

Address of the Minister of National Economy Prof. Costas Simitis
at the American Hellenic Institutes Ninth Trade Conference on
Doing Business in Greece

New York
Friday, October 2 1987

Ladies and Gentlemen,

It gives me great pleasure to address you today. I value greatly this opportunity which I have today to discuss in serene atmosphere matters which are fundamental for the well being of the Greek economy.

Before I proceed I would like to thank the American Hellenic Institute and its Chairman Eugene Rossides for hosting this event, the US Department of Commerce which has been in close cooperation with the institute as well as our cosponsors, The American Hellenic Alliance and the Hellenic Development Corporation along with its shareholders the Hellenic American Chamber of Commerce, the American Hellenic Chamber of Commerce the Manufacture Hanover Trust ^{speakers} and all our friends who have contributed to the great success of this meeting.

The Greek economy had a robust record for the greater part of the post-second world war years. But in the late seventies and early eighties its macroeconomic performance faltered, culminating in 1985 in a current account deficit of 10% of GDP and a rate of inflation of 25%.

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However, anybody whose impressions are still stuck at the picture of the Greek economy in 1985 is light-years away from the present reality. For in October 1985 we instituted what we have called a stabilization program and the position now is that we anticipate for 1987 a current account deficit of less than 3% of G D P - down from 10% in 1985 - and a rate of inflation less than 14% - down from 25% in 1985.

With respect to the balance of payments the present situation represents an equilibrium condition because the net autonomous inflows of private capital amount to roughly 3% of GDP, thus offsetting the current account deficit of 3%. In other words our need for official net foreign borrowing to balance our external accounts is now down to zero. As for the inflation rate, the underlying position is better than suggested by the crude increase in the consumer price index because this increase incorporates the once-over inflationary impact associated with the introduction of the Value Added Tax.

VAT was introduced at the beginning of 1987 in the place of a multitude of out-dated and inefficient indirect taxes.

- It is well known that this has a price raising impact. Such an impact has been felt in nearly all countries which have introduced VAT and in the case of Greece it is estimated at $3\frac{1}{2}$ percentage points on the price level. But this is something that happens only once. It will be out of the system after next year.

These improvements in the macroeconomic condition of the Greek economy have, naturally, been obtained at some considerable cost. Real wages have been reduced by more than 10% as a result of a strict incomes policy, and there was a step-wise devaluation of the drachma of 15% superimposed on a system of a sliding parity. But, as a result, the international competitiveness of the economy has improved markedly and what is more, the improvement of competitiveness has not been eroded, not even by an inch, in the post devaluation phase. This is a source of gratification for the policy makers because it is so rare; usually a devaluation is followed by heavy erosion of competitiveness through inflation of domestic costs - a feature which we have managed to avoid.

Also, a source of gratification is that the improvements in the balance of payments and the rate of inflation have been attained without any increase in unemployment. In all this we have, of course been helped by the fall in the price of petrol though some of that has been offset by other exogenous factors of an adverse nature.

We are not seemingly satisfied with our progress so far. We should have made more progress on the rate of inflation which is still too high for the standards of the advanced industrial countries. One of the reasons for not gaining more ground on this front is that the public sector deficit has not been reduced as much as planned. An American audience may perhaps sympathise with us on this score, in light of the Federal Government's difficulties in bringing about a reduction of its own budget deficit. But we shall not shelter behind such sympathy; we are not looking for excuses.

So, we must make more progress, particularly on the inflation front and this we firmly aim at doing next year. We must also make more progress on the balance of payments front in order to create room for growth. As I noted earlier our balance of payments is in a state of equilibrium this year but in a low-growth context. We do not need to do much better but better we must do.

Our economic program for 1988 is not fully worked out yet, but our record in the last two year entitles us to some credibility. We mean what we say about more progress on the major fronts and will use the necessary instruments to implement what we mean.

We do believe, however, that after two years of a severe squeeze of real wages, there is room for a small real wage improvement, consistent with our targets for inflation and the balance of payments. And we anticipate some growth in the GDP-perhaps of the order of 2%.

So much for the macroeconomic framework. Let me now address specifically the question of the business climate in Greece. The stock market is signaling a drastic improvement: the index is up 341,9% in the last eighteen months and 58,1% in the last two months. Of course the stock market in Athens lacks depth and is liable to exaggerate both the ups and the downs. But other indicators point in the same direction. For a large representative sample of companies covering the whole spectrum of industrial production in Greece profits increased by 52.5% in 1986 relatively to 1985 and the indications are for a further increase in 1987. Private investment in manufacturing was up 13,6% in 1986 and the biannual survey of the Association of Greek industrialists is signaling a much larger increase in 1987.

Crucial in all this has been the improved competitiveness of the Greek economy brought about by the combination of incomes policy and exchange rate policy.

Greece is now offering to the enterprising business person whether homegrown or of foreign origin a firm and profitable base from which to approach the Common Market of the European Community against a back-ground of expanding demand inside Greece itself.

The base is profitable with the present level of productivity. But this level is entirely out of line with our highly intelligent labour force. Any enterprise which could raise labour productivity to a level more in line with the capacity of the labour force will reap gains for itself and will benefit our economy.

I have confined myself to describing the economic environment prevailing in Greece nowadays. I have also tried to demonstrate to you how permanent and firm the orientation and devotion of our government toward a stable and healthy economy is.

✓ ~~I understand~~ Deputy Minister Theodore Karatzas ^{has} ~~intends to refered~~ ^{the} to various structural aspects related to the economic social and geographical infrastructure and more specifically to the progress already made in modernizing our banking system, to the ^{= we make progress} importance we attach to new institutions namely leasing, time sharing venture capital among other, to the incentives and the legal framework relevant to productive investments in Greece,

as well as to the provisions in force for the free movement of capital and the exportation of interest, profits and dividends which stem from direct investments.

Before I conclude I should like to reiterate in a nut-shell what I have stated on various previous occasions about foreign investments in Greece.

We seek to encourage investments both Greek and foreign for the sake of the national economic interest.

That is a steady long term objective, one which is not subject to the uncertainties of short term political calculations or the influence of passing events: We welcome the interest of foreign investors.

The removal of exchange controls on the export of capital belonging to EEC residents has been enacted. We also proceeded further to the removal of controls on all newly imported capital belonging to residents of the United States and other non-EEC countries.

Investment is one of the keys to the long term growth and development of the Greek economy. The stabilization program must not be viewed as something detached from the national objective of vigorous growth and development. On the contrary it is the essential foundation on which sustainable growth can take place.

Thank you very much.

american

We would be very happy
not only having the aid
via capital but also and
mainly the know-how - the
managerial skills -
the entire
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