1960 Consultation under Article XVIII:12(b) with Greece

Executive Board decision taken at the conclusion of the consultation between Greece and the International Monetary Fund under Article XIV, Section 4 of the Fund Agreement on 20 May 1960.

1. The Government of Greece has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. During 1958 and 1959 the gross national product increased more slowly than in preceding years, mainly because of a slowdown in the growth of agricultural output. The relative stability of prices and wages has been promoted by increased confidence in the currency. The Government had in the last few years maintained a surplus on the current account of the budget and has financed rising investment expenditures without recourse to central bank financing. However, in 1959 money supply rose at a faster rate than real income, in part because of a continued expansion of central bank credit in connexion with the operation of agricultural price-support policies.

The Fund shares the conviction of the Greek authorities that maintenance of confidence in the currency is indispensable if sustained balanced economic growth is to be achieved. The Fund urges the Greek authorities to check the rate of monetary expansion, particularly by reducing the reliance of the Agricultural Bank on the Bank of Greece for the expansion of its credit operations. The Fund points out that agricultural price-support policies as presently operated lead to increased fiscal burden and excessive monetary expansion and have adverse effects on the balance-of-payments position.

3. The balance of payments on goods and services account, which deteriorated in 1958 primarily as a result of reduced earnings from services, improved in 1959 as imports, in part affected by intensified restrictions, declined more than exports, and receipts from services and private donations increased. Owing to a sharp decline in foreign commercial credit the net inflow of private capital was reduced in 1958 and 1959. Monetary reserves, after falling in 1958, rose in 1959 partly because of the smaller goods and services deficit but also as a result of substantial non-recurrent capital receipts. In the first quarter of 1960 monetary reserves increased moderately.

4. Since the last consultations restrictions and discrimination, including that arising from bilateralism, were increased. The Fund believes that the Government's objectives of economic development would be better served by action designed to strengthen the competitive position of Greek exports and urges the adoption of appropriate internal credit and price policy measures. Such action should permit reduced reliance on restrictions and discrimination.

5. The Fund does not object to the multiple currency practice maintained by Greece on a temporary basis but urges its early elimination.

6. In concluding the 1959 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Greece.

Spec(60)135

E only