1. The Committee consulted with Greece in accordance with its terms of reference and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 268/205). The consultation was held on 17 November 1981 under the chairmanship of Mr. J.N. Feij (Netherlands). The International Monetary Fund was invited to participate in the consultation pursuant to Article XV of the General Agreement.

2. The Committee had the following documents before it:

- Basic Document and Addendum (BOP/221 and Add.1)
- Secretariat Background Paper (BOP/W/55)
- IMF Recent Economic Developments, dated 13 August 1980
- IMF Supplementary Background Material, dated 20 October 1981
Opening Statement by the representatives of Greece and the Commission of the European Communities

3. In his introductory statement the representative of Greece said that all the temporary measures that had been introduced in November 1979 and that had been the subject of the last consultation in the Committee had been abolished. The only balance-of-payments measure affecting trade that had remained was the import deposit system, which was scheduled to be gradually phased out and abolished on 1 January 1984 in accordance with Greece's accession treaty with the EEC.

4. The representative of Greece then reviewed recent economic developments in his country and described briefly the import regime applied by Greece since its accession to the EEC. He said that in 1980 there had been a decline in the growth rate of real GDP to 1.6 per cent. Domestic demand had been weak and investments had declined. The Greek economy had suffered from the effects of the energy crisis and the slow growth of the economies of the developed countries. The current account deficit, which had already increased by 96.9 per cent in 1979 had risen by a further 17.8 per cent in 1980. Expenditure for fuel imports had increased to nearly US$ 3 billion in 1980, accounting for about 26 per cent of total import expenditures.

5. Since the last consultation Greece had taken a large number of measures designed to facilitate imports, among them the abolition of
quantitative restrictions on most products, the voluntary restraint measures by importers, the import invoice authorizations, the distinction between procedures 'D' and 'E' (see BOP/204, page 3), the prior shipment fines and all bilateral agreements. In addition, Greece had acceded, as a member of all EEC, to the MTN agreements.

6. The representative of the Commission of the European Communities stressed the import liberalization efforts made by Greece in connexion with its accession to the EEC and he reiterated that the only measure taken for balance-of-payments purposes that had remained in force since the last consultation in May 1980 was the import deposit scheme, which was being phased out and would be abolished on 1 January 1984 in accordance with a time schedule laid down in Greece's accession treaty with the EEC.

Statement by the representative of the International Monetary Fund

7. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the full text of which is reproduced in the Annex.

Balance-of-payments position and prospects - alternative measures to restore equilibrium

8. Many members of the Committee expressed their satisfaction with the liberalization measures taken by Greece in connexion with its accession to the EEC. The hope was expressed that Greece might find
it possible to eliminate the deposit scheme before the date scheduled in Greece's accession treaty with the EEC.

9. Several members of the Committee wondered whether Greece had considered appropriate fiscal and monetary policies as an alternative to the deposit scheme. The representative of Greece replied that no alternative policy instrument was available that had both the commercial and monetary effects of the deposit scheme. The question was asked whether Greece's new government, which had been formed after national elections on 18 October 1981, had announced any changes in foreign economic policy. The Greek representative said that his government was going to announce its policy programme in a few days in an inaugural speech to the parliament by the Prime Minister, Mr. Papandreou.

System, method and effect of the restrictive import measures

10. Most of the questions of the members of the Committee related to the remaining quantitative import restrictions applied by Greece and to the operation of the import deposit scheme.

11. One member of the Committee asked for which purpose the remaining quantitative restrictions, in particular those applied only to some contracting parties, had been instituted and which Article of the GATT Greece invoked to justify them. The representative of Greece replied that the restrictions did not serve balance-of-payments purposes. They were residual restrictions designed to protect temporarily domestic production and were comparable to those
maintained by many contracting parties. Greece's imports covered by quota restrictions had declined from US$ 800 million in 1980 to US$ 40 million in 1981 because restrictions on a large number of products had been abolished in accordance with Greece's treaty of accession to the EEC. The restrictions had been discussed in the Working Party on the Accession of Greece to the EEC. The Committee on Balance-of-Payments Restrictions could not reach conclusions on them as this would clearly fall outside its terms of reference. The member of the Committee who had raised the question said that the Working Party on the Accession of Greece to the EEC had examined the quantitative restrictions only in the light of Article XXIV of the General Agreement concentrating on their global trade impact. He added that if Greece did not invoke GATT's balance-of-payments exceptions to justify the restrictions he had referred to, he had to assume that they were illegal; the member therefore reserved his government's rights under the General Agreement. He further said that he could not accept the view that Greece's import regime had become more liberal as a result of Greece's accession. The representative of the Commission of the European Communities stated that he did not share the views expressed by the member and he reiterated that the question of the conformity of the quantitative restrictions with the provisions of the General Agreement was not relevant in this Committee.

12. As to the import deposit scheme one member, noting that different deposit rates and retention periods were applied to different product categories, asked which criteria were used in determining the deposit rates and retention periods. The member pointed out that a selective
application of balance-of-payments measures to some product categories could easily lead to discrimination against particular supplying countries. The Greek representative replied that the deposit scheme had been introduced in 1956 and the criteria had been established then. The deposit rates and retention periods varied with the sensitivity of the products. In reply to a further question the Greek representative confirmed that the deposits were non-interest bearing.

13. One member asked whether the list of products subject to the deposit requirement might be changed. The Greek representative said that amendments had been made but only in the direction of a further import liberalization. In March 1981 a large number of raw materials and semi-manufactured goods had been excluded. In response to a further question the Greek representative confirmed that all changes in the deposit scheme, be it changes in deposit rates, in the retention periods or in the product coverage, had only been in the direction of a further liberalization.
Conclusions

14. The Committee welcomed the elimination of the temporary measures introduced for balance-of-payments purposes in November 1979. The Committee also welcomed that Greece had abolished several measures taken for balance-of-payments purposes since the last full consultation, in connexion with its accession to the EEC. It noted that Greece now maintained only one restrictive import measure for balance-of-payments purposes, namely a system of advance import deposits, and that a fixed time-schedule had been set up for the progressive removal of this system and for its abolition on 1 January 1984. It noted that the simplification of the import regime and the phased abolition of the import deposit scheme in accordance with a publicly announced time-schedule were in conformity with the Committee's conclusions at the last consultation and with paragraphs 1(b) and (c) of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes.

15. The Committee noted that the list of products subject to the deposit requirement before Greece's accession to the EEC had been notified to the Working Party on Accession of Greece to the European Communities. The Committee, stressing the need for transparency in import regimes, requested Greece to notify to GATT in addition the list of products presently subject to the deposit requirement as well as the deposit rates and retention periods presently applied to each product category.
16. The Committee decided to keep the gradual abolition of the import deposit scheme under review. The Committee accordingly requested the Greek government to provide relevant information annually. The Committee agreed to hold further meetings on the deposit scheme only if the Chairman, in consultation with interested Committee members, determined that this was desirable. This would for instance be the case if the deposit rates were not reduced as scheduled or if the scheme was administered more restrictively than at present, be it through increases in the deposit rates, extensions of the retention periods, or a widening of the product coverage.
Statement by the Representative of the International Monetary Fund

This statement was prepared on the basis of the staff's present knowledge of the Greek economic situation and policies. The new Government, which was formed after national elections on October 18, 1981, has not announced any major changes in economic policy.

The Greek economy has experienced stagflation since 1979, following an extended period of vigorous growth. The real growth of GNP slackened to 1.6 per cent in 1980, and has probably been about the same in 1981. Domestic demand has been low, with a significant decline in private investment, and a squeeze on private consumption. Growth rates would have been lower still but for a relatively favorable trend in the real external balance.

Despite the slackening of demand, inflation has been a persistent and intractable problem, with most price indices showing average annual increases of 25 per cent or more during 1980 and so far in 1981. Although some deceleration of the pace of increase in consumer prices was recorded in 1981, this may have been related to delays in necessary adjustments of prices charged by some public enterprises.

The stagflation experienced by Greece was partly due to various unfavorable external circumstances, especially the increase in world oil prices and slack demand in Western Europe. The oil price increase added to pressure on domestic costs, which also were affected by other special factors such as the adjustment of agricultural prices in connection with Greece's membership in the European Community (January 1981). The slow growth in the countries which constitute Greece's main markets made it impossible to sustain the high growth of exports,
which had been an important feature of Greek growth in the period up to 1979. In addition to these external factors, however, the weakness in the Greek economy since 1979 was to some extent the after effect of the very strong growth in the previous period: in particular, large increases in real wages put pressure on costs and prices, while the subsequent slackening of growth has not yet produced a reduction in inflationary pressures.

Economic policies in 1980 and 1981 were originally intended to help dampen the inflationary pressures by reducing the budget deficit of the central government and the financial deficit of the rest of the public sector, and by maintaining tight monetary conditions. In practice, however, both fiscal and monetary policies were rather expansionary in 1980 and, on the basis of available evidence, were apparently again so in the first half of 1981. Although the central government budget deficit showed only a small nominal increase in 1980, the combined deficits of the rest of the public sector rose sharply. Among the factors causing this increase were delays in increases in prices charged by some public sector bodies, and apparently an increase in public sector employment. In total, therefore, the public sector borrowing requirement rose to about 11 per cent of GNP in 1980. On the basis of partial information for 1981, it is unlikely that the P.S.B.R. has been significantly reduced as originally envisaged.

This earlier stance of fiscal policy in 1980 and 1981 also contributed to an acceleration in the rate of monetary growth. Net domestic credit rose by 23 per cent in 1980, compared with a target of 17 per cent, but this increase in nominal terms involved a real decrease since prices rose by some
26 per cent from December 1979 to December 1980. Monetary policy was apparently eased somewhat in 1981, with a reduction in interest rates and a rapid expansion in credit to both the private and public sectors.

The Greek balance of payments was adversely affected by the second major increase in oil prices and the more difficult international economic environment. Mainly due to the deterioration in the terms of trade resulting from the oil price increases, the current account deficit rose in 1980 to US$2.2 billion: this increase occurred despite a larger surplus on services. A continued strong inflow of private medium- and long-term capital (US$1.2 billion in 1980) plus public sector capital inflows and short-term capital inflows, covered some 80 per cent of the current account deficit, leaving an overall deficit of over US$400 million. The Central Bank borrowed US$677 million abroad on a long-term basis, permitting an increase in the gross official reserves.

The current account is forecast to show a slightly higher deficit in 1981 than in 1980. The authorities have sought to maintain export competitiveness by permitting an effective depreciation of the drachma, and exports apparently rose in real terms in the first half of the year. Imports, on the other hand, probably declined in real terms as a result of lower domestic growth and higher taxes on some imported items.

The Greek exchange and trade system, which is complex, is being reviewed by the authorities in the context of Greece's membership in the European Communities, and several features are being phased out during transitional periods beginning January 1981. One of the aspects that is being gradually reduced is the system of advance import deposits, which gives rise to exchange restrictions and a multiple currency practice: the Fund has approved this practice on a temporary
basis. A voluntary understanding to restrict imports of luxury goods was in operation from February 1980, on the basis of an agreement between the government and importers; it was discontinued in November 1980. In December 1980 all remaining bilateral payments agreements were terminated. The Fund welcomes the recent liberalization of Greece's restrictive system, and hopes that this trend will be continued.