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REVISED CONVERGENCE PROGRAMME FOR THE GREEK ECONOMY 1994-1999

1. Introduction

Our purpose in presenting the Convergence Programme for 1994-1999, revising the earlier 1993-1998 programme, is to show the development of the macroeconomic figures for the Greek economy over the period 1994-1999 and to highlight the most important instruments of policy on which the drive towards nominal and real convergence is to be based.

The prospects for the Greek economy are quite propitious. Labour relations following the recent two-year agreement between employers and workers are at a very satisfactory point. Both in traditional and new branches of the economy dynamic enterprises are investing in modernization and are performing well and increasing their profitability. The emerging markets in the Balkans, Eastern Europe and the Republics of the former Soviet Union offer great possibilities to Greek enterprises, many of which have already established a presence there. Industrial output is on the upturn after many years of stagnation. Inflation is falling and the current account deficit stands at a very low level. The second Community Support Framework, triggering total expenditure of 8.4 trillion drachmas, is establishing the funding conditions for accelerated capital investment, infrastructure upgrading, production unit modernization and the improvement of overall economic competitiveness.

The chief factor standing in the way of economic stabilization and exploitation of the favourable prospects for growth is the fiscal problem. The achievement of high and sustainable medium-term growth rates is dependent very greatly on that problem being tackled effectively. The Government's fiscal policy, expressed mainly through the recently enacted taxation laws, cut-backs in non-investment expenditure and radical overhaul of the budgetary drafting process, and augmented by the increase in state revenues which will accrue from the stock market flotation of shares in public enterprises, is directed towards bringing the Greek economy into compliance, over the coming four years, with the fiscal conditions laid down in the Treaty of Maastricht. The Convergence Programme provides for the fiscal deficit being cut to less than 3% of GDP by 1998 and for stabilization of the public debt as a percentage of GDP by as early as 1996. By 1997 inflation and interest rates are expected to be very close to their convergence criteria.

The main conclusion to be drawn from the Programme is that the Greek economy will meet all of the Maastricht nominal convergence criteria by 1998 and be ready, therefore, to participate in stage three of the Economic and Monetary Union from 1999, which is the most probable year of commencement of that stage. The nominal convergence criteria are the public deficit and debt, inflation, long-term interest rates and relative exchange rate stability. In the sense that the public debt will be greater than 60% of GDP, that particular criterion will not be fully met. However, the public debt/GDP ratio is expected to be well on the downturn by 1996, and thus the convergence criterion laid down in the Treaty will, in fact, be complied with.

Meeting the criteria for nominal convergence is not the sole object of the Programme. The Greek Government attaches great importance as well to real convergence, and that can be achieved only through high GDP growth rates. The Programme does, in fact, envisage high GDP growth rates in its final years, and the policy measures on growth, of which the Public Investments Programme is the main plank, will be implemented in tandem with the fiscal adjustment from the very outset.

At the inter-governmental conference in 1996 the Greek Government intends to press hard for criteria on real convergence to be incorporated in the Maastricht Treaty. If that is not done, the Treaty will be left without social content and be utterly disregarding of reality, given that market participants are already basing their assessment of the performance of the economies on real criteria such as growth in GDP and the unemployment rate.

2. The need for revision of the Convergence Programme

The Convergence Programme for the period 1993-1998, drawn up in 1993, was directed towards convergence by Greece with the nominal objectives of the Treaty of Maastricht over the medium term. However, in 1993, the first year of endeavour on the basis of that programme, there was a failure to meet the fiscal deficit target and the other targets by some considerable margin.

The gross state budget deficit for 1993 was 4,110 billion drachmas as against the target figure of 2,905 billion drachmas, a shortfall of almost six percentage points of GDP (up from the target of 14% to 19.8%), while the net borrowing requirement exceeded the projected percentage of GDP by five points (up from 6.6% to 11.6%).
More specifically, the revenues of the general budget rose by 8.1% as against the projected rise of 29.5%, and primary expenditure rose by 20.4%, and thus exceeded current inflation by six percentage points.
The state budget for 1993 showed a primary deficit of 73 billion drachmas as against the projected surplus of 880 billion drachmas, whereas, for 1992, mainly because of the windfall

revenue from the sale of AGET, there had been a primary surplus of 260 billion drachmas.

The main divergences from the 1993 budgetary and convergence programme targets can be attributed chiefly to the substantial shortfall in revenue (980 billion drachmas), and in some degree, as well, to the primary expenditure overrun (224 billion drachmas). The principal reasons for the shortfall and the low rate of revenue collection (8.1%) were:

1) faulty assessment of the repercussions of the change in the income tax scale made in 1992, which resulted in the loss of revenue in 1993 being 180 billion drachmas greater than was forecast, and in an increase in primary expenditure of 80 billion drachmas because of tax rebates;

2) faulty assessment of the repercussions on VAT revenues of the abolition of customs controls in line with single market rules; for the year 1993 the scale of the faulty projection rose to around 300 billion drachmas;

3) the entering as projected revenue of 330 billion drachmas from the "privatization programme" of the previous government, revenue which did not materialize because of problems in the implementation of that programme;

4) the lower than projected increase in economic activity (lower, that is, than the increase anticipated when the budget for 1993 was drawn up).

Lastly, the expenditure excess was much greater than projected, mainly due to payments of grants to public entities (180 billion drachmas) and interest payments (80 billion drachmas).

The divergences from other projections were smaller but also, in themselves, quite significant. On the inflation front, for example, although the rate of increase of consumer prices fell from 15.9% in 1992 to 14.4% in 1993, the projected figure of 12.6% was not met and the target of single-digit inflation by the end of 1993 was not achieved.

Those data have made necessary the revision of the Convergence Programme in order to allow new data to be taken into account, accurate depiction of the projected development of the macroeconomic figures over the course of the Programme's duration and a proper explanation of the instruments of policy that are being brought to bear in the adjustment endeavour.

3. The macroeconomic framework of the new Programme

The new Convergence Programme, covering the period 1994-1999, is directed towards achievement of the necessary adjustment of the Greek economy and establishment of the conditions necessary for participation by Greece in the European Economic and Monetary Union in 1999.

The international economy is showing the first signs of emergence from recession. More specifically, the European Commission's medium-term forecasts, which were used as external hypotheses for the Programme, predict a modest recovery in activity in the countries of the European Union in the immediate future and a growth rate of 2% in 1995, with faster rates in the years beyond.

The Programme can be split into two periods: 1994-1996 and 1997-1999.

a) In the first period, 1994-1996, the emphasis is on fiscal adjustment and on the greatest possible acceleration of public investment, a substantial percentage of which will be achieved through assistance provided under the Community support framework, for the purpose of improving the economic infrastructure. Inflation and public deficit levels are expected to fall quite substantially over this period, with a resulting drop in nominal and real interest rates. For instance, the general government deficit is expected to fall by about five percentage points of GDP and to stand at 7% of GDP in 1996.

It is predicted that the primary surplus will be close to 5% in 1996 and that real interest rates, which will remain relatively high over this period chiefly because of public debt refinancing requirements, will contribute to keeping interest payments for the servicing of the public debt at the level of 12% of GDP up until 1996. As a result of this substantial improvement in the fiscal deficit situation, the debt to GDP ratio is expected to stabilize from 1996 onwards. Revenues, as a percentage of GDP, will rise by more than one per cent annually up to 1996 and remain unchanged over the second period of the Programme, whereas public consumption is projected to fall by 0.5% annually. Additionally, the task of curbing the increase in the public debt will be assisted during the first three years of the Programme by annual revenue receipts of 150 billion drachmas from the stock market flotation of shares in public enterprises.
Over this period the main factor in the growth of demand, employment and production will be public investment, with some smaller part being played by private investment.

More specifically, public investment, assisted through the Community support framework, is expected to increase annually at a rate exceeding 7.8% for the first three years of the Programme. Over the same period, private investment is expected to increase at a rate of 2.3% annually. Private consumption, on the other hand, is expected to increase at an average annual rate of 1.4%.

The projected reduction in public consumption of 0.5% annually in real terms over the whole duration of the Programme is a reflection of the Government's intention to pursue a restrictive policy on public sector recruitment and to impose limits on consumption expenditure.

b) The substantial degree of correction of the fiscal imbalances, the improvements in infrastructure, the increase in public investment levels and the structural adjustment measures will have the combined effect of establishing the conditions for an acceleration of GDP growth rates over the second period of the Programme, in the years 1997-1999, that is. Over this period the annual rate of growth in GDP is projected to be 3.0%, as against an annual average of 1.3% for the first three years of the Programme. Furthermore, along with the continuing rise in public investment levels, there is also the prospect, over this period, of sharply rising levels of private investment. Private consumption, on the other hand, is expected to show only a slight acceleration. The increase in gross capital investment for the whole duration of the Programme is therefore projected to be in the order of five percentage points of GDP.

Over this second period the expectations are that inflation will continue to fall, albeit at a slower rate, and that an acceleration in the rate of growth of economic activity will lead to a further reduction of the wider public sector net borrowing requirement. Thus the primary surplus of 4.9% of GDP in 1996 rises in 1999 to 6.0%, the interest burden is reduced significantly, and in 1999 the overall deficit falls to less than 1% of GDP. The combination of higher primary surpluses, faster GDP growth and lower real rates will, furthermore, engender a sizeable reduction in the public debt. Hence the debt/GDP ratio, after reaching its peak (115.3%) in 1996 is projected as falling sharply to 103.4% by the end of the Programme.

One of the prime objectives of the Programme is a rapid fall in the rate of inflation. The inflation index for private consumption is projected as falling to 6.1% in 1996, a drop of nearly eight percentage points over 1993. This fall in inflation will be brought about by the pursuit of tight fiscal, monetary and exchange rate policies over the duration of the Programme and will be assisted by consensual agreement between the social partners permitting only pay rises which the economy can withstand. This consensus, already reflected in the signing of a two-year collective labour contract, is founded on state initiatives designed to increase employment through the upgrading of human resources, support for small- and medium-size enterprises and the provision of training and relocation incentives for the unemployed.

Over the course of the Programme nominal incomes are projected as rising in line with inflation, but always only within limits which the economy can withstand, subject to the growth in GDP and the change in employment. This will lay the foundation for a steady rise in real incomes, provide the scope for greater self-financing of private sector investment, enhance competitiveness and help to reduce unemployment and inflation.

The achievement of social consensus and the holding-down of pay rises to a level that the economy as a whole can withstand will result in avoiding to pursuing an excessively restrictive monetary policy which would squeeze demand even harder and generate higher unemployment. By contrast, interest rates are projected as falling sharply right through the period of the Programme. To be precise, interest rates on interest bearing notes issued by the state are expected to fall from 20.5% in 1993 to less than 11% in 1996 and to around 6% by the end of the period of the Programme. Real interest rate (rates of interest less inflation, that is), which are of even greater importance with regard to economic activity, are also expected to fall significantly on account of the improvement in fiscal amounts. Real short-term interest rates are expected to fall to around 4.5% in 1996 as against 6.3% in 1993, although a slight rise is anticipated over 1994.

The exchange rate and monetary policy accompanying the Programme is counter-inflationary in nature given that one objective is the drachma's participation in the exchange rate mechanism (ERM) from the middle of 1996. Assuming achievement of the fiscal correction and wage restraint referred to above, the participation of the drachma in the ERM and attainment of the two years of exchange rate stability specified in the Treaty of Maastricht is indeed a viable aspiration. The available projections as regards the development of inflation and long-term interest rates in the countries of the European Union suggest that Greece will be able to meet the criteria on price stability and long-term interest rates by the appointed time. The public deficit will be down to satisfactory levels and the public debt will have been reduced considerably, factors which ought to be taken as adequate indication of the stability of the public economy.

4. Fiscal Adjustment Measures

The main prerequisite for the attainment of the objectives of the Convergence Programme is substantial reduction of the fiscal deficits, and this will be brought about both by increasing revenues and reducing expenditure.

4.1. Revenues

The increasing of revenues will be effected both through direct and indirect taxation and principally through implementation of the recently enacted taxation Laws 2178/94, 2198/94 and 2214/94. More specifically, the intention is to increase direct taxation revenues from the level of 5.4% of GDP in 1993 to 7.1% of GDP in 1999, a percentage which is lower, in fact, than the European Union and OECD averages. In tandem with this, revenues from indirect taxation will be increased by two percentage points from the level of 14.7% of GDP in 1993 to 16.7% in 1999.

The new taxation laws mentioned above were enacted after wide-ranging consultation with the social partners and contain provisions which broaden the tax base, increase the rates of current taxes and impose severe penalties for tax evasion.

In addition, a number of administrative measures aimed at increasing revenues, the apprehension of taxable matter and a fairer distribution of the tax burden are also adopted.

The main contents of the three laws are summarized below.

I) **Law 2187/94**

1) An increase of approximately 20% in the tobacco tax.

2) A doubling of the special duty on privately-registered motor vehicles.

3) Redefining, simplification and extension of the system prescribed in Law 2166/93 for the collection of overdue sums.

4) The raising by 50% of the imputed income from privately-registered motor vehicles and marine recreational craft.

5) Curtailment of the time allowed for the payment of instalments of the transfer tax on immoveables and bequests etc.

6) Imposition of a withholding tax of up to 8% on private sector purchases effected from within the wider public sector.

II) **Law 2198/94**

1) Further reinforcement of the system for the collection of overdue sums.

2) Establishment of a framework for the checking and winding-up of elapsed tax affairs.

II) **Law 2214/94**

1) Adoption of objective criteria for determining the minimum net incomes of small traders and persons engaged in the liberal professions. Among other factors, these criteria, applicable to each occupation in an appropriate manner, are based on the hire value of immoveables, typical income and length of time in the occupation. In addition, the law sets out an objective system for the taxation of construction contractors and sub-contractors and establishes a framework for the taxation of farmers. The law also brings into being an annual single-payment tax for small-scale mobile traders.

2) Obligatory submission of tax returns by persons of 25 years of age and over and obligatory listing in returns of immoveable property held in ownership.

3) Revision of the imputed income based on living standard measurement indices and inclusion of rent paid for a second dwelling.

4) Additional measures to facilitate discovery of the origins of income and property.

5) Introduction of a new maximum income tax rate of 45% for natural persons.

6) Raising of the tax on unlisted incorporated companies established within Greece from 35% to 40%.

7) Raising of the tax on foreign technical companies active in Greece from 0.5% to 1.25%.

8) Reduction by 50% of the risk claims deductible by companies from gross profits.

9) Reduction of the expenditure claims permitted to various types of company without supporting documentation.

10) Imposition of a 15% tax on that portion of the dividends of mutual funds and portfolio management companies not subject to other taxes (this tax relates mainly to interest accruing from government securities). Imposition of a 15% tax on interest accruing from repurchase agreements (REPOS).

11) Readjustment of the levels of various duties and imposts.

12) Checks on owners of privately-registered vehicles suspected of paying less than the required tax at the point of acquisition.

13) Imposition of severe penalties (fines, custodial sentences) for the rendering of false data or the submission, acceptance or signing of false tax returns.

14) Introduction of a system under which the tax returns of small traders must be co-signed by an accountant.

15) Introduction of new book-keeping rules for various professions.

16) A tax-free allowance of up to 300,000 drachmas for receipted purchases not exceeding 1,000,000 drachmas. Receipts for purchases of over 10,000 drachmas to carry the name of the purchaser and be authenticated by the vendor.

17. Obligatory registration by name of shareholdings in various types of incorporated company.

18) Imposition of an additional tax on dwellings larger than 300 square metres in area.

19) Removal of banking confidentiality for tax check purposes.

20) Obligatory lodging of a taxation outlay and exemptions budget together with the general budget.

21) Establishment of the following bodies:

a) a Special Legal Taxation Office to advise, adjudicate and provide safeguards in judicial taxation cases;

b) a Fiscal Studies Council to engage in the study of taxation matters and of fiscal policy in general and to serve in an advisory capacity;

c) a Taxation Data Bank to gather information relating to taxation and to assist in the checking process.

The measures listed above will greatly strengthen the arm of the Ministry of Finance in the fight against tax evasion. Until recently the taxation services could do no more than carry out checks on accounting records, but now they are able to seek information and to assess tax liability via a wide variety of means. Some of the measures, such as the abolition of banking confidentiality for tax check purposes and the obligatory lodging of a taxation outlay budget, will be of immense value in combating tax evasion. The laws were enacted during the first four months of this year and should begin to yield results in the second half of the year. Many of the provisions, however, are due to take effect from 1995.

With regard to indirect taxation, revenues are projected as rising in line with the growth in GDP and will be added to through the combating of tax evasion. The direct taxation measures listed above will be of value also in the area of indirect taxation, particularly in the assessment and collection of VAT.

Another noteworthy factor is the switch by the Ministry of Finance to computerized processes. This has already begun and should be completed within two years. A further substantial increase in revenues can be expected to accrue from changes in the organization and functioning of the checking services due to be proposed in a bill on the modernization of the Ministry of Finance's procedures which will be tabled in Parliament very shortly. These changes will bring in improved operational methods and promote a restructuring of the checking mechanisms. In addition, a system of training will be introduced to enable employees to make use of the latest checking techniques. In tandem with the other interventions on the administrative side, a large portion of the workforce will be released from run-of-the-mill administrative tasks and switched to data cross-referencing operations and real checking work.

Given the great extent of tax evasion, it is quite conceivable that the measures which have been described and the interventions within the Ministry of Finance itself will result in accumulations of revenue in excess of the Convergence Programme forecasts.

Finally, it should be stated that the revenues from the stock market flotation of shares in public enterprises will be quite considerable and in the order of 150 billion drachmas annually over the next three years. In fact, however, because in this process some additional revenue will pass directly to the public enterprises themselves, in addition to the revenues received by the state, the actual budgetary benefit is expected to be substantially greater.

4.2. Primary expenditure

As already stated, public consumption over the course of the Convergence Programme will fall at an annual rate of 0.5% at constant prices. The main instruments for the achievement of this are the incomes policy and the limits placed on recruitment and on the expenditure of the ministries and public bodies.

Over the duration of the Programme, expenditure on pension payments as a percentage of GDP is expected to remain almost stable. Recently enacted laws and other provisions dealing with social insurance and the intention to implement the incomes policy in the area of pensions place that forecast on a sound footing, particularly given the projection that no significant opening-up between the rate of ageing of the population and the rate of growth in GDP is likely between now and the year 2000.

The reduction in primary public expenditure will be achieved through the immediate implementation of a series of measures which the Government has already drawn up. These measures will apply to all of the ministries and public sector bodies and are expected to yield substantial medium-term benefits. Their content is described below.

1) Radical alteration of the budgetary drafting procedure. The practice via which each ministry has submitted proposals embracing the totality of its planned expenditure will cease. Under the new system the Ministry of Finance will stipulate the budgetary sum available for each ministry and the ministries will then arrange their own internal allocations within that limit.

2) The setting-up of command groups charged with evaluating the expenditure of each ministry and with examining not only the legality of expenditure, which is already standing practice, but also the feasibility of major and minor expenditure items. This will stimulate ongoing expenditure evaluation and help to promote better planning and maximization of yield.

3) In the case of public legal persons, such as hospitals, in receipt of grant funding, the Ministry of Finance has two targets:

a) rationalization of their expenditure; to this end expert working parties will be set up to examine ways of restructuring them and rationalizing their operations on the basis of efficient management practices.

b) more efficient exploitation of their property holdings which, in many cases, and particularly in the case of the universities, are very sizeable and often standing idle.

4) Scrutiny and cataloguing of the current situation within each ministry, and especially within the large ministries responsible for finance, education, health and agriculture, prior to assessment by experts of the potential for cuts in services, updating of procedures and operational restructuring.

5) Completion of the switch to computerized processes at the Ministry of Finance. This will also greatly facilitate direct monitoring of the execution of the budget in that, among other things, it will minimize the delay between the effecting of expenditure and the due notification of ministry headquarters.

5. Monetary policy

The basic objective of the monetary policy is the reducing of inflationary pressure. To assist towards achievement of this, the Bank of Greece sets medium-term intermediate targets. Under the system of capital movement restrictions in force until May of this year, the main intermediate target of the monetary policy was the rate of increase in the money supply in the wider sense (M3).

As the liberalization of the banking system and of capital movements progresses, the Bank of Greece is gradually adopting the protection of currency parity as a supplementary intermediate target. More specifically, the target is to restrict the slide of the drachma against the currencies of the main trading partners to less than the projected inflation difference between Greece and the respective countries. This policy is directed towards the curbing of inflation.

Achievement of the intermediate targets of the monetary policy requires the exercise of an appropriate short-term interest rates policy. In order to confer greater efficacy on the interest rates policy, the Bank of Greece is promoting the development of the money market and has introduced new means of implementation monetary policy, including interventions in the inter-bank market, new methods for borrowing by the banks from the Bank of Greece, repurchase agreements (repos) and exchanges of currency (swaps).

Following the full liberalization of capital movements in May of this year, the basic objective of the monetary policy remains unchanged, namely the reducing of inflationary pressure. However, the importance of the two intermediate targets relative to each other has changed in that protection of the parity of the drachma now carries greater emphasis than the monetary target.

In parallel with this, the Bank of Greece monitors the development of other factors, such as the wider index of the liquidity of the economy (M4), total credit expansion, the development of the balance of payments and, as the situation evolves, long-term interest rates. In general the policy will be more flexible than in the past because of the fact that developments in the international markets are immediately mirrored in the money and capital markets of Greece, with a weakening, in consequence, of the relation between inflation and the intermediate targets.

With the exercise of monetary policy set in this framework, achievement of convergence of the Greek economy with the economies of the other European Union countries necessitates a gradual slowdown in the rate of increase of monetary and credit aggregates. This stringency is consistent with the projected development of nominal GDP and the desired reduction of the public sector borrowing requirement without restricting, however, the availability of capital for investment financing and the development process.

The effectiveness of the monetary policy is reinforced further by the introduction of other positive rulings. The prohibition of public sector monetary financing will reinforce fiscal discipline. The increase of the reserve of state securities in the Bank of Greece's portfolio stemming from the prohibition of public sector monetary financing will permit more effective exercise of the open market policy. The capacity for the exercise of an open market policy will be facilitated still further by the forthcoming dematerialization of securities which will promote development of the secondary markets. Lastly, the monetary policy will gain additional credibility and effectiveness from the forthcoming harmonization of the statutes of the Bank of Greece with those of the European Central Bank provided for in the Treaty on European Union and aimed at the consolidation of the independence of the national central banks.

6. The role of the money and capital markets

Substantial changes and adjustments will be made to the functioning of the money and capital markets over the period of the Programme. Some of these changes have already passed through the legislative stage and have been set in train. Others will be put in place in the near future. The changes in the functioning of the money and capital markets and the enhanced effectiveness that will ensue are expected to assist greatly towards improving the terms of concentration and utilization of national savings, and to promote more efficient distribution of resources within the economy and improvement of the terms of financing and circulation of state securities. The liberalization and modernization of these markets will act, therefore, as a positive and powerful structural lever in improving the investment options of Greek enterprises and in raising their productivity and competitiveness.

The liberalization of capital movements on 16 May of this year, well before the set date of 30 June, is a mark of the Greek Government's determination to prepare the ground for a free economy in the money and capital markets sector as quickly as possible. The liberalization of international capital movements is expected to give new impetus to the modernization of the internal markets. This impetus will stem chiefly from the pressure for competitive supply of financial services to domestic savers.

In addition, the removal of certain negative factors, which in the past encouraged the lawful or unlawful export of capital from Greece, opens up the possibility of an additional net import of capital. The new investment opportunities are expected to attract a greater portion of international finance than has historically been the case, because the disincentive to place capital in Greece, which stemmed, in the past, from uncertainty about the ability to repatriate that capital, has been removed.

The core elements of the Convergence Programme, which are linked organically to improvements in the money and capital markets, are the reducing of inflationary pressure, the reducing of the public sector borrowing requirement and the supplying of securities which will come from the flotation of shares in the large public enterprises. Each of these desired developments is bound up inextricably with the effectiveness of the markets in a process in which the benefits flow both ways: they themselves will confer improved effectiveness on the markets, and the functional enhancement of the markets will reinforce the beneficial consequences of the macroeconomic adjustment and speed up its implementation.

The reducing of inflationary pressure will be a fundamental factor in the strengthening of the money and capital markets. <u>Firstly</u>, it will permit the issue of medium- and long-term securities and thereby widen the financial and time-duration options available to investors in domestic securities. The lengthening of the redemption spans of the securities on offer will have beneficial effects on the long-term financing of business plans. <u>Secondly</u>, the reducing of inflationary pressure will free the money and capital markets from the particular uncertainty concerning the instability (or the perceived possibility of instability) of prices which generally pushes up the cost of capital via the addition of an "inflation risk" premium. From the other standpoint, the greater functionality of the money and capital markets will bring a downward adjustment of interest rates and yields commensurate with lower inflation expectations and thus facilitate a swift transfer of the benefits of falling inflation to production and development activity.

The gradual reduction of the public sector borrowing requirement will engender a release of resources into the money and capital markets. This release of resources will help to promote the take-up of new securities - of private issues as well as of public enterprise stocks - and bring improvements in the secondary market. Together these developments will lead to an improvement of financing terms for the public sector and for private enterprises in the following ways: firstly, the enhanced marketability of securities will of itself engender a fall in the cost of capital; secondly, the widening of the variety of the securities on offer establishes a new parameter in the area of investment choice which will help to increase the demand for securities as investors go in search of differentiated portfolios with good yields, and thereby further reduce the cost of capital.

7. Development policy measures

The opening-up of the Greek economy to international competition, the rapid developments in technology occurring across the world and the rearrangement of comparative advantages necessitate the redefinition of the development strategy, with the placing of particular emphasis on the restructuring of the economy's production capacity, as a matter of great urgency. Fiscal adjustment is a necessary condition for the achievement of high growth rates, but it cannot bring about those growth rates by itself. And nor can it beget the necessary restructuring of production capacity.

The development dimension constitutes the second major core theme on which the weight of economic policy is focused at this stage. The effort at "production restructuring" does not conflict with the fiscal adjustment. It conforms, moreover, to the lead given by the European Union. Over a five-year span, the combination of macroeconomic stabilization and production restructuring can give a powerful impetus to the economy which will translate into higher rates of increase in the second half of the Programme.

Investment is the main tool for the promotion of the development policy over the period of the Programme, during which the Greek economy will benefit greatly from assistance under the Community support framework. In parallel with this, a number of measures, mainly of a legislative nature, are being introduced to help promote structural adjustment.

The decisions already taken in 1994 relate to the aspects set out below.

a) A reallocation of Community support framework appropriations aimed towards the strengthening of competitiveness. All of the sectors, such as industry, tourism, telecommunications and energy (natural gas), which produce internationally marketable goods or services have received substantial assistance. The basic objective of this new approach is to achieve more effective utilization of the development process appropriations via the strengthening of the competitiveness of enterprises.

b) Revision of the incentives system with emphasis on new products, the sequence "know-how for competitive production - quality - technology - research", the size of production units, the attraction of foreign investment, the transfer of technology and services which supplement material production.

c) Promotion of processes aimed at strengthening the productivity and competitiveness of public enterprises. Other decisions, in the wider framework of the policy on the improvement of productivity and the competitive environment, relate to the stock market flotation of shares of the Hellenic Telecommunications Organization and of the Public Petroleum Corporation, the self-financing or co-financing of several large projects, the upgrading and revitalization of major public enterprises in the air carriage and shipbuilding branches and the privatization of a number of industrial enterprises.

Economic and social infrastructure

The structural adjustment of the economy is being pursued mainly through the strengthening of its material and non-material infrastructure. Within that context. the objectives are modernization of the material infrastructure, human resources upgrading, strengthening of the support framework for SMEs and export activity and the strengthening of competition. Support for exports to the Balkan and Black Sea countries and for Greek enterprises active in those countries is another basic element of the Government's development policy.

7. Upgrading of the material infrastructure. The 1994-99 Community support framework and the large projects

The 1994-1999 Community support framework, approved by the European Commission on 14 June of this year, reflects clearly the main policy orientations for the country's development expressed through the revised Regional Development Plan for 1994-1999 submitted by the Government in March of this year.

The 1994-1999 Community support framework, which forms part of the 2nd. Delors package together with the cohesion fund and the Community initiatives, embraces the following financial amounts:

	billions DRA
- National participation	1994
- Community participation	3942
- Private participation	2445
- Total expenditure	8381

The priorities posited embrace 3 core development themes:
- the basic infrastructure, which takes 47% of total expenditure;
- human resources, which take 15.8% of total expenditure;
- the production sectors, which take 36.9% of total expenditure.

In the framework of those priorities, the sectors which will play an important role, either because of their size or on account of the innovative potential and technology services they offer are:

- **Transport**, in which the tendering process has already begun for the planned Egnatia route, the Patras-Athens-Thessaloniki national route and other important road routes. Projects are planned also at the main airports and ports. All of these projects fall within the new strategy on the reshaping of transport links and the trans-European networks.

- **Communications**, in which there is provision for the upgrading of the Hellenic Post Office and strengthening of the investment programme of the Hellenic Telecommunications Organization.

- **Environment and water**, in which there is provision for major interventions on refuse, air pollution in Athens, natural habitats and the public register of property et al.

- **Health and welfare**, in which there is provision for the construction and equipping of new hospitals and infirmaries and the modernization of existing ones, for further training programmes and for the creation of centres for the provision of new treatment services.

- **Energy**, in which there is provision for interventions relating to natural gas, the Aheloos river, the generating stations of the Public Electricity Corporation and energy saving et al.

- **The Athens and Thessaloniki metro systems**. These projects are of enormous importance in the battle against traffic congestion and air pollution.

- **Education and initial training**. The rapidest possible improvement of infrastructure is planned in the years up to 1999. The economic and social role of education in the development process is widely recognized.

- **Training and employment**, in which there is provision for interventions aimed at adaption of the human factor to labour market requirements through continuing training and retraining in the new technologies and at eradication of the causes which lead to certain social groups being excluded from the labour market.

- **Public administration**, in which there is provision for interventions directed at the modernization of administrative processes in tax offices, the customs service and the National Statistical Service et al through the use of telematics.

- **Agriculture and rural development**, in which there is incorporation of actions provided for under Community regulations and of actions deemed requisite to the country's needs in the context of the readjustment of agricultural policy and the development of rural areas.

- **Industry and services**, in which, in tandem with the new development bill, there is provision for the funding of interventions aimed at the development of a wide range of new and specialized services for industry, the strengthening of the international competitiveness of enterprises and, through adoption of appropriate measures and creation of the necessary infrastructure, protection of the environment.

- **Research and technology**, in which the interventions encompass the whole research endeavour with the emphasis on taking research through to the production stage.

- **Culture and tourism**, in which the interventions are directed towards evincing the country's cultural identity and enhancing the quality of tourism services.

The Community support framework activity embraces approximately 30 programmes, of which 13 are regional (one for each region) and the remainder sectoral.

The main strategic emphasis of the Community support framework is focused on the large infrastructure projects such as the Athens and Thessaloniki metro systems, the Spata airport, the Rion-Andirion bridge, the natural gas project, the large trans-European network road building works, such as the Egnatia route and the Patras-Thessaloniki-Bulgarian border route, and the Aheloos river works, and on development of the telecommunications and energy sectors. Part of the funding for these projects is to come from the private sector. For the purpose of ensuring that the projects are got under way quickly there is provision for the setting-up of incorporated companies and special services of a "flexible" nature. In addition, an autonomous state agency is to be established to supervise the procedures for the assigning of the projects. Many of the projects mentioned above, and others in the energy sector, are included under the proposals on trans-European networks and offer Greece the opportunity to take advantage of the favourable prospects that are being opened up in this sector.

With regard to telecommunications in particular, the Government is of the view that the necessary restructuring and development and the adjustment to the new technological circumstances must be completed within the five-year period of the Convergence Programme. If this is not achieved, Greek telecommunications will be in danger of not being able to cope with the impending international competitive pressures. For this reason, the Government has decided to forge ahead with laying the conditions for an integrated development investment programme to be implemented by the Hellenic Telecommunications Organization, in order that the development prospects in this branch, which over the coming decades is set to be one of the biggest growth areas, can be safeguarded. One important element in the bringing of this programme to fruition will come from the stock market flotation of a minority shareholding in the Organization.

7.2. Upgrading of human resources and measures to cut unemployment

One essential ingredient of the development policy is the upgrading of human resources. Over and above the planned reform of the training system, there is to be an expansion of worker further training programmes and establishment of an agency to monitor the calibre of the programmes. Enterprises themselves are being encouraged to engage in the provision of continuing training to their employees and incentives will be offered for approved programmes.

As well as contributing to the raising of productivity, the upgrading of human resources reinforces the efforts to reduce structural employment. This major social problem is being tackled via measures aimed at increasing labour market mobility and the provision of relocation incentives for the unemployed, in tandem with skills training in high demand specializations. The importance attached to this policy is reflected in the scale of appropriations being allocated for the funding of these incentives and programmes under the second Community framework arrangements (16 percent of total expenditure).

With the cooperation of the other competent agencies, the Government intends to submit proposals to the employers' organizations and the trades unions for agreement on a framework of measures to combat the structural problems of the labour market, to reduce structural employment and to upgrade workforce training levels. Social dialogue and the establishment of a suitable framework for analysis and discussion of matters relating to the upgrading of human resources, and for the proposal of appropriate measures, are being promoted further following the setting-up of an Economic and Social Committee modelled on the European institution of that name.

7.3. Strengthening of the support framework for SMEs

The intention is to set up coordinative service-providing bodies to help SMEs find and train staff, to offer inexpensive access to the new technologies, to provide information on organizational matters, to assist with the improvement of product quality specifications and standardization and to provide help with marketing and export promotion. Additionally, SMEs will be assisted in the obtaining of cheap finance via the development of the concept of mutual guarantees and through the subsidization of loan interest rates within the framework laid down by the European Union.

7.4. Strengthening of the support framework for exports

The growth of the Greek economy is dependent both on investment and the export of products and services with high added value. The international orientation of Greek enterprises is being strengthened through a widening of the roles of the Exports

Promotion Organization and the Export Credit Insurance Organization and upgrading of the roles of the commercial attachés. Taken together, the existing framework of insurance, financing and factoring and the new, additional, capability of these organizations to provide support for export endeavour offer Greek enterprises a firm basis for the venture into foreign markets. The competitiveness of Greek exports will be assisted further by the full liberalization of capital movements.

7.5. Support for exports to the Balkan and Black sea countries and for Greek enterprises active in those countries

The Government has already drawn up an integrated programme for the support of exports to and investment in the Balkan and Black Sea countries and for the strengthening of economic cooperation with those countries on the wider front.

This provides for the deployment of national and Community resources to promote a series of measures including the provision of investment incentives, upgrading of infrastructures in northern Greece particularly, the take-up by Greek companies, where possible, of assistance under the Community's PHARE and TACIS programmes, the establishment of national technical assistance programmes and grant aid for Greek investments in cross-border areas.

In addition, support for exports is being strengthened by the provision of incentives for the creation of specialist barter agreement companies, promotion of export factoring services, assistance in the creation of trade companies, extension of the insurance provided by the Export Credit Insurance Organization fully to cover political risks, investments and technical works and the formulation by the Exports Promotion Organization of branch and specific product support programmes to boost sales in those countries. In harness with this, more is being done with regard to the creation of risk capital and special trade capital, investments and the development projects and the establishment of Greek banks in the Balkan countries. In the same context, work is proceeding quickly on preparing the opening in Thessaloniki of the Black Sea Development Bank.

Particular importance is being attached to providing information and support for entrepreneurs already active in the areas concerned. To this end, a special centre, to be known as the Trans-Balkan and Black Sea Business Centre, is to be established to serve as the hub of a wide information network. In addition, a training centre is to be set up by the Thessaloniki banking sector to cater for rising demand for specialist personnel.

Finally, the establishment of a Trans-Balkan Chamber of Commerce, as a means to strengthening commercial cooperation in the Balkan area, is being canvassed, and the possibility is being examined of setting up a Balkan stock market centre in Thessaloniki.

7.6. The flotation of shares in the public enterprises

Over the period of the Programme the Government proposes to proceed prudently but in determined fashion with the partial flotation of public enterprises and organizations subject to their market position and contribution to the national economy. This policy is being followed in order to increase competitiveness in the sectors providing basic services which are crucial to the country's economic growth. There is no intention of allowing the policy to lead to the creation of private monopolies. The parameters opted for by the Government are marked out already in the decisions taken on the Hellenic Telecommunications Organization and the Public Petroleum Corporation.

Under the method to be used the enterprise will be given a stock exchange listing and a portion of its shares sold to the wider investing public. The portion of shares put up for sale will differ from enterprise to enterprise. As far as the manner of sale is concerned, the Government has decided against having recourse to "privileged relations" and "strategic investors". The majority holding in public enterprises given a stock exchange listing will be retained and administered by the state.

The public enterprises will be able to take advantage of all of the possibilities and opportunities for cheaper financing of their investment and development programmes via recourse to the Greek stock exchange and the international capital market. A portion of the revenue from each flotation will be used for the modernization and development of the enterprise and the remainder will be added to the state budget.

The strengthening of the capital base of the large enterprises will enable them to meet international competition on equal terms, and it is anticipated that the flotation of their shares will lead to their becoming generally more efficient, given that opinion as to their performance will be reflected in the value of their shares.

ANNEX 1

The revised National Accounts data

The Convergence Programme is based on National Accounts data which have been revised in accordance with the methodology recently formulated by the United Nations and EUROSTAT and used by the Community in the European System of Integrated Economic Accounts. The reference year is 1988.

According to these new data, the gross domestic product in 1988 at current market prices was 9090.1 billion drachmas, as against the estimate of 7671.1 billion drachmas arrived at under the former system, an upwards revision, that is, of 20%.

Tables 1 and 2 show the structure of product by branch of economic activity and the distribution of income under the new (ESA) and the old (SNA) National Accounts systems, and also the percentage relation between the individual amounts.

From a scrutiny of the data in the tables it becomes clear that the former system led to the products of all of the branches other than agriculture, public administration and mining being rated lower than they actually were, and that, as regards distribution, the biggest divergence is in the estimate of the gross operating surplus of the non-agriculture sector which is based chiefly (if gross housing rent income is disregarded) on the gross profits of enterprises and the incomes of the self-employed.

The new estimate for the gross operating surplus, not including housing, is higher by 48%, whereas that for salaries and wages is higher by only 2.0%.

Here it is deemed advisable to relate employment structure to occupational status so as to show the structural picture of the Greek economy in full.

Hence, according to the workforce survey of the National Statistical Service of Greece, which was conducted in the framework of the Community's statistical programme using the common methodology, the workforce total in 1988 was 3657.4 thousands, with persons working in agriculture accounting for 26.5% of that figure, waged and salaried persons for 49.5%, persons working on their own account for 15.4%, employers for 4.7% and unpaid working family members for 3.8%.

Table 1

Structure of Gross Domestic Product
by branch of economic activity*

	NEW	OLD		
	ESA 1988 STRUCTURE	SNA 1988 STRUCTURE	ESA/SNA 1988(%)	ESA '93** STRUCTURE
1. Agriculture etc.	12.5	16.4	-5.5	10.3
2. Industry	27.6	28.3	20.2	23.7
- - Mining	1.1	1.6	-17.4	0.7
- Manufacturing	15.9	17.4	12.9	13.1
- Elec/light.	2.6	2.6	23.0	2.6
- Construction	8.0	6.7	47.0	7.3
3. Services	59.9	55.3	33.7	66.0
- Transport, communics.	6.9	7.8	7.8	6.0
- Commerce	14.8	12.9	41.8	14.5
- Banks,insur.	3.6	2.6	73.1	6.0
- Housing	12.0	6.0	147.0	15.0
- Public secur. & defence	7.4	11.4	-20.4	7.5
- Health & education	8.4	6.3	63.4	10.0
- Other	6.8	8.2	2.8	7.0
4. GDP	100.0	100.0	23.4	100.0

Source: National Statistical Service of Greece, National Accounts

* Production factor prices

** Estimates by the Ministry of National Economy: Directorate General for Economic Policy, Directorate for Macroeconomic Analysis.

Table 2

Distribution of gross national income*

	ESA 1988	SNA 1988	ESA/SNA	ESA 1993
		%	**	
1. Gross agricultural income	12.5	16.6	-6.6	10.3
2. Agricultural branch salaries & wages	37.5	45.8	2.1	34.3
3. Gross operational surplus (GOS) excluding agriculture sector	50.0	37.6	64.8	55.4
	12.1	6.0	147.0	15.0
a. Gross housing income	37.9	31.6	49.0	40.4
b. GOS excluding housing	100.0	100.0	24.5	100.0
4. GNI				

Source: National Statistical Service of Greece, National Accounts

* Production factor prices.

** Estimates by the Ministry of National Economy: Directorate General for Economic Policy, Directorate for Macroeconomic Analysis.

Convergence Programme 1994 - 1999

GENERAL GOVERNMENT ACCOUNTS (DR bn)	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
1. Government Revenue	7054	8064	9341	10464	11239	11998	12873
- " % of GDP	34.0	34.7	36.7	38.1	38.3	38.4	38.5
2. Current Non-interest Expenditure	6515	7259	7833	8376	8801	9270	9740
- " % of GDP	31.4	31.2	30.8	30.5	30.0	29.6	29.1
3. Interest Payments	2548	3225	3457	3282	2718	2435	2328
- " % of GDP	12.3	13.9	13.6	11.9	9.3	7.8	7.0
4. Government investment	684	841	979	1165	1375	1622	1963
- " % of GDP	3.3	3.6	3.9	4.2	4.7	5.2	5.9
5. Capital transfers - EC receipts	-107	-193	-200	-280	-420	-586	-857
- " % of GDP	-0.5	-0.8	-0.8	-1.0	-1.4	-1.9	-2.6
6. Non-interest surplus (1-2-4-5)	-39	157	729	1203	1483	1692	2027
7. Privatization revenue		150	150	150			
8. Primary surplus (6+7)	-39	307	879	1353	1483	1692	2027
- " % of GDP	-0.2	1.3	3.5	4.9	5.1	5.4	6.1
9. Total GG deficit (3-6)	2587	3068	2728	2079	1235	743	301
- " % of GDP	12.5	13.2	10.7	7.6	4.2	2.4	0.9
9a. GG deficit incl. privat. revenue (3-8)	2587	2918	2578	1929	1235	743	301
- " % of GDP	12.5	12.5	10.1	7.0	4.2	2.4	0.9
10. General Government Debt	22778	26077	29281	31699	33241	34191	34597
-% of GDP	109.7	112.1	115.2	115.3	113.4	109.3	103.4

Convergence Programme 1994 - 1999							
	1994	*1995*	*1996*	*1997*	*1998*	*1999*	*1994-99 aar*
(growth rates)							
DEMAND AND OUTPUT, constant prices							
GDP	1.1	1.2	1.7	2.6	3.0	3.5	2.2
Public investment	6.0	8.0	9.5	11.0	12.0	14.0	10.1
Gen. government consumption	0.0	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4
Private consumption	1.2	1.3	1.7	1.7	1.8	2.0	1.6
Private investment	2.5	0.9	3.5	6.8	8.4	10.1	5.3
Exports	3.2	3.9	4.8	5.9	6.1	6.6	5.1
Imports	3.6	3.7	5.2	5.1	5.5	6.3	4.9
NOMINAL INDICATORS							
Wages per head	12.3	8.4	6.5	4.6	4.3	4.2	6.7
Private consumption deflator	10.8	7.9	6.1	3.9	3.5	3.3	5.9
Unit labour costs	11.3	7.4	5.6	3.2	2.7	2.4	5.4
Interest rate on Treasury Bills	18.5	14.1	10.6	7.9	6.8	6.2	10.7