OECD
ECONOMIC SURVEYS
1986/1987

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

GREECE

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JULY 1987

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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The Socialist Federal Republic of Yugoslavia takes part in some of the work of the OECD (agreement of 28th October, 1961).

Publié également en français.

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BASIC STATISTICS OF GREECE

THE LAND

Area (1 000 sq. km)	132.0	Main urban areas, 1981 census (1 000):	
Cultivated area (1 000 sq. km) 1979	38.9	Greater Athens (incl. Piraeus)	3 027
		Salonika	872

THE PEOPLE

Population, 1986 mid-year (1 000)	9 966	Total employment, 1985 (1 000)	3 588
No. of inhabitants per sq. km	75	Agriculture (%)	28.9
Net natural population increase, 1985 (1 000)	24	Industry and construction (%)	27.3
		Other activities (mainly services) (%)	43.8

PRODUCTION

GNP, 1986 (billion drachmae)	5 495.7	Origin of GDP at factor cost, 1986 (billion drs.)	4 928.0
GNP per head ($), 1986	3 966	Agriculture (%)	16.9
Gross fixed investment (excl. ships):		Mining and manufacturing (%)	20.1
per cent of GNP, 1986	18.7	Construction (%)	6.4
per head ($), 1986	743	Services (%)	56.6

THE GOVERNMENT

General government current expenditure, 1986 (% of GNP)	36.9	Composition of Parliament (No. of seats):	
General government current revenue, 1986 (% of GNP)	30.5	Panhellenic Socialist Movement	157
		New Democracy	110
		Communist Party	10
		Democratic Renewal	10
		Independent	13
		Total	300
		Last general election: 2.6.1985	
		Next general election: 1989	

FOREIGN TRADE

Exports of goods and invisible receipts, 1986 (% of GNP)	22.5	Imports of goods and invisible payments, 1986 (% of GNP)	30.9
Tourism earnings, gross, 1986 (% of GNP)	4.7	Main imports, 1985 (% of total commodity imports):	
Emigrant remittances, 1986 (% of GNP)	2.5	Mineral fuels, lubricants and related materials	29.6
Shipping earnings, gross, 1986 (% of GNP)	2.5	Manufactured goods classified chiefly by material	15.9
Main exports, 1985 (% of total commodity exports):		Machinery other than transport equipment	12.0
Textiles and clothing	23.0	Food and live animals	11.5
Fruit and vegetables	15.2	Transport equipment	11.7
Crude oil and derivatives	11.8		
Iron and steel	6.4		
Tobacco	3.4		
Aluminium	3.1		

THE CURRENCY

Monetary unit: Drachma		Currency units per US $, average of daily figures:	
		Year 1986	139.48
		April 1987	132.98

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

This Survey is based on the Secretariat's study prepared for the annual review of Greece by the Economic and Development Review Committee on 22nd May 1987.

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After revisions in the light of dicussions during the review, final approval of the Survey for publication was given by the Committee on 23rd June 1987.

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The previous Survey of Greece was issued in January 1986.

INTRODUCTION

Developments since the previous examination of Greece by the Economic and Development Review Committee in November 1985 have been strongly influenced by the current Stabilisation Programme introduced in October 1985. The principal objectives of the Programme have been to reduce the large macroeconomic imbalances which had built up since the second half of the 1970s, manifest in a high rate of inflation, large current external deficits and huge public sector borrowing requirements. Given the size of the adjustment problem, major reductions in domestic demand, notably public and private consumption, and cuts in real incomes were required. All components of macro-policies have been geared to these ends: traditional demand management, exchange rate policy and price/wage controls.

In the event, total real domestic demand stagnated in 1986 and is likely to show a pronounced decline in 1987. Helped by the devaluation of the drachma, the real foreign balance has strengthened appreciably preventing a fall of non-agricultural output. However, owing to a likely sharp drop in agricultural production, GDP is projected to fall in 1987. With buoyant net invisible receipts and lower oil prices, the current external deficit shrank from $3.3 billion in 1985 to $1.7 billion in 1986 (some 4¼ per cent of GDP), holding out the prospect of a further contraction in 1987. The application of strict income norms, entailing substantial real pay cuts, succeeded in reducing the rate of consumer price inflation from 25 per cent at the end of 1985 to 16½ per cent by the first quarter of 1987, probably declining further to around 13 per cent by the end of the year.

Part I of the present Survey reviews policies and actual developments since the redirection of policies in late 1985, including an assessment of trends for the remainder of this year and beyond. Part II deals with structural problems underlying the marked deterioration of Greece's economic performance since the second oil shock, both in comparison to other OECD countries and her own historical post-war record. The main focus is on relationships and imbalances both between and within the public and private sectors. Special attention is paid to issues of de-industrialisation, support to ailing industries, tax distortions and disincentives, growing social security deficits, and loss-making public corporations and enterprises. The main policy issues emerging from the review of current and prospective trends, and the analysis of structural imbalances, are discussed in the Conclusions.

I. ECONOMIC STABILISATION AND RECENT DEVELOPMENTS

Given the dominant role of the Stabilisation Programme in determining economic developments during the period under review, it is useful to recall its principal features and to consider its implementation before presenting and assessing the intermediate results. The main measures taken or announced by the Government in October 1985 included (for more details see OECD *Economic Survey of Greece*, January 1986):

i) A 15 per cent devaluation of the drachma and a temporary obligatory six-month non-interest bearing deposit equivalent to 40 per cent or 80 per cent of the value of selected imported goods (mainly manufactures);

ii) A modification of the wage-price indexation scheme (ATA), excluding the impact of import prices and adjusting wages on the basis of projected, instead of past, inflation. This system was made compulsory for both public and private sector employees and implied significant reductions in real pay;

iii) A reduction of the public sector borrowing requirement (PSBR) by about 4 per cent of GNP in both 1986 and 1987 to be achieved by curtailing expenditure, raising taxes and increasing administered prices;

iv) A tightening of monetary policy through a reduction of the growth of domestic credit expansion, the increase of subsidised interest rates to "privileged" borrowers and the gradual establishment of positive real interest rates for all borrowers.

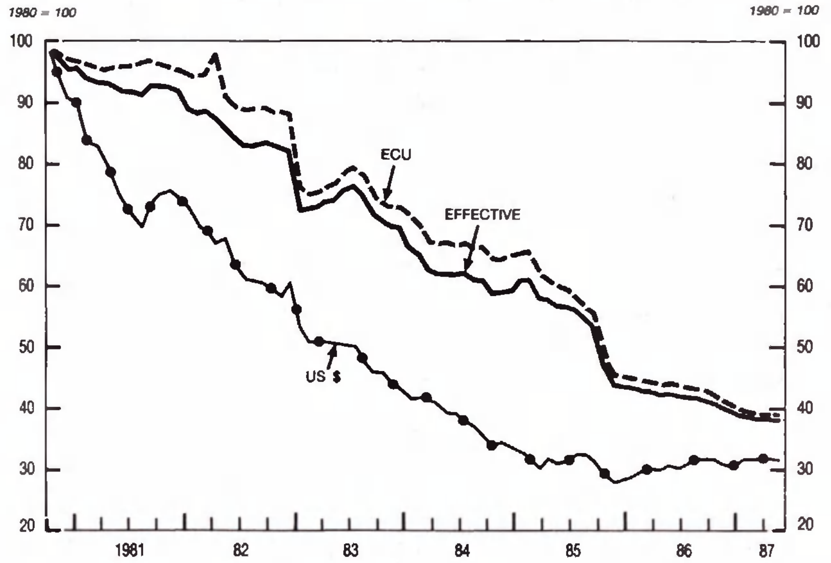
This Stabilisation Programme and its strict implementation over the last eighteen months represents a landmark. For the first time in the post-war period the Greek population, a largely consumption-oriented society accustomed to continuous steep rises in standards of living, had to make immediate and large sacrifices notwithstanding strong labour union opposition. Although the Programme had not been designed to tackle microeconomic structural issues, it nevertheless aimed at eliminating important impediments to the resumption of faster growth and at improving the business climate by providing a stable macroeconomic framework for at least two years.

The macro-policy framework

Exchange rate management

With a view to arresting speculative capital outflows and maintaining competitiveness, the authorities announced that after the October 1985 devaluation the real exchange rate would be kept stable, with relative unit labour costs used as the key indicator of competitiveness. Given the marked slowdown in pay increases, effective exchange rate changes have been moderate — – 10 per cent annual rate between December 1985 and May 1987. The largely predetermined course of the exchange rate, given the forward-looking

Diagram 1. **Exchange rates**
Drachma in terms of foreign currencies



Sources: OECD *Main Economic Indicators* and OECD estimates.

mode of wage adjustment, together with the move towards positive real interest rates and greater confidence have curbed capital flight appreciably. The new policy represents a major shift from previous exchange rate adjustments, which served to validate past domestic inflation. Even allowing for the unpredictably large cross-exchange rate fluctuations, setting and adhering to broad exchange rate targets has had a damping impact on inflationary pressures.

Fiscal policy

Fiscal restraint has been an important ingredient of the Stabilisation Programme. The objective is to reduce the PSBR from 17.7 per cent of GDP in 1985 to 13.7 per cent in 1986 and 10 per cent in 1987. Such an ambitious target has called for wide-ranging action on both income and expenditure sides at all levels of the public sector. The 1986 and 1987 Budgets relied heavily on traditional sources of income and on measures to curb tax evasion, while on the expenditure side measures were taken to reduce in real terms non-interest current and capital expenditure. The 4 percentage point cut in the PSBR targeted for 1986 was achieved. However, about half of this reduction was accounted for by the appropriation of a large part of the windfall gains from the drop in the oil price. Excluding this factor, the reduction of the general government deficit was fairly small. By contrast, the ratio of the aggregate borrowing requirement of Public Corporations and Enterprises (PCEs) to GDP declined by about one-fourth reflecting an increase in tariffs and fees, cutbacks in real fixed investment and a reduction in the wage and salary bill in real terms. The latter, however, was smaller than

Table 1. **Ordinary and investment budgets**

Administrative basis, in drachma billion

	1984	1985	1986 Outcome	1986 Budget	1987 Budget
Ordinary revenue	1 013	1 232	1 643	1 602	2 022
of which:					
Direct taxes	253	303	386	482	492
of which:					
On personal incomes	155	196	225	267	284
Indirect taxes	595	722	972	890	1 216
of which:					
On imported goods	143	199	232	210	293
On domestic goods[1]	263	305	466	388	370
Transaction and stamp duties	171	202	255	262	190
VAT					335
Ordinary expenditure	1 197	1 618	2 022	1 899	2 376
of which:					
Salaries and pensions	441	570	672	659	766
Subsidies and grants to agriculture[2]	138	213	281	204	295
Ordinary deficit	184	386	379	298	354
Investment expenditure	221	275	310	318	364
Investment deficit	209	262	273	277	314
Total deficit	393	649	652	575	668
(per cent of GDP)	(10.3)	(14.1)	(11.7)	(10.7)	(10.6)
Memorandum items:					
Debt servicing	208	310	421	403	525
Interest payments	166	243	298	324	376
Domestic	113	169	204	217	267
Foreign	53	74	91	107	109
Amortization	42	66	123	79	149
of which:					
Foreign	36	58	85	73	128
Net budget receipts from the EEC	84	122	152	103	256
Public corporations and enterprises (PCE)					
Operating deficit	34	67	56	17	11
Total deficit	153	250	227	193	168
(per cent of GDP)	(4.1)	(5.5)	(3.8)	(3.6)	(2.5)
Financed by grants	86	125	129	114	156
Loans and credit	67	125	98	79	12
(per cent of GDP)	(1.8)	(2.7)	(1.4)	(1.5)	(0.1)
Social Welfare Funds					
Total deficit	63	92	121	91	179
(per cent of GDP)	(1.6)	(2.0)	(2.3)	(1.7)	(2.4)
Financed by grants	36	40	60	60	137
Loans and credit	27	52	61	31	42
(per cent of GDP)	(0.7)	(1.1)	(1.2)	(0.6)	(0.8)

1. Including taxes on hydrocarbon oils, which rose from Dr. 101 billion in 1985 to Dr. 220 billion in 1986.
2. Including expenditure under the special agricultural products guarantees account. This account is always in balance. Expenditure: Dr. 83 billion in 1984, Dr. 120 billion in 1985, Dr. 255 billion in 1986 against Dr. 262 billion budgeted and Dr. 182 billion budgeted for 1987.

Sources: Bank of Greece, *Annual Report of the Governor*, *The Budget* and OECD Secretariat estimates.

might have been expected on the basis of the severe wage norms, which implied real earnings cuts of over 10 per cent for PCEs employees, who enjoy earnings considerably above the average. The main reason for this slippage was a further rise in employment by about $2\frac{1}{2}$ per cent.

Despite the unforeseen gain from the oil price fall, in 1986 government revenue (on an administrative basis) fell short of the budget target. The main reason was, as in earlier years, the overestimation of the additional receipts from efforts to reduce tax evasion and to speed up collection of tax arrears. The 1986 Budget envisaged extra revenue of Dr 80 billion from reduction of tax evasion, of which less than half was actually collected. Personal income tax receipts increased by 15 per cent against a budgeted rise of 36 per cent. As tax schedules for non-wage earners have remained unchanged, implying significant fiscal drag, it would appear that new and probably old taxpayers declared very low incomes. Although incomes of high salary earners, who are penalised by the income norms, may have grown more slowly than earlier, this is not the case for other income categories. Indeed, national accounts data point to a big rise in the income of employers, self-employed and rentiers, suggesting continuous underrecording of incomes and hence probably rising tax evasion by these categories. The budget overrun on the expenditure side was largely due to a sharp rise in pensions (see Part II) and in subsidies to exports.

The 1987 Budget submitted to Parliament projects a further fall of the government deficit on an administrative basis to $10\frac{1}{2}$ per cent of GDP. Direct taxes are budgeted to increase by $27\frac{1}{2}$ per cent, largely reflecting an increase in corporate taxes associated with rising profits and more efficient collection of tax arrears. Taxes on personal incomes are planned to increase by 26 per cent, implying some fiscal drag. Tax allowances and tax rate schedules applying to income from dependent work and pensions were raised broadly in line with inflation. For the other income categories, tax allowances and tax schedules were maintained at the same level as in 1986, implying considerable fiscal drag. However, because of underrecording of taxable incomes, fiscal drag may again be small[1]. Under these conditions, there may be continued shortfalls of direct tax receipts. Though in principle the introduction of VAT was planned to be revenue neutral, the indirect tax burden is projected to increase as certain previous taxes levied on existing stocks at the end of 1986 will be refunded only gradually until 1989. Furthermore, because of the smaller margin for tax evasion than under the previous system, VAT receipts may not fall short of the budget targets. On the expenditure side, despite the application of the income norms, the growth of the wage and salary bill is budgeted to increase somewhat faster than nominal GDP, largely reflecting substantial pay rises for a few public service categories[2]. Transfers to PCEs and interest payments are projected to rise twice as fast as the rest of current expenditure. The growth of capital expenditure is budgeted to accelerate, largely as a result of capital transfers. Fixed investment is projected to decline in real terms for the second year running.

Apart from difficulties in controlling spending of individual ministries and public agencies, the 1987 budget outcome will be affected by the unforeseen increase in oil prices and the decline of agricultural output caused by harsh weather conditions. The budgetary cost of the former may be as much as between $\frac{1}{4}$ and $\frac{1}{2}$ per cent of GDP. This implies that in 1987 the general government deficit as a per cent of GDP may only fall marginally. The Budget of the PCEs before government transfers forecasts a turnaround from a current deficit to a small surplus in 1987. This is almost exclusively due to the Public Power Corporation and Telecommunications. The situation of the remaining agencies shows little change. In total, assuming continued cutbacks in real investment, the deficit of the PCEs before government transfers is officially projected to decline by almost one-third to around $2\frac{1}{2}$ per cent of GDP. Though ambitious, this objective seems attainable. Accordingly, a substantial reduction in the borrowing requirement by PCEs seems likely. By contrast, the deficit of the social welfare funds is expected to increase as a per cent of GDP more than had been originally budgeted. The Social Insurance Organisation (IKA) and the Seamen's Retiremant Fund (NAT) are incurring big deficits, partly financed by government transfers. All in all the PSBR may nevertheless be brought down to around 12 per cent of GDP.

Monetary policy

On the basis of projections implicit in the Budget, monetary targets for 1986 were set to accommodate a nominal GDP growth rate of some 18½ per cent. Domestic credit expansion was planned to increase by 17 per cent and M3 by 20 per cent, implying marked decelerations from the 1985 outcomes, especially for public sector credit. In contrast to developments in 1985, when considerable slippage had taken place in all targets, in 1986 outcomes were in line with projections, except for a sizeable overshooting in credit to the public sector. This overrun, despite the broad achievement of the PSBR objective, was mainly due to the failure of the funding programme. Of an original target of Dr 80 billion, only Dr 20 billion worth of short- and medium-term securities were sold to the resident non-bank public. Tax-exempt three to twelve-month Treasury bills, first introduced in July 1985, have not proved as successful as expected, their market remaining extremely small. In addition, the relatively more attractive ECU-indexed tax-free three-year government bonds were launched only in November, too late to have a major impact. Under these conditions, domestic credit expansion and M3 developments were, and will continue to be, constrained severely by the PSBR. Credit to the private sector declined again in real terms, by around 3 per cent, after remaining broadly constant in 1985. In line with earlier experience, some 12 to 20 per cent was absorbed by loss-making enterprises, depending on whether the conversion of loans into bank-held equity is netted out or not, while credit to agriculture and handicrafts expanded at a relatively faster rate. The deceleration in private-sector credit reflected partly the

Table 2. **Monetary programme and outturn**

Percentage changes

	1984		1985		1986		1987
	Programme	Outturn	Programme	Outturn	Programme	Outturn[1]	Programme
Currency in circulation	17.2	17.0	17.0	26.1	19.8	7.5	10.5
Bank Deposits	23.0	31.8	24.6	27.5	19.8	21.3	16.1
M3[2]	22.0	29.4	23.0	27.3	19.8	19.3	15.4
Total credit expansion	21.5	26.2	20.5	26.0	15.3	18.3	11.0
Domestic credit expansion	19.8	26.2	20.6	26.5	17.5	19.8	12.9
Public sector	22.0	33.2	23.8	34.1	18.0	24.6	15.1
Private sector	18.1	20.5	18.0	19.9	15.0	15.3	11.0
of which:							
Manufacturing		17.7	18.0	18.6		14.2	
Housing		20.7	20.0	18.5		14.9	
Agriculture		33.6	24.0	26.4		18.3	
Memorandum item:							
Nominal GDP[3]		23.6	21½	21.3	18½	20.6	12

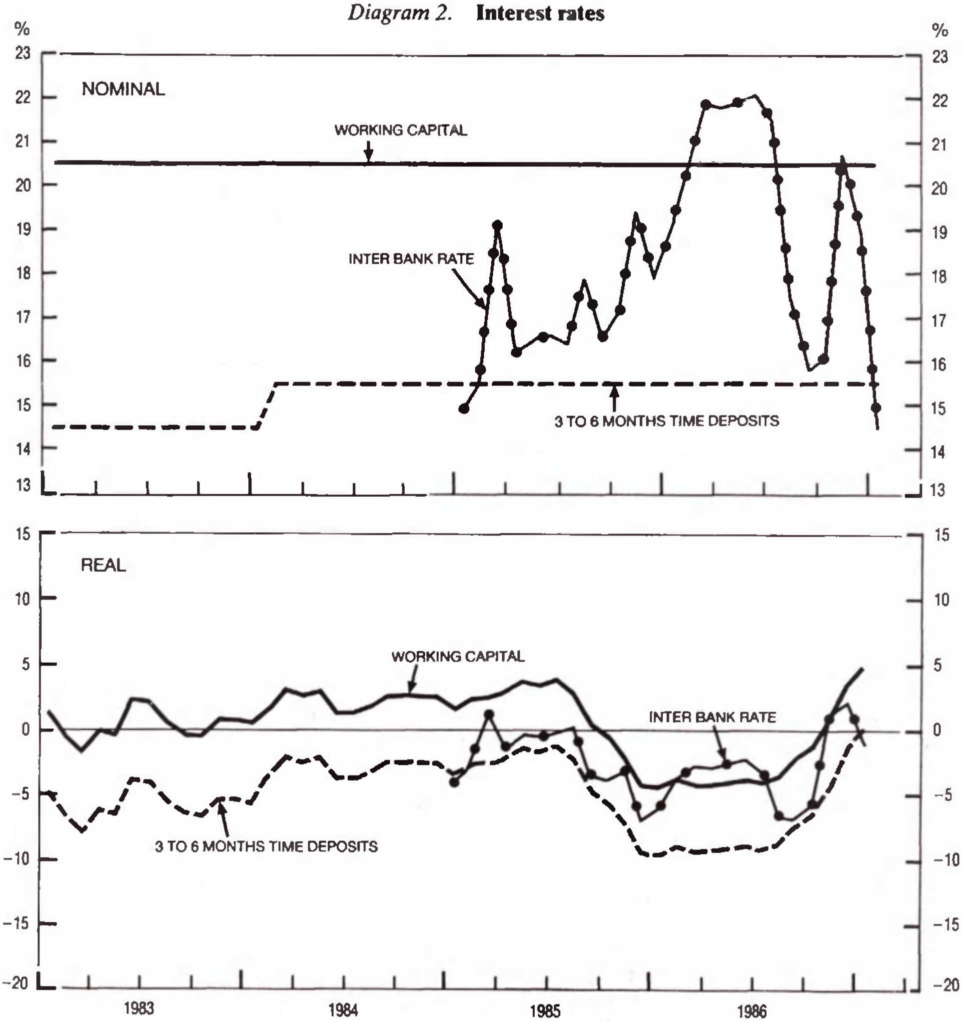
1. Provisional Bank of Greece estimates.
2. M3, the broader definition of the money supply, includes notes and coins outside the banking system and sight, savings and time deposits of commercial banks and special credit institutions.
3. OECD estimates based on the Budget.

Sources: The Budget; Data submitted by national authorities and OECD Secretariat estimates.

improvement in firms' profitability and partly a tightening of credit conditions. Following a prolonged period of negative rates, most lending rates turned positive in real terms in the course of 1986 against a background of steeply falling inflation[3].

The broad achievement of the main monetary and credit targets for 1986 as a whole required significant corrective action in the course of the year. By April, domestic credit expansion was overshooting markedly, fuelled by the rapid growth of private sector credit and a larger-than-expected PSBR. The former was deemed to reflect the once-and-for-all effects of the import deposit scheme and the fourth-quarter sharp acceleration in wholesale prices in the wake of the October 1985 devaluation. To prevent an undesired accommodation, credit conditions were progressively tightened as from early May. Consumer credit terms were stiffened. A minimum lending rate on medium and long-term loans (with the exception of

Diagram 2. **Interest rates**



Sources: Bank of Greece, *Monthly Statistical Bulletin* and OECD estimates.

housing) was introduced equal to the regular savings deposit rate (15 per cent), replacing a number of preferential rates. The rates on ordinary housing loans were freed, rising by an average of 5 percentage points to about 22 per cent. More importantly, the interest refund by banks to exporters was cut from 6 to 5 per cent. As banks receive a corresponding interest-free Bank of Greece loan equal to a multiple of the export subsidy, liquidity was reduced by some Dr 23.5 billion. In the wake of these measures, the year-on-year growth of private sector credit declined from almost 20 per cent in May to 15 per cent in September. At the same time, however, credit growth to the public sector accelerated from some 26 per cent to an average of 40 per cent in July-October. Thus, in November there was some further tightening. The penalty rates on Bank of Greece overdraft lending to banks were raised by 2 percentage points and the interbank rate rose from about 16 per cent in October to almost 20 per cent in December[4].

For 1987, a 12 per cent nominal growth of GDP is expected to be consistent with target growth rates of 15.4 per cent for M3 and 11.0 per cent for private sector credit. On the basis of the monetary programme, domestic credit to the public sector is estimated to rise by 15 per cent: hence, total domestic credit may grow by 13 per cent, or about 4 percentage points less than the 1986 target[5]. Thus, as in the previous year, deceleration in all aggregates is expected and credit to the private sector is projected to remain approximately constant in real terms. By contrast, the authorities are now anticipating a significant increase in domestic credit to the public sector in real terms, partly reflecting a switch from external to domestic borrowing. Controlled interest rates should remain broadly unchanged, in line with the objective of attaining progressively higher real interest rates as underlying inflation continues to decline. Monetary and credit developments during the year will probably be erratic and hence difficult to interpret as a result of a number of once-and-for-all institutional and regulatory changes: the introduction of VAT, the end to the price freeze in February, the expiration of the import-deposit scheme and the gradual phasing-out of export subsidies. In addition, as part of a longer-term liberalisation effort, at the end of February the Bank of Greece freed bank rates on seven-week to three-month time deposits, allowing them to adjust upwards in competition for scarce funds for the first time in Greek history. The authorities' declared intention is to resist any possible speculative pressures arising from the reform of indirect taxation. Accordingly, as in 1986, in the course of the year corrective action with a view to tightening credit to the private sector appears likely, especially if the PSBR targets turn out to be over-optimistic. This may not, however, imply a serious financial constraint on business activity given the likely rise in private sector profit margins.

Subsiding inflationary pressures

The key to the success of the Stabilisation Programme has been the the firm implementation of incomes policy. The Government has passed a strict law imposing severe penalties for those transgressing established income norms. With rare exceptions these have been observed. While retaining the four-monthly interval for pay adjustments, the move from *ex post* to *ex ante* indexation combined with the exclusion of import prices from the wage-regulating index established a downward wage-price spiral[6]. Thus, even in the face of a 20 per cent effective devaluation of the drachma between September 1985 and January 1986, this policy achieved a marked deceleration in basic pay increases at the time of the first pay rise of 1986 — 4.5 per cent in January 1986 compared with about 8½ per cent in both January 1984 and 1985. Real pay, as a result, fell by some 8 per cent. Subsequent basic pay rises remained moderate, entailing small cuts in real terms. In total, including some wagedrift, the increase in average earnings declined from almost 21 per cent in 1985 to around 13 per cent in 1986. For 1987, the growth of average earnings is estimated at about 12 per cent[7],

Table 3. **Wages and salaries**

Percentage changes

	1980	1981	1982	1983	1984	1985	1986[1]
Average earnings[2]							
Total	20½	24	26	17¼	23	20¾	13¼
Government	19	26	25¼	17¼	24½	24½	15¼
Banking	18	26¾	28¼	24	18¾	14¼	11½
Private sector	22	23¼	24½	16	22¼	20½	12½
of which:							
Retail trade	20¼	21¾	37½	22	25¼	23	12
Manufacturing[3]							
Salaries	22	25½	22½	14¼	24	23	7¾
Weekly wages	25½	23¾	30¼	19¼	25¼	23	13¾
Minimum wage rates	17	23¾	48¼	15½	26	18	10¾
Minimum salaries	20¾	25	53½	15¼	26	18	10¾
Unit labour costs							
Total, excluding agriculture	20	23¼	28¼	18	21¼	19¾	13¼
Manufacturing	27	26½	36¼	19¼	23¼	20	13¾

Note: The figures refer to non-agricultural sectors.
1. Provisional estimates.
2. Rough estimates for non-agricultural sector, excluding earnings from abroad (Bank of Greece estimates).
3. Plants with ten workers or more.
Sources: *National Accounts of Greece, Statistical Yearbook of Greece*; OECD, *Main Economic Indicators*, Data submitted by national authorities.

implying a cumulated reduction in *real* average earnings of almost 10 per cent between 1985 and 1987. The real cut for those with above average earnings has been considerably larger, owing to the partial price compensation applied to earnings above a certain limit. Those earning about twice the average level, for instance, experienced a cumulative real cut of between 20 and 25 per cent during 1986 and 1987 and of over 40 per cent since 1980.

In line with nominal pay trends, the growth of unit labour costs decelerated markedly to 13 per cent in 1986, the lowest increase since 1973. However, the decline of the rate of inflation has been somewhat smaller, as inflation exceeded slightly the official 16 per cent target in the year to December 1986. This is explained to some extent by an upward adjustment of administered prices but, more importantly, by the liberalization of price controls initiated in mid-1986, which added over 1 percentage point to inflation in 1986. Moreover, strong speculative price increases were recorded in the autumn of 1986 in anticipation of the introduction of VAT[8] in January 1987. With the aim of forestalling these speculative forces, the Government imposed a three-month price freeze to the end of January 1987. This freeze was lifted in February but price controls were imposed on fresh fruit and vegetables in March 1987 in the wake of an extended frost which destroyed a substantial part of farm output. Apart from this special measure and continuing strict rent controls, the price system is at present more liberal than at any time since the end of the 1970s[9]. This freedom, combined with the steep fall in labour costs, has contributed to a marked improvement in profits, especially in manufacturing industries. Partial data suggest that excluding "ailing firms" profits in manufacturing increased by about 50 per cent in 1986. These developments have been reflected in a sizeable shift in national income shares. The share of non-agricultural income from property and entrepreneurship (excluding rents) is estimated to have risen by nearly 4 percentage points to 32 per cent in the two years to 1987.

Table 4. **Prices**

Annual percentage changes

	1981	1982	1983	1984	1985	1986	1985 Dec.	1986 Dec.	1987 May
National accounts, *price deflators*									
GDP market prices	19.6	24.2	20.1	20.3	17.8	19.1			
Private consumption	23.3	21.2	18.2	18.5	18.4	22.2			
Public consumption	23.2	25.1	19.6	24.3	22.7	15.2			
Fixed investment	19.2	14.7	23.1	19.4	19.1	23.1			
Consumer prices	24.5	21.0	20.3	18.5	19.3	23.0	25.0	16.9	17.7
Wholesale prices, total	25.9	16.0	19.8	21.4	20.6	17.9	28.2	8.5	9.9[1]
of which:									
For domestic use	26.1	17.2	19.8	20.2	20.3	19.3	28.8	9.4	10.8
of which:									
Domestic origin	24.4	17.9	19.3	18.8	19.2	18.9	26.0	10.2	10.7
Imports	31.0	15.4	21.2	24.0	23.3	20.6	36.2	7.2	10.9
Exports	25.1	8.1	19.6	29.6	22.1	9.1	24.5	2.8	4.2
Memorandum items:									
Drachma/US dollar	–29.9	–17.0	–24.2	–22.0	–18.4	–1.1	–15.9	7.4	4.5
Effective exchange rate	–7.3	–8.4	–14.3	–15.4	–12.0	–22.9	–26.1	–9.6	–10.9

1. Wholesale prices April 1987 over April 1986.

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

Following the substantial devaluation at the end of 1985, import prices reinforced inflationary pressures in the first half of 1986. Since then, they have exerted a damping impact on inflation, reflecting both a moderate slide of the exchange rate and worldwide disinflationary trends (only one-tenth of the fall in oil prices was passed on to consumer prices). Import prices, and more importantly, the deceleration in the growth of labour costs are expected to bring the underlying rate of inflation to around 13 per cent by the end of 1987. In the first four months of 1987 the year-on-year increase in consumer prices was 17 per cent, despite the expiration of the temporary price freeze in the beginning of February and the "mechanical" effect of the introduction of VAT which is officially estimated to have raised the average price level by about 3 percentage points. Sluggish domestic demand appears to have damped price rises and the Government's determination to stick to the Stabilisation Programme seems to have weakened somewhat the recurrent speculative price bursts characterising inflationary developments since the second oil shock. Nonetheless, owing to the severe winter weather and the associated increases in food prices, as well as to the VAT effect, inflation has risen in the second quarter, but is expected to abate again in the remainder of the year.

Demand and output

Household real disposable income declined by almost 5 per cent in 1986 owing to falling real average earnings and transfers coupled with a sharp increase in direct tax payments. Reinforced by the contraction of farm incomes a smaller but significant decline is forecast for 1987. Private consumption, contrary to expectations, was maintained at a high level in 1986, cushioned by a large drop in the savings rate. To some extent the relatively strong consumer demand was motivated by fears of big price rises associated with the introduction of VAT, which explains the surge in retail sales, notably of cars and durables, at the end of the year. Moreover, following rapid growth of real disposable income in 1984-85 households had accumulated considerable liquid assets which were partly used to finance consumption in 1986. Falling real disposable income, advanced purchases and the sizeable decline in the saving ratio in 1986 point to a steep fall in private consumption in 1987. In total, over these two years the household saving ratio proper can be expected to fall by nearly 6 percentage points[10], thus leaving very small room for further declines. Accordingly, from 1988 onwards demand-management policies ought to be more effective, as consumer demand becomes more responsive to changes in real income. In contrast to its long-run steep upward trend until 1985, government consumption was roughly stable in 1986, reflecting a marked slowdown in the growth of employment and a decline in purchases of goods and services. On present policies government consumption is projected to grow only marginally in 1987.

The volume of total fixed investment declined in 1986 owing to a 20 per cent drop in public sector investment. This decrease, largely confined to construction and transport equipment, resulted from efforts to contain public sector expenditure and also reflected important aircraft purchases in 1985. Government investment fell by 10 per cent and that of PCEs by 29 per cent. Private investment grew for the second year in succession, largely due to an upturn in housing (17 per cent) and in non-farm business investment (6 per cent). The upturn in housing is explained by the high level of liquid assets at the end of 1985, the lack of alternative long-term investment instruments, and, more importantly, by a sharp increase in rents and by the 1985 law, which relaxed criteria and simplified procedures for obtaining housing permits. In 1987, public investment is projected to continue its decline, but at a slower pace than in 1986. With weakening housing investment, a small decline in total private investment seems likely. By contrast, after six consecutive years of steep decreases,

Table 5. **Household income**[1]

	1985 % of total income	1981	1982	1983	1984	1985	1986	1987
		Annual percentage change					Estimates	Forecasts[2]
Agricultural income	14.8	22.0	29.3	8.2	28.0	19.4	17¼	8¼
Income from property and entrepreneurship[1]	24.4	22.8	11.1	18.7	17.5	22.9	25½	18
Wages and salaries	43.5	23.9	28.6	20.3	24.0	23.9	14½	12¼
Current transfers from government	14.8	42.4	49.8	22.3	28.0	32.4	17	13¾
Current transfers from the rest of the world	2.5	31.6	16.3	17.5	26.0	6.2	16¾	6
Total income of households	100.0	25.2	25.4	18.1	23.5	23.7	18	13¾
less:								
Direct taxes	4.5	2.2	57.4	16.7	32.5	13.2	31	20
Social security contributions	11.1	21.3	40.5	27.4	26.6	25.2	23¾	15
Disposable income	84.4	26.9	22.5	17.1	22.5	24.1	16½	12½
Consumer's expenditure	66.4	24.4	25.0	19.3	19.9	23.2	23¾	13
Saving rate[1]	18.0	22.9	21.3	19.8	21.5	22.0	17½	17¼
Memorandum items:								
Real disposable income		2.9	1.0	–1.0	3.6	4.5	–4¾	–2

1. Including statistical discrepancy and savings of corporations.
2. OECD forecast
Sources: National Accounts of Greece and OECD Secretariat estimates.

Table 6. **Demand and output**

Annual percentage changes (constant 1970 prices)

	1985 current prices percentages	1981	1982	1983	1984	1985	1986	1987 Forecast	1988 Forecast
Private consumption	65.5	0.9	3.1	0.9	1.4	3.8	0.8	–1½	–¼
Government consumption	20.4	6.8	2.3	2.8	3.1	2.8	0.0	½	1½
Gross fixed investment	19.2	–7.5	–1.9	–1.3	–5.7	5.1	–4.9	1¾	1½
Final domestic demand	105.1	0.1	2.1	0.8	0.5	3.9	–0.2	–1¼	¼
Change in stockbuilding[1]	2.3	–1.9	–0.2	–1.3	1.0	0.1	0.6	–½	¼
Total domestic demand	107.4	–1.7	1.9	–0.4	1.5	3.9	0.3	–1½	½
Exports	21.3	–5.9	–7.2	8.0	16.9	1.3	14.1	3½	4
Imports	33.0	3.7	7.0	6.6	0.2	12.8	3.6	–¾	1¼
Change in foreign balance[1]	–11.7	–1.9	–2.8	–0.2	2.9	–2.8	1.8	1	½
Error of estimate[1]	4.3	3.7	1.3	1.0	–1.7	1.7	–0.9	0	0
GDP at market prices	100.0	0.1	0.4	0.4	2.8	3.0	1.3	–¾	1¼
Net factor income from abroad[1]	–0.8	–0.2	–0.5	–1.0	–0.8	–0.8	–0.5	–½	–¼
GNP at market prices	99.2	–0.2	–0.1	–0.5	2.0	2.2	0.7	–1½	–¾
Agriculture	17.1	–1.6	2.4	–8.9	7.0	1.2	3.5	–3½	
Non-agricultural sectors	82.9	0.5	0.3	2.0	2.3	3.5	1.1	–¼	
of which:									
Manufacturing	18.2	–0.3	–2.2	–1.7	1.2	3.6	0.5		
Construction	6.4	–8.3	–7.9	3.3	–4.9	3.5	–2.4		
Services	53.6	1.7	0.4	4.4	2.9	3.4	1.5		
GDP at factor cost	100.0	0.2	0.6	0.4	2.9	3.2	1.4		

1. Contributions to GDP.

Sources: National Accounts of Greece and OECD Secretariat estimates.

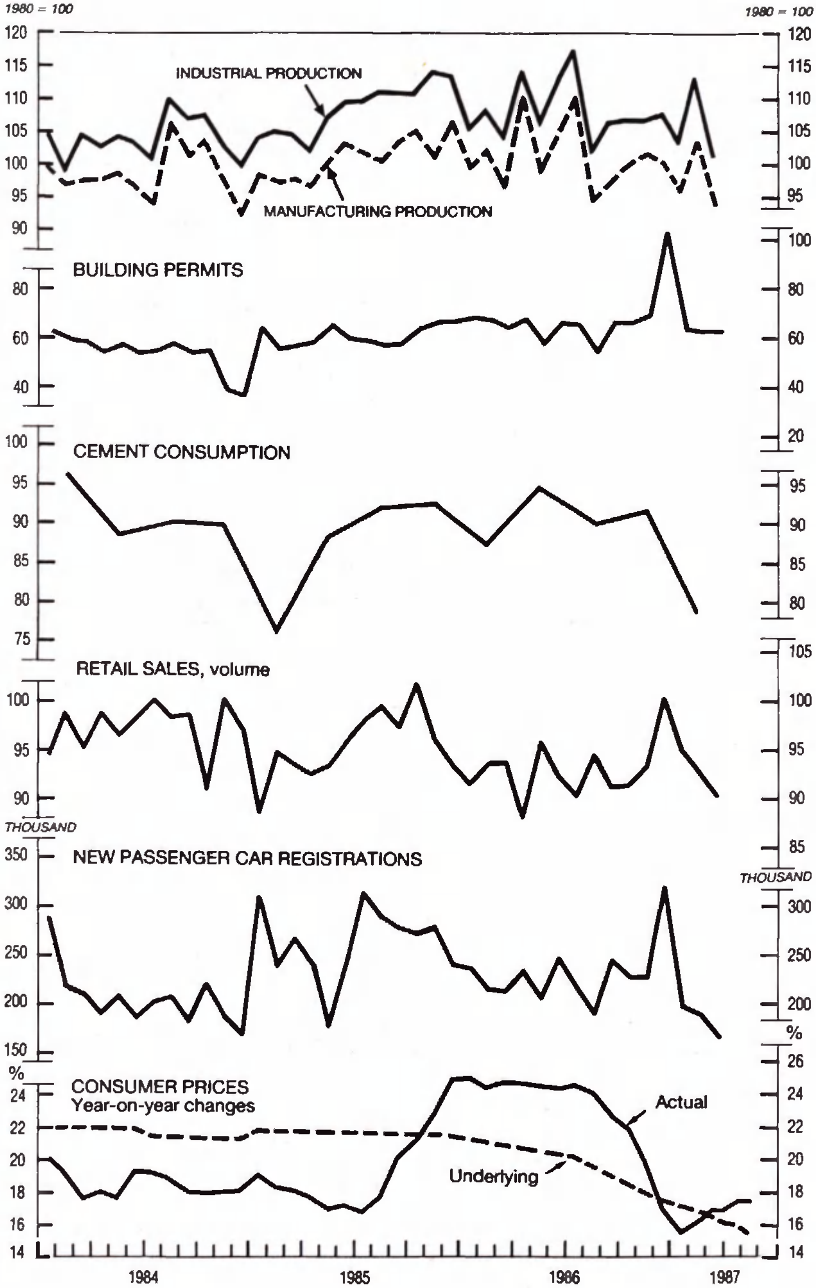
investment in manufacturing is expected to pick up as suggested by a strong rise in investment intentions at the end of 1986, the improvement in business profitability and an amelioration of the business climate.

Prospects for continued sluggish final domestic demand during 1987 and rising real interest rates suggest a fall in inventory accumulation in the business sector. In combination with a rundown of agricultural stocks, this should contribute to a big decline of total domestic demand. This is expected to be partly offset by a continuing but weakening positive contribution from the real foreign balance in 1987. In contrast to 1986, when there was a strong upturn of exports, in 1987 the principal factor should be a decline of imports. After a modest increase in 1986, led by agricultural output and mining, GDP is forecast to decline by around ¾ per cent in 1987 or by ¼ per cent excluding agriculture. With the exception of tourism and manufacturing, the output of most other sectors is expected to be depressed.

The labour market

In 1986 the upward trend in employment would seem to have come to a halt, with agricultural employment falling for the first time in nearly five years[11]. The growth of non-agricultural private employment slowed down in the face of stagnating output. By

Diagram 3. **Conjunctural indicators**



Source: OECD, *Main Economic Indicators.*

contrast, employment in the wider public sector (including banks under public sector control) continued to increase rapidly at a rate close to 2 per cent, suggesting further important falls in productivity. The recorded rate of unemployment declined slightly to 7.4 per cent thanks to a contraction of the labour force. Given the low participation rate (48 per cent) and continuing net immigration, this fall, especially in urban areas, seems to be largely explained by the "discouraged-worker" effect, suggesting that under-employment remains important. At almost 30 per cent, the rate of youth unemployment in urban areas remained high, with peaks around 50 per cent in some larger towns. In 1987, total employment is projected to fall, led by continuing, if moderate, declines in employment in agriculture, in construction and in manufacturing. The latter largely reflects restructuring of ailing firms and somewhat greater flexibility in laying off redundant labour. Moreover, in line with the Stabilisation Programme's objectives, the growth of employment in the public sector is expected to come practically to a halt. Under these conditions, a small rise in unemployment seems probable.

In order to improve labour market conditions a number of measures were taken in 1986, and more are envisaged for 1987. The main objective seems to be the reduction of unemployment and, to a lesser extent, greater labour market flexibility. Overtime work and work by pensioners has been restricted. Subsidies have been provided to both public- and private-sector employers for the creation of new jobs. Some 37 000 new jobs benefited from this measure during 1986. In addition, grants are now given to unemployed persons wishing to set up small businesses or to become self-employed in certain sectors. This experimental measure has brought back into employment 1 400 persons in 1986 and it is expected to bring back 5 000 more in 1987. Regulations constraining shift work in industry were relaxed. Training programmes at firms level have been extended, with two-thirds of the financing provided by the Government and the EEC Social Fund. Steps will also be taken to promote flexible work schedules in line with seasonal fluctuations in production. All in all, these measures are in the right direction and should help to enhance flexibility and reduce unemployment. Yet, they remain limited by international comparison both in scope and in terms of resources allocated.

The balance of payments

In 1986 the current external deficit declined by about one-half to $1.7 billion, or 4.3 per cent of GDP, against 9.8 per cent in 1985. The fall in the oil bill amounted to nearly 3 per cent. Together with the significant increase in net EEC transfers, this accounts for no less than four-fifths of the reduction. On the other hand, the current account was negatively affected by three events (Chernobyl, the contraction of OPEC imports and the decline in United States' tourists), causing a fall in export revenues of about $$1\frac{1}{2}$ billion, which is roughly the increase in net EEC transfers. In contrast to most OECD countries, Greece's terms of trade deteriorated despite the fall in oil prices. This is explained by two factors: the combination of high dependence on EEC merchandise imports (four-fifths of non-oil imports) with the significant depreciation of the drachma *vis-à-vis* the ECU; and compressed export prices because of the concentration of merchandise exports in sectors in strong competition with newly-industrialising countries. The terms-of-trade deterioration was more than offset by an improvement in volume terms. Owing to depressed domestic demand and the stimulus from the October 1985 devaluation, the volume of merchandise exports increased markedly, implying substantial gains in foreign market shares. For similar reasons, the volume of merchandise imports might have been expected to decline in 1986. But fears of a further substantial devaluation and buoyant sales prospects in anticipation of the introduction of

Table 7. **Balance of payments**[1]

$ million

	1981	1982	1983	1984	1985	1986[2]
Trade balance	-6 697	–5 927	–5 386	–5 351	–6 268	–5 587
of which:						
Oil balance	–2 900	–2 130	–1 923	–2 187	–2 354	–1 176
Exports	4 771	4 141	4 105	4 394	4 293	4 512
Imports	11 468	10 068	9 491	9 745	10 561	10 099
Net invisible receipts	4 276	4 042	3 510	3 221	2 992	3 883
Credits	6 482	6 098	5 529	5 289	5 261	6 498
Tourism	1 881	1 527	1 176	1 313	1 428	1 834
Shipping	1 826	1 657	1 309	1 095	1 039	1 000
Migrant remittances	1 080	1 043	935	922	801	971
Net EEC transfers	148	550	834	715	869	1 392
Other receipts	1 547	1 321	1 275	1 244	1 124	1 301
Debits	2 206	2 056	2 019	2 068	2 268	2 615
of which:						
Interest payments, dividends and profits	823	784	874	1 082	1 237	1 354
Current balance	–2 421	–1 885	–1 876	–2 130	–3 276	–1 704
Private long-term capital	829	629	649	646	642	669
of which:						
Entrepreneurial	317	208	180	146	243	301
Real estate	488	399	423	474	431	463
Public sector long-term capital	291	262	792	864	649	923
Suppliers' credits[3]	–6	–127	–15	10	7	–36
Errors and omissions	328	–40	–357	–312	22	44
Financial institutions	427	208	465	221	243	–115
of which:						
Deposits in foreign exchange	177	157	263	295	85	257
Balance on official settlements	–552	–953	–342	–702	–1 713	–219
Central Bank borrowing	395	807	412	736	1 609	245
Change in clearing and barter accounts	–99	–19	–11	27	33	33
Use of IMF credit	–74	–12	–28	–	–	–
Change in official reserves (– = increase)	329	177	–31	–61	–631	–626
(*of which*: gold revaluation)					(–705)	(–298)
Memorandum items:						
Net capital inflows:						
Private sector	1 224	676	919	869	809	796
Public sector borrowing	712	1 103	1 385	1 608	2 338	1 159
Net foreign exchange reserves (end of period)	1 189	1 011	1 042	1 103	1 734	2 360
Current deficit (per cent of GDP)	(6.5)	(4.9)	(5.4)	(6.5)	(9.8)	(4.3)

1. On a settlements basis.
2. Provisional data.
3. Private and public.

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

VAT maintained imports at a high level. Thus, the non-oil trade deficit remained broadly unchanged at the high level of 11½ per cent of GDP. Measured in dollars (Table 7) the non-oil trade deficit increased a little, largely as a result of the depreciation of the dollar *vis-à-vis* the ECU[12].

The invisible surplus grew markedly in 1986. This largely reflected a sharp increase in net EEC transfers and receipts from European tourists which more than offset a sharp drop in

Table 8. External debt

$ million

	1979	1981	1983	1984	1985	1986
	Bank of Greece data					
Medium and long-term debt	4 142	6 298	8 596	9 830	12 379	14 693
Public and public sector guarantee	3 099	5 163	7 698	9 040	11 682	14 111
Central government	472	521	621	668	927	1 749
Public enterprises and corporations	1 044	1 859	3 037	3 944	4 598	5 017
Banks	1 562	2 747	3 918	4 305	6 052	7 258
of which: Bank of Greece	1 293	2 327	3 194	3 585	5 265	6 334
Private enterprises	21	37	121	123	106	87
Banks without public sector guarantee	402	455	319	234	183	132
Commercial (suppliers')credit	642	680	579	556	514	450
Short-term debt	760	1 028	1 321	1 688	1 991	1 584
Bank of Greece	–	–	335	668	923	491
Suppliers' credit	760	1 028	86	1 020	1 068	1 093
Sub-total	4 903	7 326	9 912	11 518	14 395	16 277
Other private[1]	n.a.	550	650	800	850	850
Total debt[2]	n.a.	7 876	10 562	12 318	15 245	17 127
Amortization, total	442	638	699	786	864	1 093
Public sector	383	515	526	597	762	987
Private sector	59	123	173	189	102	106
Interest payments, total	328	803	840	1 070	1 222	1 329
Public sector	277	703	728	922	1 083	1 216
Private sector	51	100	112	148	109	113
Memorandum items:						
Debt servicing ratio (per cent of current receipts)	(8)	(13)	(16)	(19)	(22)	(22)
Debt (per cent of GNP)	(13)	(21)	(30)	(37)	(47)	(43)
OECD data[3]:						
Total external debt			14 843	15 305	18 475	
Long term			11 529	11 921	13 696	
Short term			3 314	3 384	4 779	

1. Private sector debt is an estimate.
2. Data provided by the Bank of Greece. Only part of loans for military equipment is included in the total debt.
3. The OECD data are mainly derived from creditor sources. OECD data for earlier years are not comparable with data for 1983 and 1984, and are not, therefore, presented in this table. OECD figures include loans to shipowners operating abroad. These loans, mainly for offshore activities, should not be considered part of the Greek external debt and this largely explains the difference with the data presented by the Bank of Greece.

Sources: Data submitted by national authorities and OECD external debt statistics.

tourist revenue from the United States. Shipping receipts further declined to $1 billion, nearly half the level of the early 1980s. Despite some increase, net private long-term capital inflows remained at relatively low levels. At the same time, as a result of the appreciable contraction of the current deficit, net compensatory official borrowing almost halved to $1.2 billion, the lowest level of the last four years. The external debt rose to $17¼ billion, but fell from 47 per cent of GDP in cent 1985 to 43 per cent in 1986, while the debt-servicing ratio remained stable at 22 per cent.

The lagged relative price effects of the October 1985 devaluation are forecast to peter out in the course of 1987 and to be more than offset by a number of negative factors. In line with the commitment to a gradual dismantling of export subsidies, the reduction of the rate of subsidies in 1987 is equivalent to an increase of 1¾ per cent in the cost of exports[13]. The phasing-out of the obligatory import deposit scheme in the course of the first half of 1987 is estimated to reduce by over 1 per cent of the cost of total merchandise imports in 1987 as a whole and to lead to a sizeable cash-flow increase in the importing sectors concerned. The regulatory tax on imported goods, a discriminatory tax against imports, will be further reduced by about one-third on average in 1987, as part of a plan to abolish it by 1st January 1989. The increase in the oil price — assuming a price of $18 per barrel — should add about $200 billion to imports. Finally, the decline in farm output should have a significant negative effect on net exports. These factors are expected broadly to offset the weakness of domestic demand and the upturn in the growth of export markets. As a result, the trade deficit is projected to remain at practically the same level as in 1986. Foreign exchange restrictions on some invisible payments were also lifted (mainly applying to revenues from real estate) so that a small increase in total invisible payments seems likely. Nonetheless, owing to a rapid growth of tourist receipts, remittances and transfers, the current external deficit may fall to $1½ billion in 1987, or below 4 per cent of GDP.

The outlook for 1988

The Government announced a certain relaxation of wage controls after the end of the Stabilisation Programme by linking real earnings growth to productivity trends. The planned further reduction in the PSBR implies no easing of the restrictive fiscal policy stance. Monetary policy is also expected to remain tight. Plans to finance a growing proportion of the PSBR with funds directly provided by the non-bank public point to the maintenance of high (by past standards) real interest rates. The Government has also stated its intention to liberalise prices further, to close down non-viable firms, to gradually enhance labour market flexibility, and to introduce important financial reforms. Action in these areas should improve the supply responsiveness of the economy and, if accompanied by clearly defined policies, further boost business confidence. However, the effects of these measures will be more important over the medium run. On the basis of the above policy intentions, and assuming a stable real effective exchange rate, the Secretariat has made a tentative forecast for 1988.

Income norms, which take into account productivity changes, imply some scope for increases in real earnings. This, combined with an upturn in agricultural incomes and continuing rising profits, suggests little change in household real disposable income. Yet, private consumption may fall marginally reflecting an increase in the savings rate from its depressed 1987 level. A small rise in government consumption and business investment may take place, the latter supported by rising profits and an improved domestic outlook after the ending of the Stabilisation Programme. Following two years of decline, total domestic demand could pick up slightly in 1988 and, together with a likely further, though diminishing,

Table 9. **Short-term outlook**

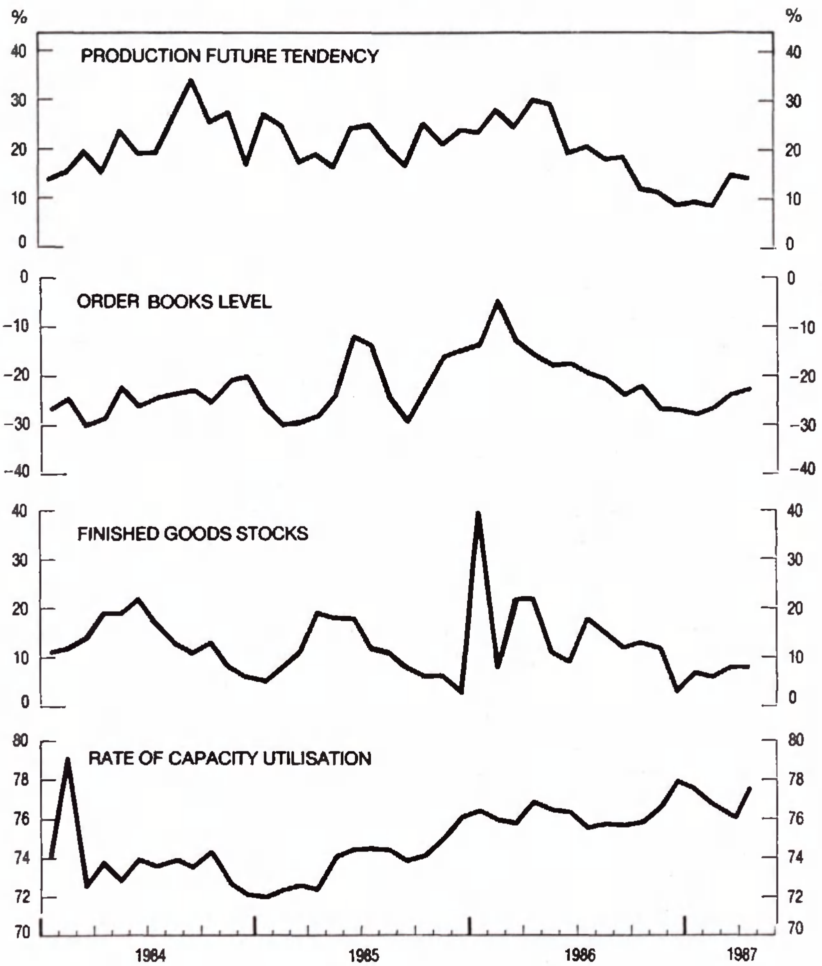
	1986	1987	1988
	estimates	OECD forecasts	
	Percentage change		
Domestic demand	¼	–1½	½
Foreign balance	1¾	1	¾
GDP volume	1¼	–¾	1¼
of which:			
Manufacturing	½	¾	1½
Average earnings, total	13¼	12¾	13
Consumer price deflator	22¼	14¾	12¼
GDP price deflator	19	14	12¼
Real labour costs	–5½	–1¾	¼
Unit labour costs in manufacturing	13¾	11	9¾
Employment, total	½	–¼	–½
of which:			
Employees	1	–½	–1½
Productivity, total	1	–¼	2
of which:			
Excluding agriculture	½	1	2
Real household income	–4¾	–2	–
Household saving rate	(17½)	(17¼)	(17¼)
	Per cent of GDP		
General government (national accounts)			
Total revenues	36	37½	36¼
Total expenditure	47	48	47¾
Deficit (Net lending)	11	10½	9¾
PSBR (cash basis)	13¾	12¼	11¼
	$ billion		
Trade deficit, f.o.b.	4.4	4.9	5.2
Invisible surplus	2.7	3.5	4.0
Current account deficit	1.7	1.4	1.2

Source: OECD Secretariat estimates.

positive contribution from the real foreign balance, lead to some recovery of output. Nevertheless, unemployment might edge upwards owing to the expected marked slowdown in the growth of public sector employment, industrial restructuring and rationalisation efforts in other sectors.

The disinflationary process may lose some momentum in 1988. Whereas during 1986/87 disinflation was largely set in motion by substantial real pay cuts, in 1988 productivity gains and greater competition should become the main supporting forces. By the end of 1988 the underlying rate of inflation may have fallen to below 10 per cent, thus further reducing the wide inflation differential *vis-à-vis* main trading partners. Exports are forecast to constitute an

Diagram 4. **Business surveys**



Source: OECD, *Main Economic Indicators.*

important element of strength as world trade is foreseen to grow by 4 to 5 per cent. A slight increase in merchandise imports is forecast. The projected improvement in the real foreign balance should be largely offset by a continuing deterioration in the terms of trade. Buoyed by tourism receipts, emigrant remittances and EEC transfers, the invisible surplus is projected to increase further, leading to a reduction of the current external deficit to probably less than \$1¼ billion, the smallest deficit in the last ten years. As autonomous private capital inflows are projected to increase, there should be no further need for public sector net compensatory borrowing, thus gradually bringing to an end the steep upward trend of external debt. In relation to GDP, the external debt should continue to fall from its 1985 peak.

II. FINANCIAL AND SECTORAL IMBALANCES

After having enjoyed sustained rapid growth of output for about thirty years, the expansion of the Greek economy has virtually come to a standstill since the second oil shock. Between 1979 and 1986 the average annual rate of growth of GNP amounted to no more than 1 per cent, compared to $2\frac{1}{4}$ per cent for OECD total and $1\frac{3}{4}$ per cent for OECD Europe. During most of this period inflation — at over 21 per cent on average — hovered at a rate three to four times higher than the OECD average. These unsatisfactory trends are all the more striking when viewed against the heavy foreign indebtedness incurred to "finance" these meagre growth rates. As a result of continuous large current external deficits, the external debt reached 43 per cent of GDP in 1986, up from 13 per cent in 1979, with the debt-servicing ratio increasing from 8 per cent to 22 per cent. Net interest payments to abroad reached 3 per cent of GDP in 1985 ($\frac{1}{2}$ per cent in 1979), thus draining resources that could otherwise have been devoted to productive uses.

The coexistence of low growth and high inflation with unsustainably large external deficits and public sector borrowing requirements points to deep-seated structural imbalances in the real economy: prolonged stagflationary tendencies are clear manifestations of low supply responsiveness to rising levels and/or changing patterns of aggregate demand; excessively high public sector deficits are a consequence of either too rapid growth of government spending and/or of insufficient expansion of the private sector's tax base; high current balance-of-payments deficits may be taken as an indication that the supply potential of the private sector, both in terms of quality (product mix) and quantity (output capacity), has been too small relative to the level of domestic demand for tradeable goods and services.

Budget deficits represent financial dissavings or government investment/saving gaps, while current external deficits can be viewed as imports of foreign savings. Although there is no one-for-one causal relationship between foreign borrowing and public sector borrowing, parallel sharp increases in government and foreign debt are usually not unrelated to each other. Government spending, irrespective of its composition and its financing, tends to stimulate imports while at the same time negatively influencing exports via direct and indirect crowding-out mechanisms. A relative shift of resources from the public sector to export- and import-competing industries, or alternatively from the sheltered sectors (public and private) to the exposed sectors of the economy, may therefore be seen as a necessary condition for putting the Greek economy back on a sustainable path of higher growth.

Industrial stagnation

The transformation from a largely rural to an industrial economy slowed down markedly in the second half of the 1970s, with little, if any, further progress since then. After falling rapidly until the mid-1970s, the share of agricultural output in GDP has since broadly stabilized at some $17\frac{1}{4}$ per cent (Table 10). Employment in agriculture experienced a similar

Table 10. **Structural changes**

Percentage shares

	1960	1970	1980	1985
Composition of GDP, factor cost	100.0	100.0	100.0	100.0
Agriculture	24.4	18.4	17.1	17.3
Mining, electricity and water	2.6	3.4	3.3	4.6
Manufacturing	15.9	18.8	19.4	18.2
Construction	6.5	9.2	9.0	6.4
Services	50.6	50.2	52.2	53.5
Composition of GNP at market prices	100.0	100.0	100.0	100.0
Private consumption	75.7	67.1	62.8	65.7
Government consumption	11.3	12.4	16.4	19.9
Fixed investment	18.0	24.0	21.5	18.8
Final domestic demand	105.0	103.5	100.7	104.4
Exports	9.3	9.8	19.3	21.9
Imports	16.2	18.1	25.6	31.4
Foreign balance	–6.9	–8.3	–6.3	–9.5
Stockbuilding and statistical discrepancy	–0.1	2.7	2.6	5.9
GDP	98.0	97.9	97.0	100.7
Net factor income from abroad	2.0	2.1	3.0	–0.7
Employment total	100.0	100.0	100.0	100.0
Agriculture	53.8	38.9	30.8	29.4
Mining, etc.	0.6	0.7	0.5	0.7
Manufacturing	12.9	17.2	19.3	19.1
Construction	4.6	7.6	8.3	7.2
Services	27.7	34.8	40.3	42.8

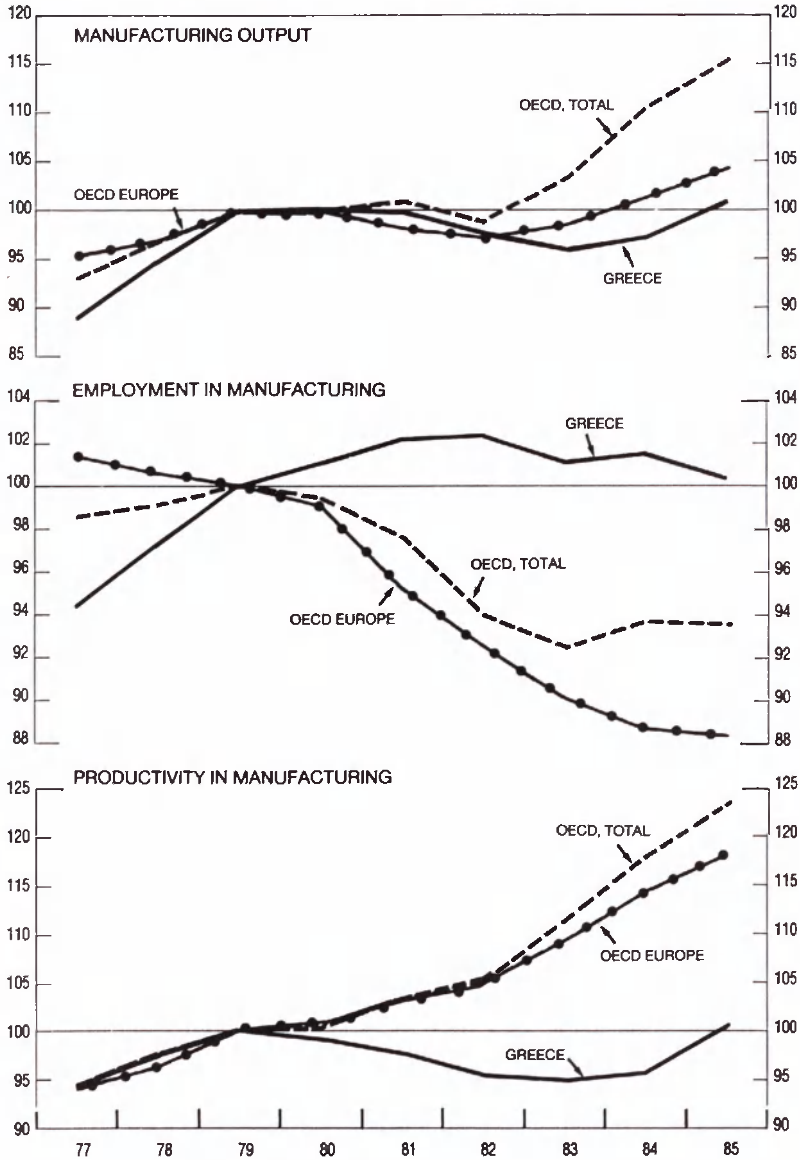
Note: Except for employment, all other figures are centred three-year averages.
Sources: *National Accounts of Greece*; OECD, *Labour force statistics* and OECD Secretariat estimates.

trend, with its share in total employment stabilizing at around 30 per cent since the end of the 1970s. These shares are among the highest in the OECD and probably the highest if viewed against Greece's ranking in terms of per capita income. The continued growth of employment in the private, and notably public, service sectors was associated with a certain degree of overmanning and the extension of seasonal and "peripheral" work. The number of self-employed persons in activities with low value-added increased markedly, reflecting difficulties in finding a salaried job as well as greater facility of tax evasion. By contrast, job creation in non-sheltered high value-added services has been rather limited. Compared to small business and the self-employed, resources engaged in the corporate and "organised modern" sectors carry (directly and indirectly) a disproportionately heavy burden of taxation which hinders their expansion.

The post-war industrialisation process began to mark time in the second half of the 1970s and has since shown signs of a reversal. During the preceding thirty years, manufacturing output had been growing at around 10 per cent per annum, nearly double the rate of OECD total. In 1985, manufacturing output was 1 per cent up on the 1979 peak compared to an increase of almost 12 per cent in other OECD countries (Diagram 5). The weakening trend is highlighted by the declining share of manufacturing output in GDP, which after reaching a peak of slightly over 20 per cent in 1975, dropped to 18 per cent in 1985, back to its 1968 level.

Diagram 5. **Comparative manufacturing performance**

1979 = 100



Source: OECD, *Historical Statistics*, 1960-1985.

There was a small improvement in 1986. Yet the present share is among the lowest in the OECD area and indeed the lowest if allowance is made for Greece's comparatively low per capita income and the predominance of small firms not really engaged in manufacturing activities proper. The shrinkage of the manufacturing sector is also reflected in the declining number of newly-established medium- to large-scale firms[14] — down from some 350 at the turn of the 1970s to 155 in 1985. Despite some recovery in 1986, cumulated closures since 1983 have exceeded the number of newly set-up firms.

In contrast to the low output share, employment in manufacturing accounted for almost 30 per cent of total non-agricultural employment in 1984, one of the highest ratios in the OECD area. The low level of productivity of Greek manufacturing is partly explained by the composition of manufacturing output and the relatively large number of small units, of which many are in fact repair shops. In 1980, out of 128 000 registered industrial establishments 109 000 employed up to 4 persons and out of the 8 550 establishments with more than 10 persons, more than half employed less than 20 persons. In total, only 30 per cent (200 000 persons) of the manufacturing labour force was employed in establishments with more than 100 persons. With regard to branch structure, the traditional sectors (food, drinks, tobacco, textiles, clothing, footwear, leather products, furniture, printing and cement) accounted for nearly 60 per cent of output and two-thirds of employment. In many other branches the main activity is the assembly of imported components or the processing of raw materials. Given the low productivity levels associated with the unfavourable structure of production, considerable efforts to raise output per man both at plant level and by changing production patterns could have been expected in the wake of the two oil shocks and in preparation for Greece's entry into the EEC. In the event, productivity declined somewhat between 1979 and 1985. This contrasts sharply with developments elsewhere in the OECD area, where sizeable productivity gains were recorded over this period principally as a result of labour shedding in low productivity or loss-making firms and accelerated capital-for-labour substitution. As a result, the large productivity gap *vis-à-vis* trading partners has further widened since the end of the 1970s.

Structural and institutional impediments

The failure of the manufacturing sector to adjust to changes in international trade patterns after the two oil shocks can be attributed to a number of factors:

- The high protection enjoyed by manufacturing industries prior to Greece's entry into the EEC;
- The scarcity of managerial skills owing to the predominance of family-run business and an inadequate educational system;
- The shortage of highly qualified scientific personnel, reflecting the heavy concentration of Greek industry on traditional sectors and the brain drain associated with the lack of research facilities and relatively low salary levels;
- The comparatively greater difficulties of small-sized firms, which dominate the manufacturing sector, in raising the necessary capital for diversification towards more technologically advanced and R&D-intensive lines of production;
- A financial system biased in favour of existing production patterns and against the provision of venture capital and the creation of new firms;
- Administrative inefficiencies and bureaucratic obstacles, together with frequent changes in business laws and policies generating uncertainty and making medium- to long-term planning extremely difficult;
- Laws and practices leading to labour-market rigidities.

Although Greek laws permit firms to lay off redundant labour relatively easily (to the tune of almost 2 per cent of total employment per month), in practice, flexibility in this area has always been very limited[15]. In order to prevent dismissals, especially in the absence of other industrial employment opportunities in the same region, governments have opposed plant closures and lay-offs by individual firms. Administrative procedures, political leverage and the desire to avoid social friction have rendered redundancies difficult, even in declining industries. Over the medium run this policy has in fact precipitated the decline of industry, as firms were unable to adjust at an early phase. The traditional policy of shoring-up ailing industries has been strengthened by the close links between banks and firms, which may take the form of significant equity holdings and participation in management. These ties make it difficult for banks to withdraw their financial support from loss-making firms[16].

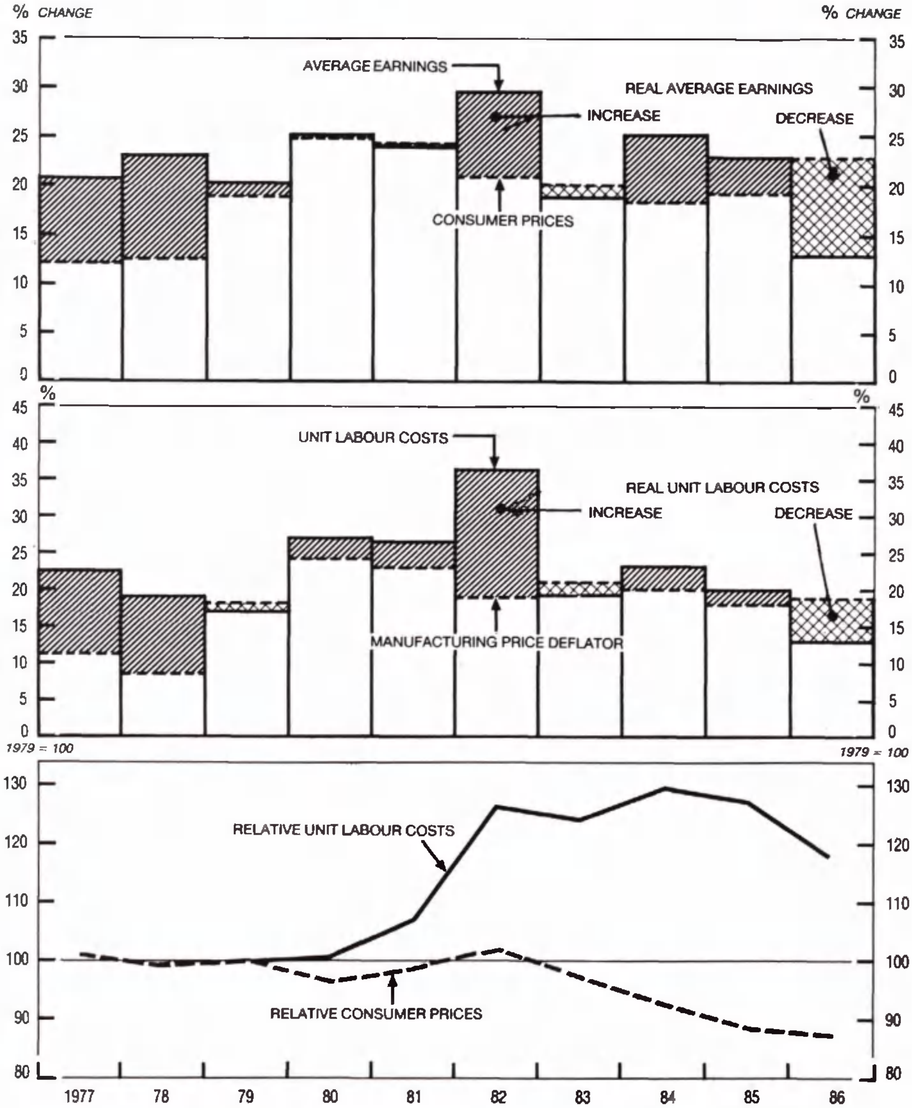
Incomes policy effects

In the three years to 1978 average pay in manufacturing increased by 23 per cent per annum, or by 9 per cent in real terms, more than double the rate of productivity advances. The official guidelines encouraged or provided for large pay increases even after the second oil shock at a time when most other OECD countries were curbing labour costs. In addition, the move from one (or a maximum of two) to three pay increases per year under the ATA indexation scheme, accelerated the passthrough from prices to costs, thereby fuelling the wage/price spiral. In the event, between 1979 and 1985 manufacturing workers' earnings increased by around 3½ percentage points faster per annum than earnings in the rest of the private sector. This differential is explained by the relatively low starting level of manufacturing earnings, which benefited disporportionately from the ATA indexation scheme and from generous minimum-wage legislation. Given falling productivity, the annual growth of unit labour costs rose from 27 per cent in 1980 and 1981 to 37 per cent in 1982 — 12 percentage points more than the rise in the output deflator. In the six years to 1985, the annual rate of increase of average earnings in manufacturing was just over 24 per cent, and of unit labour costs 25½ per cent.

The manufacturing sector was unable to absorb these costs as both exchange rate policies and price controls were geared to suppressing inflation. Thus, relative unit labour costs increased steeply in 1982 (17 per cent), bringing the cumulative increase since 1979 to 26 per cent (Diagram 6). In the following three years the depreciation of the drachma roughly offset the differential growth in unit labour costs. The October 1985 devaluation improved competitiveness by nearly 15 per cent, thus largely offsetting the deterioration of the early 1980s[17]. However, the loss of external competitiveness is greater than relative unit labour cost movements suggest. Although difficult to substantiate, there are reasons to suspect that the quality of Greek manufactured goods has suffered from a conspicuous lack of diversification towards more sophisticated and technologically-advanced products and from an ageing capital stock. Moreover, the adoption of the low common external tariff of the EEC has further eroded Greek competitiveness.

Between the end of the 1970s and the end of 1985 controls on prices and profit margins were greatly reinforced. These controls have hit particularly hard medium- to large-scale manufacturing industries as small-scale business can more easily circumvent them[18]. Widespread price controls and the non-accommodating exchange-rate policy have strengthened importantly foreign competition in the domestic market. Import penetration was particularly marked in light consumer goods which in the past had served as the basis for rapid industrial expansion. Compared with an overall increase in import penetration from the EEC by nearly two-thirds (from 11.3 per cent of total sales in 1980 to 18.9 per cent in 1985), import penetration in light consumer goods rose five-fold on average[19]. The sizeable increase in light

Diagram 6. **Labour costs and competitiveness in manufacturing**



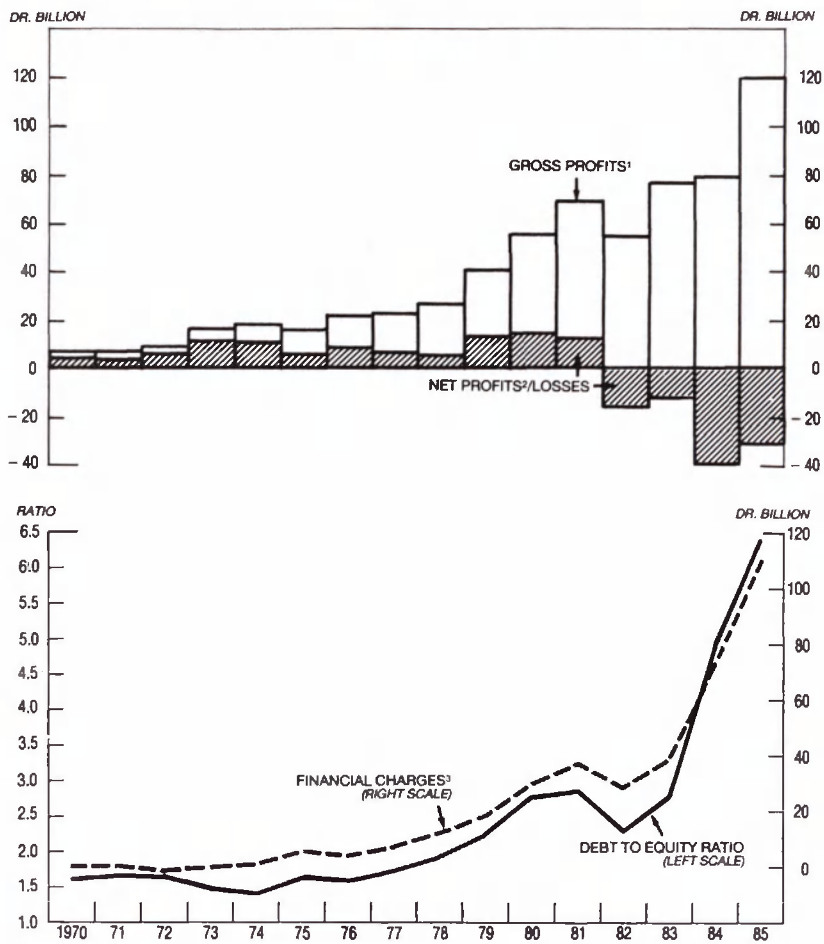
Sources: Bank of Greece direct communication to the OECD and OECD estimates.

consumer goods is explained not only by the low starting level and the natural diversification of demand towards foreign products, but also by the fact that wages in traditional sectors, where pay rates are close to the minimum, increased considerably faster than the average. Export performance also worsened during the first half of the 1980s despite greater export subsidies and severe cuts in profit margins.

Profit squeeze and rising financial charges

Inability to adjust to substantial increases in labour costs by improving productivity or raising prices resulted in significant losses for a large number of manufacturing firms[20]. The net profit rate — profits after depreciation and financial charges in relation to equity capital — averaged 15 per cent between 1970 and 1973. By 1979, after a marked deterioration in the second half of the 1970s, the net profit rate had dropped to barely 8 per cent, with nearly 40 per cent of firms reporting losses. The decline in profits forced firms to rely increasingly on external finance. The resulting increase of the debt/equity ratio was accompanied by steeply rising financial charges (Diagram 7). Price/cost relationships deteriorated further during the

Diagram 7. **Profitability and financial charges in manufacturing**

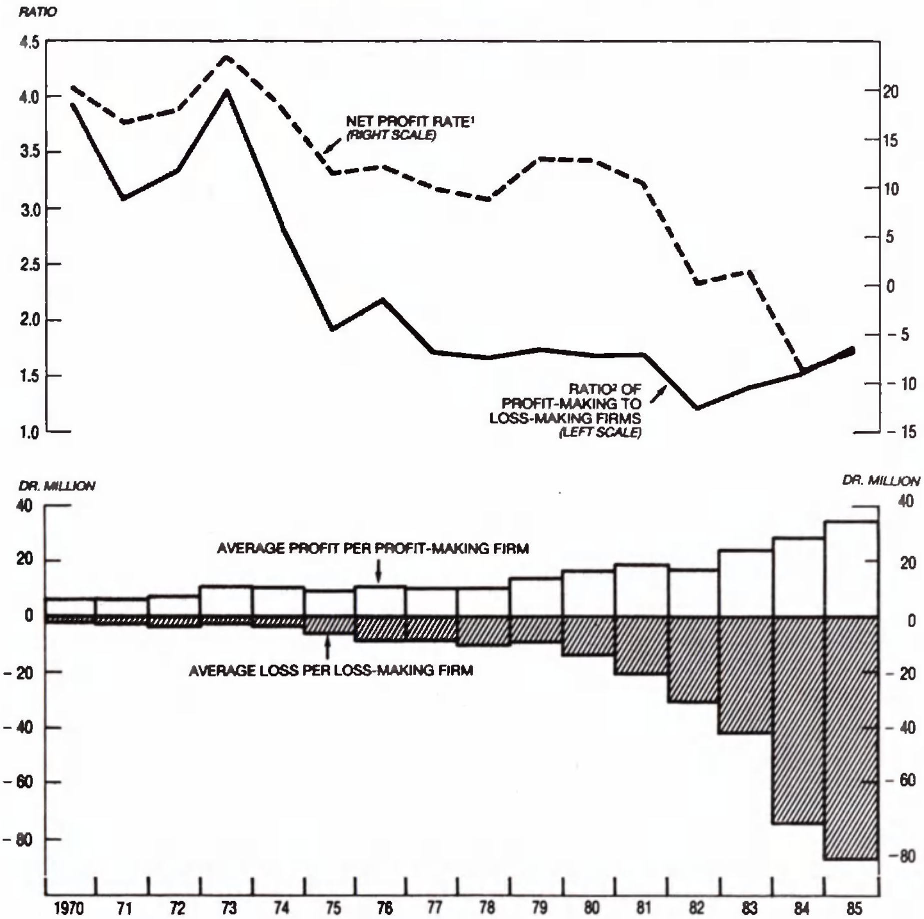


1. Gross operating surplus net of depreciation.
2. Gross profits minus financial charges.
3. Financial charges adjusted by taking into account the increase of the number of firms and of their capital base.

Source: Federation of Greek Industries: *The State of Greek Industry*, 1985.

early 1980s, with the average net profit rate having turned negative since 1982. The increase in financial charges contributed almost two-fifths to the swing from net profits in 1979 to net losses in 1984[21]. Indeed, failure to reverse the downward trend in profitability has resulted in an unsustainable financial structure for a number of firms, as indicated by the sharp increase of the overall ratio of debt to equity to 5.4 in 1984 (6.9 in 1985) from 2.5 at the end of the 1970s. In 1984 the net losses of the 3 113 manufacturing firms surveyed amounted to Dr 38.5 billion, equivalent to a negative net profit rate of 13.6 per cent. By contrast, in most other OECD countries net profit rates had recovered markedly by 1984, attaining or in some cases even exceeding their pre-oil shock levels. There was a slight improvement in 1985, with the negative profit rate falling to 11.7 per cent. An even larger improvement took place in 1986.

Diagram 8. **Profits and losses in manufacturing**



1. Net profits in relation to equity.
2. Ratio of the number of firms.
Sources: Federation of Greek Industries: *The State of Greek Industry in 1985* and OECD estimates.

Although the profit and financial situation differ considerably as between sectors and individual firms, the extent of the crisis is underlined by the fact that eleven out of the nineteen industrial sectors (ISIC classification) recorded losses in 1983/85. Traditional sectors were particularly hard hit. In 1984, the ratio of net losses to equity ranged between one-third and four-fifths in textiles, beverages, wood, non-metallic mineral products and transport equipment, whereas in paper and paper products equity had been wiped out[22]. Although a few sectors recorded a much better performance in 1985, there was no significant change in overal industrial conditions. In general, large firms, followed by the smallest, incurred the biggest losses. In contrast, medium-sized firms with total capital between Dr 100 million and Dr 500 million recorded on average small positive net profit rates. These firms can deal more flexibly with their labour force and have a more balanced financial structure. Their size also accords better with family-run firms. Large firms, by contrast, had not been put under the same pressure to adjust given their privileged relationship with banks and official leverage to keep them in operation. As for the losses of small firms, they may be largely explained by the lack of financial and human capital required to expand or transform their industrial basis.

"Ailing" and "problematic" firms

The biggest loss-making firms suffering from structural deficits are commonly called "ailing firms". Almost all of them have been kept in operation by publicly-controlled banks or other official institutions through extension of credit lines beyond economically warranted limits. A large proportion of these credits could in effect be considered grants since they are unlikely ever to be repaid. The desire to prevent lay-offs, forward and backward linkages with other industries and firms, as well as balance-of-payments, defence and other considerations seem to have played an important role in keeping many of these firms in operation. Since the second half of the 1970s, a growing number has in practice been run by banks. Given the lack of managerial skills, however, conditions have mostly failed to improve. Inadequate management is an acute problem in the public sector at large, including banks and enterprises under public control. This is partly due to the policy of fixing upper pay limits at a relatively low level for public sector employees and to the ATA indexation scheme, which has led to substantial declines in real average earnings of high-salary earners.

In the early 1980s, faced with a rapidly increasing number of ailing firms, the Socialist Government (formed in October 1981) formulated new policies and reinforced public sector intervention in industry. In 1983 a Law was passed codifying the terms of take-overs and the management of ailing firms by the public sector. The Business Reconstruction Organisation (OAE) was set up as the main instrument of the new policy. The capital of the OAE amounts to Dr 5 billion subscribed by the State. The OAE has relatively easy access to bank credit to meet its obligations (notably to long-term credit by the National Bank of Greece). Shareholders, managers, major creditors, labour unions and the Greek Unemployment Fund can apply for protection under the law, on condition that the firm is in financial difficulties. The application is then studied. If approved, the firm is officially classified as "problematic"[23], thereby being entitled to suspend debt repayments and interest payments for a period up to 36 months (interest payments are charged to the accounts of the firms, but actual payments are postponed)[24]. During this period the new management (including a new board of directors) appointed by the OAE assesses economic viability, makes proposals and undertakes the rehabilitation of the firms concerned[25]. If the firm is considered viable a financial restructuring plan is usually immediately put into operation involving compulsory increases in equity capital by existing shareholders, the conversion of part of debt into equity and, normally, the rescheduling of the remaining debt. Through this capitalisation process many banks and state financial institutions, in particular the National Bank of Greece, have

Table 11. **Problematic firms**

Drachma billion

	1981[1]	1983	1984	1985	1986
Total number of firms[1]	44	16	38	43	44
Total employed (thousand)[2]	(33.0)	(30.9)	(30.3)	(30.9)	(28.0)
Net sales	63.8	78.2	85.2	120.8	145.3
Gross profit margin	11.1	7.5	9.1	14.4	24.5
Operating expenses	7.6	10.2	11.0	14.4	15.7
Operating income	3.5	-2.7	-1.9	–	8.8
Interest, exchange loss, etc.	11.9	45.4	50.5	55.7	57.7
Net income	-8.3	-48.1	-52.4	-55.7	-48.9
Accumulated losses	18.6	79.0	131.4	187.1	236.0
Total liabilities	115.3	201.9	263.1	342.9	349.6
Total Assets	116.2	146.9	157.7	181.9	219.1
of which:					
Fixed assets	71.5	104.5	106.8	112.3	100.7
	23 viable firms (end 1986)				
Total employed (thousand)	(27.0)	(26.7)	(26.7)	(27.1)	(26.1)
Net sales	56.0	71.5	80.8	112.7	136.4
Gross profit margin	10.0	8.0	9.9	14.7	24.8
Operating expenses	6.2	8.8	9.9	12.6	13.6
Operating income	3.9	-0.8	–	2.1	11.2
Interest, exchange loss, etc.	9.4	30.9	37.1	45.2	44.8
Net income loss	-5.6	-31.7	-37.1	-43.1	-33.6
Accumulated losses	11.0	48.0	85.1	128.2	161.8
Total liabilities	85.3	147.8	195.1	258.3	250.7
Total assets	88.9	117.7	130.1	150.1	188.6
of which:					
Fixed assets	57.2	86.8	89.7	94.8	83.1
	21 non-viable firms (end 1986)				
Total employed (thousand)	(6.0)	(4.2)	(3.6)	(3.8)	(1.9)
Net sales	7.8	6.7	4.3	8.1	9.0
Gross profit margin	1.1	-0.5	-0.8	-0.3	-0.3
Operating expenses	1.4	1.4	1.1	1.8	2.1
Operating income	-0.3	-1.9	-1.9	-2.1	-2.4
Interest, exchange loss, etc.	2.4	14.5	13.4	10.5	12.9
Net income	-2.7	-16.4	-15.3	-12.6	-15.3
Accumulated losses	7.6	31.0	46.3	58.9	74.2
Total liabilities	30.0	54.2	68.0	84.7	98.9
Total assets	27.2	29.2	27.6	31.8	30.5
of which:					
Fixed assets	14.3	17.7	17.1	17.5	17.6

1. Before falling under LD 1386/83 all firms (i.e. 44 firms) had, (Drachma billion):

Accumulated losses	109.9	Capital and reserves	26.6
Total bank loans	158.9		
Other liabilities	71.6		
Total liabilities	230.5	Total assets	146.3

2. Total employment all firms covered under LD 1386/83.

Source: Data submitted by national authorities (Business Reconstruction Organisation).

become the biggest shareholders in many problematic firms, although in most cases the OAE retains overall control and monitors the firms concerned. If a firm is ultimately found to be non-viable, procedures are initiated to close it down.

Only 44 of the existing 250 applications have so far been approved. The firms involved employ 30 800 persons. Before capitalisation their outstanding debt was almost Dr 230 billion, of which Dr 40 billion to foreign creditors[26]. In 1985, the value of sales was Dr 121 billion, of which more than one-quarter were sales abroad. The ratio of sales to fixed assets was 1.1, almost half that in most competing countries, while that of sales to debt was only one-third, reflecting the high degree of capacity under-utilisation and an unbalanced financial structure. Problematic firms in textiles employing 12 000 persons represented nearly one-third of total problematic firms, followed by firms in metal products and paper. Twenty-one problematic firms employing 3 800 persons are considered non-viable and the OAE plans to close them before the end of 1987. Additional redundancies of 3 000 workers over a period of three years are envisaged under the restructuring plans for 22 firms deemed viable. In total, 6 800 lay-offs are envisaged, i.e. 23 per cent of total employment in problematic firms and 2 per cent of total manufacturing employment. These figures are extremely small when compared to restructuring plans in other OECD countries, where the overall economic situation is generally less severe. This suggests that the size of the required adjustment may be underestimated.

Although the major part of the adjustment is still to be undertaken, fairly generalised improvements in profit rates have occurred over the last eighteen months thanks to a certain easing of bureaucratic obstacles to labour force adjustments and measures facilitating multi-shift and seasonal work[27]. The Government's stiffening attitude towards labour unions and falling real labour costs have also contributed. Thus, after sustained losses over a number of years, in 1986 problematic firms as a whole recorded positive, albeit small, profits before financial charges, while net losses declined by 30 per cent in real terms largely reflecting capitalisation. Decentralistion of management with the aim of increasing flexibility is one of the preoccupations of the Business Reconstruction Organisation (OAE). One of the largest firms in textiles employing over 7 200 workers has been divided into ten smaller units taking into account the regional distribution of plants and product differentiation. There are similar plans for other large problematic firms. In order to be able to attract efficient managers to firms under public sector control, the rules putting a relatively low ceiling on top salary levels have been partially relaxed. While welcome, the measures so far introduced fall short of requirements. The very fact that problematic firms considered viable continue to incur sizeable losses even after capitalisation, suggests a long and difficult road ahead for the achievement of adequate profit rates. Moreover, increasing flexibility has mainly benefited industry, as regulations concerning services are still stringent and incompatible with the modernisation of this potentially very important sector of the economy.

Unbalanced public/private sector developments

A striking feature over the 1979-1985 period has been the continuing rapid expansion of the public sector (Table 12). Its annual contribution to output, whether viewed from the supply- or demand-side, changed little before and after the two oil shocks. In contrast, after exceeding 4 percentage points per annum during the 1970s, the contribution of the private sector was minimal between 1979 and 1985. Thus, the expansion of the public sector more or less fully accounts for the growth of GDP in the latter period[28]. 1986 saw a reversal of these unsatisfactory trends.

Table 12. **Public sector expansion**[1]

	1960	1970	1979	1981	1985	1986[2]
	Per cent of GNP					
Public sector expenditure[3]	27.0	33.6	39.1	48.2	58.4	56.9
of which:						
Goods and services	22.0	23.9	25.8	30.5	34.9	33.3
General government	20.5	26.4	31.8	38.2	48.7	47.8
Goods and services	15.0	16.7	18.5	20.5	25.0	23.8
Transfers and subsidies	5.0	9.7	13.3	17.7	23.7	24.0

	1970/1960	1979/1970	1985/1979	1986/1985
	Percentage-point contribution to the growth of output			
Demand side[4]				
Public sector final demand	1.7	1.4	1.5	–1.0
Private sector final demand	6.6	3.5	0.1	1.0
External sector	–0.6	0.2	–0.7	0.7
GNP, market prices (annual rate of growth)	(7.7)	(5.1)	(0.9)	(0.7)
Supply side				
Public sector[5]	1.2	1.2	0.8	0.5
Private sector	6.0	4.1	0.8	0.9
GDP, factor cost (annual rate of growth)	(7.2)	(5.3)	(1.6)	(1.4)
GNP, factor cost (annual rate of growth)	(7.2)	(5.3)	(1.0)	(0.7)

1. The public sector includes general government and PCEs (public corporations and enterprises). It excludes commercial banks and industrial firms under public-sector control.
2. Provisional estimates.
3. Including an estimate of PCEs final consumption.
4. The statistical discrepancy has been *pro rata* distributed to the three demand components.
5. Public sector output is defined to include electricity, gas and water, railroads, one-fifth of "other transportation", communications, public administration and defence, and two-thirds of health and of education.

Sources: *National Accounts of Greece* and OECD Secretariat estimates.

The unprecedented and protracted weakness of the private sector in the face of continued rapid growth of general government spending on goods and services as well as on transfers and subsidies is all the more surprising as a growing part of government expenditure was not financed by taxes. The PSBR (Public Sector Borrowing Requirement) increased from less than 6 per cent of GDP in 1979 to some 14¼ per cent in 1981 and, after falling somewhat in the following years, peaked at 17¾ per cent in 1985. The absence of a positive growth response from the private sector from such a large cumulated fiscal "stimulus" contrasts sharply with past experience in Greece and with the record, of late, in many OECD countries.

Apart from the failure of the private sector to adjust to changing patterns of demand and external supply shocks, crowding-out mechanisms may have become stronger as public sector claims on real and financial resources rose rapidly to high levels. Fast growth of public sector employment, with wage and salary levels above the national average, must have shifted upwards the supply curve of labour, pushing up labour costs in the private sector. The increasing public-sector claim on financial resources is reflected in the relatively high rate of growth of domestic credit expansion to the public sector — 37 per cent per year between 1979 and 1985 compared to 21 per cent to the private sector. After allowing for the funds earmarked for agriculture, for other sheltered activities and for non-viable industrial firms, the increase in domestic credit to the "competitive" economy was considerably smaller, averaging 20 per cent per annum since 1979 or 2 percentage points less than nominal GDP growth. Since 1982 the corresponding rates were 16 per cent and 5 per cent.

Even allowing for stronger crowding-out effects on private sector activity than in the past, the disappointingly weak supply response of the private sector to the economic challenges of the two oil shocks and of Greece's entry into the EEC remains puzzling. Complex socio-political rather than straightforward economic reasons seem to have been largely responsible. One worrying aspect is the extent to which Greek society exhibits features typical of a "rentier" mentality. Sizeable foreign-exchange inflows from Greeks living abroad, the recent large EEC payments and fast-growing government transfers to households, have apparently created a climate of complacency, dissociating income from work effort, reducing work incentives and favouring consumption. Up to mid-1985, development needs of the economy would seem to have been subordinated to the aspirations of the population for continuing rapid increases in living standards at the expense of capital accumulation and external equilibrium. This consumer mentality has been reflected in a marked decline of the gross national saving ratio from 25 per cent in 1979 to some 12 per cent in 1985. It is also witnessed by the low priority attached to the up-grading of the structure and methods of production after the two oil shocks and in response to growing foreign competition, notably from EEC members and newly-industrialising countries.

During most of the post-World War II period the growth of the general government share in GNP has been broadly in line with that of the OECD total and the general government deficit only somewhat higher. Until recently, there had been little questioning of

Table 13. **Public sector borrowing requirement**

Per cent of GNP

	1979	1980	1981	1982	1983	1984	1985	1986
	Cash basis							
Ordinary and investment budget	4.6	5.7	10.0	8.6	9.3	10.3	14.6	9.9
Agricultural products and government supplies	1.3	1.4	2.2	1.8	0.3	2.5	-0.5	0.4
Public corporations	1.2	1.9	2.8	2.1	2.8	2.7	2.8	2.2
Local authorities and social insurance funds[1]	-1.4	-0.9	-0.6	0.1	-1.1	0.1	0.7	1.4
Net borrowing requirement	5.7	8.1	14.3	12.5	11.3	15.5	17.7	13.9
(Dr. billion)	(84)	(143)	(302)	(328)	(351)	(588)	(810)	(761)
	National-accounts basis							
General government, net borrowing[2]	2.5	2.8	10.6	7.4	8.2	10.1	13.9	11.0
Central government	2.1	1.9	7.9	4.3	4.3	4.6	7.8	5.9
Social insurance funds	-1.1	-0.9	0.5	0.6	0.8	1.6	2.0	1.9
Local authorities	0.6	1.0	1.1	0.9	1.1	1.2	1.3	1.4
Public entities	0.9	0.8	1.1	1.6	2.0	2.7	2.7	1.8

1. Including some other public entities of lesser importance.
2. Sub-headings exclude intra-government transfers. Indirect taxes levied by the central government on behalf of Social Insurance Funds are included in the revenues of the latter. Excluding these taxes, the annual deficit of the Social Insurance Funds would have been about 1¼ percentage point higher since 1980.

Note: In addition to timing differences, the coverage of the public sector on a cash basis is wider than that on a national accounts basis. The latter, takes account of changes in suppliers' credits, whereas the former includes only bank credits (this affects especially public corporations). Much of the debt owed to the public sector is not likely to be recuperated, hence the figures on a cash basis are more representative of the public sector financial condition.

Note: Because of rounding figures may not add up.

Sources: Bank of Greece, *Annual Report* and OECD Secretariat estimates.

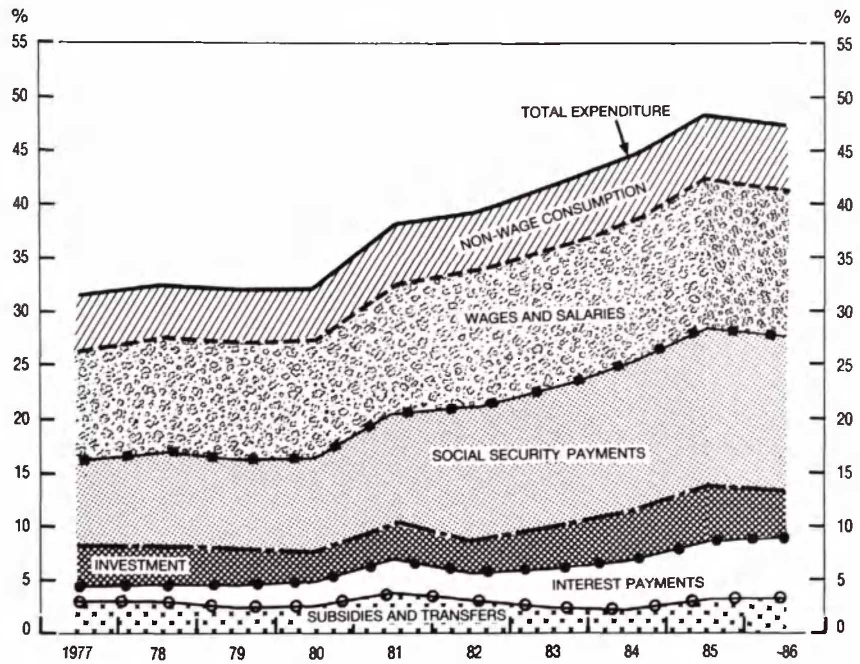
the role of the public sector, of its economic implications or optimal size. Attitudes had been influenced by the historically unprecedented rates of economic growth which Greece had enjoyed up to the late 1970s and the positive contribution that growing public sector activity was generally held to make to overall economic development and to improving social equity. Given rapid income growth, increments to public spending were felt to be easily financeable from the resulting growth dividend without upsetting the balance between the public and the private sector and without straining the balance of payments position.

The situation changed rather drastically during the first half of the 1980s when output in the private sector virtually stagnated and PSBRs rose sharply, reaching 17.7 per cent of GNP in 1985. In contrast to the fiscal retrenchment in most other OECD countries after 1982, fiscal policy remained on the whole expansionary until mid-1985. The consequent rise in the deficit was primarily caused by large increases in current expenditure at all levels of government and steeply rising financial charges.

Government expenditure

In the six years to 1985 general government outlays increased by as much as 17 percentage points of GNP, by far the steepest rise recorded in the OECD area. In 1979 the GNP share of government expenditure was still one-third and one-fourth below those for OECD Europe and OECD total, respectively. By 1985, having increased to almost 49 per cent, it was close to that of OECD Europe and slightly above that for OECD total. The main

Diagram 9. **Government expenditure**
Per cent of GNP

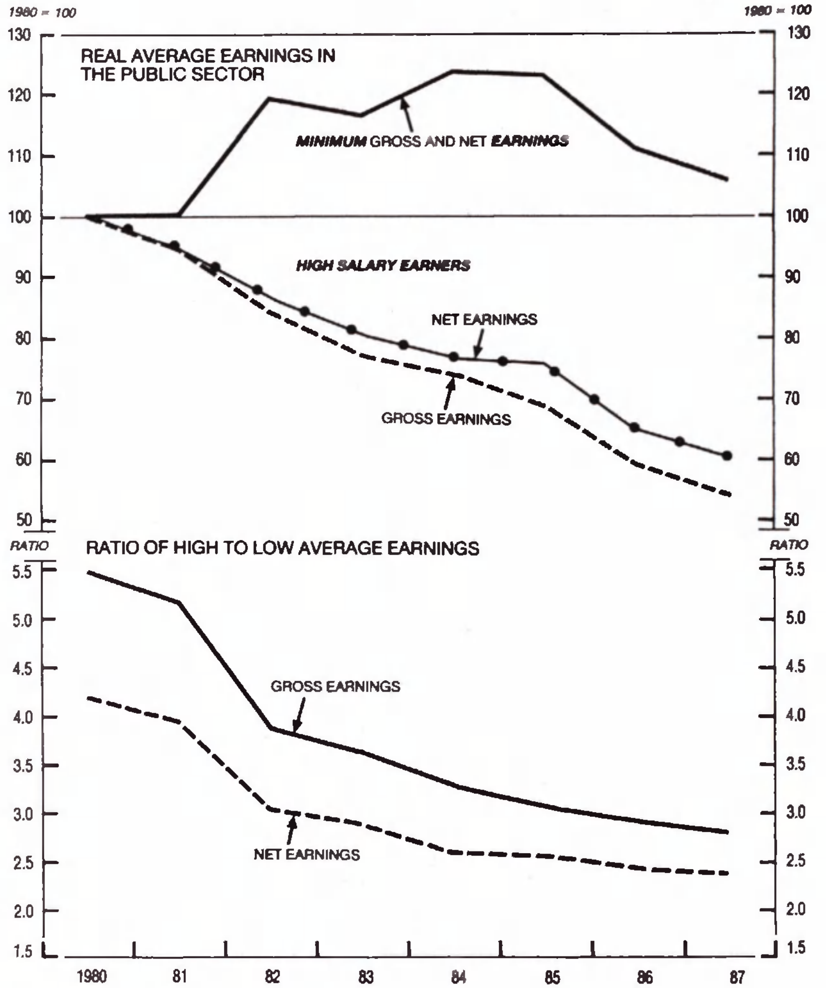


Sources: Ministry of National Economy, *National Accounts of Greece 1986* and OECD estimates.

contribution to this rise came from government consumption and social security payments. By contrast, general government transfers and subsidies to PCEs (public corporations and enterprises) and to private business remained almost stable in relation to GNP; while fixed investment rose only slightly.

After remaining constant for four years, general government consumption increased from $15\frac{3}{4}$ per cent of GNP in 1980 to $20\frac{1}{2}$ per cent in 1985. This was largely due to the rapid growth of the wage and salary bill from 11 per cent to $14\frac{1}{4}$ per cent of GNP. Government employment continued to expand at over $3\frac{1}{2}$ per cent per annum, the same rate as recorded between 1975 and 1980. In the ten years to 1985, its cumulative rise was almost 50 per cent, thus probably exceeding the genuine demand for new posts.

Diagram 10. **Average earnings differentials**



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

The considerable increase in the government wage bill between 1979 and 1985 was not only caused by rapid increases in public sector employment but also by substantial wage concessions. In a period of near stagnation, real average earnings in the public sector increased by 4.5 per cent per annum or 2 percentage points more than in the private sector. This increase, considerably faster than implied under the ATA indexation scheme, was due to far-reaching reforms of the grading system. The new "unified pay scale" (introduced in 1984), by attaching considerably greater importance than in the past to service-length, has resulted in substantial increases in real earnings of low and medium categories. At the same time, by reducing the weight of professional qualifications it has depressed pay levels of high-ranking civil servants. As a result, the ratio of take-home pay between the top and the lowest income categories in the public sector has fallen to barely 2½ to 1 since 1986, compared to almost 5 to 1 in 1979. This is probably by far the narrowest pay differential in the OECD area and has started to affect negatively the recruitment of competent personnel and the motivation of existing staff. As, in addition, recruitment regulations in the wider public sector give less weight to professional qualifications than to criteria such as the geographic origin and marital status of the candidates, the efficiency of the administration may have been adversely affected[29].

Tax revenue

Government revenues have lagged considerably behind the growth of expenditure. In terms of GNP they increased from a low ratio of 29 per cent at the end of the 1970s to 34.5 per cent in 1985. Though rising somewhat faster than in the OECD area as a whole, the revenue/GNP ratio was still more than 6 percentage points below that of the OECD total and more than 12 percentage points below that for OECD Europe. The relatively low level of taxation does reflect the narrow (direct and indirect) tax base rather than low tax rates. Indeed, there is a relatively heavy tax burden on incomes and transactions that are easily taxable (e.g. wages and salaries, purchases of cars and some other consumer durables, real estate and inheritance transactions). The share of income tax paid by employees (including retired employees) is disproportionately high and, despite the fact that dependent employment is very small, social security contributions, both in relation to GNP and to total taxes, are higher than in OECD Europe[30].

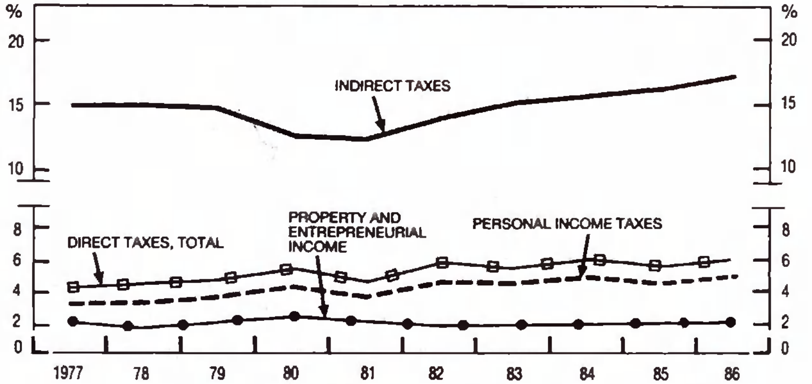
Table 14. **Comparative tax receipts**
Per cent of GDP

	1979	1984	1979	1984	1979	1984
	Total taxes		Personal income tax		Social security contributions	
Greece	29.4	34.4	3.3	4.8	8.4	11.2
OECD Europe	35.9	39.0	11.2	11.6	9.6	10.6
OECD total	34.2	37.1	11.3	11.7	8.3	9.1
	Taxes on corporate income		Indirect taxes		Other taxes	
Greece	1.0	1.0	14.7	15.2	2.0	2.2
OECD Europe	2.2	2.7	11.0	12.1	1.9	2.0
OECD total	2.5	2.9	10.2	11.2	1.9	2.2

Sources: OECD, *Revenue Statistics of OECD Member countries, 1965-85*, *National Accounts of Greece*, 1986 edition.

The ratio of indirect taxes to GNP is also higher in Greece than in the OECD area as a whole, despite the relatively large share of consumer spending on basic goods, which usually carry low tax rates. High tax rates are applied to a small number of easily controllable consumer goods, whereas many services and goods remained practically tax-exempt until the introduction of VAT last January. At 1 per cent of GNP corporate tax receipts are indeed extremely low by international comparison. Tax evasion and avoidance are partly responsible, but the most important factor is the structure of the economy characterised by large shares of agricultural income in GNP (18 per cent) and self-employed in the non-agricultural labour force (33 per cent).

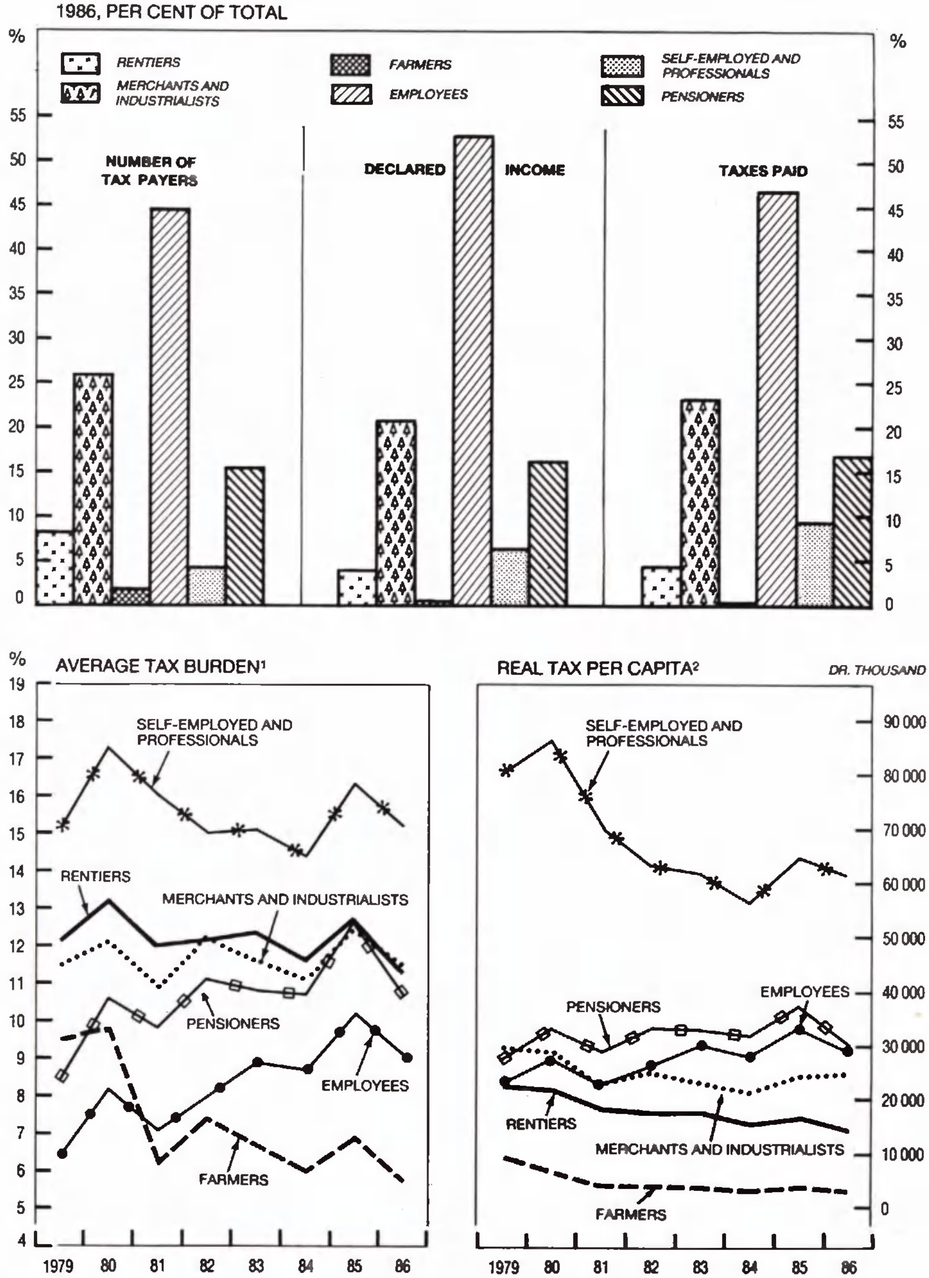
Diagram 11. **Government receipts**
Per cent of GNP



Sources: Ministry of National Economy, *National Accounts of Greece 1986* and OECD estimates.

Following the introduction of VAT, the most important problems of tax evasion and unwarranted tax exemptions remain in the domain of personal income taxes. The ratio of personal income tax to GNP was 4.5 per cent in 1985, less than half that of OECD Europe. Moreover, after rising rapidly during the second half of the 1970s, it has increased only marginally since 1980, pointing to important institutional and structural impediments to a widening of the tax base with respect to the number of people and sources of income[31]. Farmers, who constitute one-quarter of the labour force and have an average income, including revenues from activities outside agriculture, comparable to the average wage and salary level, are practically tax exempt[32]. In 1985 income taxes paid by farmers accounted for 0.2 per cent of total personal income taxes, compared to 18 per cent of national income derived from agriculture. Moreover, since the end of the 1970s, income taxes paid by farmers have increased at about half the rate of that for other occupational groups, despite the fact that farmers have benefited importantly from growing transfers and subsidies. It has been estimated that by taxing farmers realistically (i.e. at slightly below average), tax receipts equivalent to nearly 3 per cent of GNP could be levied. Tax evasion is also widespread among the self-employed, shopkeepers, artisans, professionals, merchants, small industrialists and other businessmen. Efforts to curb tax evasion were less successful than expected. Although as a result of fiscal drag and, especially in 1986, better controls, the number of income declarations by merchants, industrialists and shopkeepers has grown appreciably, their tax payments are on average considerably lower than those of employees.

Diagram 12. **Personal income tax by occupational categories**



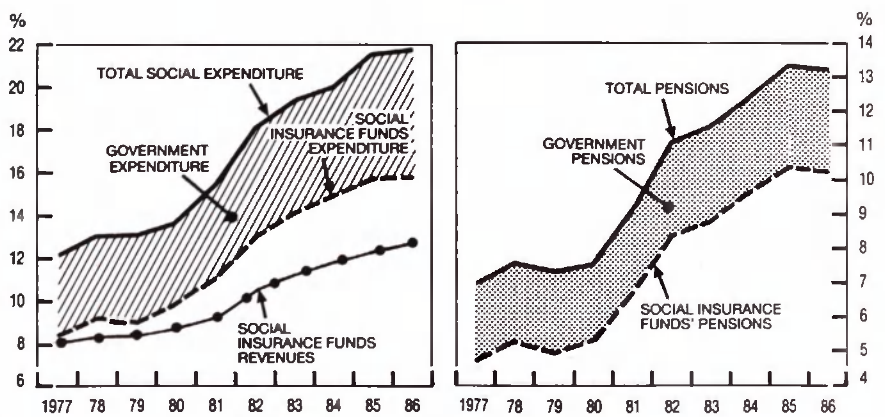
1. Taxes per cent of declared income.
2. Taxes per person paying taxes at 1980 prices.

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

Imbalances in the social security system

The accounts of the Social Insurance Scheme[33] were roughly in balance until 1980, with surpluses of certain insurance funds almost fully compensating for the deficits of other funds. Before government transfers, the Social Insurance deficit on a national accounts basis rose to 1.5 per cent of GNP in 1981 and has since been on an upward trend reaching 3.5 per cent in 1985. Including the growing social security payments to central and local government employees and to a few other occupational categories, and adding expenditure directly funded by the Budget, the cumulated increase of the deficit was 4.5 percentage points in the six years to 1985. This sizeable growth is explained only to a limited extent by the slack that has developed since 1980. The principal reason is the gradual transformation of a basically social insurance system dependent on contributions into a social welfare system, in which benefits granted to large categories of the population are increasingly dissociated from contributions. Between 1979 and 1985 social expenditure rose by over 8 percentage points to 20.7 per cent of GNP against an increase in social security contributions of almost 2 percentage points to 11.3 per cent of GNP. All components of social expenditure contributed to this steep upward trend. With the important exception of pensions, the increase in all other social expenditure, both in absolute and in relative terms, remained relatively small and was almost completely covered by increases in contributions (sickness, welfare, unemployment)[34]. As a result, many of these specific accounts, notably sickness accounts, continued to run surpluses and were used to cover the deficit of the pension scheme.

Diagram 13. **Social expenditure**
Per cent of GNP



Sources: Ministry of National Economy, *National Accounts of Greece* and Ministry of Social Welfare and Social Insurance: *Social Budget 1986*.

Pensions grew from 7.3 per cent of GNP in 1979 to 13.3 per cent in 1985. The increase in pensions paid to government employees was comparatively small, from 2.4 per cent of GNP to 3 per cent[35]. In contrast, pensions paid by the various social insurance funds more than doubled. Low pensions were raised considerably. In addition, with a view to securing minimum pensions on a universal basis, the coverage of pension rights was extended to people

Table 15. **Current revenue and expenditure of Social Insurance Funds**[1]

National-accounts basis, per cent of GNP

	1979	1981	1983	1985 estimates	1986 estimates
Revenues	8.5	9.3	11.3	12.4	12.7
Employers' contributions	4.0	4.2	5.0	5.4	5.6
Employees' contributions[2]	3.7	4.2	5.1	5.5	5.7
Income from property	0.6	0.7	1.0	1.0	1.0
Other revenue	0.2	0.2	0.2	0.4	0.4
Expenditure	8.6	10.8	14.0	16.0	16.1
Wages and salaries	0.6	0.6	0.7	0.8	0.8
Other purchases	0.4	0.6	0.9	1.0	1.0
Pensions	4.9	6.6	8.8	10.4	10.3
Other social payments	2.7	3.0	3.3	3.6	3.4
Interest payments	–	–	0.3	0.2	0.6
Balance	–0.1	–1.5	–2.7	–3.6	–3.4
Taxes levied on behalf of funds	1.2	1.2	2.0	1.7	1.6
Direct government transfers	0.0	0.7	0.6	0.6	0.8
Total current balance	1.1	0.2	–0.1	–1.3	–1.0

Memorandum items:	Pension fund of IKA		Sickness fund of IKA[3]		Total IKA	
Insurance contribution rates	Employer	Employee	Employer	Employee	Employer	Employee
Private employees (rates)	9.5	4.75	4.5	2.22	14.0	6.97
	Unemployment fund		Other funds		Total insurance funds[4]	
Mainly employers and self-employed (rates)	2.0	1.0	2.75	2.25	18.75	10.25

1. This table includes only insurance funds on a contributory base. It excludes social schemes covering central government employees and a few other public sector employees funded directly through the Budget as well as health expenditure (hospitals, etc.), which is also financed directly through the Budget.
2. Including the self-employed and professionals.
3. Mainly for sickness allowances.
4. For dangerous and unhealthy jobs the contributions' rate of employers and of employees are 21.15 and 12.45 respectively.

Sources: National Accounts of Greece, 1985 and OECD Secretariat estimates.

who had not contributed to any social insurance fund during their working life, notably to farmers and returning immigrants. Between 1979 and 1985 the number of pensioners increased at a rapid pace — 5.3 per cent annually — encouraged by strong in-built incentives to early retirement, especially in the wider public sector[36]. As a result, ratios of contributors to pensioners tend to be very low, particularly in a number of insurance funds and in the government (e.g. Farmers' Social Insurance Organisation 2.3, banks 2 and Government 1.2).

The Farmers' Social Insurance Organisation (OGA) and the Social Insurance Organisation (IKA), to which most private sector employees are affiliated compulsorily, are the two most important social insurance funds. Both are in serious financial difficulties. Most of the other, mainly occupational, insurance funds, which account for 18 per cent of all insured persons, still run surpluses. These surpluses, however, are largely achieved through

Table 16. **Pension funds**[1]

	1979	1982	1986	1982/1979	1986/1982	1986/1979
	Thousand			Annual percentage change		
Contributors						
Main pension funds	3 362	3 602	4 258	2.3	4.3	3.4
of which:						
IKA[2]	1 300	1 560	1 710	6.3	2.3	4.0
OGA[3]	1 448	1 898[4]	1 683	9.4	-3.0	2.2
Supplementary pension funds	945	1 102	2 007	5.3	16.2	11.4
of which:						
IKA	–	60	793			
Pensioners						
Main pension funds	1 050	1 300	1 498	7.4	3.6	5.2
of which:						
IKA	300	398	505	9.9	6.1	7.7
OGA	564	706	764	7.8	2.0	4.4
Supplementary pension funds	174	224	303	8.8	7.8	8.2
of which:						
IKA			9			

	1979	1981	1982	1984	1985	1986
Memorandum items:						
Contributors-to-pensioners ratio[5]	3.2	3.1	2.8	2.9	2.9	2.8
Excluding OGA	4.0	3.8	3.7	3.6	3.6	3.5
of which:						
IKA	4.1	3.9	3.4	3.6	3.4	3.4

1. Pension funds under the responsibility of the Ministry of Health, Welfare and Social Insurance. These cover most insured persons, excluding central government employees and a few public enterprises and corporations.
2. IKA stands for the Social Insurance Organisation to which most (excluding mainly banks) private sector employees are compulsorily affiliated.
3. The Farmer's Social Insurance Organisation.
4. In 1982 farmers' wives were for the first time included in OGA and this resulted in a marked increase in the number of contributors from 1 358 000 in 1981 to 1 898 000 in 1982. However, this rise was not accompanied by a corresponding increase in OGA revenues since the latter depend principally on farm revenues and not on the number of persons insured. Accordingly, the rise in the ratio of contributors to pensioners in 1982 does not suggest any real improvement in OGA's finances.
5. Between 1971-1981, the number of contributors in IKA grew at an average annual rate of 4.5 per cent, compared to 5.7 per cent for the number of pensioners. During the same period, the rates of growth of the urban population over 65 and total employees were 3.5 and 4.2 respectively.

Sources: Ministry of Health, Welfare and Social Insurance, *Social Budget*, 1984 and 1986.

direct or indirect government grants (e.g. by sharing the yield of certain taxes) or through extraordinary subsidies paid out of the operating revenues of related organisations (e.g. banks, Public Power Corporation). Allowing for these "financial injections", the underlying financial situation of the occupational insurance funds taken together is less sound than it appears at first glance. It is also to be noted that in order to obtain low-cost finance, in the past the Government had obliged many occupational Insurance Funds to invest surpluses in financial instruments yielding negative real returns.

Since the early 1980s, the OGA, with 1.7 million contributors has greatly increased both coverage (mainly by extending membership rights to women) and average pensions. In the six years to 1985 the number of farmers receiving pensions grew by 35 per cent to 750 000 persons. Over the same period, expenditure on pensions grew by almost 30 per cent per annum. As contributions cover only a small and falling fraction of expenditure (about

17 per cent) the deficit reached 1.7 per cent of GNP in 1985. It may have grown further since. This deficit is completely covered by the Government, either in the form of direct transfers (close to one-half) or indirectly, through taxes levied on behalf of the OGA (part of personal income taxes, certain stamp duties and specific indirect taxes on the new consumer goods). Expenditure on pensions paid by IKA almost doubled between 1979 and 1985 to 4.4 per cent of GNP[37]. This unbalanced growth of expenditure on pensions is attributable to the steep annual rise in both the average pension, by some 30 per cent or 8 per cent in real terms, and in the number of pensioners, by about 5.7 per cent, almost double the rate of new contributors. The disproportionate increase in average pensions paid by IKA, more than double the real growth of average earnings, must be seen against the background of the relatively low starting level of most pensions and the government's policy favouring low income earnings. As a result, the minimum IKA pension rose from about 40 per cent of the average earnings of an industrial worker in 1979 to 66 per cent in 1985[38].

Loss-making public corporations and enterprises

The economic and financial situation of Public Corporations and Enterprises (PCEs) deteriorated markedly during the first half of the 1980s. Their combined deficit rose from 2 per cent of GNP in 1979 to 5.5 per cent in 1985, of which 2.8 percentage points was covered

Table 17. **Selected data on public corporations and enterprises**

	1980	1982	1985
Total employment	116 130	133 995	144 001
of which:			
Telecommunications organisations	30 236	31 148	30 571
Public power corporation	26 365	26 673	27 633
Railways	12 905	14 014	14 965
Urban transport	12 907	13 371	14 275
Olympic Airways	7 869	8 735	11 104
Post office	9 248	9 355	10 405
Water and sewage authorities	3 747	4 272	4 816
Fixed investment (national accounts basis):			
Per cent of total fixed investment	16.5	22.5	30.2
Per cent of GNP	3.0	3.1	3.3
	1980	1983	1985
	Per cent of GNP		
Administrative basis			
Operating deficit[1]	0.7	0.8	1.9
Capital deficit[2]	2.0	3.0	3.6
Total deficit	2.7	3.8	5.5
Official transfers and grants		2.0	2.8
Total borrowing		1.8	2.7
Cash basis			
PCEs borrowing requirement	1.9	2.8	2.2

1. Gross revenue less material costs, wages and salaries, interest payments, marketing costs, etc.
2. Investment less capital revenues (including amortization).
Source: Data submitted by national authorities.

by government transfers. The underlying economic situation is even worse than the fast rise of debt may suggest. Plagued with high operating deficits and cash-flow problems, investment by PCEs has remained insufficient, thus retarding the modernisation of infrastructure. Indeed, in many areas (e.g. transport and telecommunications) public services are clearly inadequate for a country at Greece's level of development. The rather dramatic deterioration of the financial position of PCEs during the first half of the 1980s can be attributed to a number of factors, largely similar to those behind losses in the private sector: lack of managerial skills; low priority attached to efficiency and productivity improvements; sharp increases in unit labour costs; and last, but not least, government interference in pricing policies.

Public corporations and enterprises have been used for redistributive purposes and for suppressing inflation. The increase in the price of transport tickets, for instance, has fallen considerably behind costs. In the Athens area, receipts from tickets cover only one-fifth of the cost of urban transport — probably one of the lowest, if not the lowest, ratio in the OECD area. In 1985, the real price of tickets was about 40 per cent below that of 1981. Water charges were adjusted only four times during the last thirty years. In 1986, the average price of water was in real terms one-half that of ten years earlier. In total, in the four years to 1985, the real decline in prices and fees for the most important PCEs was around 26 per cent[39].

Although for social welfare reasons some PCEs, as in other OECD countries, are traditionally in deficit, the size of some of these deficits is excessively high, implying considerable misallocation of resources over the longer run. The most notable examples are the Urban Transport Organisation and the Greek Railway Organisation, whose aggregate operating deficit before government transfers was slightly over 1 per cent of GNP, despite the relatively poor quality of service. Some PCEs have run large operating deficits and have thus been unable to finance internally even part of their investment. In generaly, there has been a relatively slow expansion of capacity in many areas resulting in excess demand, especially for telecommunications. Yet, the most disturbing trends are the continuing large operating deficits of Olympic Airways (O.A.), Olympic Catering (the principal supplier of food to airlines), Hellenic Aeronautical Industry and the Water Authority. The aggregate operating deficit of the first two amounted to $\frac{1}{2}$ per cent of GNP in 1985 and has not changed much since. This contrasts with the healthy profits of most other national airlines. Moreover, most of O.A.'s losses are in foreign exchange. The principal reason for the poor performance of Olympic Airways is overmanning, relatively high earnings levels, low domestic fares and growing interest charges[40].

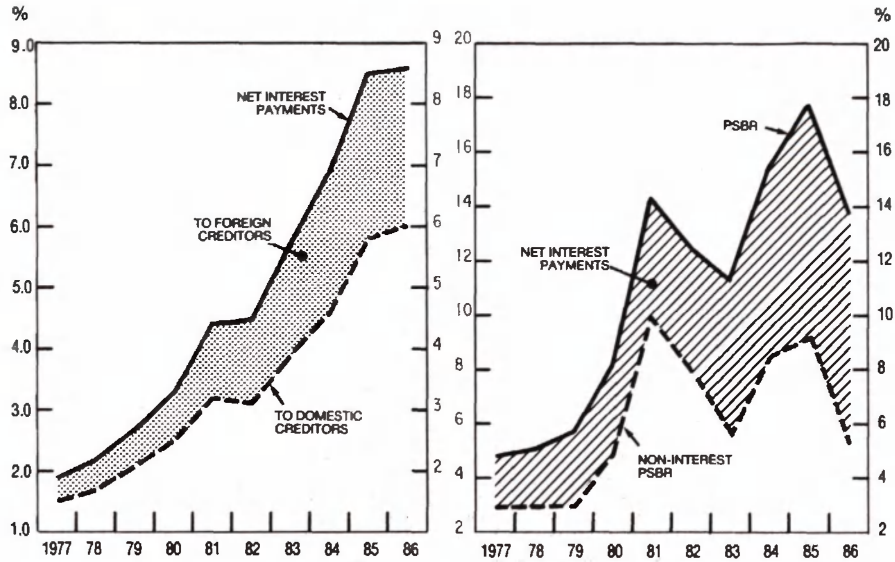
With the aim of improving the financial situation of PCEs, the Government has drawn up a comprehensive programme, much of which is yet to be implemented. The principal lines of action consist of rescheduling part of the debt, closer strategic monitoring with less day-to-day interference, and above all, more realistic and transparent pricing policies. A clear distinction between the social and the commercial component of prices will be drawn. Any difference between the actual and the commercial shadow price, i.e. the subsidy element, will then be covered by transfers from the government budget. A thorough review of pricing policies on commercial and economic grounds is under way and prices for many services have already been markedly increased at the end of 1985, in mid-1986 and in April 1987.

Interest payments and the deficit/debt spiral

The rapid increase of the PSBR since the mid-1970s conjured up the imminent risk of a destabilising widening gap between expenditures and receipts under the self-sustained impetus of growing interest payments[41]. By 1985, the net public sector debt had reached some 80 per cent of GNP, one of the highest ratios in the OECD area. More disquieting than its

Diagram 14. **Interest payments and the PSBR**

Per cent of GNP



Sources: Ministry of National Economy : *National Accounts of Greece;* Bank of Greece: *Monthly Statistical Bulletin* and OECD estimates.

size, however, was the speed at which it had grown, having soared in relation to GNP by over 50 percentage points since 1979. As a result of this rise and of the inflation-induced increase in interest rates, the 3½ percentage point rise of the PSBR to 17.7 per cent of GNP between 1981 and 1985 was almost fully accounted for by higher net interest payments. Continuation of existing trends would have resulted in an explosive deficit-debt spiral.

The 1985-1987 Stabilisation Programme, by focusing on a steady reduction of the PSBR, has reduced this risk. Nonetheless, a hard task still lies ahead. A prerequisite for gaining lasting control over the deficit is the stabilisation of the debt/GNP ratio. The unfavourable starting conditions imply that attainment of this target in the medium term requires severe cuts in the non-interest component of the PSBR. Indeed, on a set of relatively favourable assumptions[42], a cut in the general government deficit to at least 7 per cent of GNP by 1992 would be necessary to stabilise the interest-bearing debt/income ratio. In the process, however, net interest payments would only decline to 6¼ per cent of GNP[43]. This implies a cut in the deficit net of interest payments at a rate of around ¾ per cent of GNP per annum from 5¼ per cent in 1986 to ¾ per cent in 1992. This cut represents an ambitious target, both by international and Greek standards, calling for important reforms in both the area of expenditure and taxes.

It is important to stress that the achievement of this target would ease but not eliminate the budgetary constraint. The net debt/income ratio would stabilise at close to 97 per cent and the deficit would still be relatively large. Assuming broadly constant real interest rates in the

Table 18. **Net public sector debt**

Per cent of GNP

	1979	1981	1983	1985	1986[1]
Central government					
Total debt	26.8	31.9	40.8	58.4	58.8
Domestic	21.5	24.1	28.4	35.9	35.4
Foreign	5.3	7.8	12.4	22.5	23.4
Rest of public sector					
Total debt	0.6	8.0	13.4	23.1	23.0
Domestic	0.3	3.0	3.8	10.8	13.1
Foreign	0.3	5.0	9.6	12.3	9.9
Total public sector debt	27.4	39.9	54.2	81.5	81.8
Domestic	21.8	27.1	32.2	46.7	48.5
Foreign	5.6	12.8	22.0	34.8	33.3

1. Provisional estimates.

Note: The public sector debt is net of public sector deposits with financial institutions both at home and abroad. Central government debt data have been derived directly from the Budget. The rest of the public sector consists mainly of public corporations and enterprises. The domestic component is based on financial institutions' asset and liability figures. The foreign component is estimated by taking total net public sector external debt (net of official foreign exchange reserves) less central government debt and Bank of Greece debt. The foreign component excludes government-guaranteed foreign loans given to publicly-controlled financial institutions and to some private enterprises. Including these sums public sector foreign debt and total debt would have been about 3 percentage points higher in both 1985 and 1986.

Source: *The Budget* and Bank of Greece, *Monthly Statistical Bulletins.*

medium term, any 1 percentage point increase in inflation would raise the interest bill by about ¾ per cent of GNP, while short-run increases in real rates aimed at fighting inflation would permanently add to the debt/income ratio. The room for policy manoeuvre will therefore remain limited and can only be enhanced over the longer run by the maintenance of *(i)* real GDP growth in excess of real interest rates and *(ii)* low inflation.

III. CONCLUSIONS

To reverse the rapid growth of macroeconomic imbalances and the associated stagflationary trends of the first half of the 1980s, a comprehensive two-year Stabilisation Programme was introduced in October 1985 representing a major policy shift from expansion to restraint. Its principal objectives are a cut of the public sector borrowing requirement (PSBR) from 18 per cent of GNP in 1985 to 10 per cent in 1987, a reduction of the current external deficit from 10 per cent of GNP to some 3 per cent, and a slowdown in the year-to-year rise of consumer prices from 25 per cent at the end of 1985 to 10 per cent by the end of 1987. The main instruments used to these ends have been mandatory controls over prices and wages, monetary restriction, curbs on tax evasion and public expenditure growth, higher administered prices for public services, and an immediate 15 per cent devaluation of the drachma. In addition, the Government appears to have shown greater recognition of the key role the private sector has to play in moving the economy back to a sustainable path of rapid growth, thereby serving to improve the business climate.

Despite some opposition by labour unions, the Government has broadly adhered to its Stabilisation Programme. The results achieved so far have been very encouraging, even when allowance is made for the beneficial effects resulting from the unexpected fall in oil prices. In the first four months of 1987, the current external deficit is estimated to have been reduced to 4 per cent of GNP, the rate of inflation, excluding the mechanical effects of the switch to VAT to 15 per cent, and the PSBR to around 13 per cent of GNP, with prospects for continuing, though more moderate, declines in all three areas during the remainder of the year.

While the positive role of the Stabilisation Programme in reversing the earlier destabilising trends is beyond doubt, large macroeconomic imbalances and the problem of over-consumption still remain, calling for continued corrective action. Indeed, when the Stabilisation Programme expires at the end of this year, the PSBR will probably be running at close to 11 per cent of GNP; and despite the compression of domestic demand, the inflation rate and the current external deficit in relation to GNP may at best be down to 12 per cent and 3 per cent respectively.

Looking beyond the current year, income policy can no longer be expected to carry the brunt of adjustment policies. The authorities have already announced a relaxation of present income norms in order to allow real pay to be related to labour productivity gains. Policy emphasis has therefore to be shifted to other macroeconomic instruments of restraint, and, equally important, to measures which enhance supply-side responsiveness and distribute the burden of adjustment as well as subsequent economic benefits more equitably and more rationally in terms of efficiency. The present sharing of the adjustment costs by certain segments of the population carries the risk of alienating the popular support which the stabilisation strategy needs to succeed.

The role of monetary instruments has been reinforced by constraining domestic credit expansion to the private sector, by encouraging non-banks to finance a growing part of the PSBR and by maintaining nominal interest rates stable in the face of receding inflation. On the fiscal side, tax and social security contribution rates are already high by international standards, so that the scope for raising them would seem rather limited. Similarly, with wage norms being relaxed, the authorities must become more effective in tackling the problem of overmanning through restrictions on new hirings. Budget economies could also be achieved by tightening conditions for grants and subsidies to the private sector and to other public bodies, thereby promoting overall efficiency at the same time.

However, as shown in Part II of the Survey, without major reforms, notably on the revenue side, it will be difficult to reduce the PSBR to a manageable level. The most effective and most desirable way of strengthening public finance would be through a widening of the income tax base by ending the privileged status of certain income groups and in particular by drastically reducing tax evasion. However, abolishing long-established privileges and changing tax-paying and tax-collecting habits require not only political determination but also increased efficiency by the tax authorities and major efforts to educate public opinion.

Similarly, important efforts need to be devoted to strengthening the financial base of the social security system and those of public corporations and enterprises. As to pensions, there should be a better linkage between lifetime contributions and retirement benefits, and a clear and quantifiable distinction between benefits based on contributions and those borne by the public in the form of general taxation. As to public corporations and enterprises, the recent move to raise prices in order to cover a higher proportion of costs must be welcome. However, care has to be taken that price increases are not used for covering up inefficiencies, thereby perpetuating mismanagement and excessive remuneration of production factors.

A similar policy issue has arisen with respect to official financial support of loss-making private firms. Delays in closing down non-viable enterprises and in restructuring potentially competitive ones have diverted considerable real and financial resources away from firms with a sound basis for expansion. Reorganisation plans are unlikely to be successful if they fail to provide powerful work incentives and unless carried out by competent and motivated people. In this respect, and as a general proposition, better recognition in terms of both pay and status of professional qualifications, skills, technical knowledge and managerial ability would seem important to ameliorate the functioning of the administrative machinery at all levels of government as well as in the private sector.

Making the public sector at large more efficient should release both financial and real resources for the most dynamic part of the private sector. Similarly, taxing more effectively the self-employed — farmers and non-farmers alike — should reduce the relative attractiveness of low-productivity activities. However, the transfer of released resources to the most productive uses will only take place if a favourable institutional and socio-political environment for such changes exists. This includes greater public awareness that only a rapid expansion of the competitive tradeable goods sector, producing both services and manufactures, can remove the impediments to achieving faster growth and higher living standards.

To sum up, the Stabilisation Programme has succeeded in reversing the earlier unsatisfactory trends thus making an important contribution towards restoring conditions for sustainable growth and improving business confidence. However, after its expiration, sizeable underlying macroeconomic imbalances will remain. In these circumstances, restrictive demand-management policies will have to be maintained. The required degree and duration of restraint will importantly depend on the progress made in removing structural and institutional impediments to a relative shift of resources from public and private consumption to investment and from sheltered activites to the exposed sectors. The costs and the burden of adjustment need to be spread more equitably and to be economically more rational. To master these tasks, far-reaching reforms as well as consensus-building policies will be called for.

NOTES AND REFERENCES

1. A bill recently presented to Parliament would, if voted, raise the minimum taxable income for certain professional categories and thus help to reduce somewhat tax evasion.
2. Salaries of judges, university professors and of the military, who are not covered by the unified pay scale, will be increased markedly in order to restore previous pay differentials *vis-à-vis* other government employees, who recorded big pay increases in previous years under the "unified pay scale".
3. Despite the rise, real interest rates, notably lending rates, remain low by international standards. This, however, should not be taken as a reliable indicator of credit conditions given credit rationing in the presence of controlled deposit and lending rates.
4. In October, the compulsory ratio of loans to public enterprises was raised from 17 to 18.5 per cent of the increase in bank deposits. In December, it was further raised to 19.5 per cent but compulsory reserve requirements were reduced from 7 to 6 per cent.
5. The monetary programme alo specifies a target for total bank credit expansion, including foreign borrowing, which is almost exclusively taken up by the estimated public sector bank borrowing.
6. Automatic pay adjustments take place in January, May and September on the basis of the officially projected consumer price inflation net of import prices during the following four months. Until 1985 import prices were included and the adjustment was based on the increase in consumer prices during the previous four months. In 1985 and 1986 employees earning up to Dr 50 000 received full indexation; for the tranche of earnings between Dr 50 000 and Dr 75 000 indexation was 50 per cent; for that between Dr 75 000 and Dr 100 000, 25 per cent; and for that above Dr 100 000 no pay rise was allowed. For 1987 the limit for full indexation was raised to Dr 60 000. Note that in 1986 the average wage and salary level was just over Dr 70 000.
7. The government norm for the pay increases of January and May 1987 were 4 per cent and 1 per cent respectively.
8. The VAT rates are 6 per cent for essentials, 18 per cent for most goods and services, 36 per cent for luxury goods.
9. Price controls on a number of industrial goods and on profit margins in many trades have been lifted. Rather than fixing prices directly, the authorities are encouraging the various trades to conclude voluntary price agreements.
10. Table 5 understates both the increase in the saving ratio of households proper between 1982 and 1985 and the decline in the two years to 1987. In this table savings also include corporate sector savings, which have since 1982 moved in an opposite direction to household savings proper.
11. Labour force statistics suffer from important shortcomings. Assessment of labour market developments can therefore be only tentative.
12. Measured in ECU, the trade deficit actually declined by 13 per cent.
13. Two kinds of export subsidies have to be distinguished:
    i) Until the end of 1986 subsidies at an average rate of about 14 per cent and 16 per cent on the value of exports of industrial and non-industrial exports, respectively, were granted to exports with a domestic value added of at least 25 per cent (Decision of the Monetary Committee No. 1574/70). Many non-industrial goods did not benefit from this subsidy. As from 1st January 1987 this subsidy has been reduced by 55 per cent and 40 per cent for exports to the EEC and to non-EEC countries, respectively.

ii) Until the end of 1986 subsidies of 5 per cent of the value of exports were granted to almost all exports (Bank of Greece, Governor's Decision No. 212/83). As of 1st April 1987 this subsidy was reduced to 3 per cent.

Before the introduction of VAT the indirect tax burden on exports was estimated at about 9 per cent and 11 per cent of the value of industrial and non-industrial exports, respectively, reflecting the fact that certain indirect taxes were not reimbursed to exporters. Since the introduction of VAT as of 1st January 1987 the tax refunds to exporters are estimated to have reduced the above tax burden by one-half.

14. Medium- to large-scale manufacturing firms cover the 3 140 firms (average 1981-85) regularly surveyed by the Federation of Greek Industries with a stock of machinery and equipment valued at Dr 1 million or more at the end of 1985.

15. According to labour legislation in force since 1982, prior notification and consultation with the unions and the Ministry of Labour is required for dismissals of 5 or more persons in plants employing between 20 and 50 persons, and for dismissals of more than 2 per cent of the labour force (or of more than 30 persons) in larger plants. The Ministry of Labour has the right to override management decisions. For dismissals below these limits management is not required to consult the unions or the Ministry of Labour. However, even for these dismissals the Ministry of Labour and the unions have often taken action to prevent them.

16. See OECD *Economic Survey of Greece,* January 1986, pp. 55-57.

17. On the basis of the standard measure of effective exchange rate changes, relative unit labour costs at the end of 1986 were back to their 1980 level. However, as this measure does not allow for differences in export structures it gives insufficient weights to Greece's low-cost main competitors, such as Spain, Portugal, Yugoslavia and Turkey. On a different measure, shown in Diagram 6, which is based on a more appropriate weighting system relative unit labour costs at the end of 1986 were still about 10 per cent higher than in 1980.

18. A few cases have been reported where price controls on domestic products forced industrialists to stop production, with importers filling the gap either by switching imports from one country to another or importing slightly different products so as to circumvent controls.

19. Import penetration in textiles, clothing and footwear, drinks, tobacco, food and leather increased from around 2 per cent of total domestic sales in 1980 to just over 10 per cent in 1985.

20. It should be noted that there has always been a relatively high number of loss-making firms in Greece. Even during the generalised boom which preceded the first oil shock, about one-fifth of surveyed firms were declaring losses. But as the bulk of these firms was very small, the manufacturing sector as a whole was recording robust profits. Furthermore, declared profits tend to understate actual profits even though tax evasion in manufacturing is less important than in other sectors.

21. Over this period it has been estimated that a loss before interest payments of Dr 1 billion, would entail additional interest payments of some Dr 0.7 billion, raising the total net loss to Dr 1.7 billion.

22. The value of equity (including reserves) in the Athens Paper Mills amounted to Dr 468 million against Dr 13 700 million debt.

23. A number of ailing firms do not belong to the category of problematic firms and are run directly by the publicly controlled financial institutions (mainly the National Bank of Greece) holding a large part of their shares.

24. The OAE reached agreement with foreign creditors to postpone debt repayments and also in many cases to postpone interest payments. Foreign bank credits were Dr 40 billion in 1985, 17 per cent of the debts to domestic banks.

25. The board of directors of each firm is composed of representatives of the OAE, the firm's employees, labour unions, banks which hold a significant portion of the equity or are main creditors, regional delegates and members of management.

26. Including non-problematic ailing firms under public sector control — mainly by banks — outstanding debt may have reached about one-third of total bank credit to manufacturing.

27. In certain ailing firms the personnel, who had in the past opposed a multi-shift schedule, has now accepted it in order to maintain the firm in operation.

28. The calculated contribution rates shown in Table 12 do not take into account the extent to which recorded GDP growth may have been overestimated because of probably negative productivity growth in the public sector. When employment growth leads to overmanning, the marginal product of labour is zero (if not negative), whereas in the national accounts, growth originating from the public sector is essentially estimated on the basis of increases in employment.

29. A new draft law has been presented to Parliament shifting the emphasis from social to economic criteria.

30. In 1984 social security contributions were 12.3 per cent of GDP compared to 9.2 per cent for OECD total and 10.6 per cent for OECD Europe.

31. Despite an increase of 10 per cent in real household income in the five years to 1985, direct personal income taxes as a per cent of household income remained stable. The implied elasticity of 1 is low for a country at Greece's level of development, especially when considering that tax rates are very progressive and that tax allowances and thresholds have only been partially adjusted for inflation since the end of the 1970s.

32. Until the early 1970s, farmers' income was typically extremely low and tax exemptions may have been justified. Since then their conditions have improved appreciably. However, given their social and political influence, they have succeeded in preserving their privileged tax position.

33. The Social Security System is composed of the Social Insurance Scheme, which is on a contributory basis, and of central government social expenditure financed from the Budget (i.e. from taxes). The Social Insurance Scheme is in turn composed of various independent, mainly occupational funds, covering employees, self-employed, employers and farmers. The most important fund is that catering for employees, IKA, which is based on a pay-as-you-go scheme. The other, mainly occupational, funds are partially funded schemes, i.e. basically pay-as-you-go pension schemes supplemented with a buffer.

34. The increase of general welfare expenditure from 1 per cent of GNP in 1979 to 1.3 per cent in 1985, of sickness allowances and health (i.e. hospitals, doctors, etc.) from 3.1 per cent to 3.9 per cent and of unemployment benefits from 0.3 per cent to 0.4 per cent, are explained by the low starting level and the need for important improvements in these areas.

35. The relatively moderate increase of total pensions paid to government employees mainly reflects two factors: first, average pensions for these categories were relatively high and, therefore, grew only slowly under the automatic indexation scheme, which penalises high salaries as well as high pensions; secondly, the annual rate of growth of pensioners remained moderate – 2.9 per cent.

36. In the wider public sector (including banks) men and women were until recently entitled to retire and immediately receive a pension after working for 23 years and 17 years, respectively. Adult unmarried or divorced daughters of officers continue to receive their father's pension. Moreover, the average pension (including the supplementary pension) in the wider public sector is close to the level of the last salary received, and in a few cases it is even higher. Males with an active service life of 33 years (women 35 years) are entitled to receive a full pension immediately upon retirement. Both men and women may receive a reduced, but still relatively high, pension after 25 years of service. As a result, a large proportion of wider public sector employees retire at around the age of 50 and thus receive over their remaining lifetime cumulated pensions far in excess of the capitalised value of contributions paid over their working life. The treatment of pensioners by the Social Insurance Fund (to which all private sector employees are affiliated) and other smaller insurance funds (e.g. for merchants, doctors, craftsmen, etc.) is less generous.

37. The total deficit of IKA was close to 1.4 per cent of GNP in 1985 and 1.9 per cent of GNP in 1986. In 1987 the IKA deficit is projected to be just over 2 per cent of GNP. The big deficits on pension accounts were partly offset by surpluses in health insurance and in the supplementary pension fund of IKA.

38. The average pension rose from 53 per cent of average earnings of an industrial worker in 1979 to 71 per cent in 1985.

39. The real fall in prices charged by the Public Power Corporation was 17.5 per cent, by Olympic Airways 34 per cent, by the Post Office 34 per cent and by railways 23 per cent.

40. Labour productivity is one-half to two-fifths below that of airlines such as British Caledonian and Sabena. Labour costs account for almost one-half of total costs compared to 22 per cent and 15 per cent for the other two airlines, respectively. The number of people employed in Olympic Airways grew by nearly 45 per cent in the six years to 1985, the increase was particularly large in 1981 (11 per cent) and in 1985 (17 per cent). Reflecting the growing debt, interest charges rose from slightly over 3 per cent of total costs at the end of the 1970s to 13 per cent in 1985. These charges in most other European airlines represented around 2 per cent of total costs and for Alitalia and TAP 5 per cent and 10 per cent respectively.

41. Between 1979 and 1985 the PSBR rose from $5\frac{3}{4}$ per cent to $17\frac{3}{4}$ per cent of GNP and net interest payments from $2\frac{3}{4}$ per cent to 8 per cent of GNP.

42. Zero net foreign borrowing before the end of 1988, broadly stable real rates on both domestic and foreign debt at about 2 per cent and 5 per cent respectively, a constant real exchange rate, a gradual decline of inflation to 5 per cent by 1992, and real GNP growth picking up steadily to reach 3 per cent by 1992.

43. Interest payments on foreign debt decline as a per cent of GNP as the current external deficit shrinks, bringing to an end the steep upward trend in external indebtedness. Interest payments on domestic debt are subject to three, partly opposing, forces: the reductions in nominal interest rates accompanying falling inflation, the move towards positive real interest rates and rising debt/GNP ratios.

STATISTICAL ANNEX

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Table A. **National product and expenditure**

Billion drachmae, current prices

	1979	1980	1981	1982	1983	1984	1985[1]	1986[2]
Consumers' expenditure	904.95	1 093.88	1 360.59	1 700.46	2 028.82	2 433.39	2 998.48	3 693.00
Government current expenditure	233.53	280.05	368.55	471.23	579.37	742.77	936.67	1 079.20
Gross fixed capital formation[3]	369.19	413.69	456.35	513.50	624.00	702.90	879.57	1 029.80
Change in stocks and statistical discrepancy	32.39	14.55	–16.83	154.75	161.52	240.10	335.35	228.58
Exports of goods and services[4]	309.12	437.83	531.98	588.69	725.15	957.84	1 123.41	1 365.15
less: Imports of goods and services[3] [4]	376.95	472.44	606.72	796.19	1 010.51	1 270.43	1 693.10	1 899.98
Gross national product at market prices	1 472.22	1 767.55	2 109.06	2 632.44	3 108.25	3 806.57	4 580.38	5 495.75
Gross domestic product at factor cost	1 245.19	1 523.72	1 859.71	2 310.69	2 731.90	3 361.61	4 132.08	4 928.00
Agriculture, forestry, fishing and hunting	198.17	270.06	329.29	424.42	462.77	591.40	707.53	831.35
Mining and quarrying	19.06	23.35	29.91	44.84	57.08	77.06	89.39	80.00
Manufacturing	238.51	296.96	361.29	422.60	503.12	614.82	752.50	910.50
Construction	123.04	129.93	142.28	151.67	187.77	213.68	264.53	313.50
Electricity, gas and water	20.66	24.05	36.96	53.63	63.49	76.30	104.17	145.80
Transport, storage and communications	100.18	118.48	147.21	188.33	222.67	264.04	309.41	380.00
Other services	545.57	660.90	812.77	1 025.20	1 235.00	1 524.31	1 904.55	2 266.85

1. Provisional data.
2. Estimates.
3. Excluding ships operating overseas.
4. Including factor income.

Source: Ministry of Co-ordination, National Accounts of Greece.

Table B. **National product and expenditure**

Billion drachmae, 1970 prices

	1979	1980	1981	1982	1983	1984	1985[1]	1986[2]
Consumers' expenditure	318.82	316.89	319.64	329.51	332.53	337.13	349.95	352.70
Government current expenditure	68.80	68.94	73.64	75.33	77.40	79.76	82.00	82.00
Gross fixed capital formation[3]	99.12	92.71	85.75	84.10	83.00	78.30	82.29	78.30
Change in stocks	18.20	19.28	10.31	9.42	3.42	8.40	9.00	12.00
Exports of goods and services[4]	82.82	88.56	83.31	77.30	83.49	97.63	98.92	112.88
less: Imports of goods and services[3] [4]	105.81	97.37	100.92	108.00	115.11	115.35	130.15	134.85
Net factor income from the rest of the world	10.69	11.60	10.49	8.24	3.75	0.18	–3.75	–7.13
Statistical discrepancy	–16.59	–15.49	2.05	7.98	12.82	4.86	13.31	8.96
Gross national product at market prices	476.05	485.11	484.26	483.88	481.30	490.91	501.56	504.87
Gross domestic product at factor cost	409.08	417.51	418.27	420.64	422.35	434.73	448.71	455.00
Agriculture, forestry, fishing and hunting	53.62	60.50	59.52	60.94	55.52	59.39	60.13	62.25
Mining and quarrying	6.30	6.25	6.23	6.54	6.98	7.83	7.98	8.00
Manufacturing	89.00	89.13	88.87	86.95	85.44	86.48	89.61	90.05
Construction	30.55	26.39	24.20	22.29	23.03	21.89	22.65	22.10
Electricity, gaz and water	13.00	13.72	14.15	14.62	15.17	16.05	17.08	17.50
Transport, storage and communications	37.89	39.90	41.28	41.51	42.97	45.94	48.67	49.15
Other services	178.73	181.63	184.02	187.79	193.24	197.15	202.59	205.95
Implied price deflators:								
GNP at market prices	309.2	364.4	435.5	544.0	645.8	775.4	913.2	1 088.5
GDP at factor cost	304.4	365.0	444.6	549.3	646.8	773.3	920.9	1 083.1

1. Provisional data.
2. Estimates.
3. Excluding ships operating overseas.
4. Excluding factor income.

Source: Ministry of Co-ordination, National Accounts of Greece.

Table C. **Gross domestic fixed capital formation**

Million drachmae, current prices

	1979	1980	1981	1982	1983	1984	1985[1]	1986[2]
Gross fixed capital formation	369 185	413 685	456 350	513 500	624 000	702 900	879 570	1 029 800
Dwellings	131 057	137 517	126 373	135 292	163 012	152 214	178 072	254 855
Other buildings	57 942	58 564	68 547	61 368	73 480	83 741	96 211	116 988
Other construction and works	56 007	70 968	98 932	98 556	132 849	173 972	234 921	230 645
Transport equipment	42 042	47 136	49 045	78 217	65 942	64 849	90 379	85 022
Machinery and other equipment	82 137	99 500	113 453	140 067	188 717	224 124	279 987	342 290
Agriculture, animal breeding, fishing	28 025	27 630	31 416	37 204	48 979	73 221	89 778	76 262
Mining and quarrying	10 223	23 976	35 876	22 283	26 789	31 321	39 271	41 644
Manufacturing	51 259	65 847	72 549	78 194	90 400	103 827	112 820	162 100
Electricity, gas, etc.	25 603	27 840	28 328	44 893	69 912	84 279	118 419	95 101
Transport, storage and communications	64 323	72 104	88 310	119 263	127 835	139 495	191 339	192 976
Dwellings	131 057	137 517	126 373	135 292	163 012	152 214	178 072	254 855
Public administration	2 088	2 233	2 983	3 839	5 652	9 143	10 563	9 498
Other service industries	56 607	56 538	70 515	72 532	91 421	109 400	139 308	197 364
Private	287 785	317 865	334 850	360 000	408 700	416 850	504 500	654 550
Public	81 400	95 820	121 500	153 500	215 300	286 050	375 070	375 250

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

Source: Ministry of Co-ordination, National Accounts of Greece .

Table D. **Gross domestic fixed capital formation**
Million drachmae, 1970 prices

	1979	1980	1981	1982	1983	1984	1985[1]	1986[2]
Gross fixed capital formation	99 121	92 705	85 750	84 100	83 000	78 300	82 290	78 300
Dwellings	31 572	27 291	21 452	20 398	21 124	17 083	17 097	19 910
Other buildings	13 960	11 622	11 636	9 252	9 529	9 848	9 235	9 140
Other construction and works	15 351	15 674	17 269	14 061	15 396	15 962	17 843	13 620
Transport equipment	14 556	13 987	12 445	16 427	11 207	9 081	10 355	8 100
Machinery and other equipment	23 682	24 131	22 948	23 962	25 744	26 326	27 760	27 530
Agriculture, animal breeding, fishing	7 623	6 169	5 658	5 548	5 902	7 416	7 571	5 025
Mining and quarrying	2 913	5 468	6 613	3 479	3 476	3 408	3 623	3 047
Manufacturing	13 824	14 899	13 973	13 120	12 208	12 101	11 052	12 555
Electricity, gas, etc.	7 319	6 710	5 379	7 040	9 081	8 864	10 614	6 954
Transport, storage and communications	20 678	19 424	19 192	22 415	18 570	16 186	18 128	14 826
Dwellings	31 572	27 290	21 452	20 398	21 124	17 083	17 097	19 910
Public administration	555	482	549	594	733	1 022	1 022	740
Other service industries	14 637	12 263	12 934	11 506	11 906	12 220	13 183	15 243
Private	76 385	70 465	63 495	60 300	56 000	48 570	49 600	52 100
Public	22 736	22 240	22 255	23 800	27 000	29 730	32 690	26 200

Note: Data exclude investment in ships operating overseas.
1. Provisional data.
2. Estimates.
Source: Ministry of Co-ordination, National Accounts of Greece.

Table E. **Income and expenditure of households and business savings**[1]

Million drachmae, current prices

	1979	1980	1981	1982	1983	1984	1985[2]	1986[3]
Agricultural income	187 994	257 332	313 825	405 785	439 114	562 107	671 367	786 600
Wages and salaries outside agriculture	557 306	671 244	831 388	1 069 305	1 286 351	1 594 713	1 975 667	2 262 000
Income from property and entrepreneurship	417 457	490 324	601 974	668 588	793 598	923 741	1 146 622	1 456 638
Current transfers from government	125 930	153 103	218 460	326 644	399 570	511 580	677 200	791 605
Current transfers from the rest of the world net	42 826	45 841	60 317	70 153	82 428	103 890	110 299	128 713
Income of households and private non-profit institutions	1 327 965	1 617 844	2 025 964	2 540 575	3 001 061	3 705 031	4 581 151	5 425 556
less: Direct taxes	173 120	227 512	261 940	380 750	472 470	606 370	737 052	926 910
Disposable income	1 154 845	1 390 332	1 764 024	2 159 825	2 528 591	3 098 661	3 844 099	4 498 646
Consumption	904 947	1 093 879	1 360 589	1 700 460	2 028 824	2 433 392	2 998 483	3 693 000
Consumption by main expenditure components[4]	954 575	1 154 600	1 477 200	1 778 800	2 100 600	2 544 930	3 142 300	3 876 300
Food, drinks, tobacco	375 744	473 996	607 939	746 453	873 176	1 049 970	1 265 873	1 279 120
Clothing, shoes (including repairs)	105 692	111 569	130 829	153 618	170 806	213 660	268 695	333 200
Rent	93 203	114 624	140 414	170 658	192 990	226 430	268 035	326 475
Durable household goods	66 119	63 728	77 383	108 080	124 604	145 914	210 505	270 177
Other	313 817	390 683	490 635	599 991	739 024	908 956	1 111 192	1 667 328

1. Including private non-profit institutions.
2. Provisional data.
3. Estimates.
4. Based on direct estimate of private consumption, but includes non residents' expenditure and excludes residents' expenditure abroad.

Source: Ministry of Co-ordination, National Accounts of Greece.

Table F. **Government revenue and expenditure**

National accounts basis

Million drachmae

	1978	1979	1980	1981	1982	1983	1984	1985[1]	1986[2]
Central government									
Current government	214 518	267 718	315 027	340 768	471 585	581 430	762 290	901 216	1 160 808
Direct taxes	49 580	63 200	88 420	86 300	139 640	154 770	208 250	236 650	310 012
Indirect taxes	159 569	195 500	208 300	240 588	323 534	410 880	520 730	632 440	820 275
Other	5 369	9 018	18 307	13 880	8 411	15 780	33 040	32 126	30 521
Current expenditure	241 366	289 783	353 965	512 448	622 835	748 200	965 180	1 285 190	1 482 488
Goods and services	147 700	180 000	212 750	282 240	358 300	432 000	540 800	675 700	757 078
Interest on public debt	19 690	30 790	41 247	65 250	66 632	103 020	162 300	238 790	294 500
Transfers and subsidies	73 976	78 993	99 968	164 958	197 903	213 180	262 080	370 700	430 910
Saving	–26 848	–22 065	–38 938	–171 680	–151 250	–166 770	–202 890	–383 974	–321 680
General government									
Current revenue	349 608	437 688	516 830	590 848	823 474	1 021 510	1 303 080	1 592 060	2 004 038
Direct taxes	150 750	188 870	248 500	282 740	413 390	502 290	649 620	788 480	991 082
Indirect taxes	178 219	216 690	228 710	267 368	366 694	465 370	578 870	706 130	902 565
Other	20 639	32 128	39 620	40 740	43 390	53 850	74 590	97 450	110 391
Current expenditure	347 361	425 023	517 888	730 408	943 294	1 163 660	1 508 010	2 003 020	2 356 350
Goods and services	185 150	233 530	280 050	368 550	471 230	579 370	742 770	936 670	1 079 200
Interest on public debt	19 690	30 790	41 247	65 250	66 632	113 020	173 300	247 260	326 640
Transfers and subsidies	142 521	160 703	196 591	296 608	405 432	471 270	591 940	819 090	950 510
Saving	2 247	12 665	–1 058	–139 560	–119 820	–142 150	–204 930	–410 960	–352 312

1. Provisional data.
2. Estimates.

Source: Ministry of Co-ordination, National Accounts of Greece.

Table G. **Industrial production**[1]

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total industrial production index	147	144	151	166	170	183	194	196	101	102	101	104	107
Mining and quarrying	133	136	143	149	145	155	153	151	101	148	161	178	183
Manufacturing	147	144	150	166	169	182	193	195	101	99	97	99	101
Food, beverages and tobacco	119	117	119	136	144	162	172	173	104	106	108	115	122
of which:													
Tobacco	117	124	121	141	153	148	154	156	94	105	114	107	119
Food	114	108	113	130	130	156	162	159	106	106	107	118	121
Other manufacturing	153	150	158	173	175	186	198	200	100	97	95	95	97
of which:													
Textiles	147	147	174	200	196	208	224	221	101	94	92	92	96
Chemicals	148	150	163	177	183	207	206	208	98	98	105	114	122
Non-metallic minerals	137	139	146	168	189	205	219	230	96	95	91	93	90
Basic metals	161	163	158	169	141	177	184	187	92	83	91	93	94
Metal products	155	135	130	157	173	175	183	192	101	103	102	101	90
Consumer goods industries	139	138	150	168	172	186	198	195	107	104	105	108	111
Capital goods industries	150	149	151	161	158	171	182	188	88	87	83	82	81

1. From 1973 to 1980, the base year is 1970 = 100; from 1981 onwards 1981 = 100.
Source : National Statistical Service of Greece, *Monthly Statistical Bulletin.*

Table H. Prices and wages

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Consumer prices (1982 = 100)												
Total	31.2	35.4	39.7	44.7	53.2	66.4	82.7	100.0	120.2	142.4	169.9	209.0
of which:												
Food	28.2	32.2	36.7	41.9	49.8	63.5	82.6	100.0	118.0	139.6	166.8	200.6
Alcoholic beverages and tobacco	44.4	48.2	51.0	55.1	60.8	70.3	81.2	100.0	118.6	141.5	162.4	196.4
Clothing and footwear	30.4	34.5	38.9	44.3	54.3	64.4	78.3	100.0	122.3	154.3	188.4	236.2
Housing	31.2	34.6	38.7	43.1	51.5	66.4	84.5	100.0	113.7	130.5	152.8	184.6
Durable goods and household supplies	36.3	40.1	44.1	47.9	54.0	67.4	82.7	100.0	125.5	149.5	180.1	233.9
Transport and communication	39.2	43.8	47.0	50.0	62.2	76.3	86.7	100.0	121.0	135.1	157.8	199.9
Wholesale prices (1970 = 100)												
Total	192.6	219.6	249.7	275.4	333.3	428.0	539.0	625.1	748.8	909.2	1 096.2	1 352.8
Finished products of local primary and secondary production for home consumption	185.3	209.2	236.2	261.0	314.3	405.1	504.0	594.1	708.9	842.7	1 004.5	1 242.8
Local primary production	184.4	219.2	250.2	281.5	340.6	425.2	532.0	641.7	741.3	891.2	1 049.1	1 248.6
Local industrial production	185.6	205.7	231.4	253.9	305.2	398.0	494.3	577.5	697.7	825.7	988.9	1 240.7
Finished products of foreign origin	220.7	253.8	284.4	321.1	385.2	494.4	647.5	747.5	905.7	1 123.2	1 385.2	1 768.8
of which:												
Agriculture	158.6	184.6	260.2	364.4	483.7	606.8	648.7	606.1	692.4	906.5	1 161.5	1 271.5
Livestock	172.7	192.3	203.6	235.6	320.3	424.4	614.6	676.4	774.6	850.3	1 008.0	1 217.2
Food manufacturing industries, except beverage industries	413.6	378.0	396.1	417.7	425.8	494.4	662.4	788.2	969.4	1 150.4	1 437.6	1 909.9
Manufacture of petroleum and coal derivatives	411.8	549.2	588.7	644.7	1 270.6	1 899.1	2 844.9	3 271.7	3 852.7	4 626.2	5 588.4	4 964.5
Basic metal industries	150.5	182.4	169.2	194.9	241.3	290.7	367.6	408.2	487.4	626.2	837.6	1 092.0
Manufacture of metal products, except machinery and transport equipment	225.0	262.9	296.2	347.5	393.2	481.1	609.2	699.7	854.6	1 075.0	1 313.8	1 611.6
Manufacture of machinery and appliances, except electrical	182.9	222.8	260.6	296.3	346.4	437.6	568.0	664.1	797.6	1 067.7	1 346.6	1 687.6
Manufacture of electrical machinery apparatus, appliances and supplies	166.9	187.2	205.1	240.4	270.5	327.7	413.3	485.6	627.8	777.3	949.1	1 224.6
Manufacture of transport equipment	180.8	229.2	274.2	338.3	400.4	512.0	601.2	723.7	927.1	1 124.6	1 392.6	1 866.9
Exported products of local primary and industrial production	189.9	224.6	269.4	284.0	356.9	450.8	563.9	609.8	729.6	945.8	1 155.1	1 259.6
Agriculture	216.0	248.1	350.9	373.9	506.1	599.7	728.0	724.2	805.9	1 004.2	1 308.2	1 470.9
Livestock	150.9	210.7	232.3	261.0	355.5	403.1	482.0	524.9	529.2	622.6	916.5	1 073.0
Manufacture of textiles	184.9	258.3	274.7	261.5	310.7	401.1	477.4	524.3	694.4	1 003.6	1 136.8	1 223.3
Chemical industries	222.7	239.0	236.2	261.7	337.9	480.8	602.8	659.6	786.1	968.1	1 070.1	1 239.2
Manufacture of non-metallic mineral products, except petroleum and coal derivatives	219.9	250.7	287.1	327.4	372.0	461.8	634.6	763.8	926.6	1 167.2	1 345.3	1 334.4

Average unit value (1982 = 100)												
Exports	34.7	38.0	41.7	44.1	48.9	67.6	83.3	100.0	120.1	136.7	158.7	170.5
Imports	33.2	37.0	38.8	43.1	51.1	69.6	80.2	100.0	115.7	144.0	168.9	187.8
Wages (1970 = 100)												
Hourly earnings: manufacturing (wage earners)[1]	218	280	338	418	504	640	814	1 087	1 297	1 639	1 964	2 245

1. Entreprises employing at least 10 persons.
Sources: Bank of Greece, *Monthly Statistical Bulletin;* National Statistical Service of Greece, *Monthly Statistical Bulletin;* OECD, *Main Economic Indicators.*

Table 1. **Exports by commodity group**

Fob – customs basis

$ million

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total	2 292.94	2 543.08	2 723.72	3 335.24	3 888.10	5 189.74	4 293.82	4 285.45	4 458.71	4 814.50	4 536.13
of which:											
Food and live animals	508.06	570.96	686.70	761.86	862.22	1 035.35	879.20	949.74	971.07	1 070.70	967.16
Fruits fresh and nuts	257.38	229.79	332.61	328.09	327.40	420.49	317.51	355.37	293.46	297.59	330.11
Fruits, dried	67.79	85.22	93.86	113.98	119.59	131.37	125.35	118.91	106.33	118.71	132.42
Beverages and tobacco	185.81	215.58	188.45	257.22	242.65	253.33	213.06	227.88	236.98	225.13	207.32
Tobacco, unmanufactured	154.22	177.22	151.36	212.64	189.49	203.90	176.21	191.74	192.54	183.08	149.91
Crude materials, inedible, except fuels	199.85	231.59	217.49	281.79	347.10	398.23	302.24	286.38	295.37	349.48	336.46
Cotton	31.78	44.52	34.81	42.59	43.84	41.17	25.82	34.67	48.91	72.52	69.98
Iron, sulphur and other minerals	119.54	126.46	122.63	162.44	224.31	288.65	218.83	195.45	195.15	210.19	190.78
Minerals fuels, lubricants	251.50	148.65	131.74	318.64	456.40	799.54	404.00	462.37	305.55	492.21	546.37
Animal and vegetable oils and fats	42.05	20.84	11.45	70.96	43.19	34.88	32.88	82.52	252.40	183.56	94.01
Fixed vegetable oils and fats	41.78	20.71	9.69	69.41	39.24	31.74	31.51	80.98	250.12	182.18	93.27
Chemicals	133.34	126.90	157.09	143.47	130.34	362.33	193.97	209.49	188.54	193.12	183.63
Manufactured goods classified chiefly by material	657.72	804.12	864.88	1 058.76	1 217.86	1 562.22	1 442.29	1 287.80	1 330.93	1 447.42	1 304.92
Iron and steel	152.49	164.95	123.74	205.93	240.09	298.36	230.86	173.33	191.32	316.39	292.54
Aluminium	82.40	102.94	121.51	143.28	165.37	190.30	158.46	135.28	150.31	171.07	142.17
Textiles	173.66	240.41	279.58	329.82	372.05	481.98	478.21	429.66	436.50	468.04	413.90
Leather and leather products	47.71	58.16	74.33	73.17	91.64	93.83	70.61	72.61	77.31	73.44	68.54
Machinery and transport equipment	88.83	125.59	143.11	102.16	131.33	156.83	202.13	197.21	152.66	123.35	132.31
Miscellaneous manufactures	210.94	298.06	321.73	354.97	421.29	532.10	553.55	575.21	640.60	745.00	753.24
Clothing	123.89	198.45	214.33	250.94	292.47	397.65	385.92	456.81	526.25	610.63	627.64
Footwear	54.34	58.01	53.38	49.32	74.46	71.92	92.95	51.99	50.03	60.61	60.09

Sources: National Statistical Service of Greece, *Statistical Yearbook of Greece* and *Monthly Statistics of Trade;* OECD, *Statistics of Foreign Trade, Series B.*

Table J. **Imports by commodity group**

Cif – customs basis

$ million

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total	5 317.39	6 013.19	6 777.70	7 555.96	9 722.80	10 626.78	8 780.33	10 012.07	9 501.18	9 610.91	10 137.87
Total, excluding ships	4 623.39	4 869.94	5 378.35	6 275.99	8 297.52	8 918.18	8 294.83	9 465.79	9 103.74	8 893.13	9 581.62
of which:											
Food and live animals	472.85	455.94	521.76	622.97	846.01	816.86	891.52	1 145.12	1 119.61	1 106.94	1 164.30
Meat and live animals	77.65	142.53	192.46	264.10	305.86	326.89	276.39	460.17	538.00	478.91	467.66
Beverages and tobacco	6.57	10.30	13.87	22.31	32.27	36.66	44.75	67.43	71.61	71.04	79.16
Crude materials, inedible, except fuels	415.59	415.96	483.74	484.94	590.38	708.31	551.48	599.68	585.54	561.30	580.61
Wood	65.16	79.52	97.20	111.15	144.63	157.19	97.77	109.09	118.55	109.79	111.42
Wool, cotton, fibres	146.45	145.06	201.54	165.88	173.31	250.78	199.71	178.53	164.73	162.52	171.54
Mineral fuels, lubricants	1 179.72	1 226.96	1 030.91	1 429.24	2 025.58	2 466.31	1 935.35	2 872.98	2 608.21	2 628.63	2 996.45
Petroleum, crude	1 025.63	1 034.81	853.76	1 179.17	1 821.89	2 296.47	1 792.43	2 706.96	2 369.55	2 247.81	2 618.09
Petroleum products	93.88	158.54	145.09	224.92	171.54	127.17	124.83	95.64	121.12	214.28	277.77
Animal and vegetable oils and fats	19.27	13.76	12.52	12.99	18.78	35.67	21.80	16.82	13.08	10.32	16.67
Chemicals	457.85	495.20	537.54	608.52	798.78	900.78	865.34	784.94	794.76	861.62	870.73
Medicinal products	91.81	92.60	109.25	131.63	140.40	160.69	140.98	119.75	120.89	122.65	122.81
Manufactured goods classified chiefly by material	737.99	745.99	888.53	985.31	1 245.41	1 435.61	1 656.44	1 566.71	1 577.82	1 519.98	1 614.07
Textiles	120.59	122.99	154.96	166.36	191.03	183.11	347.94	313.44	302.48	344.43	366.46
Machinery and transport equipment	1 891.24	2 487.11	3 085.97	3 224.19	3 754.65	3 786.66	2 455.50	2 557.89	2 361.37	2 470.03	2 401.72
Ships and boats	694.00	1 143.25	1 399.35	1 279.97	1 425.28	1 707.80	616.60	502.62	528.97	723.51	556.25
Aircraft	14.41	54.49	23.14	14.19	34.59	28.40	41.84	30.14	13.62	22.73	44.83
Road motor vehicles	267.16	393.41	630.93	809.71	735.52	489.36	495.52	660.60	520.49	428.50	614.94
Other machinery and equipment	915.67	895.96	1 032.55	1 120.32	1 559.26	1 561.10	1 301.54	1 364.53	1 298.29	1 295.29	1 185.70

Sources: National Statistical Service of Greece, *Statistical Yearbook of Greece* and *Monthly Statistical Bulletin of Trade;* OECD, *Statistics of Foreign Trade, Series B.*

Table K. **Exports and imports by area**

Customs basis

$ million

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986[1]
						Exports, fob					
Total OECD	1 593.1	1 589.9	2 043.8	2 350.5	3 000.5	2 432.2	2 592.5	2 834.7	3 358.5	3 169.5	4 365.5
of which:											
OECD Europe	1 387.7	1 407.7	1 822.5	2 058.5	2 640.0	1 994.5	2 150.6	2 493.2	2 846.2	2 693.7	3 860.6
EEC	1 271.0	1 300.0	1 695.3	1 908.6	2 471.0	1 858.5	1 985.7	2 340.0	2 606.2	2 429.4	3 525.4
Germany	542.9	581.4	694.0	748.9	928.7	780.6	812.9	894.9	945.7	914.3	1 335.4
France	170.6	188.3	223.1	237.2	383.4	288.4	297.8	331.9	415.5	363.6	534.9
Italy	233.7	191.6	362.4	380.1	503.7	305.5	376.3	602.4	649.9	515.4	761.0
United Kingdom	105.3	136.4	145.0	201.0	214.4	215.4	205.2	215.9	302.2	315.6	384.1
Other OECD Europe	116.6	107.7	127.1	149.9	169.0	136.0	164.9	153.2	240.1	264.3	335.2
North America	173.7	150.5	173.8	236.4	316.3	392.1	394.5	295.4	428.5	402.9	438.5
Centrally planned economies	286.5	333.7	383.9	360.5	524.7	346.1	331.6	321.2	274.8	323.4	273.2
Other	663.5	800.2	907.5	1 177.2	1 664.5	1 515.5	1 361.4	1 302.8	1 181.1	1 061.9	1 004.9
Total	2 543.1	2 723.7	3 335.2	3 888.1	5 189.7	4 293.8	4 285.5	4 458.7	4 814.5	4 554.8	5 643.6
						Imports, cif					
Total OECD	4 258.0	5 028.1	5 294.5	6 571.7	6 782.0	5 987.2	6 396.7	6 294.4	6 244.1	6 476.1	8 392.5
of which:											
OECD Europe	3 008.9	3 540.0	3 905.6	5 037.9	4 973.0	5 010.1	5 243.8	5 188.7	5 143.1	5 392.4	7 234.9
EEC	2 386.7	2 878.1	3 308.9	4 300.0	4 217.1	4 456.2	4 608.1	4 621.4	4 520.5	4 773.4	6 434.1
Germany	872.4	1 024.4	1 184.3	1 549.3	1 481.1	1 747.1	1 704.1	1 662.3	1 599.9	1 740.0	2 397.4
France	334.3	410.9	467.7	613.2	658.0	581.1	704.6	655.7	661.9	658.2	913.6
Italy	497.4	609.3	740.2	904.1	870.1	803.2	420.8	856.0	926.6	955.3	1 305.8
United Kingdom	269.0	374.0	374.8	552.4	485.6	437.7	364.4	396.8	379.8	386.7	469.6
Other OECD Europe	622.2	662.0	596.7	737.8	755.9	553.9	635.7	567.3	622.6	618.9	800.8
North America	440.8	373.8	341.3	506.1	566.9	495.0	466.5	392.9	310.3	352.4	380.4
Centrally planned economies	403.5	385.1	651.7	592.1	611.1	592.5	527.5	483.3	812.1	784.7	539.3
Other[2]	1 351.7	1 364.5	1 609.8	2 559.0	3 233.7	2 331.8	3 044.2	2 855.1	2 560.5	2 966.7	2 407.0
Total	6 013.2	6 777.7	7 556.0	9 722.8	10 626.8	8 911.4	9 968.4	9 632.7	9 616.6	10 227.5	11 338.8

1. Provisional data.
2. Including ships from 1976 through 1978.

Sources: National Statistical Service of Greece, *Statistical Yearbook of Greece* and *Monthly Statistical Bulletin of Trade;* OECD, *Statistics of Foreign Trade, Series A.*

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

$ million

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986[1]
Exports, fob	2 228	2 522	2 999	3 932	4 093	4 772	4 141	4 106	4 394	4 293	4 513
Imports, fob[2]	4 922	5 686	6 498	8 948	9 650	10 149	8 910	8 400	8 624	9 346	9 089
Trade balance	–2 694	–3 164	–3 499	–5 016	–5 557	–5 377	–4 769	–4 294	–4 230	–5 053	–4 577
Invisibles, net[3]	1 766	2 086	2 544	3 128	3 348	2 969	2 877	2 416	2 098	1 777	2 873
of which: Travel, net	672	817	1 102	1 359	1 424	1 520	1 153	814	974	1 061	1 340
Transportation, net	162	268	198	204	355	203	294	41	–142	–320	–205
Migrant remittances	777	899	951	1 137	1 066	1 057	1 016	912	898	775	950
Receipts in convertible drachmae	155	202	295	395	491	438	371	411	372	451	595
Current balance[4]	–928	–1 078	–955	–1 888	–2 209	–2 908	–1 892	–1 878	–2 132	–3 276	–1 704
Long-term capital (excl. spec. trans.)	544	862	1 040	1 331	1 994	1 589	1 239	2 110	1 773	2 843	..
Basic balance	–383	–216	85	–556	–215	–819	–653	232	–359	–433	..
Short-term capital, including errors and omissions	–19	–6	–337	465	–121	401	418	–382	154	985	..
Balance on non monetary transactions	–402	–222	–252	–91	–336	–418	–235	–150	–205	552	..
Private monetary institutions short-term capital	331	393	386	47	199	272	122	276	338	77	..
Balance of official settlements	–71	171	134	–44	–137	–146	–113	126	133	629	..
Use of IMF credit	67	–84	11	–47	–88	–76	–15	–28	–	–	..
Miscellaneous official accounts	11	152	50	11	–7	–55	–	–	–	–78	..
Allocation of SDRs	–	–	–	24	25	24	–	–	–	–2	..
Change in reserves (+ = increase)	7	239	195	–56	–207	–253	–128	98	133	549	..
a) Gold	1	3	11	3	–3	4	1	–	8	709	..
b) Currency assets	7	241	142	–42	–239	–257	–129	67	127	–158	..
c) Reserve position in IMF	–	–	42	–1	31	–	–	31	–5	–1	..
d) Special Drawing Rights	–1	–5	–	16	–1	–	–	–	3	–1	..

1. Provisional data.
2. Original figures for imports are on a cif basis. They are adjusted to fob basis by deduction of 10 per cent representing the estimated cif-fob margin.
3. Services debits include 10 per cent of imports as an approximation of the freight content of imports not recorded in original figures.
4. In line with official changes, from 1974 the current account deficit has been revised to include receipts in convertible drachmae for services rendered.

Sources: Bank of Greece, *Monthly Statistical Bulletin* and direct communication to the OECD.

Table M. **Money and banking**

Million drachmae, end of period

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985[2]	1986
Money	160 002	187 038	228 585	264 450	313 055	385 928	471 236	535 729	651 589	797 449	879 9[illegible]
Currency in circulation	111 721	132 214	160 145	182 867	209 561	260 458	300 165	342 607	400 759	505 260	546 1[illegible]
Sight deposits	48 281	54 824	68 439	81 582	103 494	125 470	171 071	193 122	250 830	292 189	333 8[illegible]
Private	28 511	33 377	42 710	52 521	58 291	74 799	89 565	106 744	141 733	169 810	197 3[illegible]
Public entities	15.310	18 941	21 360	25 137	31 679	39 760	50 688	71 231	86 556	98 314	115 5[illegible]
Public enterprises	4 460	2 505	4 369	3 924	13 524	10 911	30 818	15 147	22 501	24 065	20 9[illegible]
Quasi-money	332 334	418 429	531 516	634 866	798 105	1 102 916	1 443 141	1 763 831	2 315 690	2 961 294	
Savings deposits	239 661	302 742	380 421	446 316	541 230	747 642	968 630	1 167 315	1 542 619	1 973 986	
Time deposits	70 272	87 341	118 468	150 312	218 804	310 605	421 809	534 875	702 236	901 882	
Private	67 922	83 787	113 587	144 955	212 787	303 640	414 736	527 792	693 119	888 323	
Public entities	2 350	3 554	4 881	5 357	6 017	6 965	7 073	7 083	9 117	13 559	
Other deposits[1]	22 401	28 346	32 627	38 238	38 071	44 669	52 702	61 641	70 835	85 426	
M3	492 336	605 467	760 101	899 316	1 111 160	1 448 844	1 914 377	2 299 560	2 967 279	3 758 743	
Deposits of public entities according to Law 1611/50	38 562	50 611	60 272	73 014	79 030	90 010	104 479	136 997	147 454	152 909	157 6[illegible]
Total money supply	530 898	656 078	820 373	972 330	1 190 190	1 578 854	2 018 856	2 436 557	3 114 733	3 911 652	
Total bank lending by sector	442 317	547 990	664 940	796 631	982 223	1 277 873	1 622 433	1 918 020	2 347 774	2 840 355	3 383 1[illegible]
Private sector	379 337	475 824	585 047	691 777	828 071	1 040 114	1 291 534	1 517 398	1 817 701	2 179 153	2 469 4[illegible]
Agriculture	66 537	90 160	110 195	125 799	138 295	155 851	198 914	255 789	325 331	411 137	486 2[illegible]
Manufacturing and mining	170 749	214 148	269 276	325 911	410 261	541 391	667 937	774 667	924 744	1 105 563	1 224 9[illegible]
of which:											
Short and medium-term	118 923	150 389	188 814	222 447	272 704	359 339	443 555	497 398	590 227	707 498	773 5[illegible]
Long-term	51 826	63 59	80 462	103 464	137 557	182 052	224 382	277 269	334 517	398 065	451 3[illegible]
Trade	41 908	55 057	66 094	72 484	78 973	95 426	114 952	122 215	143 944	170 080	192 2[illegible]
Housing	43 462	53 923	67 834	84 224	101 201	126 758	171 448	209 532	252 832	299 508	344 1[illegible]
Other	56 681	62 536	71 648	83 358	99 342	120 688	138 283	155 195	170 850	192 865	221 9[illegible]
Public sector	62 981	72 166	79 893	104 854	154 152	237 759	330 899	400 622	530 073	661 202	913 7[illegible]
Public enterprises	38 606	43 721	53 192	68 763	107 206	136 070	175 535	205 226	294 078	363 723	459 0[illegible]
Public entities	14 283	15 584	17 428	19 473	19 627	29 908	67 940	95 567	142 695	213 902	347 9[illegible]
Government purchasing agencies	10 092	12 861	9 273	16 618	27 319	71 781	87 424	99 829	93 300	83 577	106 7[illegible]
By lending institution											
Bank of Greece	13 660	15 952	12 066	14 781	21 266	26 486	16 580	11 331	10 842	12 563	12 7[illegible]
Commercial banks	213 504	267 593	335 080	400 845	492 943	634 279	775 264	875 017	1 073 786	1 281 712	1 540 7[illegible]
Special credit institutions	215 153	264 445	317 794	381 004	468 014	617 108	830 589	1 031 672	1 263 146	1 546 080	1 829 6[illegible]

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

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

BASIC STATISTICS :

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period[1]	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland
Population												
Total	Thousands	1985	15 752	7 555	9 857	25 379	5 113	4 901	55 162	61 015	9 950	243
Inhabitants per sq.km	Number		2	90	323	3	119	14	101	245	75	2
Net average annual increase over previous 10 years	%		1.3	0.0	0.1	1.1	0.1	0.4	0.5	–0.1	1.0	1.1
Employment												
Total civilian employment (TCE)[2]	Thousands	1985	6 676	3 235	35 607	11 311	2 522	2 427	20 916	25 011	3 588	114 (84)
of which: Agriculture	% of TCE		6.2	9.0	2.9	5.2	6.7	11.5	7.6	5.5	28.9	10.6
Industry	% of TCE		27.7	38.1	29.7	25.5	28.1	31.9	32.0	41.0	27.3	36.8
Services	% of TCE		66.1	52.9	67.4	69.3	65.2	56.6	60.4	53.5	43.8	52.6
Gross domestic product (GDP)												
At current prices and current exchange rates	Billion US$	1985	155.1	66.1	79.1	346.0	57.9	54.0	510.3	625.0	32.8	2.7
Per capita	US$		9 847	8 743	8 022	13 635	11 319	11 024	9 251	10 243	3 294	10 958
At current prices using current PPP's[3]	Billion US$	1984	..	85.7	119.7	382.2	68.0	59.6	694.7	811.6	62.3	..
Per capita	US$		..	11 345	12 150	15 198	13 311	12 217	12 643	13 265	6 296	..
Average annual volume growth over previous 5 years	%	1985	3.0	1.6	0.6	2.6	2.3	2.6	1.1	1.3	1.0	0.7
Gross fixed capital formation (GFCF)	% of GDP	1985	24.4	22.3	15.9	19.6	18.5	23.4	18.9	19.5	19.0	21.5
of which: Machinery and equipment	% of GDP		10.4 (84)	9.6	5.3 (84)	6.6	8.6	8.8	9.4	8.4	7.9	5.8 (84)
Residential construction	% of GDP		5.4 (84)	4.6	3.2	5.4	4.3	6.2	4.7	5.5	4.0	4.8
Average annual volume growth over previous 5 years	%	1984	1.9	–0.5	–4.0	0.9	2.1	2.6	–0.1	–1.3	–2.8	–1.0
Gross saving ratio[4]	% of GDP	1985	20.1	24.4	15.9	19.0	14.9	23.7	18.0	22.2	12.2	16.3
General government												
Current expenditure on goods and services	% of GDP	1985	16.7	18.7	17.3	20.1	25.3	20.2	16.3	19.9	19.9	18.0
Current disbursements[5]	% of GDP	1985	33.4 (84)	44.9 (84)	52.3	43.3 (84)	56.7	37.6	49.4	43.4	43.2	26.4 (84)
Current receipts	% of GDP	1985	34.1 (84)	47.0 (84)	46.5	39.9 (84)	57.0	40.6	48.5	45.4	34.6	34.8 (84)
Net official development assistance	% of GNP	1984	0.46	0.28	0.56	0.50	0.85	0.36	0.77	0.45	..	..
Indicators of living standards												
Private consumption per capita using current PPP's[3]	US$	1984	6 742 *	6 490	7 637	8 484	6 826	6 287	8 009	7 274	4 118	6 335 *
Passenger cars, per 1 000 inhabitants	Number	1985	..	306 (81)	335 (84)	421 (82)	293	316	360 (83)	424	108 (83)	431
Telephones, per 1 000 inhabitants	Number	1985	540 (83)	460 (83)	414 (83)	664 (83)	783	615	541 (83)	621	336 (83)	525 (83)
Television sets, per 1 000 inhabitants	Number	1985	..	300 (81)	303 (84)	471 (80)	392	380	297 (80)	372	158 (80)	303
Doctors, per 1 000 inhabitants	Number	1985	..	1.7 (82)	2.8 (84)	1.8 (82)	2.5 (84)	2.1	2.1 (82)	2.5 (84)	2.8 (83)	2.4 (84)
Infant mortality per 1 000 live births	Number	1985	9.2 (84)	11.0	9.4	9.1 (83)	7.9	6.3	6.9	9.1	14.1	5.7
Wages and prices (average annual increase over previous 5 years)												
Wages (earnings or rates according to availability)	%	1986	7.7	5.0	4.4	5.5	6.2	10.2 (85)	8.7	3.7	25.1 (85)	..
Consumer prices	%	1986	8.2	3.8	5.7	5.8	6.3	6.9	7.4	2.6	20.4	42.4
Foreign trade												
Exports of goods, fob*	Million US$	1986	22 536	22 428	68 652[7]	86 664	21 216	16 296	119 268	242 400	5 640	1 092
as % of GDP	%		14.5	33.9	86.8	25.0	36.6	30.2	23.4	38.8	17.2	40.4
average annual increase over previous 5 years	%		0.7	7.3	4.4	4.2	5.8	3.1	3.3	6.7	5.6	3.9
Imports of goods, cif*	Million US$	1986	23 916	26 724	68 544[7]	81 312	22 824	15 300	128 760	189 684	11 340	1 116
as % of GDP	%		15.4	40.4	86.7	23.5	39.4	28.3	25.2	30.3	34.6	41.3
average annual increase over previous 5 years	%		0.1	4.9	2.1	4.1	5.4	1.5	1.3	3.1	4.9	1.6
Total official reserves[6]	Million SDR's	1986	6 202	5 778	5 724[7]	3 348	4 116	1 528	28 579	45 626	1 357	255
As ratio of average monthly imports of goods	Ratio		3.7	3.0	1.2	0.6	2.5	1.4	3.1	3.4	1.7	3.2

	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
Population															
Total	3 562	57 128	120 754	366	14 484	3 279	4 148	10 230	38 602	8 350	6 530	49 870	56 618	239 283	23 120
Inhabitants per sq.km	51	190	324	141	427	12	13	111	76	19	158	64	231	26	89
Net average annual increase over previous 10 years	1.2	0.3	0.8	0.1	0.6	0.6	0.3	0.6	0.8	0.2	0.2	2.1	0.1	1.0	0.8
Employment															
Total civilian employment (TCE)[2]	1 056 (84)	20 509	58 070	160	5 083	1 329	2 012	4 029	10 623	4 299	3 171	15 213	24 089	107 150	..
of which: Agriculture	16.0	11.2	8.8	4.2	4.9	11.1	7.2	23.2	17.6	4.8	6.6	57.3	2.6	3.1	..
Industry	28.9	33.6	34.9	33.4	28.1	32.4	27.8	35.3	31.8	29.9	37.7	17.6	32.4	28.0	..
Services	55.1	55.2	56.3	62.4	67.0	56.5	65.0	41.5	50.6	65.3	55.7	25.1	65.0	68.9	..
Gross domestic product (GDP)															
At current prices and current exchange rates	18.2	358.7	1 327.9	3.6	125.0	21.9	57.9	20.7	164.2	100.2	92.7	52.7	449.7	3 946.6	43.5 (84)
Per capita	5 123	6 278	10 977	9 745	8 628	6 722	13 960	2 032	4 255	12 006	14 195	1 057	7 943	16 494	1 896 (84)
At current prices using current PPP's[3]	27.6	575.1	1 468.4	5.3	168.9	..	63.6	50.9	317.8	..	..	..	625.2	3 634.6	..
Per capita	7 795	10 093	12 235	14 385	11 710	..	15 367	5 021	8 279	..	..	..	11 068	15 356	..
Average annual volume growth over previous 5 years	1.8	0.9	3.9	2.4	0.7	3.3	3.1	1.0	1.4	1.8	1.3	4.9	1.9	2.4	..
Gross fixed capital formation (GFCF)	20.9	18.2	27.5	20.2	18.6	25.4	21.7	21.8	19.1	19.1	23.8	19.8	17.2	18.6	21.9 (4)
of which: Machinery and equipment	11.0 (84)	7.9	10.1 (84)	8.9 (82)	8.1 (84)	12.3 (84)	6.3	13.7 (81)	6.1 (83)	9.1	8.0	9.1 (82)	8.1 (84)	8.4	..
Residential construction	5.6 (83)	4.7	5.0 (84)	4.7 (82)	5.0 (84)	4.3 (84)	4.1	7.1 (81)	5.2 (82)	4.1	15.8[9]	2.6 (82)	3.7 (84)	4.8	..
Average annual volume growth over previous 5 years	–1.9	0.3	2.7	–2.8	–1.0	6.6	–1.2	–4.5	–1.4	1.2	2.7	4.9	2.1	5.0	..
Gross saving ratio[4]	18.1	17.7	31.4	65.3	24.1	20.9	30.0	23.1	21.0	17.8	30.0	18.7	19.2	16.5	..
General government															
Current expenditure on goods and services	19.1	19.5	9.8	15.6	16.3	16.4	18.6	14.2	14.0	27.4	13.2	8.5	21.1	18.3	14.0 (84)
Current disbursements[5]	51.5 (83)	51.9	27.1 (84)	47.8 (82)	55.9 (84)	..	44.0	37.5 (81)	32.3 (82)	59.6	30.9	..	44.8 (84)	35.3	..
Current receipts	43.6 (83)	44.1	30.3 (84)	53.0 (82)	54.3 (84)	..	56.1	33.2 (81)	31.2 (82)	59.8	34.4	..	42.8 (84)	31.1	..
Net official development assistance	..	0.33	0.35	..	1.02	0.25	1.02	..	..	0.80	0.30	..	0.33	0.24	..
Indicators of living standards															
Private consumption per capita using current PPP's[3]	4 338	6 254	6 751	8 540	7 270	4 041 *	6 624	3 076	5 456	5 821 *	8 755 *	759 *	6 535	10 214	966 *
Passenger cars, per 1 000 inhabitants	206 (83)	355 (84)	221 (83)	414	341	455	367	135 (82)	240	377	402	18 (82)	312 (83)	473 (84)	121 (83)
Telephones, per 1 000 inhabitants	235 (83)	448 (84)	535 (83)	404 (84)	410 (86)	646	622 (84)	166 (83)	369	890 (83)	1 299	55 (83)	521 (84)	650 (84)	122 (83)
Television sets, per 1 000 inhabitants	181 (80)	244 (84)	250 (80)	336 (83)	317 (86)	291	330	140 (80)	256 (82)	390	329	76 (79)	336 (84)	621 (80)	175 (83)
Doctors, per 1 000 inhabitants	1.3 (82)	3.6 (82)	1.3 (82)	1.7 (84)	2.2 (84)	2.4	2.2	1.8 (82)	3.3	2.5	1.4 (84)	1.5 (83)	0.5 (83)	2.3 (83)	1.6 (82)
Infant mortality per 1 000 live births	8.9	10.9	5.9 (84)	9.0	9.6 (86)	10.8	8.4	17.8	7.0 (84)	6.8	6.9	..	9.4	10.6 (84)	31.7 (83)
Wages and prices (average annual increase over previous 5 years)															
Wages (earnings or rates according to availability)	12.0 (85)	12.6	3.9	..	3.3	10.3 (85)	9.2 (85)	19.2 (85)	15.0 (85)	8.0	..	..	9.1	4.0	..
Consumer prices	9.0	11.3	1.8	5.3	2.9	11.6	7.8	21.5	11.1	7.4	3.1	37.2	5.5	3.8	56.3
Foreign trade															
Exports of goods, fob*	12 636	97 476	210 804	..[8]	80 580	5 837	18 240	7 188	27 132	37 200	37 248	7 908 (85)	107 016	217 308	7 188
as % of GDP	69.4	27.2	15.9	..	64.5	26.7	31.5	34.7	16.5	37.1	40.2	15.0	23.8	5.5	16.5
average annual increase over previous 5 years	10.0	5.2	6.8	..	3.3	0.7	0.3	11.7	5.8	5.4	6.7	23.5	0.7	–1.4	–3.1
Imports of goods, cif*	11 616	99 972	127 668	..	75 420	6 156	20 292	9 444	34 920	32 484	40 860	11 328 (85)	126 156	369 960	8 196
as % of GDP	63.8	27.9	9.6	..	60.3	28.1	35.0	45.6	21.3	32.4	44.1	21.5	28.1	9.4	18.8
average annual increase over previous 5 years	1.8	1.9	–2.2	..	2.7	1.3	5.4	–0.6	1.7	2.4	6.0	12.6	4.2	7.2	–7.5
Total official reserves[6]	2 658	18 661	35 394	..	10 687	4 752	10 541	1 896	12 581	5 568	20 726	1 332	15 726	39 790	1 259
As ratio of average monthly imports of goods	3.2	2.6	3.9	..	2.0	0.9	7.3	2.8	5.1	2.4	7.1	1.7	1.8	1.5	2.2

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

Sources:
Population and Employment: OECD *Labour Force Statistics.*
GDP, GFCF, and General Government: OECD *National Accounts*, Vol. 1 and OECD *Economic Outlook, Historical Statistics.*
Indicators of living standards: Miscellaneous national publications.
Wages and Prices: OECD *Main Economic Indicators.*
Foreign trade: OECD *Monthly Foreign trade Statistics, series A.*
Total official reserves: IMF *International Financial Statistics.*

19.5.87

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