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AGENDA**

SM/83/37
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

March 21, 1983

To: Members of the Executive Board
From: The Acting Secretary
Subject: Greece - Staff Report for the 1982 Article IV Consultation

The following corrections have been made in SM/83/37 (2/23/83):

Page 3, Footnote 1, line 1: for "to 1982," read "to 1983,"

line 2: for "from 1982" read "from 1983"

line 5: for "to 1982." read "to 1983."

Pages 24-25: Revisions principally due to new preliminary estimates
for the balance of payments in 1982.

Corrected pages are attached.

Att: (3)

Other Distribution:
Department Heads

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.

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	1979	1980	1981	1982 1/	1983 2/
(increase in per cent)					
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.

1978 1980 1981 1982-1983

Balance of payments (in millions of SDRs)

Exports, f.o.b.	3,043	3,146	3,044	3,242
Imports, f.o.b.	-3,823	-4,077	-4,138	-4,130
Trade balance	-780	-931	-1,094	-888
Workers' remittances	879	814	894	917
Other transfers and donations, net	2,446	2,112	2,743	2,727
Current account balance	-1,457	-1,101	-1,042	-1,118
Gross official reserves, end of period	1,123	1,189	1,013	924
External debt, end of period	3,722	3,077	2,447	2,334

Selected ratios: in per cent of GNP

Domestic savings	26	27	22	...
Gross investment	29	30	24	...
Commodity exports	13	10	13	11
Workers' remittances	7	7	8	7
Commodity imports	23	23	26	26
Current account deficit	2	2	6	...
Reserve money, end of year	32	31	30	...
Money supply (M1), end of year	18	16	14	...
Money supply (M2), end of year	28	27	26	...
Ordinary budget revenues	21	20	20	...
Ordinary budget expenditures	22	22	22	...
Investment budget (net)	4	3	3	...
General government gross borrowing	5	1	12	10
Public sector gross borrowing	8	11	19	...
External debt service	2	2	4	...
External debt, end of year	12	13	20	21

Selected ratios: in per cent of indicated

Variable	22	27	22	21
to local imports	26	21	22	21
to local exports	26	21	22	21
External debt service:	26	18	24	20
to exports of goods	1	11	12	12
To current account receipts	20	23	24	22
General government gross borrowing	20	23	24	22
to current account receipts	20	23	24	22

End of January 31, 1983

Quota	SDR 217.2 million
Fixed holdings of Greek drachmas	SDR 221.9 million (80 per cent of quota)
Guaranteed allocation of SDRs	SDR 100.5 million
Holdings of SDRs	SDR 0.366
Market rate	Dr 83.6 = 1 SDR

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