

## INVESTMENT POLICY IN GREECE

The economy of our country must change and indeed it is changing. The structural changes aiming at the modernisation and the improvement of the competitiveness of our economy are imperative. Without modernisation and improvement of competitiveness, our country cannot contest a place in an international division of labour.

A basic direction of the economic policy which the government follows is the encouragement and reinforcement of productive investments.

I shall try to show that this policy is not simply a declaration of principles, but that it is expressed convincingly through a series of practical measures.

Firstly, I should like to refer to the policy of stabilization of the economy, introduced a year ago. The key targets of this policy are the taming of the rate of inflation and the drastic reduction of the deficits in the balance of payments and the public sector. I am glad to report in all these areas the targets for 1986 are being attained.

Investment cannot prosper in a macroeconomically unstable environment. Thus the stabilization of the economy constitutes the first and perhaps the dominant means for the reinforcement of investments.

This is more valid when the commitment of government policy to a stable economy is continuous and firm. Bearing in mind that a stabilization programme needs time to mature and that investment takes time to bare fruit, investments which are started during the phase of stabilization will turn out to have been optimally timed.

Investment plans which start today will be ready to operate in a stable economic environment, ready to take advantage of resumed growth.

To say it in another way, there already exists an opportunity for investments. The clear-sighted investor must not hesitate.

But since cautious investors do hesitate, I shall present briefly what other policy measures are applied steadily by our government to overcome their hesitations, what efforts are made to create clear incentives, to reduce bureaucracy and to lay the foundation of a new developmental framework which will encourage investors.

The basic lever of developmental policy in our country is Law 1262/82 which alternatively offers the following groups of incentives to investors:

Capital grants, interest-rate subsidization and increased depreciation allowances,

Or Tax rebates and increased depreciation allowances.

For the application of the law, the country is divided into four zones, with rising levels of investment incentives.



For example the investment incentives applied to the 4th zone are as follows:

- Capital grant up to 50% of total investment plus an interest rate subsidy of 50%. These can be increased by 15 percentage points for special investments, as specified by the law, and for high technology investments.
- Corporation tax relief in zone D can be up to 90% of annual profits until 70% of the investment is recouped.
- Depreciation rates allowed for tax purposes are increased by 50%, 100% and 150% for 1,2 and 3 shifts respectively.

Up to now, more than 5.000 projects have been approved under Law 1262/82 with the capital grants element amounting, on average, to 27.5% of the investment programmes.

Already under new criteria, which apply since 22nd of April 1986, the average capital grant in the manufacturing sector is increased from 26% to 35%.

So far a third of the approved projects have either been concluded or are under way.

This is still the beginning, if we consider that Law 1262/82 was enacted in 1982 and was applied towards the end of 1982.

An investment project needs two years on average from its inception to reach its productive stage. The future cannot but be better.

I come now to the protection of foreign capital invested in Greece. The Constitution of 1952 provided for a law "once enactable", i.e. a law which could not be amended to the detriment of investors, which would guarantee the protection of foreign capital invested in Greece.

This law was enacted in 1953 and has remained undeviatingly in force, despite the constitutional changes which have taken place since that time.

That law, as is natural, contains provisions appropriate to the economic environment of 1953.

After 33 years, it does not fully reflect present needs, though its application remains permanent.

Facing the reality, the government decided on two important measures. The harmonization of rules concerning capital movements with the relevant European Community laws and the liberalization of capital movements with third countries for direct investments in Greece.

The first, harmonization of the rules for capital movements with those of the European Community, is already in force.

It concerns investors resident in European Community countries.

Another decree will be published which will liberalize capital movements for residents of third countries. Liberalization will concern the free repatriation of profits and capital.



The banking system is being reformed.

There is no need to emphasize the importance of the banking system for a country with limited means. Its operation in the past has not given the best results and has even been counter productive, having contributed to the creation of enterprises with an unhealthy financial structure and having been unable to prevent the channeling of capital into speculative activities. The effort being made is intended to channel bank finances to desired activities through a new interest rate structure, to make the operation of the banks transparent and to improve the quality of the banks' own control of their lending so as to make it meaningful and effective instead of simply ensuring compliance with elaborate administrative rules.

The result will be that the right investor should draw the necessary capital easily and quickly for the development of his investment plans and the operation of his enterprise.

22 Banks are currently operating in Greece, 3 of which are Investment Banks, two are specialized in Real Estate Credit and one in the agricultural sector. There are also 26 branches and offices of foreign banks.

The efforts made for the modernization of the financial system will be enhanced by forthcoming legislation which will permit leasing and venture capital operations.

Thus financing of new equipment by enterprises will be possible in the form of leasing.

There is no need to elaborate on the advantages of this form of financing and its success in many countries guarantees its success in Greece. Moreover, the introduction of the concept of venture capital will encourage the introduction of new technologies and products.

To sum up, investment incentives, the free movement of capital in relation to direct investment, the modernization of the banking system and the introduction of new institutions constitute the basic framework of a policy aiming at encouraging investment initiatives in Greece. At the same time the administration is ready and willing to examine all the practical problems that investors might face.

There is an open invitation to all interested parties and I repeat it now, to approach us and solve all pending problems.

Those who have already accepted this invitation can pass their experience to others. We have administrative weaknesses but we are determined to overcome them in our effort to develop our economy.

Now we come to the question: Where to invest? What are the possibilities for a country like Greece?

I shall not answer the first question immediately. I will not attempt to replace business decisions about where to invest. In replying to the second question I shall describe in general the investment opportunities in Greece.



First of all, I would like to stress that the Greek economy is not a saturated economy leaving no room for new activities. If there are saturated sectors, these are the traditional ones, which are exclusively addressed to the domestic market and do not have an outward orientation, such as olive plants, potteries and breweries. All the other sectors are open to new investments.

In any case, it would be a mistake for new investments to aim only at the Greek market. Greece is a member of the European Economic Community and therefore Greek products move freely and are addressed to the wide market of 320 million consumers. At the same time, because of the country's geographical position and our good relations, Greek products have access to the markets of Eastern Europe, the Middle East and North Africa. The investor must, therefore, aim at and focus on the marketing of his products towards this wide area where the potential for sales of the right products is almost unlimited.

I shall now refer in detail to certain sectors of activity of particular interest, without implying that others are less worth while.

First, high technology sectors. We have already had in Greece some investments in these sectors. These initiatives have not reached the scale we would like. But so far as they have gone, they bear witness to something important, namely that Greece has a considerable number of university graduates who can successfully develop modern high technology productive activities.

These people have already proved that they can deal with high technology. We believe that the prospects of success would be unquestionable if, in their first steps, they have the collaboration of experienced foreign companies.

I shall now refer to certain sectors which have been successful so far. This success has been due to certain comparative advantages which our country offers and which lead to the belief that further investments in these sectors can be profitable.

Such a sector is Food Manufacturing based on products of Greek agriculture. The processing of greek agricultural products presents a great number of possibilities. It covers the widest possible range of products. There is still a lot of room for new investments in the sector. The important thing is that these products are immediately absorbed by the markets surrounding us, on condition that they are of the best quality and packaging.

Cotton is one of the agricultural products which supports an industry. Cotton spinning is a successful industry in Greece. But the greatest part of the cotton yarn production is today exported and processed in other countries.

My opinion is that there are considerable opportunities for investments in this sector in order to export finished cotton products instead of cotton yarn.



I would now like to refer to the growth in the output of aluminium products which is taking place in our country after the establishment of the industry producing aluminum from greek bauxite. These products are relatively limited, mainly aluminum profiles and cables. There is a wide range of products which can be produced in Greece from the greek aluminum, and the possibilities in the sector are very large.

I shall not mention other industrial sectors which have flourished in Greece. I would, instead, like to stress the fact that Greece's geographical position makes it a highly suitable place for the establishment of enterprises aiming at developing activities outside Greece. Law 89/1967 provides the framework for offshore activities and offers basic advantages to companies with activities aimed outside Greece.

The most important of these advantages is the tax-free income acquired from the company's activities outside Greece even when these activities are developed and directed from Greece. Their basic obligation, on the other hand, is to meet their expenses for activities inside Greece by importing foreign exchange.

Our country's geographical position makes possible another activity offering great investment opportunities-tourism.

In fact, in the total of invisible resources, the foreign exchange coming from tourism, amounts to 27.3% thus covering a percentage of 22.8% of our trade deficit. In 1985, 7 million tourists

visited Greece (an increase of 16.8% compared to 1984) and the number of tourists in 1985 will reach 7.5 million despite the fall in American tourists, which we hope will be strictly temporary.

The significance of tourism was emphasized when the Hellenic Tourism Organization became a part of the Ministry of National Economy.

The financing of tourism activities reaching, on average, 25% of total investment, is provided within the framework of Law 1262/82. During the last 5 years (including 1986) 19 billion drs were allocated in tourist infrastructure projects from the Public Investment Plan.

In conclusion, I would like to stress again the fact that the government has set as dominant target of its developmental policy, the promotion of investment activities and the improvement of the competitiveness of the Greek economy. The transparency in procedures and the limitation of administrative control aims at the modernization and improvement of market mechanisms.

In particular, the improvement of the technological level of the productive capacity of the country, the proper utilization of its human resources and the mobilization of both public and private sectors in the enterprise of national economic development constitute targets in accord with our economic strategy.

Within this framework the Greek government is determined to make every effort so that a viable investment programme can be applied



in a joint effort with investors, both Greek and foreign. These efforts will bear fruit if all developmental and productive bodies are mobilized to exploit all the possibilities existing within the present economic framework.

In this way we expect that the long-term target of development will be achieved, structural weaknesses will be eliminated and, in consequence, the economy will become more flexible and more competitive.