective agreements granting wages exceeding the ceilings on the wage bills of certain major public enterprises were signed during the period immediately preceding the general election last October. In contrast, contractual earnings in the private sector increased at roughly the same rate as in 1992, while actual earnings rose at a slightly lower rate, owing to delays in signing collective agreements.

According to Ministry of Labour data, 280 collective agreements were signed in 1993 (1992: 171) and 30 arbitration decisions were issued by the Organisation for Mediation and Arbitration (OMED) (1992: 32).⁴ It is worth mentioning that the choice of collective bargaining as a means of resolving 90 per cent of industrial disputes — a rate unprecedented in the post-war period — is a favourable development, particularly since it was followed by moderate pay rises in the private sector and a fall in strike action. As shown

¹ It was announced on 22nd January 1993 and, for civil servants, was implemented by Law 2129/1993.

² These decisions had been issued in 1992. Bank of Greece, *Report* for 1992, footnote 3, page 80 and footnote 3, page 83.

³ Bank of Greece, *Economic Bulletin*, November 1993, footnote 10, page 18.

⁴ The relatively small number of collective agreements in 1992 was due to the fact that the two-year collective agreements that had been signed in 1991 were still in effect for many categories of employees.

TABLE III.2
WAGES AND SALARIES, UNIT LABOUR COST, PRODUCTIVITY: 1986 - 1993
(Annual percentage change)

	1986	1987	1988	1989	1990	1991	1992	1993 ⁴
TOTAL ECONOMY (EXCEPT AGRICULTURE) ¹								
- Compensation of employees (wages and salaries)	12.7	12.1	21.2	20.7	21.0	13.3	11.7	11.7
- Non-agricultural GDP at constant prices	1.6	0.3	4.6	4.1	0.6	1.7	1.3	0.3
- Unit labour cost	10.9	11.8	15.9	15.9	20.3	11.4	10.4	11.4
MANUFACTURING ²								
- Hourly earnings of blue-collar workers (nominal)	12.7	9.6	18.4	20.5	19.4	16.7	13.7	9.8
- Hourly earnings of blue-collar workers (real)	-8.4	-5.8	4.3	6.0	-0.8	-2.3	-1.8	-4.7
- Weekly earnings of blue-collar workers (nominal)	12.5	9.8	24.0	20.7	19.3	16.7	13.7	9.9
- Weekly earnings of blue-collar workers (real)	-8.5	-5.7	9.3	6.2	-0.9	-2.3	-1.8	-4.6
- Monthly earnings of white-collar workers (nominal)	8.6	8.3	26.9	19.9	21.8	18.0	14.6	12.3
- Monthly earnings of white-collar workers (real)	-11.7	-7.0	11.8	5.5	1.2	-1.3	-1.0	-2.5
- Output per worker	-0.7	-0.7	4.0	2.1	-1.3	5.6	3.9	2.7
- Output per man-hour	-0.5	-0.8	-0.8	2.0	-1.1	5.6	4.0	2.5
- Unit labour cost	13.3	10.5	19.3	18.2	20.9	10.5	9.4	7.1
ELECTRICITY - WATER SUPPLY ²								
- Hourly earnings of blue-collar workers (nominal)	...	...	...	...	25.2	12.6	9.0	10.4
- Hourly earnings of blue-collar workers (real)	...	...	...	...	4.0	-5.8	-5.9	-4.2
- Weekly earnings of blue-collar workers (nominal)	...	...	...	...	26.8	13.2	9.4	11.3
- Weekly earnings of blue-collar workers (real)	...	...	...	...	5.3	-5.3	-5.5	-3.4
- Monthly earnings of white-collar workers (nominal)	...	...	...	...	20.3	20.3	11.3	2.4
- Monthly earnings of white-collar workers (real)	...	...	...	...	-0.1	0.7	-3.9	-11.1
BANKS ²								
- Monthly earnings of employees (nominal)	8.0 ⁵	9.3 ⁵	17.6 ⁵	25.5 ⁵	19.9 ⁵	16.5 ⁵	1.4 ⁵	2.7
- Monthly earnings of employees (real)	-11.4 ⁵	-5.2 ⁵	3.1 ⁵	10.3 ⁵	-2.0 ⁵	-1.0 ⁵	-12.5 ⁵	-11.6
INSURANCE COMPANIES ²								
- Monthly earnings of employees (nominal)	9.6 ⁵	7.9 ⁵	21.2 ⁵	23.8 ⁵	18.8 ⁵	14.9 ⁵	13.8 ⁵	10.1
- Monthly earnings of employees (real)	-10.1 ⁵	-6.4 ⁵	6.2 ⁵	8.8 ⁵	-2.9 ⁵	-2.3 ⁵	-1.8 ⁵	-5.2
WHOLESALE TRADE ²								
- Monthly earnings of employees (nominal)	...	...	...	...	...	17.5	16.4	15.3
- Monthly earnings of employees (real)	...	...	...	...	...	-1.7	0.5	0.1
RETAIL TRADE ²								
- Monthly earnings of employees (nominal)	11.1	9.1	18.0	16.0	15.6	14.8	16.4	12.1
- Monthly earnings of employees (real)	-9.7	-6.3	4.0	2.0	-4.0	-3.9	0.5	-2.7
MINING AND QUARRYING ²								
- Weekly earnings of blue-collar workers (nominal)	12.1	11.9	20.4	16.2	31.3	19.0	11.4	4.4
- Weekly earnings of blue-collar workers (real)	-8.9	-3.9	6.1	2.2	9.1	-0.4	-3.8	-9.4
- Monthly earnings of white-collar workers (nominal)	12.0	11.0	19.1	14.5	21.1	18.9	9.0	8.6
- Monthly earnings of white-collar workers (real)	-8.9	-4.6	4.9	0.7	0.6	-0.5	-5.9	-5.7
MINIMUM WAGES AND SALARIES ³								
- Daily wages of unskilled blue-collar workers (nominal)	10.8	10.1	17.0	18.9	17.1	14.4	11.3	12.0
- Daily wages of unskilled blue-collar workers (real)	-9.9	-5.4	3.1	4.6	-2.7	-4.3	-3.9	-2.1
COMPENSATION OF EMPLOYEES AS A PERCENTAGE OF NON-AGRICULTURAL GDP AT CURRENT PRICES ¹	54.2	53.8	54.3	55.2	55.7	53.9	51.9	49.9

¹ Data and estimates of National Accounts (NSSG). For 1993: Ministry of National Economy estimates.

² Calculations based on NSSG survey data.

³ Calculation on the basis of National General Collective Labour Agreements: wages of single (unmarried) workers without previous employment.

⁴ For manufacturing, electricity and water supply, mining and quarrying, and wholesale and retail trade, rates of change are for January-September 1993, as against the corresponding period in 1992. For banks and insurance companies, rates of change are for April 1993 as against the corresponding month in 1992.

⁵ October-on-October rates of change.

by other Ministry of Labour data, hours of work lost because of strikes are estimated at 3.5 million for 1993, compared with 7.1 million in 1992 (a drop of 50 per cent). Specifically, hours of work lost because of strikes in the private sector fell by 17 per cent (to 2.3 million from 2.7 million), while in banks and public enterprises and organisations they fell by 72 per cent (to 1.2 million from 4.3 million).¹

Developments in wages and salaries by category of workers were as follows:

In the public sector, according to provisional data for 1993 presented in the Introductory Report on the Budget for 1994, outlays for salaries and pensions increased by 10 per cent and those only for salaries by 9.3 per cent, which were close to the figures budgeted for 1993 (9.5 per cent and 10.1 per cent, respectively). This estimate is accurate only in accounting terms and is related to the appreciable decrease in "grants for salaries" (this item fell short of the budgeted amount by 80.2 billion drachmas), which was "due to the considerable increase in the daily hospitalisation fee, *which enabled hospitals to finance part of their wage bill out of their increased revenue*". Nevertheless, the whole amount thus saved was used to finance the increase in outlays (beyond the budgeted amounts) for: (i) civil servants' hospitalisation expenses, and (ii) *grants to social security funds* (Social Insurance Fund (IKA), Farmers' Insurance Fund (OGA), Seamen's Pension Fund (NAT) etc.), to help them cope with the additional hospitalisation costs of their own insured.² If, therefore, the amount of 80.2 billion drachmas — which was actually, though indirectly, paid by the government to hospital staff — is added to government outlays for salaries, these outlays rise by 15 per cent (not 9.3 per cent) or, together with outlays for pensions, by 14.3 per cent (not 10 per cent). As mentioned previously, this deviation from budget forecasts was due to the additional provisions concerning pay that were announced in the first half of 1993. Since average annual employment in the civil service rose by 0.2 per cent,³ outlays per employee grew by 14.8 per cent. Average earnings, however, net of social security contributions,⁴ increased by only 9.7 per cent.

¹ Strike action in banks and public enterprises and organisations was particularly intense in September 1992, owing to the submission to Parliament of the social security bill (subsequently enacted as Law 2084/1992).

² Introductory Report on the Budget for 1994, pages 53-58 (in Greek).

³ Chapter II.5.

⁴ Owing to the increase in civil servants' social security contributions, under Law 2084/1992.

In public enterprises,¹ the wage bill rose by 10.6 per cent and average annual employment fell by 2.5 per cent,² according to provisional Ministry of National Economy data. If it is taken into account that part of the increase in the wage bill must be due to the rise in employers' social security contributions (under Law 2084/1992), it is estimated that employees' average gross earnings rose by 9.5-10 per cent, while average earnings after the deduction of (increased) social security contributions must have risen by only 6 per cent. It is worth noting that the ministerial decisions issued in 1992 provided for a 1.3 per cent rise in the ceilings on the wage bill of public enterprises and organisations in 1993. The considerable overrun eventually observed was due to: (i) the collective agreements that were signed in certain public enterprises (DEH, OTE, ELTA, OSE) in the run-up to the general election and provided for pay rises of around 15 per cent as of 1st September 1993, and (ii) the fact that, from the outset, it was extremely difficult to adhere to the ceiling set by the government.

In banks, on the basis of the collective agreement which was signed in June and provided for an increase of 3 per cent in basic earnings as of 1st January 1993 and 12 per cent as of 1st July 1993, it is estimated that average gross earnings grew by about 12 per cent.³ Nevertheless, average earnings after the deduction of social security contributions are estimated to have increased by about 8.5 per cent only, while the total wage bill must have risen by over 12 per cent (owing to the increase in employers' contributions).

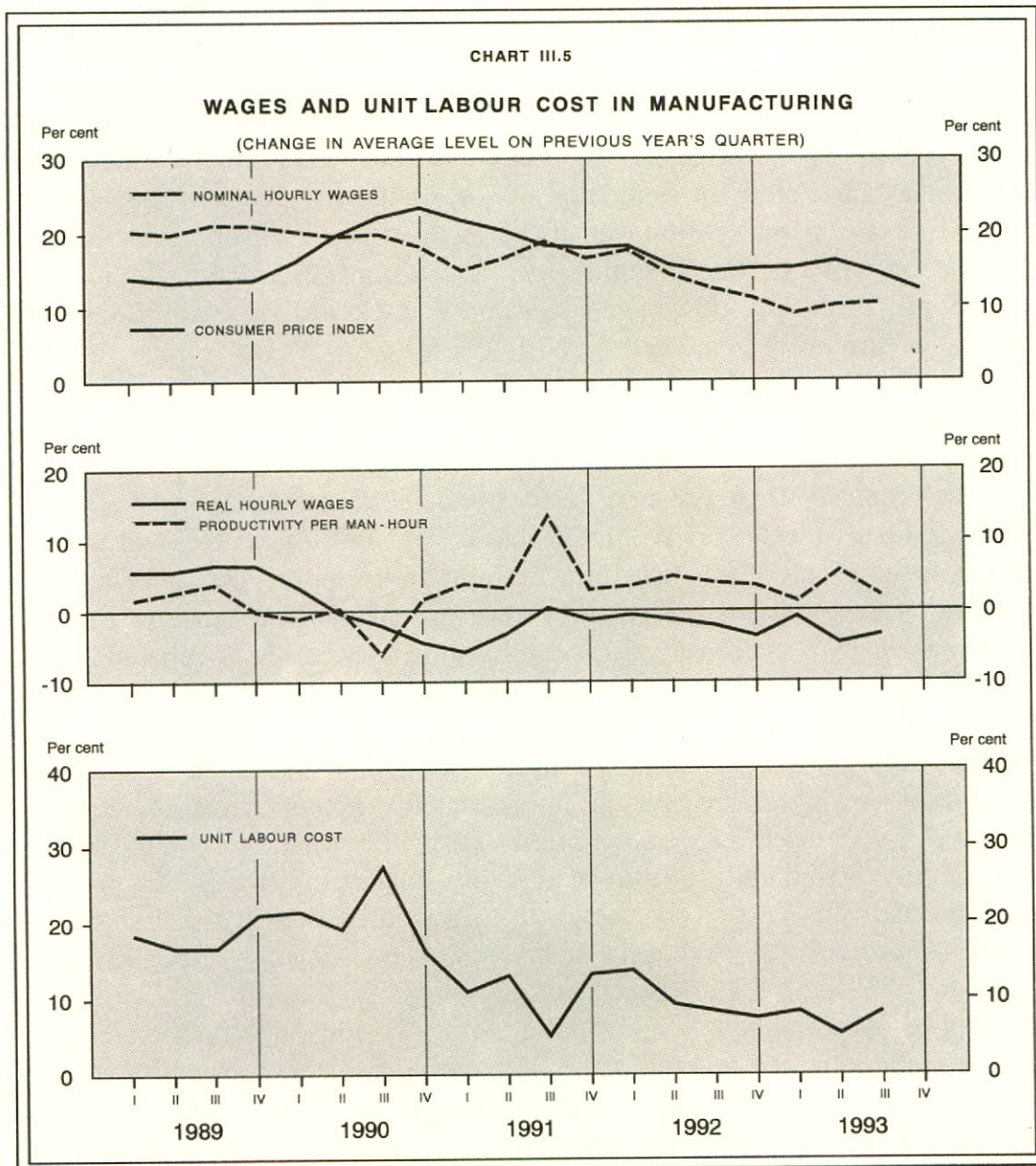
In the private sector, the National General Collective Labour Agreement signed in June 1993 provided for an increase of 4 per cent in the minimum earnings of unskilled blue and white collar workers as of 1st January 1993 and 7 per cent as of 1st July 1993. In addition, on the basis of the previous (two-year) Collective Labour Agreement, corrective pay rises of 1.4 per cent and 1 per cent were given as of 1st January and 1st July 1993, respectively. Thus, the cumulative increase in earnings between the beginning and the end of 1993 reached 14 per cent. The average annual increase in the minimum daily wages of unskilled labourers (unmarried, with no previous employment) was 12 per cent (1992: 11.3 per cent), while the corresponding rise in the minimum earnings of all those covered by the Collective Labour

¹ Excluding social security and welfare funds data on outlays regard the "operating account" only.

² Rates of change have been affected by the fact that, in the first half of 1992, public enterprises included the Urban Transport Corporation (EAS).

³ This rate includes the impact of "seniority benefits".

Agreement was, on average, 12.4 per cent (1992: 11.9 per cent). Moreover, an analysis of the major collective agreements, at occupational and branch



level, as well as of OMED'S arbitration decisions, shows that, for the whole private sector, the cumulative increase in contractual earnings between the

beginning and the end of the year was about 13.5 per cent (1992: 12-12.5 per cent) and the average annual increase was around 12.5 per cent (the same as in 1992).

Nevertheless, the significant delay in signing collective labour agreements seems to have affected the growth rate of actual earnings, which decelerated slightly in 1993, according to available data for the January-September period (Table III.2). It is estimated that average gross (actually paid) earnings in the private sector increased by 12-12.5 per cent (1992: 13 per cent), while average earnings, after the deduction of social security contributions, rose by about 10 per cent only. Moreover, if the increase in employers' contributions and the estimated decline in employment are taken into account, the increase in total private sector outlays for wages and social security contributions must have been around 13 per cent.

In manufacturing, it is estimated that blue collar workers' earnings rose by about 11 per cent (1992: 13.7 per cent) and white collar workers' earnings by 12.5 per cent (1992: 14.6 per cent). Since output per man-hour increased by 3 per cent (1992: 4 per cent), unit labour cost rose by about 8 per cent (1992: 9.4 per cent) (Chart III.5). On the basis of this estimate (usual method of measuring), and if we take into account that labour cost in competitor countries rose by about 3.5 per cent and the effective exchange rate of the drachma fell by 9.2 per cent (in average annual terms), it is concluded that competitiveness improved by about 5 per cent in terms of labour cost. If, however, the effect of the increase in employers' contributions is also included, the rate of increase in unit labour cost shows an acceleration (instead of slowing down) and the improvement in competitiveness does not exceed 2.5-3 per cent. Further, if it is taken into account that the rise in productivity was mainly due to layoffs in ailing firms (which, in practical terms had already ceased operating), it is concluded that in the case of *normally operating firms* – where productivity was unchanged – competitiveness remained the same (at average levels).

The government's incomes policy for 1994 aims at a further deceleration of inflation; at the same time, the considerable fall in civil servants' income over the last three years has also been taken into account. Thus, civil servants' pay was increased by 5 per cent as of 1st January 1994 and there will be another 5 per cent rise as of 1st July 1994. There will also be a corrective increase as of 1st January 1995 if the annual rate of inflation exceeds 10 per cent in December 1994 (Law 2198/1994). This policy is consistent with the budgeted 11.2 per cent increase in outlays for salaries and pensions. Collective

bargaining is free in the private sector and in public enterprises and organisations. As regards public enterprises and organisations, however, the government considers that both the financial situation of each enterprise and the increase in outlays for pay rises granted during the run-up to the general election last October should be taken into account. As regards the private sector, the government had expressed the wish that bargaining should be concluded soon and the agreement should be of the longest possible duration. Indeed, a two-year National General Collective Labour Agreement was signed by the General Confederation of Greek Workers (GSEE) and the employers' associations on 21st March 1994. Under this agreement, the cumulative increase in minimum earnings between the beginning and the end of 1994 will be 11.8 per cent and the average annual increase 12.6 per cent (1993: 14 and 12.4 per cent respectively).¹ Moreover, the government's incomes policy is complemented by the provisions concerning wage earners in the recently enacted tax law.

In view of the above and considering that there is no provision for a further increase in employers' social security contributions in 1994, whereas GDP is expected to rise (after stagnating in 1993), a slowdown in the rate of increase in non-agricultural unit labour cost by 1.5-2 percentage points compared with 1993 is regarded as feasible. Furthermore, the increases in earnings already announced or agreed upon, the fact that workers' social security contributions will be raised this year only for public sector and bank employees, and the provisions of the new tax law, point to stability or – in some cases – a small increase in wage earners' real disposable income.

3. INCOME FROM PROPERTY AND ENTREPRENEURSHIP

According to provisional estimates by the Ministry of National Economy, income from property and entrepreneurship in the private sector in 1993 increased faster than inflation and other incomes. As a result, its share in total personal income rose for the fourth consecutive year.

¹ Specifically, the agreement provides for an increase of 5 per cent in minimum earnings as of 1st January 1994 and 6.5 per cent as of 1st July 1994, while a pay rise as high as the budget forecast of consumer price increases during 1995 will be granted in two equal instalments as of 1st January and 1st July 1995 respectively. The agreement includes corrective provisions for both 1994 and 1995. The two-year agreement on pay rises of bank employees, concluded on 12th April between the Greek Bank Employees Federation and the Greek Banks Association, includes similar provisions.

Moreover, data available from various sources offer some evidence of changes in individual aggregates (i.e. business profits,¹ income from interest, income from property — mainly rents from buildings — and income of the self-employed) as described below.

According to data from the summary financial statements of firms whose shares are listed on the Athens Stock Exchange, the operating results of firms in the sector of manufacturing, trade and the supply of financial services were positive in the first half of 1993 but worse than in the corresponding period of 1992. In contrast, the results of construction firms were positive and recorded a considerable increase.

Specifically, the net pre-tax profits of 32 firms² in the financial sector declined by 6.4 per cent in the first half of 1993, compared with the first half of 1992, owing to a 9.1 per cent rise in the operating cost of these firms, while their revenues increased by only 7.4 per cent. If, however, the amounts set aside to form a reserve for the write-off of precarious debts³ are not reckoned in the operating cost of banks, the rate of decrease in the financial sector's profits falls to 3.2 per cent. Moreover, if, apart from the above reserve, the effect of a very large sum of extraordinary profits entered in the results of one of the banks in the first half of 1992 is not counted, profits rose by 4.7 per cent in the first half of 1993.⁴ Lastly, banks' operating results have certainly been affected indirectly by not reckoning interest on bank loans that are non-performing for over a year.⁵

In manufacturing, the net pre-tax profits of 73 firms⁶ declined by 6.2 per cent in the first half of 1993, compared with the corresponding period of

¹ On a national accounts basis, income from private property and entrepreneurship, a component of *personal* income, should *not* normally include total business profits but only that part of them which is left after the deduction of "savings of private and public sociétés anonymes, cooperatives etc." (i.e. undistributed profits). Nevertheless, the NSSG has not been deducting this item since 1975, owing to the lack of sufficient data. Furthermore, if — according to the recent practice of the Ministry of National Economy — the item "direct taxes on sociétés anonymes" is added, income from property and entrepreneurship will concern the entire *private sector* (firms and households) and not households only and will include total pre-tax business profits.

² These firms include: 15 banks, two leasing companies, 11 portfolio investment companies and four insurance companies. Thirty of these 32 firms recorded profits (and 20 of them, increased profits) in the period under review.

³ The formation of this reserve is governed by the provisions of Law 396/1968 and article 3 of Law 1947/1991. This cost item increased by 21.3 per cent in the first half of 1993.

⁴ A rise in profits is also recorded in the annual income statements of certain banks already published.

⁵ This is according to Law 2076/1992 (article 27).

⁶ These firms cover 15 out of the 20 branches of manufacturing activity, namely: food, beverages, tobacco, textiles, footwear and clothing, wood, furniture, paper, plastics, chemicals, non-metallic minerals, basic metals, metallurgical products and electrical machinery.

1992.¹ This happened because their total operating cost rose faster than total revenue. The net profit margin therefore fell to 8.5 per cent in the first half of 1993 from 10.2 per cent in the corresponding period of 1992.

It is worth noting that, among cost components, there was a large increase in financial charges (34.4 per cent) and, in general, in selling and administration expenses (18.8 per cent). In contrast, direct production cost (blue collar workers' wages, cost of raw materials, fuel etc.) rose by only 12.6 per cent, i.e. slower than total operating cost (13.9 per cent) and roughly at the same rate as sales revenue (i.e. turnover), which increased by 12.5 per cent.² The above data imply that, to cope with reduced domestic demand and stiff competition from imported goods, firms determined selling prices entirely on the basis of the relatively small increase in direct production cost and refrained from passing onto prices the higher increases in other cost components, thus accepting a squeeze in net profit margins.

In trade, the net pre-tax profits of 13 large firms fell by 11.3 per cent in the first half of 1993, compared with the same period of 1992. This decline resulted from the 16.9 per cent increase in total operating cost, while total revenues rose by 15.8 per cent.³ Thus, the net profit margin of these firms fell to 3.5 per cent in the January-June period of 1993 from 4.5 per cent in the first half of 1992.

In the construction industry, the net pre-tax profits of three firms⁴ rose by 8.9 per cent in the first half of 1993, compared with the corresponding period of 1992. This increase was due to the fact that these firms, despite the 7.9 per cent decrease in their operating and non-operating revenues, succeeded in reducing their expenses even more (13.9 per cent). Therefore, their net profit margin, which was already high, rose to 31.2 per cent in 1993 from 26.4 per cent in 1992.

¹ This estimate is confirmed by a recent (March 1994) ICAP sample survey of 250 industrial firms, according to which total industrial profits declined in nominal terms. If, however, privatised and "idle" firms are not counted in, the remaining ones recorded increased profits in real terms.

² Since the wholesale prices of domestic manufactures (NSSG) rose by 16.6 per cent in the same period, sales volume decreased by 3.5 per cent. This is compatible with the 3.4 per cent decline in manufacturing production in the same period (NSSG index).

³ It should be noted that direct cost (commodity purchases, storing and supply expenses etc.) increased by 19.4 per cent, while selling and administration expenses grew by only 9.2 per cent. Sales revenue rose by 15.3 per cent.

⁴ Though the number of firms is very small, the relevant conclusions are stated here because, according to all indications, they also hold for those firms of the construction industry that are not listed on the Athens Stock Exchange.

Interest income (actual and imputed) comes from various sources (bank deposits, insurance companies' technical reserves, loans, securities etc.); available data, however, cover only interest income from government paper (Treasury bills and government bonds) and bank deposits. According to Ministry of Finance data, the sum of interest paid to private sector holders of Treasury bills and government bonds in 1993 was 1,367 billion drachmas, compared with 799 billion in 1992 (increase of 71 per cent). In contrast, the amount of interest (1,467 billion drachmas) paid on private deposits with commercial banks and specialised credit institutions was 5.5 per cent less than the sum paid in 1992 (1,553 billion drachmas).¹

Thus, the total amount of interest income rose by 20.5 per cent to 2,834 billion drachmas in 1993² from 2,352 billion in 1992.

Income from rents, which tallies on a national accounts basis with the value added of the housing sector (actual and imputed rent paid by households), is estimated to have increased by 24 per cent in 1993, compared with an increase of 22.6 per cent in 1992.³ This development reflects the deregulation of the housing market and the fact that supply does not match demand.

¹ As shown by calculations based on Ministry of Finance data, regarding the amount of tax on interest income.

² It should be noted that, as a result of the method employed by the NSSG (and the Ministry of National Economy) for calculating income from property and entrepreneurship, this aggregate does not include interest on deposits, though it should. In contrast, it includes the total amount of interest on public debt (domestic and foreign) and not only interest paid to households.

³ The increase in the value added in the housing sector stems from the average annual increase in rents, according to the CPI (19.6 per cent in 1992, 21.6 per cent in 1993), and from the increase in the value added in real terms, i.e. the growth of the volume of rented and owner-occupied houses (2.5 per cent in 1992, on the basis of NSSG national accounts and 2 per cent in 1993, according to provisional estimates by the Ministry of National Economy).

IV. MONETARY AND CREDIT DEVELOPMENTS

1. MONEY SUPPLY AND LIQUIDITY OF THE ECONOMY

1.1. Money supply M1

Narrow money (M1), comprising currency circulation and sight deposits, increased by 257.6 billion drachmas or 13.1 per cent in 1993, compared with a rise of 225.3 billion or 12.9 per cent in 1992.

The growth rate of currency circulation started decelerating from April 1993 and reached 7.4 per cent at the end of 1993, compared with 12.3 per

TABLE IV.1
MONEY SUPPLY (M1)

	Outstanding balances on 31 Dec. 1993* (million drachmas)	Annual changes					
		Million drachmas			Percentage		
		1991	1992	1993*	1991	1992	1993*
Currency circulation, M0	1,514,112	93,506	154,544	104,021	8.0	12.3	7.4
Private sight deposits	711,700	65,929	70,782	153,542	15.6	14.5	27.5
Money supply narrowly defined, M1 ¹	2,225,812	159,435	225,326	257,563	10.1	12.9	13.1
Time and savings deposits	9,653,656	666,076	728,471	685,740	8.8	8.8	7.6
Repurchase agreements with the private sector (Repos)	1,893,921	372,350	557,754	915,316	...	...	...
Bank bonds	733,744	4,779	75,015	60,000	0.8	12.5	8.9
Broad money supply, M3 ¹	14,507,133	1,202,640	1,586,566	1,918,619	12.3	14.4	15.2

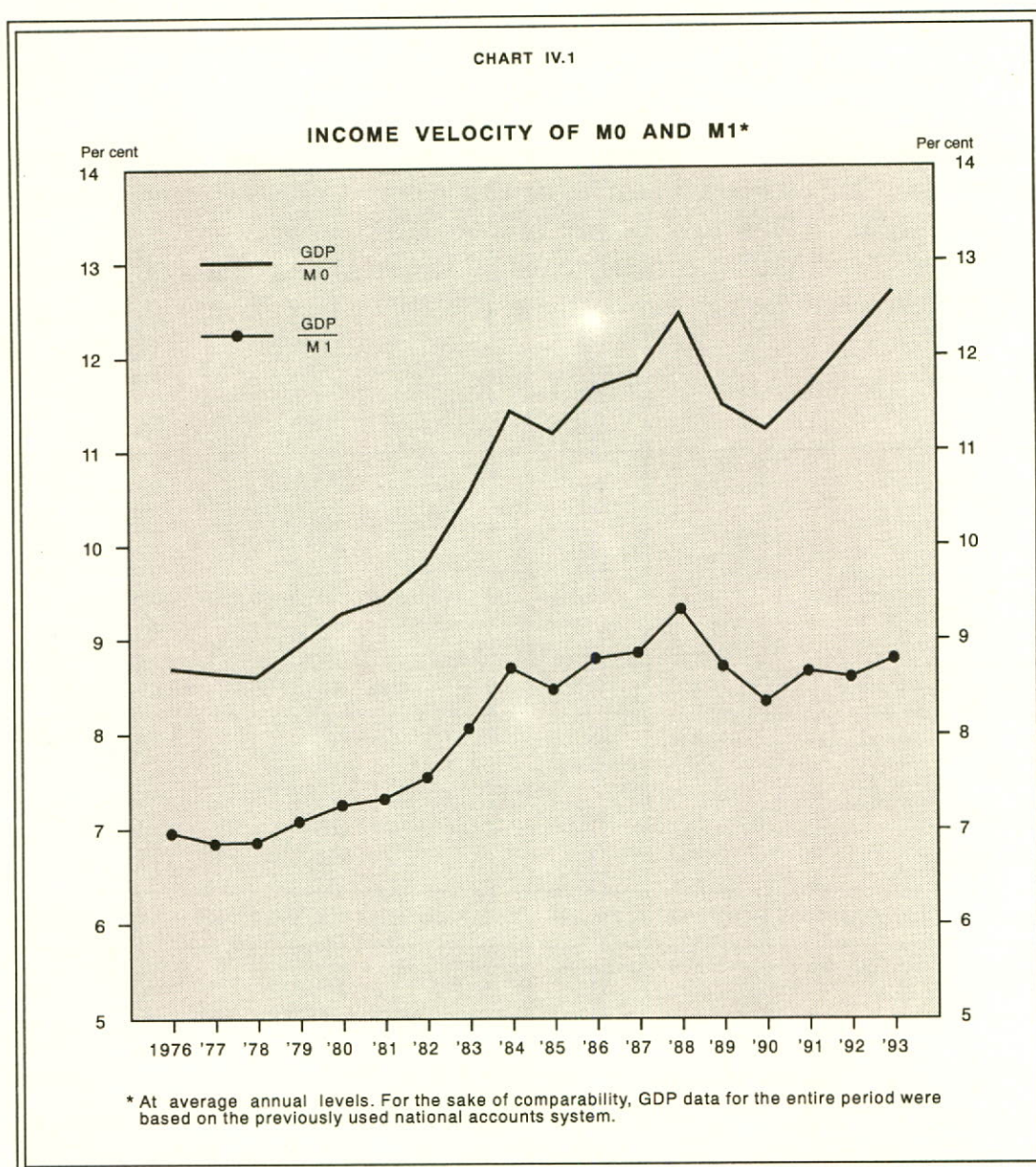
¹ Not including sight deposits by public organisations and public enterprises.

* Provisional data.

cent in 1992. This slowdown was associated with the increase in real interest rates and, therefore, the rise in the cost of holding cash balances, as nominal interest rates fell less than inflation in the second half of 1993.

In contrast, sight deposits increased considerably faster than in 1992 (1993: 27.5 per cent, 1992: 14.5 per cent). The acceleration was particularly rapid in the last two months of 1993 and was related to the decrease in interbank interest rates and rates on repos. Sight deposits increased also

because of the wider use of cheques for wage and salary payments and the fact that sight deposits were linked to the provision of new services by certain banks.



At average annual levels, currency circulation increased at a lower rate than GDP, with the result that the income velocity of M0 rose for the third consecutive year.

1.2 Private deposits in drachmas

Private deposits increased by 862.8 billion drachmas or 8.9 per cent in 1993 (1992: 832.4 billion or 9.4 per cent). This slight slowdown was due to the significant substitution of repos for deposits — particularly time deposits — in 1993, while total private investment in liquid assets, as a percentage of personal income, remained virtually unchanged.

The growth rate of savings deposits decelerated gradually from January, reaching its lowest level, on a twelve-month basis, in July 1993 (5.9 per cent). It started accelerating in August and rose to 11.5 per cent in December 1993, compared with 11 per cent in December 1992. The higher twelve-month

TABLE IV.2
PRIVATE DEPOSITS AND REPOS

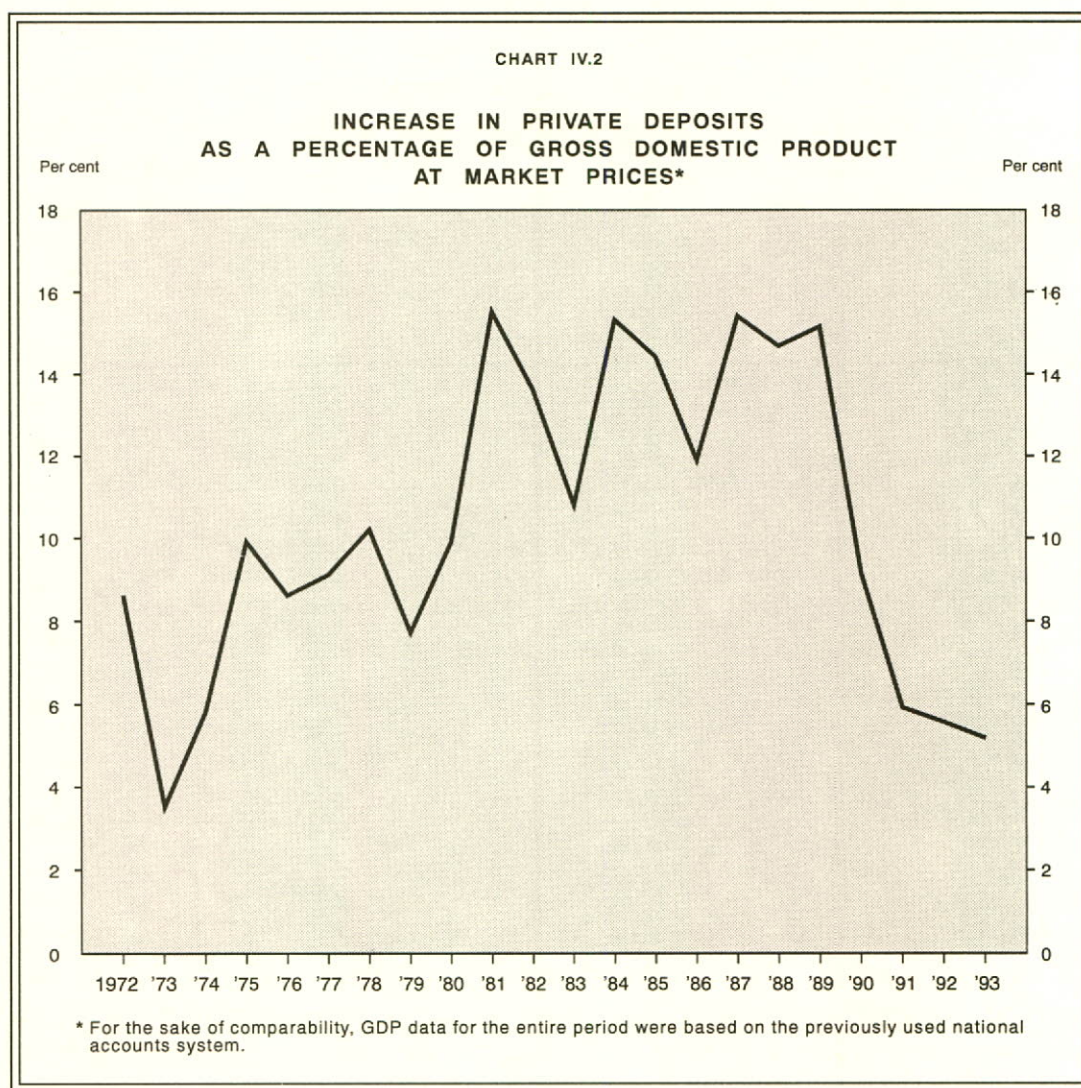
C a t e g o r y	Outstanding balances on 31 Dec. 1993* (million drachmas)	A n n u a l c h a n g e s					
		Million drachmas			Percentage		
		1991	1992	1993*	1991	1992	1993*
Sight deposits	711,700	65,929	70,782	153,542	15.6	14.5	27.5
Savings deposits	7,709,723	679,657	686,450	794,374	12.3	11.0	11.5
Time deposits	1,943,933	-13,581	42,021	-108,634	-0.7	2.1	-5.3
Blocked deposits	186,474	20,927	33,108	23,503	19.2	25.5	14.4
Total	10,551,830	752,932	832,361	862,785	9.3	9.4	8.9
Repurchase agreements with the private sector (repos)	1,893,921	372,350	557,754	915,316	...	...	...
Total deposits and repos	12,445,751	1,125,282	1,390,115	1,778,101	13.8	15.0	16.7
Deposits in foreign exchange	4,117,275	461,322	743,614	672,287	20.6	27.5	19.5

* Provisional data.

growth rate of savings deposits in the last five months of 1993 reflected the decrease in the yield differential between government paper and savings deposits, after the successive cuts in interest rates on government paper in the April-August 1993 period. It should be noted that the abolition of the minimum interest rate on savings deposits (18 per cent) in March 1993 was followed by a small drop in bank interest rates, with the result that the average interest rate reached 17.4 per cent in July 1993 and remained at this level until the end of the year.

Time deposits evolved similarly to savings deposits during the year, though their annual rate of change remained negative throughout 1993. The

negative rate of change in time deposits peaked in July (-11.5 per cent) but was gradually reduced to -5.3 per cent by the end of the year, compared with a rise of 2.1 per cent in 1992. The decrease in time deposits resulted from the ongoing transfer of funds from this category of deposits to repos and reflected



the increased difference of net yields in favour of repos, particularly in periods of increased uncertainty, such as the period of unrest in European foreign exchange markets and the run-up to the October 1993 general election. During the September-November period of 1993, 340.7 billion drachmas was invested

CHART IV.3

**PRIVATE SECTOR INVESTMENT
IN LIQUID ASSETS**
(ANNUAL CHANGES)

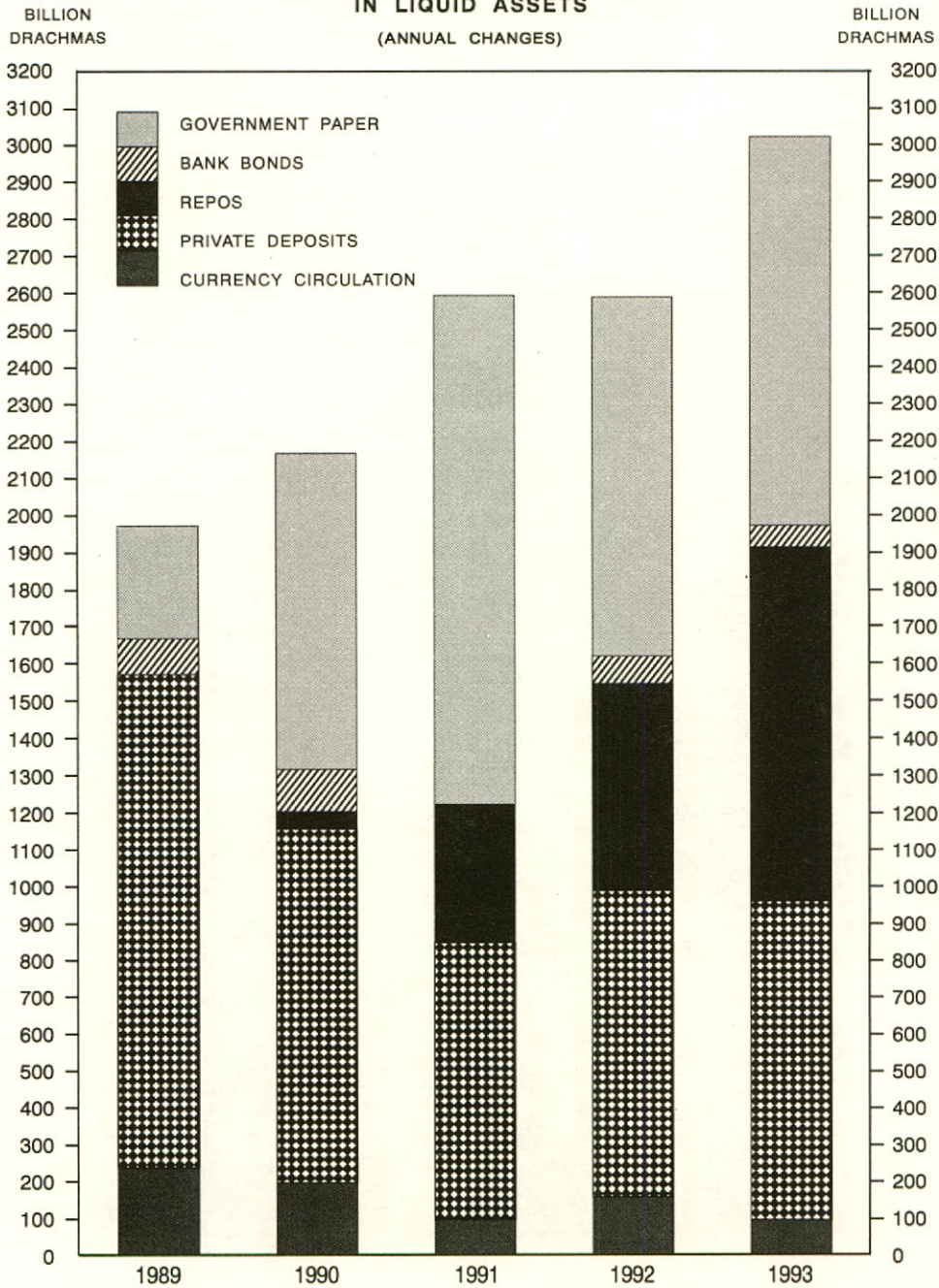
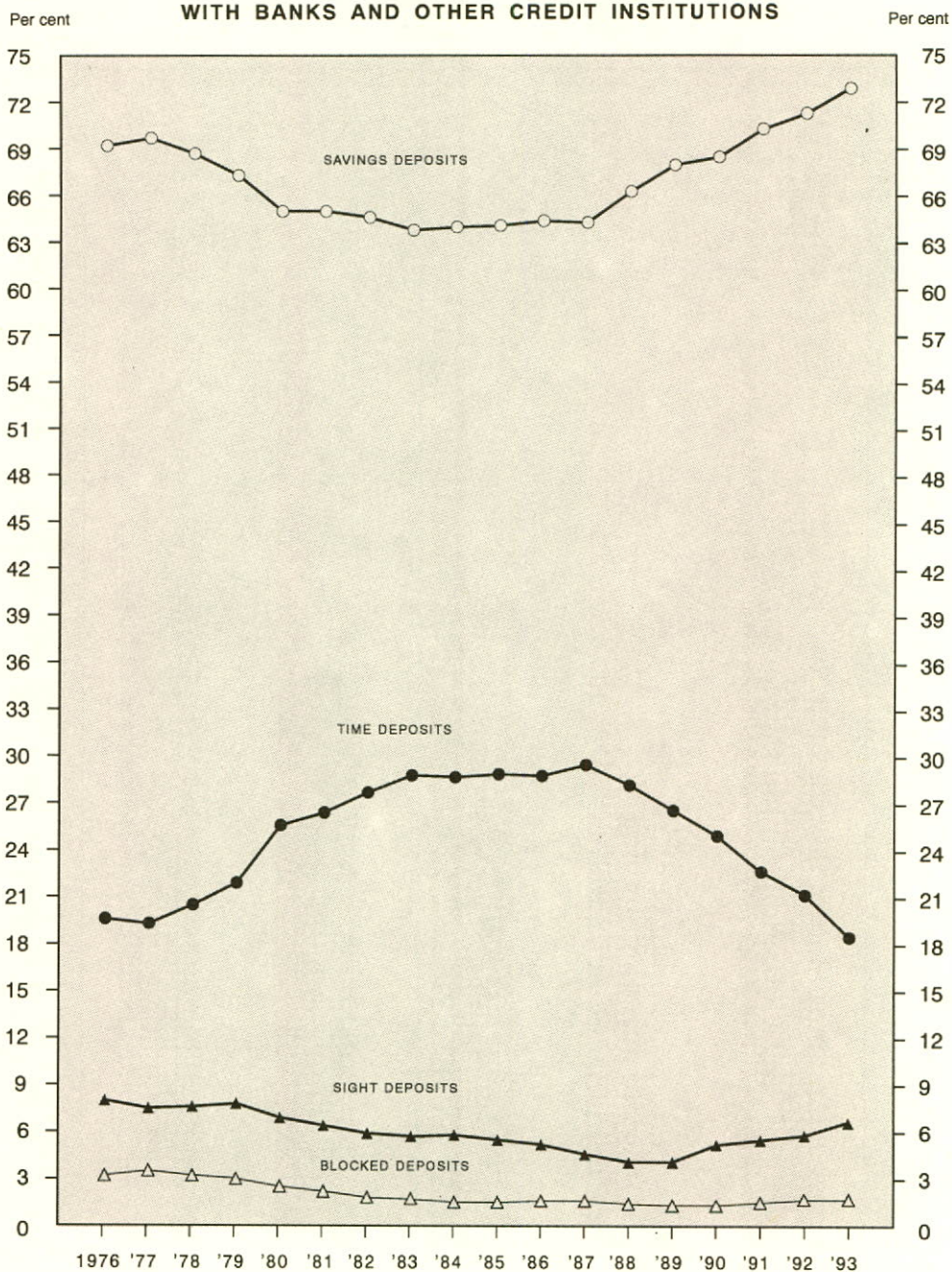


CHART IV.4

PERCENTAGE DISTRIBUTION OF PRIVATE DEPOSITS
WITH BANKS AND OTHER CREDIT INSTITUTIONS



in repos, the corresponding amount for the whole year being 915.3 billion (1992: 557.8 billion).

Commercial banks succeeded in bringing back to 1991 levels their share in the total amount of new funds accumulated by the banking system in the form of private deposits and repos (Table IV.3). This development was due to the greater involvement of banks in the repos market; it was also related to the

TABLE IV.3
DISTRIBUTION OF CHANGES IN PRIVATE DEPOSITS AND REPOS BY CREDIT INSTITUTION
(Per cent)

Credit institution	Total private deposits and repos			Time deposits, savings deposits and repos		
	1991	1992	1993*	1991	1992	1993*
Commercial banks	72.7	67.9	72.1	71.9	68.0	72.3
Specialised credit institutions	27.3	32.1	27.9	28.1	32.0	27.7
(Postal Savings Bank)	(8.0)	(7.9)	(8.4)	(8.6)	(8.6)	(9.4)
(Agricultural Bank)	(13.6)	(16.0)	(14.1)	(14.5)	(16.9)	(14.2)
Total	100.0	100.0	100.0	100.0	100.0	100.0

* Provisional data.

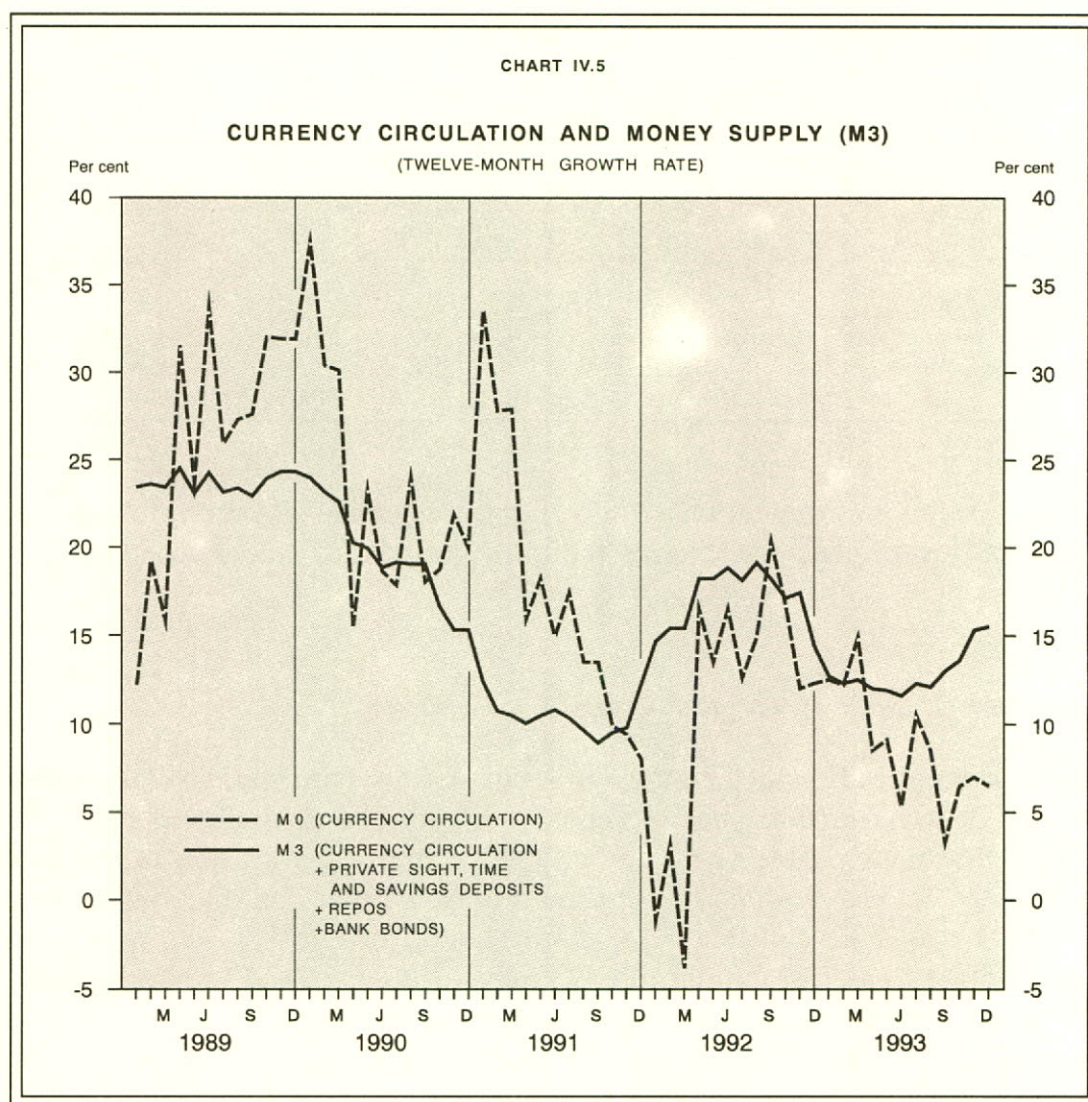
larger share of government paper in certain commercial banks' portfolios, as a result of government bond issues for the consolidation and rescheduling of public debt.

1.3 Total liquidity of the economy

Broad money (M3), which comprises — apart from currency circulation and private deposits in drachmas — repos and bank bonds, increased by 1,919 billion drachmas or 15.2 per cent in 1993, compared with a rise of 1,587 billion or 14.4 per cent in 1992. It should be noted that the M3 growth target for 1993 was 9-12 per cent.

In the first eight months of 1993, the growth rate of M3 was around 12 per cent, i.e. the upper limit of the monetary target. Between September and the end of 1993, the M3 rate of increase accelerated progressively and rose to 15.2 per cent in December. This development reflects a large rise in repos, chiefly to replace investments in the primary market for government paper. This shift was largely due to the rise in interbank interest rates, owing to extensive Bank of Greece interventions, which caused a rise in yields from repos. These interventions were aimed at mitigating pressure on the exchange

rate of the drachma following the announcement, in September 1993, of a general election. Furthermore, the conditions usually prevailing in similar circumstances mostly favour investment in highly liquid assets, like repos, rather than investment in government paper, whose market lacks sufficient depth even in normal circumstances.

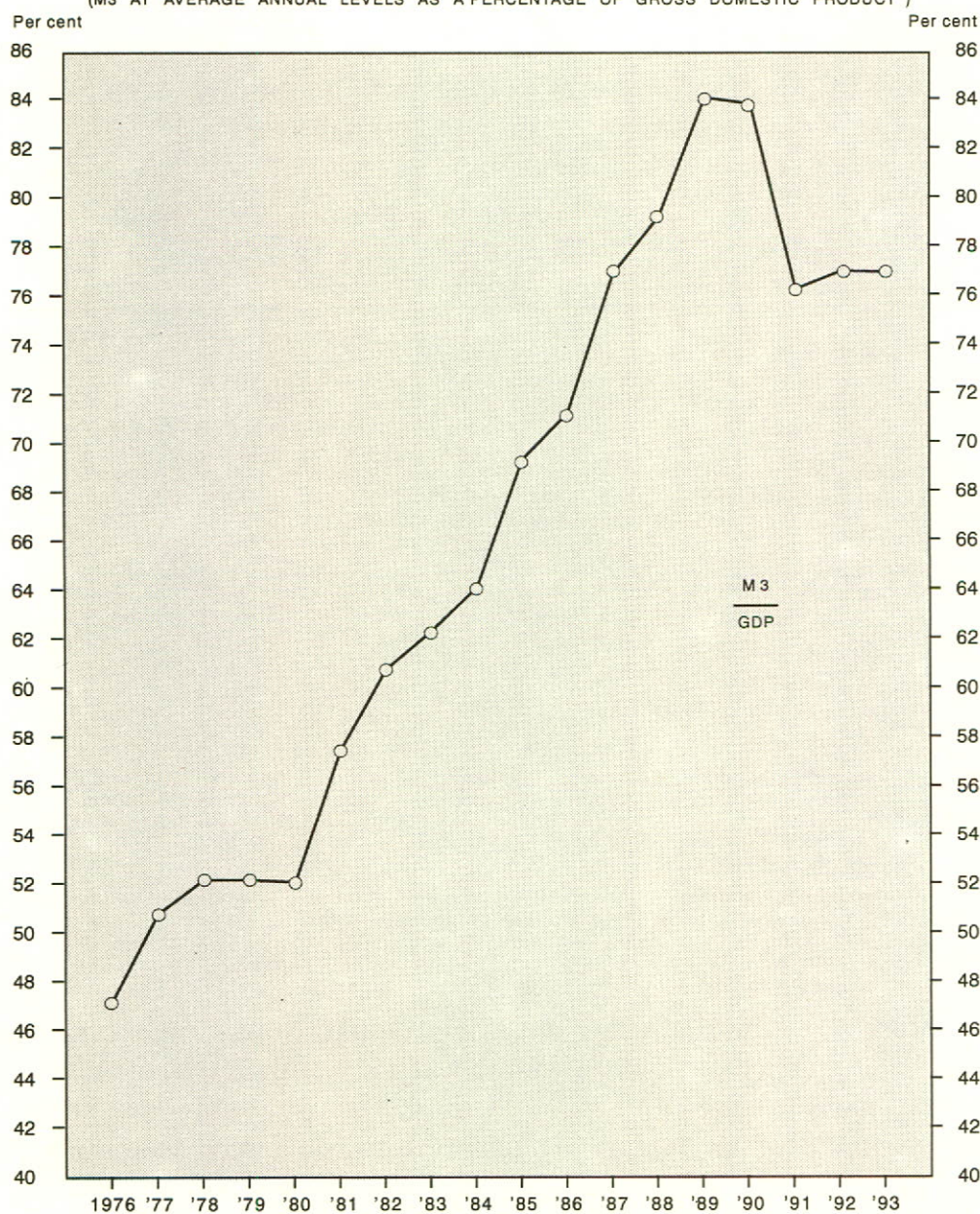


The faster monetary expansion in 1993 was the outcome mainly of the particularly large increase in the domestic and foreign bank financing of the public sector (1993: 1,318 billion drachmas, 1992: 393 billion). This develop-

CHART IV.6

LIQUIDITY TRENDS OF THE ECONOMY

(M3 AT AVERAGE ANNUAL LEVELS AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT*)



* For the sake of comparability, GDP data for the entire period were based on the previously used national accounts system.

ment was due to the fact that the PSBR exceeded in 1993 both budgeted and 1992 levels, in conjunction with the drastic drop (1992: 71 per cent, 1993: 44 per cent) in the percentage of the net deficit which was financed by sales of government paper in the domestic non-bank market. This drop was related to the decrease in the relative yields of government securities. Interest rates on Treasury bills fell by up to 2.25 percentage points in 1993 (twelve-month Treasury bills), without a corresponding drop in interest rates on bank deposits, while yields from repos rose substantially.

TABLE IV.4
FACTORS AFFECTING MONEY SUPPLY BROADLY DEFINED (M3)
(Million drachmas)

	1992	1993*
A. PUBLIC SECTOR (a-b)	392,856	1,317,570
a. <u>Net borrowing requirements¹</u>	<u>1,362,885</u>	<u>2,367,057</u>
– Central Government	1,557,255	2,701,769
– Public organisations	–159,238	–321,117
– Public enterprises	–35,132	–13,595
b. <u>Financing of the deficit by private savings</u>	<u>970,029</u>	<u>1,049,487</u>
B. PRIVATE SECTOR	948,050	756,323
a. Loans and advances	878,437	695,180
b. Securities	95,116	84,803
c. Blocked deposits	–25,503	–23,660
C. FOREIGN SECTOR	–222,454	123,599
D. OTHER ITEMS	468,114	–278,873
CHANGE IN MONEY SUPPLY (M3)	1,586,566	1,918,619

¹ Including foreign borrowing by public enterprises and public organisations.

* Provisional data.

Moreover, developments in international capital markets, where interest rates gradually fell, along with the stability of the exchange rate of the drachma, enabled the government to borrow substantial funds from abroad. It should be pointed out that funds raised from the Greek banking system account for only 553 billion drachmas of total credit expansion to the public sector. Net foreign borrowing, comprising bank loans, other types of bank credit and sales of government paper to non-residents, increased to 765 billion drachmas in 1993 from 152 billion in 1992.

Credit expansion to the private sector reached 695 billion drachmas or 11.9 per cent in 1993, falling short of the lower limit of the target range (13-15 per cent), compared with 878 billion or 17.1 per cent in 1992. This slowdown was related to the fairly high real cost of borrowing, the economic stagnation, and the implementation of Law 2076/1992, which prohibited the reckoning of interest on loans that have not performed for over a year.

Throughout 1993, the current account balance improved without, however, a corresponding increase in autonomous capital inflow. Net private capital inflows were indeed particularly reduced in the September-October 1993 period, following the announcement of the general election. Nevertheless, the basic balance of payments reached a level corresponding to a positive contribution of the foreign sector to liquidity creation (124 billion drachmas) in 1993, compared with a negative contribution (222 billion) in 1992.

Total credit expansion to the private and the public sector rose to 13.2 per cent in 1993, compared with 11.6 per cent in 1992. Therefore, the target to restrain total credit at 6-8 per cent in 1993 was not attained, owing to the considerable acceleration of credit expansion to the public sector.

During 1993, the average annual growth rate of M3 fell slightly short of the nominal GDP growth rate. As a result, the liquidity ratio of the economy (M3 at average levels to GDP at market prices) remained at roughly the same level as in the previous two years.

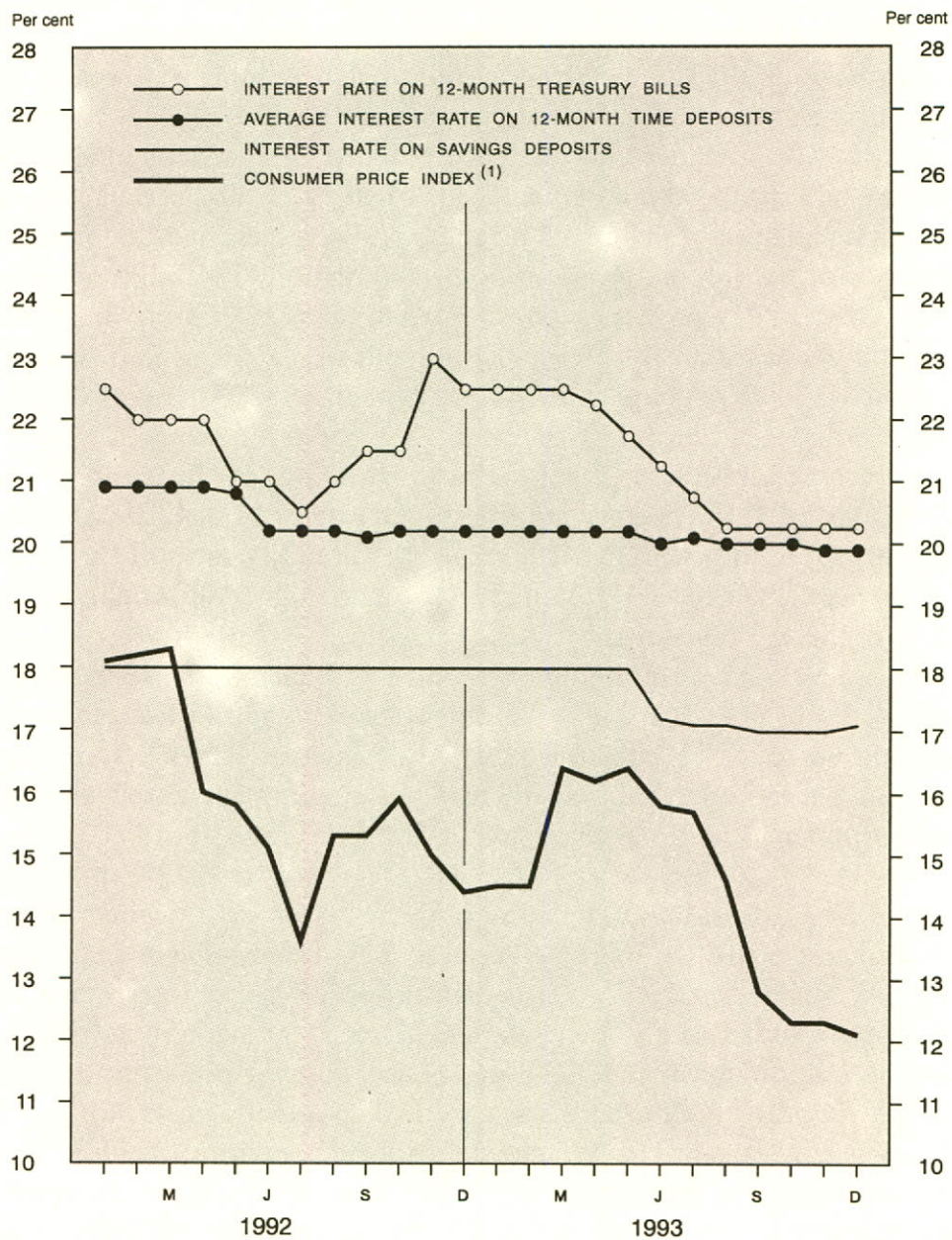
This development in the liquidity ratio implies that the restructuring of savers' portfolios in favour of government paper is almost complete. This process started in 1991, after the taxation of interest income from deposits (which had been preceded by an increase in government paper yields) and resulted in a fairly large decrease in the liquidity ratio in 1991, compared with 1990.

The liquidity ratio of the economy has risen significantly in recent years, compared with the previous decades. This trend reflects a corresponding increase in domestic bank intermediation, which can be interpreted largely as a long-term effect of the deregulation of the banking system, which had been put in motion during the 1980s and is now approaching completion.

The liquidity of the banking system fluctuated significantly in 1993, mainly owing to extraordinary factors. In the first quarter of 1993, the system's liquidity was restrained, owing to the large borrowing requirements of certain specialised credit institutions and particularly the Agricultural Bank, which faces a permanent problem because of the time lag between the payment and collection of EAGGF subsidies. Throughout the first quarter of

CHART IV.7

NOMINAL INTEREST RATES AND INFLATION



(1) Change on same month of previous year.

1993, the Bank of Greece intervened to enhance the liquidity of the credit system, and the overnight interbank rate was around 25-26.5 per cent. In April, the liquidity of large commercial banks improved, owing to the collection of interest on bonds that had been offered in replacement of three-month Treasury bills, and the interbank rate started to follow a downward trend, which became steeper in May. Bank of Greece interventions aimed at absorbing liquidity so as to maintain the interbank rate over 20.5 per cent. From mid-June, these interventions changed direction, since substantial sales of government securities reduced bank liquidity. The rise in the interbank rate became sharper in the second half of July and on 2nd August, when the EMS crisis peaked, the overnight rate reached 28.3 per cent. The abatement of the crisis led to a fast drop in interest rates. After the announcement of the general election in September 1993, the interbank rate rose to high levels, where it remained until the end of October 1993. During that period, the Bank of Greece was absorbing liquidity to prevent capital flight. The interbank rate started falling in the last week of October and moved between 19 and 20 per cent in the November-December period, as the Bank of Greece absorbed substantial funds from the interbank market, in order to keep the rate over 19 per cent.

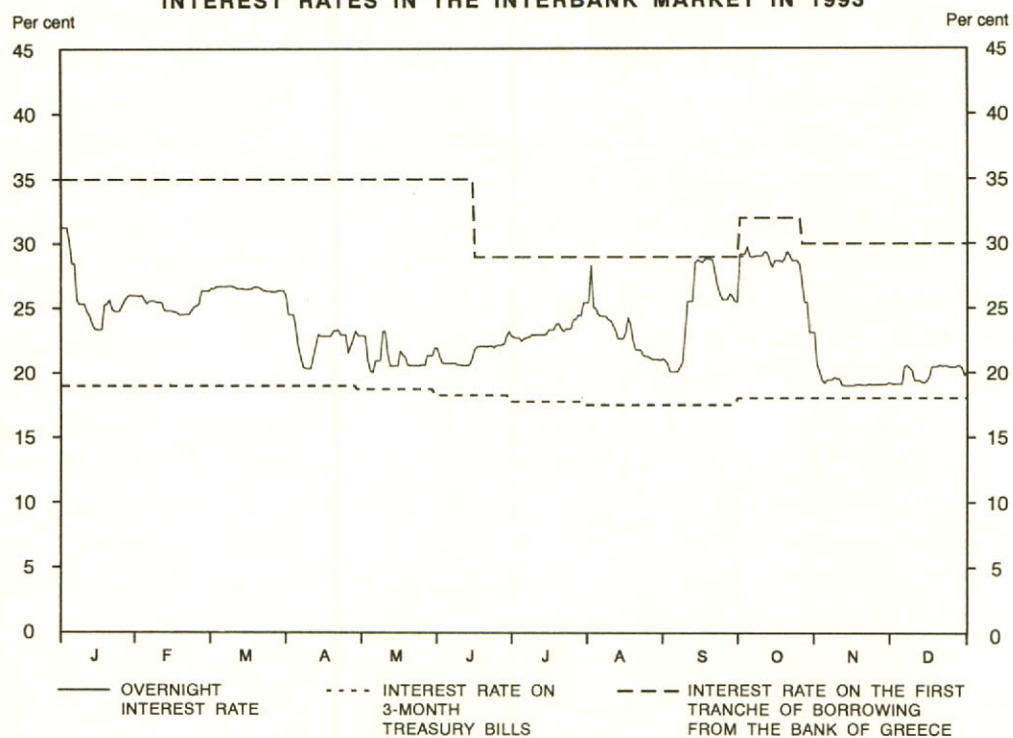
During 1993, the broader monetary aggregate M4, which is a complementary indicator of the monetary policy stance, was affected mainly by the shift of primary market investors from Treasury bills to government paper with a maturity longer than one year. Thus, the twelve-month rate of change in M4 fell to 14.8 per cent in August 1993 from 19.2 per cent in December 1992 and then started accelerating, mainly because of the increase in M3.

It should be pointed out that, since M4 includes government paper maturing in up to one year as well as repos, it was not affected by the restructuring of investors' portfolios with regard to these items, particularly after September 1993. This explains the smaller acceleration of the rate of increase in M4 during that period. The 12-month rate of increase in M4 reached 16.9 per cent at the end of December 1993 and was much lower than at the end of 1992 (19.2 per cent).

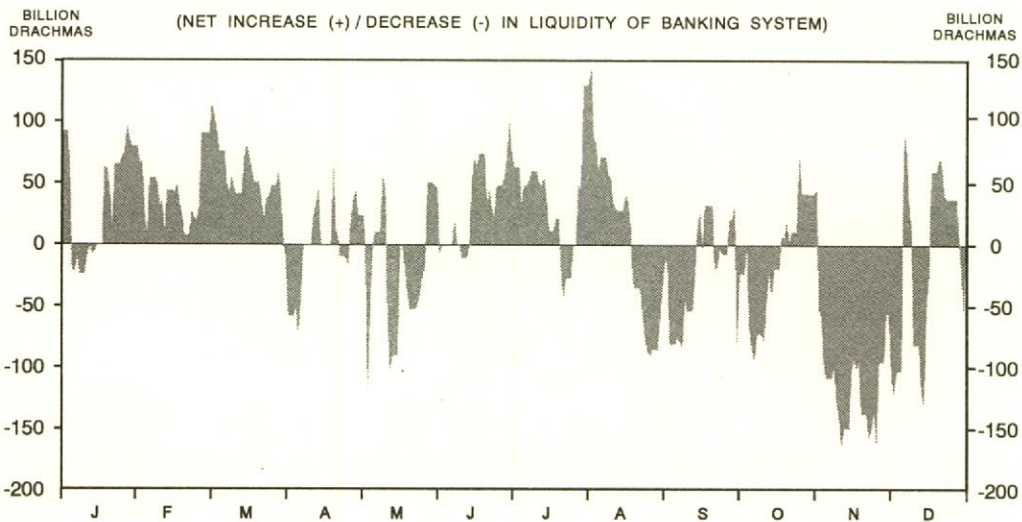
In contrast, the deceleration of M4 in the period up to August 1993 was faster than that of M3 (the M4 rate of increase fell by 4.4 percentage points, compared with 2.2 percentage points for M3), reflecting the effect of an additional contractionary factor (the shift of investors to government paper with a maturity longer than one year), which did not affect M3.

CHART IV.8

INTEREST RATES IN THE INTERBANK MARKET IN 1993



BANK OF GREECE INTERVENTIONS IN MONEY MARKETS



2. FINANCING OF THE PRIVATE SECTOR

2.1 Credit expansion by type of institution

Credit expansion to the private sector decelerated considerably in 1993 to a level slightly lower than the monetary programme forecast. In particular, bank lending to the private sector grew by 695.2 billion drachmas or 11.9 per cent, compared with an increase of 878.4 billion or 17.1 per cent in 1992 and a monetary programme forecast of 13-15 per cent. Net of foreign exchange

TABLE IV.5
BANK CREDIT TO THE PRIVATE SECTOR
(Changes in outstanding balances)

Year	Total			Long-term		Short-term	
	Million drachmas	Percentage	As a proportion of GDP ⁴	Million drachmas	Percentage	Million drachmas	Percentage
1984 ¹	341,432	21.5	9.0	143,671	20.3	197,761	22.4
1985	359,855	18.8	7.8	151,773	17.8	208,082	19.6
1986 ²	355,152	15.6	6.4	160,303	16.0	194,849	15.3
1987 ²	257,757	9.8	4.1	125,216	10.8	132,541	9.0
1988 ²	438,266	15.2	5.8	193,638	15.0	244,628	15.3
1989	657,188	20.7	7.5	290,160	20.4	367,028	20.9
1990 ³	647,536	16.5	6.1	295,873	16.7	351,663	16.4
1991 ³	732,022	16.4	5.7	237,046	11.6	494,976	20.6
1992 ³	878,437	17.1	5.9	198,605	8.8	679,832	23.7
1993	695,180	11.9	4.1	192,213	7.9	502,967	14.8

¹ Excluding the effect of the settlement of deficits in the agricultural supplies account and in the accounts of agencies purchasing agricultural products.

² Excluding the effect of the conversion into shares of the debts of overindebted enterprises.

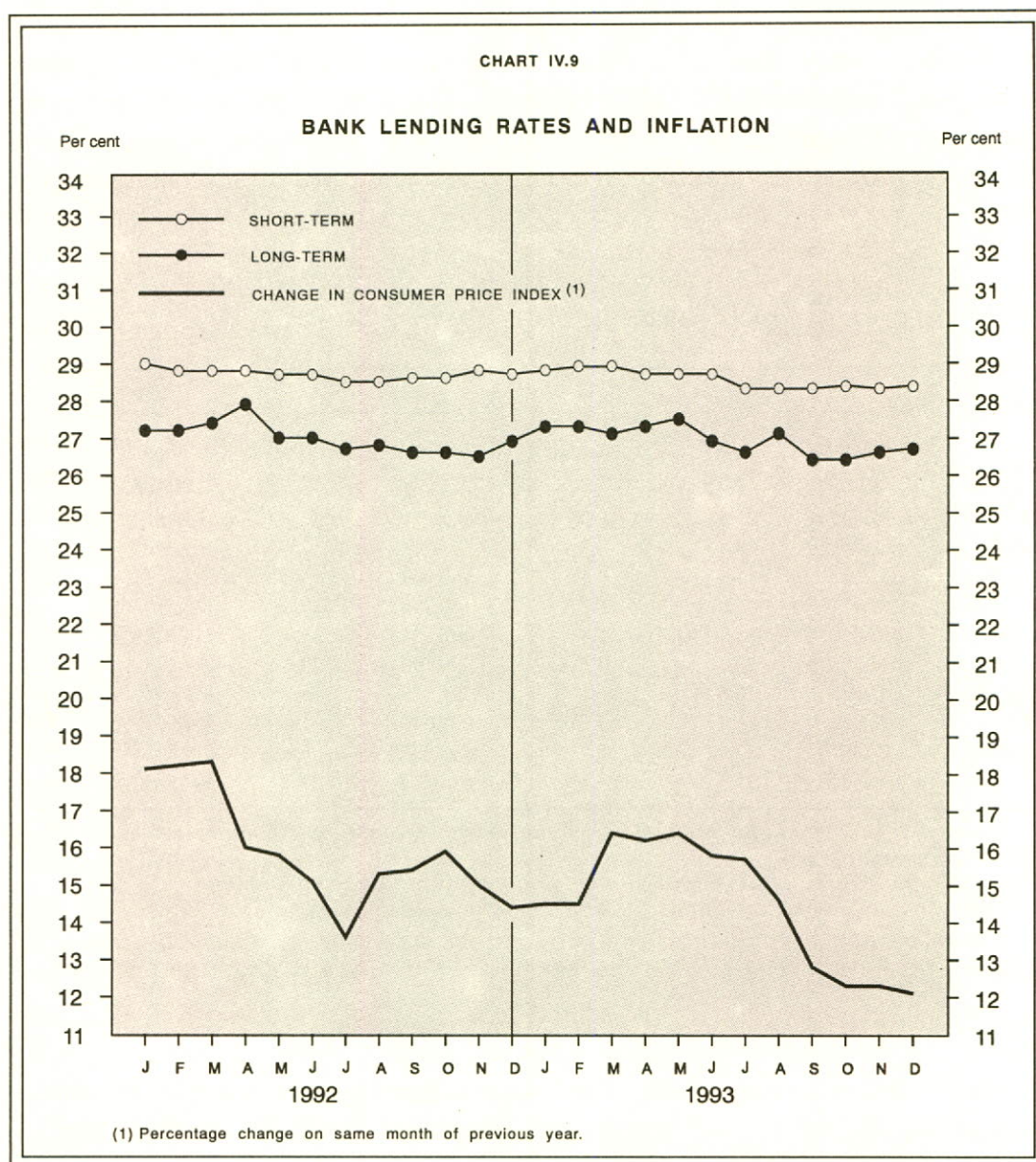
³ Excluding the effect of the conversion of state-guaranteed loans into government bonds, because the relevant guarantees were called in.

⁴ For the sake of comparability, GDP data for the entire period were based on the previously used national accounts system.

valuation differences (i.e. the part of credit expansion due to valuation adjustments of loans in foreign exchange, owing to the appreciation of major currencies against the drachma), credit expansion to the private sector reached 10.6 per cent in 1993 (1992: 15.7 per cent).

This substantial slowdown of credit expansion to the private sector has been affected by the maintenance of high nominal interest rates, which, along

with the gradual drop in inflation in the second half of 1993, resulted in a rise in real rates. During the first half of 1993, interest rates on short- and long-term loans were close to 29 and 27 per cent, respectively. Nominal rates fell



slightly (by half of one percentage point) in the second half of the year. However, during the same period and particularly in the last four months of

1993, inflation declined substantially, with the result that real rates rose by about two percentage points. High interest rates and the favourable conditions that prevailed in the Athens Stock Exchange (ASE), particularly in the second half of the year, led firms to substitute their bank financing with funds raised from the non-bank market. It should be noted that commercial, industrial and construction firms raised 59.4 billion drachmas from the ASE in 1993, compared with 14 billion in 1992. Moreover, credit expansion to the private sector was negatively affected by technical factors, namely the provisions of Law 2076/1992, which, with a view to enhancing the transparency and objectivity of banks' financial results, prohibits them from reckoning interest on loans that are non-performing for over a year. It is estimated that the amount of interest not reckoned in 1993 totalled about 170 billion drachmas. If, as in previous years, this amount had been included, banks' credit expansion would have risen to around 14.8 per cent, thus remaining within the monetary programme limits.

The growth rate of both drachma and foreign currency loans granted by the Greek credit system decelerated. Drachma-denominated loans increased by 10.1 per cent in 1993 (1992: 14.9 per cent), while those denominated in foreign currencies rose by 15.5 per cent in 1993, net of foreign exchange valuation differences (1992: 26.1 per cent).

The development of drachma- and foreign currency-denominated loans during 1993 is an indication of the degree of completion of drachma and foreign exchange markets as well as of demand responsiveness to changes in the cost of these two sources of firms' borrowing. Until the end of May 1993, foreign currency loans granted by Greek credit institutions were growing at a relatively fast rate (around 23 per cent), while entrepreneurial capital inflows were also increasing. At the same time, the growth rate of drachma-denominated loans was decelerating. Credit demand during this period was affected by the normalisation of conditions in foreign exchange markets, after the EMS crisis in September 1992 and the stabilisation of expectations regarding the parity of the drachma (particularly against the US dollar, in which the bulk of foreign currency loans are denominated). As a result, foreign currency loans were substituted for drachma-denominated ones. In the June-December 1993 period, foreign currency loans increased only slightly and at times actually decreased (September-October).

In contrast, the downward trend of the rate of increase in drachma-denominated loans came to a halt at the end of September 1993 and was reversed in the last quarter of the year, despite the substantial rise in real

interest rates. These developments reflected the impact on credit demand of the US dollar appreciation in world markets, particularly after the EMS crisis in July 1993, and of the uncertainty which usually prevails in the run-up to a general election.

Commercial bank credit increased at roughly the same rate as in 1992. More specifically, commercial bank credit to the private sector grew by 17.3 per cent in 1993, compared with 17.6 per cent in 1992. Commercial banks' credit expansion did not fluctuate significantly during 1993, though it reached a slightly lower level in the last four months of the year (January-August 1993: 18 per cent, September-December 1993: around 17 per cent). Banks did not, in general, face problems in financing their credit expansion. The large rise in deposits and sales of repos (1993: 1,298 billion drachmas, 1992: 943 billion) enabled banks to meet their funds requirements fairly easily; commercial banks, as a whole, maintained large amounts of funds invested in the interbank market.

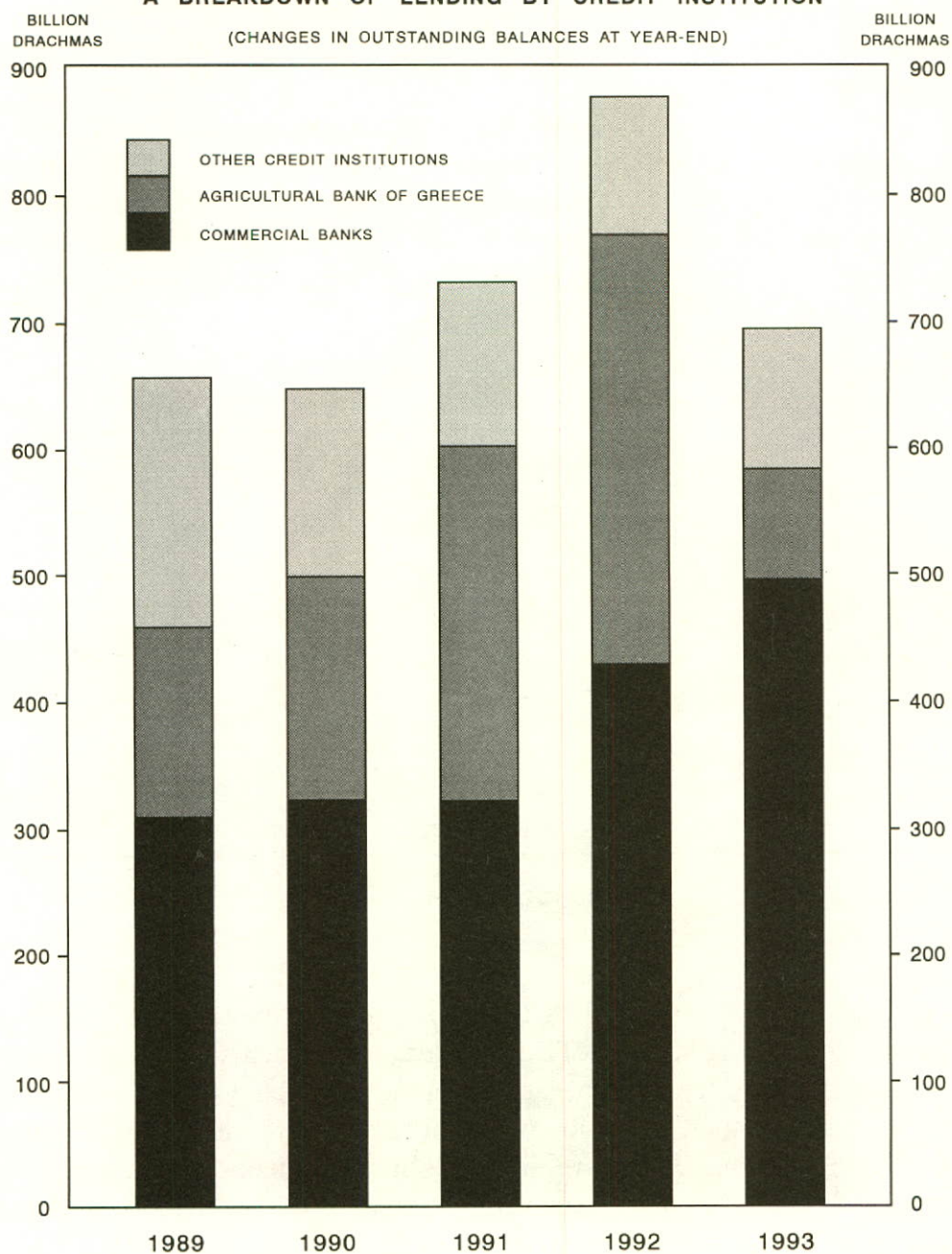
By contrast, credit expansion of specialised credit institutions decelerated considerably in 1993. In particular, credit extended by these institutions to the private sector rose by 201 billion drachmas or 6.8 per cent in 1993, compared with a rise of 452 billion or 16.9 per cent in 1992. This considerable decline was mainly attributable to the Agricultural Bank of Greece (ATE), though credit expansion of almost all the other specialised credit institutions also decelerated.

Credit extended by ATE to the private sector increased by 5.0 per cent in 1993, compared with 22.1 per cent in 1992. This substantial slowdown did not reflect a similar decrease in new loans, which remained at 1992 levels (1993: 575 billion drachmas, 1992: 583 billion) but was mainly due to technical reasons: ATE stopped reckoning interest on non-performing loans. It is estimated that the corresponding amount of non-reckoned interest was about 140 billion drachmas. Moreover, ATE's credit expansion was negatively affected by faster loan repayments in 1993, which were 10 per cent higher than in 1992. In addition, credit demand was affected by the maintenance of nominal interest rates at 1992 levels. Lastly, ATE pursued a more selective lending policy in 1993, with a view to restructuring its portfolio.

It is estimated, however, that no particular problem was faced in financing the agricultural sector, because fund-raising through deposits and repos was satisfactory (1993: 252 billion drachmas, 1992: 221 billion). As previously noted, ATE's liquidity fluctuated considerably during the year, owing to the time lag between payment and collection of EAGGF subsidies,

CHART IV.10

A BREAKDOWN OF LENDING BY CREDIT INSTITUTION



with a significant impact on the interbank market. An analysis of the breakdown of new loans reveals that cultivation loans and credit to non-agricultural activities increased substantially, loans to cooperatives remained unchanged, whereas medium- and long-term loans as well as loans to agricultural industries and organisations purchasing and marketing agricultural products decreased.

Credit extended by the National Mortgage Bank (EKTE) to the private sector increased by 29.9 billion drachmas or 4.8 per cent in 1993, compared with 49.4 billion or 8.5 per cent in 1992. This substantial decline was mainly due to the non-reckoning of interest (Law 2076/1992) amounting to about 30 billion drachmas but it was also affected by the limited inflow of funds in the

TABLE IV.6
BANK CREDIT TO THE PRIVATE SECTOR BY INSTITUTION

Credit institutions	Outstanding balances on 31 Dec. 1993 ¹ (million drachmas)	Changes in outstanding balances at year-end					
		Million drachmas			Percentage		
		1991 ²	1992 ²	1993 ¹	1991 ²	1992 ²	1993 ¹
<i>Bank of Greece</i>	3,557	-1,342	-3,158	-663	-15.4	-42.8	-15.7
<i>Commercial banks</i>	3,362,789	321,999	429,204	494,792	15.0	17.6	17.3
<i>Specialised credit institutions</i>	3,157,001	411,365	452,391	201,051	17.9	16.9	6.8
Agricultural Bank	1,853,659	280,126	339,917	88,177	22.3	22.1	5.0
National Mortgage Bank	658,497	45,633	49,402	29,909	8.5	8.5	4.8
Hellenic Industrial Development Bank	377,706	57,703	34,245	43,362	20.3	10.7	13.0
Postal Savings Bank	71,876	15,708	7,626	930	16.9	7.3	1.3
Deposits and Loans Fund	75,986	7,511	14,172	20,179	17.4	28.6	36.2
Private investment banks	60,750	-1,445	-1,798	-3,321	-2.1	-2.7	-5.2
Other mortgage banks	58,527	6,129	8,827	21,815	28.2	31.7	59.4
Total	6,523,347	732,022	878,437	695,180	16.4	17.1	11.9

¹ Provisional data.

² Excluding the effect of the conversion of state-guaranteed loans into government bonds, because the relevant guarantees were called in.

form of deposits and repos and by the selling of bank bonds (1993: 39 billion drachmas, 1992: 42 billion). EKTE faced serious problems in selling its bonds and attracting time deposits, because these investments are in competition with government paper. It is noteworthy that 76 per cent of the total fund inflow in 1993 stemmed from the increase in sight deposits and repos sales, while part of EKTE's credit expansion was financed through the interbank market. New EKTE loans remained at roughly 1992 levels (1993: 53 billion drachmas, 1992: 55.4 billion) and, as the breakdown of these loans by category shows, there was no appreciable differentiation compared with 1992.

Credit expansion of investment banks accelerated slightly. Specifically, credit extended by the Hellenic Bank for Industrial Development (ETBA) rose by 43.4 billion drachmas or 13 per cent, compared with 34.2 billion or 10.7 per cent in 1992. As mentioned in previous Reports, investment banks face serious problems in raising funds by selling bank bonds, because of the competition from government paper. In this respect, it should be noted that, despite the fact that the net yield of ETBA bonds was higher than that of twelve-month Treasury bills, the funds raised through the sale of these bonds and the attraction of deposits and repos were not sufficient. As a result, part of ETBA's credit expansion was based on funds raised from the inter-bank market.

The small credit expansion of the Postal Savings Bank to the private sector (1993: 0.9 billion drachmas or 1.3 per cent, 1992: 7.6 billion or 7.3 per cent) reflected the limited increase in housing loans. By contrast, there was a faster credit expansion of the Deposits and Loans Fund (1993: 20.2 billion drachmas or 36.2 per cent, 1992: 14.2 billion or 28.6 per cent), which, because of its access to low-cost funds, was able to satisfy an increasing number of applicants for low-interest housing loans. Credit extended by the two smaller housing banks rose considerably (1993: 21.8 billion drachmas or 59.4 per cent, 1992: 8.8 billion or 31.7 per cent). It should be noted that the National Housing Bank was more intensely involved in mortgage lending by taking over branch offices of its parent undertaking (the National Bank of Greece), while the credit expansion of the new private bank involved in mortgage lending was also substantial.

2.2. Sectoral breakdown of credit

As shown by the sectoral breakdown of bank credit (Table IV.7), credit expansion in 1993 to all sectors of the economy was substantially slower than in 1992. The only exception was credit to import trade and merchant shipping, which grew faster than in 1992. Credit to domestic trade continued to increase at a high rate, though lower than in 1992.

More specifically, credit to industry expanded by 9.6 per cent, compared with 13.3 per cent in 1992. The slowdown occurred in both short-term (1993: 12.4 per cent, 1992: 17.7 per cent) and long-term (1993: 3.3 per cent, 1992: 4.6 per cent) credit. This development related to the decline in indus-

TABLE IV.7
CHANGES IN TOTAL BANK CREDIT BY SECTOR

	Outstanding balances on 31 Dec. 1993 ¹ (million drachmas)	Changes in outstanding balances at year-end					
		Million drachmas			Percentage		
		1991 ²	1992 ²	1993 ¹	1991 ²	1992 ²	1993 ¹
I. PRIVATE SECTOR	6,523,347	732,022	878,437	695,180	16.4	17.1	11.9
Long-term loans	2,629,577	237,046	198,605	192,213	11.6	8.8	7.9
Short-term loans	3,893,770	494,976	679,832	502,967	20.6	23.7	14.8
1. Agriculture	1,149,805	112,393	186,466	28,784	12.2	18.1	2.6
Long-term loans	446,046	16,413	44,718	6,489	4.3	11.3	1.5
Short-term loans	336,648	87,879	19,658	26,659	43.4	6.8	8.6
Agricultural supplies	39,478	6,495	46,462	-8,676	7.0	47.1	-18.0
Organisations purchasing and marketing agricultural products	327,633	1,606	75,628	4,312	0.7	30.5	1.3
2. Large-scale manufacturing and mining	1,901,183	275,007	208,211	166,616	20.4	13.3	9.6
Long-term loans	550,065	78,660	24,238	17,750	16.5	4.6	3.3
Short-term loans	1,351,118	196,347	183,973	148,866	22.5	17.7	12.4
3. Small-scale manufacturing	477,578	16,692	34,824	12,112	4.0	8.0	2.6
Out of " earmarked " funds	(275,086)	(-16,783)	(4,056)	(-15,049)	(-5.5)	(1.4)	(-5.2)
4. Trade	1,036,016	123,066	203,219	210,069	24.6	32.6	25.4
Domestic	746,164	81,537	168,950	165,656	24.7	41.1	28.5
Import	175,658	13,411	19,671	45,038	13.7	17.7	34.5
Export	63,906	18,667	16,536	-4,115	56.9	32.1	-6.0
Tobacco	50,288	9,451	-1,938	3,490	24.1	-4.0	7.5
5. Other	1,958,765	204,864	245,717	277,599	16.1	16.6	16.5
Long-term loans	1,452,242	130,360	127,144	170,348	12.7	11.0	13.3
-Housing	(945,009)	(76,122)	(80,217)	(87,124)	(10.9)	(10.3)	(10.2)
-Tourism	(274,660)	(38,116)	(17,488)	(17,108)	(18.9)	(7.3)	(6.6)
-Shipping	(156,402)	(11,497)	(17,822)	(54,368)	(15.7)	(21.2)	(53.3)
-Other	(76,171)	(4,625)	(11,617)	(11,748)	(9.6)	(22.0)	(18.2)
Short-term loans	506,523	74,504	118,573	107,251	30.0	36.7	26.9
II. PUBLIC SECTOR	1,583,725	310,531	377,944	247,409	21.1	28.9	18.5
Public enterprises	488,849	28,496	17,346	56,497	4.5	3.5	13.1
Public organisations	691,637	261,261	243,797	81,081	38.6	38.5	13.3
Special management accounts of the state	403,239	20,774	116,801	109,831	13.3	66.1	37.4
Total	8,107,072	1,042,553	1,256,381	942,589	17.6	19.5	13.2

¹ Provisional data.² Excluding the effect of the conversion of state-guaranteed loans into government bonds, because the relevant guarantees were called in.

trial production, the sluggishness of investment, and technical reasons (ATE stopped reckoning interest on non-performing loans to agricultural industries). The restrained rise in bank credit to industry is also related to the shift of firms to alternative means of financing. In particular, industrial firms raised 35 billion drachmas from the non-bank market in 1993 (1992: 5 billion). It should also be noted that firms' bond issues initially underwritten by banks rose to 33.4 billion drachmas in 1993, compared with 23 billion in 1992. Moreover, leasing operations are gradually expanding. One more leasing company was established in 1993, thus raising the number of these firms to ten, while banks continue to lend relatively large amounts of funds to these companies (1993: 12 billion drachmas, 1992: 14 billion).

Credit to small-scale manufacturing expanded by 2.6 per cent in 1993, compared with 8.0 per cent in 1992. Specifically, low-interest credit out of the Special Fund decreased by 5.2 per cent, compared with a 1.4 per cent rise in 1992. This decrease related to the decline in manufacturing production as well as to the stricter criteria set by banks for assessing the financial position of firms. As from 1st July 1993, the Bank of Greece abolished the earmarking requirement on commercial banks' deposit increments, which was designated for the formation of the Special Fund. At the end of 1993, the total amount of funds earmarked for financing small-scale manufacturing was 390 billion drachmas, only 274 billion of which has been lent to small-scale manufacturing firms. This gap implies that the funds that were earmarked each year exceeded credit demand. As noted in previous Reports, the Bank of Greece has permitted from time to time the investment of part of the unused funds in ETBA bonds and government paper as well as in loans to public entities, with a view to reducing the burdening of banks by the limited absorptivity of earmarked funds (since the unused part of these funds is non-interest bearing). It is therefore estimated that the abolition of the new earmarking requirements does not directly affect the financing of small-scale manufacturing, credit to which should be examined not in isolation but in the broader context of the aim to support small and medium-sized firms; at the same time, account should be taken of the impact of the existing system on competition between old and new banks as well as between the Greek and foreign banking systems.

Credit expansion to the agricultural sector decelerated considerably (1993: 2.6 per cent, 1992: 18.1 per cent). As mentioned above, this deceleration was not due to a decline in new loans, which remained at roughly 1992 levels, but to the non-reckoning of interest on loans non-performing for over a

year as well as to the faster repayment of loans granted in previous years. The amount of new loans for agricultural supplies (mainly to Cooperative Organisation Marketing Fertilizers - SYNEL) remained unchanged, owing to the stricter policy pursued by ATE after the liberalisation of the fertiliser market.

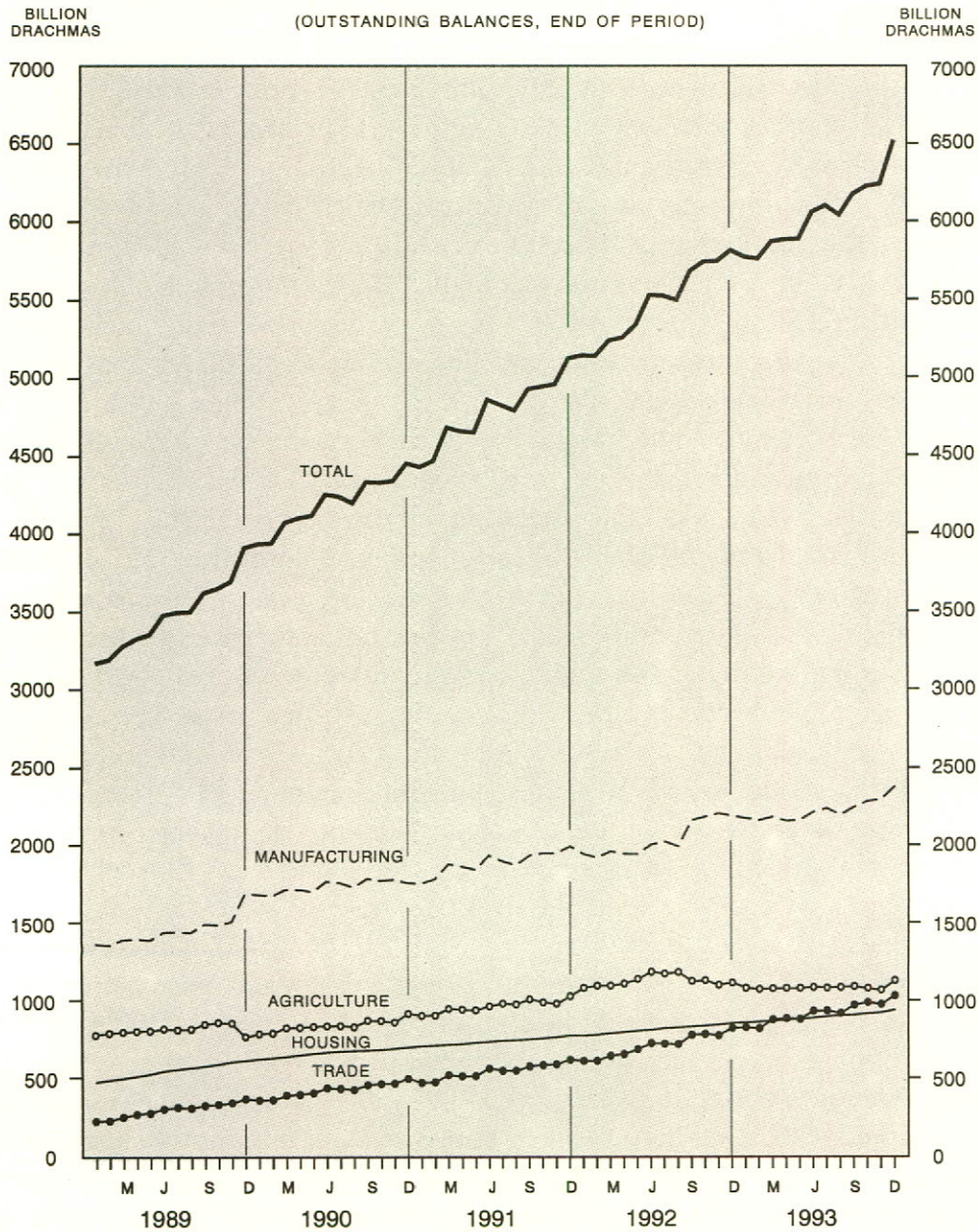
Credit expansion to trade also decelerated (1993: 25.4 per cent, 1992: 32.6 per cent). Thus, credit to domestic trade expanded at a lower, though still high, rate (1993: 28.5 per cent, 1992: 41.1 per cent). In contrast, credit expansion to import trade accelerated (1993: 34.5 per cent, 1992: 17.7 per cent), particularly over the last months of 1993. This development was affected by the uncertainty that prevailed in foreign exchange markets during the period under review and indicates the tendency of import firms to substitute foreign borrowing with loans from the domestic banking system. The substantial decrease in credit to export trade was due to the decline in exports of certain agricultural products (olive oil, raisins and cereals).

Credit to the housing sector remained unchanged, owing to the large decline in EKTE's credit expansion for the reasons already explained. In contrast, housing loans extended by commercial banks, the other two (small) housing banks and the Deposits and Loans Fund expanded at a faster rate. This outcome was, however, also associated with factors affecting housing loan demand. Expectations of a drop in interest rates, particularly after May 1993, seem to have contributed significantly to the containment of demand for housing loans. Moreover, real estate prices, despite their small rise, have reached fairly high levels, which directly affect housing loan demand.

Lastly, credit to the other sectors grew slightly faster. With respect to long-term credit, merchant shipping absorbed considerably larger amounts, while, regarding short-term credit, loans through credit cards grew at a high, though falling rate (increase of 20.8 billion drachmas or 25.5 per cent, compared with 18.7 billion or 29.7 per cent in 1992). In 1993, four more banks started issuing credit cards, whose number rose to 945,000 by the end of the year. The average outstanding balance of credit per card reached 108,000 drachmas at year-end 1993, compared with 92,000 at the end of 1992. It should be recalled that, in March 1993, the credit ceiling per card was raised to 300,000 drachmas from 200,000, while, in January 1994, the Bank of Greece proceeded to the virtual liberalisation of consumer credit by setting the ceiling on consumer credit at 8 million drachmas per person (through credit cards, personal loans, consumer loans and debit balances on current accounts).

CHART IV.11

A BREAKDOWN OF CREDIT BY SECTOR



3. SECURITIES MARKETS

3.1 The stock market

The recovery in stock market trading observed at the end of 1992 continued during 1993 with sharp fluctuations.

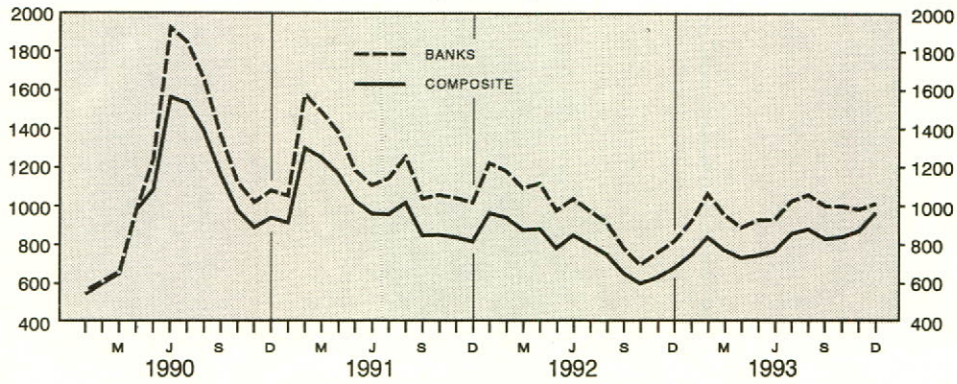
In the first two months of 1993, the fairly low price level of most of the shares listed on the Athens Stock Exchange (ASE), along with expectations of a gradual drop in interest rates in Greece and the other European countries preserved a climate of favourable prospects, which led to increased demand for shares and resulted in a substantial rise in share prices and transactions (Chart IV.12). However, from mid-February through the end of May 1993, the favourable impact of the above factors on prices weakened, owing to the negative effect of both temporarily belied expectations of an abatement in inflationary pressures during the early months of 1993, as well as to the upheaval in the former Yugoslavia. Stock market activity recovered over the next few months and the upward trend continued at an even higher rate until the end of the year, with the exception of the September-October period, because of market reservations after the announcement of the general election. This recovery was affected by the cuts in interest rates on deposits, government paper, bank bonds and repos; the fairly low P/E ratio of shares; the listing of the shares of firms (mainly of the construction industry) with favourable medium- and long-term prospects; and the strengthening of investors' expectations of a slowdown in inflationary pressures and a further broadening of the stock market through the listing of shares of certain public enterprises.

These developments resulted in a considerable rise in share prices and in the value of transactions on shares. Thus, between the end of December 1992 and the end of December 1993, share prices rose by 42.6 per cent and the average daily value of transactions reached 5.6 billion drachmas in December 1993 from 1.9 billion in December 1992 (Table IV.8). At average annual levels, the growth rate of share prices was restrained to 2.8 per cent and the daily value of transactions rose to 2.5 billion drachmas from 1.3 billion in 1992. The growth of trading during the year is also shown by the development of average share marketability (number of shares traded to total number of shares listed), which rose to 2.3 per cent, namely more than double the 1992 figure (1.1 per cent, Chart IV.12). The lowest figure (667.7 points) and the highest figure (958.7 points) of the composite share price index during 1993 were observed at the beginning of January and the end of December 1993, respectively.

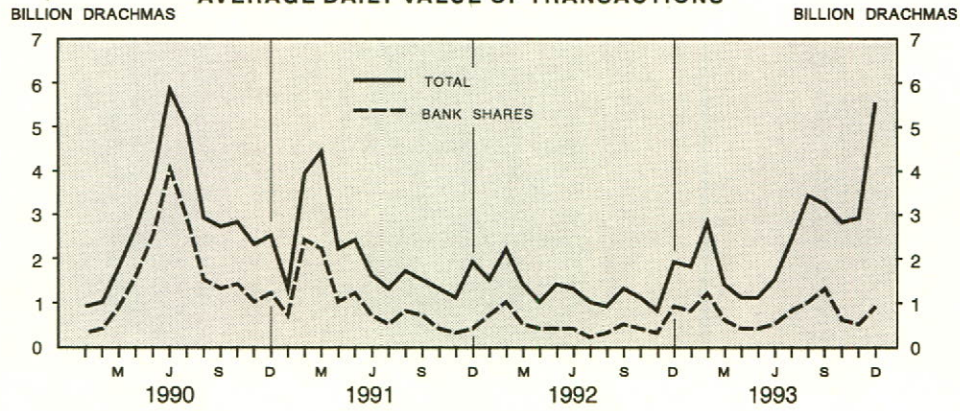
CHART IV.12

SHARE PRICE INDICES OF THE ATHENS STOCK EXCHANGE

(1980 = 100)



AVERAGE DAILY VALUE OF TRANSACTIONS



MARKETABILITY OF SHARES

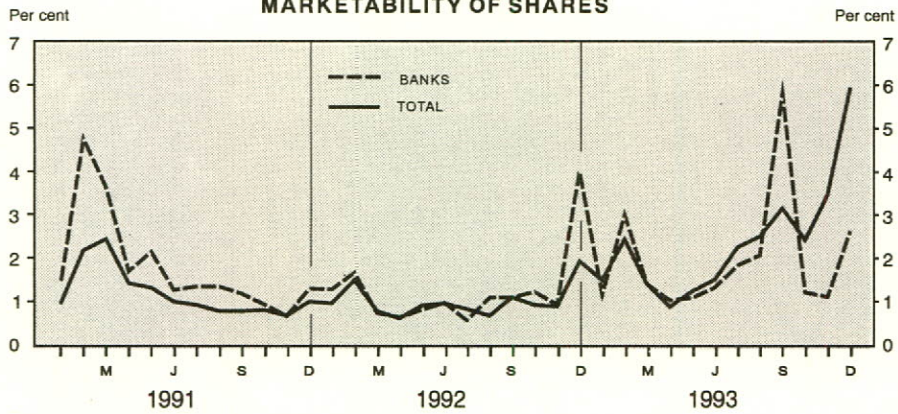


TABLE IV.8
STOCK MARKET AGGREGATES

Year	Share price indices ¹ (1980 = 100)		Average daily value of transactions ² (billion drachmas)	Market capitalisation ¹ (billion drachmas)			Market capitalisation as a percentage of GDP ³			Funds raised through the Athens Stock Exchange ⁴ (billion drachmas)	
	Composite	Banks		Shares	Bonds	Total	Composite	Banks	Total	Listed companies	New companies
1990	932.0	1,073.6	2.8	2,426.6	3,895.3	6,321.9	19	31	50	128.8	59.0
1991	809.7	1,010.7	2.0	2,355.2	5,330.7	7,685.9	15	34	49	98.6	53.0
1992	672.3	809.5	1.3	2,044.3	7,172.6	9,216.9	11	39	50	29.4	0.4
1993	958.7	1,005.1	2.6	3,117.0	9,087.7	12,204.7	15	44	59	80.6	19.8
1994	1,005.1	1,005.1	2.6	3,117.0	9,087.7	12,204.7	15	44	59	80.6	19.8

¹ Year-end.² Shares and bonds. Bonds comprise Treasury bills and government bonds (drachma-denominated and with a foreign currency clause), bank bonds and corporate bonds.³ Estimates for GDP were based on the new national accounts system.⁴ Subscriptions to new share capital are entered on the last day of the subscription period.

Source: Athens Stock Exchange and Bank of Greece.

Despite stock market recovery in 1993, share prices in the first half of the year rose to higher levels than in the same period of 1992, while this trend was reversed in the second half of 1993. Nevertheless, average daily transactions rose — with the exception of May — to levels higher than in the corresponding months of 1992 (Chart IV.12).

There was strong demand for shares both by individuals and institutional investors. Net mutual fund investment in listed shares rose by about 30 billion drachmas in 1993, while foreign capital inflow reached nearly 35 billion drachmas, compared with a 3 billion net outflow in 1992.

The value of ASE trading rose to 645.8 billion drachmas in 1993, compared with 332.7 billion in 1992 and 499.7 billion in 1991 (Table IV.9). An examination of the structure of transactions reveals that trading in shares of commercial and industrial firms and banks accounted for 58.5 per cent and 29.5 per cent of total transactions, respectively, while the remaining 12 per cent was allocated to transactions in securities of the other business sectors and in fixed-income securities (bonds). In comparison with 1992, there was a considerable increase in the proportion of transactions in commercial and industrial firms' and investment companies' shares, whereas transactions in bank shares and, particularly, in fixed-income securities declined.

The small proportion of transactions in fixed-income securities (1.4 per cent of total trading), along with the large share of the market capitalisation of these securities (74.5 per cent) in total market capitalisation, stresses the sluggishness of activity in the secondary market for fixed-income securities, specifically government bonds. In contrast, activity increased, in 1993, in the primary market for fixed-income securities. Net sales of these securities were particularly high in 1993, since a considerable part of private sector savings was invested in this type of securities. Specifically, the increased — compared with 1992 — net sales of government paper to domestic and foreign investors concerned mainly government bonds and, to a lesser extent, Treasury bills. Bonds with a seven-year maturity started being issued in April 1993, initially on a monthly basis and, later, every fortnight, while two issues of GBP-linked bonds came out for the first time ever in 1993. These developments related to the widening of the differential between floating interest rates on bonds and interest rates on Treasury bills. Investors' preference for long-term investment (for five or seven years) in government bonds is a favourable development, because it contributes to both a lengthening of the average maturity of public debt as well as a decrease in the economy's liquidity.

TABLE IV.9
VALUE AND STRUCTURE OF STOCK MARKET TRANSACTIONS
(billion drachmas)

	1990		1991		1992		1993	
	Value of trans- actions	Percentage share	Value of trans- actions	Percentage share	Value of trans- actions	Percentage share	Value of trans- actions	Percentage share
Shares	608.7	91.2	437.6	87.6	307.3	92.4	637.0	98.6
Main market	607.0	90.9	435.3	87.1	305.3	91.8	624.6	96.7
- Banks	320.6	48.0	231.3	46.3	126.0	37.9	190.4	29.5
- Leasing	11.7	1.7	12.0	2.4	9.8	2.9	14.5	2.2
- Insurance	5.4	0.8	5.4	1.1	3.0	0.9	6.3	1.0
- Investment	32.1	4.8	18.7	3.7	13.7	4.1	35.8	5.5
- Commercial and industrial	237.2	35.6	167.9	33.6	152.8	46.0	377.6	58.5
Parallel market	1.7	0.3	2.3	0.5	2.0	0.6	12.4	1.9
Bonds¹	58.8	8.8	62.1	12.4	25.4	7.6	8.8	1.4
Total	667.5	100.0	499.7	100.0	332.7	100.0	645.8	100.0

¹ Comprising Treasury bills and government bonds (drachma-denominated and with a foreign currency clause), bank bonds and corporate bonds.
Source: Athens Stock Exchange.

The rise in the composite share price index stemmed from increases in all sub-indices. Specifically, bank share prices rose by 24.2 per cent, compared with 1992. These prices followed a course rather parallel to that of the composite index until September 1993, but they moved at lower rates in the last quarter of the year. The value of transactions in, and the marketability of, bank shares developed similarly (Chart IV.12). This trend in bank share prices was positively affected by the composite factors mentioned above, whereas the drop in bank profits had a negative effect. The profits of the 15 listed banks fell by 23.4 per cent in 1992, compared with 1991, and the decline continued in the first half of 1993, though at a lower rate (16 per cent). The drop in profits was mainly observed in the big banks of the public sector. It should be noted that this unfavourable development in the financial results of banks has also been affected by Law 2076/1992, which prohibited the reckoning of interest on loans that do not perform for over a year.

The share price index for investment companies rose by 34.6 per cent, compared with the end of 1992. This increase is explained by the fact that listed shares account for a substantial proportion of investment companies' portfolios. It is therefore estimated that the profits of these companies have grown remarkably in 1993, compared with 1992.

Insurance company share prices rose by 30 per cent, while leasing company shares went up by 14.7 per cent, which was lower than in any other business sector. It should be pointed out, however, that the activity of the two leasing companies whose shares are listed on the ASE was very satisfactory both in 1992 and 1993.

The total market value of listed securities rose to 12,204.7 billion drachmas at the end of 1993 from 9,216.9 billion at the end of 1992 (Table IV.8). Specifically, the market value of fixed-income securities increased by 26.7 per cent to 9,087.7 billion drachmas, compared with 7,172.6 billion at the end of 1992. The value of shares (in the main and the parallel market) rose to 19 per cent of GDP in 1990 from 7 per cent in 1988, then decelerated considerably in the 1991-1992 period, and rose to 15 per cent of GDP in 1993 (Table IV.8).

The amount of funds raised through the stock market is a clear indication of the positive contribution of the ASE to economic growth. The favourable conditions which prevailed in the stock market in 1993, along with the rise in real interest rates on firms' borrowing from the bank market, contributed to the raising through the ASE of funds more than three times as much as in 1992. As shown in Table IV.8, funds raised through the ASE came to 100.4

billion drachmas in 1993 (1992: 29.8 billion). These funds were raised by 34 companies, 12 of which (four investment companies, three industrial firms and five construction firms) increased their share capital by public subscription, along with the listing of their shares on the ASE.

3.2 The mutual funds market

The high yields of fixed-income securities and the improvement in the domestic and foreign stock markets were the main reasons for the significant growth of mutual funds market aggregates in 1993. This development underlines both the widening of the array of alternatives that can be offered to investors — particularly when they own limited funds — in the mutual funds market, as well as the positive contribution of this market to the operation and growth of the stock market.

Specifically, 31 new mutual funds were founded in 1993, thus raising their total number to 71. As regards the portfolio structure of mutual funds, 28 of them were of the fixed-income and money-market type, 26 of the growth type and the remaining 17 of the international type. On the basis of available data, the net value of mutual funds assets at the end of 1993 was nearly four times higher than in 1992 (1993: 882 billion drachmas, 1992: 224 billion). This remarkable growth stemmed mainly from the increased sale of units and, to a lesser extent, from the rise in unit prices.

As regards specific categories, demand for units of fixed-income and money-market mutual funds as well as of international mutual funds — which had already risen in 1992 — continued to grow at a faster rate in 1993. Demand for units of growth funds increased at a slower rate. As a result, assets held by fixed-income and money-market funds represented 71 per cent of the total assets of all mutual funds, compared with 49 per cent in 1992 and 18 per cent in 1991. These developments indicate that investors showed preference for low-risk and moderate-yield investment as well as for investment with a high risk spreading.

Changes in the portfolio structure of mutual funds during 1993 were as follows: 83 per cent consisted of domestic securities and the remainder of foreign ones. This structure is similar to what it was at the end of 1992. The proportion of repos rose to 53 per cent in October 1993 from 29 per cent at the end of 1992, while the proportion of government paper fell to 19 per cent from 23 per cent and that of shares to 12 per cent from 30 per cent. The above

trends were reversed in the last two months of 1993. In particular, repos declined to 34 per cent by the end of 1993, whereas government paper rose to 39 per cent and shares remained virtually unchanged at 11 per cent. It is worth noting that the 20 percentage points rise in the share of government paper in mutual funds' portfolios during the last two months of 1993 was entirely due to the increase in the percentage of government bonds (to 38 per cent from 17 per cent), whereas the share of Treasury bills declined (to 1 per cent from 2 per cent). The percentage of bank bonds and other domestic bond issues fell to 2 per cent in October 1993 from 10 per cent in December 1992 and remained at that level until the end of 1993. This restructuring in mutual funds' portfolios during 1993 obviously reflects changes in interest rates on repos, Treasury bills and bank bonds.

APPENDIX TO CHAPTER IV

CHRONOLOGY OF MAIN MONETARY AND CREDIT POLICY MEASURES

1993

8 January

The Bank of Greece determines the terms and conditions for the authorisation of the establishment and operation of factoring companies in Greece and sets the rules for their prudential supervision.

5 March

— The maximum per person amount of financing through credit cards, as well as the respective ceiling on personal loans, is raised from 200,000 to 300,000 drachmas.

— As from 8th March 1993, the minimum interest rate on savings deposits is abolished.

— To prevent the use of the financial system for money laundering, banks operating in Greece must require identification of their customers for transactions equal to or exceeding the equivalent of ECU 15,000. Banks are required to refrain from transactions which they know or suspect to be related to money laundering.

17 March

The minimum amount of capital required for the establishment and operation in Greece of the first branch of a credit institution authorised in a non-EU country is set at 2 billion drachmas. This limit is valid for the establishment of up to four branches; for the operation of additional branches, the minimum amount of capital must be equal to the minimum share capital required for the authorisation of credit institutions in Greece (currently 4 billion drachmas).

24 March

— Credit institutions are offered the possibility by the Bank of Greece of meeting their temporary financing needs through: (i) the rediscounting of

promissory notes and bills of exchange, and (ii) short-term financing on collateral of government securities. Each type of facility is subject to a ceiling per credit institution.

— As from 1st May 1993, the requirement on commercial banks to earmark a percentage of the changes in their deposits for investment in Treasury bills is abolished.

8 April

Credit institutions are required to inform their customers regularly about the interest rate, commission fees and related charges applied on consumer credit.

15 June

— The minimum downpayment (30 per cent) and the restrictions on the maximum and average term of the credited part of consumer durables sold on credit to individuals are no longer a prerequisite for the refinancing by the banking system of firms selling these goods or for direct bank lending to consumers for the purchase of those goods.

— With effect as from 16th June 1993, the rate of discount on bills of exchange and promissory notes is set at 21.5 per cent, the interest rate on loans extended on collateral of government securities at 25.5 per cent and the interest rate on credit institutions' debit balances with the Bank of Greece at 29 per cent.

13 August

The Bank of Greece rate of discount on bills of exchange and promissory notes and the interest rate on loans extended on collateral of government securities are lowered from 21.5 to 21 per cent and from 25.5 to 24.5 per cent, respectively.

16 August

The establishment and operation of banks exclusively concerned with the provision of housing loans to consumers is allowed. Their initial share capital must be at least the drachma equivalent of ECU 5 million, on condition

that the majority of share capital or voting rights is held by one or more credit institutions.

9 September

To expand money market interventions by the Central Bank, government bonds (only Treasury bills previously) may now be bought and sold between the Bank of Greece and credit institutions, with or without a repurchase agreement.

16 September

In the context of harmonising the banking legislation with the European Union laws, the Bank of Greece sets the rules for the monitoring of large exposures of credit institutions.

21 September

The Bank of Greece sets the terms and conditions for the licencing of sociétés anonymes which do not constitute credit institutions, for engaging in financial intermediation in the interbank markets in drachmas and foreign exchange.

30 September

As from 1st October 1993, the Bank of Greece rate of discount on bills of exchange and promissory notes, the interest rate on loans extended on collateral of government securities and the interest rate on credit institutions' debit balances with the Bank of Greece are raised from 21 to 22 per cent, from 24.5 to 26.5 per cent and from 29 to 32 per cent, respectively.

25 October

As from 26th October 1993, the Bank of Greece rate of discount on bills of exchange and promissory notes, the interest rate on loans extended on collateral of government securities and the interest rate on credit institutions' debit balances with the Bank of Greece are lowered from 22 to 21.5 per cent, from 26.5 to 25.5 per cent and from 32 to 30 per cent, respectively.

2 November

The Bank of Greece determines the terms and conditions for the operation and supervision of credit institutions which have the form of credit cooperatives.

1994

20 January

In the context of financial supervision by the Central Bank, venture capital companies have to inform the Bank of Greece of the identity of their main shareholders, the persons who manage the firm, the investment appraisal methods they use and the yearly financial statements of the firm.

28 January

The ceiling on the financing by the same credit institution of individuals for the purchase of durables and the covering (up to 1 million drachmas) of other personal needs is determined at 8 million drachmas per person. Sums paid by the use of credit cards or via a debit balance (up to 300,000 drachmas) on a current account are included in the above ceiling.

15 February

As from 28th February 1994, the abolition of the requirement on credit institutions to earmark a percentage of the changes in their deposits for the financing of public enterprises and organisations is extended to the outstanding balance of deposits which constitutes the basis for the calculation of the above requirement.

21 February

Credit institutions have to provide the Bank of Greece with monthly data necessary for the monitoring of risks from open foreign exchange positions.

V. PUBLIC FINANCE

1. PUBLIC SECTOR BORROWING REQUIREMENTS AND THEIR FINANCING

The main features of fiscal developments in 1993 were the serious deterioration in the basic aggregates and the reversal of the downward trend of public

TABLE V.1
NET BORROWING REQUIREMENTS OF THE PUBLIC SECTOR
(In million drachmas)

	1988	1989	1990	1991	1992	1993*
1. Central Government ¹	1,105,519	1,520,322	1,931,881	1,946,677	1,557,255	2,701,769
– Government budget	1,056,672	1,440,073	1,835,666	1,910,041	1,468,479	2,574,169
(Ordinary budget)	(769,091)	(1,092,224)	(1,427,187)	(1,473,542)	(952,270)	(2,138,321)
(Public investment budget)	(287,581)	(347,849)	(408,479)	(436,499)	(516,209)	(435,848)
– Special management accounts of the State	48,847	80,249	96,215	36,636	88,776	127,600
(Oil account)	(9,081)	(34,137)	(56,013)	(3,587)	(3,805)	(671)
(DIDAGEP etc.)	(39,766)	(46,112)	(40,202)	(33,049)	(84,971)	(126,929)
Percentage of GDP	12.2	14.3	15.2	12.5	8.6	13.0
2. Public organisations ²	48,332	–8,083	–89,895	38,243	–159,238	–321,117
– Financing of social security funds	123,847	142,263	142,584	206,057	175,479	26,747
– Financing of local authorities	10,307	14,901	10,098	–2,018	7,551	–2,467
– Financing of other organisations	18,397	36,892	24,091	57,222	60,767	56,781
– Cash balances	–104,219	–202,139	–266,668	–223,018	–403,035	–402,178
Broader Central Government (1+2)	1,153,851	1,512,239	1,841,986	1,984,920	1,398,017	2,380,652
Percentage of GDP	12.7	14.3	14.5	12.7	7.7	11.5
3. Public enterprises ³	47,169	82,465	115,494	31,024	–35,132	–13,595
– Financing of public utilities	29,343	69,016	54,830	49,808	34,366	80,235
– Financing of other enterprises	46,453	56,384	51,041	17,701	12,942	–70,031
– Cash balances	–28,627	–42,935	9,623	–36,485	–82,440	–23,799
Public sector (1+2+3)	1,201,020	1,594,704	1,957,480	2,015,944	1,362,885	2,367,057
Percentage of GDP	13.2	15.0	15.4	12.9	7.5	11.4

¹ Results from the movement of respective accounts with the Bank of Greece, the Agricultural Bank and the commercial banks and the change in external liabilities.

² Estimates on the basis of their investment in securities and bank deposits and of the change in their liabilities to the banking system.

³ Bank of Greece data.

* Provisional data.

deficits. Specifically, the public sector's net borrowing requirements (PSBR) on a cash basis increased considerably and reached 2,367 billion drachmas, compared with 1,363 billion in 1992 and 2,016 billion in 1991, which implies

that the improvement recorded in the 1991-1992 period was not due to permanent structural changes. The PSBR rose to 11.4 per cent of GDP,¹ compared with 7.4 per cent in 1992 and 12.9 per cent in 1991. It should be noted that the PSBR was 4.1 percentage points of GDP higher than forecast in the Convergence Programme of the Greek Economy submitted to the Community in March 1993. This rise stemmed exclusively from the marked increase in the deficit of the central government. By contrast, public organisations registered significantly higher surpluses. As a result, the general government deficit, as a percentage of GDP, was about 1.5 percentage points lower than the central government deficit. Public enterprises also recorded a cash surplus, but it was significantly smaller than in 1992.

The central government's net borrowing requirements increased by 73.5 per cent in 1993, compared with a reduction of 20 per cent in 1992 and a rise of 0.8 per cent in 1991. As a percentage of GDP, they reached 13 per cent (1992: 8.6 per cent, 1991: 12.5 per cent). This unfavourable turn, which brought the public deficit back to the level where it was two years ago, proving the containment to be short-lived, was solely due to the increase in the ordinary budget deficit by 1,186 billion drachmas. On the other hand, following the curtailment of the public investment programme, the public investment budget deficit declined by 80 billion drachmas compared with 1992. The deficit in the State's special management accounts increased by 39 billion drachmas above the 1992 figure.

In particular, the ordinary budget deficit more than doubled and reached 2,138 billion drachmas or 10.3 per cent of GDP, compared with 5.2 per cent in 1992 and 9.5 per cent in 1991. This deterioration resulted from a large shortfall in revenue and a fast increase in expenditure (net of amortisation payments) under the ordinary budget. In fact, expenditure grew at a rate which was 21 percentage points higher than that of revenue, while it had been 15.1 percentage points lower than the corresponding growth rate of revenue in 1992. Consequently, the cash results of the central government exhibited a primary deficit of 199 billion drachmas in 1993, compared with a primary surplus of 115 billion drachmas in 1992.

The factors that affected expenditure and revenue in 1993 are analysed in the next section of this chapter. Here we are concerned only with the large

¹ The proportion of individual aggregates to GDP has been based on the GDP calculated by the NSSG according to the European System of Integrated Financial Accounts (Directive 89/130/EEC). Revised data for GDP refer to the years 1988-1994.

increase (49.3 per cent) in outlays for interest payments, which account for 33.5 per cent of public expenditure (net of amortisation payments) under the ordinary budget and are due to: (i) the rise in the central government's debt; (ii) the fact that bonds issued in 1991 to replace Treasury bills paid interest for the first time in March 1993; and (iii) the raising of the average domestic lending rate by about one percentage point. Besides, expenditure for grants to social security funds and transport organisations rose by 22.5 per cent to 560 billion drachmas, compared with a 16.3 per cent increase in 1992. A substantial rise was also recorded in expenditure for the calling-in of guarantees concerning loans extended mainly to social security funds and public enterprises.

The 15.6 per cent decline in the cash deficit of the public investment budget compared with 1992, resulted from a cut in the public investment programme by 245 billion drachmas, which was decided at the end of the year in order to reduce the high borrowing requirements of the central government and avoid problems in their financing. Specifically, this deficit was contained to 436 billion drachmas, from 516 billion in 1992. Following the said cut, expenditure under the public investment budget, on a cash basis, fell by 2.3 per cent to 699 billion drachmas, compared with 1992, or by 14 per cent at constant prices.

The special managements accounts ran a large financial deficit of 128 billion drachmas, compared with 89 billion in 1992. This deficit stemmed exclusively from the borrowing requirements of the Agricultural Markets Management Service (DIDAGEP), which reached 127 billion drachmas. The larger increase, compared with 1992, in the borrowing requirements of the DIDAGEP is attributed to the higher subsidies, which were given during the late months of 1993 and which – owing to time lags between receipts from the European Agricultural Guidance and Guarantee Fund (EAGGF) and disbursements – burdened the cash management account of DIDAGEP in 1993, as well as to the high cost of credit (1993: 52 billion drachmas, 1992: 39 billion). Lastly, the debit balance of the oil product accounts with the Bank of Greece rose by less than 1 billion drachmas, following the deregulation of the fuel market.

The cash surplus of social security and welfare funds, local authorities and other public organisations increased significantly to 321 billion drachmas in 1993, from 159 billion in 1992. This improvement was largely due to 163 billion drachmas smaller financing of organisations that run a deficit (1993: 81 billion drachmas, 1992: 244 billion), chiefly accounted for by the reduced financing of the two principal social security funds among those which ran a

deficit, i.e. Social Insurance Fund (IKA) and Seamen's Pension Fund (NAT). The decline in the borrowing requirements of IKA and NAT was due to: (i) the increase in the revenue of IKA; (ii) the settlement by the central government of a large part of IKA and NAT's obligations, totalling 56 billion drachmas and arising from the calling-in of guarantees; and (iii) the 63 billion drachmas larger grants out of the ordinary budget (1993: 273 billion drachmas, 1992: 210 billion). The increase in the reserves of public organisations with a surplus remained at broadly last year's levels (1993: 402 billion drachmas, 1992: 403 billion). As in previous years, these reserves were invested mostly in Treasury bills and government bonds.

Public enterprises continued to leave a cash surplus in 1993, although less than in 1992 (1993: 14 billion drachmas, 1992: 35 billion). This development reflects the 58 billion drachmas smaller increase in the reserves of certain public enterprises that have a surplus, as well as the 37 billion drachmas smaller financing of public enterprises with a deficit, mainly owing to the settlement by the central government of overdue debts (totalling 36 billion drachmas) of certain public enterprises, particularly Hellenic Arms Industry (EBO).

As illustrated in Table V.2, there was a wide differentiation in the sources from which public deficits were financed in 1993. The share of foreign borrowing in total financing increased substantially, chiefly as a result of the high PSBR in conjunction with low interest rates prevailing in international markets in 1993, as well as of the need for additional borrowing in order to form a reserve at the end of the year. This additional borrowing was necessary, in view of the change in the method of financing public deficits, as from 1st January 1994, under the provisions of the Maastricht treaty.

Specifically, the sale of Treasury bills and bonds in the domestic non-bank market financed 44.3 per cent of the PSBR in 1993 and remained the single most important source of funds. It should be noted that the sale of securities in the domestic non-bank market had a smaller share, by about 27 percentage points, in the total financing, relative to 1992, although these sales rose by 8 per cent in absolute figures.

An increase was also recorded in the financing of the PSBR by the banking system through investment in Treasury bills and bonds. This source covered about 16 per cent of total financing, whereas in 1992 banks had liquidated government securities held in their portfolios. In particular, banks, although no longer obliged to earmark part of their deposits to finance public deficits, still invested heavily in drachma bonds and bonds with a foreign

TABLE V.2
SOURCES OF FINANCING THE PUBLIC SECTOR BORROWING REQUIREMENTS
(In million drachmas)

	1988		1989		1990		1991		1992		1993*	
	Amount	Per-centage of total	Amount	Per-centage of total	Amount	Per-centage of total	Amount	Per-centage of total	Amount	Per-centage of total	Amount	Per-centage of total
<i>Domestic borrowing</i>	1,158,486	96.5	1,385,713	86.9	1,720,839	87.9	1,764,621	87.5	1,210,828	88.8	1,602,505	67.7
- Treasury bills and bonds purchased by banks and specialised credit institutions	567,983	47.3	673,054	42.2	315,962	16.1	34,935	1.7	-242,438	-17.8	376,638	15.9
- Treasury bills and bonds purchased by private savers and enterprises	374,389	31.2	301,417	18.9	844,133	43.1	1,370,681	68.0	970,029	71.2	1,049,487	44.3
- Loans and advances from specialised credit institutions and commercial banks	233,319	19.4	251,438	15.8	268,007	13.7	257,886	12.8	270,707	19.9	203,211	8.6
- Bank of Greece	-17,205	-1.4	159,804	10.0	292,737	15.0	101,119	5.0	212,530	15.6	-26,831	-1.1
<i>Foreign borrowing</i>	42,534	3.5	208,991	13.1	236,641	12.1	251,323	12.5	152,057	11.2	764,552	32.3
Total	1,201,020	100.0	1,594,704	100.0	1,957,480	100.0	2,015,944	100.0	1,362,885	100.0	2,367,057	100.0

* Provisional data.

currency clause, largely by importing foreign exchange. At the same time, a large part of their holdings from the previously compulsory investment in Treasury bills was converted into negotiable bonds. Moreover, in December 1993 a 7-year loan was concluded between the Greek state and four banks for a total of 200 billion drachmas. On the other hand, no new borrowing from the Bank of Greece was made in 1993 and a small part (27 billion drachmas) of the public sector's obligations to the central bank was settled. This reflects both the creation of a reserve in the state's accounts with the Bank of Greece and the effort to conform to article 104A of the Maastricht treaty, which prohibits the monetary financing of public deficits by the central bank as from 1st January 1994.

As mentioned above, net foreign borrowing increased considerably in 1993 and its share in the total financing of public deficits reached 32.3 per cent, from an average of only 11 per cent in the preceding five years.

2. FISCAL AGGREGATES

2.1 The government budget

The serious deterioration in fiscal management, which is evident from the analysis of cash data, also follows from the examination of corresponding fiscal aggregates (Table V.7). Despite forecasts of a primary surplus of 879 billion drachmas, the government budget ran a primary deficit of 96 billion, after a primary surplus of 259 billion in 1992. As a proportion of GDP, the primary deficit was 0.5 per cent in 1993, compared with a budgeted primary surplus of 4.2 per cent and an actual primary surplus of 1.4 per cent in 1992.

The reappearance of a primary deficit in the government budget not only showed that the improvement achieved in 1992 was short-lived and reversible but that it was also combined with a further increase in the overall gross fiscal deficit, which exceeded the budgeted amount by 1,232 billion drachmas or 42 per cent and the 1992 gross deficit by 595 billion or about 17 per cent.

Specifically, according to provisional data from the State General Accounting Office, the overall government budget deficit, including amortisation payments on the public debt and the armed forces debt, continued

its upward trend and reached 4,137 billion drachmas (1992: 3,541 billion, 1991: 2,696 billion). This development stemmed entirely from the ordinary budget, whose deficit followed a similar course and reached 3,696 billion drachmas, compared with 3,028 billion in 1992 and 2,222 billion in 1991. By contrast, following the government's decision to cut the public investment programme by 245 billion drachmas, the public investment budget deficit was contained to 441 billion drachmas, from 514 billion in 1992.

Despite cuts in the public investment budget, the total deficit in the overall government budget deviated by 5.9 percentage points of GDP from the budget forecast. In contrast to 1992, about 80 per cent of this deviation was due to a shortfall in budgeted revenue and the remainder to an overrun in budgeted expenditure.

More specifically, ordinary budget revenue increased by 8.1 per cent, compared with a budget forecast of 29.6 per cent, and reached 4,960 billion drachmas. Even after the necessary adjustments are made for the sake of comparability (real estate surcharge and other extraordinary revenue), the rate of increase in revenue still exhibits a clear downward trend (1991: 31.5 per cent, 1992: 20.4 per cent, 1993: 11.7 per cent), despite the tax measures taken in this period, which underlines the seriousness of the fiscal problem in terms of revenue as well. On the other hand, in 1993 revenue not only fell 980 billion drachmas short of budgeted levels, but the fluctuation in its monthly rate of change was exceptionally wide through the year. In fact, the coefficient of variation of the monthly growth rate of revenue reached 1.17, compared with 0.32 in 1992. It should also be noted that, in the last four months of 1993, revenue declined in absolute figures compared with the respective revenue in 1992. Thus, although in the first eight months of 1993 it rose by 14.4 per cent, or by 17.7 per cent if extraordinary revenue from the sale of the Heracles Cement Company in July 1992 is not taken into account, it fell by 1.4 per cent in the September-December 1993 period. This negative growth rate of revenue in the last four months of 1993 was mainly due to:

- the exhaustion, from August 1993 onwards, of the favourable impact of the August 1992 tax measures on 1993 revenue;
- the receipt of 74 billion drachmas from an extraordinary levy on real estate and the mobile telephone concession in the last four months of 1992 (if these receipts are deducted from 1992 revenue, then the negative change of 1.4 per cent in revenue in the last four months of 1993 is reversed to an increase of 2.7 per cent);
- the relaxation of tax administration owing to the general election;

— the reduction or abolition of certain taxes, such as the special consumption tax on private cars¹ and the special tax on loan agreements, in the January-August 1993 period.

— the assessment of income tax in 1993 much earlier than in 1992, as a result of which the respective tax receipts in the last four months of 1993 were 25.2 billion drachmas less than in 1992, although they increased by 70.7 billion drachmas on an annual basis.

On an annual basis, only one third of the 980 billion drachmas shortfall in ordinary budget revenue was due to the fact that the privatisation programme was not realised, while the shortfall in tax revenue was much larger (597 billion drachmas). Thus, the rate of increase in tax revenue in 1993 dropped to 10.1 per cent, falling short not only of budget forecasts (24.6 per cent) but also of the respective figures in the preceding two years (20.9 and 26.1 per cent).

Regarding particular categories of taxation (Table V.3), revenue from direct taxation rose by 13.3 per cent (1992: 16.4 per cent, 1991: 24.6 per cent). This rate was higher than the growth rate of revenue from indirect taxation, though well below budget forecasts (26.6 per cent). Thus the share of direct tax revenue in total tax revenue recorded a small increase, after a continuous drop in recent years (1993: 29.8 per cent, 1992: 29 per cent, 1991: 30.1 per cent).

The reduced yield of revenue from direct taxation in 1993 as well as in 1992 was mainly due to the reform of the personal income tax as from March 1992 (Law 2065/1992). As far as income subject to withholding at the source is concerned, this reform started showing results as early as 1992, while regarding income not subject to withholding the impact on revenue appeared only in 1993. Thus, revenue from personal income tax increased by a mere 3.1 per cent, compared with a decrease of 3.8 per cent in 1992. Revenue from direct taxation on behalf of third parties declined by 72.2 per cent (1993: 10 billion drachmas, 1992: 36 billion), owing to the abolition, under Law 2065/1992, of the 3 per cent water rate and the replacement, as from 1st January 1993, of the real estate tax by the real estate rate, which is now collected directly by the local authorities. By contrast, direct tax revenue was positively affected by the 34.5 per cent increase in revenue from interest income taxation. This increase occurred despite the small reduction in interest rates and

¹ The impact from the reduction of rates of special consumption taxes on private cars and motor cycles on the corresponding revenue depends on developments in retail prices and the respective elasticity of demand.

stemmed mainly from the raising of the tax rate from 10 to 15 per cent as from 1st September 1992. Moreover, a small rise was recorded in private deposits and investment in non-government paper, whose yield is subject to this tax. Besides, corporate income tax revenue increased significantly, for the third consecutive year (23.2 per cent), because of higher corporate profits. Moreover, after a slowdown in 1992, there was an acceleration in the growth of revenue from inheritance, gift and parental donation taxes (22.8 per cent), as well as from tax arrears (25.7 per cent). In the latter case, however, budget forecasts were much higher (93.5 per cent) and, consequently, there was a shortfall of 44 billion drachmas. Finally, revenue from the other categories of direct taxation rose significantly, principally owing to pension contributions imposed on civil servants as from 1st January 1993 under Law 2084/1992 on social security.

Revenue from indirect taxation, although favourably affected in the first eight months of 1993 by the measures taken in August 1992, on an annual basis recorded a small increase (8.8 per cent), compared with an increase of 22.9 per cent in 1992 and 26.8 per cent in 1991 and a budgeted 23.8 per cent. This development was the result of the reduced yield of certain indirect taxes and, above all, of the large amount of revenue lost from VAT on goods imported from EU member states.

In particular, revenue from VAT on imported goods, despite an increase in the drachma value of non-oil imports by about 7 per cent, declined by 50 per cent, because as from 1st January 1993 VAT on intra-EU imports is no longer collected by the customs authorities but by the local tax offices. At the same time, the VAT Information Exchange System (VIES) among the EU member states, which is aimed at locating cases of tax evasion, began its operation. It should be noted, however, that the above decline is partly fictitious, since revenue related to imports from EU member states has been recorded under the category of VAT on domestic goods. As analysed below, this change in the method of collecting VAT on imported goods left more room for tax evasion.

Revenue from the special consumption tax on passenger cars fell by 21.7 per cent compared with 1992, owing to a drop in car sales after the termination of the "old-technology car withdrawal" incentives in March 1993. This development was also helped by the reduction (ranging from 25 to 67 per cent) in the rates of the special consumption tax on passenger cars as from September 1993 (Law 2187/1994). Revenue from the special consumption tax on imported goods also fell substantially, following the abolition, as from

August 1992, of taxes on TV sets, hi-fi systems, photographic equipment and other imported goods. Finally, revenue from customs duties and special contributions declined slightly, by 3.5 per cent, compared with a 6.5 per cent rise in 1992.

The 44.9 per cent increase in revenue from VAT on domestic goods and services is fictitious and due to the reasons mentioned above. Thus, for the sake of comparability, it is worth considering developments in total revenue from VAT (on both imported and domestic goods and services) in 1993. Specifically, although 25 per cent of VAT was paid in advance, as from January 1993, in order to make up for the loss of revenue, mainly in the first two months of 1993, owing to the change in the system of collecting VAT, total revenue from VAT increased by only 6.6 per cent, compared with 19.3 per cent in 1992 and 25.5 per cent in 1991. This 1993 rate is much slower than the rates recorded since the introduction of VAT in 1987, varying between 19.2 and 35 per cent. Thus, the reduced revenue from VAT in 1993 should be principally attributed to the change in the method of collecting VAT on EU imports, leaving plenty of room for tax evasion, in conjunction with the negative impact of the ongoing recession. It should be noted that in recent years the share of VAT revenue in total revenue from indirect taxation has been declining continuously and fell to 48.3 per cent in 1993, from 51.2 per cent in 1990.

Despite a shortfall of 85 billion drachmas from budget forecasts, revenue from the special consumption tax on liquid fuels increased, for the fourth consecutive year (1993: 23.1 per cent, 1992: 48.6 per cent, 1991: 79.9 per cent) and reached 705 billion drachmas (85 billion less than the budget forecast). Thus, after the raising of the special consumption tax rates in August 1992, revenue under this category yielded 22 per cent of total indirect tax revenue in 1993.

Revenue from tobacco tax rose by 21.8 per cent, compared with 32.2 per cent in 1992 and 26 per cent in 1991. This development stemmed from a rise of 0.75 percentage points in the ad valorem component of this tax in August 1992. An even larger increase (25.8 per cent) was recorded in revenue from alcoholic beverages and malt, following the doubling of the respective tax rates as a result of the measures taken in August 1992.

The increase in revenue from road duties was limited (13.2 per cent), despite the collection in advance of a small part of 1994 road duties in December 1993. This development was caused by the rise in the share of non-polluting passenger cars, whose owners are exempted from paying road

duties for a period of five years, in the total number of cars, as well as by the lowering of road duties as from 1st January 1993.

Regarding transaction taxes, revenue from capital transfers (mainly on real estate), after a rise in 1992, declined by 2.8 per cent, owing to lower starting-off prices, on which objective assessments of real estate values are based, as from January 1993, as well as to the relative decline in transactions as a result of the recession. Revenue from the special tax on banking transactions also fell by 7.5 per cent, mainly because of the partial abolition, as from June 1993, of the 3 per cent tax on loan agreements. A negative effect was also caused by the fact that banks ceased to calculate interest on non-performing loans (Law 2076/1992), as well as by the reduced borrowing of enterprises from the domestic banking system. By contrast, revenue from stamp duties rose, though at a decelerating rate (1993: 12.4 per cent, 1992: 17.1 per cent, 1991: 22 per cent).

Lastly, non-tax revenue fell by 9.1 per cent in 1993, compared with an 82.9 per cent rise in 1992. This reversal reflects developments in revenue from privatisation (27.2 billion drachmas in 1993 and 138.2 billion in 1992). If revenue from this source is deducted for both years, the rate of change in non-tax revenue is reversed into a positive rate of 20.3 per cent, compared with 29.3 per cent in 1992. As in 1992, this rise stemmed from higher receipts from the EU funds and the Lotto pools. The latter appeared in the budget for a full year for the first time in 1993.

The large shortfall in revenue, along with the significant overruns in certain categories of expenditure compared with the relevant budget appropriations, the deterioration in the composition and the larger than usual variations in the allocation of budget outlays throughout the year were the major problems in the execution of the government budget for 1993.

Total ordinary budget expenditure (Table V.4) grew by 13.7 per cent, compared with 29.4 per cent in 1992 and 26.3 per cent in 1991, to 8,656 billion drachmas. As a percentage of GDP, it remained virtually unchanged at its already high 1992 level (1993: 41.7 per cent, 1992: 41.9 per cent, 1991: 37.7 per cent).

The slowdown of the rate of increase in expenditure is reversed into an acceleration following the deduction of amortisation payments, which fell by 23.6 per cent, after more than doubling in 1992. Thus net ordinary budget expenditure increased at a rate more than twice the 1992 figure (1993: 29.1 per cent, 1992: 10.3 per cent and 1991: 13.4 per cent). This development implies a very large rise in both interest payments, by 49.3 per cent, (com-

pared with 4.2 per cent in 1992) and primary expenditure (expenditure net of interest and amortisation payments) under the ordinary budget by 21 per cent (compared with 13 per cent in 1992 and 11.6 per cent in 1991). There is therefore a deterioration in the composition of expenditure relative to the previous two years, given that the large primary expenditure and interest payments boost the dynamics of the public debt.

Total ordinary budget expenditure exceeded the budgeted amount by 504 billion drachmas. Specifically, even after the allocation of reserves, the overrun against the relevant appropriations was 247 billion drachmas in primary expenditure, 78 billion drachmas in interest payments and 179 billion drachmas in amortisation payments. This overrun in the total ordinary budget expenditure was partly offset by the 245 billion drachmas cut in the public investment programme.

It should be noted that, as in revenue, the variation of the monthly rate of increase in expenditure under the ordinary budget in 1993 was larger than in 1992. At the same time, in 1993 the accumulation of expenditure at year-end was larger than usual, for two main reasons: first, the execution of appropriations was slow until August 1993, as a result of which 41.4 per cent of budgeted expenditure was left to be disbursed in the last four months of the year, compared with an average 38.4 per cent in the three year period 1990-1992. Low disbursements in the first eight months of the year do not necessarily mean a containment of expenditure on an annual basis, because the final recipients of budget appropriations put pressure on the government to have the relevant funds paid out in the closing months of the year, since they cannot be transferred to the following year. Second, as from spring 1993 it was decided to give allowances and other grants, over budget forecasts, to teachers, policemen, employees of the Ministry of Foreign Affairs and other categories of civil servants, which started to be paid as from 1st July and in the September-October period, resulting in an overburdening of the last four months of the year.

Regarding individual categories, personnel outlays, despite the above mentioned grants, were contained to 2,041 billion drachmas, namely 10 billion below the budgeted level, and their rate of increase was virtually the same as in 1992 (1993: 9.8 per cent, 1992: 9.7 per cent), though substantially below the inflation rate. This development is entirely due to the containment of outlays for subsidies related to wages of hospital personnel, while outlays for wages, pensions and medical care overshot budget appropriations. It should be noted, however, that appropriations saved under the category of wages and

salaries were transferred to other categories of expenditure, mainly subsidies to social security funds (Farmers' Insurance Fund – OGA).

Outlays for the servicing of the public debt and the armed forces debt rose by 6.3 per cent, compared with over 50% in the previous two years (1992:

TABLE V.4
OUTLAYS UNDER THE ORDINARY BUDGET AND THE PUBLIC INVESTMENT BUDGET
(In million drachmas)

	Annual magnitudes				Percentage changes		
	1990	1991	1992	1993*	1991/90	1992/91	1993*/92
I. OUTLAYS UNDER THE ORDINARY BUDGET	4,657,425	5,883,622	7,615,566	8,655,627	26.3	29.4	13.7
1. Personnel outlays	1,501,409	1,694,775	1,858,328	2,040,600	12.9	9.7	9.8
2. Interest payments ¹ (interest payments related to the national defence debt)	1,270,836 (94,870)	1,496,512 (48,300)	1,558,848 (130,059)	2,328,000 (172,100)	17.8 (-49.1)	4.2 (169.3)	49.3 (32.3)
3. Amortisation payments ² (amortisation payments related to the national defence debt)	358,638 (20,000)	1,009,004 (87,763)	2,241,240 (58,344)	1,712,527 (103,800)	181.3 (338.8)	122.1 (-33.5)	-23.6 (77.9)
4. Payments to the European Union	120,294	180,956	198,142	273,100	50.4	9.5	37.8
5. Payment of revenue collected on behalf of third parties	183,547	222,084	256,975	330,300	21.0	15.7	28.5
6. Tax refunds	161,205	185,094	253,126	282,000	14.8	36.8	11.4
7. Rebates on export financing costs and interest rate subsidies	39,370	3,818	2,542	1,200	-90.3	-33.4	-52.8
8. Subsidies to farmers	139,362	149,204	134,731	143,100	7.1	-9.7	6.2
9. Grants	662,148	682,481	760,592	990,000	3.1	11.4	30.2
10. Guarantees	22,534	18,045	26,247	115,300	-19.9	45.5	339.3
11. Other	198,082	241,649	324,795	439,500	22.0	34.4	35.3
II. OUTLAYS UNDER THE PUBLIC INVESTMENT BUDGET	465,123	602,748	725,877	730,000	29.6	20.4	0.6
1. Project implementation	360,056	501,692	594,552	...	39.3	18.5	...
2. Grants	100,671	97,556	128,325	...	-3.1	31.5	...
3. Administration expenditure	4,396	3,500	3,000	...	-20.4	-14.3	...
III. TOTAL I+II	5,122,548	6,486,370	8,341,443	9,385,627	26.6	28.6	12.5

¹ Including interest payments related to the national defence debt and other expenditure related to public debt servicing.

² Including repayment of the national defence debt and redemption of Treasury bills held by commercial banks (1991: 193.2 billion drachmas, 1992: 636 billion, 1993: 277.6 billion) and amortisation prepayments on the country's external debt (1990: 32.2 billion drachmas, 1991: 25.6 billion, 1992: 52.5 billion, 1993: 45 billion). Excluding outlays for the redemption of Treasury bills held by the private sector.

* Provisional estimates.

Source: Ministry of Finance, State General Accounting Office.

51.7 per cent, 1991: 53.8 per cent). Despite a decline in their rate of increase, these outlays absorbed 46.7 per cent of total ordinary budget expenditure and

81.5 per cent of ordinary budget revenue. The total overrun from budget forecasts reached 257 billion drachmas. The overrun in amortisation payments (179 billion drachmas) stemmed from the increased redemption of Treasury bills, amortisation prepayments on foreign loans and mainly from the redemption, at the end of 1993, of large amounts of twelve-month government bonds, which had been issued between late November 1992 and the end of the year but had not been included in 1993 budget forecasts.

Interest payments rose by 49.3 per cent, compared with 4.2 per cent in 1992 and 17.8 per cent in 1991. This reflects mainly interest for the servicing of, first, medium-term bonds, which resulted from the conversion, at the end of 1991, of Treasury bills compulsorily held by commercial banks and, second, certain consolidation loans of 1992, by which long-existing obligations of the government were settled. This interest began to be paid in March and June 1993, respectively. Interest payments in 1993 increased by 545 billion drachmas, owing to the adjustments made in 1991 and 1992.

The overrun in interest payments compared with budget forecasts was contained to 78 billion drachmas, because of time lags in the issue of the seventh consolidation loan, as well as because of the larger, relative to budgeted levels, financing of public deficits in 1993 through the issue of government bonds in replacement of Treasury bills.

The acceleration in the growth rate of payments to the European Union was mainly due to the increase in Greece's contribution, given that the latter is calculated on the basis of GDP, which, after the recent revision in the method of compilation, is about 21 per cent higher than the corresponding estimates for the 1988-1993 period.

Outlays related to revenue collected on behalf of third parties rose by 28.5 per cent, compared with 15.7 per cent in 1992 and 21 per cent in 1991. This large increase, despite the small rise in tax revenue, is due to the increased payments to the Greek Radio and Television Corporation (ERT) and the Greek Agricultural Insurance Fund (EGA).

Outlays for agricultural subsidies rose by 6.2 per cent in 1993, compared with a decline of 9.7 per cent in 1992. This development is mainly due to the increase in guidance outlays and structural transfers with EU participation.

Outlays for grants, amounting to 990 billion drachmas, overran budget appropriations by 181 billion or about 22 per cent and the corresponding outlays of 1992 by 30.2 per cent, compared with limited rises of 11.4 per cent in 1992 and 3.1 per cent in 1991. This substantial rise relative to 1992 stemmed mainly from an increase of 157 billion drachmas in grants to social

security funds (OGA, IKA, NAT), as well as to transport organisations. In particular, the 67 billion drachmas higher grants to OGA were used to pay allowances to mothers with many children, farmers' pensions, which were raised by 3,000 drachmas per month as from 1st January 1993, and the increased expenditure caused by the doubling of hospitalisation fees. Other reasons are the subsidisation of the urban transport fare, the financing of larger IKA and NAT deficits, the larger grants to political parties, owing to the general election, and the increased grants to local authorities, following the decline in their receipts from income tax.

Outlays for the calling-in of guarantees more than quadrupled. The guarantees which were called in, in addition to foreign loans (such as those of EBO) that are repaid immediately, also concern state-guaranteed domestic loans granted mainly to IKA and NAT. Finally, it was the second consecutive year that other expenditure rose considerably (by 35.3 per cent) owing to extraordinary general election costs, as well as to increased expenditure for government supplies and personnel travel expenses.

As regards the public investment programme, following the government's decision to cut the 1993 public investment expenditure by 245 billion drachmas, the relative expenditure was contained to virtually the 1992 level (it rose by a mere 0.6 per cent). At constant prices, this expenditure fell by about 12 per cent in 1993, compared with a 3.9 per cent rise in 1992. Finally, after the substantial increase (36.1 per cent) in public investment budget revenue, the corresponding deficit fell to 441 billion drachmas, which was 73 billion less than in 1992 or 252 billion below the budgeted amount of 693 billion drachmas.

2.2 Social security and welfare funds

The financial results of the major social security and welfare funds, based on data from the Introductory Report on the Budget for 1994, are summarised in Table V.5, which shows that the growth rate of revenue of these funds accelerated by 12 percentage points, to 27.6 per cent. In fact, their total revenue reached 1,339 billion drachmas, compared with 1,050 billion in 1992. This acceleration resulted mainly from the rise in social security contributions under Law 2084/1992. Specifically, as from 1st January 1993, the contributions paid cumulatively by employees and employers to IKA rose by 2.75 percentage points for main pension insurance and by 0.9 for health insurance.

Total expenditure of the principal social security and welfare funds rose by 18.2 per cent to 2,190 billion drachmas (1992: 7.1 per cent to 1,854 billion). This significant acceleration in the growth rate of total gross expenditure in 1993, as against a short-lived slowdown in 1992, was mainly due to the relaxation of incomes policy in 1993, the doubling of hospitalisation fees, the more than tripling of expenditure under the housing scheme of the Workers' Housing Organisation (OEK) and to the inclusion for the first time, in the other expenditure of the capital account, of overdue obligations of NAT to the Seamen's Auxiliary Insurance Fund (KEAN). It should be noted, however, that the growth rate of net expenditure, which is obtained after the deduction of amortisation payments, also rose by 9 percentage points to about 20 per cent, whereas in 1992 it had fallen by 5 percentage points relative to 1991. Moreover, the growth rate of the primary expenditure of these funds was double the 1992 figure (1993: 24.5 per cent, 1992: 12.2 per cent), while in 1992 there had been a deceleration of 5 percentage points, mainly as a result of the strict incomes policy. Thus, although primary expenditure had increased in 1992 at a rate that was 3.7 percentage points lower than inflation, in 1993, owing to a relaxation of incomes policy, it overshot inflation by 10 percentage points.

As a result of these developments, the total gross deficit of the consolidated management and capital accounts increased by 47 billion drachmas (1993: 851 billion, 1992: 804 billion), while the deficit in the management account decreased by 19 billion drachmas. Of the deficit in the consolidated account 68.1 per cent (1992: 53.9 per cent) was financed by grants out of the ordinary budget and the public investment programme, as well as by EU funds, 31.7 per cent (1992: 45 per cent) by domestic borrowing and the remaining 0.2 per cent (1992: 1.1 per cent) by depreciation allowances and special receipts of the respective funds. Specifically, the increased grants out of the ordinary budget to IKA, OGA and NAT reached 507 billion drachmas (IKA: 208 billion, OGA: 234 billion, NAT: 65 billion), from 378 billion drachmas in 1992 (IKA: 180 billion, OGA: 168 billion, NAT: 30 billion). This substantial increase (34.1 per cent) in ordinary budget grants to these funds was decided in order to deal with the increased expenditure for medical care, as well as the additional expenditure of OGA following the 25 per cent rise in farmers' main pensions as from 1st January 1993. By contrast, gross domestic borrowing declined by 25.3 per cent to 270 billion drachmas, compared with 362 billion in 1992, and, given that amortisation payments on loans remained unchanged during these two years, net borrowing fell by 47.1 per cent to 101

TABLE V.3
ORDINARY BUDGET REVENUE
(In million drachmas)

	Annual magnitudes				Percentage changes		
	1990	1991	1992	1993*	1991/90	1992/91	1993*/92
I. DIRECT TAXES	822,067	1,024,225	1,192,318	1,351,000	24.6	16.4	13.3
1. Income tax	596,756	840,780	936,651	1,073,000	40.9	11.4	14.6
- Personal	444,841	524,369	504,404	520,000	17.9	-3.8	3.1
- Corporate	145,069	192,693	237,860	293,000	32.8	23.4	23.2
- Special categories of income tax (tax on shipping)	6,846	123,718	194,387	260,000	1,707.2	57.1	33.8
(interest deposits taxes)	(3,132)	(3,205)	(3,146)	(3,000)	(2.3)	(-1.8)	(-4.6)
(interest deposits taxes)	(—)	(115,114)	(183,610)	(247,000)	(—)	(59.5)	(34.5)
2. Wealth taxes	45,369	54,587	58,636	72,000	20.3	7.4	22.8
3. Direct taxes collected on behalf of third parties	21,648	26,909	35,948	10,000	24.3	33.6	-72.2
4. Tax arrears	38,949	69,728	80,346	101,000	79.0	15.2	25.7
5. Extraordinary and other direct taxes	119,345	32,221	80,737	95,000	-73.0	150.6	17.7
II. INDIRECT TAXES	1,876,629	2,379,062	2,923,512	3,180,000	26.8	22.9	8.8
1. Customs duties and special contributions on imports - exports	41,441	52,533	55,940	54,000	26.8	6.5	-3.5
2. Consumption taxes on imports	514,565	614,977	735,103	398,000	19.5	19.5	-45.9
- VAT	374,617	463,795	580,019	290,000	23.8	25.1	-50.0
- Cars	96,575	106,380	114,889	90,000	10.2	8.0	-21.7
- Special consumption tax	36,813	36,228	29,361	10,000	-1.6	-19.0	-65.9
- Other taxes on imports	6,560	8,574	10,834	8,000	30.7	26.4	-26.2
3. Consumption taxes on domestic products	1,037,290	1,397,089	1,775,140	2,354,000	34.7	27.1	32.6
- Turnover tax	11,406	13,614	23,106	25,000	19.4	69.7	8.2
- VAT	586,627	742,437	859,313	1,245,000	26.6	15.7	44.9
- Consumption tax on fuels	214,220	385,358	572,707	705,000	79.9	48.6	23.1
- Tobacco	119,677	150,795	199,520	243,000	26.0	32.3	21.8
- Tax on cars assembled in Greece	6,905	4,518	4,070	2,000	-34.6	-9.9	-50.9
- Road duties	38,524	44,271	46,805	53,000	14.9	5.7	13.2
- Special levies and contributions on cars	25,232	16,452	15,372	25,000	-34.8	-6.6	62.6
- Other consumption taxes on domestic products ¹	34,699	39,644	54,247	56,000	14.3	36.8	3.2
4. Transaction taxes	246,516	274,833	309,427	318,000	11.5	12.6	2.8
- Capital transfers	76,046	65,381	79,185	77,000	-14.0	21.1	-2.8
- Stamp duties	98,399	120,070	140,547	158,000	22.0	17.1	12.4
- Banking transactions	72,071	89,382	89,695	83,000	24.0	0.4	-7.5
5. Other indirect taxes	36,817	39,630	47,902	56,000	7.6	20.9	16.9
III. TOTAL TAX REVENUE	2,698,696	3,403,287	4,115,830	4,531,000	26.1	20.9	10.1
Non-tax revenue	179,465	258,170	472,094	429,000	43.9	82.9	-9.1
(revenue from privatisation)	(—)	(—)	(138,156)	(27,200)	(—)	(—)	(-80.3)
IV. TOTAL ORDINARY BUDGET REVENUE	2,878,161	3,661,457	4,587,924	4,960,000	27.2	25.3	8.1

¹ Including the special consumption tax on domestic products.

* Provisional estimates.

Source: Ministry of Finance, State General Accounting Office.

TABLE V.5
DEFICITS OF SOCIAL SECURITY FUNDS ^(a) AND THEIR FINANCING
(In million drachmas)

	Annual magnitudes			Percentage changes	
	1991	1992	1993*	1992/91	1993*/92
A. Management account					
1. Revenue	906,124	1,049,526	1,338,967	15.8	27.6
2. Expenditure	1,478,041	1,640,839	1,911,542	11.0	16.5
3. Result (1 - 2)	<u>-571,917</u>	<u>-591,313</u>	<u>-572,575</u>	<u>3.4</u>	<u>-3.2</u>
B. Capital account					
4. Revenue	—	—	—	—	—
5. Expenditure	252,260	212,874	278,929	-15.6	31.0
(Investment)	(24,922)	(26,298)	(73,511)	(5.5)	(179.5)
(Amortisation payments on loans)	(217,419)	(170,843)	(169,403)	(-21.4)	(-0.8)
(Repayment of credits)	(—)	(—)	(—)	(—)	(—)
(Working capital)	(—)	(—)	(—)	(—)	(—)
(Other)	(9,919)	(15,733)	(36,015)	(58.6)	(128.9)
6. Result (4 - 5)	<u>-252,260</u>	<u>-212,874</u>	<u>-278,929</u>	<u>-15.6</u>	<u>31.0</u>
TOTAL RESULT (3 + 6)	<u>-824,177</u>	<u>-804,187</u>	<u>-851,504</u>	<u>-2.4</u>	<u>5.9</u>
FINANCING					
1. Grants	<u>398,479</u>	<u>433,366</u>	<u>579,809</u>	<u>8.8</u>	<u>33.8</u>
(Ordinary budget)	(344,118)	(387,978)	(524,153)	(12.7)	(35.1)
(Public investment programme)	(22,478)	(22,821)	(15,000)	(1.5)	(-34.3)
(European Regional Development Fund)	(31,883)	(22,567)	(40,656)	(-29.2)	(80.2)
2. Depreciation	<u>368</u>	<u>330</u>	<u>250</u>	<u>-10.3</u>	<u>-24.2</u>
3. Special resources	<u>9,622</u>	<u>8,603</u>	<u>1,067</u>	<u>-10.6</u>	<u>-87.6</u>
4. New credits	—	—	—	—	—
5. Loans ^(b)	<u>415,708</u>	<u>361,888</u>	<u>270,378</u>	<u>-12.9</u>	<u>-25.3</u>
TOTAL FINANCING	<u>824,177</u>	<u>804,187</u>	<u>851,504</u>	<u>-2.4</u>	<u>5.9</u>

(a) Including 7 social security funds (IKA, Seamen's Pension Fund, Farmers' Insurance Fund, Manpower Employment Agency, Workers' Housing Organisation, Workers' Fund and National Welfare Organisation).

(b) Gross domestic borrowing.

* Estimates.

Source: Ministry of National Economy.

billion drachmas, from 191 billion in 1992. Net borrowing fell to 0.5 per cent of GDP from 1.1 per cent in 1992. The reduced net borrowing of the major social security and welfare funds in 1993 resulted from larger grants and the smaller management deficit of these funds, owing also to the reduced interest payments following the rescheduling of overdue debts to the State, which were taken over by the central government through economic consolidation bond issues in 1990, 1991 and 1992.

In particular, on the basis of Ministry of National Economy estimates, revenue of IKA improved substantially in 1993, given that it increased by 29.1 per cent (compared with 18.3 per cent in 1992) to 976 billion drachmas. By contrast, the growth rate of expenditure, following a decline from its 1992 level (1993: 10.9 per cent, 1992: 13.5 per cent) does not reflect a sustainable improvement, given that, after the deduction of interest payments (1993: 45 billion drachmas, 1992: 95 billion), the growth rate of other expenditure (1993: 16.9 per cent, 1992: 15.5 per cent) not only accelerated by more than one percentage point, but it was also 2.5 percentage points higher than the inflation rate. The improvement in revenue which was due to the larger social security contributions along with the reduction in interest payments, owing to the rescheduling of IKA debts, led to the decrease in their management deficit by 99 billion drachmas (1993: 251 billion, 1992: 350 billion).

By contrast, the management deficit of OGA rose by 75 billion to 221 billion drachmas. This rise was due to the large increase in total OGA expenditure by 45.4 per cent, owing to the doubling of hospitalisation fees and the raising of farmers' main pensions as from 1st January 1993 by 3,000 drachmas per month (from 12,000 drachmas to 15,000 drachmas). The additional deficit was financed mostly by ordinary budget grants, which were 67 billion drachmas larger in 1993.

Finally, the management deficit of NAT increased by 17 billion drachmas (1993: 102 billion, 1992: 85 billion). This was mainly due to larger expenditure for medical care and hospitalisation and increased interest payments, despite the rescheduling of a large part of NAT's overdue debts by the central government through consolidation bond issues. Besides, the net deficit in the consolidated management and capital account, in spite of the 35 billion drachmas larger grants out of the ordinary budget and the partial rescheduling of its debts, rose by 18 billion drachmas, because, for the first time, NAT included in "other expenditure" an amount of 36 billion drachmas for overdue debts, mainly to KEAN.

2.3 *Public enterprises*

The financial results and the borrowing requirements of public enterprises on a fiscal basis for 1993, according to the Introductory Report on the Budget for 1994 and to Ministry of National Economy data, are summarised in Table V.6, which shows that the growth rate of total expenditure in 1993 exceeded both the initial forecast and the actual 1992 rate by about 5 percentage points and reached 26 per cent. This acceleration relative to 1992 was caused by the increased expenditure for amortisation payments, working capital, personnel outlays and other expenditure out of the management and capital accounts. Expenditure for investment rose at a rate which was 15 percentage points lower than in 1992, though more than double the inflation rate, as a result of which this expenditure increased in real terms by 16 per cent compared with 1992. Moreover, expenditure for fuel rose at a lower rate than in 1992 and remained virtually unchanged at constant prices. After the deduction of amortisation and interest payments, the rate of increase in total primary expenditure in 1993 was 27.4 per cent or 3 percentage points less than in 1992. Revenue under the operating account grew by 15.9 per cent in 1993, 14 percentage points less than in 1992 and 5 percentage points below its forecast level, and reached 2,375 billion drachmas (1992: 2,050 billion).

As a result of these developments, the total gross deficit in the consolidated operating and capital account grew by 54 per cent to 1,143 billion drachmas, while in 1992 it had remained at broadly its 1991 level. Furthermore, the net deficit in the consolidated account increased by 332 billion drachmas to 915 billion or 4.4 per cent of GDP. The gross deficit stemmed exclusively from the capital account, since the operating account recorded a surplus of 107 billion drachmas. Of this deficit, 27.5 per cent was financed mainly out of the public investment budget and the European Regional Development Fund, 33 per cent out of depreciation allowances, special resources and new suppliers' credit, and the remaining 39.5 per cent or 451 billion drachmas (compared with 205 billion or 27.6 per cent in 1992) from domestic and foreign borrowing.

Operating revenue grew by 15.9 per cent in 1993, compared with 30.2 per cent in 1992. This significant slowdown — exceptionally, OTE revenue rose by 19.3 per cent — was mainly due to the low income earned by the other major public enterprises (Public Power Corporation — DEH, Olympic Airways — OA, Water Supply and Sewerage Company — EYDAP, Hellenic Aerospace Industry — EAB, Hellenic Railways Organisation — OSE, Urban

TABLE V.6
DEFICITS OF PUBLIC ENTERPRISES¹ AND THEIR FINANCING
(In million drachmas)

	1991	1992	1993*	Percentage changes	
				1992/91	1993*/92
A. Operating account					
1. Revenue	1,573,941	2,049,689	2,374,792	30.2	15.9
2. Expenditure	1,630,675	1,940,091	2,267,616	19.0	16.9
3. Result (1 - 2)	<u>-56,734</u>	<u>109,598</u>	<u>107,176</u>		
B. Capital account					
4. Revenue	—	—	—	—	—
5. Expenditure	679,245	851,389	1,249,922	25.3	46.8
(Investment)	(413,371)	(608,360)	(807,138)	(47.2)	(32.7)
(Amortisation payments on loans)	(217,589)	(159,071)	(228,012)	(-26.9)	(43.3)
(Repayment of credits)	(15,547)	(5,521)	(12,409)	(-64.5)	(124.8)
(Working capital)	(2,695)	(4,648)	(30,599)	(72.5)	(558.3)
(Other)	(30,043)	(73,789)	(171,764)	(145.6)	(132.8)
6. Result (4 - 5)	<u>-679,245</u>	<u>-851,389</u>	<u>-1,249,922</u>	<u>25.3</u>	<u>46.8</u>
TOTAL RESULT (3 + 6)	<u>-735,979</u>	<u>-741,791</u>	<u>-1,142,746</u>	<u>0.8</u>	<u>54.1</u>
FINANCING					
1. Grants	<u>205,713</u>	<u>200,238</u>	<u>314,739</u>	<u>-2.7</u>	<u>57.2</u>
(Ordinary budget) ²	(-15,559)	(-32,996)	(5,095)		
(Public investment programme)	(126,362)	(185,598)	(169,787)	(46.9)	(-8.5)
(European Regional Development Fund)	(94,910)	(47,636)	(139,857)	(-49.8)	(193.6)
2. Depreciation	<u>175,976</u>	<u>208,820</u>	<u>256,308</u>	<u>18.7</u>	<u>22.7</u>
3. Special resources ³	<u>62,325</u>	<u>115,289</u>	<u>101,267</u>	<u>85.0</u>	<u>-12.2</u>
4. New credits	<u>6,804</u>	<u>12,402</u>	<u>19,700</u>	<u>82.3</u>	<u>58.8</u>
5. Loans ⁴	<u>285,161</u>	<u>205,042</u>	<u>450,732</u>	<u>-28.1</u>	<u>119.8</u>
TOTAL FINANCING	<u>735,979</u>	<u>741,791</u>	<u>1,142,746</u>	<u>0.8</u>	<u>54.1</u>

¹ Including 45 public enterprises mentioned in the Report of the Minister of Finance on the 1994 budget.

² Grants from the ordinary budget to those public enterprises which ran a deficit, minus the surpluses of certain public enterprises (Soccer Pools Organisation, Duty Free shops, State-owned Equipment Management Company, and Greek Horse Races Organisation).

³ Special resources include advances and participations by Public Power Corporation consumers, lump sum payments by Hellenic Telecommunications Organisation subscribers, participation of individuals in Water Supply and Sewerage Company projects, and own assets (from surpluses) of certain public enterprises.

⁴ Gross borrowing (domestic + foreign).

* Estimates.

Source: Ministry of National Economy.

Transport Organisation – OAS), which increased by only 2.1 per cent, compared with 20.4 per cent in 1992. By contrast, the growth rate of revenue of the remaining public enterprises — which accounts for 47 per cent of total revenue — despite a large decline in comparison with 1992 (1993: 28.8 per cent, 1992: 45.5 per cent), remained at a level almost double the total rate. In particular, DEH revenue stagnated (1993: 0.6 per cent, 1992: 23.1 per cent) because electricity rates were not adjusted in 1993. By contrast, EYDAP revenue, despite the raising of water rates, recorded only a limited increase of 2 per cent (compared with 18 per cent in 1992), which was due to the substantial decline of about 30 per cent in water consumption, as a result of measures taken to save water. Revenue earned by Olympic Airways followed a similar course, rising by 6.3 per cent, compared with 15.2 per cent in 1992, despite the increase in air fares. The deceleration in the growth rate of OTE revenue (1993: 19.3 per cent, 1992: 23.1 per cent) was mainly due to the 25 per cent discount on urban telephone calls during certain hours of the day. On the other hand, OTE revenue was favourably influenced by the raising of urban telephone and telegram rates, the gradual reduction to zero of the free 300 telephone call units per subscriber and the introduction of call timing and cardphones.

Operating expenditure grew by 16.9 per cent, compared with 19 per cent in 1992. This deceleration stemmed largely from the decline in the growth rate of expenditure for fuel, other operating expenditure and depreciation allowances, while the growth rate of personnel outlays accelerated substantially (1993: 10.6 per cent, 1992: 0.6 per cent), owing to the relaxation of incomes policy relative to 1992.

For the second consecutive year, the operating account of public enterprises recorded a surplus which, however, failed to exceed its 1992 level (1993: 107 billion drachmas, 1992: 110 billion). This outcome was unfavourably affected by the 9 billion drachmas deficit of DEH (compared with a surplus of 30 billion in 1992) and the decrease in the surplus of Soccer Pools Organisation (OPAP). On the other hand, it was favourably affected by a significant increase of 36 billion drachmas, in the operating surplus of OTE, which reached 138 billion.

Capital account expenditure increased by 46.8 per cent, compared with 25.3 per cent in 1992. The almost doubling of this growth was mainly due to the acceleration of the growth rate of expenditure for working capital and other capital expenditure, as well as to the reversal, from negative to positive, of the growth rate of amortisation expenditure, whereas investment expendi-

ture decelerated (32.7 per cent in 1993, compared with 47.2 per cent in 1992). Specifically, the remaining capital expenditure increased much more, as a result of the obligation mainly of OTE to pay a dividend to the State and higher taxes, owing to increased income.

Lastly, if the operating surplus, transfers (out of the ordinary budget, the public investment budget and the European Regional Development Fund), depreciation allowances, public enterprises' special resources and new suppliers' credit are deducted from the capital account deficit, amounting to 1,250 billion drachmas (1992: 851 billion), the gross capital account deficit falls to 451 billion (1992: 205 billion) and it has already been financed by domestic and foreign borrowing.

3. THE BUDGET FOR 1994

3.1 The government budget

The government budget for 1994 reflects the effort to eliminate fiscal imbalances, which have become particularly serious following deviations in the execution of the budget for 1993. The main features of the 1994 budget are: (i) exceptionally large debt servicing, which (including interest deferred to 1995, amounting to 414 billion drachmas) is estimated at 5.7 trillion drachmas or 24.5 per cent of GDP; (ii) a primary government budget surplus of 431 billion drachmas or 1.9 per cent of GDP; (iii) a sharp rise, against the level realised in 1993, in ordinary budget revenue (22.2 per cent); and (iv) a significant deceleration of 12.4 percentage points in the growth rate of primary ordinary budget expenditure, relative to 1993 (1994: 8.6 per cent, 1993: 21 per cent). The projected reversal of the 1993 deficit into a primary surplus seeks to stabilise the public debt/GDP ratio, although this forecast is not considered adequate. As mentioned in the Introductory Report on the Budget for 1994, this year's budget is aimed at a gradual improvement in the above ratio over the medium term.

Specifically, ordinary budget revenue is expected to rise at a rate by 14.1 percentage points faster than the corresponding rate in 1993 (8.1 per cent), to 6,060 billion drachmas. This rise should stem from the tax reform and particularly the curbing of tax evasion, through the effective enforcement of existing laws by the tax authorities. According to the Introductory Report on the Budget for 1994, the projected large increase in revenue will be

TABLE V.7
REVENUE, EXPENDITURE AND DEFICIT
UNDER THE OVERALL GOVERNMENT BUDGET
(In million drachmas)

	1990	1991	1992	1993*	Budget for 1994	Percentage changes			
						1991/90	1992/91	1993*/92	1994/93*
Revenue	3,343,590	4,266,954	5,328,790	5,958,093	7,364,000	27.6	24.9	11.8	23.6
1. Ordinary budget	2,878,161	3,661,457	4,587,924	4,960,000	6,060,000	27.2	25.3	8.1	22.2
— Direct taxes	(822,067)	(1,024,225)	(1,192,318)	(1,351,000)	(1,743,500)	(24.6)	(16.4)	(13.3)	(29.1)
— Indirect taxes	(1,876,629)	(2,379,062)	(2,923,512)	(3,180,000)	(3,775,500)	(26.8)	(22.9)	(8.8)	(18.7)
— Other revenue	(179,465)	(258,170)	(472,094)	(429,000)	(541,000)	(43.9)	(82.9)	(-9.1)	(26.1)
2. ELEGEP**	373,677	476,810	528,596	709,093	920,000	27.6	10.9	34.1	29.7
3. Public investment budget	91,752	128,687	212,270	289,000	384,000	40.3	65.0	36.1	32.9
Expenditure	5,496,225	6,963,180	8,870,039	10,094,720	12,225,040	26.7	27.4	13.8	21.1
1. Ordinary budget ¹	4,657,425	5,883,622	7,615,566	8,655,627	10,305,040	26.3	29.4	13.7	19.1
— Amortisation payments ²	(358,638)	(1,009,004)	(2,241,240)	(1,712,527)	(2,438,040)	(181.3)	(122.1)	(-23.6)	(42.4)
— Interest payments ²	(1,270,836)	(1,496,512)	(1,558,848)	(2,328,000)	(2,854,032)	(17.8)	(4.2)	(49.3)	(22.6)
2. ELEGEP	373,677	476,810	528,596	709,093	920,000	27.6	10.9	34.1	29.7
3. Public investment budget	465,123	602,748	725,877	730,000	1,000,000	29.6	20.4	0.6	37.0
Deficit (-) / Surplus (+)	-2,152,635	-2,696,226	-3,541,249	-4,136,627	-4,861,040	25.3	31.3	16.8	17.5
1. Ordinary budget	-1,779,264	-2,222,165	-3,027,642	-3,695,627	-4,245,040	24.9	36.2	22.1	14.9
2. ELEGEP	—	—	—	—	—	—	—	—	—
3. Public investment budget	-373,371	-474,061	-513,607	-441,000	-616,000	27.0	8.3	-14.1	39.7
Government Budget net deficit (-) / surplus (+)	-1,793,997	-1,687,222	-1,300,009	-2,424,100	-2,423,000	-6.0	-22.9	86.5	0.0
Primary deficit (-) / surplus (+)	-523,161	-190,710	258,839	-96,100	431,032				
Percentage of GDP	4.1	1.2	1.4	0.5	1.9				

¹ Excluding outlays for the redemption of Treasury bills held by the private sector and renewed within the same period.

² Including respectively amortisation and interest payments related to the national defence debt.

* Provisional data.

** Special Account of Guarantees of Agricultural Products.

Source: Ministry of Finance, State General Accounting Office.

achieved through: a) the normal increase in revenue, b) the enlargement of the tax-base, which will result from the suppression of tax-evasion by means of a more effective enforcement of existing tax laws and the intensification of tax controls, c) the stepping-up of the settlement of pending cases of income, inheritance, gift and parental donation taxes, d) the advance collection of next year's road duties, e) the issue of private casino licences and f) the introduction of new tax measures, such as the withholding of income tax on government supplies, the additional tax on tobacco products and the change in the tax treatment of vehicles of special categories.¹

In greater detail, direct tax revenue is expected to rise by 29.1 per cent, relative to the revenue actually collected in 1993. The faster, by about 16 percentage points, growth rate of direct taxes will result mainly from the stronger efforts to curb tax evasion, the faster settlement of tax cases and the withholding of income tax on government supplies. Moreover, indirect tax revenue, despite the 50 per cent lowering of the rate of the special tax on banking transactions (from 8 per cent to 4 per cent) and the reduction in VAT advances from 25 to 15 per cent, is expected to rise by 18.7 per cent compared with 1993. This rise should result mainly from the increase in tobacco tax rates (34.6 per cent, compared with 21.8 per cent in 1993), the prepayment of 1995 road duties and the intensification of the collection of accrued indirect taxes (increase of 78.6 per cent). Lastly, non-tax revenue is expected to rise by 26.1 per cent, mainly owing to the issue of private casino licences, the collection of part of the net profits of OTE and revenue from scratch cards.

Total ordinary budget expenditure will reach 10,305 billion drachmas, 19.1 per cent higher than in 1993. Excluding amortisation payments, the growth rate of net expenditure falls to 13.3 per cent. If interest on the public debt is also deducted, the growth rate of primary expenditure is limited to 8.6 per cent, which is below the anticipated inflation rate.

¹ The two laws passed in early 1994 (Law 2187/1994 and Law 2198/1994), as well as Law 2214/1994 passed recently, include the whole spectrum of the above mentioned measures. Specifically, under the recently enacted law, an effort is made to cope with tax evasion by imputing incomes on the basis of certain criteria and the widening of the tax base, which will lead to an improvement in the allocation of the tax burden and contribute to the collection of lost revenue. Apart from the imputation of incomes of many professional groups, the new law provides for the taxation of interest on repos and of mutual fund dividends and profits, and for the lifting of banking secrecy only with respect to the tax authorities. The same law restores the system of itemised tax deductions on the basis of expenditure receipts, and the taxpayer's obligation to declare his source of funds and his real property. The law also makes it mandatory for all people over 25 years of age to submit an income tax return. At the same time, sanctions for failure to pay VAT and due debts to the government become stricter.

TABLE V.8
FINANCIAL ACCOUNT OF GREECE WITH THE EUROPEAN UNION
(In million drachmas)

	Annual magnitudes					Percentage changes		
	1990	1991	1992	1993*	Budget for 1994	1991/90	1992/91	1993*/92
<i>A. Receipts from the European Union</i>								
1. Refund to cover cost of collecting the Union's "own resources" (10 per cent of collected resources)	595,687	787,486	1,013,670	1,325,881	1,611,600	32.2	28.7	30.8
2. Social Fund	3,788	4,921	4,994	5,257	6,600	29.9	1.5	5.3
3. EAGGF - Guidance Section	56,369	63,505	69,972	109,394	120,000	12.7	10.2	56.3
4. Integrated Mediterranean Programmes	44,603	59,423	99,115	123,117	128,500	33.2	66.8	24.2
5. Regional Fund	19,859	37,865	43,457	29,526	9,500	90.7	14.8	-32.1
6. EAGGF - Guarantee Section	94,348	142,605	252,022	321,990	360,000	51.1	76.7	27.8
7. Other receipts	373,677	476,810	528,596	709,093	920,000	27.6	10.9	34.1
8. Cohesion Fund	3,043	2,357	15,514	5,134	7,000	-22.5	558.2	-66.9
	—	—	—	22,370	60,000	—	—	—
<i>B. Payments to the European Union</i>								
1. Agricultural levies and duties	120,907	181,543	198,054	273,105	290,000	50.2	9.1	37.9
2. Sugar levies	2,430	4,057	2,961	3,236	4,000	67.0	-27.0	9.3
3. Customs duties under the Common External Tariffs provision	3,465	4,024	2,798	5,049	6,000	16.1	-30.5	80.5
4. Offsetting duties (Regul. 15/39)	31,982	41,129	44,173	44,273	50,200	28.6	7.4	0.2
5. Contribution on the basis of revenue from VAT	—	3	5	16	—	—	66.7	220.0
6. Contribution on the basis of GDP	67,861	99,838	119,535	133,518	147,500	47.1	19.7	11.7
7. Other contributions	293	18,798	23,348	38,915	66,000	—	24.2	66.7
8. Contributions other than to the Community Budget	11,196	8,468	92	42,626	5,500	-24.4	—	—
9. Payments due to unrealised projects	3,187	4,170	4,963	5,465	10,000	30.8	19.0	10.1
	493	1,056	179	7	800	114.2	-83.0	-96.1
<i>Net receipts from the European Union (A-B)</i>	474,780	605,943	815,616	1,052,776	1,321,600	27.6	34.6	29.1
								25.5

* Provisional data.

Source: Ministry of Finance, Division of Public Economic Relations with the European Union and other International Organisations.

Specifically, expenditure for the servicing of the public debt (net of interest deferred to 1995) is budgeted at 5.3 trillion drachmas or 22.8 per cent of GDP. This expenditure imposes a considerable burden on the budget, accounting for 51.4 per cent of total ordinary budget expenditure and 87.3 per cent of the corresponding revenue. Of total public debt servicing expenditure, the largest part (2.9 trillion drachmas) concerns interest and the remainder concerns amortisation payments. Personnel outlays are expected to rise by 11.4 per cent, compared with an increase of about 10 per cent in each of the years 1992 and 1993. This estimate reflects an attempt to keep the rise in salaries and pensions close to the level of inflation, without deviations from fiscal discipline. Outlays for agricultural subsidies are expected to rise by 8 billion drachmas or 5.5 per cent, compared with 1993. This increase will be small, because appropriations for agricultural subsidies incompatible with the requirements of the European Union are no longer allowed. However, including transfers to agriculture, mainly out of the public investment programme, as well as grants to OGA and the Greek Agricultural Insurance Fund out of the ordinary budget, total transfers to agriculture should increase by about 25 per cent. Moreover, a slowdown is expected in the growth rate of payments to the European Union, payments to third parties of revenue collected on their behalf, and grants. In particular, outlays for grants are expected to grow by 7 per cent relative to 1993. This growth should stem from the larger grants to social security funds that run a deficit, i.e. IKA, NAT, Professionals' and Artisans' Insurance Fund – TEBE – and above all OGA, following a rise in farmers' pensions (from 15,000 to 21,000 drachmas a month) as from 1st January, and in hospitalisation fees. Lastly, budget appropriations for the calling-in of guarantees will be reduced.

Total expenditure under the public investment programme is expected to rise by 37 per cent in 1994, whereas the 1993 expenditure, after the 245 billion cut in the last months of the year, had remained unchanged at its 1992 level. This rate of increase, which is over three times the expected inflation rate, is closely associated with development policy. The largest part of appropriations (75 per cent) concerns projects included in European Union programmes. Outlays for prefectural transport, education, manufacturing and energy, health-welfare and land reclamation projects will grow significantly, even before the allocation of a reserve of 55 billion drachmas.

Lastly, net transfers from the European Union should increase by about 26 per cent to 1,322 billion drachmas, compared with a 29.1 rise in 1993. On the positive side, this development will result from higher inflows from the

European Regional Development Fund, the European Social Fund, the European Agricultural Guidance and Guarantee Fund – Guarantee Section, as well as the Cohesion Fund. On the other hand, the expected net transfers will be negatively affected by Greece's 23.8 per cent larger share in financing the EU budget, principally owing to the increase in the total size of this budget.

3.2 Public enterprises and organisations budget

According to the 1994 Budget Report, the total revenue of the seven major social security and welfare funds (excluding social security funds with a surplus, local authorities and other public-law entities) is expected to reach 2,307 billion drachmas in 1994, compared with 1,920 billion in 1993 and 1,492 billion in 1992 (Table V.9). The expected slowdown in the growth rate of revenue in 1994 (1994: 20.2 per cent, 1993: 28.7 per cent) is justified by the increase in 1993, which was due to the rise in social security contributions under Law 2084/1992, which influenced 1993 revenue substantially. By contrast, the growth rate of total expenditure is expected to accelerate and reach 21.8 per cent, compared with 18.2 per cent in 1993, mainly as a result of higher amortisation payments and the large increase in other management expenditure (net of interest payments).

The total gross deficit (gross borrowing) of the seven major social security and welfare funds is expected to grow by 91 billion drachmas to 361 billion in 1994, while the net deficit should record a very small increase, owing to higher amortisation payments, to a level well below that in the two-year period 1991-1992. It should be noted that the primary deficit of these funds is expected to grow by 35 billion drachmas, despite a decline of 46 billion in 1993, as a result of which the downward trend recorded in recent years will be reversed both in absolute figures and as a percentage of GDP.

The management deficit of IKA is expected to rise by 64 billion drachmas in 1994, reflecting both a decline of 14 percentage points in the growth rate of revenue and a 7 percentage points faster growth of expenditure compared with 1993. The forecast rise in the management deficit of IKA, following a temporary drop in 1993, underlines the chronic and structural nature of the major problems faced by the largest social security fund in Greece and, more generally, by the social security system. The raising of social security contributions and other arrangements under Law 1902/1990, Law

TABLE V.9
REVENUE, EXPENDITURE AND DEFICIT OF SOCIAL SECURITY FUNDS
(In million drachmas)

	1991	1992	1993*	Budget for 1994	Percentage changes		
					1992/91	1993*/92	1994/93*
Revenue							
1. Management account	1,314,593	1,491,825	1,920,093	2,307,402	13.5	28.7	20.2
(Revenue)	1,250,242	1,437,504	1,863,120	2,206,181	15.0	29.6	18.4
(Grants from Ordinary budget)	(906,124)	(1,049,526)	(1,338,967)	(1,596,061)	(15.8)	(27.6)	(19.2)
2. Capital account ¹	(344,118)	(387,978)	(524,153)	(610,120)	(12.7)	(35.1)	(16.4)
	64,351	54,321	56,973	101,221	-15.6	4.9	77.7
Expenditure							
1. Management account	1,730,301	1,853,713	2,190,471	2,668,874	7.1	18.2	21.8
(Interest)	1,478,041	1,640,839	1,911,542	2,308,169	11.0	16.5	20.7
(Other expenditure)	(123,186)	(123,815)	(79,545)	(76,767)	(0.5)	(-35.8)	(-3.5)
2. Capital account	(1,354,855)	(1,517,024)	(1,831,997)	(2,231,402)	(12.0)	(20.8)	(21.8)
(Investment)	252,260	212,874	278,929	360,705	-15.6	31.0	29.3
(Amortisation payments)	(24,922)	(26,298)	(73,511)	(93,320)	(5.5)	(179.5)	(26.9)
(Other expenditure) ²	(217,419)	(170,843)	(169,403)	(228,365)	(-21.4)	(-0.8)	(34.8)
	(9,919)	(15,733)	(36,015)	(39,020)	(58.6)	(128.9)	(8.3)
Deficit							
(Gross borrowing)	-415,708	-361,888	-270,378	-361,472	-12.9	-25.3	33.7
1. Management account	-227,799	-203,335	-48,422	-101,988	-10.7	-76.2	110.6
(Management account result)	(-571,917)	(-591,313)	(-572,575)	(-712,108)	(3.4)	(-3.2)	(24.4)
(Grants from ordinary budget)	(344,118)	(387,978)	(524,153)	(610,120)	(12.7)	(35.1)	(16.4)
2. Capital account	-187,909	-158,553	-221,956	-259,484	-15.6	40.0	16.9
Net deficit (-) / surplus (+)	-198,289	-191,045	-100,975	-133,107	-3.7	-47.1	31.8
Primary deficit (-) / surplus (+)	-75,103	-67,230	-21,430	-56,340	-10.5	-68.1	162.9
Percentage of GDP	0.5	0.4	0.1	0.2			

¹ Including grants of the Public Investment Programme and the European Regional Development Fund, depreciation and special resources.

² Including working capital and other payments.

* Estimates.

Source : Ministry of National Economy.

1976/1991 and Law 2084/1992 failed to restrain the upward trend of this deficit, which is mainly caused by the deterioration of demographic factors, the large contribution evasion and avoidance, and the continuous growth of medical care expenditure.

According to Ministry of National Economy estimates, there will be a significant increase of 81 billion drachmas in the corresponding management deficit of OGA (1994: 302 billion drachmas, 1993: 221 billion). This increase will stem from larger expenditure for medical care and the raising of the farmers' main monthly pension by 6,000 drachmas as from 1st January 1994, which implies that OGA expenditure will rise by about 70 billion drachmas. The above deficit will be financed mostly by grants out of the ordinary budget, which will be 65 billion drachmas higher.

The management deficit of NAT, despite the higher expenditure for medical care and pensions, is forecast to decrease by 19 billion drachmas (1994: 83 billion drachmas, 1993: 102 billion), because expenditure for interest payments on loans is expected to fall by 26 billion drachmas.

Total expenditure of public enterprises is summarised in Table V.10 and is expected to rise at a decelerating rate (1994: 7.2 per cent, 1993: 26 per cent, 1992: 20.8 per cent) and reach 3,772 billion drachmas, from 3,518 billion in 1993. In addition, the growth rate of operating revenue is expected to decelerate for the second year running and be limited to 11 per cent, from 15.9 per cent in 1993 and 30.2 per cent in 1992. Thus, this revenue should reach 2,636 billion drachmas, compared with 2,375 billion in 1993.

According to the above estimates, the total gross deficit of public enterprises should be contained at roughly the same level as in the previous year (1994: 1,136 billion drachmas, 1993: 1,143 billion). Of this deficit, 803 billion drachmas will be financed by subsidies (from the ordinary budget, the public investment programme and the EU Regional Development Fund), depreciation allowances, special resources and new suppliers' credit, while the remaining 333 billion drachmas (1993: 451 billion) will be financed by new borrowing. This gross borrowing will fall to 1.4 per cent of GDP from 2.2 per cent in 1993.

In greater detail, the reversal of the operating deficit into a surplus observed in the last two years should continue in 1994 (1994: 180 billion drachmas, 1993: 107 billion, 1992: 110 billion). The increase in the surplus, despite the 5 per cent decline in the growth rate of operating revenue, should stem from the large containment of operating expenditure (1994: 8.3 per cent, 1993: 16.9 per cent), mainly owing to the expected decline of about 4 percent-

TABLE V.10
REVENUE, EXPENDITURE AND DEFICIT
OF PUBLIC ENTERPRISES
(In million drachmas)

	1991	1992	1993*	Budget for 1994	Percentage changes		
					1992/91	1993*/92	1994/93*
Revenue	2,024,759	2,586,438	3,066,806	3,439,261	27.7	18.6	12.1
1. Operating account (Revenue)	1,558,382	2,016,693	2,379,887	2,638,961	29.4	18.0	10.9
(Grants from Ordinary budget)	(1,573,941)	(2,049,689)	(2,374,792)	(2,635,729)	(30.2)	(15.9)	(11.0)
2. Capital account ¹	(-15,559)	(-32,996)	(5,095)	(3,232)			
	466,377	569,745	686,919	800,300	22.2	20.6	16.5
Expenditure	2,309,920	2,791,480	3,517,538	3,772,015	20.8	26.0	7.2
1. Operating account (Interest)	1,630,675	1,940,091	2,267,616	2,455,371	19.0	16.9	8.3
(Other expenditure)	(218,712)	(183,763)	(170,374)	(178,076)	(-16.0)	(-7.3)	(4.5)
2. Capital account (Investment)	(1,411,963)	(1,756,328)	(2,097,242)	(2,277,295)	(24.4)	(19.4)	(8.6)
(Amortisation payments)	679,245	851,389	1,249,922	1,316,644	25.3	46.8	5.3
(Other expenditure) ²	(413,371)	(608,360)	(807,138)	(891,264)	(47.2)	(32.7)	(10.4)
	(217,589)	(159,071)	(228,012)	(259,895)	(-26.9)	(43.3)	(14.0)
	(48,285)	(83,958)	(214,772)	(165,485)	(73.9)	(155.8)	(-22.9)
Deficit	-285,161	-205,042	-450,732	-332,754	-28.1	119.8	-26.2
(Gross borrowing)							
1. Operating account (Operating account result)	-72,293	76,602	112,271	183,590			
(Grants from ordinary budget)	(-56,734)	(109,598)	(107,176)	(180,358)			
2. Capital account	(-15,559)	(-32,996)	(5,095)	(3,232)			
	-212,868	-281,644	-563,003	-516,344	32.3	99.9	-8.3
Net deficit (-) / surplus (+)	-67,572	-45,971	-222,720	-72,859	-32.0	384.5	-67.3
Primary deficit (-) / surplus (+)	151,140	137,792	-52,346	105,217			
Percentage of GDP	1.0	0.8	0.3	0.5			

¹ Including grants of the Public Investment Programme and the European Regional Development Fund, depreciation and special resources and new credits.

² Including repayment of credits, working capital and other payments.

* Estimates.

Source: Ministry of National Economy.

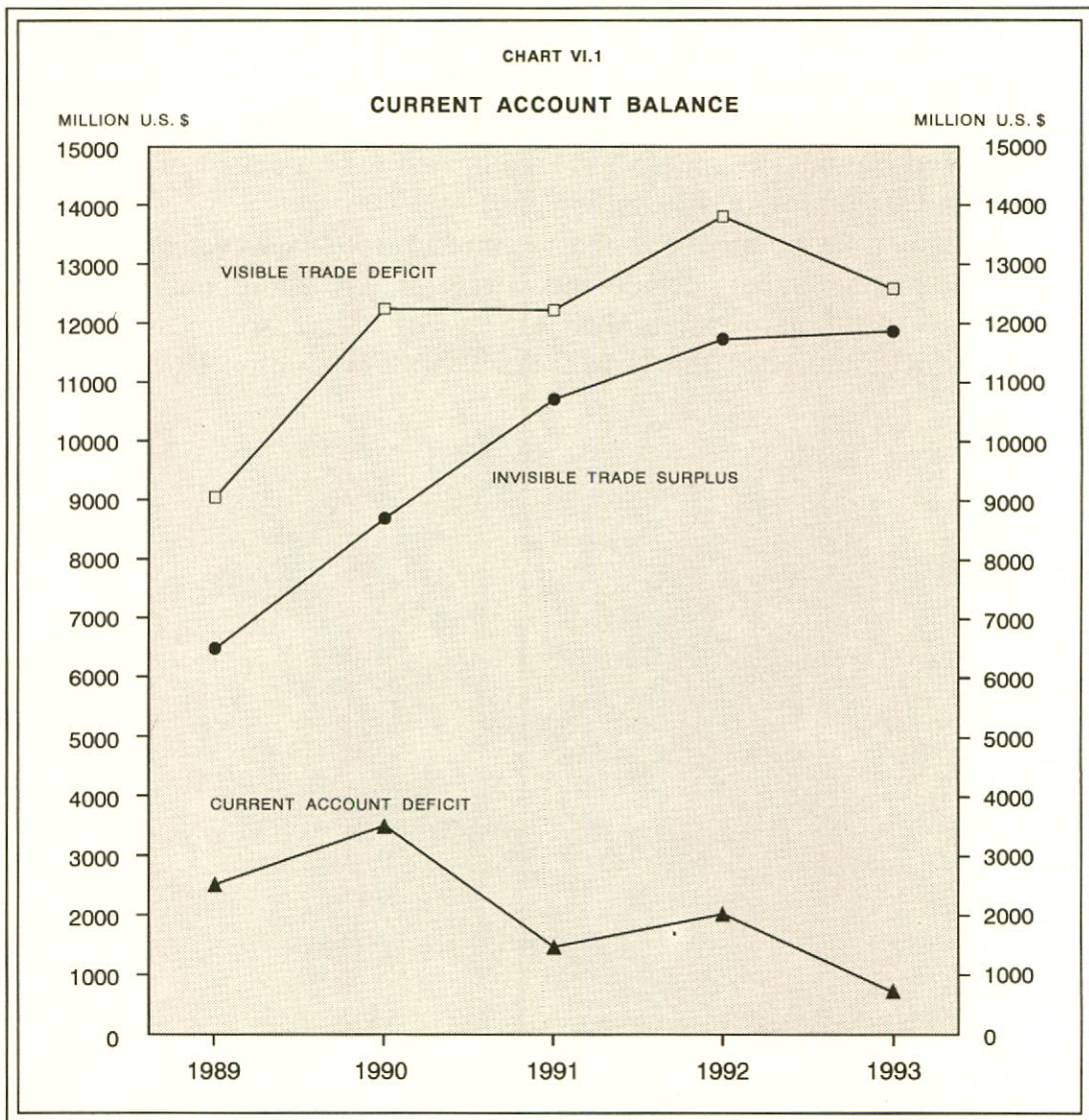
age points in the growth rate of the wage bill, the slowdown of the growth rate of depreciation allowances and the large deceleration of the growth rate in other operating expenditure (1994: 7.8 per cent, 1993: 25.9 per cent). By contrast, expenditure for fuel and loan interest is anticipated to increase at higher rates.

Besides, total investment outlays are expected to grow at a significantly lower rate (1994: 10.4 per cent, 1993: 32.7 per cent) to 891 billion drachmas. This deceleration will result mainly from the absolute fall in the investment of OTE and Olympic Airways. On the basis of the above assumptions, there should be a small primary surplus of 105 billion drachmas in the consolidated operating and capital account for 1994, compared with a deficit of 52 billion in 1993 and a surplus of 138 billion in 1992.

It should be pointed out that estimated 1994 aggregates regarding public enterprises do not include the effects of any additional borrowing requirements of the newly established Athens Urban Transport Organisation (OASA), which succeeded the Urban Transport Corporation (EAS).

VI. BALANCE OF PAYMENTS

Developments in the balance of payments in 1993 were favourable on the whole, although the principal constituent accounts, namely the current



account and private capital inflows, followed diverging trends. Specifically, the current account deficit fell by \$1,362 million to 0.8 per cent of GDP from 2.2

per cent in 1992, while net private capital inflow declined by \$1,277 million, but nevertheless exceeded the current account deficit. Errors and omissions continued to be negative in 1993, though they were substantially less than in 1992.

TABLE VI.1
BALANCE OF PAYMENTS

Items	Million U.S. dollars			Percentage change	
	1991	1992	1993	1992	1993
MERCHANDISE IMPORTS (cif)	19,104.6	19,902.0	17,615.5	4.2	-11.5
Oil	2,892.8	2,276.4	1,947.4	-21.3	-14.5
Non-oil	16,211.8	17,625.6	15,668.1	8.7	-11.1
MERCHANDISE EXPORTS (fob)	6,797.1	6,008.8	5,034.3	-11.6	-16.2
Oil	858.5	626.5	558.7	-27.0	-10.8
Non-oil	5,938.6	5,382.3	4,475.6	-9.4	-16.8
Visible Trade Balance	-12,307.5	-13,893.2	-12,581.2	12.9	-9.4
INVISIBLE RECEIPTS	15,353.8	17,265.4	17,023.1	12.5	-1.4
INVISIBLE PAYMENTS	4,566.7	5,450.6	5,158.2	19.4	-5.4
Invisible Trade Balance	10,787.1	11,814.8	11,864.9	9.5	0.4
Current Account Balance	-1,520.4	-2,078.4	-716.3	36.7	-65.5
Capital movement (net)	3,424.6	2,809.0	4,400.0	-18.0	56.6
Private sector	2,811.1	3,317.4	2,004.4	18.0	-39.6
Public sector	4,463.0	5,204.5	7,399.2	16.6	42.2
Amortisation payments	-3,849.5	-5,712.9	-5,003.6	48.4	-12.4
Allocation of SDRs	—	—	—		
Errors and omissions	-235.0	-921.6	-662.4		
Revaluation of gold and foreign exchange holdings	90.4	-263.6	87.9		
Overall Balance	1,759.6	-454.6	3,109.2		
IMF	—	—	—		
Change in official reserves*	1,751.8	-457.6	3,105.5		
Change in clearing accounts	7.8	3.0	-3.7		
Official reserves (end of period)*	6,046.0	5,588.4	8,693.9		

* Gold reserves have been revalued at 65 per cent of the average buying market price per ounce of gold in U.S. dollars in December 1991, December 1992 and December 1993, respectively.

The above developments in the principal accounts of the balance of payments resulted in a \$247 million surplus in the basic balance in 1993, compared with a \$98 million deficit in 1992. Moreover, net public sector

borrowing remained high (\$2,774 million), a fact which, in conjunction with the basic balance surplus, led to an increase of \$3,106 million in foreign-exchange reserves.

1. CURRENT ACCOUNT

The current account deficit was \$716 million in 1993, compared with \$2,078 million in 1992. This development was entirely due to the 9.4 per cent drop in the visible trade deficit, while the invisible trade surplus remained virtually unchanged (increase of 0.4 per cent).

Developments in the current account items were mainly affected by the domestic and international economic recession and by particular factors, such as the substantial drop in world crude oil prices, the appreciation of the US dollar against European currencies, the continuing unrest in the former Yugoslavia, the lapse of the tax incentive scheme for purchases of low-pollution passenger cars and, lastly, delays in the inflow of part of EU transfers.

It should be noted here that the liberalisation of capital movements and the operation of the single market substantially worsened the problems of monitoring and correct recording of external transactions.

1.1 Visible trade

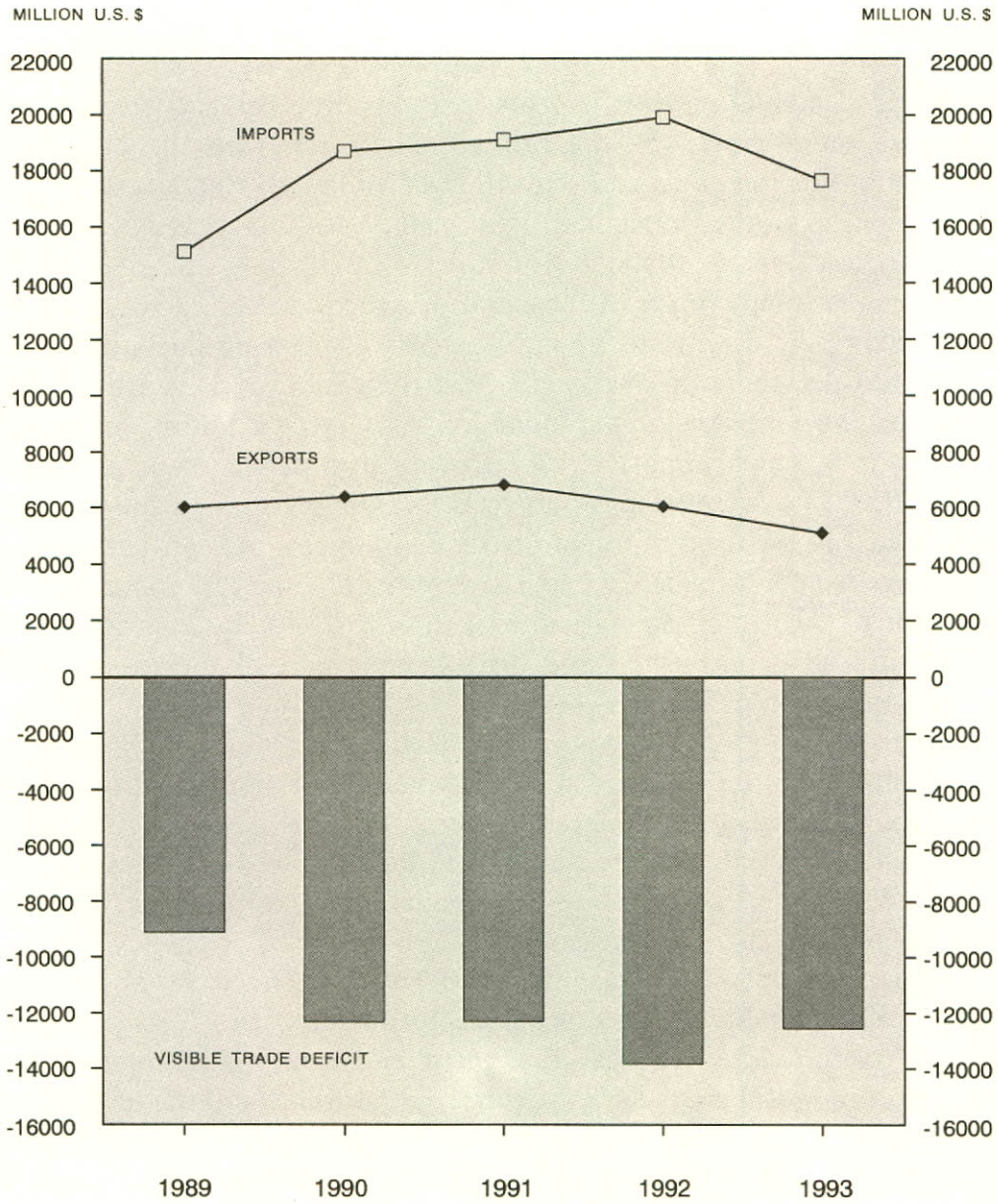
The visible trade deficit fell by 9.4 per cent to \$12,581 million in 1993 from \$13,893 million in 1992. This fall stemmed from the decline in both the import bill (11.5 per cent) and export receipts (16.2 per cent). The drop in the visible trade deficit, despite the faster fall in export receipts, was due to the fact that these receipts represented only 30 per cent of the import bill.

The drop in the visible trade deficit was significantly affected by the 15.8 per cent drop in the net oil import bill, compared with 1992. The non-oil visible trade deficit fell by 8.6 per cent, because the import bill decreased by 11.1 per cent and export receipts by 16.8 per cent.

Owing to the lack of unit value and volume indices, it is difficult to draw conclusions about import and export developments in price and volume terms. If the wholesale price sub-indices are used as deflators of data on a settlements basis, it can be concluded that the decline in non-oil imports and exports resulted from the drop both in prices, in dollar terms (6.7 per cent for

CHART VI.2

VISIBLE TRADE BALANCE



imports and 7.1 per cent for exports), and in import and export volume (4.7 per cent and 10.4 per cent, respectively). If the oil account is included, similar developments are observed in the corresponding items.

1.1.1 Exports

According to statistics on a settlements basis, export receipts decreased, owing to the drop in receipts from all product categories, with the exception of receipts from raw materials and semi-finished products, which rose by 24 per cent. Cotton exports contributed significantly to this rise, owing to the increase in last year's production and the drop in domestic demand.

Receipts from exports of food and beverages decreased by about 8 per cent, reflecting the downward trend of exports of most products in this category. Specifically, the drop in receipts from olive-oil exports is attributable to the rise in the corresponding production of Greece's trading partners — mainly Italy — which import Greek olive oil in order to re-export it in the world market. The decrease in export receipts from preserved fruit and vegetables is related to the drop in tomato-paste and tomato-juice production, while the smaller receipts from cereal exports were mainly due to lower prices, after the reform of the Common Agricultural Policy (CAP). By contrast, receipts from citrus fruit exports increased, with a large part of the export volume directed to Eastern European countries.

Receipts from tobacco exports also declined substantially (by around 27 per cent), because of the decrease in export volume and the slight drop in prices.

Export receipts from minerals and ores fell by 16 per cent. The decrease in receipts from bauxite exports is related to the drop in world demand, which in turn led to a decline in domestic production. Receipts from dead-burnt magnesite fell for the same reason.

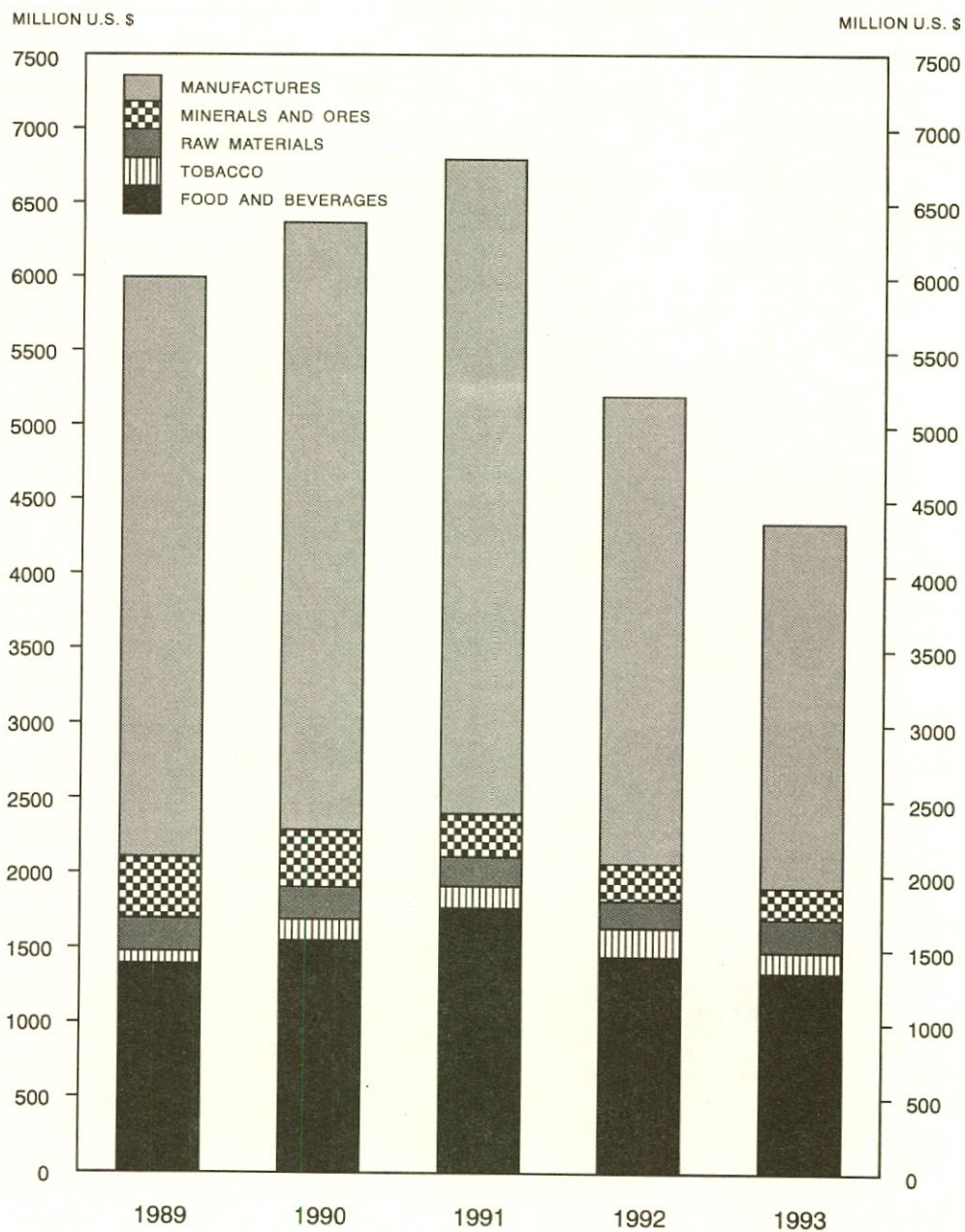
Export receipts from manufactured goods declined by about 22 per cent, with a remarkable drop in export receipts from textiles, cement and steel sheet and plate. Moreover, textile, cement and iron industries face strong competition in world markets. Particularly regarding the latter industry, the smaller receipts from steel sheet and plate exports, caused by the decline in world demand, explain, to a significant extent, the drop in the iron and steel import bill, while the cement industry faces additional problems due to the conditions prevailing in the member states of the EU with regard to competition and financial support.

TABLE VI.2
EXPORTS (fob)

Category	Million U.S. dollars			Percentage change	
	1991	1992	1993	1992	1993
I. <u>FOOD AND BEVERAGES</u>	<u>1,774.2</u>	<u>1,452.5</u>	<u>1,341.8</u>	<u>-18.1</u>	<u>- 7.6</u>
Currants	37.3	42.9	33.9	15.0	-21.0
Sultanas	36.0	33.3	36.9	- 7.5	10.8
Olives	89.9	102.7	82.9	14.2	-19.3
Olive oil	126.4	196.9	88.7	55.8	-55.0
Wines and spirits	80.8	73.5	63.9	- 9.0	-13.1
Citrus fruit	85.3	72.4	111.7	-15.1	54.3
Other fresh fruit	188.9	149.7	139.2	-20.8	- 7.0
Fruit and vegetables preserved	412.1	334.1	291.5	-18.9	-12.8
Cereals	327.5	145.0	111.3	-55.7	-23.2
Other	390.0	302.0	381.8	-22.6	26.4
II. <u>TOBACCO</u>	<u>145.0</u>	<u>193.0</u>	<u>141.7</u>	<u>33.1</u>	<u>-26.6</u>
III. <u>RAW MATERIALS AND SEMI-FINISHED PRODUCTS</u>	<u>197.4</u>	<u>179.3</u>	<u>221.6</u>	<u>- 9.2</u>	<u>23.6</u>
Cotton	98.9	57.1	129.1	-42.3	126.1
Hides and skins	34.8	38.3	32.0	10.1	-16.4
Other	63.7	83.8	60.5	31.5	-27.8
IV. <u>MINERALS AND ORES</u>	<u>290.6</u>	<u>256.9</u>	<u>214.7</u>	<u>-11.6</u>	<u>-16.4</u>
Bauxite	18.9	19.7	16.8	4.2	-14.7
Dead-burnt magnesite	7.2	4.0	2.1	-44.4	-47.5
Other	264.5	233.2	195.8	-11.8	-16.0
V. <u>PETROLEUM PRODUCTS</u>	<u>858.5</u>	<u>626.5</u>	<u>558.7</u>	<u>-27.0</u>	<u>-10.8</u>
VI. <u>MANUFACTURES</u>	<u>3,320.9</u>	<u>3,108.0</u>	<u>2,429.4</u>	<u>- 6.4</u>	<u>-21.8</u>
Textiles	1,604.3	1,626.3	1,236.9	1.4	-23.9
Cement	171.3	182.5	160.1	6.5	-12.3
Chemicals, pharmaceuticals	172.7	198.1	149.2	14.7	-24.7
Aluminium and alumina	248.0	170.3	150.9	-31.3	-11.4
Steel sheet and plate	160.3	126.7	72.7	-20.9	-42.6
Metals and metal articles	294.0	271.8	225.5	- 7.6	-17.0
Machinery and means of transport	51.3	73.8	49.5	43.9	-32.9
Footwear, leather articles	20.9	17.9	25.6	-14.3	43.0
Furs	79.9	76.0	51.0	- 4.9	-32.9
Other	518.2	364.5	308.0	-30.0	-15.5
VII. <u>UNALLOCATED</u>	<u>210.5</u>	<u>192.6</u>	<u>126.3</u>	<u>- 8.5</u>	<u>-34.4</u>
Total	6,797.1	6,008.8	5,034.3	-11.6	-16.2

CHART VI.3

COMPOSITION OF EXPORTS BY COMMODITY GROUP



1.1.2 Imports

According to available data on a settlements basis, the decrease in non-oil import payments stemmed from all product categories.

Payments for food imports fell by 14 per cent, mainly owing to decreases in the two main sub-categories of food imports, namely meat and dairy products. This drop was related to the increase in domestic dairy product output, as well as to the fall in prices of both the above product sub-categories, because of the implementation of the new CAP.

Payments for raw material imports declined by about 15 per cent, owing to a reduction of 10 per cent in payments for consumption raw material imports and of 23 per cent for construction material imports. With respect to the first sub-category, there was a substantial drop in payments for cotton imports, because of the rise in domestic production along with a decline in consumption, while payments for imports of other chemicals also decreased, possibly owing to the increase (though small) in domestic production. As regards construction materials, payments for iron, steel and wood imports fell significantly, because of the reduced domestic construction activity.

Payments for capital goods imports fell by 6 per cent. The import bill for machinery and transport equipment declined, while payments for electrical equipment imports increased.

Payments for imports of manufactured consumer goods decreased by about 12 per cent, reflecting a drop in imports in all the corresponding sub-categories. Specifically regarding private passenger car imports, the import bill fell by 40 per cent, because the tax incentive scheme for the purchase of low-pollution passenger cars lapsed at the end of March 1993.

1.2 Invisible trade

The invisible trade surplus increased by 0.4 per cent in 1993, as a result of the decrease in both invisible receipts and invisible payments (1.4 per cent and 5.4 per cent, respectively). Excluding net EU transfers, the drop in invisible receipts was 2 per cent.

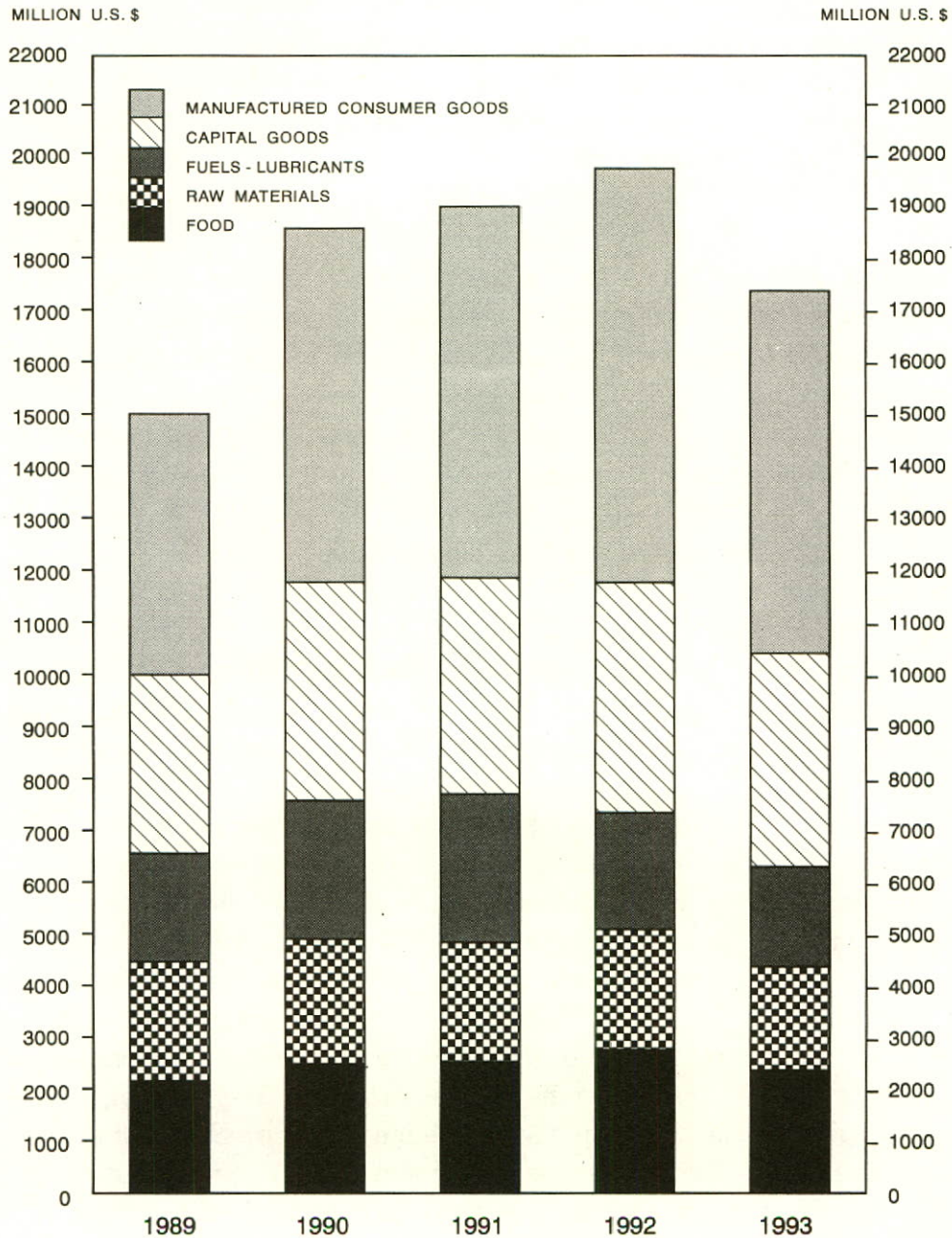
Net transfers from the EU budget rose to \$4,085 million in 1993 from \$4,058 million in 1992. This fairly small increase was mainly due to the delays in certain inflows in December 1993, a fact which resulted in a particularly high inflow in January 1994 (around \$1,200 million, compared with \$645

TABLE VI.3
IMPORTS (cif)
(Payments and suppliers' credit)

Category	Million U.S. dollars			Percentage change	
	1991	1992	1993	1992	1993
I. FOOD	2,532.5	2,796.9	2,398.5	10.4	-14.2
1. Basic	1,924.3	2,124.2	1,807.4	10.4	-14.9
Meat and live animals	772.6	878.8	704.5	13.7	-19.8
Dairy products	430.5	491.8	407.6	14.2	-17.1
Cereals and animal feed	155.3	209.6	201.3	34.9	-4.0
Coffee	38.4	36.2	48.3	-5.7	33.4
Vegetable oil and seeds	181.9	164.3	118.3	-9.7	-28.0
Other	345.6	343.4	327.4	-0.6	-4.7
2. Non-basic	608.2	672.7	591.1	10.6	-12.1
II. RAW MATERIALS	2,341.7	2,363.8	2,010.8	0.9	-14.9
1. Consumption materials	1,289.2	1,402.3	1,267.9	8.8	-9.6
Cotton and fibres	97.3	101.3	62.9	4.1	-37.9
Other chemicals	808.5	935.5	826.1	15.7	-11.7
Raw minerals	56.9	45.4	35.7	-20.2	-21.4
Other	326.5	320.1	343.1	-2.0	7.2
2. Construction materials	1,052.5	961.4	742.9	-8.7	-22.7
Iron and steel	727.7	638.8	457.6	-12.2	-28.4
Timber	205.8	195.8	155.1	-4.9	-20.8
Other	119.0	126.8	130.2	6.5	2.7
III. FUEL-LUBRICANTS	2,892.8	2,276.4	1,947.4	-21.3	-14.5
1. Crude oil	1,594.7	1,218.4	931.2	-23.6	-23.6
2. Other	1,298.1	1,058.0	1,016.2	-18.5	-4.0
IV. CAPITAL GOODS	4,167.9	4,417.7	4,142.1	6.0	-6.2
1. Machinery	3,245.0	3,484.8	3,143.5	7.4	-9.8
2. Transport equipment	547.4	522.1	477.1	-4.6	-8.6
3. Electrical equipment	375.5	410.8	521.5	9.4	26.9
V. MANUFACTURED CONSUMER GOODS	7,163.0	8,042.2	7,109.8	12.3	-11.6
1. Intermediate	606.7	668.7	574.6	10.2	-14.1
2. Basic	2,019.3	2,173.3	2,060.9	7.6	-5.2
Motor vehicle articles (tyres, tubes, spare parts)	481.5	508.2	458.5	5.5	-9.8
Paper and paper articles	251.2	252.3	231.3	0.4	-8.3
Medical and pharmaceutical products	274.6	370.7	429.8	35.0	15.9
Other	1,012.0	1,042.0	941.3	3.0	-9.7
3. Non-basic	4,537.0	5,200.1	4,474.3	14.6	-14.0
Textiles	938.4	1,032.0	954.9	10.0	-7.5
Electrical appliances	351.0	420.3	405.1	19.7	-3.6
Passenger vehicles (other than buses)	779.3	1,029.8	674.3	32.1	-34.5
Precious stones, metals, etc.	75.6	80.9	92.7	7.0	14.6
Other	2,392.7	2,637.0	2,347.3	10.2	-11.0
VI. FREIGHT (unallocated)	6.7	5.0	6.8	-25.4	36.0
Total	19,104.6	19,902.0	17,615.5	4.2	-11.5

CHART VI.4

COMPOSITION OF IMPORTS BY COMMODITY GROUP



million in January 1993). It should be recalled that EU transfers, as recorded in the balance of payments, refer to calendar years.

The drop in invisible receipts is attributable to the recession in European countries, the ongoing turmoil in the former Yugoslavia and the substantial appreciation of the US dollar against the drachma.

Invisible payments fell by 5.4 per cent, because of the 12 per cent decrease in payments for interest, dividends and profits, as well as the 15.6 per cent decline in travel payments, while the other items of invisible payments increased by a significant 19.6 per cent.

Developments in the principal invisible trade items were as follows:

Travel receipts rose by 1.9 per cent, while, according to available data, arrivals and overnight stays by foreign tourists recorded a small increase. Given the appreciation of the US dollar against the drachma, the increase in travel receipts, in dollar terms, is largely explained by the fact that about \$200 million of receipts for tourist services was reclassified from convertible drachma deposits to travel receipts. As regards the determinants of travel receipts, it should be noted that income in the European member states of the OECD remained virtually unchanged, while the competitiveness of Greek tourist service prices deteriorated to some extent.

Transport receipts fell by 3.7 per cent. This fall is explained by the 20 per cent appreciation of the US dollar against the drachma and the roughly 14 per cent rise in the prices of Greek goods and services. The dry cargo market performed satisfactorily in 1993, except for a slight decline in the last quarter of the year, while the liquid cargo market remained sluggish throughout 1993.

Emigrants' remittances remained unchanged, mainly because the growth rate of disposable income in Western Europe was still low.

Travel payments fell by 15.6 per cent, as a result of the limited increase in domestic disposable income and the stabilisation of expectations regarding the parity of the drachma, which seem to affect developments in travel payments.

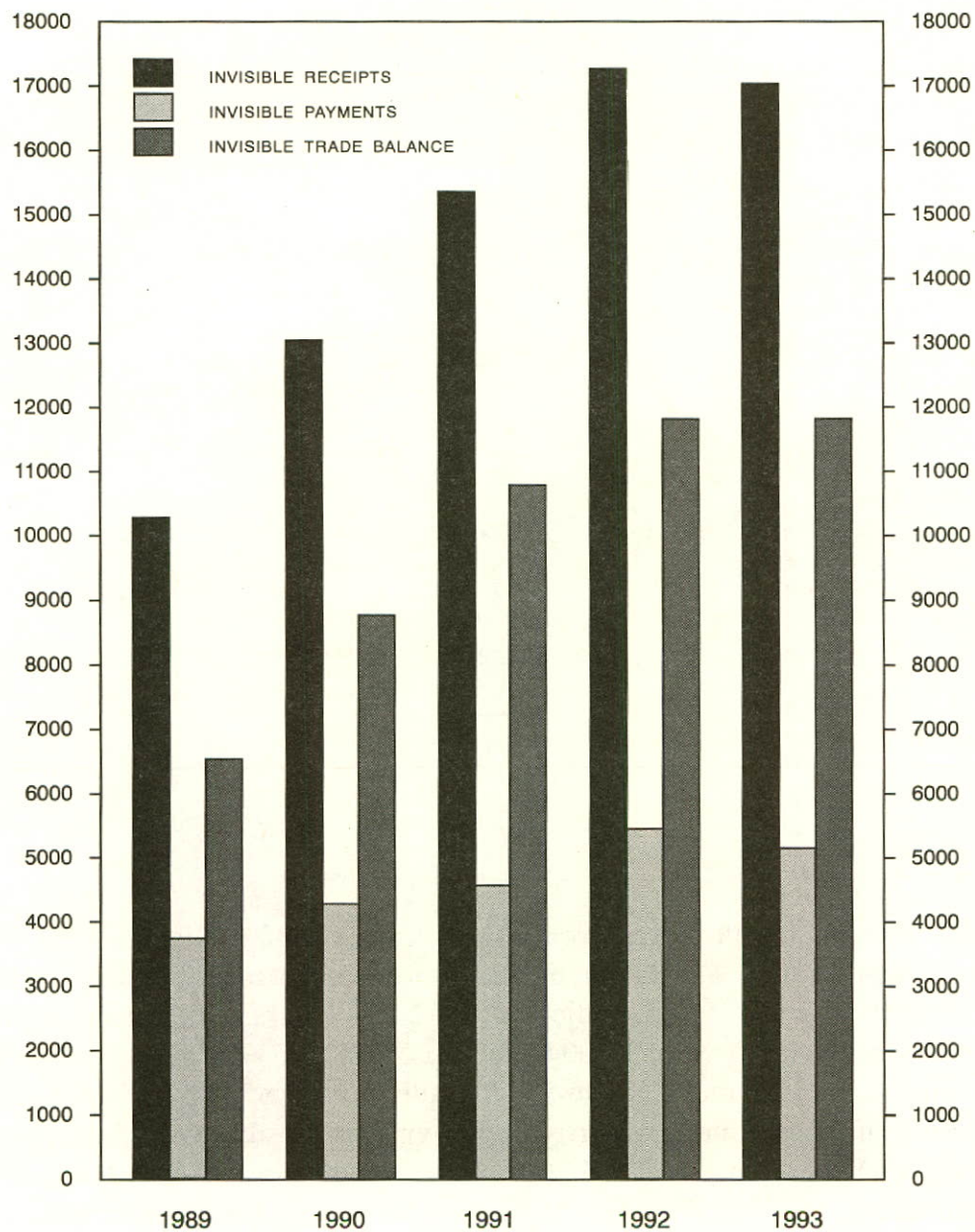
Payments for interest, dividends and profits decreased by 12 per cent, owing to: (i) the downward trend of interest rates and the appreciation of the US dollar against the other currencies in which total foreign debt is denominated and (ii) the stabilisation of the foreign debt in 1992. This decrease, however, would have been substantially smaller if interest payments in arrears (\$234 million), related to defence contracts in dispute, had not been effected in 1992. Specifically, interest payments on public sector foreign debt decreased by 16.5 per cent, while interest payments on private sector foreign

CHART VI.5

INVISIBLE TRADE BALANCE

MILLION U.S. \$

MILLION U.S. \$



debt grew by a substantial 74.4 per cent, largely owing to outflows for interest payments in arrears, which were realised after the full liberalisation of invisible trade.

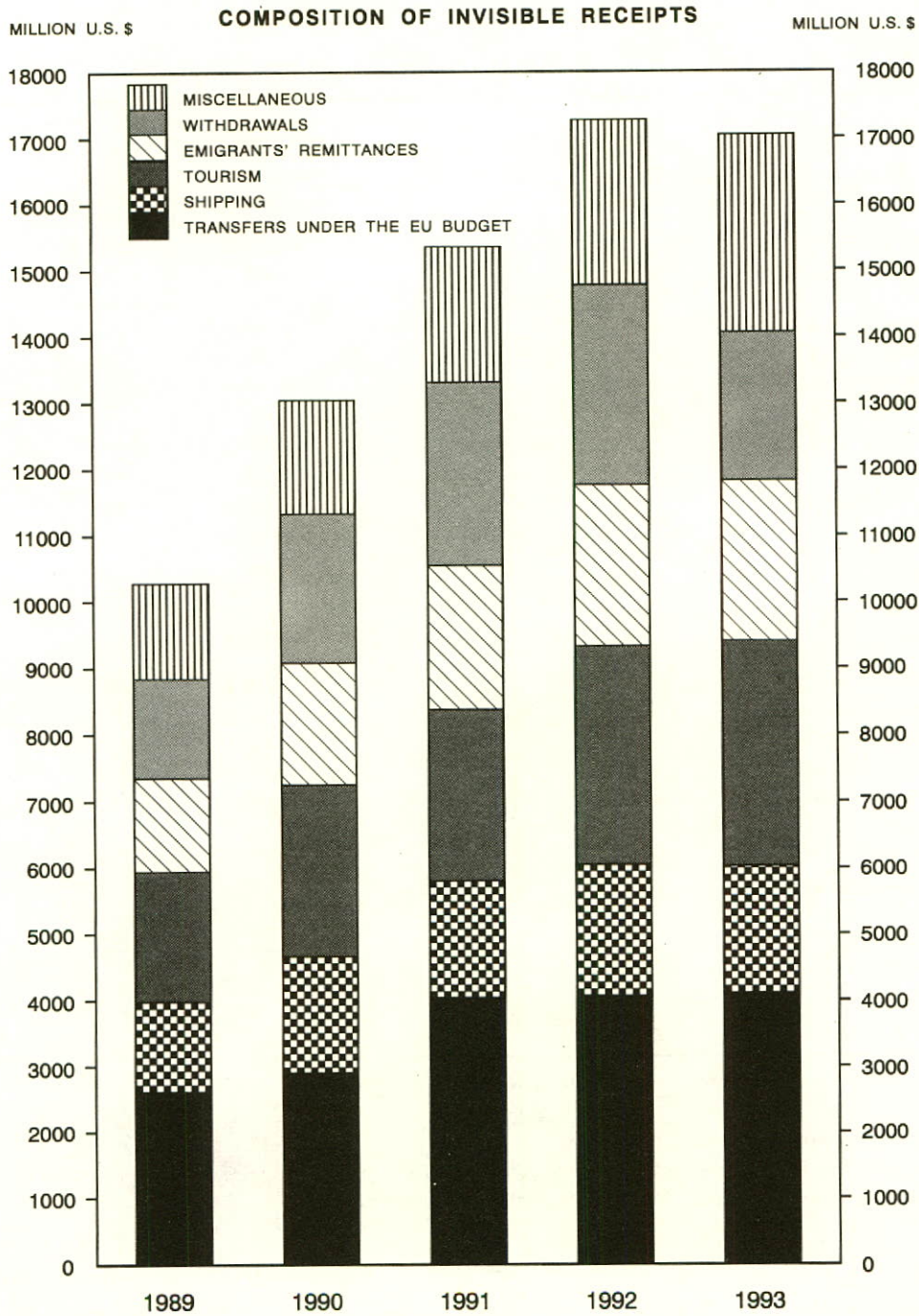
TABLE VI.4
INVISIBLE TRADE

INVISIBLE RECEIPTS	Million U.S. dollars			Percentage change	
	1991	1992	1993	1992	1993
1. Tourist and travel currency proceeds	2,567.4	3,271.8	3,335.2	27.4	1.9
2. Merchant marine - transport	1,774.0	1,993.1	1,920.0	12.4	-3.7
3. Emigrants' remittances - workers' earnings	2,165.2	2,431.5	2,431.0	12.3	—
4. Interest - dividends - profits	362.4	389.9	631.9	7.6	62.1
5. Withdrawals out of convertible drachma accounts	2,765.0	3,012.0	2,290.0	8.9	-24.0
6. Miscellaneous receipts	1,685.8	2,109.1	2,330.0	25.1	10.5
7. Net EU transfers	4,034.0	4,058.0	4,085.0	0.6	0.7
Total	15,353.8	17,265.4	17,023.1	12.5	-1.4
INVISIBLE PAYMENTS					
1. Tourist and travel currency disbursements	1,015.2	1,188.3	1,003.3	17.1	-15.6
2. General Government services	243.0	264.8	334.2	9.0	26.2
3. Interest - dividends - profits	2,014.0	2,370.0	2,086.1	17.7	-12.0
4. Transport	376.7	422.5	293.8	12.2	-30.5
5. Miscellaneous payments	917.8	1,205.0	1,440.8	31.3	19.6
Total	4,566.7	5,450.6	5,158.2	19.4	-5.4
INVISIBLE TRADE BALANCE	10,787.1	11,814.8	11,864.9	9.5	0.4

2. CAPITAL MOVEMENTS

Total gross capital inflow grew by 10.3 per cent or \$882 million in 1993. This increase was entirely due to public sector foreign borrowing, which rose to \$7,399 million from \$5,205 million in 1992. By contrast, private capital inflow fell significantly (1993: \$2,004 million, 1992: \$3,317 million). Moreover, total amortisation payments fell to \$5,004 million from \$5,713 million in 1992, as a result of the decline in amortisation payments mostly of the public sector (1993: \$4,625 million, 1992: \$5,298 million) and, to a lesser extent, of the private sector (1993: \$379 million, 1992: \$415 million). Accordingly, net public sector foreign borrowing rose to \$2,774 million (1992: -\$93 million), while net private capital inflow dropped to \$1,626 million (1992: \$2,902 million).

CHART VI.6



In spite of its decrease, net private capital inflow more than offset the current account deficit and the negative errors and omissions, with the result

TABLE VI.5
FINANCING OF THE CURRENT ACCOUNT DEFICIT

	Million U.S. dollars		
	1991	1992	1993
BALANCE ON CURRENT ACCOUNT	-1,520.4	-2,078.4	-716.3
Private capital	2,513.8	2,902.4	1,625.9
Entrepreneurial capital	1,349.7	2,038.1	1,981.2
Real estate investment	1,082.3	1,082.4	946.0
Commercial banks	89.9	71.2	65.9
Deposits with credit institutions	140.4	-24.2	46.0)
(Deposits by Greeks living abroad)	(200.6)	(-73.8)	(-8.7
Suppliers' credit (net) ¹	329.4	437.1	-416.7
Other	-180.6	-287.2	-618.0
Amortisation	-297.3	-415.0	-378.5
Errors and omissions	-235.0	-921.6	-662.4
BALANCE OF PAYMENTS BEFORE CENTRAL BANK AND PUBLIC SECTOR BORROWING	758.4	-97.6	247.2
Revaluation of gold and foreign exchange holdings	90.4	-263.6	87.9
Central Bank and Public Sector Borrowing	910.8	-93.4	2,774.1
Central Bank	1,363.1	3,097.7	3,495.4
Government	2,410.9	1,436.6	3,445.7
Public entities	691.7	678.4	469.5)
(of which: Public Power Corporation)	(492.9)	(447.2)	(416.6
Suppliers' credit (net) ¹	-2.7	-8.2	-11.4
Amortisation	-3,552.2	-5,297.9	-4,625.1
Allocation of SDRs	—	—	—
OVERALL BALANCE	1,759.6	-454.6	3,109.2
IMF	—	—	—
Change in foreign exchange reserves ²	1,751.8	-457.6	3,105.5
Change in clearing accounts	7.8	3.0	3.7

¹ Suppliers' credit (to the public and private sector):

a. short-term	344.8	430.5	-412.8
b. long-term	-18.1	-1.6	-15.3

² Gold reserves have been revalued at 65 per cent of the average buying market price per ounce of gold in U.S. dollars in December 1991, December 1992 and December 1993, respectively.

that total public sector foreign borrowing was recorded as an increase in foreign exchange reserves, which rose to \$8,694 million at the end of 1993 from \$5,588 million at the end of 1992.

The considerable decline (by \$1,277 million) in net private capital inflow in 1993 was mainly due to the negative development of suppliers' credit and "other capital". The inflow of entrepreneurial capital and capital for investment in real estate decreased, though to a lesser extent, while the inflow of foreign exchange deposits recorded a positive change.

Entrepreneurial capital inflow fell slightly (by 2.8 per cent), mainly because of the substantial decline in revenue from privatisation and concession of operating rights to the private sector (1993: \$261 million, 1992: \$446 million). Available data are insufficient for dividing entrepreneurial capital into private sector foreign borrowing, direct investment and portfolio investment. There are, however, data from sources other than the balance of payments, which show that loans in foreign exchange extended to the private sector declined, possibly owing to uncertainty about foreign exchange market trends, as well as to overall economic conditions. By contrast, capital inflow for the purchase of securities is estimated to have risen appreciably, a fact relating to favourable developments in the Athens Stock Exchange (ASE). On the basis of available data, net capital inflow for investment by non-residents in securities listed on the ASE rose to around \$149 million in 1993, compared with a net outflow of \$12 million in 1992.

The above indications lead to the conclusion that direct foreign investment, excluding privatisation proceeds, must have risen slightly in 1993. The bulk of this inflow seems to have stemmed from EU member states, as in 1992. Available data (e.g. about branches of economic activity, type of investment, country of origin) are particularly insufficient, after the easing of exchange controls in 1993 and the abolition of the Ministry of National Economy and Bank of Greece committees which were competent for foreign investment approvals.

The inflow of capital for investment in real estate declined by 12.6 per cent, a development apparently relating to prevailing trends in real estate prices in Greece, to slow economic recovery in emigrants' European host countries, as well as to the delayed finalisation of the tax regime regarding real estate.

Private foreign exchange deposits recorded a net negative change of \$8.7 million, which was substantially lower than in 1992 (\$73.8 million). This development was due to the drop in drachma withdrawals, while net capital inflow remained at roughly 1992 levels. Such withdrawals out of foreign exchange deposits rose, in drachma terms, by about 16 per cent, i.e. slightly faster than the CPI at average levels for 1993. The course of drachma with-

drawals out of foreign exchange deposits in 1993 seems to have kept pace with changes in the depositors' cost of living in Greece. The low interest rates on foreign exchange deposits, compared with yields in the Greek money market, have considerably reduced demand for foreign exchange deposits as an alternative form of investment.

The "other capital" item recorded a substantially increased net outflow (1993: \$618 million, 1992: \$287 million). This item mainly includes the various categories of capital movements which have been liberalised and cannot be classified specifically, on the basis of the present balance-of-payments nomenclature. The increase recorded in 1993 was largely due to the liberalisation of all medium- and long-term capital movements, as well as of a large number of short-term transactions, which widened the possibilities for the investment of savings abroad.

Investment by residents of Greece in foreign securities seems to have increased significantly in 1993, despite the relatively high interest rates on drachma-denominated securities and the high yields offered in the ASE. Available data, which, however, do not cover all banks engaging in foreign exchange transactions, indicate that there was a net capital outflow of \$216 million in 1993, compared with \$77 million in 1992.

The uncertainty that prevailed in the run-up to the October 1993 general election about the parity of the drachma temporarily strengthened the demand for foreign exchange; this trend, however, was reversed when conditions returned to normal in the last two months of the year. Specifically, after a \$544 million net capital outflow through currency swaps in the September-October period, a net inflow of \$374 million was registered in the last two months of 1993, thus leaving a fairly small outstanding balance of currency swaps at the end of the year.

Suppliers' credit recorded a negative change of \$417 million, compared with a \$437 million positive change in 1992. The large decrease in acceptances of new credit was mainly related to the drop in the commodity import bill recorded in 1993, as well as to other factors, such as expectations regarding developments in the parity of the drachma and domestic interest rates.

The increase in public sector foreign borrowing concerned entirely the central government, whose total borrowing (both direct and through the Bank of Greece) rose by \$3,013 million compared with 1992. The largest part of foreign borrowing — both direct and through the Bank of Greece — was realised through bond issues with a foreign currency clause in the domestic and foreign capital markets, while a very small part was realised through bank

loans. As regards direct government borrowing, purchases by foreign investors of bonds with a foreign currency clause issued in the domestic capital market more than doubled (1993: \$3,080 million, 1992: \$1,400 million). Comparing Bank of Greece foreign borrowing in 1993 with that in 1992, it can be observed that the average maturity of loans has been extended by about one year while two thirds of new loans have been concluded at historically low fixed interest rates.

TABLE VI.6
GREECE'S EXTERNAL DEBT¹
(Balance at year-end in million U.S. dollars)

	1991	1992	1993*
1. MEDIUM AND LONG-TERM	23,166.0	21,983.5	24,908
Central Government	5,250.5	3,170.0	3,288
Local authorities	56.4	46.5	36
Public enterprises	5,992.5	5,862.4	5,933
Bank of Greece	10,265.0	11,452.2	14,183
Other banks ²	1,601.1	1,452.4	1,468
Private enterprises ²	0.5	—	—
2. SHORT-TERM	568.6	799.8	1,790
Central Government	494.6	767.8	1,918
Bank of Greece	64.0	-2.9	—
Public enterprises	10.0	34.9	-128
3. SUPPLIERS' CREDIT ³	179.4	171.2	159
TOTAL	23,914.0	22,954.5	26,857

¹ Refers to loans disbursed and not serviced in drachmas. Conversion of currencies to U.S. dollars has been effected at the parities valid at year-end.

² Refers to government-guaranteed loans.

³ Short-term and long-term.

* Estimates.

Foreign borrowing by public enterprises and organisations decreased, owing to the drop in both their short- and long-term obligations.

Total private and public sector amortisation payments fell by \$709 million. The decrease in private sector payments was directly related to the deceleration of firms' foreign borrowing over recent years, while the decline in public sector payments was partly due to the fact that the instalment for the repayment of the 1986 loan from the EC was \$340 million smaller than in 1992.

The decline in both interest and amortisation payments caused a decrease in total payments for servicing Greece's foreign debt to \$6,987 million in 1993 (1992: \$7,975 million). This led to an improvement in the debt service ratio, which fell to 31.7 per cent in 1993 (1992: 34.3 per cent).

Public and government-guaranteed foreign debt is estimated to have risen by \$4 billion to \$26.9 billion at the end of 1993 (provisional data). As a proportion of GDP, it rose to 32.2 per cent (1992: 27.1 per cent, 1991: 26.9 per cent). Changes in the US dollar parity against the other currencies in which Greece's foreign debt is denominated (appreciation against European currencies and depreciation against the Japanese yen) had a small positive effect (around \$200 million). It should be recalled that foreign debt, in dollar

TABLE VI.7
INTEREST AND AMORTISATION PAYMENTS
(Million U.S. dollars)

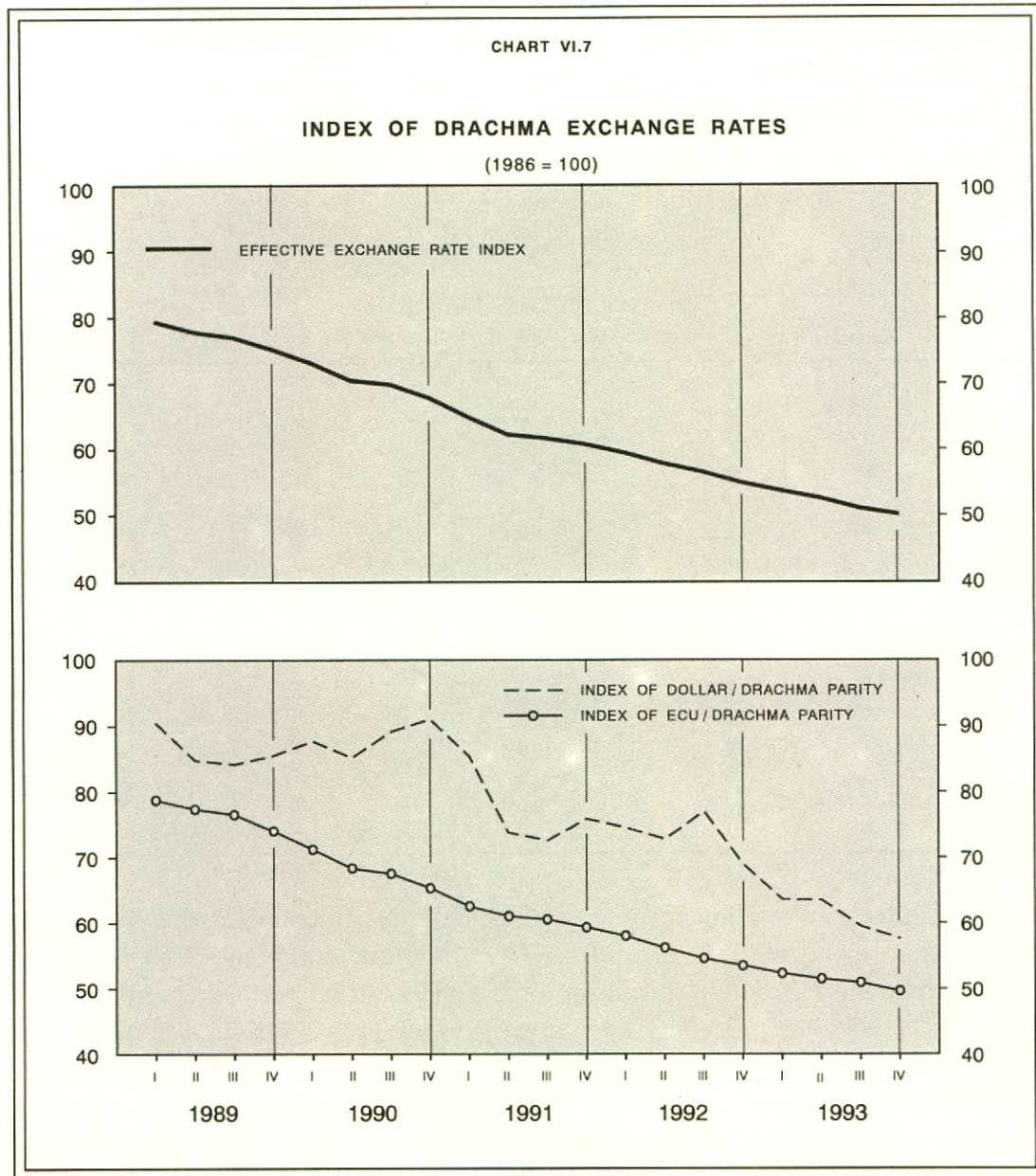
	1991	1992	1993
INTEREST	1,936.6	2,262.0	1,983.8
Public sector	1,812.2	2,158.5	1,803.3
Private sector	124.4	103.5	180.5
AMORTISATION	3,849.5	5,712.9	5,003.6
Public sector	3,552.2	5,297.9	4,625.1
Private sector	297.3	415.0	378.5
TOTAL	5,786.1	7,974.8	6,987.4
Debt Service Ratio	26.1	34.3	31.7

terms, is calculated at the end of each year on the basis of current exchange rates. Lastly, net public sector foreign debt (outstanding debt minus foreign exchange reserves) increased to \$18.2 billion at the end of 1993 from \$17.4 billion at the end of 1992, while, as a proportion of GDP, it rose to 21.8 per cent from 20.5 per cent in 1992.

3. EXCHANGE RATE DEVELOPMENTS

Exchange rate developments in 1993 were characterised by a deceleration in the rate of depreciation of the drachma. The drachma's effective exchange rate index, calculated by the Bank of Greece, depreciated by 7.8 per cent through

the year (1992: 10.1 per cent). The average level of this index, however, appreciated slightly to 9.2 per cent from 8.3 per cent in 1992 (Table VI.8). The



drachma/ECU rate depreciated by 6.6 per cent through the year (1992: -9.9 per cent) and by 8 per cent at average annual levels (1992: -8.7 per cent).

The parity of the drachma against individual foreign currencies in 1993 reflected developments in the European and world foreign exchange markets. The pound sterling and the Italian lira, which had abandoned the ERM of the EMS in 1992, fluctuated freely, while, in May 1993, the Spanish peseta and the Portuguese escudo were devalued by 8 per cent and 6.5 per cent, respectively. At the beginning of August, it was decided to widen to ± 15 per cent the fluctuation band of currencies participating in the ERM of the EMS. During the year, the US dollar and the Japanese yen showed an upward trend, in general, compared with the European currencies.

TABLE VI.8
PARITY OF THE DRACHMA
(Percentage changes against previous period)

	Effective exchange rate	Drachma against U.S. Dollar	Drachma against Deutschemark	Drachma against ECU
1989	- 7.1	-12.7	- 6.6	- 6.4
1990	- 9.0	2.5	-12.0	-11.2
1991	-11.2	-13.0	-10.6	-10.5
1992	- 8.3	- 4.4	-10.2	- 8.7
1993	- 9.2	-16.8	-11.8	- 8.0
1992 First quarter	- 2.1	- 1.7	- 2.1	- 2.2
Second quarter	- 2.8	- 2.5	- 2.8	- 3.2
Third quarter	- 2.3	5.8	- 4.2	- 2.8
Fourth quarter	- 2.8	-10.4	- 5.1	- 2.0
1993 First quarter	- 2.2	- 8.0	- 2.9	- 2.3
Second quarter	- 2.1	- 0.1	- 1.1	- 1.4
Third quarter	- 2.9	- 6.3	- 2.9	- 1.1
Fourth quarter	- 1.9	- 2.9	- 2.7	- 2.5

Changes in foreign currency cross-rates are reflected in the drachma's parity against individual currencies. The drachma depreciated by 13.9 per cent against the US dollar through the year (1992: 18.2 per cent) and by 16.8 per cent (1992: 4.4 per cent) at average levels. The drachma's depreciation against the Japanese yen was steeper (22.8 per cent). The Greek currency depreciated, to a greater or lesser extent, against most European currencies, though it appreciated against the Spanish peseta, the Portuguese escudo and the Swedish crown, and remained virtually unchanged against the Italian lira.

APPENDIX TO CHAPTER VI

Measures Concerning Capital Movements and Current Transactions

The full abolition of exchange controls, which was effected in 1992 for current transactions, was extended in 1993 to most capital movements, with the issue of Presidential Decree 96/1993 and of a number of decisions by the Governor of the Bank of Greece.

Specifically, by virtue of P.D. 96/23 March 1993, Greek legislation was adjusted to the provisions of Council Directives 88/361/EEC of 22nd June 1988 and 92/122/EEC of 21st December 1992 referring to capital movements between residents of Greece and residents of other EU member states.

According to the provisions of the said Presidential Decree (articles 2 and 5), almost all restrictions on capital movements with respect to EU member states were lifted. Short-term capital movements which remain restricted until 30th June 1994 are: (i) operations carried out by residents with foreign financial institutions in current and deposit accounts with original maturity of less than one year; (ii) financial loans and credits with original maturity of less than one year; (iii) personal loans with original maturity of less than one year; and (iv) physical import or export of means of payment.

Under article 8 of the same Decree, by which article 7 of the Council Directive 88/361/EEC was transposed into Greek law, capital movements were also liberalised with respect to non-EU countries (para 1), but, at the same time, the Governor of the Bank of Greece was empowered to retain restrictions on certain categories of capital movements (para 2).

For the implementation of the relevant provisions of the Decree, the Governor of the Bank of Greece issued Decisions 2199, 2200 and 2201 on 7th May 1993 and Decision 2227 on 30th June 1993. According to these Decisions:

1) The procedures for the granting of foreign exchange related to liberalised capital movements between residents and non-residents were simplified (Decision 2199/1993).

2) Important categories of transactions in foreign exchange between residents in the domestic foreign exchange market were liberalised and, at the same time, residents were enabled to conduct transactions in derivatives (Decision 2200/1993).

3) The regime for the operation of non-residents' drachma deposit accounts with domestic credit institutions and for the conduct of foreign

exchange transactions between residents and non-residents was determined (Decision 2201/1993).

4) The liberalisation was extended to non-EU countries (Decision 2227/1993) with the exception of transactions that refer to: (i) personal loans from residents to non-residents and vice-versa and (ii) sureties, guarantees and rights of pledge from residents to non-residents. In addition, restrictions vis-à-vis non-EU countries were maintained as follows: (i) direct investments in Greek border regions, maritime transport and acquisition of mining rights; (ii) investment in real estate in border regions; and (iii) participation in new or existing enterprises if engaged in radio and/or television broadcasting and air transport.

Besides, on 22nd June 1993, the Governor of the Bank of Greece issued Decision 2220, according to which Greek exporters were allowed to use proceeds in foreign exchange to: (i) cover obligations, and (ii) carry out liberalised capital movements.

BANK OF GREECE

66TH YEAR

GENERAL BALANCE SHEET

31ST December 1993

(In drachmas)

ASSETS	1993	1992	LIABILITIES	1993	1992
GOLD AND FOREIGN EXCHANGE*			SHARE CAPITAL	11,124,338,400.—	11,124,338,400.—
I. Bank's holdings	1,881,755,783,859.—	1,032,671,002,947.—	RESERVES		
II. Foreign exchange position with IMF	38,774,878,996.—	34,525,855,051.—	I. Regular reserve	11,124,338,400.—	11,124,338,400.—
III. Special Drawing Rights on IMF	11,977,996,687.—	10,348,018,145.—	II. Special reserve from the sale of shares above par	25,997,417.—	25,997,417.—
IV. ECU holdings	230,329,337,831.—	117,220,085,186.—	III. Provision according to Art. 71 of the Statutes	3,704,800,000.—	2,086,800,000.—
SUNDRY CLAIMS IN FOREIGN EXCHANGE	824,436,612,007.—	552,312,869,416.—	IV. Other provisions	1,419,657,550.—	2,067,628,233.—
COIN	1,800,042,334.—	1,335,095,133.—	VALUATION ADJUSTMENT (Law 2065/92)	2,730,764,241.—	2,730,764,241.—
TREASURY BILLS AND GOVERNMENT BONDS	336,518,208,210.—	188,340,669,170.—	BANKNOTES IN CIRCULATION	1,606,274,312,300.—	1,501,851,702,800.—
LOANS AND ADVANCES			LIABILITIES IN DRACHMAS		
I. To the Government			1. Greece State cash management	234,876,927,225.—	2,212,299,473.—
1. Long-term loans in drachmas	1,462,731,781,940.—	1,347,451,449,201.—	2. Public entities reserves	695,139,291,821.—	600,254,382,845.—
2. Loans for membership in international financial institutions	201,761,675,119.—	156,577,993,889.—	3. Deposits by banks	609,501,859,921.—	56,203,894,073.—
3. Long-term loans in foreign exchange	3,596,319,856,216.—	2,440,936,768,070.—	4. Deposits by international institutions and foreign banks	147,680,098,907.—	126,484,669,054.—
4. Long-term loans and securities with a foreign exchange clause**	2,042,167,568,518.—	1,829,128,856,094.—	5. Other deposits	29,907,006,991.—	19,607,885,004.—
II. Banks			6. Dividends for 1993	1,787,840,100.—	1,334,920,608.—
1. Advances	213,872,398,562.—	194,091,783,979.—	SHORT-TERM LIABILITIES IN FOREIGN EXCHANGE	182,279,345,099.—	226,411,425,135.—
2. Deposits	233,613,486,427.—	278,443,423,365.—	REDEPOSITS IN FOREIGN EXCHANGE BY COMMERCIAL BANKS	3,441,903,584,588.—	2,920,659,935,777.—
PUBLIC ENTITIES' INVESTMENT IN GOVERNMENT PAPER	436,000,000,000.—	436,000,000,000.—	LONG-TERM LOANS IN FOREIGN EXCHANGE ON BEHALF OF THE GREEK STATE	3,626,555,634,090.—	2,482,503,494,440.—
PREMISES AND EQUIPMENT			OTHER LONG-TERM LIABILITIES IN FOREIGN EXCHANGE	786,617,099,439.—	572,527,057,948.—
1. Land	11,483,796,028.—	11,483,796,028.—	ALLOCATION OF SPECIAL DRAWING RIGHTS (IMF)	35,318,133,547.—	30,595,077,544.—
2. Buildings and equipment	26,047,205,514.—	25,180,791,294.—	SUSPENSE ACCOUNTS	134,241,727,017.—	138,864,734,380.—
Less depreciation:			OTHER LIABILITIES	155,449,294,143.—	169,262,163,912.—
Up to 1991	21,671,275,071.—	21,687,368,587.—			
In 1992	827,803,522.—	3,493,422,707.—			
VALUE OF BANKNOTE PRINTING MATERIALS	7,223,094,325.—	6,411,673,910.—			
Less depreciation	972,752,027.—	975,506,820.—			
OTHER ASSETS	184,320,159,243.—	238,136,254,213.—			
	11,717,662,051,196.—	8,877,933,509,684.—		11,717,662,051,196.—	8,877,933,509,684.—

* The Bank's holdings in gold and foreign currency on 31st December 1993 have been calculated on the basis of the drachma / dollar parity effective on that date (Dr. 249.220 per \$ 1).
The value of gold holdings has been calculated on the basis of \$ 248.71 per ounce (65 per cent of average purchase price per ounce in \$, December 1993).

** Conversion of the outstanding balance in the account "Foreign exchange valuation differences", Law 1083/80 (art. 8).

PROFIT AND LOSS ACCOUNT

DEBIT	1993	1992	CREDIT	1993	1992
Personnel Remuneration - Pensions			Interest, commission and other earnings	68,140,798,884.—	44,648,392,938.—
Wages and salaries	15,212,115,766.—	14,339,721,091.—			
Principal and supplementary pensions	7,521,667,562.—	7,064,106,288.—			
Contributions to Personnel Insurance Funds					
Pension Fund	3,698,186,996.—	3,902,003,878.—			
Supplementary Pension Fund	1,644,786,951.—	1,394,699,838.—			
Self-insurance Fund	510,803,738.—	479,312,342.—			
Health Insurance Fund	1,187,094,000.—	973,106,903.—			
Contributions to other Social Insurance Funds and Organisations	1,212,698,844.—	1,033,003,414.—			
Other Administrative Expenses	2,914,915,791.—	2,382,988,239.—			
Depreciation					
Banknote printing materials	972,752,027.—	975,506,820.—			
Buildings and equipment (other than office equipment)	537,392,483.—	490,628,777.—			
Office equipment	290,411,039.—	222,315,021.—			
Provisions					
Provision according to art. 71 of the Statutes	1,618,000,000.—	565,000,000.—			
Sundry provisions	78,000,000.—	78,000,000.—			
Net Profit	30,741,973,687.—	10,748,000,327.—			
	68,140,798,884.—	44,648,392,938.—		68,140,798,884.—	44,648,392,938.—

DISTRIBUTION OF NET PROFIT OF DRACHMAS 30,741,973,687.—

(Article 71 of the Statutes and article 8 of Law 1083/80)

	1993	1992
Dividend on share capital, i.e. Dr. 672 per share, on 1,986,489 shares	1,334,920,608.—	1,334,920,608.—
Additional dividend of Dr. 228 per share, on 1,986,489 shares	452,919,492.—	—
Tax payment (L. 2166/93, atr. 18)	962,683,132.—	718,803,404.—
To cover valuation differences in the foreign exchange portfolio and expenses in connection with foreign exchange transactions, according to article 8, para. 1, of Law 1083/1980	27,991,450,455.—	8,694,276,315.—
	30,741,973,687.—	10,748,000,327.—

YANNIS P. BOUTOS
GOVERNOR

Athens, 16th March 1994

DIMITRIOS E. MATSIMANIS
DIRECTOR, GENERAL ACCOUNTING DIVISION

