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January 18, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Greece - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Greece. A draft decision appears on page 19.

It is proposed to bring this subject to the agenda for discussion on Friday, February 17, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Brodsky, ext. 73241 or Mr. Hermann, ext. 74370.

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INTERNATIONAL MONETARY FUND

GREECE

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983 Article IV Consultation with Greece

Approved by L. A. Whittome and S. Kanesa-Thasan

January 17, 1984

I. Introduction

Article IV consultation discussions were held in Athens from November 28 to December 9, 1983. The staff mission consisted of D. Ripley, D. Brodsky, W. Hermann, D. Lachman (all EUR) with E. Wood (TRE) as secretary. Meetings were held with senior officials from the the Ministry of National Economy, the Bank of Greece, and the Center of Planning and Economic Research. The mission also met with Mr. G. Arsenis, Minister of National Economy and Governor of the Bank of Greece, and with Mr. D. Chalikias, Deputy Governor of the Bank of Greece. Mr. Lovato, Executive Director, and Mr. Caranicas, Alternate Executive Director, attended the meetings as observers. Greece continues to avail itself of the transitional arrangements of Article XIV.

On assuming office in October, 1981, the Government of Mr. Papandreou inherited a difficult financial situation and an economy characterized by long-standing distortions. Whereas restrictive policies had been pursued in Greece's major trading partners following the second oil increase, a strong fiscal stimulus had been imparted to the Greek economy in anticipation of the elections held in the fall of 1981. In the event, the net borrowing requirement of the overall public sector 1/ on an accrual basis doubled, rising from 7 percent of GNP in 1980 to 14 percent in 1981. The rate of growth of total domestic credit and of M3 reached 35 percent in 1981; inflation remained at 25 percent because many increases in administered prices were postponed, but the current account deficit on the balance of payments peaked at 6 1/2 percent of GNP. These developments occurred against the background of a decline in real GNP, and, for the second year in a row, real gross private fixed investment declined by over 11 percent.

1/ The overall public sector, for purposes of analyzing the underlying trend in the deficit, is defined to include the Central Government, the public enterprises and the public entities. The deficit excludes the borrowing requirement of the Consumer Goods Account for purposes of financing the public sector's inventories of petroleum and agricultural products because of statistical difficulties in tracking the development of this requirement.

The economic objectives of the current Government are to improve the social and economic conditions of the lower income groups and to support small business and agriculture; the economy is to be modernized and restructured within the context of the Five-Year Plan, with special emphasis on improving the efficiency of resource allocation. In fulfillment of its electoral commitments, the Government raised minimum wages by almost 50 percent in 1982 and reduced working hours. At the same time it introduced a formal system of wage indexation which provided for automatic adjustments every four months, fully protecting lower wage incomes from inflation. Efforts were made, however, to redress the financial imbalances inherited from 1981. The severity of the structural distortions underlying many of these imbalances led the authorities to choose a gradual approach, and only a very modest improvement was attained.

II. Background

In 1982, real GNP declined to the level registered in 1979 while inflation continued to exceed 20 percent for the third year in a row (Charts 1 and 2). The deficit on the current account of the balance of payments fell to just under 5 percent of GNP but, because of a reduction in autonomous capital inflows, 1/ Greece's external debt rose by almost US$1 billion in that year (Charts 3 and 4). The narrowing in the deficit on current account was due in large part to a run down of oil inventories and increased transfers from the European Communities (Chart 4). The still large deficit was accompanied by a further though more moderate fall in real private gross fixed investment. The share of total fixed investment in GNP declined from 23 percent in the second half of the 1970s to around 19 percent by 1982.

A disturbing feature was the persistence of a rate of inflation of above 20 percent at a time when economic activity was stagnating and inflation was decelerating in Greece's main trading partners. Labor cost developments played an important role. In 1982, in reflection of the Government's objectives of substantially raising the real earnings of low income groups, there were rapid increases in average earnings. These, together with low productivity growth, led to an acceleration in the growth of unit labor costs in manufacturing from 26 1/2 percent in 1981 to 37 1/2 percent in 1982 (Chart 2).

The weakness in the current account in recent years has stemmed in large part from a loss in competitiveness at a time when integration with the EC furthered import penetration. The weakness was accentuated by cyclical and structural factors. The traditional surplus on the services and transfers accounts had narrowed, reflecting declines in receipts from shipping, tourism, and emigrants' remittances. There had also been a steady decline in autonomous capital inflows. These inflows were

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1/ Autonomous capital inflows are defined here to include direct investment, investment in residential property, and foreign exchange deposits; such inflows are not seen to give rise to debt servicing obligations.

adversely affected inter alia by relatively high interest rates abroad and by declining business confidence. In these circumstances, the Bank of Greece was obliged to step-up its external borrowing significantly and the servicing of external debt (excluding short-term amortization) rose from 11 1/2 percent of total foreign exchange earnings in 1980 to 16 1/2 percent in 1982 (Chart 3).

In 1982 the public sector's deficit was reduced by 2 1/4 percentage points of GNP from its peak in 1981 to around 11 3/4 percent, primarily through an increase in revenues. This facilitated a deceleration in overall credit expansion to 31 percent by the end of the year, against a target of 30 percent. From mid-1982 efforts were also made to increase the cost of credit, and to limit central bank financing available to the authorities.

For 1983 the budget foresaw a small increase in the net public sector deficit in percent of GNP. However, the growth of central government revenues was expected to exceed that of expenditures by 5 percentage points; reduced reliance on central bank credit to the Government and an increase in the cost of credit to the private sector were to permit a further deceleration of the growth of total domestic credit to some 24 percent. In framing policy for 1983, the authorities also sought a further tightening of incomes policy to assure a revival of activity under conditions of decelerating inflation.

In the event, the authorities were only partly successful in achieving their policy targets (see Section III) while developments in the domestic economy and in the balance of payments continued to be disappointing. Real GDP growth in 1983 is now expected to have been marginally positive, against an initial projection of growth of some 2-3 percent; urban unemployment has risen sharply. However, there were signs of a revival of activity in the second half of 1983, and indeed industrial production (excluding construction) increased by 1/2 percent during the first eight months of the year, having fallen during the preceding four years. A poor agricultural harvest had more than offset the strengthening in activity registered in the industrial sector.

Both real private consumption and gross fixed investment were expected to rise by only 0.3 percent in 1983. The effects of the fall in real wages in 1983 on private consumption expenditure were just compensated by a decline in the savings ratio and the increase in nonwage incomes. The stagnation of gross fixed investment stemmed from a continued sharp decline in real private investment offset by large public investment outlays envisaged in the medium-term plan for the restructuring of the economy. Private investment was discouraged by the weakness of foreign and domestic demand and by the current and prospective development of profitability. The rate of decline of real exports decelerated from 9 percent in 1982 to 1 1/2 percent in 1983, while depressed domestic demand was reflected in stagnating imports. Thus the negative contribution to growth of the foreign balance was markedly reduced in 1983 (Chart 1).

To dampen the high rate of inflation, the system of wage indexation was modified in early 1983 by postponing several adjustments for inflation; for example, the adjustment for the first eight months of 1983 occurred only in September. As a result, earnings in real terms in 1983 are estimated to have declined by about 3 percent on average. With the more modest rise in wages, the rate of increase of unit labor costs in manufacturing is expected to have decelerated by more than half to 16 percent. However, the beneficial effects of this deceleration on inflation were approximately offset by the effects of the drachma depreciation on import prices, the raising of administered prices and sharp increases in farm prices associated in part with membership in the European Communities. All in all, consumer prices continued to rise at over 20 percent.

The current account deficit remained stable in 1983 at $1.9 billion as the improvement in the trade balance was offset by the deterioration on invisibles. In percent of GNP the deficit rose by 1/2 percentage point to 5 1/2 percent. Exports declined in value by $100 million, against a contraction of imports of US$3/4 billion. Exports were adversely affected by the sluggishness of world trade, and particularly the weakness of demand in important markets in Western Europe and in the oil exporting countries. The authorities attributed some of the loss of Greek market shares to inadequate sales organization, but competitiveness factors clearly also played a major role in explaining the development of the trade balance. The continued destocking of oil helped to reduce net oil imports by some $400 million below the already compressed level of 1982. By the end of 1983 excess oil stocks were thought to have been eliminated.

The components of invisible earnings were thought by the authorities to be particularly sensitive to cyclical developments abroad and to the structural problems of the shipping industry. The development of invisible earnings, in the view of the staff, was also affected by competitiveness factors and possibly by disguised capital outflows. Tourist arrivals had fallen only marginally while foreign exchange earnings from tourism were down 38 percent since 1981. Travel restrictions imposed in 1983 by certain European countries were noted by the authorities as having had a temporary adverse effect on tourism earnings.

The inflow of autonomous capital not affecting Greece's official foreign debt rose marginally, partly in response to a liberalization of the regulations affecting the holdings of foreign exchange accounts by residents. However, it appeared that the errors and omissions item had swung from a credit of US$350 million in 1982 to a debit of US$200 million in 1983. In the event, officially recorded external debt is estimated to have risen by US$1 1/4 billion in 1983 to US$9 1/2 billion. Thought was being given at the time of the discussions to increasing interest rates on foreign exchange accounts so as to encourage autonomous inflows, though such increases have not yet been implemented.

In order to improve competitiveness, which had been eroded since mid-1980 as the depreciation of the drachma had been more gradual than that called for by differentials in cost and price developments, a discrete devaluation of the drachma by 15 1/2 percent was introduced in January 1983. However, over the subsequent six months the drachma-dollar rate was stabilized, giving rise to a real effective appreciation (as measured by consumer prices) of more than 15 percent. At the beginning of August the authorities initiated a more flexible exchange rate policy and over the following five months the drachma was gradually depreciated by nearly 20 percent vis-à-vis the dollar and by about 12 percent with respect to the EMS currencies. Since 1980, the real effective exchange rate (as measured by unit labor costs) has appreciated by 17 percent against the currencies of Greece's major trade partners and by 26 percent against the currencies of the European Communities (Chart 5). Gauged against differential movements in consumer prices the loss of competitiveness appears to have been much less and there has been some gain in competitiveness since 1982 (Chart 4).

III. The Policy Discussions

At the time of the consultation discussions, the authorities were still in the process of finalizing the policy stance for 1984. The budget was presented to Parliament during the mission's stay, but the monetary program and incomes policy for 1984 had yet to be announced. Moreover, the Five-Year Plan for 1983-87, which, in addition to defining the general framework for economic policy, outlines specific policies with respect to socialization and industrial strategy, had been generally agreed but not yet finalized. The authorities were, however, able to indicate their broad economic objectives for 1984 and beyond. For 1984 they foresaw an export and investment-led recovery of real GNP growth of about 2 percent, a reduction of inflation to some 18 percent, a reduction of the public sector deficit from an outturn of 13 1/4 percent of GNP in 1983 (against a target of 12 percent) to 12 1/2 percent in 1984, and the containment of the current account deficit of the balance of payments at around US$2 billion. The authorities stressed that domestic political constraints, as well as the marked structural weaknesses in the economy, dictated a policy of gradual adjustment. The consultation discussions centered mainly on the question of the viability of the adjustment program foreseen given the prospective international environment. Specific issues included whether the targets for 1984 were sufficiently ambitious and whether the policy measures in prospect were likely to bring about the projected results.

1. Medium-term and structural policies

The authorities indicated that their medium-term strategy was to be defined in terms of a Five-Year Plan covering 1983-87. A distinguishing feature of the planning procedure in Greece was its consensus approach based on the broad participation of the social partners. The Plan was founded on a list of projects that had been drawn up in 1982 integrating both regional and sectoral priorities. The basic objectives of the Plan were to improve competitiveness by raising the quality of Greek goods, to improve the quality of public services, and to promote noninflationary growth. (On several occasions it was stressed that inflation was the major problem facing economic policymakers in Greece.) These aims could only be achieved if the basic structural problems of the Greek economy were redressed. The authorities laid stress on the need to eliminate the oligopolistic structure of domestic production by increasing both domestic and external competition. It was hoped that particular benefit would be obtained from the encouragement of small and medium-sized enterprises. In addition, there was a need to remove archaic legal restrictions, to promote vertical integration, to promote high technology investments, and to encourage expenditures on research and development.

A preliminary outline of the Plan had been presented to Parliament in May 1983 and the detailed version would be finalized by mid-1984. The Plan analyzed the structural problems of the Greek economy at a macro- and micro-level, and gave a clear statement of the Government's intentions so as to remove uncertainty that had inhibited private sector investment. The targets of the Plan were set in qualitative rather than quantitative terms. The only macroeconomic targets announced to date were those of securing an average annual rate of GDP growth of between 3 1/2 percent and 4 percent, and increasing investment as a share of total domestic demand from 18 percent in 1982 to 21 percent by 1987. The authorities acknowledged that these targets might need to be revised downward in light of developments in 1983 and prospects for 1984.

An important element in the authorities' medium-term strategy was their "socialization policy." This policy was to be pursued in the first instance in public sector enterprises but also in "problematic enterprises" and in enterprises in the mining sector. 1/ In the summer of 1983 a law had been passed calling for the setting up of administrative councils for public sector enterprises with a view inter alia to opening up their management also to workers and consumers.

Investment schemes had been restructured to make them more readily comprehensible and their administration transparent and decentralized. The initial response was seen as encouraging, and it was felt that much had been achieved in stabilizing the decision-making framework. Foreign investment was also covered in the same legislation and foreign applications for investment permits were already seem as promising. Some progress had been made in directing investment expenditures in the designated directions.

1/ Problematic enterprises are those enterprises which have been identified as being in financial difficulties and are undergoing a review and rehabilitation procedure established by the Government.

2. Fiscal policy

In explaining their general approach to fiscal policy, the Greek authorities stressed that many of the imbalances characterizing the economy stemmed from structural weaknesses which could not be quickly corrected. Accordingly, their strategy was one of gradually reducing the deficit by containing expenditures in the ordinary budget and by increasing revenues through an expansion of the tax base. The authorities also planned to continue to shift the composition of expenditures toward the promotion of investment. At the same time, they intended to continue to reduce inefficiencies in the government sector, and to make more transparent the system of subsidies so that it could be reviewed and altered as the situation required.

The initial 1983 budget established as a target the stabilization of the net public sector borrowing requirement at almost 12 percent of GNP, somewhat higher than the 1982 outturn. This was to be achieved, notwithstanding a further strong increase in central government expenditures, by a 40 percent increase in direct taxes stemming mainly from fiscal drag and further efforts to reduce tax evasion, and also by increases in certain indirect taxes, giving rise to an increase of 37 percent in receipts from indirect taxes (Charts 6 and 7). In the event, while expenditures increased as anticipated, tax revenues grew by only 27 percent. In part, the disappointing revenue performance reflected slower-than-projected growth of GNP. Also of substantial importance was a two-month strike by tax collectors which had a particularly adverse effect on direct tax collections. The net public sector deficit rose by around 1 1/2 percentage points of GNP to over 13 percent in 1983.

The fiscal strategy for 1984 seeks a reduction in the public sector deficit to some 12 1/2 percent of GNP, namely, 1/2 percentage point below the 1983 outturn. An important role is to be played by expenditure control although investment expenditures are to increase by 30 percent. Central government expenditures in the ordinary budget are projected to rise by 18 percent in nominal terms, or remain approximately constant in real terms. Expenditures for salaries and pensions are to rise by almost 24 percent. "Other consumer expenditures," accounting for almost 20 percent of total expenditures of the ordinary budget, will rise by less than 7 percent, while debt servicing payments, accounting for an additional 10 percent of the total, are projected to rise by 12 percent. The authorities argued that the projected increase in public sector wages did not indicate a relaxation of incomes policy and that it was consistent with an economy-wide projection of real wage increases of 1 percent. Further, they rejected the suggestion that the low rates of growth budgeted for other categories of expenditure cast doubts on the realism of the budget targets. They explained that, in the first instance, the expenditure entry "other consumer expenditures" had been greatly affected in 1983 by a number of once-for all outlays, giving rise to an exceptional increase of 53 percent in that year; such outlays could not be expected to continue. There was also a reserve fund included in total expenditure which would be used to cover any additional debt servicing expenditures, though the staff noted that this fund in the 1984 budget was substantially below its 1983 level. Finally the authorities argued that in the last several years the expenditure targets had consistently been achieved, though it was pointed out that these targets had envisaged a much higher increase in real expenditures than was foreseen for 1984, particularly if there were some slippage in price developments.

On the revenue side, direct taxes were to rise by just under 30 percent with indirect taxes increasing by some 23 percent. A small part of the increase in indirect taxes was to take the form of an increase in the tobacco tax; various administered prices and excise taxes would also be increased, though the details have not yet been determined. However, the revenue effects for the Central Government were not expected to be large. Both direct and indirect tax revenues would be strengthened in 1984 by a recouping of the tax receipts lost in 1983 on account of the tax collectors' strike, and by a further reduction in tax evasion. They would also be bolstered by the expected pickup in activity, and, for personal income taxes, by fiscal drag. A change in the income tax system was being introduced in 1984, with a shift from deductions to tax credits, so as to improve the position of the lower income groups. Various public statements notwithstanding, the authorities confirmed that it would be a revenue-neutral change, and not a revenue-augmenting change.

Some further increase was foreseen in the gross operating deficit of the public entities for 1984, largely because of increased expenditures for social benefits. 1/ The authorities were of the view that these increases were adequately provided for by transfers from the Central Government, and as a consequence of the rise in such transfers, no increase in their net borrowing requirement was foreseen. Changes in social entitlements or contribution rates were not currently in prospect. Some reduction in the operating deficit of the public enterprises was projected, largely on account of an improvement in the efficiency of operation.

3. Monetary policy

The authorities emphasized the shift in monetary policy that had taken place since the middle of 1982 (Chart 8). Whereas monetary policy had clearly been accommodating in 1981, it had been tightened appreciably in 1982 with a further tightening in 1983. This shift in policy occurred in spite of the continued large public sector borrowing requirements, and was clearly reflected in the evolution of the monetary and credit aggregates. On the basis of provisional figures, it was estimated that M3 had increased by around 20 percent in 1983 compared with 29 percent in 1982 and 35 percent in 1981. A similar deceleration was in evidence for the broad credit aggregates. The authorities agreed that a significant part of the deceleration was due to the temporarily reduced borrowing

1/ The public entities include principally social insurance funds but also local authorities. However, the figures on an accrual basis cover only five major social insurance funds.

requirements of the Consumer Goods Account in reflection of the Government's policy of reducing oil inventories. However, attention was also drawn to the deceleration in private sector credit expansion to a rate well below that envisaged in the 1983 monetary program. Although the monetary program for 1984 had still to be formulated, the authorities assured the staff that it would aim at a further tightening in policy.

The authorities noted that the general tightening in the stance of monetary policy was also reflected in the change in interest rate policy. Since 1982 there had been a gradual elimination of many low interest rates, some of which had been in the 2-4 percent range. In addition, in April 1983 the interest rate of 10 1/2 percent for the financing of exports was raised to 21 1/2 percent and exporters were compensated by an equivalent subsidy. Thus, the number of basic rates on bank credit to the private sector had been reduced to three, viz., 14 percent for loans to agriculture and small firms, 18 1/2 percent for fixed investment, and 21 1/2 percent for working capital. The authorities recognized that bank lending rates had tended to be negative in real terms, or only marginally positive at the extreme, but they indicated that it was their intention to raise interest rates to be positive in real terms and to reduce the disparity among them. The authorities were keenly aware of the considerable incentives for "credit leakage" that still existed, given the wide differences in lending rates. An increase in real interest rates was to be looked for through the deceleration in inflation. However, it was expected at the time of the discussions that nominal interest rates, also for deposits, would be increased early in 1984, though no precise measures have yet been announced.

In addition to raising interest rates, the authorities noted that there had been a number of other important changes to increase financial discipline. They argued that leakages could be minimized by imposing severe sanctions on firms and banks which sought to redirect preferential credit. Further, there had been a reduction in access to preferential refinancing to secure tighter control over the liquidity of the Greek credit system. Since mid-1982 there had been a more consistent application of the penalty rates on overdrafts on the commercial banks' current accounts with the Bank of Greece. In addition, clear limits had been established on the recourse of the public sector to credits from the Bank of Greece.

As regards the instruments influencing the allocation of credit, earmarking was traditional and the authorities stated that it was still necessary to direct credit to priority sectors. In addition to the primary reserve requirement of 5-7 percent, banks are currently required to deposit with the Bank of Greece 37 percent of their total private deposits for investment in treasury bills yielding some 15 percent. Specified portions of private sector deposits are also earmarked for loans to public corporations (2 1/2 percent), to small-scale industry (9 percent), for medium- and long-term investment loans (15 percent), to ailing enterprises (1 percent), and most recently to the food processing industry (0.75 percent).

4. Incomes and price policies

The authorities viewed incomes policy as an integral part of their efforts to reduce inflation and laid stress on its success in 1983. Largely in reflection of the delaying of wage adjustments, wages were estimated to have increased on average by 17 percent implying a real decline of around 3 percent in 1983. The authorities noted that since the indexation mechanism provided full coverage only for lower income workers, the real decline in average wages in 1983 was borne more than proportionately by higher paid workers. They were of the view that the compression of wage differentials over the past two years had not given rise to any significant problems. The support of private sector employers for the continued mandatory application to the private sector of the wage indexation system for 1984 was noted, though there was some question, both in the minds of the authorities and of the employers, as to whether a much greater compression of wage differentials would be desirable.

A commitment had been made not to delay the wage adjustment due in January which would provide compensation for inflation over the preceding four months, and the authorities recognized that this would result in an increase of some 8-9 percent in wages at that time. Nonetheless, the authorities assured the staff that their projection for 1984 of the growth of compensation per employee of 18 percent was realistic. The staff pointed to the fact that a substantial modification in the indexation system for the rest of the year would probably be required if the rate of growth of wages were not to reaccelerate, bringing with it additional inflationary pressures, and wondered whether thought might not be given to redefining the inflation index to exclude certain categories of price increases for the purpose of making wage adjustments. The consistency between public sector wage projections contained in the budget (some 24 percent) and the projection for wage increases in the overall economy was also raised.

Subsequent to the discussions, the Minister of National Economy announced that for 1984 there would be no mandatory application of the incomes policy pursued in the public sector to the private sector. However, wage agreements in the private sector would be carefully monitored, and increases in excess of those set under the guidelines for civil servants would not be deductible as business costs, nor would firms granting such increases be accorded bank credits. For civil servants wage adjustments for the increase in prices for the last four months of 1983 would be made in the second half of January or in February. No change in the method of indexing was foreseen for 1984, and adjustments would be made every four months. For all adjustments in 1984, including the first adjustment, salaries of up to Dr 50,000 per month would be fully indexed; the earlier ceiling of Dr 35,000 for full indexation was thus superceded. The Minister estimated that in 1984 the average income for civil servants would increase in nominal terms by some 24 percent, and in real terms by 6 percent. Upon further inquiry the authorities noted that some minor revision could be necessary for the 1984 projections. However, new official forecasts were not yet available, though the inflation target has now officially been raised from 17 to 18 percent.

The authorities indicated that incomes policy during 1983 was supported by the continued application of an extensive system of price controls. This was deemed necessary because of the oligopolistic nature of many enterprises, particularly in the sheltered sectors of the economy as well as by the large size of the nonwage sector. The authorities stressed that the system of price surveillance currently applied was not designed specifically to reduce corporate profits but was geared rather toward eliminating excessive profit margins, particularly in the distributive sector. The objective was to allow increases in prices no greater than that justified by the increase in material and labor costs. The Government had no intention of allowing producer prices to rise by more than costs in order to promote a recovery of profits. Rather profits should strengthen through a recovery of activity. The authorities considered current and prospective profits to be of secondary importance as determinants of investment.

At the time of the announcement of incomes policy in January 1984, the Minister of National Economy noted that price performance in 1983 had been less satisfactory than the Government had expected because of the capitalistic structure of the private sector which had encouraged inflation and speculative tendencies. To better support incomes policy objectives and to dampen the rate of inflation a tightening of price controls was foreseen. Prices of only about 10 percent of the goods in the consumer price index were subject to direct controls, but the decisions to raise prices on a large number of goods were subject to review. The review would be made more stringent, though just how the "National Prices Committee," soon to be established, would operate was not yet fully determined.

5. External policies

The Greek authorities were of the view that the weakness in the current account balance over the past four years was to be ascribed primarily to cyclical and structural factors rather than to any fundamental loss in competitiveness. The international recession abroad had had a particularly pronounced impact on the services account on which Greece is highly dependent for its foreign exchange receipts. The authorities drew attention to the high covariance among the different components of services and private transfers and to their sensitivity to world economic conditions. While this might be to Greece's benefit over the short run as activity revived abroad, over the longer term it was a fundamental objective of the Five-Year Plan to diversify Greece's external sector. To this end, a number of measures had been adopted to stimulate exports following the January 1983 devaluation. They included measures to promote market research, to coordinate the export activities of the various agencies, and to eliminate the disadvantages faced by small- and medium-sized firms in their efforts to penetrate foreign markets.

The authorities noted that the rapid rise in Greece's external debt over the past four years stemmed not only from the large current account deficit, but also from the decline in the proportion of the deficit covered by autonomous capital inflows to around 50 percent by 1983. The decline in these autonomous capital inflows was in the authorities' view mainly a reflection of the economic downturn abroad. However, it was felt that the widening of the differential in real interest rates between Greece and abroad may also have played a part. Accordingly, the authorities intended to enhance the attractiveness of bank deposits by selectively raising interest rates. In addition, the authorities attached importance to the legislation they had introduced to facilitate foreign investment which had already resulted in a significant increase in applications. The authorities were confident that these changes coupled with a continuation in the recovery abroad would result in a marked pickup in capital inflows.

The authorities recognized that the maintenance of the current account deficit at its present level was not sustainable. For this reason, they were targeting a gradual reduction in the deficit to about 3 1/4 percent of GNP by 1987. Little progress was, however, expected in 1984 as oil destocking would come to an end and European Community transfers were expected to level off. The authorities felt that the reduction envisaged in the deficit beyond 1984, coupled with a strong revival in nondebt capital inflows, would limit the increase in the debt service ratio through 1987 to around 5 percentage points of foreign exchange earnings. They felt that such a scenario would be consistent with Greece's maintaining its currently good standing in the international capital markets.

The staff's projections, on the basis of the historical level of nondebt capital inflows, showed that, even making relatively optimistic assumptions about the growth of foreign exchange earnings and about interest rates abroad, Greece's debt service ratio (excluding the amortization of short-term debt) would rise from 17 percent of foreign exchange earnings in 1983 to 24 percent by 1989 (Appendix III). In the view of the authorities, the staff's debt service projections were unduly pessimistic, largely in that they only allowed the ratio of nondebt capital to the current account deficit to be restored to its average historical level. The authorities did, however, agree that a strengthening of autonomous capital inflows to the levels that they had projected would depend on the adoption of additional policy measures, particularly in the field of interest rate policy.

On the question of exchange rate policy, the authorities noted that a compromise had to be struck between the objectives of strengthening the balance of payments and reducing inflation. They also noted that exchange rate policy in Greece was severely constrained by the public's strong sensitivity to the dollar/drachma exchange rate. This made it extremely difficult to secure a real effective depreciation of the drachma at the time of a strong dollar appreciation. The authorities recognized that the de facto pegging of the drachma to the dollar during the six months following the January devaluation had resulted in a sizable erosion of competitiveness. However, a large part of this loss had been recouped since August following the adoption of a more flexible exchange rate policy. The authorities stressed that, while they would continue to take into account the impact of exchange rate changes on inflation, it was their intention to pursue a realistic and flexible exchange rate policy. This would take the form of a gradual rather than a step adjustment. They also saw an important role for supporting policies aimed at reducing inflation.

In the area of trade policy, the authorities confirmed that the advance import deposit scheme would be eliminated at the beginning of 1984. It was also their intention to eliminate temporary import restrictions on goods from the EC which had been introduced with the consent of the EC in conjunction with the January 1983 devaluation. In the event, import restrictions on 11 categories of goods accounting for about 1 percent of imports were eliminated as of January 1, 1984, but the EC Commission has agreed to a 10 month extension for the import restrictions introduced in late February 1983 on 5 additional categories of goods.

An accord had been reached with the EC concerning indirect tax policy in Greece within the framework of Greece's 1982 memorandum to the Communities asking for dispensation from certain of the Communities' regulations. Under the terms of this agreement, the many indirect taxes affecting imports are to be combined into a single regulatory tax in early 1984 for the purpose of transparency. This tax is to be phased out according to a predetermined schedule by 1989. At the same time, the introduction of the value-added tax in Greece which was scheduled for January 1, 1984 is to be postponed until January 1, 1986.

IV. Prospects for 1984

While economic activity in 1983 was at a considerably lower level than had been forecast, the authorities believe that there had been an upturn in the second half of the year which would provide the basis for sustained growth in 1984 in a setting of decelerating inflation. Given the recently announced incomes policy for 1984, the authorities have said that some minor revisions in the official projections may be necesary, but such revisions are not yet available. Thus, the projections discussed here are based in large part on the official forecast as of end-December.

The official forecast is for real GNP growth of nearly 2 percent in 1984 (Chart 1). The forecast for real GNP growth in 1984 may be realized, but the sources of growth could well differ from those projected. Major sources of growth were expected to be exports of goods and services and gross fixed investment. Disposable income, and with it private consumption, was expected to rise by about 1 percent in real terms but, given the announced incomes policy for 1984, the rise in disposable income for 1984 could well be underestimated. Investment growth is foreseen as originating entirely in the public sector; private fixed investment--which is estimated to have made a negative contribution to growth of 2/3 percentage points in 1983--is expected to stabilize in 1984. The staff wonders however whether such stabilization is to be looked for in view of the prospects for the return on capital.

The foreign balance is projected to remain essentially unchanged in real terms in 1984, having made a negative contribution to growth for the last three years. Exports of goods and services are expected to increase by more than 3 1/2 percent, in line with the projected recovery abroad and because of adequate price competitiveness. The latter is also seen as dampening import demand, which, despite the recovery in domestic demand and no further dampening effects from oil destoring is forecast to increase by no more than 2 percent in real terms. The question arises whether the net export performance will be so strong.

The authorities were forecasting a deceleration in the inflation rate in 1984, from 20 percent (measured by the consumption deflator) in 1983 to 18 percent. In the view of the staff, this target will prove very difficult to achieve because of the large nominal wage increases accorded in September 1983 and the pattern of settlements established for 1984. This would be all the more difficult to achieve were an active exchange rate policy to be pursued. The scope for a further compression of profits appears extremely limited and strict enforcement of price controls may hold down the observed rate of inflation at a cost in terms of allocative efficiency.

Official projections envisage only a marginal decline in the current account deficit of the balance of payments as a share of GNP in 1984, from 5.4 percent in 1983 to 5.3 percent in 1984. Beginning in 1985, a more rapid decline is anticipated, to 3 1/4 percent by 1987. These projections are based largely on the authorities' belief that the marked decline in invisibles' receipts in recent years--principally from tourism, shipping and emigrants' remittances--was due primarily to cyclical elements, and hence that rapid increases were likely as economic recovery progresses abroad. At the same time, the share of the current account covered by nondebt financing--i.e., residential investment, direct investment, and foreign exchange deposits--is projected to increase from 52 percent in 1983 to 60 percent in 1984, and to 82 percent by 1987. In the staff's view, the current account deficit in 1984 is likely to exceed its projected level, reaching nearly 6 percent of GNP, both because of demand developments at home and abroad and possible drachma depreciation, that may be considerably larger than implied in the initial projection. In this regard, it is to be noted that the marked fall in invisibles' receipts (as well as the large swing in the errors and omissions entry) may also reflect disguised capital outflows, which are unlikely to be reversed in the absence of further policy measures. The components of nondebt financing are certainly influenced by cyclical factors abroad, but the staff had strong doubts about the increases being projected.

V. Staff Appraisal

The economic situation inherited by the Greek Government in the fall of 1981 was clearly a difficult one. Little progress had been made in adjusting to the oil shocks of the 1970s or in correcting the long-standing distortions that characterized the economy. Moreover, whereas restrictive policies were being pursued in Greece's main trade partners, financial policies in Greece were considerably eased, giving rise to a large increase in consumption and imports. As a result, the net deficit of the public sector doubled to 14 percent of GNP in 1981, while the growth of monetary and credit aggregates accelerated to about 35 percent. Inflation was held to 25 percent, through the postponement of administered price increases, but the current account deficit on the balance of payments widened to 6 1/2 percent of GNP. At the same time there was a further decline in output and a sharp drop in fixed investment.

An important objective of the present Government's economic policy is gradually to redress the basic imbalances characterizing the economy with a view to stimulating productive investment and thereby the growth in output and employment. This is to be done within the framework of the Five-Year Plan which also aims at a more equitable distribution of income. To this end, there has been a tightening of financial policies since mid-1982. In addition, following the very expansionary stance of incomes policy in 1982, a modification in wage indexation was effected in 1983 through the postponement of adjustments.

Despite the authorities' intentions, the economic results to date have been disappointing, particularly when viewed from an international perspective. Inflation in 1983 is estimated at 20 1/2 percent or little changed from 1982. The public sector deficit in relation to GNP has risen from 11 3/4 percent in 1982 to 13 1/4 percent in 1983, while the deficit on the current account has risen from 5 to 5 1/2 percent notwithstanding a number of favorable factors of a temporary nature. At the same time, there has been a further falling off in private sector investment which may in part be traced to uncertainty about the general direction of economic and social policy.

Against the background of the limited progress to date in the process of adjustment, the staff would question whether the authorities' targets for 1984 are sufficiently ambitious. Even if these targets were attained, Greece would remain considerably out of line with its main trade partners in a number of fundamental respects. Thus, despite the slow growth expected in 1984, inflation is now being targeted at 18 percent and the current account deficit is expected to remain at about US$2 billion. Moreover, the public sector's deficit is to be reduced only by 1/2 percent of GNP to about 12 1/2 percent of GNP, up 3/4 percent from the 1983 target and nearly 1 percent from the 1982 outturn.

The staff's principal concern is in the area of the balance of payments. The large deficits recorded on the current account balance over the past four years, coupled with a sizable drop in autonomous capital inflows, have resulted in an approximate doubling of Greece's officially estimated external debt. The servicing of this debt (excluding short-term amortization) currently amounts to around 17 percent of foreign exchange earnings, up from 11 1/2 percent in 1980. The staff's calculations would suggest that the gradual adjustment of the current account deficit envisaged by the authorities, which at best is only to start in 1985, will not be sufficient to prevent a further sizable increase in the debt service ratio over the next few years. This would remain true even if the proportion of the current account deficit covered by nondebt capital were to be restored to the average level prevailing during the past decade. In order to secure a recovery in nondebt capital inflows, the staff believes that firm action will be required in the area of exchange and interest rate policies.

The restoration of the current account deficit to a level that can be sustained over the medium term will require a coordinated approach to policy. To this end, reliance will need to be placed not only on measures to contain domestic demand in general and to reduce public sector dissavings in particular, but also on measures to re-establish an adequate level of price and cost competitiveness. For this reason, one must regret the sizable loss of competitiveness since the January 1983 devaluation. The staff is, of course, in agreement with the authorities that the preferable way of improving competitiveness would be to adopt measures to reduce domestic inflation. However, in light of the present and prospective large inflation differential between Greece and its main trade partners, the staff sees little alternative but to pursue an active exchange rate policy supported by appropriate financial and income policies.

An important factor in the maintenance of the large inflation differential between Greece and its main trade partners has been the rapid increase in wages. In this regard, the authorities are to be commended on the restraining influence of incomes policy in 1983. This policy succeeded in securing a marked deceleration in the increase in unit labor costs from the extremely high levels recorded in 1982. However, the recently announced incomes policy for 1984 for civil servants, with its probable effect on private sector settlements, may not be consistent with the projected deceleration in the rate of inflation. The staff would recommend that the authorities consider a modification of the wage indexation system at least to exclude from indexation the effects of exchange rate, indirect tax, and administrative price changes. The holding down of prices through the strengthening of price controls, as apparently envisaged by the authorities, could help offset some of the price pressures emanating from increases in labor costs but may well give rise to distortions and allocative inefficiencies.

In the area of fiscal policy, the staff is concerned that, in the absence of supplementary measures, the authorities may not realize the limited reduction in the deficit they are targeting. In this regard, the substantial overshooting of the budget targets in 1983 has to be recalled. On the revenue side, the staff agrees with the authorities' broad philosophy of aiming to increase the base for income tax collections rather than to raise tax rates. Thus, the authorities' efforts to improve tax administration are to be welcomed. However, it is questionable whether these steps alone will be sufficient to secure the rather ambitious revenue projections, particularly insofar as direct tax collections are concerned. Over the medium term, the staff would encourage the authorities to move as quickly as is feasible to reform the tax system and to review the many exemptions being granted to important sectors of the economy. The staff would also urge that further delays be avoided in the implementation of the value-added tax now scheduled for January 1, 1986.

On the expenditure side of the budget, the staff welcomes the authorities' intention to break the trend of rapid real increases in public expenditure. In the staff's view the brunt of any effort to reduce the public sector deficit will need to focus on expenditure control; over the past three years expenditures have more than doubled, to reach levels in relation to GNP comparable to those prevailing in the more highly industrialized European countries. However, the staff has doubts as to whether the aggregate expenditure targets for the 1984 budget are attainable in the absence of supplementary measures. Care also has to be taken to monitor the efficiency of the increased investment expenditures envisaged in the budget and in the medium-term plan.

Over and beyond the need to improve the finances of the Central Government, the staff is of the view that it is important that action be taken to reduce the deficits of the public sector enterprises and to control the expenditure growth of the public entities. In this respect, but also to reduce pricing distortions, there appears to be a need for substantial selective price increases as well as for steps to increase managerial efficiency and to reduce overmanning; the burden posed by the growth of social expenditures must be carefully monitored.

During 1983 there was a sizable deceleration in the growth of the monetary and credit aggregates despite the continued large public sector borrowing requirement. This was attained through the reduced borrowing requirement of the Consumer Goods Account to finance petroleum stocks and through a dampening in the growth of bank credit to the private sector. In part the slower pace of private sector credit expansion reflected increases in interest costs, but also a more general weakening in private sector credit demand. The staff would encourage the authorities to seek a further deceleration in the growth of the monetary and credit aggregates in 1984 and would emphasize the desirability of containing the borrowing needs of the public sector. The staff would also encourage the authorities to proceed with the interest rate reforms initiated in April 1983. A further unification and raising of lending rates would not only improve the channeling of financial resources to productive investment but would also facilitate the raising of interest rates on deposits to levels that were less negative in real terms. In a similar vein, the staff would urge the authorities to resist the pressures for a further earmarking of credit which would increase the complexity of the credit system and could give rise to additional distortions in the allocation process.

The staff welcomes the elimination of the advance import deposit requirement and of restrictions on imports from the EC for 11 categories of goods effective January 1, 1984. It is to be hoped that the Greek authorities will be successful in increasing the competitiveness of domestic products, thereby facilitating the continued liberalization of the trade and payments system. It is proposed that the next Article IV consultation with Greece be held on the standard 12-month cycle.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Greece, in the light of the 1983 Article IV consultation with Greece conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund welcomes the elimination of the advanced import deposit requirements on January 1, 1984. The Fund notes that Greece continues, pursuant to Article XIV, to maintain restrictions on payments and transfers for current international transactions, as described in SM/84/...

Greece: Fund Relations

Date of membership:	December 27, 1945 (original member)
Status:	Article XIV
Quota:	SDR 399.9 million
Fund holdings of Greek drachmas (as at December 29, 1983):	SDR 221.92 million (55.5 percent of quota)
Holdings of SDR (as of December 29, 1983)	SDR 31.2 million equivalent to 30.1 percent of net cumulative allocations (SDR 103.544 million)
Distribution of profits from gold sales:	None
Gold distribution:	118,104.738 fine ounces.
Last consultation:	The Staff Report for the 1982 Article IV consultation with Greece (SM/83/37 and Supplement 1, 3/21/83) was considered by the Executive Board at EMB/83/53. The Executive Board's decision on the 1982 consultation with Greece (Decision No. 7372-(83/53), adopted March 23, 1983) was as follows:

1. The Fund takes this decision relating to Greece's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1982 Article XIV consultation with Greece, in the light of the 1982 Article IV consultation conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes the reduction in the existing import deposit requirements (as described in SM/83/44) since the last Article IV consultation and the intention of the Greek authorities to abolish the system on January 1, 1984. In the circumstances of Greece, the Fund grants approval of the resulting exchange restrictions until January 1, 1984, or the completion of the next Article IV consultation, whichever is earlier.

Exchange system: A managed float of the drachma has been in operation since 1975. Although a member of the EC, Greece is at present not a member of the European Monetary System (EMS). The drachma/U.S. dollar rate is fixed daily and official quotations for other currencies are determined daily on the basis of the official rates between the U.S. dollar and the currencies concerned. The intervention currency is the U.S. dollar. Effective January 9, 1983 the drachma was devalued by 15.5 percent against the U.S. dollar, and at the same time it was pegged to the dollar rather than to the EMS currencies. In the six months following the January 1983 devaluation, the trade-weighted real effective exchange rate appreciated by 15 percent. On August 3, 1983, it was announced that the drachma would no longer be pegged to the dollar and in the subsequent five months the drachma depreciated by 20 percent with respect to the dollar. On December 31, 1983 the exchange rate was Dr 98.7 per U.S. dollar. The Fund has approved the retention of exchange restrictions and multiple currency practices resulting from the maintenance by Greece of various import deposit requirements until January 1, 1984, or the completion of the ongoing Article IV consultation with Greece, whichever is earlier.

Basic Data

Total area	132,000 sq. kilometers
Population (mid-1981)	9.7 million
GNP per capita, 1982	US$3,970

	1979	1980	1981	1982	1983 1/	1984 2/
			(Percentage change)			
The domestic economy						
National account indicators						
Real GNP growth	3.8	1.6	-0.8	-0.4	...	1.8
Real GDP growth	3.7	1.6	-0.4	—	0.3	1.8
Private consumption	2.8	-0.1	1.2	1.7	0.3	1.1
Public consumption	5.8	0.2	6.7	1.0	2.5	1.0
Gross fixed investment	8.8	-9.4	-8.6	-1.0	0.3	3.2
Private investment	8.2	-11.5	-11.6	-2.6	-5.2	--
Public investment	10.9	-2.2	0.6	3.3	14.3	9.5
Exports of goods and services	6.3	6.5	-4.0	-9.0	-1.5	3.5
Imports of goods and services	7.2	-6.6	3.4	5.1	0.2	1.8
Prices and wages						
GDP deflator	18.7	17.9	20.0	23.2	19.2	18.0
Consumer price index	19.0	24.9	24.5	21.0	20.5	18.0
Average hourly wages in manufacturing	20.6	27.2	27.2	33.5	18.5	...
Unit labor costs in manufacturing	16.6	25.9	26.6	37.6	15.5	..
Indicators of fiscal policy			(In percent of GNP)			
Central Government:						
Revenues 3/	21.4	20.3	20.4	23.1	24.7	26.1
Expenditures 3/	26.5	26.1	32.6	32.6	36.0	36.3
Gross borrowing requirement	5.2	5.7	12.2	9.5	11.3	10.2
Net borrowing requirement	4.5	5.1	11.3	8.6	10.6	9.5
Public enterprises net borrowing requirement	1.1	2.3	3.0	2.5	2.1	2.6
Public entities net borrowing requirement	-0.6	-0.4	-0.2	0.6	0.5	0.4
PSBR (net) 4/	5.1	7.0	14.0	11.7	13.2	12.6
Monetary and credit aggregates 5/			(Percentage change)			
Narrow money (M1)	15.7	18.4	23.3	22.1	14.0	...
Broad money (M3)	18.4	24.7	34.7	29.0	19.5	...
Domestic credit (net)	22.3	24.8	35.5	31.4	20.3	...
Private sector	18.4	19.6	24.9	23.1	17.0	...
Public sector	31.3	35.6	55.1	43.9	24.5	...

1/ Preliminary.
2/ Official projections as of December 1983.
3/ Excluding revenues and expenditures of Special Account for Agricultural Product Guarantees.
4/ Excluding nonoperational deficits of Consumer Goods and Special Management Accounts.
5/ Annual growth rates based on end of year observations.

Balance of payments	1979	1980	1981	1982	1983 1/	1984 2/
	(In millions of U.S. dollars)					
Trade balance	-6,178	-6,809	-6,697	-5,927	-5,250	-5,570
Exports, f.o.b.	3,932	4,094	4,771	4,141	4,050	4,350
Imports, c.i.f.	-10,110	-10,903	-11,468	-10,068	-9,300	-9,920
(net oil imports)	-1,736	-2,650	-2,902	-2,130	-1,700	-1,870
Balance on invisibles	4,296	4,593	4,276	4,042	3,350	3,570
Invisible receipts	5,663	6,158	6,482	6,098	5,350	5,760
Travel	1,662	1,734	1,881	1,527	1,160	1,290
Transport	1,519	1,816	1,826	1,657	1,300	1,400
Emigrants' remittances	1,168	1,084	1,080	1,043	920	950
EC subsidies	--	--	148	550	720	750
Invisible payments	-1,367	-1,566	-2,206	-2,056	-2,000	-2,190
Interest	-328	-438	-803	-769	-800	...
Current account balance	-1,882	-2,216	-2,421	-1,885	-1,900	-2,000
Capital balance	1,415	1,696	1,527	972	1,465	...
Nondebt financing	1,054	1,234	1,193	848	990	1,200
Residential	592	599	488	399	420	500
Entrepreneurial capital	364	502	410	304	250	320
Foreign exchange deposits	46	116	271	123	290	...
Public sector	119	166	340	323	550	...
Errors and omissions	71	173	335	350	-200	...
Overall balance	26	-496	-522	-563	-635	...
Central bank financing	-26	496	522	563	635	...
Medium and long term (net)	78	677	340	386	640	...
Net reserves (increase -)	-104	-181	182	177	-5	...
Other external indicators						
Current account deficit/GNP (in percent)	4.7	5.3	6.4	4.9	5.4	5.3
External debt, end of period	4,903	6,399	7,470	8,304	9,520	...
Total debt service	1,054	1,188	1,689	1,681	1,580	...
Interest	328	438	802	769	800	...
Amortization	726	750	887	912	780	...
Debt service ratio 3/	11.0	11.6	15.0	16.4	16.8	...
Average real effective exchange rate (unit labor costs, 1980=100)	99.8	100.0	108.2	128.8	117.2	...
Average nominal exchange rate (drachma/US$)	37.0	42.6	55.4	66.8	88.0	...

1/ Preliminary.
2/ Official projections as of December 1983.
3/ Excluding short-term amortization; as percent of current account receipts.

Greece: Illustrative Medium-Term Debt Projections

	1983	1984	1985	1986	1987	1988	1989
Current account deficit (in percent of GNP)	5.4	5.3	4.7	4.0	3.3	3.2	3.1
Nondebt financing (as percent of current account deficit)	52	60	68	68	68	68	68
External debt, gross 1/ (in percent of GNP)	27.2	27.4	26.4	24.9	23.4	22.5	21.6
Debt service ratio 2/	16.8	16.0	19.0	20.6	23.1	23.7	24.1

Source: Staff estimates and calculations.

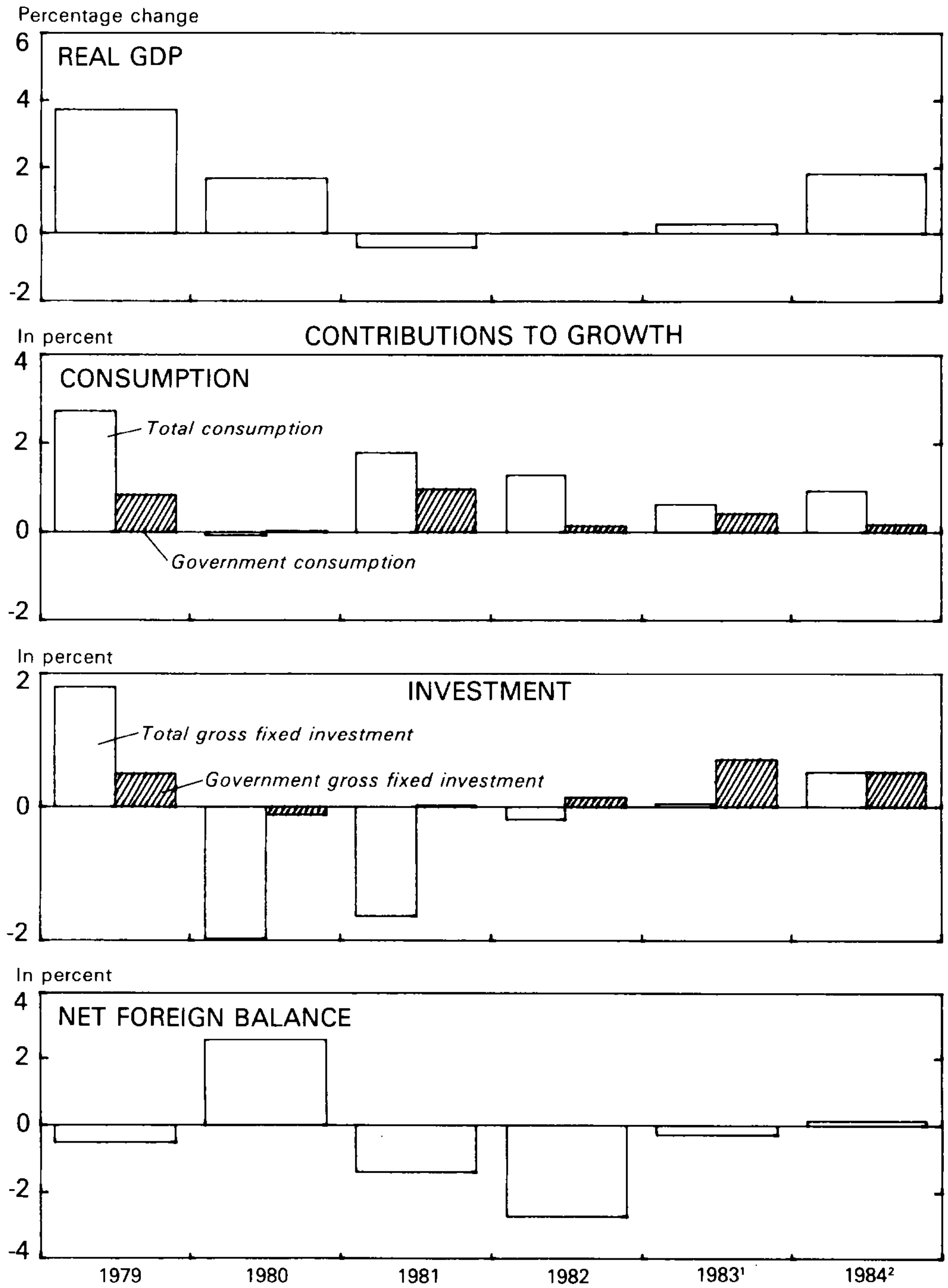
1/ Excluding short-term liabilities of the financial sector and nonguaranteed debt of the private nonfinancial sector.
2/ Interest payments on total debt plus amortization of medium- and long-term debt, as percent of current account receipts.

Note: The illustrative medium-term debt projections have assumed that medium-term borrowing would on average carry a two-year grace period and have a seven-year maturity. Other major assumptions include: average world inflation of 6 1/2 percent; average annual growth of foreign exchange earnings of 10 percent; and average interest rate on external borrowing of 10 percent. In addition, it was assumed that the real effective exchange rate would remain constant.

CHART 1

GREECE

COMPONENTS OF GDP GROWTH



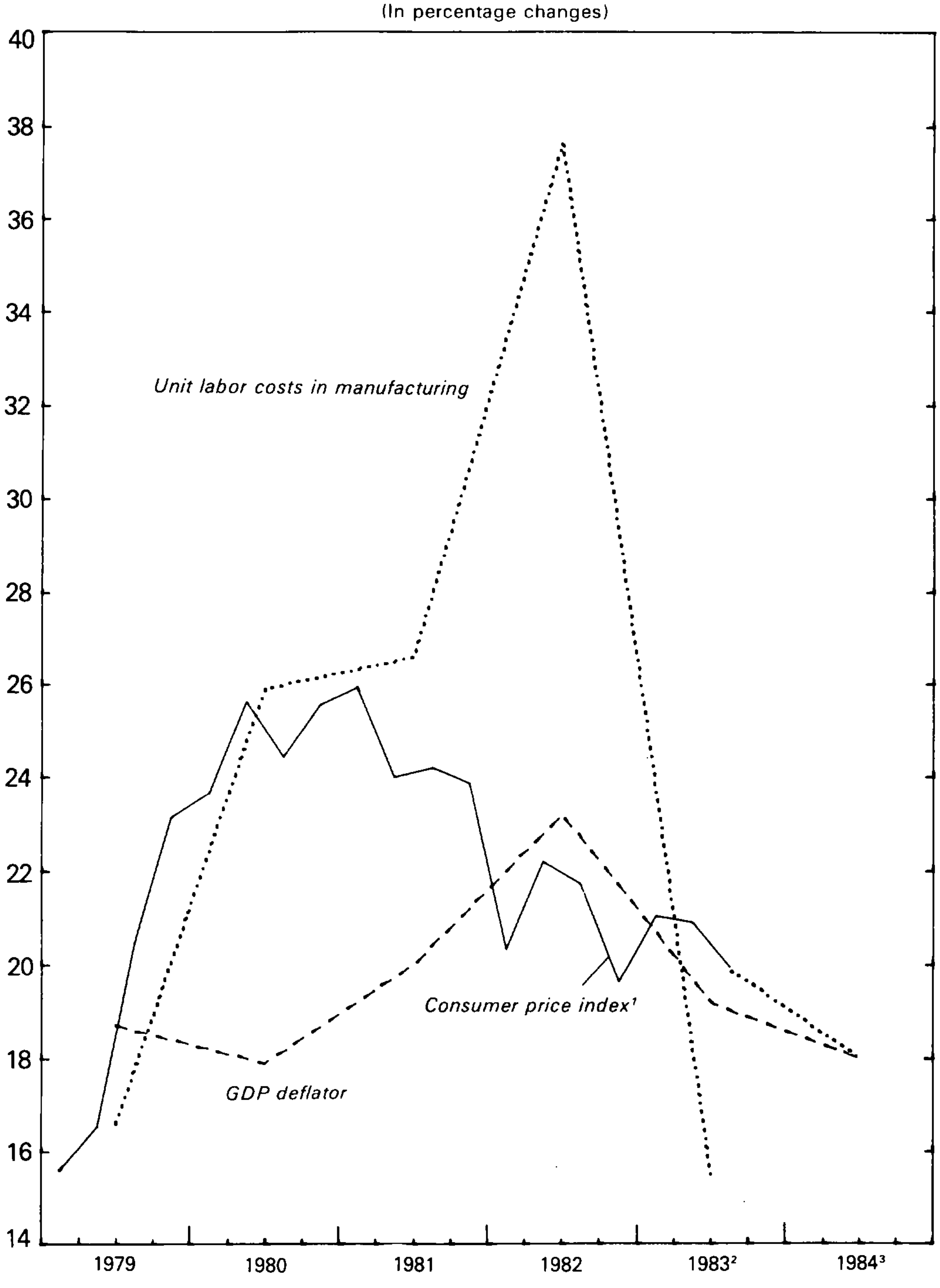
Source: Data supplied by Greek authorities and staff calculations.
[1] Estimate.
[2] Official forecast as of December 1983.

CHART 2

GREECE

COST AND PRICE DEVELOPMENTS

(In percentage changes)



Source: Data supplied by Greek authorities and IMF, *International Financial Statistics.*

[1]Changes from the same quarter in the previous year;1984 observation is the official forecast for the implicit consumption deflator.

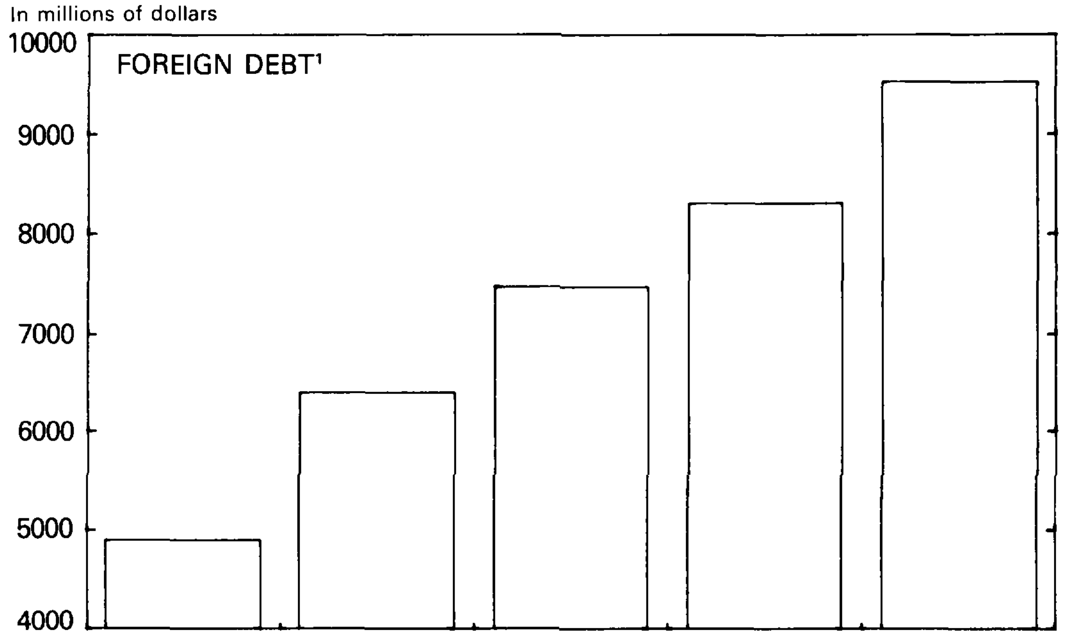
[2]Estimate.

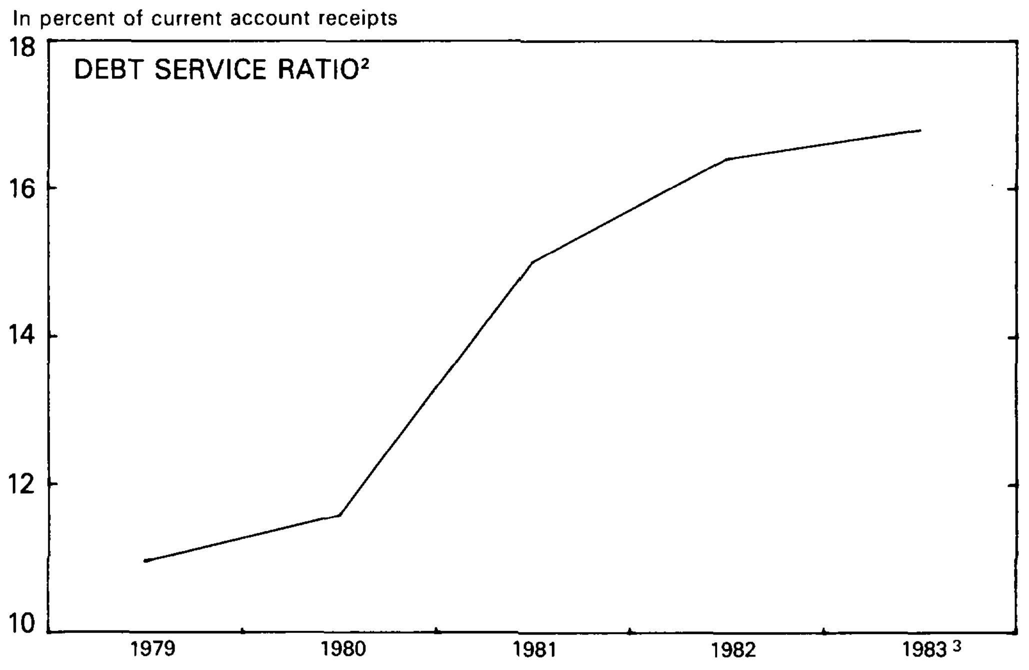
[3]Official forecast as of December 1983.

CHART 3

GREECE

EXTERNAL DEBT





Source: Data supplied by Greek authorities.

[1]End-of-year values; disbursed only; excluding short-term liabilities of the financial sector and non-guaranteed debt of the nonfinancial private sector.

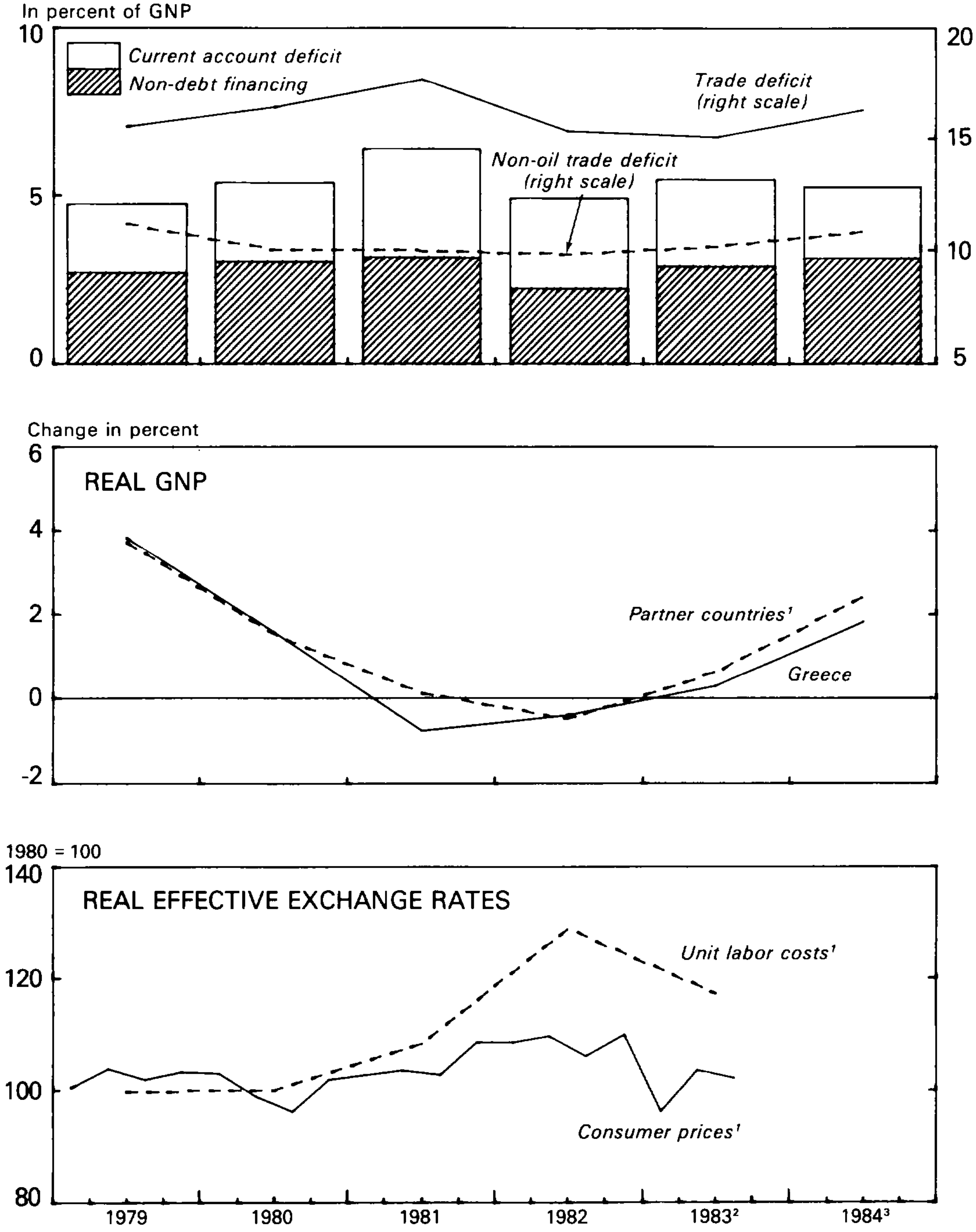
[2]*Interest payments on total debt plus amortization on medium and long-term debt.*

[3]Estimates.

CHART 4

GREECE

ELEMENTS OF CURRENT ACCOUNT



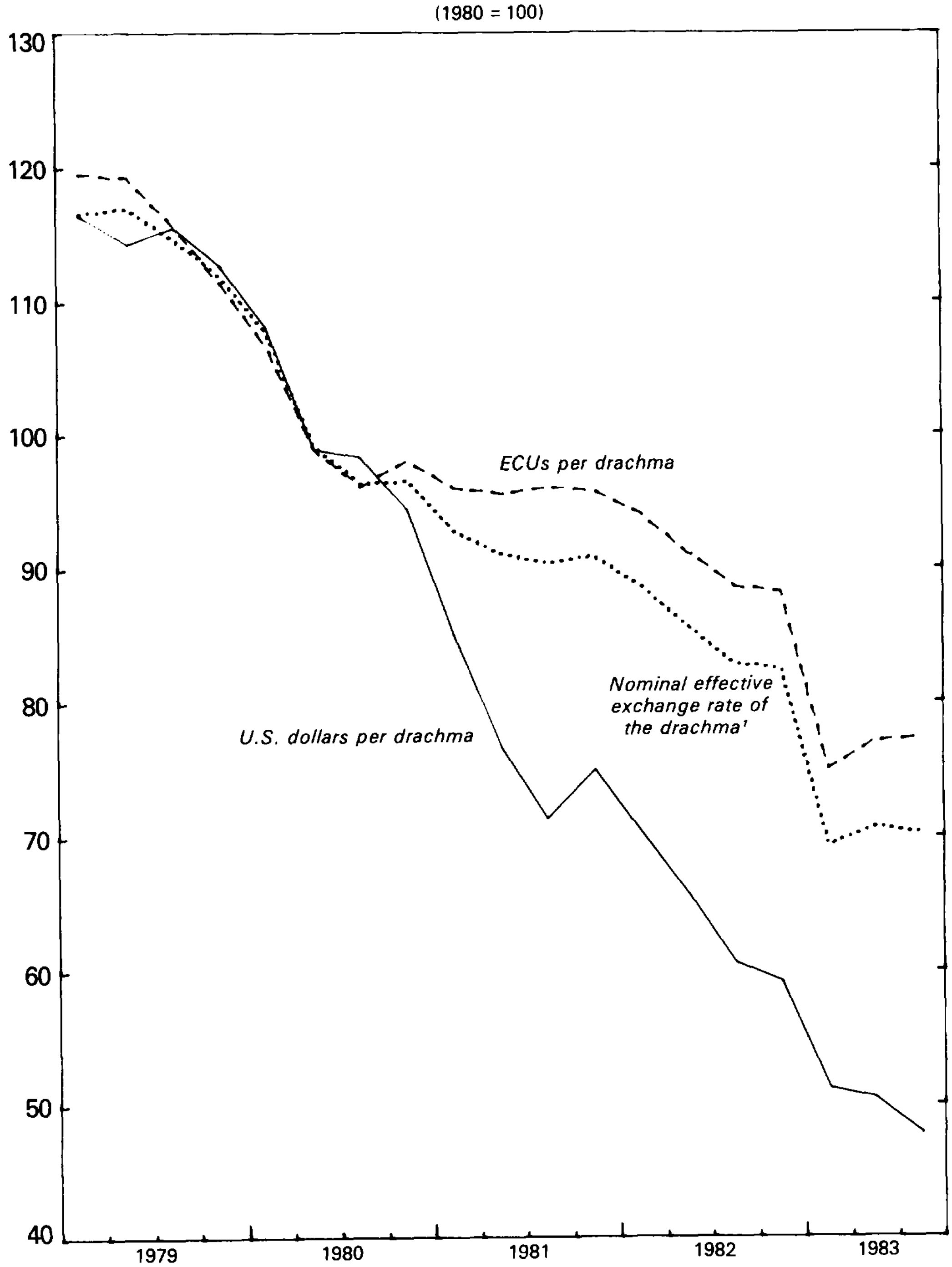
Sources: Data supplied by Greek authorities; IMF, *International Financial Statistics;* and staff calculations.
[1]Weighted by 1980 bilateral total trade weights.
[2]Estimates
[3]Official forecast as of December 1983.

CHART 5

GREECE

NOMINAL EXCHANGE RATES

(1980 = 100)



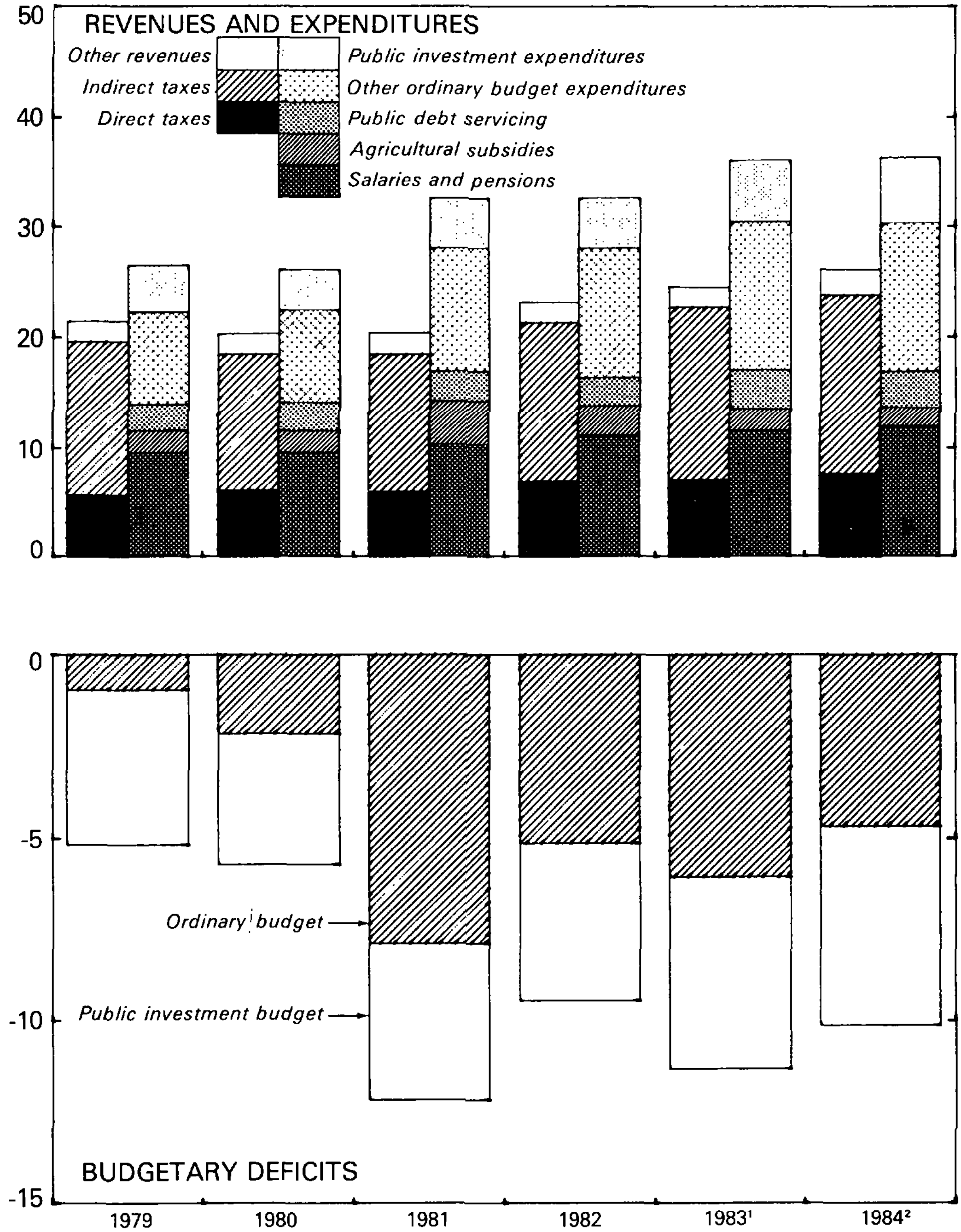
Source: IMF, *International Financial Statistics*, and staff calculations.
[1]Based on bilateral total trade weights.

CHART 6

GREECE

CENTRAL GOVERNMENT FINANCES

(In percent of GNP)



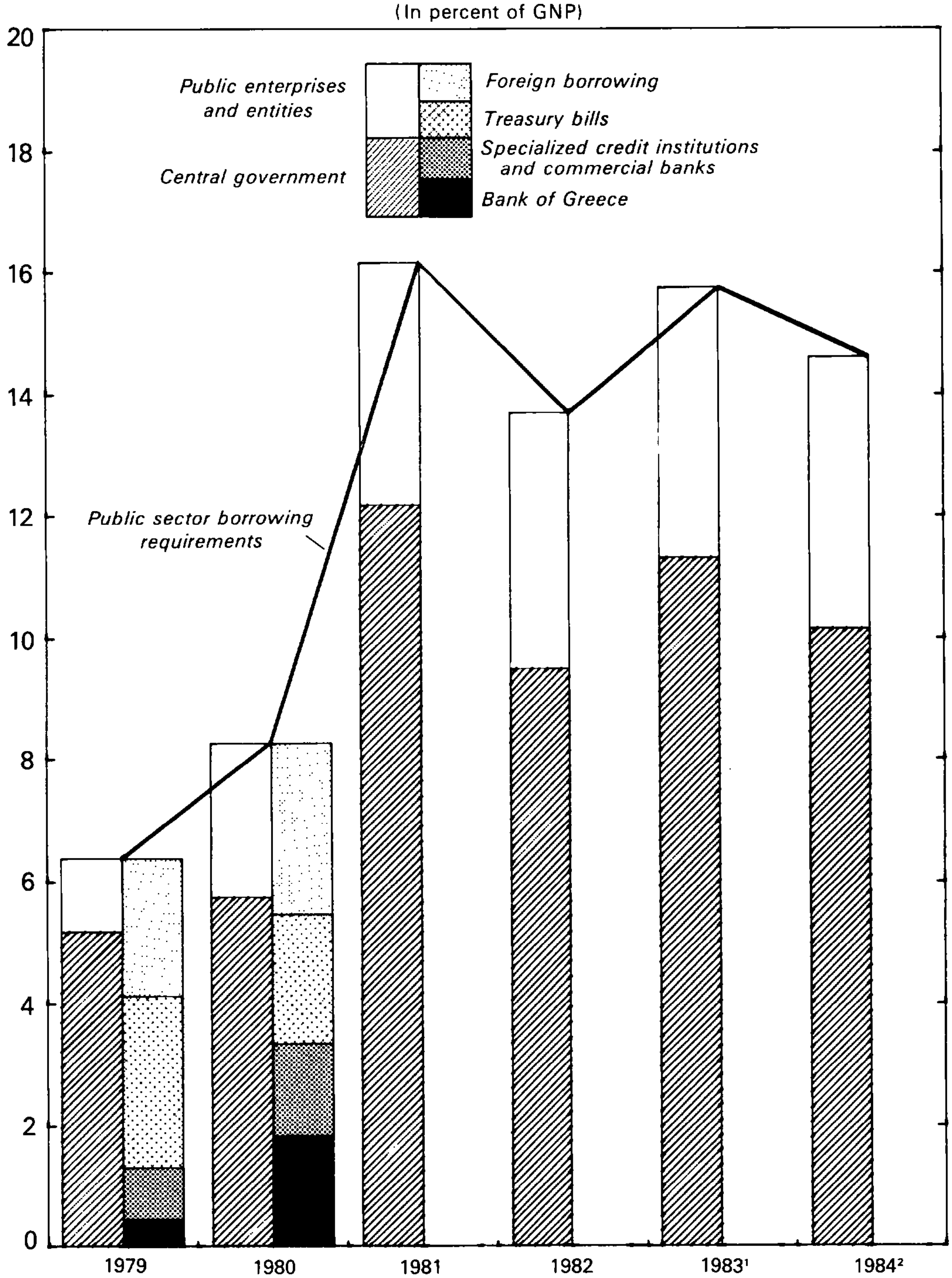
Source: Data supplied by Greek authorities.
[1]Estimate.
[2]Official forecast as of December 1983.

CHART 7

GREECE

PUBLIC SECTOR GROSS BORROWING REQUIREMENT AND FINANCING

(In percent of GNP)



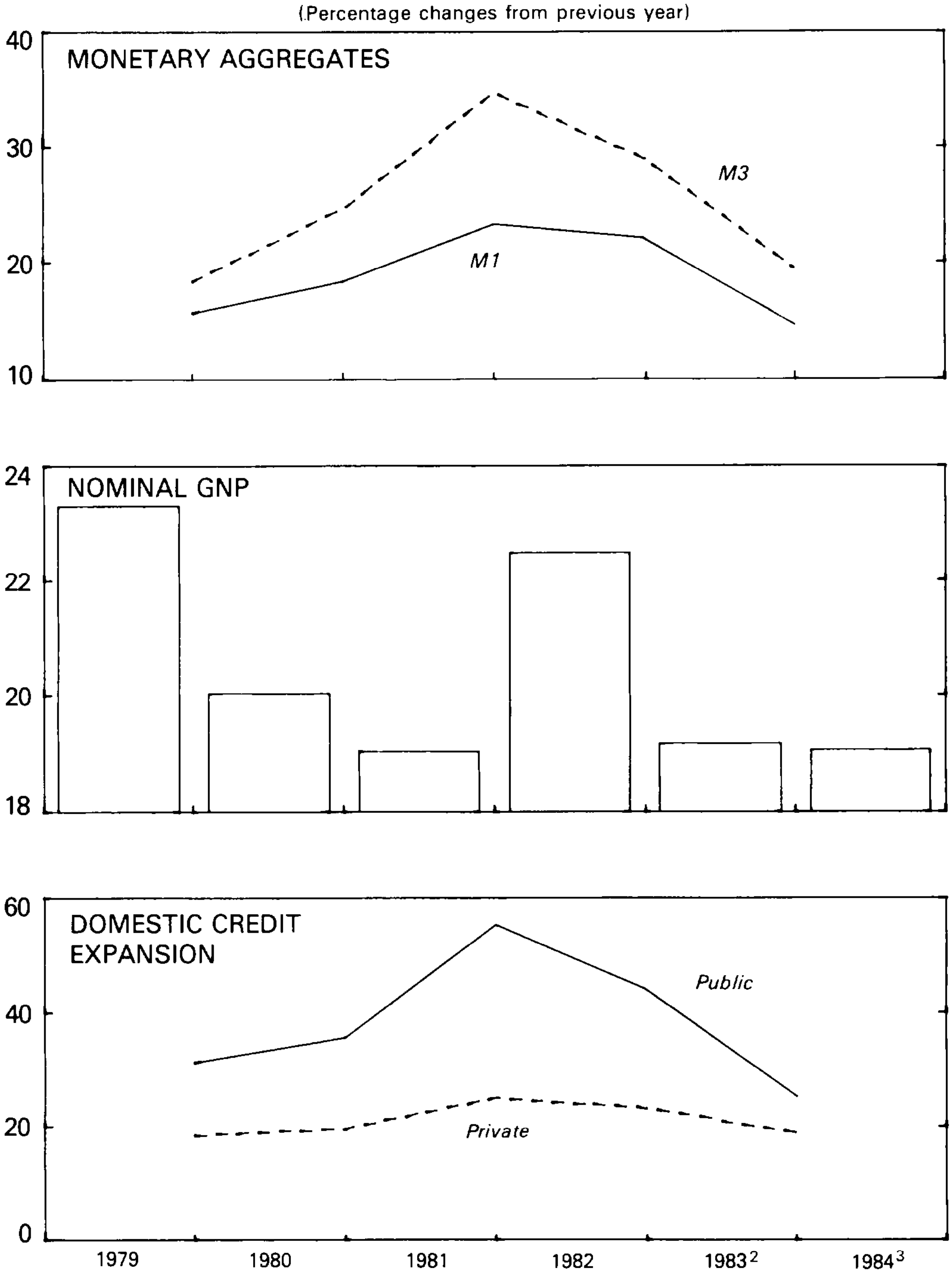
Source: Data supplied by Greek authorities.
[1]Estimate.
[2]Official forecast as of December 1983.

CHART 8

GREECE

DOMESTIC CREDIT AND MONETARY EXPANSION[1]

(Percentage changes from previous year)



Source: Data supplied by Greek authorities and staff calculations.
[1]The growth of domestic credit and monetary aggregates are based on end of year observations.
[2]Estimate.
[3]Official forecast as of December 1983.