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February 23, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Greece - Staff Report for the 1982 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1982 Article IV consultation with Greece. A draft decision appears on page 17.

This subject will be brought to the agenda for discussion on a date to be announced.

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INTERNATIONAL MONETARY FUND

GREECE

Staff Report for the 1982 Article IV Consultation

Prepared by Staff Representatives for the 1982 Consultation with Greece

Approved by L. A. Whittome and Subimal Mookerjee

February 22, 1983

I. Introduction

Article IV consultation discussions were held in Athens from November 30 to December 15, 1982. The staff mission consisted of Messrs. H. Ungerer, R. Hicks, W. Hermann (all EUR), H. Ghesquiere (ETR), and Miss Samson (LEG) as secretary. Meetings were held with officials from the Bank of Greece, the Ministry of National Economy, and other ministries, 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. Mr. Lovato, Executive Director, attended some and Mr. Caranicas, Alternate Executive Director, attended most of the meetings.

Greece continues to avail itself of the transitional arrangements of Article XIV.

II. Background--Developments in 1980 and 1981

1. Overview

The new Government under Prime Minister Papandreou which assumed office in October 1981 faced a difficult economic situation. After a period of weakening economic growth in 1979 and 1980, real GDP actually declined slightly in 1981 and unemployment was beginning to rise significantly. Nevertheless, inflation, already running high in previous years, exceeded 25 per cent (CPI) in the opening months of 1981. The gross public sector borrowing requirement climbed to about 19 per cent of GNP, compared with nearly 8 per cent in 1979, while monetary developments exceeded targets by substantial margins. The current account deficit of the balance of payments increased to 6 per cent of GNP by 1981. To finance this deficit, official foreign borrowing had to be increased sharply. As of January 1, 1981, Greece joined the European Communities (EC), a step which is having major ramifications for the economy, especially as regards the balance of payments and the public finances.

2. Domestic economic developments

The chief factor accounting for the slackening of activity in 1980 and 1981 was the steep decline in real private investment, owing mainly to weakness in the housing sector (Table 1). Consumption did little to compensate for the decline in investment with private consumption growing only sluggishly both in 1980 and 1981. Public consumption fell in 1980 but in the election year 1981 it again rose strongly. In 1980, the decline in total domestic demand was offset by an improvement in the real external balance and GDP increased by 1 1/2 per cent in real terms. In 1981, however, the contribution of the external balance to growth turned negative, and real GDP declined by 0.7 per cent.

On the production side, industrial output increased only slightly in 1980 and fell in 1981. The impact of this weakness on total output was cushioned in 1980 by a steep increase in agricultural production; in 1981, however, a fall in agricultural production contributed to the overall decline. Construction declined markedly in both 1980 and 1981 while growth in the output of services eased over this period, though the trend of a rising share of services in total GDP continued. In this situation, conditions in the labor market weakened and the recorded unemployment rate rose to an estimated 4 per cent in 1981, reaching 5 1/2 per cent in the urban and semiurban areas. In addition, there may have been some underrecording as well as considerable disguised unemployment, particularly in agriculture, which still absorbs 30 per cent of the labor force. The upturn in unemployment reflected the slack in economic activity, the impact of rising female participation in the labor force, and a continuing reflux of Greek workers from abroad, especially from Germany.

The weakening in economic activity since 1979 was accompanied by strong wage increases and a marked acceleration of inflation. In 1980, average earnings in the nonagricultural sector rose by about 21 per cent (Table 1). In 1981, average earnings increased no faster than inflation, at a rate of nearly 25 per cent. Agricultural incomes rose strongly in 1980 with the sharp rise in output and prices, but growth eased back in 1981 as output declined. Incomes of the self-employed appear to have moved broadly in line with wages and salaries in the nonagricultural sector over this period.

The rapid rise in nominal wages and salaries in manufacturing, together with a marked deceleration in the rate of growth of productivity to less than 1 per cent by 1981, resulted in a sharp rise of unit labor costs by about 26 per cent in both 1980 and 1981.

Consumer prices rose by 25 per cent on average in both 1980 and 1981, compared with 19 per cent in 1979 and an average of 12 per cent in the period 1970-78 (Chart 1). The price and cost performance in Greece was thus markedly less favorable than in its main trading partners.

3. Fiscal policy

Fiscal policy was designed to be restrictive in 1980 and 1981. In both years, however, the actual deficit in the Central Government's budget substantially exceeded projections, rising as a percentage of GNP from 5 per cent in 1979 to nearly 12 per cent in 1981 (Table 2). This deterioration reflected a faster rise in expenditures and a slower increase in revenues than originally projected. The most important factors accounting for the overruns in expenditures were the increase in salaries and pensions and the strong rise in agricultural subsidies. The latter was the main reason for the operational deficits of the Consumer Goods Account and other Special Management Accounts which handle government support for agricultural prices and incomes, as well as procurements of crude oil under intergovernmental agreements. 1/

The public sector's position was further worsened by an increase in the deficit of public enterprises from Dr 26 billion in 1979 to Dr 88 billion (2 per cent and 4 1/2 per cent of GNP, respectively) in 1981. 2/ This deficit was generated by a rapidly expanding wage bill, low productivity, and large investment outlays. The position was aggravated as many enterprises were not pursuing realistic pricing policies, as well as by the accumulation of unneeded labor in support of employment. The overall fiscal problem was further compounded by the declining surplus of public entities 3/ from Dr 9 billion in 1979 to Dr 5 billion in 1981.

The public sector gross borrowing requirement (PSBR) rose sharply from Dr 116 billion in 1979 to Dr 399 billion in 1981; as a percentage of GNP, it rose from 8 per cent in 1979 to 19 per cent in 1981 (Chart 2). More than 55 per cent of gross PSBR was financed by the Bank of Greece, in contrast to only 25 per cent in 1979. Public sector foreign borrowing was two and a half times higher in 1981 than in 1979, but covered only 21 per cent of gross PSBR in 1981, compared with 29 per cent in 1979.

4. Monetary policy

Monetary developments in 1980 and in 1981 were largely influenced by the situation in the public finances. In general, monetary policy in Greece is conducted within the framework of publicly announced targets

1/ Up to 1983, these Accounts were outside the Central Government's budget; from 1983 on, the operational deficit was included in the budget, but expenditures for working capital continued to be treated separately. For the presentation in this report, the new classification is also adopted for the years up to 1983.

2/ The major public enterprises are the Public Power Corporation, the Hellenic Telecommunications Organization, Olympic Airways, and 12 other enterprises; they account for nearly all of the borrowing requirement of the public enterprises.

3/ Mainly social insurance funds, i.e., the social insurance scheme proper and the Agricultural Insurance Fund.

for certain monetary aggregates, such as currency in circulation (which accounts for about 70 per cent of M1) and domestic credit for the public and private sectors. About one half of the credit to the private sector is extended by the commercial banks, whose lending is controlled through reserve requirements and by earmarking bank deposits (through a quota system) for the financing of specific sectors. The total percentage of funds covered by reserve requirements and quotas has now reached about 70 per cent, leaving the banks little room for independent credit activity. Lending of the specialized credit institutions, which account for the other half of credit to the private sector, is determined by annual programs supervised by the authorities. Interest rates are less important tools of implementing monetary and credit policies and are administratively determined. They are relatively inflexible, and recently have been substantially below the inflation rate.

In view of the acceleration of inflation and in order to contain the balance of payments deficit, the authorities planned to reduce the growth of currency in circulation to a rate significantly lower than that of nominal GNP. This target was achieved in 1980, but in 1981 currency in circulation grew at a considerably faster pace than nominal GNP. Broad money increased considerably stronger than M1 in both 1980 and 1981, at rates of 25 per cent and 35 per cent, respectively, thus exceeding targets by large margins (Table 3). In both years, the expansion of total domestic credit went substantially beyond targets; public sector credit rose by 35 1/2 per cent in 1980 and 55 per cent in 1981 (Table 3 and Chart 3).

5. Balance of payments and exchange rate developments

The current account deficit of the balance of payments, which had increased sharply in 1979 and 1980 as a result of the second round of major oil price increases, rose further to US$2.4 billion in 1981 (6.4 per cent of GDP; Table 4). Improvements in 1981 in the trade balance and unrequited transfers were more than offset by a sharp decline in net receipts from services, mainly because of the near doubling of interest payments on external debt. The increase in exports led to little improvement in the trade picture, because it consisted mostly of petroleum products for which crude oil had to be imported. On the import side, there was less demand for construction materials and capital goods, including ships, reflecting the slack in certain sectors of the economy, while imports of manufactured consumer goods rose briskly. Receipts from unrequited transfers increased because accession to the EC on January 1, 1981 made Greece eligible for transfers from the EC budget.

The larger current account deficits in both 1980 and 1981 were largely financed by net private capital inflows and by increased public sector borrowing. Taking into account foreign borrowing by the Bank of Greece, changes in net reserves in 1980 and 1981 more or less balanced each other out. By year-end 1981, gross reserves stood at US$1.2 billion, equivalent to five weeks of imports.

Greece's debt service ratio rose sharply from 11 per cent of current account receipts in 1980 to 15 per cent in 1981, and the external debt increased from the equivalent of 15 per cent of GNP at the end of 1980 to 20 per cent at the end of 1981.

Between 1979 and 1981, the nominal (export-weighted) effective rate of the drachma depreciated on average by 18 per cent. However, the inflation differential, as measured by relative unit labor costs in manufacturing, was even larger, resulting in a broadly unchanged real effective rate of the drachma in 1980, but an appreciation of 10 per cent in 1981 (Chart 4).

6. Accession to the European Communities 1/

The formal accession of Greece to the EC on January 1, 1981 was the culmination of a long history of close relations with the Community; Greece was the first country to be associated with the Community. The association period had resulted in a substantial lowering of trade barriers, including the duty-free admission of practically all Greek exports to the Community and the abolition by Greece of import duties on about two thirds of imports of manufactures from the Community; much of this protection is scheduled to disappear by the end of 1984. As the structure of Greece's economy differs considerably from that of other EC members, various transitional arrangements were made aimed at easing Greece's adjustment to full membership. They include: over a period of five years, commencing from accession, elimination of the remaining customs duties on imports of Community products (seven years for a limited range of agricultural products) and alignment of the Greek tariff vis-a-vis third countries on the Community Common Tariff; and phased adjustments relating to labor and capital mobility. With accession, Greece was eligible to participate fully in all EC bodies and have full access to EC financial institutions and facilities. Although Greece is at present not a member of the EMS, the drachma will be included in the ECU currency basket before the end of 1985.

Accession to the EC has implications for the Greek economy both in the short and in the long run. Two factors are of particular significance. First, the substantially increased import penetration after accession has already had important consequences for the structure of foreign trade, with the EC share in Greece's trade deficit increasing greatly; the balance of trade in agriculture, traditionally positive for Greece, has turned sharply negative since 1981. Second, the impact of the replacement of domestic agricultural subsidies by transfers from the EC budget on public finances and the balance of payments has been considerable. Total net transfers to Greece were estimated at about US$150 million in 1981 and US$600 million in 1982; these figures exclude loans, for example, from the European Investment Bank.

1/ Greece's accession to the EC and its more significant economic implications are reviewed in Appendix IV of Recent Economic Developments.

III. Policies and Developments in 1982

1. Introduction

The general economic objectives of the Government that took office in October 1981 were to improve the social and economic conditions of the lower income groups, to support small business and agriculture, and modernize and restructure the economy, with emphasis on the external sector. The Government recognized, however, the major constraints it faced, particularly in the financial field and in the balance of payments. Stabilizing the economy was, therefore, seen as the first priority for economic policy as a means of easing those constraints and providing an essential foundation for medium-term structural change. In the view of the authorities, the economic challenge required not only a substantial shift in policy direction but also changes in the roles accorded the various policy instruments.

2. Incomes policy

Incomes policy for 1982 was designed to provide for more equity in income distribution by favoring the lower-paid segment of the labor force but, at the same time, to lay the basis for restraining the cost-price spiral which in previous years had eroded competitiveness in many sectors. To further the former objective, the authorities extended substantial wage increases to lower-paid employees.

In addition, a formal indexation system, based on the CPI, was introduced with adjustments at four-monthly intervals (effected on May 1 and September 1) with a tapering device providing for less than full adjustment for higher income groups. These indexation provisions were legally binding for the civil service only, but were subsequently incorporated in almost all collective agreements covering the public enterprises and the private sector. In their original design, they were expected to result in compensation for wage earners for the rise in the cost of living, equal to about 70 per cent on average in 1982. The Greek representatives emphasized that this partial compensation was in marked contrast to the de facto almost full compensation that had occurred in 1981 when no formal indexation mechanism was in place. Additional measures of labor legislation were a cutback in the standard workweek to 41 hours, effective January 1, 1982, and to 40 hours, effective January 1, 1983, and from 1982 the extension of paid annual leave from three weeks to four weeks.

According to the Greek representatives, these various measures resulted in an increase in average earnings in the nonagricultural sector of 28 per cent in 1982, implying an increase in real terms of 5 1/2 per cent against little change in real terms in 1981 (Table 1). The increase in wages and salaries in 1982 in manufacturing was even greater, and, against a background of stagnant productivity, unit labor costs in manufacturing rose by an estimated 36 per cent, compared with an annual average increase of about 25 per cent in 1980-81 and less than 20 per cent in the immediately preceding years.

The unemployment rate rose to over 6 per cent in 1982, compared with about 4 per cent in 1981 and considerably less in earlier years; in the nonagricultural sector, the unemployment rate rose to 7 1/2 per cent in 1982, compared with 5 1/2 per cent in 1981. Following the general trend of previous years, the labor force in agriculture continued to decline significantly.

3. Fiscal policy

The central government budget for 1982 was designed to restrain domestic demand, hold back inflationary pressures and thus induce an improvement in the external balance. To this end, the overall deficit relative to GNP was to be reduced from 12 per cent in 1981 to 9 1/2 per cent, with revenue projected to rise by 56 per cent and expenditures by 35 per cent. The sharp increase in revenues was to stem from the introduction of new, and an increase in existing, indirect taxes and by cutting back on tax evasion. A markedly slower growth in the investment budget, albeit still sizable in real terms, and improved expenditure controls were to be important factors behind the slowdown envisaged for expenditures. An important element was the cutback in the deficits of the Consumer Goods Account and the Special Management Accounts following their incorporation into the ordinary budget. These accounts are concerned primarily with government subsidies, largely for agricultural goods; the latter are being replaced by EC subsidies under the Common Agricultural Policy following Greece's accession to the EC, as noted in Section II.6 above.

In the event, the outturn for the budget in 1982 was broadly as expected. Revenues expanded somewhat less than projected (by 50 per cent), due largely to slower economic activity than originally envisaged; revenue from personal income taxes, however, grew at almost double the expected pace, reflecting success in curtailing tax evasion. Realized expenditures were slightly below expectations in 1982; as with revenues, the performance was considerably better than in 1981.

While the deterioration in the budgetary position was arrested in 1982, the situation of the public enterprises again worsened, mainly on account of significant increases in wages and salaries, and interest payments. The position was aggravated by continuing managerial inefficiencies, as well as the Government's unwillingness to allow enterprises to pass on cost increases into price adjustments. An expansion in their investment programs added further strains on their financial resources. The financial position of the public entities also deteriorated in 1982, moving into deficit after small surpluses in the preceding years due to cyclically induced reduction in contributions, an improvement in benefits, and the aging of the population. The public sector finances were helped, however, by a significant cutback in funds required to cover publicly held inventories, especially as a result of the marked rundown in oil inventories after substantial accumulations in 1980 and 1981.

Altogether, the gross public sector borrowing requirement (PSBR) amounted to Dr 389 billion in 1982, similar to the level in 1981 (Table 2 and Chart 2) but declining in terms of GNP to an estimated 15 per cent, from 19 per cent in 1981. About three quarters of the PSBR for 1982 was financed by domestic borrowing, including recourse to the Bank of Greece and the issuance of Treasury bills, while the remainder came from borrowing abroad.

4. Monetary policy

Currency in circulation (the main component of M1) was planned to increase by 24 per cent, close to the expected increase in nominal GDP, while total domestic credit was targeted to rise by 30 per cent. In the first half of 1982, currency in circulation and credit to the private sector increased more than programmed, at least in part related to a bank strike from the end of May to early July. Subsequently, the authorities tried to correct these developments by limiting the availability of liquidity to the commercial banks, and the rate of increase for credit to the private sector slowed down. However, total domestic credit expansion for the year as a whole is estimated at 33 per cent due to a larger than planned expansion of public sector credit (Table 3 and Chart 3). Nevertheless, the fact that the rates of money and credit expansion will be lower than in 1981 and much closer to the target rates than in previous years is considered by the Greek authorities as at least some measure of success.

In the course of 1982, the authorities took a number of measures to reform the institutional framework for monetary policy. The most important of these was the abolition of the Currency Committee in July 1982. Up to that date, the Committee had been the supreme monetary authority being empowered to decide on monetary, credit and foreign exchange policies, 1/ with the Bank of Greece responsible for their implementation. The abolition of the Currency Committee and the transfer of most monetary policy and exchange rate responsibilities to the Bank of Greece, within the framework of the overall policies of the Government, is seen as strengthening the position of the Bank, improving control over monetary developments and providing for better harmonization of monetary and fiscal policies.

The abolition of the Currency Committee was combined with the introduction of new limits on the Government's access to the Bank of Greece; in particular, (i) outstanding short-term advances of the Bank of Greece to the Government cannot exceed 10 per cent of total budgetary expenditures, and (ii) financing by the Bank of Greece of the Consumer Goods Account and the other accounts used for promoting and marketing agricultural production cannot go beyond the market value of the stock of agricultural and other products purchased through these accounts.

1/ Members of the Committee included the Ministers of Coordination, Finance, Agriculture, Commerce, and Industry, and the Governor of the Bank of Greece.

5. Developments in the domestic economy

According to preliminary estimates of the Greek authorities, GDP in real terms rose slightly in 1982 (Table 1). There was a modest increase in consumption by 1 1/2 per cent, with private consumption rising by 1 per cent and public consumption by 2 1/2 per cent. Gross fixed investment, which fell by 10 per cent in 1981, declined by 2 1/2 per cent in 1982. Public investment picked up by nearly 5 per cent in 1982 after virtual stagnation in 1981; quantitatively more important, however, was the slower rate of decrease in private investment (accounting for 70 per cent of total fixed investment) of 5 1/2 per cent in 1982, compared with 13 per cent in 1981. The Greek representatives considered this to be an indication that the recession was bottoming out. The contribution of the external balance to economic growth was again slightly negative.

The decline in manufacturing output, which had begun in 1981, became more pronounced in 1982. By August 1982, output was 4 1/2 per cent lower than 12 months earlier, and it is estimated that the decline, which was most pronounced in consumer goods, could amount to about 6 per cent for 1982 as a whole. The Greek representatives pointed to several factors responsible for the decline, most prominently, growing import penetration arising from full membership in the EC, but also a weakening in competitiveness. Agricultural production, which accounts for 14 per cent of total output, rose by 4 per cent in 1982, mainly owing to increases in the output of wheat and olive oil.

In 1982, the rate of increase in consumer prices, which had reached 25 per cent on average in both in 1980 and 1981, decelerated to about 21 per cent (Table 1). Various factors were at work: import prices rose only marginally; the system of controlling price increases was applied more efficiently; and prices of public enterprise products were generally not adjusted sufficiently to cover costs. These factors apparently more than offset the impact of escalating unit labor costs, higher indirect taxes, and increased agricultural prices stemming from accession to the EC.

Greece maintains a system of price controls on certain goods and services with the aim of preventing monopolistic or oligopolistic price distortions. Under this system, firms are required to justify price adjustments largely on the basis of cost increases. The Greek representatives conceded that price controls may have resulted in some suppressed inflation in 1982.

6. Balance of payments

In 1982, the current account deficit of the balance of payments declined to an estimated US$2.1 billion, equivalent to 5.5 per cent of GNP, compared with 6.4 per cent in 1981 (Table 4). The fall in the trade deficit and much higher transfers from the EC more than offset the continuing deterioration in the services account and the decline in emigrants' remittances. The export volume declined by about 4 per cent, due partly to a loss of competitiveness; the decline in imports by 5 per cent in volume terms in 1982 is almost entirely accounted for by lower imports of oil as inventories were reduced. In U.S. dollar terms, exports and imports both declined by an estimated 9 per cent in 1982, and the trade balance fell to US$6.1 billion, representing a return to the level of 1979. The slump in world shipping affected earnings from transportation, and the recession in Western Europe may have been an important factor accounting for the declining receipts from tourism and emigrants' remittances. In addition, some loss of competitiveness and the strike by bank employees during the May to July period contributed to the decline in recorded earnings from tourism. The deficit in net investment income continued to increase, due to a sharp rise in interest payments abroad, and in 1982 was nearly 2 1/2 times higher than in 1980.

Private capital inflows again declined in 1982. Foreign investors appeared to be uncertain about the new government's attitude toward the role of the private sector in the Greek economy. Interest rate differentials may also explain the deceleration in the growth of nonresident bank deposits in Greece.

Gross official reserves fell to US$1.01 billion at end-1982, still equivalent to five weeks of imports. As a consequence of higher public borrowing in 1982, the Greek representatives estimate that external debt increased from US$4.9 billion at the end of 1979 to US$8.4 billion at the end of 1982, or from 12 per cent of GNP to 22 per cent. Debt service is estimated to have increased from 11 per cent of current account earnings in 1979 to 16 per cent in 1982. On the basis of staff projections, this ratio may decline slightly during the next two years and could edge up to some 19 per cent by 1986, principally because of the bunching of maturities. 1/

7. Developments in the exchange rate and exchange system

Greece has maintained a managed float of the drachma since 1975. Although a member of the EC, Greece is at present not a member of the European Monetary System. However, when setting the exchange rate, the authorities take into account movements in the ECU; the intervention currency is the U.S. dollar. From 1980 onward, the authorities gave greater attention to anti-inflationary objectives when determining their

1/ Projections are based on LIBOR of 10 per cent from 1983-86 and on growth rates of current account receipts in nominal U.S. dollars of a little over 5 per cent in 1983, and 10 per cent on average in subsequent years. These assumptions are consistent with the expectation of a gradually declining current account deficit to around $1.5 billion by the mid-1980s. A 1 percentage point increase in LIBOR results in a 0.9 percentage point increase in the debt service ratio for 1986. A 1 percentage point increase in the growth rate of current account receipts each year between 1984 and 1986 lowers the debt service ratio by 0.5 percentage point in 1986.

exchange rate policy, compared with the immediately preceding years when competitiveness was the principal consideration. This has led over recent periods to a somewhat overvalued exchange rate as the depreciation of the nominal effective drachma has fallen short of the differential between domestic and foreign price and cost developments. The measurement of real effective exchange rate changes depends critically, inter alia, on the price and cost indicators chosen; estimates on the basis of relative unit labor costs in manufacturing indicate that the real effective rate changed little, on average, in 1980, but appreciated by 10 per cent in 1981 and a further 5 1/2 per cent in the first half of 1982. 1/

In connection with Greece's accession to the EC on January 1, 1981, all bilateral payments agreements, including three with Fund members (Hungary, Romania, and the People's Republic of China) were terminated. 2/ Furthermore, cash deposit requirements for specified imports were reduced by 25 per cent at the time of accession, by an additional 25 per cent on January 1, 1982 and January 1, 1983, and are scheduled to be completely phased out on January 1, 1984. This import deposit scheme gave rise to exchange restrictions and a multiple currency practice for which the Board has given temporary approval, most recently on December 29, 1982. 3/ The cumulative reduction by 75 per cent of the cash deposit requirements has now eliminated the multiple currency feature of the import deposit scheme.

IV. Policies and Prospects for 1983

1. Introduction

For 1983, the Government intends to continue to make a gradual adjustment of the internal and external imbalances. The Greek representatives explained that, to this end, heavy reliance is being placed on incomes policy; at the same time, efforts are being intensified to deal with traditional weaknesses in the economy, e.g., tax evasion and rigidities in the financial system. Further, to improve competitiveness, the drachma was devalued by 15.5 per cent against the U.S. dollar on January 9, 1983.

Policies in 1983 are seen as part of the medium-term strategy of the Five-Year Plan, which is presently under preparation. The overall goals of the plan are as follows: first, the allocation of available resources is to be improved with a view to enhancing competitiveness and broadening the export base. Second, adequate employment opportunities are to be provided to cope with the rise in the labor force. Third, efforts will be made to improve educational and health facilities. To these ends, the Government is to engage in extensive public investment

1/ See Recent Economic Developments, Appendix III, Trends in Competitiveness.
2/ Hungary became a member of the Fund on May 6, 1982.
3/ EBD/82/138, 12/23/82.

programs (including the promotion of selected projects that would qualify for financing by EC institutions), but also in the stimulation of private investment. Subsidies, including those provided for by the law on investment incentives passed in mid-1982, will play an important role.

In reply to queries by the mission as to whether the projected pace of adjustment could be considered adequate, in particular over the medium term, the Greek representatives said that in general the pace of adjustment had to be seen as a function of political considerations as well as economic necessity. A more rapid adjustment, by straining the political fabric, could be counterproductive.

2. Incomes policy

As noted, incomes policy is to assume an important role in the Government's stabilization strategy for 1983. The Greek representatives argued that the indexation mechanism would restrain cost and price increases since it allowed for only partial compensation of the rise in the cost of living, and wage and pension increases would be limited to those awarded under the indexation scheme. Indeed, the indexation provisions for 1983 were expected to lead to an average cost of living compensation for dependent wage earners below that of the 1982 scheme (originally estimated at some 70 per cent), and result in a significant decline in average wages in real terms in 1983. The tapered indexation provisions would lead to some further changes in income distribution, with no adjustment in income brackets to allow for inflation. The most important aspect, however, would be the stability imparted to the behavior of personal incomes.

Wage and salary adjustments would be stretched in the following fashion: one half of the adjustment for price increases for the period September-December 1982, originally due on January 1, 1983, would be deferred until May 1, 1983, and adjustments relating to price increases over January-April 1983 and May-August 1983 would be made simultaneously on September 1, 1983. Although indexation would again be obligatory only for the civil service, the authorities were urging that similar provisions be incorporated in collective agreements for the rest of the public sector and for the private sector. Otherwise, penalty measures in the fields of price controls and state subsidies would be applied. The 1983 indexation scheme would thus directly affect about one half of all income earners in Greece, where self-employment is a major factor.

3. Fiscal policy

Although an important aim of the Government's fiscal policy is to reduce the PSBR as a proportion of GNP, only slight progress is expected in 1983. The overall deficit of the Central Government in nominal terms is expected to rise substantially, due to a 48 per cent increase in public investment expenditure which the authorities consider essential to meet infrastructural needs (e.g., harbor facilities). The projected increase in ordinary budget expenditure of 26 per cent reflects rising salaries and pensions and a sharp increase in public debt servicing costs. Agricultural subsidies are expected to decline further in absolute terms. Total budget revenue is projected to rise by 33 per cent, with a further sharp increase in income tax revenue expected on account of stepped-up efforts to fight tax evasion, and as the tax measures taken in 1982 have their full effect. No significant new tax measures are planned. With regard to the public enterprises, better management and more rational pricing are expected to reduce their operational deficits, but their investment programs will continue to expand. Total gross PSBR is projected to amount to Dr 440 billion in 1983, or around 14 per cent of GNP compared with 15 per cent in 1982 (Table 2). The Greek representatives said that, if the public finances did not develop as envisaged, the Government would be ready to introduce additional measures to secure realization of the general budgetary aims. As regards the expected financing of the PSBR in 1983, greater reliance is expected to be placed on sources other than the central bank.

4. Monetary policy

The stance of monetary policy in 1983 is not expected to differ substantially from that realized in 1982. Precise quantitative targets had not yet been formulated at the time of the discussions, but the Greek representatives stated that the monetary program would aim at holding the rate of expansion of M1 below the growth rate of nominal GNP. As in preceding years, the greater part of total domestic credit expansion would go to the public sector, and the growth target for credit to the private sector would be set below its actual outturns in 1981 and 1982 (some 23-25 per cent).

5. Exchange rate and external policies

During the discussions, the Greek representatives explained that the authorities put particular emphasis on strengthening the competitive position of the Greek economy through overall restraint, a reduction of labor costs, and improved support services for marketing and organization in the export sector. However, they made it clear that they would use appropriate exchange rate action to bolster competitiveness to the degree necessary. In line with this policy, the drachma was devalued, effective January 9, 1983, by 15.5 per cent relative to the U.S. dollar. 1/

When announcing the depreciation of the drachma, the authorities requested EC approval for restrictions on imports in certain categories of goods. Subsequently, the EC met part of this request and authorized restrictions (effective January 13, 1983) on 11 specific products covering less than 1 per cent of trade between Greece and other EC member states. Despite their modest scope, the restrictions are significant for the Greek sectors concerned, covering a large number of small and medium-term enterprises; their aim is to permit these enterprises to adapt

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1/ See EBS/83/20, 1/25/83.

themselves to competition from other EC member countries. Restrictions on imports of these products, which are not to exceed the average level of 1981-82, will be permitted until end-1983.

The authorities were confident that net private capital inflows and transfers would be substantial in the period ahead. A current account deficit of around US$1.5 billion could be considered in the medium-term as an equilibrium situation, and the needed foreign borrowing could be sustained. Greece had the credit standing to increase its borrowing abroad if it so wished, but the objective was to restrain foreign borrowing as much as possible. It was emphasized that the structure of exports needed to change; this would inevitably require time and would be an important element of the Five-Year Plan.

6. Prospective developments 1/

Official projections are for real GNP to grow by 2-3 per cent in 1983, but the Greek representatives indicated--and the staff concurred--that this might be a somewhat optimistic projection. The projected outturn is based on a significant contribution to growth of public sector consumption and investment. Private consumption is expected to rise modestly although the growth of disposable incomes will be depressed by both incomes policy and reinforced income tax collection. Private investment is foreseen to recover from its low level in 1982, an assumption which appeared to the staff as somewhat optimistic. The Greek representatives, however, argued that construction activity could be expected to strengthen; there was a large backlog of investment projects already approved and further applications were being processed under the new law on investment incentives. Imports are projected to increase in volume terms, but exports are expected to grow even more strongly; export markets in 1983 are expected to be more buoyant, while measures aimed at improving Greece's competitiveness should begin to have their effect. Consumer prices were projected by the Greek authorities to increase in 1983 by less than 20 per cent.

In 1983, the current account deficit of the balance of payments is expected to be slightly below the US$2.1 billion estimated for 1982 (Table 4). Exports of merchandise are expected to benefit from improved competitiveness, increased export incentives, and better growth prospects in partner countries. However, in the staff's view there remains a degree of uncertainty regarding some of the assumptions underlying the forecasts for export growth. Tourism could rebound from the depressed level of 1982, but earnings from shipping are likely to decline further. The volume of merchandise imports may increase somewhat faster than GNP growth, mainly because of the expected recovery in investment activity. The authorities' intention of maintaining the

1/ During the discussions, which took place before the devaluation of the drachma effective January 9, 1983, it was indicated that domestic and balance of payments projections assumed some depreciation of the drachma.

domestic interest rates at a competitive level should strengthen private capital inflows, and the large number of private investment projects recently approved should have a similar effect. This would permit net foreign borrowing by the public sector (including the Bank of Greece) to be somewhat lower than in 1981 and 1982.

V. Staff Appraisal

The economic situation in Greece was difficult and deteriorating when the new Government took office in late 1981. Real growth was negative and unemployment on the rise. Nevertheless, for two years in a row, consumer prices had been increasing by 25 per cent. The public sector deficit had grown sharply over recent years, and the external current account had deteriorated.

In response to an electoral commitment for greater equity in income distribution, the Government took several measures to improve the earnings of lower income groups and introduced a wage indexation scheme. The latter, however, was designed to compensate on average for less than the actual rate of inflation. Nevertheless, in 1982 earnings in the nonagricultural sector rose noticeably in real terms while those in the manufacturing sector rose most markedly.

In recognition of the strong imbalances in the economy and in an effort to curb inflation, improve public finances, and stop the deterioration in the current account of the balance of payments, the Government in 1982 implemented a budget which, on balance, exercised some restraint. Despite the continued deterioration in the financial performance of the public enterprises and entities, public sector borrowing, although unchanged in absolute amounts, declined in relation to GNP. The external current account also showed some improvement, while the inflation rate dropped to 21 per cent. Nevertheless, there remain important areas of weakness where prompt action is needed.

Monetary policy has remained accommodating. The staff welcomes the measures taken by the authorities to streamline the decision-making process by eliminating the Currency Committee, together with the introduction of limits on central bank advances for budget financing purposes, and some rationalization of the present complex system of credit and interest rate regulations. The staff hopes that these measures will allow monetary policy to be strengthened in order to contribute to the needed adjustment. In particular, there appears to be a case for raising the general level of interest rates.

The public sector accounts remain an area of considerable concern. Taking account of some special once-for-all factors, only a limited part of the success attained thus far in containing the PSBR can be attributed to consolidation efforts of a fundamental nature. The approach envisaged for 1983 foresees gradual further improvement in the central government budget, which is in part dependent upon further success in combating tax evasion, but will benefit also from the full effect of the tax measures taken in 1982. The staff strongly welcomes the intention of the authorities to strengthen the financial position of the public enterprises by promoting more rational pricing policies and managerial efficiency. The staff would also stress that, if monetary and fiscal policies are to be fully supportive of the stabilization objectives, it is also important that the authorities succeed in their intention of financing a larger share of the public sector's borrowing requirements from nonmonetary sources.

The authorities themselves place great emphasis on incomes policy which has been tightened significantly. The staff understands the social considerations underlying the authorities' attitudes in this area; for incomes policy to be as effective over time as is hoped, it is essential that it be fully sustained by restrictive financial policies.

In early January 1983, the Greek Government announced a 15.5 per cent devaluation of the drachma vis-à-vis the U.S. dollar. At the same time, Greece requested from the EC approval to impose import restrictions on a number of goods. During the discussions in December, the Greek representatives had expressed their preference for domestic adjustment measures, but indicated that exchange rate action would be taken as appropriate. The staff supports the authorities' determination to proceed with domestic adjustment and also welcomes their flexible attitude toward exchange rate policy. The sharp deterioration in the competitiveness of the economy, as measured in terms of the evolution of unit labor costs and as manifested in the fall of exports in value terms, and the opening up of the economy associated with full membership in the EC, clearly required an adjustment of the exchange rate. To achieve the desired improvement in the redirection of resources to the external sector, careful regard will need to be given to the cohesiveness of the various aspects of policy.

More generally, there is the question for 1983 as well as for the medium term as to whether greater efforts are not needed to reduce the public sector and current account deficits. There is also the problem of a continuing high rate of inflation. In the staff's view policies need to be strengthened, if the adjustment process is not to be unduly protracted. Otherwise, there is the risk that the debt burden for the budget and for the balance of payments will rise to uncomfortable levels. While at present Greece seems to enjoy ready access to international markets, there may not be sufficient room to cushion unexpected developments at home and abroad.

As regards measures recently introduced in the import field, the staff feels that they should be regarded as strictly temporary.

In view of the intention of the authorities to eliminate the import deposit requirement on January 1, 1984, and thereby the exchange restrictions to which it continues to give rise, the staff recommends temporary approval for this practice.

VI. Proposed Decision

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

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/) 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.

Table 1. Greece: Domestic Economic Developments

	1981 In % of GNP	1979	1980	1981	1982 1/
		Percentage change			
A. National accounts (at constant prices)					
Consumption	82.4	2.8	0.2	1.6	1.4
Private	67.1	2.2	0.5	0.5	1.1
Public	15.3	5.8	-0.8	6.5	2.6
Gross fixed investment	16.9	7.9	-8.7	-10.1	-2.6
Private	12.3	7.0	-10.7	-13.2	-5.4
Public	4.6	10.9	-2.2	-0.5	4.7
Change in stocks 2/	3.0	(0.5)	(0.1)	(-1.0)	(--)
Total domestic demand	102.3	4.2	-1.4	-1.5	1.8
Change in external balance 2/	-4.5	(-0.5)	(2.6)	(-1.3)	(-1.0)
Exports of goods and services	18.1	6.3	6.6	2.6	-6.8
Imports of goods and services	-22.5	7.2	-6.6	8.8	-1.0
GDP at market prices	98.4	3.7	1.6	-0.7	0.2
Net factor income from abroad	1.6	8.2	-2.4	-27.5	-14.5
GNP at market prices	100.0	3.8	1.5	-1.5	--
B. Wages, prices, and productivity					
Nonagricultural sector					
Nominal average earnings		18.8	20.6	24.0	27.7
Real average earnings 3/		-0.2	-3.4	-0.4	5.5
Manufacturing					
Average hourly earnings		20.6	27.2	27.2	36.0
Productivity		3.5	1.0	0.5	--
Unit labor costs		16.6	25.9	26.6	36.0
Consumer prices (average)		19.0	24.9	24.5	21.0
Wholesale prices (average)		21.0	28.4	25.9	...

Sources: Ministry of National Economy, National Accounts Service; Bank of Greece; Centre of Planning and Economic Research; National Statistical Service of Greece, Monthly Bulletin of Statistics; and data supplied by the Greek authorities.

1/ Preliminary.
2/ Figures in parentheses represent per cent contribution to GNP, calculated as change in level of stockbuilding (external balance) as per cent of GNP in the previous year. The statistical discrepancy is excluded from stocks but included in GDP.
3/ Deflated by consumer price index.

Table 2. Greece: Central Government Finances and Public Sector Borrowing Requirement 1/

(Accrual basis; in billions of drachmas)

	1979	1980	1981	1982 Budget est.	1982 Prov. Outturn	1983 Budget est.
A. Central Government						
Revenue, total	314.5	359.1	438.7	685.3	654.1	870.6
Of which:						
Ordinary budget, total	312.4	358.2	422.5	625.4	603.1	800.3
Including:						
Direct taxes	(80.7)	(104.4)	(123.7)	(182.6)	(176.5)	(245.2)
Indirect taxes	(206.5)	(220.8)	(265.3)	(403.8)	(388.5)	(514.9)
Expenditure, total	390.7	460.5	684.7	923.2	901.1	1,159.0
Of which:						
Ordinary budget, total	326.7	396.2	578.4	749.3	737.8	929.0
Including:						
Salaries and pensions	(139.1)	(168.6)	(215.2)	(246.7)	(291.5)	(351.1)
Public debt servicing	(35.9)	(45.5)	(56.1)	(71.0)	(68.0)	(88.0)
Agricultural subsidies 2/	(29.6)	(34.4)	(76.2)	(77.9)	(67.7)	(63.5)
Public investment budget	64.0	64.3	97.1	125.0	118.5	175.0
Central Government deficit	76.2	101.4	245.9	238.0	247.1	288.4
Ordinary budget	14.3	38.0	155.9	124.0	134.8	128.7
Public investment budget	61.9	63.4	90.0	114.0	112.3	159.7
B. Public sector borrowing requirement						
Central Government gross borrowing requirement	76.2	101.4	245.9	238.0	247.1	288.4
(Per cent of GNP)	(5.2)	(5.7)	(11.7)	(...)	(9.6)	(9.3)
Consumer Goods Account and Special Management Accounts 3/	22.0	49.5	70.0	13.8	18.6	--
Public enterprises' deficit 4/	26.4	51.2	88.4	87.3	101.9	128.4
Public entities' deficit 5/	-8.6	-6.4	-5.0	-0.5	21.4	23.7
Public sector gross borrowing requirement	116.0	195.7	399.3	338.6	389.0	440.5
(Per cent of GNP)	(7.9)	(11.1)	(19.1)	(...)	(15.2)	(14.2)
Financing						
Domestic borrowing	82.7	145.9	314.8	249.3	297.0	312.7
Treasury bills	(41.4)	(37.3)	(47.0)	(64.0)	(66.2)	(89.7)
Bank of Greece	(28.6)	(81.4)	(222.6)	(125.2)	(...)	(...)
Specialized credit institutions and commercial bank credit	(12.7)	(27.2)	(45.2)	(60.1)	(...)	(...)
Foreign borrowing	33.3	49.8	84.5	89.3	92.0	127.8

Source: Data supplied by the Greek authorities.

1/ Including amortization.

2/ Including operational deficits of Consumer Goods Account and Special Management Accounts.

3/ Covers working capital only, principally for financing of inventories and time lags in money flows.

4/ Net of central government budget transfers.

5/ Covers five major public entities.

Table 3. Greece: Monetary Developments

(Annual percentage change; end of period)

	1981 (In billions of drachmas)	1979	1980 Program	1980 Outturn	1981 Program	1981 Outturn	1982 Program	1982 Outturn 1/
Money supply								
Narrow money (M1)	385.9	15.7		18.4	16.8	23.3	...	...
Of which:								
Currency in circulation	260.5	14.2	15.0	14.6	17.2	24.3	24.0	...
Quasi money (M2)	1,051.3	19.7		27.5	21.8	39.4	32.0	...
Broad money (M3)	1,437.2	18.4	15.2	24.7	20.2	34.7	30.0	30.0
Counterparts								
Foreign assets (net)	-187.3	-30.3		-22.3		-49.9		...
Domestic credit (net)	1,798.1	22.3	17.1	24.8	24.5	35.5	29.8	33.0
Of which:								
Private sector	1,077.3	18.4	13.4	19.6	19.5	24.9	23.3	23.0
Public sector	720.8	31.3	22.7	35.6	32.1	55.1	39.5	...
Of which:								
Central Government	653.3	30.5		25.8	28.7	51.0	...	...
Public enterprises	152.9	26.3		51.8	44.6	36.5	...	...

Sources: Bank of Greece, Monthly Statistical Bulletin; data supplied by the Greek authorities; and staff calculations.

1/ Preliminary estimates.

Table 4. Greece: Balance of Payments Survey

(In millions of U.S. dollars)

	1979	1980	1981	1982 Est.	1983 Proj.1/
A. Goods, services, and transfers					
Trade balance	-6,178	-6,809	-6,697	-6,100	-6,150
Exports, f.o.b.	3,932	4,094	4,771	4,350	4,750
Imports, c.i.f.	-10,110	-10,903	-11,468	-10,450	-10,900
Of which:					
Net oil imports	(-1,736)	(-2,650)	(-2,833)	(-2,000)	(-2,150)
Balance of services	3,131	3,513	3,052	2,400	2,520
Of which:					
Travel and transportation (net)	2,672	2,974	2,975	2,560	2,700
Investment income (net)	-158	-267	-589	-650	-700
Balance of transfers	1,165	1,080	1,237	1,600	1,630
Of which:					
Emigrants' remittances	1,136	1,059	1,057	970	950
EC subsidies	--	--	148	600	650
Current account balance	-1,882	-2,216	-2,408	-2,100	-2,000
B. Capital movements	1,415	1,696	1,513	1,045	...
Of which:					
Medium- and long-term (net)	1,253	1,318	1,249	925	...
Private sector	(1,134)	(1,152)	(909)	(800)	(...)
Public sector	(119)	(166)	(340)	(125)	(...)
C. Counterpart items and errors and omissions	493	24	363	...	...
D. Overall balance (A + B + C)	26	-496	-532	...	...
E. Central Bank	-26	496	532	...	...
Medium- and long-term (net)	78	677	340	590	...
Net reserves (increase -)	-104	-181	192	...	...

Sources: Greek authorities; and staff estimates.

1/ Projections as of December 1982. See footnote 1, p. 14.

Greece: Fund Relations

Date of membership:	December 27, 1945 (original member).
Status:	Article XIV.
Quota:	SDR 277.5 million.
Fund holdings of Greek drachmas (as at January 31, 1983):	SDR 221,931,803 (79.97 per cent of quota).
Holdings of SDR (as at January 31, 1983):	SDR 4,266 equivalent to 0.004 per cent 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 1980 Article IV consultation with Greece (SM/80/195 and Supplement 1, 8/12/80) was considered by the Executive Board at EBM/80/131, 9/5/80). The Executive Board's decision on the 1980 consultation with Greece (Decision No. 6616-(80/131), adopted September 5, 1980) 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 1980 Article XIV Consultation with Greece, in light of the 1980 Article IV Consultation with Greece conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes the intention of the Greek authorities to abolish the existing import deposit system (as described in SM/80/200, 8/18/80) by stages over the next few years and grants approval until October 1, 1981 for the exchange restrictions and multiple currency practice that result from this system. The Fund also notes the intention of the authorities to terminate the one remaining bilateral payments arrangement with a Fund member before the end of 1980.

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). However, when setting the drachma exchange rate, the authorities take into account movements in the ECU, in particular the deutsche mark. 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 vis-a-vis the U.S. dollar by 15.5 per cent. The nominal effective exchange rate (trade-weighted, European Department), depreciated by 14.2 per cent from end-1979 to end-1981, by 8.7 per cent during 1982, and by 13.6 per cent from end-1982 to January 14, 1983. At January 31, 1983 the exchange rate was Dr 83.6 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 March 31, 1983, or the completion of the ongoing Article IV consultation with Greece, whichever is the earlier.

APPENDIX II

Basic Data

Area and population	
Total area	132,000 sq. kilometers
Population (mid-1981)	
Total	9.7 million
Domestic labor force	3.7 million
Gross national product (1981; at current prices)	Dr 2,091 billion
GNP per capita, 1981	US$3,890
Sector share in gross domestic product in 1981 (in per cent, at constant prices)	
Agriculture	14.0
Industry	25.9
Construction	5.7
Services	54.4

Selected economic indicators (increase in per cent)	1979	1980	1981	1982 1/	1983 2/
GNP at constant prices	4	1 1/2	-1 1/2	--	2-3
GNP at current prices	23	20	19	22	...
Output of main sectors at constant prices					
Agriculture	-6	11	-2 1/2	4	...
Industry	6	1	-1	-2	...
Services	5	2	2	1 1/2	...
Construction	6 1/2	-13	-10 1/2	-7	...
Wholesale price index; annual average	21	28	26	16	...
Consumer price index; annual average	19	25	25	21	18-19
					...
Reserve money; end of year	13	21	37 1/2	...	...
Money supply (M_1); end-of-year	16	18	23	...	...
Money supply (M_3); end-of-year	19	25	35	30	...
Central Bank credit; end-of-year	14	19	44	...	...
Exports (f.o.b., U.S. dollar values)	31	4	16	-13	...
Imports (c.i.f., U.S. dollar values)	38	8	5	-12	...
Ordinary budget (in billions of drachmas)					
Revenues	312	358	423	603	800
Expenditures	327	396	578	738	929
Investment budget (net)	-62	-63	-90	-112	-160
Central government's gross borrowing requirement	76	101	246	247	288
Public sector gross borrowing requirement	116	196	399	389	441

1/ Preliminary
2/ Official projections

	1979	1980	1981	1982 1/	1983 2/
Balance of payments (in millions of SDRs)					
Exports, f.o.b.	3,043	3,146	4,046	3,749	4,342
Imports, c.i.f.	-7,825	-8,377	-9,726	-9,129	-9,963
Trade balance	-4,782	-5,232	-5,679	-5,380	-5,621
Workers' remittances	879	814	896	911	887
Other invisibles and transfers, net	2,446	2,715	2,742	2,751	2,904
Current account balance	-1,457	-1,703	-2,042	-1,718	-1,830
Gross official reserves, end of period	1,153	1,189	1,013	924	...
External debt, end of period	3,722	5,017	6,417	7,638	9,196
Selected ratios: in per cent of GNP					
Domestic savings	26	26	22	...	...
Gross investment	29	27	24	...	...
Commodity exports	11	10	13	11	13
Workers' remittances	3	3	3	3	3
Commodity imports	25	26	30	26	30
Current account deficit	5	5	6	5	5
Reserve money, end of year	22	23	26	...	...
Money supply (M_1), end of year	18	18	18	...	...
Money supply (M_3), end of year	58	60	69	56	...
Ordinary budget revenues	21	20	20	24	26
Ordinary budget expenditures	22	22	28	29	30
Investment budget (net)	4	4	4	4	5
Central government gross borrowing requirement	5	6	12	10	9
Public sector gross borrowing requirement	8	11	19	15	14
External debt, end of year	12	15	20	22	27 3/
External debt service	2	3	4	4 3/	5 3/
Selected ratios: in per cent of indicated variables					
Oil imports: to total imports	22	27	32	27	27
to total exports	56	71	77	67	61
External debt service:					
To exports of goods	26	28	36	41 3/	36 3/
To current account receipts	11	11	15	17 3/	16 3/
Central government gross borrowing requirement: to central government expenditures	20	22	36	27	25

IMF (as of January 31, 1983)	
Quota	SDR 277.5 million
Fund holdings of Greek drachmas	SDR 221.9 million (80 per cent of quota)
Cumulative allocation of SDRs	SDR 103.5 million
Holdings of SDRs	SDR 4,266
Middle rate	Dr 83.6 = US$1

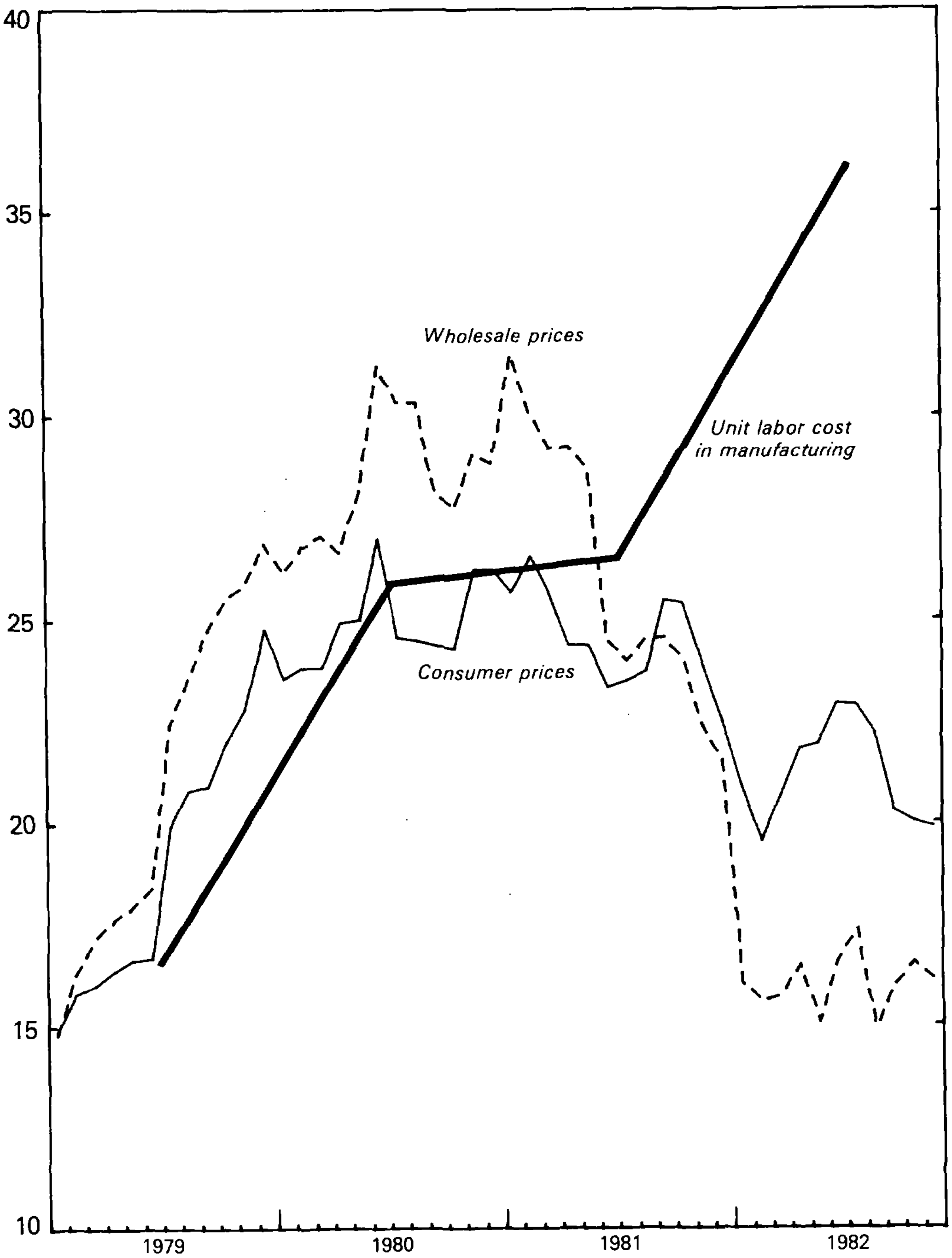
1/ Preliminary.
2/ Official projections.
3/ Staff estimates.

CHART 1

GREECE

COST AND PRICE DEVELOPMENTS

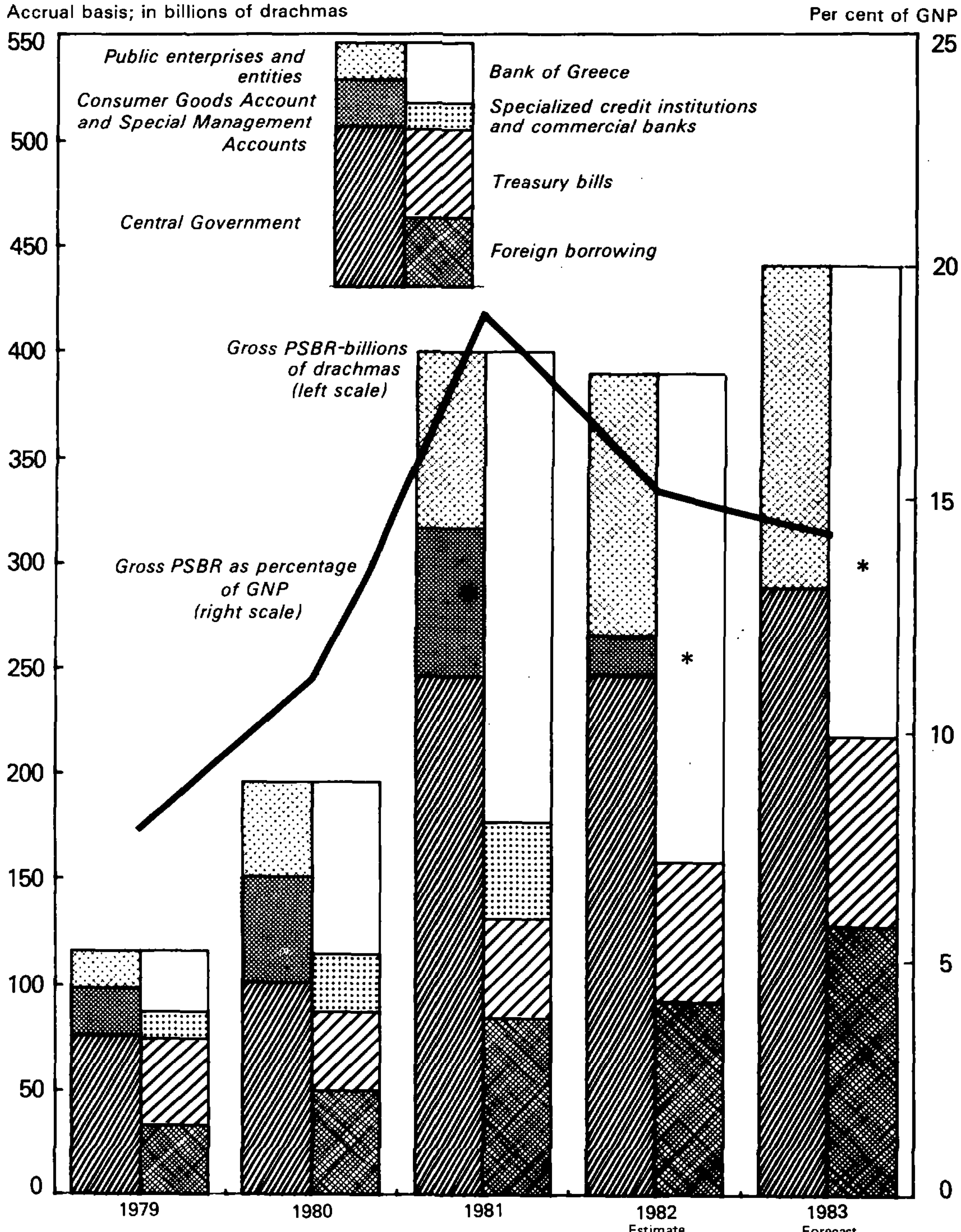
(Percentage change over the same period of previous year)



Sources: IMF, *International Financial Statistics;* and Bank of Greece.

CHART 2

GREECE
PUBLIC SECTOR BORROWING REQUIREMENT AND FINANCING



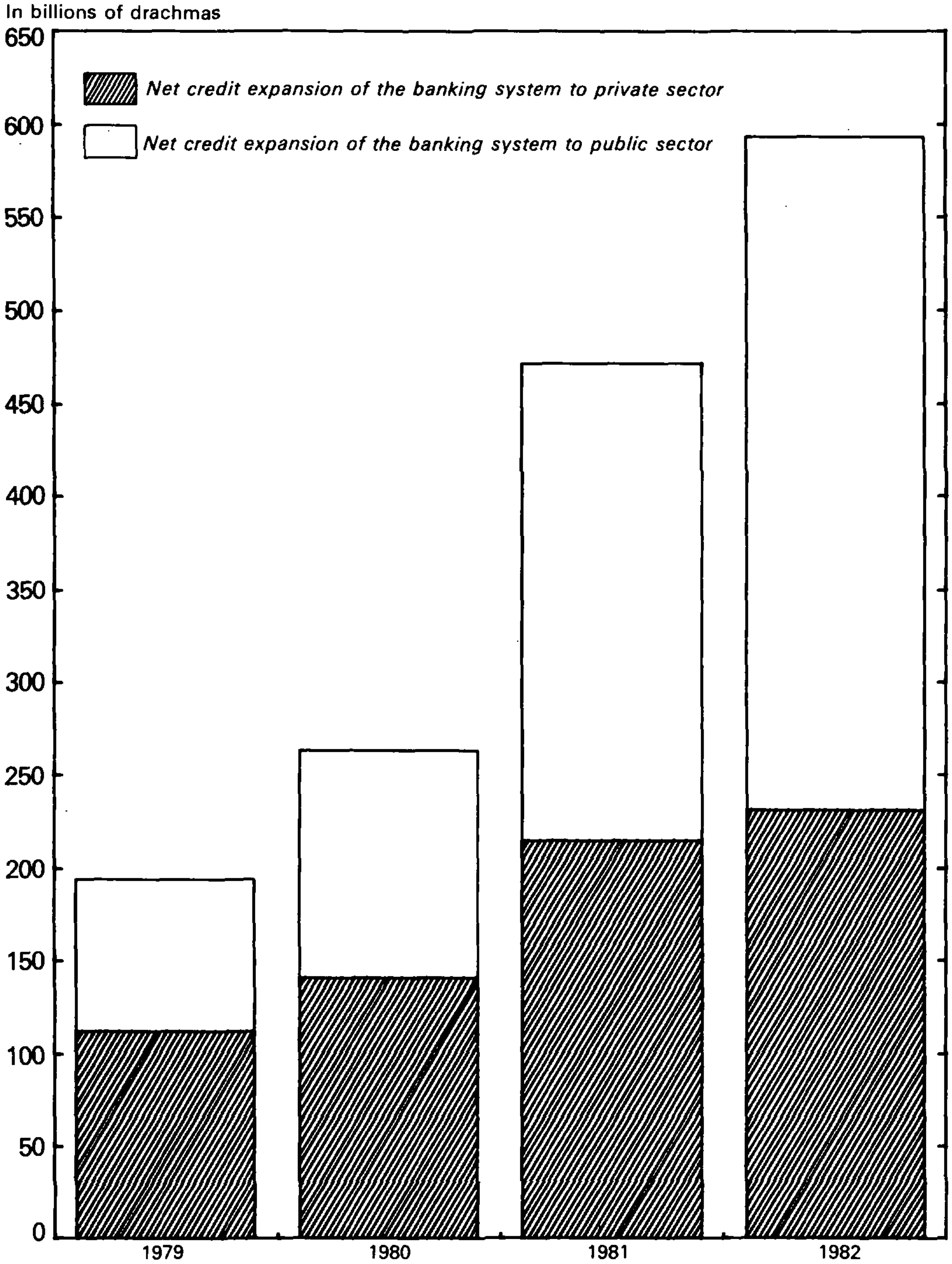
Source: Data supplied by the Greek authorities.

* Breakdown between Bank of Greece and rest of banking system is not yet available.

CHART 3

GREECE

DOMESTIC CREDIT EXPANSION (NET)

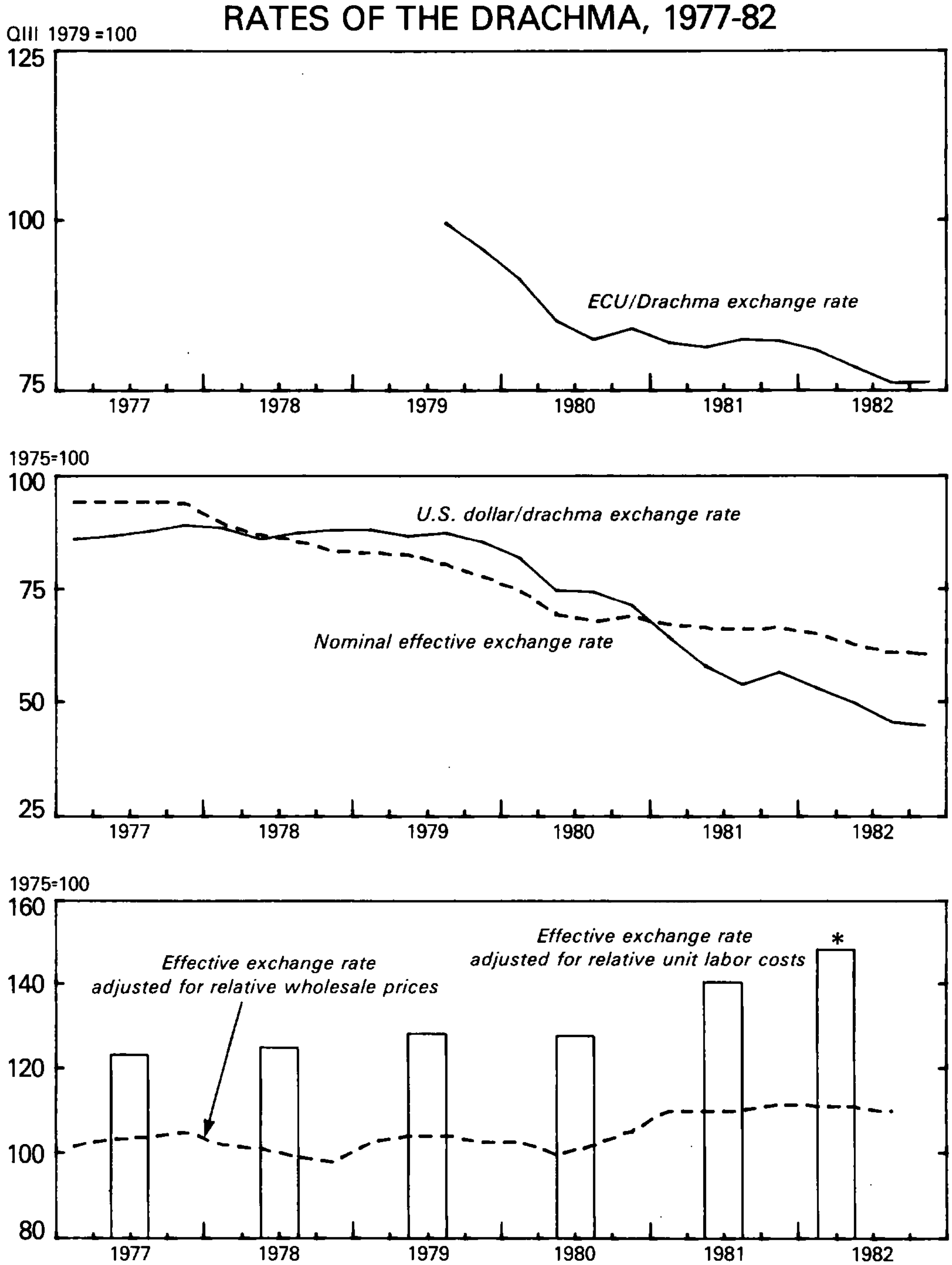


Source: Bank of Greece.

CHART 4

GREECE

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES OF THE DRACHMA, 1977-82



Source: IMF, *International Financial Statistics;* and staff calculations.
* First half of the year.