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BANK OF GREECE

REPORT
OF
GOVERNOR E. CHRISTODOULOU
FOR THE YEAR 1991



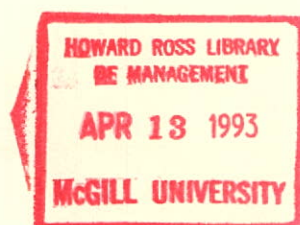
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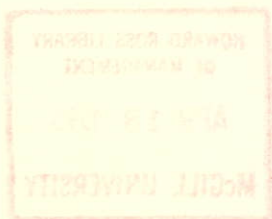


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I. THE GREEK ECONOMY AND MONETARY POLICY

1. ECONOMIC PROBLEMS AND THE CHALLENGE OF EUROPEAN UNIFICATION

The 1990s are a crucial period for the Greek economy. During this decade Greece will have to undertake the macroeconomic and structural adjustment policies required to achieve the basic goals of monetary stability and economic growth in the context of the gradual evolution towards the European Union, as agreed at the EC summit in Maastricht. The preconditions for the participation of EC member states in the Union are strict and time is limited. The required adjustments in the economy and in economic policy are far-reaching. A strong and concerted effort will therefore have to be made if Greece is not to remain on the sidelines of the united Europe gradually emerging.

Monetary stability and economic growth proved to be elusive policy goals for a relatively long period. The 1980s were characterised by high inflation, which averaged 19.4 per cent, and a low average growth rate of 1.7 per cent. During the same period, the country faced serious balance of payments problems that brought it to the brink of a foreign exchange crisis in 1985, and again at the end of 1989 and the beginning of 1990. The economy's performance was largely due to the economic policies pursued over most of the period. The efforts made from time to time, and especially during the 1986-1987 economic stabilisation programme, were short-lived and inadequate for the purpose of coping with large and increasing economic imbalances. These imbalances were mainly a consequence of the expansionary fiscal policies pursued and failure to deal with the economy's structural weaknesses.

As a result of the economic policies pursued, the economy's performance diverged instead of converging towards that of our EC partners. Furthermore, these policies led to the accumulation of high fiscal deficits and to a rapid rise in the public debt, which reached 98.3 per cent of GDP in 1991, from 32.8 per cent in 1981. Interest expenditure absorbed 42.6 per cent of tax revenue in 1991. The high public debt is a great obstacle to the efforts aimed at fiscal consolidation, as it hinders the stabilisation and recovery of the economy and, therefore, the country's timely participation in the process leading to economic and monetary union.

The Maastricht Treaty provided the legal and institutional framework for the subsequent stages of European unification. It also set the timetable for transition to the full monetary union, as well as the preconditions and proce-

dures for the participation of member states. The monetary union, which will be characterised by a single currency and a single monetary policy, will come into effect in 1997 if the majority of member states fulfil certain conditions, or on 1st January 1999 at the latest, regardless of whether the majority of member states meet the criteria for the establishment of such a union. Consequently, within a relatively short period of about five years, our country must fulfil the conditions for participation in the monetary union. In this respect, Greece is faced with a real challenge.

Participation in the process of European integration necessitates immediate action, since the country must attain a number of intermediate objectives well before 1996. As is well known, economic and monetary union is to be achieved in three stages. The first stage started in July 1990 and will be completed by the end of 1993. This stage involves the establishment of the single market and the participation of all EC member states' currencies in the exchange rate mechanism (ERM) of the European Monetary System (EMS). Consequently, ERM participation and the full liberalisation of capital movements are immediate economic policy priorities.

Following the entry of the Portuguese escudo into the ERM and recent arrangements whereby other member states liberalised capital movements, Greece is the only country in the Community that does not yet participate fully in the first stage of economic and monetary union. A rapid deceleration of inflation, to a level close to the rates of inflation in other member states, and a drastic and permanent reduction in fiscal deficits are basic prerequisites for ERM participation. It is therefore imperative to accelerate the implementation of the fiscal consolidation and structural adjustment programme and at the same time to continue pursuing consistently disinflationary monetary and exchange rate policies.

The establishment of suitable conditions for the drachma's participation in the ERM and the full liberalisation of capital movements are only the first steps on the way to monetary union. With the inception of the second transitional stage in January 1994, further substantial policy adjustments will be required, while at the same time it will be necessary to introduce the institutional changes that are essential to the transition to a single currency and a common monetary policy.

The attainment of a high degree of economic convergence among the member states of the Community is an indispensable prerequisite for their participation in the European monetary union. Convergence will be evaluated on the basis of four objective criteria relating to inflation, the amount of the

public deficit and the public debt as a proportion of GDP, the level of long term interest rates, and the length of time as well as the conditions that have to be fulfilled for the participation of each national currency in the ERM. Basically, these criteria concern the monetary or nominal convergence of member states. To meet these criteria, it will be necessary to continue pursuing a non-accommodating monetary policy over the coming years. The drachma's entry into the ERM will enhance the effectiveness of monetary policy and hasten the deceleration of inflation, since the framework for the formulation and conduct of monetary policy will change radically, thereby contributing to the establishment of monetary stability. However, inflation cannot be reduced to a level within the limits set by the convergence criteria merely by the conduct of monetary policy. It will be necessary at the same time to pursue a policy of fiscal consolidation consistently so as to mitigate the negative effects on real interest rates and economic activity, which would be the inevitable consequence of a fiscal policy that is incompatible with the non-accommodating monetary policy.

A reduction in fiscal deficits and in the public debt is essential, not only because it would enhance the effectiveness of monetary policy and prevent adverse effects on economic activity during the transitional stage, but also because it is a *conditio sine qua non* for the country's participation in the full monetary union. The new treaty embodies particularly stringent fiscal convergence criteria, in order to exclude member states with excessive fiscal deficits that might jeopardise monetary stability within the union. This does not mean that the terms of participation do not favour member states which make an effort and achieve progress in the fiscal field. In fact, a country can join the monetary union if it establishes a steady downward trend of the public debt/GDP ratio, even though this ratio may exceed 60 per cent, which is generally regarded as the participation threshold. Nevertheless, the extent of the fiscal adjustments needed in our country is still very considerable and time is running out. Unless fiscal imbalances are directly and permanently reduced, the economy's stabilisation prospects will be less than favourable and the likelihood that Greece will remain on the sidelines of a united Europe will increase.

The medium term outlook for the Greek economy depends directly on its present state and the economic policies to be pursued over this and the next few years. The review of economic developments in 1991 will make it clear that considerable progress has been made towards the stabilisation of the economy and that the trends of previous years have been reversed. At the

same time, it has been possible to accelerate the implementation of the government policy aimed at improving and restructuring the production base, with a view to enhancing the economy's productivity and competitiveness. It should be noted, however, that in an economy like Greece the process of reversing trends and establishing the preconditions for a move in the desired direction is initially slow, but accelerates when the structural adjustment measures already taken, such as those designed to improve the tax system and promote privatisation, begin to yield results.

2. INFLATION AND ECONOMIC ACTIVITY

Inflation decelerated appreciably during 1991. The consumer price index rose by 17.8 per cent compared with a rise of 22.8 per cent in 1990. This fall by five percentage points is particularly encouraging, since it occurred at a time when the policy of price liberalisation proceeded at a faster pace. Inevitably, this policy led to some increase in profit margins and had a negative effect on the deceleration of inflation, as it normally happens when price liberalisation is taking place under inadequate competitive conditions. In the medium term, however, price liberalisation is expected to mitigate inflationary pressures insofar as it contributes to more efficient market operation and an improvement in productivity. Special factors also had some bearing on price developments in 1991. On the one hand, the slowdown of inflation reflects the smaller than in 1990 impact of tax and public utility rate increases on consumer prices. On the other hand, the fall in inflation in 1991 was smaller than anticipated, because of significant increases in some public utility rates, which was necessary in order to reduce the deficits of the respective companies, and of unfavourable weather conditions in the closing months of the year, which led to substantial increases in agricultural commodity prices. In the main, however, the slowdown of inflation was due to the weakening of the pressure exerted by both demand and cost factors. It could therefore be argued that the deceleration of inflation in 1991 reflects the emergence of a lasting downward trend.

Incomes policy contributed substantially to the deceleration of inflation in 1991, as it led to a considerable slowdown in the rise of labour costs. The main features of this policy were the abolition of wage indexation in January 1991 and the setting of rates for pay rises in the civil service and in the public sector at significantly lower levels than the anticipated rate of inflation. It is

worth noting that, in the case of public enterprises and public organisations, banks and wage earners in the private sector, where wage levels were determined by collective bargaining, incomes policy was implemented without significant deviations while industrial action decreased appreciably, reflecting a sense of responsibility as well as labour's understanding of the difficulties of economic adjustment. At the same time, disinflationary monetary and exchange rate policies exerted pressure on the private sector, resulting in pay rises that were consistent with the estimated deceleration of inflation through the year. These developments led to a considerable improvement in the competitiveness of the economy, particularly in manufacturing, where the growth rate of unit labour cost fell from about 21 per cent in 1990 to 11 per cent in 1991, while competitiveness improved by about 5 per cent.

Available data also point to a considerable weakening of demand-induced inflationary pressures in 1991. Total domestic demand declined by 0.5 per cent, at constant prices, compared with a rise of 3.4 per cent in 1990. The combination of sluggish demand and non-accommodating exchange rate policy seems to have reduced the ability of many firms to pass cost increases onto prices, thus forcing them to resist pressure to raise money wages.

The same factors that were responsible for the deceleration of inflation in 1991 will also influence price developments this year. The fact that inflation did not slow down in the first quarter of the year and has stabilised at roughly 18 per cent on a twelve-month basis should not be taken to imply a reversal of the downward trend that started in early 1991. As mentioned previously, price trends over the past few months have been affected by temporary factors, such as the increase in indirect taxes on a number of goods, the rise in public utility rates since the beginning of this year and the partial liberalisation of fuel prices. The downward trend of inflation, however, is basically determined by the fiscal and incomes policy measures taken by the government at the beginning of the year and by monetary and exchange rate policies. These policies should lead with some time-lag to the emergence of economic conditions resulting in a further deceleration of inflation over the coming months.

The incomes policy adopted for 1992 is expected to contribute to the further weakening of inflationary pressures. Under this policy, pay rises throughout the public sector have been totally prohibited, with the exception of those connected with changes in family status and seniority, and — in the case of civil servants — of the extension to all categories of a special monthly allowance of 9,000 drachmas. In the private sector, where wage levels are set

by collective bargaining, the two-year agreement signed last year provides for a minimum wage increase of 5.4 per cent in January and 4 per cent in July 1992. It is therefore estimated that pay increases will be lower than the anticipated rate of inflation and that the rate of increase in unit labour cost in the economy (excluding agriculture) will fall by four to five percentage points this year. However, given the substantial fall in the tax burden this year, following the recent income tax reform, the increase in the average disposable income of wage earners will be only slightly lower than price inflation. The tax reform is also expected to make incomes policy more acceptable and induce productivity improvements.

The economic and monetary policies pursued in 1991 to stabilise the economy are reflected in the slight drop (by 0.5 per cent) in domestic demand at constant prices, which was combined, however, with an improvement in the real external balance of the economy. The result was an increase in real GDP by 1.2 per cent, compared with a virtual standstill in 1990. Following public expenditure cuts aimed at reducing public deficits, public consumption decreased by 0.6 per cent at constant prices and had a contractionary effect on domestic expenditure. By contrast, despite a small drop in real disposable income, private consumption contributed to an increase in domestic demand, though at a significantly lower rate than in the previous year (1991: 0.8 per cent, 1990: 2 per cent). The maintenance of private consumption at a relatively high level in 1991 is partly attributable to the fact that the decline in wage earners' real disposable income as a result of the tight incomes policy was offset by a rise in the incomes earned by other population groups. Specifically, it is estimated that real agricultural income increased by about 10 per cent, mainly because agricultural production returned to its normal level, following the drop due to adverse weather conditions in 1990. Domestic expenditure was negatively affected by total fixed capital investment, which fell by 2.1 per cent relative to a rise of 4.8 per cent in 1990. The fall in fixed capital investment reflects the decline in private investment (estimated at 4 per cent), whereas public investment, including both government investment and investment by public enterprises, grew by 4.1 per cent. This increase resulted from the accelerated implementation of investment programmes under the Community's Support Framework by raising the economy's absorptive capacity with regard to EC funds intended to finance development projects in Greece. The increase in public investment is needed to strengthen infrastructure, which is essential to economic recovery. The decline in private investment was mainly due to the drop in housing investment, while other

private investment showed only a marginal increase, although many firms have improved their financial position and the inflow of investment capital from abroad has increased.

The sluggishness of business investment is associated with low rates of return on capital. In spite of an improvement in the profit margins of many firms in 1991, the rate of return on invested capital is still low and seems to make firms hesitant in undertaking new investment projects, particularly in view of high interest rates, sluggish domestic demand and unfavourable international economic conditions. Low profitability is largely a reflection of the expansionary incomes policies pursued in earlier years, which led to a sharp increase in wage earnings and, consequently, in production costs. At the same time, price controls were a source of market distortions, with considerable negative effects on the financial position of enterprises, particularly when firms were not allowed to pass cost increases onto prices. A rise in profitability is necessary in order to improve the business climate, provide stronger incentives for investment and increase the capacity of firms to finance investment internally. In this respect, the contribution of incomes policy and price liberalisation policy was particularly significant in 1991.

Nevertheless, an improvement in the rate of return on capital is not a sufficient condition for an increase in business investment. Measures must also be taken to increase market efficiency, strengthen economic infrastructure and establish an environment of economic stability and consistency. Business investment will also be influenced favourably by an improvement in the political climate and the establishment of stable conditions in the region. Only a sustained increase in investment would make possible the expansion and restructuring of the economy's productive base and the improvement in productivity required, if the country is to take advantage of the opportunities arising from the single European market.

The increase in GDP last year proved insufficient to have a favourable effect on the labour market. According to available data, total employment fell by 1 per cent, reflecting the continuing decline of employment in rural areas despite considerably higher agricultural production, and the limited increase in employment in urban areas. With the labour force virtually unchanged, this development had the effect of raising the unemployment rate by one percentage point to 8.1 per cent, while data published by the Manpower Employment Agency show that registered unemployment reached 7.3 per cent of the labour force.

The implementation of the fiscal consolidation programme and the conduct of a tight monetary policy in this and the next few years are not incom-

patible with the recovery of economic activity. Any deflationary effects could be offset through an increase in investment, particularly export-oriented investment, and an appropriate utilisation of Community funds. An increase in the economy's productive capacity and productivity together with an improvement in the competitiveness of Greek products would contribute to the expansion of economic activity, thereby reducing the short-term economic and social cost of adjustment.

3. BALANCE OF PAYMENTS AND EXCHANGE RATE POLICY

The balance of payments improved substantially in 1991, despite the adverse effects of the Gulf War on certain important items, such as oil imports and foreign exchange receipts from tourism. Specifically, the deficit on current account decreased from \$3,562 million in 1990 to \$1,520 million in 1991. As a proportion of GDP, it fell from 5.4 per cent in 1990 to 2.2 per cent, the lowest figure in the last fifteen years (excluding 1988, when it dropped to 1.8 per cent). During the remainder of this period the deficit ranged from 2.6 per cent to 9.8 per cent of GDP. To a significant extent, the improvement in the balance of payments was the outcome of the economic and monetary policies pursued in 1991, which helped to contain demand, while in our principal trading partners demand increased by 1 per cent. The policies pursued also contributed to a weakening of expectations of a possible devaluation of the drachma, with a favourable impact on the balance of payments, especially on the invisible account. The increase in the invisible trade balance partly reflects the substantial rise in net transfers from EC institutions. This increase in the inflow of EC transfers to a certain extent is also due to the notable improvement in our country's capacity to absorb funds available under various Community programmes.

The improvement in the current account balance derived entirely from a \$2,021 million increase in the invisible trade surplus. The latter financed 88 per cent of the trade deficit, which remained unchanged, owing to the reduction in the oil account deficit by \$199 million and the slightly lower rise (\$179 million) in the non-oil merchandise trade deficit. The drop in the net oil bill was, however, considerably less than that merited by the fall, since the beginning of the year, in world crude oil prices, owing to the time lag between the date on which oil purchases are contracted for and the date of settlement of the contract.

The widening of the non-oil trade deficit by 1.8 per cent was due to an increase of 1.3 per cent in import payments and 0.6 per cent in export earnings. Almost half of the increase in the non-oil import bill came from the exceptionally large increase in imports of private motor cars, following the significant reductions in car excise taxes. Developments in real non-oil import and export aggregates were more favourable. Specifically, foreign trade statistics deflated by the respective wholesale price indices show that imports grew by 1.9 per cent and exports by 3.7 per cent in 1991.

These data, taken together with foreign demand developments in major markets, show that Greek products improved their share in international markets. It seems, however, that this is not valid for Greek products in the domestic market, considering that the volume of imported goods increased further above the already high levels of recent years, despite a slight drop in domestic demand. This should be attributed to the structural weaknesses of domestic production. A lot of products embodying modern but also traditional technology are not produced at all or are produced in limited quantities in Greece. It is therefore impossible to substitute similar domestic products for imported goods.

The increase in the invisible trade surplus was due to a rise of 17.7 per cent in receipts and 6.8 per cent in payments. A particularly large contribution to the increase in invisible receipts came from net EC transfers, which reached \$4,034 million compared with \$2,901 million in 1990. Excluding net transfers from the EC, invisible receipts grew by 11.6 per cent and the invisible trade surplus by 15.1 per cent. These growth rates are considered to be quite satisfactory, in view of the unfavourable international environment, particularly for tourism, and the appreciation of the dollar.

The basic balance of payments also showed a marked improvement, despite a small (about 6 per cent) decline in net private capital inflow, which reached \$2,514 million. The decrease in net private capital inflow was mainly due to a considerable drop in the net inflow of foreign exchange deposits, basically because of increased drachma withdrawals, and to the doubling of amortisation payments, which is related to the large increase in venture capital inflows over the last two years (1990: 40.8 per cent, 1991: 49.9 per cent). To a significant extent, the increased inflow of business capital was due to borrowing by Greek firms from foreign sources, owing to the big differentials between domestic and international lending rates and the limited foreign exchange risk. Developments in the balances on current and capital account, taking into consideration the relatively small change in the "errors and omissions" item,

resulted in a basic balance surplus of \$783 million compared with a deficit of \$1,032 million in 1990. This surplus and the public sector's net borrowing (\$911 million) are reflected in the substantial increase in the country's foreign exchange reserves, which reached \$4,722 million (excluding gold reserves) at the end of 1991, from \$2,971 million at the end of 1990. Including gold, foreign exchange reserves at the end of 1991 totalled \$ 6,449 million or 9 per cent of GDP.¹

According to provisional estimates, public sector foreign debt reached \$23,670 million at the end of 1991, compared with \$22,030 million at the end of 1990. This increase was almost entirely due to net foreign borrowing, while valuation changes had a limited effect. As a proportion of GDP, public sector foreign debt remained virtually unchanged (1991: 33.1 per cent, 1990: 33.2 per cent). The net foreign debt/GDP ratio (debt minus foreign exchange reserves) decreased, however, to 24.6 per cent, from 26.7 per cent in 1990.

In spite of its improvement in 1991, the balance of payments may eventually prove to be a constraint on the process of convergence of the Greek economy. The trade deficit/GDP ratio remains at a high level, mainly reflecting the economy's limited production base, a fact which hinders import substitution and the dynamic growth of exports. Only a significant increase in investment and an expansion of productive capacity can promote the necessary change in the composition of production in favour of products embodying modern technology, which would lead to the containment and eventual reduction in the trade deficit. Considering that the import bill is almost three times as high as export earnings, exports must increase much faster than imports if the trade deficit is not to rise. In addition, the long term prospects of invisible transactions and capital movements are relatively uncertain, owing to the country's high external debt and the concomitant large cost of debt servicing, as well as the abolition of exchange controls on invisibles and capital movements.

Exchange rate policy in 1991 retained its disinflationary stance, as it did not fully offset the inflation differential between Greece and its trading partners. On the basis of the weighted exchange rate index compiled by the Bank of Greece, the drachma depreciated by 11.2 per cent in 1991, at average annual levels. This rate of depreciation was about one percentage point less

¹ In the balance of payments, gold is valued at 65 per cent of the average market price in December of the preceding year.

than the inflation differential between Greece and its trading partners, thereby leading to a proportionate rise in the real exchange rate index based on the consumer price index. A slightly faster rise was seen in the drachma's real exchange rate index based on the wholesale price index. In contrast to the above two indices, the drachma's real exchange rate index based on unit labour cost in industry improved by 5.2 per cent. This development had a favourable impact on the competitiveness of Greek products, reversing the trend of the past few years.

The stance of exchange rate policy will remain the same in 1992. The economy's competitiveness, however, as measured by relative unit labour costs in manufacturing, should improve further, owing to the restrained rise in labour remuneration envisaged in the biennial (1991-1992) national collective labour agreement and mainly because of improved productivity. A significant contribution to higher productivity in manufacturing is expected from the liquidation and/or privatisation of several overindebted industrial firms, most of which are overstaffed. The improvement in the economy's competitiveness, in conjunction with the weakening of inflationary pressures, will enable the government to meet its commitment that the drachma will join the exchange rate mechanism of the EMS in 1993.

4. PUBLIC DEFICIT AND PUBLIC DEBT

The fiscal consolidation programme, which is central to the government's economic policy, is aimed at a gradual reduction in fiscal deficits and a reversal of the upward trend of the public debt/GDP ratio. In 1991 and the beginning of this year there was progress towards restoring fiscal balance: the public deficit as a percentage of GDP fell, the public debt was restructured, the financing of the public deficit improved, and the privatisation programme accelerated. Nevertheless, fiscal adjustment has not yet reached the point necessary for attaining the medium term economic objectives that are an essential prerequisite for the country's participation in the European economic and monetary union.

The net borrowing requirement of the public sector, on a cash basis, fell to 16.1 per cent of GDP from 18.7 per cent in 1990. This was the first decrease after three years of continuous increases and reflected the containment of the central government's primary deficit, namely the deficit net of interest on the public debt. The primary deficit, on an accrual basis, dropped

to 2.8 per cent of GDP, from 6.1 per cent in 1990 and 10.4 per cent in 1989. This improvement by 7.6 points over the last three years is considered satisfactory and is indicative of the extent of the fiscal adjustment achieved so far. The primary deficit is a better indicator of the stance of fiscal policy, since it is not influenced by such factors as the level of interest rates and the restructuring of outstanding public debt, which are not directly connected with current fiscal management.

The decrease in the central government's primary deficit in 1991 was due to a slowdown in the growth rate of primary expenditure, i.e. expenditure excluding interest payments, and to the fact that budget revenue grew much faster than expenditure. Specifically, primary expenditure under the ordinary budget increased by 12.2 per cent (1990: 17.8 per cent), while revenue rose by 27.2 per cent (1990: 35.4 per cent). Although revenue grew considerably faster than expenditure, it fell short of budget forecasts by an amount corresponding to 4.6 per cent of GDP. Over half of this shortfall was due to delays in the implementation of the 1990 privatisation programme and the fact that the full amount of budgeted revenue from the containment of tax evasion and the sale of land bonds failed to materialise. Moreover, the negative impact of the economic recession on revenue was stronger than expected. Expenditure under the public investment programme increased by 30.2 per cent (1990: 10.3 per cent), but did not have an appreciable effect on the primary deficit, because of a large increase in transfers from EC Funds.

The central government's total deficit, including the cost of public debt servicing, was influenced in different ways, first by the considerable changes in the means and cost of its financing and, secondly, by the restructuring of the government debt held by banks and the consolidation of public enterprises' and public organisations' overdue bank loans with a government guarantee.

There was little difficulty in financing the fiscal deficit in 1991, even though it was still high. For a third consecutive year, about 90 per cent of the broader public sector's net borrowing requirements were met from domestic sources. Most of the central government deficit was financed by the sale of government paper on the domestic nonbank market. In 1991, the net amount (new issues minus redemptions) of government securities purchased by private investors reached 1,372 billion drachmas (1990: 814 billion) corresponding to 68 per cent of the PSBR (1990: 43 per cent). Banks and specialised credit institutions financed a mere 2 per cent of the PSBR through compulsory investment in government paper, and the Bank of Greece 5 per cent. These trends are considered particularly favourable, since they point to a drastic cut

in the monetary financing of the public sector, a fact which has enhanced the effectiveness of monetary policy. Besides, they are consistent with the country's commitment to eliminate, by the end of 1993, the financing of the public sector by the central bank as well as the sector's compulsory or preferential financing by other credit institutions.

The financing of the greater part of the deficit from the nonbank market became possible because, despite the gradual deceleration of inflation, interest rates on Treasury bills remained at a high level in 1991. Moreover, the tax imposed as from 1st January 1991 on interest income from bank deposits, together with the very limited adjustment of deposit rates, increased the difference in net yields in favour of government paper. The greater reliance on the market for financing the public deficit facilitated the conduct of monetary policy, but burdened the 1991 budget with higher interest payments. On the other hand, the conversion since September 1991 of short term debt amounting to roughly 1,500 billion drachmas into medium and long term bonds led to a reduction in the cost of debt servicing by 115 billion drachmas in 1991, as the payment of interest on these bonds was deferred to 1993 and beyond. In spite of this arrangement, outlays for interest payments in 1991 totalled 1,448 billion drachmas and absorbed 42.6 per cent of tax revenue.

In the last quarter of 1991 and in early 1992, an agreement was reached between the government and commercial banks that the part of the public debt which was compulsorily held by banks would be restructured. This agreement is particularly important, not only because it will facilitate debt management, but also because it will increase banks' flexibility in managing their own portfolios. Under the agreement, a total of 1,538 billion drachmas' worth of Treasury bills was converted by the end of March 1992 into bonds maturing in three to eight years. As a result, commercial banks' compulsory investment in Treasury bills decreased to 10 per cent of their drachma deposits, from 40 per cent at the end of August 1991. Commercial banks were given the option and chose to convert into long term bonds the greater part of the Treasury bills they were compelled to hold, because these bonds offer higher yields and are marketable. Consequently, public debt restructuring is expected to have a positive effect on commercial banks' profitability and liquidity in the medium term. The deferment of the payment of interest in 1992 and its capitalisation are not likely to create liquidity problems for commercial banks.

Although the PSBR was reduced by about 3 percentage points of GDP in 1991, its relatively high level, in conjunction with the change in the means of financing and the increase in the average cost of borrowing by about one

percentage point, led to a further substantial rise in the central government debt, to 98.3 per cent of GDP at the end of 1991. This rise was partly due to the two bond issues by which the government paid guarantees (totalling 626 billion in 1990 and 525 billion drachmas in 1991) on bank loans that had been made to public enterprises and public organisations in previous years. These arrangements do not appreciably affect the debt of the public sector, since the central government effectively undertook to service overdue state guaranteed loans to enterprises and social insurance organisations belonging to the public sector. Part of the debt consolidated in this way, however, concerned loans to "ailing" firms and other organisations in the private sector. To the extent that this consolidation concerns loans in this category, the central government debt increases by the same amount as that of the public sector. Following this consolidation, the debt of general government, which includes central government, local authorities and social insurance funds but excludes public enterprises and the commercial activities of the state, is estimated to have reached 99 per cent of GDP by the end of 1991.¹

The continuing rise in the public debt/GDP ratio suggests that, despite significant progress towards fiscal consolidation, the restoration of fiscal balance will necessitate a strong effort in 1992 and the coming years. The dynamics of public debt has entered a critical phase. The conduct of disinflationary policy and, specifically, the maintenance of high real interest rates for financing the public deficit and ensuring external balance in the context of the single European market — especially if this policy is accompanied by a relatively low rate of economic growth — creates the conditions for a further rise in the public debt/GDP ratio. To reverse the upward trend so that this ratio can gradually approach 60 per cent, as agreed at the Maastricht summit, it is essential to generate relatively high primary surpluses in the government budget. If these surpluses are not achieved, the economy may enter a phase of instability, the prospects of recovery will not be favourable, the deceleration of inflation will prove to be transient and, consequently, the country will not be able to take part in the process of European unification.

The creation of primary budget surpluses requires a systematic and sustained effort aimed at further reducing primary expenditure and increasing

¹ The debt of general government is only slightly higher than the debt of central government, because (i) central government was burdened with guarantees on loans to public enterprises and public organisations, and (ii) the other obligations of local authorities and social insurance funds included in the debt of general government were partly offset by the surpluses of certain other public organisations.

revenue by eliminating the real structural causes of fiscal deficits. The fiscal problem can only be solved by improving the functioning and reducing the size of the public sector, as well as by increasing the efficiency of the tax system and making it more equitable.

There is considerable scope for an increase in revenue through an expansion of the tax base and privatisation. Tax evasion is still widespread and it can be reduced by the growing use of electronic data processing systems in tax assessment and collection services — satisfactory progress has already been made in this connection — but it will also be necessary to step up tax controls and data crosschecking and impose stiff penalties on those who evade tax payments. The measures included in the new tax bill shortly to be passed through parliament, especially those extending tax withholding to other categories of taxpayers besides wage earners, can contribute effectively towards solving the problem of tax evasion. Similar measures designed to eliminate the evasion of contribution payments have to be taken by social security organisations. The reform of the tax system should also include the removal of various disincentives in an effort to enhance the competitiveness of domestic production and attract a growing volume of foreign investment. In conjunction with tax controls, data crosschecking and strict penalties, the removal of tax disincentives could also help to reduce the size of the underground economy and increase tax revenue. Furthermore, the inclusion of even part of the underground economic activity in official income statistics would increase measurable GDP, thus reducing certain crucial magnitudes (such as fiscal deficits and the public debt, which are measured as a proportion of GDP) and providing a more accurate picture of the level of economic welfare. It is important to emphasise that dealing with fiscal imbalances solely through an increase in indirect taxation would be an ineffective solution, since it would cause a resurgence of inflation. At the same time, it could lead to complacency and delays in the implementation of measures aimed at fiscal consolidation.

The privatisation process, which has recently accelerated, will also help to increase public revenue and reduce the subsidisation of overindebted firms. However, the main reason for the sale of public enterprises should be their more efficient management and operation and not the temporary financing of the public deficit. In a more general sense, the aim of fiscal policy should be not only to reduce the public deficit, but also to eliminate the underlying causes of fiscal imbalances, by the adoption of appropriate measures.

5. MONETARY DEVELOPMENTS AND MONETARY POLICY

5.1 Monetary Developments in 1991

The salient features of monetary and credit developments in 1991 were (i) a sharp deceleration in the growth rate of broad money (M3) and total domestic credit expansion, and (ii) the maintenance of interest rates at a high level, which implied a substantial rise in real interest rates during the year. These developments reflect the impressive increase in public sector financing from the domestic nonbank market and the ongoing process of deregulation of the banking system and liberalisation of external transactions.

Broad money (M3), which includes currency circulation and total private deposits in drachmas, increased by 9 per cent as against 14.2 per cent in 1990 and an initial target range of 14 to 16 per cent for 1991. This was due to a slowdown in the growth rate of currency circulation and mainly of private deposits, reflecting a considerable reduction in bank intermediation. Bank intermediation was partly offset by the tapping of the market by banks through the sale of repos to individual investors and private firms. If the holdings of repos and bank bonds by the private sector are added to M3, the growth rate of this expanded aggregate approached 12 per cent in 1991. Consequently, bank intermediation decreased owing to the substantial shift of funds from deposits to direct purchases of government paper. This is mainly the result of the widening of the difference between net yields on deposits and government securities, especially after the introduction of the withholding tax on interest income from deposits in January 1991.

The fact that M3 grew at a lower rate than the target set for 1991 is not sufficient for assessing the restrictiveness of the monetary policy pursued during the year, since a substantial part of government securities held by the public is characterised by a high degree of liquidity. The Bank of Greece therefore monitors a broader monetary aggregate which, in addition to currency circulation and private deposits, includes repos, bank bonds and government securities with maturities of up to twelve-months held by individual investors and private firms. This aggregate (M4), which is also employed by other central banks as an index of the private sector's liquidity, increased by 22.8 per cent, only slightly faster than in 1990 (22.2 per cent). Considering that the growth rate of M4 remains at a high level, it could be argued that monetary policy was less restrictive than what is suggested by the change in M3, since the significantly lower growth rate of M3 relative to nominal

income was due to a diversification of private investors' portfolios. It should be pointed out, however, that government paper is less liquid than time deposits with similar maturities, owing to the limited development of the secondary capital market.

In recent years, the relationship between monetary and credit aggregates on the one hand and GDP or the expenditure of the economy on the other has generally been unstable. This is due not only to the introduction of new financial products and changes in the incentives for holding specific types of liquid assets, but also to the ongoing deregulation of the banking system and liberalisation of capital movements. In view of the disruption of the relationship between monetary aggregates and nominal income, the monetary authorities employ additional variables that yield information on the stance of monetary policy. Among them, the level of real interest rates is regarded as a useful index, which is also employed widely in intercountry comparisons. Real interest rates rose by 3 to 4 percentage points in 1991, because nominal rates either fell only slightly towards the end of the year, as in the case of Treasury bill rates, or remained unchanged, as in the case of interest rates on bank loans to the private sector, as banks sought to maintain wide margins between deposit and lending rates.

Domestic credit expansion in 1991 was also lower than the relevant forecast. Specifically, it fell to 10.1 per cent from 15 per cent in 1990, reflecting a considerable deceleration of credit expansion to the public sector (from 14.3 per cent in 1990 to 7.1 per cent in 1991), whereas credit expansion to the private sector remained virtually the same (16.2 per cent compared with 16.5 per cent in 1990).

Credit expansion to the public sector slowed down even though the net PSBR, particularly the borrowing requirement of central government, was higher relative to government budget forecasts. This deceleration reflects the fact that public sector borrowing from the domestic nonbank market was much larger than in 1990. As mentioned previously, the absorption of substantial amounts of funds from the market was achieved mainly owing to the wider net yield differentials between Treasury bills and bank deposits.

Bank credit to the private sector grew by 16.2 per cent, as against 16.5 per cent in 1990. As already noted, nominal interest rates on drachma-denominated loans to the private sector remained almost unchanged during the year, leading to a rise in real interest rates by about 4 percentage points. Because of this improvement and the stabilisation of expectations regarding the exchange rate of the drachma, there was a substantial substitution of

drachma-denominated loans with loans in foreign exchange. The change in loans denominated in foreign exchange, granted by commercial banks operating in Greece, accounted for 36 per cent of their total credit expansion in 1991, compared with 16 per cent in 1990. Furthermore, Greek firms resorted to borrowing from foreign banks to a greater extent than formerly. It should be noted that competition between banks in attracting first class customers has recently led them to offer firms new low-cost financial schemes and, especially, loans in foreign exchange. This has further differentiated the cost of borrowing borne by Greek firms and has placed those which borrow exclusively in drachmas at a disadvantage. If total credit expansion to the private sector (16.2 per cent) is corrected for valuation changes in the outstanding balances of loans in foreign exchange and for the amount of interest accrued on non-performing Agricultural Bank loans in previous years, the above-mentioned growth rate falls to 13.2 per cent, which is also lower than the target set for 1991 (14 per cent). New housing loans by the Mortgage Bank also increased at a markedly low rate, because, like investment banks, the Mortgage Bank faced difficulties in selling new bank bonds on the market, owing to competition from government paper.

The general conclusion from monetary and credit developments in 1991 is that monetary and credit expansion slowed down to levels significantly lower than intermediate monetary targets and that monetary policy, in conjunction with exchange rate policy, contributed effectively to the deceleration of inflation and the substantial improvement in the balance of payments. The success of monetary policy partly reflects the use of a more appropriate mix of incomes, fiscal and monetary policies than in the past. Nevertheless, fiscal adjustment was less than expected and monetary policy consequently bore the brunt of the stabilisation effort, although to a smaller degree than in previous years. Developments in 1991 show that much greater progress can be made over the coming years, provided that a suitable monetary and fiscal policy mix is chosen.

5.2 The Monetary Policy for 1992

The principal monetary policy objective for 1992 is to support the economic stabilisation policy which, as mentioned previously, is an essential precondition for the country's participation in EMU. At the same time, during the current year, the operating framework of the banking system and the ways and

means by which the Bank of Greece intervenes in the markets will have to be changed, in order to enhance the competitiveness of banks and the effectiveness of monetary policy in attaining macroeconomic goals.

Monetary policy targets for 1992 were set on the basis of government forecasts concerning the principal macroeconomic aggregates. In this connection, due consideration was given to (i) forecasts of a rise in GDP by 15.5 per cent at current prices and a deceleration of inflation to 12 per cent by year-end, and (ii) an estimate that the basic balance of payments will show a surplus of the order of \$1 bn to \$1.5 bn. It should be pointed out that the announcement of monetary policy targets at the beginning of each year, besides setting the limits within which markets should operate, underlines the extent of the adjustment required to attain macroeconomic objectives. In particular, the ambitious target of 12 per cent inflation by the end of the year is intended to make the disinflationary stance of monetary policy clear to all participants in the economic process, so that they will become aware of the obligations they are undertaking. Considering that the need to participate in the process leading to EMU is widely accepted in Greece, it is particularly useful to stress the magnitude of the required adjustment and the consequences of any eventual deviation.

The aim of monetary policy for 1992 is to restrain the growth rate of M3 between 9 and 12 per cent. M3 has been redefined this year to comprise both repos and bank bonds. The new expanded M3 had increased by 15.3 per cent in 1990 and 11.8 per cent in 1991. The reduced deceleration of the growth rate forecast for 1992 reflects the partial restoration of bank intermediation, since it is estimated that the further shift of deposits towards government paper will be limited. In any case, the Bank of Greece will keep monitoring changes in M4 which, besides repos and bank bonds, includes private sector holdings of Treasury bills and government bonds with maturities of up to one year. Although, as mentioned previously, the typical features of short term government securities do not differentiate them appreciably from time deposits of similar maturity, the degree of liquidity of these securities is definitely lower. As pointed out on other occasions, however, pending the introduction of larger amounts of medium term government paper, the monetary authorities must also monitor changes in this indicator of the economy's liquidity, since differences in the degree of liquidity of various types of liquid assets diminish with the development of the markets.

To restrain the growth rate of M3 within the desired limits, domestic credit expansion to the private and the public sector must fall to between 7

and 9 per cent, from 10.1 per cent in 1991. It is estimated that credit expansion to the private sector can reach 14 to 16 per cent, provided that the public deficit is restrained at budgeted levels and that most of it is financed by the sale of government paper on the nonbank market. Credit expansion of this size is considered adequate for meeting the private sector's borrowing requirements, as estimated on the basis of forecasts concerning the growth rate of GDP and the level of real lending rates charged to the private sector. The Bank of Greece pays close attention to developments in total domestic credit expansion and will not hesitate to take steps to correct any eventual deviations. Since faster credit expansion to one sector may be offset by slower credit expansion to the other sector, it has not been considered advisable to set individual targets for bank credit to the private or the public sector. It should be noted that the forecast level of total domestic credit expansion excludes an amount of roughly 460 bn drachmas of interest accrued on government bonds held by banks, on which no interest is to be paid in 1992. In addition, an effort is being made to ensure the timely provision of statistical information on the growth of foreign exchange loans, so as to enable the monetary authorities to obtain a more comprehensive view of the private sector's accumulation of debt.

Nominal lending rates charged to the private sector are expected to drop faster than inflation in 1992. Following the gradual decrease in the percentage of bank deposits compulsorily invested in government paper, as well as the restructuring of the public debt through the conversion of mandatory investment in Treasury bills into bonds by those banks which have chosen to do so, the necessary preconditions have been established for reducing the spread between deposit and lending rates. The decrease in lending rates is not expected to be the same for all banks, not only because the recent measures to deregulate the banking system have influenced to a different degree the composition and yields of individual bank portfolios, but also because of disparities in the average cost of funds. It is nevertheless expected that the pressure of market competition will cause lending rates to fall faster than inflation, considering that banks' profits will still remain at a satisfactory level. The drastic curtailment of restrictions on bank portfolio management and the gradual resolution of the banks' disputes with the State have significantly altered the operating framework and the terms on which banks offer their services. Consequently, bank customers may legitimately expect that, in a competitive environment, the cost of bank intermediation will fall.

The general level of interest rates, which is influenced to a considerable extent by the minimum interest rate on savings deposits, will gradually drop as inflation decelerates. A faster decrease in nominal interest rates, which would also entail a decline in real rates, would depend on progress towards the establishment of both internal and external balance. Adjustment of the general level of interest rates must have a reasonable prospect of success and effectiveness, since a return to quantitative restrictions and administrative credit controls would be unthinkable at present as we proceed towards EMU. The Bank of Greece will endeavour to contribute to the mitigation of economic imbalances by relying on indirect means of monetary control and a further slackening of restrictions on capital movements.

When the drachma joins the ERM, interest rate policy will play a critical role in supporting the parity of the drachma within the band. But the avoidance of pressures in foreign exchange markets necessitates considerable progress in reducing imbalances, particularly in the fiscal sector. If the policy mix is inapt, then monetary policy alone will be unable to neutralise these pressures effectively. Greek interest rate policy must be in harmony with the corresponding policies of other EC member states. Moreover, it should not be overlooked that the level of lending rates charged to firms or the government depends not only on actual requirements at the time of borrowing, but also on the size of the borrower's cumulative debt. The conduct of a flexible interest rate policy presumes markets of sufficient size and breadth to allow for the use of the intervention instruments normally employed by central banks. This is an important sphere of action, in which the Bank of Greece plans to make radical changes. The improvement and harmonisation of intervention mechanisms, however, presume the abolition of constraints differentiating the operating framework of banks in Greece from that of banks in other member states of the Community. The last two years were marked by significant progress in this direction, while the government has already announced further measures which will lead to the lifting of restrictions that have remained in force for decades.

Specifically, after the abolition of the requirement on commercial banks to allocate a given percentage of their deposits for financing public enterprises and public organisations, the Bank of Greece has gradually reduced the proportion of new bank deposits invested in Treasury bills and government bonds. This requirement, which was progressively reduced from 40 per cent at the end of 1990 to 30 per cent at the end of 1991, has already fallen to 25 per cent and is to be cut to 20 per cent on 1st July and 15 per cent on 1st October

1992, reaching zero per cent by mid-1993. Also, since September 1991, the government has restructured its cumulative short-term debt by offering banks the option of investing the respective funds in negotiable medium term bonds bearing interest rates linked to the twelve-month Treasury bill rate. A total of 1,538 bn drachmas has been invested in these bonds so far. Consequently, apart from the gradual reduction in this requirement from 40 to 25 per cent at the margin, with the prospect of a drop to zero per cent by mid-1993, the amount of compulsory investments in Treasury bills still held by banks has fallen to 10 per cent of the outstanding balance of bank deposits. These developments have influenced government borrowing policy, the banks' operating framework, and the conduct of monetary policy to a considerable degree.

The government is abandoning a source of funds which was particularly important in the past and at times offered the added advantage of lower cost relative to market rates. In recent years and especially in 1991, the low growth rate of bank deposits limited the share of banks' compulsory investments in financing the public deficit. With the abolition of compulsory and therefore privileged financing of the public sector by the banking system, as stipulated in the Maastricht Treaty for all member states of the Community, the government will finance on market terms the total amount of the public deficit. Consequently, the higher cost of funds should also exert pressure on the government to reduce the public deficit.

As far as commercial banks are concerned, the abolition of the compulsory investment requirement means that market rates will apply to a significant part of their portfolio and that, therefore, the wide spread they had to retain between deposit rates and private sector lending rates will decrease.

Finally, regarding the conduct of monetary policy, apart from the expected convergence between public and private sector lending rates, it should be pointed out that the compulsory investment requirement also operated as an automatic stabiliser of changes in bank liquidity. The stabilising effect will of course cease with the abolition of the requirement. This is already being felt after the requirement was cut to 25 per cent, with the result that for each reduction in bank deposits the amount released is considerably smaller. The need therefore arises for bolder interventions by the Bank of Greece, in order to smooth out seasonal changes in bank liquidity.

Further progress must also be made towards reducing the percentage of bank deposits earmarked for the financing of small scale manufacturing. Under recent Bank of Greece decisions, unused balances of earmarked funds will remain in a non interest bearing account with the Bank of Greece and it

will be prohibited to invest them in Treasury bills or bonds issued by investment banks. In terms of the supply of funds, these arrangements offset the recently announced reduction in this earmarking requirement from 10 to 7 per cent. At the same time, the interest rate on loans in this category has been linked to the interest rate on twelve-month Treasury bills, thereby offering banks an incentive to finance small manufacturing firms. Further measures will have to be studied in cooperation with the government, which is responsible for deciding the desired form of support to small scale manufacturers, always within the limits of EC directives.

6. THE GREEK ECONOMY, EUROPEAN UNIFICATION AND THE BANK OF GREECE

An assessment of recent trends and current economic conditions in Greece leads to the conclusion that, despite significant progress, sustained and concerted efforts will have to be made over the coming years to enable the country to achieve economic stability and growth and participate on equal terms with the other member states of the European Community in the process leading to EMU.

The challenge we are facing is twofold. On the one hand, the required monetary convergence must be achieved within a relatively short period of time, so that the conditions for the economy's participation in EMU will be fulfilled. On the other hand, the gap between Greece and the rest of the Community in terms of real national income must be narrowed, if real convergence is to be established. The Bank of Greece will play a leading role in the effort to achieve monetary convergence, while it can also contribute to the establishment of real convergence.

It is generally accepted by now that monetary stability is essential to the attainment of high rates of sustainable economic growth and should not be regarded as a competing goal. This fact defines the role of central banks, both in the transitional and in the final stage of EMU. The independence of central banks is a basic prerequisite for achieving and maintaining price stability. The authorities responsible for the formulation and conduct of monetary policy should not be subject to pressures to pursue a policy aimed at short term objectives that may be inconsistent with monetary stability in the long run.

The assignment of responsibility for the achievement and maintenance of monetary stability to a politically independent European Central Bank is justified by past experience and is expressly stipulated in the Maastricht

Treaty. According to this Treaty, which is expected to be ratified by the end of 1992, the institutional structure of EMU will be completed through the establishment of the European Central Bank (ECB) and the European System of Central Banks (ESCB), as well as through the adoption of a single currency. This solution was considered to be the most suitable one in an environment of irrevocably fixed exchange rates combined with the free movement of goods, capital and services. In the final stage of EMU, which will start on 1st January 1999 at the latest, participant countries will pursue a single monetary policy and national central banks will be able to influence its formulation only through the participation of their Governors in the Governing Council of the ECB. Monetary policy decisions taken by the Council will be implemented by national central banks according to the principles of subsidiarity and comparative advantage. To a degree, these two principles introduce competition between national central banks, since the extent of certain operations of each national central bank will depend on, among other things, the relative cost of the specific operation in conjunction with the corresponding productivity. In other matters, such as prudential supervision and ensuring the stability of the financial system, as well as the promotion of the smooth operation of the payment system of each member state of the European Community, national central banks will enjoy, in the final stage of EMU, greater independence than in the conduct of monetary policy.

The role of the Bank of Greece and its contribution to the attainment of monetary stability will be particularly important in the first and the second stage of EMU, i.e. over the next five to seven years. Decisions on monetary and exchange rate policies, as well as other functions during this transitional period, will still be within the field of competence of national central banks, in the context of course of the EMS and the gradual increase in inter-institutional cooperation. As stipulated in the Maastricht Treaty, the present system of central bank cooperation and coordination will be enhanced by the establishment of the European Monetary Institute (EMI) on 1st January 1994. The EMI will aim at a more effective coordination of national monetary policies with a view to maintaining monetary stability, while at the same time it will carry out the preparatory work required for the conduct of the single monetary policy, the establishment of the ECB, and the adoption of a common currency. During the transitional period, the conduct of monetary policy and the performance of the other tasks of the Bank of Greece, namely the conduct of exchange rate policy, the management of foreign exchange reserves, the supervision of the banking system and the execution of certain financial operations

on behalf of the State, will remain within the Bank's field of competence and will have to be improved, so as to increase their effectiveness and maximise the share of the Bank's operations when it joins the ESCB.

The formulation and conduct of an effective stability-oriented monetary policy and the modernisation of the basic functions of the Bank of Greece necessitate radical reforms in its legal and institutional structure and in monetary policy instruments. Moreover, if the drachma is to join the EMS exchange rate mechanism without problems and if capital movements are to be fully liberalised, it will be necessary, among other things, to establish a framework for market interventions conducive to the efficient implementation of monetary and exchange rate policies.

The main changes required in the legal and institutional framework of the Bank of Greece, in order to enhance the effectiveness of monetary policy and make the Bank's statutes compatible with the Maastricht Treaty, relate to the adoption of institutional provisions which safeguard its independence while ensuring democratic accountability. In this context, one of the most important changes to be made by the end of 1993 is that monetary financing of the public sector by the Bank of Greece will be abolished together with the public sector's privileged access to the credit system. As mentioned previously, considerable progress has been made in enhancing the Bank's independence and increasing the effectiveness of monetary controls. As a result of the above measures, commercial banks have the opportunity to improve their competitiveness and restructure their portfolios more efficiently.

Abolition of the monetary financing of fiscal deficits and of the public sector's privileged access to the credit system should go hand in hand with a drastic cut in the PSBR. Otherwise, pressure on real interest rates could lead to an uncontrolled rise in the public debt/GDP ratio and to stagflation. The restrictive monetary policies pursued in recent years, without a commensurate fiscal adjustment and the deregulation of a highly concentrated banking system, have resulted in high real lending rates, with adverse effects on investment. Consequently, a reduction in fiscal deficits is imperative, not only because this is necessary for meeting one of the convergence criteria of the Maastricht Treaty, but also because it is a prerequisite for the stabilisation and growth of the Greek economy.

Apart from changes in the legal and institutional structure of the Bank of Greece, the intervention mechanisms it employs in the conduct of monetary policy need improvement, along with money and exchange markets, as well as supervision procedures. Already, the virtually complete abolition of the

administrative rules and regulations that have so far underpinned the conduct of monetary policy in Greece has led to the adoption of indirect monetary controls. The use of such controls (open market operations, spot and forward market deals, interbank money market interventions) will increase significantly over the next few years. At present, the country's money and foreign exchange markets are still in the process of development. The Bank of Greece will expedite the modernisation of these markets by expanding certain categories of securities on which open market operations will take place, by establishing secondary markets, improving procedures for the sale of securities, and making interbank money market interventions more systematic and effective in order to reduce interest rate volatility. Furthermore, the completion of the single market for financial services, in conjunction with the imminent abolition of restrictions on short term capital movements, will help develop the markets, both by raising the number of participants and by establishing more competitive conditions. The Bank of Greece will lift the remaining restrictions on capital movements, taking into account the country's contractual obligations to the European Community, the positive impact of increased competition and market development, as well as any negative effects that might result from a premature removal of these restrictions, owing to existing macroeconomic imbalances.

Supervision of the banking system is one of the most important tasks of the Bank of Greece. This task will remain within the field of competence of national central banks, both in the transitional and in the final stage of EMU, while the ECB will play an advisory role and be concerned mainly with the interpretation and application of EC legislation relating to bank supervision and the stability of the financial system.

National central banks will be responsible for the prudential supervision of the banking system according to EC directives on the harmonisation and control of financial institutions by the country of origin, and on the mutual recognition of non-harmonised supervisory regulations and procedures. The Bank of Greece has already issued the required decisions. Meanwhile, the Greek Parliament will soon be debating a bill harmonising national legislation with Community directives and providing for: (i) the establishment of minimum requirements for the issue of a licence to operate a credit institution, (ii) the control of large participations of banks in enterprises that are not credit institutions, by setting credit limits for each firm and for large participations as a whole, and (iii) the prudential control of large shareholders in credit institutions and of at least two of their managing directors.

The foregoing provisions, together with the decisions of the Governor of the Bank of Greece concerning credit institutions' own funds and solvency ratios, will be the basis for modernising the country's banking supervision procedures. The aim of these provisions is to enhance the stability of the banking system and avoid situations in which a single bank's solvency problems, possibly arising from the composition of its portfolio or its capital adequacy, could threaten to disrupt the credit standing of the entire banking system.

The supervision of the banking system and the degree of development of money markets are associated with and influence the conduct of monetary policy. In the context of an effective system of supervision, the authorities concerned must be able to distinguish between a credit institution facing merely a liquidity problem and one with a solvency problem. In some cases, however, the provision of credit facilities by the central bank could be in conflict with the monetary policy being pursued. This risk decreases with the development of the money market — particularly the interbank market — and with the increase in the emphasis laid on indirect means of monetary control. A developed interbank market allows credit institutions to cope more easily with liquidity pressures, without resorting to central bank funds.

It has already been mentioned that Greece faces the challenge not only of monetary convergence with the other member states of the European Community but also of real convergence. Monetary stability, which will be the primary aim and responsibility of the Bank of Greece over the next few years, constitutes a necessary but not sufficient condition for achieving real convergence. The attainment of high rates of economic growth, in the transitional as well as the final stage of EMU, requires, among other things, an increase in national savings by reducing fiscal deficits, an improvement in infrastructure, increased market competition, an efficient public administration, the abolition of all sorts of disincentives to the production process, and the upgrading of the educational system.

The Bank of Greece can make its own contribution to this effort, by helping to strengthen competition in financial markets, improving the supervision of the banking system and carrying out its other tasks more efficiently. To perform its new role, the Bank must reorganise its various departments. The staff of the Bank can make a positive contribution to this end, in the context of a modern management system based on the principle of meritocracy. One of the main duties of the Bank is to increase the efficiency of its staff by providing training courses in new skills and operations.

The Greek economy will enjoy considerable benefits from EMU, which will more than offset the short term costs of adjustment. It is therefore important and desirable for the country to aim at a timely participation in the process of European unification, on equal terms with the other member states of the Community. These benefits will come mainly from (i) the wider choice and lower prices of goods and services following the establishment of the single market, (ii) stronger competition and the reallocation of resources in favour of high productivity sectors, (iii) the minimisation of the cost of transactions, owing to the freezing of exchange rates and the adoption of a single currency, (iv) the reduction and eventual elimination of uncertainty regarding the depreciation of the drachma against the EMS currencies, a fact which will reduce the risk premium now embodied in real interest rates and expand investment and productive activity, (v) the conduct of a disciplined macroeconomic policy aimed at achieving and maintaining nominal convergence between Greece and the other member states of the EC, and (vi) the net transfer of resources from Community Funds to Greece.

Minimisation of the short term cost of adjustment associated with the participation of the relatively protected Greek economy in EMU depends on the elimination of macroeconomic imbalances and the fulfilment of the conditions mentioned previously regarding the attainment of a high and permanent rate of economic growth. Both the elimination of macroeconomic imbalances and the establishment of conditions conducive to rapid economic growth are the responsibility of national authorities. Equally important, however, is the responsibility of the European Community. The adoption of strict monetary and fiscal policies for a number of years, which is essential to monetary convergence, in conjunction with the adoption of EC directives on competition, may lead the European economy into a recession. In fact, the greater the extent to which a member state fails to meet the convergence criteria agreed at Maastricht, the greater the probability that it will bear the negative consequences on the road to monetary union. Despite the substantial net inflow of EC financial resources into Greece, it is widely believed that both the size of the EC budget today and the interventions of structural funds are not consistent with the requirements of EMU.

It would be reasonable to assume that, in the long run, significant steps will be taken in the direction of the necessary fiscal reform in the Community. This matter is directly associated with the degree of political union considered desirable and feasible in the Community, as well as with the relative bargaining strength of member states with divergent views. It is hoped that future

intergovernmental conferences and the changes expected in the size of EC own resources and the mode of intervention of its Structural Funds will complement the Maastricht Treaty with provisions that would strengthen the economic and social cohesion of the European Union.

Nevertheless, the main responsibility for the achievement of economic convergence, which is a basic precondition of our country's participation in the European Union, belongs to Greece. The necessary macroeconomic and structural adjustment has already begun. The pace of economic stabilisation and recovery depends on how fast macroeconomic imbalances are corrected and the necessary structural adjustments are carried out.

The extent of the effort needed to achieve monetary stability and real convergence to Community standards within the time limits agreed at Maastricht should not be underestimated. The divergence existing between these goals and the conditions prevailing in the Greek economy, which is burdened with accumulated imbalances, as reflected in the public debt, as well as structural inadequacies, requires the conduct of effective and consistent stabilisation and structural policies over the coming years.

Enormous national interests are at stake, particularly since participation in EMU is an inseparable part of the wider process of European unification. If Greece fails to converge towards its EC partners in the economic sphere, its participation and role in the united Europe may be jeopardised, an eventuality that would not have merely economic implications for our country. We have to recognise the benefits to be gained by joining the European Union and mobilise accordingly. In the last analysis, our timely participation on equal terms in the European Union will depend on the will of all Greeks to meet the challenge. Within its field of competence, the Bank of Greece will do everything in its power to ensure monetary stability, establish macroeconomic discipline and modernise the country's financial system. In this way, it may serve as a catalyst both for economic recovery and for the country's full participation in the European Union.

II. ECONOMIC ACTIVITY

1. EXPENDITURE, PRODUCTION AND NATIONAL INCOME

In 1991, second year of implementation of economic stabilisation policies, economic activity increased at fairly low rates after a slight drop in 1990. This development largely reflects an increase in the gross agricultural product, after a decline owing to extremely unfavourable weather conditions in 1990, whereas nonagricultural GDP remained almost unchanged. Sluggish economic activity in the nonagricultural sector had an adverse effect on the labour

TABLE II.1
GROSS DOMESTIC PRODUCT
(1970 prices)

Sector	1987 (billion drs)	Annual change (%)				Contribution to the increase of GDP			
		1988	1989	1990 ¹	1991 ²	1988	1989	1990 ¹	1991 ²
Primary	58.8	6.5	1.0	-9.9	7.0	0.8	0.2	-1.3	0.8
Secondary	136.3	5.8	3.0	-0.5	-0.7	1.8	0.9	-0.2	-0.2
(Mining and Quarrying)	(8.1)	(12.4)	(3.4)	(3.4)	(1.0)	(0.2)	(0.1)	(0.1)	(0.0)
(Manufacturing)	(87.3)	(4.5)	(2.2)	(-2.6)	(0.0)	(0.9)	(0.4)	(-0.5)	(0.0)
(Electricity, Gas & Water)	(18.4)	(6.1)	(4.6)	(1.7)	(-0.5)	(0.2)	(0.2)	(0.1)	(0.0)
(Construction)	(22.5)	(8.6)	(4.4)	(3.9)	(-4.0)	(0.5)	(0.2)	(0.1)	(-0.2)
Tertiary	258.8	3.3	4.7	1.9	0.7	1.9	2.6	1.1	0.4
GDP	453.9	4.5	3.7	-0.4	1.0	4.5	3.7	-0.4	1.0
(non agricultural)	(395.1)	(4.2)	(4.1)	(1.1)	(0.2)				
Net income from abroad	-6.1	-	-	-	-				
Gross national income	447.8	4.7	3.3	0.4	...				

¹ Provisional data.

² Estimates.

Source: Ministry of National Economy 1987-1990: NSSG, National Accounts. For 1991, estimates by the Directorate of Macroeconomic Analysis and Planning.

market. Employment fell in 1991, leading to a considerable rise in the unemployment rate. However, these developments were accompanied by a significant deceleration of inflation and a substantial improvement in the balance of payments, as explained in subsequent chapters.

According to provisional estimates by the Ministry of National Economy, real GDP at factor cost rose by 1.0 per cent in 1991, compared with a

decrease of 0.4 per cent in 1990. It should be noted that this increase stemmed from the primary and tertiary sectors, while income from secondary production declined (Table II.1).

Stagnation in nonagricultural GDP was due to a slack in domestic demand, while the external sector had a positive effect on real GDP. Specifically, the deficit of the external sector on a national accounts basis in real terms was reduced by 14.7 per cent, compared with an increase of 48.3 per cent in 1990. As a result, its contribution to GDP change reached 1.8 per cent after having been strongly negative in 1990 (-3.9 per cent). By contrast, tight macroeconomic policies continued in 1991 and led to a slowdown in the growth rate of consumption, while total fixed capital formation decreased, reflecting a decline in private sector investment. As a result of these developments, the sum of consumption and investment expenditure in 1991 stagnated, whereas in 1990 it increased by 2.2 per cent. At the same time, the share of investment in GDP dropped to 16.2 per cent in 1991, from 16.8 per cent in 1990.

In more detail, developments in individual demand components in 1991 were as follows (Table II.2):

Private consumption at constant prices grew by 0.8 per cent, compared with 2.0 per cent in 1990 and 4.3 per cent in 1989, despite a decline in real disposable personal income, which led to a fall in the average propensity to save. The increase in private consumption resulted chiefly from the steep rise in private car sales. It should be noted that the number of cars coming into circulation for the first time (both new and imported second-hand vehicles) continued to rise at high rates (1991: 34.0 per cent, 1990: 30.0 per cent). This trend was, to a large extent, related to the consumption tax reduction on "environment-friendly" cars, as well as to special arrangements introduced to facilitate the purchase of high-powered cars at considerably lower prices. However, according to data released by the National Statistical Service of Greece (NSSG), the downward trend in the volume of retail sales (excluding cars), which had started in the last quarter of 1990, continued in 1991 (Diagram II.1). The decline in the volume of sales was more pronounced for the furniture and household appliances (-10.1 per cent) and other products (-13.1 per cent) categories, than for the clothing-footwear (-2.1 per cent) category, whereas food sales grew by 4.1 per cent.

The rise of the private consumption deflator at a higher rate than nominal disposable personal income led to a fall in real disposable income by about half a percentage point. However, according to provisional data released

by the Ministry of National Economy, pre-tax private income showed substantial distributional changes in 1991. More specifically, the growth rate of agricultural income was significantly higher than inflation. By contrast, the rate of increase in total nominal personal income in the nonagricultural sector of the economy was well below inflation. These developments in basic income categories in 1991 led to an overall rise in nominal pre-tax personal income at a lower rate than in 1990. At the same time, the effect of direct taxation

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

	1987 (billion drs)	Annual change (%)				Contribution to increase in GDP			
		1988	1989	1990 ¹	1991 ²	1988	1989	1990 ¹	1991 ²
Consumption	447.1	3.8	4.3	1.7	0.3	3.3	3.7	1.5	0.4
(Private)	(364.7)	(3.5)	(4.3)	(2.0)	(0.8)	(2.5)	(3.0)	(1.4)	(0.5)
(Public)	(82.3)	(4.7)	(4.2)	(0.6)	(-0.6)	(0.8)	(0.7)	(0.1)	(-0.1)
Gross fixed capital formation	73.3	8.9	10.0	4.8	-2.1	1.3	1.5	0.8	-0.3
(Private)	(52.4)	(11.3)	(9.7)	(9.2)	(-4.0)	(1.2)	(1.1)	(1.1)	(-0.5)
(Public)	(20.9)	(3.0)	(10.9)	(-6.9)	(4.1)	(0.1)	(0.4)	(-0.3)	(0.2)
Changes in stocks and statistical discrepancies ³	17.0	3.0	4.2	5.6	4.8	-0.3	1.4	1.4	-0.7
Gross expenditure of the economy	537.4	4.0	6.3	3.4	-0.5	4.3	6.6	3.7	-0.6
Balance of goods and services ³ (net balance)	-26.6	-5.4	-8.3	-11.9	-10.1	-0.2	-3.1	-3.9	1.8
(Imports of goods and services)	157.4	8.0	10.8	12.0	2.7	(-2.5)	(-3.5)	(-4.1)	(-1.0)
(Exports of goods and services)	130.8	9.0	1.3	0.9	10.5	(2.3)	(0.4)	(0.2)	(2.8)
GDP (market prices)	510.8	4.1	3.5	-0.2	1.2	4.1	3.5	-0.2	1.2

¹ Provisional data.

² Estimates.

³ As a percentage of the previous years GDP in the columns of annual changes.

Source: Ministry of National Economy. 1987-1990: NSSG, National Accounts. For 1991, estimates by the Directorate of Macroeconomic Analysis and Planning.

(income tax and social securities contributions) was roughly neutral. As a result, the growth rate of disposable money income was about equal to the growth rate of nominal pre-tax personal income.

The economic policy pursued by the government to reduce the public sector borrowing requirement contributed to reducing its consumption. Specifically, public consumption at constant prices fell by 0.6 per cent, compared with a rise of 0.6 per cent in 1990 and 4.2 per cent in 1989.

DIAGRAM II.1

MAIN ECONOMIC INDICATORS



- (1) Quarterly data seasonally adjusted.
Deflated by the consumer price index (special index for goods).
(2) Quarterly data.
(3) Foreign exchange data deflated by the corresponding wholesale price index.

Total gross fixed capital formation (Table II.3) at constant prices fell in 1991 (-2.1 per cent), owing exclusively to a decrease in private investment (-4.0 per cent), while public investment increased by 4.1 per cent. This development in public investment is related to the implementation of the Public Investment Programme, as well as the Public Utilities investment programmes, which have been incorporated to a large extent into the Community Support Framework. It should be noted that, according to data released by the

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

	1987 (billion drs)	Annual change (%)				Average annual rate (%)	Percentage composition	
		1988	1989	1990 ¹	1991 ²	1987-1991	1987	1991 ²
A. By type of capital good								
1. Construction ⁴	41.7	9.2	4.0	2.2	-4.5	2.6	56.9	51.2
Dwellings	20.2	3.2	5.1	7.7	} -7.0 ³	} 2.6 ³	37.8	} 36.9 ³
Other buildings	9.8	24.4	-2.5	3.7			13.4	
Other construction and works	11.8	6.7	8.4	-8.1	3.0	2.3	16.1	14.3
2. Equipment ⁴	31.6	8.4	18.1	7.9	0.7	8.6	43.1	48.8
Transport equipment	7.4	-9.6	32.7	17.3	1.2	9.2	10.0	11.6
Machinery & other equipment	24.3	-13.9	14.6	5.3	0.5	8.5	33.1	37.2
B. By type of purchaser								
1. Private	52.4	11.2	9.7	9.2	-4.0	6.4	71.5	74.4
Dwellings	19.4	2.9	5.5	7.8	-11.5	0.9	26.5	22.3
Other	33.0	16.2	11.9	9.8	-0.3	9.2	45.0	52.1
2. Public	20.9	3.0	10.9	-6.9	4.1	2.6	28.5	25.6
C. Total	73.3	8.9	10.0	4.8	-2.1	5.3	100.0	100.0

¹ Provisional data.

² Estimates.

³ For 1991: including other buildings.

⁴ For 1991, the breakdown between construction and equipment is a Bank of Greece estimate.

Source: Ministry of National Economy, NSSG.

EC Commission, the Greek economy's absorption rate of EC funds improved considerably in 1991. The increase in public investment in 1991 was significant, given the fact that it took place in a period of restrictive policies.

The decline in private investment resulted mainly from the drop in housing investment, while business investment remained stagnant after three years of constant rise. The decline in private housing investment is attributable in part to the continuing decrease, at constant prices, in housing loans

because of rising servicing costs, and to the decelerating inflow of capital from abroad for the purchase of real estate. The decline is also linked to the announcement of a series of legislative measures, which were due to come into effect on 1st January 1991, such as the requirement that buyers must state the source of their wealth; the capital gains tax imposed on real property sales; and a progressive increase in the cost of building permits. The announcement of this legislation in 1990 contributed to an acceleration of demand for real property and the issuance of permits and, consequently, to the deceleration in the growth rate of construction activity in 1991. At the same time, bearing in mind that demand for private housing and concomitant investment in new housing is related to disposable personal income earned not only in the current year but also in preceding years, the slowdown in income over the last four years is considered to have adversely affected building activity. Moreover, the opening up of alternative investment opportunities, such as investing in stock markets both in Greece and abroad, has had a similar dampening effect on the demand for housing.

The increase in business investment recorded in recent years is associated with the prospect of the Single European Market, as well as with the expected rise in profits resulting from the three-year stabilisation programme. Stagnation in business investment in 1991, despite a larger inflow of funds from abroad (in dollars, 1991: 49.9 per cent, 1990: 40.8 per cent), was due to the decline in domestic demand and the maintenance of real interest rates at high levels. Moreover, the general business climate was also negatively affected by prevailing uncertainty, especially during the first months of 1991, because of the international situation (the Gulf War, regime changes in central and eastern European countries, as well as, later in the year, the Yugoslav crisis).

The expansion in the volume of total (private and public) investment in machinery and transport equipment decelerated significantly in 1991. This development was more acute as regards transport equipment investment. Investment in manufacturing followed roughly the same pattern as a result of reduced domestic demand and decreasing production, as well as higher financial costs.

Furthermore, despite the reduction in private savings and foreign financing, total investment in the economy as a percentage of GDP fell only slightly (1991: 17.0 per cent, 1990: 17.6 per cent), because of the drastic cut in the fiscal deficit on a national accounts basis (negative savings of the public sector).

2. AGRICULTURAL PRODUCTION

After an exceptionally poor harvest in 1990, because of the drought, agricultural production in 1991 increased significantly. This increase, due exclusively to plant production, was a result of higher yields in virtually all crops, because of favourable weather conditions throughout most of the growing season.

In contrast to the positive contribution of yields, restructuring of arable crops production had a negative impact on agricultural output, since acreage for all industrial crops declined as cereals acreage increased. Nevertheless, the overall negative effect of crop restructuring was slightly weakened, because

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

Crop	1979/80 ¹	1987	1988	1989	1990	1991 ²	Percentage change between two-year periods 1979/80 & 1990/91
Soft wheat	725.4	397.0	389.0	375.0	322.0	293.0	-58
Durum wheat	222.5	495.0	500.0	515.0	690.0	725.0	+218
Barley	352.2	266.5	220.0	225.0	190.0	169.2	-49
Maize	142.5	246.2	210.0	200.0	199.3	227.7	+50
Alfalfa	205.0	152.3	149.3	145.7	142.0	143.1	-30
Tomatoes for processing	23.5	18.1	19.8	23.5	22.6	22.4	-4
Tobacco (oriental)	85.8	87.7	82.1	76.8	66.3	66.5	-23
Tobacco (Burley)	5.5	3.6	3.3	2.1	1.6	2.7	-61
Tobacco (Virginia)	—	0.7	1.6	3.6	8.3	14.8	—
Cotton	138.8	202.0	256.0	280.0	268.0	233.0	+80
Sugar beet	37.0	28.0	34.5	48.8	44.3	39.2	+13
Sunflower seed	2.3	92.2	42.0	26.0	19.5	15.0	+650

¹ Two-year average.

² Provisional data.

Source: Ministry of Agriculture.

of the further expansion of acreage under durum wheat at the expense of soft wheat.

The reduction in industrial crops acreage primarily concerned the area under cotton and was due to cotton producers' disappointment because of last year's low yields, especially in the northern regions of the country. Those who abandoned cotton production turned mainly towards maize and durum wheat. The continuing rise in acreage under durum wheat is due to EC aid per hectare paid to durum wheat growers, which offset the reduction in institutional prices fixed within the framework of the Common Agricultural Policy

(CAP) reform. Besides, the steady decrease in acreage under soft wheat and barley reflects unsatisfactory income developments due to long-term stagnation of yields.

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

Products	1979/80 ¹	1987	1988	1989	1990	1991 ²	Percentage change between two-year periods 1979/80 & 1990/91
Soft wheat	2,142	920	1,023	875	680	973	-61
Durum wheat	522	1,300	1,160	1,130	1,100	2,239	+220
Barley	896	605	550	490	378	509	-50
Maize	982	2,140	1,750	1,700	1,800	2,320	+110
Alfalfa	2,123	1,613	1,553	1,522	1,460	1,503	-30
Leaf tobacco (oriental varieties)	104	132	121	113	92	106	- 5
Leaf tobacco (Burley variety)	18	10	10	4	4	9	-64
Leaf tobacco (Virginia variety)	—	2	5	9	27	41	—
Cotton (natural)	336	571	750	830	680	680	+102
Tomatoes for processing	1,476	934	1,007	1,400	1,150	1,177	-21
Sugar beet	2,120	1,652	2,000	3,500	2,760	2,570	+26
Sunflower seed	4	146	60	53	30	28	+625
Dried grapes	132	90	140	138	82	86	-36
Olive - oil	266	288	314	320	167	320	- 8
Lemons	160	89	170	189	169	173	+ 7
Oranges	410	461	789	932	819	703	+86
Apples	271	289	269	264	349	163	- 6
Peaches	336	547	590	641	772	787	+132
Meat, total	504	529	521	519	524	527	+ 4
— Beef and veal	(100)	(86)	(82)	(81)	(82)	(81)	(-18)
— Goat and sheep	(121)	(125)	(125)	(129)	(130)	(128)	(+ 7)
— Pigmeat	(139)	(164)	(160)	(151)	(147)	(153)	(+ 8)
— Poultry	(140)	(149)	(149)	(153)	(160)	(160)	(+14)
— Other	(4)	(5)	(5)	(5)	(5)	(5)	(+25)
Milk, total	1,698	1,762	1,813	1,840	1,819	1,783	+ 6
— Cow	(699)	(649)	(678)	(700)	(716)	(695)	(+ 1)
— Goat and sheep	(999)	(1,113)	(1,135)	(1,140)	(1,103)	(1,088)	(+10)

¹ Two-year average.

² Provisional data.

Source: Ministry of Agriculture.

Tobacco acreage and production increased in 1991. This positive development mainly had to do with the Virginia and Burley varieties and is the

result of continuing strong demand and relatively high producer prices. Demand for Virginia tobacco reflects buyers' special preferences, while the high prices paid for the Burley variety were due to a drop in production of almost 50 per cent over the last two years.

The main development in the area of tree crops was the extremely large increase in olive oil and table olives production. Their contribution to the increase in agricultural production as a whole amounted to 45 per cent. With the exception of peaches and lemons, production of other tree crops declined.

Livestock production remained, for yet another year, virtually unchanged. Pigmeat production increased slightly, but was offset by a drop in milk production. Production of other kinds of meat remained roughly at 1990 levels.

The large increase in agricultural production in 1991 did not contribute to its structural improvement, since, as mentioned earlier, it stemmed exclusively from the increase in the production of plant products, particularly cereals and olive oil. Livestock production, which has been in deficit, remained unchanged for another year. The large share of these products in increased production had a negative impact on the improvement in crop structure, because it ran counter to the specific aims of CAP reform. Consequently, the generally favourable developments in agricultural production last year were not consistent with CAP requirements.

Progressive cuts in prices and support of agricultural products, together with the implementation of direct aid measures not linked to production levels, constitute the main aims of CAP reform. Therefore, to prevent a decline in production value and agricultural income, faster crop restructuring and product quality improvements are necessary. The possibilities of adapting Greek agricultural production to the specific requirements of CAP reform will increase considerably with the approval of the proposed doubling of resources allocated by EC structural funds. For this reason, efforts towards making the best out of these possibilities will have to be intensified, so that the adjustment of Greek agriculture to changing conditions can be achieved at the lowest possible cost to the national economy and within a relatively short period of time.

3. SECONDARY PRODUCTION

3.1 General Developments

Income from secondary production fell by 0.7 per cent in 1991, compared with 0.5 per cent in 1990. This decrease reflects a significant decline in

construction output (-4.0 per cent as against +3.9 per cent), whereas industrial output remained unchanged in 1991, compared with a drop of 1.4 per cent in 1990. This development in industrial output was due, on the one hand, to stagnating manufacturing (0.0 per cent as against -2.6 per cent) and, on the other, to the combined effect of increased mining and quarrying output and decreased electricity and gas output (1.0 per cent and -5.0 per cent), as against a rise of 3.4 per cent and 1.7 per cent respectively in 1990 (Table II.1). According to the seasonally adjusted industrial production index, the downward trend in manufacturing output in the first half of 1991 was temporarily reversed, since the third quarter was marked by a recovery. Finally, mining and quarrying output fluctuated considerably throughout the year.

More specifically, developments in output by sector were as follows:

3.2 *Manufacturing*

3.2.1 *General Developments*

The drop in manufacturing output (-0.9 per cent) is mainly attributed to a decline in domestic demand. Despite the decline in total demand, according to a survey carried out by the Economic and Industrial Research Institute (IOBE), stocks of finished products stood at normal levels. The drop in domestic demand for Greek manufactured products can be attributed to stagnant business investment as well as to reduced construction activity. According to balance of payments statistics, deflated by the relevant NSSG wholesale price index, domestic demand¹ for Greek manufactures (excluding fuel) fell by 1.5 per cent. This development led to a slight drop (-0.7 per cent) in total domestic demand² for manufactured products (excluding fuel), while there was a slight increase (0.8 per cent) in import volumes (excluding oil).³ As a result, import penetration (excluding fuel) remained at around 1990 levels. If, however, fuel is included, then import penetration in manufacturing rose by about one and a half percentage points.

As already mentioned, the volume of retail sales (excluding passenger cars) fell considerably in 1991. Moreover, private housing construction, as

¹ Production minus exports.

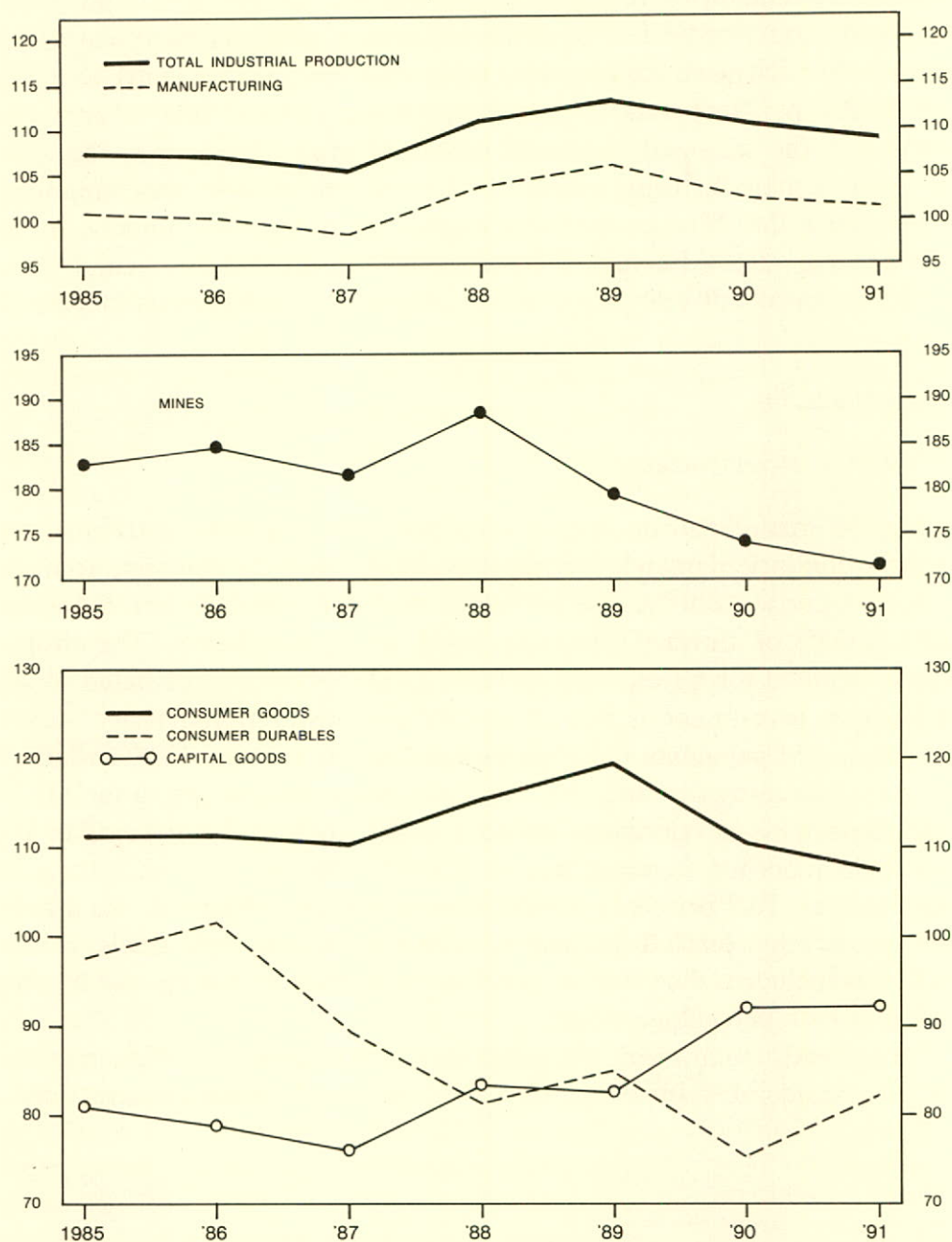
² Production minus exports plus imports.

³ Balance of payments data. By contrast, NSSG data, on a customs basis, show a significant increase in volume.

DIAGRAM II.2

INDUSTRIAL PRODUCTION

(1980 = 100)



measured by the issuance of new permits, decreased by 15.7 per cent in 1991, while business investment is estimated to have remained virtually unchanged.

As regards external demand, the export volume of manufactured products (excluding fuel) expanded by 2.6 per cent, despite the slowdown in the growth rate of international trade in manufactures, which, according to OECD estimates, was reduced to 3.5 per cent, as against 5.7 per cent in 1990. The above developments resulted in an increase in export performance (average propensity to export) by about one percentage point.

Declining manufacturing activity does not seem to have emanated from supply side developments. On the contrary, the rise in after-tax business profits, as well as the improvement in the equity-to-loan financing ratio in recent years, led to an increase in investment and consequently to an expansion of productive capacity. Therefore, the slight drop in production in 1991, coupled with the small increase in the capital stock in manufacturing, are considered to have led to a small reduction in the capacity utilisation rate.

As regards production costs, the rate of increase in the prices of raw materials and semifinished products accelerated (1991: 13.5 per cent, 1990: 11.3 per cent). By contrast, real unit labour costs in manufacturing are estimated to have declined considerably in 1991, after remaining relatively stable in 1990, leading to an improvement in profit margins. As explained in the next chapter, existing sample data for the first half of 1991 indicate that manufacturing firms' profits amounted to levels higher than those in 1990.

3.2.2 Developments in Production Sectors

As regards individual product categories, production of consumer goods declined by 2.5 per cent, capital goods production remained stable, while consumer durables' production increased considerably (7.9 per cent) (Table II.6 and Diagram II.2).

The downward trend in consumer goods production can be ascribed mainly to reduced external and, to a lesser extent, domestic demand. Reductions of particular significance in this category were noted in the production of textiles (-9.0 per cent), leather (-6.6 per cent), rubber and plastics (-5.1 per cent) and chemicals (-4.9 per cent), while the production of food and paper rose considerably (+9.5 per cent and +7.6 per cent respectively) (Table II.6).

The increase in food production stemmed chiefly from increased domestic demand, while the volume of exports also rose. The food industry, one of the most important sectors of Greek manufacturing, is going through a modernisation phase in the face of growing competition in foreign and domes-

TABLE II.6
INDUSTRIAL PRODUCTION
(Annual percentage change)

	1987	1988	1989	1990	1991
TOTAL	- 1.3	5.1	1.8	- 2.4	- 1.0
Manufacturing	- 2.0	5.0	2.3	- 2.9	- 0.9
a. Consumer non-durables	- 1.3	4.7	3.4	- 7.3	2.5
b. Consumer durables	-12.3	- 9.1	4.7	-11.2	7.9
c. Capital goods	- 3.8	9.7	- 0.9	11.0	0.0
Manufacturing industries					
Food	- 4.9	10.9	10.4	-11.2	9.5
Beverages	- 3.1	6.9	7.4	0.7	- 0.3
Tobacco	-14.1	5.6	- 7.6	21.8	1.4
Textiles	2.0	- 2.8	- 2.1	- 3.8	- 9.0
Footwear and clothing	- 7.3	0.6	- 5.3	- 5.9	0.6
Wood and cork	4.8	0.8	14.8	0.5	2.2
Furniture	- 7.7	21.3	- 0.4	- 4.4	- 9.3
Paper	15.0	-10.1	0.1	- 7.4	7.6
Printing and publishing	- 0.8	3.2	- 1.0	- 7.2	- 8.2
Leather	18.5	- 8.3	- 9.2	-15.9	- 6.6
Rubber and plastics	- 4.2	31.2	14.6	- 8.9	- 5.1
Chemicals	0.5	8.2	5.3	0.7	- 4.9
Petroleum and coal products	8.0	6.4	3.2	2.2	-11.1
Non-metallic minerals	2.0	4.6	- 4.0	4.6	-11.8
Basic metals	- 3.0	11.9	0.0	1.4	1.4
Metallurgical products	-14.8	10.5	- 7.3	-11.3	- 1.0
Machinery and apparatus, excluding electrical	-10.3	1.9	23.4	- 6.7	- 2.4
Electrical machinery and appliances	-14.8	-9.1	8.5	- 5.0	12.8
Vehicles	4.3	6.3	- 1.5	6.5	9.6
Miscellaneous	9.8	-16.7	1.8	4.4	31.5
Mining and quarrying	- 1.7	4.1	- 4.9	-3.2	- 1.2
Electricity and gas	8.0	6.5	4.2	2.7	- 1.8

Source: Ministry of National Economy, NSSG.

tic markets. Competition is expected to intensify after the completion of the Single European Market in early 1993. It should be noted that, of the total capital raised by firms quoted for the first time in 1991 on the Athens Stock Exchange, about 47 per cent went to the food industry. Moreover, out of a

total of seventy-seven takeovers effected in 1991, nineteen concern the food industry, eight trade in food products, three the beverage industry and one fish-farming.

The continuing decrease, for the fourth consecutive year, in textile production is due to reduced domestic demand as well as to a drop in export volume, while imports also decreased. As a result, import penetration declined slightly. The decrease in exports of clothing and footwear (-7.5 per cent) led to a drop in export performance, since domestic production increased only slightly (0.6 per cent). Import penetration, on the other hand, in this sector fell by about four percentage points, despite the increase in imports, because of the rise in apparent domestic consumption. Almost similar trends prevailed in the rubber and plastics industry, where domestic demand is estimated to have dropped, while exports remained virtually unchanged.

The increase in consumer durables production is associated with rising exports, while domestic demand declined. Specifically, the retail sales volume index for furniture and household appliances fell by 10.1 per cent.¹

Finally, the sluggishness of capital goods production is the net result of increased external and reduced domestic demand. In fact, metal product exports rose significantly. Also, cement production fell significantly (-4.9 per cent), despite the stagnation of domestic demand.

3.3. Mining and Quarrying - Electricity and Gas

Mining production continued its downward trend in 1991, though at a slower pace, as compared with developments in 1989 and 1990 (Table II.7 and Diagram II.2). This was due to a significant decrease in the production of bauxite, chrome and manganese ores, while other mining output remained relatively stable, with the exception of sulphur compounds and barytes, which showed a significant increase.

The NSSG production index for electricity and gas indicated a decline of 1.8 per cent in 1991, which was entirely due to the electric power industry (-2.2 per cent), since gas production expanded (8.6 per cent). By contrast, according to Public Power Corporation data, electricity production rose,

¹ It should be noted that the expansion of hire-purchase terms, as well as the postponement of repayment for purchases made with credit cards for electric and electronic household appliances, account for the increase in demand for these products.

reaching 31,879 GWH in 1991, compared with 31,290 GWH in 1990. Demand for electricity for domestic and commercial uses increased considerably (16.3 per cent and 9.4 per cent respectively), while that for industrial and especially for agricultural use dropped (by 2.2 per cent and 15.1 per cent

TABLE II.7
PRODUCTION OF MINERALS AND ORES
(Annual percentage change)

	1987	1988	1989	1990	1991*
<u>TOTAL</u>	- 1.7	4.1	- 4.9	- 3.2	- 1.2
Lignite	2.4	14.4	4.0	0.0	- 0.1
Bauxite	9.3	2.8	- 1.0	-1.7	-15.3
Iron and nickel ores	-9.6	54.5	21.9	4.8	- 1.3
Chrome and manganese ores	2.7	-12.7	6.7	-16.5	-40.3
Oil wells and extraction of natural gas	- 5.1	- 6.4	-17.3	- 8.7	0.9
Quarry and building materials	2.0	9.7	9.4	3.9	- 2.4
Sulfur compounds, barytes	- 4.6	13.6	-1.8	5.6	10.5
Magnesite	- 6.8	12.3	-16.8	-23.6	-16.8

Source: Ministry of National Economy, NSSG.

respectively). Finally, increased exports of electric power, as well as reduced imports, brought about a drop of 15.4 per cent in net electricity imports in 1991.

4. SERVICES

Income from services rose by 0.7 per cent in 1991, that is at a lower rate than in the previous three years. However, its share in GDP remained almost unchanged, at the high levels of 1990 (about 58 per cent).

The increase in income from services is entirely due to growing income from market services, while that from social services decelerated (Table II.8). Specifically, the growth rate of income from the transport and communications industry slowed down, compared with 1990, because of a decline in income from transport. By contrast, income from telecommunications is estimated to have risen. According to data released by the Greek Telecommunications Organisation, the growth rate in the volume of telephone call units more than doubled in 1991 compared with that of the previous year (1991: 8.4 per cent, 1990: 3.7 per cent). Also, according to Olympic Airways data, passenger transport continued to decrease substantially in 1991 (km-passengers: 1991:

-20.2 per cent, 1990: -3.1 per cent), mainly because of tariff increases. Note that in the two year period (1990-1991), the general index of intercity bus transport fares rose by 58.6 per cent, while the index of airfares rose by about 64 per cent over the same period. Cargo transport, which is carried out mainly by the Hellenic Railways Organisation, also declined (km-tons: January-October 1991: -8.6 per cent, January-October 1990: 2.5 per cent).

Total income from trade and banking increased at a lower rate in 1991 than in 1990, owing apparently exclusively to the banking-insurance industry,

TABLE II.8
INCOME FROM SERVICES
(1970 prices)

	1987 (billion drahmas)	Annual percentage change				Average annual rate (%)	Percentage breakdown	
		1988	1989	1990 ¹	1991 ²		1987	1991 ²
A. Market services	195.4	3.8	4.0	2.4	1.1	2.8	75.5	75.9
Transport - Communications	49.1	3.9	4.8	3.1	2.0	3.2	19.0	19.4
Commerce ³	57.2	5.2	3.8	1.6	0.6	8.9	22.1	28.0
Banking - Insurance etc.	13.4	4.2	6.4				5.2	
Housing	47.0	2.9	2.9	3.0	3.0	2.9	18.1	18.3
Miscellaneous Services	28.7	2.1	3.6	2.0	-2.0	0.6	11.1	10.2
B. Social Services	63.5	1.6	6.8	0.4	-0.6	2.3	24.5	24.1
Public Administration - Defence ⁴	41.8	1.2	6.1	0.4	-0.6	2.3	16.1	24.1
Health - Education	21.7	2.4	8.2				8.4	
Total Services	258.9	3.3	4.7	1.9	0.7	2.7	100.0	100.0

¹ Provisional data.

² Estimates.

³ For 1990 and 1991: including banks and insurance companies.

⁴ For 1990 and 1991: including health and education.

Source: Ministry of National Economy. 1987 - 1990: NSSG, National Accounts. For 1991, estimates by the Directorate of Macroeconomic Analysis & Planning.

whereas income from trade declined. The fall in income from trade is associated with the drop in the volume of sales and, more generally, that of manufactures. The increase in income from banking and insurance is related to the continuing improvement in profit margins, associated mainly with the maintenance of high interest rates, as well as to the development of new banking products. At the same time, employment in this industry also rose. Moreover, income from housing continued to grow at the same high rate, because of the continuing expansion of the housing stock.

Income from the sector of miscellaneous services, which are closely connected to tourism, declined. This development was essentially due to a drop in foreign tourist arrivals (as a consequence of the Gulf War and the Yugoslav crisis), as well as to the decline in domestic tourist demand, caused by stagnant real disposable personal income. According to data released by the National Tourism Organisation, the total number of nights spent in hotels both by foreigners and Greeks decreased by 10.5 per cent in 1991, compared with a rise of 4.6 per cent in 1990. Foreign arrivals also decreased by 11.2 per cent. By contrast, according to balance of payments data, receipts in drachmas from tourist services rose by 17.7 per cent in 1991, compared with 25.6 per cent in 1990. This increase can be attributed to the relative improvement in the competitiveness of Greek tourist services, as well as to weakened expectations of a devaluation of the drachma, which led to a reduction in foreign exchange leakages.

Finally, the slight decrease in income from social services reflects the drop of government consumption, at constant prices.

5. EMPLOYMENT - UNEMPLOYMENT

Total employment fell in 1991, according to all available data. This development reflects the fact that nonagricultural GDP remained unchanged as well as the downward trend of primary sector employment in recent years. In particular, according to provisional data from the annual labour force survey conducted by the NSSG, total employment fell in 1991 by 0.9 per cent,¹ following a rise of 1.3 per cent in 1990. Employment in rural areas fell by 5.3 per cent (1990: -2.4 per cent), despite a significant increase in agricultural production, whereas employment in urban and semi-urban areas increased by 0.9 per cent, compared with 2.9 per cent in 1990.

In manufacturing, the monthly index of employment compiled by the NSSG registered a drop of 6.1 per cent in the January-October period compared with the corresponding period in 1990, when it had dropped by 1.2 per

¹ The NSSG survey covers only the second quarter of each year. Consequently, changes in various aggregates do not reflect developments for the entire year with accuracy. Moreover, as regards 1991, rates of change in the text have been obtained by comparing provisional 1991 data with provisional (not final) 1990 data. This limits (without eliminating) errors connected with provisional data. Of course, rates of change for 1990 are obtained by comparing final 1990 data with corresponding 1989 data.

cent only. This downward trend most probably persisted in the following months as well (in view of developments in manufacturing production) and it is estimated that the fall for the entire year was of the order of 6 per cent. Employment in manufacturing has shown an uninterrupted downward trend since March 1990. The 1991 decrease, which is equivalent to the loss of approximately 20,000 jobs, is without precedent in the last 25 years and mainly reflects the shutting down of certain large "ailing" firms.

TABLE II.9
POPULATION, LABOUR FORCE AND EMPLOYMENT

	1990 (in thous.)	Annual percentage change				
		1987	1988	1989	1990	1991
Population (aged 15-64 years)	6,571	0.8	1.1	0.6	1.9	...
Participation rate		61.2	61.8	61.5	60.9	...
Labour force	4,000	-0.1	2.0	0.2	0.8	0.1 ⁵
Employment:	3,719	-0.1	1.7	0.4	1.3	-0.9 ⁵
- Primary production	889	-5.4	-0.0	-4.3	-4.4	...
- Secondary production	1,031	-0.5	-1.5	1.9	2.0	...
- Tertiary production	1,797	3.7	4.6	2.1	3.9	...
Unemployment (as a percentage of labour force)	280.8	(7.4)	(7.7)	(7.5)	(7.0)	(8.1) ⁵
Employment in:						
- Manufacturing ¹	719.9	-0.3	1.4	-1.5	0.7	...
- Construction ¹	252.4	-1.3	0.0	2.5	5.7	...
- Banks ²	52.3	2.0	2.4	3.3	-4.8	1.9
- Civil service ³	303.7	1.5	0.1	7.0	-2.3	2.5
- Public enterprises and organisations ⁴	162.8	0.3	0.9	1.7	-6.3	-2.4

¹ NSSG, Manpower Employment Surveys.

² Bank of Greece estimates.

³ Ministry of Finance.

⁴ Secretariat of Public Enterprises and Organisations.

⁵ Provisional data from employment survey.

In public administration, according to data published in the introductory report on the budget for fiscal year 1992, the total number of both tenured civil servants and temporary personnel as well as the number of security forces employees rose by 2.5 per cent from October 1990 to October 1991, compared with a drop of 2.3 per cent from December 1989 to October 1990. This development was due exclusively to a rise in the number of teach-

ers (tenured and nontenured) and security forces employees, while the number of civil servants in other categories decreased.

Conversely, according to data provided by the Ministry of National Economy, employment in public enterprises and in most social security funds and public entities¹ fell by 2.4 per cent, following a drop of 6.3 per cent in 1990. Employment in banking rose by 1.9 per cent because of the expansion of private banks and the establishment of new ones.²

Finally, as regards employment in the construction industry, no data are available for 1991. Nevertheless, because of the decline in construction activity, a decline in employment is also expected.

According to provisional data from the NSSG survey, the size of the labour force remained unchanged in 1991 (+0.1 per cent, +0.8 per cent in 1990). This development reflects two opposite trends: a decrease in the rural population, where the highest labour force participation rates are registered (given that in rural areas almost all adult family members are employed primarily in agricultural activities), and an increase in the total population because of a large influx of foreigners and persons of Greek origin who have been living abroad.³ Given that the labour force remained unchanged, the fall in employment pushed up the rate of unemployment to 8.1 per cent (according to provisional NSSG data), which amounts to an increase of about one percentage point compared with 1990 (7 per cent). The total number of the unemployed increased by 40,000 in 1991, reaching 322,000.⁴

The rate of unemployment in urban areas was above average and reached 10.1 per cent. Specifically, in the Athens area, unemployment reached 10.6 per cent, and 44 per cent of all jobless persons was concentrated in this area. Moreover, the highest rates of unemployment, among the various population groups, were recorded by women (13.6 per cent), by young persons of

¹ These data concern public enterprises monitored by the Ministry of National Economy (where employment fell by 2.8 per cent) and social security funds and public entities (where employment rose by 0.2 per cent). Figures refer to December 31st of each year and do not include seasonal personnel or those employed on an hourly basis.

² According to data released directly by all banks, referring to December 31st of each year.

³ To the extent that this increase is recorded in the NSSG survey.

⁴ Available statistical data do not measure the full extent of unemployment, since it is not possible to record "hidden" unemployment in the agricultural sector or employment in the underground economy. Moreover, it is to be kept in mind that, according to statistical definitions, unemployed individuals are those who do not have a job and who are seeking work. Therefore, discouraged workers who have given up the job search and withdrawn from the labour force are not counted. This trend is very much pronounced in women.

both sexes in the 14-25 age group (26.8 per cent), and by women below 25 years of age (37.4 per cent). The government's employment policy (subsidies for the creation of new jobs, vocational training programs, legislation for part-time employment) is already oriented towards addressing the unemployment problems faced by these groups.

The rise in unemployment is also confirmed by Manpower Employment Agency (MEA) data. Registered unemployment reached 7.3 per cent in

TABLE II.10
LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT: 1991
(In thousand persons)

	Labour force	Employed	Unemployed	Unemployment rate
COUNTRY TOTAL	3,965.3	3,643.1	322.2	8.1
Men and women				
– aged under 25 years	547.2	400.6	146.6	26.8
– aged plus 25 years	3,418.1	3,242.5	175.6	5.1
Men	2,494.2	2,371.3	122.8	4.9
– aged under 25 years	293.4	242.5	50.9	17.3
– aged plus 25 years	2,200.7	2,128.8	71.9	3.3
Women	1,471.1	1,271.7	199.4	13.6
– aged under 25 years	257.7	161.4	96.3	37.4
– aged plus 25 years	1,213.4	1,110.3	103.1	8.5
Districts				
Urban districts	2,484.2	2,233.9	250.3	10.1
– Greater Athens	1,348.8	1,206.2	142.6	10.6
– Greater Salonika	323.2	293.8	29.4	9.1
– Other	812.2	733.9	78.3	9.6
Semi-urban districts	427.8	399.5	28.2	6.6
Agricultural districts	1,053.3	1,009.7	43.6	4.1

Source: NSSG, Manpower Employment Survey 1991, provisional data.

1991 (1990: 6.4 per cent), while the number of the unemployed rose by 23.5 per cent, reaching 173,000. The growth rate of layoffs accelerated, reaching 10.5 per cent (1990: 7.5 per cent). Recruitments showed a decrease of 5.7 per cent, compared with an increase of 1.2 per cent in 1990. The number of vacancies, which had risen by 37.5 per cent in 1990, fell significantly in 1991 (-62.4 per cent). Finally, according to MEA data, youth unemployment remains at high levels. Those unemployed in the 14-25 age group account for 59.3 per cent of the total number of jobless in 1991, compared with 60 per cent in 1990.

Unemployment continues to rise during the current year as well. According to MEA data, in January-February 1992 the number of unemployed rose by 17.1 per cent (compared with the corresponding period in 1991), reaching 222,000, while registered unemployment levels reached 9.1 per cent (compared with 8.1 per cent during the corresponding period in 1991).

III. PRICES, WAGES AND PROFITS

1. PRICE DEVELOPMENTS

The twelve-month rate of inflation fell to 17.8 per cent in December 1991, from 22.8 per cent in December 1990. At average annual levels, the slowdown was smaller: consumer prices rose by 18.9 per cent in 1991, compared with 20.4 per cent in 1990. This was due to the sharp acceleration of inflation during the last quarter of 1990, owing to the increase in fuel prices and public utility rates, according to the government's fiscal stabilisation plan. As a result, the consumer price index (CPI) stood at high levels in the beginning of 1991. Later in the year, however, the annual rate of increase in prices decelerated considerably and dropped to 17.4 per cent in August 1991. The slowdown came to a halt in the months that followed. Still, in December the rate of inflation did not appreciably exceed the target of 17 per cent set in the stabilisation plan. Developments after August 1991 were largely due to special circumstances, i.e.:

- The increases in public transport fares as from mid-October 1991, which in the case of urban transport were of the order of 40 per cent.

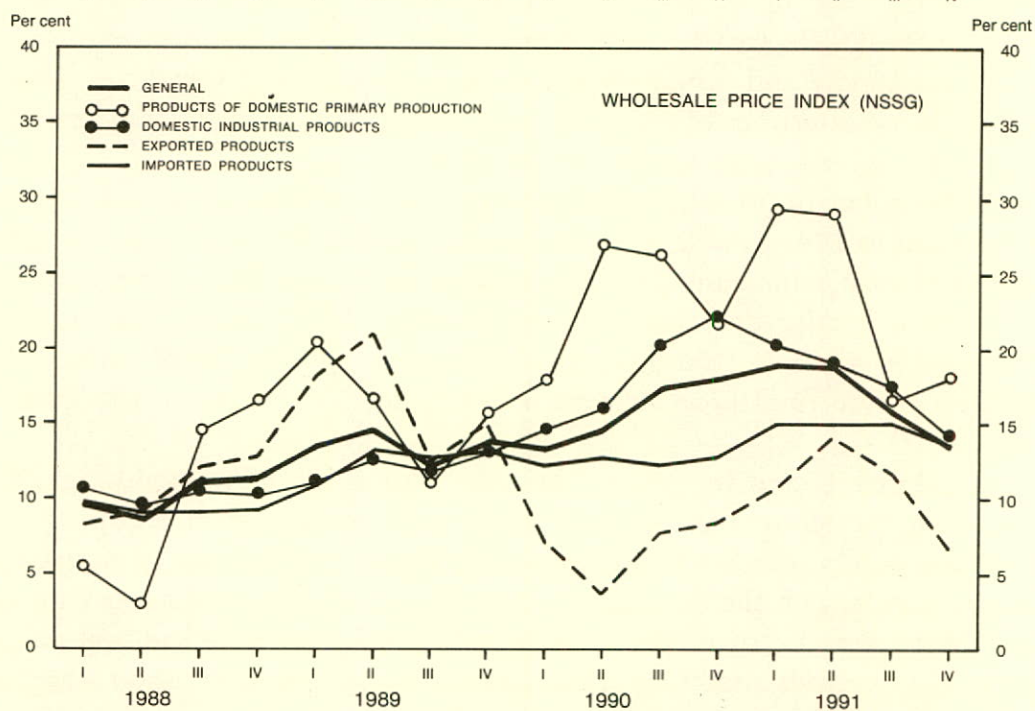
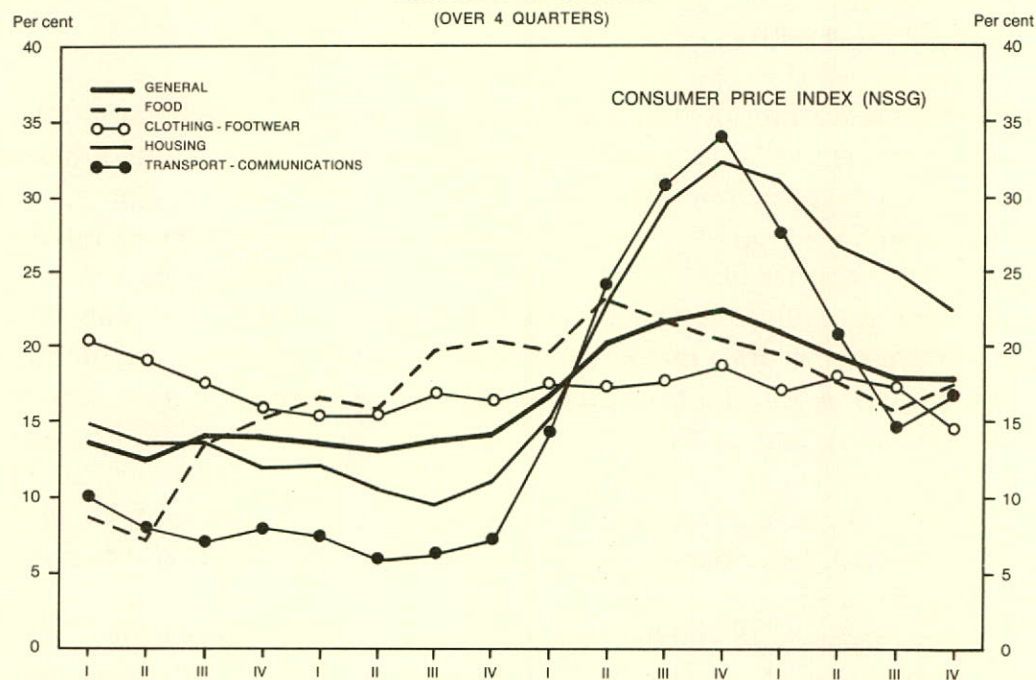
- Unfavourable weather conditions towards the end of the year, which limited the supply and raised the prices of some fruit and vegetables. Moreover, for some categories of fruit with reduced production in 1991, prices were maintained at very high levels for the season.

- The policy of price liberalisation for a wide array of goods and services was pursued in 1991 as well, at a faster pace than in 1990, resulting, *inter alia*, in a considerable increase (by 28 per cent) in tuition fees in September.

The preceding observations are corroborated by the fact that the rates of increase in prices in "transport-communications" and in "food", after slowing down in the first three quarters of 1991, accelerated in the last quarter (Table III.1).

A decisive contribution to the deceleration of inflation during 1991 came from the slower rise in unit labour cost in the urban sector by 5.8 percentage points, which was due to the deceleration of the rate of increase in nominal earnings on the one hand and to the increase in productivity on the other. Moreover, the smaller, compared with 1990, rise in agricultural prices, especially as regards producer prices, also helped dampen inflation, together with the limited rise in indirect taxes, after a sharp increase in 1990.

DIAGRAM III.1
CHANGES IN PRICES
(OVER 4 QUARTERS)



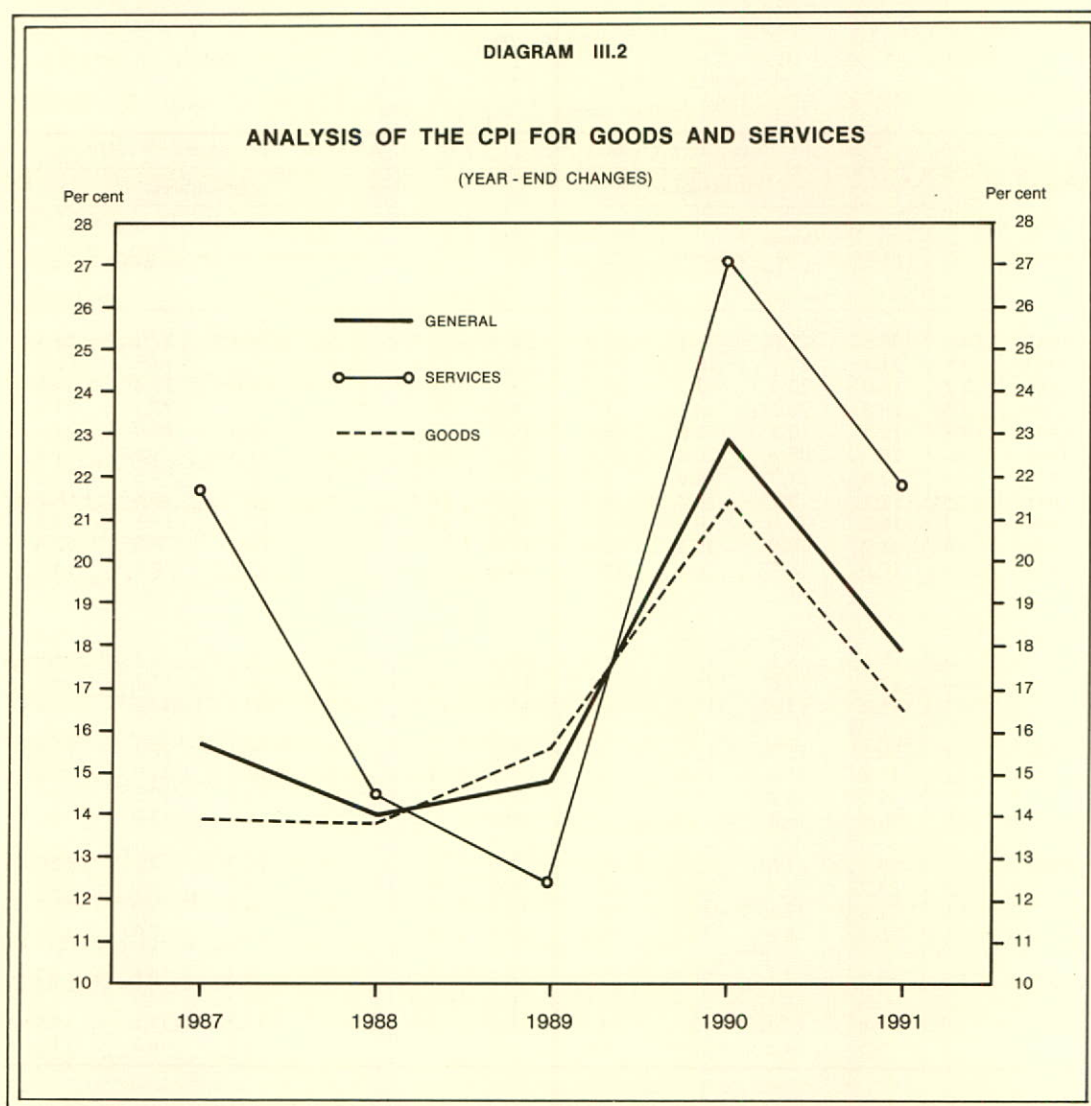
By contrast, the rise in import prices had an accelerating effect on inflation, despite the relative stability in international prices. This fact reflects the faster decrease in the effective exchange rate of the drachma (11.2 per cent as against 9 per cent in 1990 at average levels).

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		
1981	24.5	30.1	21.6	27.1	13.6	24.4	25.4	27.5	24.3	27.2	25.5
1982	20.9	21.1	27.7	18.5	15.4	21.7	17.2	21.5	17.2	14.5	16.0
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	20.2	18.6	19.9	25.6
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	18.2	16.0	10.9	6.7	12.0	13.4	15.9	12.2	16.5	12.5
1990	20.4	21.3	17.9	25.2	25.9	17.4	15.9	23.1	18.4	6.7	12.6
1991	18.9	17.5	16.7	26.1	19.7	18.5	16.7	23.0	17.7	10.7	14.6
1988 a	13.6	8.7	20.4	14.8	10.1	16.3	9.5	5.6	10.7	8.3	9.8
b	12.4	7.1	19.1	13.5	8.0	15.8	8.5	2.9	9.5	9.1	8.9
c	14.0	13.5	17.6	13.5	7.1	15.6	11.0	14.4	10.5	12.1	9.1
d	14.1	15.2	15.9	12.0	7.9	15.1	11.3	16.3	10.3	12.8	9.3
1989 a	13.7	16.7	15.3	12.1	7.4	13.0	13.4	20.6	11.2	18.1	10.8
b	13.2	15.8	15.4	10.6	5.9	13.2	14.6	16.7	12.6	21.0	13.3
c	13.8	19.7	16.9	9.6	6.2	11.0	12.1	11.0	12.0	12.5	12.7
d	14.2	20.4	16.4	11.2	7.2	10.8	13.7	15.7	13.1	14.9	13.2
1990 a	16.7	19.7	17.6	15.3	14.3	14.9	13.3	17.7	14.7	7.2	12.3
b	20.2	23.2	17.4	23.1	24.1	16.5	14.7	27.0	16.2	3.6	12.8
c	21.8	21.8	17.6	29.5	30.7	18.1	17.4	26.4	20.3	7.7	12.3
d	22.6	20.5	18.8	32.3	34.1	19.8	18.1	21.6	22.2	8.3	12.8
1991 a	21.0	19.5	17.1	31.2	27.8	18.4	19.0	29.3	20.3	10.6	14.9
b	19.3	17.6	18.1	26.9	20.9	18.2	18.9	29.1	19.2	14.1	14.9
c	17.9	15.8	17.4	25.1	14.5	18.8	16.0	16.5	17.5	11.8	15.0
d	17.8	17.5	14.5	22.4	16.8	18.4	13.5	18.1	14.3	6.7	13.5

More specifically, the deceleration by 5 percentage points of the annual rate of the CPI during 1991 was due to smaller price rises, compared with the corresponding period in 1990, in all categories of goods and services, except "education and recreation", where prices rose faster (18.6 per cent as against 17.4 per cent in 1990). During the same period, price rises in services were

considerably faster than in goods (21.8 as against 16.5 per cent). The same had happened in 1990 as well (Diagram III.2). Besides, the weakening of inflationary pressures during 1991 was reflected more strongly in administratively controlled prices of goods and services (which rose by 18.2 per cent as against



29.2 per cent in 1990) than in market-determined prices (which rose by 17.6 per cent as against 19.9 per cent in 1990). This development can be attributed to the fact that the deceleration of inflation in 1991 was achieved at a time when price liberalisation policies were still pursued.

The decelerating trend of the rise in prices during 1991 was more pronounced in wholesale prices: the rate of increase in the WPI dropped by 5.9 percentage points (12.5 per cent as against 18.4 per cent in 1990). This reflects a slowdown in all component subindices, with the exception of "imported goods", where prices rose slightly faster (13.1 per cent as against 12.9 per cent in 1990).

There was a considerable deceleration in the rate of increase in prices of "domestic primary products for home consumption" (15.4 per cent as against 27.4 per cent in 1990), which manifested itself more strongly in the prices of plant products (which rose by 13.8 per cent as against 43.8 per cent in 1990) and was due to the large increase in agricultural production in 1991.¹ By contrast, the rate of increase in domestic livestock product prices accelerated (16.9 per cent as against 9.5 per cent in 1990). This acceleration is attributed to the fact that the green drachma rate fell faster in order to offset the negative monetary compensatory amounts, as well as to the liberalisation of animal feed prices as from July 1991.

The rate of increase in the prices of "domestic industrial products for home consumption" was also slower in 1991 (14 per cent as against 20.9 per cent in 1990). The fastest deceleration was noted in the oil refining industry products (the prices of which rose by only 5.9 per cent as against 45.6 per cent in 1990).

Another category where the rate of price increase decelerated considerably (3.8 per cent as against 9.4 per cent in 1990) was "exported products". This deceleration manifested itself mainly in the oil refining products, where prices dropped by 31.8 per cent during 1991, compared with a rise of 31 per cent in the corresponding period in 1990.

On the whole, out of the 5.9 percentage points by which the WPI rate of increase slowed down during 1991, 3.6 points stemmed from a deceleration in oil refining product prices. After the end of the Gulf War, the world price of crude oil was maintained steadily below \$20 per barrel, whereas in the first days of the war it had been well over \$20 per barrel. Consequently, while the average price for 1990 was \$22.1 per barrel, it dropped to \$18.3 in 1991.

Considerably smaller (1.9 percentage points) was the contribution of fuel prices to the deceleration of the CPI. This is the main reason why the CPI

¹ As mentioned previously, there was a considerable rise in the prices of some seasonal products, mainly fruit and vegetables, because of supply shortages due to bad weather conditions towards the end of the year.

rate of increase decelerated less in 1991, compared with the respective WPI rate (5.0 as against 5.9 percentage points).

Apart from Greece, inflationary pressures were also contained in most OECD and EC countries. The average rate of increase in consumer prices fell from 6.2 per cent to 5.2 per cent in the OECD countries and from 5.7 per cent to 5.1 per cent in the EC countries in 1990. As a result of these developments, the Greek average annual rate of inflation, in terms of the CPI, remained almost four times as high as the OECD and the Community average (Diagram III.3).

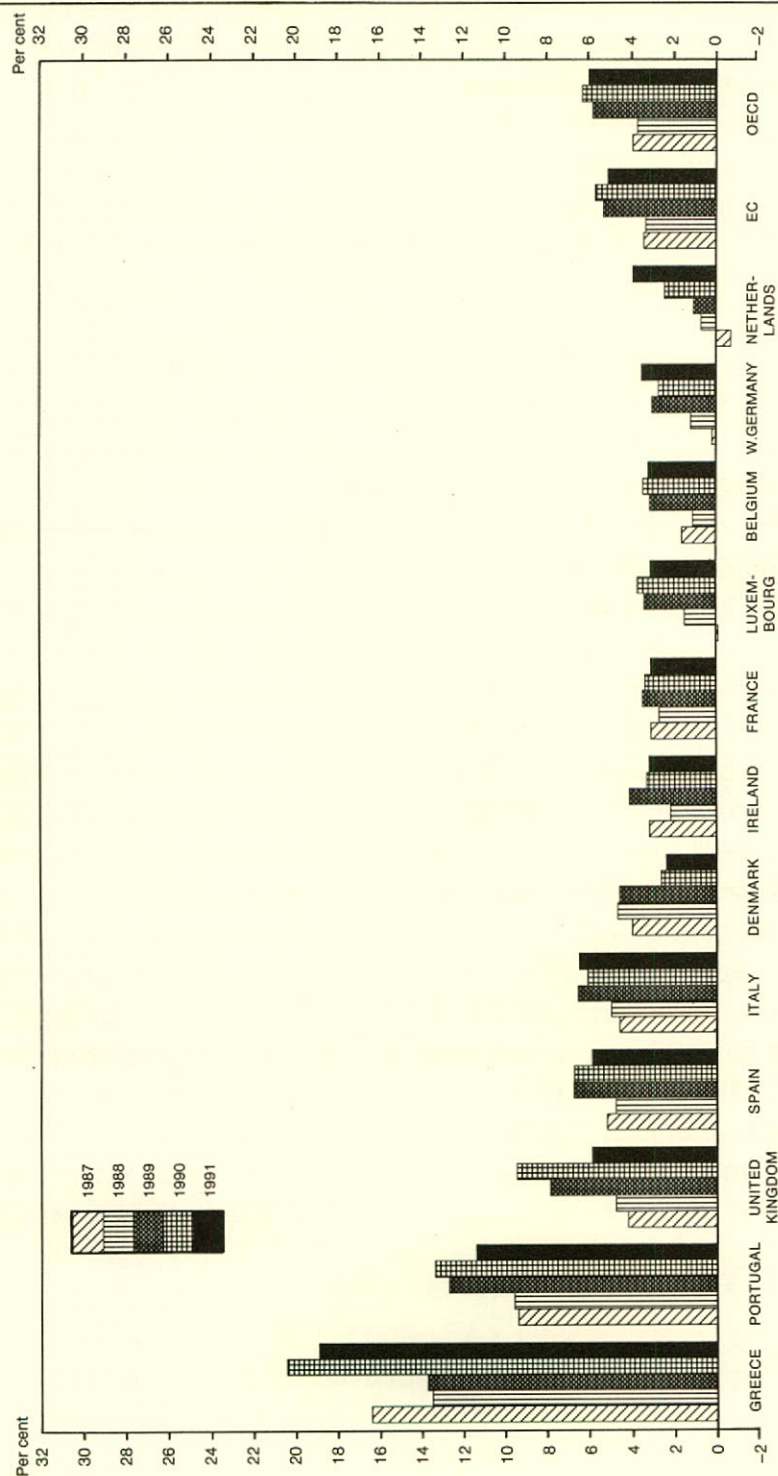
The annual rate of inflation during the first months of 1991 was maintained at around 18 per cent. This was mainly due to special factors, i.e. raises in public utility rates as of the beginning of the year, an increase in indirect taxes on tobacco as from the second half of January, rises in fuel prices after the partial liberalisation of this market as from the beginning of March, as well as prolonged bad weather.

Inflation is expected to decelerate considerably as from April and, according to government forecasts, it will have dropped to 12-13 per cent by the end of the year. The incomes, fiscal and monetary policies announced for the current year offer favourable prospects for confirming government forecasts. Specifically, implementation of the incomes policy as announced will further reduce inflationary pressures exerted by the cost of labour, while, according to budget data, net indirect taxes will have a reduced effect on prices this year. Price rises in the agricultural sector are also expected to be restrained, owing to the rich 1991 harvest, as well as relatively low monetary compensatory amounts. Besides, the rise in the prices of imported goods in foreign currency is expected to be slower than in 1991, owing to smaller increases in world prices compared with last year. Finally, the average increase in public utility rates, which took place in the beginning of the year, was of the order of 7.5 per cent, as against 20.9 per cent during 1991.

2. WAGES AND SALARIES IN 1991

The rate of increase in nominal earnings decelerated considerably in 1991, especially in the public sector, compared with the previous three years. This development, coupled with the increase in productivity, contributed to the deceleration of the rate of increase in unit labour cost. The incomes policy pursued in 1991 aimed at restraining wage and salary increases within limits

DIAGRAM III.3
CONSUMER PRICE INDEX IN EC AND OECD COUNTRIES
(AVERAGE ANNUAL CHANGES)



consistent with the goal of reducing inflation. Significant steps in this direction were the abolition of the wage indexation system (which was applied with successive modifications throughout the period 1982-1990) and the setting of pay rises for civil servants considerably lower than projected inflation.

Specifically, a 4 per cent increase in earnings was granted to civil servants and employees of public entities and local authorities, as of January 1st 1991, while another 4 per cent was granted as of July 1st 1991. The same pay rises were also to be granted to employees in the broader public sector "through collective labour agreements".¹ In the private sector, the government asked the social partners to accept similar pay rises. At the same time, both the government and the central bank stated that monetary and exchange rate policies were not going to accommodate pay rises inconsistent with the effort to bring about a deceleration of inflation.

An examination of developments described in detail below suggests that the government objectives as regards pay rises were achieved almost with no deviations.² It is also worth noting that in public enterprises, banks, and in the purely private sector, this result was achieved through free collective bargaining. According to Ministry of Labour data, collective agreements signed in 1991 totalled 287 (1990: 195), while arbitration courts issued 87 decisions (1990: 106). The ratio of collective agreements to the total (i.e. to the sum of collective agreements and arbitration court decisions) was the highest in the period 1974-1991, while the number of collective agreements at industrial branch or plant level was also very high. Moreover, the strengthening of collective bargaining was not accompanied by an increase, but by a clear decline in the number of strikes: as Ministry of Labour data indicate, hours of work lost because of strikes are estimated at 5.8 million in 1991, as against 20.4 million in 1990 and 8.9 million in 1989. These developments should be attributed to (i) the fact that the government's incomes policy, although restrictive, was characterised by flexibility as far as the means of its implementation were concerned, (ii) the provisions of the new law (1876/90) on collective bargaining³ and (iii) the fact that the social partners took into account the

¹ Joint ministerial decision of 24th December 1990, which was later ratified by article 24 of Law 1947/91.

² As regards public enterprises and organisations and banks, this observation is valid if the annual increase in the wage bill is used as a criterion. However, it should be noted that, owing to a different time profile of pay rises during the year, the carryover effect into 1992 is bigger for public enterprises and banks (approx. 5 per cent) than for central government (approx. 2 per cent).

³ Law 1876/90 on free collective negotiations concerns the types and the content of collective agreements, as well as the terms on which it is permitted to resort to mediation and arbitration proceedings.

adverse economic conditions (decline in economic activity and rising unemployment), while at the same time sought to stress their ability to reach an agreement, as is shown by the fact that in many cases collective agreements were set for a two-year period (including the National General Collective Labour Agreement signed by the Federation of Greek Industries and the General Confederation of Greek Workers).

Available data on wages and salaries (Table III.2) show that, according to provisional estimates by the Ministry of National Economy, the total wage bill ("compensation of employees")¹ increased by 15.5 per cent in 1991 (as against 22.4 per cent in 1990 and, according to national accounts estimates by the NSSG, 20.5 per cent in 1989). According to the same data and estimates, the share of employees' compensation in non agricultural GDP rose from 55.3 per cent in 1989 to 57.0 per cent in 1990, but fell to around 56.5 per cent in 1991.

The annual rate of increase in unit labour cost in the non agricultural sector of the economy² followed a similar pattern. After an acceleration from 15.8 per cent in 1989 to 21.1 per cent in 1990, it decelerated to 15.3 per cent in 1991. The deceleration was more pronounced in manufacturing, where unit labour cost, after having risen by 18.2 per cent in 1989 and by 20.9 per cent in 1990, does not seem to have risen by more than 11 per cent in 1991, according to provisional estimates. It is worth noting that, over the six-month period from January to June 1991, the rise was only 11.8 per cent, compared with the same period in 1990. If we take into account that the corresponding average increase in competitor countries was about 3.5 per cent and that the average annual level of the effective exchange rate of the drachma dropped by 11.2 per cent, it follows that the competitiveness of Greek products (in terms of unit labour cost) improved considerably in 1991, after losing ground in each of the years 1988 through 1990.

Changes in wages and salaries by category in 1991 were as follows:

According to data from the introductory report on the budget for 1992, total outlays for both salaries and pensions in central government increased by 14 per cent and outlays for salaries only rose by 15 per cent, compared with a

¹ In addition to earnings, the wage bill includes employers' contributions to employees' insurance funds, civil servants' pensions and workers' net income from abroad. The wage bill is also affected by changes in employment.

² Non agricultural labour cost is the ratio of employees' compensation (in nominal terms) to non agricultural GDP at factor cost and 1970 prices.

1991 budget projection of 14.2 per cent and 15.3 per cent respectively. However, since between October 1990 and October 1991 the number of tenured and nontenured civil servants and security forces employees rose by 2.5 per cent, outlays per employee rose by only 12.2 per cent. Besides, in public enterprises and entities, according to provisional Ministry of National Economy data, outlays for salaries increased by 13.7 per cent, whereas employment fell by 2.8 per cent between December 1990 and December 1991. Consequently, outlays per employee increased by 17 per cent. In electricity-water supply enterprises in particular, according to a sample survey conducted by the NSSG,¹ hourly earnings of blue collar workers increased by 12.4 per cent, while weekly earnings grew by 14.2 per cent and monthly earnings of white collar workers (who account for the largest segment of the personnel), increased by 15.8 per cent.

The collective agreement for the banking sector provided for pay increases that amounted to an average annual rise of 11 per cent. Including the effect of seniority benefits, it is estimated that average earnings finally rose by 14 per cent. According to the NSSG sample survey, however, monthly earnings of bank employees had increased in April 1991 by 11.4 per cent, compared with the corresponding month of 1990.

In the private sector, the two-year National General Collective Labour Agreement stipulated a rise in minimum earnings of unskilled blue and white collar workers by 6.3 per cent as of January 1st and by 5.6 per cent as of July 1st 1991, and by 5.4 per cent as of January 1st and by 4 per cent as of July 1st 1992, as well as the completion of the incorporation of the indexation allowance in basic earnings in two instalments (January 1st 1991 and July 1st 1992). These provisions result in an average pay rise of 15.1 per cent in 1991 (as against 17.3 per cent in 1990) and of 11 per cent in 1992.² Still, the average annual increase will finally reach 11.9 per cent in 1992: this includes the corrective increase of 0.8 per cent granted as of January 1st 1992, according to a special clause of the agreement (since the twelve-month rate of inflation reached 17.8 per cent in December 1991, slightly exceeding the 17 per cent target).

In manufacturing, an analysis of the most important collective agreements at craft or industrial branch level (half of which were of two-year

¹ Change during the first half of 1991 over the same half of 1990.

² The average annual increase for 1992 also includes the carryover from the 1991 increases, which amounts to 2.5 per cent.

TABLE III.2
WAGES AND SALARIES, UNIT LABOUR COST, PRODUCTIVITY: 1984 - 1991
(Annual percentage change)

	1984	1985	1986	1987	1988	1989	1990	1991 ⁴
TOTAL ECONOMY (EXCEPT AGRICULTURE) ¹								
- Compensation of employees (wages and salaries)	23.6	24.7	12.3	12.2	21.4	20.5	22.4	15.5
- Non-agricultural GDP at constant prices	2.3	3.6	1.6	0.0	4.2	4.1	1.1	0.2
- Unit labour cost	20.8	20.4	10.5	12.2	16.5	15.8	21.1	15.3
MANUFACTURING ²								
- Hourly earnings of blue-collar workers (nominal)	26.3	19.8	12.7	9.6	18.4	20.5	19.4	15.7
- Hourly earnings of blue-collar workers (real)	6.6	0.4	-8.4	-5.8	4.3	6.0	-0.8	-3.7
- Weekly earnings of blue-collar workers (nominal)	25.3	23.1	12.5	9.8	24.0	20.7	19.3	15.6
- Weekly earnings of blue-collar workers (real)	5.7	3.1	-8.5	-5.7	9.3	6.2	-0.9	-3.7
- Monthly earnings of white-collar workers (nominal)	24.1	23.0	8.6	8.3	26.9	19.9	21.8	17.8
- Monthly earnings of white-collar workers (real)	4.7	3.1	-11.7	-7.0	11.8	5.5	1.2	-1.9
- Output per worker	0.9	3.7	-0.7	-0.7	4.0	2.1	-1.3	3.3
- Output per man-hour	1.8	1.0	-0.5	-0.8	-0.8	2.0	-1.1	3.5
- Unit labour cost	24.1	18.7	13.3	10.5	19.3	18.2	20.9	11.8
ELECTRICITY - WATER SUPPLY ²								
- Hourly earnings of blue-collar workers (nominal)	...	...	...	...	...	...	25.2	12.4
- Hourly earnings of blue-collar workers (real)	...	...	...	...	...	...	4.0	-6.4
- Weekly earnings of blue-collar workers (nominal)	...	...	...	...	...	...	26.8	14.2
- Weekly earnings of blue-collar workers (real)	...	...	...	...	...	...	5.3	-4.9
- Monthly earnings of white-collar workers (nominal)	...	...	...	...	...	...	20.3	15.8
- Monthly earnings of white-collar workers (real)	...	...	...	...	...	...	-0.1	-3.6
BANKS ²								
- Monthly earnings of employees (nominal)	...	...	8.0 ⁵	9.3 ⁵	17.6 ⁵	25.5 ⁵	19.9 ⁵	11.4
- Monthly earnings of employees (real)	...	...	-11.4 ⁵	-5.2 ⁵	3.1 ⁵	10.3 ⁵	-2.0 ⁵	-8.3
INSURANCE COMPANIES ²								
- Monthly earnings of employees (nominal)	...	...	9.6 ⁵	7.9 ⁵	21.2 ⁵	23.8 ⁵	18.8 ⁵	15.8
- Monthly earnings of employees (real)	...	...	-10.1 ⁵	-6.4 ⁵	6.2 ⁵	8.8 ⁵	-2.9 ⁵	-4.7
WHOLESALE TRADE ²								
- Monthly earnings of employees (nominal)	...	...	...	...	...	...	...	17.3
- Monthly earnings of employees (real)	...	...	...	...	...	...	...	-2.3
RETAIL TRADE ²								
- Monthly earnings of employees (nominal)	25.2	23.0	11.1	9.1	18.0	16.0	15.6	13.2
- Monthly earnings of employees (real)	5.7	3.1	-9.7	-6.3	4.0	2.0	-4.0	-5.7
MINING AND QUARRYING ²								
- Weekly earnings of blue-collar workers (nominal)	23.6	24.7	12.1	11.9	20.4	16.2	31.3	24.2
- Weekly earnings of blue-collar workers (real)	4.3	4.5	-8.9	-3.9	6.1	2.2	9.1	3.4
- Monthly earnings of white-collar workers (nominal)	22.7	24.3	12.0	11.0	19.1	14.5	21.1	20.2
- Monthly earnings of white-collar workers (real)	3.5	4.2	-8.9	-4.6	4.9	0.7	0.6	0.1
MINIMUM WAGES AND SALARIES ³								
- Daily wages of unskilled blue-collar workers (nominal)	26.0	18.0	10.8	10.1	17.0	18.9	17.1	14.4
- Daily wages of unskilled blue-collar workers (real)	6.3	-1.1	-9.9	-5.4	3.1	4.6	-2.7	-3.8
COMPENSATION OF EMPLOYEES AS A PERCENTAGE OF NON - AGRICULTURAL GDP AT CURRENT PRICES ¹								
	56.8	57.3	54.0	53.8	54.7	55.3	57.0	56.5

¹ Data and estimates of National Accounts, (NSSG). For 1990-1991: Ministry of National Economy estimates.

² Calculations based on NSSG survey data.

³ Estimated 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-June 1991 as against the corresponding period in 1990. For banks and insurance companies, rates of change are for April 1991 as against the corresponding month in 1990.

⁵ October - on - October rates of change.

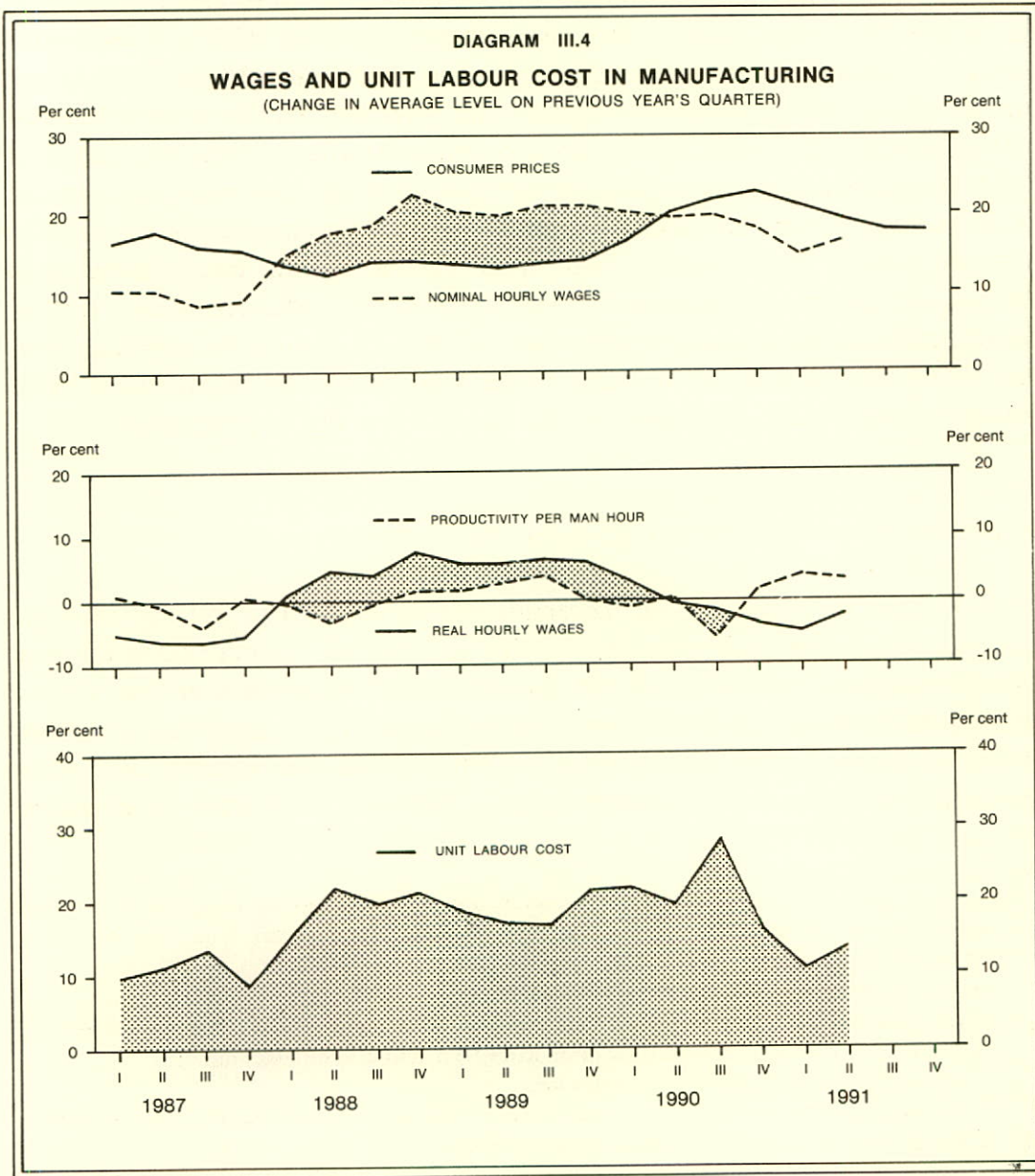
duration) indicates that the annual average rise in contractual earnings was around 16 per cent, slightly exceeding the increase granted on minimum earnings. Besides, according to sample surveys carried out by the NSSG, in the six-month period from January to June 1991, compared with the corresponding period of 1990, hourly earnings of workers rose by 15.7 per cent and weekly earnings by 15.6 per cent (1990: 19.4 per cent and 19.3 per cent respectively), while monthly earnings of employees rose by 17.8 per cent (1990: 21.8 per cent). Given that, in the same period, output per worker rose by 3.3 per cent and output per man-hour by 3.5 per cent (as against a drop by 1.3 per cent and 1.1 per cent respectively in 1990), unit labour cost rose by 11.8 per cent (1990: 20.9 per cent). For the whole year, it is estimated that earnings of workers increased by around 17 per cent, productivity by around 5.5 per cent and unit labour cost by around 11 per cent. It should be noted that, despite the fact that the rate of increase in earnings in manufacturing (and in the private sector in general) decelerated less than in the public sector, the rate of increase in unit labour cost in manufacturing decelerated more than in the non agricultural sector of the economy as a whole (by ten percentage points, compared with six). This was due to the big increase in productivity in manufacturing.

Finally, in the remaining branches of the private sector (mining and quarrying, construction, transport, trade), collective agreements signed stipulate an average annual increase of 15-16 per cent in contractual earnings. Besides, according to sample surveys carried out by the NSSG, during the six-month period from January to June 1991, as compared with the corresponding period of 1990, weekly earnings of blue collar workers in mining and quarrying rose by 24.2 per cent (1990: 31.3 per cent) and monthly earnings of white collar employees by 20.2 per cent (1990: 21.1 per cent), while in retail trade earnings of employees grew by 13.2 per cent (1990: 15.6 per cent) and in wholesale trade by 17.3 per cent.

For 1992, the government incomes policy, in the framework of the stabilisation plan, aims at a further considerable deceleration of the rate of increase in nominal earnings, so as to achieve the objective of bringing the annual inflation rate down to 12 per cent by December of the current year, as well as reducing the public sector borrowing requirement to the levels already determined. To this end, it was decided¹ not to grant any additional pay rises to civil servants, except for those which derive from the extension of the

¹ Relevant announcements were made on 20th January 1992.

18,000 drs allowance to all civil servants' categories (9,000 drs as from January 1992 and 9,000 drs as from January 1993). This, coupled with the effect of



seniority benefits and of carryover from the previous year, amounts to an 8.5 to 9 per cent increase in the central government's wage bill, as against a 13.7

per cent projection in the 1992 budget.¹ It is estimated that the increase in outlays for salaries in the broader public sector (public enterprises and entities, banks, local authorities) will be similar, given that, according to Law 2025/92 which was passed in March 1992, it is prohibited to grant to employees of this sector any kind of pay rises, except for those which stem from a change in family status or seniority under the norms already in force. In the private sector, the government expects that pay rises will be restrained and will not exceed the limits set by the two-year collective agreements signed in 1991. These agreements stipulate, for the private sector, pay rises that amount to an average annual increase of about 12 per cent in contractual earnings in 1992. In view of the above, it is estimated that the average rate of increase in salaries will be limited to around 11 per cent in 1992, thus marking a further considerable deceleration following that of 1991. It should be stressed, however, that the income tax reform, which was announced in January 1992, implies a significant reduction in the tax burden on wage earners.

3. INCOME FROM PROPERTY AND ENTREPRENEURSHIP

Income from property and entrepreneurship increased in 1991 by 18.4 per cent, i.e. at a rate considerably slower than in 1990 (28.1 per cent),² faster than that of wages and salaries (15.5 per cent) and substantially slower than that of agricultural income (29.5 per cent). In real terms, this magnitude remained almost unchanged. This development reflects the fact that income from property and entrepreneurship is composed of a relatively wide array of revenues,³

¹ The central government's outlays for pensions will increase by 7.1 per cent (as estimated in the budget as well), owing to a 3 per cent rise granted as from 1st January and another 3 per cent as from 1st July 1992.

² Provisional estimates by the Ministry of National Economy.

³ It should be noted that income from property and entrepreneurship, as it appears in the national accounts, is calculated indirectly (as the residual of other items) and includes the following:

- profits from personal firms and companies;
- income earned by professionals (doctors, lawyers, notaries, real estate agents, customs clearance agents, engineers, architects, artists, biologists, etc.);
- rents from offices, dwellings, shops, building sites and land, royalties from patents, trade marks etc.;
- income from interest on deposits, loans, securities, special reserves of insurance companies and dividends distributed by companies and cooperative associations. Moreover, in the same account are added the savings of public and private corporations, cooperative associations, etc.

with differing degrees of adaptability to economic policy and other economic conditions.

In particular, the increase in income from property and entrepreneurship is the outcome of the changes which took place in its four components (business profits, income earned by professionals, rents from property, and interest income).

Data are available on business profits only, and show that in 1991 profits rose in some sectors of economic activity. According to mid-year summary financial statements of firms whose shares are listed on the Athens Stock Exchange, in the broader financial sector, as well as in manufacturing and commercial firms, results in the first half of 1991 were positive and reached a considerably higher level than in the corresponding period of the previous year.

Specifically, in the broader financial services sector, net pre-tax profits of 26 firms in the first half of 1991 almost doubled (increase by 80 per cent), compared with the corresponding period of the previous year.¹ It is worth noting that the ratio of total income to total expenses improved by 16.8 per cent, since it reached 1.60 in 1991, as against 1.37 in 1990.² Finally, it should be mentioned that banks' profits doubled (increase by 98.7 per cent). This development reflects mainly the increase in net interest income.

In the manufacturing sector, net pre-tax profits realised by 69 business firms in the first half of 1991 increased by 23.3 per cent, compared with the corresponding period of 1990.³ The increase in profits stemmed from wider net profit margins (9.5 per cent in 1991, as against 9.0 per cent in 1990). The containment of the rise in direct production costs, together with the large increase in "various receipts",⁴ are estimated to have more than offset the negative effect on profits of the 3.8 per cent drop in the

¹ Of these firms, only one realised negative results, which, however, account for just 0.23 per cent of total positive results.

² It should be noted that the above 26 financial firms include: 15 banks, 2 leasing companies, 6 investment companies and 3 insurance companies.

³ These firms cover fifteen out of twenty branches of manufacturing activity, specifically: food, beverages, tobacco, textiles, footwear and clothing, wood, furniture, paper, plastics, chemicals, non-metallic minerals, basic metals, metallurgical products and electrical machinery.

⁴ "Receipts excluding sales revenue" include rents from buildings, income from participation, interest from loans and securities, as well as other non recurring income and income unrelated to the main activity of the company.

volume of sales.¹ The fact that the increase in unit labour cost in 1991 (around 11 per cent) was smaller than the increase in wholesale prices of manufactured goods (17.7 per cent) also implies that profit margins widened.²

In the trade sector, net pre-tax profits of 13 large business firms grew by 40.1 per cent in the first half of 1991, compared with the corresponding period of the previous year.³ This large increase in profits resulted from the increase in the sales volume by 4.3 per cent and from the widening of net profit margins, from 6.0 per cent in 1990 to 6.7 per cent in 1991. This is also confirmed by the fact that the rate of increase in producer prices (wholesale prices of domestic and imported products for home consumption), as well as in labour cost (earnings of retail trade employees), was lower than the rate of increase in prices paid by consumers (CPI). The large increase in profits in the trade sector constitutes a strong indication that competitive conditions are not prevailing; this makes the process of deceleration of inflation even more difficult and much slower.

As regards income earned by professionals, rents from buildings and income from interest, quantitative estimates are difficult to make, given that available data are incomplete. However, according to existing indications, these incomes have certainly not been reduced in real terms.

¹ This drop is obtained if the increase by 15.1 per cent in the nominal value of sales is deflated by the NSSG wholesale price index of final domestic industrial products for home consumption, which in the first half of 1991 rose by 19.7 per cent, compared with the corresponding 1990 period. It is noted here that the estimated drop in the value of sales in real terms, according to the above, matches the development of manufacturing production in terms of the relevant NSSG index, which in the first half of 1991 fell by 3.1 per cent compared with the corresponding 1990 period.

² By contrast, a sample survey carried out by ICAP on 396 manufacturing firms indicates that in 1991 net profits rose at a considerably lower rate than the rate of inflation (namely, lower than 18.9 per cent), while in the previous year they had grown by 32.2 per cent. Besides, according to recent estimates by the Federation of Greek Industries, profits realised by manufacturing firms remained at 1990 levels or improved slightly (in the case of export-oriented companies).

³ These firms are: 3 department stores, one super-market/ department store chain, 2 electric appliances import/trade companies, 4 footwear-clothing import/trade companies, one wood trade company, one industrial plumbing equipment firm and one general wholesale trading firm.

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 in 1991 by 156 billion drachmas or 9.9 per cent (1990: 318.5 billion or 25.2 per cent), reflecting the slower growth of both currency circulation and sight deposits. Specifically, the growth rate of currency circulation fell to 7.8 per cent from 19.9 per cent in 1990 and that of sight deposits to 15.6 per cent from 42.5 per cent in 1990.

TABLE IV.1
MONEY SUPPLY (M1)

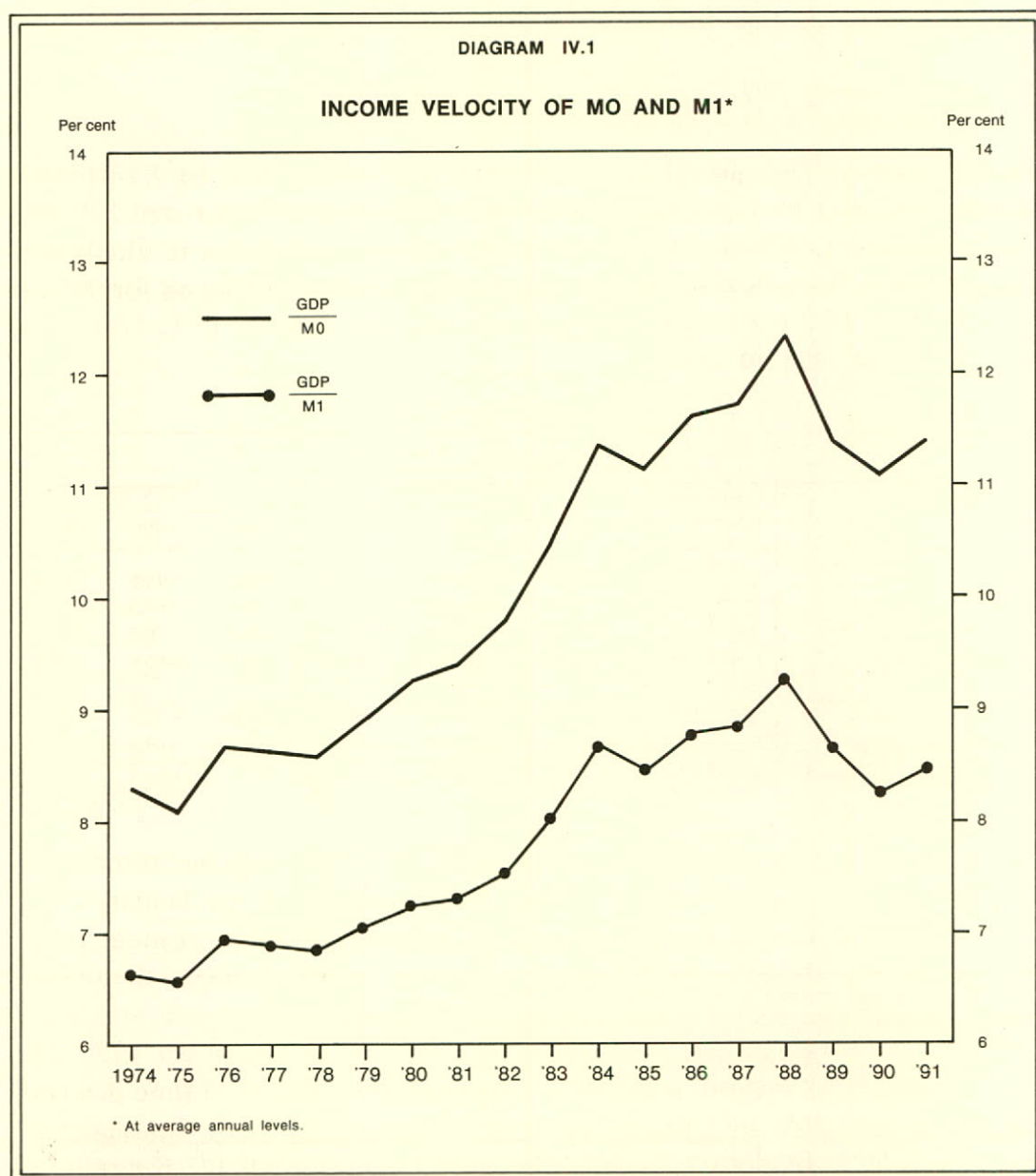
	Outstanding balances on 31 Dec. 1991* (million drachmas)	Annual changes					
		Million drachmas			Percentage		
		1989	1990	1991*	1989	1990	1991*
Currency circulation, M0	1,252,124	+233,846	+192,723	+ 90,083	+31.8	+19.9	+ 7.8
Private sight deposits	487,376	+ 57,927	+125,799	+ 65,929	+24.4	+42.5	+15.6
Money supply narrowly defined, M1 ¹	1,739,500	+291,773	+318,522	+156,012	+30.0	+25.2	+ 9.9
Time and savings deposits	8,239,445	+1,270,102	+818,680	+666,076	+23.2	+12.1	+ 8.8
Repurchase agreements with the private sector (Repos)	420,851	—	+ 48,501	+372,350	...	...	...
Bank bonds	554,538	+ 96,481	+112,746	- 39,412	+25.1	+23.4	- 6.6
Broad money supply, M3 ¹	10,954,334	+1,658,356	+1,298,449	+1,155,026	+24.2	+15.3	+11.8

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

* Provisional data.

Uncertainty regarding the outcome of the Gulf War caused widespread feelings of insecurity and led to increased cash holdings. In fact, the growth rate of currency circulation accelerated significantly during the first quarter of the year, but began to slow down from April onwards, as hostilities in the Gulf ceased and the business outlook improved. The slowdown continued until the first quarter of 1992. By the end of March, banknote circulation fell 2.7 per cent below its March 1991 level.

The deceleration in the growth rate of currency circulation is associated with the re-emergence, since May 1991, of positive real interest rates on all



categories of time deposits and government securities and with the concomitant rise in the opportunity cost of holding money. Furthermore, it seems that the growing use of credit cards is gradually reducing the need to hold cash.

At average annual levels, narrow money (M1) grew by 16.7 per cent, compared with 24.9 per cent in 1990. Based on estimates of income growth in 1991, the income velocity of M1 rose by 2.8 per cent (diagram IV.1) in contrast to the decline registered in the previous two years.

1.2 Private deposits in drachmas

Private drachma deposits increased by 752.9 billion drachmas or 9.3 per cent in 1991, compared with an increase of 963.1 billion or 13.5 per cent in 1990. This deceleration reflects the gradual shift from bank deposits to alternative forms of investment in other liquid assets, which has been going on for the last

TABLE IV.2
PRIVATE DEPOSITS

Category	Outstanding balances on 31 Dec. 1991* (million drachmas)	Annual changes					
		Million drachmas			Percentage		
		1989	1990	1991*	1989	1990	1991*
Sight	487,376	+ 57,927	+125,799	+ 65,929	+24.4	+42.5	+15.6
Savings	6,228,899	+1,002,634	+696,786	+679,657	+26.0	+14.4	+12.2
Time	2,010,546	+267,468	+121,894	- 13,581	+16.4	+ 6.4	- 0.7
Blocked	129,863	+ 9,829	+ 18,645	+ 20,927	+12.2	+20.6	+19.2
Total	8,856,684	+1,337,858	+963,124	+752,932	+23.1	+13.5	+ 9.3
In foreign exchange	2,701,374	+368,686	+369,809	+461,322	+24.6	+19.8	+20.6

* Provisional data.

four years. This shift was considerably bigger in 1991, following the introduction of a 10 per cent tax on interest income from deposits on 1st January 1991.

The slowdown in the growth rate of deposits was more pronounced in the case of time deposits. With specific regard to savings deposits, the twelve-month growth rate started decelerating at the beginning of the year and fell to 12.2 per cent by December 1991, from 14.4 per cent in December 1990. The early months of 1991 were marked by a significant reduction in time deposits, which was not offset by any increase over the rest of the year. Consequently, the balance of time deposits outstanding at the year-end was 0.7 per cent less than in December 1990. Time deposits had increased by 6.4 per cent in 1990.

Interest rates on government paper and especially on twelve-month Treasury bills remained higher than those on time deposits. Moreover, because interest income from time deposits was taxed while that from govern-

ment securities was not, the yield differential between the two categories increased and led to a considerable reallocation of investment portfolios in favour of government securities sold directly to the public, as well as repos.

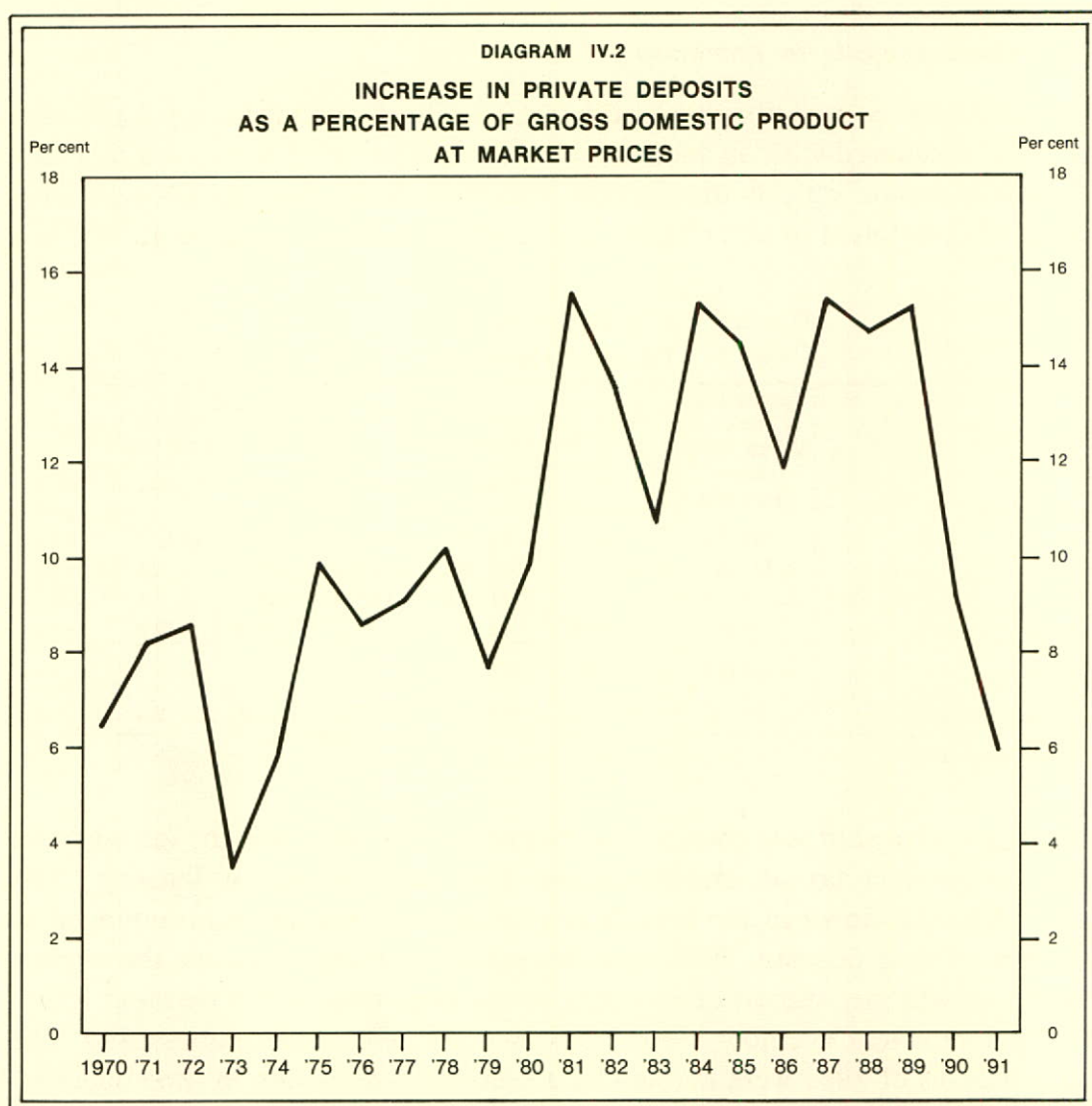
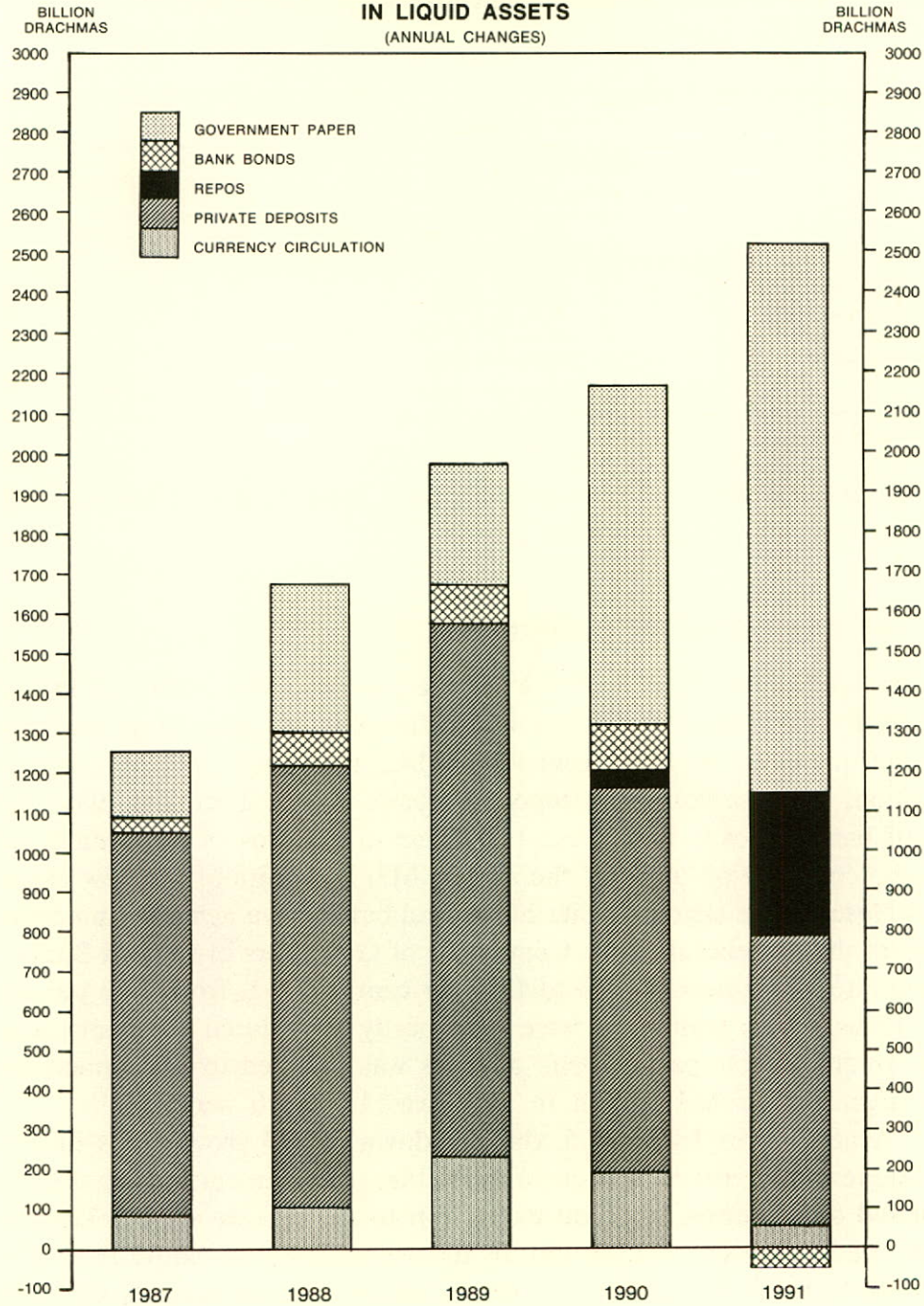


Diagram IV.3 shows that savers had a marked preference for government paper in 1991. Net sales of government securities totalled 1,370.4 billion drachmas (1990: 849.3 billion), while sales of repos reached 420.9 billion drachmas by the end of 1991, compared with 48.5 billion a year earlier.

DIAGRAM IV.3
PRIVATE SECTOR INVESTMENT
IN LIQUID ASSETS
(ANNUAL CHANGES)



Data concerning the distribution of time and savings deposits by credit institution in 1991 reveal a decrease in the share of commercial banks and a commensurate increase in that of specialised credit institutions. In particular,

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

Credit institution	Total private deposits			Time and savings deposits		
	1989	1990	1991*	1989	1990	1991*
Commercial banks	67.9	68.5	62.4	67.6	64.5	59.8
Specialised credit institutions	32.1	31.5	37.6	32.4	35.5	40.2
(Postal Savings Bank)	(10.0)	(11.6)	(11.9)	(10.6)	(13.7)	(13.5)
(Agricultural Bank)	(17.0)	(12.3)	(20.4)	(17.1)	(14.7)	(22.6)
Total	100.0	100.0	100.0	100.0	100.0	100.0

* Provisional data.

the Agricultural Bank's share in last year's increment in time and savings deposits rose by 7.9 percentage points.

1.3 Total Liquidity of the Economy

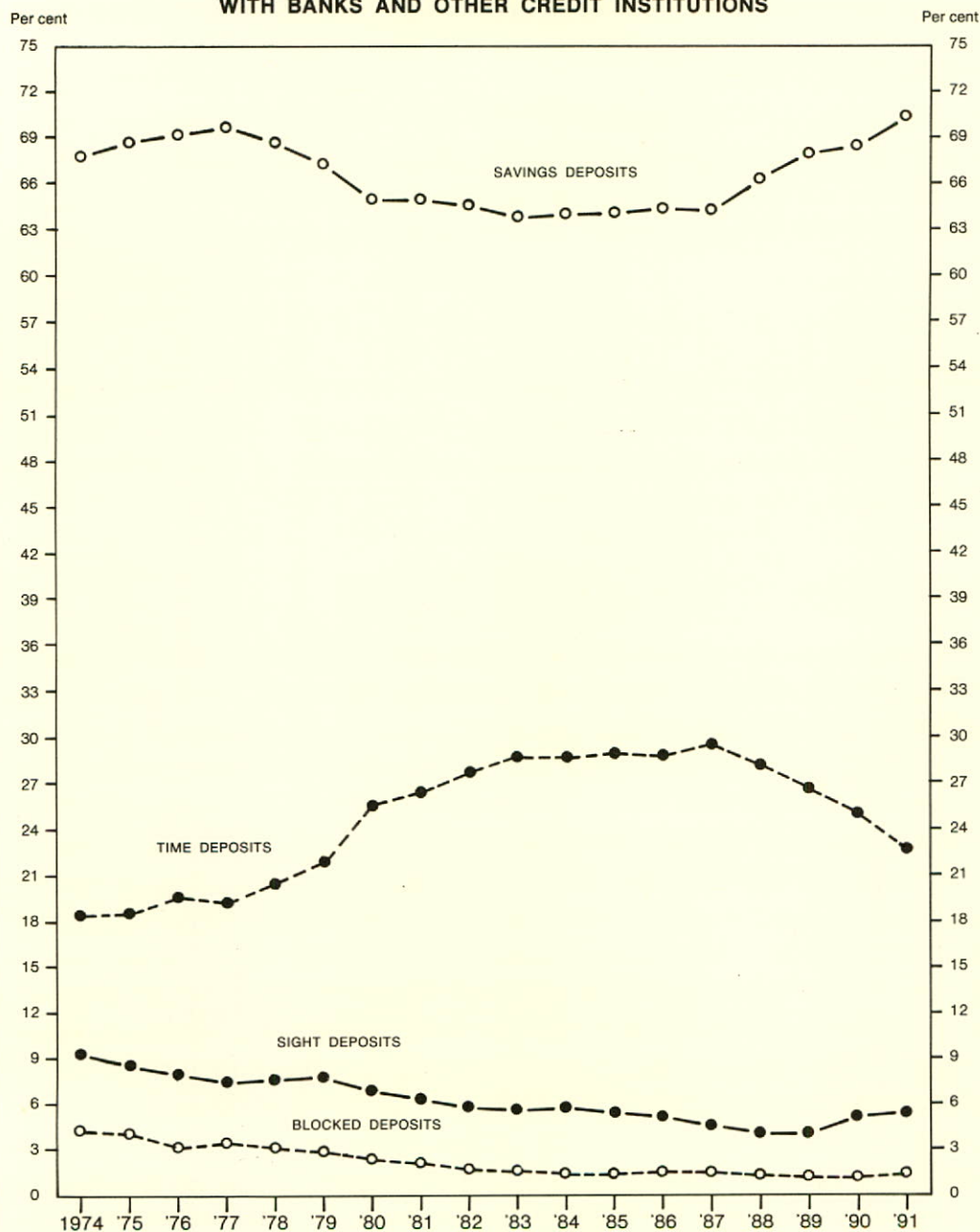
The deceleration in the growth rate of broad money (M3) continued into 1991. Specifically, M3 according to its old definition (M1 plus time and savings deposits) increased by 9 per cent (1990: 14.2 per cent). According to its new definition, M3 also comprises repos and bank bonds. Therefore, the substitution of bank deposits with these two alternative forms of investment affects only the composition and not the size of M3. In addition, the new expanded M3 is closer to the aggregate that EC central banks have agreed to monitor and report to the Secretariat of the Committee of Governors of Central Banks. The growth rate of the new M3 fell to 11.8 per cent in 1991, from 15.3 per cent in 1990. This shows that repos were only partly substituted for bank deposits, while a considerable part of bank deposits was invested in government paper. The target set for M3 growth in 1991 was 14 to 16 per cent.

According to Table IV.5, the slowdown in M3 growth was due to the containment of credit expansion to the public sector, in contrast to the slightly increased contribution of credit expansion to the private sector. The foreign sector made a positive contribution to the creation of liquidity.

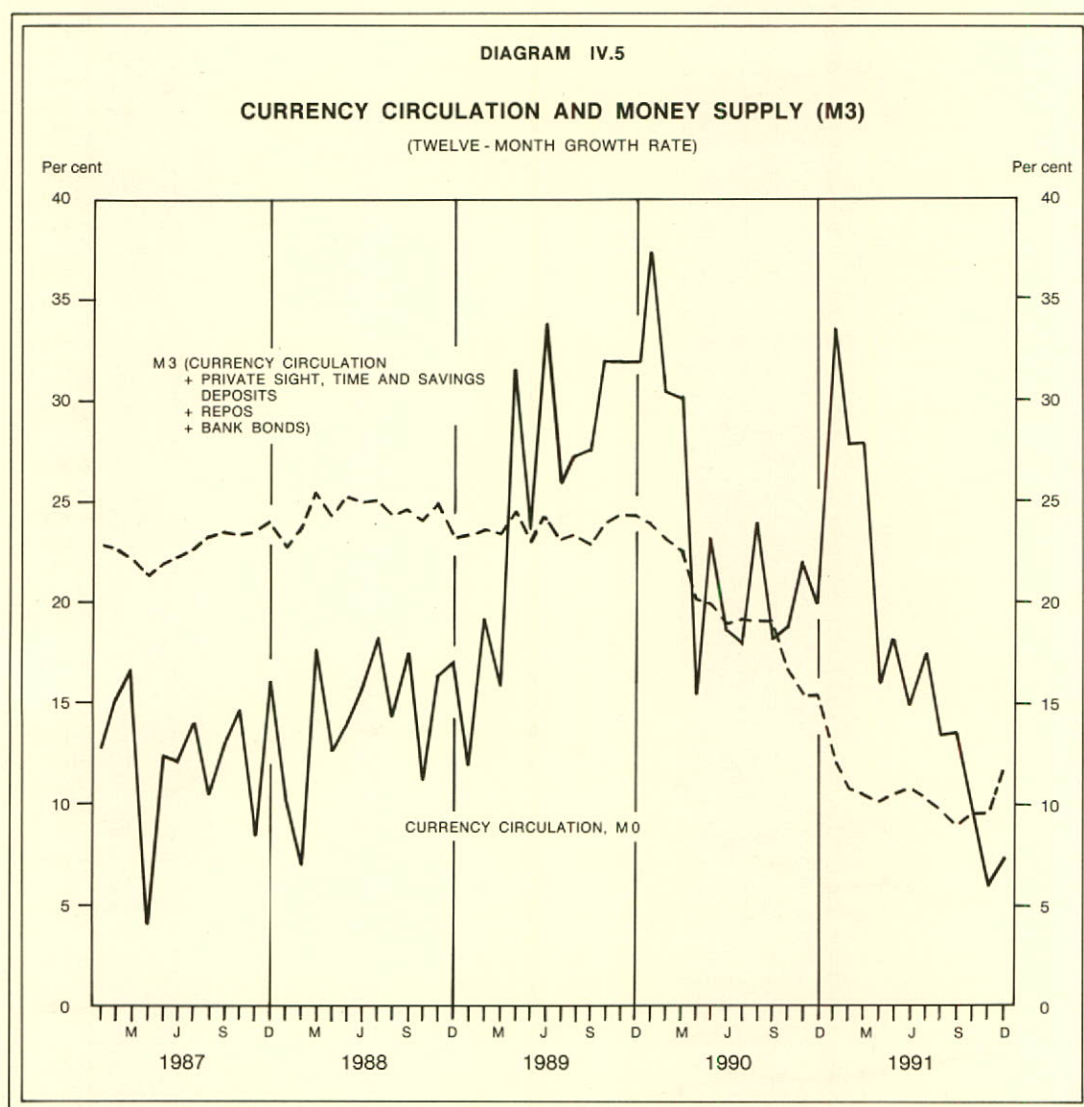
As mentioned previously, domestic nonbank sources had a considerably larger share in financing the public deficit (1991: 68 per cent, 1990: 43 per

DIAGRAM IV.4

PERCENTAGE DISTRIBUTION OF PRIVATE DEPOSITS
WITH BANKS AND OTHER CREDIT INSTITUTIONS



cent), because of the relatively high yields of government paper. Consequently, despite a marginal increase in net PSBR (from 1,957 billion drachmas in 1990 to 2,018 billion in 1991), credit expansion to the public sector fell from 1,113 billion drachmas or 14.3 per cent in 1990 to 646 billion or 7.1 per cent in



1991 (1991 target: 12 to 13 per cent). By contrast, credit expansion to the private sector remained at roughly the same level as in 1990 and was close to the 1991 target (14 per cent), after due adjustment of the technical factors that make it appear to be faster.

TABLE IV.4
FACTORS AFFECTING MONEY SUPPLY (M1)

(+) Money supply increase (-) Money supply decrease
(Million drachmas)

Sectors	1990	1991*
A. PUBLIC SECTOR	+ 985,950	+ 740,107
<i>I. Central Government</i>	<i>+ 807,463</i>	<i>+ 487,192</i>
1. Loans and advances	+ 446,540	+ 186,818
2. Treasury bills	+ 326,834	-1,449,149
3. Bonds and other securities	- 12,290	+1,458,494
4. Deposits	- 48,932	- 26,755
5. Other accounts ¹	+ 35,961	+ 39,709
6. Foreign borrowing (net)	+ 59,350	+ 278,075
<i>II. Public organisations</i>	<i>+ 99,220</i>	<i>+ 220,787</i>
1. Local authorities	- 13,408	- 699
2. Social insurance	+ 106,045	+ 145,727
3. Other	+ 6,583	+ 75,759
<i>III. Public enterprises</i>	<i>+ 79,267</i>	<i>+ 32,128</i>
1. Loans and advances	+ 82,775	+ 23,274
2. Bonds	- 12,170	- 1,121
3. Time deposits	+ 8,662	+ 9,975
B. PRIVATE SECTOR	- 253,848	+ 106,356
<i>I. Loans and advances</i>	<i>+ 647,536</i>	<i>+ 721,577</i>
1. Agriculture	+ 152,044	+ 112,393
2. Manufacturing	+ 174,876	+ 283,148
3. Other	+ 320,616	+ 326,036
<i>II. Securities</i>	<i>+ 48,621</i>	<i>+ 35,703</i>
<i>III. Deposits</i>	<i>- 837,259</i>	<i>- 690,336</i>
1. Savings	- 696,786	- 679,657
2. Time	- 121,894	+ 13,581
3. Blocked	- 18,579	- 24,260
<i>IV. Bank bonds</i>	<i>- 112,746</i>	<i>+ 39,412</i>
C. FOREIGN SECTOR	- 145,174	+ 92,205
1. Change in foreign exchange reserves	+ 192,402	+ 658,402
2. » » clearing accounts	-	-
3. » » foreign exchange sight liabilities	- 224,481	- 388,494
4. » » long-term foreign exchange liabilities	- 59,350	- 278,075
5. » » foreign exchange deposits by Greek workers and seamen	- 186,505	- 225,249
6. Loans in convertible drachmas	- 234	-
7. Valuation differences in Bank of Greece foreign exchange accounts	+ 132,994	+ 325,621
D. OTHER ITEMS	- 223,871	- 717,691
CHANGE IN MONEY SUPPLY, M1	+ 363,057	+ 220,977
<i>1. Currency circulation</i>	<i>+ 192,723</i>	<i>+ 90,083</i>
a. Banknotes	+ 189,801	+ 87,809
b. Coin	+ 2,922	+ 2,274
<i>2. Sight deposits</i>	<i>+ 170,334</i>	<i>+ 130,894</i>
a. Private	+ 125,799	+ 65,929
b. Public organisations	+ 61,603	+ 40,696
c. Public enterprises	- 17,068	+ 24,269

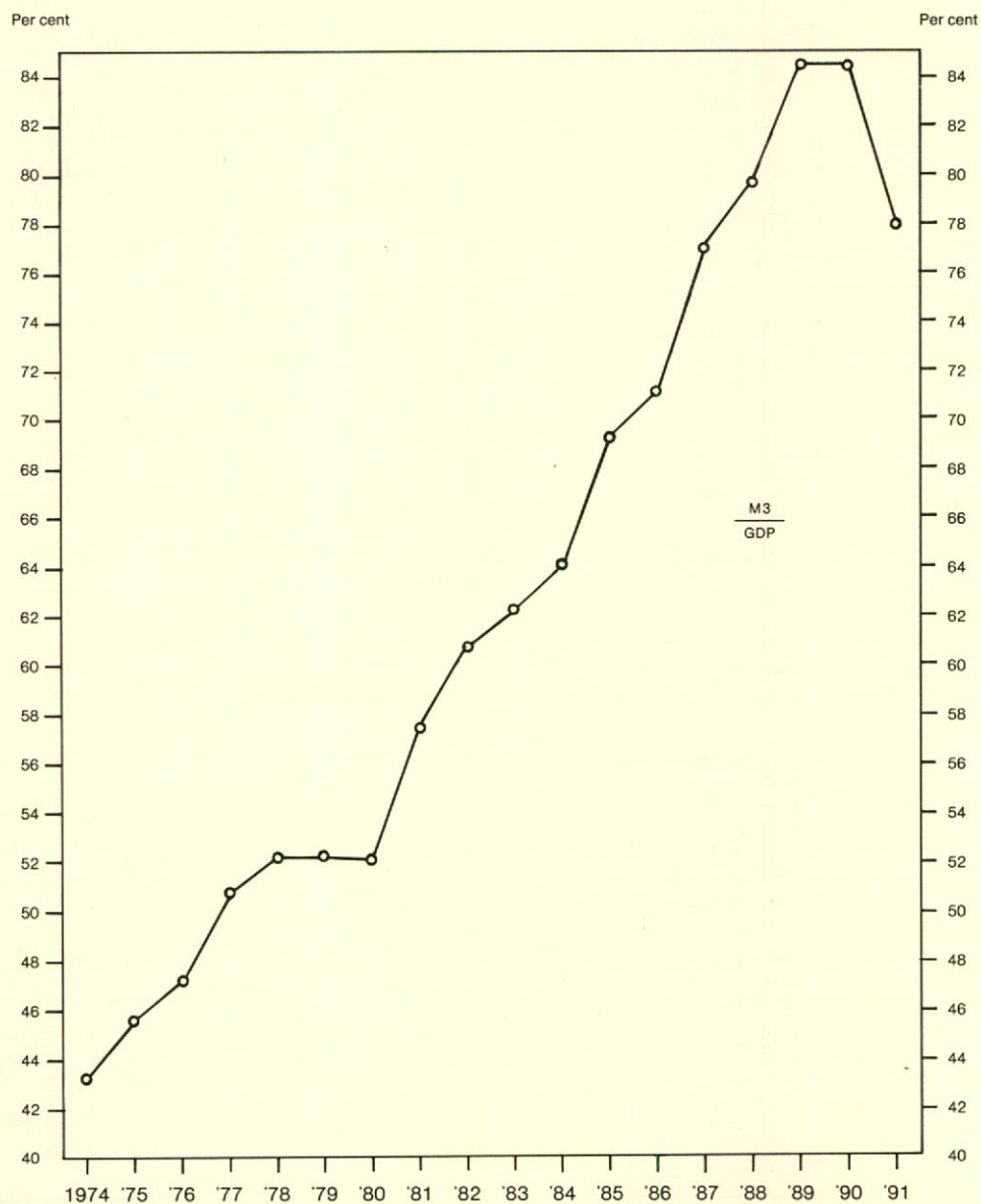
¹ Coin in circulation and special management accounts of the State.

* Provisional data.

DIAGRAM IV.6

LIQUIDITY TRENDS OF THE ECONOMY

(AVERAGE ANNUAL LEVELS AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT AT MARKET PRICES)



Total domestic credit expansion was slower compared with both its 1990 level and the 1991 target, because credit expansion to the public sector was restrained. Total credit expansion to both sectors decelerated to 10.1 per cent from 15 per cent in 1990. The target set for 1991 was 12.5 to 13.5 per cent.

TABLE IV.5
FACTORS AFFECTING MONEY SUPPLY BROADLY DEFINED (M3)
(Million drachmas)

	1990	1991*
A. PUBLIC SECTOR (a - b)	+1,113,347	+ 645,985
a. Net borrowing requirements ¹	+1,957,480	+2,017,927
– Central Government	+1,931,881	+1,949,183
– Public organisations	– 89,895	+ 40,853
– Public enterprises	+115,494	+ 27,891
b. Financing of the deficit by private savings	+844,133	+1,371,942
B. CREDIT TO THE PRIVATE SECTOR	+677,578	+733,020
a. Loans and advances	+647,536	+721,612
b. Securities	+ 48,621	+ 35,668
c. Blocked deposits	– 18,579	– 24,260
C. FOREIGN SECTOR	–322,465	+118,957
D. OTHER ITEMS	–170,011	–342,936
CHANGE IN MONEY SUPPLY (M3)	+1,298,449	+1,155,026

¹ Including foreign borrowing by public enterprises and public organisations.

* Provisional data.

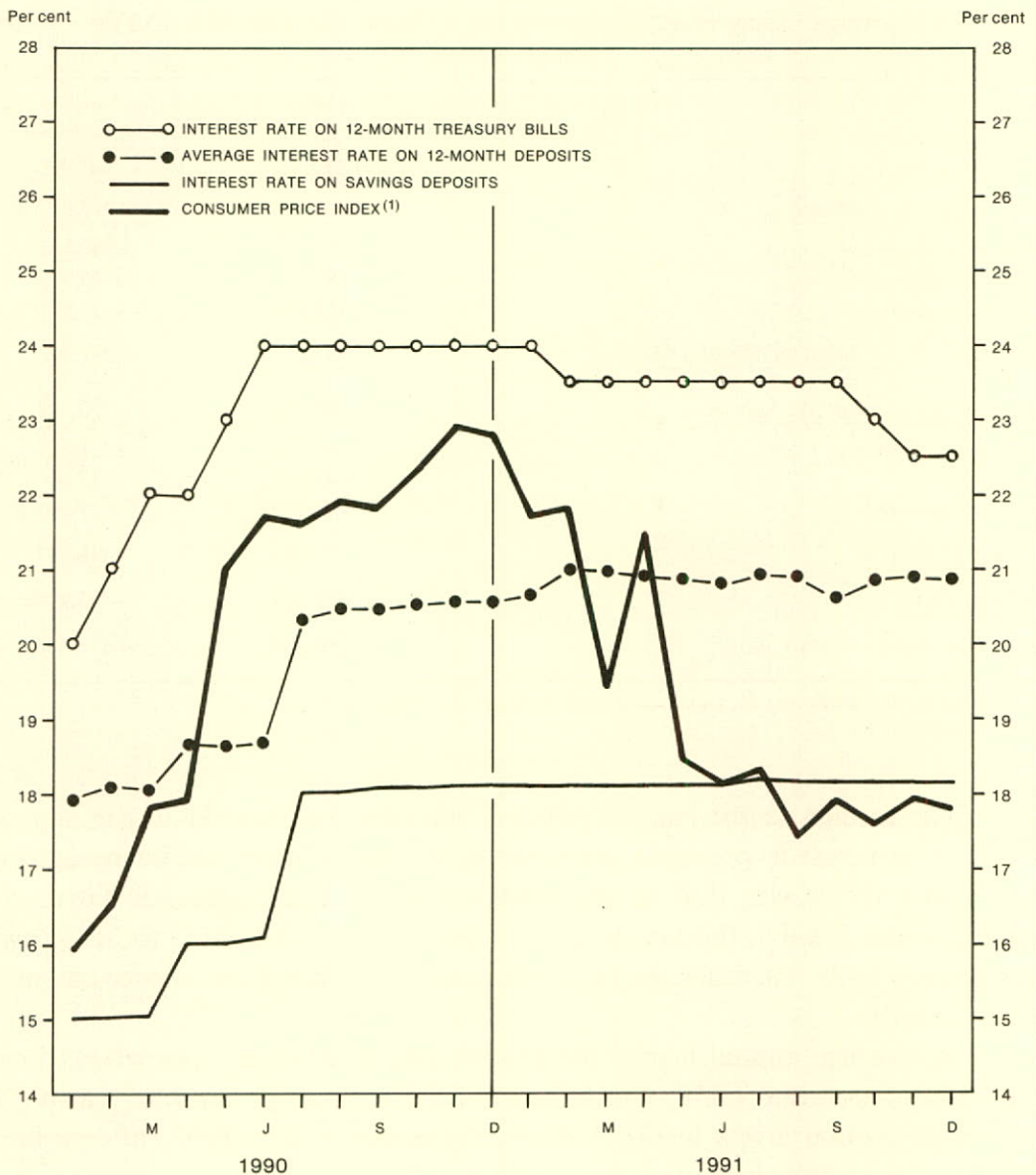
The foreign sector made a positive contribution in 1991 to the increase in M3, in contrast to previous years, when its contribution had been negative. Last year's result was due to the containment of total domestic borrowing requirements. Finally, the negative contribution of other factors to M3 growth was almost twice as much as in 1990, partly reflecting an improvement in banks' profits.

At average annual levels, the growth rate of M3 was appreciably lower than that of nominal GDP. Consequently, the economy's liquidity ratio (M3 at average annual levels to GDP at market prices) fell in 1991, after a fairly long period in which it had been rising.

The slowdown in the growth rate of M3 did not coincide with a similar trend in M4 (M3 plus Treasury bills and twelve-month ECU-linked bonds).

DIAGRAM IV.7

NOMINAL INTEREST RATES AND INFLATION



(1) Change on same month of previous year.

The substantial increase in private sector investment in government paper, largely reflecting the substitution of bank deposits, contributed to a slight acceleration in the growth rate of M4, from 22.2 per cent in 1990 to 22.8 per cent in 1991.

To the extent that the accelerated growth of M4 reflects persisting fiscal imbalances and the financing of deficits by means of highly liquid securities, it is not desirable. Inconsistency between the growth rates of M3 and M4 points to the difficulties faced by the monetary authorities in restraining total liquidity and suggests that, in addition to M3, it is necessary to monitor M4 as a complementary indicator of the economy's total liquidity.

2. FINANCING OF THE PRIVATE SECTOR

2.1 Credit Expansion by Type of Institution

Bank lending to the private sector increased by 721.6 billion drachmas or 16.2 per cent in 1991, compared with an increase of 647.5 billion or 16.5 per cent in 1990. Part of the increment in the outstanding balance of bank loans in 1991 was due to interest accrued on Agricultural Bank loans in previous

TABLE IV.6
BANK CREDIT TO THE PRIVATE SECTOR
(Changes in outstanding balances)

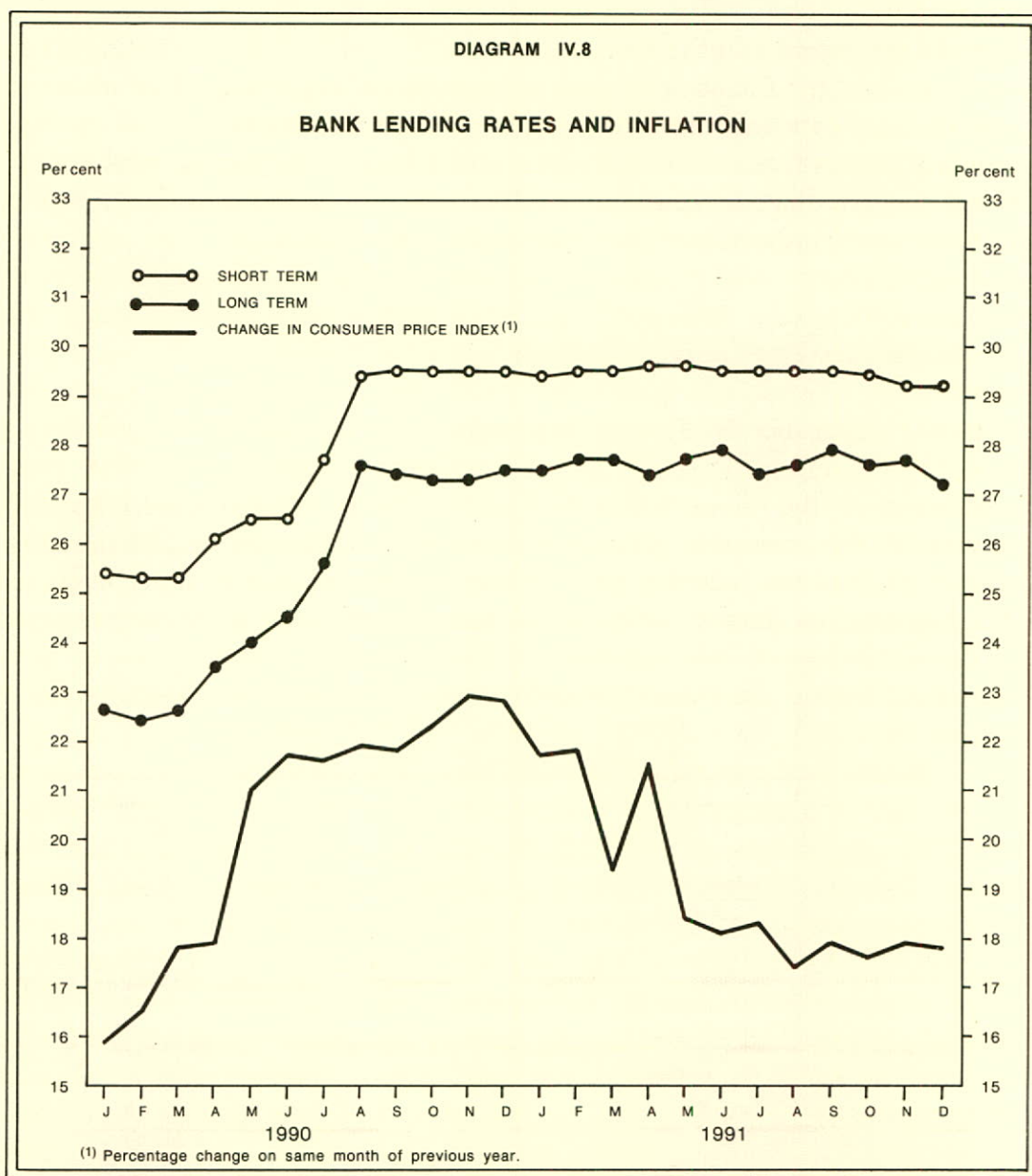
Year	Total			Long-term		Short-term	
	Million drachmas	Percentage	As a proportion of GDP	Million drachmas	Percentage	Million drachmas	Percentage
1982 ¹	+274,429	+25.3	10.7	+128,858	+28.0	+145,571	+23.3
1983	+238,495	+17.6	7.7	+118,213	+20.1	+120,282	+15.7
1984 ¹	+341,432	+21.5	9.0	+143,671	+20.3	+197,761	+22.4
1985	+359,855	+18.8	7.8	+151,773	+17.8	+208,082	+19.6
1986 ²	+355,152	+15.6	6.5	+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	5.9	+193,638	+15.0	+244,628	+15.3
1989	+657,188	+19.8	7.5	+290,160	+20.4	+367,028	+20.9
1990 ³	+647,536	+16.5	6.2	+295,873	+16.7	+351,663	+16.4
1991	+721,577	+16.2	5.8	+230,861	+11.3	+490,716	+20.4

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.

financial years. The outstanding balance was increased further by the addition of exchange rate valuation differences on loans in foreign exchange. Without



these effects, credit expansion to the private sector reached 13.2 per cent and was therefore lower than the target set for 1991 (14 per cent).

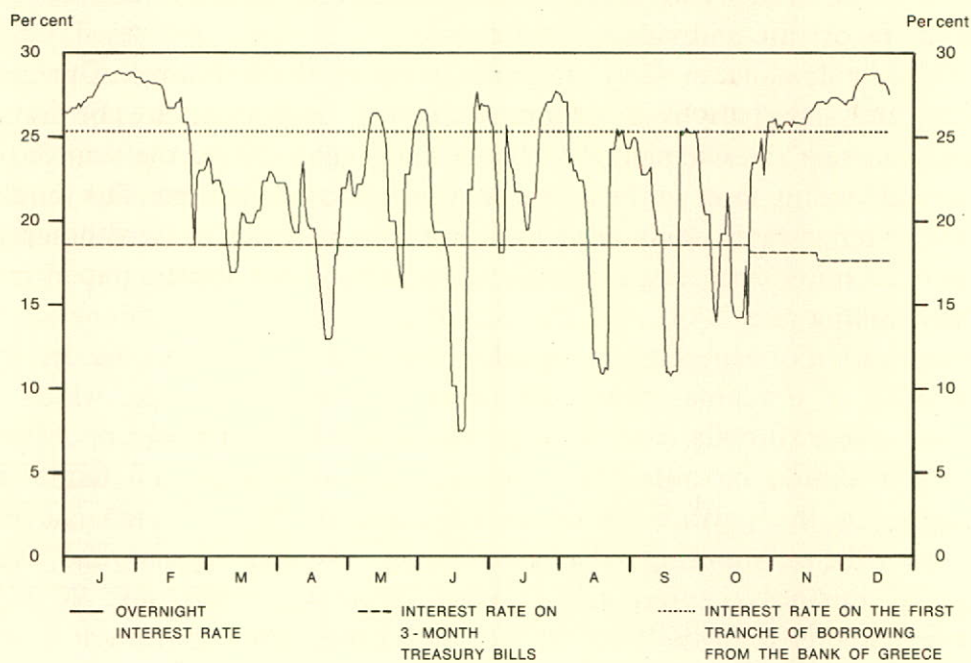
Commercial bank credit to the private sector increased by 14.9 per cent in 1991 (1990: 17.1 per cent) or about 14 per cent if the increase in outstanding balances from the valuation of foreign exchange loans in drachmas is not taken into account. The deceleration was chiefly due to reduced credit demand by private individuals and firms.

Credit demand in 1991 was influenced by the low level of economic activity, and especially by developments in real lending rates. The fact that nominal interest rates remained virtually unchanged during the year led to a rise in real lending rates to the extent that inflation decelerated. The reduction in basic interest rates announced by a number of banks in September 1991 had only a limited and selective application and did not appreciably affect the average lending rate. Moreover, the rise in interest rates, in conjunction with the stabilisation of expectations regarding the parity of the drachma, led to the substitution of drachma loans with loans in foreign exchange, which were obtained either directly from foreign sources or through banks operating in Greece. It should be noted that 36 per cent of commercial bank credit expansion to the private sector in 1991 (1990: 16 per cent) concerned changes in the outstanding balances of foreign exchange loans. Also, the net inflow of business capital and foreign suppliers' credit was 90 billion drachmas higher than in 1990. At the same time, firms continued to resort to the stock market for funds. Specifically, commercial and industrial firms raised 61 billion drachmas through the stock market, compared with 84 billion in 1990.

Banks' loanable funds were affected by a considerable decline in the growth rate of deposits, which was mainly due to the tax introduced in January 1991 on interest income and the shift in savings towards government paper. Thus private deposits with commercial banks increased by 469.8 billion drachmas, compared with 660 billion in 1990. The decline in deposits was largely offset by the sale of repos and the funds raised by banks through the stock market. Specifically, the outstanding balance of repos sold to private individuals rose from 41 billion drachmas at the end of 1990 to 389 billion by the end of 1991. In addition, the sale of new shares through the stock exchange yielded 64 billion drachmas (roughly the same amount as in 1990). Consequently, with the exception of the first two and the last two months of 1991, banks were fully able to satisfy private sector credit demand. This is also evident from developments in the interbank market rate. In the first two months of the year, bank liquidity decreased because of a massive shift of funds from deposits to government stocks, with the result that the overnight

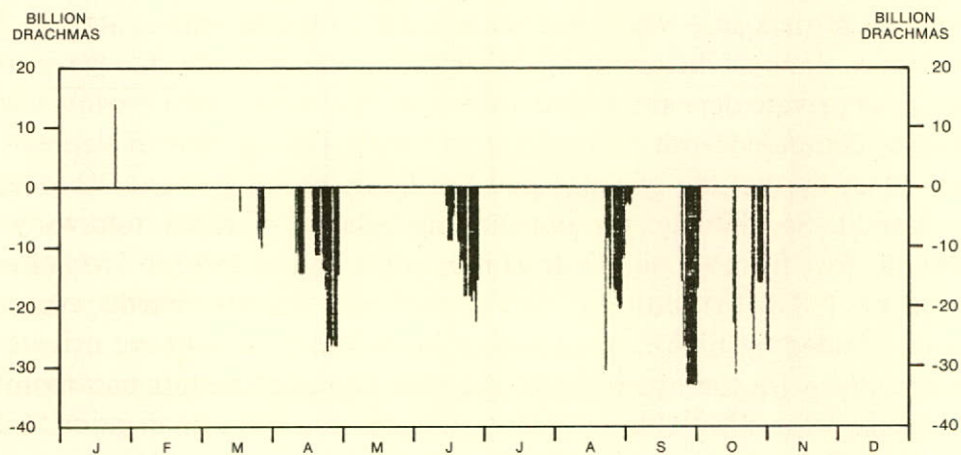
DIAGRAM IV.9

INTEREST RATES IN THE INTERBANK MARKET IN 1991



BANK OF GREECE INTERVENTIONS IN MONEY MARKETS

(NET INCREASE (+) / DECREASE (-) IN LIQUIDITY OF BANKING SYSTEM)



rate rose to the level of 27 to 28.5 per cent. Between March and the end of October, pressure on bank liquidity diminished and the overnight rate fell to the level of 18 to 23.5 per cent. Characteristically, the monthly pattern of liquidity creation confined the Bank of Greece to interventions only in the overnight rate, with a view to absorbing commercial banks' increased liquidity towards the end of each month. By contrast, in 1990 the Bank of Greece had made several interventions in the form of repo tenders, which are considered a more appropriate means of influencing liquidity over a longer period of time. In November and December there was renewed pressure on bank liquidity and the overnight rate rose to the level of 26 to 28 per cent, although this change was not linked to increased net sales of government paper in the nonbank market.

TABLE IV.7
BANK CREDIT TO THE PRIVATE SECTOR BY INSTITUTION

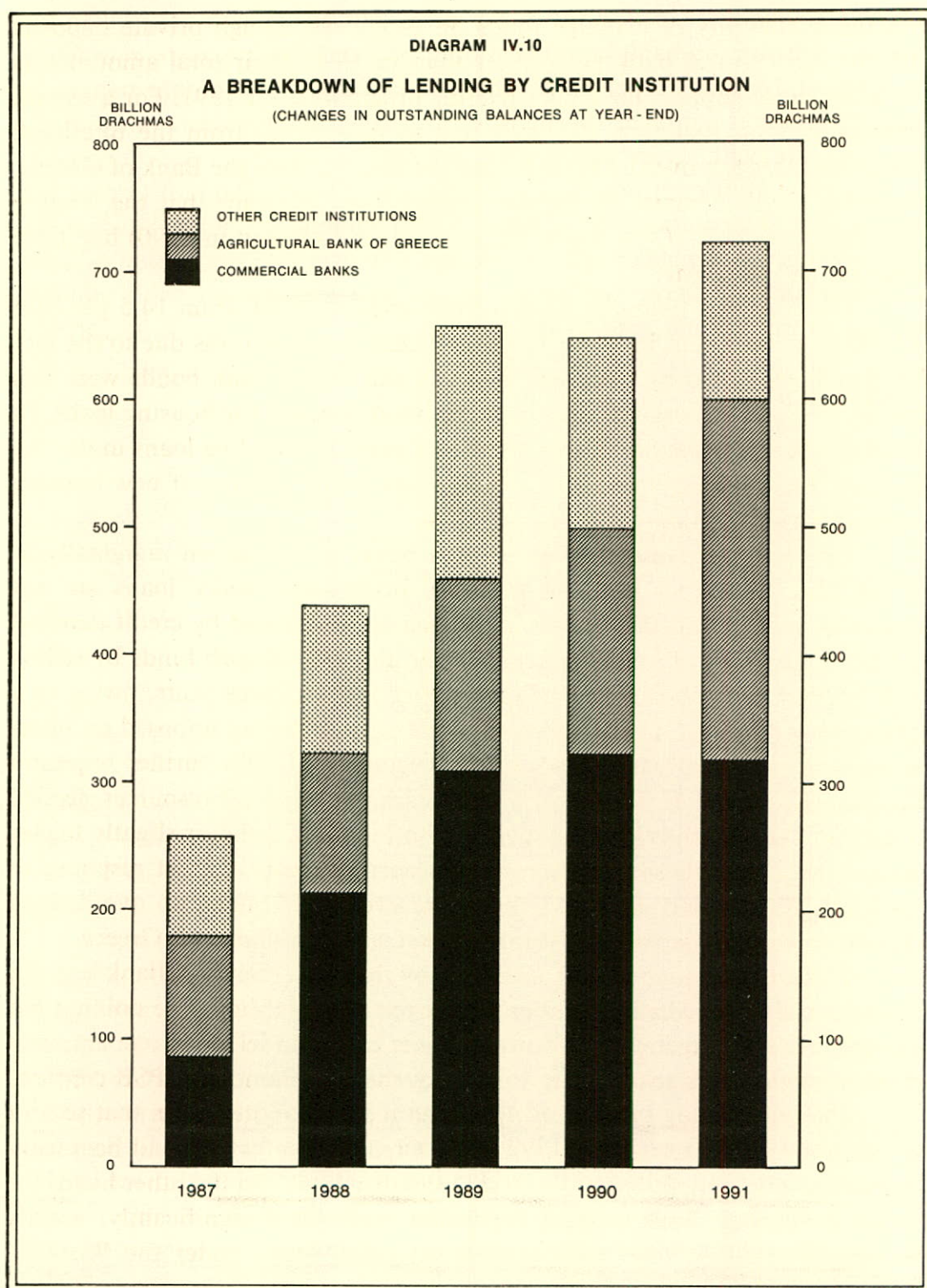
Credit institutions	Outstanding balances on 31 Dec. 1991 ¹ (million drachmas)	Changes in outstanding balances at year-end					
		Million drachmas			Percentage		
		1989 ²	1990 ²	1991 ¹	1989 ²	1990 ²	1991 ¹
<i>Bank of Greece</i>	7,378	+ 2,198	- 361	- 1,342	+31.9	- 4.0	-15.4
<i>Commercial banks</i>	2,465,662	+309,262	+323,156	+318,947	+20.4	+17.1	+14.9
<i>Specialised credit institutions</i>	2,705,589	+345,728	+324,741	+403,492	+21.0	+16.0	+17.6
<i>Agricultural Bank</i>	1,536,033	+149,514	+176,068	+280,126	+16.1	+16.3	+22.3
<i>National Mortgage Bank</i>	583,938	+126,183	+ 67,891	+ 47,926	+37.0	+14.5	+ 8.9
<i>Hellenic Industrial Development Bank</i>	335,137	+ 43,335	+ 49,840	+ 50,760	+20.7	+19.6	+17.8
<i>Postal Savings Bank</i>	108,531	+ 11,381	+ 18,413	+ 15,751	+17.9	+18.3	+17.0
<i>Deposits and Loans Fund</i>	47,871	+ 3,638	+ 9,507	+ 4,725	+12.0	+28.3	+11.0
<i>Private investment banks</i>	66,194	+ 5,210	- 176	- 1,445	+ 8.1	- 0.3	- 2.1
<i>National Housing Bank</i>	27,885	+ 6,467	+ 3,198	+ 6,129	+53.5	+17.2	+28.2
Total	5,178,629	+657,188	+647,536	+721,757	+20.7	+16.5	+16.2

¹ Provisional data.

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

Specialised credit institutions' credit to the private sector grew by 17.6 per cent in 1991 (target: 14 per cent), a higher rate than in 1990 (16 per cent). The acceleration was mainly due to the Agricultural Bank's credit expansion.

The outstanding balance of Agricultural Bank credit to the private sector increased by 22.3 per cent (1990: 16.3 per cent). As mentioned previously, this high growth rate reflected the reckoning of interest accrued prior to 1991 as well as changes in the calculation of interest on the bank's loans, considering that the volume of new loans remained at roughly the same level as in 1990. The containment of the bank's lending programme is associated mainly



with the availability of loanable funds. In fact, even though private deposits with the Agricultural Bank grew faster than in 1990, their total amount was not sufficient to support the bank's lending programme for 1991. For a second consecutive year, therefore, the bank had to raise funds from the interbank market and through overdrafts on its current account with the Bank of Greece. Regarding credit demand by farmers' associations, it seems that the lending rates charged in 1991 (3 to 4 percentage points higher than in 1990) had little effect on the outcome.

The National Mortgage Bank's credit expansion fell from 14.5 per cent in 1990 to 8.9 per cent in 1991. This significant slowdown was due to the fact that the funds raised by attracting deposits and selling bank bonds were less than in 1990, but it was also due to diminished demand for housing loans. In addition, the problems faced over a series of years in recycling loans under the Workers' Housing Scheme led to a drastic cut in the volume of new housing loans approved and/or disbursed in 1991.

The credit expansion of investment banks slowed down marginally to 14 per cent from 15.4 per cent in 1990. Investment banks' loans are not subject to ceilings and their credit expansion is determined by credit demand and the availability of loanable funds. Their ability to absorb funds by selling bank bonds has diminished significantly over the last three years, owing to a competitive supply of high-yield government paper. The tax imposed on interest income from new bank bonds at the beginning of 1991 further impaired the competitiveness of these banks. To obtain the financial resources needed to support their lending programmes, they offered the same or slightly higher interest rates than those on government securities. Since market response to this move was limited, however, they were eventually unable to avoid short term borrowing from the interbank market and the Bank of Greece.

The growth rate of credit extended by the Postal Savings Bank and the Deposits and Loans Fund also slowed down in 1991. It should be pointed out that the credit expansion of these institutions in 1990 included large amounts of credit to private transport firms and that the containment of PSB credit in 1991 reflected the fact that this bank ceased reckoning interest on that part of its loans to the Industrial Reconstruction Organisation, which had been converted into government bonds on 31st December 1990. On the other hand, the National Housing Bank's credit expansion accelerated significantly, mainly because in mid-1991 the NHB started extending loans under the Workers' Housing Scheme.

2.2 Sectoral Breakdown of Credit

As shown in Table IV.8, bank credit to industry, export trade and tobacco trade increased at higher rates than in 1990, while credit expansion to agriculture, small scale manufacturing and housing decelerated. Credit expansion to domestic and import trade was quite high, but lower than in 1990.

Specifically, credit to industry expanded by 19.8 per cent (1990: 10.2 per cent). Short term credit grew relatively faster (1991: 22.3 per cent, 1990: 10.3 per cent), but to a considerable extent this increase reflected the reckoning of interest accrued in previous financial years on the outstanding balances of Agricultural Bank loans to agricultural industries, as well as exchange rate valuation differences on loans in foreign exchange. Even without the effect of these two factors, however, credit expansion to industry for working capital remained higher than in 1990. At average annual levels, short term credit to industry increased by 15 per cent in 1991, almost as much as the value of industrial production at current prices. These developments and the sample surveys conducted in the industrial sector show that manufacturers' borrowing requirements for working capital were satisfied in 1991.

Long-term credit to industry grew by 15.2 per cent (1990: 9.9 per cent), but this higher growth rate did not reflect any significant improvement in the industrial sector's investment activity, which remained sluggish in 1991. It is worth noting that the degree of self-financing of investment projects was still satisfactory, considering that manufacturing firms were once more able to realise high profits in 1991 and continued to raise funds from the capital market (1991: 54 billion drachmas, 1990: 62 billion).

Credit to small scale manufacturing grew by 4.0 per cent (1990: 10.7 per cent). Specifically, low interest credit out of earmarked funds, accounting for 67 per cent of the outstanding balance of total credit to small scale manufacturing, decreased by 5.4 per cent (1990: increase by 7.3 per cent). The decrease in credit to small scale manufacturing in 1991 was due not only to the impact of reduced industrial output on credit demand, but also to the stricter criteria applied by banks on this category of loans, as well as to the increased interest rate differential between loans out of earmarked funds and loans at freely negotiable interest rates. It should be noted that the 10 per cent earmarking requirement on commercial banks' deposit liabilities generated funds that were once again substantially in excess of those needed to meet the borrowing requirements of small scale manufacturing firms. In addition, in mid-1991 banks were offered the option to invest in ETBA bonds that part of

TABLE IV.8
CHANGES IN TOTAL BANK CREDIT BY SECTOR

	Outstanding balances on 31 Dec. 1991 ¹ (million drachmas)	Changes in outstanding balances at year-end					
		Million drachmas			Percentage		
		1989 ²	1990 ²	1991 ¹	1989 ²	1990 ²	1991 ¹
I. PRIVATE SECTOR	5,178,629	+657,188	+647,536	+721,577	+20.7	+16.5	+16.2
Long-term loans	2,279,759	+290,160	+295,873	+230,861	+20.4	+16.7	+11.3
Short-term loans	2,898,870	+367,028	+351,663	+490,716	+20.9	+16.4	+20.4
1. Agriculture	1,031,555	+111,887	+152,044	+112,393	+14.3	+19.8	+12.2
Long-term loans	394,839	+ 30,778	+ 92,637	+ 16,413	+12.7	+32.4	+ 4.3
Short-term loans	290,331	+ 21,174	- 8,197	+ 87,879	+ 6.6	- 3.9	+43.4
Agricultural supplies	98,692	+ 10,319	+ 34,357	- 6,495	+19.6	+59.4	+ 7.0
Organisations purchasing and marketing agricultural products	247,693	+ 49,616	+ 33,247	+ 1,606	+29.7	+15.6	+ 0.7
2. Large-scale manufacturing and mining	1,613,495	+144,491	+134,369	+266,638	+13.7	+10.2	+19.8
Long-term loans	548,285	+ 40,224	+ 44,784	+ 72,293	+ 9.8	+ 9.9	+15.2
Short-term loans	1,065,210	+104,267	+ 89,585	+194,345	+16.1	+10.3	+22.3
3. Small-scale manufacturing	434,223	+ 39,100	+ 40,507	+ 16,510	+12.2	+10.7	+ 4.0
Out of "earmarked" funds	(289,336)	(+ 29,405)	(+ 20,816)	(- 16,756)	(+11.4)	(+ 7.3)	(- 5.4)
4. Trade	620,805	+116,959	+132,167	+121,143	+50.3	+36.0	+24.2
Domestic	409,020	+ 59,235	+ 94,702	+ 78,999	+34.7	+40.2	+23.9
Import	110,950	+ 34,453	+ 33,467	+ 13,412	+150.6	+52.2	+13.8
Export	52,099	+ 3,712	+ 6,123	+ 19,281	+18.6	+22.9	+58.8
Tobacco	48,736	+ 19,559	- 2,125	+ 9,451	+103.1	- 5.1	+24.1
5. Other	1,478,551	+244,751	+188,449	+204,893	+31.3	+17.4	+16.1
Long-term loans	1,155,002	+207,461	+137,038	+130,002	+31.5	+15.4	+12.7
-Housing	(775,523)	(+158,246)	(+ 86,098)	(+ 73,977)	(+34.2)	(+14.0)	(+10.5)
-Tourism	(243,053)	(+ 34,313)	(+ 35,626)	(+ 41,105)	(+26.5)	(+21.4)	(+20.4)
-Shipping	(84,174)	(+ 5,972)	(+ 7,536)	(+ 10,849)	(+19.2)	(+11.5)	(+14.8)
-Other	(52,252)	(+ 9,110)	(+ 7,778)	(+ 4,071)	(+24.3)	(+19.3)	(+ 8.4)
Short-term loans	323,549	+ 37,290	+ 51,411	+ 74,891	+30.4	+26.1	+30.1
II. PUBLIC SECTOR	1,772,780	+336,210	+289,318	+303,919	+24.3	+17.0	+20.7
Public enterprises	660,209	+ 95,188	+ 82,775	+ 23,274	+14.3	+10.4	+ 3.7
Public organisations	935,964	+190,812	+172,690	+259,871	+29.6	+22.1	+38.4
Special management accounts of the state	176,607	+ 50,210	+ 33,853	+ 20,774	+70.0	+27.8	+13.3
Total	6,951,409	+993,398	+936,854	+1,025,496	+21.8	+16.7	+17.3

¹ Provisional data.² Excluding the effect of the conversion into shares of the debts of overindebted enterprises.

the unused balance of earmarked funds, which exceeded one per cent of their deposit liabilities and, until last year, could only be invested in Treasury bills. Later in the year, in the context of reforming the system of financing small scale manufacturing firms, reducing the earmarking requirement on commercial banks for the compulsory financing of small scale manufacturing activity and increasing banks' interest in extending loans out of earmarked funds, the Bank of Greece (i) raised in October 1991 interest rates on this category of loans to the same level as those on twelve-month Treasury bills, (ii) set a limit on the amount of unused earmarked funds that banks could invest in Treasury bills and ETBA bonds, (iii) reduced to zero the interest rate on banks' unused earmarked funds deposited with the Bank of Greece, and (iv) lowered the earmarking requirement from 10 to 8 per cent as of 1st January 1992.

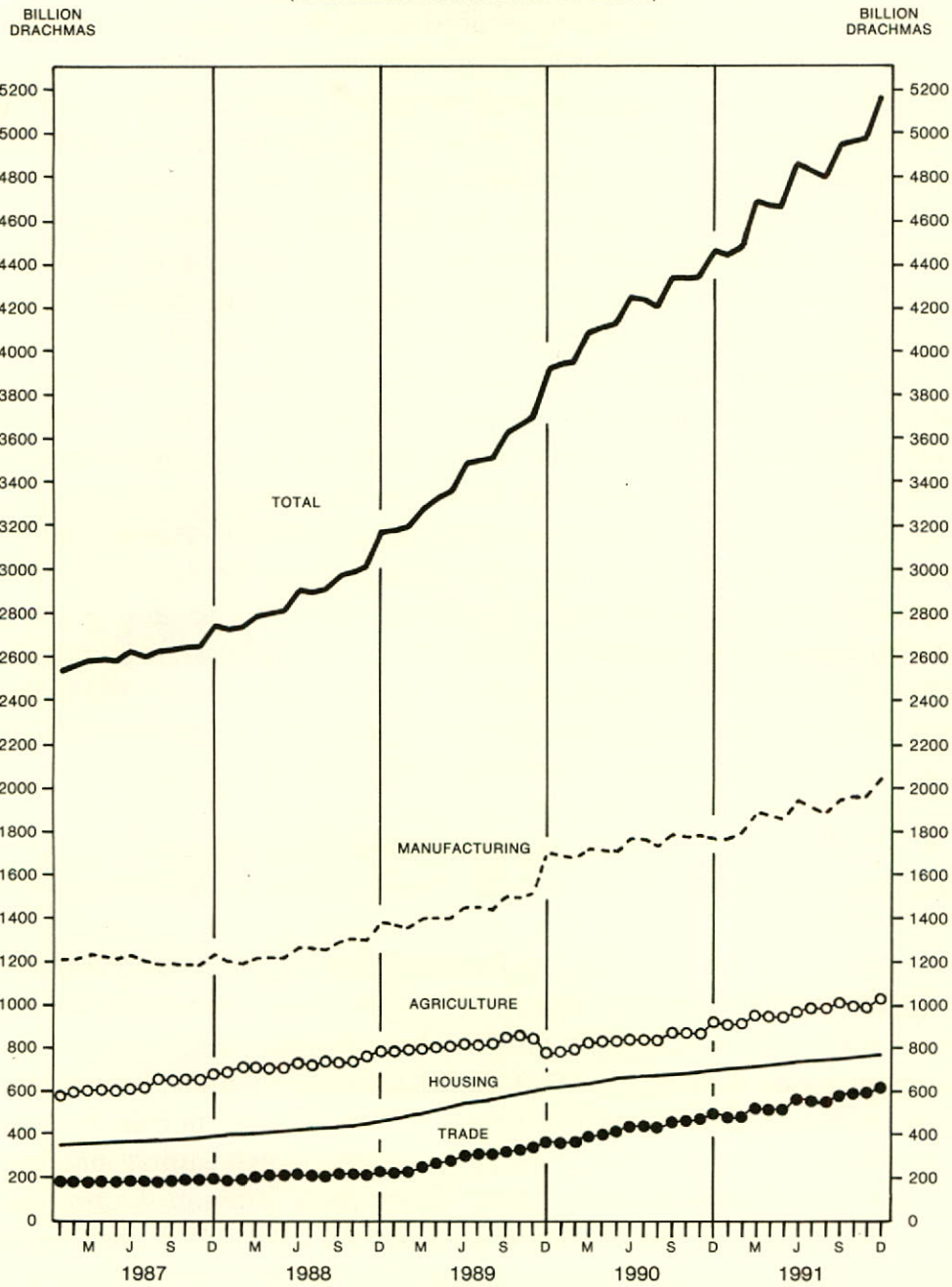
Credit to the agricultural sector increased at a lower rate than in 1990 (1991: 12.2 per cent, 1990: 19.8 per cent). Specifically, credit to government agencies engaged in the purchase and marketing of agricultural products grew by 0.7 per cent, compared with 15.6 per cent in 1990. This development is associated with the reduced financing of KYDEP, whose cumulative debt to the Agricultural Bank has increased excessively. It is worth noting that, to a large extent, the purchase of agricultural products in 1991 was carried out by private firms, which are financed mainly by commercial banks. The relevant outstanding balances are included in credit to trade. Long term credit to agriculture increased by 4.3 per cent (1990: 32.4 per cent). This deceleration does not reflect a decline in new loans (1991: -6.3 per cent only), but an increase in the outstanding balance of loans under this category in previous years, with the conversion of due and payable loans from short to long term ones. By contrast, short term credit to agriculture grew by 43.4 per cent (1990: -3.9 per cent), as a result of an 11.9 per cent increase in new loans and the previously mentioned conversion of short to long term loans.

Credit to trade as a whole expanded at high rates in 1991. A particularly high growth rate was recorded in credit to export trade (1991: 58.8 per cent, 1990: 22.9 per cent), because of a large increase in exports of agricultural products, especially cereals. A considerable part of the increase in credit to export trade stemmed from loans in foreign exchange, to which exporters have been resorting over the last two years, owing to the high interest rate differential between loans in drachmas and those in foreign exchange. A large increase was also recorded in credit to tobacco trade (1991: 24.1 per cent, 1990: -5.1 per cent). This development is associated with (i) the financing of larger tobacco exports in 1991 and (ii) increased loan repayments in 1990. Lastly,

DIAGRAM IV.11

A BREAKDOWN OF CREDIT BY SECTOR

(OUTSTANDING BALANCES END OF PERIOD)



credit to domestic trade continued to grow at a relatively high rate (1991: 23.9 per cent, 1990: 40.2 per cent), while credit expansion to import trade was slower than in 1990.

Credit to the housing sector increased by 10.5 per cent (1990: 14.0 per cent). The deceleration was due to reduced demand for loans at freely negotiable interest rates for the acquisition of a "first dwelling", which are subsidised out of the government budget, as well as loans under the Workers' Housing Scheme. This development is associated with: (i) the National Mortgage Bank's reduced ability to extend loans, because of the difficulties it experienced in the sale of bank bonds; (ii) the rise in the starting-off prices of real estate, which are administratively set for tax purposes; (iii) the capital gains tax imposed on real estate in early 1991; and (iv) the reduction in the interest rate subsidisation period. Specifically, new subsidised loans at freely negotiable interest rates dropped to 12.6 billion drachmas from 20.3 billion in 1990. Similarly, new loans under the Workers' Housing Scheme were 8 billion drachmas less than in 1990, while lending to depositors under banks' housing loan deposit schemes remained at 1990 levels.

Short-term credit to the remaining sectors of the economy grew at a high rate, as in 1990. Specifically, loans through credit cards increased by 7.9 billion drachmas compared with 5.3 billion in 1990. The number of credit cards also increased by about 72,000 (1990: 57,000). The average outstanding balance of loans per credit card rose from 74,000 drachmas in 1990 to roughly 77,000 drachmas in 1991, reflecting a rise in the credit ceiling from 150,000 to 200,000 drachmas per card as of mid-1991.

3. SECURITIES MARKETS

Intense activity in the Athens Stock Exchange during 1990 carried on into the first quarter of 1991, but the remainder of the year was marked by a steep drop in the volume of trading and in share prices.

High business profits in 1990, expectations of an equally good performance in 1991, and the successful outcome of the Gulf War nurtured a favourable climate of opinion regarding the future of the Greek capital market. This led to a 33.3 per cent rise in the general share price index in the first quarter of 1991, while the volume of trading rose to 192 billion drachmas compared with 79 billion in the first quarter of 1990. During subsequent months, stock market activity subsided, leading by the end of the year to a 13.1 per cent fall

in the index compared with December 1990, while total twelve-month trading volume was 25 per cent below the 1990 level. In 1990 and 1989 the index had risen by 102.9 and 64.3 per cent respectively. The dim prospects of rapid economic recovery, the slow pace of the privatisation programme, market expectations of high interest rates so long as the public deficit remained high, and far-reaching social and economic changes in central and eastern Europe made it impossible to maintain a positive business climate that would have supported more favourable developments in 1991.

The total value of stock market trading reached 500 billion drachmas in 1991, compared with 667.5 billion in 1990 and 94.6 billion in 1989. The average monthly trading volume fell to 41.6 billion drachmas, from 55.7 billion in 1990. Considering that share prices kept falling, this relatively satisfactory figure shows that there has been some improvement in the stock market. If this trend continues, the Athens Stock Exchange can be expected to grow into a major source of funds for Greek firms over the coming years.

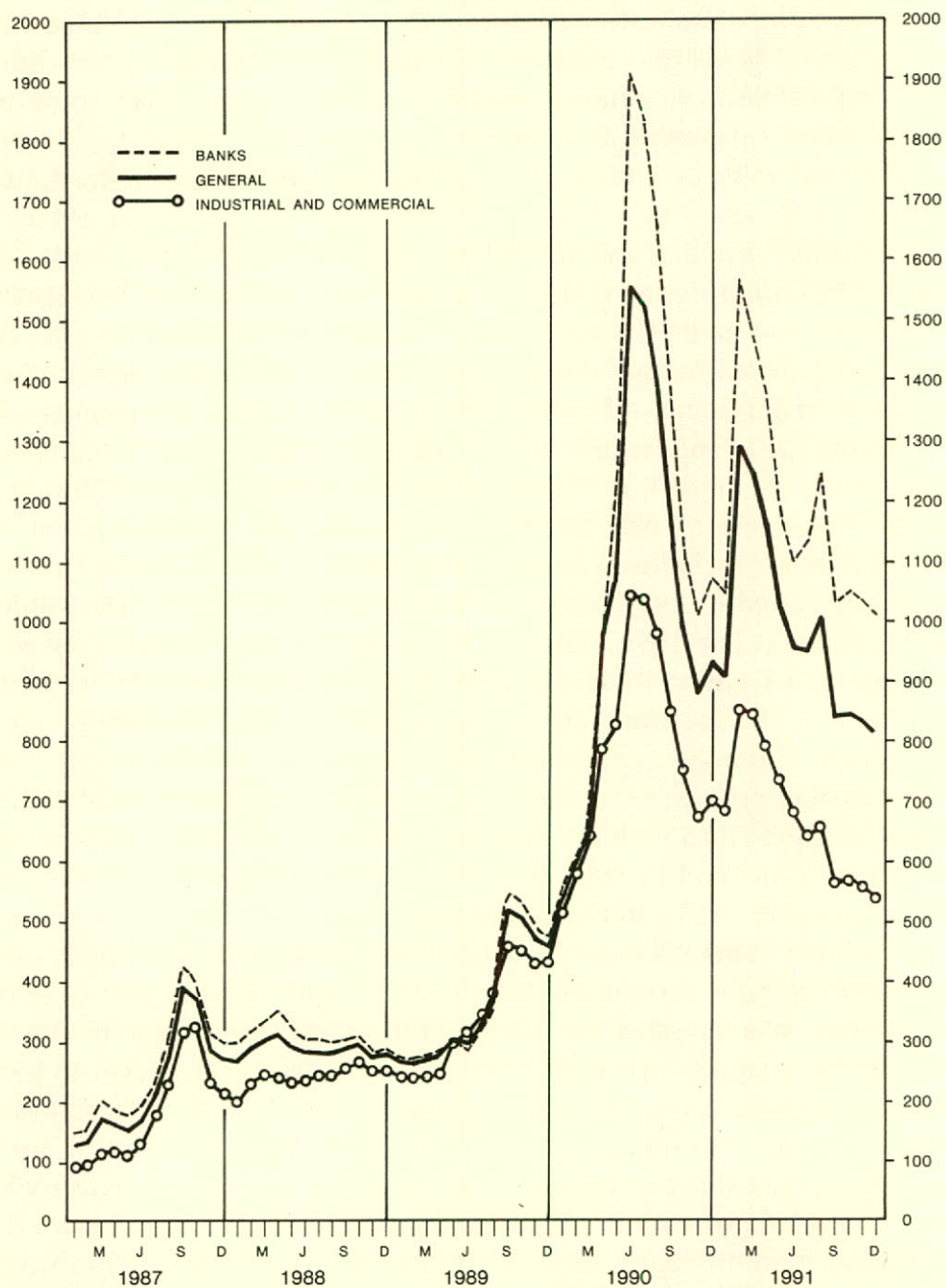
During 1991 fourteen new companies listed their shares on the primary and the secondary market, compared with twenty-eight in 1990. Funds accumulated by the sale of new company shares reached 54 billion drachmas (1990: 59 billion). Including increases in the share capital of listed firms, the total amount raised in 1991 was 150.6 billion drachmas (1991: 189.8 billion, 1989: 14 billion). The 1991 figure excludes the National Bank's convertible bond issue (119.1 billion drachmas), which was absorbed mainly by the government (102.2 billion), while the bank's shareholders and the public took the balance (16.9 billion).

At current prices, the total value of securities listed on the Athens Stock Exchange reached 7,685.9 billion drachmas at the end of 1991, compared with 6,322 billion at the end of 1990 (+21.6 per cent). The value of fixed-income securities came to 5,331 billion drachmas, compared with 3,895 billion in 1990 (+36.9 per cent). Sales of Treasury bills and government bonds on the primary market were particularly high in 1991, since a large part of private sector savings was invested in these securities. As mentioned in previous sections of this chapter, high yields on government paper together with the tax imposed on interest income from bank deposits led to the shift of a substantial amount of savings towards government securities. High net sales of government paper to domestic and foreign investors mainly concerned Treasury bills, while net sales of two and three year bonds at fixed interest rates were negative, because monthly issues were discontinued in December 1990. Monthly issues of two and three year bonds were resumed in December 1991, bearing

DIAGRAM IV.12

SHARE PRICES

(INDICES 1980 = 100)



interest at a variable rate linked to the twelve-month Treasury bill rate. During 1991 there were five issues of ECU-linked bonds, whose total value was somewhat higher than the corresponding figure for 1990.

A series of institutional measures were taken in 1991 to improve the functioning of the capital market and make it more efficient. The Securities Depository Company started operating in 1991 and undertook the safekeeping of securities, the clearing of relevant transactions and the transfer of registered shares. Although the depository has been in operation only for a short period, the time required for the transfer of registered shares has been cut to 3-5 days.

Law 1969/1991 aims at improving the operating framework of undertakings for collective investment in securities, as well as certain provisions of Law 1806/1988. Specifically, it sets the minimum amount of share capital of portfolio investment companies at 500 million drachmas and lays down general principles for the investment of their funds. Among other things, Law 1969 enhances the transparency of transactions and stipulates sanctions for dealings based on insider information. It also provides for changes in the sphere of competency of the Capital Market Committee, which functions as a legal person in public law and assumes responsibility for the proper operation of the market, the protection of investors, and the imposition of sanctions in the event of a breach of law. Investors are also protected by the EC directives which have been made part of the existing institutional framework by Presidential Decrees 50, 51, 52 and 53 of 1992. These decrees stipulate the obligations for the provision of information on the transfer of large lots of shares, the requirements for the publication of prospectuses concerning public subscription to new share issues and for the mutual recognition of these prospectuses in the EC member states, and the sanctions imposed on those using insider information for their personal benefit.

A public tendering was held in early 1991 for the installation of an automated system for stock market dealings. The new system introduces radical changes in negotiations on securities and facilitates the achievement of a larger volume of transactions, while also offering investors better and more reliable information.

APPENDIX TO CHAPTER IV

CHRONOLOGY OF MAIN MONETARY AND OTHER POLICY MEASURES

1991

22 January

The requirement on commercial banks to earmark a percentage of their deposits for investment in treasury bills and government bonds is reduced at the margin from 40 to 35 per cent as from 1st February 1991 and to 30 per cent as from 1st July 1991.

25 January

Ceilings on the amounts placed by the Agricultural Bank and mortgage banks in the interbank drachma market are abolished.

8 February

— With the aim of further deregulating the Greek banking system, the Bank of Greece has simplified and codified the provisions concerning the issue of letters of guarantee in foreign exchange.

— Approval is given for the establishment of a new bank, the “Egnatia Bank S.A.”

20 February

The ceiling per bank concerning the issue of bonds is abolished.

23 April

The five month maximum period of credit extended by firms that have been financed by the banking system to other firms buying their products or services is abolished.

20 May

The Agricultural Bank of Greece is allowed to carry out foreign exchange transactions not directly related to its operations.

29 May

Investment banks are allowed to carry out foreign exchange transactions related to their operations.

4 June

Credit institutions are authorised to invest in bank bonds issued as from 1st January 1991.

6 June

Commercial banks are authorised to accept time deposits in convertible drachmas from foreign residents irrespective of maturity. The previous maximum time limit of 6 months is abolished.

7 June

Investment banks are authorised to accept drachma deposits maturing in up to 12 months, with the exception of sight and savings deposits. They are also allowed to extend loans for working capital to manufacturing, hotel, mining and construction enterprises.

2 July

The rules governing the granting of drachma loans by credit institutions operating in Greece are simplified and codified into a single text.

25 July

With effect as from 30 September 1991, primary reserve requirements on deposits with commercial banks are increased from 8 to 9 per cent and on deposits with the Agricultural Bank from 4.5 to 5.5 per cent. The increase refers to the non-interest bearing part of the primary reserves.

29 July

- The Agricultural Bank of Greece is authorised to expand its operations to all categories of loans commercial banks are authorised to grant.
- The minimum share capital for the establishment and operation of a bank in Greece is increased from 2 to 4 billion drachmas.

19 September

The rules governing the granting of loans in foreign exchange to legal and natural persons for their business activity are simplified and codified into a single text.

25 September

Commercial banks are allowed to include their investments in drachma government bonds with a two-year minimum maturity period in their compulsory investment in treasury bills up to an amount not exceeding 10 per cent of their deposits.

27 September

Commercial banks are allowed to include their investments in new issues of drachma government bonds, with a five year minimum maturity period in their compulsory investment in Treasury bills. These bonds are negotiable and their interest rate is pegged to the 12-month treasury bills rate.

11 October

- As from 1st November 1991, the Committee and the Subcommittees of loans to small and medium-sized firms are abolished in the context of the ongoing liberalisation of the banking system. Banks are now solely responsible for the approval and granting of loans to small and medium-sized firms.
- The requirement on commercial banks to earmark a percentage of their deposits for the financing of small and medium sized firms is lowered from 10 to 8 per cent as from 1st January 1992 and to 7 per cent as from 1st July 1992.

13 December

Approval is given for the establishment of a new bank, the "European Popular Bank S.A."

1992

3 January

As from January 1992, the outstanding stock of securities sold with a repurchase agreement (repos) is subject to the primary reserve requirements on deposits with banks.

22 January

The requirement on commercial banks to earmark a percentage of their deposits for investment in treasury bills is reduced at the margin from 30 to 25 per cent as from 1st February 1992, to 20 per cent as from 1st July 1992 and to 15 per cent as from 1st October 1992.

31 January

With effect as from 1st March 1992, the unused balances of the requirement on commercial banks to earmark a percentage of their deposits for the financing of small and medium-sized firms are placed in a non-interest bearing account with the Bank of Greece.

18 March

— With the aim of harmonising the institutional framework of the banking system to the EC legislation, the community definition for the own funds of credit institutions is adopted.

— In the same context, the solvency ratio of credit institutions authorised in Greece is determined according to the relevant EC directive. The Postal Savings Bank, the Deposits and Loans Fund and the Hellenic Industrial Development Bank are exempted. Any of the exempted institutions may be subject to the provisions of the present Act by subsequent decisions of the Bank of Greece.

V. PUBLIC FINANCE

1. PUBLIC SECTOR BORROWING REQUIREMENTS AND THEIR FINANCING

In 1991, the public sector's net borrowing requirements on a cash basis (PSBR) fell by 2.6 per cent of GDP. This event follows a three-year period

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

	1986	1987	1988	1989	1990	1991*
1. Central Government¹	577,980	736,633	1,105,519	1,520,322	1,931,881	1,949,182
– Government budget	582,549	678,475	1,056,672	1,440,073	1,835,666	1,910,407
(Ordinary budget)	(328,680)	(401,313)	(769,091)	(1,092,224)	(1,427,187)	(1,474,658)
(Public investment budget)	(253,869)	(277,162)	(287,581)	(347,849)	(408,479)	(435,749)
– Special management accounts of the State	–4,569	58,158	48,847	80,249	96,215	38,775
(Oil account)	(–12,033)	(28,581)	(9,081)	(34,137)	(56,013)	(3,587)
(AMMS etc.)	(7,464)	(29,577)	(39,766)	(46,112)	(40,202)	(35,188)
Percentage of GDP	10.5	11.8	14.7	17.4	18.5	15.5
2. Public organisations²	76,027	18,880	48,332	–8,083	–89,895	40,853
– Financing of social insurance organisations	116,708	125,523	123,847	142,263	142,584	206,057
– Financing of local authorities	11,563	6,652	10,307	14,901	10,098	–2,018
– Financing of other organisations	10,498	6,280	18,397	36,892	24,091	55,832
– Cash balances	–62,742	–119,575	–104,219	–202,139	–266,668	–219,018
Broader Central Government (1+2)	654,007	755,513	1,153,851	1,512,239	1,841,986	1,990,035
Percentage of GDP	11.9	12.1	15.3	17.2	17.6	15.9
3. Public enterprises²	122,143	88,340	47,169	82,465	115,494	27,891
– Financing of public utilities	82,494	54,422	29,343	69,016	54,830	49,808
– Financing of other enterprises	39,406	47,505	46,453	56,384	51,041	12,479
– Cash balances	243	13,587	–28,627	–42,935	9,623	–34,396
Public sector (1+2+3)	776,150	843,853	1,201,020	1,594,704	1,957,480	2,017,926
Percentage of GDP	14.1	13.5	16.0	18.2	18.7	16.1

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

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.

during which the PSBR to GDP ratio was increasing continuously. As shown in Table V.1, the PSBR rose from 1,957 billion drachmas in 1990 to 2,018

billion drachmas in 1991, while the PSBR to GDP ratio fell to 16.1 per cent, from 18.7 per cent in 1990 and 18.2 per cent in 1989.

The net borrowing requirements of the general government, which includes the central government and public organisations, increased by 8 per cent in 1991, compared with 21.8 per cent in 1990. As a proportion of PSBR it rose to 99 per cent, which is the highest ratio in recent years. Public organisations made a positive contribution to the rise in the PSBR in 1991, while they had shown cash surpluses in the previous two years. By contrast, the net borrowing requirements of public enterprises fell by 75.9 per cent in 1991, compared with a rise of 40.1 per cent in 1990.

Specifically, the net borrowing requirements of the central government rose by 17 billion drachmas (0.9 per cent) and amounted to 1,949 billion drachmas. The corresponding rise was 27.1 per cent in 1990 and 37.5 per cent in 1989. This development was due to an increase in the ordinary budget deficit by 74 billion drachmas. By contrast, the special management accounts' deficit fell by 57 billion drachmas compared with the previous year.

In particular, the ordinary budget deficit on a cash basis¹ amounted to 1,475 billion drachmas and rose by 3.3 per cent, which is the lowest rate of increase in recent years (1990: 30.7 per cent, 1989: 42 per cent, 1988: 91.6 per cent). The substantial slowdown in the growth rate of the ordinary budget deficit is due to (i) the fall in the growth rate of ordinary expenditure (net of amortisation payments) from 30.6 per cent in 1990 to 15.2 per cent in 1991 and (ii) the rise in ordinary revenue by twelve percentage points more than the rise in ordinary expenditure. The factors explaining these developments are examined in the next section of this chapter. In addition, the rise in the ordinary budget deficit at a rate substantially lower than the corresponding GDP growth rate resulted in reducing of the deficit to GDP ratio to 11.8 per cent in 1991, from 13.7 per cent in 1990 and 12.4 per cent in 1989. The conversion of a total of about 1,500 million drachmas of short-term public debt into medium- and long-term bonds, which began in September 1991, also contributed to the substantial deceleration in the growth rate of ordinary budget expenditure. This conversion resulted in the reduction of debt service expenditure by 115 billion drachmas because of the deferment of interest payments from the last quarter of 1991 to 1993 and subsequent years. Despite

¹ The ordinary budget deficit on a cash basis does not coincide with the fiscal deficit. The differences are due to extensions of the fiscal year that affect the fiscal deficit, as well as to time-lags between the recording of revenue and expenditure in the budget and the realisation of relevant receipts and payments.

the conversion, however, interest payments continue to absorb substantial budget resources. In 1991 these payments increased by 23.1 per cent, compared with 84.2 per cent in 1990, and rose to 1,448 billion drachmas, which is equivalent to 98 per cent of the ordinary budget deficit. Without interest payment deferments, the increase in interest payments would have been 32.9 per cent. The rise in interest payments stems from the rise in central government debt by 31.4 per cent and from the rise in the average interest rate on domestic borrowing by one percentage point. This, in turn, is because of the high interest rates on Treasury bills, which remained unchanged from February to September 1991. In addition, the average interest rate on foreign borrowing remained at the 1990 level. The burden on the ordinary budget because of transfers to social security and transport organisations was also substantial, amounting to 393 billion drachmas. However, compared with the 1990 total, transfers were lower in 1991 by 8.3 per cent. In 1990 they had increased by 12.2 per cent.

The public investment budget deficit on a cash basis¹ increased by 6.7 per cent, compared with 17.4 per cent in 1990, and rose to 436 billion drachmas or 3.5 per cent of GDP. Investment expenditure rose to 601 billion drachmas, a significant increase of 30.2 per cent, compared with 10.3 per cent in 1990. At constant prices, investment expenditure rose by 12.1 per cent following several years of decline, with the exception of 1989 when investment expenditure also rose. The relatively small increase in the public investment budget deficit, despite the substantial increase in investment expenditure, was due to EC transfers, which more than tripled and rose to 143 billion drachmas from 44 billion in 1990. The rise in these transfers was due in part to the modification of the system of keeping structural funds accounts, which occurred in the previous year.² Following this modification, an amount equal to 30 billion drachmas in EC transfers appeared in government accounts in 1991, while the inflow of foreign exchange actually occurred in 1990. However, even after the necessary adjustments to achieve data comparability over time, the rise in revenue due to EC transfers was 52.7 per cent, compared with 20.3 per cent in 1990.

¹ See previous footnote.

² According to this modification, sums from the structural funds are converted into drachmas at the time they are paid to the parties concerned, and the appearance of the converted sums in government accounts does not affect the investment budget deficit. Previously, conversion into drachmas and the corresponding crediting of government accounts were realised at the same time as the inflow of foreign exchange and any time-lags between the crediting and debiting of these accounts affected the budget balance.

The special management accounts showed a deficit of 39 billion drachmas in 1991, which was 57 billion lower than in 1990. The reduction in the deficit was due mainly to the oil product accounts, which showed a deficit of only 4 billion drachmas, compared with 56 billion drachmas in 1990. In addition, the deficit (35 billion drachmas) of the Agricultural Markets Management Service (AMMS) was 5 billion lower than in 1990. The substantial reduction in the oil product account's debit balance was due primarily to the 10 billion drs decline in the value of oil stocks, the settlement of 17 billion drachmas in foreign bank claims arising from the funding of oil imports, and to the smaller increase in this account's claims. More specifically, the fall in the value of oil stocks was due exclusively to lower prices in the valuation of stocks in 1991, since their volume grew by 39 thousand tonnes. Also, the increase in net claims from oil product sales on credit amounted to 2 billion drachmas in 1991, compared with a substantial increase of 48 billion drachmas in 1990. This development was the result of stricter rules as of July 1991 regarding the settlement of bills from state refineries' oil product sales. The rise in the AMMS financial requirements by 35 billion drachmas was primarily the result of interest payments on past borrowing (1991: 31 billion drachmas, 1990: 19 billion drachmas), since this type of expenditure is not covered by the state budget.

The overall financial results of social insurance organisations, local authorities and other public organisations amounted to a total deficit of 41 billion drachmas in 1991, compared with a 90 billion drachma surplus in 1990. This was mainly the result of the higher (by 63 billion drachmas) borrowing requirements of social insurance organisations and lower public organisation surpluses, which are invested in bank deposits, Treasury bills and bonds. Specifically, the Social Insurance Organisation's (IKA) financing rose to 149 billion drachmas in 1991, from 107 billion in 1990, while the ordinary budget contribution to IKA was lower by 12 billion drachmas. The Seamen's Pension Fund's (NAT) financing rose from 36 billion drachmas in 1990 to 53 billion in 1991, while the ordinary budget contribution to NAT fell by almost 12 billion drachmas.

Public enterprises' net borrowing requirements fell substantially from 115 billion drachmas in 1990 to 28 billion in 1991. This was due to (i) a 44 billion drachmas increase in the surpluses of those public enterprises usually having a surplus, which are invested in bank deposits and government bonds and (ii) the fall of 43 billion drachmas in the deficit of those public enterprises usually running a deficit, which was due to a 40 per cent reduction in their

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

	1986		1987		1988		1989		1990		1991*	
	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>	555,566	71.6	768,954	91.1	1,158,486	96.5	1,385,713	86.9	1,720,839	87.9	1,766,603	87.5
- Treasury bills and bonds purchased by banks and specialised credit institutions	223,637	28.8	304,895	36.1	567,983	47.3	673,054	42.2	315,962	16.1	37,024	1.8
- Treasury bills and bonds purchased by private savers and enterprises	21,030	2.7	169,553	20.1	374,389	31.2	301,417	18.9	844,133	43.1	1,371,942	68.0
- Loans and advances from specialised credit institutions and commercial banks	238,376	30.7	238,477	28.3	233,319	19.4	251,438	15.8	268,007	13.7	256,519	12.7
- Bank of Greece	72,523	9.3	56,029	6.6	-17,205	-1.4	159,804	10.0	292,737	15.0	101,118	5.0
<i>Foreign borrowing</i>	220,584	28.4	74,899	8.9	42,534	3.5	208,991	13.1	236,641	12.1	251,323	12.5
Total	776,150	100.0	843,853	100.0	1,201,020	100.0	1,594,704	100.0	1,957,480	100.0	2,017,926	100.0

* Provisional data.

operating deficits, while transfers from the ordinary budget for the financing of public enterprises' operating deficits remained roughly at last year's levels.

As shown in Table V.2, about 88 per cent of the PSBR in 1991 was financed from domestic sources (the same ratio as in the previous two years), while the ratio of the PSBR financed from foreign sources was stabilised at roughly 12 per cent during this period. Treasury bills and government bonds sold to the domestic nonbank market constituted the most important funding source in 1991, covering 68 per cent of the PSBR. This ratio is three times higher than the corresponding one in 1989. Specifically, the sum raised from these sales increased by 62.5 per cent relative to 1990 and amounted to 1,372 billion drachmas, from 844 billion in 1990 and 301 billion in 1989. The substantial increase in the sum raised from such sales, especially during the last two years, is due to the higher net yields of Treasury bills and government bonds over the yields of bank deposits and other investments, which resulted in substantial shifting of savings and other assets to government paper. By contrast, the portion of the PSBR financed through Treasury bill and government bond mandatory sales to banks and specialised credit institutions declined for the third consecutive year. Funding from this source covered only 1.8 per cent of the public sector's deficit, compared with 16.1 per cent in 1990 and 42.2 per cent in 1989. This development is due to the deceleration of the growth rate of private bank deposits and to the reduction by 10 percentage points in the ratio of commercial banks' compulsory investment in Treasury bills in 1991, in accordance with the policy being pursued that aims at the gradual elimination of such compulsory financing. The financing of the public sector deficit by the Bank of Greece also fell. The Bank of Greece financed 5 per cent of the PSBR, compared with 15 per cent in 1990. Commercial banks and specialised credit institutions financed 12.7 per cent of the PSBR (roughly the same ratio as in the previous year), primarily through bank lending to public organisations. Net foreign borrowing increased by 6.2 per cent, compared with 13.2 per cent in 1990, and covered 12.5 per cent of the PSBR, compared with 12.1 per cent in 1990 and 13.1 per cent in 1989.

2. THE GOVERNMENT MAGNITUDES BY SECTOR

2.1 The Government Budget

According to provisional data provided by the General Accounting Office and shown in Table V.7, the overall central government budget deficit on accrual

basis, which includes public debt amortisation payments, rose to 2,723 billion drachmas in 1991, compared with 2,153 billion drachmas in 1990 and 1,758 billion drachmas in 1989. Eighty per cent of the deficit's increase stemmed from the ordinary budget, the deficit of which rose to 2,234 billion drachmas, compared with 1,779 billion drachmas in 1990 and 1,386 billion drachmas in 1989. The remaining 20 per cent of the deficit's growth can be attributed to the public investment budget, the deficit of which rose to 489 billion drachmas, compared with 373 billion drachmas in both 1990 and 1991.

Compared with the budget forecast, the deficit in the central government budget showed an overrun of 603 billion drachmas, or 4.8 per cent of GDP. This overrun is attributed to the ordinary budget deficit (544 billion drachmas) and the public investment budget deficit (59 billion drachmas). As in 1990, the overrun in the ordinary budget deficit was due exclusively to a revenue shortfall, while the realised total expenditure was roughly equal to the budgeted amount. However, the containment of expenditure within the budget limits was made possible, as analysed below, by the deferment of 115 billion drachmas of interest payments following debt restructuring. This sum will be added to expenditure outlays in 1993 and beyond.

Despite the substantial overrun of the budgeted deficit, the overall fiscal stance has improved, since the primary deficit of the central government budget fell for the second consecutive year and amounted to 355 billion drachmas in 1991, compared with 638 billion drachmas in 1990 and 915 billion drachmas in 1989. As a percentage of GDP, the primary deficit fell to 2.8 per cent in 1991, from 6.1 per cent in 1990 and 10.4 per cent in 1989.

As shown in Table V.3, ordinary budget revenue rose by 27.2 per cent, compared with 35.4 per cent in 1990 and 10.2 per cent in 1989. Despite this relatively satisfactory development in revenue growth rate, there was a 550 billion drachma shortfall in revenue relative to the budget forecast. More than half of the shortfall was due to the non-realisation of budgeted revenue from the sale of ailing enterprises and from the sale of shares of public enterprises and land bonds.

The tax measures of April 1990 (the effects of which were fully realised by June 1991), the introduction of a tax on interest income from bank deposits, and a substantial increase in liquid fuel taxation as well as a substantial transfer of receipts from the National Pharmaceuticals Organisation contributed to the increase in budget revenue.

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

	Annual magnitudes				Percentage changes		
	1988	1989	1990	1991*	1989/88	1990/89	1991/90
I. DIRECT TAXES	519,697	580,727	822,067	1,021,500	11.7	41.6	24.3
1. Income tax	405,229	476,163	596,756	840,000	17.5	25.3	40.8
- Personal	325,788	347,656	444,841	523,500	6.7	28.0	17.7
- Corporate	73,304	122,501	145,069	192,400	67.1	18.4	32.6
- Special categories of income tax (tax on shipping)	6,137	6,006	6,846	124,100	-2.1	14.0	1,712.7
(interest deposits taxes)	(3,119)	(3,084)	(3,132)	(3,300)	(-1.1)	(1.6)	(5.4)
(interest deposits taxes)	(—)	(—)	(—)	(115,200)	(—)	(—)	(—)
2. Wealth taxes	26,799	30,789	45,369	54,500	14.9	47.4	20.1
3. Direct taxes collected on behalf of third parties	13,600	16,566	21,648	27,000	21.8	30.7	24.7
4. Tax arrears	34,048	34,569	38,949	68,000	1.5	12.7	74.6
5. Extraordinary and other direct taxes	40,021	22,640	119,345	32,000	-43.4	427.1	-73.2
II. INDIRECT TAXES	1,266,046	1,391,460	1,876,629	2,376,500	9.9	34.9	26.6
1. Customs duties and special contributions on imports - exports	28,051	35,782	41,441	52,500	27.6	15.8	26.7
2. Consumption taxes on imports	321,317	400,726	514,565	615,000	24.7	28.4	19.5
- Turnover tax on imports	457	—	—	—	—	—	—
- VAT	201,539	284,473	374,617	463,700	41.2	31.7	23.8
- Cars	46,233	78,912	96,575	106,400	70.7	22.4	10.2
- Regulatory tax	48,167	1,236	—	—	-97.4	—	—
- Special consumption tax	21,375	28,532	36,813	36,300	33.5	29.0	-1.4
- Other taxes on imports	3,546	7,573	6,560	8,600	113.6	-13.4	31.1
3. Consumption taxes on domestic products	741,186	734,101	1,037,290	1,397,000	-1.0	41.3	34.7
- Turnover tax	8,314	9,248	11,406	13,600	11.2	23.3	19.2
- VAT	397,477	429,800	586,627	743,600	8.1	36.5	26.8
- Consumption tax on fuels	191,744	128,458	214,220	385,400	-33.0	66.8	79.9
- Tobacco	73,554	89,444	119,677	150,800	21.6	33.8	26.0
- Tax on cars assembled in Greece	5,597	6,143	6,905	4,500	9.8	12.4	-34.8
- Road duties	27,965	28,663	38,524	43,000	2.5	34.4	11.6
- Special levies and contributions on cars	13,916	17,473	25,232	16,400	25.6	44.4	-35.0
- Other consumption taxes on domestic products ¹	22,619	24,872	34,699	39,700	10.0	39.5	14.4
4. Transaction taxes	153,295	196,531	246,516	273,800	28.2	25.4	11.1
- Capital transfers	37,452	53,157	76,046	64,650	41.9	43.1	-15.0
- Stamp duties	63,498	79,160	98,399	119,750	24.7	24.3	21.7
- Banking transactions	52,345	64,214	72,071	89,400	22.7	12.2	24.0
5. Other indirect taxes	22,197	24,320	36,817	38,200	9.6	51.4	3.8
III. TOTAL TAX REVENUE	1,785,743	1,972,187	2,698,696	3,398,000	10.4	36.8	25.9
Non - tax revenue	143,284	154,144	179,465	262,000	7.6	16.4	46.0
IV. TOTAL ORDINARY BUDGET REVENUE	1,929,027	2,126,331	2,878,161	3,660,000	10.2	35.4	27.2

¹ Including the special consumption tax on domestic products.

* Provisional estimates.

Source: Ministry of Finance, State General Accounting Office.

Revenue from direct taxation rose by 24.3 per cent, compared with 41.6 per cent in 1990. However, if the sum of 93 billion drachmas in receipts from the two once and for all tax surcharges is deducted from 1990 revenue, and receipts from interest income taxation are deducted from 1991 revenue, the substantial reduction in direct tax revenue growth (17.3 percentage points), which appears before the above-mentioned correction, falls to about one percentage point (1991: 24.5 per cent, 1990: 25.3 per cent). In contrast to the previous three years, revenue from direct taxation rose at a lower rate than revenue from indirect taxation. As a result, the share of direct tax revenue in total tax revenue showed a slight reduction (1991: 30.1 per cent, 1990: 30.5 per cent, 1989: 29.4 per cent).

The growth rate of revenue from direct taxation, which was higher than the GDP growth rate, was positively affected by revenue from tax arrears, which rose by 74.6 per cent following three years of relative stagnation; by corporate income tax revenue, which increased by 32.6 per cent primarily because of a change in the taxation of banks; by real property tax revenue, which increased by 35.9 per cent, but revenue from this source still remains low; and, finally, by revenue from the new tax on interest income from bank deposits (115.2 billion drachmas). By contrast, revenue from income taxes withheld at source showed a limited increase (13.9 per cent). In the previous three years (1988-1990), revenue growth from this source ranged between 23 and 33 per cent, while the average growth rate for the same three-year period was 26.4 per cent. This development resulted from the tight incomes policy affecting the second half of 1990 and, especially, 1991. In addition, revenue from donation tax and parental donation tax showed a modest increase of 20.1 per cent. This was due to the increase in real estate transfers in 1990 because of an expected rise in official starting-off prices in the second half of 1990, which, however, came into effect in January 1991 and had a negative impact on new real estate transfers, which resulted in a substantial reduction in tax revenue from this source.

Substantial changes in taxation in 1990, especially indirect taxation, as well as the increases in liquid fuel consumption tax rates which followed, had a positive impact on revenue from indirect taxation in 1991. As a result, despite the high level in the previous year, revenue from indirect taxation grew by 26.6 per cent, compared with 34.9 per cent in 1990.

In particular, the growth rate of revenue from customs duties and contributions rose to 26.7 per cent, from 15.8 per cent in 1990, because of a

substantial rise in revenue from contributions and in spite of the small increase in the volume of imports.

Revenue from VAT on imported goods rose by 23.8 per cent, compared with 31.7 per cent in 1990 and 41.2 per cent in 1989. The decline is consistent with the reduction in the growth rate of the value of imports in drachmas, from 19.7 per cent in 1990 to 16.7 per cent in 1991. It is also consistent with the stronger effect on 1990 revenue (relative to 1991) from the rise in VAT rates on imported goods. The large discrepancy recorded for the second consecutive year between the budget forecast (540 billion drachmas) and realised revenue (464 billion drachmas) was due not only to the fact that the budget forecast was rather optimistic, but also to the delayed recovery of the economy.

Despite the large increase in passenger car imports in 1991, revenue from the special consumption tax on passenger cars rose by only 10.2 per cent, compared with 22.4 per cent in 1990. This was the result of drastic tax exemptions for the purchase of new cars with environment-friendly technology. Finally, revenue from the special consumption tax on imported goods fell by 1.4 per cent following large increases in 1989 and 1990.

Revenue from VAT on domestically produced goods and services rose by 26.8 per cent, compared with 36.5 per cent in 1990. This development was the result of opposing forces such as the April 1990 rise in tax rates and the decline of inflation in 1991. Efforts to curb tax evasion have also had a positive effect on revenue, albeit to a lesser degree.

For the second consecutive year, revenue from the special consumption tax on liquid fuels increased drastically (79.9 per cent), determining, to a large extent, the overall growth rate of revenue from indirect taxation. This positive development was due to continuous increases in the related unit tax that occurred during the summer of 1990 and afterwards, especially after the end of the Gulf War when international crude oil prices fell. The substantial increase in premium and unleaded petrol consumption, which occurred especially in recent years, had also a positive influence on revenue.

Revenue from tobacco tax increased by 26 per cent following the increase in the *ad valorem* component of the tax as of 1st May 1990 and the increase in the "most demanded" price as from January 1991.

Revenue from road duties showed a small increase (11.6 per cent), following a large increase in 1990 (34.4 per cent). The decline in the growth rate was due to the large starting base (with which comparisons are made), as

well as to the five-year exemption from road duties granted to those who purchase cars with new technology.

Regarding transaction taxes, revenue from capital transfer taxes (mainly on real estate) showed a reduction of 15 per cent, as those concerned hastened their transactions and completed them in 1990 in view of the rise in official starting-off prices, the establishment of a system of imputing taxpayers' income on the basis of certain asset ownership, and the imposition of a capital gains tax on real estate. By contrast, revenue from the special tax on banking transactions showed a satisfactory increase (24 per cent), compared with a small increase in 1990 (12.2 per cent), while revenue from stamp duties rose by 21.7 per cent as against 24.3 per cent in 1990.

Finally, nontax revenue rose by a substantial 46 per cent, compared with 16.4 per cent in 1990. This positive development was due almost exclusively to the transfer of 50 billion drachmas from the National Pharmaceuticals Organisation (NPO) profits. It is worth noting that if this amount, which had not been included in the budget forecast, is deducted, the rise in nontax revenue falls to 18 per cent, which is close to the 1990 increase. It is also substantially lower than the budget forecast (200 per cent).

Total ordinary budget expenditure in 1991 turned out according to the budget forecast. The substantial overrun in debt service outlays and the small overrun in grants out of the budget have been offset by the allocation of reserves, which had been included in the budget, and the smaller-than-budgeted outlays concerning all other categories of expenditure except personnel outlays, which corresponded to the budget forecast. In particular, according to Table V.4, ordinary budget expenditure increased by 26.5 per cent, compared with 32.6 per cent in 1990, and rose to 5,894 billion drachmas. The fact that the growth rate of ordinary budget expenditure was higher than the GDP rate of growth resulted in a higher share of expenditure in the GDP (from 44.5 per cent in 1990 to 47 per cent in 1991). However, a sum of 99 billion drachmas related to interest and amortisation payments, which should have been paid in 1990, has been deferred to 1991 budget outlays. Similarly, a sum of 26 billion drachmas concerning amortisation pre-payments on foreign loans has been included in 1991 budget outlays. By contrast, a sum of 72 billion drachmas for interest and amortisation payments falling due in 1991 was deferred to 1992. Similarly, a sum of 115 billion drachmas concerning interest payments due in 1991 has been deferred to 1993 and subsequent years as a result of the domestic debt restructuring that took place in the last months of 1991. This restructuring consisted in the conversion of Treasury bills into

medium- and long-term government bonds. After an adjustment similar to the one just mentioned, concerning (i) the deferment of 116 billion drachmas from the year 1989 to the year 1990 and (ii) amortisation pre-payments on

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

	Annual magnitudes				Percentage changes		
	1988	1989	1990	1991*	1989/88	1990/89	1991/90
I. OUTLAYS UNDER THE ORDINARY BUDGET	2,810,789	3,512,392	4,657,425	5,893,500	25.0	32.6	26.5
1. Personnel outlays	952,401	1,205,805	1,501,409	1,698,000	26.6	24.5	13.1
2. Interest payments ¹	554,388	638,585	1,175,967	1,447,900	15.2	84.2	23.1
3. Amortisation payments ²	137,089	205,222	338,638	920,000	49.7	65.0	171.7
4. Servicing of debt related to national defence	101,339	101,820	114,868	126,100	0.5	12.8	9.8
5. Payments to the European Communities	87,811	108,013	120,294	180,900	23.0	11.4	50.4
6. Payment of revenue collected on behalf of third parties	71,874	153,570	183,547	222,000	113.7	19.5	20.9
7. Tax refunds	83,514	140,746	161,205	200,000	68.5	14.5	24.1
8. Rebates on export financing costs and interest rate subsidies	63,410	32,485	39,370	4,300	-48.8	21.2	-89.1
9. Subsidies to farmers	98,255	116,668	139,362	148,800	18.7	19.5	6.8
10. Grants	489,034	605,298	662,148	680,000	23.8	9.4	2.7
11. Guarantees	12,567	19,912	22,534	180,025	58.5	13.2	-20.0
12. Other	159,107	184,268	198,083	247,475	15.8	7.5	24.9
II. OUTLAYS UNDER THE PUBLIC INVESTMENT BUDGET	365,354	428,964	465,123	605,000	17.4	8.4	30.1
1. Project implementation	280,770	339,521	350,056	...	20.9	6.0	...
2. Grants	66,955	86,243	100,671	...	28.8	16.7	...
3. Administration expenditure	2,645	3,200	4,396	...	21.0	37.4	...
4. Interest payments	59	—	—	—	—	—	—
5. Amortisation payments	14,925	—	—	—	—	—	—
III. TOTAL I+II	3,176,143	3,941,356	5,122,548	6,498,500	24.1	30.0	26.9

¹ Including "other expenditure" related to public debt servicing.

² Including redemption of treasury bills held by commercial banks (1988: 10.9 billion drachmas, 1991: 193.2 billion drachmas) and prepayment of interest and amortisation payments on the country's external debt (1988: 5.7 billion drachmas, 1990: 32.2 billion drachmas, 1991: 25.6 billion drachmas). Excluding outlays for the redemption of treasury bills held by the private sector, which are renewed virtually within the same period.

* Provisional estimates.

Source: Ministry of Finance, State General Accounting Office.

foreign loans equal to 32 billion drachmas in 1990 and 6 billion drachmas in 1989, the growth rate of expenditure in 1991 was slightly higher than in 1990 (1991: 29.2 per cent, 1990: 27.2 per cent).

The deceleration in the growth rate of expenditure before making the above-mentioned adjustments seems faster if debt service outlays are deducted. The rate of growth in primary expenditure falls from 17.8 per cent in 1990 to 12.2 per cent. The corresponding average growth rate for the two-year period 1988-1989 was 25.1 per cent. The fact that the rate of growth in primary expenditure was lower than the GDP growth rate resulted in a lower share of primary expenditure in GDP by two percentage points when compared with the 1990 level (30.1 per cent) and by half a percentage point when compared with the average share for the three-year period 1987-1989 (28.6 per cent).

The rate of growth of personnel outlays, which was close to the budget forecast, showed a significant deceleration, not only compared with the respective rate of the previous year, but also compared with inflation. That is, the rate of increase in personnel outlays in 1991 was 5.8 percentage points lower than inflation, while the average rate of growth in personnel outlays in the 1989-1990 two-year period exceeded average inflation by 8.6 percentage points. The tight incomes policy, the interruption of supplementary pensions after September 1991 to Farmers' Insurance Organisation (FIO) pensioners who had also been characterised as members of war resistance organisations, the establishment of stricter criteria concerning the granting of pensions to persons belonging to the above category, and a limited increase in new recruitments contributed to this development. It is noted that salary increases exceeding the budget forecast, granted to diplomats and teachers, were offset by savings in other categories of personnel outlays. As a result, total personnel outlays were within budget limits.

Debt service expenditure exceeded the budget forecast by 307 billion drachmas and showed a large increase of 56.3 per cent, despite the deferment of 115 billion drachmas' worth of interest payments because of domestic debt restructuring. This development was related to amortisation payments, which almost tripled (171.7 per cent) from 1990, as well as to interest payments, which grew by 23.1 per cent. Specifically, the sharp rise in expenditure came from increased debt service expenditure related to domestic public debt. Amortisation payments on domestic public debt increased by more than four times compared with 1990, while interest payments rose by about 25 per cent. In recent years, large public sector deficits have been financed by short-term and, to a lesser extent, medium-term domestic borrowing; the increase in amortisation payments in 1991 related to domestic public debt was due primarily to the repayment of government bonds that matured during the

year, the repayment of treasury bills (which have been affected by a reduction in the compulsory investment ratio and a decline in the rate of growth of private deposits), as well as to a 25 billion drachmas larger net burden related to the repayment in 1991 of government bonds that matured in the previous year but were included in the following year's budget expenditure. Moreover, the shift in investors' preferences from government bonds and three-month Treasury bills to twelve-month Treasury bills contributed to the increase in interest payments, since interest rates on twelve-month Treasury bills are higher. In addition, interest payments on Treasury bills are incorporated in their nominal value. Finally, the depreciation of the drachma against those foreign currencies in which foreign public debt is denominated, as well as the amortisation pre-payments of 26 million drachmas on foreign debt, also contributed to an increase in debt service expenditure.

The growth rate of expenditure related to national defence debt-servicing declined, compared with 1990, and related expenditure fell short of budget forecasts by 24 billion drachmas.

The high growth rate of payments to the European Community was due to Greece's increased GDP-related contribution, larger agricultural levies and other contributions, and to last year's low basis for comparison.

The growth rate of outlays related to revenue collected on behalf of third parties remained almost at last year's level. These outlays were 19 billion drachmas lower than budgeted because revenues related to these outlays also turned out to be correspondingly lower than budgeted.

The growth rate of tax refunds accelerated, compared with 1990, despite the fact that such refunds were 20 billion drachmas lower than budgeted. The increase in these payments was due to 21 billion drachmas larger tax refunds related to personal income tax, because expenditure vouchers used by taxpayers covered the maximum tax-exempt amount, and to increased VAT refunds to exporters and others entitled to such refunds, due to the speed-up in the process of settling current affairs and the settlement of previous years' refunds.

The strongly negative change in the growth rate of payments related to interest rate and export subsidies was due to the phasing out of the interest rate subsidy on deposits and bonds, the reduction and limitation of categories of persons entitled to an interest rate subsidy on housing loans, and to the limitation of subsidies on exports to non-EC countries until the end of December 1991, after which these subsidies were to be abolished.

The growth rate of outlays related to agricultural subsidies slowed down compared with the previous year. This was due to the reduction in subsidies on agricultural products and the limitation of payments towards "guidance" financial support, which are inconsistent with EC regulations, as well as to expenditure limitations on the financing of the fertilisers' management account deficit due to successive price increases in recent years that aim at complete liberalisation in 1992.

Payments related to grants showed a small increase (2.7 per cent) compared with those in 1990, despite the fact that these payments exceeded budget forecasts by 24 billion drachmas. The largest part of this overrun was a 15 billion drachma grant to the Manpower Employment Agency (MEA). The granting of this amount was made possible after the transfer of 50 billion drachmas from the National Pharmaceuticals Organisation's profits to the ordinary budget.

The change in the growth rate of payments related to called-in guarantees, and the fact that these turned out to be 22 billion drachmas lower than budgeted, was due to the conversion into bonds of government obligations related to guarantees called in on domestic loans made by public enterprises, public organisations and natural persons until the end of December 1990.

Finally, the growth rate of "other" expenditure accelerated, compared with 1990, exceeding inflation. This was due to the fact that the growth rate of expenditure in 1990 was held substantially below inflation by postponing part of this expenditure, which finally burdened the following year's budget, as well as to the payments in 1991 for public procurements accrued during previous years.

2.2 Social Insurance Organisations

The financial results of the main social insurance organisations for the year 1991 are set out briefly in Table V.5, which shows that total expenditure of social insurance organisations rose to 1,588 billion drachmas from 1,329 billion in 1990; that is, it rose by 19.5 per cent as against 12.6 per cent in 1990. After the deduction of revenue, the total deficit of the operating and capital accounts rose to 691 billion drachmas, from 567 billion drachmas in 1990. Of this deficit, 68 per cent stemmed from the operating account and 32 per cent from the capital account. The deficit was financed by grants from the ordinary budget, the public investment programme and the EC's Regional Develop-

ment Fund (total share: 54.1 per cent), by the organisations' depreciation allowance and special receipts (1.2 per cent), and the remainder (44.7 per cent or 309 billion drachmas) by domestic borrowing (as against 38.1 per cent or 216 billion drachmas in 1990). In particular, grants from the ordinary budget showed a slight reduction of 1.3 per cent, which was due primarily to a 6 per cent reduction in grants to the Social Insurance Organisation (IKA), which fell from 193 billion drachmas in 1990 to 180 billion in 1991. By contrast, grants to the Farmers' Insurance Organisation (FIO) rose to 125 billion drachmas in 1991 from 118 billion in 1990. Gross borrowing increased by 42.8 per cent and rose to 309 billion drachmas in 1991 from 216 billion in 1990. Net borrowing, after the deduction of amortisation payments, rose to 132 billion drachmas in 1991 as against 92 billion in 1990, an increase of 43.5 per cent.

Total current revenue of social insurance organisations in 1991 rose by 17.6 per cent, compared with 23.9 per cent in 1990, while current expenditure rose by 16.9 per cent as against 18.9 per cent in the previous year. As a result, the operating deficit rose to about 468 billion drachmas, from 405 billion drachmas in 1990. However, if grants from the ordinary budget equal to 317 billion drachmas are deducted, the operating deficit to be financed rose to 151 billion drachmas, from 84 billion drachmas in 1990.

Specifically, IKA's revenue rose by 17.3 per cent as against 24.1 per cent in 1990. The decline in the revenue growth rate was due mainly to the tight incomes policy, the fall in housing activity and a reduction in employment. IKA's expenditures rose by 11 per cent, compared with 22.6 per cent in 1990. The deceleration was primarily caused by the reduction in debt-service outlays that resulted from consolidating part (about 180 billion drachmas) of IKA's debt, which had fallen into arrears, and to the containment of outlays related to pensions due to the provisions of Law 1902/1990.

FIO's operating deficit increased by 25 billion drachmas and rose from 100 billion drachmas in 1990 to 125 billion in 1991. The increase in the deficit was caused by a 2,000 drachma rise in farmers' pensions as of 1st January 1991. The increase was financed from the ordinary budget's grant, which rose to 125 billion drachmas from 118 billion in 1990.

Finally, the Seamen's Pension Fund's (NAT) deficit increased to 53 billion drachmas, from 36 billion in 1990, despite a government decision concerning the restructuring of part of its debt, which had fallen into arrears. The rise in the deficit was due mainly to the 12 billion drachma smaller grant out of the ordinary budget.

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

	Annual magnitudes			Percentage changes	
	1989	1990	1991*	1990/89	1991*/90
A. Management account					
1. Revenue	614,995	762,252	896,713	23.9	17.6
2. Expenditure	981,464	1,167,016	1,364,526	18.9	16.9
3. Result (1 - 2)	<u>-366,469</u>	<u>-404,764</u>	<u>-467,813</u>	<u>10.4</u>	<u>15.6</u>
B. Capital account					
4. Revenue	—	—	—	—	—
5. Expenditure	198,163	162,303	223,417	-18.1	37.7
(Investment)	(19,170)	(20,894)	(27,224)	(9.0)	(30.3)
(Amortisation payments on loans)	(136,581)	(124,500)	(177,023)	(-8.8)	(42.2)
(Repayment of credits)	(—)	(—)	(—)	(—)	(—)
(Working capital)	(10,200)	(—)	(—)	(-100.0)	(—)
(Other)	(32,212)	(16,909)	(19,170)	(-47.5)	(13.4)
6. Result (4 - 5)	<u>-198,163</u>	<u>-162,303</u>	<u>-223,417</u>	<u>-18.1</u>	<u>37.7</u>
TOTAL RESULT (3 + 6)	<u>-564,632</u>	<u>-567,067</u>	<u>-691,230</u>	<u>0.4</u>	<u>21.9</u>
FINANCING					
1. Grants	<u>326,923</u>	<u>347,458</u>	<u>374,021</u>	<u>6.3</u>	<u>7.6</u>
(Ordinary budget)	(312,354)	(320,633)	(316,585)	(2.7)	(-1.3)
(Public investment programme)	(6,150)	(7,920)	(23,104)	(28.8)	(191.7)
(European Regional Development Fund)	(8,419)	(18,905)	(34,332)	(124.6)	(81.6)
2. Depreciation	<u>255</u>	<u>208</u>	<u>150</u>	<u>-18.4</u>	<u>-27.9</u>
3. Special resources	<u>2,237</u>	<u>3,150</u>	<u>8,254</u>	<u>40.8</u>	<u>162.0</u>
4. New credits	—	—	—	—	—
5. Loans ^(b)	<u>235,217</u>	<u>216,251</u>	<u>308,805</u>	<u>-8.1</u>	<u>42.8</u>
TOTAL FINANCING	<u>564,632</u>	<u>567,067</u>	<u>691,230</u>	<u>0.4</u>	<u>21.9</u>

(a) Including 6 Social Insurance Organisations (IKA, FIO, MEA, Workers' Housing Organisation, Workers' Fund and National Welfare Organisation).

(b) Gross domestic borrowing.

* Estimates.

Source: Ministry of National Economy.

2.3 Public Enterprises

Financial results for public enterprises appear in Table V.6. Total spending by public enterprises rose to 2,346 billion drachmas from 2,029 billion in 1990, i.e., by 15.6 per cent as against 18.2 per cent in 1990. After the deduction of revenue, the combined deficit of the operating and capital accounts amounted to about 751 billion drachmas (1990: 775 billion). This deficit, most of which (95.4 per cent) is attributable to the capital account and the rest (4.6 per cent) to the operating account, was financed by net grants out of the ordinary budget (grants to public enterprises minus transfers from the public enterprises' surpluses to the ordinary budget), the public investment programme and the EC's Regional Development Fund (total share: 23.5 per cent), by depreciation allowances (23.8 per cent), by public enterprises' special resources (12.7 per cent) and by suppliers' credit (2.1 per cent). The remaining 37.9 per cent or 285 billion drachmas (compared with 41.8 per cent or 324 billion drachmas in 1990) was financed by domestic and foreign borrowing. The reduction in borrowing was due to the improvement in the operating account's financial results, as well as to the reduced growth rate of the capital account's total expenditure, while transfers out of the ordinary budget, primarily for financing the operating deficits of the Urban Transport Organisation (UTO) and the National Radio and Television Corporation (NRT), decreased for the second consecutive year.

Public enterprises' operating revenue increased by 27.3 per cent in 1991, compared with 20.2 per cent in 1990. This was due mainly to the more than doubling of the Soccer Pools Organisation's revenue and to the higher rate of growth of the National Pharmaceuticals Organisation's (NPO) revenue. However, this increase has been partly offset by a lower rate of growth, compared with last year's, in revenue on the part of the five major public enterprises (Public Power Corporation (PPC), Hellenic Telecommunications Organisation (HTO), Hellenic Railways Organisation (HRO), Urban Transport Organisation (UTO), and Water Supply and Sewerage Company (WSSC), the prices of which rose at a lower rate than in 1990.

Public enterprises' operating expenditure rose by 16.7 per cent, compared with 19.3 per cent in 1990. The substantial deceleration in wage expenditure growth (13.7 per cent as against 21.5 per cent in 1990) due to the tight incomes policy followed for the second consecutive year and the reduction in the number of employees, as well as the containment of interest payments (227 billion drachmas as against 236 billion drachmas in 1990) because of the

TABLE V.6
DEFICITS OF PUBLIC ENTERPRISES ^(a) AND THEIR FINANCING
(In million drachmas)

	Annual magnitudes			Percentage changes	
	1989	1990	1991*	1990/89	1991*/90
A. Operating account					
1. Revenue	1,042,925	1,253,391	1,595,348	20.2	27.3
2. Expenditure	1,170,359	1,396,327	1,629,809	19.3	16.7
3. Result (1 - 2)	<u>-127,434</u>	<u>-142,936</u>	<u>-34,461</u>	<u>12.2</u>	<u>-75.9</u>
B. Capital account					
4. Revenue	—	—	—	—	—
5. Expenditure	546,134	632,250	716,590	15.8	13.3
(Investment)	(349,156)	(355,912)	(423,643)	(1.9)	(19.0)
(Amortisation payments on loans)	(208,005)	(221,837)	(226,959)	(6.6)	(2.3)
(Repayment of credits)	(6,988)	(2,961)	(12,248)	(-57.6)	(313.6)
(Working capital)	(-51,420)	(9,881)	(9,466)	(-119.2)	(-4.2)
(Other)	(33,405)	(41,659)	(44,274)	(24.7)	(6.3)
6. Result (4 - 5)	<u>-546,134</u>	<u>-632,250</u>	<u>-716,590</u>	<u>15.8</u>	<u>13.3</u>
TOTAL RESULT (3 + 6)	<u>-673,568</u>	<u>-775,186</u>	<u>-751,051</u>	<u>15.1</u>	<u>-3.1</u>
FINANCING					
1. Grants	<u>221,375</u>	<u>203,002</u>	<u>176,408</u>	<u>-8.3</u>	<u>-13.1</u>
(Ordinary budget)	(61,529)	(52,990)	(-7,843)	(-13.9)	(-114.8)
(Public investment programme)	(95,556)	(98,613)	(104,971)	(3.2)	(6.4)
(European Regional Development Fund)	(64,290)	(51,399)	(79,280)	(-20.1)	(54.2)
2. Depreciation	<u>126,987</u>	<u>149,394</u>	<u>178,322</u>	<u>17.6</u>	<u>19.4</u>
3. Special resources ^(b)	<u>65,070</u>	<u>89,426</u>	<u>95,640</u>	<u>37.4</u>	<u>6.9</u>
4. New credits	<u>20,081</u>	<u>9,736</u>	<u>15,700</u>	<u>-51.5</u>	<u>61.3</u>
5. Loans ^(c)	<u>240,055</u>	<u>323,628</u>	<u>284,981</u>	<u>34.8</u>	<u>-11.9</u>
TOTAL FINANCING	<u>673,568</u>	<u>775,186</u>	<u>751,051</u>	<u>15.1</u>	<u>-3.1</u>

(a) Including 45 public enterprises mentioned in the report of the Minister of Finance on the 1992 budget, p. 145.

(b) Special resources include advances and participations by PPC consumers, lump sum payments by HTO subscribers, participation of individuals in Water Supply and Sewerage Company projects, and own assets (from surpluses) of certain public enterprises.

(c) Gross borrowing (domestic + foreign).

* Estimates.

Source: Ministry of National Economy.

consolidation of part of certain public enterprises' interest payments (which had fallen into arrears) by issuing a ten-year bond, have contributed to the deceleration in the growth rate of public enterprises' operating expenditure.

The operating deficit fell by 108 billion drachmas in 1991 from 143 billion drachmas in 1990 and amounted to 34 billion drachmas. The substantial reduction in the operating deficit was due mainly to a rise in the surpluses of the Soccer Pools Organisation, the HTO and the NPO, and to a decrease in the deficits of the Hellenic Aerospace Industry (HAI), the WSSC and the NRT. By contrast, the deficits of UTO and NRO, two large public enterprises, remained high once again. If grants out of the ordinary budget are deducted from the operating account, and surpluses of certain public enterprises — such as the Soccer Pools Organisation, the Duty Free Shops, the Corporation for the Management of State-Owned Equipment, and the Greek Horse-Race Organisation — are added, the deficit to be financed in 1991 amounts to 42 billion drachmas, compared with 90 billion drachmas in 1990. The share of the operating deficit in the total gross deficit of public enterprises in 1991 amounted to 15 per cent, compared with 28 per cent in 1990.

Capital account expenditure increased by 13.3 per cent, compared with 15.8 per cent in 1990. The deceleration in the growth rate was due mainly to the low growth rate of "other capital expenditure" and to amortisation payments, while net investment expenditure rose by 19 per cent, or 68 billion drachmas, as against 2 per cent in 1990. The rise in investment stemmed from thirty-one public enterprises which increased their investment expenditure by about 100 billion drachmas, while the rest reduced their investment by about 32 billion drachmas. Those public enterprises which most increased their investment expenditure were the HTO (by 44 billion drachmas) and the School Buildings Organisation (by 24 billion drachmas), while enterprises which most reduced their investment expenditure were the PPC (by 21 billion drachmas) and the National Road Organisation (by 6 billion drachmas).

Finally, if grants out of the Public Investment Programme and the EC Regional Development Fund, as well as depreciation allowances, special resources and new suppliers' credit, are added to the public enterprises' capital account, the deficit to be financed rose from 234 billion drachmas in 1990 to 243 billion drachmas. The share of the capital account deficit in the public enterprises' gross borrowing requirements in 1991 rose from 72 per cent in 1990 to 85 per cent.

3. THE GOVERNMENT BUDGET FOR 1992

The government budget for 1992 aims at reducing public sector deficits by containing the increase in noninvestment expenditure at a rate considerably lower than the expected inflation and to a lesser extent by revenue growth. Specifically, according to the 1992 budget, the net fiscal deficit at constant prices is expected to be lower than 1991's by about 45 per cent. This development is expected to result from a reduction in the ordinary budget deficit by about 59 per cent at constant prices, while the public investment programme deficit is expected to remain roughly at 1991's level. Also, the 1992 budget aims to turn the central budget's primary deficit into a primary surplus.

Ordinary budget revenue is expected to grow at a lower rate than in 1991, albeit substantially higher than the expected rate of growth of nominal national income. According to the Budget Report, revenue growth is expected to stem from (i) a rise in nominal national income; (ii) the enlargement of the tax base and containment of tax evasion through the taxation of large agricultural incomes, the extension of a system for brief audits, the application of a system for income assessment based on the purchase of property and certain consumer durables, and the electronic processing and cross-checking of data important to the tax-authorities; (iii) the gradual liberalisation of fuel prices, along with the establishment of a constant unit tax; (iv) the taxation of interest income from twelve-month time deposits renewed within 1991; (v) the introduction of a stamp duty on cheques brought to banks either for full payment or as collateral or for safekeeping; (vi) the transfer of part of lottery (LOTTO) and National Pharmaceuticals Organisation (NPO) profits to the government budget; (vii) an acceleration in the settlement of pending tax cases (related primarily to inheritance, donation, parental donation and real estate transfers) and the realisation of revenue related to tax arrears; and, finally, (viii) the realisation of non tax revenue stemming from the privatisation programme and the sale of land bonds.

Revenue growth from direct taxation in 1992 will stem from tax revenue related to interest income from twelve-month time deposits renewed in the previous year, an increase in corporate income tax due to the change in the way taxable profits of banking corporations and foreign bank subsidiaries are determined, and revenue related to tax arrears. Regarding indirect taxation, a large increase is expected in VAT revenue (22.6 per cent) from domestic goods and services as well as imports; in revenue from special fuel consumption taxes (27.9 per cent); in revenue from the turnover tax on insurance

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

	1988	1989	1990	1991*	Budget for 1992	Percentage changes			
						1989/88	1990/89	1991/90	1992/91
Revenue	2,196,052	2,469,803	3,343,590	4,246,000	5,470,000	12.5	35.4	27.0	28.8
1. Ordinary budget	1,929,027	2,126,331	2,878,161	3,660,000	4,715,000	10.2	35.4	27.2	28.8
— Direct taxes	(519,697)	(580,727)	(822,067)	(1,021,500)	(1,280,500)	(11.7)	(41.6)	(24.3)	(25.4)
— Indirect taxes	(1,266,046)	(1,391,460)	(1,876,629)	(2,376,500)	(2,950,600)	(9.9)	(34.9)	(26.6)	(24.2)
— Other revenue	(143,284)	(154,144)	(179,465)	(262,000)	(483,900)	(7.6)	(16.4)	(46.0)	(84.7)
2. SAGAP	217,067	286,843	373,677	470,000	580,000	32.1	30.3	25.8	23.4
3. Public investment budget	49,958	56,629	91,752	116,000	175,000	13.4	62.0	26.4	50.9
Expenditure	3,393,210	4,228,199	5,496,225	6,968,500	7,984,000	24.6	30.0	26.8	14.6
1. Ordinary budget ⁽¹⁾	2,810,789	3,512,392	4,657,425	5,893,500	6,694,000	25.0	32.6	26.5	13.6
2. SAGAP	217,067	286,843	373,677	470,000	580,000	32.1	30.3	25.8	23.4
3. Public investment budget	365,354	428,964	465,123	605,000	710,000	17.4	8.4	30.1	17.4
Deficit	-1,197,158	-1,758,396	-2,152,635	-2,722,500	-2,514,000	46.9	22.4	26.5	-7.7
1. Ordinary budget	-881,762	-1,386,061	-1,779,264	-2,233,500	-1,979,000	57.2	28.4	25.5	-11.4
2. SAGAP	—	—	—	—	—	—	—	—	—
3. Public investment budget	-315,396	-372,335	-373,371	-489,000	-535,000	18.1	12.3	31.0	9.4

¹ Excluding outlays for the redemption of treasury bills held by the private sector.

* Provisional data.

Source: Ministry of Finance, State General Accounting Office.

companies (37.9 per cent); in revenue from transaction taxes (capital transactions: 21.5 per cent, stamp duties: 29.3 per cent); in revenue from tobacco taxes (20 per cent); and in revenue from tax arrears related to indirect taxation (82.6 per cent). By contrast, a small increase is expected in revenue from levies and special surcharges on imports, from consumption taxes on imported passenger cars, and from special levies and surcharges on automobiles and on their registration. Regarding nontax revenue, an increase of 26.2 per cent is expected. However, if revenue attributed to the privatisation programme and the sale of land bonds (150 billion drachmas in 1992), other temporary revenue (LOTTO, NPO, etc.) as well as EC transfers (104.5 billion drachmas) is deducted, the growth rate of revenue falls to 12.6 per cent. Finally, the substantial increase in public investment budget revenue will stem from increased EC transfers, mainly from the Regional Fund. As a result of higher revenue, it is expected that the public investment programme financing requirements will fall by five percentage points in 1992.

According to budget forecasts, the ratio of direct to indirect taxes will remain roughly the same as the average level of the previous two years.

After the Budget had been approved by Parliament and during the preparation of the tax bill, which usually follows the approval of the Budget, certain tax changes were decided upon which are expected to affect budget revenue forecasts. Specifically, as is analysed in the Appendix to this chapter, the change in the way personal income tax is withheld at source according to Law 2019/1992 is consistent with the expected reduction in tax rates in the tax bill that will soon be introduced to Parliament for approval. This change will negatively affect this category of budget revenue. By contrast, according to the same law, the introduction of a lump-sum, one-time surcharge on buildings will positively affect budget revenue.

The rate of growth of ordinary budget expenditure in 1992, on the basis of the final estimates for 1991, falls to 13.6 per cent as against 26.5 per cent in 1991 and an average growth rate of 28.7 per cent in the two-year period 1989-1990. If amortisation payments (including those related to the national defence debt) are deducted, the growth rate of net ordinary budget expenditure falls even further, to 6.8 per cent from 15 per cent in 1991 and an average rate of 28.1 per cent for the two-year period 1989-1990. The expected containment of the growth rate of expenditure, net of amortisation payments, at a level below the expected year-on-year inflation for 1992, reflects the effort being made to achieve fiscal discipline through a reduction in expenditure at constant prices. A similar development, albeit to a lesser extent, was observed

in 1991. By contrast, during the two-year period 1989-1990, the average annual growth rate of net expenditure (28.1 per cent) exceeded the corresponding inflation by about 11 percentage points.

The expected decline in nominal interest payments was due to the restructuring of part of the domestic public debt with the conversion of Treasury bills held by banks into medium-term bonds, which resulted in a 312 billion drachma reduction in interest payments due in 1992. Despite these developments, interest payments remain at relatively high levels in the 1992 budget because of increased short-term domestic borrowing with the issue of Treasury bills and because the average interest rate on domestic borrowing is expected to remain high. In addition, budgeted outlays related to payments to the European Community and to third parties are high because expected revenue directly related to these outlays is also high. Furthermore, a transfer of 22 billion drachmas to the NPO has been included for the first time in the budget outlays, reflecting the amount expected to be received on the organisation's behalf. Tax refunds, which are forecast to rise by 20 per cent, are expected to contribute positively to the growth rate of budget expenditure. By contrast, outlays related to grants are expected to impact negatively on expenditure growth, as these are forecast to grow by 2 per cent. However, it is worth noting that grants to IKA, NAT and transport organisations for the financing of their deficits are expected to be slightly lower than in 1991. Also, outlays related to agricultural subsidies are close to their 1991 level. Expenditure related to the financing of the fertilisers management account's past deficits, due to the policy of price liberalisation as of 1992, is 50 per cent lower. Outlays related to financial support and to agricultural product subsidies not compatible with the system of EC subsidies appear lower, while outlays related to financial support for guidance and structural adjustment, for which there is European Community participation on the order of 50-70 per cent, appear higher in the budget. Finally, personnel outlays and other expenditure will impact positively on the rate of growth of ordinary budget expenditure, even after the deduction of outlays related to new projects and personnel recruitments.

Budget outlays related to the public investment programme are expected to rise by 17.4 per cent. Investment expenditure in real terms is expected to grow at a rate lower than in 1991. However, compared with the two-year period 1989-1990, in which real expenditure fell at an average annual rate of about 4 per cent, expenditure in 1992 remains substantially higher. It is worth noting that an allocation was made for the first time in the 1992

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

	Annual magnitudes					Percentage changes			
	1988	1989	1990	1991	Budget for 1992	1989/88	1990/89	1991/90	1992/91
A. Receipts from the European Communities	348,680	461,797	595,687	787,486	1,068,500	32.4	29.0	32.2	35.7
1. Flat rate (10 per cent) repayment of expenditure incurred in collecting Communities' own resources	3,355	3,327	3,788	4,921	5,500	-0.8	13.9	29.9	11.8
2. Social Fund	26,588	39,914	56,369	63,505	100,000	50.1	41.2	12.7	57.5
3. EAGGF - Guidance Department	23,149	37,019	44,603	59,423	98,500	59.9	20.5	33.2	65.8
4. Integrated Mediterranean Programmes	16,336	7,622	19,859	37,865	32,000	-53.3	160.5	90.7	-15.5
5. Regional Fund	48,951	84,745	94,348	142,605	250,000	73.1	11.3	51.1	75.3
6. EAGGF - Guarantees Department	217,067	286,843	373,677	476,810	580,000	32.1	30.3	27.6	21.6
7. Other receipts	13,234	2,327	3,043	2,357	2,500	-82.4	30.8	-22.5	6.1
B. Payments to the European Communities	88,795	108,286	120,907	181,543	228,800	22.0	11.7	50.2	26.0
1. Agricultural levies and duties	3,056	4,426	2,430	4,057	4,500	44.8	-45.1	67.0	10.9
2. Sugar levies	1,431	1,832	3,465	4,024	4,000	28.0	89.1	16.1	-0.6
3. Customs duties under the Common External Tariffs provision	19,930	27,016	31,982	41,129	44,900	35.6	18.4	28.6	9.2
4. Offsetting duties (Regul. 15/39)	—	—	—	3	100	—	—	—	—
5. Contribution on the basis of revenue from VAT	49,051	55,677	67,861	99,838	117,000	13.5	21.9	47.1	17.2
6. Contribution on the basis of GDP	—	6,595	293	18,798	37,000	—	—	—	96.8
7. Other contributions	11,892	9,555	11,196	8,468	14,500	-19.7	17.2	-24.4	71.2
8. Financing of the Community Budget deficit with contributions which are to be repaid	767	335	—	—	—	-56.3	-100.0	—	—
9. Contributions other than to the Community Budget	2,668	2,850	3,187	4,170	6,000	6.8	11.8	30.8	43.9
10. Payments due to unrealised projects	—	—	493	1,056	800	—	—	114.2	-24.2
Net receipts from the European Communities (A-B)	259,885	353,511	474,780	605,943	839,700	36.0	34.3	27.6	38.6

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

budget concerning outlays related to the Community Support Framework and to the other projects. The expected increase in the share of Community Support Framework projects to 76 per cent, from 62 per cent in 1991, reflects the increased effort to absorb more EC resources for projects included in European Community programmes. Outlays are related to agricultural land improvements and such other projects as education, public administration, health-welfare and transport.

The central government gross budget deficit, expected to be 2,514 billion drachmas, will be financed by foreign borrowing (535 billion drachmas) as well as by domestic borrowing. As in the previous two years, an effort will be made to finance the deficit through the nonbank market, via the issue of Treasury bills and medium- and long-term government bonds.

Finally, it is estimated that net receipts from the European Community will increase by 38.6 per cent to 840 billion drachmas. The growth rate of net EC receipts is six percentage points higher than the average rate of the previous three years, for two reasons. First, because it is expected that the growth rate in receipts will be 4.5 percentage points higher than the average rate of growth of the previous three-year period (31.2 per cent). Second, there will be a deceleration in the growth rate of payments by one percentage point, compared with the average annual growth rate (26.9 per cent) of the previous three-year period. Moreover, the large increase in net receipts is expected to come from the higher receipts of the public investment budget and the budgets on behalf of third parties from the EC's Regional Fund; from the ordinary and the public investment budgets' receipts from the EAGGF Guidance Department; and from the budget's on behalf of third parties higher receipts from the Social Fund. By contrast, Greece's expected higher contributions to the EC on the basis of VAT revenue and GDP, the reduced nominal receipts related to the Mediterranean Integrated Programmes and to the EAGGF Guidance Department, which affect the budgets on behalf of third parties, as well as the containment of the increase in receipts from the EAGGF Guarantees Department for the payment of subsidies on agricultural products, will have a negative effect on net receipts.

APPENDIX TO CHAPTER V

TAX POLICY MEASURES

Substantial tax reforms and extensive administrative regulations that aimed at a reduction in tax evasion and an increase in tax revenue were introduced in 1991. In this context, new taxes have been introduced, certain tax rates have been raised, and a number of administrative and managerial measures aimed at improving the functioning of local tax authorities and strengthening tax audits have been taken.

Specifically, Law 1921/1991 imposed for the first time in Greece a tax on interest income from bank deposits and other liquid assets at a flat rate of 10 per cent. That is, interest income from all types of bank deposits, bank bonds and other assets issued by banks or insurance companies is directly taxed and is not added to taxpayer income from other sources. The personal and family status of the taxpayer, the tax-exempt amounts and other tax credits and income reductions related to income taxation are not taken into account. From this point of view, the new tax is not integrated with income taxation and it is not a progressive tax. Interest income from Treasury bills and government bonds is tax exempt.

After the end of the Gulf war, crude oil prices, which had begun to fall in November 1990, fell even further, and the unit tax on domestic liquid fuel consumption rose substantially. As a result, the tax per one thousand litres of premium petrol rose from 38,925 drachmas in September 1990 to 61,889 drachmas in January 1991 (a 59 per cent rise compared with September 1990) and to 69,480 drachmas in February 1991 (a 78 per cent rise compared with September 1990). While increases in other liquid fuel unit taxes were proportional to the above, liquid fuel retail prices fell slightly.

Law 1957/1991 introduced a stamp duty, at a flat rate of 0.25 per cent, on the nominal value of cheques brought to banks either for full payment or as collateral or for safekeeping. This measure aimed at containing "black economy" activities through the use of cheques.

Regarding real estate taxation, starting-off prices in the Athens area, on which objective assessments of real estate values are based, increased as of 2nd January 1991. The increases in starting-off prices, which had been anticipated since the middle of 1990, were substantial. In certain cases, prices more than doubled. In addition, the system by which the incomes of certain taxpay-

ers are assessed on the basis of specific asset and consumer durables purchases, as well as capital gains taxation,¹ began on 1st January, 1991. Both aim at the containment of tax evasion.

The following are the main managerial and administrative measures taken in 1991:

- The introduction, as of September 1991, of a system of brief tax audits that replaced, as of the same date, the system of tax audits based on sampling. This system aims at faster and more efficient tax auditing of companies and professionals. The decision concerning the brief tax auditing of agricultural incomes has not yet been published in the Government Gazette.

- The extension of cash register use to additional categories of companies and professionals.

- The improvement in the Ministry of Finance's central computer service and computerisation of 133 local tax authorities, especially in the Attica region.

- Increased audits by the Service for the Monitoring of the Distribution of Goods (YPEDA) related to the distribution of goods, the issue of documents of the Code of Taxation Documents (KFS), etc.

Law 2019/1992 regarding "Tax Withholding and other Regulations" introduces changes as of 1st March 1992, in the way personal income tax is withheld at source, in view of the extensive reforms in income taxation included in the tax bill that is going to be introduced to Parliament by the Ministry of Finance.

The same law introduced a one-time surcharge on buildings. The surcharge concerns natural and legal persons who own buildings or collect rent on them. The contribution base is the floor area of the building that has been declared to the Public Power Corporation (PPC) for lighting. For residential buildings, the first 50 square metres of floor area are contribution-exempt, while the rest are subject to a progressive surcharge ranging from 200 to 1,200 drachmas per square metre. There is no surcharge-exempt floor area for shops, for which the surcharge ranges from 300 to 500 drachmas per square metre. Buildings in areas with a population of no more than 800 persons, and churches and monasteries, industrial sites, mining companies, hotels, hospitals, school buildings, etc., as well as first-owned residential buildings

¹ The capital gains tax on real estate was introduced by Law 1882/1990 and was analysed in the Governor's Report for the year 1989. The same law provided that the system by which income is assessed on the basis of certain asset and consumer durables purchases would go into effect on 1st January 1991.

of persons with more than four children are surcharge-exempt. In addition, the surcharge is reduced by 50 percent for buildings in areas with a population of 801 to 10,000 people. By contrast, it is increased by 50 per cent for buildings in 29 areas of the Attica region and in one area of the region of Thessaloniki. The surcharge will be paid in two installments, one in May and the other in November 1992.

Finally, according to the same law, taxation brackets related to real estate values have been readjusted, while real estate tax rates have been reduced, both for natural persons. These had remained unaltered since 1982, when real estate taxation was introduced. The new scale, applicable to real estate values beyond the specific tax-exempt limits which remain unchanged, is as follows:

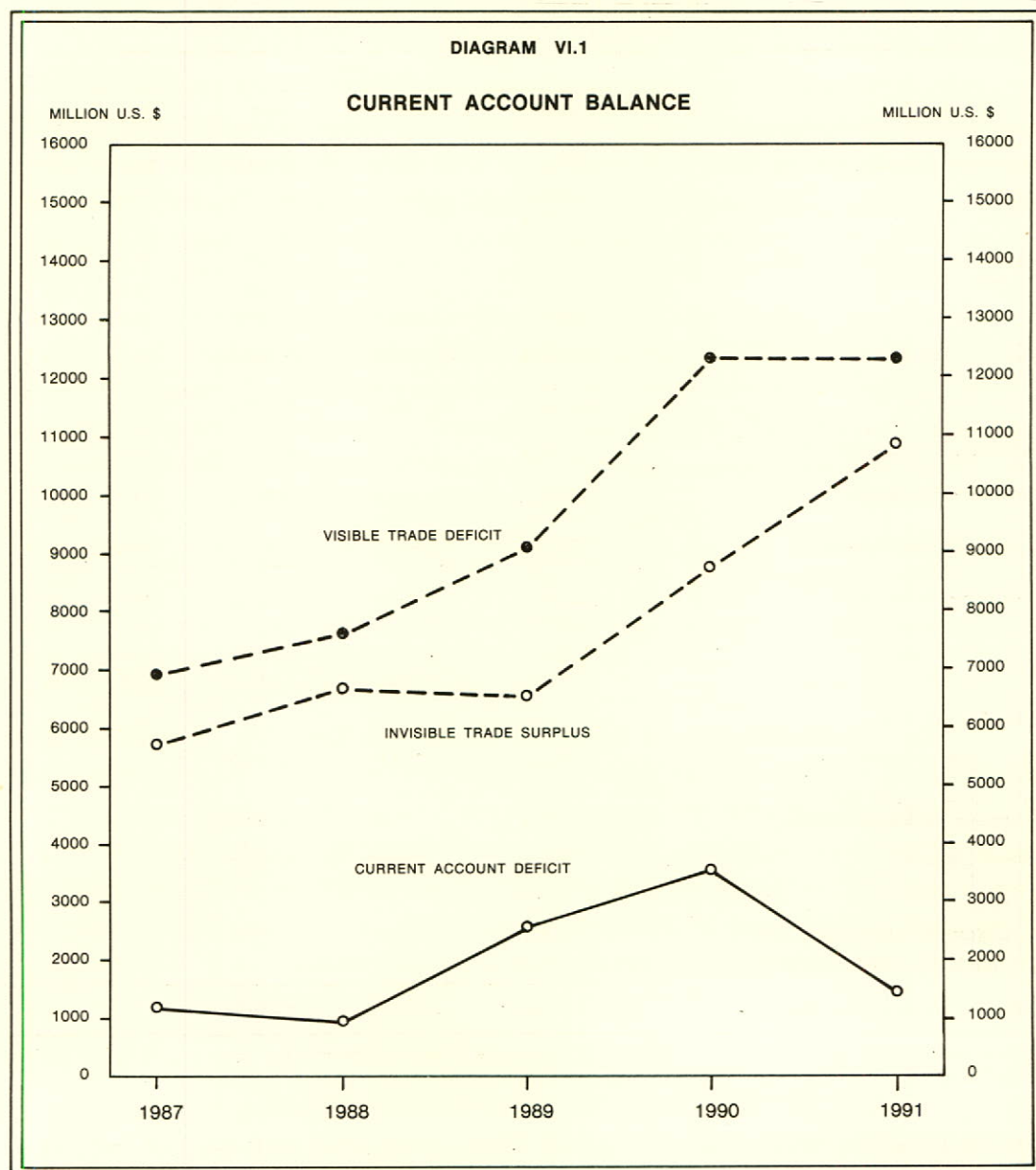
Real Estate Tax Scale

Real estate taxation brackets beyond tax-exempt value (in drachmas)	Tax rate (%)
40,000,000	0.3
40,000,000	0.6
40,000,000	0.9
Over 40,000,000	1.2

The quadrupling of the range of all taxation brackets from 10 million drachmas to 40 million drachmas was considered necessary because this range had remained unaltered for about a decade, during which high inflation and large increases in real estate nominal values prevailed. In addition, the 40 per cent reduction in tax rates was considered necessary, since initial tax rates were high for this type of taxation. By contrast, the flat rate of 1.5 per cent continues to apply to legal persons' real estate taxation.

VI. BALANCE OF PAYMENTS

The balance of payments recorded a large improvement in 1991, which stemmed entirely from the current account. Specifically, the current account



deficit fell by 57.3 per cent to \$1,520 million (2.2 per cent of GDP) from \$3,562 million (5.4 per cent of GDP) in 1990. Net private capital inflow

decreased by 6.4 per cent, but remained large enough (\$2,514 million or 3.7 per cent of GDP) to finance the current account deficit and increase foreign exchange reserves, which, including net foreign borrowing of \$911 million,

TABLE VI.1
BALANCE OF PAYMENTS

Items	Million U.S. dollars			Percentage change	
	1989	1990	1991	1990	1991
MERCHANDISE IMPORTS (cif)	15,114.7	18,692.5	19,104.6	23.7	2.2
Oil	2,092.4	2,694.0	2,892.8	28.8	7.4
Non - oil	13,022.3	15,998.5	16,211.8	22.9	1.3
MERCHANDISE EXPORTS (fob)	5,994.4	6,364.8	6,797.1	6.2	6.8
Oil	401.9	461.2	858.5	14.8	86.1
Non - oil	5,592.5	5,903.6	5,938.6	5.6	0.6
Visible Trade Balance	<u>-9,120.3</u>	<u>-12,327.7</u>	<u>-12,307.5</u>	<u>35.2</u>	<u>-0.2</u>
INVISIBLE RECEIPTS	10,281.2	13,040.8	15,353.8	26.8	17.7
INVISIBLE PAYMENTS	3,734.0	4,274.8	4,566.7	14.5	6.8
Invisible Trade Balance	<u>6,547.2</u>	<u>8,766.0</u>	<u>10,787.1</u>	<u>33.9</u>	<u>23.1</u>
Current Account Balance	<u>-2,573.1</u>	<u>-3,561.7</u>	<u>-1,520.4</u>	<u>38.4</u>	<u>-57.3</u>
Capital movement (net)	2,766.7	3,762.5	3,424.6	36.0	-9.0
Private sector	1,957.6	2,838.6	2,811.1	45.0	-1.0
Public sector	2,701.0	3,247.3	4,463.0	20.0	37.4
Amortisation payments	-1,891.9	-2,323.4	-3,849.5	23.0	65.7
Allocation of SDRs	—	—	—		
Errors and omissions	-526.4	-157.0	-235.0		
Revaluation of gold and foreign exchange holdings	-77.3	71.0	90.4		
Overall Balance	<u>-410.1</u>	<u>114.8</u>	<u>1,759.6</u>		
IMF	—	—	—		
Change in official reserves*	-418.4	121.8	1,751.8		
Change in clearing accounts	8.3	- 7.0	7.8		
Official reserves (end of period)*	4,172.4	4,294.2	6,046.0		

* 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 1988, December 1989 and December 1990, respectively.

reached \$6,046 million at the end of 1991, compared with \$4,294 million a year earlier.

The improvement in the balance of payments in 1991 is largely attributable to the stricter policy stance embodied in the current stabilisation pro-

gramme. This led to a slight fall in domestic demand, whereas in the European member states of the OECD, which are Greece's main trading partners, demand rose by one per cent. GDP grew at about the same rate as the OECD average (Greece: 1.2 per cent, OECD: 1.1 per cent). The stabilisation programme and high interest rates weakened expectations of a devaluation of the drachma. The restoration, after May 1990, of confidence regarding the parity of the drachma had a particularly favourable impact on invisibles and the large stocks of imported goods accumulated in early 1990 gradually returned to normal. Lastly, net EC transfers, which grew by 39.1 per cent or \$1,113 million, made a significant contribution towards reducing the current account deficit. The increase in net EC transfers is attributable to a rise in foreign exchange inflow and to an appreciable improvement in Greece's ability to absorb funds from the various EC programmes. The improvement in the current account would have been much larger had it not been for the Gulf War and its aftermath, which mainly affected the oil balance and travel receipts. The oil balance, which decreased substantially in 1991, was burdened in the first quarter of the year with over \$200 million because of the time-lag between the purchase and settlement of crude oil consignments, while travel receipts were negatively affected throughout the first half of the year. During the second half, it seems that travel receipts were also influenced by events in Yugoslavia.

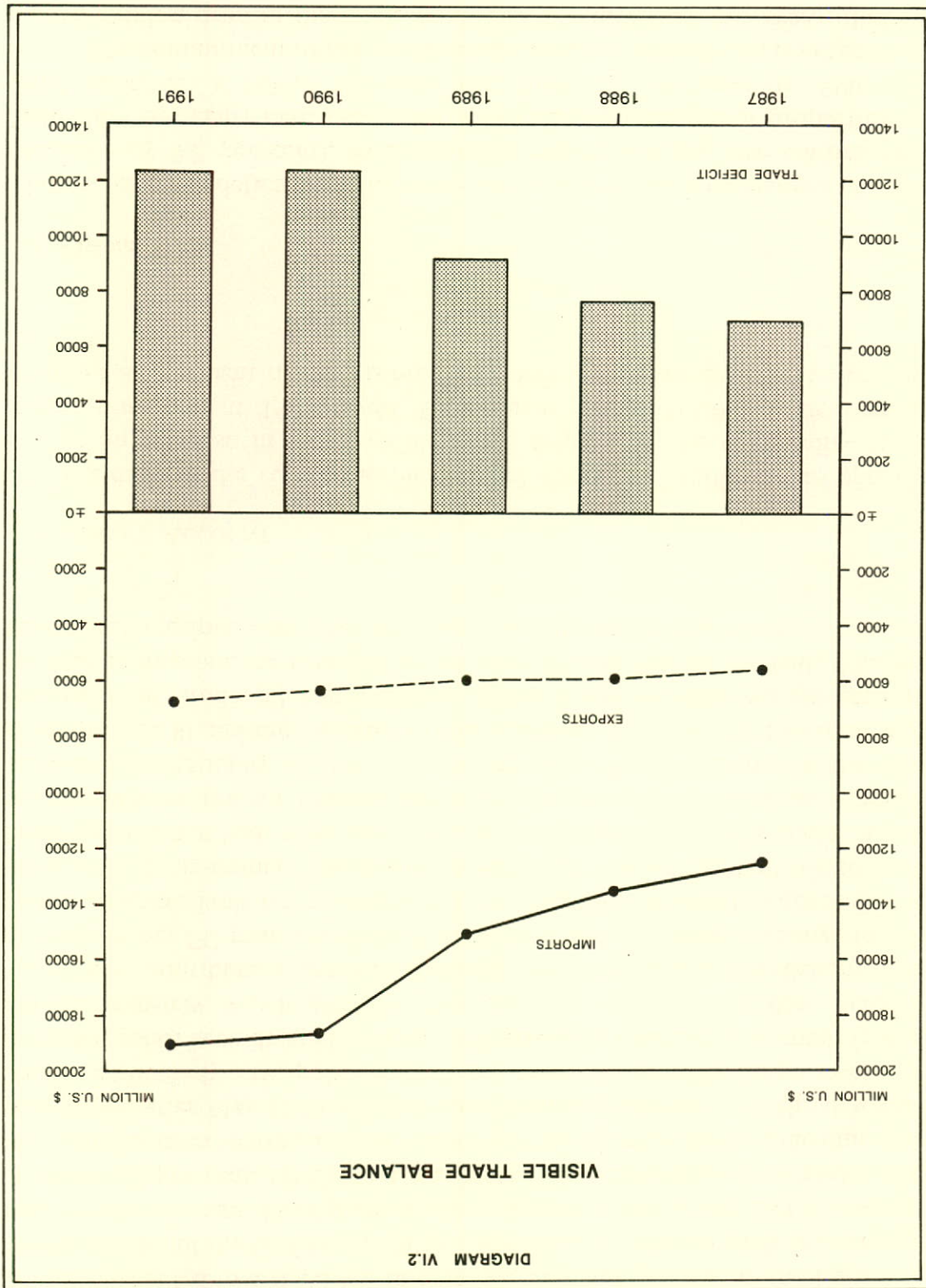
1. CURRENT ACCOUNT

The big drop in the current account deficit (by \$2,041 million) was entirely due to an increase in the invisible trade surplus, as the commodity trade deficit remained at 1990 levels. Consequently, the invisible trade surplus financed 88 per cent of the visible trade deficit, compared with 71 per cent in 1990.

1.1 Visible Trade

The visible trade deficit in dollar terms remained virtually unchanged in 1991 (decrease by 0.2 per cent), as commodity export receipts rose considerably faster (6.8 per cent) than the import bill (2.2 per cent). As a proportion of GDP, however, it fell to 17.9 per cent, from 18.7 per cent in 1990.

The containment of the visible trade deficit at 1990 levels resulted from a \$199 million drop in the oil-account deficit, which was, however, offset by



an increase in the non-oil trade deficit. This increase stemmed from a faster rise in the commodity import bill (1.3 per cent) compared with commodity export receipts (0.6 per cent). Non-oil export receipts are probably underestimated, as part of the receipts from exports invoiced in drachmas appear to be recorded in the invisibles account under the item "withdrawals out of convertible drachma deposits". According to customs statistics for the January-October 1991 period, non-oil import and export volume rose by 2.6 and 12.2 per cent respectively, leading to a marginal (0.5 per cent) improvement in the terms of trade.

As mentioned previously, the chief determinants of commodity imports and exports increased at a low rate, as reflected in the volume of foreign trade. Specifically, GDP grew by 1.2 per cent, while domestic demand recorded a slight fall. By contrast, recent OECD estimates show that both GDP and domestic demand increased at the same rate (roughly one per cent) in the member states, which are Greece's principal trading partners. The competitiveness of Greek products, as measured by the effective exchange rate index of the drachma, followed divergent trends, depending on whether its compilation was based on unit labour cost or consumer prices. In fact, on the basis of the consumer price index, the effective exchange rate of the drachma rose by about one per cent, whereas on the basis of unit labour cost in manufacturing it fell by 5.2 per cent, according to provisional estimates. The failure of the non-oil trade balance to improve, in spite of favourable developments in its principal determinants, is attributable to the structural weaknesses of domestic production and, to some extent, to the time lag between changes in competitiveness and their impact on imports and exports.

1.1.1 Exports

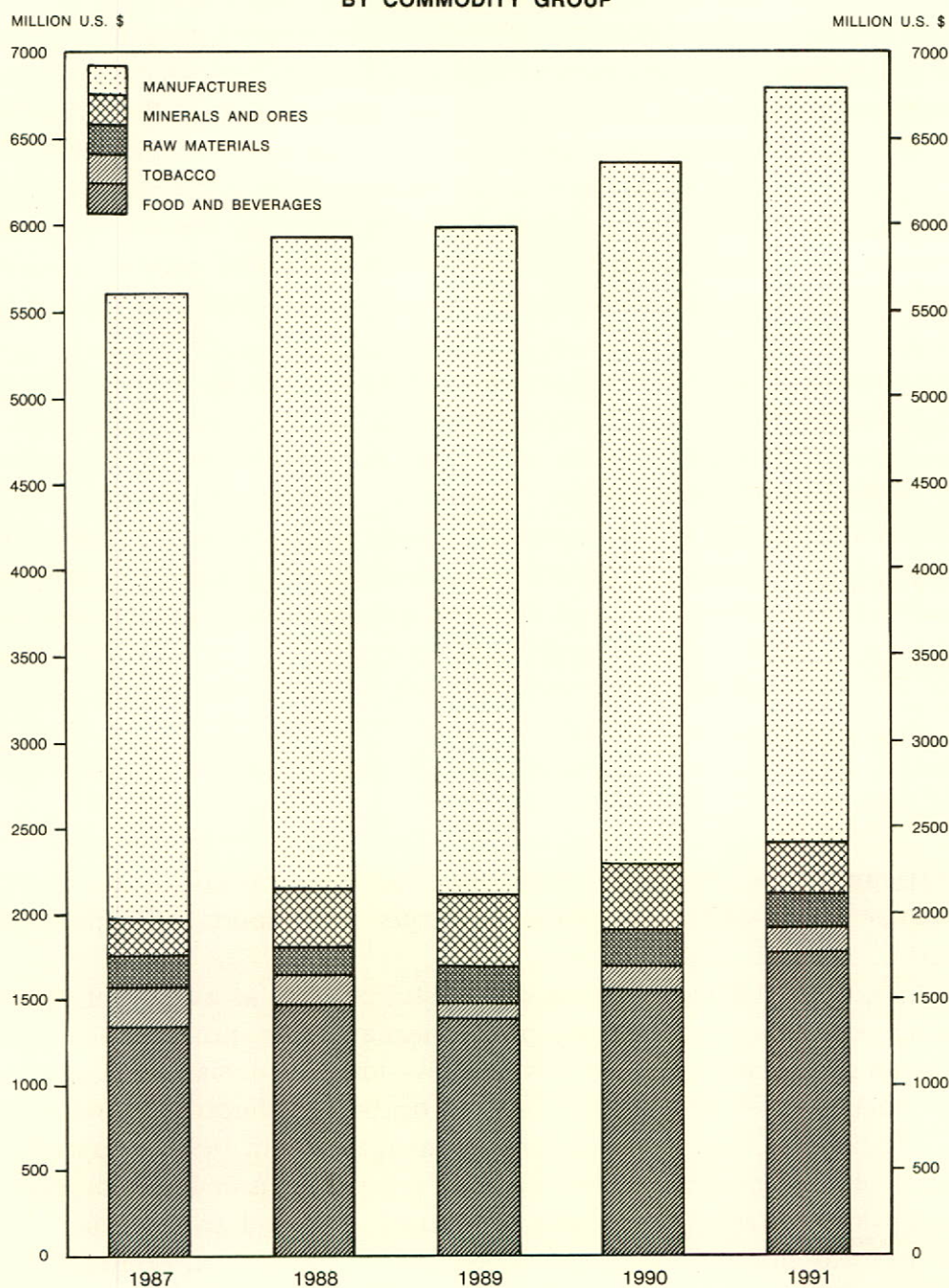
The small rise in non-oil commodity export receipts was the outcome of divergent trends in individual product categories. Receipts from exports of agricultural products recorded a significant increase, while those from exports of all other products declined.

Receipts from exports of food and beverages increased by 14.4 per cent. This large increase was mainly due to export receipts from cereals which almost quadrupled, while those from fruit preserves and vegetables, as well as maize, grew at high rates. On the other hand, receipts from exports of all other products in this category remained unchanged or declined, because of domes-

TABLE VI.2
EXPORTS (fob)

Category	Million U.S. dollars			Percentage change	
	1989	1990	1991	1990	1991
<u>I. FOOD AND BEVERAGES</u>	<u>1,393.5</u>	<u>1,550.7</u>	<u>1,774.2</u>	<u>11.3</u>	<u>-14.4</u>
Currants	25.8	35.6	37.3	38.0	4.8
Sultanas	40.3	52.1	36.0	29.3	-30.9
Olives	81.5	134.1	89.9	64.5	-32.9
Olive oil	203.4	166.8	126.4	-18.0	-24.2
Wines and spirits	92.0	77.2	80.8	-16.1	4.7
Citrus fruit	63.9	92.4	85.3	44.6	- 7.7
Other fresh fruit	126.1	193.2	188.9	53.2	- 2.2
Food and vegetables preserved	316.3	376.6	412.1	19.1	- 9.4
Cereals	158.1	85.6	327.5	-45.9	282.6
Other	286.1	337.1	390.0	17.8	15.7
<u>II. TOBACCO</u>	<u>84.9</u>	<u>142.2</u>	<u>145.0</u>	<u>67.5</u>	<u>2.0</u>
<u>III. RAW MATERIALS AND SEMI-FINISHED PRODUCTS</u>	<u>218.3</u>	<u>214.6</u>	<u>197.4</u>	<u>- 1.7</u>	<u>- 8.0</u>
Cotton	105.0	103.4	98.9	- 1.5	- 4.3
Hides and skins	50.8	40.8	34.8	-19.7	-14.7
Other	62.5	70.4	63.7	12.6	- 9.5
<u>IV. MINERALS AND ORES</u>	<u>413.0</u>	<u>382.7</u>	<u>290.6</u>	<u>- 7.3</u>	<u>-24.1</u>
Bauxite	44.5	25.5	18.9	-42.7	-25.9
Dead-burnt magnesite	25.6	17.3	7.2	-32.4	-58.4
Other	342.9	339.9	264.5	- 0.9	-22.2
<u>V. PETROLEUM PRODUCTS</u>	<u>401.9</u>	<u>461.2</u>	<u>858.5</u>	<u>14.7</u>	<u>86.1</u>
<u>VI. MANUFACTURES</u>	<u>3,343.8</u>	<u>3,440.8</u>	<u>3,320.9</u>	<u>2.9</u>	<u>- 3.5</u>
Textiles	1,452.9	1,657.3	1,604.3	14.1	- 3.2
Cement	131.3	166.7	171.3	27.0	2.8
Chemicals, pharmaceuticals	195.1	191.2	172.7	- 2.0	- 9.7
Aluminium and alumina	254.1	255.2	248.0	0.4	- 2.8
Iron sheet	238.4	185.3	160.3	-22.3	-13.5
Metals and metal articles	378.3	319.3	294.0	-15.6	- 7.9
Machinery and means of transport	29.9	33.4	51.3	11.7	53.60
Footwear, leather articles	45.4	45.7	20.9	0.7	-54.3
Furs	73.8	72.5	79.9	- 1.8	10.2
Other	544.6	514.2	518.2	- 5.6	0.8
<u>VII. UNALLOCATED</u>	<u>139.0</u>	<u>172.6</u>	<u>210.5</u>	<u>24.2</u>	<u>22.0</u>
Total	5,994.4	6,364.8	6,797.1	6.2	6.8

DIAGRAM VI.3

COMPOSITION OF EXPORTS
BY COMMODITY GROUP

tic supply shortages, which were particularly pronounced in the case of fruit and vegetables.

Receipts from tobacco exports grew by 2 per cent. This percentage as well as the absolute figure for tobacco export receipts are well below the figures released by the Tobacco Federation. The disparity must be due to the time lag between the consignment date and the date on which receipts are actually collected. It may also be due to the fact that part of these receipts is recorded under the item "withdrawals out of convertible drachma deposits".

Export receipts from raw materials and semi-finished products fell by 8 per cent, while those from minerals and ores recorded a much bigger drop (24.1 per cent). These developments reflect the impact of unfavourable international conditions on Greek exports, some of which lack a permanent presence in the world market.

Receipts from exports of manufactured goods fell by 3.5 per cent. Most of the products in this category contributed to the decrease, while exports of a small number of products, such as cement, machinery, transport equipment and other manufactured goods, increased. Export receipts from textiles recorded a small drop (3.2 per cent), which was due to yarns and fabrics, while receipts from exports of ready-made clothing stagnated. Export receipts from metallurgical products continued to fall as a result of unfavourable conditions in the world market. Among individual products in this category, the biggest drop was recorded in export receipts from footwear and leather articles.

1.1.2 Imports

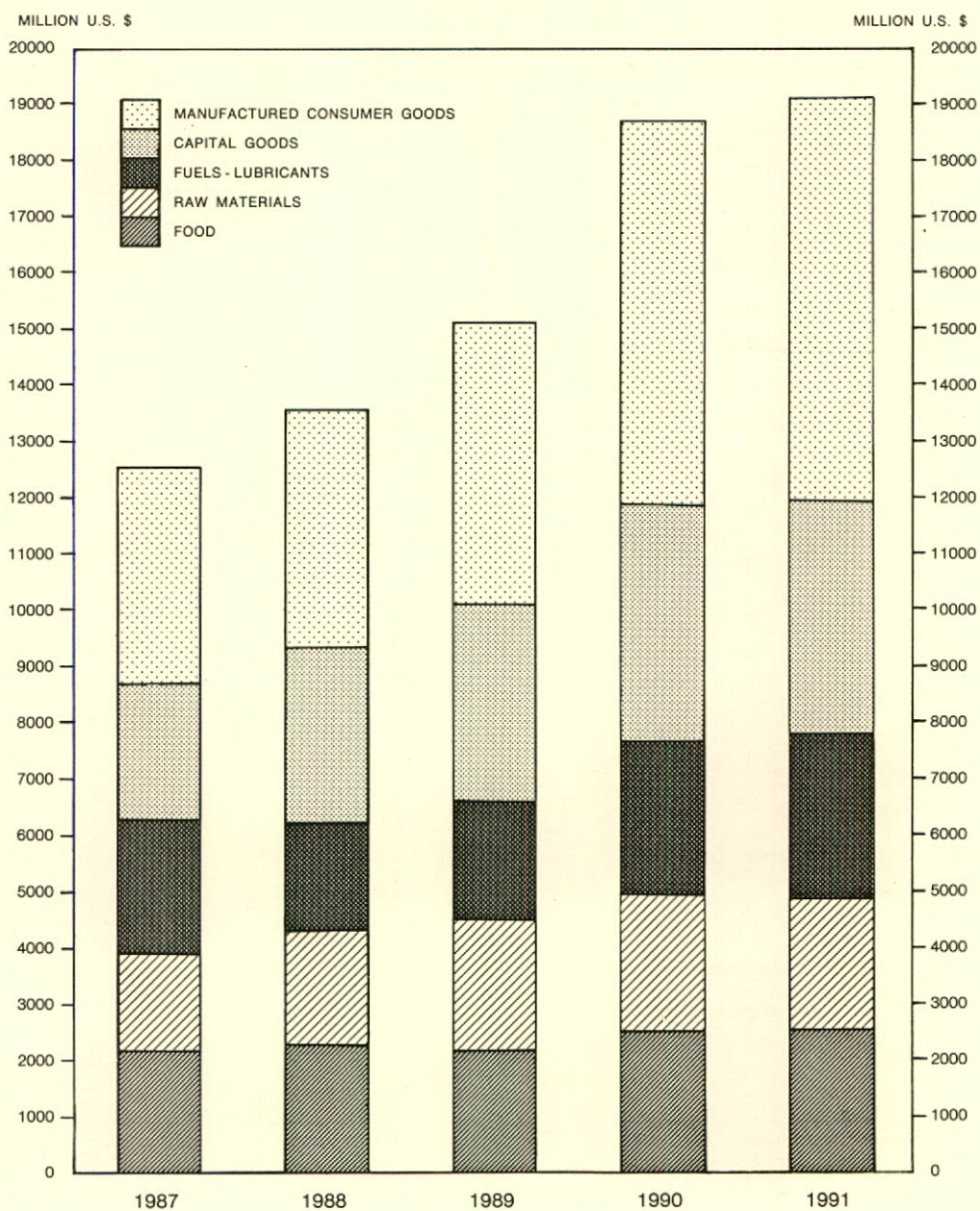
The rise in non-oil import payments by 1.3 per cent was due to manufactured consumer goods and food, while payments for imports of capital goods declined.

Payments for food imports rose by 1.3 per cent as a result of divergent trends in individual products. Output of meat and dairy products has virtually stagnated for several years and is well below domestic demand levels, with the result that changes in consumption and prices are almost fully reflected in import payments. A significant increase was recorded in 1991 in payments for imports of dairy products, cereals, pulses, vegetable oils and animal feed. The increase in payments for imports of vegetable oils and seed reached 28 per cent and was due to large imports of olive oil, because of domestic supply shortages that led to a big rise in prices. On the other hand, payments for

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

Category	Million U.S. dollars			Percentage change	
	1989	1990	1991	1990	1991
I. FOOD	2,175.0	2,499.4	2,532.5	14.9	1.3
1. Basic	1,718.4	1,881.6	1,924.3	9.5	2.3
Meat and live animals	787.8	846.6	772.6	7.5	- 8.7
Dairy products	357.8	364.7	430.5	1.9	18.0
Cereals and animal feed	115.9	136.6	155.3	17.9	13.7
Coffee	36.6	41.9	38.4	14.5	- 8.3
Vegetable oil and seeds	102.1	142.1	181.9	39.2	28.0
Other	318.2	349.7	356.6	9.9	- 1.2
2. Non-basic	456.6	617.8	608.2	35.3	- 1.5
II. RAW MATERIALS	2,323.6	2,438.8	2,341.7	5.0	- 4.0
1. Consumption materials	1,154.6	1,333.9	1,289.2	15.5	- 3.3
Cotton and fibres	91.2	101.8	97.3	11.6	- 4.4
Other chemicals	699.9	849.7	808.5	21.4	-4.8
Raw minerals	41.2	46.3	56.9	12.4	22.9
Other	322.3	336.1	326.5	4.3	- 2.9
2. Construction materials	1,169.0	1,104.9	1,052.5	-5.5	- 4.7
Iron and steel	833.5	718.0	727.7	-13.9	1.3
Timber	187.7	229.6	205.8	22.3	-10.4
Other	147.8	157.3	119.0	6.4	-24.3
III. FUEL-LUBRICANTS	2,092.4	2,693.9	2,892.8	28.7	7.4
1. Crude oil	1,513.4	1,797.9	1,594.7	18.8	-11.3
2. Other	579.0	896.0	1,298.1	54.7	44.9
IV. CAPITAL GOODS	3,492.3	4,234.1	4,167.9	21.2	- 1.6
1. Machinery	2,836.6	3,349.1	3,245.0	18.1	- 3.1
2. Transport equipment	372.1	535.4	547.4	43.9	2.2
3. Electrical equipment	283.6	349.6	375.5	23.3	7.4
V. MANUFACTURED CONSUMER GOODS	4,978.8	6,802.0	7,163.0	36.6	5.3
1. Intermediate	522.0	656.0	606.7	25.7	7.5
2. Basic	1,584.7	2,073.7	2,019.3	30.9	- 2.6
Automobile parts and accessories	427.9	568.4	481.5	32.8	-15.3
Paper and paper articles	230.1	267.2	251.2	16.1	- 6.0
Medical and pharmaceutical products	185.8	263.9	274.6	42.1	4.0
Other	740.9	974.2	1,012.0	31.5	3.9
3. Non-basic	2,872.1	4,072.3	4,537.0	41.8	11.4
Textiles	649.4	909.9	938.4	40.1	3.1
Electrical appliances	254.1	355.6	351.0	39.9	1.3
Passenger vehicles (other than buses)	260.6	616.2	779.3	136.4	26.5
Precious stones, metals, etc.	51.2	73.7	75.6	44.0	2.6
Other	1,656.8	2,116.9	2,392.7	27.8	13.0
VI. FREIGHT (unallocated)	52.6	24.3	6.7	-53.8	-72.4
Total	15,114.7	18,692.5	19,104.6	23.7	2.2

DIAGRAM VI.4

COMPOSITION OF IMPORTS
BY COMMODITY GROUP

imports of alcoholic beverages recorded a large drop (23.6 per cent) for the first time in recent years.

Payments for imports of raw materials fell by 4 per cent, largely reflecting a decline in industrial production and construction activity. Reduced import payments were due to all individual products, with the exception of minerals and ores, as well as iron and steel products.

Expenditure for imports of capital goods recorded a small decline, which was entirely due to imports of machinery, especially non-agricultural machinery. By contrast, payments for imports of transport equipment and electrical machinery increased.

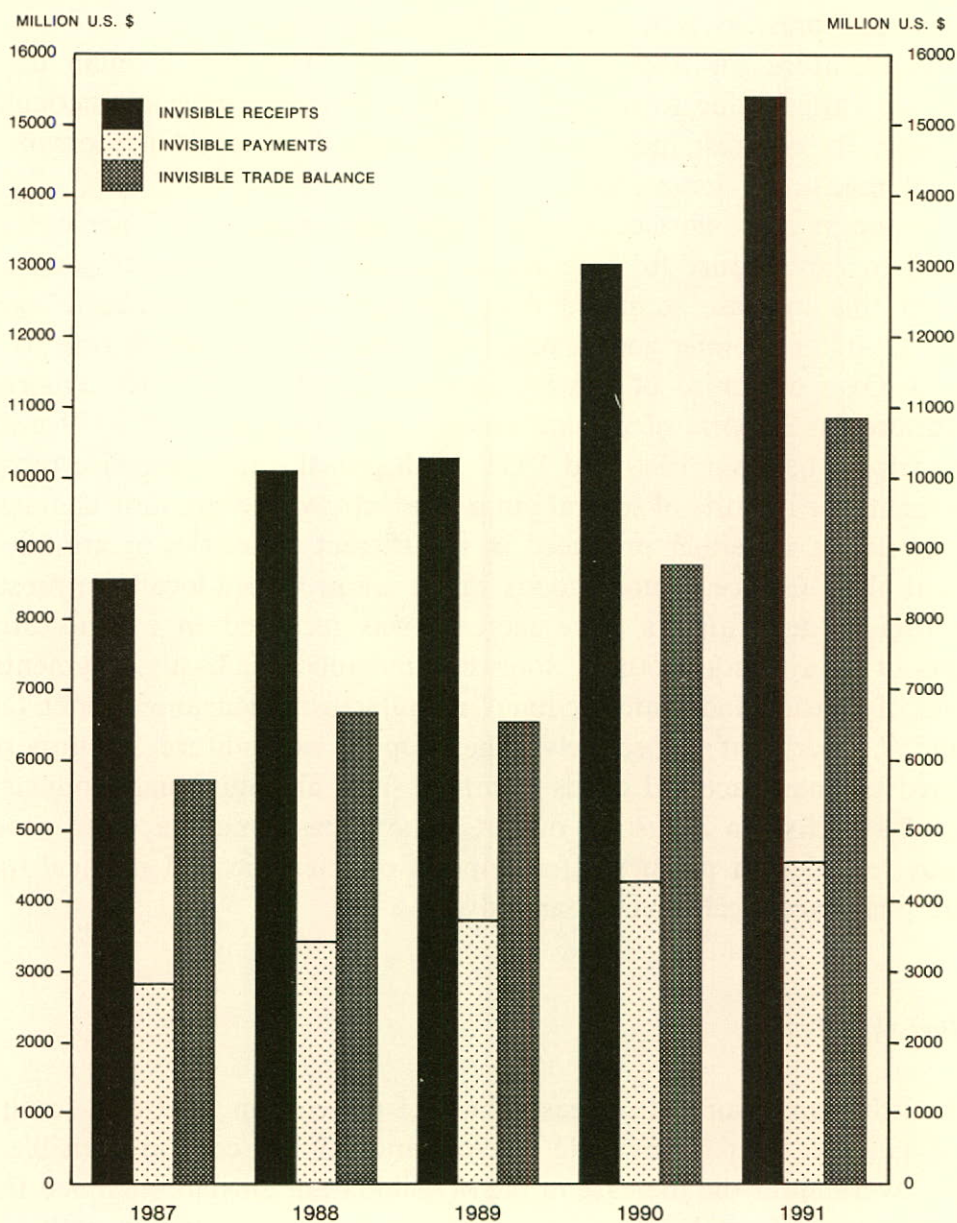
Amongst all import categories, the biggest increase (5.3 per cent) was recorded in expenditure for imports of manufactured consumer goods. The whole of this increase stemmed from the sub-category "non-basic" goods, mainly durable consumer goods, payments for imports of which rose by 11.4 per cent. Over one third of this increase was due to a 26.5 per cent rise in expenditure for imports of private motor cars, which reached \$779 million, having tripled between 1989 and 1991. High growth rates were also recorded in payments for imports of several other products, whose common characteristic is that they are either produced in insufficient quantities or are not produced at all in Greece. Among goods which are produced locally in presumably sufficient quantities, a large increase was recorded in expenditure for imports of ready-made clothing, footwear and tobacco. Lastly, payments for imports of "basic" and "intermediate" manufactured consumer goods fell by 2.6 and 7.5 per cent respectively. The drop in expenditure for imports of intermediate manufactured goods stemmed from all individual products and reflected a decline in industrial output. Among basic manufactured goods, a rise was recorded in payments for imports of scientific and medical instruments, pharmaceuticals, paints and dyes.

1.2 Invisible Trade

The invisible trade surplus increased by 23.1 per cent in 1991 as a result of a rise of 17.7 per cent in invisible receipts and 6.8 per cent in invisible payments. Over half of the increase in the invisible trade surplus stemmed from a substantial rise in net EC transfers to \$4,034 million, compared with \$2,901 million in 1990. Excluding these transfers, the invisible trade surplus increased at a much lower but still satisfactory rate (15.1 per cent).

DIAGRAM VI.5

INVISIBLE TRADE BALANCE



The basic factors that affected invisible trade in 1991 were the events in the Middle East and the negative climate they generated in the United States and Europe regarding foreign travel, the slowdown of economic activity in many OECD member states, and the appreciation of the US dollar. Finally, the implementation of a stabilisation programme combined with a tight monetary policy and the ongoing process of liberalisation of external invisible transactions and long term capital contributed to a further abatement of expectations of a devaluation of the drachma, a fact which seems to have led to a drastic reduction or elimination of foreign exchange leakages.

Invisible receipts, without EC transfers, increased by 11.6 per cent in 1991. Of the three basic items making up total invisible receipts, only emigrants' remittances made a significant positive contribution (around one third) to this increase, while receipts from tourism and shipping remained at 1990 levels. The remaining two thirds of the rise in invisible receipts stemmed from a substantial increase in withdrawals out of convertible drachma deposits and, to a lesser extent, in receipts from "other services".

According to available information, withdrawals out of convertible drachma deposits represent receipts from exports of both services and goods. Importers of Greek services and goods opt for this method of payment instead of a direct remittance, in order to minimise foreign exchange risks and avoid other expenses when collectible amounts are denominated in drachmas.

Foreign exchange flows entered under "other" invisible receipts and payments concern receipts/payments which are not entered in the relevant balance of payments items, either because information pertaining to the nature of the transaction is inadequate or because the specific type of transaction is not listed, such as the new foreign exchange transactions that have been permitted in recent years under various Bank of Greece decisions (e.g. factoring, forfaiting, leasing).

As stated in previous Annual Reports, the large share of the above mentioned items in current receipts makes it difficult to interpret developments in the invisible trade balance and, to some extent, in the visible trade balance. This problem will be solved after the introduction of a new methodology for the compilation of the balance of payments, which is being studied by a special committee at the Bank of Greece.

The slight decrease (0.7 per cent) in travel receipts was mainly due to the negative impact of the Gulf War on tourist activity in the eastern Mediterranean region, as well as events in Yugoslavia. This interpretation is supported by the fact that countries farther away from the Persian Gulf, like

Spain and Portugal, whose tourist services are similar to those offered by Greece, recorded an increase of 4 and 13 per cent respectively in travel receipts. During the first half of 1991, the number of arrivals and overnight stays of foreign tourists in Greece fell substantially, while the second half of the year was marked by a small improvement. The decrease in arrivals is not explained by developments in the basic determinants of exports of tourist services, which were favourable for Greek tour operators. Specifically, con-

TABLE VI.4
INVISIBLE TRADE

	Million U.S. dollars			Percentage change	
	1989	1990	1991	1990	1991
INVISIBLE RECEIPTS					
1. Travel	1,976.0	2,586.8	2,567.4	30.9	- 0.7
2. Transportation	1,374.8	1,761.9	1,774.0	28.2	- 0.7
3. Emigrants' remittances	1,394.0	1,827.9	2,165.2	31.1	18.5
4. Interest-Dividends-Profits	246.6	271.1	362.4	9.9	33.7
5. Withdrawals out of convertible drachma deposits	1,493.9	2,242.0	2,765.0	50.1	23.3
6. Other	1,194.2	1,450.1	1,685.8	21.4	16.3
7. EC transfers	2,601.7	2,901.0	4,034.0	11.5	39.1
Total	10,281.2	13,040.8	15,353.8	26.8	17.7
INVISIBLE PAYMENTS					
1. Travel	816.3	1,089.5	1,015.2	33.5	-6.8
2. Transportation	250.7	285.8	376.7	14.0	31.8
3. Interest-Dividends-Profits	1,794.8	1,902.4	2,014.0	6.0	5.9
4. Official services	213.4	243.1	243.0	13.9	0.0
5. Other	658.8	754.0	917.8	14.5	21.7
Total	3,734.0	4,274.8	4,566.7	14.5	6.8
INVISIBLE TRADE BALANCE	6,547.2	8,766.0	10,787.1	33.9	23.1

sumer prices rose by 18.9 per cent, while the increase in hotel rates is estimated at 10 per cent on average. In conjunction with the depreciation of the drachma against the US dollar, the prices of Greek tourist services in dollar terms remained virtually unchanged in 1991. By contrast, the prices of tourist services in Greece's principal competitors are estimated to have risen by about 6 per cent. The improvement in the competitiveness of Greek tourist services was matched by a small increase in disposable income in the member states of the OECD, which constitute the major market for these services. There is

considerable evidence, however, that travel receipts are underestimated in the Greek balance of payments. As mentioned previously, a substantial part of withdrawals out of convertible drachma deposits concerns payments for tourist services.

Transport receipts increased by a marginal 0.7 per cent in US dollar terms, while in drachma terms the increase reached 16 per cent. This means that the virtual stagnation of transport receipts was chiefly due to the appreciation of the US dollar by 15 per cent against the drachma. Almost the whole amount of these receipts concerns purchases of Greek goods and services by Greek shipping companies. Consequently, the relevant expenditure is determined on the basis of the cost of these goods and services in drachma terms. For instance, the cost of manning the ships with Greek seamen, contributions to pension funds like NAT (Greek Seamen's Pension Fund), operating expenses of shipping offices, ship repairs, and living expenses of shipowners and their families in Greece. It should be mentioned that, under the latest collective agreement, Greek seamen's wages rose by about 15 per cent or zero per cent in US dollar terms. However, since part of transport receipts flows into the country through the "withdrawals out of convertible drachma deposits" item, the large increase in the latter may also be due to an increase in transport receipts.

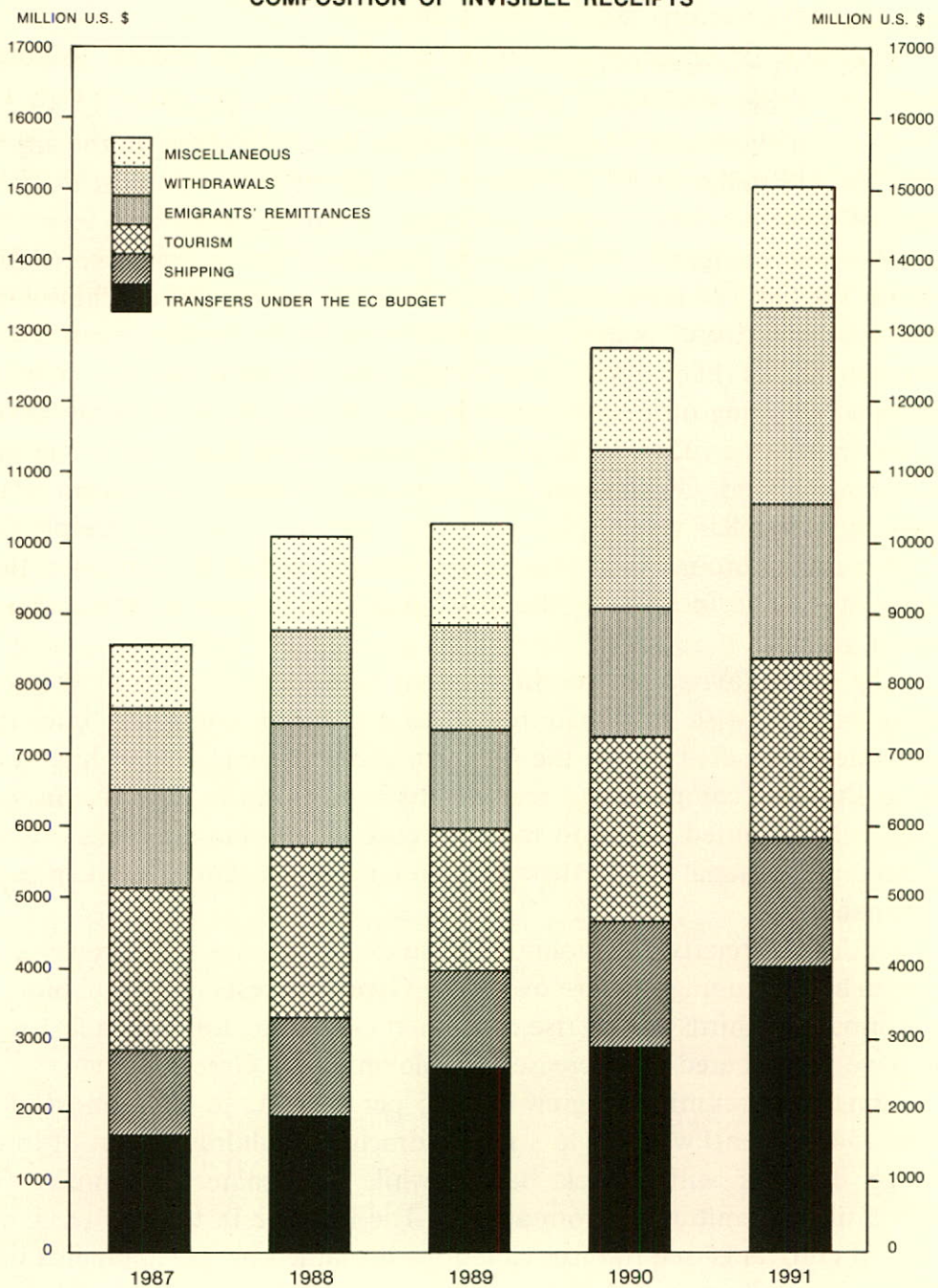
The fairly favourable conditions that prevailed in 1990 in the world shipping market, with particular regard to dry cargo, continued into 1991. Freight rates fluctuated during the year, but generally remained at high levels, enabling shipping companies to realise satisfactory profits. The rise in world tonnage, albeit limited owing to the high cost of new building was offset by increased international trade, thereby maintaining a balance between supply and demand.

Under the relatively favourable business conditions that prevailed last year, merchant shipping tonnage owned by Greek interests rose by about 5 per cent. Almost two thirds of this rise concerned Greek-flag tonnage, a fact which must have contributed to increased employment of Greek seamen.

Emigrants' remittances grew by 18.5 per cent. As in 1990, most of this increase (54 per cent) was due to a rise in drachma withdrawals out of foreign exchange deposits with Greek banks, while the balance stemmed from increased direct remittances from abroad. The increase in the two basic components of emigrants' remittances cannot be explained by developments in the factors traditionally regarded as determining the size of these aggregates, as for instance nominal disposable income in the host countries of Greek emigrants,

DIAGRAM VI.6

COMPOSITION OF INVISIBLE RECEIPTS



the cost of living in Greece, and developments in exchange and interest rates in Greece and abroad. Changes in emigrants' remittances should be viewed in conjunction with changes in foreign exchange deposits, i.e. the total amount of foreign exchange coming from Greeks abroad.

The sum of emigrants' remittances plus the net change in foreign exchange deposits recorded a very small increase of one per cent in 1991 (1990: \$2,343 million, 1991: \$2,366 million), mainly because of adverse economic developments in the principal host countries of Greek emigrants (USA, Germany).

Invisible payments rose by 6.7 per cent in 1991. Payments for interest, dividends and profits grew by 5.9 per cent to \$2,014 million. This increase stemmed entirely from interest payments, while payments for dividends and profits remained at 1990 levels. Specifically, interest payments on public sector foreign debt rose by 4.6 per cent to \$1,812 million. A much larger increase (36.6 per cent) was recorded in interest payments on private sector foreign debt, reflecting the steady growth of Greek firms' foreign borrowing, because of high domestic lending rates.

The substantial drop in interest rates in terms of both the US dollar (loans denominated in this currency account for about two thirds of all foreign loans carrying a floating interest rate) and other currencies, except the Deutschmark, does not seem to be reflected in interest payments. This is due to the increase in foreign debt and the spread of interest payments over time, which was adversely affected by the repayment of the annual ECU-linked bond issue in January, when the US dollar-ECU parity was at a very low level. A further factor was that foreign borrowing was concentrated in the first half of the year, mainly because of the drawdown of the first tranche (\$1.3 billion) of the Community loan in March. Regarding other invisible payment items, it the 6.8 per cent drop in travel payments is noteworthy. The whole of this decrease occurred in the first four months of 1991 and reflected the abatement of expectations of a drachma devaluation, which were rampant in the early months of 1990. It should be recalled that travel payments had increased by 74 per cent in the first four months of 1990, largely because foreign banknotes were hoarded in anticipation of a devaluation of the drachma directly after the general election in April. In the eight months from May to December 1991, which were covered by the liberalisation of the tourist allowance for travel to EC member states, travel payments increased by 4.1 per cent in ECU terms.

2. CAPITAL MOVEMENT

Gross capital inflow grew by 19.5 per cent or \$1,188 million in 1991. The whole of this increase stemmed from public sector foreign borrowing, which reached \$4,463 million, compared with \$3,247 million in 1990. By contrast, private capital inflow showed little change (1991: \$2,811 million, 1990: \$2,839 million).

The increase in public sector foreign borrowing was needed for amortisation payments, which rose by \$1,381 million (1991: \$3,552 million, 1990: \$2,171 million). Since amortisation payments grew more than public sector foreign borrowing, net borrowing fell to \$911 million, from \$1,076 million in 1990. Total net borrowing was used to increase foreign exchange reserves, in anticipation of large amortisation payments in the early months of 1992.

Private sector amortisation payments almost doubled (1991: \$297 million, 1990: \$152 million), as a result of the repayment of mainly short term loans contracted abroad by private firms. These loans have been increasing at high rates in recent years. The reduced inflow of private capital, in conjunction with the larger amount of amortisation payments, led to a drop of 6.4 per cent (\$172 million) in net private capital inflow (1991: \$2,514 million, 1990: \$2,686 million).

The decrease in private capital inflow was almost entirely due to the considerably smaller net inflow of foreign exchange deposits into credit institutions. The positive net change in foreign suppliers' credit was also smaller than in 1990, because repayments grew faster than acceptances.

The net inflow of all types of foreign exchange deposits (new deposits minus withdrawals in foreign exchange and drachmas) fell to \$140 million, from \$617 million in 1990. The greater part of this decline stemmed from private foreign exchange deposits, the net inflow of which fell by 61 per cent, from \$515 million in 1990 to \$201 million in 1991. The outstanding balance of convertible drachma deposits decreased by \$125 million, compared with an increase of \$55 million in 1990. The outstanding balances of deposits in this category exhibit significant monthly variations, reflecting changes in depositors' short term obligations.

The net inflow of private foreign exchange deposits declined (1991: 15.1 per cent, 1990: 37.8 per cent) because of the continuing rise in withdrawals in drachmas and the fall in the net inflow of foreign exchange (deposits minus withdrawals). The latter was due to the appreciation of the US dollar

against other currencies, particularly the Deutschmark, in conjunction with the limited rise in disposable income in Greek emigrants' host countries.

TABLE VI.5
FINANCING OF THE CURRENT ACCOUNT DEFICIT

	Million U.S. dollars		
	1989	1990	1991
BALANCE ON CURRENT ACCOUNT	-2,573.1	-3,561.7	1,520.4
Private capital	1,724.4	2,686.3	2,513.8
Venture capital	639.5	900.5	1,349.7
Real estate investment	739.5	990.9	1,082.3
Commercial banks	15.8	25.6	89.9
Deposits with credit institutions	550.8	617.3	140.4
(Deposits by Greeks living abroad)	(610.1)	(515.1)	(200.6)
Suppliers' credit (net) ¹	136.2	456.2	329.4
Other	-124.2	-151.9	-180.6
Amortisation	-233.2	-152.3	-297.3
Errors and omissions	-526.4	-157.0	-235.0
BALANCE OF PAYMENTS BEFORE CENTRAL BANK AND PUBLIC SECTOR BORROWING	-1,375.1	-1,032.4	758.4
Revaluation of gold and foreign exchange holdings	-77.3	71.0	90.4
Central Bank and Public Sector Borrowing	1,042.3	1,076.2	910.8
Central Bank	1,368.1	1,135.6	1,363.1
Government	554.2	1,332.8	2,410.9
Public entities	790.9	794.6	691.7
(of which: PPC)	(551.8)	(589.3)	(492.9)
Suppliers' credit (net) ¹	-12.2	-15.7	-2.7
Amortisation	-1,658.7	-2,171.1	-3,552.2
Allocation of SDRs	—	—	—
OVERALL BALANCE	-410.1	114.8	1,759.6
IMF	—	—	—
Change in foreign exchange reserves*	-418.4	121.8	1,751.8
Change in clearing accounts	8.3	-7.0	7.8

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

a. short-term	172.3	474.9	344.8
b. long-term	-48.3	-34.4	18.1

* 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 1989, December 1990 and December 1991, respectively.

The inflow of business capital continued to rise in 1991 (1991/1990: 49.9 per cent, 1990/1989: 40.8 per cent), reaching \$1,350 million, compared

with \$901 million in 1990. The factors that contributed to this increase were the favourable business climate generated by the ongoing liberalisation of capital movements, the relative deceleration of inflation and high domestic interest rates. It should be noted that high interest rates on the home market forced many Greek firms to resort to foreign borrowing.

According to data available to the Ministry of National Economy and the Bank of Greece, approvals for foreign investment in Greece under Presidential Decree 207/1987 and Bank of Greece Decision 825/1986 fell by 3.4 per cent compared with 1990. The relevant data broken down by type of branch of activity show some differences in comparison with the previous year. Thus the share of "commerce" doubled in 1991 (1990: 7 per cent), while the share of "food and beverages" recorded a smaller increase (1991: 26.0 per cent, 1990: 21.0 per cent). By contrast, the share of "banks-insurance companies" fell from 22 per cent in 1990 to 18 per cent in 1991, while a marginal change was recorded in the share of "hotels" (1991: 7.5 per cent, 1990: 7.0 per cent) and "chemicals-pharmaceuticals" (1991: 9.5 per cent, 1990: 9.3 per cent). Lastly, regarding the country of origin of approved investment, the share of capital coming from EC member states was still very large (1991: 88 per cent, 1990: 87 per cent, 1989: 70 per cent), while that of non-EC European countries rose from 5 per cent in 1990 to 7 per cent in 1991. By contrast, the share of non-European countries was once again smaller (1991: 5 per cent, 1990: 8 per cent, 1989: 19 per cent).

The inflow of capital for investment in real estate rose by 9.2 per cent to \$1,082 million in 1991, compared with \$991 million in 1990. This increase stemmed mainly from direct remittances in foreign exchange (1991: \$761 million, 1990: \$683 million) and a 4.7 per cent rise in drachma withdrawals out of foreign exchange deposits held with mortgage banks in Greece.

Gross public sector borrowing grew by \$1,216 million in 1991. This increase was entirely due to a rise in total long term central government borrowing, either directly or through the Bank of Greece (1991: \$4,317 million, 1990: \$2,709 million). Direct government borrowing reached \$2,411 million (1990: \$1,333 million) and was covered by the first tranche (\$1,300 million) of the new loan contracted by Greece with the Community, as well as the purchase of ECU-linked bonds by foreign investors (\$1,065 million). Bank of Greece borrowing on behalf of central government rose to \$1,906 million from \$1,376 million in 1990 and was realised mainly through the issue of bonds in foreign capital markets. Total central government amortisation payments more than doubled (1991: \$2,911 million, 1990: \$1,414

million). As a result, the increase in net government borrowing was only \$111 million, compared with \$295 million in 1990 (1991: \$1,406 million, 1990: \$1,295 million).

The outstanding balance of short term foreign borrowing by the Bank of Greece fell by \$543 million (1990: -\$240 million).

Net foreign borrowing by public enterprises and organisations reached \$51 million (1990: \$37 million). This was due to the continuing and faster repayment of short term debts (1991: \$104 million, 1990: \$75 million) and

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

	1989	1990	1991*
1. MEDIUM AND LONG-TERM	18,380.1	20,681.5	22,922
Central Government	3,566.6	4,063.7	5,304
Local authorities	65.0	64.9	56
Public enterprises	5,376.2	5,895.4	6,140
Bank of Greece	7,823.0	9,039.3	9,822
Other banks ²	1,542.8	1,616.4	1,599
Private enterprises ²	6.5	1.8	1
2. SHORT-TERM	251.6	1,166.1	569
Central Government	—	1,013.3	495
Bank of Greece	63.0	38.8	64
Public enterprises	188.6	114.0	10
3. SUPPLIERS' CREDIT ³	197.8	182.1	179
TOTAL	18,829.5	22,029.7	23,670

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.

* Provisional estimates.

their partial replacement by long term debts. Long term borrowing fell to \$796 million, from \$869 million in 1990, but net borrowing rose to \$155 million (1990: \$112 million) because of a larger drop in amortisation payments (1991: \$641 million, 1990: \$757 million).

Total payments for servicing Greece's foreign debt rose from \$4,148 million in 1990 to \$5,786 million, reflecting the increase in amortisation payments. Receipts from exports of goods and services exhibited a much

smaller increase. As a result, the ratio of total servicing payments to export receipts rose to 26.1 per cent from 21.4 per cent in 1990, thus reversing the downward trend of recent years. By contrast, the ratio of interest payments to export receipts continued its downward trend and fell to 8.7 per cent from 9.4 per cent in 1990 and 10.6 per cent in 1989.

On the basis of provisional data, it is estimated that public sector foreign debt reached \$23.7 billion at the end of 1991, compared with \$22 billion at the end of 1990. Changes in the exchange rate of the US dollar against the other currencies in which Greece's foreign debt is denominated are estimated to have had a small expansionary effect. Public sector foreign debt remained virtually unchanged at 33.1 per cent of GDP (1990: 33.2 per cent). Net public sector foreign debt (outstanding debt minus foreign

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

	1989	1990	1991
INTEREST	1,726.9	1,824.0	1,936.6
Public sector	1,648.6	1,732.9	1,812.2
Private sector	78.3	91.1	124.4
AMORTISATION	1,891.9	2,323.5	3,849.5
Public sector	1,658.7	2,171.1	3,552.2
Private sector	233.2	152.4	297.3
TOTAL	3,618.8	4,147.5	5,786.1
Debt Service Ratio	22.2	21.4	26.1

exchange reserves) fell substantially to 24.6 per cent of GDP, from 26.7 per cent in 1990. The absolute amount of net public sector foreign debt decreased for the first time in the last ten years (1991: \$17,624 million, 1990: \$17,736 million).

3. FOREIGN EXCHANGE DEVELOPMENTS

As in 1990, foreign exchange developments in 1991 were characterised by a slight acceleration of the rate of depreciation of the parity of the drachma. The average level of the effective exchange rate of the drachma, as calculated by

the Bank of Greece, fell by 11.2 per cent, compared with 9 per cent in 1990 (Table VI.8). Through the year, however, this index depreciated by 9.7 per cent, compared with 10.2 per cent in 1990.

Regarding changes in the drachma's parity against individual currencies in 1991, it is worth noting the following:

Through the year, the drachma depreciated by 10.1 per cent against the US dollar, by 9.2 per cent against the Deutschemark, and by 8.3 per cent against the ECU.

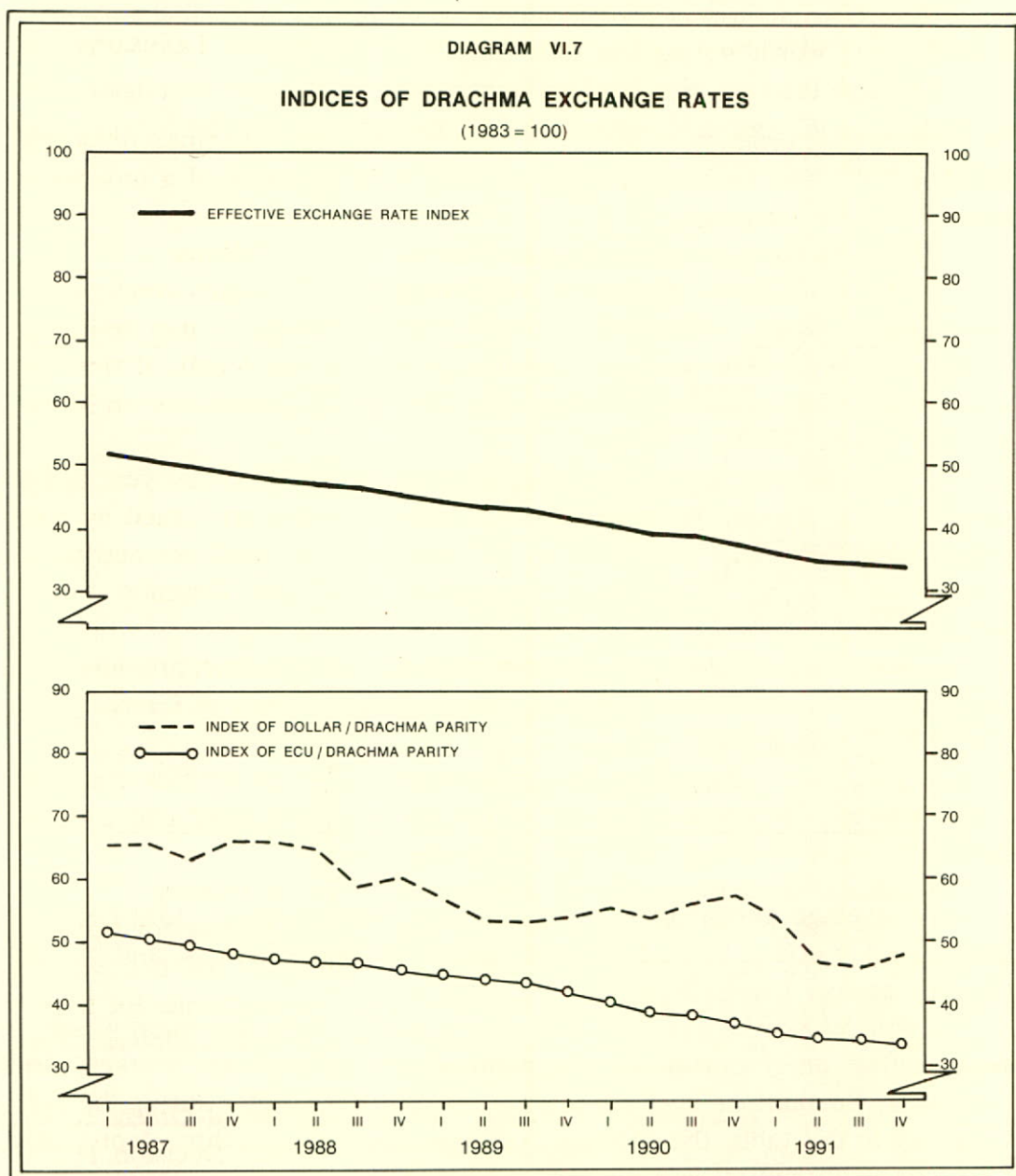
TABLE VI.8
PARITY OF THE DRACHMA
(Per cent changes against previous period)

	Effective exchange rate	Drachma against U.S. Dollar	Drachma against Deutschemark	Drachma against ECU
1987	-11.0	3.4	-14.3	-12.0
1988	- 7.0	- 4.5	- 6.7	- 6.8
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
1990 First quarter	- 2.7	2.6	- 4.2	- 3.7
Second quarter	- 3.6	- 2.8	- 3.5	- 4.1
Third quarter	- 0.8	4.6	- 0.7	- 1.2
Fourth quarter	- 2.9	2.1	- 3.7	- 3.3
1991 First quarter	- 4.4	- 6.2	- 4.4	- 4.2
Second quarter	- 4.0	-13.5	- 1.9	- 2.3
Third quarter	- 1.0	- 1.6	- 1.1	- 0.8
Fourth quarter	- 1.4	4.5	- 2.6	- 2.0

At average annual levels, the drachma depreciated by 13.0 per cent against the US dollar, by 10.6 per cent against the Deutschemark, and by 10.5 per cent against the ECU.

Table VI.8 gives quarterly data on the parity of the drachma, which of course reflect developments in international foreign exchange markets, and particularly fluctuations in the exchange rate of the US dollar during the year. According to this table, the effective exchange rate of the drachma depreciated substantially in the first two quarters of 1991. The rate of depreciation slowed down significantly in the third quarter, but accelerated again in the last quarter. The rate of depreciation of the drachma against the Deutschemark and the ECU started decelerating in the second quarter, but accelerated again in the

last quarter of the year. The largest depreciation of the drachma against the US dollar was observed in the second quarter (13.5 per cent), while in the



last quarter the drachma appreciated significantly (4.5 per cent) against the US currency.

APPENDIX TO CHAPTER VI

MEASURES CONCERNING CAPITAL MOVEMENTS AND CURRENT TRANSACTIONS

The gradual liberalisation of capital movements and current transactions continued in 1991 and the early months of 1992 with the issue of a number of Bank of Greece decisions.

Measures concerning capital movements were as follows:

1. Bank of Greece decision 1793/20 August 1990, which concerns the acquisition of Greek companies' unlisted two-year bonds by non residents, was amended to permit their acquisition regardless of the length of time left until maturity (Decision 465/9/14 January 1991 of the Committee on Monetary and Credit Matters-CMCM).

2. Residents of Greece are allowed to acquire shares, two-year bonds and mutual fund units, on condition that such securities are issued by legal entities with their head offices in an EC member state and are negotiated in the market of an EC member state (Bank of Greece Decision 1933/3 May 1991).

3. Residents of Greece are allowed to invest in real estate, provided that the properties are located in other EC member states (Bank of Greece Decision 1934/3 May 1991).

4. Provisions concerning foreign borrowing by legal entities and individuals engaged in business activity in Greece were simplified and codified (Bank of Greece Decision 1976/19 September 1991).

Measures concerning current transactions were as follows:

1. The foreign currency allowance to residents of Greece for travel to EC member states was liberalised. A ceiling of ECU 1,400 per trip without vouchers was set and any additional amount of foreign exchange for tourist expenditure in EC member states on the basis of vouchers was allowed (Bank of Greece Decision 1931/3 May 1991).

2. Payments on the basis of credit cards by residents of Greece travelling to EC member states were liberalised (Bank of Greece Decision 1932/3 May 1991).

3. The transfer abroad of profits earned by non-EC residents from investment in Greece was liberalised (Bank of Greece Decision 2022/28 January 1992).

4. The transfer abroad of pensions to Greek citizens residing in non-EC member states was fully liberalised (Bank of Greece Decision 2023/28 January 1992).

5. The transfer of rents to legal entities or individuals residing abroad was fully liberalised (Bank of Greece Decision 2024/28 January 1992).

6. The provisions of Bank of Greece decisions 1931/3 May 1991 and 1932/3 May 1991 were extended to residents of Greece travelling to non-EC member states, with the abolition of restrictions on tourist allowances and credit card payments (Bank of Greece decisions 2044/4 March 1992 and 2045/4 March 1992). Restrictions on foreign exchange issued to residents of Greece travelling abroad for professional reasons were also lifted (Bank of Greece Decision 2046/4 March 1992).

7. The issue of foreign exchange to residents of Greece for studies abroad was liberalised. The maximum monthly amounts per country set by the Foreign Exchange Committee of the Bank of Greece are indicative; larger amounts can be issued on the basis of relevant vouchers (Bank of Greece Decision 2047/4 March 1992).

In the context of the further deregulation of the foreign exchange market, credit institutions established in Greece have been authorised as of 1st January 1992 to realise forward dealings in foreign exchange against drachmas and other currencies with residents of Greece. These dealings cover transactions relating to the balance on current account, with the exception of unilateral transfers (Bank of Greece Decision 1986/8 October 1991).

BANK OF GREECE

64TH YEAR

GENERAL BALANCE SHEET

31st December 1991

(In drachmas)

ASSETS		1991	1990	LIABILITIES		1991	1990
GOLD AND FOREIGN EXCHANGE*				SHARE CAPITAL		11,124,338,400.—	11,124,338,400.—
I. Bank's holdings		878,696,763,601.—	563,266,392,445.—	RESERVES			
II. Foreign exchange position with IMF		18,700,452,227.—	16,533,971,919.—	I. Regular reserve		11,124,338,400.—	11,124,338,400.—
III. Special Drawing Rights on IMF		8,836,700,886.—	7,787,376,904.—	II. Special reserve from the sale of shares above par		25,997,417.—	25,997,417.—
IV. ECU holdings		128,114,448,693.—	89,272,981,746.—	III. Provision according to Art. 71 of the Statutes		1,521,800,000.—	1,001,800,000.—
SUNDRY CLAIMS IN FOREIGN EXCHANGE				IV. Other provisions		1,255,403,284.—	1,162,722,791.—
COIN				BANKNOTES IN CIRCULATION		1,348,941,629,150.—	1,248,989,994,800.—
LOANS AND ADVANCES				LIABILITIES IN DRACHMAS			
I. To the Government				I. Government Current Accounts			
1. Current Receipts & Payments account		645,905,866,576.—	512,808,014,156.—	1. Government Departments accounts		53,472,336,660.—	32,834,448,419.—
2. Oil products		95,083,961,092.—	92,836,867,010.—	2. Public Investment accounts		30,432,922,700.—	22,677,039,799.—
3. Treasury bills and government bonds		160,883,458,000.—	188,482,669,000.—	3. Special accounts		59,608,357,668.—	62,332,128,661.—
4. Loans under special agreements				143,513,617,028.—			117,843,616,879.—
a. Loans for membership in international financial institutions		112,842,031,610.—	106,144,810,226.—	II. Deposits			
b. Long-term loans in drachmas		472,522,352,191.—	483,882,352,191.—	1. Banks		115,775,471,757.—	51,103,379,506.—
c. Long-term loans in foreign exchange		1,819,661,241,695.—	1,451,176,374,715.—	2. Public entities		532,762,117,542.—	445,860,109,546.—
5. Other		81,783,219,554.—	78,260,331,522.—	3. International institutions and foreign banks		83,837,608,768.—	74,060,868,969.—
II. Banks				4. Other deposits		28,642,276,476.—	24,680,837,311.—
1. Advances		205,199,565,702.—	244,699,627,805.—	5. Dividends for 1991		1,907,029,440.—	1,907,029,440.—
2. Deposits		217,158,361,228.—	316,910,296,114.—	762,924,503,983.—		906,438,121,011.—	597,612,224,772.—
III. Public Entities' Investment in Government Paper		392,000,000,000.—	327,000,000,000.—	SHORT-TERM LIABILITIES IN FOREIGN EXCHANGE		102,789,517,006.—	307,255,013,159.—
PREMISES AND EQUIPMENT				REDEPOSITS IN FOREIGN EXCHANGE BY COMMERCIAL BANKS		2,397,250,787,602.—	1,967,311,585,598.—
1. Land		9,573,745,043.—	15,988,568,295.—	LONG-TERM LOANS IN FOREIGN EXCHANGE ON BEHALF OF THE GREEK STATE		1,817,879,150,479.—	1,436,905,997,730.—
2. Buildings and equipment		16,415,868,948.—		OTHER LONG-TERM LIABILITIES IN FOREIGN EXCHANGE		437,708,501,383.—	19,183,562,578.—
Less depreciation :				ALLOCATION OF SPECIAL DRAWING RIGHTS IMF		25,916,514,483.—	22,914,040,667.—
Up to 1990		13,209,295,528.—	13,213,272,544.—	SUSPENSE ACCOUNTS		96,631,738,506.—	77,893,430,774.—
In 1991		543,296,289.—	2,775,295,751.—	OTHER LIABILITIES		123,079,094,715.—	91,346,870,537.—
VALUE OF BANKNOTE PRINTING MATERIALS		5,866,986,954.—	4,220,872,085.—				
Less depreciation		868,469,372.—	573,404,644.—				
FOREIGN EXCHANGE VALUATION DIFFERENCES, Law 1083/1980 (art.8, para. 1)		1,459,576,160,592.—	1,133,955,354,744.—				
OTHER ASSETS		241,294,302,702.—	139,617,368,913.—				
* The Bank's holdings in gold and foreign currency on 31st December 1991 have been calculated on the basis of the drachma / dollar parity effective on that date (Dr. 175.280 per \$ 1). The value of gold holdings has been calculated on the basis of \$ 235.17 per ounce (65 per cent of average purchase price per ounce in \$, December 1991).		7,281,686,931,836.—	5,911,695,534,502.—			7,281,686,931,836.—	5,911,695,534,502.—

PROFIT AND LOSS ACCOUNT

DEBIT		1991	1990	CREDIT		1991	1990
Personnel Remuneration - Pensions				Interest, commission and other earnings		42,087,332,000.—	35,913,913,617.—
Wages and salaries		13,771,860,573.—	12,381,261,069.—				
Principal and supplementary pensions		6,704,777,772.—	5,961,298,645.—				
Contributions to Personnel Insurance Funds							
Pension Fund		3,845,049,860.—	3,123,817,647.—				
Supplementary Pension Fund		1,395,965,767.—	1,400,844,746.—				
Self-insurance Fund		416,705,069.—	479,333,835.—				
Health Insurance Fund		816,685,504.—	804,513,622.—				
Contributions to other Social Insurance Funds and Organisations		912,497,441.—	891,579,154.—				
Other Administrative Expenses		2,344,583,683.—	1,859,512,610.—				
Depreciation							
Banknote printing materials		868,469,372.—	573,404,644.—				
Buildings and equipment (other than office equipment)		358,722,103.—	312,807,850.—				
Office equipment		184,574,186.—	171,559,320.—				
Provisions							
Provision according to art. 71 of the Statutes		520,000,000.—	393,800,000.—				
Sundry provisions		78,000,000.—	78,000,000.—				
Net Profit		9,869,440,670.—	7,482,080,475.—				
		42,087,332,000.—	35,913,913,617.—			42,087,332,000.—	35,913,913,617.—

DISTRIBUTION OF NET PROFIT OF DRACHMAS 9,869,440,670.—

(Article 71 of the Statutes and article 8 of Law 1083/1980)

	1991	1990
Dividend on share capital, i.e. Dr. 672 per share, on 1,986,489 shares	1,334,920,608.—	1,334,920,608.—
Regular reserve		
Additional dividend of Dr. 288 per share, on 1,986,489 shares	572,108,832.—	572,108,832.—
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	7,962,411,230.—	5,575,051,035.—
	9,869,440,670.—	7,482,080,475.—

EFTHYMIOS N. CHRISTODOULOU
GOVERNOR

Athens, 17th March 1992

IOANNIS CHALIKIOPOULOS
MANAGER, ACCOUNTANCY DEPARTMENT

