

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

DRAFT REPORT ON THE 1980 CONSULTATION WITH GREECE

1. The Committee has 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 (L/4904). The consultation was held on 7 May 1980 under the chairmanship of Mr. C.S.F. Jagmetti (Switzerland). 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 supplied by the Greek authorities (BOP/204 and Add.1)
- Notification of Intensification of Import Restrictions (L/4908)
- Notification of Termination of Import Deposit Scheme and Surcharge (L/4972)
- Secretariat Background Paper (BOP/W/38)
- IMF Recent Economic Developments, dated 9 August 1979
- IMF Supplementary Background Material, dated 27 March 1980

Opening statement by the representative of Greece

3. In his opening statement, the representative of Greece described the developments in the Greek economy since 1978 and prospects for 1980, with particular reference to the external sector. He explained the background to

the import measures that had been taken recently to alleviate pressures on the balance of payments and gave indications on the policy stance of the Greek authorities in this regard, drawing attention inter alia to the recent termination of the import deposit scheme and surcharge.

4. He said that while in 1978 the situation of the Greek balance of payments had been relatively satisfactory, a sharp deterioration had taken place in 1979 due to an excessive rise in payments for imports, notably as a result of the rise in the prices of petroleum and other raw materials. For these reasons, and taking into account the unfavourable international economic climate, the various fiscal, monetary and income policy measures taken by the Greek Government since the last simplified consultations held in GATT had not proved as effective as had been anticipated.

5. In 1979 the deficit of the balance of payments in current account had risen by over 80 per cent from the previous year, i.e. from 1.3 billion dollars to 2.3 billion dollars. Imports measured on a c.i.f. basis had risen from 7.3 to 10.1 billion dollars, or 37.7 per cent, whereas exports had shown a rise of 31 per cent from 3.0 to 3.9 billion dollars. As a result, the trade deficit had worsened to 6.2 billion dollars in 1979, from 4.3 billion dollars in 1978 and 3.9 billion dollars in 1977. It was only thanks to an 830 million dollar increase in the surplus on invisibles that a more serious deterioration in the balance of payments on current account could be prevented.

6. In the face of these difficulties, the Greek Government had been led to introduce from 30 November 1979 a series of trade measures aimed at limiting imports, whose growth could not be attributed to underlying economic developments in the country. Indeed, during 1979 the rate of growth of GNP was lower than in 1978 - 4 per cent against 6 per cent. There was no doubt that the

high rise in imports in 1979 was due to excessive stocking activity in the form of speculative and anticipatory buying related to expectations of an acceleration of inflation. The measures taken (notified in L/4908) consisted of prior deposit requirements of 75 per cent of the value of imports, a special consumption tax of 25 per cent and various restrictions on the financing of imports. All these measures were of a provisional character; they were being applied on a non-discriminatory basis and covered only a small fraction of imports. Whereas the Greek Government had originally intended to maintain these measures until 30 June 1980, it had decided to terminate the deposit requirement and the consumption tax as of 25 April 1980 following suggestions by representatives of the business community to introduce a system of voluntary import restraints.

7. In concluding, the representative of Greece said that his Government expected that the general economic policies it would follow in 1980 would bring about a slowdown in the increase of consumption and a reduction in imports which would eventually make it possible to terminate all temporary import restrictive measures. The emphasis in the Government's policies was placed on austeritv and the fight against inflation. As a consequence of restrictive demand management, the rate of growth of GNP was expected to be lower in 1980 than the previous year.

Statement by the representative of the International Monetary Fund

8. The representative of the IMF summarized recent developments in the Greek economy. He noted that tighter demand management had been reflected in a deceleration of economic growth and that wages and salaries had, in 1979 for the first time in five years, not increased in real terms, while consumer prices had risen at about 19 per cent and unemployment remained at about the same rate as in the previous three years. Despite significant increases in exports and net receipts from invisibles, the deficit on current account of the balance of payments had widened in 1979 as a result of a surge in imports mainly reflecting higher prices for petroleum and other raw materials. Official reserves had, nevertheless, remained virtually unchanged from the end of 1978, amounting to the equivalent of about one and a half months of merchandise imports at the 1979 level.

9. In reviewing the economic and financial policies adopted by the Greek authorities, the IMF representative referred to various fiscal measures which on balance had led to a reduction in the relative size of the budget deficit. The Greek authorities had set targets for the growth of private sector credits in 1980 that should allow monetary policy to play a significant rôle in reducing the rate of inflation. The IMF representative noted that the Greek authorities had continued to follow a policy of small drachma depreciations in order to maintain a competitive position in world markets. He further noted that the import control system had remained relatively complex. He welcomed the decision by the Greek authorities to abolish ahead of schedule the additional advance deposit requirements and surcharge introduced in November 1979 and noted that measures liberalizing the Greek import régime were included in the terms of Greece's accession to the European Economic Community.

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

10. The members of the Committee expressed understanding for Greece's balance-of-payments difficulties and recognized that the Greek import régime was in a transitional phase due to the forthcoming accession of Greece to the EEC. They commended the Greek authorities for having removed the 75 per cent deposit scheme and the 25 per cent surcharge ahead of schedule, noting though that these measures had been partly replaced by a system of voluntary self-restraint of importers, the impact of which could for lack of information not be precisely determined.

11. The members of the Committee asked a broad range of questions on Greece's exchange policies, the reserve position, the policies to reduce the budget deficit and the impact of the oil price rise on the balance of payments. In reply, the representative of Greece said that the exchange rate of the drachma was fixed against a basket of currencies and adjusted in small steps so as to maintain the competitive position of Greece. The effective depreciation of the drachma against a basket of currencies had been 4 per cent in 1977, 9.4 per cent in 1978 and 6.5 per cent in the first ten months of 1979. In 1979 official reserves had declined by 27 million dollars to 1.28 billion dollars which was not considered a satisfactory level.

12. The representative of Greece further said that the deficit in the central Government's budget was a serious problem affecting the money supply and hence the rate of inflation. However, the policy of the Government was to set strict limits on public expenditures. In 1980 these were planned to be 2.5 per cent less than in 1979 mainly as a result of a reduction in public investments by 25 per cent in real terms. Savings were also to be realized by reducing subsidies.

13. As to the impact of the rising price of oil, the representative of Greece said that among the factors that had led to the worsening of the payments position were the steep oil price increases. In 1978, Greece had imported 9 million metric tons at a total cost of 1.2 billion dollars; in 1979 imports had increased to 9.5 million metric tons and 1.5 billion dollars; and in 1980 the import of 10.5 million metric tons at a total price of 2 to 2.5 billion dollars was forecast. In this context the view was expressed by members of the Committee that most contracting parties faced the problem of rising energy prices and that restrictive import measures should not be used to deal with the balance-of-payments consequences of this price rise.

Appropriate energy policies should be pursued instead. The Greek representative said that his Government had already taken measures to reduce oil consumption and sought to develop domestic energy sources. He added that, in co-operation with other countries through international organizations such as the ECE and the OECD, the Greek Government was pursuing policies to develop alternative and renewable sources of energy.

14. One member asked what exactly the purpose of the 75 per cent deposit had been. He said if the purpose had been to restrain speculative imports resulting from fears of inflation, restrictive monetary and fiscal policies might have been more effective and efficient. The same would have been true if the purpose had been to reduce domestic liquidity. The Greek representative replied that the deposit scheme was to reduce imports by making them more expensive and the inflation rate by absorbing liquidity. Other measures to achieve these aims might have been also efficient; however, they would have had different economic consequences and these were not considered opportune in the Greek economic situation.

System, method and effect of the restrictive import measures

15. Members of the Committee expressed concern about the complexity of the Greek import régime, in particular about the cumulative application of restrictive import measures to the same product range. The complexity created uncertainty, confusion and unnecessary expenses for traders. One member described concrete difficulties his authorities had in obtaining information on the import regulations applicable to certain products.

16. In response to these remarks the Greek representative said that the import régime had been substantially simplified by a law of 30 June 1979 and a decision based on this law of 6 December 1979. Upon the accession of Greece to the Community at the end of the year the import régime would be further simplified because Greece would then have to adapt this régime to Community requirements.

17. The members of the Committee showed great interest in the system of voluntary import restraints and they asked detailed questions on its coverage, duration and administration. One member wondered in particular how the system was enforced and what the rôle of the Government in this respect was. He expressed doubts that imports could effectively be restrained without some Government involvement. The members expressed concern that they might have difficulties in obtaining as much information on the system as they would have obtained on official laws and regulations. It was suggested by these members that the Greek authorities notify the details of this system, in particular its coverage, to the GATT in the same way as they had notified official Government measures.

18. In response to these questions, comments and suggestions, the Greek representative explained that when the costs of imports were increased as a

result of the 75 per cent additional deposit and the 25 per cent surcharge the business community had proposed to the Government that these measures be replaced by a system of voluntary import restraints. After a trial period of two months the Government had agreed to the proposed substitution of the official measures by the voluntary system. The business community had established a list of products which initially covered about 18 per cent of total imports. Modifications and exceptions introduced subsequently reduced the coverage to 5 per cent. Except for one product category, imports were to be reduced to a level of 15 per cent below the 1978 level. The Greek representative emphasized that his Government did not intend to extend the system beyond the end of this year. He added that he was ready to communicate further details of the system, in particular the list of products covered, to the GATT secretariat. In response to the question on the enforcement of the system the Greek representative said that the chambers of commerce were in charge of administering the system. They certified import bills and could therefore check whether individual importers observed the self-restraint limits.

19. Some members, noting that Greece had notified in November 1979 certain limitations on suppliers' credits and a system of price controls affecting imports, asked what the present status of these measures was. The Greek representative replied that the first repayment of suppliers' credits was originally permitted only six months after customs clearance. This period had been reduced in the meantime to three months as far as raw material imports were concerned. The import price control system notified in November 1979, under which maximum profit margins had been established for wholesalers and retailers, had been suspended.

20. Several members of the Committee noted that Greece, in the Basic Document submitted for the consultation (BOP/204, page 5), had stated that it was under no obligation to extend the pre-import deposit reductions agreed with the EEC to all contracting parties but had done so autonomously. These members, recalling the consideration by the CONTRACTING PARTIES of the report of the Working Party that had examined in 1962 Greece's Association Agreement with the EEC (BISD, 11th Suppl., pages 56 and 149), noted that certain questions regarding rights and obligations of contracting parties were left open, and that the conclusions were without prejudice to the responsibilities of the CONTRACTING PARTIES under the General Agreement or to the rights of contracting parties under the relevant provisions of the General Agreement. The representative of Greece pointed out that in fact his Government applied the reductions of the pre-import deposit rates to all contracting parties. He added that the last reduction of the pre-import deposit rates under the 22-year tariff disarmament agreed with the EEC, which had taken place on 1 May 1980, had also been extended to all contracting parties. According to the Accession Agreement with the EEC the remaining deposit requirements would gradually be removed during a three-year transitional period through four 25 per cent reductions.

21. In reply to various questions about Greece's trade policy after the accession to the EEC the Greek representative said that these issues would be best discussed in the GATT Working Party established to examine the Agreement regarding the Accession of Greece to the European Communities.

Conclusions

22. The Committee noted with satisfaction that the 25 per cent surcharge and the 75 per cent additional import deposit scheme introduced on 30 November 1979 had been removed on 25 April 1980. It also noted that these measures had been partly replaced by a system of voluntary self-restraint of importers to be applied until the end of 1980 and it asked the Greek authorities to bring more transparency to the system by communicating further details to the GATT, in particular the list of products covered, and to notify the termination of the system as of the end of the year.

23. The Committee concluded that the seriousness of Greece's balance-of-payments situation justified the temporary maintenance of the remaining restrictive import measures. It noted with satisfaction that a fixed time-table had been set up for the progressive removal of the remaining pre-import deposits by the end of 1983 vis-à-vis all contracting parties.

24. The Committee expressed concern about the complexity of the Greek-import régime, in particular about the cumulative application of different restrictive import measures to certain product categories. The Committee welcomed the efforts towards simplification that Greece had so far undertaken and was about to undertake in connexion with its accession to the EEC and it noted that these were in conformity with paragraph 1(b) of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes according to which the simultaneous application of more than one type of trade measure for balance-of-payments purposes should be avoided.