

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments  
Restrictions

## REPORT OF THE CONSULTATION UNDER ARTICLE XVIII 12(b) WITH GREECE

1. In accordance with its terms of reference, the Committee has conducted a consultation with Greece under the provisions of paragraph 12(b) of Article XVIII. The Committee noted that the previous consultation with Greece under the same provisions had been held in October 1970 (BOP/R/50). In conducting the consultations the Committee had before it a basic document supplied by the Government of Greece (BOP/143 and Adds. 1 and 2) and a paper containing supplementary background material dated 11 February 1974 supplied by the International Monetary Fund.

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (see BISD, Eighteenth Supplement, pages 52-53). The Committee met on 18 March 1974. 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 International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with this consultation with Greece. The representative of the Fund made a statement concerning the position of Greece, as follows:

"The Greek economy continued to grow rapidly in 1973 with real GDP increasing by an estimated 10 per cent, only slightly below the level of 1972. The major engine of growth was the boom in construction (housing and other) and in manufacturing investment. The rapid growth of the economy, however, has recently led to supply bottlenecks and high wage increases. These together with the impact of the rising import prices stimulated in part by the two devaluations of the drachma in 1972 and 1973 caused serious pressures on internal prices. After many years of price stability reinforced by a system of price controls, consumer prices began to accelerate in the second half of 1972 and by the end of 1973 they were 30 per cent higher than a year earlier. In an effort to deal with this inflationary situation, the authorities introduced a number of fiscal and monetary measures at the end of 1972 and further strengthened them in the course of 1973. These included direct controls on the growth of credit and increases in discount and other interest rates.

The balance of payments has been characterized by large and growing trade deficits in recent years, which were more than compensated by net receipts on invisible accounts (mainly workers' remittances, tourism, and shipping receipts), plus net capital inflows. As a result, overall surpluses were registered in 1971 and 1972 of SDR 192 million and SDR 520 million, respectively, and by the end of 1972 international reserves had risen to SDR 950 million. Available data for the first nine months of 1973 indicate some deterioration in the overall balance of payments. The current account deficit increased to SDR 642 million in the first three quarters of 1973, from SDR 231 million in the same period of 1972. In terms of SDRs, exports increased by about 36 per cent but imports rose by 50 per cent, resulting in a deterioration of the trade balance from a deficit of SDR 1,058 million in the first three quarters of 1972 to SDR 1,672 million in the same period in 1973. During the same period, however, net invisible receipts grew sharply from SDR 827 million to SDR 1,030 million and there was a small increase in capital receipts from SDR 540 million to SDR 568 million. The overall balance of payments registered a surplus of SDR 83 million in the period. This compared with a surplus of SDR 316 million during the same months of 1972. At the end of 1973 international reserves stood at SDR 868 million, or SDR 82 million lower than at the end of 1972.

The prospects for the balance of payments developments in 1974 are uncertain. There are, however, several factors that are expected to lead to a deterioration. A major source of concern is with respect to net receipts on invisible accounts, which constitute the largest single item of foreign exchange earnings. Depending on general economic developments in Western Europe (in particular in Germany and the United Kingdom) and the extent to which these countries are affected by the oil crisis, there could be a levelling off, or a possible decline, in workers' remittances and in tourist receipts. Receipts in respect of shipping may be adversely affected by a scarcity of bunker fuel, as well as by the possibility of a reduction in the rate of growth of world trade. In addition to the uncertainties on account of invisibles, the increase in oil prices is also likely to adversely affect the trade balance. There is also uncertainty regarding the extent to which these developments can be compensated for by borrowing on international capital markets and whether inflows of private capital would be sustained.

The exchange and trade system of Greece is relatively liberal but in spite of some simplifications during the past year, it remains administratively complex and further progress in this regard would be warranted. In view of the expected balance-of-payments developments, the level of restrictions, as presently administered, does not appear excessive."

Opening statement of the representative of Greece

4. In his opening statement, the full text of which is reproduced in the Annex, the representative of Greece stated that since the last consultation the main changes in the Greek import restrictions had been four successive reductions in the prior import deposit rates; these changes had originally applied to the regulations on imports from the European Communities but they had been extended by Greece to all contracting parties. In addition, a small number of articles had been added to List A.

5. The dollar value of imports in 1973 had increased by 67.5 per cent in comparison with the preceding year. This substantial rise had been due to various factors including the rapid increase in GNP, the insufficient production of certain agricultural products, the increased demand for capital goods to meet the development needs of the economy, the considerable rise in the prices of imported raw materials, and the stockpiling by Greek importers in light of the uncertain conditions of supply in world markets. On the other hand, the rate of growth of exports had been only 47.3 per cent, with the result that the trade deficit in 1973 had increased by 78 per cent compared with 1972. The balance of payments continued, therefore, to depend heavily on receipts in respect of invisibles which were, by their nature, unstable and easily subject to international fluctuations. As part of its effort to remedy the situation, Greece maintained with certain countries bilateral payments agreements which helped to ensure a stable outlet for its exports of agricultural products and which permitted convertible foreign exchange to be used for the import of certain primary and manufactured products. Although the share of total trade accounted for by these arrangements had been declining, they remained important in helping to prevent a deterioration in the balance of payments.

6. The continuing serious monetary situation had led the Government to take certain steps to control inflation, including the implementation of reductions of 20 per cent in public investments and of 5 per cent in current budgetary expenditures and of a general restriction of credit. The insufficiency of these measures had, unfortunately, made further steps necessary, including dividend restrictions and taxation changes. Further exceptional measures affecting the import deposit scheme and importation procedures had been announced on 9 March 1974. These applied (*inter alia*) to imports of private cars and to certain items in List A. In addition, new lists had been added to the import restriction scheme, including one requiring an advance deposit for a period of eight months at a rate of 140 per cent of the c.i.f. price of imports plus 60 per cent of the tariff rate, and another requiring an advance deposit for six months but at various lower rates (depending on the product). The aim of these measures was to combat inflation; they covered no more than 8 per cent of total imports, and they would expire on 31 December 1974. In framing its policy, the Greek Government had attempted to limit as far as possible disruption of the trade of contracting parties. The Greek Government believed that both the earlier restrictions as well as the measures taken in the present exceptional circumstances were justified under Article XVIII and that they did not jeopardize the liberal and non-discriminatory principles of Greek trade policy.

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

7. A member of the Committee asked for information regarding the balance-of-payments prospects for the coming year, and asked the Greek delegation to comment on the measures which had been undertaken to restore equilibrium to the balance of payments. In reply, the representative of Greece referred to the remarks made by the representative of the International Monetary Fund regarding his country's balance-of-payments prospects for 1974 and stated that taking into account the present world economic situation, his authorities could not take an optimistic view of future prospects.

8. Another member of the Committee noted that the increased deficit in the balance of payments was largely due to the very substantial rise in the deficit on the balance of trade. He further noted that although there had been a striking increase in the imports of capital equipment in recent years, this did not seem to have led to any great increase in industrial exports. In the light of these comments he posed a number of questions. Firstly, what measures had been taken to diversify and increase exports? What progress had been made to improve the administrative processing of investment projects? Next, in the light of the growing rate of inflation, he wished to know how the Greek authorities viewed the increasing reliance of the economy on suppliers' credits. Lastly, he asked what measures had been taken to stimulate domestic savings.

9. Responding to these questions, the representative of Greece stated that there had, in fact, been a great deal of progress in the matter of diversification of exports. Such diversification was reflected in the increasing importance of industrial exports. When expressed as a percentage of total exports, their relative share had risen from 43 per cent in 1971 to 55 per cent in 1973. In regard to stimulating foreign investments, he emphasized that the large influx of foreign capital into Greece was continuing. Foreign investments enjoy full guarantees as provided for on a permanent basis by the existing legislation. The delays in processing new investment proposals were directly linked to the size of each proposal. The many and complex problems they engendered necessitated careful screening by all the competent authorities. All projects were screened by a special inter-ministerial committee, and after this body had given its approval the project still had to be formally ratified in accordance with the relevant legislation. Furthermore, he stated that suppliers' credit facilities are granted with respect to capital goods imports necessary to the country's economic development. He added that a number of steps had been taken to encourage domestic saving, including an increase in the maximum interest rate from 8.5 per cent to 11 per cent.

10. On the question of the rôle of invisibles in the Greek balance of payments, some members referred to the statement in paragraph 7 of the Basic Document to the effect that they did not constitute a reliable element in foreign exchange earnings. They found it difficult to concur with this view, and pointed out that the statistical data provided by the Greek delegation showed that during the period 1969-1972 the ratio of invisible earnings to total foreign trade earnings had been continuously increasing. The representative of Greece reiterated that the earnings from invisibles were notoriously unstable, and he added that no increase in receipts from this source was expected during the coming year due to the unfavourable international trends.

11. One member drew attention to the very high degree of dependence on the market of the EEC and the probability of slower future growth in this area. He asked if this might not have adverse effects on Greek export performance. In reply, the Greek representative emphasized that apart from EEC member countries there were many possibilities for the development of trade and in fact trade had been increasing with the contracting parties as a whole.

12. A comment was made regarding the inevitable contradiction which exists between the restrictive policies designed to combat inflation on the one hand, and the selective measures to promote investment on the other, e.g., the low interest rates for loans to industry and special facilities for tourism. The Greek representative agreed that there might at first sight appear to be some contradiction. However, he emphasized that his authorities regarded the anti-inflationary measures as essentially temporary in nature, and therefore they could not be allowed to interfere with Greece's long-term economic development.

#### System and methods of restrictions and effects of the restrictions

13. A number of members posed questions concerning the prior import deposit system. It was asked when the Government of Greece contemplated further reductions in the level of the prior import deposits, and what percentage of total imports by value was subject to prior deposit requirements. Several members asked for assurances that Greece would continue to administer balance-of-payments restrictions and particularly the prior deposit regulations in a non-discriminatory manner. Further clarification was asked in regard to the exact time of refunding the deposit. It was hoped that the recent measures did not signify a trend towards a general increase in the incidence of these requirements. Some members expressed concern that the Greek authorities felt that they had to impose new restrictions and urged them not to take concrete actions to resolve problems which had not as yet materialized. Several members of the Committee expressed concern that the Government of Greece had announced increases in some restrictions, noted that these were temporary, and urged that further liberalizations be resumed as soon as possible. These members drew attention to the Rome Communiqué of the Committee of Twenty of the International Monetary Fund which stated the importance of avoiding the escalation of restrictions on trade and payments.

14. Replying to these questions, the delegate of Greece stressed that on the basis of 1972 trade figures, the value of imports subject to prior deposit did not exceed 30 per cent of the total value of imports. Recently, some items - mainly consumer goods - had been transferred to new lists, and this has had the effect of increasing the rate of import deposit for these products. However, the products affected did not constitute more than 3 per cent in value of all imports (this figure being included in the 30 per cent referred to above). The recent measures would expire at the end of the year. The purpose of these measures was not to restrict imports but to combat inflation. In accordance with the terms of the Association Agreement with the European Communities, Greece was continuing with the policy of phasing out the prior deposit requirements. The goods included in the 12-year tariff dismantlement list would be freed of deposit requirements this year, while prior deposit rates on items in the "22-year list" would continue to be gradually lowered. Although, in his view, under the terms of Article XXIV Greece was not bound to grant such reductions to non-EEC countries, in fact it had been his country's tradition to extend the reductions to all contracting parties. The prior deposits were refunded at the end of the prescribed limits, and not at the time of the payment for the goods.

15. Several members did not accept the interpretation of the provisions of Article XXIV given by the representative of Greece. One member, representing several delegations stated that he fully supported the Greek position. However, it was agreed that the Committee on Balance-of-Payments Restrictions was not the appropriate forum in which to pursue this debate.

16. A number of members drew attention to the complexity of the Greek import régime and emphasized the necessity for continuing the process of simplification. One member enquired whether the Greek authorities were planning to implement a further liberalization of the commodities contained in List A, and asked for details concerning items in the list for which permits were not issued automatically. Another delegate pointed out that it was very difficult to determine from the documentation provided which of the procedures "E" or "D" was applicable to a particular product.

17. On the question of import procedures for List A items, the representative of Greece stated that for most products licences were granted automatically. However, for a few items (mainly agricultural products) imports were restricted. In regard to restricted products, the criteria for the allocation of import quotas was the importer's performance over the past three years. However, licences were also granted to new importers. He stressed that there was no discrimination in the allocation of licences as between supplying countries. As had been explained in document BCP/143, the main difference between procedures "E" and "D" related to the country of supply rather than to the product concerned.

18. Referring to the Greek representative's opening statement, a member of the Committee asked for a full description of the new measures and for detailed lists of the products affected. The representative of Greece pointed out that in his opening statement he had described the most important aspects of the new measures. He regretted that as these measures had only recently been introduced, his delegation was not yet in a position to supply the translation of the full text. Nevertheless he had enumerated an extensive list of consumer goods covered by the new measures. Unfortunately, he could not add anything at this stage to the information he had given the Committee in his opening statement. He promised, however, that his delegation would supply contracting parties with full information, including the text of the relevant legal provisions, as soon as this was technically possible.

19. Asked to clarify the term "State foreign exchange" (referred to on page 2 of document BOP/143) with respect to the settlement of some import transactions authorized by commercial banks under the procedure "E", the representative of Greece said that this referred to State foreign exchange which was put at the disposal of authorized banks and which was automatically granted on presentation of the necessary documentary evidence.

20. A member of the Committee referred to the speculative stockpiling by Greek importers which had taken place in 1973, and wondered if the Greek authorities were contemplating any specific measures to overcome this problem. The representative of Greece stated that the new measures aimed inter alia at reducing stockpiling which was only one of a number of factors which had led to an increase in imports during the past year. The tendency on the part of Greek importers to increase the size of stocks was a direct result of the uncertain world economic situation.

21. Some Committee members voiced their disquiet at the number of bilateral agreements with State-trading countries still maintained by Greece, and concern was expressed that the agreement might involve discrimination against countries not a party to such agreements. One member asked for a summary of all bilateral trade and payments agreements indicating which of these was maintained purely for balance-of-payments reasons.

22. In his reply, the representative of Greece emphasized that Greece was a developing country facing difficult balance-of-payments problems. The existing bilateral agreements had enabled Greece to achieve a balanced development of trade with a number of Eastern European countries which would not otherwise have been possible. Furthermore, these agreements gave Greece a secure outlet for her surplus agricultural produce which otherwise would be extremely difficult to dispose of in market-economy countries. The amount of such trade in proportion to total trade had been declining in recent years, and in 1973 accounted for 19 per cent of exports and only 7 per cent of total imports. He emphasized that the countries mentioned in document BOP/143 with which Greece maintained such agreements did not enjoy any preferential trading conditions and the same import régime was applied to all contracting parties.

Conclusions

23. The Committee noted the statement of the representative of the International Monetary Fund that there had been considerable improvement in the level of reserves of Greece since 1971 - although a slight decrease had been registered in 1973 and a further deterioration could be expected in 1974. It hoped that the Greek authorities would soon be in a position to reduce their reliance on import restrictions particularly in the light of the reserve position. The Committee looked forward to having full details concerning the new measures recently announced but expressed concern that Greece had resorted to these new measures although noting that these were temporary - until 31 December 1974. The Committee expressed the hope that the Greek authorities would resume their policy towards further liberalization.

24. The Committee urged the Greek authorities to reduce the complexity of the present import control system and to diminish the reliance on bilateral trade and payments agreements.

25. The Committee also noted the intention of Greece to continue reducing the rates of the prior import deposit system and welcomed the statement of the representative of Greece that it had been the tradition of Greece to extend such reductions to all contracting parties.

ANNEX

Opening Statement by the Representative of Greece

The principal changes made in the Greek régime of import restrictions since the last consultations have been four successive reductions in the prior deposits required for the issue of import permits for certain products from the Community; Greece has extended these reductions to all the contracting parties.

In addition, a few products have been added to import list A.

The fact that all the restrictive measures are applied in a liberal manner is reflected in steady growth of imports, which increased from \$1,696 million in 1970 to \$1,927 million in 1971, \$2,407 million in 1972 and \$4,030 million in 1973, representing a growth rate of 67.5 per cent from 1972 to 1973.

The principal causes of this import growth, particularly in respect of foodstuffs (which have increased by 158 per cent), petroleum products (71 per cent), raw materials (57 per cent) equipment goods (56 per cent) and industrial consumer goods (49 per cent) are the following:

- (a) strong demand due to rapid growth of gross national product;
- (b) insufficient output of agricultural products;
- (c) increased demand for equipment goods, in order to meet the needs of economic development which continued during 1973;
- (d) the very substantial increase in prices of raw materials;
- (e) increasing uncertainty because of price instability in the international market, closely affecting possibilities of obtaining various products from foreign sources of supply, and resulting in an increase in stocks held by Greek importers.

On the other hand, progress of Greek exports in 1973 was by no means as rapid as the import growth, reaching only 47.3 per cent, and as a result the trade deficit worsened very appreciably. It is significant that from 1972 to 1973 there was a spectacular increase in the trade deficit - by 78 per cent.

In absolute figures, this deficit reached \$1,084 million in 1970, \$1,302 million in 1971, \$1,571 million in 1972 and \$2,800 million in 1973.

It is clear, therefore, that Greek exports contribute only relatively little to ensure equilibrium in the balance of payments which is still largely dependent on invisible earnings. These are unstable by their very nature, and are sensitive to fluctuations in the general level of international economic activity.

Nevertheless, despite substantial diversification in the composition of Greek exports, as a result of an appreciable increase of exports of industrial products, the total volume of exports could not improve the trade balance because the export growth rate was not sufficient to offset the tremendous upsurge in imports.

Thus, the problem facing Greece is the structural weakness of its economy, which has been further aggravated by the world economic crisis.

Among other measures designed to remedy this situation, Greece has bilateral clearing agreements with certain countries, ensuring a stable outlet for exports of sensitive agricultural products, and at the same time a substantial saving of foreign exchange needed for imports of certain raw materials and manufactures.

It should be noted, nevertheless, that the significance of these agreements for Greek foreign trade as a whole is declining.

This policy is still necessary, nevertheless, in order to prevent any deterioration of balance-of-payments equilibrium.

The evolution of Greek foreign trade as described above justifies the few restrictions still maintained, which are mentioned in document BOP/143.

In view, however, of the seriousness of the monetary situation in the Greek economy, whose liquidity increased very appreciably toward the end of 1972 and during 1973, the Greek Government found itself obliged to take far-reaching counter inflationary measures. These measures comprise:

- (a) a 20 per cent reduction in public investments;
- (b) a 5 per cent reduction in current budgetary expenditure;
- (c) a limitation of credits in general, in particular credits granted by State-controlled bodies.

Unfortunately, these measures proved insufficient to restrain the money supply, which increased by 28 per cent last year, while over the same period the consumer price index rose by 30.6 per cent and the wholesale price index by 44.2 per cent.

In these circumstances, the Greek Government found itself obliged to adopt additional measures as a matter of urgency, including limitation of dividends and profits of joint-stock companies and corporations, restriction of building permits, and adjustment of the tax system.

In addition, it was decided, as an exceptional and provisional measure, to amend the provisions regarding the prior import deposit as well as the import procedure for certain industrial products. These measures were established very recently and were published on 9 March 1974.

They apply more particularly to new passenger cars, which may only be imported subject to deposit for eight months of an amount equivalent to double the import value, provided that half of the total deposit may be released if import does not take place immediately.

Similarly imports of industrial products under quota in List A, such as television sets, combined radio/television sets, television antennas and descent conductors, so-called "optical bleaching agents" which can be stabilized on fibres, elevator (lift) guides, vacuum flasks, pens and pencils have been liberalized, although they are subject to higher deposits.

In addition, new lists have been added in the import system:

- (a) List F 200, comprising products the import of which is subject to a deposit equivalent to 140 per cent of the c.i.f. value and 60 per cent of the customs duty;
- (b) a list of products subject to a six-month deposit; and
- (c) a list of products subject to an eight-month deposit.

It should be noted that the measures mentioned above, which have been adopted in order to counter inflation, affect imported products whose value accounts for not more than about 8 per cent of the aggregate value of Greek imports; moreover these measures will be eliminated on 31 December this year. As from that date, the import procedures in force before the introduction of the recent exceptional measures will again be applicable.

In the implementation of its economic policy, and in particular its monetary policy, the Greek Government has the obligation to adopt measures that cause a minimum of disruption to trade between Greece and the contracting parties.

In the light of the indications given above, the Greek delegation considers that the restrictions applied until now, and likewise the measures introduced in the present exceptional circumstances, fall within the context of Article XVIII of the General Agreement and do not go beyond the reasonable limits which enable Greece to preserve the liberal and multilateral character of its external trade régime.