GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1964 CONSULTATIONS ON BALANCE-OF-PAYMENTS RESTRICTIONS WITH GREECE

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund’s Consultation with Greece on 15 November 1963

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 1962 gross national income in real terms increased by 3 per cent, despite a fall of nearly 6 per cent in gross agricultural income owing to the biennial cycle in the olive crop and to adverse weather conditions. Increased outlays on fixed investment, especially by the private sector, further growth in earnings from tourism and shipping, as well as increases in emigrants’ remittances were the main factors contributing to the rise in gross national income. Unemployment and rural overpopulation continued to present a major problem, but the situation was alleviated to some extent by a further increase in emigration which, including workers leaving to take up temporary employment in Western Europe, amounted to 110,000 people in 1962. Prices rose sharply in the last quarter of 1962 largely because of reduced supplies of major foodstuffs, but the rising trend halted in May 1963. Despite impressive gains in saving and time deposits, money supply again rose by about 15 per cent, mainly because of an increase in government outlays, the continued expansion of credit to the private sector and a rise in foreign exchange holdings. The rising trend in money supply continued in the first half of 1963. Current budget revenue in 1962 was higher than estimated and appreciably larger than in 1961. Current expenditure also rose, but to a smaller extent, and the resultant surplus made an important contribution to the financing of public investment, which was some 16 per cent greater than in 1961.

3. In the course of 1962 the Five-Year Development Program 1960-1964, was updated to cover the years 1962-1966. Its basic objectives, including the achievement of a 6 per cent average annual rate of growth in the gross national product, remained unchanged. To achieve them it will be necessary to increase the volume of investment, especially in industry. It is expected that resources for this purpose will be provided through increased domestic savings and the inflow of foreign capital from private and governmental sources. The Fund agrees that these resources for development could best be obtained by maintaining monetary stability and thereby strengthening domestic and foreign confidence in the national currency. For this purpose measures designed to lower the rate of
growth in money supply, especially by further reducing central bank financing of the credit operations of the Agricultural Bank and the government supply account would be helpful. The simplification of credit controls and the strengthening of the capital market would contribute to increased savings. The Fund believes that every effort should be made to raise current budgetary revenue by appropriate measures, especially by a continued drive against tax evasion.

4. The deficit in the balance of payments on goods and services account increased from $97 million in 1961 to $123 million in 1962, because of a sharp increase in imports associated with the development effort. Capital inflow, especially from private sources, was larger than in 1961 and enabled the authorities both to augment the monetary reserves and to establish a special gold sovereign fund for intervention in the domestic gold market. In August 1963 monetary reserves amounted to about $282 million, $15 million higher than the level in August 1962. In recent years Greece has made great progress in raising its earnings from invisible transactions, especially from tourism. However, exports so far have not responded satisfactorily to the inducements offered by the authorities. The Fund believes that the achievement of the development goals of Greece would be greatly assisted by better export performance and urges the authorities to increase their effort in this regard.

5. Since the last consultations some progress has been made in lessening restrictions. As direct consequences of the entry into force of the association agreement with the EEC in November 1962, advance import deposits were eased and the centralized system of bilateral payments arrangements with the EMA countries terminated. The exchange rate system was unified as a result of the negotiation of a new trade and payments agreement with the United Arab Republic. The system of import control remains complicated, however, and the Fund believes that its simplification is both practicable and desirable. Greece still relies heavily on bilateral payments agreements; the Fund considers that the channeling of a substantial proportion of exports to bilateral countries reduces the effectiveness of the measures taken to expand exports to more competitive markets and impedes the objective of closer integration of the Greek economy with Western Europe. The Fund urges Greece to reduce its reliance on bilateralism and especially to take early action to terminate the remaining agreements with Fund members.

6. In concluding the 1963 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Greece.