Committee of Balance-of-Payments Restrictions

DRAFT REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH GREECE

1. In accordance with its terms of reference the Committee conducted the consultation with Greece under paragraph 12(b) of Article XVIII. The Committee had before it: (a) the "basic document" prepared by the secretariat (BOP/5/Rev.1)\(^1\) and (b) a document provided by the International Monetary Fund. In conducting the consultation the Committee followed the "plan" recommended by the CONTRACTING PARTIES. The discussion with the Committee was completed on 12 May 1962. The present report summarizes the main points discussed during the consultation.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Greece. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Greece. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on Greece, dated May 3, 1962.

"The Fund expects to conclude in the near future a consultation with Greece under Article XIV of the Fund Agreement and to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available."

Opening Statement by the Representative of Greece

3. In his opening statement, the representative of Greece outlined the efforts, and the considerable progress made by Greece in recent years in accelerating its rate of economic development and, through converting its

\(^1\)A revised document, incorporating amendments to the secretariat paper made during the consultation by the representative of Greece, will be circulated as BOP/5/Rev.2.

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economy from an agricultural to an industrial one, to provide a sound basis for the expansion of the country's exports. Gross national product in real terms had increased by 4 per cent in 1960 and by 11 per cent in 1961, the second year of the Five-Year Plan. Even so, per capita income in 1960 had only been ₤333, one of the lowest figures in Europe. Investments in industry in 1961 had been equal to one fifth of the gross national product. Industrial production in 1960 had been 8 per cent higher than in the previous year and had increased by a further 6 per cent in 1961.

4. The substantial progress in the Greek economy during the last few years had not been matched by a similar development of the country's trade and payments. Exports had practically stagnated during the past few years and Greece continued to be dependent on a few agricultural commodities and raw materials for the bulk of its export earnings. Tobacco alone continued to account for about one third of total export earnings, while it and four other commodities (currants and raisins, cotton and fresh fruit) had accounted for approximately two thirds of total export earnings which amounted to ₤208½ million in 1960 and to ₤234.3 million in 1961. This compared with import outlays of ₤497.1 million in 1960 and ₤561.2 million in 1961. The current account deficit of the balance of payments had been ₤59.8 million in 1959 and had increased to ₤82.8 million in 1961. This deficit would have been higher had there not been an increase in net receipts from invisibles which amounted to ₤208 million in 1960 and ₤244 million in 1961. The gradual improvement in Greece's monetary reserves, which had reached ₤251 million at the end of 1961, had been made possible by inflows of capital and indirectly by foreign aid.

5. Greece depended for its current foreign exchange income almost entirely on exports of a few agricultural commodities, production of which was affected by the vagaries of the weather and which were subject to large price fluctuations, and on invisible receipts, dependent largely on external developments and conditions beyond Greek control. It was against this background that the maintenance of restrictions by Greece, and the progress made since the last consultation in reducing restrictions on trade, should be seen. The representative of Greece explained that since 1960 quotas for imports of certain commodities from convertible currency countries, established in 1959, had been abolished. Further progress in the relaxation
of import restrictions was made in 1961 and, with effect from 10 April 1962, coffee, coal, coke, tyres and inner tubes, timber and wooden boxes, newsprint, iron and sheet iron had been deleted from the licensing list (List A). Remaining restrictions were generally applied in a liberal manner and the Greek Government did not consider that these impeded imports. Indeed, there were practically no quantitative restrictions in effect. This was evidenced by the large increase in imports; total imports increased by 9 per cent in 1960 and by 13 per cent in 1961, as compared with the preceding year. Practically all categories of products had shared in this increase, particularly large increases had been registered in imports of foodstuffs, manufactured consumer goods, automobiles and transport equipment, raw materials, electrical equipment, machinery, medical and pharmaceutical products, as well as a large number of other products.

6. In concluding his opening remarks the representative of Greece expressed the hope that this outline of developments in the Greek economy and of trade and payments, as well as of changes in his country's import control system, would assist the Committee in evaluating developments since the time of the last consultation in May 1960. He stated that the various developments highlighted above were described in considerable detail in the background material before the Committee.

7. Amendments to the secretariat background document, which were made by the representative of Greece at the outset of the discussions, will be incorporated in a revision of that document.

Balance-of-Payments Position and Prospects

8. The Committee thanked the representative of Greece for his concise statement and welcomed the substantial improvement in the Greek economy and the increase in the foreign exchange reserves, to a level equivalent to approximately five months' imports. Members of the Committee enquired about prospects for a further acceleration of economic and trade expansion, referring in particular to the Greek Five-Year Plan and the Treaty of Association between Greece and the European Economic Community, signed in July 1961. The representative of Greece explained that prospects for achieving the aims and objectives of the Five-Year Plan were favourable. Although certain basic investments had lagged somewhat behind schedule,
national income had increased at a rate higher than the target of an average annual increase of 6 per cent. It was hoped that the momentum of economic development would be maintained and further accelerated. The improvement in the external trade-and-payments situation had, however, been less pronounced. Earnings from commodity exports, after a decline of 2 per cent in 1960, had increased by 12 per cent in 1961 over the 1960 figure. This rather substantial increase reflected primarily the good harvest in 1961 and delays in export deliveries towards the end of 1960. Another factor contributing to this increase had been the movement into larger exports of cotton, stocks of which were now exhausted. He explained that this increase was due to seasonal factors and good crops in 1960/61 and that exports during the first two months of 1962 ($53 million) were considerably higher than in the corresponding period of 1961 ($30 million). For 1962 as a whole, exports were estimated to reach approximately $250 million. This represented an increase over exports in 1961 between 6 and 7 per cent. At the same time imports during the first two months of 1962, at a value of $113 million, had been almost 10 per cent higher than in the corresponding period of 1961; imports for the whole of 1962 were expected to be in excess of $600 million. This compared with imports in 1961 of $561.2 million.

9. In reply to a question about the Treaty of Association between the EEC and Greece, he drew attention to the fact that the Association Agreement was to be discussed by a special working group of the GATT and he felt it would not be in order for him to go into fuller details at this point. Since, however, the Agreement was awaiting ratification by all member States of the European Economic Community and was not expected to enter into force in the latter half of 1962, it was unlikely that the Agreement would show any immediate and significant effect on the development of trade with the Community, at least during the remainder of 1962. He explained that although in the past year exports to the EEC had been increasing in absolute figures, the ratio of exports to imports in trade with the EEC countries had decreased from 34.0 per cent in 1960 to 32.0 per cent in 1961, thus contributing to the decrease in the overall ratio of 43.1 per cent to 37.0 per cent. The trade deficit, vis-à-vis the EEC countries, had been $129 million in 1960 and $158 million in 1961. Estimates on future levels of exports and imports in trade with the Community could only be conjecture at the present time.
10. Members of the Committee noted the further measures adopted for promoting the inflow of private foreign capital into Greece, and enquired about prospects for increased inflows of such capital. In his reply the representative of Greece explained that although there had been a noticeable increase in inflows of private foreign capital in recent years, total inflows of private foreign capital, amounting to £42 million in 1960 and £57 million in 1961, had been below what might have been expected on account of the measures adopted by the Government to maintain internal monetary stability and in view of the fair treatment and incentives extended to foreign investors. A large part of private capital inflows in recent years had come from Greeks residing abroad, with a large part of these funds going into residential construction. Although total foreign private investment approved since 1953 had amounted to some £177 million, actual private capital inflows for investment in industry during this period had amounted to only £53 million. Foreign private investment had moved largely into the following industries: aluminium, shipyards, mining, fertilizers, tyres and tubes, straw cellulose and textiles.

11. Members of the Committee enquired about the prospects of increased inflows of private investment capital in connexion with the Association Agreement signed between Greece and the EEC. The representative of Greece stated that so far no increase in private capital inflows from the EEC countries, as a result of the expected coming into force of the Association Agreement, had been noted. There had, however, been an increasing number of enquiries regarding investment possibilities which, he hoped, would materialize.

12. The representative of Greece explained that, in view of the growing domestic market for various consumer goods in the wake of continuing development and increasing incomes, and in view of the progressive relaxation of measures affecting Greek exports to the EEC, envisaged under the Association Agreement, Greece was likely to become increasingly attractive to foreign investors. No forecast could be given, however, regarding the level of such capital inflows in the near future. He further stated that the Government would continue its liberal policy towards private foreign investment.
13. In reply to questions concerning the rapid expansion of earnings from invisibles in 1960 and again in 1961, the representative of Greece explained that the main factor responsible for this development had been an increase in receipts from shipping. Receipts from tourism had also significantly increased and there had been an increase, though less pronounced, in emigrants' remittances. The representative of Greece explained further that the Five-Year Plan aimed at a considerable expansion of the Greek tourist industry, /...
and that receipts from tourism in 1962 might be expected to be about 10 per cent higher than in 1961. Emigrants' remittances were expected to increase by a similar percentage. The large increase in receipts from shipping was largely due to massive transfers of Greek-owned ships registered under "flags of convenience" to Greek registry; such transfers were continuing, though at a slower rate. It was expected that for 1962 net receipts from shipping, partly reflecting the continuation of such transfers and partly as a result of an expected increase in sailors' remittances included in the shipping accounts would be somewhat higher than in 1961.

14. In reply to questions concerning the expected development of foreign exchange reserves in 1962, the representative of Greece stated that, barring unforeseen developments, reserves were not expected to decrease. On the other hand, no significant increase was to be expected. He further stated that, for the reasons given in his opening statement in order to maintain confidence in the currency, the present level of reserves had to be considered as a minimum.

15. One member of the Committee enquired whether, in the near future, the Greek authorities expected any significant shift in the composition of imports, and about products for which import substitution was to be expected. The representative of Greece stated that there had been a particularly large increase in recent years in imports of foodstuffs, of feed grains, and of a number of consumer goods. Imports of capital equipment which had also shown some increase were likely to grow in connexion with the country's programme of industrialization and development at a faster rate than in the past. At the same time, demand for consumer goods could be expected to show a further increase as a result of rising per capita incomes. Among products for which Greece expected to become self-sufficient in the near future were: chemicals and fertilizers, tyres and tubes, cattle and meat.

Alternative Measures to Restore Equilibrium

16. The Committee congratulated the Greek authorities on their success in preventing inflationary price movements, despite a considerable expansion in the money supply, both in 1960 and 1961. Members of the Committee
expressed the hope that the effectiveness with which fiscal and monetary measures had been used in regulating demand would be a factor taken into account by the Greek authorities when reviewing possibilities for additional import liberalization. The representative of Greece stated that it was, indeed, his Government's wish to rely on measures other than quantitative restrictions for the regulation of import demand. As could be seen from the liberal manner in which import controls were administered by Greece, fiscal and monetary measures had always been a major mechanism for regulating the flow of imports.

17. Members of the Committee noted that, under the credit regulations established by the Currency Committee, the body formulating Greek monetary policy, special credit facilities had been provided for firms exporting a specified percentage of total sales. They enquired about means available to the monetary authorities to implement this regulation. The representative of Greece explained that the encouragement of exports through credit facilities on favourable terms was made possible through credit extended from funds of the Bank of Greece and other public bodies. Such credits were partly channelled through financial institutions by making available to them funds to be utilized for credits to the private sector on terms specified by the Currency Committee. In reply to a related question, the representative of Greece explained that the Currency Committee, in certain instances, recommended or prescribed to the banks selective credit controls. Commercial banks were, for example, not allowed to finance the import of certain luxury goods. He explained that there were no restrictions on financing imports of essential commodities, machinery and raw materials. The Currency Committee had some latitude for prescribing terms and conditions for financing certain other imports if such action appeared necessary.

System and Methods of Restrictions

18. The Committee welcomed the measures taken by Greece since the last consultation in relaxing licensing requirements and the substantial progress towards the elimination of quantitative restrictions.
19. In reply to questions regarding the scope of the import control measures, the representative of Greece informed the Committee that products subject to the prior deposit requirements had accounted for 32.1 per cent of the value of total imports in 1960. The proportion of total imports still subject to licensing restrictions had accounted for 9 to 10 per cent of the value of total imports in 1961 divided about equally between items on lists A and B.

20. In discussion of the measures maintained by Greece for controlling imports, members of the Committee pointed out that the prior deposit requirement - undoubtedly unintentionally - had the effect of discriminating against imports from distant sources of supply. They pointed out that the extra time required for these products to reach Greece meant that importers' capital was tied up for longer periods or that longer bank credits were needed, thus reducing the competitiveness of distant foreign suppliers. In view of the essentially financial purpose of the prior deposit requirement, every effort should be made by the Greek authorities to eliminate any element of discrimination arising from the imposition of this requirement. They expressed the hope that in reviewing its import control measures and in moving towards import liberalization, including measures possibly to be adopted in the framework of regional economic cooperation, Greece would not fail to take the interests of all contracting parties into account.

Members of the Committee also noted that in isolated cases certain imports from State-trading countries had been exempted from the prior deposit requirement, whereas imports of similar goods from other countries were subject to this requirement. The representative of Greece assured the members of the Committee that his Government did not intend to apply the prior deposit system or any other import control measure in a discriminatory manner. His Government was prepared to give sympathetic consideration to any representation made by any contracting party regarding discriminatory treatment arising from the administration of the prior deposit requirement. Members of the Committee welcomed the assurances given by the Greek representative that it was not the intention of the prior deposit system to discriminate between imports from different sources of supply and that Greece would endeavour to remove any discrimination.
2. Referring to the description contained in the secretariat background paper of the licensing treatment for products included in List A, members of the Committee enquired what other factors, apart from balance-of-payments considerations, were taken into account in issuing these licences. The representative of Greece explained that, although this licensing category had originally been established for controlling imports of luxury items, only very restricted imports of which would have been justifiable in view of the country's balance-of-payments position, a number of items other than luxury goods had also been added to that List. He explained that the inclusion of these items in List A had been decided upon in view of the absence of other appropriate licensing categories, as a result of the very liberal trade policy followed by Greece since 1953. Products included in List A, for which other than balance-of-payments considerations were also important in granting import licences, included such items as beans, peas, incense, canary seed and a few other items which, in many instances, were the sole source of income for farmers in isolated parts of the country. In addition, certain textile items were included in this List in view of the special difficulties confronting the domestic textile industry in Greece. Certain other items had been included to deal with special difficulties. For example, the licensing requirement for electric refrigerator cabinets had been adopted to terminate fraudulent customs practices by importers who imported cabinets and refrigeration units separately in order to benefit from the lower duty on the unassembled items. Imports of electric refrigerator cabinets were liberally licensed, however. Liberal licensing treatment was also granted for imports of passenger cars, trucks, buses etc. which were also included in List A; imports of cars, trucks etc. had amounted to $27 million in 1961. He assured the members of the Committee that his Government was keeping licensing controls maintained on these items under constant review and would consider any other means for regulating imports of these items where regulation continued to be necessary.
22. In reply to another question, the representative of Greece explained that the maintenance of different procedures (Procedures "S" and "D") for payments for imports from different countries had no practical significance, and approval was granted without difficulty under either of these two categories.

23. Members of the Committee noted that trade and payments with a number of countries, including five Fund member countries, continued to be conducted on a bilateral basis. They enquired about the proportion of trade conducted under bilateral arrangements. The representative of Greece stated that in 1961 imports from State-trading countries had accounted for 8.7 per cent of total imports and imports under bilateral arrangements from other countries to 5.2 per cent of total imports. Exports under bilateral arrangements had accounted for 31.8 per cent of total exports; exports to State-trading countries alone had accounted for 23.3 per cent of total exports. Members of the Committee expressed the hope that Greece would reduce its reliance on bilateral arrangements to the greatest possible extent. The representative of Greece assured the members of the Committee that, as in the past, his Government would make every effort to fulfil its bilateral obligations in a way which would not be detrimental to the trade interests of other contracting parties.

Effects of the Restrictions

24. Commenting on the licensing treatment for products included in List B, the representative of Greece stated that his Government recognized the importance of ensuring that newly established industries should become efficient. Although import control measures on these products were being maintained in such a way as also to assist the establishment of infant industries in Greece, the licensing system was kept flexible, especially to ensure efficiency in the infant industries. He stated in this connexion that imports of goods falling under List B had increased from $24 million in 1960 to $26 million in 1961. Members of the Committee welcomed this statement.
General

25. The Committee thanked the representative of Greece for the cooperative way in which they had engaged in the consultation. The Committee welcomed the economic progress made by Greece and the measures taken since the last consultation abolishing, relaxing and modifying import restrictions. The Committee expressed its understanding of the problems with which Greece was still faced but hoped that developments of the balance of payments and of the foreign reserve position would permit further progress to be made in the direction of import liberalization. Members of the Committee invited Greece to review the operation of its control measures with a view to the elimination of any possible discrimination arising therefrom. The Committee invited Greece to examine the licensing lists with a view to further reducing their present scope and also avoiding incidental protection. Members of the Committee noted that trade and payments with a number of countries, including some Fund member countries, continued to be conducted on the basis of bilateral agreements. They noted that Greece had eliminated two agreements during the past two years and urged her to make further efforts towards the termination of bilateral agreements.

26. The representative of Greece thanked the Committee for the understanding attitude with which it had conducted the consultation and for the many helpful suggestions made during the consultation. He assured the Committee that he would convey to his Government the views expressed by members of the Committee.