RESTORING THE BALANCE

Greek foreign trade

Greece has a chronic trade deficit. The cost of imports is four times the value of exports and the ratio is expanding.

The merchandise trade deficit is partly offset by exports of invisibles – earnings from tourism, shipping and remittances from emigrants – but these are cyclical and prey to exogenous factors.

The largest single compensatory factor in recent years has been EU transfers – Common Agricultural Policy subsidies and monies paid from the regional and social funds.

In 1994 Greece had a record low current account deficit of just $126 mn or 0.1% of GDP. But if net EU transfers of $4.3 bn were stripped out, the deficit was equal to 4.5% of GDP.

In 1995, the trade balance deterioriated dramatically. The current account deficit rose to $2.9 bn – a manageable 2.5% of GDP with EU monies but a crisis-provoking 6.9% without.

By the early years of the next century, a substantial proportion of these EU transfers will dry up as the structural fund aids now pouring into Greece and the other cohesion countries (Spain, Portugal and Ireland) are diverted to the Visegrad states of eastern Europe who will enter early in the next century.

Between now and then Greek farmers, industrialists and members of government must evolve practices and policies to make output more productive and sales more competitive so as to reduce the basic trade deficit.

Otherwise Greece will find itself again facing the sort of balance of payments crises it experienced in 1985 and 1990.