Π.Α. 292   Το ίδιο υπάρχει κ' στα ελληνικά στο Π.Α. 29.1. (Μετάφραση του ιδίου λόγου)

Speech given by the Minister of National Economy, Mr. Constantine Simitis, at a dinner organised by the International Herald Tribune and the American-Hellenic Chamber of Commerce in Athens on 12 May 1986.

I am delighted to have been given this opportunity by the International Herald Tribune and the American - Hellenic Chamber of Commerce to be with you tonight and to speak to you about current economic policy in Greece:

You have been discussing the Greek economy all day and to have to listen to an after-dinner speech of the same subject cannot be everybody's idea of post-prandial bliss! I shall therefore be selective.

In the long term the key issues of the Greek economy are development and social progress. We still have a good way to go to catch up with our partners in the European Community and with other developed countries.

But over the past decade Greece has been facing substantial difficulties in making its economic performance and standard of living converge more closely on that of its Community partners.

The root cause of this relative deterioration in Greek economic performance lies partly in inadequate development policies applied in the past and in the long-standing fundamental structural weaknesses of the economy. It reflects also inadequacies in adjustment to the deterioration in our terms of trade after the two oil shocks.

Those countries which were prompt in adjusting to the increase in oil prices are now reaping the benefits in the form of better prospects for growth and employment. The lessons are clear. We have to adjust. Adjustment is not, however, an automatic process. It is the result of carefully designed, often difficult, policy decisions.

We are in just such a phase right now and the key issues in the short run are stabilization and adjustment - adjustment to improve our international competitiveness so as to bring about a restoration of equilibrium in the balance of payments, adjustment to align our standard of living with the output and productivity of the Greek economy, adjustment to tame an unacceptable rate of inflation and adjustment to bring the public sector deficit down to a sustainable level. Economic adjustment is painful but I would venture to say that our people has generally accepted the new programme for economic stabilization and recovery with admirable patience, almost stoically. And this is because our people realise that stabilization is not an end in itself. It is an essential pre-condition for the resumption of sustainable growth, structural change and expanding employment. As we have learned from the experience of other countries the two go hand in hand.

But some opposition critics are very impatient. If we take stabilization measures today, they expect the economy to be fully stabilized tomorrow - despite our warnings that it takes time. In particular it takes time, for the greater international competitiveness achieved by the devaluation of last October to work its way through to the Balance of Payments statistics - Greece is not immune to the J - curve effect despite the fact that there is no letter in the Greek alphabet shaped like a J !

But we are quite satisfied with progress so far on the two main fronts - the balance of payments and inflation. Regarding inflation we are firmly on target: 16% from begining to end of 1986, compared with 25% in 1985. Indeed on the evidence so far we have high hopes of beating the target of 16%. We have entered the virtuous circle of declining inflation, a self-reinforcing process which is helped by the wage indexation system in force.

As Minister of National Economy I like the idea of virtuous circles. If there are enough of them they may rub off on the minister himself so that he too, one day, maybe deemed to be virtuous, though I fear it is a hazard of the job to be perceived always as vicious! Be that as it may, we are determined to stay on this virtuous circle until we match the low-to-negligible inflation rates of our partners in the EEC and achieve greater convergence of real economic performance.

Νέα §

An assessment of the Balance of Payments situation is hampered by the long time-lags in our statistical information. At present, Bank of Greece data, which concern currency flows, go only to the end of February, while customs data go only to the end of January. Given that, at best, the stabilization measures of last October would only just begin to influence actual imports and exports in January. It is obvious that we are not well equipped to judge our performance. The Bank of Greece data on currency flows were heavily and adversely influenced for some three months after the October measures by an orgy of rumours of a further stepwise devaluation. It will amuse you to hear the following story. On Friday, 13th December - an unpropitious day for the superstitious - dozens of calls were received at the Ministry asking whether I was going to announce a further devaluation that evening. One caller, when told that it was unlikely that I would, since I was away in Germany, answered that this was not a convincing reason since he knew that I had already video-taped my devaluation speech!

In that uncomfortable, rumour-loaded period, I found myself in a sort of "catch 22" situation. If I denied a new devaluation nobody would believe it because it is a world-wide convention that a devaluation is denied until it happens; if I did not deny it, it would be taken as confirmation that it would happen! It took, in the end, the personal intervention of the Prime Minister to turn the tide of rumours. By the second half of January the rumours had subsided. With confidence in the drachma fully restored, our Balance of Payments stands to gain a great deal. The bulk of the gain will occur from the second quarter onwards because the leads and lags associated with anticipations of devaluation became pronounced after March 1985 and so the gain from their non-recurrence will be concentrated in the last three quarters of 1986. It is also true that the bulk of the Balance of Payments gain from lower oil prices will be concentrated in the last three quarters of 1986.

In interpreting our Balance of Payments data so far, these things must be born in mind. Also, in as much as our Balance of Payments statistics are expressed in dollars, we must make allowances for the drastic depreciation of the dollar, while we must discount an untypically large transfer payment from the EEC in January. Taking all these things into account, we are quite satisfied with the Balance of Payments record of the first two months of 1986. Of course, I say this with all the reservations appropriate to impressions drawn from two months' data. I add that we remain alert, watching the evidence as it becomes available and ready to act as necessary.

Naturally, we all sleep in our beds more peacefully because of our good fortune regarding exogenous events. In addition to the dramatic fall in the price of oil, to which I have referred already, we benefit from the depreciation of the dollar (a fact which lightens the burden of our foreign debt), and the lowering of international interest rates which reduces the cost of servicing the debt. I do not add to this list the expected faster growth of the industrialised economies because our improved market opportunities on that score will be offset, partly at least, by drastically contracting markets in the oil-exporting countries.

On the dark side, we will also have to face the fall-out of recent events in the Mediterranean region. American tourists are reported to be cancelling visits to European and especially Mediterranean countries. But are they being rational ? Does the record suggest that, by going to, say, Florida instead, they will be exposed to a lower risk of violent crime than by coming to Greece, even after full allowance is made for politically motivated violence in the Mediterranean region? On our part, I can repeat emphatically what has often been said before that we shall do our utmost to prevent Greece being used either as a ground or as a springboard for terrorism of any sort

Violence in the Mediterrenean is a cloud in our economic hori... - a metaphorical cloud. There is also a more literal cloud- the cloud of radioactivity emanating form Chernobyl.

But despite some clouds, the conjuncture of exogenous events is, on balance, favourable to us and this is of course welcome. I add immediately, lest there be any misunderstanding on this score, that we do not intend to use these favourable circumstances as an excuse for not carrying out the adjustment process on which we have embarked. For adjustment is needednot only in order to correct the imbalances which have built up over the years but also in order to establish strong foundations for development.

A key element in the adjustment process which is also fundamental for successful long-run development is the international competitiveness of the Greek economy. We made a big stride in competitiveness by the devaluation of 11th October. But the critical thing is that thereafter we have not gone backwards and will not go backwards. We have surrounded our gain in competitiveness with armour - plated defences, a combination of incomes policy and exchange rate policy which has not yielded an inch of competitiveness and has rather enhanced it.

However, exchange rate changes, while necessary from the Balance of Payments point of view over the short-term, are not a solution to the problem of competitiness over the medium-term as they would be incompatible with bringing down the rate of inflation towards that achieved in low inflation countries. The emphasis for improving competitiveness over the medium-term should be placed on an improvement in productivity.

Some critics have said that our devaluation of 15% was not enough. I was angry with them, despite my reputation for having an even temper - at any rate for a Greek. I was angry because by saying that our devaluation was not enough they fuelled, intentionally or unintentionally, the rumours that another devaluation was to follow which created such difficulties for the economy for some three months. Now that these difficulties are behind us I address them the following question: did they realise that in terms of unit labour costs at least, this was a devaluation with nil erosion built-into it ? Many larger devaluations of a variety of currencies have taken place since the days of the pre-First World War Gold Standard. But very few had nil erosion after seven months and the firm prospects of 15% remaining uneroded after two years.

So long as we have inflation, costs of the goods and services we produce are of course rising, but this has been fully offset by a combination of a sliding parity and a wage - indexation schemethat does not compensate for price increases of imported goods.

Some opposition critics have argued that the competitiveness gained by the October devaluation has been badly eroded by appealing to the fact that, since the devaluation, the rise in the Consumer Price Index has been faster than the slide of the exchange rate parity. But the Index contains videos, private motor cars and other imported goods the prices of which have risen as a result of devaluation; the costs of which have nothing to do with the costs of producing the goods and services which compete with the foreign products. The reasoning of such critics is so grossly erroneous that its continuous repetition puzzles me - to say the least.

For our part when we say that we have been defending our gain in competitiveness to the last inch we mean that we have been offseting through exchange rate sliding the difference in cost inflation between ourselves and our competitors on average. I say on average, which implies that our exchange rate policy is related to the, so called, effective exchage rate, i.e. the trade-weighted index of a basket of currencies.

By emphasising average competitiveness, it is clear that we improved competitiveness with respect to some countries while we experienced deterioration with respect to some other countries. In a world of fluctuating currencies this is inevitable. In a period during which the U.S. dollar has been depreciating heavily, the drachma has appreciated quite strongly vis-à-vis the dollar in the last seven months, leading to burned fingers for many who speculated against the drachma. For them I shed no tears. I have, on the other hand, much sympathy for exporters to the United States who are finding the competitive conditions tougher. I know it is no consolation to them that those who export to the EEC countries find their competitiveness correspondingly enhanced. But more than sympathy I cannot offer. It is the duty of the Government to do its best to guard against erosion of competitiveness on average. It cannot be the duty of the Government to protect the competitiveness of every single exporter; to try and do so would lead to the nanny state and we have gone too far down that road already. Our exporters, I am sure, are vigorous and enterprising and they do not need a nanny!

Since costs are rising slowly, thanks to the incomes policy, the exchange rate sliding needed to offset them is also moderate. This means that with interest rates on drachma bank deposits and bank bills ranging from 15 to 21% there is little incentive to get out of drachmas and into foreign currency bank deposits. Thus the law-abiding citizen, who has always comformed to the exchange control regulations, now also serves his own interest by such a practice.

I said earlier that international competitiveness was essential not only in the context of our stabilization measures but also in the context of our long-run development. One important link between the two that I have in mind is investment in the sectors producing tradeable goods and internationally competing services. With vigorous investment in these sectors we shall sustain a healthy Balance of Payments position in the long term, which is an essential underpinning for the resumption of rapid growth and all-round development of the Greek economy.

In our judgment the climate for such investment is now very favourable. The gain in competitiveness achieved by the devaluation of last October has been maintained and, what is more important, will be maintained in the foreseeable future as I have already explained. Thus a secure foundation has been laid on which entrepreneurial flair can be exercised with a good prospect of achieving satisfactory rates of return in the tradeable goods sectors. Together with the generous grants available for investment to both Greek and foreign investors, the determination of the Government to cut red tape, and ease the path of negotiations and, not least, free access to the entire market of the European Economic Community, we have an overall framework which provides favourable opportunities to the enterprising.

We seek to encourage investment, both Greek and foreign, for the sake of the national interest. This is a steady, long-term objective which we are going to pursue in keeping with overall government policy. So to potential foreign investors around this table we say that we warmly welcome their interest. For mutually beneficial investment projects we shall give them help and cooperation.
I add something which has been omitted from the circulated text of my speech:the legislative procedure is about to be completed for a measure which will free completely the repatriation of capital and profits for residents of the EEC. Soon afterwards an enactment will free the repatriation of capital belonging to residents of foreign countries outside the EEC, though in their case this will extend, for the time being, only to capital imported in Greece after a benchmark date. This emphasises again our determination to create a favourable investment climate.

I have chosen as the central theme of my speech tonight the Government's short-term strategy for economic stabilization and recovery. This is not because this is the only aspect of the economy on which the Government has a policy, or indeed because redressing the major economic imbalances or defeating inflation is our only goal. The ultimate goal remains the modernisation and strengthening of Greece's productive structures and the highest possible rate of growth of output and employment compatible with a balanced external and internal position and a low level of inflation. As I stressed earlier, stabilization is the longer-term performance of the economy, by making it more flexible and adaptable in its response to structural change.

Clearly the key to success lies in our ability to create the conditions - notably in terms of stability - which make for sustainable recovery and at the same time break our of the structural constraints that limit our capacity to achieve higher rates of growth within the framework of an open system of international trade and finance.

The potential to achieve this is clearly there. And at this stage the most important point to emphasize is that this Government has the political will and the determination to realise that potential. That cannot be achieved overnight. But let there be no doubt that that is our ultimate goal.