

## Export and Investment Promotion Planning System

## 87/88 Trade and Economic Overview

Mission: 402 ATHENS

Country: 159 GREECE

OVERVIEW: EVERYONE INCLUDING THE GOVERNOR OF THE BANK OF GREECE, THE FED'N OF GREEK IND. & THE EEC AGREE THAT OCT. '85 AUSTERITY MEASURES ARE HAVING SOME BENEFICIAL EFFECTS ON THE ECONOMY BUT AT A SLOWER RATE THAN ANTICIPATED BY GOVT. ALTHOUGH INFLATION AND BALANCE OF PAYMENTS TARGETS WILL PROBABLY BE APPROACHED THEY MAY NOT BE MET. INFLATION MAY BE AROUND THE 16% MARK ONLY BECAUSE OF THE RECENTLY ANNOUNCED PRICE FREEZE FOR THE INTRODUCTION OF THE VAT (VALUE ADDED TAX) JAN. 1, '87. OTHERWISE IT MIGHT HAVE APPROACHED 18-20% SOME IMPROVEMENTS REPORTED WERE; VALUE OF IMPORTS INCREASING AT A SLOWER RATE; PUBLIC SECTOR DEFICIT DROPPING BUT AS A RESULT OF INCREASED TAX REVENUES; 4% INCREASE IN INDEX OF PRODUCTION IN FIRST SIX MONTHS OF 1986 DUE TO MAINTENANCE OF DEMAND AND INCREASING EXPORTS. BECAUSE OF THESE IMPROVEMENTS THE GOVT REITERATED JUST BEFORE THE LOCAL ELECTIONS OF OCT. 12, '86 ITS INTENTION TO FIRMLY PURSUE THE AUSTERITY POLICY INTRODUCED IN OCT. '85. HOWEVER, THE GROSS NAT'L PROD. (G.N.P.) IS NOT EXPECTED TO INCREASE & THE TWO MAIN ISSUES FACING THE GREEK ECONOMY ARE: THE FALL IN THE REAL VALUE OF INVESTMENT, & THE DEFICIT IN BALANCE OF PAYMENTS. THE INTRODUCTION OF THE VAT JAN. 1ST '87 WILL PROBABLY HAVE A NOTICEABLE IMPACT ON INFLATION FOR 1987 & MAY ALSO PUSH IMMEDIATE DEMAND UP FOR LUXURY IMPORTED PRODS. IN SUMMARY, REAL WAGES ARE BEING FORCED DOWN, EXPORT VOLUME IS UP, THE CURRENT ACCOUNT DEFICIT WILL BE SUBSTANTIALLY REDUCED (ABOUT 1B DRACHMAS) FROM '85, DUE MAINLY TO LOWER OIL PRICES. FINALLY PRIVATE INVESTMENT REMAINS AT A LOW LEVEL. OUTLOOK: RECENT ECONOMIC INDICATIONS SUGGEST THAT 1987 WILL BE ONE OF INCREASED PROD'N DUE TO MORE COMPETITIVE EXPORTS INFLUENCED BY LOWER WAGE COSTS & DEVALUATION OF THE DRACHMA. THE GOVT GAVE RECENT INDICATION (LIFTING PRICE CONTROLS & ENCOURAGING PRIVATE INVESTMENT) OF FOLLOWING ALONG THE POLICY LINE PROPOSED BY THE GOVERNOR OF THE BANK OF GREECE URGING A BROADENING OF THE TAX BASE & LESS INTERVENTION IN THE MKT PLACE & BANKING. SUCH POLICY WOULD BE CONDUCTIVE TO A MORE CONFIDENT BUSINESS CLIMATE. HOWEVER, INVESTORS MAY NOT BE AT THE "RENDEZ-VOUS" BECAUSE OF PAST BAD EXPERIENCES. PROSPECTS FOR '87 ARE THAT CONSUMER DEMAND IS LIKELY TO CONTINUE TO FALL. INFLATION WILL CONTINUE TO FALL BUT WILL REMAIN RELATIVELY HIGH (14%), THE CURRENT ACCOUNT DEFICIT WILL PROBABLY BE ABOVE \$1.6B (US) & GNP GROWTH BETWEEN 0 & 1%. OPPORT.: MAJOR DIFFICULTIES FOR CDN EXPRTS ARE STILL THE STRONG EEC COMPETITION, FINANCING, REQUESTS FOR COUNTERTRADE & OFFSETS & OTHER NTB'S SUCH AS LANGUAGE, TENDERS IN LOCAL CURRENCY & BUREAUCRACY. THE VOLUME OF TRADE WILL PROBABLY INCREASE SLIGHTLY DUE TO RECENT GOVT PROCUREMENT CONTRACTS (CL-215) & NEW SPOT OPPORTUNITIES IN THE DEFENCE SECTOR.