INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH GREECE ON AUGUST 19 1966

1. This decision is taken by the Executive Directors in concluding the 1966 consultation with Greece, pursuant to Article XIV of the Articles of Agreement.

2. The real rate of growth in gross national product during the three years 1963-1965 has been above the average for the decade 1955-1965 although the rate of growth fell in 1965 to 7.4 per cent. Following the expansionary policies in 1964, consumption rose by 9 per cent in 1965. Prices continued to rise in early 1966 and there was a further increase in the trade deficit. The Fund welcomes the action that has been taken to moderate demand but emphasizes that there is a need to be prepared to take quick further action should prices start rising again or should the current account of the balance of payments deteriorate.

3. The money supply increased by about 20 per cent in 1964, and by 15 per cent in 1965. High liquidity facilitated the purchase of large amounts of sovereigns by the public in 1965. In December 1965, the Government took welcome steps to reduce demand for official sales of sovereigns and has since purchased (net) sovereigns to a value of about $70 million. The Fund welcomes the proposals currently being studied for the development of the capital market and the adoption of measures for the simplification of the credit control system.

4. Partly owing to political difficulties in 1965, the budgetary situation deteriorated considerably, and a deficit was incurred, a portion of which was financed by bank credit. There is a need to confine total budgetary outlay to revenue from nonbank sources. The tax bill was not approved until August and this delay and the fact that the 1966 budget has not yet been enacted are regrettable. A review of the fiscal system seems necessary if the domestic revenue needed to finance a growing development effort is to be obtained.

5. In 1965 net receipts from services and the capital account of the balance of payments rose but not sufficiently to offset the larger trade deficit; thus foreign exchange reserves declined and are now equivalent to about three months' imports. There is a need to stimulate current account earnings by concentrating on the items from which an early return is likely.
6. There have been few changes in the restrictive system since the last consultation. The payments agreement with Finland was terminated; however, Greece continues to rely heavily on bilateral payments agreements, in particular with respect to the marketing of certain agricultural commodities. The Fund urges Greece to terminate the remaining agreements with Fund members and to reduce reliance on bilateral payments arrangements with other countries, especially because bilateral sales adversely affect the expansion of exports to more competitive markets and tend to delay measures needed to ensure the necessary structural changes in the economy.