

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH GREECE

1. In accordance with its terms of reference, the Committee has conducted the consultation with Greece under Article XVIII:12(b). The Committee had before it a basic document for the consultation (BOP/63), and a background paper dated 29 July 1966 supplied by the International Monetary Fund, together with a decision of the Executive Board of the Fund, dated 19 August 1966 (see Annex I).
2. In conducting the consultation the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 5 December 1966. The present report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. 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 customary 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:

"With respect to Parts I and III of the Plan for Consultations, the Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of August 19, 1966, taken at the conclusion of its most recent Article XIV consultation with Greece, and particularly to paragraphs 5 and 6 which read as follows:

'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.

'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.'

At the present time the general level of restrictions of Greece which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves.

"With respect to Part II of the Plan for Consultations, the Fund again invites attention to the decision taken at the conclusion of its most recent Article XIV consultation with Greece. The Fund has no additional measures to suggest at this time."

Opening statement by the representative of Greece

4. In his opening statement, the full text of which is reproduced in Annex II to this report, the representative of Greece described recent developments in his country's economic situation. He said that even though efforts were being made to diversify and augment exports, the trade deficit which in 1964 was \$528 million, reached \$721 million in 1965. This was offset only in part by invisible earnings and capital flow, so that the overall balance-of-payments situation remained negative. During this period monetary stability had been maintained and the gross national product increased in constant prices by 8.7 per cent in 1964 and 7.3 per cent in 1965. For the period 1966-70 a draft of a five-year economic development plan recently prepared, aims at a 7.5 per cent annual increase in the gross national product. The controls referred to in BOP/63 had been applied in a liberal spirit, and every effort was being made to continue doing so. Nonetheless, he pointed out that countries currently increasing their exports to Greece should make an effort to augment their own imports from his country. Due to the structural weakness of his country's economy he believed that the limited present restrictions on imports should be maintained, but if the trade disequilibrium were not somehow remedied, the Greek Government might have to resort to a reappraisal of its external trade policy.

Balance-of-payments position and prospects

5. Members of the Committee thanked the representative of Greece for his statement and recognized the present balance-of-payments difficulties of his country. A question was asked as to what was the magnitude of the rate of investment anticipated by the five-year economic development plan (1966-70) in order to achieve an annual increase of 7.5 per cent of the gross national product. The representative of Greece replied that in 1965 private investments had increased 18.5 per cent and public investments 13.8 per cent in comparison with 1964. For 1966 it was expected that public and private investment would increase by 16 per cent. Similar rates were anticipated by Greece's development plan. As to the resources with which to finance these investments, they counted on a surplus of the budget, on a reorganization of their capital market to improve the mechanism

of capital supply, and on the inflow of capital from abroad. In order to stimulate investments, foreign capital benefits from a series of tax exemptions. With the same objective in mind, a new convention on the protection of foreign property has been accepted by the Greek Government and a convention on settlement of investment disputes is pending approval by Parliament. Overall fiscal revenue was expected to increase in 1966, as a result of new bond issues of the Public Power Corporation and the Telecommunications Corporation which had been placed in the market with great success, especially among private individuals. A new bond issue of the State is programmed for the end of this year. In reply to a question, the representative of Greece said that the Association Agreement with the European Economic Community had indeed induced an increase of capital coming from that area. In reply to another question, he informed the Committee that tax yields were not below those estimated by the budget, and even tended to exceed estimates.

6. The representative of Greece agreed to a comment made to him on the need to envisage Greek economic problems from a long-term point of view, as well as from a short-term point of view, and that was why, he pointed out, the draft development plan was especially geared towards long-term objectives, with due attention given to the need of short-term stability.

7. In answer to a question on the prospects of invisible receipts in future years, the representative of Greece replied that the net invisible receipts had increased, for the period January/August, from \$261.5 in 1965 to \$304.1 in 1966 and that a tentative figure for 1967 set the invisible net receipts at \$535 million. Nonetheless, in spite of the progress, this was a highly variable and precarious item which was dependent on circumstances that could neither be controlled nor foreseen. Furthermore, some items like the remittance from Greeks abroad cannot be expected to grow indefinitely, one reason being that workers tend to take their families abroad with them. Tourism itself implies enormous investments in infra-structure, and shipping receipts, on the other hand, are dependent on international factors.

8. In answer to an inquiry about the prospects of covering a larger part of the budget with tax revenues, the representative of Greece stated that, in the period January/August 1966 as compared to the same period in 1965, revenues from direct taxation had increased by 32.8 per cent and revenues from personal income tax by 38 per cent. Furthermore, the new budget contemplated an increase in taxation revenues resulting from measures taken last December.

9. In answer to a question concerning the development in Greece of higher technological studies, the representative of Greece replied that a reappraisal of the educational system was being undertaken with economic development needs in view. Thus without neglecting study in the humanities of traditional importance in Greece, additional stress would be put on science subjects. Technical assistance programmes, like the ones carried out in collaboration with the European Economic Community countries, were going a long way towards meeting the need for skilled labour. In this context, when Greek workers abroad returned home they brought with them very useful technical knowledge. In relation to education in general, the Greek representative said that a third university had just been created in Patras and the establishment of a fourth in

Crete was envisaged. Even though acknowledging the fact that many Greek students abroad were in the social science field, he pointed out that many were also following studies of a technical nature, and that, in fact, the Greek Government was facing the problem of making them return once they had finished their studies abroad.

10. A question was asked about the future plans of the Hellenic Industrial Development Bank. The representative of Greece replied that the work of the Bank is of a double nature; firstly, it gives loans on highly advantageous terms for the promotion of local industry; secondly, it undertakes the direct establishment of certain industries like those exploiting marble, leather and fishing.

II. Alternative measures to restore equilibrium

11. Several members of the Committee said that, in their view, the long-term solution of Greece's balance-of-payments problem would depend to a considerable extent upon the expansion of Greek exports, so as to eliminate an excessive reliance on invisible earnings. They consequently welcomed the efforts to diversify Greek exports and to invest in export industries. They also welcomed the measures being taken to assure a steady flow of foreign capital, noting that this constituted an alternative measure to the import controls that were now necessary. They expressed hope that these controls would be reduced as the balance-of-payments situation permitted it.

12. Several questions on the Greek Government's agricultural policy were asked. The representative of Greece said that great efforts were being made to rationalize the agricultural sector. In the first place, the establishment of larger agricultural units through co-operatives was being pursued. Also, in order to reduce the large imports of foodstuff, local production was being stimulated. Efforts were under way to augment production of exportable agricultural goods like fruits. In order to eliminate the wheat surplus, a reduction in the area under cultivation had taken place with favourable results. Wheat prices had not been allowed to rise so as not to stimulate production, while prices of feedgrains had been fixed so as to favour an increase of production.

III. System and methods of the restrictions

13. Some members of the Committee said that although they understood the short-term reasons that might make bilateral agreements seem attractive, they hoped that Greece would reduce its reliance on them. They noted that bilateral sales adversely affected the expansion of exports to more competitive markets and tended to delay the long-run structural changes needed in the Greek economy. The representative of Greece said that bilateral agreements were sometimes necessary because of the obstacles that Greek products found in market economy countries.

His Government was always trying to increase the volume of multilateral trade, but he felt that it was also up to the market economy countries to improve the conditions of access of Greek products to their markets.

14. In reply to a question concerning the system of quotas, the representative of Greece stated that, for the great majority of products in List A, licences were issued automatically. When some limitations did exist, global quotas were made public which permitted importation from any country. The volume of items under restrictions was minimal and, in 1965, amounted to \$22 million out of total imports of \$1,050 million. As in the case of Part A of Annex B of BOP/63, they represented products locally produced and for which protection was necessary. Since the last consultation, six items had been added to List A: bricks, firearms, eggs, nuts, natural sponges and books printed in Greek; while three others: ironing machines, presses for grapes and oil separators, had been removed.

15. In answer to various questions on the prior deposit system, the representative of Greece explained that the main reason for maintaining prior deposits was to combat inflation by reducing the supply of money. It was also intended as a method of discouraging advance accumulation of import permits. The two-month freeze on the repayment of prior deposits was also destined to ease the inflationary pressures on the economy, but was only a temporary measure. Pursuant to the Association Agreement with the European Economic Community, prior deposits on goods in certain of the present six categories would be eliminated in time and this would be done on a non-discriminatory basis, applicable to all GATT contracting parties. Several members of the Committee welcomed the reductions on prior deposits made since the last consultation and the assurances that they would be eliminated on a non-discriminatory basis.

16. In answer to a question whether there would be a discriminatory issuance of import licences in favour of the European Economic Community, the representative of Greece explained that there was no discrimination. The Association Agreement contained certain obligations which were fulfilled in a non-discriminatory manner.

17. Several members of the Committee expressed the hope that Greece would simplify its foreign trade regulations. Reference was made to delays in issuance of letters of credit and in making the exchange allocations. Similarly, specific duties were set out in metallic drachmas in the tariff, but had to be paid in paper drachmas. The representative of Greece pointed out that even though foreign trade regulations seemed complicated they operated almost automatically and were not really very cumbersome. It was intended to simplify certain procedures in the near future, but no date could be given.

IV. Effects of the restrictions

18. Some members of the Committee made the point that since Greece had surpluses under its bilateral trade arrangements, pressure might develop to try to balance them, which would oblige Greece to buy from bilateral sources on unfavourable terms. The representative of Greece replied that, up to now, no difficulties of that kind had emerged, and that anyhow the percentage of bilateral trade in relation to total trade was small.

General

19. The Committee thanked the representative of Greece for the frank and co-operative manner in which he had engaged in the consultation and expressed understanding of the problems with which Greece was confronted. The Committee expressed the view that the continued application of appropriate fiscal and monetary policies would contribute to ameliorating Greece's balance-of-payments difficulties. The Committee expressed the hope that reliance on bilateral agreements would diminish in the future. In this regard, the Committee emphasized the importance to the long-term balanced development of the economy of diversifying and expanding new exports. The Committee also hoped that a simplification of the foreign trade regulations would be forthcoming and that the remaining restrictions would be progressively eliminated as the balance-of-payments situation improves.

20. The representative of Greece thanked the Committee for its sympathetic attitude towards his country's economic problems. He would transmit to his Government the views put forward in relation to them. He wanted, nevertheless, to emphasize that an effort should be made by Greece's trading partners to improve the conditions of access of Greek products to their market.

ANNEX I

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.

ANNEX II

OPENING STATEMENT BY THE REPRESENTATIVE OF
GREECE

We have before us two documents, BOP/63 and the International Monetary Fund report of 29 July 1966, on economic developments in Greece. As it is known, both were compiled in consultation with Greek Government sources or appropriate organizations and they offer a comprehensive picture of the situation to date. Therefore, there is no need for me to add but some general remarks.

1. There have been only a few changes in the régime of restrictions since our last consultations in November 1964. Foremost among them, was a further reduction of the advance deposit requirements for imports from abroad, as provided by our Association Agreement with the European Economic Community. This reduction is extended to all Member countries of GATT.
2. The controls referred to in BOP/63 are applied in a liberal spirit, which can be proved by the rapid rise of imports over the past two years. Between 1964 and 1965 imports increased by 23 per cent, from \$835 million to \$1,050 million. In the first eight months of this year imports continued to increase as compared to the same period of 1965, from \$707 million to \$767 million.
3. Greek exports, on the other hand, have in no way increased commensurately with our imports and therefore the deficit in our trade balance has continued to rise in the past two years. In 1964 it amounted to \$528 million and in 1965 to \$721 million. The rate of coverage of the value of our imports by the value of our exports has decreased from 37 per cent in 1964 to 31 per cent in 1965.
4. The low level of Greece's exports is mainly attributed to their composition, i.e. a few agricultural products constitute the bulk of our exports, while the contribution of manufactures does not exceed 10 per cent of the total. Thus in 1965 exports of our primary products amounted as follows: tobacco \$111.2 million; cotton \$18.5 million; currants and sultanas \$43.4 million; citrus fruits, fresh fruits and grapes \$26.0 million; olives and olive oil \$12 million. These main exports add to \$211.1 million and represent the 64 per cent of our total exports in the above year.

5. The contribution of Greek exports in the assets of the country's balance of payments is small, the latter depending more on the invisible earnings, which are highly unstable and sensitive elements. The problem therefore confronting us is the structural weakness of our economy. My Government is making great efforts to eliminate this weakness. Our main preoccupation is to increase as rapidly as possible our exports and to diversify the country's production with a view to augmenting the share of the manufacturers' exports, which is of course not an easy task. It need not be explained that the answer to the problem of the balance-of-payments difficulties is to be found in the context of the overall economic development of the country. The limited restrictions we are still retaining in our imports, form in our view, an indispensable and necessary requirement in these efforts.

6. In the endeavour to achieve a speedy rate of economic development a draft of a five year economic development plan (1966-1970) was prepared by the Centre for Planning and Economic Research. The principal objectives of this plan are to secure a rate of development aiming to achieve an average annual increase of 7.5 per cent in the gross national product. This plan has to be sanctioned by the Greek Parliament. In 1964 our gross national product has increased at constant prices by 8.7 per cent, in 1965 by 7.3 per cent and it is expected that 1966 will show a similar increase. Monetary stability has been maintained and a relatively small increase in prices was marked.

7. The standard of living continues to remain very low. Although the per capita income has risen, it remains one of Europe's lowest.

8. In view of the above-mentioned facts, we believe that the restrictions we still maintain in our exports, fall within the scope and the frames of Article XVIII of the General Agreement, and do not go beyond the necessary measure.

9. Greece's share in international trade represents a very small fraction of it, but despite the difficulties we have explained, every effort is being done to maintain the multilateral and liberal nature of our foreign trade regulations. However, a serious effort must also be made by those countries currently increasing their exports to Greece, to try to augment their own imports from our country. We must point out that if the present disequilibrium between our exports and our imports is not somehow remedied, the Greek Government might have to resort to a reappraisal of its external trade policy.