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GREECE

Gerry Creswell



The cover illustration shows Hephaestus, the Greek god of fire and a superb craftsman in metals, forging the Hellenic link in the EC chain of countries.

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PAPANDREOU STEERS A STEADY COURSE

Under Papandreou, Greece has tightened its belt and laid the ground for economic expansion. It now needs capital investment to prepare itself for the single European financial and free-trade market planned for 1992.

Greece is a country in transition. When it entered the European Economic Community in 1981, it was regarded as one of the Community's poorer recruits. However, the twin

pressures of the need to raise finance on international markets and the 1992 target deadline for establishing a single European financial market have combined to draw the socialist government of Andreas Papandreou into a policy of strict economic orthodoxy. The belt-tightening exercise has inevitably been unpopular, and Papandreou's gamble is that the policy will yield fruit before he has to submit himself to another general election, due by 1989 at the latest.

It is an ambitious target. The economy has been beset by large domestic and external imbalances which grew worse in the early 1980s as stagflation took hold — combining slow growth in output with high inflation and rising unemployment.

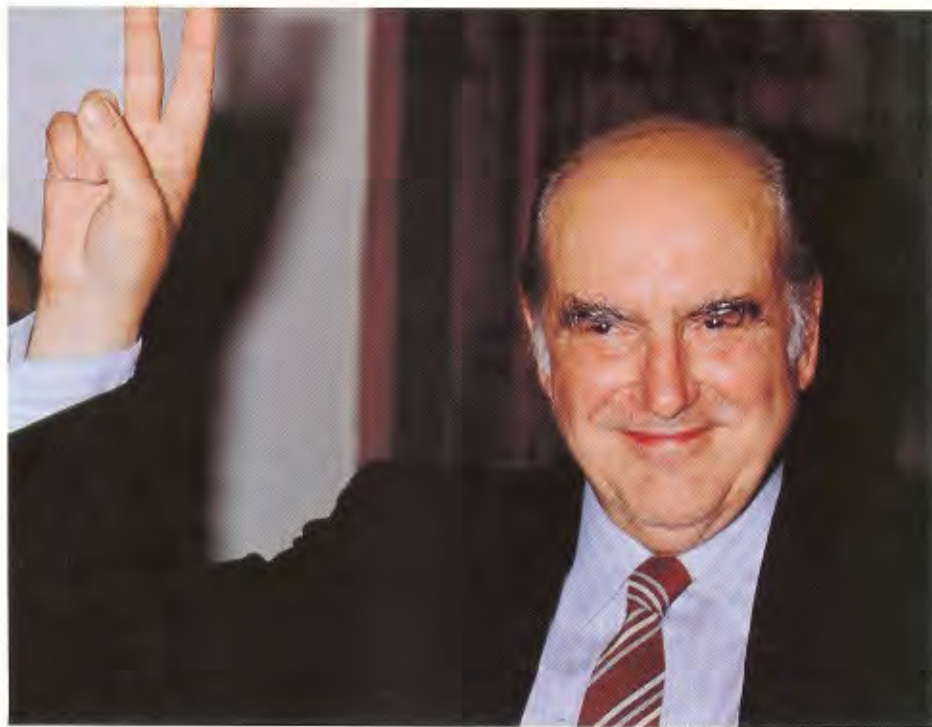


Despite the expansionary policies of Papandreou after he was first elected in 1981, Greece expanded more slowly than its main trading partners in the first half of the decade. The public-sector borrowing requirement doubled as a proportion of GDP during the period, as a result largely of higher state pensions and above-average pay rises to an expanded civil service.

Meanwhile, tax revenues have remained stubbornly depressed, owing to widespread evasion. The parallel, or black, economy is said to rival Italy's, at 30% of GNP.

Public corporations and enterprises have been losing money overall, while government policy dictated that their prices should be kept below costs to curb inflation. The PSBR had to be financed increasingly by foreign loans, whose interest burden swelled as the drachma suffered a series of devaluations. It was a vicious circle.

At the same time, the profits of the private corporate sector deteriorated, leading to a decline in net private business investment. Although EC entry helped Greece in many ways, it left manufacturing industry exposed to sharper competition, to which companies found it difficult to adapt. A generation's way of life was capsized.



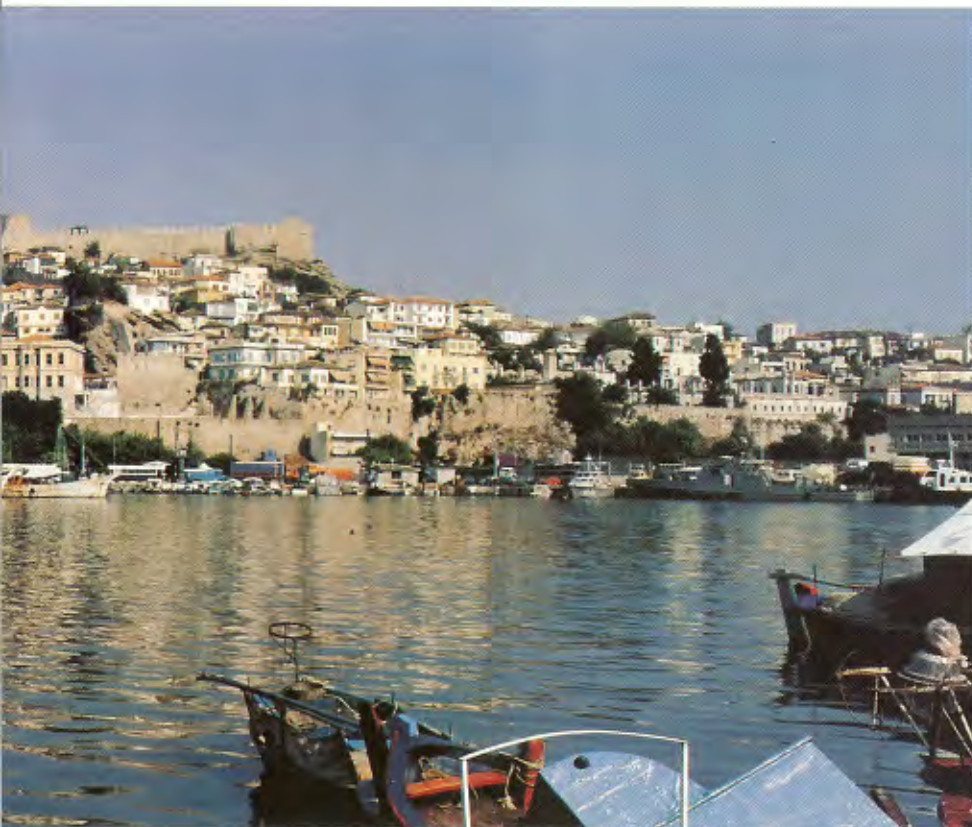
The biggest beneficiaries of EC membership, as in other countries, were the farmers. To encourage agriculture, farmers are required to pay little in tax and social security, while EC farm price policies gave them a

Papandreou: forced to follow a policy of strict financial orthodoxy.

revenue windfall. They also enjoy preferential terms on bank loans, many of which are diverted into other activities such as real estate and tourism. Perhaps it was not surprising that private investment in agriculture fell by more than 20% over the second half of the 1970s and the first half of the 1980s, according to the Organisation for Economic Co-operation and Development (OECD).

At the last election, in June 1985, the Socialist Party (Pasok) promised self-sufficient development based on decentralisation, socialisation and self-management, within which private enterprise would be encouraged. The economy would be made more competitive, and an aggressive investment policy would be the engine for expanding the industrial base, spearheaded by a series of large industrial public-sector projects.

The top priority was stated to be the elimination of unemployment, especially among young people. Pensions would be improved radically, and workers' real incomes increased over and above their existing index-linking. However, there was a sting in



GREECE

the tail for those who cared to see it: inflation was to be cut to 10% by the end of the programme, against a 25% growth in prices in 1985.

On that platform, Pasok, led by Papandreou, won 46% of the votes and 161 out of 300 seats in the new Parliament. In his first policy statement following the election, Papandreou put some flesh on his economic aims.

In addition to the pre-election pledges, he promised a reduction in the balance of payments deficit to a level of 3.5% of national income by the end of the term, compared to the 10% level then prevailing. Workers' incomes would continue to be protected against inflation, but would be evaluated in the broader context of price development, trade conditions and productivity.

These commitments paved the way for Greece to ask the EC for a six-year Ecu1.75 billion (\$2 billion) loan. However, the path to orthodoxy took a steeper turn two months later, on August 31 1985, when Papandreou made a keynote speech in Thessaloniki. This called for "a bolder policy for the stabilisation of our economy" to be the primary goal for the next two years. For the first time, Papandreou spelled out the fact that increased investment would have to be paid for "with a relative decrease in outlay for consumption". He said: "We will have to realise a simple truth. We cannot consume more than we produce."

Foreign loans could not be expected to come to the rescue of living standards. "We are obliged to limit the need for foreign borrowing, because, if we continue to borrow at the same high rate, we will end up mortgaging the economic future of our country."

The opposition parties' reaction was predictably critical. Constantine Mitsotakis, leader of the right-wing New Democracy Party, accused the Prime Minister of deceiving voters, before the election promising an economic upturn, and then adopting policies that would reduce the income and living standards of all Greeks.

In October, the shadow boxing came to an end. A package of measures was announced, including a 15% devaluation of the drachma, a special profits tax, strict price controls, a squeeze on agricultural prices through the green drachma, reduction of the net public-sector borrowing requirement, control of public expenditure and public-sector recruitment, a crackdown on tax evasion, gradual abolition of tax exemptions, advance deposits for imports and a systematic audit of public enterprises and organisations to cut expenses.

Most controversially of all, the Automatic Wage Indexation (ATA) system was modified. It was confined to domestic inflation and to be calculated in advance every four months instead of in arrears every quarter — an important switch if inflation is to shrink. There would be no ATA for salaries over 150,000 drachmas (\$1,100) a month, and no one would receive more than that provided by ATA. This was significantly different from Pasok's pre-election stance four

months before, according to which workers' real incomes were to be increased. The promised land would have to wait at least two years.

The OECD commented: "For the first time in the postwar period, the Greek population, a largely consumer-orientated society accustomed to continuous steep rises in the standard of living, was forced to make immediate and large sacrifices, notwithstanding strong labour union opposition."

The OECD broadly approved of the measures, describing them as important steps in the right direction. But it warned that the adjustment policies would have to be pursued for several years, with the active support of the public.

"Chances of success would be enhanced," said the OECD in its 1986 survey. "If there was a better recognition by the general public that the national collectivity cannot continue to live beyond its means, and, accordingly, greater willingness to accept the needed sacrifices."

Last October, the Greek electorate



Right: Greek agriculture was the main beneficiary of EC membership. Far right: Pasok holds 161 of the 300 seats in the Greek parliament.

had its first chance to say what it thought of those sacrifices. Pasok's control of regional capitals fell from 36 to 31 (out of a total of 51), the losses including the former left-wing strongholds of Athens, Salonica and Piraeus, and from controlling 170 out of 276 other municipalities, it held only 146 out of 303.

Pasok's losses were, in part, due to the defections to the communists, helping to let in New Democracy, but there was also a notable increase in New Democracy's own vote. The Prime Minister admitted that a message of displeasure and dissatisfaction had been registered which had to be taken into account. However, he could do little in the short term other than see through his two-year austerity programme. It was regarded as significant that the economic ministers escaped unscathed from the Cabinet reshuffle that took place shortly afterwards.

The two years are nearly up, but already Papandreou has been preparing Greek public opinion for an

extension of the programme into 1988. This summer the government has been hammering out a fresh economic policy to take over from the stabilisation programme, to stop the country plunging back into debt or wasting the benefits of two years' austerity.

The omens are not good. Price controls are due to be lifted, markets are being opened to foreign investment, incomes policy is to be relaxed and tax reforms are to be introduced to hit evaders.

Some observers doubt whether evasion can be stamped out. In other countries, VAT is a tax hard to escape, but in Greece the authorities have not begun to get to grips with the problem. Consequently, while VAT has added to inflation, the corresponding revenues have not flowed into the official coffers at the expected rate. The inference is that they are finding their way into other pockets.

Meanwhile, the government has dusted off a number of mothballed public-works projects and repackaged them as a 12-year scheme. It features,

for example, a second airport for Athens, new motorways, railway electrification, a fully fledged Athens underground system and a sea-bridge at the Gulf of Corinth.

The scale of the programme can be judged by its cost, at 1987 prices estimated at Dr1,000 billion (\$7.6 billion) — which compares with a 1986 GDP of Dr5,400 billion.

Several elements in the scheme are linked to Greece's desire to host the 1996 Centenary Olympic Games. Non-European countries could well point out that the games are being held in Spain in 1992, so that 1996 would be the turn of an American or Asian country. Here, the Byzantine policies of the International Olympic Committee take over. However, if Greece was unsuccessful, it is likely that parts of the 12-year scheme would be curtailed or postponed.

Nevertheless, such soaring ambition suggests that the scheme's major function is to offer the electorate a tangible reward for hard work and sacrifice. It may in some eyes seem a little early to



Interview with ANDREAS BOUMIS, Chairman of the Commercial Bank of Greece

What is your definition of the term "The Greek Force"?

Our Group of 19 companies constitutes an economic and a social force. Our sheer dimension and composition of activities, our financial strength, our think-tank capabilities and our access to the basic sectors of the economy (shipping, industry, agriculture), allow us to make a significant contribution to the country's GNP due to our dominating dynamic position in the local market and penetrating strength in our international natural markets.

Our diversified activity in the fields of banking, industry, shipbuilding, insurance and services, combined with our strong financial position and sufficient infrastructure allow us to serve a variety of client needs both here and abroad. Armed with a dynamic concept of development, a clear orientation for productive utilisation of the country's wealth and a sound conviction for the country's potential, the companies of the Group constitute a creative and powerful force concentrated in Greek hands with good business sense, excellent professional attitude and a commitment to the country's efforts for economic development.

Apart from your existing operations in West Germany, does the bank have further plans for international expansion?

In November we plan to start discussions in New York and London with the aim of opening offices not just to serve the banking operations, but for the group as a whole, especially in areas like insurance, shipping, technology and management consultancy. In 1988, we will be looking to set up offices in Canada and Australia.

Why are you looking at these particular markets?

It is a significant fact that the Greek merchant fleet ranks third worldwide and a lot of this activity is concentrated in New York and London. We believe that we can offer them a complete package of services and we can do this better by being physically there. Also, with over four million Greeks living abroad, we feel that they are natural markets for us, and they offer a sound base for the Bank's expansion plans. If you calculate that the average Greek abroad deposits, say, between \$10,000 to \$20,000 a year in local banks in these five centres, then you end up with a market worth billions of



dollars. Our goal is to capture a niche of this market, say three percent, with the aim to encourage them to invest some of that money in new industries here in Greece.

How will you go about this?

At the moment, many of the ex-patriots are remitting their funds to regions in Greece in two rather unproductive ways – either banking deposits or property purchases. We aim to create a venture capital organisation which will in effect act as an intermediary by giving them information based on pre-feasibility studies we have carried out on a host of new opportunities to invest in. The Venture Capital Company will participate in the various projects up to, say, 30%, demonstrating our commitment to the project and it will also provide management and knowhow. The idea here is that by mobilising the synergy of the Group's strength, we can encourage what we term the "middle savings group" to participate in investment which will show a higher rate of return. A prime example of new opportunities available are in the food processing industry. Greek agricultural products potential is second to none in Europe, what we lack is the technology and know-how to develop it to make it a more competitive export-oriented industry, with sufficient international marketing muscle.

What of your merchant bank activities?

The Greek market is underbanked both in terms of the number and the level of sophistication of banking products and the extent of their use. Our merchant banking activity has a lot to gain in this market. We already have a proven track record working with "problematic" companies in helping them to reorganize their operations, and what separates us from the other banks is that we, because we are a conglomerate involved in a wide range of industries, can offer more than just financial services, we can offer commercial and technical expertise as well.

Another area of growth for our merchant bank over the next five years will be, on top of the expanding market of traditional merchant bank products (syndicated loans, mergers, acquisitions, etc.), in the securities market. We hope to see the Athens Stock Exchange become a key source of raising capital primarily long term for both new firms and existing medium size concerns rather than relying almost solely on the banks as they do under the present system.

The Bank currently has a number of strong links with Eastern European countries, do you see this as a developing market?

Greeks are close to everyone. The Western Europeans who are our primary market are close to us through our ancient history. But the Eastern Europeans have an affinity with us through the Byzantine Empire which dates back a thousand years. We see significant opportunities for Greek products in the Eastern markets, as well as in banking and shipping, but I think it will take at least 10 years to fully develop.

Much of plans you have outlined depend to a great extent on the government carrying out the proposed liberalisation of the banking system. Do you have any doubts regarding the political will to bring out this change?

None at all. Progress in terms of market modernization will happen despite politics.

I can draw from my experience at the Commercial Bank of Greece and its Group Companies where our efforts for managerial modernization have been extremely successful both in terms of pure production and return as well as contribution to the overall effort of the government for market modernisation and economic growth.

THREE-PRONGED DRIVE STARTS TO SHOW REAL RESULTS



Headquarters in Athens

This year marks the 80th anniversary of the Commercial Bank of Greece. But the Bank is more than just a financial institution, it's the largest Greek conglomerate whose combined strength accounts for one of the major forces driving Greece's economy.

The synergy of the 19 independent companies which comprise the Commercial Bank Group — financial institutions, firms dealing in insurance, real estate, management consultants, information systems, engineering, hotels, shipbuilding, food processing, plastics and fertilizers is harnessed under the direction of Andreas Boumis, Chairman of the Commercial Bank.

"Reform, modernization and growth, the triptych that has been our target since 1982 is beginning to show real results this year," says Boumis.

"In particular, conscious of the changes in domestic and international financial

markets, and exercising systematic and socially responsible management, the Bank has achieved a strong and dynamic frontrunning in the domestic banking market, resulting in the highest net income of all Greek banks for the second straight year, increasing further its financial strength and its ability to cope successfully with growing international competition," he says.

This dominant market position was highlighted earlier this year when the Bank went to the Euromarket and signed an agreement with Irving Trust Company for issuing certificates of deposit totalling US\$75 million, which marked the first time a Greek commercial bank issued such titles for attracting foreign exchange funds.

In 1986, the Commercial Bank's gross income increased by 21 per cent totalling Dr30.6 billion, while net income rose by 17 per cent to Dr5.6 billion. Further, the Bank's total deposits increased by Dr68

billion, or 14.2 per cent over 1985. In addition the Bank was very successful in 1986 in disbursing various types of financial products such as investment bank bonds, treasury bills, and mutual fund bonds. In all, it disbursed Dr51 billion worth of these products, an increase of over 70 per cent from 1985. At the same time it also increased its credit card sales (EMPOROCARTA — VISA) by 53 per cent over the previous year.

These results were combined with the Bank's continuing policy for increasing the capital base of the bank to Dr30.3 billion, which, combined with the modern and comprehensive credit system and the increasing professionalism of the staff allow the bank to encounter successfully credit risk. The Bank's lending portfolio includes a very small percentage of "ailing" companies, while its structure reflects the effort for spreading the risk, by expanding into the big market of small and



Fertiliser production



Shipbuilding



Computer technology

medium firms and in regions where credit risk is smaller. It is thus especially important that the Bank is among the best, if not the best, in terms of capital support for its operations and the provisions for non performing loans.

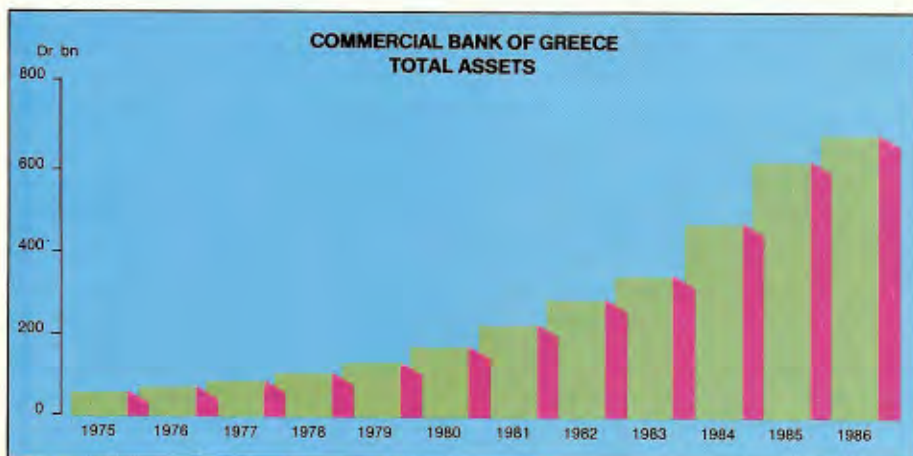
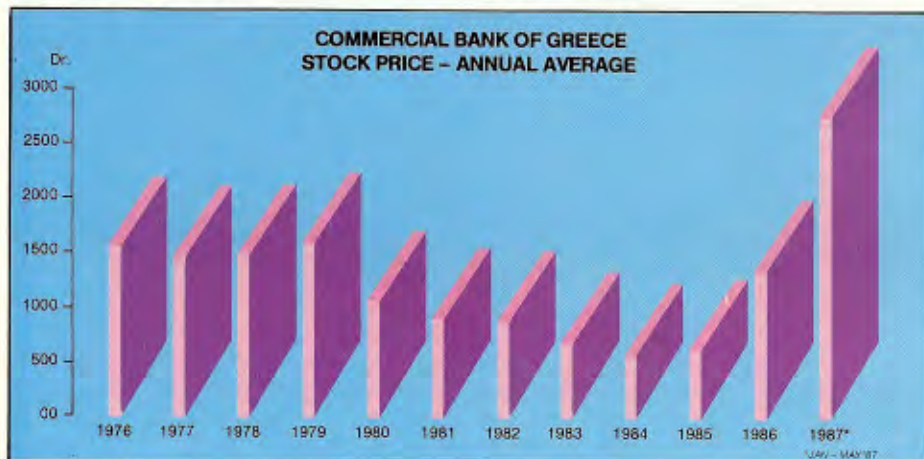
Boumis notes that "since 1985, the Bank has radically changed its approach, and consequently, in terms of strategy, is able to respond quicker to the needs and opportunities of its markets. This doesn't mean that the traditional targets of banking production, such as loans and deposits are abandoned. Rather, it means that the Bank satisfies these needs in the context of a continuously increasing spectrum of banking products in the money, capital and personal banking markets."

EXPANDING THE GROUP

The commercial banks of the group (COMMERCIAL, IONIAN, ATTICA & PIRAEUS) presently hold 24 per cent of total deposits and represent 25 per cent of total lending in the Greek market. Their branch network of 457 outlets represents 37 per cent of the country's retail banking operation. The four banks also represent a major source of employment in Greece, providing over 10,400 jobs.

On the industrial front, the ELEUSIS SHIPYARDS, fresh with a capital injection of Dr5.5 billion in 1986 has been reorganised to make it more internationally competitive, and has diversified a third of its activities from traditional shipbuilding (for which it currently has orders for 10 ships and a floating dock totalling Dr22 billion) to incorporate a wider range of industrial products including orders to build 1,260 wagons for the Greek Railway Authority, five large cranes for the Thessaloniki Port Authority, as well as steel products for the Greek Electrical Power Corporation and the U.S.S.R. The total value of these projects are worth over Dr12.7 billion.

Looking abroad to increase sales has





Design engineering

also been a priority of the PHOSPHORIC FERTILIZER COMPANY, which in 1986 completed an investment programme of Dr4.5 billion aimed at strengthening its competitive position.

New growth for the group as a whole has also come in the fields of management and engineering consultancy, METEK, the engineering and contracting company, has recently completed its second regional study, concerning significant investment opportunities in Central and Western Macedonia. Two more studies, one for Western Greece, the other for the Aegean Islands will be completed by the end of this year. METEK will also participate as a project manager in the huge alumina project, while the meat packing plants, a project led by METEK, are now being delivered.

In 1987 the group formed ADDAX, which covers the wide spectrum of management services from auditing, computer technology and applications to education and personnel management. This firm is already a major source of consulting for all the companies in the Group and is a prime example of how the Commercial Bank is able to use the full extent of its resources to maximize efficiency and profitability from all components of the conglomerate.

In the highly lucrative insurance field, plans are underway for PHOENIX to specialize in general insurance while IONIKI will concentrate on sales of life insurance. This market segmentation, is not only in keeping with EEC regulations which will take effect in 1988, but is more cost effective and will result in improved services for the customers.

This year will also see the rapid development of a new Venture Capital company, who with funds of Dr350 million will extend the investment activity of the Group to mobilise the middle savings market in the regions.

Another addition is a real estate de-



Plastic products

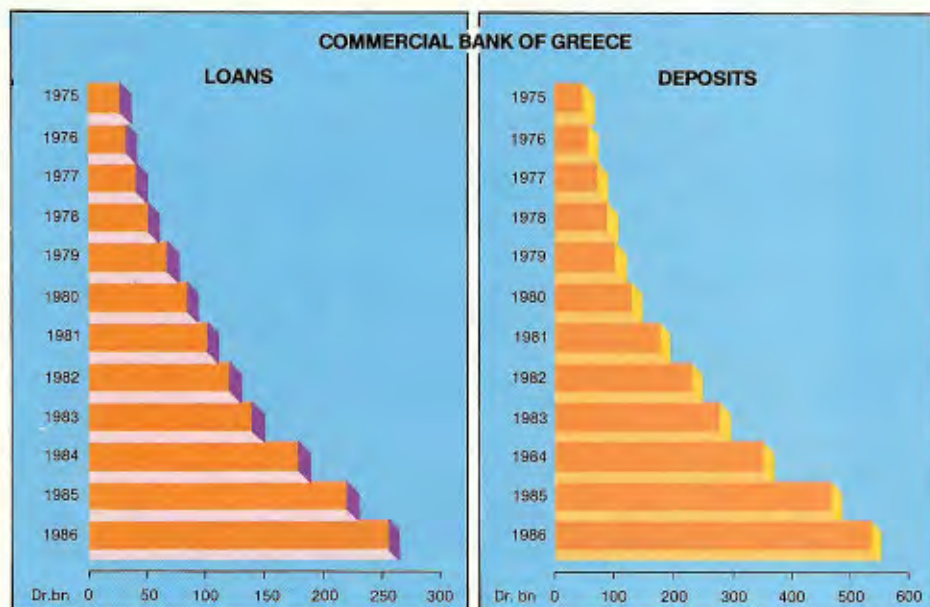
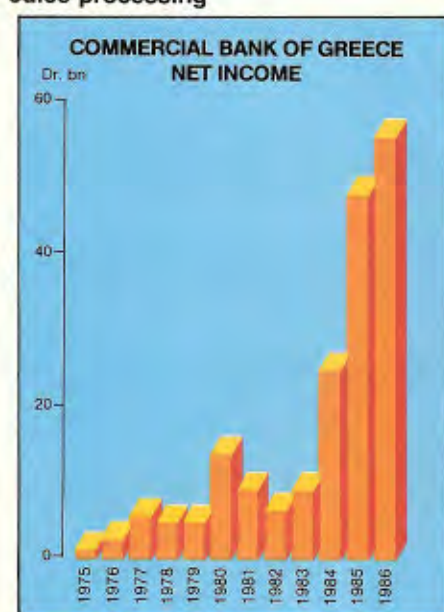
velopment company, ANAPLISIS S.A. whose aim will be to utilise old, dilapidated buildings and convert them into multifunctional business centres.

"Greek banks today are at a crossroads", says Boumis. "It is important to ensure that the institutional modernization which is attempted in our country is supported by the necessary managerial modernization. To the degree that this is achieved and in conjunction with institutional changes and new product introduction we will have the necessary and sufficient conditions for further growth of the money and capital markets and therefore the growth of the Greek economy".

"The Commercial Bank of Greece and its Group of Companies, with their multi-sided creative and developmental activity, the deep knowledge of the parameters and the ambitious but realistic policies, look with optimism towards the future."



Juice processing



the Greek force

COMMERCIAL BANK OF GREECE

IONIAN BANK

INVESTMENT BANK



BANK OF PIRAEUS



bank of ATTICA

COMMERCIAL BANK OF GREECE

Commercial Bank of Greece (Germany) GmbH.



ELEUSIS SHIPYARDS, S.A.



**HELLENIC GENERAL
ENTERPRISES Co., S.A.**



**GREEK INDUSTRY FOR SACKS
AND PLASTIC PRODUCTS Co. S.A.**



**PHOSPHORIC FERTILIZERS
INDUSTRY, LTD., S.A.**



**GREEK JUICE PROCESSING
AND CANNING INDUSTRY S.A.**



**PHOENIX - GENERAL INSURANCE
COMPANY OF GREECE, S.A.**



**THE IONIAN
GENERAL INSURANCE COMPANY, S.A.**



**HELLENIC MUTUAL FUNDS
MANAGEMENT COMPANY, S.A.**



**IONIKI
HOTEL ENTERPRISES, S.A.**



**ENGINEERING AND
CONTRACTING COMPANY, S.A.**



**AUDITORS - MANAGEMENT CONSULTANTS
DATA PROCESSING SYSTEMS**



**ANAPLASIS, S.A.
REAL ESTATE DEVELOPMENT
AND MANAGEMENT**



**PYRAMIS, S.A.
INFORMATION PROCESSING AND
MANAGEMENT SYSTEMS**

Nineteen companies bonded together with a common dynamic philosophy and social conception, having as a common goal the prosperity of Greece.

The participation of the Commercial Bank of Greece Group of Companies is essential in the Government decentralization plan, helping create a balanced socio-economic development of the country.

The Commercial Bank of Greece Group of Companies is developing its activities in the main sectors of Government economy by applying advanced organizational structures, rapid and accurate procedures, resulting in a creative relationship with the public.

The Commercial Bank of Greece Group of Companies is arming itself in the service of the public and becoming a great force.

The Greek force!

**COMMERCIAL BANK OF GREECE
GROUP OF COMPANIES**

be dividing the spoils. Experience elsewhere, including Britain, suggests that the sort of fundamental structural adjustment Greece is attempting nearly always takes longer than expected.

These public works may also prove to be a rod for Papandreou's back. His economic success, assuming he stays in office long enough, will be measurable by whether and how swiftly he completes the items on this formidable agenda.

He can claim partial success so far. By the end of 1986, the current account deficit on the balance of payments had fallen from 10% of GDP to 4.6%, inflation was down from 25% to 16.9%, the net PSBR had dropped from 17.9% of GDP to 14% and the annual increase in M3 money supply was down from 26.8% to 19.8%.

The targets for the end of this year include a current account deficit of \$1.25 billion, against \$1.8 billion last year, the reduction of PSBR to 10% of GDP and 10% inflation. The Athens business community accepts that none of these figures will be reached. Estimates for inflation range from 13% to 18%, and the current account deficit may fall to \$1.5 billion.

While shipping has been in decline, tourism has become the biggest single export earner — that is, without taking



account of the earnings generated by tourism in shipping and spending on consumer goods and services.

The fastest-growing category of foreign currency inflow is private capital, mainly from Greeks living overseas. That jumped by 35% to \$853

Greek-produced medicines will reduce reliance on imports.

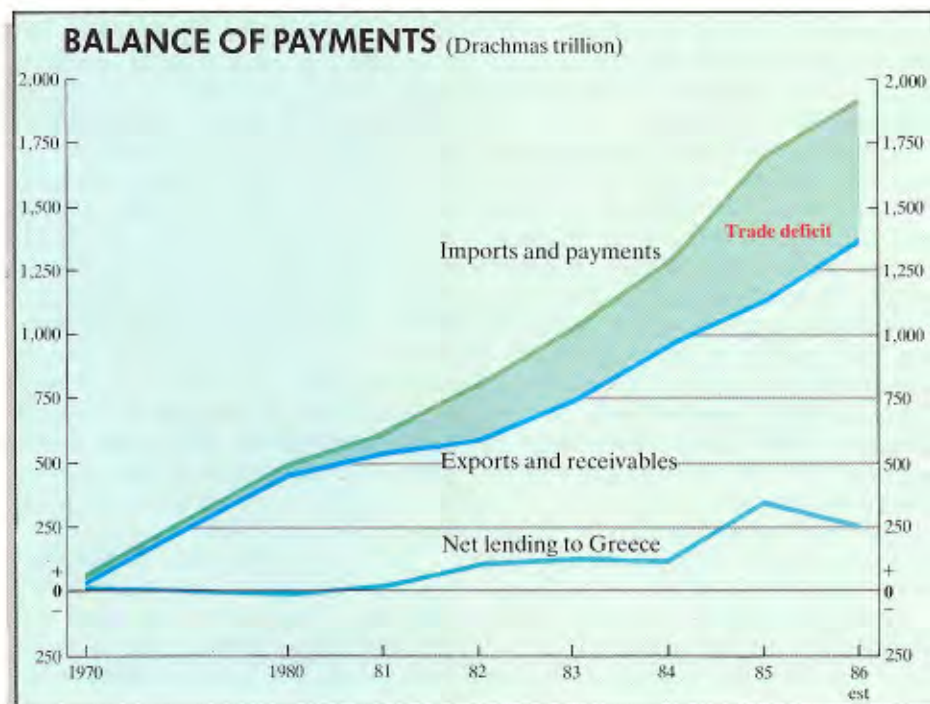
million last year and is predicted to rise to between \$900 million and \$1.2 billion in 1987, but it is, by its nature, difficult to control or influence.

The component in the economic targets that generates concern is the PSBR, which remains stubbornly high and directly bears on the state's need to raise money abroad.

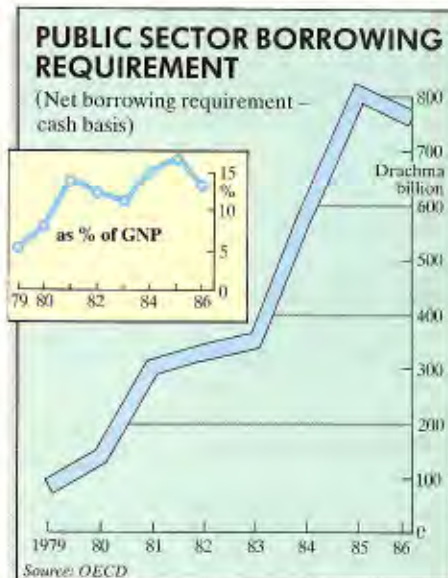
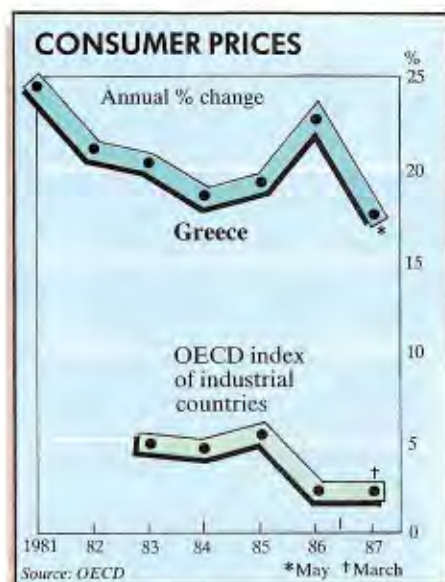
Unemployment was not forecast to change much from its 1985 level of 7.8% of the workforce, but that cut little ice with workers up in arms at the clamp on wages, which reduced real incomes by an estimated 8% in 1986.

In February this year, a series of nationwide strikes was organised in the private and public sectors to protest at the freeze. Costas Simitis, minister of national economy, responded with a promise that the incomes policy for 1988 and 1989 would be placed on a "new and more satisfactory" footing, though only on the crucial assumption that the existing programme continued to be successful. Nevertheless, the wave of strikes was repeated in May.

Critics pointed out that the windfall effect of the drop in oil prices last year



GREECE



created a falsely optimistic picture of the programme's effectiveness. While the drop flattered the improvement in the balance of payments, a windfall tax on oil siphoned off price savings before they reached the consumer, simultaneously reducing the PSBR. The rate of inflation was temporarily slowed by a three-month price freeze to prepare the country for the introduction of VAT in January.

Defenders of the government argued that those factors were offset by several unusual countervailing influences. The oil price fall made it harder for Greece to export to Opec and east European nations. The Chernobyl nuclear accident cut a swathe through the Greek harvest and raised the price of imported food. Chernobyl and President Reagan's Libyan bombing raid combined to deter Americans from casting their customary eye over the Acropolis and other tourist attractions.

The oil factor rebounded against Greece in early 1987, contributing to a higher-than-expected current-account deficit in the first four months. By then, it was already close to the target set for the whole of 1987, making it almost certain that the deficit would overshoot. But forecasts are complicated by the intensely seasonal nature of the economy. If it were summer all year round there would be few problems, as that is when tourist receipts are at their highest and the fruit

Jiannos Papantoniou: "The private sector has lacked dynamism."

harvests often eliminate inflation.

Last year's outturn was flattered, observers now realise, by a rush to meet a January 1 deadline for the dismantling of export subsidies. That boosted exports to a record \$5 billion — a performance that will be difficult to better this year, because of the transfer of some exports into the 1986 total, and the tougher foreign competition in the absence of subsidies. On top of that, non-oil imports rose by nearly a quarter in the period January – April 1987 compared to the corresponding period last year.

Inflationary pressures have been intensified by the arrival of VAT in Greece, which is believed to have added as much as 3.5% to inflation, against earlier government estimates of 2%. Poor weather during the winter raised farm produce prices, so that in the first quarter of this year inflation was running at an annual rate of 16%. That is little improvement on the calendar 1986 figure and makes it unlikely that the 10% target will be attained this year.

The twin problems of the Greek economy are a bloated PSBR and what the OECD called a "puzzling" weakness in the private sector, which should be the principal engine of recovery if it is not crowded out by the public sector.

The bulk of companies in Greece are family-owned, with a heavy bias towards agriculture and, as the recent Karatzas report on the Greek banking system put it, there is an "absence of any distinction, in most cases, between ownership and administration". So they enjoy their privacy, and any state handouts that come their way, and prefer to keep control in the family by borrowing rather than issuing equity. According to Karatzas: "This high degree of loan charges makes firms particularly vulnerable to the cyclical fluctuations of the economy and to the pressures of international competition."

The stock market is undeveloped, and the signs are that the banks do not by and large try to monitor closely the performance of the firms they lend to. As the Karatzas report stated: "In most cases, the portfolios which the banks have acquired . . . have not been subjected to dynamic management so as to benefit the banks and the economy more generally." So, there is little incentive or stimulus for firms to stretch themselves. The upshot is that private-sector output is estimated by the OECD to have been static between 1979 and 1986.

Yet in the immediate future most private businesses can expect to be stripped of their subsidies, both hidden and overt, while having to contribute yet more to public services — like the voracious social insurance fund,

***An interview with Yannis S. Costopoulos,
Chairman of Credit Bank.***



What is your assessment of the current financial scene in Greece, and what prospects do you hold for the future?

Nineteen hundred and eighty-seven will be a critical period. It holds out the expectation that inflation may be further reduced in conjunction with an even more drastic curtailment of domestic consumer demand. However, the short-term decline of living standards which such a repressive policy entails should be viewed in the broader context of the positive aspects of the stabilisation programme, as well as the likelihood of a further aggravation of the economic situation in the event the programme is not adhered to.

However, on the whole I think the business outlook for private enterprise has brightened up and there are many opportunities which should be taken advantage of. For example, procedures for the approval of private investment applications under Greece's investment law 1262/82 are being expedited and considerable further progress has been made in easing pricing restrictions on production.

What is the key to keeping interest rates in line with positive growth in the business community?

If inflation is contained, it will have a positive impact on the level of real interest rates on saving deposits, which is a matter of crucial importance to the economic development of the country. Negative interest rates over the last 10 years have

so far fostered a flight of drachmae from Greece, a predilection for imported products and overborrowing by the business community.

If so many firms are currently highly leveraged, how can this trend be corrected?

One of the steps that is essential for placing the Greek economy on a sound basis is the elimination of the cumbersome system of allocating medium- and long-term loans to small manufacturing industry. At present there are in effect only four basic lending rates — 21.5% for working capital, 18.5% for fixed capital financing, and 17.5% and 15% for loans to small manufacturing industries and farmers.

As early as 1985, Credit Bank has been advocating that these restrictions should be revised because they cause distortions in the financing mechanism which obstruct the flow of money to desirable applications.

What effect is the liberalisation of the financial sector having in regard to foreign trade?

Capital operations have been liberalised especially in regard to the remittance of profits by companies and nationals of EEC member-countries that have invested in Greece.

Likewise, the purchase of Greek securities by companies and EEC nationals is now free, as is also the repatriation of the

proceeds from the sale of such securities and interest and dividends thereon.

Another positive measure has been the possibility now being offered to persons permanently residing in Greece to purchase stocks and bonds issued by agencies of the European Community or by its member states.

Credit Bank believes that these measures should be expanded to cover third-party countries as well in order to encourage capital investments from countries such as the United States, Canada and Australia where there are large Greek communities, or from countries such as Switzerland, through which substantial amounts of capital can be channelled.

Do you see signs of this happening? And if so, how will this affect the banking community?

Yes. A major step towards liberalisation has been the recent decision of the regulatory authorities allowing commercial banks to accept 7- 30- 60- and 90-day time deposits at freely negotiable interest rates. Thus, for the first time in the postwar period, interest rates now reflect, to a certain extent, money market conditions.

This decision marks the beginning of the process of effective deregulation of the Greek banking system and of the real competition among the banks. In this connection, it should be noted that Credit Bank currently holds a market share of nearly 50% of such time deposits.

SETTING THE PACE

Credit Bank AE ranks first in size among private banks in Greece and is the country's fourth latest commercial bank. It is generally acknowledged that it has been consistently in the vanguard of the new wave of technology to sweep the country.

Founded by J. F. Costopoulos in 1879, in Kalamata, Southern Greece, Credit Bank has grown and developed through a succession of three generations who have forged a long tradition of principles, values and policies which have underscored the stability of the institution and the unique relationship it had with its customers.

Today, the Bank is headed by Yannis S. Costopoulos, who in the past two years, has overseen a dynamic expansion of its operations.

Credit Bank employs over 2,700 people, 82% of whom are under 45 years old, who staff a network of 111 branches or banking units which are linked together by a computer system providing real time sight and current account deposit information.

Within the next few years, the number of Credit Bank locations is expected to rise to 150.

The capital investments made by the Bank in electronic equipment and know-how made during the past few years have transformed it into a leaner, more efficient operation. Today, nearly 70,000 transac-

tions are handled each day compared to 40,000 in 1985, without any substantial increase in personnel.

Even more impressive has been the Bank's expansion in the use of the Cash-Card through its 24-hour automatic teller machines. At present, some 51 ATMs are in operation throughout the country handling over 1,000 transactions a day. In the Athens area alone, about 12% of all savings account transactions are conducted through these machines.

By next year, a further 20 machines will be installed. This expansion into automated banking will coincide with Credit Bank's plans to issue Visa cards which will also allow its customers to withdraw or deposit funds through the ATMs.

Some of the factors which have contributed to Credit Bank's rapid development include:

- ☐ Organisational and adaptation of service to market demands.
- ☐ Expansion of computer applications.
- ☐ Clean-up of non-performing loans.
- ☐ Closer follow-up of overdue claims.
- ☐ A deceleration in the rate of increase of payroll costs.
- ☐ Effective utilisation of idle assets allocated for special categories of financing.

The growth of financial aggregates typifies quantitatively the development of Credit Bank's operations in 1986.

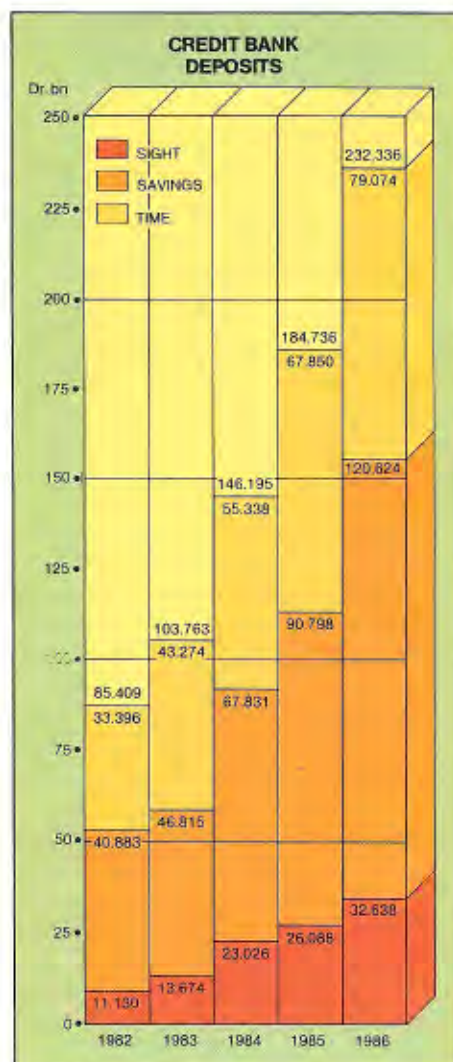
Total assets increased 30.6% to Dr 287 billion while net interest revenue during the year amounted to Dr 3.9 billion, an increase of 35.3% over 1985's results.

During the same period loans rose 36% to Dr 113 billion.

Deposits in 1986 rose 26% to Dr 232 billion, which was primarily due to a 33% increase in saving deposits. Sight deposits rose 11.5% over the previous year, while time deposits fell 6.5% over that same period.

These favourable developments in all the bank's business operations during 1986 produced an 82% increase in net profits to Dr 1.8 billion.

The bank's strength was further increased during that year by raising its reserves 26% to Dr 4.5 billion, up from 3.6





WITH NEW TECHNOLOGY

billion in 1985. By May of 1987, this figure rose to over Dr 7 billion as a result of an additional stock floatation of 440,000 new shares.

The purpose of this capital increase was, on one hand, to improve Credit Bank's capital structure and to support the rapid expansion of operations which is anticipated in the next few years as well as to bring the bank's capital and reserves into closer alignment with internationally accepted capital ratio standards.

With such results at the end of its 1986 financial year, Credit Bank was able to pay out a cash dividend of Dr 450 per share, compared with Dr 270 in 1985. A total of Dr 792 million were paid out in dividends representing 43% of the net profits.

As a result of this performance, the price of the Bank's share on the Athens Stock Exchange has been, quite naturally, on a sustained upward course, rising from Dr 1,750 to Dr 3,570 by year-end.

On April 1 1987, the share price reached a record level of Dr 5,600. A month later, following a share split, the stock traded at Dr 4,800, which corresponds to a share value of Dr 6,000 of the old issue.

The outstanding success of this stock issue strengthened Credit Bank's determination to continue to make gradual increases in its share capital in the years ahead, so that by 1992, it will find itself with a capital structure that will hold its own in the competitive environment of an integrated European market.

SUBSIDIARY AND AFFILIATED COMPANIES

Aside from commercial banking, Credit Bank is actively involved in portfolio investment, real estate, computer equipment applications and, more recently, equipment leasing.

"It's the bank's policy to retain, with the intent of permanent holding, a certain amount of equity interest in these companies, thereby ensuring their co-ordinated management and future expansion," says Mr Costopoulos.

The portfolio company, Ependyseis Pistedos AE, whose share capital was increased in 1986 from Dr 300 million to Dr 900 million posted net profits of Dr 128 million or 18% on invested capital, an increase of 4.5% over the previous year. The appreciation of the company's portfolio above acquisition cost was 21% in 1986 compared with 19.4% in 1985.

Alpha Computers AE, was converted

during the year to an equipment leasing company, renamed Alpha Computer Leasing AE, with a share capital of Dr 1.2 billion, which was strongly backed by foreign shareholders. This company earned net profits of Dr 162 million in 1986 which were 44% higher than in 1985.

The Emporiki insurance company, in which Credit Bank and its subsidiaries own a 60% equity interest with Assicurazioni Generali holding a 35% stake, netted profits of Dr 111 million in 1986, up from Dr 82 million in 1985.

In keeping with an EEC directive mandating the segregation of life insurance from all other branches of insurance, Emporiki assigned its life portfolio to Generali Life AE, which was founded in

October 1986 by Assicurazioni Generali and Credit Bank, with respective equity stakes of 60% and 40%.

The new life insurance company has already started setting up its own sales network in Athens, Piraeus, Thessaloniki and in other principal cities in Greece. It is estimated that in the current year, total receipts in insurance premiums will top Dr 400 million.

Delta Informatics AE, a computer service company in which Credit Bank holds a 40% interest, has realised in its second year of operation net profits of Dr 33 million, against Dr 7 million in 1985. Its high capability 1100/70 Sperry computer is also designed to act as a back up to the bank's own computer facilities.

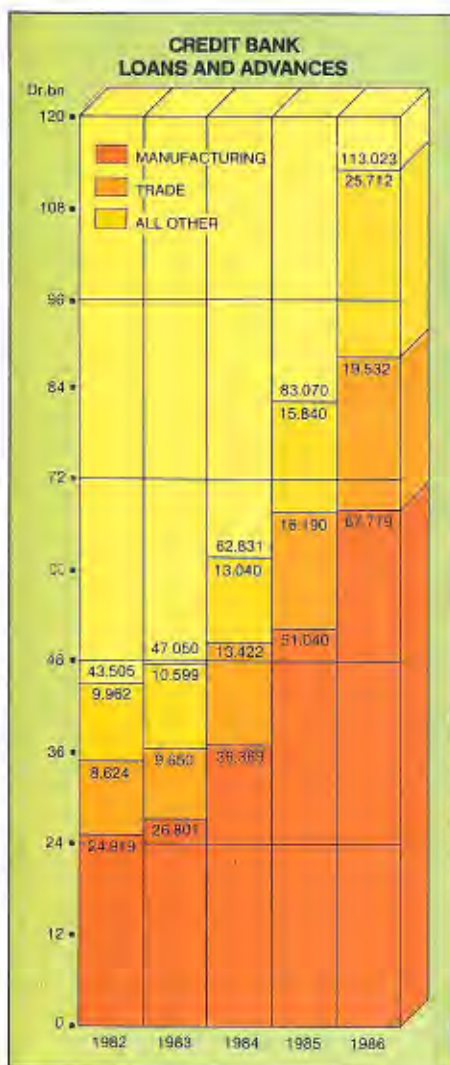
Credit Bank also has a 36% stake in the Dr 27 million share capital of ICAP Hellas AE. In 1986, the business turnover of this company scored an increase of 29.2% against 1985 to Dr 283 million. Net profits totalled Dr 30.7 million with the result that the company was able to pay a dividend of Dr 4,000 per share.

Being a shareholder of Delta Informatics AE, ICAP Hellas has ready access to up-to-date computer technology and is thus able to offer its clients a full range of commercial information. At present, ICAP Hellas is in a position to supply commercial information on practically any business concern in Greece, and is linked to Dun & Bradstreet's international service network for information on foreign firms.

Credit Bank's wholly owned real estate firm, Astika Akinita AE controls all the premises owned or used by the Bank and the Emporiki insurance company. It also does management and appraisal work for third parties. In 1986 it showed a net profit of Dr 80 million and the bank is currently formulating plans to make it a separate company in the near future with a listing on the Athens Stock Exchange.

In April 1987, Credit Bank linked up with Elliniki Technodomiki AE and the Marinopoulos Manufacturing and Engineering Company to form a new firm, Astikes Ariptyxeis AE, whose purpose is to carry out investment projects in the fields of housing, trade, manufacturing and tourism.

As it is, this company combines technical know-how with business expertise as well as the necessary financial resources, and eventually will form the nucleus for the planning and construction of important investment projects.





A landmark in the history of Credit Bank has been the completion, at the end of 1986, of the first phase of its new headquarters at 40 Stadiou Street in Athens. When the second phase, already under construction, is completed, it will cover over 16,000 square feet. The construction of the building, which was entirely self-financed from past profits, reflects Credit Bank's faith and confidence in the future of Greece, and lays the foundation for the further progress and growth of its business activities.

which for political reasons maintains unrealistically high pensions and health provision. There is little scope for public-sector price rises, as the hostile public reaction to a series of increases in April bore out.

According to Theodore Papalexopoulos, president of the federation of Greek industries, the stabilisation programme has "led to a contraction of the private sector and has enabled the public sector to expand further, yet without improving the prospects for investment". The Bank of Greece has cautiously admitted that the situation presents a "serious dilemma".

In an interview with *Euromoney*, Giannos Papantoniou, under-secretary at the Ministry of National Economy, said: "The private sector has lacked dynamism. Greek entrepreneurs have traditionally dealt more in services, like shipping. There is no tradition of industrial management in this country. Government policy so far has been to protect the private sector. That has kept dormant the inherent forces of

economic renewal.

"But Greek society is a flexible society. We are a less traditional society than others in Europe. There is innate entrepreneurial talent in Greece, so if you let things operate more freely, that will come through. I am hopeful, but I admit it will be a challenge to let this emerge in the face of foreign competition, without increasing inflation."

There are glimmers of light. In June, the Greek minister for EC affairs, Theodore Pangalos, moved that the less developed member states should be given preferential treatment in the transition to a single European financial and free-trade market, a proposal that is broadly supported by Spain, Portugal and Italy.

In a speech at Davos, Switzerland, earlier this year, which Greek officials regard as a new testament of future policy, Prime Minister Papandreou saw Greece as being once again at the crossroads of world trade. He cited the increasing number of foreign firms

establishing headquarters in Athens, and declared: "We have a duty to anticipate developments, to forge an economically thriving region that can add its own self-generated impetus to the wider trends of global economic integration."

Papandreou argued that Greece had completed its basic infrastructure development, such as urbanisation, electrification, road networks, transport and telecommunications.

The southern members of the EC are beginning to form themselves into a coherent and cohesive lobby, bound as they are by common interests not shared by the so-called rich men's club in the north of the Community. Loans are good — but grants are better.

The region needed more capital, said Papandreou in his Davos speech. Comparing it to western Europe with its shortage of capital immediately after the Second World War, he maintained that a more rapidly growing eastern Mediterranean "would constitute an enlightened investment in the future, an anticipation of the convergence of the Atlantic and the Pacific areas, which would be enormously facilitated by the presence of a thriving region in between them".

What this ringing declaration tacitly acknowledges is that Greece cannot go it alone. A delicate balancing act is required between attracting more foreign investment and making the economy strong enough to foster the necessary confidence.

For Greece, the years to the end of the century are certain to be dominated by the search for a way to break free from such constrictions, whoever is in power. But at least the Greek public may have cause to thank Papandreou for his choice of bank manager.

For, although the European Community insisted on orthodox measures in return for its six-year loan, those measures were as strawberries and cream compared to what would have been demanded by the International Monetary Fund, the only other potential creditor in sight. On past form, the IMF's economic medicine might have been strong enough to wash away Papandreou's Socialist credentials before the next election. **WK**

Athens: foreign firms are setting up.





ODYSSEY INTO THE MODERN WORLD

Greek bankers have already taken up the challenge presented by the EEC's intention to establish a single European financial market in 1992.

The Greek domestic banking system is on a steep learning curve as the clock ticks relentlessly to 1992, when the country is due to take its place with other European Community members in a single European financial market. Change has been gathering pace slowly since 1984, but Greek banking leaders are aware that they have been slipping behind. "Greece does not have very long to sort itself out," said Jeremy Clements, general manager of Barclays Bank. "The Greek people are not structurally and philosophically prepared for an open market."

The government may yet plead for an extension, but officials emphasise that they are still committed to the deadline.

Last year, the OECD spelled out the problems in uncompromising terms: "Greece's capital market remains underdeveloped. Issues of securities accounted for less than 0.25% of total identified finance to the private sector over the past 10 years. The secondary market is extremely limited. Institutions such as insurance companies, pension funds and unit and investment trusts are still in their infancy. The general public is hesitant to invest in shares. The main feature of commercial banking is the . . . absence of serious competition."

The OECD found that there was systematic misallocation of resources, and that personal contacts and social pressure counted for more than economic and financial criteria. This had led to so-called grey credit circuits, in which companies obtained loans from

unofficial sources at very high interest rates. Industrial firms with privileged access to credit have been borrowing more than they needed so that they could act as financial intermediaries, lending the money on to trading partners.

That situation could be transformed by the Karatzas committee's report on banking reform and modernisation — if there is the political will to implement it. The signs are promising, but the government may fudge some of the areas that affect its web of industrial and agricultural subsidies.

The committee, which published its report in February, recommended that Greek banking be brought up to date with the rest of the Community before 1992. The committee was set up by Constantine Simitis, minister of the national economy, on February 18 1986, with the brief to draw up a series of practical measures which, in stages, would allow the banking system to meet the demands of the economy.

Theodoros Karatzas, secretary general of the national economy ministry, and the five senior bankers and economists, were confronted with a system in which interest rates on deposits and loans were laid by the monetary authorities without any regard to prevailing economic circumstances.

The state has a firm grip on Greek banking, which operates on three tiers — the central bank, commercial banks and specialised credit institutions. Shares in the domestic commercial banks are held mainly by the government and other public bodies, and the Minister of Finance is the official representative of share-owning trusts and pension funds.

The effect is that the government appoints everyone who matters, from the governor of the Bank of Greece to the heads of the three principal commercial banks and the Agricultural Bank, Hellenic Industrial Development Bank and Postal Savings Bank. These in turn own a series of minor institutions as well as the four leading

PREPARING FOR THE NEW REALITIES

On the shelf behind his desk, Job Maats, Citibank's 34-year-old Country Manager, has a statue of Alexander the Great. The choice is not coincidental. Deregulation of the Greek market allows the redefining of the borders of financial services beyond traditional commercial banking. "Our Greek organization is following the example of Alexander the Great," Job Maats said. "We will show leadership in the development of the new financial markets and will expand our range of financial services."

"I think we, more than any other bank, have been actively preparing ourselves for 'the new realities'. We are more aggressive in getting the right kind of people in place and developing the right product mix — or what I term a 'full franchise operation' — in order to adapt to the changing regulatory environment."

Confusion reigned in the markets when the Government changed the loan rates, as of July 1, from a maximum of 21.5% to a minimum of 21%. Citibank, however, was prepared for the new realities and within one week announced that not only was it going to unbundle rates, but it would be issuing CDs and start pricing loans on a floating base rate.

When Alexander the Great was asked how he had managed to consolidate Greece so swiftly after the death of his father, he answered: "By never putting anything off until tomorrow." It is with such an attitude that Citibank in Greece is responding, and trying to leave its imprint on a financial community in the throes of a major upheaval, as the country prepares for the impact of full European economic integration by 1992.

Prior to deregulation, banks in Greece, in the absence of competitive deposit instruments and a money market, were constrained in their lending by their deposit-generating. During this period, a bank's ability to generate drachmae deposits was primarily related to the size of its branch network. Now, with the introduction of bearer-CDs by Citibank and the development of a money market (Citibank quotes daily two-way rates for deposit) banks' asset size is only constrained by credit and marketing considerations.

Citibank has accumulated a quarter-century of experience in Greece and is the fifth largest bank in the country. It is building a premier diversified financial services company with a comprehensive range of vehicles to service its customers:



Job Maats, Citibank Country Manager

a commercial bank, a leasing company, a local credit card (Diners), and a data-processing company. It is also in the process of establishing several investment-banking vehicles, as well as investigating entry into insurance and insurance brokerage.

Citibank, Greece serves corporations and financial institutions through its Athens and Thessaloniki-based corporate bank, and the shipping community through its Piraeus office. Both shipping and corporate customers are offered sophisticated treasury and investment-bank products at the Athens-based Investment Bank. Small businesses and consumers are served through its existing 12 branches in Athens, Piraeus and Thessaloniki.

"Citibank wants to expand its corporate finance activities in Greece. Each Relationship Manager handles a small number of customers and so is close to those customers. We have in-depth knowledge of our customers and, since Relationship Managers deal only with customers that have substantial financial needs, we are motivated to be innovative and to identify creative solutions to customers' financial problems," said Maats.

A Nielsen survey on the Greek cor-

porate market, done earlier this year, showed that corporations had three main considerations in selecting banks: quick decision-making, drachmae availability and providing solutions to problems.

To improve its already well-established quick decision-making further, Citibank restructured Corporate Bank into a very lean and flat organization with a unique decentralized decision-making culture. For example, its staff of 20 Relationship Managers have the capability to make decisions and to bring all the resources of the corporation to bear on a customer's problem — a capability that, in other banks, is normally reserved for top management. The team has credit authority, within Greece, to commit the Bank for up to \$200 million without having to confer with a member of Citibank's international credit policy committee. This gives Citibank a turn-around time on large and complex credits unequalled in the Greek market.

As to the availability of drachmae, Citibank has the potential to raise vast liquidity through CDs. The three-month CD rate of prime banks in Greece is 17%, whereas the unbundled short-term base lending rate is 24.5%. However, banks receive

slightly less than a quarter of this 7.5% difference as a spread, the rest going to the Government in the form of reserve requirements, taxes and levies. Citibank realises that, with a gap of 7.5% between CDs and loan rates, straight commercial bank loans might often not represent the best solution to a customer's borrowing needs. However, if a customer's needs are best met by a straight loan, then Citibank can raise any amount of funds in the market through its efficient treasury and expanding branch network. Citibank is interested in offering a full range of financial services — corporate advisory, bonds and equity underwriting, leasing, interest and currency hedging as well as cash management and trade finance to meet the needs of its customers.

Traditionally, Greek firms use a multiplicity of banks, and, until now, only the large state-owned Greek banks have managed to obtain a large share of each customer's overall business. The clients that Citibank aims to service through Relationship Managers frequently deal with 10 or more banks. Citibank would like to cover a third or more of a customer's financial needs, rather than the 10% that these big customers give to the average bank. This is expected to be achieved by offering unbundled services.

With a good share of someone's business, banks can pass on to their customers the economies of scale they experience in credit evaluation, processing and account management.

Serving the Fleet

A prime example of Citibank's involvement in the private sector can be seen in the dominant role it plays in the Greek shipping industry.

"The reason we carry this portfolio," said Dimitri Krontiras, senior Vice-President of the Shipping Group, "is because we have foreign currency capability, and the financial strength of our global network, and Greek shipowners need an international bank which can accommodate this highly capital intensive industry with offshore funding.

"The Greek shipping industry is still very much a family-owned business. Few are public companies. So when they search for a banking relationship, they are really looking for personal financial advisers, as



Dimitri Krontiras

well as for a strong financial institution. In this sense, over the last 20 years, Citibank has earned that unique respect and reputation," he said.

Krontiras, aged 51, with 24 years of experience, the longest-serving Citibank officer in Greece, and who opened the Piraeus office in 1967, perceived a gradual improvement in the Greek shipping industry, which he contended had begun to take hold in the last two years.

"Between now and 1992 I foresee a steady and more gradual improvement in the market rather than the boom-to-bust cycle we experienced in the last decade. However, even in this improving market situation, the extension of credit will remain difficult. As a bank, we are looking for new ways to maximise revenues for our clients, by introducing them to the full range of our bank's treasury capabilities to hedge their positions and minimise the risks on both sides.

Citibank's exposure in the Greek shipping market has been consistently at the \$1 billion mark, by far the largest of any Greek-based bank.

In the past five years, Citibank has financed the building of more than 50 new vessels (bulk carriers, tankers and one cruise ship) for Greek owners. The total value of financing for new buildings, together with second-hand acquisitions, has exceeded \$5 billion.

Emerging Opportunities

The creative thrust of Citibank's full franchise operation lies with its Investment Bank, which acts as both a merchant bank and a treasury operation.

Headed by 35-year-old Peter Doukas, who has been with Citibank for eight years and came to Athens in January 1986 from the corporate headquarters in New York, the Investment Bank is pushing ahead on a number of fronts, in addition to its traditional treasury-type activities such as funding and liquidity management, foreign exchange futures and options, interest-rate and currency swaps, and interest-rate caps, collars, and options. The group's major expansion is in international and domestic securities sales and brokerage and in corporate finance. In the latter area, the Investment Bank is developing a foreign direct investment advisory service for overseas firms wishing either to invest or to acquire companies in Greece.

"Right now," said Doukas, "working closely with our Lausanne, New York and London offices, we are the best-positioned team to do mergers and acquisitions in Greece. This is a new phenomenon here. There have been a few small and sporadic

deals, but nothing resembling the extensive and complete restructurings we have seen in the US. I see a growing market for such services by early 1988. Many Greek companies are becoming increasingly aware that they may be undervalued and need to adapt the way they manage their assets and liabilities."

At the same time, he noted, "there is a growing number of companies not even listed on the Athens Stock Exchange that have healthy, energetic management teams and that could have a field day going out and buying the less-successfully managed ones at fairly low p/e ratios."

"To help develop the local capital market we have applied for membership of the Athens Stock Exchange. We can add to

Continued on p22.



Peter Doukas

CREATIVE BANKING

In November 1986, the Government of Greece, in an effort to raise money to fund the state deficit and at the same time to revitalise the money and capital markets, issued three-year drachmae bonds indexed to the Ecu. The bonds were sold by the Central Bank in three tranches, the first in November 1986 and the other two in February and April of this year.

The rationale behind the issuance of such an instrument rather than the traditional straight drachmae bonds was that it could be used as a hedge against a possible devaluation of the currency, and thus prove more attractive to investors.

Citibank identified very early the potential benefits of such instruments to holders of substantial, unhedged drachmae assets but with insufficient drachmae liquidity to purchase the instruments during the short period they were made available by the Central Bank.

There was, however, a constraint on commercial banks to act only as brokers and not as position-takers in bonds and stocks, said Harry Issaias, Financial Controller of Citibank. Using its global operation, the Bank overcame this problem by having the bonds purchased by a non-Greece-based institution, which could hold an inventory of such bonds like any other customer that pays foreign exchange. Having created a long position in Ecu bonds, Citibank then entered



Athens trading room

into arrangements with selected customers with large drachmae receivables, which purchased the bonds for delivery and paid Citibank a fee for the provision of the hedge.

These deals were the first major transactions with Greek financial instruments, and gave the Bank a basis of know-how and expertise in the market.

Another example of how Citibank is incorporating its global capabilities in Greece is their electronic banking network, which is currently being accessed by 50 clients using micro computers. This on-line computer service, the only one of

its kind in the country, gives customers instant access to their accounts, allows them to transfer funds to any branch of any bank in the world, and provides them with real-time market information on currency and securities movements anywhere in the world.

The electronic banking system, which was developed for the Citibank network in 90 countries, also provides customers with news and information services, including in-depth economic reports on more than 20 countries around the world, among them Greece.

the Greek market our international experience (Citibank Athens, is linked to members of 17 stock exchanges around the world) and network of Investors, our analytical and research capabilities, our advanced technology and our experience in underwriting and trading securities."

The Investment Bank has a government mandate to do valuation studies for 22 of the firms the Business Reconstruction Organisation has taken over from the private sector. "We will suggest to the BRO possible market values for those companies and they can decide how to make the most of them."

Imaginative banking is not limited to the advisory stage. The Investment Bank's staff of 15 locals, all of whom have been trained abroad, are extremely active in foreign currency dealing in the non-drachmae markets (mostly Deutschmarks, Swiss Francs and Yen) for their off-shore clients in the shipping industry, and helping their clients manage their interest-rate exposures through swaps, collars and ceilings. "Actually," Doukas said, "our treasury dealers are as good as any in London or New York — and consistent money makers." Recently, using its London trading room, the Bank closed a \$50 million two-year, ceiling transaction for a shipping client, undid it two weeks later, and netted that customer a profit of just under \$400,000.

At the same time, the bank is seeking permission from the Bank of Greece to trade drachmae forward for non-residents and has already obtained approval to trade precious metals for Greek residents with free foreign-currency holdings.

In future, Doukas thought the Greek market would favour corporate debt issues. "Because short-term government note and CD yields are in the 17%–19% area," he said, "to compete with such yields fixed-rate corporate debentures would need either to yield around 23%–26% or, alternatively, have either a quarterly repricing feature or a stock-conversion feature." He estimated that, by either attaching an option or allowing for conversion, the coupon rate could be as much as 10% below the fixed-rate alternative.

"By 1988," said Doukas, "we will be the premier provider of comprehensive asset and liability management services in Greece and we will operate trading facilities where clients can do one-stop shopping for any currency or security they want, just by making one phone-call in Athens."



Dimitris Contogoulas

Multiple Approach

The Consumer Services Group, with 12 retail outlets and the Diners franchise, has already put in place a strategic programme that aims to more than double its market-share in the next five years, and to ensure earnings growth of 25% a year. The Bank believes it will accomplish this by maintaining its high standard of service.

This sustained growth will be obtained mainly by expanding further the present distribution network to other key cities within Greece and the greater Athens area. This will allow them to penetrate their defined target market in high-growth areas. The Bank has already received Central Bank approval to double its present number of branches within the next few years.

The Consumer Services Group is headed by Dimitris Contogoulas, aged 47, who was on the team that set up the Citibank operations in Greece over 20 years ago, and who has extensive experience throughout Europe and the Middle East. The Group has been able to position its innovative services and products to attract up-market local and expatriate individuals and small businesses.

Drawing on its state-of-the-art technology and extensive experience in other markets, it was the first commercial bank in Greece to introduce consumer mortgages, 24-hour on-line ATMs and personalised trading accounts. "Consumer banking in Greece, for both the Consumer Services Group and our Diners' franchise has tremendous potential," said Contogoulas, "and we are positioned to maximise the benefits of deregulation." Using cross-sell synergies with Diners Club, Citibank plans to enhance the existing bank card to include revolving credit, foreign-exchange transactions facilities, buy checks and other attractive features.

"The pace at which these expanded services can be offered," said Contogoulas, "obviously depends on how fast the market is deregulated. But we are the only retail bank in Greece that is positioned to offer to customers a premium service with a wide range of services and products, including, for example, leasing, consumer loans and auto financing."

Clearly, the Consumer Services Group in Greece has established itself as a world-class consumer bank.

GREECE



insurance companies.

From the early 1970s, nominal interest rates had been held at levels considerably lower than the inflation rate. The committee found that this had led to overconsumption and illegal drainage of funds abroad. It also meant that the banks' profit margins were effectively determined by the monetary authorities, leaving bank managements no incentive to improve performance. In addition, much of the public sector's deficits were covered by compulsory deposits made from bank assets.

Companies prefer to borrow rather than incur outside shareholders and public accountability by issuing shares. Athens Stock Exchange lists the shares of only 110 companies, and there are few bond issues. The major sources of finance are the banks and specialised credit institutions, themselves directly controlled by the government. The measure of their success is their unwanted portfolio of commercial buildings and shares in ailing companies acquired because their managements could not meet repayments.

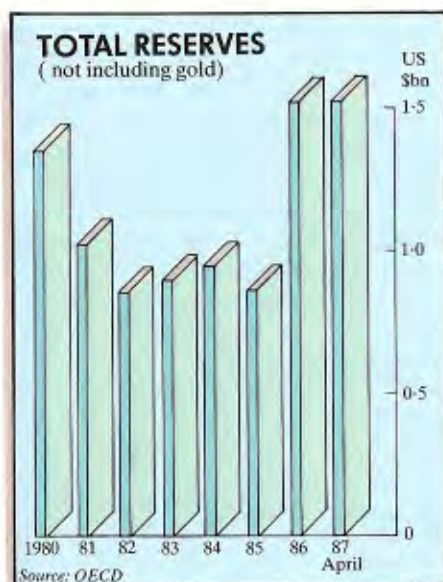
Such is the scale of the problem that the national economy ministry's secretariat for problem firms passes on unhappy supplicants to an organisation for the rehabilitation of firms, which appoints new management and secures adequate financing.

By the end of 1986, Greece had a total of Dr350 billion (\$2.55 billion) in "non-performing" debts incurred by 44 companies that had had to be helped by the rehabilitation organisation. Those 44 companies employed more than 10,000 people, which gave a political emphasis to the government's thinking — especially as overstaffing is claimed to be the single biggest problem. Twenty one were regarded officially as non-viable, and their assets are to be auctioned.

In addition, at the start of 1987, more than 90% of organised public savings was in the hands of the banks, mostly in the form of commercial bank

Top: Theodoros Karatzas, national economy ministry
Below: Greece's banking is elegant but underdeveloped.

GREECE



deposits. Much of that had been diverted by the government of the day for social and economic ends.

Commercial banks were ordered to devote 39% of deposits to buying Treasury bills or placing deposits with the Bank of Greece. Special reserves took 7%, 15% had to go into industrial investment, qualifying small businesses claimed another 10%, and public corporations were given 8%.

Those privileged categories collectively absorbed 79% of bank deposits, leaving little discretion or commercial initiative. It was a creaking system that put too much power in bureaucratic hands and not enough in the hands of market forces. Monetary policy became rigid, because the Bank of Greece could not use market-led weapons like the discount rate or open-market policy.

As the Karatzas report said: "No modernisation of the banking system will be possible as long as it remains the sole handler of the credit resources of the economy. The money market must constitute the basic mechanism for obtaining and distributing the long-term funds of the economy."

What Karatzas proposed was a more modern and flexible system under the supervision of a nationalised Bank of Greece, but with a reduced role for rule by edict. It remains to be seen whether those who exercise that power will surrender it.

"Don't underestimate the conservative elements in the Bank of Greece



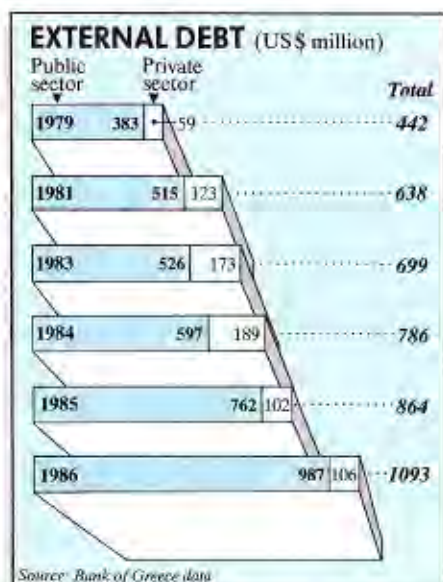
and in the government," warned Clements of Barclays. "Karatzas may be used as a weapon against those who would prefer the status quo."

The report proposed dismantling the present system in stages. First, interest rates would be returned to the market by consolidating loan rates into one positive real-interest rate, except for loans to agriculture and craft industries. All special arrangements for different lending terms for different borrower categories would be abolished, banks would be allowed to offer diversified rates and terms on deposits, and the subsidies surrounding deposit and bond rates would be respectively abolished or curbed.



The Bank of Greece had already been moving in this direction under its own steam. In the past three years, it has trimmed a jungle of more than 100 rates to four. At the end of February, it responded to Karatzas by allowing banks to determine their own rates on seven-day to three-month deposits. Within a few weeks, Barclays led the way with its own tariff, provoking the Greeks' first interest-rate war.

On June 30, it went further. Instead of a maximum lending rate of 20.5% plus 1% commission, the central bank laid down a minimum of 21.5%, commission negotiable. This sparked another bout of competition, but it was only part of the package.



Top left: Only 110 companies are listed on the Athens Stock Exchange. Far left: Peter Gamblin, Bank of America. Left: George Caravias, NatWest.

The 15% compulsory reserve quota for industrial investment was abolished, and, although the quota for public corporations was raised from 8% to 10.5%, the net effect was to reduce the proportion of officially directed reserves from 79% to 66.5%.

A third element in the June 30 package was the creation of certificates of deposit. Bankers expected that it would take between three and five years for a CD secondary market to develop in Athens, reckoning that it would take that long for potential users to be sufficiently educated about their advantages. Meanwhile, the banks would have effectively to stand in the market, but it was a further significant relaxation.

Ironically, these measures were seen as a mixed blessing by the occasionally beleaguered foreign banks, some of which felt they had all the lending capacity they needed.

Peter Gamblin, the London-born local manager of Bank of America, said: "If our reserves were completely freed, we would lower our deposit rate and drive out the less attractive business. The return on our operations in

Greece is below our international standards. There are few companies managed to an international standard. Some are extremely well run, but generally they are managed as personal businesses; that is the problem."

As a second stage, the Karatzas report proposed that deposit rates should be determined by the market, apart from the minimum savings deposit rate, which was to remain the preserve of the central bank. That has already happened, so stages one and two are beginning to merge.

The report added that craft and agricultural loans should be more exposed to competition for resources by reducing both interest-rate subsidies and the blocking of bank funds for the benefit of those sectors. The state should also forgo the use of blocked bank funds, and other state controls should be abolished.

Not surprisingly, these restrictions have resulted in some peculiar distortions. George Caravias, National Westminster's chief manager for Greece, and despite his name a Welshman by birth, explained: "As things stand, if you do not lend to industries like craft and agriculture, you get a much smaller interest rate — 4% in the case of handicrafts. We don't like lending to that industry because it is so labour-intensive, so we did a joint deal with another bank, giving them the money to make the loans and splitting the interest. It means we get only 9%, but that's better than 4%."

The third and final stage, according to Karatzas, should be to tidy and upgrade the banking system. Subsidies would come from the state budget, and all special blocking of bank capital and special credit restrictions would be eliminated.

The Bank of Greece would still be able to compel commercial banks to make deposits with it, and control the re-discount rate — normal central bank powers. The monetary authorities would continue to supervise banks' loan portfolio, creation of reserves, abandonment of bad debts and non-registration of interest.

These measures, according to Karatzas, should allow the Greek banking system to develop and modernise. But the report also argued that the country's smaller banks should be encouraged to grow so that the share

of loans and deposits could be distributed more evenly. The National and the Commercial Bank of Greece have between them 55% of private deposits and 49% of private loans.

The report said: "The existence of large, strong Greek banks is seen as essential to facilitate absorption of the new high technology being developed internationally in the provision of monetary and credit services."

To give the smaller banks room to breathe and grow, the committee recommended that the tax on bank-to-bank loans should be abolished, credit factoring, venture capital and joint venture loans should be introduced and banks should be allowed to sell securitised loans to the public. As another means of expansion the committee reaffirmed that there should be a policy of reciprocity towards the establishment of foreign bank branches in Greece.

But expanding and modernising banking will be of little benefit if it is not fully exploited. Karatzas urged the banks to adopt a more active approach to portfolio management, by setting up independent holding companies, by recycling portfolios more frequently and by expanding into leasing and venture capital. The report said equity holdings in relation to the equity of each bank should be limited.

Factoring was introduced in 1986 and leasing was made legal this year. But the practical difficulties associated with such reforms were highlighted by Andreas Boumis, the urbane Manchester University graduate who heads the Commercial Bank. "Factoring is more risky than leasing, but easier to absorb," he pointed out.

"We have two difficulties with leasing: a low standard of equipment maintenance, which means you don't know what condition the item is going to come back in, so rates are high; secondly, we have no legal basis for the leasing contract. On the other hand, the economy is at the right stage for factoring, because it is a way of financing trade, and that is what we need now."

Both Karatzas and the banking community agree that the speed of the reforms will inevitably be determined by the success of economic policy, particularly by the reduction of inflation and balance of payments deficit

IONIAN PROJECTS FRESH IMAGE

After nearly 150 years of continuous presence and activity in Greek banking, the Ionian Bank presents a new image.

According to Prof Panayotis Korliras, chairman of the bank — which was the first to ever operate in Greece — "Our new identity, which has become a communications medium with the public, expresses a new spirit in customer service as well as a range of new products being offered."

"The Ionian Bank is the third largest commercial bank in the country in terms of assets, with one however, significant difference from the other two, which attaches to it a comprehensive advantage against all other commercial banks. Although it is the third largest, it is considered 'small enough' to be flexible, friendly and serviceable while at the same time, 'strong enough' to inspire trust and security."

The Ionian Bank is not only a bank with a history, but is also a modern bank with a dynamic presence in the Greek banking community.

At the end of the 1986 financial year, assets totalled Dr 318.5 billion.

Since the start of the decade, the bank's profits rose by 207% to over two billion drachmae. Deposits in 1986 increased to Dr 250.7 billion, while loans for last year totalled Dr 112.7 billion.

The satisfactory upward trend in profits contributed to the spectacular increase in

the value of the share of the bank traded on the Athens Stock Exchange.

In August 1987, the bank's stock traded at Dr 13,000 a share against Dr 4,950 which was the closing price of the stock on December 31 1985.

In 1986, the Ionian Bank focused its efforts in covering the financial needs of prime customers under the restrictions imposed by the monetary and fiscal authorities paying special attention to financing export trade.

The annual growth in export trade short-term loans rose by 54.7%, while the financing of working capital needs of in-

dustry showed a slower rate of growth (4.8%) reflecting the current stabilisation programme of the economy.

The financing of handicrafts showed a 13.9% increase (not including export financing), while the financing of import trade showed a decrease of 1.9%. Short-term loans to domestic trade during 1986 were almost at the same level as the previous year.

Contrasting this is the 32.3% increase in long-term loans granted to industrial companies and mining, even though there's a stagnation of private sector investments in fixed assets.

INVESTING IN GREECE

The Athens Hilton Hotel, one of the most visible properties in the capital city is wholly owned by the bank through its company, Ionian Hotel Enterprises.

In November 1986, Prof Korliras announced the construction of a new Dr 4 billion Hilton Hotel on the island of Rhodes. This new 800-bed hotel, which is due for completion in 1990 will be operated by Hilton International company.

"The construction of the hotel in Rhodes constitutes a milestone in the development of an integrated Hilton chain in Greece as the construction of one more Hilton at

Salonica is under consideration, while at the same time, the bank is negotiating the purchase of the Corfu Hilton," he said.

Apart from their hotel interests, Ionian Bank participates in several other companies which play key roles in the national economy. These include: the Investment Bank based in Athens, the Commercial Bank based in Frankfurt with a network of six branches in West Germany, the phosphoric fertilizers industry, the Greek juice processing and canning industry, the Eleusis shipyards, the Neorion Syros shipyards and Hellinger Hellas breweries.



The Athens Hilton — one of Ionian's more visible assets.

A new design to go with the new spirit.

FACING THE FUTURE

A wide-scale reorganisation of the bank is now taking place in order to meet the growing demands of its customers, both in the corporate and retail areas, in line with the changes which will take place in Greece when it becomes a full member of the European Economic Community in 1992.

The Ionian Bank already commands a leading place amongst the most active dealers in the domestic interbank money market as well as in Eurodrachma dealing with competitive spot prices.

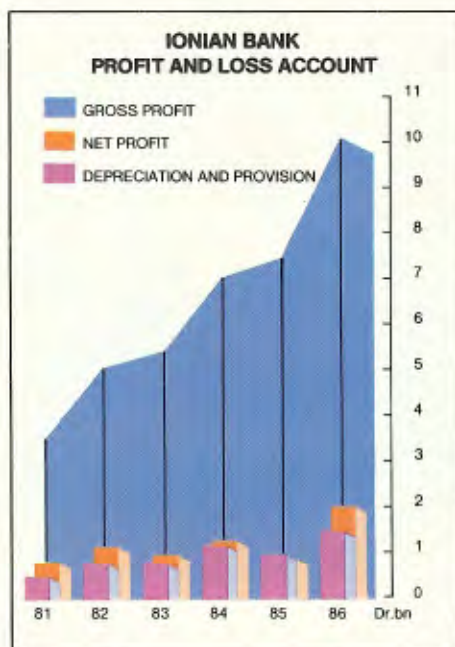
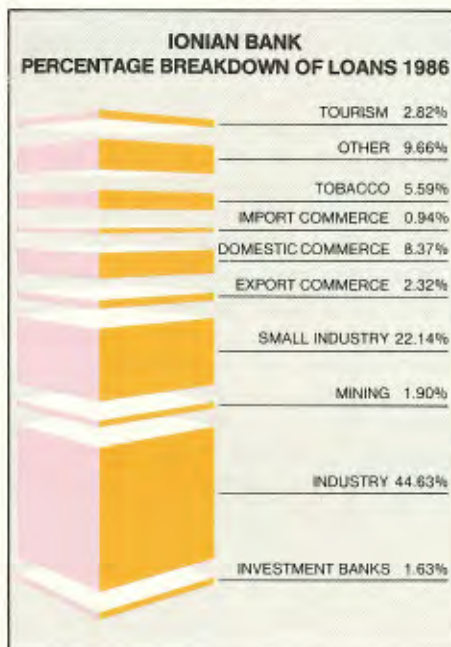
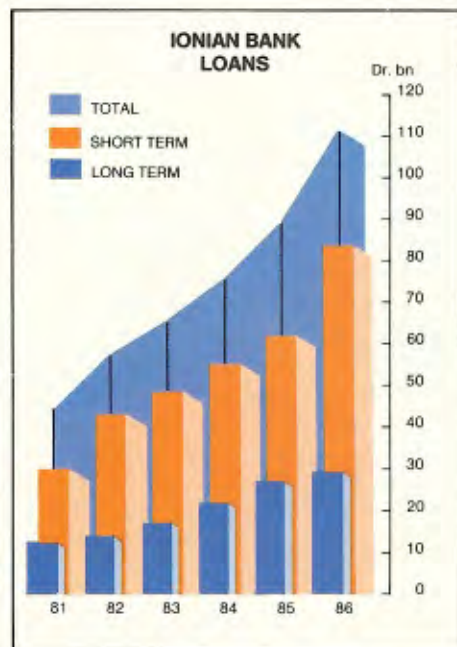
In the corporate market, central specialist teams are trained to serve large private corporations and public enterprises, while special corporate branches have been formed to cater to the needs of medium and small companies. In both areas, pilot programmes for cash management services have been introduced.

In the retail sector, the bank, with 170 electronically-linked branches throughout the country, is also instituting a market segmentation programme. For example, in October 1987, the bank will issue both domestic and international Visa cards.

Meanwhile, the bank is developing its Automatic Teller Machine programme with a view to developing the capability of home banking through EFTPOS and other delivery systems.



New branch office - Athens



GREECE



and the transfer of interest-rate subsidies to the state budget. Reserve requirements will be abolished only when the PSBR is under control or Treasury bills can be offered at market rates, but until then the banking system will remain hamstrung.

An attempt has been made to persuade Greek savers to accept a lower coupon on government borrowing by issuing an Ecu-denominated bond, based on the Ecu value of the drachma at the date of issue, in return for which the coupon was only 8%. But Greek savers were slow to take it up, preferring the 19% they could get on bank deposits.

Given the structural difficulties of the economy, these criteria make it problematical whether Greek banking will be in shape by 1992. Industrial sectors are insulated from reality by the subsidised interest rates, and the public sector is leaning on the banking system to an unhealthy degree through the compulsory reserve requirements that shackle the banks.

Said Boumis: "I believe that we are underbanked. Cheques as a means of payment are not very acceptable in this market. There is scope for more modern products. Now, we have the base rate concept — a revolution. At first people will feel unsafe and wonder if a bank will change its base rate just because it feels like it, so you have to go slowly until people get used to it."

"Until now the banks have had control over volume, but not price, so we have been limping managerially. The banks have been used by the government to distribute subsidies, because they have the management and the network. If there is an evil in the Greek economy, it is that of a managerial drawback."

Boumis argued, however, that the banks were in a position to act as a catalyst to exploit the full scope of the economy, and to maximise the contribution from Greek expatriates.

"We have a lot of space to cover before we reach the limits of the economy," he said. "We import fish from Argentina, instead of exporting it. We do not have trading houses abroad. These things make the case for Greece to be more dynamic on the

foreign exchange side. We have to establish ourselves as credible professionals in the Euromarkets. Then we can lead our own issues."

Commercial Bank has a bank in Germany, and in November Boumis is visiting London and New York to begin negotiations for opening branches there.

Until the economy can stand on its own feet in world markets, it will be impractical to dismantle foreign exchange controls completely. But in an important relaxation, the government has decided to allow foreign banks to repatriate profits on an annual basis.

That should improve confidence and encourage more overseas banks to set up in Greece. It will also do no harm to Greece's prospects in the international loans market. As Efstadaios Papageorgiou, deputy governor of the Bank of Greece, said: "I think our relations with foreign banks are excellent. If you have good relations with their offices here, they will send positive reports back to head office."

A more settled economy and liberalised banking system would help to complete a virtuous circle, because Greece would then find a more appreciative audience for its loan operations on the Eurodollar market — and, of course, they would have less recourse to foreign loans.

Greece was one of the most active borrowers on the Euromarket last year. The state and public corporations raised 11 loans for a total of \$1.1 billion in 1986, and the Bank of Greece announced a \$400 million loan in May this year.

The October 1985 stabilisation programme paved the way for last year's campaign, for Greece had acquired an unhappy reputation for calling on the market too often, with the prospect of continual rescheduling.

But in May 1986, after testing the market with a couple of minor loans, the Bank of Greece issued an eight-year \$375 million transferable loan facility at 0.75% over Libor, raised from the original figure of \$300 million. More than 50 banks took part, led by Arab Banking Corporation with \$30 million and 13 other banks with \$15 million each.



Top: Efstadaios Papageorgiou, Bank of Greece. Centre: Job Maats, Citibank. Bottom: Jeremy Clements, Barclays

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GREECE

Brian Woolley, executive director of Citicorp, the bookrunner, said: "The price was not the important thing for the Greeks, but we called the market just right. The whole transaction went extremely well."

It was just what Greece needed to set the tone for the rest of 1986. The market was receptive enough to take a swap-driven loan facility for \$140 million in July at only 0.25% over Libor. By December, it was able to raise Luxfr2 billion (\$50 million) at 0.5% over Luxibor, and then £100 million (\$145 million) at 0.625% over the Pibor to refinance existing debt.

"We try to diversify our sources of funds. We want a wide spread of currency exposure so as to limit our risk from any one currency," explained Papageorgiou. "We want to be about 50% in dollars and 50% in non-dollars, which really means sterling, Deutschmarks and yen. But we have a nice relationship with the banks in Luxembourg, so we borrowed from them in December."

Papageorgiou, a rising star in his early forties, who manages Greece's international loan portfolio, admitted that the recent ¥20 billion (\$135 million) 10-year money raised in Japan exposed the Greeks more than normally, because the two countries have little trade with each other.

The loan is being raised in two tranches, half fixed at 0.1% over the long-term prime rate (LTPR) on the date of each drawdown, and half floating at LTPR reviewable every six or 12 months. There are nine lead managers, including some of Japan's top names — for example, Bank of Tokyo, Mitsubishi Bank, Sumitomo Bank and Industrial Bank of Japan.

"The yen is one of the major capital markets, so I cannot ignore it," said Papageorgiou, "but we put a limit of 15% on our yen borrowings as a proportion of the total." He expected Greek institutions to return to the Euromarkets at least three times in the second half of 1987, via the public power corporation, the national telecommunications company and the Bank of Greece itself.

The central bank's main aim is to borrow heavily enough to prepay some of the amortisation payments due between 1988 and 1990, as it has no

further recourse to the EEC until next year. Repayments are expected to run at \$1.7 billion a year until 1991. Then the figure should drop to \$1.2 billion, although that estimate is highly provisional. By July, the Greeks had prepaid \$400 million of the 1988 programme.

Satisfaction with the stabilisation programme's progress was demonstrated by the success of this May's \$400 million eight-year term loan, involving 61 banks and was pitched at 0.625% over Libor. Originally, only \$300 million was sought.

At the same time, the Bank of Greece announced two more German bonds worth a total of DM300 million (\$166 million), one carrying a coupon of 5.75% for five years, and the other 6.5% for eight years. Lead manager in each case was Commerzbank.

The Bank of Greece had been emboldened to return to the West German market after Westdeutsche Landesbank successfully lead-managed the issue of a seven-year DM200 million (\$111 million) unsecured loan that was listed on the Düsseldorf Stock Exchange. It met brisk demand from German buyers, particularly the savings banks, according to WestLB.

Job Maats, head of Citibank's office in Constitution Square, said: "I believe it's very important to Greece to raise a lot of money this year. I believe it's wise to comfort the market by raising funds now and doing some prepayments. It's ensuring that the market has the right perception. You want ample reserves so that no one gets concerned."

"The government is not going to hit its economic targets this year, but I'm relaxed about that. I've worked in Brazil, so I'm not too worried about what inflation happens to be doing. What matters is balance of payments, because that determines how much Greece has to borrow. The important thing is that they are moving in the right direction. The speed at which they are moving is less important."

Maats, with Natwest's Caravias, was the most positive of the foreign bankers in Athens; others seemed weighed down by the burden of red tape.

"I am optimistic," said Caravias. "You have to live with the regulations."

GREECE

If you get it right you can make good money here. The interbank market is vulnerable, and it's volatile, and one false step on the regulations and you can end up in court."

Another minefield is labour relations, because the bank unions have a reputation for militancy. Their scope for wage bargaining has been curtailed severely by the austerity programme, but they can make it very difficult to sack an employee. "It's easier to get married than hire staff," said Caravias, "because when you are married at least you can get divorced."

Citibank and NatWest are the two biggest foreign banks out of 20 in Athens, with Citibank about three times the size of NatWest. They face an initial cost of Dr2 billion (\$14.5 million) to enter the Greek banking market, and more for each branch.

The obvious and conservative route has been to serve the multinational companies and some of the more established local businesses. Citibank and Barclays have decided to develop a retail branch network. There are some rich individuals in the area, who are only too delighted to be plugged into the foreign banks' trust and tax-haven services — to the resentment of the local banks, who feel that the lucrative end of the retail banking market is being creamed off, while they have to take on all comers.

"The whole thing now is going to be about getting the consumer better educated," said Maats. "We will face competition, obviously, and we are looking forward to that. If there is competition, I am confident that deregulation will proceed. You have to accept that we are going to go through an adjustment process. We have companies with leverage of 80 to one, and five or six to one is commonplace. That is just not bankable."

Citibank is positioning itself as an investment bank in Greece, which offers several advantages in the present climate. It reduces dependence on lending, which should be more profitable after deregulation, but which Maats thinks will ultimately become less profitable as competition bites.

Second, investment banking paves the way for fee-based corporate finance, where borrower and lender can be put in touch without affecting the

bank's still-shackled deposit base. Third, it advertises Citibank as a credible issuer of bonds against the day when a thoroughgoing capital market takes off.

Historically, multibanking has been the rule in the Greek corporate sector because, as Maats puts it: "They could never be sure that any given bank would be around when you needed it. We are saying: 'Come to us and we'll raise all your money for little more than we are already charging.' After all, it doesn't cost much more to research and process a \$10 million loan than a \$1 million loan."

Bonds, on the other hand, tend to be issued by a single bank. That will happen only when the stock market is activated — the nearest thing to a holy grail in the Athenian financial world.

The government hopes that the higher interest rates after the switch to a base-rate system will encourage firms to go to the stock market to raise money, to stimulate a trading floor that deals sporadically in only 110 listings. When Creditbank issued equity this year, the offering was oversubscribed, which has given the authorities grounds to believe that there is untapped investor demand.

The market has been strong this year, which will not have displeased the powers-that-be. However, there are not too many Greek companies of Creditbank's calibre, and the tra-

ditional family-owned business will need to see a clear advantage in giving up privacy and possibly control. Some of the banks guessed that a corporate bond market would probably develop before equities caught light.

The abiding impression is of a financial arena that is beginning to awaken, ready to stimulate the economy as and when potential users are able and willing to step in and take their place eventually on the European financial stage. The pieces are being assembled slowly, behind veils that are gradually being parted.

"It's easy to write off Greece," said Clements, who has worked in 13 countries for Barclays, "but the country deserves more persistence and patience. It will come through in the end. The Mediterranean temperament is different. People work and respond in a different way from cold, efficient northern Europeans. The Greeks respond to a challenge."

That challenge is already upon them, and the speed of their response will be a vital factor in meeting the 1992 deadline.

WK

Bank of Greece made moves to reform the system before Karatzas



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CENTRAL BANKER IN BULLISH FORM



The government's programme to stabilise the economy and restructure the banking system has been largely successful. *Euromoney* asked Dimitris Chalikias, governor of the Bank of Greece, about it.

What is your assessment of the stabilisation programme so far: Are the external and domestic economic imbalances being reduced?

We have clear evidence that the objectives set were achieved last year. Inflation declined from 25% in 1985 to 17%. The current account deficit was reduced from \$3.3 billion to \$1.7 billion. There has also been considerable progress in reducing the PSBR and in tightening monetary policy — reflected in the considerable deceleration of monetary and credit aggregates. M3, for example, declined from about 27% in 1985 to less than 20% last year. Domestic credit expansion also declined very substantially from 26% in 1985 to 18.5% last year.

Your targets for this year were that inflation should come down to 10%, and the current account deficit to \$1.25 billion. Are these targets realistic?

I think the inflation target was ambitious, especially if you take into account that we introduced value-added tax this year. That contributed at least two or three percentage points to inflation. But I expect that the decline in the inflation rate will continue. We are not likely, though, to achieve the 10% target.

As regards the current account deficit, in the first four months of the year it was \$1.2 billion. But, for

Chalikias favours an expansion of foreign bank activity in Greece

seasonal reasons, the deficit is always bigger during the winter months. I do think that for the whole of 1987 it will certainly be a bit higher than the government's target, but according to our estimates it will not exceed \$1.5 billion, about two-thirds of which will be financed by net private capital inflows. These originate largely from Greeks living abroad and are not debt-financing.

The government has said that from the beginning of next year, it is going to ease up on the stabilisation programme. How far do you think it will loosen controls it has imposed, and what effect will that have on the economy?

The stabilisation programme covered only 1986 and 1987. Certainly, there will be a relaxation in incomes policy next year and more reliance on free collective bargaining. But clearly the government realises we have to continue with sound financial policies, so there will be more reliance on fiscal and monetary measures.

How much effect has the programme had on restructuring industry and the economy? In your report for 1986, one of the points you made most strongly was that the economy needed much more fundamental restructuring. Do you think the government's programme can achieve that?

Yes. There were very favourable developments last year, when private firms' profitability increased considerably, and the evidence is that profit rates will continue to be high this year. Until now, that did not have much effect on business investment, but if profits remain high there will be a response from private investors.

The government has also proceeded with certain structural reforms, eliminating many price controls, for example. The labour market is much more flexible. But the main factor is that, with Greece's accession to the EC and the gradual elimination of protective measures, private firms have been exposed to market pressures. Some of the largest firms face difficulties because of that, but there are also many firms — especially medium-sized ones — that are efficient, export-orientated, profitable

and expanding very fast.

Your policy on overseas borrowing seems to have changed over the past two years. Bankers say that your two major syndicated loans in the Euro-markets were at a very generous price. In particular, the \$375 million loan in May 1986 was increased from \$300 million because of its generous terms. Has there been a fundamental change in strategy?

The terms are the terms of the market. They were the proper terms for financing our balance of payments. In 1985, the deficit was very large, and we borrowed heavily abroad. Since last year, the situation has improved, and net borrowing has been cut substantially. So the terms have improved too, as is reflected in our loan in May this year. Our foreign-borrowing objective is to reduce gross borrowing eventually to the amount of amortisation payments — in other words to stabilise our foreign debt.

Your 1987 overseas borrowing requirement is \$1.6 billion. How much more do you intend to borrow?

Including the EC loan, we had already borrowed about \$2 billion by the end of June. And we plan to borrow more in the second half of the year, because we want to prepay some loans and strengthen our foreign exchange reserves.

Are there plans to make the bank, which is a joint stock company, 60%-owned by the government and state entities, a completely state-owned bank?

No. We are one of the few central banks in the world with private shareholders. Personally, I am satisfied with the present status.

How independent are you from the government in, for example, the formulation and conduct of monetary policy?

I doubt whether it's proper for a central banker to talk about independence. But I think that we do have a high degree of independence in the formulation and the conduct of monetary policy. Until 1982, when the currency committee, a governmental body responsible for monetary and

foreign exchange policy, was abolished, the bank's autonomy was very limited, and political considerations weighed heavily.

But under legislation enacted in 1982, the bank acquired extensive authority. Indeed, few central banks have so wide an authority. The present prime minister is in favour of an independent central bank, for the sake of checks and balances.

Over the past two or three years, the bank has been gradually dismantling some of its controls over the finance sector, and in February this year a government-appointed committee proposed some wide-ranging liberalisation measures. How significant are they?

From the 1950s to the early 1980s, we had an extremely complex system of credit control, combined with a great variety of interest rates set, usually, at levels lower than inflation. In 1981, for example, the inflation rate was 25%, and lending rates varied from 4% to 21.5% — quite unbelievable. During the past few years, we have gradually raised and unified interest rates and given the banks freedom to select their loans and manage their portfolios by eliminating many of the credit controls and regulations.

The Bank's participation in financing the state sector and specialised credit institutions has also been reduced. In 1981, it financed more than half the PSBR. In the past two years, that has been reduced to about 10%.

The bank is in broad agreement with the committee's findings and proposals, especially a further liberalisation of the banking system and interest rates, and the development of an efficient money market.

At the end of June, the bank took a number of important steps in that direction. We set a minimum interest rate of 21% on all loans for which previously maximum interest rates of 20% to 21.5% had applied — representing about 55% of total commercial bank lending to the private sector. In addition, commercial banks and specialised credit institutions were allowed to issue certificates of deposit, with maturities of between 3 and 18 months and interest rates determined by the market. Since February, com-

GREECE

mercial banks have been able to accept short-term deposits — between seven days and three months — at negotiable interest rates.

Is the ultimate aim to dismantle all interest-rate controls?

Yes, certainly.

How many years do you think that will take?

Not many. After the measures we have taken recently, the liberalisation process will accelerate, and most direct controls will be eliminated within the next two years.

How will the increase in interest rates affect industry?

One reason for liberalising only gradually is that we wanted to minimise possible adverse affects on private firms. For decades, interest rates for industry were too low. The result was that companies overborrowed from the banks, and their capital structure — the ratio of debt to equity — was unfavourable. Now, especially after the liberalisation of short-term rates and the deceleration of inflation, real interest rates have increased to quite high levels.

If you liberalise interest rates, banks can vary the interest they charge from one firm to another on banking criteria, with a prime rate for the good enterprises and so on. On the whole, the bank wants to maintain high real interest rates, at levels consistent with those abroad. We're a small, open economy, and that is the only way to allocate resources efficiently and protect our balance of payments.

What measures are being taken to attract foreign banks? At present, they complain they have difficulty obtaining drachma funds.

Nineteen foreign banks now operate in Greece. They are allowed freely to repatriate profits and they can obtain drachma funds through swap agreements and in the interbank market. We definitely favour an expansion of their activities in Greece.

You have plans to develop money and capital markets mainly for government and public-sector financing. Do

you hope also that they will develop to include, for example, a corporate bond market or a corporate CP market?

We are not looking to only the public sector. We need capital markets also to allow private firms to diversify their sources of finance. Efficient corporations will be able to borrow at a lower cost. But at present, it is the government that can borrow large amounts to develop the markets. Of course, it is also very important to develop a secondary market.

Do you think the foreign banks have an important role to play?

Yes. Their share might be only 10% of the total business, but their contribution would be much more than that share might indicate. They already play a necessary role in introducing financial innovations.

In other countries, the securitisation of debt has in some ways hurt the banks, because their largest, most reliable corporate clients have gone to the bond market rather than take direct bank debt. Do you think that is a worry in Greece as well?

The banks have, more or less, a monopoly of private savings and they would like that situation to continue. But I do not think that is in the interest of the economy or the banking system. So we are taking steps to encourage private firms to go to the market.

How important is the stock market?

Not very. There are not many very large corporations, and most are family-controlled. As long as they could borrow from the banks at low interest rates, they were reluctant to go to the market. But the situation is changing, because competition is changing. Some private banks have been to the market this year to raise share capital because they want to expand fast.

New share issues by private enterprises have been limited in recent years, but as the restructuring of the manufacturing sector proceeds, and bank rates are raised, more companies will be interested in going to the market. Moreover, some ailing firms have been taken over by the government. After their rehabilitation, the government plans to sell them.

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MOVING INTO EUROPE

INTERAMERICAN has jumped the starting gun on many Greek firms seeking full integration with the European Economic Community by 1992 by concluding a joint venture deal with French-owned Union Des Assurances De Paris, which last year posted a turnover of Fr38.8 billion.

The deal, which was concluded in July, gives UAP, which is the second biggest investor in France after the government, a 40% minority stake in INTERAMERICAN.

According to INTERAMERICAN's president, Mr Dimitri Contominas, "This joint venture will triple our capital base, and will integrate us in a network operating in 60 countries, allowing us to branch out into other financial services related to insurance."

Contominas, who was one of the pioneers of the life insurance market in Greece and is also chairman of the European Committee of Life Insurance Marketing Research Association (LIMRA), says INTERAMERICAN's headquarters in Athens will become the strategic centre for the company's expansion plans which call for investments in financial services and technology which will further Greece's export capabilities.

INTERNATIONAL PROGRAMME

As part of its overall expansion plans into Europe, INTERAMERICAN has also created an affiliate company in London called Interlife, which is another joint venture with two other insurance giants, Aachener Und Muenchener of Germany and Trygg-Hansa of Sweden.

INTERAMERICAN's international activities began in 1983 when it opened an office in Cyprus. Two years later, it established INTERAMERICAN INTERNATIONAL in Bermuda.

INTERAMERICAN was established in 1971 and, following an unprecedented growth pattern, has remained Greece's leading life insurance firm for the past 10 years.

Accompanying the spectacular growth in life sales, the company has been increasingly generating a profit every year since 1973 by almost doubling the volume of premium income each year.

In 1986, INTERAMERICAN, with revenues of Dr6.3 billion, accounted for 41% of the total life premium income of the 34 Greek life insurance companies and approximately 33% of the total market share, including foreign firms operating in the country.

INTERAMERICAN operates a branch network in Greece consisting of 180 outlets with a sales force of 3,000. Its affiliate, Intertrust SA, also commands a leading position in the property and casualty insurance market.



One out of three Greeks is currently insured by INTERAMERICAN, and according to a recent opinion poll, spontaneous public awareness of the company, INTERAMERICAN has reached a staggering 82%, making it one of the best-known corporate identities in the country.

As with insurance, INTERAMERICAN is in the forefront of the Greek technology scene. Its self-developed Micronica programme currently ranks number one among all IBM dealers in the micro-computer office automation sector, and the company is also the exclusive distributor of Panasonic products in Greece.

INTERAMERICAN, Interamerican Tower, 350 Syngrou Avenue, GR-17680 Kalithea, Greece. Tel: (301) 942-1222. Telex: 21.46.85 LIFE-GR.





INVESTMENT MAY WIN VOTES

Industry has been in the red four years running, but the government's recovery programme could still leave it uncompetitive in overseas markets.

Prime Minister Andreas Papandreou turned up at the annual general meeting of the Federation of Greek Industries (FGI) this spring for the first time in five years. He told the assembled businessmen that his government had shown political courage in imposing its two-year austerity programme. Now, he said, it was up to the entrepreneurs to make the investments necessary to get the Greek economy on the move again. It was indicative of a new attitude adopted by the leadership of the Panhellenic Social Movement (Pasok) govern-

ment, as it seeks to cajole the business community into new ventures that might restore growth before the next elections, by 1989.

Industrialists, however, remain tentative. "We are heading for an improvement of the economy in absolute terms," says FGI president Theodore Papalexopoulos. "It's not very hefty — not sufficiently convincing to lead all prospective investors to start investing — but an improvement. We are going to see a number of policy moves in the right direction, but I am afraid that a lot of it is going to be too little, too late."

Two factors mitigate against private industrial investments — poor profitability and lack of security. The average rate of return on own capital for companies in profit in recent years has been about 5–7%. Investments in treasury bills to finance the public sector deficit yield more than 17% net of tax. The incentive to invest is just not there.

Uncertainty about how the government might act at any given moment is a major disincentive. Most worrying

Private investment will be the bricks of a new Greek economy.



was the decision earlier this year to nationalise North Aegean Petroleum Company, ostensibly on grounds of national security because of the dispute with Turkey over seabed rights in the Aegean. NAPC's contracts were covered by special legislation, and it believed that its \$750 million investment was protected by constitutional provisions guaranteeing foreign capital from expropriation, except in time of war.

The Minister of Energy Anastassios Peponis claimed, however, that another clause of the constitution superseded this provision, and he brought forward new legislation allowing the Public Petroleum Corporation to take a majority holding, at a court-fixed rate if negotiations failed to agree a price for the shares. At the time of writing, the issue was still being contested. Peponis insisted that the action against NAPC was a "unique and exclusive case, governed entirely by peculiar, national circumstances . . . Our policy towards investment remains unaltered."

This policy aims to promote private industrial investments through a series of economic liberalisation measures designed to promote business profitability. In the abstract, it looks good, although businessmen argue that the policy has been long evolving.

Industry's problems are structural.



Theodore Papalexopoulos: "We are heading for an improvement . . ."

By European standards Greek industry is small and focuses on family concerns. The 1980 census showed 128,109 establishments of which 88% employed fewer than 10 people. Those with more than 50 staff comprised only 2% of the total. Both large and small firms were undercapitalised and relied heavily on bank loans. It was only medium-size firms with capitalisation in the range of Dr100-500 million that tended to have a reasonable debt-to-equity ratio.

FGI's latest annual survey of its 3,166

member companies showed losses for 1985 totalling Dr30.8 billion with a negative return on own capital of 11.7%. It was the fourth consecutive year that industry had been in the red and contrasted sharply with the situation in most other OECD countries where net profits had recovered in some cases to levels exceeding those attained before the oil crisis. In 1985, 10 out of the 19 Greek industrial sectors recorded losses, with traditional industries such as beverages, textiles, wood, paper, non-metallic minerals and transport equipment (including ships) recording the most substantial falls. The ratio of own to total capital among firms surveyed by SEB slumped to 12.5% compared to 15.6% in 1984, pulled down by loss-making companies which actually moved into negative ratios -2.6% compared to par in 1984 and 13.5% in 1983.

When the Pasok government, first came to office in 1981, it was confronted with some 300 substantial firms hovering on the brink of bankruptcy and a banking system carrying hundreds of millions of drachmas of non-performing debt. In 1983, it formed the Organisation for the Reconstruction of Enterprises (OAE) which took over management of the 44 worst-hit companies with total liabilities of Dr230.5 billion. Debts were suspended, and debtor companies were given cash injections,





BEBELAC BREAKS NEW GROUND

Bebelac Hellas SA, the leading baby-food manufacturer in Greece, is taking an important step toward full European market integration in 1992 by exporting products to the UK and Germany.

Bebelac Hellas SA, part of the Petrou group of companies, set up Bebelac UK Co Ltd in February 1987 to export Bebelac Hellas SA babyfood and dietetic products to the UK and Commonwealth. Beblac Deutschland GmbH, founded in May, targets West German and Northern European markets.

"Bebelac Hellas SA invests 620 million drs to expand and modernise the company," said company director, Thymios D Petrou. Under his direction, exports rose from 180 million drs in 1983 to 265 million drs in 1985 — 1986 shows a projected level of 300 million drs.

"The Greek population now accepts Bebelac Hellas SA products over imported goods," said Petrou. "We achieved substitution targets of 281 million drs in 1981 and we project 860 million drs in 1986."

The enterprising Petrou, aged 56, heads five companies. Bebelac Co Ltd, the original corporation, takes its name from a Greek-Dutch co-operation of 1966.

In 1983, Petrou who was company administrator since 1968, took over complete control of Bebelac Ltd, and Bebelac Hellas SA, the group's manufacturing and export arm. Last year Bebelac Co Ltd achieved a turnover of 1,182.4 million drs with Bebelac Hellas SA reaching Dr 837 million.

Bebelac's involvement with the medical profession created AMI SA, a leading supplier of sophisticated medical equipment and tools. BIK Co Ltd complements AMI SA's function and manufactures electro-equipment. Petrou's fifth company, 3PM Co Ltd operates as an independent, full-service advertising agency.

Bebelac Hellas SA's variety of babyfoods dominates the field. The range of 24 products is approved by the American Academy of Pediatrics and it conforms to European Common Market Standards. The infant food includes milk-based products, cereals and fruits and nutritional boosters (instant drinks), while the desserts range includes jellies, puddings and cream caramel.

On March 30 1987, Prime Minister Andreas Papandreou gave Bebelac Hellas SA the Hellenic Chamber of Commerce and Industry award for excellent export performance.



Freedom of action vital — Petrou.

Upon winning the award, Petrou turned to the prime minister and said: "I would like you to give me something more precious: Freedom, Freedom of Action and Creation. It is only with this that we Greek businessmen can win a large share of the world-wide economic field. It is only with

this that we Greek businessmen can bring about the upturn of our country's economy." In this respect Bebelac has certainly set an example for others to follow.

The company exports products to 27 countries in Europe, Africa and the Middle East. Recently Bebelac opened new markets in the People's Republic of China. "High standard will continue when Bebelac products arrive in the UK, Germany and Northern Europe," Petrou said.

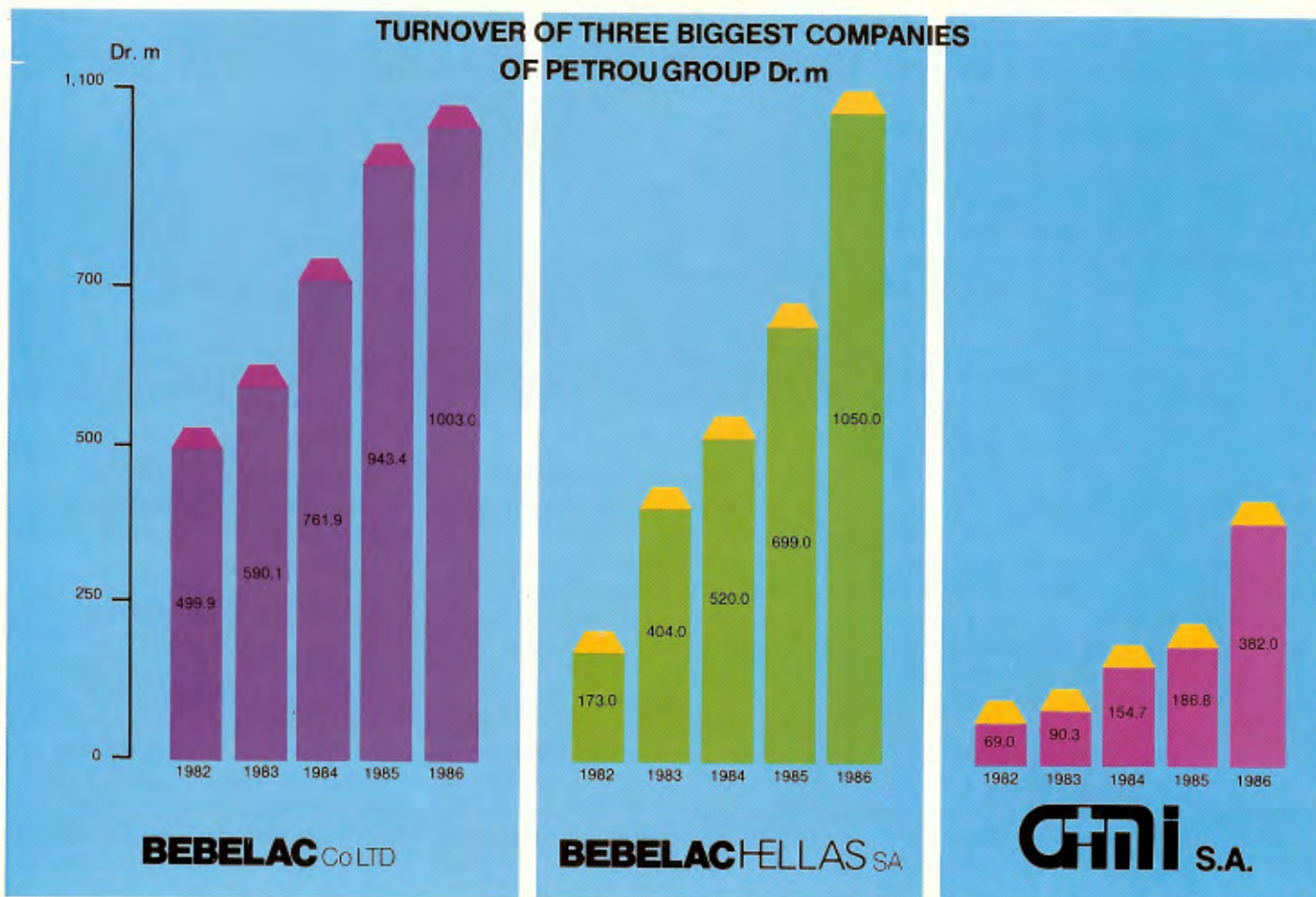
"Bebelac Hellas SA anticipates new installations, technology, products, job vacancies and exports. Company production will increase from 3,000 to 8,500 tons of final product. We will diversify food products from powder to liquid and granule form.

"We aim for increased volume and to process at a percentage higher than 85% of primary or secondary form Greek agricultural products, such as wheat and barley flour, sugar, rice, honey, apples, oranges and pears. We also plan to produce foods using hazelnuts, pistachios and almonds, which strengthen nutritional value."

New investment by Bebelac Hellas SA will create 90 jobs for labourers, managerial and technical staff. Bebelac's exports expect to rise in five years to 30 million dollars with a currency benefit from import substitution of 25 million dollars.

Dominating the baby food market





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while their management and finances were restructured. Debts were subsequently capitalised with OAE taking a majority and the debtor banks a minority shareholding. Following viability studies, 21 firms employing 3,800 people are to be wound up. The remaining 23, employing 27,000, have been declared capable of continuing operations, and the government has indicated that it intends returning them to private ownership. So far, private investors have shown no interest, and there is a rearguard action within the socialist camp to maintain the "viable" companies within OAE as the basis of a state-holding company. OAE has been in chaos for much of 1987, with its budget halved and senior personnel resigning. Meanwhile, the total liabilities of the 44 firms have climbed to Dr349.6 billion.

In its second term, Pasok has opted for a more traditionally capitalist solution, designed to promote new investment through improved profitability. The austerity programme wage squeeze cut real earnings in 1986 by 8% and will reduce them a further 3-4% this year, thus cutting the rate of increase in the unit labour cost of manufacturing from 23.25% in 1984 to around 13.5% in 1986. Coincidentally the government has lifted virtually all price regulations and instead introduced sectorially negotiated gentlemen's agreements, designed to produce a reasonable return for industry while not overheating inflation. Industry has welcomed the development, while expressing concern that the scheme has been backed by stricter legislation which makes it easier, if voluntary agreement cannot be



reached, to enforce price restraint.

The result has been substantial profits for a wide range of firms. The Bank of Greece, which annually surveys 420 of the largest companies, found returns for the first third of those reporting in 1986 showed profits up 57% over 1985. FGI figures, based on the returns of about half its members, suggest the average rate of return on own capital could nearly double for those companies in profit, rising to around 9-12%. The picture is expected to be comparable this year. Both the central bank and FGI note, however, that it is the profitable companies which report

An aluminium plant and a pharmaceutical laboratory: greater flexibility to maximise production is to be encouraged.

first, and the federation anticipates that when the final figures are in, results overall will continue to be negative.

The short-term effect has been to provide firms with operating surpluses which many are using to refurbish plant — what one businessman described as "survival" investments. A survey conducted in July by the FGI-affiliated Institute of Economic and Industrial Research showed industrial firms pro-

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Traditional industries, like paper, have suffered severe losses in recent years.

dictated wage rises on a graduated scale that benefit the poorest paid most. The rate has been based on a prediction of behaviour of the consumer price index over the succeeding four months, less a sum calculated to represent imported inflation. FGI welcomes the idea of productivity but feels that whatever mechanism is to be employed should have been announced early on, in order to allow orderly negotiations with the unions, many of which oppose the concept.

Larger companies are pushing for a true stock option for their executives. The government has passed a law (still requiring ministerial decisions for implementation), which requires that, if shares are distributed, all employees must receive a basic amount and none can receive three times more than that minimum. "It has nothing to do with options," said one company chairman. "What they are saying simply is 'distribute shares', but I could just as well pay money."

Since 1982, the government has operated an industrial incentive scheme providing state grants for industries prepared to establish themselves outside the capital. The country is divided into zones and grants, which range from 10 to 50% depending on the region. For investments up to Dr1.2 billion the aid takes the form of a tax-free cash grant, while for investments of Dr1.2 billion–Dr1.5 billion, that part of government aid relating to the excess over Dr1.2 billion is half cash grant and half equity participation by the Hellenic Industrial Development Bank. For investments over Dr1.5 billion the portion of the subsidy relating to the excess over Dr1.5 billion is all by way of equity participation. The investor can opt not to accept the equity participation, and the investment is treated as though it were only of Dr1.2 billion. There are also interest rate subsidies, and reserve and depreciation allowances for tax purposes. Up until the end of last year, 7,351 projects had been approved for subsidy worth Dr305.6 billion, although only 30% were completed or under way. Under-secretary for National Economy Theodore Karatzas says such global analysis distorts the true

jecting 25% more investments by volume than last year — 57.8% more if investments made in 1986 by one large public sector industry are removed from last year's figures.

Nevertheless, FGI complains that the monetary policy, which allocates 75% of new bank credits to the public sector this year, is strangling investment prospects. The Bank of Greece decision to eliminate the 10% allocation of commercial bank lending for long-term investments, while increasing by 2.5% to 10.5% the amount which must be made available to public organisations and enterprises (DEKOs), is seen as another twist of the garrotte.

Bankers, however, expect that at least a portion of the funds freed will now be available for working capital, provided industry is prepared to pay the price — currently around 23% with bank commission, a relatively modest real rate so long as inflation remains high. The Bank of Greece stresses that the ending of the import deposit scheme, which formed part of the balance of payments adjustment policy, will free a further Dr86 billion for business this year. The government points out that one of the fundamental intentions of its policy is to squeeze out excessive indebtedness and to get

healthy growth based on reinvestment of profits and new entrepreneurial capital. To promote growth it is introducing policies that include tax breaks, liberalisation of labour laws and enhancement of investment incentive schemes.

Tax rates on undistributed profits are being reduced by 5% in anticipation of the difference being ploughed back into productive investments, and no tax is to be chargeable on profits distributed to employees. A bill is pending that would allow revaluation without taxation of undepreciated assets, provided that an equivalent sum was reinvested in the business within the next four years.

A bill scheduled to go through the summer session of parliament provided for flexibility in working hours to allow for greater use of equipment and seasonal employment at peak periods of production. Firms report a relaxation in practice, though not in law, of rules limiting layoffs to five a month for firms with 20–50 employees and to 2–3%, to a maximum of 30, for larger companies.

Wages policy for 1988 is to be based on productivity, though FGI is greatly concerned about how controls will be ended and the return to free collective bargaining effected. During the austerity programme the government has

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picture. He notes that 90.6% of all the 1982 approvals have been realised, compared to only 6% of 1986 approvals and that a number of the larger approvals have gone ahead without the grant element being taken up.

One problem has been the long gestation period for industrial investments, on average 18 months between approval and start up of construction. To speed up the process the ministry now requires investors to have a bank feasibility study done coincidentally with the submission to the ministry. "We think that this will expedite not only the approval but the procedure for implementation of investments, and it will drastically reduce the discrepancies between the assessments that the ministry makes and the assessment of the banks as to the viability of a project and its eligibility for financing," says Karatzas.

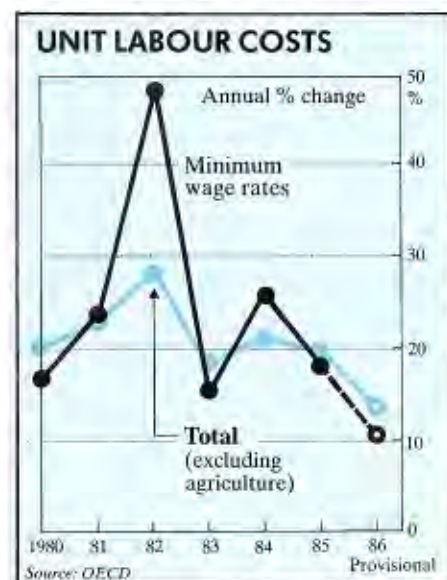
He suggests there have been too many instances of entrepreneurs adopting the attitude "let's get a permit and then we will see". Projects that are completed within the time frame foreseen in their approval will get a top-up grant of 5%, and if the scheme is deemed to make a particular contribution to integrated development in the area in which it is located, there will be another 3% on top of that. A further provision allows the Dr1.2 billion to apply to each "productive procedure" within an enterprise, although how this will be applied is still a matter for interpretation, says Karatzas.

The Law 1262 incentive programme has been dovetailed with the EEC's integrated Mediterranean programmes, which should eventually provide Ecu2 billion in subsidies to Greek development projects. The arrangement is that the Community will meet up to 70% of grants, which the Greek government pays to private investors. (Thus if the state is affording grant up to 50%, the Community will meet 70% of that or 35 per cent of the total project cost.) There are six regional IMPs totalling Dr570.4 billion, with private investments so far approved accounting for an average of 12.5%. The government has extended until the end of this year applications for private investments to qualify for IMPs — partly at the request of SEB and partly under pressure from the Commission. The Ministry of National Economy has said that any proposal



which it approves but which does not get the blessing of Brussels will still qualify for subsidy under Law 1262.

Since the early 1950s export companies have been able to deduct 3% of gross profits from exports from taxable net profits. They have also qualified for certain exemptions from turnover tax and other benefits. More recently subsidies were made available to compensate for the effects of indirect taxes and the cost of credit. With the introduction of value added tax the subsidies on indirect taxes are to be phased out between now and the end of the decade, and the European Commission has ordered a stop to the rebates on the cost of credit.



Small firms are still limited to a maximum of five layoffs a month.

To compensate, the government has proposed a package of more traditional export promotion measures including improvements in trade risk insurance, simplification of export credit guarantee procedures, quality controls and permanent product exhibition centres. It has also proposed to set up special export trading companies to be led by private interests but with state participation.

These would take bulk orders abroad and distribute them to small and medium-size domestic manufacturers. They would serve as intermediaries for credit and co-ordinate transport and export insurance seeking bulk discounts. Exporters say none of the measures has yet materialised, and they are tentative about the trading companies for fear they might involve more government intervention. State trading companies set up during the socialists' first term have proved ineffective.

Taken together the measure should eventually generate new investments. The question is whether they can generate enough growth before the next poll to offset the political cost to the socialists of the austerity measures. As he left the FGI annual assembly the Prime Minister was overheard to comment to President Papalexopoulos, "We're on the same wavelength".

Grudgingly Papalexopoulos concurs. "I wouldn't be happy leaving a negative impression, because it wouldn't be giving fair treatment to those in government who are trying to turn the ship around. The Minister of Commerce has tried hard and the Minister of National Economy is doing an excellent job of being brave. I'm not sure he has been very successful in leading us to recovery, but he is sticking to his guns as far as the stabilisation programme . . . I would say that generally speaking, we are heading for an improvement of the economy in absolute terms . . . The real question is not whether we are doing better in absolute figures. The question is 'are we doing better than our competitors?' I would suggest that we are not and that the competitiveness gap is widening. We need to pull up our socks and do better."

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SHIPPING IN THE DOLDRUMS

Greek shipowners hope that an appropriate mix of government help and traditional seafarers' optimism will restore their fleet to its former glory.

There is a feeling of euphoria which started earlier this year with a much better market. Now it has dropped again . . . but it always drops in summer.

Like all Hellenes associated with the sea — from Odysseus to the golden Greeks of the 1960s — John B. Goulandris, 66-year-old vice president of the Union of Greek Shipowners is, fundamentally, an optimist.

Facts may not entirely justify his being upbeat at the moment, but the sense that there must be something exciting just over the horizon has, down the centuries, drawn Greek mariners to every sea and inspired Greek shipowners to create one of the world's great fleets. On a tonnage basis, it used to be second only to Liberia, a flag-of-convenience state. Now it is fourth, trailing behind Panama and Japan as well.

But it is still the largest in the European Community, and if the right mix of new building and breaking can be maintained, it could become more viable by the end of the decade.

Indeed, one industry spokesman has pointed out that the tanker market "moved up considerably" in the past year with rates, from the Gulf to Western ports, for very large crude carriers (VLCCs) in the 250,000-300,000 ton-range, of Worldscale 60-70 (\$12-\$14 a ton). That has spilled over into "very healthy rates" for smaller tankers, in the 130,000-150,000-ton range, of around Worldscale 100 (\$20 a ton).

The dry bulk cargo market has also

improved in the past four months, with rates for a 60,000-ton vessel moving up from \$5,000-\$6,000 a day to \$8,000-\$10,000 a day, largely due to increased movements of grain.

Because of the country's extensive archipelago, seafaring has always played a part in Greek life. Internationally, the Greeks earned a reputation by tramping with small vessels. It was a hard, but profitable business, providing vital foreign exchange for the Greek economy both in shipping receipts and seamen's remittances.

During the Second World War, nearly 80% of the fleet was lost, but the US compensated Greek owners by allowing them to buy surplus ships at bargain prices. Tonnage quickly surpassed pre-war levels.

The 1950s and 1960s were years of expansion and soaring profits. The names of Onassis, Niarchos, Livanos and Colocotronis conjured up visions of vast, ostentatious wealth.

In 1967 and 1968, the colonels' junta passed legislation allowing shipowners to operate from Piraeus as offshore companies. As a result, in the two decades to 1980, the fleet nearly quadrupled, from 1,043 vessels of 5.4 million gross registered tons (grt) in 1960 to 3,920 of 42.7 million grt in 1981. Nearly three-quarters flew the Greek flag.

But the slump after the 1979 oil price shock, and the general downturn in world trade, drove shipping into the doldrums. Alert owners divested themselves of their vessels and ploughed the cash into property, stocks and industrial investments ashore. Those who did not get out in time saw their operations becalmed.

In 1983, before a programme of breaking got under way (laid-up tonnage fell from 11.8 million grt in 1983 to 2.8 million grt last year), the huge number of vessels anchored in the Bay of Eleusis suggested that some mad architect was trying to build a bridge of Salamis with the rusting hulks. By June 1987, the fleet had shrunk to

2,091 vessels of only 23.8 million grt.

Squeezed profits meant a flight from the Greek flag. A move to an open register can produce operational savings of \$400 a day for an average vessel. Asian and Oriental crews readily accept wages well below those

that Greek seamen are prepared to consider now that the country has graduated into the EC.

It is estimated unofficially that there are some 1,700 Greek-owned ships operating under foreign flags, and that most of these are larger ocean-going

vessels, whereas the domestic fleet has a high proportion of smaller ships plying local waters.

Shipping receipts halved from \$1,816 million in 1980 to \$988 million last year, which was one of the factors that contributed to the soaring current account deficit which in 1985 forced Greece to turn to the EEC for an Ecu1.75 billion balance-of-payments assistance loan.

The Minister of Merchant Marine, Stathis Alexandris, procrastinated. Finally, last November, he announced a reduction in manning levels of up to three men per vessel, depending on the degree of automation on board, plus an increase from 30% to 40% in the number of crew that could be engaged from other countries and paid at their home rate.

Despite these measures, two million tons more were shed from the register in the subsequent six months. But at least the contraction rate has slowed. Between December 1985 and June 1986, there were 223 deletions of vessels over 1,500 tons and only 49 registrations. Between December 1986 and June 1987 there were 194 deletions and 75 registrations.

"I think the ministry believed there would be a rush to return," said Goulandris. "But it is a slow process. Vessels that have flagged out, that have gone to the cost of registering under new countries, changing all their mortgages to the regulations of the new country, cannot come back very quickly.

"What surely has happened is that the exodus has been very much reduced and, with time and with a full restoration of confidence, there will be a process of coming back. Because, despite the loss of tonnage, the infrastructure of the Greek merchant navy remains and it would be a great pity if, by further losses, that is damaged."

Shipowners are tentative about the Panhellenic Socialist Movement (Pasok) government. The merchant marine ministry has been in turmoil under its administration. There have been six heads of the Harbour Corps in as many years, and twice the minis-



A cargo ship goes through the Corinth Canal, which links Piraeus with western Greece.

GREECE

try has nearly been amalgamated in other portfolios.

Owners are concerned also about the recent mood of militancy of the Panhellenic Seamen's Federation (PNO). During a strike at the end of last year, ships were picketed as they docked around the world. It was felt to have seriously damaged efforts at projecting an image of Greek reliability.

The strike action was in protest against the new crewing measures and against a government-enforced settlement of an 11-month-old wage dispute. It went ahead despite the fact that the government had breached its own austerity-programme pay guidelines by setting the award of 7% for January–October 1986 plus 15% to the end of this year, for those on the lowest scale of under Dr50,000 a month. Increases were slightly less for those on higher rates.

Shipowners complain that PNO strike votes are dominated by members ashore and inshore seamen, such as tug boat crews, while sailors actually working on the high seas do not get a chance to vote although they are

most affected by the outcome.

The UGS is demanding legislation to enforce a secret ballot before any strike action. It believes the three months it would take to collect votes from around the world could provide a suitable cooling-off period.

But PNO secretary general Michael Zenzefyllis sees the problem as more than one of pay. Rather, it is a matter of survival, as new technology wipes out many specialist classifications, leaving only unskilled jobs that can be filled by unqualified seamen from Third World countries.

"They [seamen] are fighting to save their jobs," he said in a recently published interview. "In a socially developed country, there would be other places to put these people. The government must consider these things. As things are going, they will have to deal with the whole lot instead of just a few."

One government measure that insisted on rotation of crews every six months has been abandoned as too costly. But the November package did insist that seafarers must take accumu-

lated leave and not pile up payments-in-lieu. This may help to spread the work available.

Problems are compounded by the fact that the Seamen's Pension Fund (NAT) is technically bankrupt and able to meet its obligations only by borrowing from the state at crippling rates of interest. NAT has been a victim of the fleet's shrinkage. Its 1987 budget, for example, was predicated on contributions from crew on 1,800 ocean-going vessels, while in fact NAT covers only some 1,600 vessels, including 260 flying foreign flags (in 1981 there were 457 such vessels). The shortfalls have cost the fund some \$390 million over the past five years.

Exchange controls on the foreign currency-based fund have exacerbated the problem. In the past two years, NAT has been forced to borrow from the state \$163 million at 18.5% — effectively loans that cannot be repaid. But as its income declines, its obligations increase.

Piraeus looks as crowded as ever, despite the terrorist threat.



THE GREEK WORD FOR LUXURY...

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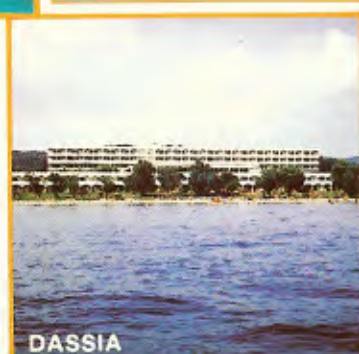


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GREECE

The fleet contraction has increased the number of pensioners from 28,000 in the mid-1970s to 45,000 today, while the number of contributors has declined from 80,000 to 42,000. Successive governments have incorporated in the fund Greeks returning to the homeland, requiring pensions, without having made any contributions. The cost to NAT of subsidising government "social security policy" in this way is claimed to run into billions of drachmas.

The government announced recently that such individuals will in future be covered by the state fund IKA — itself deeply in the red — but the seamen want reimbursement of the huge sums paid so far. Meanwhile seafaring pensioners wonder each month if their cheques will arrive on time — or at all.

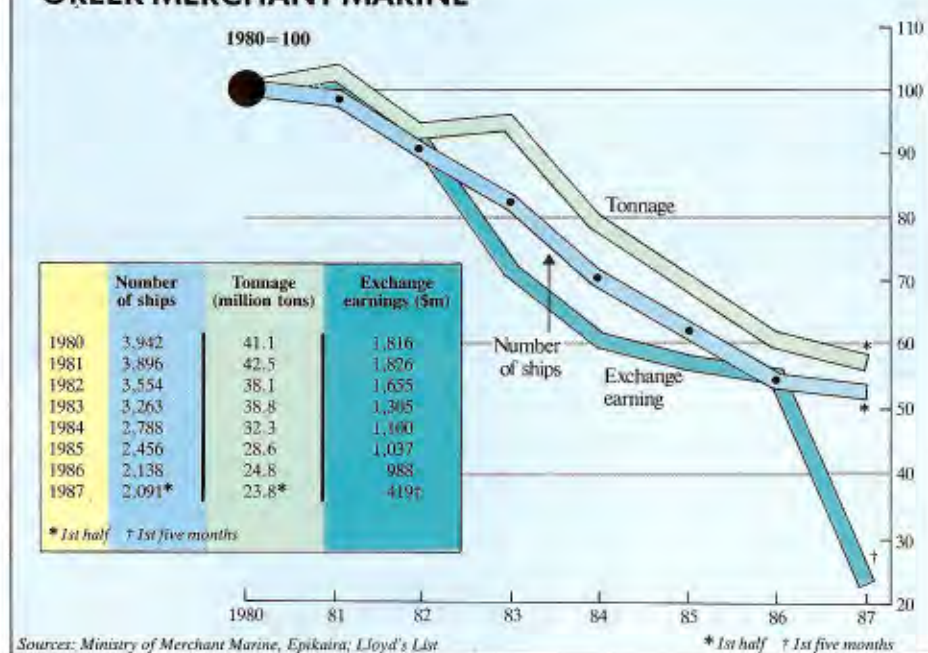
In May 1987, parliament ratified contribution increases that had been set unilaterally by Alexandris a year earlier. Owners' contributions were increased by 3% to 14%, a 27% rise; crew contributions were increased by 1% to 9%, roughly half the owners' rate of increase. The UGS believes that this has effectively cancelled out the benefits from the new crewing measures and argues that it is a major disincentive to repatriating Greek vessels. It would rather see an increase in pension age from the present 50 to nearer 60, but Alexandris has declared himself against that.

Conservative opposition critic George Missailidis, a New Democracy MP from the shipping island of Chios, recently accused Alexandris of "adopting ill thought-out measures, completely harmful to the interests of shipping".

"The shipping crisis," retorted the minister, "is international. The reduction in the number of ships is not due to lack of trust, but to the removal from the register of over-age, non-competitive ships. At the same time, we have had new ships added with modern technological equipment, which shows that shipowners have not lost trust in the Greek register."

Cruise liner operators are still feeling the disastrous effects of the great American stay-at-home after the terrorist seizure of the *Achille Lauro*. New security arrangements have been

GREEK MERCHANT MARINE



installed aboard ships, and a specialist anti-terrorist squad has been trained to patrol Piraeus terminal. But it will take several years to rebuild the numbers, and at least one order for a \$100 million luxury cruise liner has been cancelled.

Ferry traffic is booming in line with an increase in trade with Europe and cheaper tourist traffic. Some 26 ro-ro vessels operate to Italian ports, and 10 new large vessels are planned. The inter-island ferries struggle against price controls on tickets and claim that they need to increase rates by 20% just to survive.

These operators fear that EC shipping policy will eliminate traditional coastal trade, and that large northern European firms will move in and skim off the cream from the best routes, leaving the ageing Greek fleet with the marginal stopping runs that have to be sustained for social reasons. On the other hand, the government has recently authorised commercial banks to get involved in financing the purchase of new ferries, and some fleet refurbishment is expected in the near future.

Most Greek vessels are owned and operated by one-ship companies, usually called Law 89 offshore companies. Law 89, first introduced in

1967 and extended to the shipping community in 1968 (under Law 378), allows firms trading internationally to establish a base in Greece for operations exclusively outside the country. There is no requirement to report to Greek authorities business done abroad, and no tax is payable in Greece.

In exchange, the companies must pay all local expenses and salaries in drachmas purchased with foreign currency, with a minimum payment of \$50,000 a year. At the end of 1986 there were about 600 such companies in the marine sector.

It is indicative of just how hard the industry has been hit that the foreign currency brought into the country by shipping-related companies has fallen during the past four years from \$1,013 million to \$542 million.

The government is considering a number of modifications to the offshore rules, including VAT exemption and the introduction of a special tax rate that might help firms to arrange their international commitments advantageously. There is also a possibility that Greek companies established under Greek law will be able to engage in offshore operations — something long sought by coastal operators.

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GREECE



Shipping companies do not pay corporation tax. Instead they pay a levy based on tonnage and age, which works out at roughly \$1 per grt, regardless of whether the vessel is profitable. Consideration is being given to changing the scale at which the tax is applied and perhaps giving a year or two's tax holiday for ships transferring to the Greek register.

Other inducements include no requirement for a fresh survey to obtain safety certification — the expiry date on the documentation of the previous registration would be recognised — and instructions to Harbour Corps officers to be more lenient about small deficiencies that do not affect safety and minor discrepancies in crewing arrangements.

"An effort is being made to ensure that the climate improves, particularly in the small problems of everyday functioning," said the Harbour Corps commander, Vice Admiral Christos Dounis. "The behaviour of the state has to become more friendly." He suggested, though, that further measures to attract vessels back to the flag had to be judged carefully. "You always have to balance the political aspect. For everything you give to the shipowners, you have to consider the seamen."

John Goulandris: "We are very proud to see a vessel flying a blue and white flag."

And the owners are a hardnosed lot, when it comes to business. "We have a passionate love for our country," said Goulandris. "We are very proud to see a vessel flying a blue and white flag and are not at all happy when circumstances force us to change."

But if profits are not there, business judgement is not clouded by sentiment. He was among the first to anticipate the effects of the Yom Kippur war and sold a substantial proportion of his fleet, investing the funds ashore and waiting for the climate to change. He agreed with a recent EC report that predicted a return to equilibrium in supply and demand some time between 1989 and 1991, with two main provisos that the rate of scrapping was not seriously diminished and that shipowners did not embark on new building.

"It depends to a great extent on loan positions," said Goulandris. "A company that owes nothing can break even or make a modest profit, but a company burdened with substantial debts finds itself in a practically impossible position."

RMCD



PUBLIC POWER CORPORATION

Public Power Corporation's (PPC) investment policy is essential to the Greek energy programme. Electricity represents 16.5% of the country's final energy consumption. The corporation seeks independence from external energy sources and plans to increase the share of domestic resources to 8.17% of the total capacity by 1991.

The company is the largest corporation in Greece with a labour force of 30,000. "PPC demonstrates continuous and rapid growth," says George Birdimiris, PPC chairman.

"PPC will invest US\$3.8 billion (at constant 1987 prices) over the next five years. Of this amount, power generating units will claim US\$1.5 billion, with US\$647 million for mining projects. The remainder will be spent on transmission and distribution facilities."

Current PPC investment emphasises power plant upgrading, increased automation and greater access to computers. It takes account of the need to advance local technology and long-term real cost.

PPC relies primarily on the development of major lignite mines to fuel substantial power stations. Thermal and hydro-power plants also transmit and distribute energy to residential, commercial, agricultural and industrial consumers.



Amyntalon thermal power station.



Kremaeta hydro.

"We need investment to sustain and surpass PPC growth rates," notes Mr Birdimiris. "From 1976 to 1986 there was a rise in annual turnover from US\$149.2 million to US\$1.6 billion. During this time, the annual electricity output went from 16.323 gWh to 26.913 gWh".

Effective growth depends on conserving non-renewable resources, fuel oil, in particular, and utilising geothermic potential. Lignite is the country's most abundant energy resource.

By the close of 1973, PPC-installed lignite and hydro capacity was 58.0% with oil at 42.0%. This year reliance on lignite and hydro units is up to 74.4%. At the same time, oil fired units are being conserved and fell to 25.6%. In two years time, lignite and hydropower expect to cover 95.0% of total input to the National Interconnected System.

By 1992 PPC plan to install generating units with a total capacity of 1,710 mW. Of these units, lignite represents 1,210 mW and hydroelectric capacity 500 mW.

The corporation will also rely on less conventional energy sources. By 1994, the island of Milos will use 120 mW geothermic units which will supply Milos,

GENERATING THE FUTURE

neighbouring islands and the mainland by means of submarine cables. The Eolic sector offers favourable conditions for demonstration projects. Several projects are completed or under construction.

PPC has successfully reversed the trend of low profits in the energy industry which followed the worldwide shock of the first oil crisis in the early seventies. During this period, governments regulated tariffs to curb rising inflation. But by 1986 the company closed with a net profit of US\$30.5 million, with net profits for this year to rise to approximately US\$220 million.

It's been a remarkable achievement for Greece," says Mr Birdimiris. "This means that PPC no longer capitulates during construction. These profits are assessed after deducting the total annual interest.

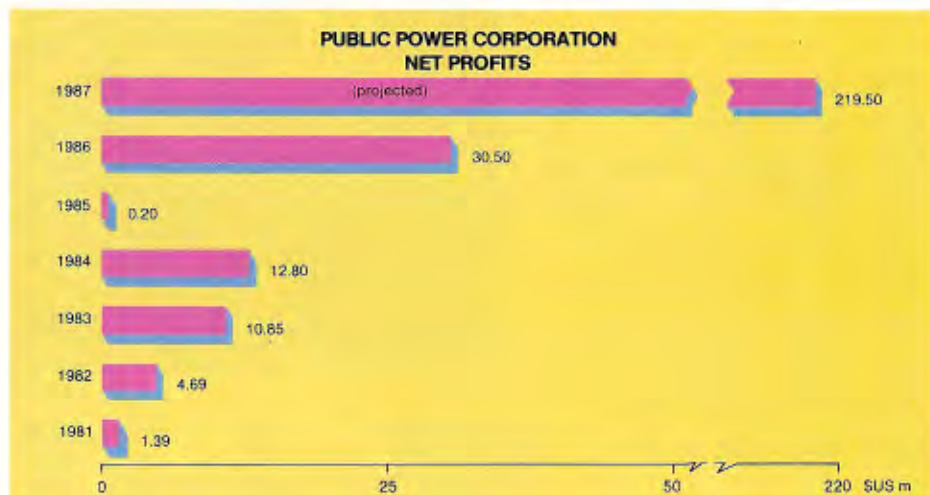
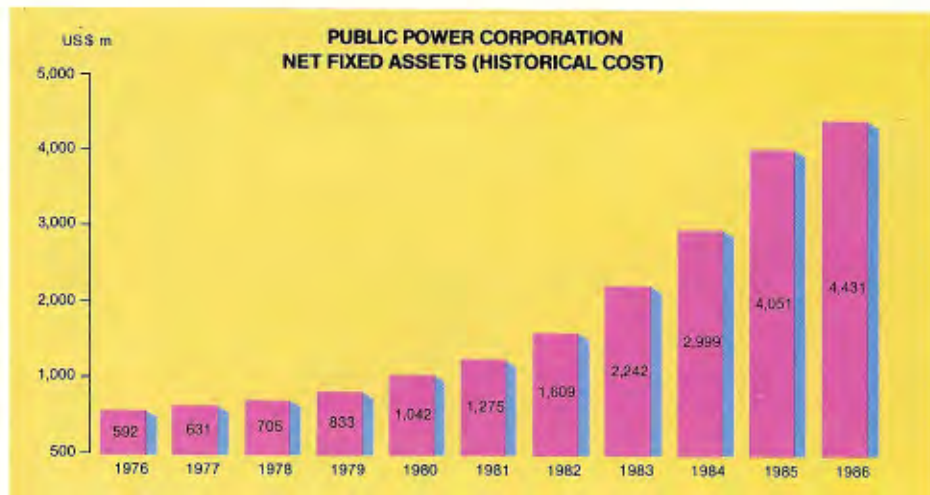
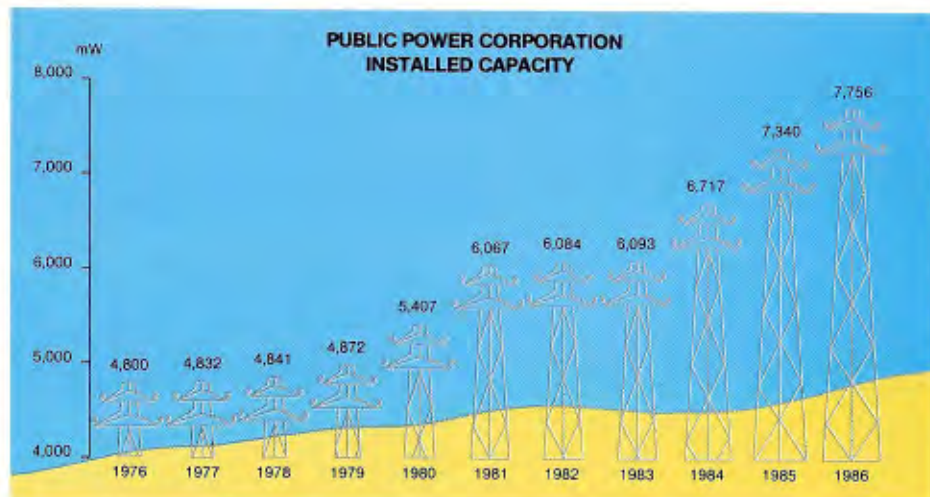
"PPC also raised self-financing ratios from 20%-25% to 44% in 1986. We expect to reach 60% in 1987. This improvement was brought about by a sensitive tariff policy that takes account of long-term development costs," he explains.

From the start, PPC showed rapid growth. The corporation was established in 1950 and began operations in 1953 with the bulk sale of electricity to all existing electric utilities. From 1954 to 1963, PPC acquired 400 utility companies and became the sole producer and distributor of electric energy. By 1961, PPC controlled the company which supplies the largest metropolitan area in Greece — Athens-Piraeus Electricity Company. Self-producers contribute only 1.2% to the total energy consumption.

PPC has an installed capacity of 7,756.2 mW. The total energy produced in 1986 was 26.913 gWH. Eight thermal and 11 hydroelectric stations make up 7,257.4 mW which serve PPC's interconnected system. Local non-interconnected power stations which service other islands use the remaining 498.8 mW.

"The Corporation's annual turnover for 1986 was US\$1.6 billion," says Mr Birdimiris. "This figure is expected to rise to US\$1.9 billion by 1987. On December 31 1986, the assets valued at historical cost amount to US\$4.4 billion, and Total Assets to US\$5.6 billion.

"PPC growth demonstrates a 60.2% increase in installed capacity over the decade from 1976-86 or a rise from 4,806 mW to 7,700 mW. Over the same time period, the Company's fixed assets show a seven-fold rise from US\$592 million to US\$4.4 billion," he says.



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GREECE'S ENTREPRENEURS



Dimitris Daskalopoulos

I am confident overall that we will manage to do most of the things that have to be done for Greece not to become an outer planet of the EEC. In terms of priorities, it's the market that should preoccupy us for the next five years. If we manage that, then we can look beyond."

Dimitris Daskalopoulos, 30-year-old general manager of his family's dairy business, Delta, is very upbeat at the moment about both domestic sales prospects and moving substantially into exports. The government has been using the dairy sector as an example to illustrate how price controls can be relaxed without damage to the producer-consumer chain and the economy as a whole.

Last year, the company showed net profits of some Dr350 million on turnover of Dr11 billion, and this year it is projecting a figure of the order of Dr600 million. That compares with 1982, the worst year under price controls, when it lost Dr160 million sales of Dr6 billion.

Daskalopoulos was worried about what would happen to wages at the end of the two-year austerity programme.

"There has been a lot of talk about productivity. In this country, we don't have the management infrastructure in the private sector, let alone in the public, to apply it correctly."

He welcomed the measures to liberalise the banking system, though he was uncertain about how it would function. "When you've never had a liberalised banking system, you don't know what it's going to be like."

He thought industry's current turn-round in profitability was likely to lead to a reduction in the high gearing ratios of many firms. Delta improved its debt-to-equity ratio from 2.0 to 1.6 between 1985 and 1986.

"There's a general realisation that re-investment of profits and using one's own capital instead of borrowed money is good for business."

"there was always the problem of party politics — factions and groups pulling in every direction."

Argyros has now returned to the family mills, which are one of the success stories of modern Greek industry. Preveza Mills exports 85% of its output, all of it to EC countries.

"If we had not got exports, I would not invest in a Greek business," said Argyros. "Any investment I am planning would have to be export-orientated initially for me to consider it seriously." First of all, the Greek market is too small and, "when you have all the potential of the Common Market with all the barriers coming down, why not address yourself to that".

The other reason is the business climate in Greece. "We are getting mixed signals. On the one hand, we are getting a legal framework, guided mainly by political considerations and therefore distorting market forces, and on the other we are seeing the practical

Takis Gerolymatos

"We don't feel there is a mood for new investments," said Takis Gerolymatos, the 50-year-old president and chief executive of PN Gerolymatos SA, one of Greece's leading drug and cosmetic manufacturers. "But still, our company has decided to invest more in new machinery, new technology and new storage because we should be ready for a take-off of the Greek economy when it comes."

He reckoned there were at least two more lean years ahead. "But, in the long term, the economy will be healthier and more promising, and the companies that survive will become much bigger." That, he said, would be a good thing to help the country to face the onslaught of foreign competition after the establishment of the integrated European market in 1992.

Gerolymatos is developing the export side of the business, where prices are not controlled. But he doesn't feel the government is giving sufficient support to exporters. He would like to see more credits, co-ordinated advertising promotions, tax exemptions for exports of domestically produced brands and subsidies for opening foreign

offices. The government has announced a package of export-promotion measures, some of which are similar to those sought by Gerolymatos, but he was doubtful of their outcome.

The government policy of allowing the drachma to slide to maintain the competitive advantage of the October 1985 15% devaluation has had adverse consequences for firms, like Gerolymatos, that import raw materials and processing equipment. "We have had to invest 50% more for the same machinery, which makes it difficult to renovate our facilities. . . . At the same time, the banks are hesitating to give credit because of the tight monetary policy. It's a vicious circle."



one time or another by previous governments."

But he is opposed to the wage controls which the government has imposed for the past two years. "If you want to be competitive you have to give your labour force an incentive to perform." He believes that the measures were designed primarily to control public sector spending.

Argyros welcomed the new measures to liberalise banking because, while they may drive up the price of credit in the short-term, competition will bring it down in the long-term.

He is not happy to see the phasing out of export subsidies, begun this year. Instead of subsidies he would like to see the government eliminate "disincentives" affecting costs. He claims that only about 50% of indirect taxes have been replaced by VAT. Also, exporters have so far seen no rebate of the VAT they are supposed to get back on goods sold abroad.

Stelios Argyros

Stelios Argyros is one of that rare breed who has worked in both the Greek public and private sectors. He is currently managing director of Preveza Mills, SA, part of the Attica Spinning Mills Group, which is owned by his family.

But he has worked for the World Bank and the United Nations Industrial Development Organisation (UNIDO). Between 1981 and 1984 he managed the state-owned Phosphoric Fertilizer Industries to oversee a \$100 million modernisation programme and to install an ammonia and sulphuric acid complex.

Output increased during this period from 280,000 to 650,000 tons, while the workforce was cut from 1,000 to 850. Argyros said this period was "interesting but frustrating". The state-owned Commercial Bank, to which he was responsible, was "modern, progressive and competent" but

ways that the government, by necessity or design, is being forced to open up and take steps making the work of enterprises much easier than it used to be.

"It's certainly an improvement in favour of industry in relation to what existed before. The question is: why did we get in the position we were in?"

He does not blame the socialists for industry's problems. "All the tricks of the game were exercised at



DELTA DAIRY AN INNOVATIVE COMPANY LEADING IN A DYNAMIC ENVIRONMENT

A DYNAMIC ENVIRONMENT: A HOST OF OPPORTUNITIES

THE GREEK ECONOMY

has already embarked on a steady effort to overcome its shortcomings and enhance its competitiveness. Greece is concentrating its human and economic resources in an effort to face the challenges as a full member of the European Community, and the crucial date of 1992 when the last remaining custom obstacles disappear.

THE CONSUMER GOODS INDUSTRY

is among the most dynamic ones in Greece, and its prospects are even better. For years this sector has been performing above average in respect to other industrial sectors, while continuous innovation



No expense spared — Daskalopoulos.

and technological improvements have been among its main characteristics. As a result the consumer goods industry is better placed today to take advantage of the benefits of price liberalisation, banking deregulation and other changes in a dynamic economic environment. Furthermore, the industry has shown the willingness to do so, with the result that, today, more than 50% of private sector invest-

ments approved under the Mediterranean Integrated Programs law concern consumer goods.

THE DAIRY INDUSTRY

is probably the most dynamic part of the consumer goods sector. The dairy marketplace has been experiencing continuous growth, a host of new entrants, a rapid increase of new product offerings, and a pattern of constantly evolving consumer demands.

Delta Dairy, a privately owned company, has been in the forefront of these changes, and is determined to stay there.

DELTA'S OWN DYNAMISM

A LEADING POSITION

- Since its establishment in 1966, Delta has been experiencing continuous growth, reaching 1987 (projected) sales of Dr 11 billion (\$85 million US), which makes it the largest dairy industry, and one of the 35 leading industrials in Greece (See chart).
- Delta is the market leader in ice cream (commanding a market share of 44%), fresh pasteurised milk, as well as in fresh chocolate milk with a 75% market share in the Athens area.
- Delta maintains a strong market share position in yoghurt and in dairy desserts.
- Delta operates one of the largest distribution systems in Greece, with three separate networks (one each for ice cream, milk and yoghurt). The system used 400 trucks, 200 intermediaries, and 50 refrigerated warehouses to service 25,000 retail outlets around Greece.
- The Delta brand name is known to all Greeks, and is associated with quality dairy and ice cream products. This was effected by investing 3% of annual sales in advertising.

SALES TURNOVER 1978-1987





The product range is constantly enhanced to meet changing demand.

AN AGGRESSIVE STANCE FOCUSING ON:

MARKET KNOWLEDGE

The company is constantly investing in ways to maintain a deep understanding of its markets, the forces that drive them, and the way they evolve, both on a national and on an international basis. In 1987 Delta is investing close to 100 million drachmas on market information systems, retail monitoring and consumer research.

AGGRESSIVE INNOVATION

With an average rate of three new products per annum in the dairy sector and six new products in the ice cream sector in the last three years, Delta has managed to lead the industry in developing new market segments, and is thus the main contributor in further developing the market.

"We've spared no expense in its effort to remain aware of and quickly adopt new developments in equipment, automation systems product technology, and processing methods," says Dimitris Daskalopoulos, Delta's 30-year-old General Manager. "With a well-established network of international contacts and a continuous human resources training program, the dairy has managed to maintain a modern, up-to-date plant which turns out products that are in most cases considered the standard of the industry."

MANAGEMENT TALENT AND MODERN MANAGEMENT METHODS

Delta is clearly one of the pioneers among companies that are changing the traditional Greek management practices to achieve greater operational and strategic effectiveness. Since 1982 Delta has devoted substantial time and funds in re-vamping its structure, operational systems, internal communication and its planning and control procedures. The contribu-

tion of carefully selected additions to the management staff has been and remains the key in this effort. A new organisational structure that will become effective in September 1987 was carefully designed to propel the company towards achievement of its ambitious three-year strategic plan.

NEW PACKAGING FOR FRESH PASTEURISED MILK

The latest in a series of success stories. In March of 1987, Delta stopped producing fresh milk in the traditional plastic bottle, and introduced the product in a colourful pure-pak carton.

The investment in new packaging equipment totalled 300 million drachmas. Consumer acceptance was immediate, with overwhelming enthusiasm. Through years of concerted effort, Delta had already improved the quality of fresh milk to a great extent. This was achieved by:

- Installing modern milk collection plants in Northern Greece and perfecting the process of collection from the farmers.
- Helping in the training of dairy farmers on matters of hygiene and farm management.

Modernisation improves quality.



AN INTERNATIONAL BUSINESS ENVIRONMENT

Delta is already exporting its yoghurts with mounting success to five EEC countries. Simultaneously it is working very seriously on a marketing plan that will make this activity a long-lasting proposition throughout Europe.

"On the other hand, the company is closely monitoring the international marketplace with a view to quickly adapt its behaviour to emerging trends and seizing opportunities for its own products in the international arena," says Daskalopoulos.

A WILLINGNESS TO EXPAND

Delta believes that the leader of an industrial sector has the responsibility to lead the sector ahead into new areas of growth and develop new market segments. In its present three-year plan, Delta has charted actions that will lead in this direction. Furthermore, the company's strategic plans call for expansion into sectors of the food industry not directly related to its core business.

To accommodate these plans, Delta submitted a proposal under the Mediterranean Integrated Programmes for new industrial facilities. This proposal was passed in July 1986, and calls for an investment of Dr 2.2 billion in new plants, warehousing and restructuring of existing installations.



Packaging — the latest step.

- Strict enforcement of systems of payment according to quality of milk.
- Investment in the rapid expediting of raw material to the main plant, and in perfected processing methods.
- Improvements in the daily distribution with new trucks and modern distribution management methods.

The new packaging was the last step in this series of efforts: fresh milk is now presented in a form worthy of its precious content.

Gregory Hadjieleftheriades

Gregory Hadjieleftheriades went to sea as a deck boy in 1958. Nine years later he took his first command as master of his father's first ship, a 2,500 ton dry-cargo vessel. Today Hadjieleftheriades is chief executive of Eletson Corp, a shipping conglomerate with a fleet of 12 tankers in the 17,500 gross register ton range. The company is about to take delivery of four new vessels each of 40,000 grt, and plans are well advanced to double the total fleet over the next four years.

The company started by buying second-hand vessels, operating them for a few years and then selling them either for scrap or for further trading. It did this 50 times in its first 21 years of operation. Eletson has concentrated on product carriers — medium-size tankers carrying liquid cargoes other than crude oil, such as refinery products, vegetable oils and molasses. Now it has decided to concentrate on dedicated vessels to service the trading operations of the major oil companies. The new 40,000 grt vessels will also be able to carry crude.

The multinationals used to operate huge fleets of their own, but these have been run down, and they now charter from



independents.

It was this trend that led Eletson to abandon old-fashioned tramp ship trading. "We went along with that philosophy until recently," said Hadjieleftheriades. "Now we realise that there are certain patterns of trade that require a better quality service that can only be given by fully dedicated, up-to-date, technologically advanced vessels which will incorporate all the latest equipment in safety and communications. We have committed ourselves totally to this — what we call a limousine service."

The idea is to create a fleet where the charterers do not demand a particular ship, but will be prepared to take any vessel in the

Eletson fleet. The strategy is working. Approximately 100 of the 300 voyages performed each year are for big oil companies.

There is an element of risk should the majors decide to return to operating their own fleets. But Eletson has spread its customer base to some 250 clients, and the four new vessels it has coming from Korean yards every three months from July next year, will have 10 individually controlled tanks enabling each to carry a different cargo.

Of the four new vessels, three have been financed through Den norske Creditbank and the other through Banque Indosuez of Paris. Eletson has put up 35% to the banks' 65% over 10 years at Libor plus 1½. Hadjieleftheriades opted for this arrangement because the deal could be put together more quickly than through the Korean Export-Import Bank.

The further 12 to 16 vessels, which Eletson hopes to have in operation early in the next decade, are likely to be built in Chinese yards. Central to the financing will be the concept of residual value. "Problems set in when you have to service a very big loan at the beginning of a ship's life without any recognition that what you are financing will have a residual value at the end of the period," said

Hadjieleftheriades. "The useful lifespan of vessels of this type is 15 to 20 years. The residual value after 10 years, when the loan is repaid, is sometimes up to 100% and more of the building cost. Residual value guarantee insurance was introduced last year by the Norwegians to offset this burden. We are not asking for substantial percentages, but I believe 40% balloon on a \$16 million vessel ordered today, built tomorrow, to last for the next 15 to 20 years is not unreasonable."

The company flies the Greek flag on all its ships and employs all-Greek crews. It is more costly than flying a flag of convenience and hiring Koreans or Filipinos, but it is consistent with the image that Eletson is seeking to project — the promotion of Greece as a ship-owner.

Hadjieleftheriades, who heads the Union of Greek Ship-owners' education committee, would like to see more Greek owners returning to the Greek flag. However, many see problems with the Ministry of Merchant Marine. "The last two ministers were completely unaware of what actually makes Greek shipping tick, and it took them considerable time to grasp." This is a handicap, but one Hadjieleftheriades is working to overcome.

Yannis Costopoulos

"I am a BSc in naval architecture which means I can float things," said Yannis Costopoulos, chairman and general manager of Credit Bank. And floating has become a bit of a habit in the past year.

In May, the bank increased its share capital by a quarter to bring the total with reserves to Dr6.1 billion (\$36 million). Last year it trebled the share capital of its portfolio company Ependyseis Pisteos to Dr900 million and increased the share capital of its subsidiary Alpha Computers by a third to Dr1.2 billion as part of conversion of the company to a leasing operation.

"The placing power of our bank, all in relative terms of course, is enormous here," said Costopoulos. He sees the government's proposed banking reforms as having the potential to open a line for the firm's

investment banking operation, probably in conjunction with a foreign institution. You have to have know-how to price issues and take risks in placing them, but you also have to do the placing as such and that's a retail business. I see ourselves taking a lot of that."

Credit Bank is the largest of the private banks in Greece and the fourth-largest commercial bank with 111 branches and a number of subordinate companies in investments, computers and software commercial and life insurance and real estate.

Credit Bank was founded by Costopoulos's grandfather in 1879 in the town of Kalamata in the Peloponnese. Costopoulos, at 49, is the third generation to be at the helm. But it looks as though he will be the last of the line. "Things are very big now. We are talking about a bank with 5,000 shareholders holding something like 55% of the capital in small lots, while at least another 20% is held by bigger

institutions or industrial interests. By Greek standards it has a very widespread ownership.

"I don't like majority positions. In fact we have affiliates, not subsidiaries, in most cases. If you own 51% you tend to make decisions which are not necessarily the best." The bank posted an 82.3% increase in profits last year

at Dr1.8 billion, pushing its dividend up to Dr450 per share from Dr240. Its value on the stock exchange rose steadily as a consequence from Dr1,750 to Dr3,570.

Costopoulos would like to see the government's banking reforms implemented more quickly.

"We've been asking for this sort of



John Bilimatsis

"The austerity policy seems to be failing at the moment, but I'm still optimistic," said John Bilimatsis, 49-year-old chairman and managing director of Mobil Oil Hellas. "I'm not by nature a Cassandra, and I have faith in the country."

Reinforcing the outlook of its chief executive officer, Mobil Oil Hellas has just completed a Dr3 billion investment programme in the form of a new jetty, tank farm and distribution centre at Aspropirgos, near Athens.

Market leaders in petrol, diesel, lubricants and aviation/marine fuel sales, Mobil reckons it has to invest to maintain position in a competitive and constantly



expanding market. "Many oil companies are investing a great deal of money here. A number of our major competitors are, so we are no exception," Bilimatsis said. "That doesn't mean we think the economy is going to change dramatically for the better overnight. We tend to take a longer-term view. Greece has a lot of positive factors going for it. It's a member of the EEC. It's definitely anchored in the West — I'm talking about philosophical values as well as the political context — and I would expect that, with the integrated European market coming up in 1992, we are going to see more movement over here. It's an interesting market."

Mobil Oil Hellas last year showed a profit of some Dr500 million on a gross turnover of Dr63 billion. Greece remains a controlled market, with the government setting the ex-refinery price, wholesalers' margins and retail tariffs. That policy has been the subject of a lively dispute between the government and the European Community, which has threatened to prosecute Greece unless it opens the domestic market to product imports.

The government argued it needed time to refurbish the two existing state refineries to make them competitive, and asked for a dispensation to liberalise gradually over a period of years. It proposed that it would open 35% of the market this year and a further 20% in 1988, but the European Commission insisted this was not fast enough. Furthermore, Brussels has complained that Greece subsidises prices for purchases from the state refineries through tax receipts on retail sales, and is thus able to sell products to the domestic market at rates that make imports unprofitable.

Bilimatsis was reluctant to be drawn on the dispute, save to say that Greece, as a member of the EC, would eventually have to comply with its policies. "There is no alternative."

He said he had no qualms about the prospect of the integrated market in 1992. "I think the same rules that govern investment in any other country will eventually apply here, namely efficiency, size and profitability. You've got to have size and be efficient to be profitable."

Costas Petropoulos is a great believer in Greek managerial talent. "I think it is indicative that all the Greek shipowners — the international ones with a choice of Germans, British, whatever — select Greeks to manage their companies," he said. But Petropoulos, former secretary general of the Federation of Greek Industries and current co-president of the British-Hellenic Chamber of Commerce, said state involvement must be substantially reduced if the Greek economy is ever to realise its full potential.

It will be a long process although Petropoulos thinks that the Greek outlook is gradually changing: "The people are learning by experience. Before 1981 (when the socialists took office), they thought that all you needed to do to change the situation was to put in some new people. They are being very disillusioned. They are now beginning to suspect that there is something wrong with the system rather than who is handling it."

Once public opinion becomes less hostile to private enterprise, governments will follow, says Petropoulos. He thinks this is a long-term prospect and is not certain that present government measures to promote private sector investment will survive the next election that must be held by 1989.

"We have had two years of frozen wages. In the past 18 months the government has been freeing prices. Companies have been doing fairly well. I don't think the majority of Greeks understand yet that this is good and should be maintained to allow for investment and growth. I think the temptation for the government to return to controls on prices will be very

strong," Petropoulos said. The other major problem for business, he argues, is the arbitrary nature of Greek bureaucracy. "Bureaucracy is not bad because there are too many rules . . . The problem is that there are no rules. We have a lot of regulations, but for me a regulation is a rule only if it applies equally in all circumstances." Petropoulos claims that businessmen do not know how a civil servant may apply a given law. "You don't really know till you get there and if you don't know whether, you don't know when. It's terrible in business not to know when."

Petropoulos is joint managing director, with his younger brother John, of Petros Petropoulos SA, manufacturers of and agents for diesel engines, trucks and buses, mining and agricultural equipment and power tools. Like many Greek firms the company showed a loss in 1985, but last year it returned net profits of Dr10.5 million on sales of Dr1.25 billion. This year "looks considerably better," Petropoulos said. He anticipates growth of about 10% a year for the next five years and then substantial acceleration.

The group is still a private family concern but with recent banking reforms and the boom this year on the Athens Stock Exchange, he is considering the flotation of one company "to see what happens". The firm has always operated incentive schemes, but during the two-year wage freeze employees have had to accumulate points instead of cash.

Petropoulos is eagerly anticipating 1992 and the unified European market. "Greece will have to conform to the requirement of having rules . . . it will make what you can do or can't do more or less predictable."

**Costas Petropoulos**

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GREEK NATIONAL TOURIST ORGANISATION

TOURISM FIGHTS FOR COMEBACK

Terrorism in the eastern Mediterranean dealt the Greek tourist industry a severe body blow; but the rival attractions of other countries are just as serious, and more long-term.

Hot sun and historic ruins are no longer enough. The Greek tourist industry, from the government's national tourist office to the humblest taverna, has been made rudely aware that

it is operating in a competitive marketplace, where every country has to exploit its natural assets to the full if it is to secure its share of the worldwide travel dollar.

At one time the Greeks reckoned that the outstanding natural beauty of their mainland and islands, combined with an ideal holiday climate and a host of manmade attractions, would themselves ensure a steadily growing flow of foreign visitors. Until two years ago, that is.

In a 15-month span beginning in 1985, significant numbers of people were killed by injury or terrorists in the eastern Mediterranean area. It began with the hijacking of a TWA jet flying from Athens to Beirut. Next, the



Greece can not afford just to sit aloof and await the arrival of tourists and their cash.



GREECE

Achille Lauro cruise ship fell into terrorist hands, then the Egyptian airliner and, later, the killings at Rome and Vienna airports. In 1986, there were more plane crashes, the US Air Force bombed Libya, a Pan Am flight to Pakistan was hijacked and there was an attack on an Istanbul synagogue.

The Greek tourist industry was particularly hard hit, because after the TWA hijack, President Reagan singled out Athens airport as a place for Americans to avoid. They did. US visitors to Greece fell by more than half last year. And as they spend more per head than tourists from any other nation, the US boycott had a disproportionate impact on receipts.

At the heart of travellers' fears was the belief that Athens airport was a soft target for terrorists, so the Greeks set about correcting that impression. Procedures were tightened up to the point where Rodney Wallis, security and facilities director of the International Air Transport Association, was able to declare: "Airport security in Greece is today among the highest in the world, and IATA's cooperation with the Greek authorities is ideal." That statement was carefully phrased, and glosses over the endearingly eccentric customs controls, whereby arriving passengers still have to go out to the street to fetch trolleys before they take luggage through the customs hall.

Nevertheless, that concerns tourists infinitely less than the danger of being hijacked. Wallis's reassuring sentiments were echoed by US congressmen and other travel authorities. TWA, eager to land at Athens with full planes once more, rushed to join the chorus.

Tourist harbours have been given similarly strict security treatment. President Reagan duly rescinded his warning, but that inevitably received nothing like the publicity that greeted his original statement.

Despite such frustrations, the number of foreign visitors to Greece still managed a small increase between 1985 and 1986, from 7 million to 7.3 million. More important, receipts rose by 26% in dollar terms to the equivalent of \$1.8 billion. The secretary general of the national tourism organisation, Professor Pendelis Lazaridis,

has predicted that in 1987, 7.8 million visitors will spend \$2.2 billion — assuming a stable dollar-drachma exchange rate.

Even in 1985, North and South America combined accounted for only 8.8% of Greece's tourist influx. Thirteen other countries provided more than 100,000 visitors each in that year. The UK and West Germany sent 1.3 million and 1 million respectively. Cruises were worst hit by the American boycott, losing 32% of their 1985 traffic. Some two-thirds of American visitors to Greece arrive during a cruise.

Where the Americans count is in the size of their wallets. Last year, they spent nearly \$1,000 a head, or 14% of the total tourist outlay. So the national tourist organisation is spending \$3 million on a US advertising campaign this year to woo the absentees. That budget is equal to more than \$10 per visitor.

Even so, American tourists still seem reluctant to tread the path to Greece again. Against a target of a 20% revival this year, the US influx was about 12% higher by the end of June than the comparable period in 1986. "A massive number of Greek Americans stayed away last year mainly because of Chernobyl. But I think the really good years for us will be 1988-89, because so far this year we have principally seen individuals from America. We have not had the groups, despite the enthusiastic co-operation of the US tourist agencies," said Lazaridis.

While the American problem will probably rectify itself, Greece still has to face the fact that last year saw a slackening from all parts of the world — except the rest of Europe, where holidaymakers tend to regard Greece as an upmarket version of Spain.

Significantly those that did come spent fewer nights in Greece than before. Despite the small increase in numbers of visitors, the figure for bed-nights spent in the country by foreigners fell by 0.5% to 33.7 million, the first fall for three years. So, the average foreign tourist spent 4.6 nights in Greece in 1986, compared with 4.8 nights in 1985.

That is a vital statistic, as the number of bed-nights spent away from



home by Greeks holidaying in Greece has remained static at just over 10 million for the past 12 years.

The Greeks realise that if they are to combat growing competition from other up-and-coming resort countries — not least Turkey — and insulate themselves against future bouts of terrorism, they must provide facilities that will compare with the best in the world.

At the third International Tourism Fair in May, Lazaridis said: "We are perfectly aware that there is no room for amateur or improvised handling of tourist activity. This is the undeniable fact that motivates us to have our actions conform to the new trends of international tourism — or at least to make a real effort to do so. We are faced with a most demanding and

GREECE



competitive market — a fact that gives us no choice but to act with method, responsibility and realisation of the new challenge.”

In the past five years, the government has allocated more than Dr19 billion (\$140 million) towards tourist infrastructure projects, in addition to separate budget for projects like more airfields, better local transport, clearer road signs and fewer formalities.

This year, the civil aviation authority was planning to open a new departure building at Hellenicon airport, improve the existing building at Iraklion, repair the manoeuvre field at Corfu, construct a new charter building at Mytiline and complete other work at Zakynthos, Cythera and Sitia airports.

In addition, several of the items on

EC aid is being poured in to transform island harbours into tourist-attracting, money-spinning marinas.

the prime minister's ambitious 12-year development plan particularly the second airport near Athens and completion of the city's metro system, will benefit tourism.

The European Community is helping, too. Some Dr40.5 billion (\$300 million) will be spent as part of the Community's integrated programmes for the Mediterranean. It has started in Crete, where yachting marinas are being built to tempt holidaymakers with high disposable incomes. The programme envisages the creation of an eight-zone national marinas system, which would have a total of 18 marinas. This followed the discovery that

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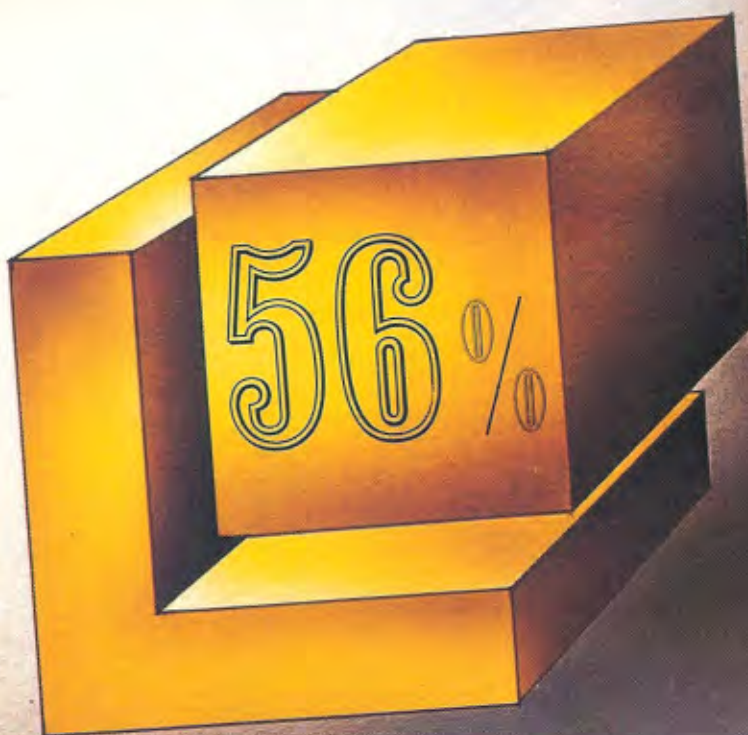
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Ranking the 200 largest banks

On the following pages, the top 200 bank holding companies in the world are listed according to the size of their assets. Also shown are each bank's total deposits and its respective ranking (in

parentheses) as well as the total capital and pretax earnings, along with its ranking (again in parentheses) in those categories. For any bank to be ranked in deposits, capital or earnings, the bank

must first be among the top 200 in assets. Those cases where bank figures were not available or could not be confirmed for accuracy are indicated by dashes.

The world's 200 largest banks by assets

Rank 1985	Name of Bank	Assets (US\$ millions)		Deposits	Capital	Pretax Earnings
		1985	1984			
140	First Union Corp. United States	16,310	13,588	9,885(165)	1,064(87)	215(70)
141	National Bank of Canada ⁶ Canada	16,277	14,125	14,567(122)	755(122)	159(95)
142	National Bank of Greece Greece	16,255	15,125	13,221(134)	322(180)	9(184)
143	Union Bank of Finland Finland	16,224	9,358	13,387(138)	1,103(84)	151(98)
144	Korea Exchange Bank ¹ South Korea	16,207	13,905	5,188(193)	721(127)	46(168)
145	Bank Saderat Iran ⁸ Iran	16,042	15,876	12,797(141)	217(191)	— —
146	Bank of Fukuoka ^{1,2,4} Japan	15,873	12,510	13,738(129)	560(147)	100(131)
147	Banco de Vizcaya Spain	15,818	16,643	11,927(150)	709(128)	194(78)
148	National Commercial Bank ¹³ Saudi Arabia	15,198	16,186	13,688(131)	876(107)	— —
149	Kredietbank International Group ⁷ Belgium	15,166	14,979	14,110(125)	339(178)	63(153)
150	Landesbank Rheinland-Pfalz West Germany	14,870	11,698	13,079(138)	207(194)	13(180)
151	Barnett Banks of Florida United States	14,829	12,501	13,082(137)	827(112)	147(101)
152	Kansallis-Osake-Pankki ¹ Finland	14,790	10,327	12,498(143)	950(101)	120(115)
153	Banco de Santander ¹					

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A white line-art illustration of a world map, showing the continents of North America, South America, Europe, Africa, Asia, and Australia. The map is overlaid with a grid of white lines representing latitude and longitude. Numerous yellow lines radiate from the building above, connecting to various points across the world map, symbolizing the bank's international network.

**NATIONAL BANK
OF GREECE**

from 1841 into the future

GREECE

an additional 6,598 yachts, of which more than 6,000 were foreign, an increase of 17.4%, appeared in Greek ports in 1985. There are to be special measures aimed at promoting flotilla holidays for the yachting tourist who does not know the difference between a reef knot and a bow.

Private investment is being encouraged by scrapping the limit of 300 beds per new hotel, and certain regions such as Mykonos, Corfu town and Thessaloniki, are being officially designated as "saturated" with hotels. A government decree of December 1986 said: "Investments in the tourist sector will be given the proper orientation, and the process of control will be simplified to establish a planning framework aimed at the rational management of national resources."

The decree named Crete, Rhodes and Corfu as areas of controlled tourist development where only luxury and first-class hotels of at least 150 beds will be permitted to be built. In more restricted areas, only smaller hotels will be allowed.

The larger hotels will enable Greece to expand its business convention facilities. Most of these are naturally concentrated in Athens, where there are 12 halls or hotels capable of holding more than 500 people each. But Rhodes, Crete and Corfu also have hotels with a similar capacity.

To ensure that the best use is made of these new facilities, the government is taking steps to improve training for everyone coming into the tourist industry. The hotel school has been upgraded and now handles travel agency employees. A guides' school has opened in Thessaloniki. And, as in nearly every other country with a large number of foreign visitors, the authorities are doing their best to persuade guides to spread themselves round the country and the year more evenly.

In an attempt to widen the season, the tourist organisation is promoting Greece's winter skiing facilities at Parnassos in the north, as well as hydrotherapy holidays.

But, sheer volume means the package tour will remain the staple commodity of the Greek market. Lazaridis told *Euromoney*: "The total amount of people visiting Greece is increasing, so the proportion of high-level people has

been diminished.

"The market is very much orientated to the European tour operators, who have an oligopoly. Their clientele is the basis of our clientele, and they have a tendency to go down-market. We want a lower rate of increase in numbers, but we want those who come to spend more time and money here."

One way of achieving that is to encourage more foreigners to buy holiday homes in Greece, giving them a built-in incentive to return each year and persuade friends to help to defray their costs.

There is a demand for property, especially on the islands, but sales are effectively blocked for the time being by an Athens Supreme Court decision that means foreigners do not have the right to title deeds on property in

Santorini, island of legend and leisure, has more to offer than quirky tales of a lost Atlantis.

The 3S approach to tourism — sun, sea and sand — is no longer enough to persuade visitors not to go elsewhere.



GREECE



so-called frontier areas. This covers many of the islands including Corfu, eyeball-to-eyeball with the coast of Albania, as well as those brushing the Turkish mainland. The EC has stepped in to try to bring Greek property law in line with the rest of the Community, but so far without success.

Meanwhile, the tourist industry is endeavouring to widen its appeal. "In the next few years we expect to have eight million tourists a year," said Lazaridis. "So we are interested in tourists coming from new countries that spend more than the others, like the US, Japan and West Germany."

"However," he added, "we do not want to be concentrated in one kind of tourism. We need to be able to react to the variety of demand, from tourist villages to compact living accommodation."

But the Greek authorities, and in particular the recently elected Athens

municipal council, are aware that more needs to be done to improve the capital itself, the place where most tourists gain their first impression of the country.

Last new year's eve, one of the more conservative newspapers in the capital referred to "the lack of manners, the cynicism and the craven impudence of the masses that have flocked into the Attica basin in the past 20 years". This is reflected in the aggressive driving and the notorious clip joints on the fringes of Constitution Square, where a glass of ouzo can end up costing Dr4,000 (\$30).

Miltiadis Evert, the new right-wing mayor of Athens, has asked the socialist central government for Dr50 billion (\$380 million) to spend on everything from sewerage to pedestrian precincts. Many of his requests most notably the completion of the Metro system, have been approved.

Some old city districts, including the Plaka, Mets and Psyrri Square have been cleaned up and regained their former character. The Plaka, in the shadow of the Acropolis, is the main tourist haunt for shops and restaurants, but it had become infested with discos and shady bars. Most are now gone, and projects are being carried out to strip the asphalt from the streets and repave them with marble slabs.

Part of the difficulty in pressing ahead with such projects in Greece is that the responsibility for executing them is often shared among several authorities, both central and local.

One proposal to cut through the administrative thickets is to pluck the national tourist organisation from the Ministry for National Economy, and then to give tourism a ministry in its own right.

Lazaridis is, understandably, in favour of that idea. "We have to construct an administrative structure that will be powerful, flexible and with the necessary autonomy in order to be operational," he said. "A ministry is one way of achieving that. Flexibility is necessary to guarantee the application of the agreed policy, such as clearance of sea and sand."

Whether it happens will ultimately depend on the internal politics of the government, for it would take away from the ministry for national economy responsibility for the country's biggest earner of foreign currency. However, prime minister Papandreu may be persuaded that if tourism is that important then by the same token it should be allowed its own ministry.

The Greek tourist industry is at a crossroads. It has grown, almost of its own volition, to the point where it has become a major engine of the economy, and so, it must be taken seriously while the economy is in its present precarious state.

But as standards of living rise in western Europe, America and the far east, there is more competition to seduce holidaymakers to take their annual break in one country rather than another.

The choice is widening as the real cost of travel falls. High-spending Europeans are now able to think in terms of Kenya or the Seychelles if they want a beach holiday; while the

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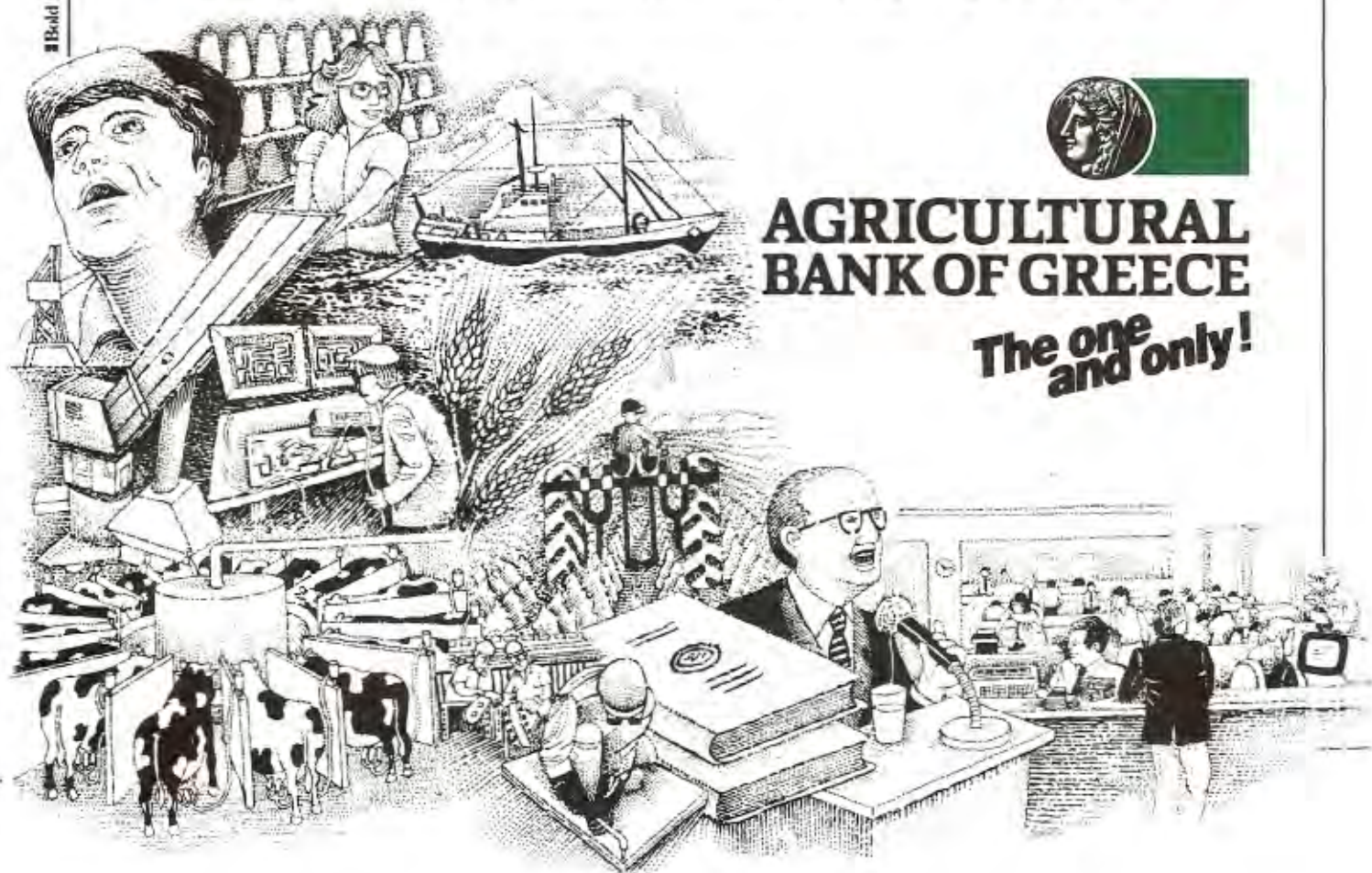
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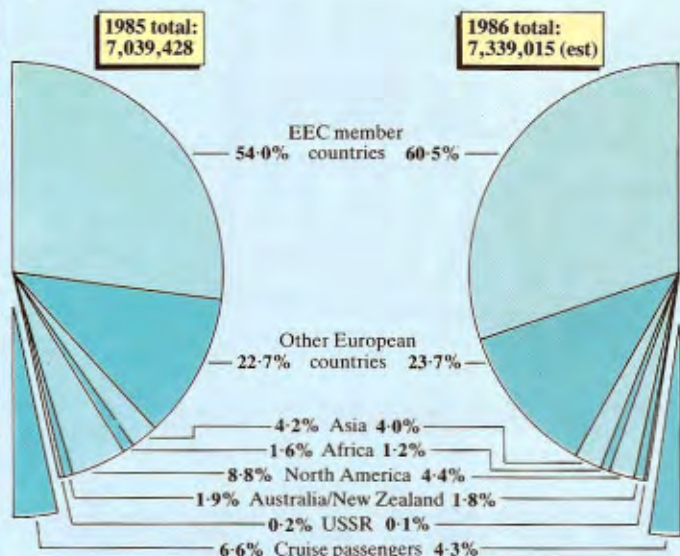
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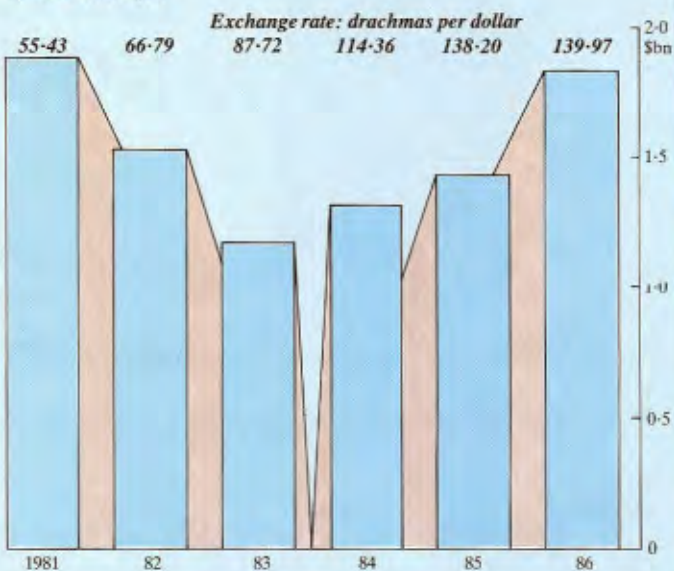
TOURIST ARRIVALS IN GREECE

by main region of origin



Source: National Statistical Service of Greece

Tourist receipts



Source: National Bank of Greece

package trips are spreading out from Spain to Greece — and maybe beyond.

The main UK tour operators still regard the Mediterranean as the British mass-market playground for the foreseeable future. But each country in that playground now has to fight to keep its share or increase its profit margins.

"We want to get beyond the 3S experience — sun, sea and sand — and give other opportunities for a more selective type of tourism, such as sport, culture or spas," said Lazaridis. Turkey is presenting more competition, but it is selling Greek qualities in its holidays."

Therein lies the difficulty. For if Turkey can convincingly sell Greek qualities at a lower price, then why go to Greece? The answer has to lie in those qualities that cannot be reproduced — like the ancient Greek monuments — and in a better standard of service.

It is no longer any excuse to rely on being quaint and otherworldly. While the back-packers may be eager to taste the quirks of other cultures, the high-spenders want home comforts in an exotic setting. That will be the true challenge for Greek tourism in the next century.

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Some old Athens districts have been spruced up, and most of a much-needed \$380 million improvement plan for the capital has met government approval.



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