

GENERAL AGREEMENT ON TARIFFS AND TRADE

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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/43), and several background documents supplied by the International Monetary Fund together with a decision of the Executive Board of the Fund, dated 15 November 1963 (see Annex II).
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 4 November 1964. 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 agreed 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:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision of November 15, 1963 taken at the conclusion of the last consultation with Greece under Article XIV of the Fund Agreement, and the background material prepared in connexion with that consultation. The Fund has also prepared a supplementary paper dated October 21, 1964 to supply background information on recent developments.

"Pending the conclusion of its next consultation with Greece which it expects to conduct during 1965, the Fund sees no reason to alter the general view expressed in the decision taken at the conclusion of its last consultation with Greece and transmitted to the CONTRACTING PARTIES."

Opening statement by the representative of Greece

4. In his opening statement, the full text of which is reproduced in Annex I to this report, the representative of Greece described recent developments in the Greek balance-of-payments position, in the programme for economic development,

and in Greek foreign trade. He also described the changes which have taken place in the Greek import régime since the last consultation in May 1962. The factual material presented, which is summarized under appropriate headings below, pointed to an improved but still very low standard of living.

Balance-of-payments position and prospects

5. The representative of Greece noted that the Greek balance of payments showed small surpluses in 1962 and 1963, thanks in large part to a continuing very high level of receipts from tourism, transport and emigrant remittances, some of which he regarded as uncertain sources of income. On merchandise trade alone, Greece had the doubtful privilege, he said, of being among the few countries whose exports pay for less than 40 per cent of imports. In Greece, the latter grew by 17.6 per cent in 1963 compared with 1962 and by 19 per cent in the first eight months of 1964 compared with the same period in 1963. Exports had been far from keeping pace with this development, and the primary products which make up the largest part of Greek export trade are highly unstable in the return which they bring to Greece. Through the development programme, an effort is being made to develop industries in order to reduce dependence on traditional exports. Investment, both domestic and foreign, is being encouraged, especially in the industrial sector, and notable increases in gross national product have been achieved, but none of these developments has yet brought any basic change in Greece's situation as a typical country undergoing a process of industrialization to correct an excessive dependence on primary products.

6. The Committee's discussion tended to confirm in most respects the picture given by the representative of Greece. It was agreed that there had been some deterioration in the Greek balance of payments and reserve situation in the first half of 1964, though this did not appear to be of a particularly serious order. In answer to questions, the representative of Greece foresaw no great change from the present situation, and even though small balance-of-payments surpluses might continue, thanks to invisible receipts and capital inflow, he regarded such prospective surpluses as both small and unreliable. So far as trade was concerned, he could not foresee any immediate improvement in markets for Greece's major exports, though he noted that Greece's trading partners, especially the market economy countries, could make a major contribution to the solution of Greece's problem by reducing barriers which limit export opportunities in many cases.

7. Concerning foreign investment, the picture was somewhat more encouraging. Greece had been receiving increasing foreign funds, partly as a result of the adoption since 1953 of two laws ensuring favourable treatment to foreign investors. About two-thirds had been invested in the private sector and one-third in the public sector. Settlement of most pre-war debts should further encourage investment, which had not yet reached a level high enough to provide real strength to

the balance of payments. Total recent investment amounts to some \$398 million since 1953 while the annual deficit on trade has averaged over \$450 million in the last three years. Furthermore, while the shipbuilding, petrochemical, aluminium, tourist and other industries which are being built up with these funds should ultimately help the balance-of-payments position, they could not be expected to help in the next two or three years, and the tourist industry was still susceptible of considerable development. Countries of the European Economic Community are among those from which capital funds have been received, but projects for utilizing the \$125 million loan promised by the European Investment Bank are still in the study stage.

Alternative measures to restore equilibrium

8. In his opening statement, the representative of Greece noted that monetary stability has been maintained, as well as a relative stability of prices. The Committee expressed the hope that fiscal and monetary measures rather than further trade restrictions would be used to overcome any difficulties which might arise from recent monetary expansion and budget deficits. In response to an enquiry concerning certain restrictions on instalment buying which had been adopted last September, the representative of Greece indicated that owing to some subsequent modifications, these measures, which only concerned a few products, had been relaxed. He emphasized again that prices were relatively stable. Though the trade deficit appeared to be of a chronic nature, he assured the Committee that it continues to be his Government's wish to rely on fiscal and monetary measures rather than quantitative restrictions, however reduced these may be at present, to deal with the balance-of-payments problems; he also referred in this connexion to the help that increased export markets could provide.

System and methods of restrictions

9. The representative of Greece called attention, in his opening statement, to several changes in the direction of liberalization in the Greek import régime since the last consultation. Seventy items have been deleted from the list of products requiring prior import licence, with a resulting reduction in the overall percentage of imports subject to restriction. Furthermore, reductions in advance deposits which had been accorded to EEC countries in connexion with Greek association with the Community have been extended, voluntarily, to all GATT countries.

10. Various members of the Committee asked questions designed to clarify the working of the Greek restrictive system, which appeared to some to be needlessly complex in some respects. One question, as to why Procedure "D" could not be eliminated soon, since it was said to have no restrictive effect, was answered in the sense that Greece feels a need to retain in readiness a means of defence against any massive flow of imports which might occur. Restrictions covered a very small proportion of total imports and were administered with the greatest leniency. Their usefulness as a standby mechanism was sometimes tested on selected importers, but they did not impede or slow down imports. To questions concerning List A, the Greek representative

said that the licensing is quasi-automatic on all items in the list except a few which are produced in Greece, where the social importance of protection is considered overriding. Fresh fruit, millet, certain frozen fish of kinds fished by Greek fishermen, and refrigerator cabinets are the principal items for which licences are subject to closer scrutiny. Fresh fruit, although previously on List A, was not subject to this procedure until recently. Apart from these items, licences are granted in any quantity requested. The hope was expressed by a member of the Committee that no more primary products would be subjected to the closer scrutiny as described above. Another member suggested that the many List A items licensed on a quasi-automatic basis might be moved to List E, where they would still be subject to statistical control. The representative of Greece promised to convey this suggestion to the Ministry of Commerce, where he was sure it would be given careful consideration.

11. The Committee welcomed reductions which had been effected in advance deposit requirements which they considered objectionable. Hope was expressed that there would be further reductions in these requirements in favour of all contracting parties. The representative of Greece could not promise when further progress in that direction might be made but believed that further reductions extended to EEC countries would also be extended to other GATT countries in so far as this would be compatible with Greece's treaty of association. Several members of the Committee noted in particular that advance deposit requirements bear especially heavily on sellers in distant countries, as money remains tied up longer when goods must be shipped farther. The representative of Greece stated that his authorities were conscious of this fact, but that, while this was true in theory, he thought in practice the goods subject to advance deposit were mostly of kinds which would not be supplied to any significant degree by distant countries even in the absence of the deposit requirements. He indicated that the interests of such countries would be kept in mind.

12. A question was asked about barter arrangements whereby Greece has required foreign suppliers to take part of their payment in tobacco and citrus fruit; it was felt that this practice was one which did not accord well with the spirit of the General Agreement, and the hope was expressed that Greece might be able to abandon this practice. The representative of Greece confirmed that there have been, and are, some exchanges of this kind, but entirely within the framework of bilaterals and exclusively with countries having centrally-planned economies. The proportion of exports moved under such arrangements was less than half of 1 per cent in 1963 against slightly over 1 per cent in 1962, so that use of this device had declined. He attributed continuation of the practice to the need to dispose of stocks of primary products which Greece would much prefer to sell if possible for convertible exchange.

13. The Committee called attention to recommendations contained in the report on the last consultation with Greece and to the latest Fund decision in which the Fund urged Greece to reduce its reliance on bilateralism which reduced the effectiveness of the measures taken to expand exports to more competitive markets. The representative of Greece replied that most (eight out of thirteen) bilaterals are with centrally-planned countries and all are maintained primarily as a way of disposing of primary products in which the market economy

countries do not show sufficient interest. He recognized that the Fund had urged Greece to abandon these agreements, but his country did not see how it could do so in the absence of wider markets elsewhere. In 1963, 20 per cent of Greek exports had been marketed in this way against 23 per cent in 1962, and the percentage of imports bought in this way was considerably smaller, but Greece would have to look to Western countries for help toward any substantially reduced dependence on bilateral payments agreements. Some of the agreements were special, as was one with the Chilean Nitrate and Iodine Sales Corporation, a State company, to obtain needed fertilizers. The agreement with Finland had in effect become an agreement under which Greece settled in convertible currency. The representative of Greece did not think that recent increases in balances owed to Greece represented anything more than a seasonal phenomenon and thought there was no trend toward increased reliance on bilaterals. In answer to another question, he stated that if, under bilaterals, more lenient credit terms were extended to certain imports, such as lumber, as compared with terms available in trade with other countries, this was also done only to enable the exports to be sold. The hope was expressed that efforts to work off balances owed to Greece would not result in diversion of Greek import trade from more economic sources of supply.

General

14. The representative of Greece thanked the Committee for its sympathetic attitude and said that Greece would continue, as it had done, to strive to live up to the standards of the General Agreement. He considered that although the complete elimination of bilateralism appeared to be objectively impracticable, even for other contracting parties, it was fortunate that a large part of Greece's difficulty concerning exports lay within the power of other contracting parties to overcome, and he looked forward to a time when Greece's balance-of-payments position would no longer require the use of import restrictions.

15. While recognizing the difficulties confronting Greece and welcoming the various improvements in trading conditions that have been placed in effect since the last consultation, the Committee felt that it would be within the power of the Greek authorities to make further improvements, notably by simplifying the import régime, and reducing reliance on bilateralism; they felt that these changes, along with necessary fiscal and general economic measures, would bring compensating advantages to Greece in the form of a more competitive price structure which would ease the problem of selling Greek exports.

ANNEX I

Statement by the Representative of Greece

We have two documents before us, BOP/43 and the International Monetary Fund report of 21 October 1964, on economic developments in Greece. Both were compiled by or in consultation with Greek Government sources or other appropriate organizations and they give a complete picture of the situation to date. There is little I need add except for the few general remarks that follow:

1. You will see that there have been few changes in the régime of restrictions since our last consultation in May 1962. Such changes as there have been are in the direction of further liberalization. Thus: seventy items have been deleted from the lists:

the percentage in value of goods now actually subject to these restrictions is 0.47 per cent of total imports as against 0.65 per cent in 1962;

the reductions in advance deposits which resulted from our association with the European Economic Community have been extended to all our GATT partners.

The controls listed in BOP/43, few as they are, are applied with the greatest leniency, and indeed this is evident from the rise in imports which has continued at a rapid pace over the past three years. Between 1962 and 1963 imports increased by 17.6 per cent, from \$701,200,000 to \$804,300,000. In the first eight months of this year the figures are 19 per cent and \$548,100,000 as against \$459,100,000 for the same eight-months period of 1963. Greece has the doubtful privilege of being among the few countries of the world where exports cover under 40 per cent of its imports.

2. Since Greek exports have increased in no way commensurately with our imports, the deficit of our trade balance has continued to rise in the past three years. In 1962 it amounted to \$418,200,000 in 1963 to \$452,500,000, and in 1964 it is expected to exceed \$500,000,000.

3. Our balance of payments showed small surpluses of \$36,400,000 in 1962 and \$41,100,000 in 1963 only because the invisible receipts (tourism, transport and emigrant remittances) maintained themselves at a very high level.

4. Greece's exports, as you know, are still mainly primary products but not, alas, basic products. Tobacco: \$127,800,000; cotton: \$33,900,000; currants and sultanas: \$32,800,000; citrus fruits, fresh fruits and grapes: \$16,600,000. These four main exports cover \$211,100,000 of a total of exports for 1963 of \$295,900,000, or about 75 per cent.

5. The fragility of our balance of payments, depending as it does on two highly unstable and unpredictable factors, primary products and invisible earnings continues, and appears to remain a structural element in Greek economy. My Government is pursuing its efforts to eradicate this weakness. The restrictions we still retain seem to us a necessary part of these efforts. However it is only in the context of an overall plan for economic development that there is any hope of overcoming these difficulties in the balance of payments.

6. The Five-Year Plan (1962-66) development plan's objectives continue to be the achievement of a minimum average annual rate of growth of 6 per cent, an increased volume of investment especially in industry, increased domestic savings and inflow of foreign capital. In 1962 the increase in the gross national product at 1962 prices was 4.5 per cent, in 1963 it was 7.5 per cent, and we hope that 1964 will show an increase of between 7.5 and 8 per cent. Monetary stability has been maintained, as well as a relative stability of prices.

7. The standard of living, although improved, still remains very low. In 1960 the average per capita income was \$320, in 1963 it had risen to \$416. This continues to be one of the lowest in Europe. Greece therefore clearly qualifies for the description in Article XVIII of the General Agreement of "contracting parties the economies of which can only support low standards of living" and in particular in the note relating to "contracting parties the economies of which are undergoing a process of industrialization to correct an excessive dependence on primary products".

ANNEX II

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation
with Greece on 15 November 1963

1. The Government of Greece has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. During 1962 gross national income in real terms increased by 3 per cent, despite a fall of nearly 6 per cent in gross agricultural income owing to the biennial cycle in the olive crop and to adverse weather conditions. Increased outlays on fixed investment, especially by the private sector, further growth in earnings from tourism and shipping, as well as increases in emigrants' remittances were the main factors contributing to the rise in gross national income. Unemployment and rural overpopulation continued to present a major problem, but the situation was alleviated to some extent by a further increase in emigration which, including workers leaving to take up temporary employment in Western Europe, amounted to 110,000 people in 1962. Prices rose sharply in the last quarter of 1962 largely because of reduced supplies of major foodstuffs, but the rising trend halted in May 1963. Despite impressive gains in saving and time deposits, money supply again rose by about 15 per cent, mainly because of an increase in government outlays, the continued expansion of credit to the private sector and a rise in foreign exchange holdings. The rising trend in money supply continued in the first half of 1963. Current budget revenue in 1962 was higher than estimated and appreciably larger than in 1961. Current expenditure also rose, but to a smaller extent, and the resultant surplus made an important contribution to the financing of public investment, which was some 16 per cent greater than in 1961.

3. In the course of 1962 the Five-Year Development Program 1960-1964, was updated to cover the years 1962-1966. Its basic objectives, including the achievement of a 6 per cent average annual rate of growth in the gross national product, remained unchanged. To achieve them it will be necessary to increase the volume of investment, especially in industry. It is expected that resources for this purpose will be provided through increased domestic savings and the inflow of foreign capital from private and governmental sources. The Fund agrees that these resources for development could best be obtained by maintaining monetary stability and thereby strengthening domestic and foreign confidence in the national currency. For this purpose measures designed to lower the rate of

growth in money supply, especially by further reducing central bank financing of the credit operations of the Agricultural Bank and the government supply account would be helpful. The simplification of credit controls and the strengthening of the capital market would contribute to increased savings. The Fund believes that every effort should be made to raise current budgetary revenue by appropriate measures, especially by a continued drive against tax evasion.

4. The deficit in the balance of payments on goods and services account increased from \$97 million in 1961 to \$123 million in 1962, because of a sharp increase in imports associated with the development effort. Capital inflow, especially from private sources, was larger than in 1961 and enabled the authorities both to augment the monetary reserves and to establish a special gold sovereign fund for intervention in the domestic gold market. In August 1963 monetary reserves amounted to about \$282 million, \$15 million higher than the level in August 1962. In recent years Greece has made great progress in raising its earnings from invisible transactions, especially from tourism. However, exports so far have not responded satisfactorily to the inducements offered by the authorities. The Fund believes that the achievement of the development goals of Greece would be greatly assisted by better export performance and urges the authorities to increase their effort in this regard.

5. Since the last consultations some progress has been made in lessening restrictions. As direct consequences of the entry into force of the association agreement with the EEC in November 1962, advance import deposits were eased and the centralized system of bilateral payments arrangements with the EMA countries terminated. The exchange rate system was unified as a result of the negotiation of a new trade and payments agreement with the United Arab Republic. The system of import control remains complicated, however, and the Fund believes that its simplification is both practicable and desirable. Greece still relies heavily on bilateral payments agreements; the Fund considers that the channeling of a substantial proportion of exports to bilateral countries reduces the effectiveness of the measures taken to expand exports to more competitive markets and impedes the objective of closer integration of the Greek economy with Western Europe. The Fund urges Greece to reduce its reliance on bilateralism and especially to take early action to terminate the remaining agreements with Fund members.

6. In concluding the 1963 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Greece.