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FM ATHENS 100930Z JAN 83

TO IMMEDIATE FCO TELNO 6 OF 10/1/83

INFO IMMEDIATE UKREP BRUSSELS

ROUTINE PARIS, BONN, ROME, THE HAGUE, BRUSSELS AND COPENHAGEN.

SAVING TO LUXEMBOURG, DUBLIN, MADRID, LISBON, UKDEL OECD,

WASHINGTON, ANKARA AND NICOSIA.

DEVALUATION OF THE GREEK DRACHMA.

1. ON 9 JANUARY THE GREEK GOVERNMENT ANNOUNCED THE DEVALUATION OF THE DRACHMA BY 13.3%. THE DRACHMA WILL OPEN TODAY IN ATHENS AT 84 EQUALS ONE US DOLLAR COMPARED WITH 71 AT CLOSE ON 7 JANUARY. RATES AGAINST OTHER CURRENCIES WILL MOVE DOWN CORRESPONDINGLY.

2. THIS DEVALUATION SHOULD BE SEEN AS THE SECOND STEP IN THE GOVERNMENT'S EFFORT TO RESTORE GREECE'S INTERNATIONAL COMPETITIVENESS. (THE FIRST WAS THE INCOMES POLICY ANNOUNCED IN DECEMBER 1982). IN RECENT WEEKS THE GOVERNMENT HAVE EXPRESSED CONCERN, NOT ONLY AT THE LOSS OF EXPORT MARKETS (GREEK EXPORTS DECLINED BY 17% IN THE FIRST 3 MONTHS OF 1982) BUT AT THE INCREASING PENETRATION OF FOREIGN GOODS IN THE DOMESTIC MARKET.

3. AT THE SAME TIME AS HE ANNOUNCED THE DEVALUATION, ARSENIS, MINISTER OF NATIONAL ECONOMY, SAID THAT GREECE WOULD REQUEST THE APPROVAL OF THE EC COMMISSION FOR SAFEGUARD ACTION UNDER ARTICLE 130 OF THE GREEK TREATY OF ACCESSION IN THE FOLLOWING SECTORS: TEXTILES, SOME AGRICULTURAL MACHINERY, CERTAIN CATEGORIES OF BUILDING MATERIALS, HIDES AND SKINS, TOYS. THE GOVERNMENT'S INTENTION IS THAT IMPORTS OF THESE PRODUCTS IN 1983 SHOULD NOT EXCEED THE LEVEL OF IMPORTS IN 1980, THE LAST PRE-ACCESSION YEAR. HE SAID THAT THE FORM, EXTENT AND EXACT NATURE OF THE MEASURES TO BE TAKEN WOULD BE ANNOUNCED IN A FEW DAYS WHEN THE PROCEDURES ENVISAGED IN ARTICLE 130 HAD BEEN COMPLETED. MEANWHILE, HOWEVER, TO PREVENT SPECULATIVE ACTION, ADMINISTRATIVE CONTROLS ON IMPORTS OF THESE CATEGORIES OF GOODS WOULD BE INTRODUCED.

Michael
*to see**DA*

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4. THE GOVERNMENT IS ALSO TAKING ACTION TO STRENGTHEN THE EXPORT EFFORT. BILLS ARE TO BE PUT TO PARLIAMENT CREATING A STRENGTHENED EXPORT PROMOTION ORGANISATION, SETTING UP AN EXPORT GUARANTEE ORGANISATION AND AN INSTITUTE OF PACKAGING AND STANDARDS.

5. ARSENIS ANNOUNCED THAT THE GREEN DRACHMA WOULD BE DEVALUED TO BRING IT INTO LINE WITH THE NEW RATE OF THE DRACHMA AGAINST THE ECU.

COMMENT

6. DEVALUATION OF THE DRACHMA HAD BEEN WIDELY EXPECTED, BOTH TO RESTORE GREECE'S INTERNATIONAL COMPETITIVENESS AND TO MAKE POSSIBLE A DEVALUATION OF THE GREEN DRACHMA THIS SPRING TO SAFEGUARD GREEK FARMERS INCOMES. BUT THE MANNER OF THE DEVALUATION COMES AS SOMETHING OF A SURPRISE. IN RECENT YEARS THE GREEK GOVERNMENT HAS PREFERRED TO ADJUST THE DRACHMA'S VALUE (WHICH IN SOME PERIODS HAS CHANGED FAIRLY FAST) BY QUIET MANIPULATION BY THE BANK OF GREECE. PRESUMABLY THE GOVERNMENT HAS CHOSEN A FORMAL DEVALUATION TO EMPHASIZE THE GRAVITY OF THE SITUATION SEMI-COLON AND PERHAPS IN THE HOPE OF PICKING UP AN INCREASED SHARE OF THE INTERNATIONAL TOURIST TRADE AT A PERIOD WHEN BOOKINGS ARE BEING MADE. DEVALUATION MAY ALSO HAVE A TONIC EFFECT ON WHAT THE GREEK GOVERNMENT CALLS "' AUTONOMOUS CAPITAL INFLOWS'", TRANSFERS OF FOREIGN CURRENCY TO GREECE BY THE GREEK COMMUNITIES IN THE UNITED STATES, AUSTRALIA, ETC., WHICH ARE GENERALLY USED TO PURCHASE PROPERTY.

7. A COMBINATION OF THE DEVALUATION AND IMPORT QUOTAS WILL HAVE SOME EFFECT ON BRITISH EXPORTS TO GREECE SEMI-COLON BUT IT IS DIFFICULTY TO QUANTIFY THIS UNTIL WE HAVE DETAILS OF THE TARIFF HEADINGS CONCERNED. BUT I TAKE SOME ENCOURAGEMENT FROM THIS FURTHER EVIDENCE THAT THE PASOK GOVERNMENT IS AT LAST GETTING TO GRIPS WITH THE ECONOMIC PROBLEMS FACING THIS COUNTRY.

3 FCO PLEASE ADVANCE COPIES WILSON/SED, SPRECKLEY/ECG, BULL/BANK OF ENGLAND, A J EDWARDS/TREASURY, LINK/ECGD, AND WISEMAN EEB/DOT, MRS DRAGE WEG/DOT.

2. FCO PLEASE PASS SAVING ADDRESSEES.

RHODES
FINANCIAL
SED

REPEATED AS REQUESTED

ADVANCED AS REQUESTED

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